



NATIONAL HOUSING STRATEGY: GETTING IT RIGHT

Transforming Canadian housing through local innovation

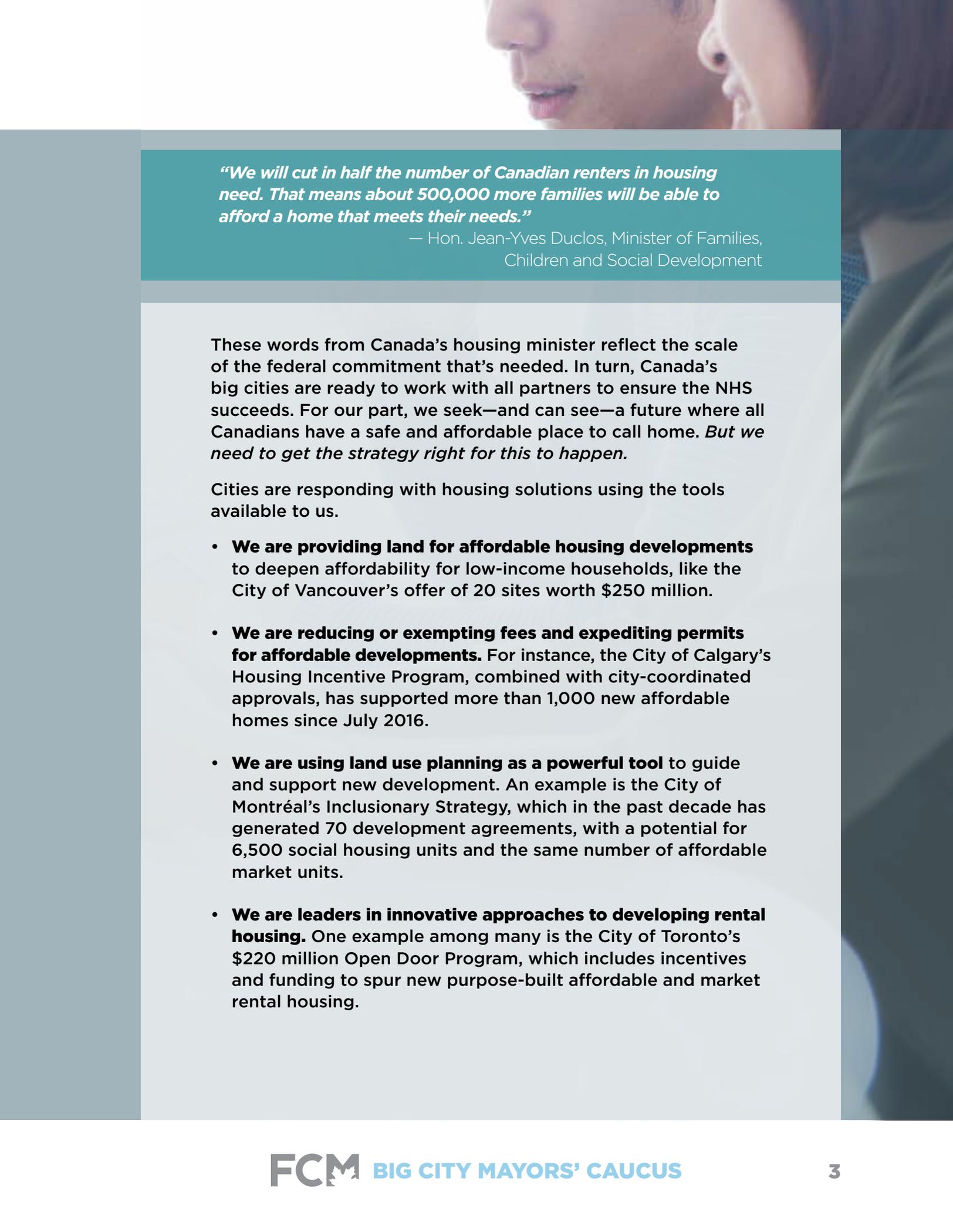
FCM BIG CITY MAYORS' CAUCUS

September 2017

Safe, affordable housing is the bedrock of livable, competitive cities—and of the stronger Canada we all aspire to build. Yet our cities are grappling with a serious housing crisis. As low and moderate-income households increasingly struggle to both pay the rent and feed the kids, this crisis is throttling human and economic potential from coast to coast to coast. Unprecedented housing market pressures, particularly in big cities, pose an unparalleled threat to our future economic prosperity.

That is why FCM's Big City Mayors' Caucus (BCMC) is calling for urgent action. And we are not alone. Provinces, territories, mid and small-sized municipalities, non-profit organizations and the private sector recognize the threat that this housing crisis represents. Many are reaching for solutions. As mayors, we are inviting the federal government to engage all levels of government, as well as stakeholders, to lead a transformative scaling-up of our efforts.

We recognize the steps this government has taken toward building Canada's housing future. Budget 2016 committed to one of the most needed and ambitious projects in decades: a **National Housing Strategy (NHS)**. Budget 2017 backed this up with significant dollars: \$11.2 billion over 11 years and \$4-5 billion preserved from social housing operating agreements that had been slated to expire. These critically important commitments reflected the call of cities and housing stakeholders to seize this once-in-a-generation opportunity to meaningfully tackle Canada's housing crisis.



