FCM

Federation of Canadian Municipalities

Fédération canadienne des municipalités

Sustaining the Momentum:

Recommendations for a National Action Plan on Housing and Homelessness

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Executive Summary

The Federation of Canadian Municipalities and its Big City Mayor's Caucus have developed this report to advocate a long-term funding framework, together with a comprehensive national strategy focusing on eliminating chronic homelessness and significantly reducing the housing need problem that confronts one in every six (1.4 million) Canadian households.

Since 2001, Canada's municipal, provincial/territorial and federal governments have worked together with private-sector builders, landlords and community organizations on this issue. They have learned valuable lessons, strengthened their expertise and achieved modest results. In the past five years, some 27,000 assisted housing units have been added to the existing 600,000 built under pre-1994 programs. A strong foundation has been laid. Now it is time to build on this foundation.

A funding precipice

The main impediment to expanding these efforts is the scheduled expiry of all federal social housing funding programs in March 2009. This will mean the termination of $2 billion in funding available in the 2007–09 period. At the same time, ongoing federal subsidies for existing social housing are already expiring, and in the next 10 years, annual spending on assisted housing will decline by an additional $500 million.

This federal spending is linked to provincial/territorial cost-sharing programs and agreements, so provincial/territorial treasuries will gain parallel reductions.

The termination of these funding streams will seriously undermine efforts to attack the issue of homelessness and the associated problem of lack of affordable housing. It will also weaken efforts in many cities to renew and revitalize neighbourhoods.

The consequence is that problems of homelessness and housing affordability, which are already straining the limited resources of Canada's cities, will undermine the economic well-being of these cities, which are widely acknowledged as the engines of national economic growth, competitiveness and productivity.

These are not just social issues; they are core economic issues. And they are not just local issues; they are national issues.

Why a national action plan?

Housing is a basic and fundamental issue affecting individuals and communities and an important determinant of health and well-being. It is also the largest asset for most families and a key element of both the wealth and health of individuals and the overall economy. Housing affects the national economy and a range of stakeholders, including consumers, builders, developers, realtors, landlords and mortgage lenders.

All orders of government are involved in housing to some extent through regulation, policies and funding. Canada needs a long-term and sustainable funding framework for housing that provides sufficient and predictable funding to enable implementation of solutions locally. Canada's municipal governments have proven themselves ready and willing to fund, deliver and manage locally appropriate strategies and programs, but lack the fiscal capacity to respond effectively to the issues of homelessness and housing affordability.

Guiding Principles

In calling for a long-term sustainable approach, FCM is guided by the following principles:

- Build on our affordable housing legacies as a country that cares.
- A housed population is a productive and secure population.
- Housing is an essential component in the creation of healthy, well-functioning neighbourhoods/communities.
- Housing is by nature multi-jurisdictional and requires the ongoing participation of all orders of government, together with the private and non-governmental organization community sectors.
- Resources and action are required in all communities to reach every Canadian family and individual.
- Actions and funding must be long-term, predictable and sustained.
- Housing assistance is effectively a form of income redistribution and should be funded through progressive income tax revenues, not through municipal property taxes.

The objective of the action plan is to secure new long-term government investment to harness and maximize the impact of existing assets and new investment. Over a sustained period this will reduce homelessness, improve housing affordability and restore a well-functioning housing system with healthy dynamic neighbourhoods.

Five targets, 10 years

Canada's municipalities are proposing a comprehensive strategy over the next 10 years (2008–2017) to meet the following targets. The priorities are: (1) to preserve and enhance existing assets; (2) to reduce homelessness and the number of people needing housing; and (3) to expand the supply of affordable housing necessary to meet existing and future needs.

1. End chronic homelessness in 10 years

Create 20,000 new transitional, supportive and permanent affordable housing opportunities (2,000 per year) and appropriate support to stabilize underlying issues that contribute to chronic homelessness (e.g., mental health and addiction).

2. Expand the stock of affordable non-market housing by 15 per cent of the total annual housing starts each year

A growing population creates new households, and an estimated 15 per cent of these new households will need housing. This means 25,000 to 30,000 new households in need per year. This target aims to create enough new permanent affordable housing to stabilize housing need. This housing can include new construction and acquisition/preservation of existing market units.

3. Reduce the backlog in core housing need by 25 per cent over 10 years (35,000 households per year)

This will use a variety of approaches, including rental assistance and assisted home ownership, as well as new construction or acquisition/preservation, to expand the number of affordable non-market units.

4. Preserve and modernize Canada's existing social housing stock at the rate of 20,000 units a year and renew existing subsidies

One-third of existing social housing stock (220,000 units) is at risk. This target will ensure they are retained and modernized and that expiring subsidies are renewed to ensure the units remain affordable.

5. Extend and revise the Residential Rehabilitation Assistance Program to improve conditions in existing private (homeowner and rental) stock to rehabilitate 10,000 homes annually

This would continue to assist low-income owners and people with disabilities to rehabilitate existing homes and help private landlords (including rooming houses) to bring rental properties up to minimum standards while preserving affordable rents.

Targets are achieveable by recommitting and reinvesting existing funding

The estimated gross cost of implementing local strategies that will collectively meet these five identified targets is estimated at $3.35 billion annually, to be shared by all orders of government.

However, this is not new money. Much of this is already being invested and is scheduled to end in 2009. Renewing commitments at a level consistent with current funding under the Residential Rehabilitation Assistance Program (RRAP), Homeless Partnering Strategy (HPS) and the Housing Trust Funds involves a total of $2 billion over two years (2007–09). Most of this is matched with provincial investment. This can be augmented by reinvesting spending from expiring social-housing operating agreements (federal expenditures are currently $100 million annually and would rise gradually over the next 10 years to $500 million annually), also largely paralleled by provincial/territorial spending.

In addition, these estimates do not consider the revenues generated by the recommended housing market activity, which are estimated to be more than $500 million in tax revenue for the federal government and roughly $175 million for provincial/territorial governments. This fiscal offset substantially reduces the net cost to federal and provincial/territorial governments.

Municipalities will continue to provide in-kind contributions (staff coordination, waiving fees and charges and providing land) and municipal grants, as well as take the leadership role to develop and help implement local action plans on housing and homelessness, working with both business and community stakeholders.

Overall, the targets can be achieved simply by the federal government committing to sustaining federal spending at current (2007–08) levels and reinvesting ongoing savings in existing social housing subsidies as funding agreements expire, and by provinces and territories matching these federal investments.

1. Introduction

The Federation of Canadian Municipalities (FCM) and its Big City Mayors' Caucus (BCMC) recognize that issues of homelessness and lack of affordable housing are serious problems that confront all orders of government but are increasingly being left to Canada's municipalities. As defined by Canada's official housing agency, the Canada Mortgage and Housing Corporation (CMHC), housing need refers to households with incomes insufficient to pay for a suitably sized median-rent unit in their area, without spending more than 30 per cent of their income.

Throughout the post-war period, at least until 1994, active federal involvement, together with engagement of the provinces and territories, has provided a series of policies and programs that have created important assets of over 600,000 affordable dwellings (this social housing accounts for six per cent of Canada's total housing stock). These programs have helped municipalities and community-sector non-profit and co-operative organizations respond to housing need.

However, the period from 1994 to 2001 saw a significant withdrawal of resources and declining commitment from both the federal and many provincial and territorial governments. Canada's municipalities were left to address this problem with only minimal levels of support.

Federal involvement recommenced at a modest scale with the National Homelessness Initiative (now the Homelessness Partnering Strategy) in 1999 and an Affordable Housing Initiative agreement in 2001. However, both of these program frameworks have been characterized by uncertainty, with individual programs or initiatives funded only for two to three years at a time, with no predictability or sustainability, and lengthy delays between announcements of funding renewals and availability of the funds. All of these programs, including the Residential Rehabilitation Assistance Program (RRAP), are scheduled to end in March 2009.

Housing issues are also very personal issues. The aggregate statistics conceal the daily challenges faced by low-income individuals and families that struggle every month to pay the rent and feed themselves and their children. High housing expenses are a critical barrier to getting ahead, often contributing to and exacerbating poverty problems.

This proposed action plan has been developed by FCM's BCMC and Canadian Municipal Housing Action Network (CMHAN) to re-engage federal and provincial/territorial partners, as well as private-sector and community stakeholders in a more deliberate and sustainable action plan.

Canada's municipalities are active in responding to these issues and many have initiated programs and strategies at the local level. But ongoing support funding is required from federal and provincial/territorial governments.

In calling for a long-term sustainable approach, FCM is guided by the following principles:

- Build on our affordable housing legacies as a country that cares.
- A housed population is a productive and secure population.
- Housing is an essential component in the creation of healthy, well-functioning neighbourhoods/communities.
- Housing is by nature multi-jurisdictional and requires the ongoing participation of all orders of government, together with the private and community sectors.
- Resources and action are required in all communities in order to reach every Canadian family and individual in need.
- Actions and funding must be long term, predictable and sustained.
- Housing assistance is effectively a form of income redistribution and should be funded through progressive income tax revenues, not through municipal taxes.

The objective of the action plan is to secure new long-term government investment to harness and maximize the impact of existing assets and new investment. Over a sustained period, this will reduce homelessness, improve housing affordability and restore a well-functioning housing system with healthy dynamic neighbourhoods.

This document first sets the context for a more comprehensive approach: why housing matters and where the housing system is currently failing. It then identifies a range of approaches and priorities that together can respond to these problems and improve outcomes in an inclusive and comprehensive way. Section four outlines roles and responsibilities, and finally, section five presents target outcomes together with estimates of the costs to implement the plan.

Municipalities have taken up the challenge and many have developed and implemented action plans on homelessness and affordable housing. A solid foundation with expertise and increased capacity has been built and significantly supported by federal and provincial/territorial funding initiatives since 1999 (NHI/HPS and AHI). This paper articulates a case to enhance and expand the funding framework to further enable the local strategies that are addressing and reducing homelessness and issues of housing affordability.

2. The case for a comprehensive approach

Housing

- is a basic and fundamental issue affecting individuals and communities;
- is an important determinant of health and well-being;
- is the largest asset for most families and a key element of both the wealth and health of individuals and the overall economy;
- impacts on and is impacted by the national economy; and
- implicates myriad stakeholders—builders, developers, realtors, landlords, mortgage lenders and consumers.

