



Federation of Canadian Municipalities
A National Affordable Housing Strategy

October 11, 2000

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1. Introduction

In November 1998, FCM's Big City Mayors Caucus declared homelessness in Canada "a national disaster." Following this call, the FCM National Housing Policy Options Team (NHPOT) was formed. The release in June 1999 of the landmark report "A Call to Action" by the NHPOT confirmed the worst fears about the state of homelessness and the shortage of affordable housing across the country. FCM built a set of proposals for the 2000 federal budget based on this need.

The 2000 campaign saw encouraging movement by the federal government in the allocation of funds for homelessness initiatives, partial reduction of GST on new rental housing, and the inclusion of affordable housing as an eligible item under the new infrastructure program. While these steps were heartening, FCM and other organizations pointed out that this was only a start.

Some municipal and regional governments stand ready to advance projects under the infrastructure program, once it becomes available, but many simply cannot afford the heavy demand this would place on municipal resources. Nor is the program adequately funded to have a significant impact.

This year's federal budget proposals are a refinement of last year's. FCM has consulted and gone back to the drawing board. Since the need has not declined, neither has the magnitude of FCM's request, yet the proposals are clarified and refocused.

FCM believes that these proposals provide the basis for a focused, immediate response to an immediate need. Just as importantly, these proposals suggest the foundation for a long-term approach by a partnership of government, housing and social-service providers, and industry. Because of the immediate need, FCM proposes the development of this long-term partnership along with swift action.

FCM asks no one order of government or group to make this commitment alone, yet someone must take leadership to begin the creation of a healthy housing system in Canada.

1.1. Acknowledgements

These proposals are the work of many committed people across Canada. In particular, FCM thanks our consulting team: Focus Consulting, of Ottawa; Lapointe Consulting Inc., of Toronto; Temple-Scott Associates Inc., of Ottawa; Lidstone, Young, Anderson, of Vancouver; and Greg Lampert, Economic Consultant Inc., of Toronto. FCM also thanks all members of the National Housing Policy Options Team and the NHPOT Steering and Technical Committees.

The Canadian Housing and Renewal Association, the National Coalition for Housing and Homelessness and National Housing and Homeless Network have all actively participated and their members have made generous contributions of their time and expertise in helping to design a truly national strategy.

2. Overview of FCM's Housing Strategy

The need is great and a bigger crunch is coming

- In 1996, CMHC found 1.7 million Canadian households to be in core need. One in five households spent more than 50 per cent of their income on housing. The majority of these households consist of families with children, senior citizens, and aboriginal people.
- Better economic conditions in the late 1990s have reduced the number of households on welfare. However, rent increases continue to outpace income gains for both assisted households and the working poor.
- For the real people represented by the statistics, inadequate housing affects their health, productivity and well-being, as families find it increasingly hard to find money for food, clothing, medicine and other basic necessities.
- A crunch is coming, as household growth leads to increased demand for affordable housing over the next decade.
- Each city and region has its own problems, ranging from absolute shortages of affordable rental housing, to major disrepair in the affordable stock, to large numbers of households paying more than half their income toward rent.

FCM's proposals are designed to reduce the crisis in affordable housing by half over the next decade.

To reach this goal, FCM's targets are essentially the same as last year's:

- 20,000 new or acquired affordable units/year, for 10 years¹
- 10,000 rehabilitated affordable units/year, for 10 years
- 40,000 incremental households/year, for 10 years, receiving income/rental assistance adequate to make their units affordable.

New thinking and flexibility: Consultation and analysis of case studies from large and small communities have resulted in proposals sensitive to the diversity of need and potential solutions across Canada. From consultation with government and industry, we know that we cannot simply propose to return to the old models.

A role for all who wish to act: The core proposal, for a flexible capital grants program, invites the participation of all orders of government, but is oriented primarily to the federal government. It can stand alone, with municipal and private/non-profit partnership,

¹ Up to 5,000 market-rent units will require some funding to ensure that the 20,000 rent-geared-to-income units are delivered in income-mixed projects.

where provinces or territories do not wish to participate. However, provinces and territories are strongly encouraged to contribute either through matching capital programs or by providing income and rental assistance to address high rent burdens.

Immediate action and long-term plans: FCM proposes a comprehensive response involving the assistance and resources of all orders of government, builders, developers, lenders and non-profit housing organizations. The strategy would significantly address the immediate shortage and upcoming need for more affordable units as well as provide the basis for a sustainable, long-term solution.

The long run: Discussions initiated this year by the non-profit housing sector, with the financial services and building industries to consider means to stimulate investment in affordable housing, should continue concurrently with an active national housing strategy.

The strategy is comprised of three components:

1) A 10-year flexible federal capital grant program

A one-time, 10-year federal grant program is designed to address express needs and not to become a permanent budgetary commitment. This temporary program would provide grants to support local initiatives to begin to fill the outstanding need and the projected increase in need over the next decade. It would provide a direct, effective response to a clearly defined problem, yet would not require the federal government to return to 25- to 30-year funding commitments.

Capital grants, along with municipal contributions and cost reductions, would reduce the amount of financing required for projects, thus reducing costs and rents for low-income tenants.

Proposals would be developed at the local level: in order to fit the needs of different communities in differing circumstances, initiatives would be developed by both the municipal government and private/non-profit parties.

Local responses would include new development; acquisition and rehabilitation to preserve and expand the existing affordable rental stock; and grants to facilitate assisted home-ownership initiatives for low- and moderate-income families, where this is the local need. Priority would be assigned to proposals bringing significant resources to the table.

The program could be administered by an arm's-length foundation or through existing departmental structures. Funds could be directed to interested provincial and territorial housing agencies, municipal housing agencies or local housing trusts. As such, the program does not require new federal staffing or offices.

Local grants would be allocated across the provinces and territories to ensure an effective and equitable distribution of funds and avoid penalizing jurisdictions that are already active.

Accountability mechanisms, monitoring and evaluation and a protocol for recognition of support are prerequisites.

2) Measures to attract new investment

The following measures would encourage a long-term response to future needs by the private sector and non-profit developers, in partnership with government.

A) Tax measures

- Offsetting of the Goods and Services Tax on rental housing.
- Allowing rental investors to qualify for the small-business deduction.
- Restoration of CCA pooling to encourage capital reinvestment in new properties.
- Creation of Labour Sponsored Investment Funds: New investment in affordable housing could be created through a one-time tax credit for investment in dedicated funds.

B) Strengthening CMHC's Role in Facilitating Affordable Housing

- Customized mortgage underwriting for non-profit developers.
- Reduced cost of CMHC mortgage insurance.
- Affordable housing goals for CMHC MBS securitization business.
- Allow leverage existing equity in social housing.
- Direct CMHC profits to fund the federal component of the national housing strategy.

3) Provincial/Territorial Shelter and Rental Assistance Initiatives

Provinces and territories are targeted for these initiatives, as they are already active in income-assistance programs. However, where provinces prefer to participate in a capital investment initiative that option would be encouraged.

Provinces and territories are encouraged to enhance income-support programs and provide rental assistance to include the working poor. Participation by provinces and territories in the national housing strategy via incomes-oriented programs would increase the impact of federal capital investment.

A) Shelter allowances: FCM recommends that provinces and territories each implement incremental shelter-allowance programs, including initiatives to address inadequate levels of shelter support within existing welfare programs.

B) Stacked rent supplements to complement capital grants: This alternative would lower the level of capital grant required to produce affordable housing and allow finite capital grant funds to generate more units.

Potential Source of Federal Funding

The federal government has traditionally generated revenues from CMHCs Mortgage Insurance Activity. CMHC's corporate plan projects an annual unappropriated surplus of more than \$100 million in 2000, rising to more than \$200 million by 2004. Since these revenues are generated in the housing sector, FCM urges the federal government to redirect this portion of the federal surplus specifically to support affordable housing initiatives.

3. Background - Housing Need and Market Conditions

Through the 1990s the number of Canadian households experiencing difficulty finding affordable housing has increased dramatically. During this decade real disposable incomes have stagnated or declined, especially for lower-income households, while rent levels have increased much faster than general inflation, leaving less income to cover shelter costs.

