

AFFORDABILITY AND CHOICE TODAY (A•C•T) DEMONSTRATION PROJECT

Hearth Homes: Small Homes for Rural Communities

**Interchurch Housing Society
Kentville, Nova Scotia**

Prepared for:

Federation of Canadian Municipalities

Canadian Home Builders' Association

Canadian Housing and Renewal Association

Canada Mortgage and Housing Corporation

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FOREWORD

The project documented in this case study received funding assistance under the Affordability and Choice Today (A•C•T) Program. A•C•T is a joint initiative, managed by the Federation of Canadian Municipalities, the Canadian Home Builders' Association, and the Canadian Housing and Renewal Association, together with the funding agency Canada Mortgage and Housing Corporation. The A•C•T Program is administered by the Federation of Canadian Municipalities.

A•C•T, which was launched in January, 1990, was designed to foster changes to planning and building regulations and residential development approval procedures in order to improve housing affordability, choice and quality.

Through A•C•T, grants are awarded to municipalities, private and non-profit builders and developers, planners and architects to undertake innovative regulatory reform initiatives in municipalities across Canada. Three types of projects are awarded grants under the A•C•T Program: Demonstration Projects, Streamlined Approval Process Projects, and Case Studies (of existing initiatives).

- **Demonstration Projects** involve the construction of innovative housing that demonstrates how modifications to planning and construction regulations can improve affordability, choice and quality.

- **Streamlined Approval Process Projects** involve development of a method or approach that reduces the time and effort needed to obtain approvals for housing projects.
- **Case Study** grants are awarded for the documentation of existing regulatory reform initiatives.

Change and innovation require the participation of all the players in the housing sector. A•C•T provides a unique opportunity for groups at the local level to work together to identify housing concerns, reach consensus on potential solutions, and implement action. Consequently, a key component of A•C•T-sponsored projects is the participation and cooperation of various players in the housing sector in all phases of each project, from development to realization.

All projects awarded a grant under the A•C•T Program are documented as case studies in order to share information on the initiatives and the benefits of regulatory reform with other Canadian communities. Each case study discusses the regulatory reform initiative, its goals and the lessons learned. Where appropriate, the cost savings resulting from modifications in various planning, development, and construction regulations are calculated and reported.

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PROJECT OVERVIEW

Many people in Kings County, Nova Scotia, as in other rural Canadian communities, live in inadequate and substandard housing. A 1983 study of housing conditions in Kings County determined that approximately 10 percent (1,100 units) of the total housing stock was substandard and required major repairs. The federal and provincial governments have delivered housing programs such as the Rural Residential Rehabilitation Assistance Program (Rural RRAP), and the Rural and Native Housing (RNH) Program, to provide housing to rural families with these types of shelter problems. However, due to either the limited funds available or the constraints of a particular program, many families are not adequately served by these programs. For example, some families live in dwellings too dilapidated to qualify under the Rural RRAP, and others' debt-service ratios are too high to qualify for the RNH program.

To upgrade housing conditions, the Interchurch Housing Society (IHS), a non-profit, community organization, began providing low-interest loans to low-income homeowners for repairs and improvements. This approach soon proved inadequate, however, and in 1983, the IHS developed the Hearth Homes Program to address the housing needs of the rural poor in Kings County, including seniors, single-parent families, families on social assistance, people with mental and physical disabilities, and the working poor.

The "Hearth Home" is a small, two bedroom, 53 m² (572 ft²) bungalow, which features a central woodstove in the kitchen/living area. The Hearth Home provides comfortable, low-maintenance housing that is affordable to the very poor. Its design was tailored to the needs of the rural poor in the Kings County area, who tend to live in houses that are relatively small, kitchen-oriented, and heated by a woodstove because wood is readily available in the area.

Two pilot units were completed (one in 1983 and another in 1984) with the IHS's own mortgage financing. The unit construction cost was \$25,000 and \$27,000 respectively, which was within the financial capability of the target group. The IHS then applied to Canada Mortgage and Housing Corporation (CMHC) for mortgage guarantees for 20 additional units.

Initially, the request was denied because the proposed small-house design did not meet CMHC's residential standards. Subsequently, the building design was modified to a three-bedroom unit with more storage space. However, the requirements of CMHC's mortgage insurance fund resulted in the request being turned down. CMHC was concerned that, due to their small size and rural location, the properties would not provide adequate security in the event of a mortgage default.