All orders of government are involved in housing, both directly through regulation and funding, and indirectly through such activities as urban planning, immigration policy, tax policy and monetary policy. The federal government, through the *National Housing Act*, is legally implicated in playing an active role in creating the foundations of a strong, effective housing system. Provinces and territories are inextricably involved through building and municipal planning legislation and regulation, housing legislation, residential tenancy acts and participation in joint federal-provincial funding and programs.

But fundamentally, housing is a physical asset that exists in specific locations and directly involves Canada's municipalities, often as conduits for or administrators of federal or provincial legislation, regulation or funding. Increasingly, municipalities are being called upon to invest their own, more limited, revenues to help deal with housing and homelessness issues that are most visible at the local level. A comprehensive approach can ensure that independent actions (or lack of action) by one order of government do not undermine efforts by another order of government.

Canada needs a long-term and sustainable funding framework that provides sufficient and predictable levels of funding to enable implementation of local solutions. Canada's municipalities are ready and willing to deliver and manage locally appropriate strategies and programs, but they lack the fiscal capacity to make a serious impact on homelessness and housing affordability issues.

The need for a comprehensive national housing strategy is supported by a broad range of stakeholders. Highlighting the economic impacts of housing, the Toronto Dominion Bank, Canadian Real Estate Association, Toronto Board of Trade and the Canada West Foundation have all articulated the need for a national coordinated approach. Canada's mayors and municipalities have previously put forward recommendations for a national strategy.[1] Social policy and affordable housing advocates have regularly lobbied for a broader more coherent framework with sustainable levels of funding, rather than the short-term or non-existent programming that has characterized housing policy in Canada for two decades.

More recently, both business and municipal officials have recognized that, by default, significant costs are incurred by the institutional and emergency systems responding to homelessness. In short, there is a high cost to doing nothing to reduce homelessness (often higher than the cost of doing something pro-active).[2]

2.1 Expiring funding commitments

The involvement of municipalities in housing and homelessness initiatives has significantly increased, in terms of active engagement, delivery of programs and funding contributions. Many municipalities have worked in collaboration with community representatives to develop comprehensive local plans and strategies specific to homelessness (61 formal community action plans) and affordable housing strategies.

In both cases, the implementation of the plans, building supportive and affordable housing, has depended on funding from the federal and provincial government. Implementing these plans on a meaningful scale requires levels of funding that are beyond the means of municipalities.

[1] National Housing Policy Options: A Call for Action (1999); A National Affordable Housing Strategy (October 2000); and Moving Forward: Refining the FCM Recommendations for a National Affordable Housing Strategy (2004)

[2] This view has been well articulated in a number of speeches in Canada by Phillip Mangano, Executive Director of the U.S. Inter-Agency Council on Homelessness. In Canada, research confirms that it is four to ten times as expensive to respond to homelessness by default through the emergency and institutional systems as it is to provide appropriate transitional and supportive housing where appropriate services that attack the causes of homelessness can be delivered (e.g. HRSDC 2005 The Cost of Homelessness: analysis of Alternative Responses in Four Canadian Cities, HRSDC, 2005).

This is why Canada's municipal councils and mayors are deeply concerned about the pending expiry of all current federal programs in March 2009, as well as the ongoing reductions in federal (and often parallel provincial) funding as long-term operating subsidies expire:

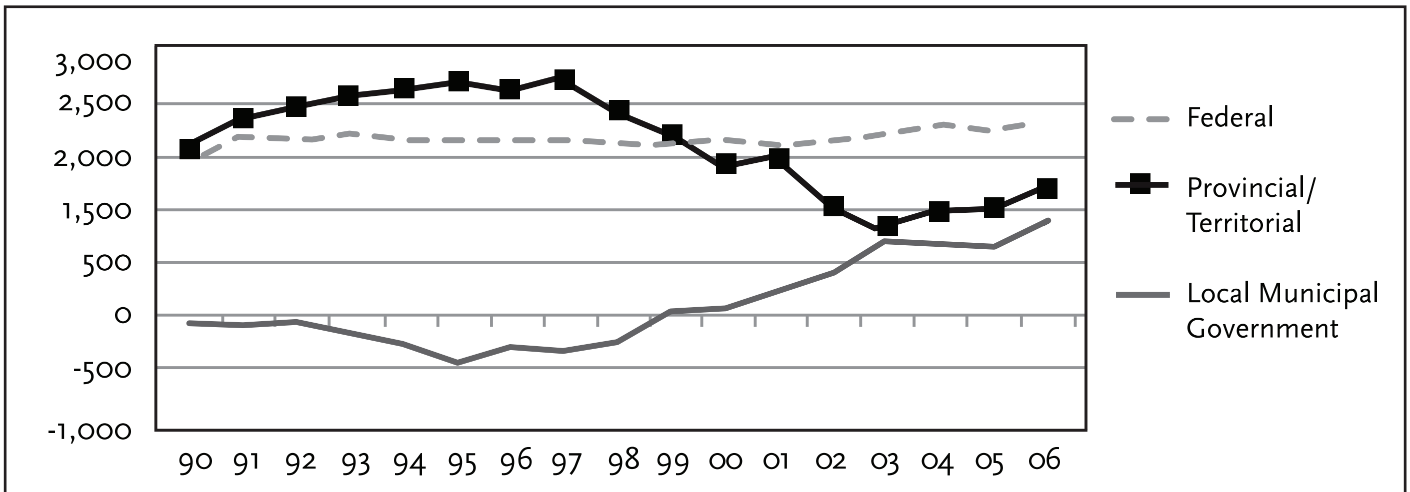
- The Residential Rehabilitation Assistance Program (RRAP), the Homeless Partnering Strategy (HPS) (together totaling $526 million), and the Bill 48 Housing Trust Funds with $1.4 billion allocated—a total of $2 billion over two years (2007–09)—all expire in March 2009.
- Over the next decade, annual federal spending on existing social housing is scheduled to decline by almost $500 million against the 1995–96 base levels (much of which will be matched by provincial declines).

These planned expenditure reductions should be reinvested to preserve existing stock, to attack backlog of need and to ensure that housing need does not increase further as the population and number of households grow.

An analysis of government spending patterns over the past two decades reveals the critical role that federal spending has in leveraging and sustaining investment from other orders of government (See Figure 1).

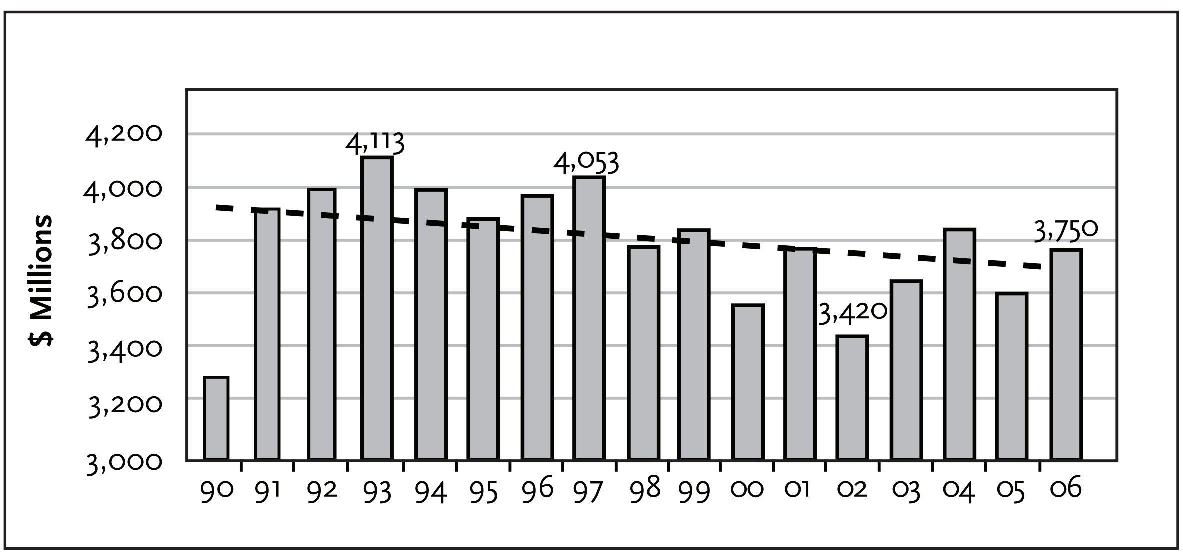
Total consolidated spending on housing (all three orders of government, in current dollars) peaked at $4.1 billion in 1993 and then declined dramatically to $3.4 billion in 2002 — a reduction in annual spending of $700 million. It increased marginally back to $3.7 billion in 2006 with the Affordable Housing Initiative (AHI) but is still below its 1993 peak (See Figure 2).

Figure 1 – net housing expenditures by order of government



Net expenditures derived from Statistics Canada Annual Expenditure data and CMHC

Figure 2 – Consolidated FPT and local housing expenditures, with trendline



Over the past decade, there has been a dramatic decline in aggregate provincial spending on housing programs and a concomitant increase in the expenditures of local government, now exceeding $1 billion in aggregate.[3] This has included transferring subsidy obligations to local government, especially in Ontario, and, in the case of new affordable housing development requiring municipal contributions in the form of grants or waived fees and charges, lowering (or waiving) property tax rates and contributing municipal land assets.

The most significant decline in provincial spending occurred between 1996 and 2003—the period when the federal government withdrew and was not funding new social/affordable housing programs.[4] The more recent Affordable Housing Initiative has resulted in renewed provincial spending. This expenditure pattern reveals the critical role that federal leverage through cost-shared funding mechanisms has played in stimulating provincial involvement.

2.2 The importance of housing in the economy

Housing represents a significant part of the economy, both affecting and being affected by broader economic circumstances.