Despite more recent improvements in Canada's economy, there continues to be a serious housing problem, which manifests itself in high levels of homelessness in major urban centres, lower-income households living in inadequate or crowded housing, and long waiting lists for assisted housing. These housing conditions were well documented in FCM's *National Housing Options Policy Paper: A Call for Action*, June 1999. This section briefly overviews the context in which housing need has continued to grow.

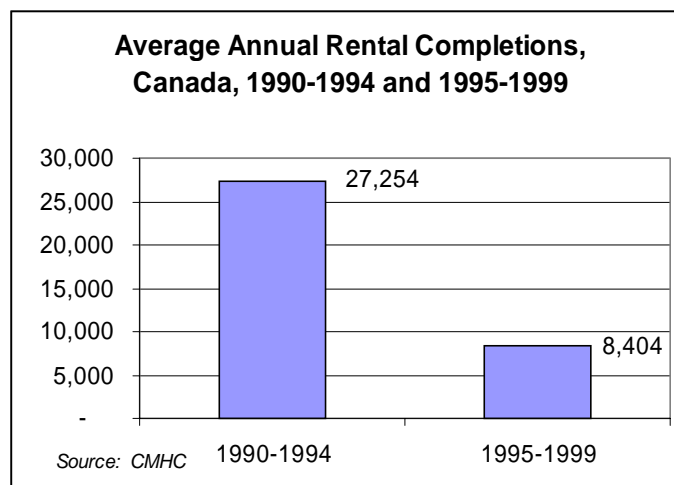
Rental Housing Production is Not Keeping up with Demand

CMHC has identified an estimated need for 45,000 new rental units annually over the decade from 2001 to 2010. The historical income profile of renters suggest that at least half of these new renter households will be low income and will need affordable units.

New rental construction has plummeted from 25,000 units annually in the 1980s to fewer than 8,500 units annually in the late 1990s – far short of CMHC's projected requirements.

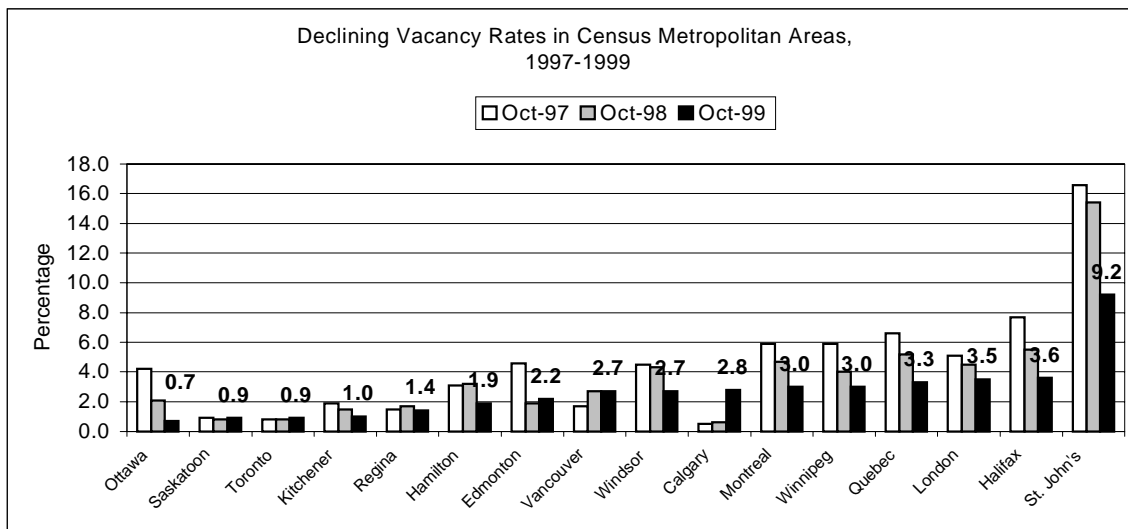
From 1990 to 1994, when non-profit programs were still active across Canada, more than 27,000 rental units were being developed annually, accounting for 19 per cent of all housing production. However, for the five-year period from 1995 to 1999, rental production fell to 8,400 units annually, representing a mere 8 per cent of all housing units developed during this period.

There is simply not enough rental housing being developed in Canadian cities to keep up with the identified demand of approximately 45,000 units per year.



Low Rental Production is Resulting in Tighter Rental Markets and Higher Rents

The lack of rental housing development is resulting in decreasing vacancy rates in most Canadian cities. Vacancy rates have tightened from a national average of 4.8 per cent in 1993 to 2.6 per cent in 1999.



According to CMHC data, in October 1999, 11 of 18 of Canada's large urban centres had vacancy rates below 3 per cent, the level considered necessary for a competitive rental market. This is not strictly a Toronto phenomenon; seven of those 18 markets had vacancy rates below 2 per cent. Saskatoon had a vacancy rate of 0.9 per cent (meaning that there were only 9 units vacant and available for rent for every 1,000 rental apartments) and Ottawa had a vacancy rate of 0.7 per cent. Even cities with long-standing "soft" rental markets are experiencing rapid declines in vacancy rates. For example, in Montreal, where the vacancy rate had reached 8 per cent in 1993, by 1999 the vacancy rate had fallen to 3 per cent.

Declining vacancy rates combined with increased demand for rental housing is driving up rents. Table 1 illustrates the changes in private-sector rents (based on two-bedroom rental apartments) over the past decade in selected census metropolitan areas across Canada.

Lower Income Households Are Losing Ground

Juxtaposed against significant rent increases, the incomes of many households have been declining, stagnating or only growing slowly. Over the past decade, total household income (that is income from earnings, transfer payments and interest payments) of many Canadian households experienced a period of decline or stagnation followed by only modest gains through the second half of the 1990s.

Between 1989 and 1998, total real household income increased by only 2.7 per cent. The income of two-parent families rose by 3.5 per cent during this same period. The incomes of other households have continued to stagnate.

For example, single-parent families and unattached individuals (singles), two groups traditionally associated with low incomes and high housing needs, had declining real incomes over the decade. By 1998, the average income of single-parent families was \$28,900, more than \$1,000 below the 1989 level. In 1998 the incomes of unattached individuals were 2 per cent below their 1989 level. Non-elderly singles have experienced income declines while elderly singles are above their 1989 level, a fact that probably reflects the high unemployment rates among younger persons.

These income data represent an average for all households; the incomes of renter households have historically lagged behind those of the overall population.

Census Metropolitan Area	1989	1999	Per cent Change
Toronto	\$643	\$916	42.5
Hamilton	\$491	\$698	42.2
Windsor	\$500	\$696	39.2
Calgary	\$545	\$739	35.6
Kitchener	\$492	\$660	34.1
Ottawa	\$585	\$783	33.8
London	\$512	\$639	24.8
Vancouver	\$707	\$864	22.2
Edmonton	\$477	\$576	20.8
Saskatoon	\$440	\$529	20.2
Regina	\$480	\$547	14.0
Halifax	\$564	\$637	12.9
Winnipeg	\$520	\$582	11.9
Quebec	\$460	\$511	11.1
Montreal	\$460	\$506	10.0

Source: CMHC Canadian Housing Statistics

A review of median renter incomes over the 1990s reveals that renter incomes have declined or remained flat in most jurisdictions, except in the West. But even here the growth in median renter income is low relative to the increase in rents.

Large Number of Tenants in Need

The implications of these trends are clear. The previous FCM paper discussed the extent of core housing need in Canada. Based on the 1996 census, CMHC estimates that there were 1,725,700 Canadian households in core need in 1995.²

Of these, the majority (68 per cent, or 1,172,300 people), were renters and the remaining 32 per cent were owners. Unattached individuals make up 51 per cent of those in core need and families make up 49 per cent. Families in core need fall mainly into three categories: single-parent families, two-parent families and childless couples.

