

# **Addressing Canada's Lack of Affordable Housing**

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## **Introduction**

The 1990s may well have represented the peak of neoliberalism in Canada, and pressure had mounted on senior levels of government to cut spending, not increase it. The focus was on eliminating deficits and debts, not adding to them.

Times have changed somewhat. The federal debt in Canada is almost never talked about now. Tax cuts are not as popular. Canadians and their leaders appear to have taken note that neoliberalism came with a cost, and that it may be time to start rebuilding, so to speak.

One of the first signs that the federal government was interested in getting back into affordable housing was the 1999 announcement of the Supporting Communities Partnership Initiative (SCPI). Since 2000, SCPI has provided approximately \$850 million in funding for “strategic investments that address homelessness.”

Then, in November 2001, after almost a decade of withdrawal from assistance for affordable housing, the federal government committed \$680 million towards rental housing (to be spent over five years). Roughly 18 months later, it added another \$320 million. And when the leader of Canada’s NDP agreed to support the federal budget in 2005, one of his chief demands--an additional \$1.6 billion for affordable housing—was met. The Harper government has since allocated most of the \$1.6 billion into three housing trust funds. More recently, it has extended SCPI for two additional years.<sup>2</sup>

Indeed, the money is starting to flow—albeit far too slowly as far as a lot of affordable housing advocates are concerned. And so now a big question is: how exactly should governments go about spending this new money? Indeed, while there is

agreement that we have neglected affordable housing, not a great deal of public dialogue has taken place on how exactly this money—as well as any future money--should be spent.

Put differently, it seems reasonable that there may be more money for housing. It will be limited. Thus, let us use it to good effect.

In this paper, I want to take a preliminary look at four alternatives to addressing the lack of affordable housing in Canada:

1. Building non-profit/co-op housing
2. Providing housing allowances/rent supplements
3. Implementing a U.S.-style tax-credit system for developers of rental housing
4. An income-security approach

When I refer to “affordable housing,” I mean housing that is neither in need of major repair nor overcrowded, and whose tenants do not have to pay more than 30% of their before-tax income on rent. Virtually all affordable housing built in Canada since the second world war has been subsidized in some way by at least one senior level of government.<sup>3</sup>

The analysis herein will attempt to sort out which approach makes the most sense in which contexts. First, it will discuss the unique features of the low-income rental housing market. The paper will then look at post-World War II housing policy in Canada. It will look at the roles played by senior levels of government, the cutbacks that came about in the 1980s and 1990s, and, finally, the “comeback” currently being made by senior levels of government. Then, the four alternatives will be discussed, one by one. They will be

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<sup>2</sup> With the latest extension in funding, the program is now known as the Homelessness Partnering Strategy.

explained and briefly assessed; each approach's advantages and drawbacks will be discussed. Each section will end by spelling out what the approach would look like it today's Canadian context, with particular emphasis given to the Toronto context. Indeed, there are almost 300,000 core-need households in Toronto, considerably more than in any other Canadian city.<sup>4</sup>

The paper will end with an exercise in which we suppose that the federal government wants to make a one-time expenditure of \$100 million. We will briefly look at how far this amount of money would go with each approach respectively. This will be followed with some concluding remarks.

### **The Low-Income Rental Housing Market**

It is a well-known fact that the private housing market, by itself, is ineffective at delivering newly-built housing for low-income tenants in large urban areas. In Toronto, for instance, a single welfare recipient with no dependents receives a \$342/month shelter allowance that is supposed to cover shelter. Yet, she/he would be lucky to find a decent bachelor apartment for double that amount. Even if she/he were willing to spend her/his entire welfare cheque of \$548, she/he would be hard pressed to find a livable bachelor apartment. While Toronto may feature the highest rents in Canada, the same principle around affordability holds true for virtually every jurisdiction and every low-income household in Canada.

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<sup>3</sup> TD Economics, *Affordable Housing in Canada: In Search of a New Paradigm Special Report* (Toronto: TD Economics, June 17, 2003) 9.

<sup>4</sup> Montreal is second with 189,000 core-need households [Canada Mortgage and Housing Corporation, *Canadian Housing Observer 2006* (Ottawa: Canada Mortgage and Housing Corporation, 2006) A21]. See below for the definition of core housing need.

Working Canadians face the same problem. Indeed, a recent report notes that in Toronto, Calgary and Vancouver, a single parent must earn three times more than the minimum wage in order to afford average market rent for a two- or three- bedroom apartment.<sup>5</sup>

Regrettably, it simply is not profitable for private developers to build units that are immediately affordable to low-income tenants. In Toronto, for instance, it is not profitable for a developer to build one-bedroom units that begin renting for less than \$1500/month. Using the standard affordability benchmark, a household must earn at least \$60,000/year to afford such rent.

While the supply-and-demand principles for the housing market as a whole apply to the low-income rental housing market, the former has some unique features to it. With both the housing market as a whole and the low-income housing market, there is a downward sloping demand curve and an upward sloping supply curve. When demand for rental housing increases, the demand curve shifts outward and results in a higher price (or rent). But this model of the overall rental housing market does not distinguish units of different quality, size and age. In the case of low-income households, things are less straightforward. Indeed, the situation for low-income renters at any given time could be moving in a very different direction than the rental housing market as whole.

More than a decade ago, O’Flaherty described the low-income private rental housing market in the United States as follows:

[P]oor people get their housing as hand-me-downs from richer people—not the richest people, though, because the highest qualities of housing are maintained and not allowed to deteriorate. The housing that filters down to poorer people must originally have been built at or near the bottom of the building range; otherwise it would have been

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<sup>55</sup> Steve Pomeroy, “Minimum Housing Wage 2006: Housing Continues to Move Out of Reach for Minimum Wage Workers” (Ottawa: Canadian Housing Renewal Association, 2007).

maintained. In between build-and-maintain and don't-build-and-don't-maintain are one or more qualities that are built and not maintained. Very roughly speaking, housing built for the middle class becomes housing for the poor...<sup>6</sup>

This “filtering” process, however, is not always straightforward. In general, it refers to housing units losing value over time and eventually becoming more affordable to lower-income households. Often, such housing consists of houses eventually being divided into small rooms with facilities not up to code.

Skaburskis notes that “[m]uch has been made of the efficacy of the filtering process by market advocates who want the governments to stay out of the housing business.” However, he uses recent Canadian data to show that, not only can this process be very slow, it can also occur in the opposite direction. In Toronto, for instance, he notes that there is a positive correlation between income of household and age of building (e.g., there is “negative filtering”). Furthermore:

An excess supply of housing may have been produced in the 1950s and 1960s as middle-income households left the inner city for their new suburban houses but we cannot believe that a similar situation can be created *and maintained* by housing policies today. The magnitude of the changes in housing markets in the post-war period was huge. Not only was the economy in North America expanding rapidly after the war, but also new housing policies, mortgage institutions, mortgage insurance as well as intra-city highway development created the necessary conditions for the scale of suburban development that changed the character of urban regions and left good housing behind in the inner cities for low-income households...[These days, old buildings with character are valued for their style and for the convenience of their location. Inner-city neighbourhoods offer proximity to the amenities that young professional couples want and can afford [emphasis in original].<sup>7</sup>

The quality implications of welfare filtering are also worth considering. The quality of the stock that filters down to low-income tenants tends to be unattractive to