The project was eventually supported by the Nova Scotia Department of Housing through the Nova Scotia Housing Development Corporation, which agreed to provide mortgage guarantees for the Hearth Homes Program. By the time the provincial government cancelled its mortgage guarantee funding in 1990, 80 units had been constructed.

The Hearth Homes Program provides an example of a practical, community-based solution to the housing problems faced by Canada's rural poor. The IHS' close ties to the community enabled it to understand the

individual needs and circumstances of its clients. Furthermore, the Hearth Homes Program illustrates that housing needs are not uniform across Canada, and that standards for federally funded programs should reflect local circumstances and requirements. The Hearth Homes Program fulfilled a demand not met by available programs; it built a small house that is compatible with the lifestyle of low-income, rural families in Nova Scotia—a house that is inexpensive to build, efficient to operate, and easy to maintain.

1.0 PROJECT DESCRIPTION

1.1 Housing the Rural Poor

A number of government programs, including Canada Mortgage and Housing Corporation's (CMHC's) Rural Residential Rehabilitation Assistance Program (Rural RRAP) and Rural and Native Housing (RNH) Program, have been designed and implemented to address rural housing issues. However, while they provided housing assistance to moderate- to low- income families, the government housing programs available in the early 1980s were unable to meet the needs of the very poor.

For example, the Rural RRAP was designed to improve rural housing conditions. In the early 1980s, the Rural RRAP provided loans of up to \$10,000 at low interest rates to owners to rehabilitate their substandard homes. Although there are examples of substandard dwellings that have been successfully rehabilitated under the Rural RRAP, many low- income families living in terrible housing conditions were excluded from the program because they could not service the loans or because their dwellings were beyond economically viable repair.

The accessibility of RNH units was also limited. One major problem was that the need for assistance far exceeded the supply of RNH units. Due to restricted funds and RNH guidelines at that time, priority was given to relatively large families; as a result, RNH units were generally not available to single-parent families and seniors.

Another problem was that the modest, single-family bungalow and split-entry RNH homes did not always respond to the rural poor's housing requirements. Because the units were fairly large and were geared to middle-class aspirations, many beneficiaries were unable to maintain their homes and fell behind in their mortgage payments. Experience had shown that in Kings County, very low- income families were accustomed to living in smaller houses, lacked the skills to maintain larger units, and found the RNH units' heating and operating costs to be beyond their means. Public housing programs available in the early 1980s also did not respond to local needs. Working families in Kings County prefer to own their homes; at that time, public housing projects provided rental units exclusively.

1.2 The Hearth Homes Program

In 1983, in response to the lack of housing options available to the hard-to-house rural poor, the Interchurch Housing Society (IHS), a non-profit community organization, initiated the Hearth Homes Program to address the housing needs of low-income families in rural Nova Scotia, including single-parent families, families on social assistance, seniors, people with mental and physical disabilities, and the working poor.

The program aimed to replace substandard housing and to house the poor by providing a housing option that was economical and energy efficient, and that would be compatible with residents' needs and lifestyles. The Hearth Homes Program was innovative in a number of areas:

- Housing design
- Human resource development
- The provision of ongoing client counselling to help residents to maintain a house, both physically and financially