According to 1996 Census data, more than 830,000 households were paying 50

² Core housing need refers to households who have a housing affordability problem, have inadequate housing or live in crowded housing and cannot afford to pay rent in their local market without paying more than 30 per cent of their income.

per cent or more of their income on rent. The proportion of tenants in this situation rose from 16 per cent to 22 per cent between 1991 and 1996.

Table 2
Trends in Median Renter Income *
Selected Provinces

	Index (1992=100)			
	1993	1995	1997	1998
Nova Scotia	100.00	92.74	84.34	101.92
New Brunswick	100.00	102.31	81.44	84.98
Quebec	100.00	95.81	102.27	91.31
Ontario	100.00	98.81	92.36	89.47
Saskatchewan	100.00	96.33	102.69	89.00
Alberta	100.00	104.57	120.79	127.69
BC	100.00	127.23	113.09	106.02

Source Statistics Canada HIFE and SHS datafiles
 * (reflects data for Renters aged 20-44 only)

There is reason to believe that the number of households in dire housing need, that is paying 50 per cent or more of their income on rent, is declining; however, no hard data are available at this time. A potential factor is the declining number of households and individuals on the welfare roll.³ Welfare caseloads increased significantly in the first half of the decade, from 1.06 million in 1990 to 1.65 million households by 1995. However, by 1997, the number of households on social assistance fell to 1.49 million, a decline of approximately 10 per cent. This declining trend has continued in many provinces.

As welfare rates decline, the level of core need may be expected to decline; research by CMHC has shown a high incidence of core need among those dependent on transfer payments. On the other hand, the dramatic rise in rent levels may offset this drop with increased numbers of working-poor households (with stagnant incomes) experiencing housing need.

Conditions Vary Across Canada

Housing conditions and problems vary across the country reflecting different economic conditions, supply conditions and housing demand. A flexible housing solution is needed to address the diversity in housing needs:

- In many parts of Canada, strong levels of economic and demographic growth, combined with low rental housing production, are resulting in low vacancy rates, increasing rents, and homelessness. While the problem may be most severe in Toronto, other cities such as Ottawa, Kitchener and Regina all have tight rental markets.

³ The structure of welfare benefits, combining a specific housing allowance and a living allowance, is such that welfare households will typically pay more than 50 per cent of their benefit income for rent, so these households are a significant factor in the count of households paying more than over 50 per cent.

- In a number of cities, such as Ottawa, Montreal, Windsor and Toronto, a significant amount of rental housing stock needs repair.
- In Prairie cities such as Winnipeg and Saskatoon, inner-city decline, poor housing conditions, and poverty are issues that can only be addressed through multifaceted approaches. Halifax, Regina, Montreal and Hamilton all have relatively high proportions of owned, single detached dwellings in need of major repair.
- In a number of municipalities where ownership housing costs are low, such as Montreal, Winnipeg and Saskatoon, there is interest in promoting affordable home ownership as a way of promoting skills development, upgrading local housing, and providing affordable housing.

Linking Need and Market Conditions to the National Housing Strategy

Putting the Statistics into Context

For the real Canadians behind these statistics, the problem is much more than simply housing. Inadequate housing affects people's overall well-being, health and productivity as they are increasingly unable to find money in their budgets for food, medical supplies, clothing and other necessities. In recent years reports of homeless people dying on the streets have mounted. But homelessness is the tip of the iceberg. For every homeless person visible on the street, four families are at risk of losing the roof over their head, as they cannot afford their rent.

The Roots of the Problem

* **Low incomes:** Households in need are mainly comprised of low-wage workers and those who rely on income assistance. The structure and low levels of benefits of welfare programs, exacerbated by cuts to benefits or eligibility, are a fundamental factor. FCM is calling on the provinces and territories to respond to growing affordability problems by reforming and enhancing welfare programs and by introducing rental assistance for low-wage, working-poor households.

* **Absolute lack of new rental supply:** Private rental production has fallen dramatically. Total rental starts exceeded 25,000 annually in the 1980s but have fallen to less than 8,500 units annually in the last half of the 1990s. Vacancy rates have fallen to the lowest level in almost 15 years and rents are increasing at an alarming rate. The poor economics of new private rental development are worsened by the unfavourable tax treatment of rental housing investment.

* **Declining stock of decent affordable housing:** Persistent low levels of new rental construction and loss of the existing stock to demolition and conversion results in shortages to which the private market does not respond, and pushes rents beyond affordable levels. The situation has been exacerbated by the withdrawal of the federal government and most provincial governments from funding new social housing in the 1990s.

The Context – A Policy Void

The statistics clearly demonstrate a large and persistent level of need among our most disadvantaged citizens, including the elderly, the infirm, aboriginals living off reserve, low-income families, and individuals unable to secure sufficient income to support themselves.

The current policy and program context is inadequate to respond to this need. The federal government continues to play an active role in facilitating an effective housing finance system and has maintained some modest initiatives specific to aboriginal housing, the residential rehabilitation assistance program (RRAP) and supportive grant programs such as the ACT program and Homegrown Solutions.

Very recently, the federal government has responded to the urgent homeless crisis with the Supporting Communities Partners Initiative (SCPI). However, this focuses primarily on capacity building and continuing support services. While each of these programs makes a positive contribution, the resources allocated to these are low relative to the outstanding level of need.

Provincial/territorial activity varies with some provinces having developed comprehensive strategies and others not currently supporting any significant new activity.

The preoccupation of federal housing policy in the later half of the 1990s has been on improving the administration and efficiency of existing social housing. This has focused on transferring and consolidating administrative function at the provincial level. At this point, transfer agreements have been concluded with six provinces and all three territories.

While creating more streamlined administration and some new opportunities for the provinces/territories, the immediate impact of these transfers has been to burden provincial/territorial housing agencies with the challenge of integrating the transferred portfolios into existing administrative systems. This is preoccupying much provincial effort, and leaves little capacity to examine ways to address growing need.

Meanwhile, having stepped back from an ongoing active administrative role the federal government is now in a position to rethink the federal role in housing. The federal government has transferred administration of social housing but it retains a key policy role. These proposals aim to stimulate reaffirmation of this role and the creation of a proactive and significant funding framework that will have a serious impact in addressing need.

4. Respective Roles

Efforts to respond to housing need since the curtailment of the mainstream federal-provincial/territorial programs in 1994 have demonstrated a wealth of commitment and creativity at the local level. Some local groups have successfully developed affordable housing, while many others continue to struggle ahead. This experience clearly shows that the key impediment faced by these groups is the lack of equity or capital to both secure private financing and to make development viable.

Based on these lessons, and recognizing the fiscal capacity, jurisdiction and expertise across all orders of government and in the community, FCM proposes a three-part strategy.

1. A flexible capital grants program

For the immediate and forecast need for additional units, FCM's proposals centre around a temporary, 10-year capital grants program to reduce financing requirements and produce an increment of 20,000 affordable units per year through a combination of new development or acquisition and a further 10,000 affordable units per year through rehabilitation and assisted home-ownership initiatives.⁴

2. Measures to attract new investment

FCM proposes means by which the private sector can begin to re-enter the field of affordable housing and by which the efforts of the non-profit sector can be aided. These approaches require only relatively minor changes to taxes and other regulations related to investment in rental properties and lead to promising options, including the proven mechanism of private investment funds. Ways to strengthen CMHC's mandate to support affordable housing through revised and customized underwriting are also presented.

3. Provincial/Territorial Shelter and Rental Assistance Initiatives

FCM's strategy identifies a place of primary importance for the provinces and territories in recognition of their central role in income support and housing. It is acknowledged that some provinces continue to actively fund new housing supply and rehabilitation, and all incur significant expenditures in funding the existing shelter support within income-assistance programs.

The strategy proposes income-oriented rental assistance measures and establishes an annual incremental target of 40,000 households assisted, culminating after 10 years with assistance to 400,000 low-income renters.

⁴ Since it is desirable to develop mixed-income developments to avoid concentrations of disadvantaged households it is anticipated that income mixing could include roughly 20 per cent market-rent units, potentially raising the total from 20,000 to 25,000. In addition, the proposed 10,000 units through rehabilitation and assisted ownership is a target over and above the temporary expansion of the Residential Rehabilitation Assistance Program specifically geared to homelessness.