The impact of housing on the economy includes the following:

- Consumer spending: on average, households spend roughly one-fifth of their income on shelter and related expenses.
- Personal wealth: housing assets represent the single largest household investment and, for most, this is the primary source of personal wealth.
- Increased consumption: appreciating home equity is accessed through refinancing and stimulates consumption beyond that permitted by current income. At the same time, refinancing and new debt can create a burden in the event of an economic downturn or rising interest rates.
- Labour market impacts: high or rising housing costs may be a deterrent to labour mobility, reducing labour supply and putting pressure on wage rates.
- Labour market participation: unstable housing situations (risk of eviction), as well as housing that is in poor condition and located in depressed neighbourhoods, can act as a barrier to investment and a constraint on labour-market participation and the ability of people to improve their circumstances.
- Productivity: housing may have both positive and negative effects. On the negative side, rising home prices require a larger capital outlay or financing and may crowd out investment in more productive parts of the economy (rising prices of existing assets have no productive value). On the positive side, a well-housed population with manageable shelter costs would participate more productively in the economy.
- Economic growth: housing accounts for roughly six per cent of Canada's GDP. New housing construction has a significant multiplier effect, with each new home creating four-to-six person years of direct and indirect employment and associated incomes, which are recycled through the economy

The impact of the economy on housing includes the following:

- Employment and income growth fuel housing demand and related economic outcomes. In the face of rapidly rising house prices (as recently occurred in western Canadian cities), it is not possible to expand the supply of new housing quickly due to both lengthy planning processes and capacity constrains in the development industry. In the short term, a rising economy significantly affects house prices and rents (e.g., Vancouver, Calgary since 2004).
- Subsequently, as supply responses emerge, demand may have weakened, causing price corrections that can be exacerbated by additional supply (by then unneeded). Housing thus tends to extend the amplitude of both boom and bust cycles in the regional and national economy.
- Monetary policy, specifically inflation targets and interest rates, directly influences the financing (carrying) cost of housing and affects affordability, for new owners, those refinancing and rental investors.
- Tax treatment of income in different sectors can influence or distort investment. Compared to the 1970s, the current tax environment for rental housing is less attractive and dissuades new rental supply, directly affecting rent levels and affordability.
- Through labour market growth and contractions, the economy interfaces with income support, especially in economic downturns. Households that are dependent on income assistance are six times more likely to experience affordability problems compared to working-poor households.[5]

[3] It should be noted that within this aggregate trend, two provinces, BC and Quebec, have increased their expenditures, so the aggregate conceals larger reductions in other provinces/territories.

[4] The actual period of federal absence was 1994–2001 but actual spending lags because commitments in late 1993 and in 2001 did not begin receiving subsidies until a few years later.

[5] Statistics Canada – Luffman, November 2006.

Recent events in British Columbia and Alberta highlight the effects of constrained housing markets on both labour mobility and affordability. Meanwhile, the sub-prime mortgage problem in the United States—now identified as a leading cause of the emerging slowdown in the U.S. economy—has revealed the effect even a relatively small sector of the mortgage market can have on the economy. While the sub-prime segment is only a small sector of the mortgage market, this has had broad reverberation, including loss of confidence in the home mortgage market, restrictions on mortgage credit and fewer new originations. The resulting constraint in demand has, in turn, caused declining sales, falling house prices, over-leveraged borrowers with negative equity and declining housing starts with effects on economic output, including slower growth.[6]

Because the housing market is so interconnected and interdependent with the economy and implicates all orders of government, it is necessary to develop a comprehensive policy and to monitor and research the ongoing or changing effects and outcomes of certain policies across the system. Housing's impacts are long term and influence both economic and social well-being.

2.3 Place-based and local outcomes

These broad economic effects are typically manifest, to greater or lesser degrees, in specific locations because housing markets are local or regional, especially in a large country like Canada. And these geographic effects can be profound within metropolitan regions. Higher inner-city land and housing prices (and rents) may push people with lower incomes increasingly into distant suburban and exurban locations, and often farther from public transportation corridors (where these exist). Auto dependency increases, but lower-income households can afford only older cars, sometimes less fuel efficient and often with high emission levels, creating a dual impact on the environment since they are driving longer distances.

As households seek out more affordable homes in suburban locations, this can affect municipalities in the form of extended infrastructure costs, affecting both capital and operating budget impacts, as well as generating more commuting-related emissions and environmental impacts.

Concurrently, because lower-income households lack effective demand and purchasing power, there is a tendency for these households to seek lower-cost accommodation, which often results in concentrations of poverty in the poorest areas. Since such concentrations lack purchasing power, they cannot sustain local commercial enterprise, resulting in a combination of physical (boarded up and vandalized shops) and social decline, sometimes associated with criminal activities, which impact municipal policing and fire costs. These poorer neighbours are often also characterized by few recreational facilities, poorer schools and limited opportunity for children to break out of the poverty cycle that has trapped their parents.

In short, there are quite specific place-based impacts and outcomes, and these are realized locally. By default, municipalities are implicated in dealing with these consequences, even though, in many cases, the municipality was not part of the initial policy decision (e.g., immigration targets or income-assistance design) or cause (e.g., economic cycles).

2.4 Housing and health

Housing has been widely recognized as a key determinant of health, including both physical health and, more relevant today, mental health. Substandard housing conditions have long been associated with poor health and the spread of epidemics.

Poor housing conditions include lack of safe water and appropriate treatment of sewage. Moisture issues lead to rotting and risk of accident, as well as molds, toxins and respiratory problems. Unsafe electrical installations and repair contribute to fire and other accidents, sometimes causing fatalities.

Many of these issues are especially prevalent on Aboriginal reserves, as well as among urban Aboriginal and other low-income households. These households, without the capacity to secure housing in sound condition, often default to poor quality housing. The incidence of poor dwelling conditions is relatively low in Canada, but these conditions do exist and often affect lower-income individuals and families. Poor people end up in poor housing usually because they cannot afford better housing. They can't pay for better housing and often expend too much of their income even for poor housing.[7]

The less visible but more prevalent issue is mental health and stress associated with housing issues. Research evidence identifies higher levels of illness and mental health among renters than owners. In part, this is associated with a lower degree of control among renters compared to owners. Renters as a category experience higher shelter-to-income burdens, with a far higher incidence of severe shelter cost ratios, spending over 50 per cent of their income on housing.

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6 Later in this report, assisted ownership initiatives, based in part on some U.S. models, are recommended. It is important to distinguish these very successful programs from the lending that originated in the sub-prime mortgage market. The assisted ownership programs in the U.S. typically involve proactive counselling and support, as well as mortgage rates that are subsidized or slightly below market, with due diligence and sound underwriting. In fact, many of the victims of the sub-prime issue are now being counselled by practitioners experienced in ownership assistance to modest income households.

7 The separate 2008 FCM Quality of Life report ("Trends and Issues in Affordable Housing and Homelessness") has identified higher vacancy rates in lower rent stock than in the mid- and upper-rent ranges. This suggests that tenants are seeking to move on from poor conditions or that this stock is occupied by less stable households, which are more frequently unable to pay rent and fall into arrears.

There is a relationship between housing, socio-economic status and health. High housing cost burdens (as percentage of income) have been associated with poor mental and general health. It is theorized to be an indirect effect, with the prime issue one of stress and lack of self-esteem, which arises from relative material deprivation. Many of these outcomes are a result of neighbourhood effects. A natural market-sorting process may leave a neighbourhood in poor decline, even if a specific house did not have substandard conditions; but in many cases, poor housing and poor neighbourhoods co-exist and act to compound health and poverty issues.

Good housing policy and interventions can help to minimize the negative effects of housing-related issues (including neighbourhood effects) on health and can contribute to better quality neighbourhoods and a healthier more productive population. In addition, providing home-based health support, particularly for disabled or frail elderly people, as well as mentally ill or addicted persons, can be less costly than institutionalized or hospital care.

2.5 Housing as a system

In addition to the inextricable link between the housing market and the economy, housing is also highly interconnected and is best characterized as an interdependent system.

All orders of government share a common objective: to ensure that Canada has a competitive, prosperous economy and a supportive social infrastructure. Canada's housing system is at the core of this goal.

A healthy, inclusive and effective housing system is the foundation for strong, healthy and sustainable communities, which in turn create and support a strong country. Canadian families and individuals are the heart of the nation, and access to sound, secure and affordable housing is a key ingredient to helping Canada prosper. Policies and programs must address both the backlog of housing need and the future housing needs of Canadian families and individuals.

For a large majority of Canadians, the housing system works well and enables many to enjoy affordable, suitable housing and neighbourhoods. However, this is not always the case. When the housing system is weak or incomplete, it can compromise this larger objective. For example:

- When affordable rental housing is lacking, there are constraints on referring individuals or families arriving at emergency shelters to appropriate housing. Chronic homelessness cannot be reduced without an appropriate and sufficient supply of supportive housing.
- Similarly, without supportive housing options for frail seniors and mentally ill persons, demand backs up into more costly long-term care facilities and hospital beds.
- An insufficient number of lower-rent units results in rising rents, worsening housing problems.
- When lower-income people concentrate in one area, because that is where lower-cost housing is found, poverty issues are transformed into neighbourhood issues.
- When house prices increase rapidly, or interest rates get out of hand (as they did in the early 1980s), access to ownership is constrained, causing households to remain in the rental sector, reducing vacancies and driving up rents. This affects lower-income households, most of which are renters, and worsens affordability issues. It also constrains access to ownership for young families, many of whom are already carrying education debt and have limited ability to manage high prices.

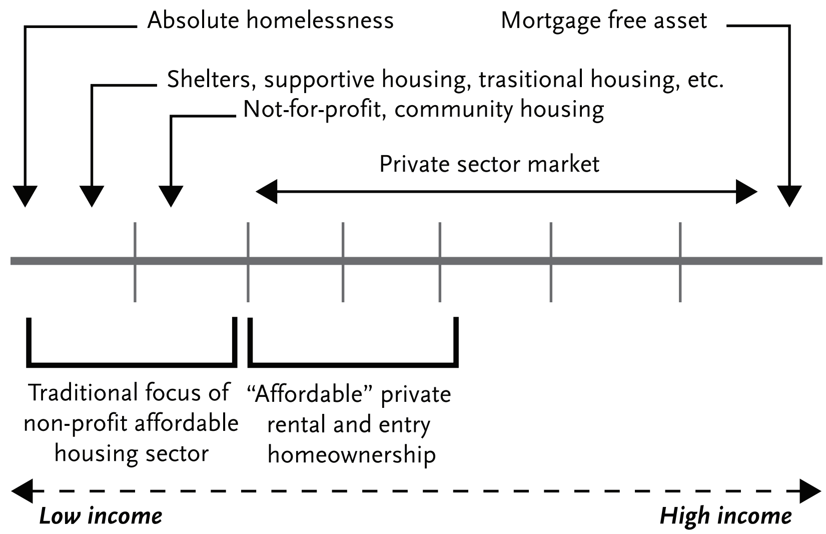
Over time, there are stresses and failures in different parts of Canada's housing system. The purpose of a comprehensive national housing strategy is to monitor this system and implement stabilizing and corrective actions as required.