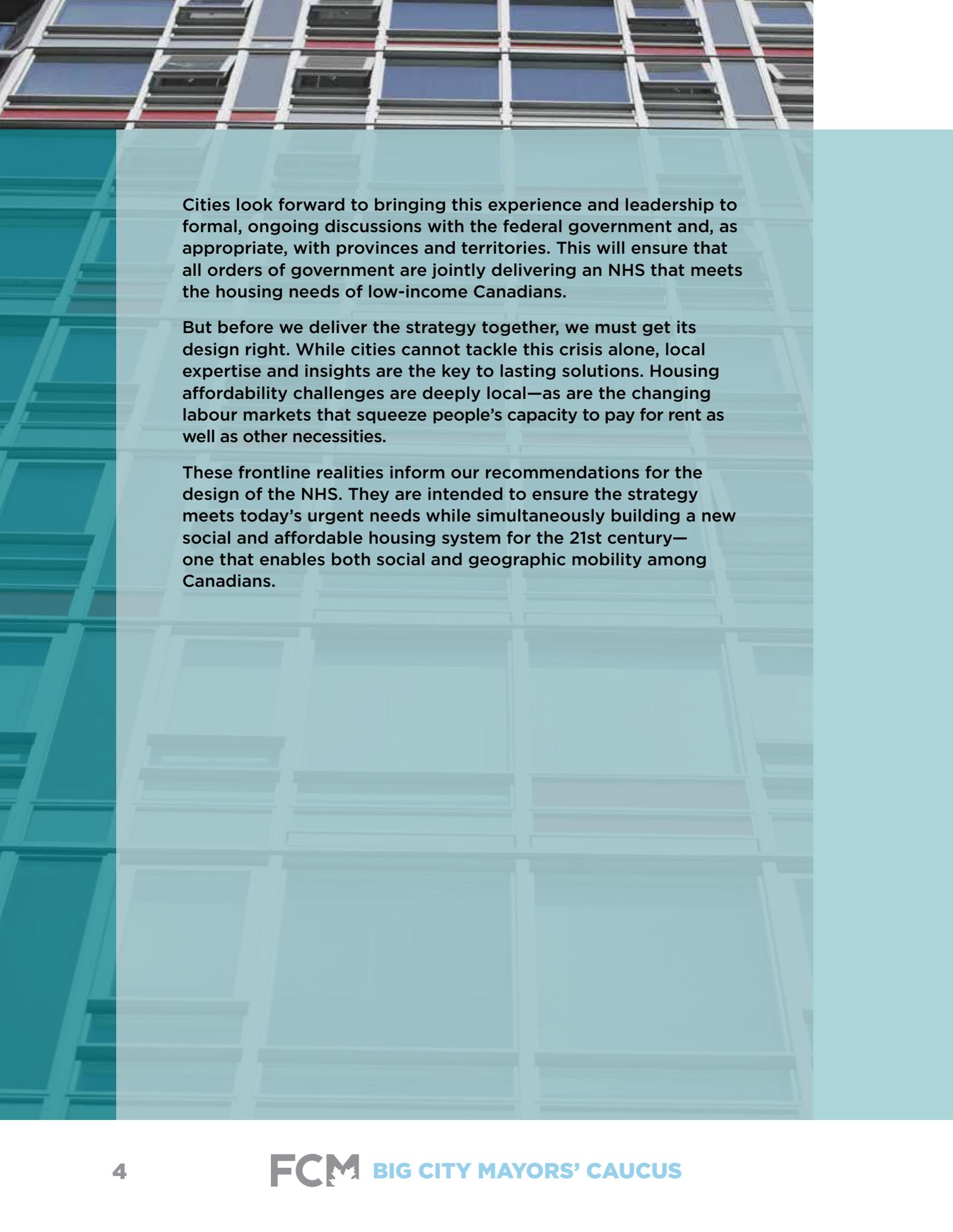
“We will cut in half the number of Canadian renters in housing need. That means about 500,000 more families will be able to afford a home that meets their needs.”

— Hon. Jean-Yves Duclos, Minister of Families,
Children and Social Development

These words from Canada’s housing minister reflect the scale of the federal commitment that’s needed. In turn, Canada’s big cities are ready to work with all partners to ensure the NHS succeeds. For our part, we seek—and can see—a future where all Canadians have a safe and affordable place to call home. *But we need to get the strategy right for this to happen.*

Cities are responding with housing solutions using the tools available to us.

- **We are providing land for affordable housing developments** to deepen affordability for low-income households, like the City of Vancouver’s offer of 20 sites worth \$250 million.
- **We are reducing or exempting fees and expediting permits for affordable developments.** For instance, the City of Calgary’s Housing Incentive Program, combined with city-coordinated approvals, has supported more than 1,000 new affordable homes since July 2016.
- **We are using land use planning as a powerful tool** to guide and support new development. An example is the City of Montréal’s Inclusionary Strategy, which in the past decade has generated 70 development agreements, with a potential for 6,500 social housing units and the same number of affordable market units.
- **We are leaders in innovative approaches to developing rental housing.** One example among many is the City of Toronto’s \$220 million Open Door Program, which includes incentives and funding to spur new purpose-built affordable and market rental housing.