Municipal contributions to the affordable housing strategy

The proposed strategy emphasizes measures that would facilitate local initiatives. While the initiatives outlined above implicate federal and provincial governments, the strategy embraces active participation and contributions from municipal governments and the non-profit community. With appropriate funding from the federal and provincial/territorial governments, which have the fiscal capacity for social services and housing, municipal governments working with the community will play a critical role in designing and delivering local initiatives, responding to their community's specific needs.

Local and regional governments have historically been involved in the provision of affordable housing through their land-use planning policies and activities, direct in-kind and financial contributions, neighbourhood improvement programs, and through their active involvement in federal/provincial housing initiatives.

The tools that municipalities can use to support the provision of affordable housing include:

- Inclusionary housing policies that encourage or require private developers of larger scale sites to include affordable housing in their development;
- Linkage fees that apply a levy on commercial development as a way to fund the provision of affordable housing. This is based on the expectation that the new commercial use will generate employment and that employees will need housing;
- Density bonusing. In exchange for increases in allowable floor area on a site, municipalities may obtain cash or land for affordable housing or negotiate a certain number of affordable housing units within the development;
- Providing land for affordable housing. Many municipalities have land holdings through tax arrears or other legacies. Others have an active program to purchase or exchange certain sites. Municipalities have used their land holdings either to donate or lease property for affordable housing at below-market costs.

The ability of individual municipalities to use any of the above tools will depend upon a number of factors such as local economic and housing conditions, the availability of surplus land, and the general financial position of the municipality itself.

Inclusionary Housing Policies

Inclusionary housing policies refer to land-use planning policies to encourage or require the provision of affordable housing as part of residential developments.

The City of Vancouver has been a leader in Canada in the use of inclusionary housing policies. Since 1988, Vancouver has required developers of large redevelopment projects to set aside sites for non-market housing. The City's policy states that large private residential development in the downtown should allocate sites capable of accommodating a minimum of 20 per cent of the units for non-market housing.

Since the cancellation of the federal non-profit housing program in 1993, Vancouver has become more flexible in what it will accept under this policy. For example, Vancouver now considers cash-in-lieu on a site-by-site basis and is open to alternative non-market housing options such as non-subsidized life lease housing.

Inclusionary housing policies work best when supported by relevant provincial legislation (e.g., the planning act or the municipal act). For example, in B.C. the provincial government has amended the "Local Government Act and Vancouver Charter" to allow municipal governments to secure a supply of affordable housing through housing agreements with developers.

Linkage Fees

Linkage fees are applied to employment-generating types of uses and have been used successfully in such places as Boston and San Francisco. These fees are based on the notion that new employment-generating uses, particularly commercial uses, create a need for affordable housing for employees. Fees are usually paid into a housing trust fund and are used for non-profit and affordable rental housing, although sometimes land or housing may be provided in lieu of fees.

Whistler, B.C., has required developers of commercial, industrial and tourist accommodation to contribute to affordable housing. Developers can fulfill their obligations either through the construction of affordable housing for employees or through the contribution of cash-in-lieu to an employee-restricted housing fund. Since its inception in Whistler, the by-law and the housing fund have resulted in the development of close to 1,000 affordable housing units. Mandatory development levy programs or linkage fees have proven to be highly successful in generating affordable housing in areas with strong or sustained economic growth in certain sectors of the local economy.

Density Bonusing

Density bonusing allows developers of new commercial and residential projects to increase the developable floor space in exchange for public amenities that are considered to benefit the community. In some jurisdictions, density bonusing treats affordable housing as a public benefit.

Density bonusing usually works best in downtown areas or in transportation corridors where densities can be increased to a level high enough to act as an incentive to the developer. Density bonusing may be applied on a uniform basis or negotiated on a case-by-case basis. Often developers have the option of providing cash or land for affordable housing in lieu of providing the affordable housing on the development site. Toronto, Vancouver and Burnaby have all used density bonusing for affordable housing.

Providing Land for Affordable Housing

Land costs represent between 15 to 30 per cent of the costs of developing affordable housing. One way that municipalities can support affordable housing is through the

provision of land at a reduced cost. Land can be provided through sale at a reduced price, an outright donation or through a long-term land lease. The value of the municipal contribution varies on a case-by-case basis ranging from 10 per cent to 100 per cent of the value of the land.

In British Columbia, a number of municipalities use land leases at a portion of the market value (e.g., 75 per cent). Sometimes land is provided to an affordable housing provider and the rent is set at a low rate until the project generates a positive cash flow.

Land for affordable housing is provided through a variety of sources, including municipal properties that are no longer needed for their original purpose, sites that have been acquired as the result of tax defaults, sites that have been obtained through negotiations with private developers using one of the planning tools discussed earlier, or sites that have been acquired specifically to achieve certain housing objectives.

Complementary Nature of Municipal Levers

Most of the municipal tools are complementary. Alone, they are insufficient to generate affordable housing production. However, when applied in combination and integrated with other measures, they can be effective. These methods can extend the impact of the proposed capital funding initiative.

Under the National Affordable Housing Strategy, municipalities will continue to enhance and enable local initiatives as local capacity permits. Municipal governments, however, lack the resources to enable the larger-scale response that the affordable housing crisis demands. The federal and provincial/territorial governments, with their superior fiscal capacity, are best positioned to resource this strategy.

Federal and provincial roles

The program of flexible capital grants is identified primarily as a federal initiative, but provinces could participate or adopt a similar complementary approach. For example, the province of Quebec already has an investment fund (Quebec Social Housing Community Fund) that allocates grant funds on a cost-sharing basis. B.C. also supports new development, although it continues to use an ongoing subsidy approach, rather than capital grants.

Most of the measures to attract new investment, as well as the regulatory enhancements identified below, such as tax policy and mortgage insurance practices, fall within federal jurisdiction. The major element of the proposal that brings the provinces into the partnership is a shelter allowance system. Because this relates to the issue of income assistance and seeks to build on the existing shelter allowances provided under welfare programs, this element of proposal is directed primarily to the provinces and territories.

The synergy of partnership approaches

The proposed national housing strategy envisions an active partnership drawing resources and expertise from each order of government as well as the community and

private sector. The following example from Nepean, Ont., shows how all orders of government and the non-profit sector can produce affordable housing by effectively combining their respective resources. It also shows how the various measures outlined in the following sections can lever investment and participation from other sources.

Combined Impact of a Comprehensive Strategy – The Nepean Example

The Nepean Housing Corp. is developing a 74-unit family housing project in this Ottawa suburb. The total cost of the development is \$8.3 million or \$112,000 per unit. Based on market rents the property has an estimated lending value of only \$5.0 million and under current CMHC mortgage insurance guidelines should qualify for mortgage financing of \$4.3 million (85 per cent of this assessed value). CMHC has agreed to insure a loan of only \$3 million. An equity investment of \$5.3 million (\$72,000/unit) is therefore required to make up the remaining capital cost.

The regional municipality is prepared to provide the land, absorb costs of servicing and waive all municipal fees and development charges. These city contributions total \$1.7 million. In addition, the regional municipality has awarded a capital grant of \$200,000 for a total municipal contribution of \$1.9 million. This reduces the shortfall to \$3.4 million (\$46,000/unit).

The recently announced Ontario affordable housing PST rebate provides a further reduction of \$2,000/unit, for a total of \$148,000.

More flexible underwriting by CMHC to recognize a higher lending value, could increase the insured loan amount potentially from \$3.0 million to \$5.5 million, which would leave a shortfall of only \$900,000 (\$12,000/unit).

More than one-half of this \$900,000 shortfall is a direct result of payments to the federal government -- GST and the CMHC mortgage insurance application fee and premium (which total over \$550,000). If these federal costs were waived or offset in the same way the municipal income is being forgone, the shortfall would be reduced to only \$400,000, or about \$5,500 per unit.