In framing recommendations for an action plan and development of a more comprehensive national strategy, it is appropriate to identify where the weak links are in Canada's housing system. Where is there stress in the system and what are the underlying causes of these problems? Also, where are the strengths and is it possible to build on these areas to improve the overall system?

As shown in Figure 3, the housing system can be characterized as a continuum extending from homelessness through to situations where families and individuals are well-housed and enjoy a high quality of life in healthy vibrant communities.

Within this continuum, the necessity and degree of visible public intervention also varies. At the left side (homelessness), where issues involve a complex array of challenges, including mental health, substance abuse and addictions, as well as lack of income and constrained ability to earn (lack of skills or behavioural challenges), there will be a need for significant public or community-based intervention and supports (including non-housing supports).

Figure 3 – The housing continuum



Source: Adapted from Mawby, 2004

Moving through the continuum, both public and community housing (non-profit and co-op) has been created to address the needs of those unable to function in the market, mainly due to ineffective demand (too little income to trigger a market response).

The middle right side of the continuum reflects various levels of market provision, which tend to be associated with increasing income. Although it appears that there is less government intervention at this (market) part of the continuum, it is often there but less visible. For example the federal government role includes regulation of mortgage lenders, monetary policy that impacts mortgage interest rates, the non-taxation of capital gains on principle residence, etc., and CMHC's mandate to establish and maintain an effective mortgage finance system through provision of public mortgage insurance.

It should be noted that some households that access housing through the market continue to experience housing problems, mainly in the form of affordability. Their housing costs consume a large proportion of their income, beyond the 30 per cent norm commonly used as a benchmark (and many spend over 50 per cent of their income for shelter). The market is effective in supplying housing but not necessarily at ensuring low and affordable price/rents.

The other revealing feature of the housing continuum framework is that it functions in both directions. It is not simply a matter of enabling households to move from left to right (improve incomes and level of effective demand). A national housing strategy must also include initiatives and strategies to engage the market, to stimulate and encourage private-sector stakeholders (builders, developers, realtors and lenders) to respond to marginal demand. While an overall objective is to reduce the number of households in need, this can be pursued by expanding the reach and role of the market, essentially expanding the 86 per cent of households that are adequately and affordably housed and, in doing so, shrinking the 14 per cent that remain in housing need.

3. *Identifying stresses and weaknesses across the continuum*

Using the housing continuum as a framework, specific issues that should be addressed can be identified. In summary, these are the following:

1. **Persistent levels of homelessness, both short-term and chronic, and high costs of default responses by emergency and institutional systems;**
2. **Aging social housing stock in declining condition and with expiring subsidies, placing up to 220,000 dwellings at risk;**
3. **An absolute shortfall in the number of lower-rent units, combined with ongoing erosion of existing low-to-modest-rent private stock (demolition, rent inflation and conversion to ownership);**
4. **Affordability, especially for working poor households;**
5. **Low levels of new purpose-built rental construction;**
6. **Constrained access to homeownership opportunities for modest-income households; and**
7. **The need to manage place-based and neighbourhood effects.**

Each of these issues is briefly reviewed below. It should be noted that stresses and weaknesses vary in different cities and regions. In developing local strategies, municipalities should highlight key areas of stress and weakness as a way to prioritize local actions. It is, however, likely that the issues described here may exist to some degree in most cities.

Issue 1: Persistent homelessness

The issue of homelessness has become increasingly visible on the streets of Canadian cities. While formal statistics are not measured or published, there are informal measures (including point-in-time counts), as well as administrative data (shelter-use rates).

Both types of data indicate that homelessness, particularly chronic homelessness, either continues to increase or remains unchanged. It is not declining, except in a few cities where recent initiatives to create transitional and supportive housing appear to be having a modest effect in at least stabilizing the number of homeless.

The experience since 1999 in developing plans, designing integrated approaches and responding to homelessness in many Canadian municipalities has provided a valuable base for expanding responses to homelessness. In updating their community plans, most communities have emphasized the need to move beyond managing homelessness to ending it. This requires well-designed exit strategies and a supply of supportive and affordable housing with appropriate supports. Efforts must also embrace approaches that prevent homelessness, such as early interventions with families at risk due to rent arrears (counselling, rent banks and support to improve labour market participation and income earning capacity).

It is estimated that more than 40,000 individuals, including some families with children, sleep in emergency shelters every night in Canada. Previous research suggests that roughly one-fifth of homeless persons are chronically homeless, returning to shelters on a regular and long-term basis. But this small proportion consumes almost 50 per cent of the bed capacity and services in the homeless system. This translates to an estimated 20,000 chronically homeless persons. Eliminating chronic homelessness should be a priority as a national strategy goal. This requires resources to create at least 20,000 placements in supportive or affordable housing so that other interventions necessary to stabilize and address the causes of chronic homelessness can be delivered effectively (a "housing first" model).

In the absence of a purposeful, planned response, chronically homeless individuals consume services in the emergency and institutional systems: police and ambulance, psychiatric hospitals and emergency wards. Costs of these emergency responses are four-to-ten times higher per day than the cost of providing transitional or supportive housing. Research has demonstrated that interventions related to improving mental health, addiction withdrawal and reconnection to employment are ineffective if an individual is not first stabilized. The term "housing first" has recently emerged and places priority on providing supportive housing as a first step out of homelessness and a key to preventing homelessness.

Priority #1 – Reduce chronic homelessness through a "housing first" model by

- **expanding availability of supportive affordable housing;**
- **increasing coordination with ancillary services—mental health supports, addiction treatment, income assistance, counselling and life-skills and labour market connections; and**
- **increasing prevention and diversion through early intervention initiatives and by ensuring that housing options are available for immediate placement when a family or individual enters an emergency shelter.**

Issue 2: Preserving the Viability of Existing Social Housing Stock

Social (and public) housing programs in Canada began building housing in the 1950s, so the oldest stock is now reaching 50 years old and is in need of modernization or renewal. Even in somewhat younger stock (built in the 1960s and 1970s) there is a backlog in repairs, a result of underfunding of capital replacement reserves. There is now a need to modernize this aging stock in order to maintain and retain assets in good condition for ongoing use by lower-income households. Repair and modernization requires on average $15,000 to $25,000 per unit compared to costs in excess of $100,000 (and exceeding $200,000 in higher-cost cities) to build new affordable housing.

Currently, long-term operating subsidies that have been the main funding mechanism for social housing (allowing rents to be set at affordable levels) are beginning to expire, coinciding with the maturity of the mortgage. Over the next decade, total annual federal subsidy expenditures on existing social housing will decline by $500 million. In most cases, if provinces (municipalities in Ontario) maintain their current levels of cost-shared subsidies, these at-risk projects will be viable.[8] However, while provinces (municipalities in Ontario) continue to provide subsidies, the federal expenditures will continue to decline.

An estimated of 220,000 social housing units (one-third of the total social housing stock), including many of the urban native properties, are in serious need of modernization but generate insufficient rent revenues to be viable once current subsidies expire. Even prior to expiry, funds needed to maintain the assets in reasonable condition are lacking. Both public housing and urban native portfolios are characterized by targeting very low-income households, including many social assistance recipients. As a result, these portfolios are particularly affected by low rent revenues and are unable to address viability and modernization needs by refinancing the assets (an option in mixed-income properties with higher rental revenues). Reform of existing rent-setting practices for social assistance recipients living in social housing could go a long way to improving revenues and financing options.[9]

In some social housing properties, where there are high concentrations of poverty (a consequence of targeting policies that are intended to direct limited resources to those most in need) or units in poor condition, removing and rebuilding units may be a sensible option. This may be undertaken within the context of broader neighbourhood renewal and regeneration. Introducing mixed-income market options can both dilute poverty concentration and generate profit to cross-subsidize redevelopment costs. In other cases, it may be significantly less costly to invest in modernization than build replacement units either onsite or elsewhere. In either case, new capital subsidies will be required. There are currently policy barriers to refinancing existing assets and increased policy flexibility is required.

Priority #2 – Preserve and renew existing social housing assets by

- **examining and revising rent-setting policies for social assistance recipients living in social housing;**
- **where appropriate, reinvesting to modernize and preserve existing social housing (including energy-efficient upgrades); and**
- **where neighbourhood or property regeneration is more logical, ensure that existing policies do not impede regeneration or redevelopment solutions.**

Issue 3: Erosion of existing low-to-modest-rent private stock

While social housing is usually thought of as the main source of affordable housing, the primary supply of relatively affordable housing has historically been created through privately constructed rental housing. This includes purpose-built rental housing, as well as apartments in homes, secondary suites that have been installed in detached or semi-detached dwellings. There is evidence that this private source of relatively affordable housing is eroding through market processes. As properties age, they are upgraded or demolished and redeveloped.

Between the 2001 and 2006 Census, the count of occupied rental dwellings in Canada did not increase (for the first time ever).[10] During this period, almost 90,000 new rental dwellings were constructed (including an estimated 27,000 new affordable housing units completed under the Affordable Housing Initiative). So the total rental stock should have increased by roughly 90,000 units.

8 The separate 2008 FCM Quality of Life report ("Trends and Issues in Affordable Housing and Homelessness") has identified higher vacancy rates in lower-rent stock than in the mid- and upper-rent ranges. This suggests that tenants are seeking to move on from poor conditions or that this stock is occupied by less stable households, which are more frequently unable to pay rent and fall into arrears.

