HOUSING AFFORDABILITY AND ACCESSIBILITY

A Synopsis of Solutions

Canadian Home Builders' Association

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Over a great many years now, the Canadian Home Builders' Association has consistently advocated measures which would be effective in addressing the need for housing assistance. This paper elaborates on the measures supported by the CHBA.

In assessing the issues related to housing assistance, the Association is guided by two fundamental principles:

- The right of all Canadians to decent, safe and appropriate housing; and,
- The right of all Canadians to a reasonable opportunity to own their own homes.

Support for homeownership is sound public policy. Homeownership not only contributes to families' financial security, but also provides them with a stake in their community. Also, increased homebuying tends to reduce the demand for rental housing (as renters move to homeownership) and thereby reduces pressure for increases in rents in the existing rental stock.

The federal government recognizes the benefits of homeownership – through initiatives such as the capital gains tax exemption on principal residences, the Home Buyers' Plan which allows first-time homebuyers to access RRSP funds for a downpayment on a home, the GST New Housing Rebate which reduces the effective rate of GST on new qualifying homes from 5% to 3.2%[1] and the First-Time Home Buyers Tax Credit which provides a tax credit of $750 for first-time buyers of new or existing homes.

Increasing Opportunities for Homeownership

There used to be a clear understanding of the differences between 'homeownership affordability' and 'homeownership accessibility':

- **Homeownership *affordability*** is determined by housing prices in relation to income levels;
- **Homeownership *accessibility*** refers to the availability of financing and related mechanisms, and is determined by interest rates, downpayment requirements, gross-debt-service ratios, and other borrowing conditions.

Given the current record low interest rates, *access* to homeownership is extremely positive. However, overall *affordability* levels, as measured by the share of income required to purchase an average home, are markedly worse than in the decade prior to 2005.

Rising housing prices, based in part on ever more costly and complex government regulation, and ever increasing government levies, fees, charges and taxes, have caused an extremely serious deterioration in homeownership *affordability*.

[1] The CHBA is pressing the federal government to implement its commitment to adjust the thresholds for the phase-out of the GST rebate which remain frozen at $350,000-$450,000 – the same thresholds as applied when the GST was introduced in 1991. The Statistics Canada New House Price Index has increased by more than 60% since the thresholds were first established in 1991.

In recent years, this deterioration has been masked by record low interest rates – which have improved *access* to homeownership. However, in the future, as interest rates inevitably rise to more normal levels, the deterioration in affordability will become more evident – and will be reflected in a marked reduction in housing activity levels as would-be purchasers are priced out of the market.

The CHBA has long advocated measures to enhance the opportunities for Canadians to own their own homes. These have focused on:

- **Reductions in government-mandated costs** – direct government costs (e.g. development cost charges (DCCs), other municipal charges, GST, and provincial sales taxes) are accounting for an ever-higher proportion of housing costs in Canada. In addition, many government policies indirectly affect the cost of housing – for example, the complex and lengthy building approvals and land use planning processes in most municipalities across Canada add cost and uncertainty to the building process.

  There is a long list of regulatory policies which increase the cost of housing. For example, some municipalities adopt deliberate no-growth policies which restrict development and drive up housing costs. Inclusionary zoning is another example of a municipal policy which increases housing costs.[2] Also, some jurisdictions believe that they can promote intensification by restricting development on the urban fringe (again resulting in shortages of land and higher costs for housing).

  The tax and regulatory environment presents a very real threat to housing affordability. The CHBA has pressed for comprehensive policies aimed at enhancing homeownership affordability for Canadians – including timely infrastructure investment.[3]

- **Improved homeownership financing options** – since most Canadians require mortgage financing to purchase their homes, measures to reduce mortgage financing costs can have a direct effect on homeownership accessibility. Access to homeownership can be further enhanced by expanding the range of financing options available to borrowers.