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<sup>6</sup> Brendan O’Flaherty, *Making Room: The Economics of Homelessness* (Cambridge, MA: Harvard University Press, 1996) 103.

look at, not especially good to live in, and often inappropriate. Thus, the spillover effects into property value and the implications for neighbourhood revitalization are less than ideal.<sup>8</sup>

Moreover, Skaburskis makes the point that, insofar as housing does filter down to low-income households, it results in so few housing units reaching the bottom strata that, in and of itself, it should never be viewed as a reliable way for governments to make housing available to low-income Canadians. He notes:

City growth increases the relative attractiveness of central locations and may counter the effects of building depreciation. Changes in city size, household composition, income and tastes can reverse the direction of filtering.<sup>9</sup>

Consistent with the above, it should be noted that building low-cost housing does not crowd out private investment, as the private sector does not build for the poor anyway. However, subsidizing units that moderately low-income households can afford does have the potential to crowd out unsubsidized housing.<sup>10</sup>

### **Canadian Housing Policy**

Canadian housing policy in the immediate post-World War II era tended to focus on problems such as overcrowding, the lack of basic facilities, and the need for repairs. A hodge-podge of initiatives came and went in the 1950s, 1960s and 1970s. Some of them assisted private developers in making rental housing available at slightly-below-market rents. Some of them focused on infrastructure, such as sewers.

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<sup>7</sup> Andrejs Skaburskis, "Filtering, City Change and the Supply of Low-priced Housing in Canada," *Urban Studies* Vol. 43, No. 3, March 2006: 553-554.

<sup>8</sup> Special thanks to Greg Suttor for pointing this out.

<sup>9</sup> Andrejs Skaburskis, "Filtering, City Change and the Supply of Low-priced Housing in Canada," *Urban Studies* Vol. 43, No. 3, March 2006 533-558.

<sup>10</sup> Michael P. Murray, "Subsidized and Unsubsidized Housing Stocks 1935 to 1987: Crowding out and Cointegration," *Journal of Real Estate Finance and Economics* 18, 1; 107-124.

Others assisted middle-income households in buying homes, particularly in the mid-1970s. Indeed, the largest and most influential program in the first two decades after World War II was National Housing Act (NHA) Mortgage Insurance. To be sure, a big focus of policy was on supply, as there wasn't the liquidity in mortgages that there is today. Making the mortgage market work was key.

In 1964, key changes were made to the NHA. Prior to that time, there had been a 75:25 federal-provincial split for the capital costs (i.e., building and land) for newly-built public housing.<sup>11</sup> Now, it would be 90:10—this would help address the fact that the provinces had been having a difficult time coming up with their 25% share. The other key NHA amendment concerned operating costs (e.g., the costs of heat, light, maintenance, insurance, etc. that rent did not cover). Prior to '64, there was a 75:25 provincial-federal split here. Now, there would be a 50:50 split with the federal government.

These NHA amendments resulted in a very significant take-up of public housing, most notably in Ontario. By 1970, 10% of new construction in Canada's largest province was for public housing. (By contrast, this figure has been less than 1% in every Canadian province and territory for the past decade.)

By the late 1960s, big public housing projects—both in Canada and throughout the industrialized world—had become very unpopular. The concept of “income mix” began to be seen as being important for “good” social housing.<sup>12</sup> Thus, the co-op housing era in Canada began in the early 1970s. Another reason for this was the high mortgage

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<sup>11</sup> Public housing was housing that was owned by the public sector (either government or government agencies), rented to people according to their ability to pay (usually 25% of before-tax income), and occupied exclusively by low-income people.



interest rates in place at that time, generally in the 9-12% range. They made home ownership for middle-income households much more difficult than in previous years. Hence, pressure mounted on the federal government to intervene.

When co-op housing came into place, “non-profit” housing did as well, and more or less replaced “public housing.” Like co-op housing, non-profit housing was to feature 2/3 modest-income tenants, 1/3 low-income tenants. But non-profit housing was not owned collectively by tenants. Rather, it belonged to a non-profit group. In the early 1980s, “social housing” became the common term used to describe not-for-profit housing in general.<sup>13</sup>

Beginning in the late 1970s, Canada’s macroeconomic situation worsened in the form of slowing economic growth, rising unemployment, high inflation (meaning high mortgage interest rates), rising deficits and then a major recession in the early 1980s.<sup>14</sup> Thus emerged a growing emphasis on expenditure restraint. Not surprisingly, the federal government decided to start targeting its housing policy exclusively to low-income households. Thus, the co-op and non-profit programs (with their novel “income mix” approach) introduced in 1970s were terminated in 1984. To be sure, while “income mix” certainly had its supporters, the federal government decided that subsidizing middle-income households to the tune of several thousand dollars a year each was now far too expensive a proposition. The federal government would now focus exclusively on

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<sup>12</sup> John Sewell, *Houses and Homes: Housing for Canadians* (Toronto: James Lorimer & Company, 1994) 180.

<sup>13</sup> Sewell, 162.

<sup>14</sup> This was a result of a major trend throughout the industrialized world wherein governments tried to get inflation under control. See, for example, pp. 16 and 17 of John Smithin, “Empirical and Conceptual Problems in Contemporary Macroeconomics,” *British Review of Economic Issues*, June 1990.

households in core need (see below for a definition of core need). Any future attempts at creating—and financing—income mix would be left to the provinces.

In 1985 that “targeting” began. Canada Mortgage and Housing Corporation (CMHC) designed the concept of “core need.” The core need concept for households uses three standards:

1. Adequacy (e.g., is the dwelling in need of any major repairs?)
2. Suitability (e.g., does the dwelling have enough bedrooms for the household living in it?)
3. Affordability (e.g., is the household paying less than 30% of before-tax income for the dwelling?)

If a household falls short on any of the above three measures *and* “would have to spend 30% or more of its before-tax income to pay the median rent of alternative local housing that meets all three standards,” then it is considered to be in core housing need. Data from the 2001 census indicate that 13.7% of Canadian households (representing just under 1.5 million households) are in core housing need.<sup>15</sup> Among this group, lone-parents, unattached individuals, recent immigrants and Aboriginal households are over-represented.<sup>16</sup> The vast majority of these core-need households (just over one million of them) fall below only the affordability standard.<sup>17</sup> From the mid-1980s until the early 1990s, the federal government would only finance the construction of buildings whose tenants were all in core need.

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<sup>15</sup> Canada Mortgage and Housing Corporation, “2001 Census Housing Series: Issue 3 Revised: The Adequacy, Suitability, and Affordability of Canadian Housing,” *Research Highlight: Socio-economic Series 04-007* (Ottawa: Canada Mortgage and Housing Corporation, April 2004) 1-2.

<sup>16</sup> Canada Mortgage and Housing Corporation, *Canadian Housing Observer 2005* (Ottawa: Canada Mortgage and Housing Corporation, 2005).

<sup>17</sup> Canada Mortgage and Housing Corporation, *Canadian Housing Observer 2006* (Ottawa: Canada Mortgage and Housing Corporation, 2006).

Then, in 1993, the federal government announced that—with a few exceptions, such as on-reserve aboriginal housing—there would be no new commitments for social housing. By the time of this announcement, over 600,000 social housing units had been built, representing roughly 6% of total housing stock in Canada (or 16% of all rental stock).