9 In Ontario, the ongoing funding responsibility for existing social housing was transferred in 2000 to municipalities. Thus these expenditure reductions will be realized locally, but responsibility to absorb rising costs and address the impact of expiring federal subsidy will remain on the municipal property tax base.

10 The actual count of occupied rented dwellings declined by 39,000 units. However, much of this is accounted for by a shift in vacancy rates, which increased from 1.7 per cent to 2.7 per cent (national weighted average), and this shift alone would account for roughly 30,000 units. After adjusting for vacancy levels at the time of the two censuses, the total of rented stock remained essentially unchanged.

Since there was no gain (and a negligible decline), this means that a similar number (90,000 units) of existing units must have been removed, either through demolition or as a result of rented condominium units or apartments returning to owner occupancy. It is estimated that at least half of this loss (45,000 purpose-built rental units) were older, more affordable rental units.

So despite investment in 27,000 new affordable units, the total stock of affordable housing has declined (by something in the order of 45,000 units). This suggests that focusing on new supply alone can overlook serious leakage and loss of stock. While adding new housing can help to compensate, it is also effective to explore opportunities to stop this erosion and potentially to intervene in the process that causes this loss by acquiring and preserving existing properties.

Between 2001 and 2006 in Vancouver, Calgary and Toronto, more than 90,000 apartment units in 1,700 properties were sold to new investors. As units are purchased, new investors often undertake some improvements and seek, over time to increase rental revenues. These units thus move up out of the affordable part of the rental stock. It was revealed that these existing transactions took place with average values per unit of $84,000 to $98,000, roughly 60 per cent of the average cost of constructing new units (in these three cities). The AHI targets rents at the average market level, so acquiring properties already renting at this level can be an effective way to expand the non-market affordable stock and preserve these for lower-income renters.[11]

Acquiring existing properties allows income mix and avoids NIMBY (not in my backyard) issues related to new construction. In areas that are gentrifying, acquisition can help to preserve opportunities for lower-income residents in the rising market (see issue #7). It also creates revenue-generating opportunities that can be reinvested to cross-subsidize lower income tenants, as units turn over. Enabling non-profits or co-ops to intervene to acquire modest rent properties in the market also provides a cost-effective platform to stack rent supplements or rental assistance as non-profit breakeven rents have been found to inflate at a much slower rate than market rents.

Maintaining existing properties is not always less expensive than building new ones, especially if major repairs are required. In the past, most non-profit/co-op acquisitions have involved major rehabilitation. The suggestion here is that, on a small scale, acquisition can target properties in reasonable repair that do not require major additional investment. This is suggested only as an option for consideration, not as the primary approach to be used.[12]

While allowing non-profit corporations to purchase existing properties (through open market acquisition) can help to preserve long-term affordability, some rental property owners may not be interested in selling. However, these older properties, often owned by small independent landlords, require rehabilitation. The Residential Rehabilitation Assistance Program (RRAP) is a proven vehicle to both help improve conditions in privately owned older properties and to control rents (the RRAP agreement is a de facto form of rent control as a quid-pro-quo for the RRAP loan). Accordingly, renewal of RRAP (for this purpose and for lower-income owners also) is a useful component of an overall housing strategy.

Another contributor to high shelter cost burdens is the rising cost of utilities (increasingly the responsibility of tenants). An energy efficiency program could be effective in helping landlords upgrade properties to more energy-efficient standards, replace inefficient and aging appliances and help tenants to lower shelter costs.

Priority #3 – Preserve and improve the existing relatively affordable stock by

- **ensuring that existing and emerging capital programs do not preclude the option of purchasing existing properties (where there is a sound business case);**
- **renewing and extending the RRAP program (including rental and conversion elements, as well as ownership RRAP); and**
- **reintroducing energy efficiency programs to encourage and support energy retrofit (to reduce emissions and lower utility bills).**

Issue 4: Affordability is the predominant problem

There is a shortage of lower-rent units (renting for less than $500 per month and affordable to households earning less than $20,000 annually), but in most cities there is no absolute shortage of housing. Supply constraints do exist in some rental markets and these vary over time. This concern is addressed in issue #5.

In many cases, lower-income households occupy units above the level they can afford, either because not enough low-rent units are available or because households with a slightly higher income (that could theoretically afford to pay more) are occupying lower-rent units.

The analysis of housing need clearly documents the predominant problem as one of affordability. Households are

[11] With existing rents at the average market level, such properties generate rental revenues that can support financing at 75 per cent to 85 per cent of value and therefore require only minimal capital assistance (15 per cent to 25 per cent of value). If this level of capital subsidy is lower than that required to achieve Average Market Rent (AMR) rents under new construction, then acquisition is more cost effective.

[12] The key point here is that if the property is acquired by a private investor, including institutional funds and REITs, it is likely that existing relatively affordable rents will evolve to higher, less affordable rents. The benefit of non-profit ownership of the asset is the motive to retain rents at the affordable level.

paying more than 30 per cent of their income (affordability problems account for 93 per cent of core housing need). At a more severe level, just over 700,000 households in Canada in 2001 reported spending more than 50 per cent of their income on shelter. Almost all of these were renters.[13]

Various forms of rental assistance can be effective in helping to reduce these high shelter cost burdens. This potentially includes rent supplements, portable shelter allowances (i.e., linked to a household not contracted to a unit) and reform of social assistance shelter assistance.

Where the issue of severe shelter cost burden is experienced by (income assistance) recipients, the cause is the low level and non-indexation of the shelter component of welfare.[14] Raising this allowance and indexing it to actual rent increases (e.g., CMHC annual rent survey) would help to remedy this issue.

For seniors receiving Old Age Security or Guaranteed Income Supplement (OAS/GIS), which account for one-third of renter households paying over 50 per cent of their income on rent, and for working poor households, rental assistance can help to reduce these high shelter cost burdens. Four provinces already have shelter allowance programs for seniors but, in most programs, the benefit levels or eligible rent maxima have not been updated and are not indexed, so assistance levels are small and largely ineffective in reducing high shelter cost burdens.

Working poor single people and families (who often hold two or more part-time jobs with no benefits) experience housing instability when income fluctuations contribute to their inability to pay rent, leading to arrears, eviction and possibly temporary homelessness. As has been demonstrated in programs like Toronto's Streets to Homes, rental assistance can have an important stabilizing effect, ensuring an individual can get and retain an apartment. The availability of rental assistance would also help respond to families in arrears and at risk of eviction. Well-designed shelter allowances can control consumer behaviour and over consumption, while allowance maxima help manage program budgets.

Priority #4 – Expand and reform rental assistance programs by

- **examining shelter allowances and maxima in social assistance, indexing these and, where appropriate, increasing them to keep pace with rising market rents;**
- **examining existing provincial shelter allowance programs and updating rent and benefit maxima with a goal of eliminating the use of the basic allowance to cover shortfalls in shelter expenses; and**
- **examining options to introduce rental assistance (portable shelter allowances) for working poor households facing high shelter-cost burdens and ensuring these reflect reality of market rents (i.e., include indexation).**

Issue 5: Low levels of new rental construction

Although it has trended downward quite dramatically (from 37 per cent in 1996 to just over 32 per cent in 2006), the proportion of renters in Canada is still roughly one-third of all households. However, for the past decade, rental construction has accounted for less than nine per cent of all housing starts in Canada. This is significantly less than the one-third proportion of households that rent and, over the long run, can only lead to a contraction in available units, declining vacancies and upward pressure on rents.[15]

In the short term, rental demand is addressed by vacancies in the existing stock, as well as by rented condominiums and units in houses. In fact, the purpose-built rental housing surveyed by the CMHC (apartments with three or more units) accounts for only half (49 per cent) of the total rental stock in Canada. The "informal" stock (51 per cent) is thus an important part of the rental system.

If renters make up one-third of all households, it would be desirable that rental construction approximates a similar proportion of new housing starts. However, since purpose-built properties represent only half the total rental stock, a target production level of half this amount may be more realistic. Specifically, it would be desirable for rental construction to represent 16 per cent of total starts, roughly double the level (nine per cent) over the past decade.

In the purpose-built part of the rental market, the national weighted-average rental vacancy rate is 2.7 per cent, which is just below the three per cent benchmark generally accepted as an indicator of a healthy market. Some cities, especially in the West, have much lower rates (all major centres west of Ontario are below two per cent). This indicates a need to examine and stimulate rental supply.

[13] The 2001 census reports 735,000 households (19 per cent of all renters) spend more than 50 per cent of income for shelter, but this includes 293,000 that spend more than 100 per cent. This is because household incomes fluctuate and some households have moved and have changed rent costs. The census collects current rent (May 2001) but previous year's (2000) income. In calculating core need estimates, CMHC excludes households with negative income and those spending more than 100 per cent. If these adjustments are used, the number spending more than 50 per cent in 2001 declines to 442,000.

[14] 2004 estimates from Statistics Canada indicate that severely burdened households (paying more than 50 per cent) are almost always renters and almost always (80 per cent) dependent of government transfer for income.

[15] This has not yet occurred, due to weak demand and available access to ownership. However, there is evidence of the contracting number of lower-rent units and a disproportionate rise in rents in the lower-rent part of the stock. Between 2001 and 2006, rents at the 25th percentile (lowest part of market) of the rent distribution increased three times faster than those at the 75th percentile (upper market).

With the previously mentioned shortage of lower-rent units, one option is to use public investment to directly address supply by investing in construction of new housing for low-income households. In markets where the market has not or is not responding (i.e., low vacancy rates have not stimulated increased construction), it may be appropriate to use non-profit and co-operative vehicles to add new supply. As suggested in issue #7, some consideration should be given to linking assisted supply to place-based strategies (supporting inclusionary policies in brown-field redevelopment or new green-field subdivisions). New supply initiatives should also be considered on a best-buy basis against acquisition options (issue #4).