  Continuing improvements in the homeownership financing marketplace have been a key factor behind the high rate of homeownership in Canada. The CHBA has long advocated the prudent enhancement of mortgage options and competition for the benefit of mortgage borrowers in Canada.[4]

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[2] *The Potential Economic Effects of Inclusionary Zoning in Canada*, prepared for the CHBA by Altus Clayton in 2008, concludes that inclusionary zoning (municipal policies that require the provision of 'affordable housing' as part of a large residential development) is largely ineffective in addressing the need for housing assistance and could have serious unintended consequences such as housing shortages and higher housing prices.
[3] *The Urban Infrastructure Challenge in Canada: Perceptions and Realities*, prepared for the CHBA by Altus Clayton in March 2008, provides a framework to assess the state of Canada's infrastructure and related policy options.
[4] There is a fine line between sound mortgage practices and those which might bend too far in terms of promoting mortgage financing to those who are not able to take on such a serious financial commitment. The sub-prime crisis in the U.S. and the Canadian experience with graduated payment mortgages in the late 1970s demonstrate the need for prudence in mortgage lending practices.

> Over the past two decades, there has been increased competition among mortgage lenders and enhanced access to secondary markets for mortgage funds – together these have led to lower mortgage interest rates. At the same time, there have been enhancements to the financing options available to homebuyers – enhancements which have improved access to homeownership. Recently, in response to concerns about housing market stability and the indebtedness of Canadians, the Minister of Finance has significantly tightened the regulations governing federally-insured residential mortgages. The most recent changes (in June 2012) further tightened these regulations, including, most importantly, a reduction in the maximum amortization period from 30 years to 25 years (previous changes had reduced the maximum from 40 years).
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> While the CHBA supports the government's efforts to maintain market stability and shares the concerns of the government regarding household indebtedness, the most recent changes (in particular, the reduction in the maximum amortization period to 25 years) have severely restricted the options available to potential first-time homebuyers. It is to be hoped that, when the current historically low interest rates rise to more normal levels, the government will give serious consideration to reinstating the option of 30-year mortgages to enhance access to homeownership.

Together, reductions in government-mandated costs and improved mortgage financing options are essential for enhancing both the *affordability* of homeownership and *access* to homeownership for Canadians.

While those who can afford homeownership typically have incomes and/or assets which are above those who might be considered to be in 'housing need', efforts to increase housing affordability and access to homeownership have important benefits for those who cannot afford homeownership as well. By purchasing a home, first-time homebuyers reduce the demand for housing in the rental stock – where most of those who are in 'housing need' live.

Therefore, policies aimed at supporting homeownership have a beneficial effect on the overall housing market and reduce the demand for rental housing – which benefits those who cannot afford homeownership. There is a direct relationship between reduced homeownership affordability and pressure for higher rents – and increased need for housing assistance among low and moderate income tenants. The reverse is, of course, also true – improved ownership affordability will translate into reduced pressure for higher rents and a reduction in the need for housing assistance.

Private Rental Housing – A Valuable Resource

The private rental market plays an extremely valuable role in providing accommodation to renter households. There are two fundamental challenges in the rental market:

- **Low volumes of new rental housing construction** – while there has been some increase in rental housing construction in recent years, the volume of purpose-built rental housing starts is well below projected requirements. At present, rental vacancy rates are above historical levels (due mainly to the strong ownership housing market in the past several years), however, this will not continue indefinitely. Without significant volumes of new purpose-built rental construction, rental markets will tighten – and rents will rise.

- **Low incomes among many tenants** – a significant proportion of renter households have insufficient incomes to afford the rent on their accommodation. According to CMHC estimates, there were almost 1 million renter households in 'core need' in 2006 – the latest estimates available.[5] Predominantly, these tenants live in private rental housing.

These are distinct issues, yet they are frequently confused. For example, traditional housing supply programs (such as non-profit housing and the Affordable Housing Initiative) have tried (unsuccessfully) to address them jointly by subsidizing the construction of new rental housing at rents affordable to those in need. Other programs (e.g. proposals for a tax credit program for the production of low-rent housing) fall into the same trap of trying to solve both problems with one program – they are distinct problems and are most appropriately addressed separately.

Much of the existing rental stock has relatively low rents. This stock provides accommodation which is affordable to most tenants – though not, of course, for those in core housing need (as discussed, these tenants require a greater level of assistance – the next section provides further elaboration on this). New construction, even buildings with relatively high rents, help to absorb some of the demand for rental housing – and reduces the pressure for higher rents. In this way, new construction helps to keep rents in the existing stock lower – and more affordable to tenants.