Cities look forward to bringing this experience and leadership to formal, ongoing discussions with the federal government and, as appropriate, with provinces and territories. This will ensure that all orders of government are jointly delivering an NHS that meets the housing needs of low-income Canadians.

But before we deliver the strategy together, we must get its design right. While cities cannot tackle this crisis alone, local expertise and insights are the key to lasting solutions. Housing affordability challenges are deeply local—as are the changing labour markets that squeeze people’s capacity to pay for rent as well as other necessities.

These frontline realities inform our recommendations for the design of the NHS. They are intended to ensure the strategy meets today’s urgent needs while simultaneously building a new social and affordable housing system for the 21st century—one that enables both social and geographic mobility among Canadians.

Ten principles for a transformed housing system

In September 2016, the BCMC released seven Housing Principles—guideposts for a new National Housing Strategy (NHS), based on the housing need we saw in Canada’s big cities. Those principles provided the basis for detailed, costed recommendations in FCM’s *Canada’s Housing Opportunity*, which also reflected the perspective of mid-size, rural, remote and northern municipalities. Federal Budget 2017 has since provided a framework for the upcoming NHS. Here, we present new, detailed Housing Principles to inform the design of the NHS, in consideration of this framework.

1 Dedicate urgent funding for social housing repairs

The social housing we built as a country from the 1950s through the 1990s supports our most vulnerable citizens. But today, social housing units—the homes of low-income families—are being closed because repairs are unfunded. We need to protect this asset, and the people it supports, by investing in repairs, retrofits and modernization at a scale commensurate with the need. If we do not, in order to pay for essential repairs, either rents will increase for those who can least afford it or units will continue to deteriorate, providing poor quality housing until they are forced to close altogether.

Repairing our existing social housing is an essential first step toward a transformed system of social and affordable housing, with improved longer-term outcomes. We recognize and applaud two important commitments in Budget 2017 that will help protect existing social housing while longer-term solutions are developed:

- a) temporary subsidies for households living in social housing, to replace those lost through the expiry of operating agreements; and
- b) access to a direct lending facility for repairs.



What's missing is a dedicated grant fund for repairs, retrofits and modernization for existing social housing providers, in order to maintain affordability. This fund should be allocation-based to ensure urgent repairs can be made without unnecessarily burdensome application processes. The average annual capital repair deficit for existing social housing across all provinces and territories is \$1.3 billion. While some repairs can be financed, many will require grants, or a combination of both.

The social housing providers most likely to undertake repairs using CMHC's new financing facility are those currently housing people of mixed incomes. Because their original operating agreements allowed them to have this revenue stream, these providers will be able to service new debt.

But many other social housing providers, representing tens of thousands of households, will require grants, sometimes along with loans, to ensure the affordability of their units is not compromised by undertaking this essential work. These providers, many of them very small, were required by federal operating agreements to reserve all or most of their units for low-income households requiring subsidies. They will not have the revenue to service new debt.

In particular, Indigenous social housing providers disproportionately need access to repair grants. The rules that they operated under required that they only serve subsidized households, and they often acquired older single-family or duplex projects, which are costlier to maintain than multi-unit projects.

A dedicated repair fund should provide, at a minimum, an allocation of \$615 million per year, based on FCM's needs assessment. This NHS component should be available to providers regardless of the status of their operating agreement. This fund should be flexible and should neither compete with funding for new construction nor require that repairs be combined with redevelopment. It should be combined with CMHC loans where appropriate. This dedicated fund should be fast-tracked, as costs of addressing backlogged repairs continue to compound. Expediting repairs recognizes that it is more cost effective to repair what we have than to build new social housing.

With essential repairs supported, social housing providers will be able to help drive the transformation of the housing system envisioned by the NHS. They will be in a better position to leverage shored-up assets to redevelop their properties, including in combination with NHS funding for new construction. Adding new units geared to mixed incomes will set providers on a path toward financial sustainability, while also creating new affordable housing. This approach recognizes that system-wide transformation is a long-term process grounded in supporting the assets and residents we have now.

2 Prioritize new affordable and social housing construction

Although stabilizing Canada's existing social housing stock through expedited support for repairs is critical, this should not stop us from moving ahead with the concurrent priority of building new affordable and social housing. To achieve this objective, federal vision and leadership is essential.

To ensure financially viable, long-term affordability, construction should be concentrated in the non-profit sector and favour mixed-income models, with a portion of units affordable to households with the lowest incomes. We urge the NHS to prioritize the construction of new social and affordable housing, guided by the following parameters:

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- a) **Launch a dedicated fund for grants.** NHS envelopes outlined in Budget 2017 should be combined to offer a dedicated grant fund for new affordable and social housing construction. Cities recognize that financing enabled by the NHS will contribute to new construction—but financing alone, even with preferential terms, will not empower most housing providers to offer meaningful affordability for a portion of units. Both housing providers and municipalities should be eligible proponents.
 - b) **Leverage existing social housing assets.** Canada’s existing social housing is a federal legacy that can support the next generation of federal leadership. Existing social housing providers should have prioritized access to the dedicated fund for new construction. They should have concurrent access to the technical and capacity development initiatives announced in Budget 2017. Providers owning their own land could intensify properties to add units at lower cost, while transitioning toward a greater income mix for improved financial viability.
 - c) **Enable tool stacking.** The NHS should be designed as a toolbox from which affordable and social housing providers could select more than one tool to deliver transformational projects. Providers should be empowered to combine grants for new construction with lending, federal lands and other tools that make sense for a project. This will require that the criteria of the various NHS envelopes be aligned. CMHC should develop a single window for providers, for ease of navigation and an efficient project development process—and as a conduit to other relevant federal programs outside CMHC that could enhance housing outcomes.
 - d) **Seek long-term affordability.** New affordable and social housing for low-income households should be developed with the goal of long-term affordability, well beyond the 10-year timeframe of initial NHS investments. This will enable assets to be leveraged over time to support deeper affordability and/or redevelopment to meet future housing needs.