In the late 1990s, the federal government began to re-emerge on the affordable housing scene. In 1999, it announced the aforementioned SCPI program. On the one hand, federal officials made clear that this funding was not for housing per se. On the other hand, across Canada, during the first four-and-a-half years of SCPI, over 9,000 transitional housing beds were created and “49 federal properties were made available for the creation of 203 new homes.”<sup>18</sup>

Then, in 2001, the federal government agreed to a framework agreement with the provinces and territories wherein it would eventually commit \$1 billion towards affordable housing over a five-year span. There was no stipulation in the framework agreement around core need. The federal government’s agreement with each province and territory was different, with each province/territory having to commit matching funds of different types (a great deal of the “matching funds” were not cash and did not come directly from the province/territory in question). The entire process is called the Affordable Housing Initiative (AHI).

The AHI represented a very different way of financing affordable housing. The minimum affordability stipulation was that each unit had to be at or below average market rent for the local area, and only for 10 years (though most provinces modified this

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<sup>18</sup> Michael Shapcott, “Federal homelessness cuts: Bad now, worse to come” Backgrounder prepared for the Wellesley Institute August 17, 2006.

to 20 years). Funded programs under the AHI included home ownership, rental housing, new construction, renovation, “urban revitalization,” conversion, new rent supplements, and supportive housing programs.

(Part of the AHI’s different, more flexible way of doing things had to do with Canada being in a post-Social Union Framework Agreement era, in which the federal government is reluctant to tell the provinces what to do. Indeed, the current constitutional climate is said to have resulted in a narrower definition of the federal spending power.)<sup>19</sup>

Outside the framework of the AHI, \$1.6 billion over two years was then pledged in the 2005 NDP/Liberal budget (a.k.a., Bill C-48). Most of this money was then allocated into three housing trust funds by the Harper government in the 2006 federal budget. While not part of the AHI, this has added momentum on the affordable housing front.

### **Building Non-Profit/Co-op Housing**

Direct government involvement in the financing capital in the building of housing is important largely because location matters. To be sure, some communities need new, affordable housing stock. Most observers would agree that poor people being able to live only in certain regions of a city is not a good thing.<sup>20</sup> In the Greater Toronto Area (GTA), for instance, there are high-growth areas that will need affordable housing. They include the waterfront, North York Centre, Whitby, Brampton, Richmond Hill, the

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<sup>19</sup> Special thanks to Greg Suttor for pointing this out.

<sup>20</sup> See, for example, Duncan Maclennan, “Mixed Communities: A Perspective from Canada,” *Canadian Housing* Fall 2006 Vol. 22 No. 3 pp. 17-21.

Downsview subway area, and new suburbs.<sup>21</sup> And it's certainly no secret that many parts of Alberta are now in desperate need of new rental construction.<sup>22</sup>

One drawback to the non-profit/co-op approach is time. From the time that funding is awarded, it takes an average of three years for a unit to be built from scratch. Indeed, there are many steps involved in building--from site identification, to the plan being presented, to the funding being awarded, to the completion of the land purchase, to the application for planning approval, to the completion of the working drawings, to the application for the building permit, to the construction tender call, to the actual construction.<sup>23</sup>

In today's context, a non-profit development that would make units available to low-income tenants would, in principle, require two things. First, it would require financial assistance (likely from the *federal* government) for capital costs. Capital costs include land, construction and soft costs. This would result in units being built.

Once built, the units would, in principle, still require annual operating subsidies, likely from the provincial government. To be sure, someone with a very low income would not be able to afford the rent that such a unit requires unless the unit is "stacked" with an operating subsidy.

### **Housing Allowances/Rent Supplements**

First, a word on terminology. The terms "housing allowances" and "rent supplements" tend to get used interchangeably. In fact, there have traditionally been

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<sup>21</sup> Suttor interview. Of course, the cost of each unit varies with location. In Toronto, land will sometimes be offered by the City or a charitable group at a very reasonable cost. Outside such a context, if land is to be simply purchased in a desirable location at market rate, land might cost in the \$25,000 - \$30,000 range per unit.

<sup>22</sup> Maclellan, p. 11.

differences between the two. The most significant difference is that “housing allowances” are paid directly to the tenant, while rent supplements are paid directly to the landlord. Indeed, with rent supplements, the landlord is directly involved in a three-way agreement involving the landlord, the tenant, and the state agency administering the financial assistance. However, in the case of shelter allowances, the state agency gives the money directly to the tenant (and the landlord may not even be aware that the tenant is receiving the assistance).<sup>24</sup>

Also, housing allowances in Canada have traditionally been “more shallow” (i.e., they’ve consisted of less money) than rent supplements.<sup>25</sup> Also, housing allowances—unlike rent supplements—in Canada have traditionally featured a decent level of “horizontal equity,” meaning that they have been given to all eligible households for a given set of criteria; this means no waiting lists. Finally, housing allowances have traditionally paid a *percentage* of the gap between what a household can afford versus the actual cost of the unit. Rent supplements, on the other hand, have paid a flat amount of money.<sup>26</sup>

Rent supplements became more popular throughout the industrialized world since the mid-1980s. They make already-existing rental housing more affordable to low-income tenants.<sup>27</sup> This clearly serves a function. Indeed, TD Economics compares what the poorest 20% of Canadian households can afford (based on the 30%-of-gross-income

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<sup>23</sup> Suttor interview.

<sup>24</sup> Pomeroy (2001), 19.

<sup>25</sup> The shallow nature of housing allowances has often meant that they’ve required less of an administrative apparatus than rent supplements. Also, due to their shallowness, housing allowances have had very little impact on the rental market.

<sup>26</sup> Special thanks to Marion Steele for assisting with this section of the paper.

<sup>27</sup> Steele (2001), p. 81.

benchmark) with two-thirds of average rent<sup>28</sup> for the local area. On average, this funding gap is just over \$200/month per household.<sup>29</sup> Furthermore, two-thirds of social assistance recipients live in the private sector.<sup>30</sup>

There are a variety of different models of rent supplements. Several Canadian provinces, mostly notably Manitoba and Quebec, have had a “shelter allowance” called the Rent and Income Conditioned Canadian (RICC) allowance, which pays a *percentage*—generally in the 60-90% range--of the gap between actual rent and affordable rent (“affordable rent” being somewhere between 25% and 30% of income), up to a maximum.<sup>31</sup> The RICC allowance in Canada is paid directly to the tenant. This has the potential advantage of being less stigmatizing. To be sure, RICC recipients surveyed in Manitoba reported that their landlord typically did not know they were in receipt of an allowance.<sup>32</sup>

Several Canadian provinces have used funding from the Affordable Housing Initiative for rent supplements.<sup>33</sup>

After years of “raging debate” on rent supplements stretching back to the 1980s, rent supplements have become quite popular in Ontario in the past half dozen years, especially as vacancy rates increased. In 2000, the Ontario government started its Homeless Initiative Program. With federal government money (transferred as part of the

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<sup>28</sup> This is the average for 1- and 2-bedroom units. The amount factors in utility costs.

<sup>29</sup> TD Economics, 14. Of course, the size of the gap varies depending on the locality. In Edmonton, Winnipeg and Montreal, the gap is roughly \$150/month. In Vancouver and Toronto, it’s about \$330/month (Ibid.).