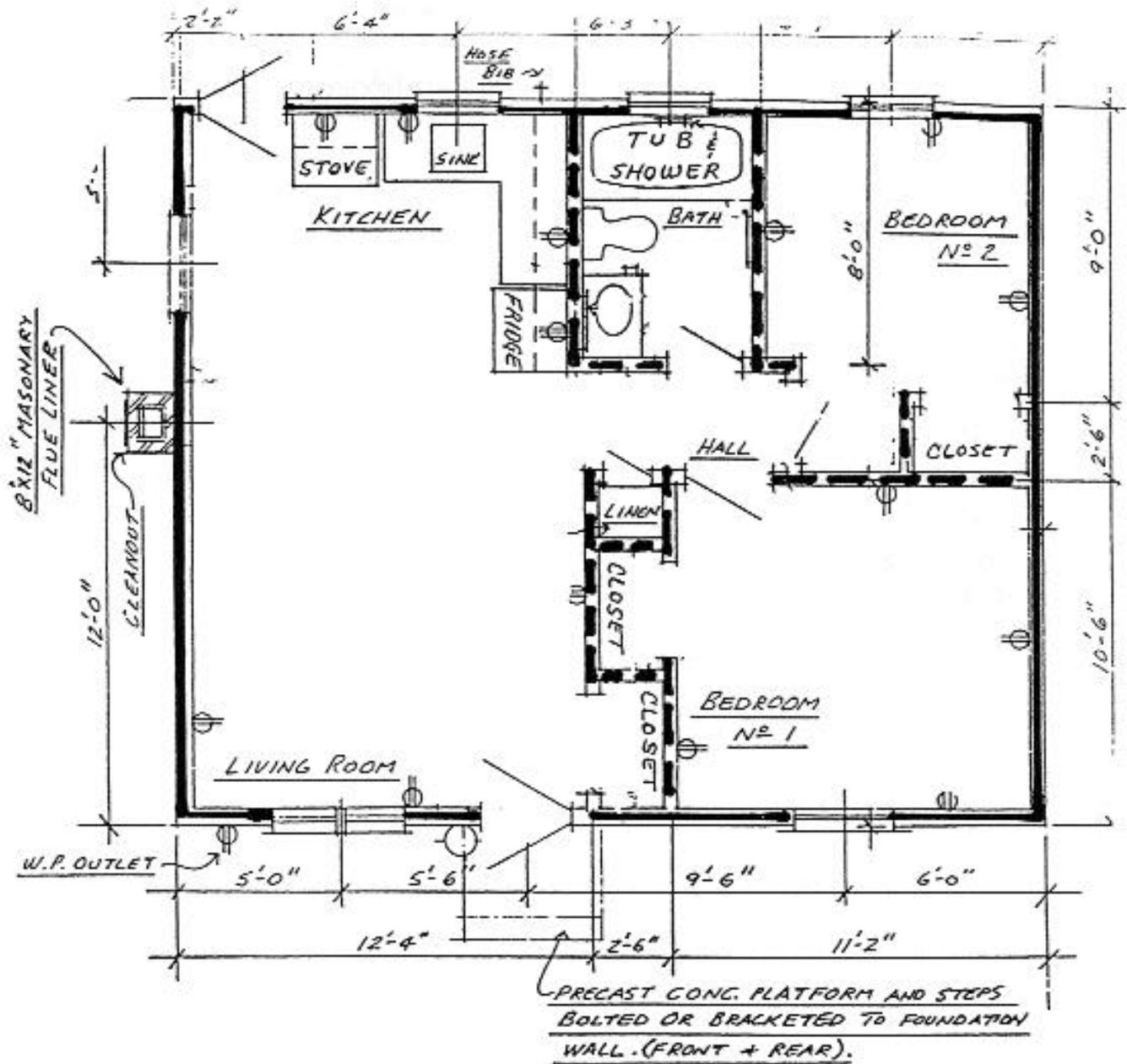
The Design of the Hearth Home The Hearth Home was designed to meet the needs of low-income families in rural Nova Scotia, who tend to live in relatively small houses that are kitchen-oriented and heated by wood, which is readily available in the area. The original design was a two-bedroom, 53 m² (572 ft²) bungalow, which featured a central woodstove in the kitchen/living area, reflecting the traditional kitchen-based lifestyle of many rural families. Figure 1 presents an exterior view of the Hearth Home; figure 2 contains a floor plan.

Figure 1. The Hearth Home



Source: Interchtlrch Housing Society

Figure 2. Floor Plan of the Two-Bedroom Design



MAIN FLOOR PLAN: 1/4" = 1'-0"

Source: Interchtlrch Housing Society

The small, well-insulated house was designed to be cost-efficient to build and operate, and easy to maintain. Most were built on a four-foot crawl space, although some units have a partially finished basement. To reduce the cost of construction, each room was designed with dimensions corresponding to standard building materials; for example, sheets of gypsum board did not have to be cut, and studs could be ordered to size. The woodstove, which provides an inexpensive alternative to electric heating, minimizes heating costs (there is also a backup electrical heating system).

Human Resource Development

An essential component of the Hearth Homes Program was human resource development. Between 1985 and 1987, the then federal Department of Manpower (now Human Resources Development Canada) supported the program with a Canada Works grant. Through the grant, more than 60 workers received employment and on-the-job training in home construction and project administration. At the same time, the delivery costs of the Hearth Homes Program were reduced.

Client Counselling

Client counselling, including comprehensive education and follow-up to ensure that occupants adapted successfully to their new homes, was an important component of the Hearth Homes Program. Before families moved into their homes, they attended a series of workshops on home maintenance, budgeting, and general homeownership.