- e) **Favour mixed-income models.** Most new affordable and social housing—both redevelopments and new sites—should incorporate a mixed-income model. Supportive housing, in most cases, stands as an important exception. Mixed-income development fosters social inclusion and offers greater financial sustainability to housing providers.
- f) **Localize innovation and transformation.** We recognize and support the intention that the NHS drive innovation and transformation in developing new affordable and social housing—but both should be understood in a local context. Transformation is not only a function of scale: new projects or infill units that are small in scale can be crucial for a community. Innovation should be framed in terms of outcome, rather than development model or building structure. If a model has been practically successful, its use and evolution should be encouraged.
- g) **Maximize city contributions.** In considering how NHS investments can leverage contributions from others, including through the “co-investment” model outlined in Budget 2017, city contributions should reflect cities’ needs, capacities and contexts. For example, some cities have more municipal land amenable to housing development, while others are better positioned to offer in-kind contributions, often regulatory in nature.
- h) **Involve cities in decision-making.** Partnerships among all orders of government will be critical to the delivery of affordable housing. Cities can provide vital insight into local housing needs and how housing projects can best connect to other community plans, such as planned transit and other community amenities. They can also support transformational housing development through land use planning and other tools. To maximize outcomes, cities should be systematically included in local decision-making for new projects.

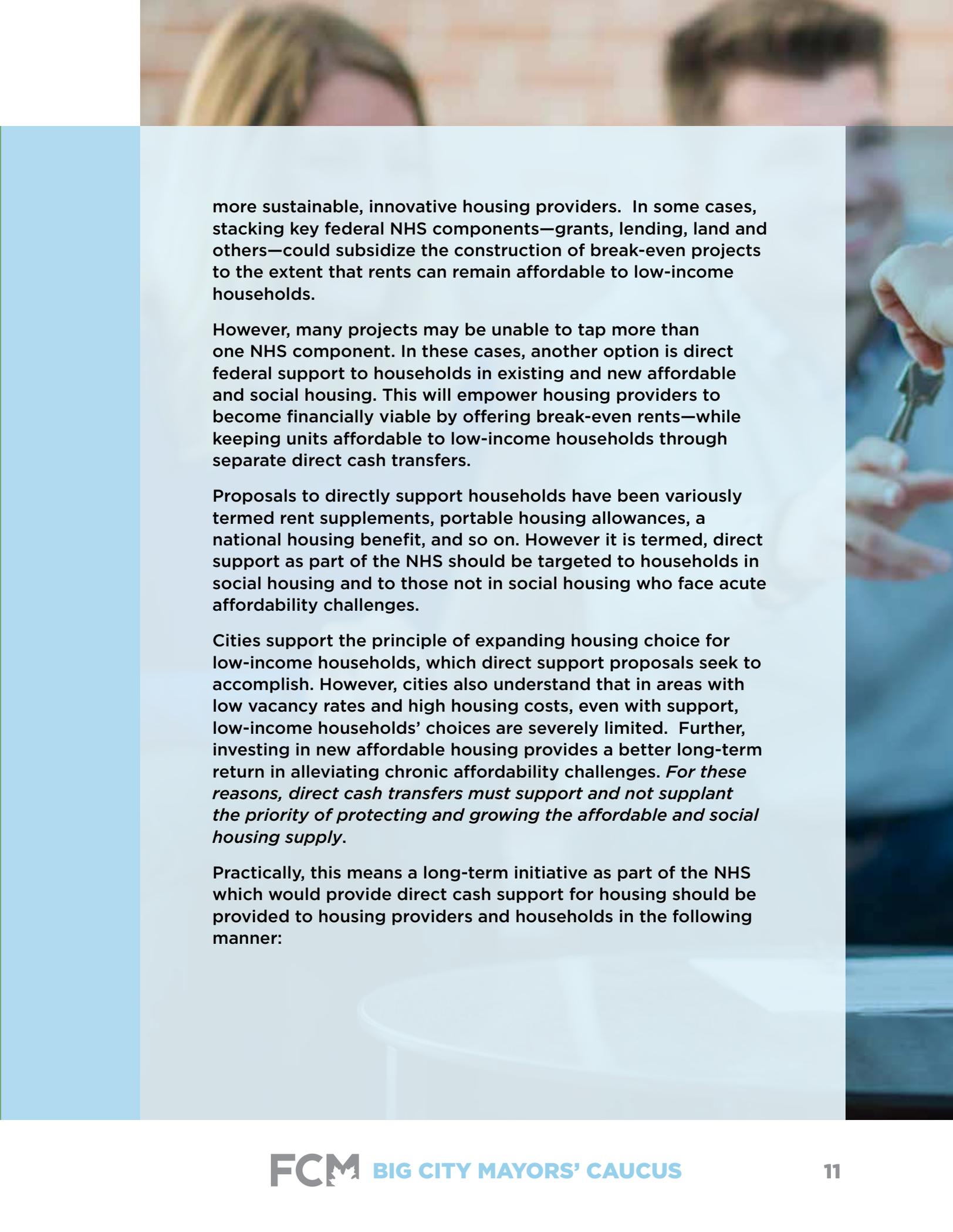
3 Provide direct support to households and providers