<sup>30</sup> Gadon interview.

<sup>31</sup> Steele (2001), p. 87. The technical term when the government pays a portion of the gap like this is “partial affordability gap coverage.” The technical term for the payment of the full gap, dollar for dollar, is “full affordability gap coverage.” This is done up to a maximum amount, usually “the median local rent for households with identical bedroom requirements as set out in the Canadian national Occupancy Standard [Canada Mortgage and Housing Corporation, “Housing Allowance Options for Canada,” CMHC Research Highlight Socio-economic Series 06-011 (Ottawa: CMHC, May 2006) 3].

social-housing downloading agreement), Ontario's Ministry of Health provided funding to several organizations to provide affordable housing to persons with mental health issues. At least one of these organizations (the Canadian Mental Health Association's Toronto branch) used some of the funding for rent supplements. And in 2005, a partnership began between the Ontario Ministry of Health and the Ontario Ministry of Community Safety and Correctional Services in which four non-profit organizations were given funding for rent supplements.

One of the more well-known rent-supplement programs of recent years is the one created to help house former residents of Toronto's Tent City squatter camp. The Emergency Homelessness Pilot Project (EHPP) began in September 2002, almost immediately after Tent City residents were removed from their squat. Administered by the Toronto Community Housing Corporation (TCHC), the EHPP pays a rent supplement directly to the landlord. It covers the affordability gap, dollar for dollar, up to a maximum rent of \$865 for a bachelor or one-bedroom apartment. The Tent City program has been viewed as a huge success. This success has made rent supplements even more popular. Whereas affordable-housing advocates used to say "build build build"<sup>34</sup> (and saw rent supplements as subsidies to private landlords), now, they tend to say: "do both."<sup>35</sup>

But it's been anything but a panacea in some cases. For instance, during the Tent City re-location, it was often challenging to find landlords willing to accept tenants. Indeed, the stigma that goes along with a formerly-homeless person receiving social

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<sup>32</sup> Steele (2001), p. 93.

<sup>33</sup> Pomeroy telephone interview.

<sup>34</sup> Private developers, on the other hand, favoured shelter allowances (Gadon interview).



assistance is quite powerful, especially with a landlord used to renting to people who don't require rent supplements. Some tenants found it demoralizing to be repeatedly rejected on this basis. And with it difficult to find landlords, tenants often had to settle for "slumlords." This came with its share of difficulties, including non-compliance on the part of the landlord with landlord-tenant legislation. Indeed, repairs sometimes took extra-long with EHPP recipients; landlords sometimes entered units without prior authorization by the tenant; quotes from landlords on repairs were sometimes excessive (due to stigma vis-à-vis the EHPP recipient); heat sometimes didn't get turned on. Also, due to the lack of interest by landlords, recipients often had to settle for rather undesirable locations. One location where several participants resided took two hours on public transit to get to downtown Toronto. Another featured a lot of violence.<sup>36</sup>

The EHPP was able to be up and running very quickly. Indeed, within three months of the program's start, most of the former Tent City residents had been housed.<sup>37</sup> The fact that this was done so quickly with such a high-needs population of tenants (and with only three housing support workers) is unprecedented.

Recently, 1,800 "housing allowances" (actually rent supplements) were announced in Toronto; they are funded through the Canada-Ontario Affordable Housing

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<sup>35</sup> Gadon interview. See, for example, *The Blueprint to End Homelessness in Toronto: A Two-Part Action Plan* (Toronto: Wellesley Institute, October 2006).

<sup>36</sup> Personal interviews with Danielle Koyama and Jane Mountain were very helpful with this section. It was pointed out by one source that support workers helping tenants find appropriate units, with time, develop a certain level of expertise. Eventually, good rapport can be built with certain landlords who, in turn, become both willing to rent more units and are willing to serve as positive references for the program. With time, it becomes easier to find decent units quickly. On the other hand, some feel it is very important that staff assisting tenants finding units resist the urge to settle for bad landlords and/or accept offers to put too many of their participants in the same building. Each of these options is considered "the easy way out."

<sup>37</sup> Gloria Gallant, Joyce Brown and Jacques Tremblay, *From Tent City to Housing: An Evaluation of the City of Toronto's Emergency Homelessness Pilot Project* (Toronto: City of Toronto, June 2004) 7.

Program<sup>38</sup> and were driven largely by a desire by the federal government to make something happen quickly. These allowances were announced as lasting five years and providing \$250 for a single person with no dependents living alone, \$350 for a household requiring a two-bedroom apartment, and \$450 for a household requiring a 3-bedroom apartment.<sup>39</sup> This program targets people from certain groups, including victims of domestic abuse, welfare recipients who are “employed or in an employment training program,” participants in Toronto’s Streets to Homes program, and homeless aboriginals. One stipulation in this program is that Housing Connections (a municipal agency) must assess the suitability of the unit in question (meaning, among other things, that the landlord will be fully aware that the tenant is being subsidized through this program).<sup>40</sup>

One drawback to a rent-supplement approach is that it can be hard to do community development when participants are spread out across different buildings. Whereas a non-profit/co-op building can be a convenient setting to have a community kitchen or meal program or group activities, it isn’t very feasible to bring people together like this when they’re spread out. Of course, the extent to which this is a drawback depends very much on the tenant. Some enjoy and benefit from community development activities much more than others. Other tenants may want nothing to do with them at all. Likewise, some people may find it very difficult to fit in at a “normal” building.<sup>41</sup>

Rent supplements are often seen to be more appropriate when vacancy rates in a given jurisdiction are high. After all, in many ways, it only stands to reason that if units

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<sup>38</sup> This is the Ontario portion of the Affordable Housing Initiative.

<sup>39</sup> Shortly after this announcement, however, key revisions were made to the program. As of March 2007, the figures are: \$350 for a bachelor, one-bedroom or two-bedroom unit, \$450 for units larger than one bedroom (City of Toronto, Alternative Housing & Services Committee Meeting Minutes, 14 March 2007).

<sup>40</sup> The information on this program was taken from the Housing Connections web site [www.housingconnections.ca](http://www.housingconnections.ca).

<sup>41</sup> Special thanks to April Trewhitt for pointing this out.

are sitting vacant, it makes more sense to help low-income tenants access those units than to build brand-new housing from scratch. It is also easier for tenants to find good units (and good landlords) when vacancy rates are high. Indeed, in such situations, it's more of a renter's market and more landlords are going to be interested (and less fussy about which tenants they'll accept).<sup>42</sup>

One drawback to a "shallow" rent supplement program is that it might not be very appropriate for a welfare recipient. In Ontario, for instance, a single Ontario Works recipient with no dependants is able to afford rent of only \$592 (\$342 + \$250) with a shallow program. In Toronto, this is not very helpful. Indeed, the recently announced "housing allowances" in Toronto were found to be insufficient for welfare recipients. Rumour has it that the monthly amount has just been upped to \$350.