The relatively low levels of new rental construction in Canada are the result of poor public policies at all levels of government. The CHBA has, for many years, been calling for comprehensive reform of public policies affecting the rental market in Canada. Particular areas where the CHBA has called for reform include:

- **Income tax treatment of rental housing** – the low volumes of rental housing production can be traced directly to changes in the income tax treatment of rental housing over the period since the early 1970s. These tax changes significantly reduced the attractiveness of rental investment. The CHBA has recommended reforms to the income tax treatment of rental housing – including:

  - Deferral of capital gains and recaptured depreciation deductions upon the disposition of rental properties, when the proceeds are used to invest in new rental properties;
  - Extending eligibility for deductions of rental losses created by capital cost allowance against income from other sources;
  - Relaxation of restrictions on the deductibility of soft costs; and,
  - Allowing small businesses with rental properties to be eligible for the favourable tax rate which applies to other types of small businesses.

- **The GST and rental housing –** there is a fundamental question regarding rental housing and the GST:

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[5] Renters are considered to be in 'core need' if they must pay more than 30% of their income to obtain suitable housing – or if they live in overcrowded housing, or housing in need of major repair, and have insufficient income to obtain adequate accommodation.

Why is an investment in rental housing treated differently from an investment in commercial real estate, such as rented office or retail complexes?

An investor in a retail or office complex is not eligible for the GST rebate – however, that investor can use the GST paid during project development as input credits for the GST which is ultimately payable on the rent collected from the complex. The GST input credits cannot be used by rental housing investors because no GST is collected on residential rents. In the final analysis, unlike an investor in rental housing, an investor in retail or office rental complexes does not bear the GST paid on their development costs.

Rental housing is a business. Just because no GST is payable on residential rents, there is no reason why rental housing should be penalized compared with other similar real estate businesses. As is the case with groceries (on which, as with residential rents, no GST is payable), rental housing should be zero-rated – i.e. the GST paid by businesses investing in rental housing should be refunded.

- **Government-mandated costs** – as with ownership housing, rental housing attracts a wide variety of government-mandated costs, such as DCCs.

- **Unfair property taxation** – in many parts of Canada, investors in private rental housing pay significantly higher rates of property taxation than comparable owner-occupied properties. There is no reason for this discriminatory property tax treatment of rental housing which, ultimately, is reflected in higher rents for tenants.

- **Lack of balance in landlord and tenant legislation** – government legislation is essential to protect the interests of both tenants and landlords. Over the past several decades, however, there has been a substantial change in the balance of this legislation in many provinces. In addition, many provinces have rent control regimes which reduce the attractiveness of rental investment. Unfair treatment of landlords does not encourage rental investment.

Finally, secondary or 'accessory' suites, such as basement apartments, provide benefits both to tenants and homeowners. Typically, secondary suites rent for well below conventional rental apartments. They are, therefore, an important source of low-cost accommodation. Secondary suites also improve the affordability of homeownership. They provide an income stream which, for many, may determine whether or not they are able to afford to purchase a home – or, for example, for the elderly to remain in their home following retirement.

The provision of secondary suites should be encouraged by all levels of government since they provide important benefits both to tenants and to homeowners.

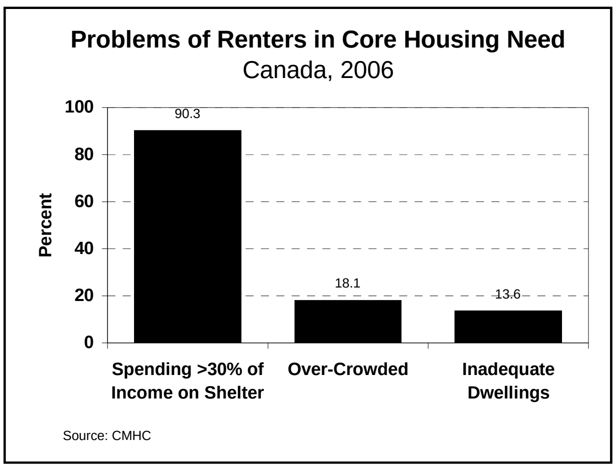
A healthy, well functioning private rental market is very important to Canadians who cannot afford to purchase a home – or who choose to occupy rental housing for other reasons. The CHBA believes that it is essential that governments critically examine policies within their areas of jurisdiction to ensure that they do not impede the effective operation of the rental market and discourage new private rental investment.