One way to increase supply is to use inclusionary zoning mechanisms coupled with public investment. Inclusionary zoning can be effective, especially in brown-field redevelopment to ensure land is made available for affordable rental development, provided that subsidy programs exist to facilitate construction. This approach, widely adopted in the United Kingdom, is also being successfully used in Montreal and has been an element in the build-out of the former Expo lands in Vancouver.[16] A long-term predictable funding program is particularly critical in this approach. Setting a percentage of land aside for affordable development is insufficient; funding is required to undertake construction. But most major redevelopments have a long build-out period (five to 20 years) and require a similar horizon in the availability of funding to ensure that affordable elements are included. This can include private-developer management of the affordable units, as well as partnerships with non-profit corporations (as done in the United Kingdom and Quebec).

If the issue of rental supply is separated from the more specific issue of affordability, other options are possible, mainly directed at stimulating the market to construct a higher volume of rental housing. This requires addressing barriers and deterrents to new rental development and accepting that it is only viable for private investors to build at rents that are significantly above the average market level.

A key issue for rental investors is uncertainty about and risk of changing regulation. Imposition of restrictive rent controls can significantly affect profitability and viability. Developers are unlikely to enter the rental sector unless they have a level of comfort that provincial governments will not adjust rent regulation in the future. Quebec is a good example of a province that has consistently had rent regulation throughout the post-war period but, unlike other jurisdictions, has maintained a relatively consistent regime. Notably, Quebec has consistently had the highest volume of rental starts in the country (as well as a stronger rental culture). The market understands, accepts and has capitalized the effects of this regime into pricing of rents.

Another key deterrent to private rental investment (and supply) is the income tax treatment of rental investment. A number of reforms and revisions to the tax code between 1972 and 1988 have made it progressively less attractive to build rental housing. A variety of taxes affect rental investors, some unique to the rental sector (compared, for example, with commercial office landlords). The most significant (in terms of stimulating construction if removed) and effective ways to revise current tax treatment are a refund of the GST on new rental construction,[17] deferral of capital gains tax and recapture of depreciation if proceeds of disposition are reinvested in rental development, an increase in the capital cost allowance (CCA) rate from four per cent to five per cent, and restoration of soft-cost deductibility.[18] Of these, the rollover provision (deferring tax liability in the event proceeds are reinvested) can have the most significant impact in stimulating new investment.[19]

Priority #5 – Stimulate new rental construction by

- **utilizing affordable housing grant funding to enable new non-profit/co-op construction (especially when linked to targeted neighbourhood redevelopment or special purpose/supportive housing)**
- **ensuring predictability, fairness and stability in rent regulation;**
- **examining and revising current federal tax policies to remove disincentives to rental developers and replace with incentives; and**
- **revising current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds.**

16 Inclusionary zoning is also used extensively in a number of U.S. jurisdictions. While used in rental developments, it is more frequently used as a mechanism to include affordable ownership options for modest-income families in new green-field subdivisions.

17 Even with the rebate introduced in the 2000 budget, which results in an effective rate of 4.5 per cent (versus seven per cent as the GST rate was then), this levy exceeded the pre-GST federal manufacturers sales tax, which applied to input materials only and not to labour costs). Unlike commercial office developers, who charge GST on rents and can use GST on construction as an input tax credit, rental landlords cannot do so, because residential rents are exempt from GST.

18 These specific tax measures are discussed at length in the 2002 Second Report of the Housing Supply Working Group (Ontario Ministry of Municipal Affairs and Housing).

19 This option has also been articulated by the Canadian Real Estate Association (CREA) and the Canadian Federation of Apartment Associations (CRAA), which recommend that the approach include any form of investment real estate (office, commercial, industrial and residential) in order to maintain fairness in the tax system and maximize the impacts of increased liquidity.

Issue 6: Expand access to homeownership opportunities for modest-income households

Over the past decade, Canada has experienced a significant increase in the homeownership rate. After increasing by less than one per cent from 1971 to 1996 (to 63 per cent), the rate has increased by more than five per cent reaching almost 68 per cent in 2006. This is a result of a prolonged period of historically low mortgage rates. While these have edged up marginally, mortgage rates remain favourable.[20]

This increase in the ownership rate suggests that access to homeownership is not a serious issue, although it may become so for young families carrying large education debt. However, even though access to ownership is not yet a serious problem, in viewing housing as a system this mechanism can be a useful tool in a housing strategy as it impacts rental vacancy rates.

Access to ownership has been a key factor in removing pressure on rental markets and largely offsetting the impact of low volumes of new rental construction. House prices, especially in Western Canada have, however, experienced significant increases (especially since 2001), which can curtail access and push pressure back onto the rental market.

For households in the upper tier of core housing need, as well as those slightly above (i.e., incomes from 60 per cent to 100 per cent of median income) access to ownership is only marginally out of reach.[21] Assistance to facilitate ownership can be an effective and relatively low-cost tool in a local housing strategy. It also creates the opportunity to form partnerships with lenders and realtors, both directly implicated in any expansion of the ownership market. There are also opportunities to introduce ownership as part of mixed-income renewal, such as currently underway in the redevelopment of Regent Park in Toronto. Offering avenues into ownership (e.g., lease-to-purchase programs) for existing social housing tenants also frees up limited social housing for needier households.

Resale house prices in the highest cost metropolitan markets (Vancouver, Toronto, Calgary and some other western cities) are limiting the options for ownership, but this assisted ownership can be effective in many other smaller cities. A 2005 study found that, in 2001, more homes sold in Moncton, N.B., at prices affordable to households in the upper tier (top 30 per cent) of core need in that city than there were people in that top tier. A well-designed ownership assistance program could help to achieve a significant reduction in core need, while enabling these households to build assets.

Assisted-ownership models are prolific in the United States, where they combine pre- and post-purchase counselling (financial literacy) with low-rate loans and, in some cases, down-payment assistance. These programs also engage the non-profit community sector in delivering counselling and pre- and post-purchase education and counselling. The United Kingdom has also implemented a number of innovations, such as partial ownership, shared equity and lease-to-purchase programs. Similar innovations should be explored and encouraged in Canada.

This option targets households in core need but focuses on the upper level of need and seeks to lift households into the market with minimal subsidy expense and enable them to accumulate an asset and related wealth. Targeting households at the upper tier of core housing need can be an effective way to significantly lower the overall core-need count.

Access to ownership is affected by three specific tax issues: the non-indexation of the qualifying price thresholds under GST rebates; the non-indexation of the contribution limits for the RRSP Home Buyers Plan; and the non-indexation of tax brackets in land-transfer taxes, which exist in various jurisdictions. Reforming these tax measures by indexing benefit levels would help to improve feasibility of a home purchase for households at the margin of affordability.

Priority #6 – Facilitate increased access to ownership for modest-income households by

- **initiating collaboration with local realtors and lenders toward an industry-led assisted ownership program targeting upper-tier core-need and modest-income households;**
- **where appropriate, funding loans and down-payment grants for assisted homeownership; and**
- **indexing benefit thresholds in three existing tax measures affecting ownership: the qualifying price thresholds under GST rebates, the contribution limits for the RRSP Home Buyers Plan, and the tax brackets in land-transfer taxes.**

[20] The rise in mortgage rates approximating 100 basis points (one per cent) since 2006 has largely been offset by extension of amortization to 40 years. Any further increase in mortgage rates will, however, affect carrying costs and could suppress ownership demand.

[21] The 60th percentile household income in Canada roughly approximates the income needed to afford average market rent without spending more than 30 per cent of income and, as such, approximates the upper end of core housing need. This suggestion specifically targets households at the upper end of need and does not recommend assisted ownership initiatives for very low-income households, as these can be counter productive (the obligations of ownership and maintenance squeeze low-income capacity). See Mendelson, 2005.

Issue 7: Manage place-based and neighbourhood effects.

Housing issues and responses to them have important spatial impacts and particular neighbourhood effects.

The first of these is the natural sorting process that tends to occur in the market, especially in relation to lower-cost housing. Lower-income individuals and families have limited purchasing power and tend to migrate to areas where housing costs are lowest. These are often neighbourhoods with smaller lots or homes and lower-rent apartments, sometimes in a poor state of repair. Typically, they are known and identified as low-income areas. The result is a concentration of poverty that often exacerbates social exclusion and distress. There are few public amenities (parks and playgrounds), lower-quality schools, few commercial establishments (grocery stores) and often criminal activities arise, preying on poor victims.

Housing policies can inadvertently reinforce these issues. For example, portable shelter allowances designed with an incentive to seek lowest-cost options may result in higher concentrations of poverty in poor areas. If families locate in poor areas, providing housing assistance alone may not address more fundamental causes that deepen and exacerbate poverty.

A related issue is that households select lower-cost options in exurban locations remote from actual or potential places of employment. This adds to commute time, cost and stress, as well as potential negative environmental impacts. Design of shelter-allowance programs needs to include education and mentoring (and possibly even explicit policies that exclude housing in certain areas). The objective should be to dilute concentrations of poverty while concurrently undertaking community development activities to improve poor areas.

The corollary concern is the issue of gentrification. Lower-income neighbourhoods once provided housing for workers employed in inner-city industrial and manufacturing enterprises, most of which have relocated out of the downtown core. Many former industrial areas and port activities have been replaced by festival areas and waterfront luxury condominiums. As these spill over into adjoining areas, lower-income areas become attractive to middle-income and higher-income consumers, and the area transforms, displacing poor residents and removing lower-rent or-priced housing. Efforts are required to preserve existing properties or at least to ensure that redevelopment includes options for lower-income and traditional residents of the area.

Ideally, cities want to take advantage of the more affordable lower prices/rents in poor neighbourhoods (as a source of affordable housing) while improving the areas, essentially a process of "managed gentrification."

Where there are issues of absentee landlords not maintaining rental properties, assisted ownership can be a useful strategy to stabilize the area, introducing modest-to-middle-income households that, as owners, have a stake in the community (a practice being effectively implemented in Winnipeg). Acquiring and improving existing poorly maintained rental properties helps to improve the physical appearance and retain property for lower-income residents. Montreal and Vancouver have used this approach. In the redevelopment of older areas and brown-field (former industrial) sites, inclusionary policies can help to encourage and facilitate mixed-income development with some opportunities for lower-income residents. Directing investment for new affordable development to these areas ensures the investment has a broader impact than just creating new supply.