Another major problem with rent supplements is their ability to have a significant inflationary impact on low-end rental units across any given jurisdiction in which they're prevalent. A major U.S. study done by New York University's Scott Susin looked at the U.S.'s 90 largest metropolitan areas. The study concluded that rent supplements while providing US\$5.8 billion to participants, had caused a average rent increase of 16% for non-recipient families over a 19-year period,<sup>43</sup> representing a US\$8.2 billion increase in total rent paid by non-recipient renter households. Thus, low-income households in general saw a net loss of US\$2.4 billion.<sup>44</sup> Susin makes the following point:

[Shelter allowances] will drive up rent if they fail to stimulate a supply response: inducing construction, reducing demolition, or increasing maintenance... In fact, the results presented [in this study] suggest that the elasticity of supply is very close to zero, that [rent supplements] do

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<sup>42</sup> Special thanks to April Trehitt for pointing this out.

<sup>43</sup> The period spanned the 1974-1993 period.

<sup>44</sup> Scott Susin, "Rent vouchers and the price of low-income housing," *Journal of Public Economics* 83 (2002) 109-152.

very little to increase the size or quality of the low-income housing stock.<sup>45</sup>

The most likely form of rent supplement in today's context, especially in Toronto, would be a "rent supplement" paid directly from a government agency to a landlord. For a single person in Ontario, it would most likely be in the range of \$350-\$500 per person per month. It would likely last five years (with the possibility of an extension after this five-year period). The government agency would likely have to approve of the unit.

### **U.S.-Style Tax Credits for Developers of Rental Housing<sup>46</sup>**

In its 2006 election platform, the Federal Conservatives promised a \$200 million/yr. tax-credit plan that was clearly inspired by the U.S.'s Low Income Housing Tax Credit (LIHTC).<sup>47</sup> The U.S.'s LIHTC program has a long-established track record. Two decades old, it has lasted over three different administrations, and is now the U.S.'s "primary mechanism for encouraging the production of housing to be occupied by low- or moderate-income households."<sup>48</sup> Roughly 85,000 units a year are now produced under the LIHTC program.<sup>49</sup>

Insofar as a Canadian tax-credit program would resemble the U.S. one,

- Non-refundable tax credits<sup>50</sup> would be allocated by the Canada Revenue Agency to provinces and territories on a per capita basis.<sup>51</sup>

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<sup>45</sup> Ibid., 115.

<sup>46</sup> Much of the information for this section comes from personal interviews with Marion Steele.

<sup>47</sup> The Conservative platform contained very few details about this plan. Nor has there been any apparent movement on it by the Harper government since the election. Thus far, there appear to be some key differences between the Conservative plan and the LIHTC program. First the Conservative plan appears to provide tax credits exclusively to private developers, whereas the LIHTC program includes a strong role for non-profits, which, among other things, results in more long-term affordability of the units created [Pomeroy (March 2006) 7].

<sup>48</sup> Kirk McClure, "The Low-Income Housing Tax Credit as an Aid to Housing Finance: How Well Has It Worked?" in *Housing Policy Debate* Vol. 11 No. 1 (Washington, D.C.: Fannie Mae Foundation, 2000) 91.

<sup>49</sup> Kirk McClure, "The Low-Income Housing Tax Credit Program Goes Mainstream and Moves to the Suburbs" *Housing Policy Debate* Vol. 17 Issue 3 2006: 434.

<sup>50</sup> Non-refundable means that you cannot claim it unless you have the tax liability (i.e., you have to be paying taxes).

- The credits would be administered by each province/territory's housing ministry.
- The ministry in question would, effectively, outsource the job of marketing the tax credits to firms.
- The firms that market the tax credits would be called "syndicators."<sup>52</sup>
- The tax credits would be marketed to both well-off individuals who already own real estate and to corporations. (In the U.S., the main purchasers of the credits are now financial firms.)<sup>53</sup>
- Provincial housing agencies would oversee a competition process wherein both non-profit and for-profit developers would make proposals that meet various affordability criteria.
- When developers put their proposals together, they would talk either directly to potential investors or to a syndicator.
- Developers would make offers to invest in rental housing being developed by either non-profit or for-profit developers that meets various affordability criteria.
- Bidders making the most appealing offers would be awarded tax credits by the provincial agency (the latter would award the credits it has received from CRA).
- At tax time, individuals receiving tax credits would then benefit in two ways: 1) they would receive the tax credits after filing; and 2) they would use the credits to reduce their tax payable [they would accomplish this by reducing their net rental income, by using the capital cost allowance (CCA)<sup>54</sup> from a building as a deduction in the computation of their net rental income].

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<sup>51</sup> Marion Steele and François Des Rosiers, "Superstar Cities, Condominiums and the Low Income Housing Tax Credit: the LIHTC in the Context of Other Tax Expenditures on Housing," Draft Presentation to the American Real Estate and Urban Economics Association Meetings 5 January 2007: 16.

<sup>52</sup> Syndicators, in fact, "sell shares in a fund that receives tax credits from many developments. This structure minimizes risk as compared to depending on just one development" (Marion Steele, "A Tax-Based Affordable Housing Program for Canada," Canadian Housing Fall 2006 Vol. 22 No. 3, p. 35).

<sup>53</sup> Steele and Des Rosiers, 18. According to Steele and Des Rosiers: "[t]he restrictions on passive loss tax deductibility for very high income people in the US, along with no such restrictions for corporations, has resulted in corporations being able to outbid individuals for the credits. Corporations now are the dominant purchasers, usually through special funds which bundle credits from many projects (Ibid., p. 19)."

<sup>54</sup> The CCA refers to the rate of depreciation allowed by the CRA on rental projects when landlords are claiming deductions on their income taxes. The current annual rate of depreciation allowed on rental projects is 4% of the declining depreciable balance (Lampert and Pomeroy, 5).

While housing developed under this program in the U.S. (naturally) tends to require rent that is lower than for newly-built, private units, the allowable rent is considerably higher than in social housing units. As McClure notes:

The LIHTC program is not designed to directly serve the poorest of the poor. It serves households with incomes below 60 percent of the area median family income (AMFI). LIHTC developments usually charge rents that are close to the maximum permitted by the program...By comparison, among [rent supplement recipient households in the US], the average income is 22 percent of the AMFI.<sup>55</sup>

While the housing must continue to meet minimum affordability criteria for 30 years, McClure notes that most LIHTC households likely live above the poverty line (i.e., 30 percent of the AMFI).<sup>56</sup> In fact, there are “many markets where the rents permitted under the LIHTC program are little different from unsubsidized rents.”<sup>57</sup>

The federal tax credits themselves, in the U.S. context, do not by themselves make units affordable for poor households. Thus, an important component of the U.S. program is that most units tend to receive one to two additional layers of subsidy. Often, this comes in the form of state tax credits. Also, somewhere between one-third and half of units have households who receive rent supplements.<sup>58</sup> As McClure notes, “[f]inancing typically comes from one or more lenders, from the sale of tax credits, from direct contributions by the owners, and from additional subsidy programs...”<sup>59</sup>

Given the very slow—and often negative—filtering process discussed earlier in this paper, if the goal is to create affordable housing that the poorest households can afford, it

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<sup>55</sup> McClure (2006), 424.

<sup>56</sup> Ibid., 440.

<sup>57</sup> Ibid., 432.

<sup>58</sup> Steele (2006), p. 36. Landlords under the program are required to accept these households (Ibid.).

<sup>59</sup> McClure (2006), 430.

seems rather pointless to create LIHTC units that are *not* stacked with other layers of subsidy (e.g., rent supplements, grants from the provincial health ministry, etc.).