This is the type of shortfall that a flexible capital grants program could fill. It should be noted, however, that this level of grant only achieves market rents (roughly \$900). In order to ensure units are affordable to low-income households, a larger grant, in the range of \$35,000 per unit, would be necessary.

As an alternative to a larger capital grant, affordability can be achieved through the use of rent supplements. In this case, an allocation of rent supplement units has been secured from the province to lower market rents (average \$891) on 48 of the units to affordable levels based on 30 per cent of tenant incomes, which are typically less than \$18,000 annually.

5. Flexible Capital Grant Investment Program

The key focus of this investment program is to facilitate locally designed initiatives. With a flexible pool of funding, municipal government and local communities would be able to customize solutions that best fit the market conditions and need in their area. They would also have the incentive to stretch these capital funds as far as possible with municipal contributions and low-cost financing.

Target and Cost

The number of renter households in Canada is projected to increase by 40,000 to 45,000 annually over the next decade. At least half this growth will come from low-income renters. FCM recommends a capital grant program to enable development of 20,000 new affordable housing units annually to meet half this expected growth.

An annual output of 20,000 affordable units⁵, plus 10,000 units for rehabilitation and assisted home ownership, requires a total annual capital investment of approximately \$1.48 billion. In order to enable community groups to provide mixed-income development and avoid the stigmatization and difficulties experienced previously with concentrating only disadvantaged households in a development, a degree of income mixing is anticipated. Ideally a mix of 40 per cent very low-income, 40 per cent moderately low-income and 20 per cent market-rent units is desirable. This implies additional development of 5,000 market-rent units with additional capital requirements of \$122 million.

Thus the total capital requirement is in the order of \$1.6 billion annually. This is what FCM requests of the federal government for a capital grants program.

Municipal and community contributions may provide up to 15 per cent of this Total requirement and might largely offset the additional grant level required to integrate market-rate units. Some municipal governments may be able to provide larger contributions and leverage more units from a finite capital budget allocation.

In some jurisdictions, provincial/territorial participation will effectively increase the potential output and lower the average federal grant per unit, helping to further lower costs and generate capital support.

How will this address affordable housing need?

A flexible capital grant investment program to support the deficit in new supply and the outstanding lack of affordable housing can be used in a variety of ways. This includes enabling affordable rental development, acquisition, funding rehabilitation of existing housing stock, and down-payment assistance to support assisted home-ownership programs. The grants assist in the following ways:

⁵ This includes approximately 5,000 newly acquired units and 15,000 units of new construction with all 20,000 units targeted to very low to moderately low-income households (with incomes below CMHC core need Housing Income Limits).

1. New development and acquisition/rehabilitation

Where used to support new affordable rental construction, the grants serve two critical purposes. In most cities in Canada, today's market-rent revenues are generally insufficient to cover operating and debt-servicing costs of new rental housing. A capital grant can reduce the mortgage amount required and the associated monthly payment to the level that the project can support.

In addition, lenders require some level of equity to secure the mortgage (at least 15 per cent of lending value and often as much as 40 per cent of total cost) but few non-profit organizations have sufficient equity to meet this requirement. Capital grants provide the necessary equity to qualify for financing and to make projects viable; deeper grants can allow units to be viable with rents affordable to low-income households.

Existing rental properties are often offered for sale and are almost always less expensive than new construction. Typically, new owners upgrade and raise rents, moving the properties out of the affordable range. Acquisition of existing rental properties by non-profit corporations effectively preserves and potentially expands the existing affordable stock by moving ownership into the non-profit sector. Lenders require some equity, and it is unlikely the project would be viable if it had to carry mortgage payments on the full capital cost. The grants can facilitate acquisition, and may cover some modest rehabilitation.

2. Rental Rehabilitation

In some communities the existing stock is relatively affordable but in poor repair. Capital grants or loans can assist in upgrading the existing housing stock, including rental and rooming-house units. When provided to private landlords as an incentive to upgrade, an operating agreement imposes conditions on the landlord to maintain the units at an affordable level for a specified period of time.

Increasingly, non-profit providers have sought to use the existing CMHC Residential Rehabilitation Assistance Program to assist in acquiring and rehabilitating existing property. Even with the temporary expansion of RRAP under Labour Minister and federal homelessness co-ordinator Claudette Bradshaw's Homeless Initiative, however, the existing RRAP budget is insufficient to accommodate these increasing requests from non-profit organizations.

3. Assisted Home Ownership

Capital grants can support assisted home-ownership programs in communities where existing homes are relatively affordable, such as many smaller centres as well as in larger Prairie and Atlantic cities. This option may not be feasible everywhere. Although the monthly costs of ownership (mortgage payments and property tax costs) can be lower than the cost of rent, many modest-income households have difficulty accessing ownership. This is often because of inability to save a down payment, and the lenders' assessment of higher risk.

Financial counselling and consumer education can help overcome credit issues and risk, while some conditional down-payment assistance, linked to counselling, can facilitate purchase with no ongoing subsidy costs. Meanwhile the modest-income household has a stake in the community and strong incentive to build equity.

What level of capital investment is required?

The estimated level of grant investment required varies significantly between different cities depending on local costs and rents and whether the grant is used to make projects viable at market rents, versus ensuring viability with units targeted to provide below-market affordable rents. The grant levels also depend on the type of approach used (such as new construction versus acquisition or rehabilitation), and the extent to which other funding exists or cost savings are achieved.

Estimates of the cost of providing grants to support the four possible approaches outlined above have been developed for a selection of representative cities across the country and used to develop estimates of requirements in each province. Details on the calculation of required grant levels are provided in Appendix A and B. These estimates indicate the level of capital grant required to assist low-income households through any of the approaches outlined here.

The estimates in Appendix A and B ignore the cost reductions that might be achieved through municipal or other partner contributions, so the estimates reflect the total level of capital investment. The Nepean example shows how the initial capital shortfall could be covered from various sources.

New construction

The level of capital grant required to make the project viable at market rents (in these cities roughly \$800 and \$1,150/unit for one- and three-bedroom units respectively) ranges from \$25,000 to \$35,000/unit.

Clearly these market rents are not affordable. One option is to increase the level of capital grant, to reduce the mortgage and level of mortgage payments so that the break-even rent is affordable to low-income households. Another option is to provide rent supplements to lower-income tenants, an option used in the Nepean example and discussed in more detail later. To ensure rents are affordable to households with incomes of \$11,000 (low-wage singles) to \$25,000 (low-wage families) in the high-cost centres requires capital grants in the region of \$80,000 to \$110,000 per unit.

In lower-cost centres, the grant requirements are lower, but not significantly so, because of lower market rents. In Winnipeg and Montreal, for example, the associated capital grant required to make the project viable at market rents is very similar to that in the high-cost centres (\$25,000 to \$35,000/per unit, reflecting one- to three-bedroom units). However, as a result of lower total capital costs, the capital grant requirements for targeted units are lower than those required in the high-cost centres. In Winnipeg and Montreal, grants for targeted units average roughly \$60,000/unit.

Acquisition/Rehabilitation

The acquisition of existing rental properties is an effective way to preserve existing housing and can often be more cost effective than building new affordable stock. The volume of appropriate properties available for purchase at any time (lower priced but good repair) may limit the extent to which this approach can be used, but where possible it is strongly recommended as a cost-effective approach. Modest rehabilitation may be required, and a number of recent initiatives have developed a model of “sweat equity” with tenants participating in modest rehabilitation, sometimes under the auspices of labour training initiatives and in other cases, accessing RRAP funding.

Again, details of these cost estimates are provided in Appendix A. Typically, existing properties are valued between 60 to 75 per cent of the value of new construction, reducing the amount of capital investment by a corresponding level. The capital requirements to support acquisition (and some modest rehabilitation) range from \$10,000 to \$35,000 in lower-cost centres to \$25,000 to \$50,000 in higher-cost cities.

Under the acquisition option, projects would typically involve a mix of market and assisted units as the units are already occupied at acquisition. Over time, targeting can be increased as units turn over.