Repairing and growing Canada’s affordable and social housing supply must underpin the NHS—fostering assets that could be leveraged into the future to meet housing needs we can’t yet predict. In doing this, we can also learn from past approaches for better outcomes going forward. As we transition to a more robust housing future, new support delivered to households and providers will be a strategic tool.

In the past, funding was often provided to housing providers as a package—for project construction as well as operating costs to subsidize rents for low-income households. With no support to operate “break-even” mixed-income housing projects, providers were dependent on government funding, leaving them generally unable to leverage assets to finance repairs or redevelopment. This presents immediate challenges as well as lessons for the road ahead.

In the near-term, households in existing social housing are at risk of rent increases they can’t afford as operating agreements expire. Budget 2017 committed temporary support for these households, but a longer-term solution is needed. The NHS must reinvest funds from expiring agreements to ensure affordability for these households in existing social housing. This is critical to protecting the historic public investment that will continue to foster well-managed and sustainable housing.

Looking ahead, the earlier funding approach should not be repeated as we aim to build more affordable and social housing. Separating construction costs from operating costs will lead to



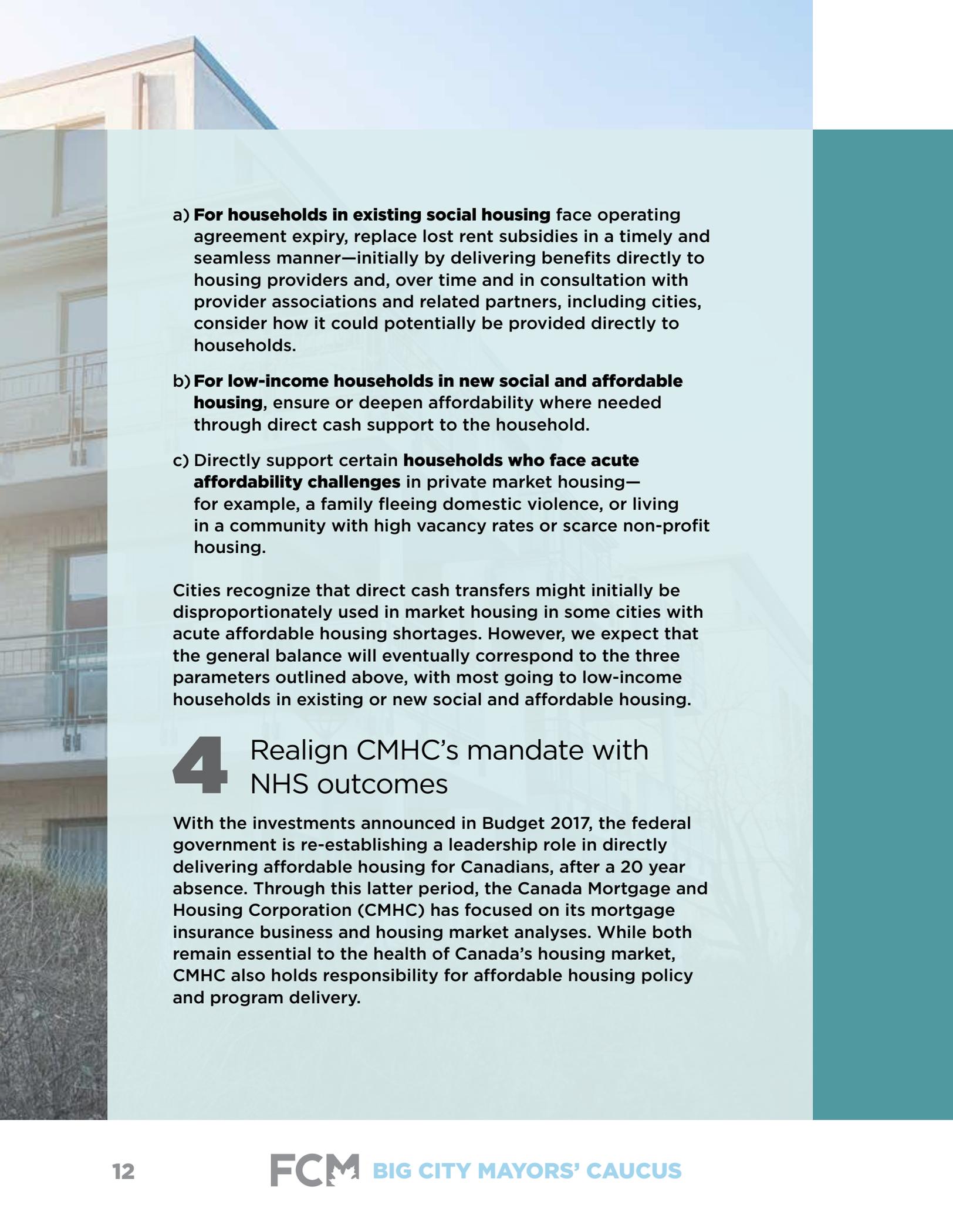
more sustainable, innovative housing providers. In some cases, stacking key federal NHS components—grants, lending, land and others—could subsidize the construction of break-even projects to the extent that rents can remain affordable to low-income households.