The key to effective housing polices is to be cognizant of the spatial and neighbourhood impacts of different policies and to design and direct housing interventions to complement and reinforce other efforts, such as poverty reduction, community economic development and healthy communities. It is also important that funding frameworks are long term and predicable, because implementing urban and neighbourhood change takes time and sustained effort.

Research from community development investment in the United States has revealed that concentrated investment in targeted areas can have an important impact, once investment reaches a minimal scale. Conversely, spending the same level of investment on a more scattered geographic basis does not generate the same reinforcing effects and outcomes. For example, in a program to support new construction of affordable housing, or in rehabilitation programs like RRAP, it may be more effective to target certain neighbourhoods versus issuing a general call for proposals. Montreal has a long history of successful neighbourhood-specific initiatives.

Priority #7 – Manage place-based and neighbourhood effects by

- **ensuring that local housing strategies consider and address the potential place-based effects of program initiatives and seek to integrate housing strategies with urban planning, smart growth and neighbourhood redevelopment plans;**
- **requesting provincial legislation to enable municipalities to develop inclusionary zoning bylaws and requiring inclusion of affordable housing (entry ownership or rental), provided that bylaws include appropriate offsets to compensate developers; and**
- **ensuring housing and revitalization funding are available, sustained and appropriate (including funds to facilitate the inclusion suggested above).**

4. *Roles and responsibilities*

The overall objective of this report is to seek support for sustained funding that will enable implementation of locally developed action plans on a meaningful scale. This requires both a supporting and enabling policy environment, implying some policy change, as well as broad funding mechanisms mainly from the federal and provincial/territorial governments.

The preceding section has highlighted a number of priority areas for action. In most cases, the primary responsibility for each of the identified priority action areas is usually self evident. For example, changes to federal tax legislation and regulations are obviously federal (Department of Finance). Review and reform of income-assistance policies (shelter allowances within income assistance programs) require provincial attention.

In a number of cases, implementation is local and requires municipal engagement but also requires a permissive and enabling framework that provides funding (federal or provincial/territorial) to facilitate and enable local implementation without restrictive policy barriers. Historically, program funding has been directed to localities for prescriptive programs, leaving little flexibility to adapt to local issues. More flexible funding allows municipalities to maximize impact. Prescription should be replaced by principles and performance outcomes. The nature of housing, involving fairly long planning and construction periods, also requires reasonable predictability and sustainability of funding, beyond the short-term, temporary two-to-three-year programming that has been the pattern in recent years.

Recent initiatives in both homelessness and, to a lesser degree, affordable housing have begun to embrace the notion of comprehensive local planning and delivery. However, these have required strong federal leadership involving cost-shared programming investment as a means to lever provincial participation and to reverse the trend of declining provincial funding.

The national homelessness initiative explicitly required comprehensive community plans that stimulated collaborative initiatives, including government agencies, community providers and service-delivery agents, and helped to better integrate funding across different orders of government. This model has proven to be effective. There are number of local success stories, and concrete results are beginning to emerge in terms of slowing the growth of homelessness and, in some cases, reversing the trends. This has created a firm foundation on which to build, with the recommended renewal and expansion of the Homelessness Partnering Strategy. Some communities have now reframed their plans with a specific emphasis on ending chronic homelessness within a decade (e.g., Edmonton).

In the related but broader area of affordable housing, there was not an explicit requirement to develop comprehensive plans, although many municipalities have, in fact, taken this approach (e.g., Montreal, Toronto, Waterloo, Ottawa, Edmonton and, more recently, Metro Vancouver). By identifying housing issues across a spectrum or continuum of need, these strategies have invested strategically to have meaningful impact (e.g., revitalizing distressed areas, integrating affordable housing in gentrifying areas). Like the homelessness action plans, these city or metropolitan strategies have harnessed funding programs from the federal and provincial/territorial governments and have also invested local resources ((including grants, as well as in-kind, such as land or waived development fees and charges).

In short, the experience of the last few years has demonstrated that with each order of government contributing in those areas where they have the expertise and resources, coordinated comprehensive approaches have started to make a difference. However, to achieve scale and make a meaningful impact, higher levels of sustained and predictable funding are required beyond that available through municipal revenues alone.

The following table briefly identifies the order of government that is most logical to take the lead on specific priority action items. While many require a federal or provincial/territorial role, implementation will also require municipal engagement. In most cases, the policy or program will engage private or community-level actors and stakeholders, and they, too, will have important roles. However, the focus here is on the enabling funding and policy roles of government (See tables on page 20 and 21).

Priority action	Respective roles
Priority #1 – Reduce chronic homelessness through a "housing first" model	
Expand availability of supportive affordable housing	Federal—Renew and revise Homelessness Partnering Strategy; Municipal—Prepare and update community plans
Increase coordination with ancillary services—mental health supports, addictions treatment, income assistance, counselling and life-skills and labour market connections	Provincial ministries (Housing, Health, Social Assistance)—also via local community plans
Increase prevention and diversion through early intervention initiatives and by ensuring that housing options are available for immediate placement when a family/individual enters an emergency shelter	Provincial housing ministry and link to community services such as rent banks
Priority #2 – Preserve and renew existing social housing assets	
Examine and revise rent-setting policies for social assistance recipients living in social housing	Provincial ministries (Housing and Social Assistance)
Where appropriate, reinvest to modernize and preserve existing social housing (including energy-efficient upgrades)	Provincial ministries (Housing) as owners of these assets (link also to reform of rent-setting policies that undermine viability)
Where neighbourhood or property regeneration is logical, ensure that existing policies do no impede regeneration or redevelopment solutions	Federal—(CMHC)/ Provincial (Housing)—both impose policy constraints (CMHC on lending and reuse of assets)
Priority #3 – Preserve and improve the existing relatively affordable stock	
Ensure that existing and emerging capital programs do not preclude the option of purchasing existing properties (where there is a sound business case)	Federal—(CMHC)/ Provincial (Housing)—Need-enabling policies in FPT funding framework
Renew and extend the RRAP program(including rental and conversion elements, as well as ownership RRAP)	Federal–CMHC
Reintroduce energy efficiency programs to encourage and support energy retrofit (to reduce emissions and lower utility bills)	Federal (NRCan) and provincial environment ministries—link also to municipal infrastructure renewal and intensification policies
Priority #4 – Expand and reform rental assistance programs	
Examine shelter allowances and maxima in social assistance, index and, where appropriate, increase them to keep pace with rising market rents	Provincial ministries (Housing and Social Assistance)
Examine existing provincial shelter allowance programs and update rent and benefit maxima with a goal of eliminating use of basic allowance to cover shortfalls in shelter expenses	Provincial ministries (Housing and Social Assistance)
Examine options to introduce rental assistance (portable shelter allowances) for working poor households facing high shelter cost burdens	Provincial ministries (Housing and Social Assistance)

Priority action	Respective roles
Priority #5 – Stimulate new rental construction	
Utilize affordable housing grant funding to enable new non-profit/co-op construction (especially when linked to targeted neighbourhood redevelopment or special purpose/supportive housing)	FPT enabling policies plus municipal and community local strategies (non-profit corporations and co-ops)
Ensure predictability, fairness and stability in rent regulation	Provincial (Housing and Consumer Affairs)
Examine and revise current federal tax policies to remove disincentives to rental developers and replace with incentives	Federal Department of Finance
Revise current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds	Federal Department of Finance
Priority #6 – Facilitate access to ownership for modest income households	
Initiate collaboration with local realtors and lenders toward an industry-led assisted ownership program targeting upper tier core-need and modest-income households	Municipalities (possibly FCM via national trade bodies CREA and CAAMP)
Where appropriate, fund loans and down-payment grants for assisted homeownership	Federal (CMHC)/ Provincial (Housing)—enabling policies; administer locally (community partners)
Index benefit thresholds in three existing tax measures affecting ownership: the qualifying price thresholds under GST rebates; the contribution limits for the RRSP Home Buyers Plan, and the tax brackets in land transfer taxes	Federal Department of Finance
Priority #7 – Manage place-based and neighbourhood effects	
Ensure that local housing strategies consider and address potential place-based effects of program initiatives and seek to integrate housing strategies with urban planning, smart growth and neighbourhood redevelopment plans	FPT enabling framework; municipalities
Request provincial legislation to enable municipalities to develop inclusionary zoning bylaws and require inclusion of affordable housing (entry ownership or rental), provided that bylaws include appropriate offsets to compensate developers	Provincial (Municipal Affairs); municipal bylaws
Ensure housing and revitalization funding are available, sustained and appropriate (including funds to facilitate the inclusion suggested above).	Funding from federal and provincial/territorial sources

5. Establishing target outcomes

Canada's municipal governments are proposing the following targets to be pursued through a comprehensive funding program, together with supportive policies that will enable local action plans to be implemented over the next 10 years (2008–2017). The priorities for the action plan are to first preserve and enhance existing assets and then to increase options available as a way to tackle homelessness and substantially reduce the number of households in housing need.

The following specific targets are recommended:

1. Eliminate and prevent chronic homelessness in 10 years.

Create 20,000 new supportive and permanent affordable housing opportunities (2,000 per year) together with the appropriate levels of support to address mental health and addiction issues in order to stabilize the underlying issues that cause chronic homelessness. This targets the most severe chronically homeless population. Other targets also respond to the need for housing among shorter-term, temporary homeless.

2. Expand the stock of affordable non-market housing by 15 per cent of total annual housing starts each year.

As the population grows, it creates more households and demand for housing. It is anticipated that 15 per cent of these new households will be in need of housing (core need has consistently fluctuated around 15 per cent for the past 20 years). At current growth levels, this means 25,000–30,000 households per year). This goal specifically targets creating sufficient opportunities to avoid any further growth in housing need. This can include new construction and acquisition/preservation of existing market units.

3. Reduce the backlog in core housing need by 2.5 per cent annually for a total reduction of 25 per cent over the next 10 years.

This will utilize a variety of approaches, as appropriate to local market conditions and need, including rental assistance and assisted homeownership, as well as new construction or acquisition/preservation to expand the number of non-market units available to lower-income households.

Estimates of core housing need will be updated by CMHC once the 2006 Census data are fully released. It is estimated that core housing need currently approximates 1.4 to 1.5 million households, so a 2.5 per cent annual target means 30,000 to 35,000 new households assisted annually.