Rehabilitation Assistance

The intent of the flexible capital grants program is to enable localities to invest wisely and maximize the impact of any grant funds available. In some cases, issues of disrepair are more serious than the need for new development. Often this is associated with relatively affordable stock. Capital contributions ranging from \$7,500 to \$15,000 per household can effectively facilitate such options. This element essentially extends the existing RRAP program, but folds funds into the flexible capital pool and increases the funding available, based on how localities choose to allocate grant funds between different options.⁶

Assisted Ownership Options

Assistance for rental housing may be the only realistic approach in some housing markets and for certain types of households. However, home-ownership options for qualified households may be preferable in centres where the cost of existing homes is less than the cost of developing new rental development.

Home ownership is the main source of equity accumulation for Canadian households. Low- and moderate-income households are disadvantaged by not having this opportunity even though over their lifetime they (or governments paying an ongoing rent subsidy) may invest a lot of money in housing. Home ownership allows people to reduce

⁶ The existing RRAP program provides funds to support a range of rehabilitation, including: rental RRAP; RRAP for persons with disabilities; rooming house RRAP; RRAP for non-residential conversion; homeowner RRAP; RRAP for Indian reserves; emergency repair program; home adaptation for seniors¹ independence; shelter enhancement program.

or at least control their housing costs as, unlike rents, costs generally decline in relationship to income over time. Home ownership also provides a sense of control and responsibility that is difficult to obtain in a rental situation.

From a public expenditure point of view, helping low- and moderate-income households gain access to home ownership helps contain public costs because the financial commitment is usually lower and provided for a shorter time. Home ownership, when combined with upgrading older residential units, is also a way of improving the local housing stock, providing skills development for future occupants or other low-income households, improving neighbourhoods, and developing capacity within local communities.

The North End Housing Project, Winnipeg, Man.

The North End Housing Project in Winnipeg is an initiative to provide affordable ownership opportunities while reclaiming a deteriorating inner-city neighbourhood. Ownership is seen as an effective way to stabilize the area and remove absentee landlords and drug dealers.

The initiative uses a "rent to own" model in which tenants are educated and mentored on taking on the responsibilities and obligations of home ownership. It involves the acquisition and rehabilitation of boarded, vacant and divested homes and then matches local residents wishing to move from rental accommodation to home ownership.

Some funding from HRDC helps to offset rehabilitation costs, while the initiative also may be able to access CMHC RRAP grants up to \$18,000 per unit. The provincial government is contributing an additional \$7,000 per unit.

The City of Winnipeg, through its new Housing Policy and Housing Implementation Framework, has developed a Housing Rehabilitation Investment Reserve Fund that will be applied to projects such as this one to offset costs associated with permits, tipping fees, utility hook-ups, property taxes during the course of construction, and some of the soft costs (appraisal, survey certificate, engineering fees, etc.). This represents a municipal contribution of \$3,000 to \$4,000 for each home (roughly 10 to 15 per cent of total acquisition and rehabilitation cost).

In the most recent homes identified for purchase, the estimated rehabilitation costs would exceed the local funding available. More realistic costs for acquisition and rehabilitation are in the order of \$35,000 to \$40,000 per unit -- a shortfall of about \$5,000 per unit compared to the total funding currently available. A larger capital grant program, providing grants of \$5,000 per home, possibly combined with more flexible mortgage underwriting, could facilitate these additional purchases and expand the scope of the initiative, which would have a greater impact on overall neighbourhood upgrading and could enable adaptation of the model in other neighbourhoods.

Successful initiatives related to assisted home ownership focus on consumer education and counselling as a way to help lower-income households better understand their obligations and responsibilities and to help them become more credit worthy. These approaches also use alternate forms of credit rating, such as timeliness in paying utility bills or rent. Financial institutions are beginning to offer this type of assistance in community partnerships to support assisted ownership in a number of Prairie cities. (See the Winnipeg example.)

In the United States, private mortgage insurers are actively involved in promoting home ownership for lower-income households. Private mortgage insurers and lenders in the U.S. are active partners in homeowner education and counselling, in part because there is a positive payback in creating a new segment of consumers for their other products. In more distressed areas, lenders work with local redevelopment agencies that provide a portion of the down payment through grants to generate lower loan ratios and reduce risk.

Enhancing the Impact of Capital Grants

In the cost ranges identified in this section, the level of capital investment required either to ensure viability at market rents, or to allow at least half of the units in a project to be viable with affordable rents, is calculated assuming no other contributions.

When other sources of funding and financing are accessed, the level of grant required is substantially lower. The impact of other options is vividly illustrated in both the Nepean and Winnipeg examples.

The complementary measures used in these cases are discussed later in this proposal brief, together with other measures not used in these examples. These other measures could similarly have a powerful impact in lowering the level of direct capital grant required, such as direct private investment through a labour-sponsored investment fund, or tax-exempt savings accounts/investment certificates.

Unlike a capital grant, for each \$1 invested in affordable housing through a LSIF or tax-exempt savings account, the combined cost to the federal and provincial government is only 30 cents (based on a 30 per cent combined tax credit). Capital generated by investments in such tax-exempt funds would provide low-cost equity investment in affordable housing and reduce the level of capital grant required.

How would a capital fund be administered?

The proposed capital investment program would be funded by the federal government, with annual contributions for a 10-year period.

The intent is to facilitate local initiatives and allow localities to maximize output from their share of grant funds by adding other contributions. As outlined below, the stacking of rent supplements, funded separately by provinces and territories, would increase the number of low-income households that could be assisted with these federal capital

grants. Provinces and territories would also be encouraged to match or supplement the federal grant, thereby creating a larger capital pool in each locality.

Mechanisms to ensure accountability and a protocol for recognition of support are prerequisites for an administrative body. Grant contracts would be subject to scrupulously administered procedures.

Grant funds should be distributed across provinces and territories based on the distribution of households. Funding protocols would ensure an equitable distribution of funds and avoid penalizing those jurisdictions which are already devoting resources to the problem. Allocations should also encourage further provincial/territorial financial participation.

Local communities would be required to develop a local housing strategy that assesses the level of need and the best options to meet need with a specified budget.

Funding Framework

The federal government's focus over the past five years has been to extricate itself from direct involvement in ongoing administration of social housing. Federal officials have also stated clearly that while the government recognizes the need to assist in addressing persisting housing need (as evidenced in the Supporting Community Partnerships Initiative (SCPI), and the inclusion of housing as an eligible expenditure under the infrastructure program), there is no desire to re-establish any ongoing subsidy programs. Any federal funding initiative must therefore be structured to limit active federal involvement and spending.

Currently, different provinces and territories have taken on divergent levels of interest and activity in housing. In addition, the nature and severity of housing need varies across jurisdictions. There is a need to accommodate differing provincial interests and participation, without undermining the potential impact of federal funding.

At the municipal level some cities are proactive in addressing housing while others are still assessing their role, and are concerned about potential fiscal implications implied in taking an active role.

Finally, existing legislation is uneven across the country, enabling certain mechanisms in some jurisdictions, and prohibiting the same mechanisms in others. A case in point is the relationship between municipalities and the federal government. Municipalities in Canada generally have the legal capacity, power and jurisdiction to contract with the federal government directly to receive grants without provincial consent. The federal government can contract with individual municipalities, blocks of municipalities, FCM on behalf of municipalities, or any combination of these. However, Quebec has enacted prohibitions of municipal acceptance of federal funds except through the province.

Thus the funding framework for the proposed capital grant initiative must be sufficiently adaptable to reflect these diverse situations.

In establishing a capital funding mechanism, the federal government could utilize its existing housing agency, CMHC, with funding conduits established as discussed below.

However, to the extent that federal officials have expressed a desire to avoid re-entering an active role in affordable housing, both FCM and Canadian Housing and Renewal Association have previously submitted briefs to the federal government proposing the creation of an independent national affordable housing foundation.

The advantages of a national foundation are:

- A high degree of accountability;
- Autonomy from government;
- High-profile, multi-sector directors;
- Perpetuation of the federal mandate while permitting implementation to meet regional needs on a decentralized basis; and
- A legal constitution that controls objects, acts, accountability and decision making.