However, many projects may be unable to tap more than one NHS component. In these cases, another option is direct federal support to households in existing and new affordable and social housing. This will empower housing providers to become financially viable by offering break-even rents—while keeping units affordable to low-income households through separate direct cash transfers.

Proposals to directly support households have been variously termed rent supplements, portable housing allowances, a national housing benefit, and so on. However it is termed, direct support as part of the NHS should be targeted to households in social housing and to those not in social housing who face acute affordability challenges.

Cities support the principle of expanding housing choice for low-income households, which direct support proposals seek to accomplish. However, cities also understand that in areas with low vacancy rates and high housing costs, even with support, low-income households' choices are severely limited. Further, investing in new affordable housing provides a better long-term return in alleviating chronic affordability challenges. *For these reasons, direct cash transfers must support and not supplant the priority of protecting and growing the affordable and social housing supply.*

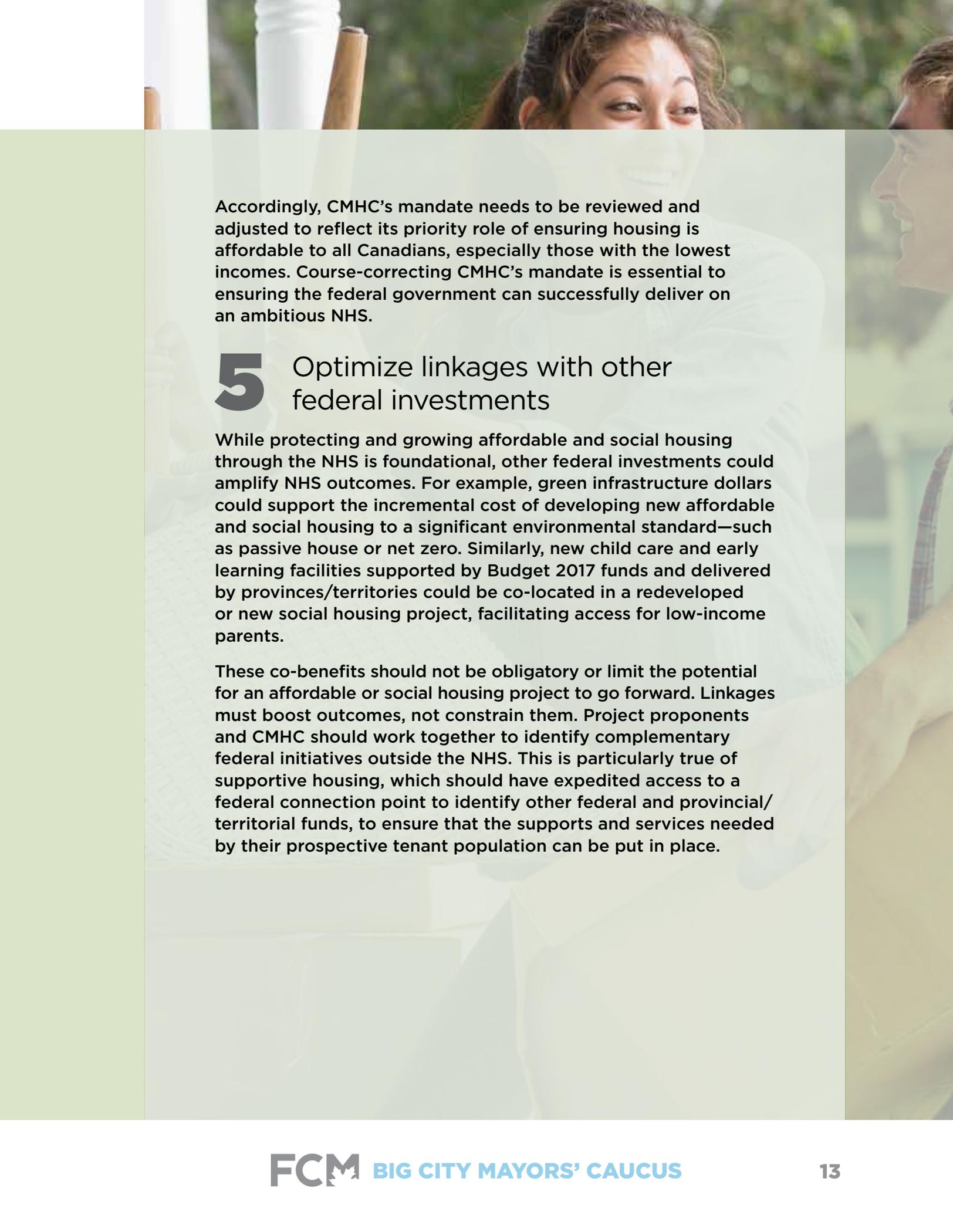
Practically, this means a long-term initiative as part of the NHS which would provide direct cash support for housing should be provided to housing providers and households in the following manner:

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- a) **For households in existing social housing** face operating agreement expiry, replace lost rent subsidies in a timely and seamless manner—initially by delivering benefits directly to housing providers and, over time and in consultation with provider associations and related partners, including cities, consider how it could potentially be provided directly to households.
 - b) **For low-income households in new social and affordable housing**, ensure or deepen affordability where needed through direct cash support to the household.
 - c) Directly support certain **households who face acute affordability challenges** in private market housing—for example, a family fleeing domestic violence, or living in a community with high vacancy rates or scarce non-profit housing.