The IHS also introduced them to a variety of resource people and to support services available in the community.

1.3 Delivering the Hearth Homes Program

Financing

The IHS constructed two Hearth Home pilot units, one in 1983 and another in 1984, using its own mortgage funding. Due to the success of the pilot projects, the IHS then applied to CMHC under the Mortgage Insurance Program for mortgage guarantees for 20 additional units. The request was denied because, primarily due to its small size, the Pilot project house design did not meet CMHC's residential standards.

The building design was modified to a three-bedroom unit with additional storage space, and resubmitted. In addition to CMHC's residential standards, another motivating factor behind the modification was that the small, two-bedroom houses encountered local resistance. Neighbouring residents recognized these small units as "Church" houses and pressured local politicians to prevent the construction of such housing. Designed to blend in with existing housing, the larger, three-bedroom unit was more acceptable to neighbouring residents.

Despite the revision to a larger, three-bedroom unit, CMHC was unable to provide financial assistance, because of the homes' rural location and still relatively small size. The problem concerned qualifications for

mortgage insurance. Because of the low resale value of the Hearth Home, CMHC would have been unable to recover its investment in the event of a mortgage default.

The IHS then approached the Nova Scotia Department of Housing (NSDH), which agreed to provide financial support to the project in the form of mortgage guarantees. In 1990, however, the provincial government curtailed its involvement in the Hearth Homes Program. It was not a federal/provincial cost-shared program, and in a time of budgetary restraint the province perceived it to be too expensive to continue to fund alone.

By August 1992, 125 families had been successfully housed under the Hearth Homes Program, and 38 families had assumed their mortgages.¹ Eighty Hearth Homes were built and, under similar financing arrangements, the IHS purchased 21 existing dwellings. Initially, the IHS targeted the rural poor in Kings County, but in response to demand in neighbouring areas, it extended its services to include neighbouring Hants, Lunenburg, Annapolis, and Queens counties.

The IHS acts as a landlord—it collects rent, manages the properties, and provides maintenance—until a client has demonstrated a capacity to maintain the home in good physical condition and to meet all financial obligations. After a three-year probationary period, occupants have the opportunity to purchase their unit, with previous rental payments credited as equity.

Client Profile

The Hearth Home client profile changed over the years, partly due to a modification in program direction and, partly due to an increase in construction costs and a reduction in assistance from the Canada Works Program. The increased cost of delivering the Hearth Homes Program pushed the cost of owning a Hearth Home out of the reach of the working poor (i.e., those earning less than \$10,000 a year, many of whom own land).

The original intention of the program was to improve the housing conditions of poor families who owned land but whose housing was substandard. It was found, however, that many of the targeted families owned land that was unsuitable for building, making the installation of a septic system impossible, for example. Thus, some units were built on donated land or on land purchased by donations.

In 1985 and 1986, the program successfully reached its target group—the rural poor living in substandard housing. Fifty percent of the clients had been living in very substandard housing; the remainder, in unaffordable, inadequate or unsuitable units.

¹ Not all Hearth Home clients have remained in their units. Some turnover has taken place due to the personal circumstances of the occupants.

Client families also displayed the following characteristics:

- Their average annual family income was \$11,500 (by way of contrast, the average annual family income for Kings County in 1985 was approximately \$30,000).²
- 65 percent were unemployed; those with jobs tended to work part-time or seasonally.
- 68 percent were families with dependent children; 45 percent of which were single-parent families.

From 1987 onward, an effort was also made to reach an equally needy group—the working poor. As a result of this effort and the increased cost of delivering the program, the client profile broadened.

Clients were from a wider range of housing circumstances. In addition to those living in substandard housing, for example, many had been renting or living with relatives. The average household income of this group was higher at approximately \$14,600; 78 percent were employed; and an even higher percentage (80 percent) of clients were families with children, although the percentage of single parents remained about the same.

Because it is in close touch with the community and individual housing situations and needs, the IHS can provide a personal approach to housing provision. Client families are selected primarily on the basis of need, but weight is also given to their attitude and willingness to learn new life skills.

² Nova Scotia Department of Industry, Trade and Technology. *Annapolis Valley Region Statistical Profile*, (1988), p. 8.