The federal government, and the provinces to the extent they participate, could fund the foundation and the foundation could in turn contract with municipalities and charitable statute community entities. An alternative to proceeding under the *Charitable Corporations Act* would be to incorporate a not-for-profit corporation under Part 2 of the *Federal Business Corporation Act*.

A national foundation would also provide an option where a province does not wish to participate; it avoids the requirement of the federal government or a federal agency taking on an ongoing delivery role; it provides a vehicle to attract other non-government investment and contributions; and it can become a source of technical assistance, education and dissemination of best practices to enhance the effectiveness of local initiatives.

Regardless of the selected structure at the national level, a mechanism to allocate and manage grants at the local level will be required. To ensure both flexibility and accountability funds would be allocated through one of three mechanisms:

1. Through provincial housing agencies where provinces wish to take an active role in supporting community-based housing initiatives and are prepared to allocate and use funds in a manner consistent with national standards;
2. To local municipal agencies accountable to locally elected councils (this delivery mechanism could also be used even if federal funds are initially directed through a province; or
3. To local housing trusts, incorporated specifically to facilitate affordable housing in each municipality with boards appointed by the local government as well as by the community and private sector.

Specific criteria will be established to guide use of these funds at the local level, including:

- Federal grant funds may be used only to assist the development of affordable housing;
- Within regional allocations, based on core housing need, priority in granting of funds would be given to initiatives that maximize matching contributions from provincial, municipal or community resources⁷;
- Federal grant funds cannot cover 100 per cent of costs; some level of local contribution is necessary⁸;
- A competitive process would give higher priority to initiatives that maximize the number of low-income households assisted;
- Projects receiving grants would be required to have mechanisms ensuring long-term housing affordability;
- Priority would be given to initiatives that seek to build local capacity and create long-term sustainable delivery mechanisms; and
- Local initiatives that link to improving health, education, economic development and security of the residents should be given priority.

At the local level, the municipality or trust should have the discretion to allocate funds in the form of direct grants or loans. Where feasible, the use of interest-free or deferred loans will be encouraged as a way to recycle funding and create a more sustainable funding model by replenishing the local capital fund. For this reason, the creation of an arms-length local housing trust to which repayments can be allocated would be beneficial⁹.

⁷ This means that initiatives that can attract other partners will be rewarded, and limited capital funds can be stretched to the maximum. But where a province does not actively participate the federal allocation will ensure a minimal level of activity.

⁸ While some municipal and community cost sharing is expected and provincial participation is encouraged, specific requirements may preclude participation of communities, hence specific targets are not identified here. Recent experience in Quebec's Accès Logis program sought a 15 per cent municipal contribution toward the overall project cost, but few municipalities could afford this from their tax base. The goal has subsequently been revised to a 5 per cent community/municipal contribution.

⁹ An important feature of current mortgage underwriting practice is the limitation of the amount of funds that can be borrowed due to lending value and maximum loan-to-value ratios. These criteria result in a situation where non-profit sponsor projects generate an operating surplus and could support additional debt. These projects have the capacity to carry a second mortgage with favourable terms (e.g., interest free or deferred).

6. Measures to Attract New Investment In Rental Housing

CMHC household growth projections identify demand for some 45,000 to 50,000 new rental units annually over the next decade. The program of flexible capital grants, designed to assist affordable development, is targeted to meet roughly half of this requirement (20,000 to 25,000 units annually). A complementary set of initiatives is required to stimulate additional development for the remaining 20,000 units required annually to meet household growth.

In addition to increasing overall supply, complementary measures can improve the effectiveness of the capital grant program. FCM has identified a number of ways to both stimulate private investment and activity and to stretch the impact of the capital grants.

6.1. Tax Measures

Low levels of rental housing production have been associated with perceptions of over-regulation and control of rents as well as the poor economics of new rental development, when compared to alternative investments. Over the past decade, most provinces have relaxed rental market regulation to some degree and created improved opportunities for private development. However, the tax treatment of rental investment remains the primary barrier to the attractiveness of new development and reinvestment.

There are a number of measures through which the federal and provincial governments could encourage development of private rental housing projects. A range of potential measures has been examined, including various tax reforms, tax credits or interest-free second mortgages and revisions to CMHC mortgage insurance policies.

While all of these measures would improve the returns on rental investment, the following three elements offer a targeted, integrated approach with minimal change to existing tax legislation:

- Rebating the GST on rental housing;
- Allowing small rental investors to be considered as small businesses;
- Restoration of pooling provisions to encourage reinvestment in new rental projects; and
- Creating investment pools for affordable housing.

Removing the inequitable GST treatment of rental housing

The GST treatment of residential rental projects is unique. It differs from that accorded to commercial rental projects and is excluded from the schedule of “zero-rated goods” that permits sellers to claim input tax credits even though they do not collect GST.

Effectively, commercial rental projects do not bear the cost of the GST. As with most businesses, landlords of commercial properties receive full input credits for all GST paid and these are deducted from GST collected from their commercial tenants. Since residential landlords do not collect GST on rents, they are stranded with the GST they pay without the offsetting input tax credits that are available to non-residential rental operators.

When the GST was introduced, a decision was made not to apply it to residential rents; residential rents are identified under the schedule of exempt goods. This contrasts with "zero-rated goods" which include basic groceries, prescription drugs, and exports. These "zero-rated goods" do not collect tax on the final sale, but sellers can claim input tax credits on their purchases.

Although the 2000 federal budget introduced some relief from GST for rental (reducing it to 4.5 per cent), this does not fully overcome the inequitable treatment of the residential rental development sector. FCM recommends that rental housing be either reclassified as zero-rated goods or that rebates be provided to fully offset the GST expense incurred by rental landlords.

It is recognized that this may impose a significant tax expenditure on the federal treasury. One option to minimize this impact is to apply the zero-rating status only to new properties developed following this proposed change.

Allowing Rental Investors to Qualify as Small Businesses

For most types of small businesses, a lower rate of taxation applies to the first \$200,000 of "active business income" -- i.e., the small-business deduction.

Rental apartment properties are not eligible for this reduction because ownership and operation of rental property is not considered an "active business" unless the owner/operator has more than six full-time employees. Because income generated from rental properties is considered passive, owners of rental properties are not eligible for the small-business tax rate, even if the owner actively manages the property.

Most rental properties in Canada are owned by investors with only a relatively small portfolio of one or two properties; these owners seldom have the required minimum of six full-time employees. Thus, few of the small-rental landlords in Canada qualify for the small-business corporate tax available to most small businesses. Allowing rental investors to qualify for the small-business deduction (under the provision that they are in fact active investors) would encourage more investment in rental housing.

Again, this has tax expenditure implications, but is directed at correcting an inequitable treatment of this sector.

Restoration of CCA Pooling to Encourage Reinvestment in Rental Properties

When a rental project is sold, investors must pay tax on the difference between the sale price and the depreciated value of the project, that is, the original cost of the project less the Capital Cost Allowance (CCA) deductions. "Recaptured depreciation" (the difference

between the depreciated value and the original cost) is taxed at full income tax rates. Capital gains taxes apply to the increase in value above the original cost.

Prior to 1972, rental investors could defer paying income taxes on recaptured depreciation on buildings sold by pooling the recaptured amount with CCA from other buildings. For example, if they acquired another rental project in the same year, they could avoid recaptured depreciation by transferring the excess CCA to reduce the depreciable value of the newly acquired project.

The restoration of pooling (also called "roll-over") does not eliminate tax liability, but postpones the tax penalty on recaptured depreciation and capital gains for owners of rental properties who invest the proceeds in other rental property.

This change would be beneficial to investment in new rental projects since it would encourage owners of older, fully depreciated projects to upgrade their rental property portfolios by replacing older projects with newer ones. The taxes payable on recaptured depreciation would be postponed as long as the investor retained the new rental projects, in the same way that it is currently postponed as long as the investor retains ownership of the current project.