Cities recognize that direct cash transfers might initially be disproportionately used in market housing in some cities with acute affordable housing shortages. However, we expect that the general balance will eventually correspond to the three parameters outlined above, with most going to low-income households in existing or new social and affordable housing.

4 Realign CMHC's mandate with NHS outcomes

With the investments announced in Budget 2017, the federal government is re-establishing a leadership role in directly delivering affordable housing for Canadians, after a 20 year absence. Through this latter period, the Canada Mortgage and Housing Corporation (CMHC) has focused on its mortgage insurance business and housing market analyses. While both remain essential to the health of Canada's housing market, CMHC also holds responsibility for affordable housing policy and program delivery.



Accordingly, CMHC's mandate needs to be reviewed and adjusted to reflect its priority role of ensuring housing is affordable to all Canadians, especially those with the lowest incomes. Course-correcting CMHC's mandate is essential to ensuring the federal government can successfully deliver on an ambitious NHS.

5 Optimize linkages with other federal investments

While protecting and growing affordable and social housing through the NHS is foundational, other federal investments could amplify NHS outcomes. For example, green infrastructure dollars could support the incremental cost of developing new affordable and social housing to a significant environmental standard—such as passive house or net zero. Similarly, new child care and early learning facilities supported by Budget 2017 funds and delivered by provinces/territories could be co-located in a redeveloped or new social housing project, facilitating access for low-income parents.

These co-benefits should not be obligatory or limit the potential for an affordable or social housing project to go forward. Linkages must boost outcomes, not constrain them. Project proponents and CMHC should work together to identify complementary federal initiatives outside the NHS. This is particularly true of supportive housing, which should have expedited access to a federal connection point to identify other federal and provincial/territorial funds, to ensure that the supports and services needed by their prospective tenant population can be put in place.

6 Support local solutions to homelessness

Budget 2017 responded to cities' calls for increased investment in the Homelessness Partnering Strategy (HPS) as a component of the NHS. This program helps the most vulnerable in our communities find decent housing and avoid homelessness. Its success lies in its federal-community partnership: core funding flows to Designated Communities, who then direct funds based on locally-identified needs and priorities. HPS is a model of federal investment enabling local innovation to address a complex issue.

With an HPS renewal process underway, we recommend retaining its federal-community orientation through the Designated Community (DC) structure. This has provided the efficiency and predictability needed for long-term community planning to end homelessness.

With additional funding now secured, we recommend boosting support for cities where homelessness is most acute, while expanding the number of DCs. The renewed HPS should empower communities to fund initiatives that reflect local realities—including by deciding the extent to which they fund programs or developments with a “housing first” approach. HPS should also continue to recognize and work to address the distinct and disproportionate nature of homelessness among Indigenous people.

7 Leverage provincial/territorial housing initiatives

From 2001 until 2016, new federal housing investments were provided to provinces/territories through bilateral agreements. Federal parameters for those dollars were minimal, leading to outcomes in some jurisdictions that didn't always meet local needs, including those of households with the most acute affordability challenges. And the affordability achieved was sometimes short-term: project proponents were often obliged to retain subsidized rents for only a defined period of time—as short as 10 years.

The direct federal role in affordable housing will be more substantive going forward, and cities welcome this change. However, \$3.2 billion over 11 years for the NHS will still be transferred to provinces/territories through a renewed multilateral agreement.

We urge the federal government to take this opportunity to ensure this fund guides provinces/territories to prioritize affordable and social housing that:

- a) offers long-term affordability , especially in cities with the greatest housing affordability challenges;
- b) includes local governments in project selection; and
- c) delivers outcomes aligned with those of the NHS.

Cities equally expect the federal government to call on provinces and territories to, at minimum, cost-match the \$3.2 billion provided to them, consistent with the approach of the Investment in Affordable Housing program initiated in 2011, and its predecessor, the Affordable Housing Initiative. To maximize outcomes, cities also urge provinces/territories to make substantive contributions to (and beyond) other NHS components, in line with their capacity.