Also, as was pointed out above, assisting in the construction of units that are affordable to modest-income households has the potential to crowd out private investment. Drawing from the U.S., Murray argues:

The empirical record from 1960 to 1987 indicates that moderate-income subsidized housing construction is offset at least one-third by reductions in unsubsidized housing. A best estimate is that such construction adds nothing to the net stock of housing. This evidence supports those who oppose subsidizing developers who produce housing for moderate-income households. Such subsidies are unlikely to affect at all the total stock of housing.<sup>60</sup>

There are three possible advantages of a LIHTC-inspired program in Canada, over and above the advantages of a non-profit approach.

- 1) The potential support from the private sector. Due to the private sector's major involvement with the US program (and due to the benefits investors derive through participating in the program), a strong alliance has been formed between government and "private sector stakeholders." Some feel that such an alliance can make such a program more sustainable over the long term, across successive administrations. The argument is that, whereas it's relatively easy to cut a capital-grant program, it's much more difficult to bring an end to a partnership with an enthusiastic group of private developers, apparently working side-by-side in harmony with government.<sup>61</sup>
- 2) Because it's a tax credit program, it creates the illusion to the naïve observer of being more fiscally responsible than a cash grant program.
- 3) It has been suggested that a CRA-run tax credit program of this type could give provinces more flexibility than would a CMHC-administered cash grant program. This not only has potential advantages for provincial housing ministries, but also for the federal government. For example, having the provinces handle the bureaucracy of such a program is apparently consistent with the Harper government's commitment to practicing an "open federalism," where provincial autonomy is recognized and federal and provincial jurisdictions as defined the Canadian Constitution are respected.<sup>62</sup>

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<sup>60</sup> Murray, 119.

<sup>61</sup> Suttor interview.

<sup>62</sup> For a lay-out of the Harper government's vision for Canada, see Mr. Harper's "Address to the Quebec City Chamber of Commerce on December 19, 2005.

- 4) Finally, some feel that developers would be more afraid of CRA's auditing powers than of CMHC's, and would therefore be more likely to obey the rules. The notion is that CRA would be more likely to take tax credits away in the case of non-compliance with the rules. (In this case, the investor would be penalized.)

One very serious drawback of the LIHTC approach is its inefficiency. Indeed, for every one dollar of federal tax credits, only between \$0.60 and \$0.85<sup>63</sup> goes into the housing development. The rest is collected by the investor's cut and the syndicator's cut respectively. The logic goes as follows:

- Investors make their investment at the beginning of the construction period. They claim tax credits after this (once a year, for ten years). Thus, there is an opportunity cost for the investor; she/he could have invested elsewhere and would have to be compensated (otherwise, it makes little sense for her/him to get involved in the first place).
- The syndicator firms must be paid a fee for having marketed the tax credits.
- Because of the lag between the time the investor invests and the many years before she/he eventually cashes in on her/his tax credits, the syndicator often has to make a bridge loan to the development (for which the syndicator charges both fees and interest).<sup>64</sup>

The aforementioned \$0.60 - \$0.85 on the tax-credit dollar "represents the end payment after all of the above items have been factored in."<sup>65</sup> Steele (2006) has done simulations based on what tax credits might look like in Toronto. For a unit costing \$180,000, she estimates that the CRA would forego \$166,000<sup>66</sup> in foregone revenue over a 10-year period. In return, the investor would likely only contribute anywhere from \$111,000 to \$151,000, depending on how established the program is. For that unit, the

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<sup>63</sup> This is a rather large range. The figure depends largely on interest rates. The 0.6 figure applied in the U.S. when interest rates were higher. Now, with lower interest rates, the 0.85 figure applies.

<sup>64</sup> McClure, 104-106.

<sup>65</sup> McClure, 106 and Steele (2006), 34.

<sup>66</sup> This represents the "simple sum"—as opposed to the "present value"—of the tax credits.



syndicator would likely make somewhere between \$10,000 and \$12,000 (taken from the investor's contributions).

However, the above-mentioned "inefficiency" may not be as inefficient as it seems at first glance. It seems that the work done by the syndicator replaces, to a great extent, much of the bureaucratic work that would otherwise be done by both CMHC and provincial housing ministries in the construction of non-profit housing. Syndicators provide a great deal of expertise and management.

It should also be noted that, with the non-profit approach, CMHC often gives non-profit developers development grants to develop proposals. Under a tax-credit approach, syndicators would undertake such work. It only stands to reason that they be paid for this.

With time, the annual rate of return for tax credit investors has dropped from 15-17 % to 10 % by 1997. This appears due in part to the program's maturation. Indeed, investors now view the tax credits as a "very low risk investment;" the properties have "strong occupancy rates and extremely low foreclosure rates." It is also due in part to a drop in interest rates.<sup>67</sup>

### **Private vs. Non-Profit**

Sometimes, private-sector vs. non-profit approaches are pitted against one another. This appears to be a bit of a false dichotomy. Indeed, it should be noted that, even when non-profit/co-op housing is built, more than 95% of the capital cost is paid to the private sector.<sup>68</sup> Indeed, the vast majority of the people who participate in the entire

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<sup>67</sup> McClure (2006), 428-9.

<sup>68</sup> Steve Pomeroy estimates that only 3-4% of the total capital cost of a new unit is actually paid to the non-profit agency (Telephone interview, 29 November 2006).

process, from engineers to land surveyors to lawyers to labourers to builders are from the private sector. Thus, it is a bit of a fallacy to debate whether we need a “private sector” vs. a “non-profit” approach. The question really comes down to who does what in which circumstances?

There are major advantages to the non-profit sector ultimately owning and operating new units. To be sure, the “incorporated purpose” of a non-profit housing agency is to keep the costs for tenants down, and to make the units as affordable as possible. The private sector, by contrast, has a vested interest in raising as much money from tenants as possible. Thus, not surprisingly, empirical research does confirm that, when it comes to who owns and operates units, the non-profit sector keeps rent down over the long-run when compared to the private sector. Whereas private landlords will tend to raise rents as much as the market (and legislation) allows, non-profits will tend to raise rents only insofar as their costs go up. Thus, it is clear that the non-profit sector is very good at *preserving* affordable housing.<sup>69</sup>

### **Income-Security Approach**

Almost half of Canadian households in core housing need are welfare recipients.<sup>70</sup> Conversely, 85 per cent of households with annual incomes of less than \$10,000 are in core need.<sup>71</sup> Thus, core housing need and low-income security go hand in hand. It is

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<sup>69</sup> Pomeroy, Telephone interview, 29 November 2006. See Steve Pomeroy, *Invest or Subsidize: Comparative Subsidy Cost of Non-Profit and Private Market Units Rent Supplements in Ottawa* (Ottawa: Focus Consulting, May 2005). Consistent with this, under the U.S. LIHTC program, non-profit agencies, relative to their for-profit counterparts, tend to take on developments in high-cost areas [McClure (2000), 100].

<sup>70</sup> Steve Pomeroy, *Toward a Comprehensive Affordable Housing Strategy for Canada* (Ottawa: Caledon Institute of Social Policy, October 2001) 21.