2.0 PROJECT COSTS

The construction cost of the two pilot units was \$25,000 and \$27,000, respectively. In 1985, during the first phase of the program (20 units), administrative and contingency costs were added to construction costs, bringing the total cost of delivering a Hearth Home to \$30,000. The average cost—including construction, land, labour and administration costs—to deliver a Hearth Home for the years 1986 to 1989 is presented in figure 3 below.

The wide range of costs reflects the type of unit (two- or three-bedroom), the availability of Canada Works grants, the delivery fee required, and the cost of land. For example, a Canada Works grant was not available after 1986, substantially increasing the cost of delivering a Hearth Home. The lower

average cost in 1989 is due to the fact that the Hearth Homes Program began to purchase existing homes (which cost less to deliver) and to provide the homes through the program under a similar financial arrangement.

Overall, the cost of delivering a Hearth Home was less than the cost of delivering a unit under the current federal/provincial cost-shared programs. For example, 1989 figures indicate it cost approximately \$42,000 less, or 47 percent less, to deliver a Hearth Home than an RNH unit. Figure 4 on the following page presents the average 1989 delivery costs for a three-bedroom, detached house under the RNH Program, the federal/provincial Non-profit Housing Program, and the Hearth Homes Program.

Figure 3. Average Delivery Cost of the Hearth Home

	Construction (incl. labour) (\$)	Land Cost* (\$)	Soft Costs (\$)	Admin./ Contingency (\$)	Canada Works Grant (\$)	Total (\$)
1983	15,250	7,000 est.	750	625	1,375	25,000
1984	16,030	8,000 est.	810	675	1,485	27,000
1985	11,763	11,787	900	3,750	1,800	30,000
1986	15,367	11,128	1,000	3,825	1,980	33,300
1987**	28,527	12,413	1,320	4,100	2,640	49,000
1988	27,469	9,666	1,290	2,075	2,580	43,080
1989	27,413	8,605	1,140	950	-	38,108

* Please refer to the discussion of Client Profile on page 3.

** Total cost of 1987 units includes \$5,000 delivery fee.

Figure 4. Delivery Costs of Rural and Native Housing, Non-Profit Housing and Hearth Homes

	Rural and Native Housing (CMHC-financed)	Non-Profit Units (Province/CMHC)	Hearth Homes (IHS/Province)
Average Cost*	\$80,341	\$69,038	\$38,108
Family Income	\$15,000	\$15,000	\$15,000
Mortgage Payment Average cost x 12.5% x 25-year Amortization	\$858/month	\$737/month	\$406/month
Client Payment (\$15,000 ÷ 12) x 25%	\$313/month	\$313/month	\$313/month
Government Subsidy Required	\$545/month	\$424/month	\$93/month

* Does not include ongoing administration costs.

** Includes a heating allowance of \$61/month.

The maximum subsidy allowed under the financial agreement with the province for Hearth Homes is only \$200/month. Therefore, in cases where a Hearth Home

costs significantly more than the average cost of \$38,108, Hearth Homes clients have had to pay more than clients of the other two housing programs.

3.0 THE COMMUNITY AND THE KEY PLAYERS

3.1 The Community

Kings County in the Annapolis Valley is one of the more prosperous areas of Nova Scotia and a major apple-growing region in the Maritimes. With a population of about 53,000, the County has three incorporated towns; Kentville, Wolfville, and Berwick. Agricultural and manufacturing industries provide a stable economic base for the area. Despite the relative economic stability of the region, prosperity has passed by certain groups. Changes in the economic structure, such as small-scale family farms being expanded and mechanized, have diminished the prospects of many families, leaving those with minimal skills dependent on seasonal employment, or without jobs.

Not surprisingly, many low-income families endure terrible housing conditions. A 1983 study of housing conditions in Kings County found that of the total dwellings, approximately 10 percent (1,100 units) were substandard, and 239 units were deemed unfit for human habitation. These figures were still valid in the early 1990s as the housing stock had not been significantly upgraded. The dwellings in the poorest condition include converted sheds, old trailers, and buses. In many instances, these homes are not insulated and lack such basic amenities as running water and indoor toilet facilities.

In addition, a housing study conducted in 1982 by the Municipality of Kings established that approximately 900 people in the county were on waiting lists for social housing programs. The study also brought to light that 60 percent of new housing was beyond

the means of the average wage earner. In 1985, a CMHC market report found that 43 percent of Kings County households earned less than \$10,000 per year.