4. Reinvest to preserve and modernize 20,000 units annually in Canada's existing social housing stock.

This will ensure that the 200,000 existing social housing units at risk (one-third of the total social housing stock) are retained and modernized (including energy efficiency) and that expiring subsidies are renewed to ensure the units remain affordable to low-income households.

As an alternative to extending the subsidy, actions will include improving rent revenue through correcting existing rent-setting policies for social assistance recipients living in social housing (increased rent revenues will facilitate both viability and financing for modernization).

5. Extend the Residential Rehabilitation Assistance Program to improve conditions in existing private (homeowner and rental) stock to rehabilitate 10,000 homes annually, and enhance this with a companion program to support energy retrofits in order to address the issue of rising utility costs for low-income tenants and owners.

This would provide assistance to low-income owners and people with disabilities to undertake rehabilitation of existing homes, as well as to private landlords (including rooming houses) to bring rental properties up to minimal standards, while preserving affordable rents.

These targets are not mutually exclusive. Expansion of affordable housing options, including supply and rental assistance (target #2), may also assist formerly homeless individuals who may initially be assisted through supportive housing (target #1) but are ready to move on to affordable independent housing.

These targets are generalized across various sub-populations of need. Local strategies will define more specific targeting and, for example, may seek to direct programming to specific sub-populations, such as single-parent families, urban Aboriginal families, etc.

5.1 Costs of proposed targets

Within each of the targets where alternate options are possible, three scenarios are used:

a. The first assumes that all targets are met through new construction (except modernizing social housing and the RRAP target).

b. The second assumes that a blend of approaches is used (each contributing 25 per cent of the target) utilizing new construction, acquiring existing rental properties, using rental assistance and assisted homeownership.

c. Scenario three uses the same equal blend (25 per cent) of options as scenario two, but also assumes that the new or acquired properties are mixed-income buildings with 50 per cent units at rent geared-to-income (RGI) rent and 50 per cent units at average market rent (the higher revenue average market rent units lower the average subsidy per unit).

A variety of mechanisms can be used to achieve these targets and these will vary in cost. Costs will also differ across regions and depend on the target client group (smaller singles units versus family-sized units).

For the purpose of estimating the overall costs of these five targets, some simplifying assumptions are used:

- For supportive housing, the costs of building or acquiring property were based on recent experience in median-cost centres and reflect small self-contained units (rooming house style units would have lower costs).
- For acquisition of existing rental-investment properties and new construction options, cost estimates were developed based on current cost factors averaged across larger, high-cost and median-cost cities.
- Two unit types are used: bachelor units for singles and two-bedroom units for families (primarily smaller single parent families). Core housing need is almost evenly split between family and non-family households (both senior and non-senior individuals), so a 50 per cent split between singles (bachelor units) and family (two-bedroom units) is used.
- Capital grant amounts reflect the level needed to assist low-income singles (income $11,500) or families ($15,500) paying RGI rent at 30 per cent of income.
- Separate estimates were developed for both high-cost markets as well as for median-cost regions/cities and aggregated into an average value.

Four cost-estimates (bachelor units/two-bedroom units, high-cost cities and median-cost cities) are blended into a single cost estimate to simplify the overall matrix (See Figure 4). This will obviously generate cost estimates that appear low for some cities, but this is because it reflects an averaging.

- In estimating rental assistance costs, the average gap is calculated between average market rent (AMR) in high- and median-rent cities and the same low-income RGI used in the construction options (at 30 per cent of income) is replicated. It is assumed that assistance is available for 10 years, with rents inflating at two per cent annually. The value used in the summary is a capitalized amount (the discounted net present value over 10 years at 6.5 per cent).[22] It should be noted that this reflects a subsidy of the full gap. Partial assistance (i.e., covering only part of the gap to reduce but not eliminate the excessive burden) will involve lower costs.
- Assisted ownership assumes a grant of up to $10,000 (partially to cover the cost of pre- and post-purchase counselling and education and for down-payment assistance).
- The RRAP estimate assumes that some rental RRAP would be included in the acquisition targets, so the identified budget ($75 million) is slightly lower than the current level ($110 million).

[22] As outlined, it is presumed that households receive rental assistance as a temporary measure and will "graduate" from assistance to employment as income status improves. Thus the rental assistance option is costed as a 10-year expenditure only. Costing this as a 30-year program, as used under the new and acquisition options, would significantly raise the cost of the rental-assistance option.

Figure 4 – Grant required per household assisted for each target

		Averaged Estimate (Capital Subsidy)			
	Annual Target *	**New Build**	**Acquisition**	**Rental Assistance (10-yr NPV)****	**Assisted Home ownership**
Supportive housing—chronic homeless ***	2,000	$75,000	$45,000	$30,000	–
Negate growth in core need	25,000	$107,000	$63,000	$38,000	$10,000
Reduce existing core need	30,000	$107,000	$63,000	$38,000	$10,000
Preserve and modernize existing social housing	20,000	$15,000	–	–	–
RRAP for existing owner/rental basic rehabilitation	10,000	–	$7,500	–	–

* *Target is number of individuals or households assisted*

** *NPV = Net Present Value*

*** *Excludes ongoing support costs (estimated average at $8,500/unit/yr); rent supplement cost based on AMR for bachelor units less RGI for single)*

Figure 5 – Summary of annual cost estimates to achieve targets under alternate scenarios

		Cost ($ million)		
	Annual target (units or households)	**Scenario A: New Construction**	**Scenario B: 25% blend each of new build, acquisition, rent assistance and assist home ownership**	**Scenario C: same as B, but RGI/AMR blend for new or acquired properties**
Supportive housing – chronic homeless *	2,000	150	120	120
Negate growth in core need	25,000	2,675	1,300	775
Reduce existing core need	30,000	3,210	1,560	930
Preserve and modernize existing social housing	20,000	300	300	300
RRAP for existing owner/rental basic rehabilitation	10,000	75	75	75
Totals ($ millions)		**6,410**	**3,355**	**2,200**

* *Excludes ongoing support costs (estimate average at $8,500/unit/year = $8.5 million in yr 1, ramping up to $103 million in year 10, assuming costs inflating at two per cent annually)*

The overall estimates vary from just over $2 billion annually (Scenario C, with mixed incomes and blended options) to more than $6 billion annually (assumes all targets are met through new construction).

The low range ($2 billion) almost replicates the current total two-year federal spending under the Housing Trusts, RRAP and the Homelessness Partnering Strategy. These three program/funding vehicles each leverage provincial/territorial spending of similar levels.

The middle scenario (B) is a reasonable overall estimate reflecting geographic distribution of activity and mix of approaches. This implies an annual investment of $3.35 billion.

In addition to replacing existing federal programs (all ending in March 2009), the ongoing subsidies to existing social housing are also expiring. The average reduction in federal expenditures over the next five years (2008–12) is $100 million per year (compared with the 1995–96 base level of federal transfers). For the subsequent five years (2013–17), it is $265 million per year. In both cases, the amounts are roughly matched by provincial/territorial expenditure reductions (municipal in Ontario).

There is a significant amount of funding already in the system. At the low end of the cost range, the identified levels would not require new funding. For the most part, they require recommitment and renewal of existing expenditure levels (federal and provincial/territorial).

The recommended priorities also include some cost implications outside of these overall general estimates, in particular any reforms to the shelter component of welfare, as well as any income tax changes, which have tax expenditure impacts on both the federal and provincial levels.

This does not consider how costs may be allocated or shared across different orders of government. The overview of roles and responsibilities suggests that provincial expenditures are more likely in the areas of reforming income assistance, shelter assistance and reinvesting in the existing social housing stock, which is either owned by provincial corporations or by community-based, non-profit and co-operative corporations for which the provinces have oversight responsibility.

It is expected that federal funding will be directed primarily to new capital initiatives and that, while provinces will also contribute to capital programs, they will continue to be responsible for ongoing programming through social assistance and health.

Important offsetting revenues

In addition to the above-noted expiring expenditures, these estimates do not consider the offsetting revenues that are generated, particularly the income-tax revenues created for both the federal and provincial/territorial treasuries as a result of housing construction, renovation and transacting activities.

For example, CREA has estimated that every existing home sold stimulates, on average, $32,000 in spending and income. This includes transaction fees (realtors and lawyers), moving costs, and spending on new furnishing and renovations. This spending is recycled into the economy and subject to taxation. This impact may be somewhat moderated in the recommended assisted-ownership option as this targets lower-priced homes. However, it will still likely generate at least half ($16,000 per unit) of this estimated impact.

Similarly, FCM estimated in 2004 that, for each new modest affordable unit constructed, the federal government collects between $28,000 and $37,000 per unit in revenues (mainly income tax, but also EI and CPP contributions); provincial treasuries collect from $10,000 to $14,000 per unit. Municipalities barely break even as they incur costs associated with servicing new development. At that time, when the maximum federal grant under the Affordable Housing Initiative was $25,000, the federal government fully recovered its investment in the AHI. Provinces reduced their net outlay by one-third.

Based on scenario B, the recommended targets for acquisition and new construction will generate annual federal revenues of more than $500 million and aggregate annual provincial/territorial revenues of more than $175 million.

6. Conclusions

The recommended actions involve all orders of government, together with community-based agencies (housing providers and social service agencies) and, in a number of cases, seek to engage private-sector stakeholders (builders, landlords, realtors and lenders).

By working collaboratively to build on each other's strengths and ensuring coordination though a comprehensive strategic approach, Canada's mayors and municipalities believe that Canada's housing system can be strengthened and the issues of homelessness and housing need can be steadily and substantially reduced.

Through a range of measures and approaches, the strategy sets out ambitious but realistic goals:

- Eliminate chronic homelessness in 10 years;
- Reduce core housing need by 25 per cent (to less than one million households); and
- Preserve and modernize Canada's social housing assets so they can continue to serve future generations of households in need.

With all orders of government working together with community and private-sector stakeholders through a comprehensive strategy, these goals are achievable.

In presenting these recommendations, specific targets have been identified. A national reporting system should be established to explicitly monitor and measure outcomes against the targets and, where necessary, refine targets and adapt priorities.