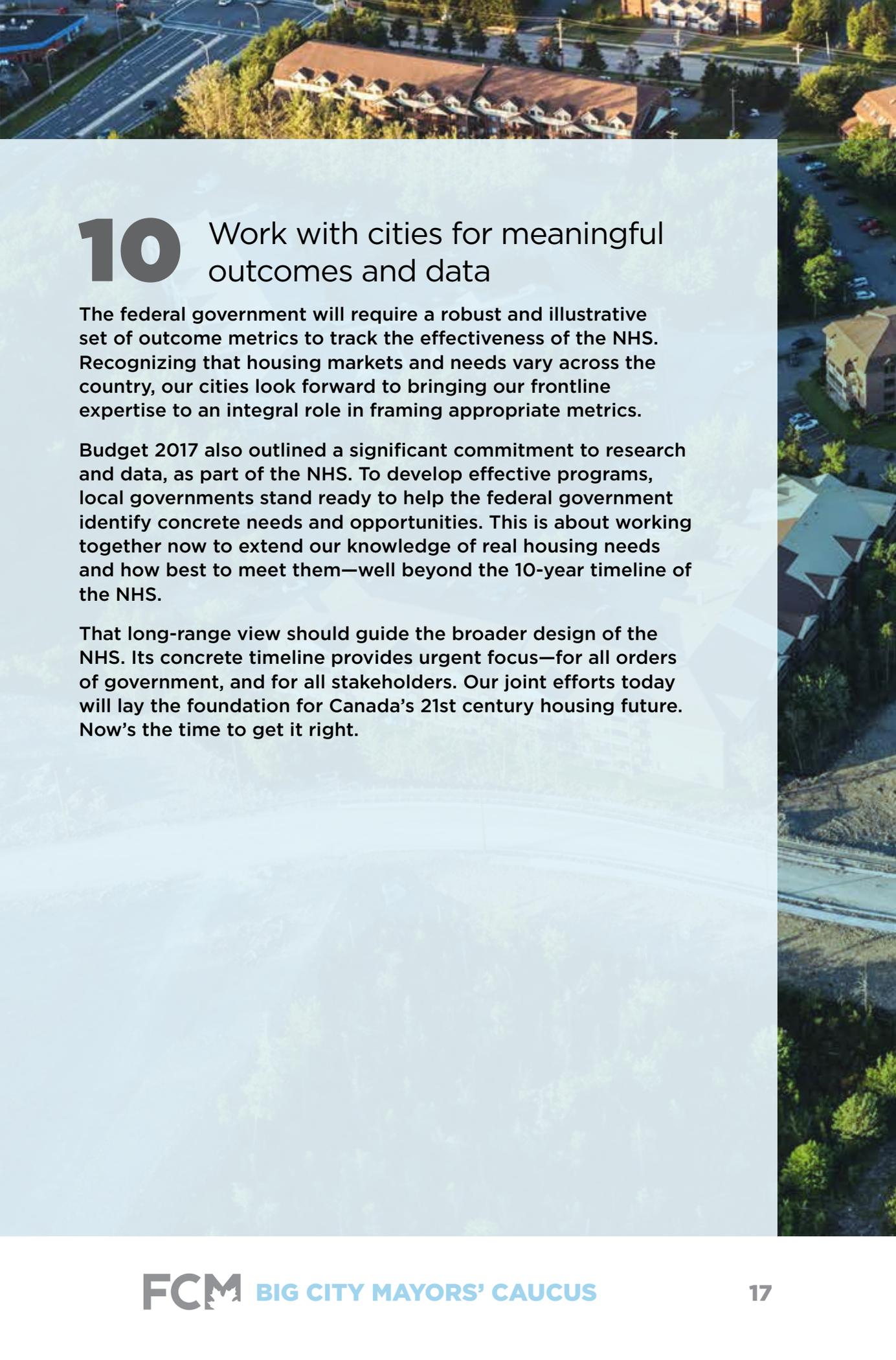
8 Ensure efficient delivery through a single federal window

Housing needs are complex and vary significantly by city. Accordingly, an effective response must present a variety of tools—including the financing, land, grants, data, research, technical and capacity development that the federal government has already said will be part of the NHS. These tools should be designed to reflect the principles set out in this document. Critically, they must also be delivered in an accessible and straightforward way.

Cities recommend a single window at CMHC where proponents—including housing providers and municipalities—can go to determine which tools may be available for their project. This single window should also provide connections to related federal and, where possible, provincial/territorial programs that could enhance housing outcomes in new or rehabilitated housing (e.g. in the areas of energy efficiency, childcare, and initiatives to address homelessness).

9 Include local governments in decision-making

Throughout this document, we call for local governments to be decision-makers and, as appropriate, enabled to deliver new affordable and social housing projects. Cities should also be eligible proponents for NHS funding. These tangible design elements will help ensure the NHS delivers housing outcomes that reflect local needs and realities. However, higher-level engagement is needed as well. Including a local government voice in federal-provincial/territorial housing discussions will strengthen frontline feedback on how the NHS is working—and what needs to be improved. Similarly, cities encourage this or another table to give stature and voice to Indigenous organizations, to ensure NHS outcomes for the Indigenous community are well-understood and achieved.



10 Work with cities for meaningful outcomes and data

The federal government will require a robust and illustrative set of outcome metrics to track the effectiveness of the NHS. Recognizing that housing markets and needs vary across the country, our cities look forward to bringing our frontline expertise to an integral role in framing appropriate metrics.

Budget 2017 also outlined a significant commitment to research and data, as part of the NHS. To develop effective programs, local governments stand ready to help the federal government identify concrete needs and opportunities. This is about working together now to extend our knowledge of real housing needs and how best to meet them—well beyond the 10-year timeline of the NHS.

That long-range view should guide the broader design of the NHS. Its concrete timeline provides urgent focus—for all orders of government, and for all stakeholders. Our joint efforts today will lay the foundation for Canada's 21st century housing future. Now's the time to get it right.



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