3.2 The Key Players

Interchurch Housing Society

Since 1973, the IHS has been assisting low-income and disadvantaged families in Kings County with housing-related problems. The IHS is administered by a 15-member volunteer board consisting of representatives from various churches, and the community at large.

Although the organization's main focus is housing provision, another important activity that it undertakes is the administration of a low-interest, revolving loan fund, which is used for small, emergency loans for needs such as mortgage instalments and necessary housing repairs. Donations are solicited from local churches and private individuals through IHS's annual fund-raising activities to operate the loan fund.

The Provincial and Federal Governments

The Nova Scotia Department of Housing was instrumental in the delivery of the Hearth Homes Program. The NSDH provided mortgage guarantees to build 78 units and to purchase 21 existing units. In 1987, when interest rates and building costs increased and Canada Works grants were not available, the target group could not afford Hearth Homes without subsidy. The NSDH responded by subsidizing Hearth Home clients to a maximum of \$200 per month. In

addition, in 1988 and 1989, the NSDH provided the IHS with \$5,000 per unit to cover delivery costs for administration, construction, and client relations, which had previously been covered by Canada Works grants. The IHS had received Canada Works grants from 1985 to 1987 to hire staff to help administer the program and workers to build the Gearth Homes.

Other Players

Several area groups have contributed to the program's success. Local government officials and building inspectors were on-site for a "building bee" organized for the construction of one Hearth Home in 1986. Local volunteer organizations donated funds towards the construction of units, and other housing societies in the area cooperated with the IHS by assisting with client selection and counselling.

4.0 REGULATORY REFORM INITIATIVES AND IMPACT ON HOUSING COST, CHOICE & QUALITY

The Hearth Homes Program met the overall objective to improve housing quality by replacing substandard dwellings with adequate, affordable homes. In addition, the program achieved its goal of delivering housing to the rural poor, albeit on a small scale. The project was particularly successful in reaching those in a segment of the low-income population whose incomes were too low to qualify for the federally-sponsored RNH Program. For example, the average income of Hearth Homes recipients was roughly half of that of those housed by the RNH Program.

Although some argue that the Hearth Home's small size lowers its market value and thus increases financial risk, proponents suggest that this is not the case, for the following reasons:

- The high quality of construction
- The existence in the area of homes of a comparable size
- An increasing demand for smaller homes

According to IHS staff, most clients are satisfied with the design and layout of their houses.

One measure of Hearth Homes' success was the provincial government's attempt to provide other parts of the province with programs similar to Hearth Homes. In 1987 and 1988, the NSDH initiated two such housing programs, Family Benefits Housing and the Modest Family Housing Program. The NSDH used similar financial mechanisms as those used by the Hearth Homes Program in order to increase access to homeownership.

Through these programs, the NSDH provided funding for families to buy homes on a lease-to-own basis with small, monthly mortgage payments based on household income. The Family Benefits Program was targeted at households on family benefits, and the Modest Family Housing Program was targeted at households with modest, rather than low, incomes. Both programs were discontinued in 1988 after providing 22 families with homes.

In its early stages, the Hearth Homes Program was restricted primarily to those on social assistance, with only 15 percent of the first 20 clients being employed. However, the average household income of working families considered ineligible initially was lower than that of clients on social assistance. This, in effect, neglected a group in great housing need, the working poor—those earning between \$10,000 and \$20,000 per year. To address this problem, subsequent stages of the program targeted the working poor.

Because of the limited funds available for low-income housing in the area, many families in Kings County still do not have adequate housing. In 1991, there were more than 400 households on the waiting list for housing programs administered by the IHS, including the Hearth Homes Program.

Hearth Homes responded to local needs by creating a housing form and delivery system that took into account local economic and social circumstances. Proponents believe that federal and provincial government-funded housing programs could be more effective if they were more flexible in terms of standards

for housing design and requirements for mortgage insurance for non-profit housing. The success of the Hearth Homes Program in meeting the housing needs of the rural poor in Kings County may point to a need to re-examine the regulatory and mortgage requirements of government-funded housing programs.

The Hearth Homes project does not fit neatly into the objectives of the A•C•T Program, primarily because the focus was not the modification of municipal planning and building regulations or approval processes. However, the IHS was awarded a case study grant because it was felt that the initiative provides valuable lessons in meeting special regional housing needs and the role of provincial and federal housing agencies. It is hoped that other communities will be encouraged to apply the ideas tested by the Hearth Homes Program to make housing more affordable and more responsive to the needs of low-income, rural families.