<sup>71</sup> Pomeroy, 3.

therefore important to consider the incomes of those living in poverty, most notably the 1.7 million Canadians living on welfare.<sup>72</sup>

Welfare benefits—measured in constant dollars—peaked in the first half of the 1990s. Since that time, the reductions in monthly benefit rates have been quite drastic.<sup>73</sup> In Ontario, welfare benefits (in constant dollars) are now roughly half what they were in 1995.<sup>74</sup> Across Canada, one-third of all households on welfare saw annual losses in their benefits of \$3,000 or more since the early 1990s.<sup>75</sup>

One approach that resembles very much the rent-supplement approach is to enhance the monthly incomes of poor households, with no strings attached in terms of how they spend that additional amount. Why contemplate this approach? It has to do with the perspective of the economics profession. Indeed, a background paper prepared for the Social Assistance Review Committee in 1987 argued:

The economist believes that it is generally inefficient to give the poor particular commodities, or to subsidize their purchases of those commodities. It is more efficient to give money directly to the poor and allow them to choose what they wish to purchase...[R]ecipients can always use the money we give them to purchase the subsidized housing we might otherwise provide, but often recipients will prefer to spend their money on other things (for example, double up and spend the money on better food or clothing or transportation to look for a job, and so on).<sup>76</sup>

It should be noted that “the economist” perspective currently has a following in high places in Canada. In his 19 December 2005 address to the Quebec City Chamber of

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<sup>72</sup> National Council of Welfare, *Welfare Incomes 2005* Vol. #125 (Ottawa: Minister of Public Works and Government Services Canada, Summer 2006) ix.

<sup>73</sup> National Council of Welfare, x.

<sup>74</sup> Task Force on Modernizing Income Security for Working-Age Adults, *Time for a Fair Deal* (Toronto: St. Christopher House and Toronto City Summit Alliance, May 2006) 22. Disability benefits in Ontario are roughly 22% less (in real dollars) than they were in 1995 (Ibid., 24).

<sup>75</sup> National Council of Welfare, x.

<sup>76</sup> SPR Associates Inc., “Housing and the Poor: A Background Paper,” prepared for the Social Assistance Review Committee, 29 May 1987, p. 53-54.

Commerce, Prime Minister Harper uttered the following words: “I trust you with your own money and I am confident that you will make the best choices for your family.”

The Task Force on Modernizing Income Security for Working-Age Adults (a.k.a., MISWAA) recently recommended changes to the federal tax system consisting of a basic non-refundable tax credit for all low-income, working age adults and a working income supplement for low-income wage earners. The maximum benefit for the tax credit would be \$150/month.<sup>77</sup>

At the end of the day, the income-security approach to a lack of housing affordability suffers from the same shortcoming as the rent-supplement approach. The aforementioned background paper prepared almost two decades ago makes the point as follows:

The fundamental difference between housing and food in this analysis is on the supply side...When more people move into an area and want to eat, food producers simply send more food there. The situation with regard to housing is obviously different. Housing cannot be imported into an area when more people move there. Neither do we have any confidence in the ability of competition to provide low-cost housing to the poor. Several decades of experience suggest that markets are not responsive—even when modest incentives are provided...When ...government provides the poor with cash..., it can reduce affordability problems, but it cannot ensure that low cost housing will be made available for recipients to purchase...The only sure way to ensure this is to get involved on the supply side, subsidizing and, where necessary, building housing that low income residents can afford...The bottom line is that supply side policies are needed in housing, more than for other commodities, because markets do not work well, and because the end result of even efficient markets may well be patterns of urban segregation that we regard as socially unacceptable. Giving the poor more money will be more effective if there is also at the same time a supply side effort to ensure that low income housing is zoned for and produced. The advantage of policies that provide housing rather than money is that such supply side efforts are part of the policy itself.<sup>78</sup>

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<sup>77</sup> Task Force on Modernizing Income Security for Working-Age Adults, 32.

<sup>78</sup> SPR Associates Inc., 55-56.

Put differently, the supply curve for low-cost rental housing is very inelastic, especially in the short run.

In today's context, an income-security approach might target a fixed number of very poor people and supplement their monthly income support by an additional \$150. This could, theoretically, happen via a lump-sum payment in the form of a supplement to welfare benefits, disability benefits, Old Age Security benefits, the Guaranteed Income Supplement, or the National Child Benefit Supplement. However, the current political climate makes it more likely that it would happen via a non-refundable tax credit. It would be administered by the Canada Revenue Agency and would likely target households not already living in government-assisted housing.

#### **The Four Alternatives Costed Out: \$100 Million Over One Year**

Let us now conduct a very simplistic costing-out exercise. The Harper government has been very silent on affordable housing since its election over one year ago. But let us suppose that it is willing to make a one-time funding allocation of \$100 million, to be spent over a twelve-month period, and that it does not want to commit beyond that. This amount of money is very realistic given the federal context over the past half dozen years. So is the one-time allocation aspect to it. Also, given the federal government's focus on core-need households since the mid-1980s, it is safe to say the core-need households are the most sensible target group for the money.

Administrative and support services would likely be required in all four approaches considered in this paper. Roughly \$2000 per person per year, for instance, might be required for higher-need tenants. These costs would include the cost of moving tenants from time to time, as well as community workers. (The \$2000 figure is actually a

slightly higher figure than the one used in the Tent City evaluation study, largely because the latter study does not factor in some services that were offered by various social service agencies.) For the sake of simply, I shall leave these services out of the calculations.

### *Building Non-Profit Housing*

Given that the construction and subsidization of new co-op housing is not a commonly-thought-of policy objective in the current federal context, this particular exercise will focus only on the non-profit approach.

With the assistance of a ProForma modeling spreadsheet provided to the writer by a City of Toronto official, it was calculated that \$125,000 of equity (i.e., up-front cash) provided at the development stage would be sufficient to create a 450-square-foot<sup>79</sup> bachelor unit of non-profit housing in Toronto that would ultimately require monthly rent equivalent to a single welfare recipient's (no dependents) shelter allowance from Ontario Works.<sup>80</sup> With such a large amount of up-front equity, no annual operating subsidy would be necessary. This eliminates operating subsidies from the equation. In some ways, it is also consistent with the way CMHC sought to deliver funds through the Affordable Housing Framework Agreement, whereby it made money available on a one-off basis and left the provinces and third sector to worry about operating subsidies (i.e., long-term affordability). Providing funding for capital rather than operating costs—be it

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<sup>79</sup> While not large, this would be sizeable enough that it would include a full kitchen and bathroom.

<sup>80</sup> The calculation was deliberately made so that the unit, in the end, the rent paid would be equivalent to the shelter allowance component of a welfare recipient's cheque. This amount is currently \$342/month. We will assume in this exercise that both welfare and operating costs will remain roughly on par with inflation. It should also be noted that the shelter allowance component of a welfare household's monthly cheque does not rise in step with the increased capital and operating costs involved with a larger unit (i.e., the gap is bigger with larger households).

via this approach or the LIHTC approach--is also consistent with the Harper government's desire to provide funding for the "construction" of affordable housing.<sup>81</sup>

(Of course, even in light of the above factors, provinces could always "stack" operating subsidies on to units for which the capital was paid by the federal government. However, for the sake of keeping this exercise as simple as possible, we'll assume that there is no provincial funding partner.)

The aforementioned model features a \$25,000 cost for land, \$70,000 for construction and "hard costs," and \$30,000 for soft costs. The cost of the land is of mid-range for Toronto. Because of the large amount of equity being offered in this model, no mortgage (or financing costs) would be required. The model factors in typical operating costs for a Toronto unit.<sup>82</sup> For the sake of simplicity, let us assume that the units last only 30 years and then lose all of their value.