Assisting Those in Need

In examining potential measures to assist those in housing need, it is useful to distinguish three types of housing need:

- **Affordability** – how to provide assistance to lower-income households who are in need, but who are otherwise able to make their own way; i.e. those who generally are able to obtain suitable accommodation in the private rental market, but have difficulty affording the rent;
- **Special needs** – how to assist those with special needs (e.g. the disabled, battered women, the frail elderly, and the homeless), for whom shelter and supportive services need to be provided together; and,
- **The North** – how to assist those in the North and in remote areas (including First Nations communities).

The provision of assistance to those with special needs is most appropriately provided by specialist non-profit and charitable organizations. Similarly, the provision of housing in the North and remote communities, where housing markets may not be developed fully, may also be addressed best through supply-side initiatives, such as the public provision of housing.



However, for those with affordability problems – the vast majority of those in housing need – the CHBA believes that it is essential to recognize the reality that most low-income renters face an *income* problem, not a *housing* problem.

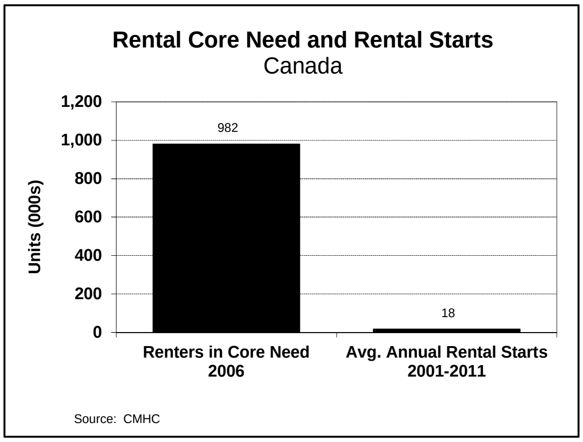
As noted earlier, in 2006, CMHC estimates that there were almost 1 million renters in core housing need. Of these, over 90% had to pay more than 30% of their income to obtain accommodation which suits their needs. The incidence of overcrowding and inadequate dwellings is much lower. According to the CMHC estimates, 13% of core need renters live in housing which is inadequate (i.e. the housing is in need of major repair) and 18% live in overcrowded units.

The conclusion from this is that most core need renters live in adequate housing – their problem is low income: their housing is suitable to their needs, but they cannot afford the rent. Most core need renters do not need new units; they need help paying the rent on the units they already occupy. For those that do live in inadequate or over-crowded housing, there is accommodation in the existing rental stock which could meet their needs – though generally at rents they cannot afford.

In Canada, the traditional way of providing assistance to needy tenants was to provide social housing. Whether owned by the government, or by non-profit housing agencies, social housing programs generally involved the construction of new housing projects which were rented out to those in need on a rent-geared-to-income (RGI) basis. There are lengthy waiting lists for social housing in most communities across Canada.

During the early 1990s, the federal government, and most provincial governments ceased providing funding for additional social housing projects, though the on-going subsidies for the existing stock of over 600,000 subsidized housing units has been maintained.[6] The extraordinarily high cost of the social housing projects, and the relatively small impact of new social housing construction on the need for housing assistance, were primary factors behind the termination of the social housing programs.

Decades of Canadian experience have shown that it is physically and financially impossible to ‘build one’s way out’ of the backlog of housing need using social housing supply programs.



Given that there are almost 1 million renters in core need, at current rates of rental construction (an average of less than 20,000 new rental units built annually), even if ***all*** new rental construction were devoted to targeted social housing projects, it would take over ***50 years*** to build enough assisted housing to provide housing for those currently in need.

It is not only impossible to build enough social housing to accommodate those in need, ***it is also unnecessary***. Renters in core need accounted for over one-quarter of the rental housing stock in 2006. As noted above, most of these core need renters do not need to move to new accommodation – the core need data indicates that most of them are already adequately housed. The most effective way to assist these renters is to provide income-based assistance to make up the difference between the market rent for reasonable accommodation and what these tenants can afford to pay.

Given the reality that new subsidized housing projects would assist only a small fraction of the outstanding need, there has been interest in providing housing assistance to tenants in the existing private rental stock. There are two main approaches to providing such assistance:

- Portable housing allowances – with this approach, tenants find housing that is suitable to their needs and the government provides assistance to make up the difference between the market rent for the unit and the rent that the tenant can afford.