The \$125,000 in equity likely overstates the cost of the unit, as it's based on the shelter allowance of an Ontario welfare recipient (the poorest of the poor). If an Ontario Disability Support Program (ODSP) recipient were to rent the unit and pay her/his \$436/month shelter allowance on rent, less equity would be required. It should also be noted that building non-profit from scratch (as is the case in this scenario) is considerably more expensive—even over the long-term-- than acquiring already-existing buildings and refurbishing them.

**The Math:    \$100,000,000.00 / \$125,000 = 800 x 30 = 24,000 household years**

**Public-Owned Asset Produced?    YES**

**Potential Inflationary Impact on Other, Non-Subsidized Units?    NO**

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<sup>81</sup> See, for example, Mr. Harper's 19 December 2005 address to the Quebec City Chamber of Commerce.

<sup>82</sup> This includes parking, laundry, maintenance, and operations.

**Potential for Crowding Out?**

**NO**

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- **\$100 million spent on building non-profit housing provides sufficient equity to build roughly 800 bachelor units for 800 core-need individuals.**
  - **Let us assume, however, that virtually all the tenants would be Ontario residents receiving either Ontario Works or ODSP.**
  - **Even in this unreasonably pessimistic scenario, 800 households would have been housed with RGI-housing for 30 years. From a cost standpoint, this would be equivalent to providing 24,000 rent supplements.**
  - **It does not remove any of them from core need, as they would still pay more than 30% of their income on shelter.**
  - 
  - **Given the fact that these units would be targeted at the very low end of the rental market (for whom private, unsubsidized builders would never build in a large urban centre), there would be very little—if any—potential for this approach to have either an inflationary or a crowding out effect on other non-subsidized low-cost housing.<sup>83</sup>**
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*Rent Supplements*

Given both the success of the Tent City re-location effort and the fact that a \$250 “shallow rent supplement” has recently been found to be inadequate for welfare recipients in Toronto, let us see how far \$100 million goes if we take the deep rent-supplement route (i.e., \$500/month supplement). A key advantage to this deep-subsidy approach is that it is known to work very effectively in helping to house visibly-homeless individuals (to be sure, the program evaluation of the Tent City re-location project is

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<sup>83</sup> Admittedly, the above analysis makes sense in a context of a strong, inclusionary zoning system, something that Vancouver currently has but Toronto does not. Indeed, it is a hotly contested issue in Canada’s biggest city.



compelling). This is a very appealing approach for politicians wanting to be seen to be “solving homelessness.”

Let us assume that the average monthly rent supplement would cost the government \$500. On an annual basis, this would be \$6,000 per person.

**The Math:**     $\$100,000,000.00 / \$6,000 = 16,667$  household years

**Public-Owned Asset Produced?**    NO

**Potential Inflationary Impact on Other, Non-Subsidized Units?**    YES

**Potential for Crowding Out?**    NO

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- **\$100 million spent on rent supplements provides annual, one-time funding to take roughly 16,667 core-need individuals (most of whom are single) off the street, into shelter.**
  - **It does not remove any of them from core need, as they would still paying more than 30% of their income on shelter.<sup>84</sup>**
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### *The LIHTC Approach*

Steele has done simulations for the LIHTC approach based on the Toronto market. Steele’s simulation was based on two-bedroom units. However, the LIHTC units considered here would require a monthly rent much higher than \$342. Her simulation has the federal government spending \$166,000 (arithmetic sum) per unit, rather than \$125,000. (Based on McClure’s analysis in the U.S. context, the rent required

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<sup>84</sup> Most of the participants in the Tent City re-location project receive either welfare or disability benefits. They were required to pay the shelter component of their monthly cheque towards housing. While community workers are generally pleased to house OW or ODSP recipients in such a way that they must pay only their cheque’s shelter component towards rent, this amount does not actually fall below the 30%

would be lower than what new, private units would cost renters, but considerably higher than what poor households pay for social housing.). Thus, we are hardly comparing apples to apples here.

**The Math: \$100,000,000.00 / \$166,000 = 602 x 30 = 18,060 household years**

**Public-Owned Asset Produced? YES, if non-profit development  
NO, if for-profit development**

**Potential Inflationary Impact on Other, Non-Subsidized Units? NO**

**Potential for Crowding Out? NO**

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- **\$100 million foregone on tax credits awarded to individuals or corporations could provide sufficient equity to build roughly 602 bachelor units for 602 core-need households.**
  - **As with the non-profit approach (given the same assumptions), the LIHTC approach does not remove any of the households from core need, as they would still paying more than 30% of their income on shelter.**
  - **The good: these would be two-bedroom units, as opposed to bachelors. Each one could house at least two adults. Some could house two adults and up to two children.**
  - **The bad: without additional layers of subsidy, these units would not meet the affordability benchmark for low-income households. Thus, more layers of subsidy would have to be made available in order for these units to be truly affordable.**

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### *An Income-Security Approach*

Let us consider a very simple basic refundable tax credit for welfare recipients in Ontario. The MISWAA-proposed tax credit would vary in its dollar amount. For the

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benchmark. Not even close. In the case of an Ontario welfare recipient, they actually end up paying roughly 62% of their income on rent.

sake of this costing-out exercise, let us just assume that it will be \$150/month per welfare recipient. This amounts to \$1800/year. Let us also assume very minimal administrative charges; it would be administered by the Canada Revenue Agency. Let us calculate how many welfare recipients in Ontario could receive this.

**The Math:**     $\$100,000,000.00 / \$1,800 = 55, 556$

**Public-Owned Asset Produced?**    NO

**Potential Inflationary Impact on Other, Non-Subsidized Units?**    NO

**Potential for Crowding Out?**    NO

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- **\$100 million in foregone tax revenue offered through a basic refundable tax credit program provides annual, one-time funding to 55, 556 welfare-recipient households.**
  - **This represents just over one-quarter of Ontario's 197,000 OW recipient households.**
  - **Given the small dollar amount per household, and given the fact that good deal of this would likely be spent on items other than housing, the inflationary impact would be negligible.**
  - **It would likely remove very few from core need, as most welfare recipients would be considerably more than \$150/month below the core need threshold.**
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## **Concluding Remarks**

Finding the right mix of policy measures is key. Some are better in the short term. Others take many years to pay off as a long-term investment. Some have inflationary effects. Others contribute to supply and thereby have the potential to decrease the cost of unsubsidized units. Some have attributes to them that make them very appealing to politicians bent on increasing their popularity. Finally, some households prefer one type over another. The above policy alternatives should not be seen as competing alternatives. Rather, they are complementary.

A final word on core need. Given its absence from both the Affordable Housing Framework Agreement and the federal Tories' tax-credit plan, it appears as though federal housing policy is no longer insistent that all of its housing target the core need population. Furthermore, given that the alternatives assessed in this paper have the capacity to lift few—if any—households out of core need, one can understand why any reasonable policy-maker would question the usefulness of core need as a concept. Indeed, in Ontario at least, the affordability standard of the core-need definition is very difficult for OW and ODSP recipients to meet, given how much they are expected to pay on rent, even with a deep subsidy.

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