- Rent supplements – with this approach, government housing authorities lease housing units from landlords and provide the housing to tenants at RGI rents. The landlords receive market rent from the government, but the tenants pay rent according to their income – using similar RGI scales to those used in social housing.

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[6] According to CMHC, the Government of Canada spends approximately $1.7 billion annually to support these existing social housing projects across Canada.

Both of these approaches are superior to new supply programs.

In particular, portable housing allowances have significant advantages for recipients compared to social housing – and to rent supplements. With housing allowances, recipients are in a position to select accommodation which is most suitable to their needs – including choosing a location which may be close to employment opportunities, to public and social support services, and to relatives and friends who may provide important support. With portable housing allowances, a recipient may continue to live in their current accommodation – rather than have to move – or to take their assistance with them if they decide to move to another location. Most importantly, however, with housing allowances, ***all*** potential recipients who are eligible for assistance can receive it – rather than have to join a waiting list for an available subsidized unit.

Both portable housing allowances and rent supplements are significantly more cost-effective than building new social housing projects. Units in the existing rental housing stock generally have substantially lower rents than the breakeven rents for new housing projects. By providing assistance to eligible renters where they already live (generally in adequate housing, according to the core need statistics), a given amount of portable housing allowance funding can assist many more needy tenants compared with new social housing projects – and very much more quickly.

Broad Support for Portable Housing Allowances

There is support for introducing a system of portable housing allowances (also called 'shelter allowances') in Canada:

The Golden Task Force:

> "Shelter allowances are the most effective tool to prevent homelessness for low-income households. The goals of a shelter allowance are:
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> - to stabilize the housing of households that are at risk of homelessness because of severe affordability problems;
> - to make it attractive enough to move off welfare in spite of the risks of irregular earnings in the job market, and to provide a disincentive to going on welfare;
> - to ensure adequate living conditions for working poor households, including adequate income for food, clothing, and children's needs.
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> "The best solution for … households with severe affordability problems is to provide them with shelter allowances for housing in the private market (and market rents for non-profit housing), where most tenants will continue to live."[7]

Centre for Equality Rights in Accommodation:

> "The majority of low income households in Ontario are housed in the private rental market and we have no reason to believe that this will cease to be the case in the future. According to data from the Ministry of Community and Social Services, 84% of

[7] *Report of the Mayor's Homelessness Action Task Force,* Toronto, 1999, page 79.

> households in receipt of public assistance live in market rent apartments. Given the reality of the rental housing market in Ontario, dealing with the income side of the equation is the most important component of any strategy to end homelessness. …
>
> “Some people believe that shelter allowances or income supplements to help families living in poverty pay for housing simply ‘line the pockets’ of landlords. We believe this view is misguided and simply justifies complacency about the immoral and unacceptable levels of poverty in Ontario. There is absolutely no evidence that rents are adjusted to capture housing allowances, which would vary depending on income and would be confidential information which a landlord would not even have access to. A shelter allowance program is simply a means of adjusting the incomes of the most disadvantaged households in our society so that they can afford life’s necessities, such as shelter. We don’t criticize tax credits for poor families as a means of subsidizing landlords. Similarly, we shouldn’t criticize income supports which are a response to the realities of rental housing in Ontario. …
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> “The program must be available to all those who meet an income-based needs assessment.”[8]

The CHBA continues to support the provision of housing allowances as the most effective means of providing assistance to the vast majority of tenants in housing need.

Fundamental Challenges Remain to be Addressed

As discussed above, there are policies which could be introduced to address the two fundamental challenges in the rental market effectively – low volumes of rental housing construction and low incomes among many tenants. Unfortunately, governments have not chosen to adopt such policies and, as a result, these challenges have remained largely unchanged for the past several decades.

From time to time, particularly when rental markets tighten significantly, governments introduce short-term programs to subsidize the construction of new rental housing to address a serious shortfall in new market rental construction. The CHBA does not support such programs. The Association’s position is that short-term programs typically react to the symptoms of a problem – they do not address the fundamental systemic causes of the shortage of market rental housing. Without a clear commitment to address the systemic barriers to private rental investment, a short-term subsidy program will only postpone much needed regulatory and taxation reform, and will have only a fleeting short-term effect. There are fundamental systemic problems in the rental market – they need to be addressed.

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[8] Centre for Equality Rights in Accommodation, *Homelessness in Ontario: The Case for a Needs-Based Shelter Supplement*, 2001.