There is a ready market for the supply of older rental projects for sale, which might result from the restoration of pooling. Institutions and Real Estate Investment Trusts (REITs) have been very active in purchasing existing rental projects over the past few years. These investors are attracted to the stable cash flow that comes from an established rental project; they find the risks associated with building and "renting up" a new project less attractive. This is also a potential source of properties for cost-effective acquisition by non-profit organizations, which would then be able to preserve affordability.

Restoring pooling would help to free up much of the older stock, which is attractive to institutional investors, while at the same time ensuring that the vendors (who tend to be more adventurous than institutional investors) may use the proceeds to expand their rental housing portfolios, ultimately, through new construction. If they did not use the proceeds to reinvest in rental housing they would remain liable for the taxes payable. The only impact of this measure on the federal treasury would be to defer taxes in favour of reinvestment in rental housing. This in turn would generate additional tax revenues.

Creating Investment Pools for Affordable Housing

Tax provisions and specifically the Low Income Housing Tax Credit (LIHTC) have become the primary vehicle supporting affordable housing development in the U.S. This credit attracts equity investment to create almost 100,000 new units annually.

Over the past summer, a series of roundtable discussions were convened by the Canadian Housing and Renewal Association in partnership with the Ontario Non-profit Housing Association and the Public Policy Forum to consult the financial services and private development industry on potential options for creative financing and vehicles that may attract investment for affordable housing.

Toward the goal to implement a sustainable long-term solution to affordable housing need, FCM will continue to work with the affordable housing sector and lenders to

develop these new partnerships. New mechanisms will be brought forward by these partners over the next year.

One promising option can be implemented quickly using an existing Canadian vehicle — a labour-sponsored investment fund (LSIF). Under existing legislation, the LSIF offers small individual investors a combined federal/provincial one-time tax credit of 30 per cent of an investment up to \$5,000 each year. (Most investors also combine this credit with RRSP deductibility.) Investors are attracted to LSIF largely on the basis of the tax benefit on the initial investment.

Investors in LSIF benefit both from the initial tax savings and also from any return generated by the venture fund. Structured to support affordable housing, an affordable housing LSIF would be marketed as a more conservative investment, targeting individual investors who wish to balance their portfolios. It would generate equivalent tax savings but provide a more conservative ongoing yield than venture funds. Invested funds would then be used to provide construction financing as well as long-term mortgage financing on affordable housing projects. The LSIF might also take an equity position, participating in acquisition of existing properties in partnership with non-profit sponsors.

An affordable housing LSIF is consistent with the intent of labour-sponsored funds as housing construction generates significant employment and has one of the highest employment multipliers among industrial sectors.

To initiate a LSIF specifically for affordable housing simply requires a regulatory amendment to add affordable housing mortgages as a qualifying investment.

France's tax-exempt savings accounts also provide another useful example. In May 2000 there were more than 50 million "Livret A" savings accounts (one person/one account) in France yielding tax-exempt interest to depositors at .25 per cent. Over FFR 500 billion is invested in long-term loans for affordable housing by the Caisse des dépôts et consignations, a government financial institution mandated to administer such funds in the public interest. Similar tax-exempt accounts or investment certificates could be created in Canada and marketed to small, conservative investors.

6.2. Strengthening CMHC's Role in Facilitating Affordable Housing

In addition to these tax revisions, a number of complementary measures are readily implemented through regulatory or policy changes relating to CMHC's mandate. They impose negligible costs on government. These regulatory measures would help both the private development industry and non-profit providers to produce more affordable housing.

Customized mortgage underwriting for qualifying non-profit developers

- With the curtailment of federal non-profit housing programs, many non-profit organizations have sought to develop affordable housing with no ongoing subsidies but have struggled to secure private financing. They must qualify for mortgages on the same terms as private developers, which creates serious difficulties.

- Non-profits operate with different circumstances and motives than for-profit developers: their main motive is to minimize rather than maximize rents.
- Existing CMHC underwriting criteria and valuation procedures tend to limit the loan amount for which non-profits can qualify. Assuming the non-profit provider can secure some capital investment (as recommended under the capital grant approach above) the underwriting criteria and related low mortgage levels generally leave modest operating surpluses. This is unnecessary for non-profits; this potential cash flow is better used to cover payments on a larger mortgage amount and to minimize the capital grants required.

The flexible capital grants program, proposed above, can provide a source of equity but the impact of capital grants can be stretched much further if underwriting criteria are modified to increase the level of financing available to non-profits (as shown in the Nepean example). This can be achieved by increasing the maximum loan-to-value ratio and by reducing the debt-coverage ratio. With equity provided by the fund, the lending risk associated with these developments is reduced and should create the capacity to revise underwriting criteria without CMHC taking on undue risk.

Reduced-cost mortgage insurance

The Nepean example shows that after taking municipal contributions into account, a significant part of the remaining capital shortfall required to make housing development viable at market rent is associated with expenses imposed by the federal government, most particularly GST (even at the rebated non-profit level) and CMHC mortgage insurance premiums.

It is recommended that the federal government establish an affordable housing fund, capitalized through the annual profits on the commercially based CMHC mortgage insurance operations and that this source be used to provide grants against the cost of CMHC mortgage insurance on non-profit and affordable housing development. This will respect the commercial integrity of the Mortgage Insurance Fund while offsetting this expense.

Levering existing equity in social housing

The existing social housing stock in Canada, now comprising more than 700,000 units (including provincial unilateral) has been developed over the past 50 years with long-term financing arrangements. Over the next decade, a number of projects will begin to retire their mortgages and projects will have some opportunities to generate an operating surplus; some (those developed between the late 1960s and 1978) already generate small surpluses.

To date, CMHC has been reluctant to permit existing providers with unrestricted surpluses to either refinance or use their surplus revenues to leverage debt for new investment. Two specific measures would be beneficial. First, existing providers should be permitted to encumber the existing asset (the security for the existing mortgage) to leverage equity from projects. Second, where providers have existing subsidy that is not being used, they are required to return it to CMHC (now to the province/territory with

transfer agreements). Groups able to develop additional units should be eligible to re-allocate any surplus subsidy to these new units, thereby making them affordable at below-market levels.

Establishing affordable housing goals for CMHC

A central element of the housing finance system in the U.S. is the existence of two institutions, created by government but subsequently privatized as Government Sponsored Enterprises (GSE): the Federal National Mortgage Association (Fannie Mae) and Freddie Mac. The primary function of these agencies is to create liquidity in the housing finance market by establishing a secondary market to purchase mortgages and package them into mortgage-backed securities to resell to investors.

Notwithstanding their private status, the U.S. Congress has established legislated affordable housing goals for these corporations, based in part on their public charter and the implicit guarantee of government that they still enjoy. A specified percentage of the mortgages purchased annually by each corporation must be for affordable housing¹⁰.

In order to comply with the legislated targets the GSEs create customized mortgage underwriting standards that specify qualifying affordable housing mortgages. Thus, when lenders are approached by affordable housing providers, the lender has a standardized set of customized underwriting standards and the ability to mitigate risk by selling the mortgage to the GSE (and on into the secondary market). In short, the GSE affordable housing goals creates improved access to financing for affordable housing developers. They also create new business opportunities for lenders.

The secondary mortgage market is much smaller and less mature in Canada. However, CMHC performs a similar role in facilitating mortgage-backed securities (MBS). Packaging of social housing mortgages, which have no early prepayment options and are fully insured, has been a significant part of CMHC MBS operations and have contributed to the corporation's profits.

It is recommended that modest targets be similarly established on CMHC's mortgage securitization business¹¹. This approach can provide a framework for customized underwriting and set an example to lenders (whose own underwriting practice tends to follow the lead of CMHC) to support affordable housing development. Developed in the context of sound underwriting this would not imply higher risk insurance and as such

¹⁰ The Secretary of the U.S. Department of Housing and Urban Development (HUD) has authority to set housing goals for the GSEs. The goals established for Fannie Mae in 1997 through 1999 were: 42 PER CENT of its conventional mortgage business in low- and moderate-income housing, 24 PER CENT of its conventional mortgage business in underserved areas, and 14 per cent of its conventional single-family and multi-family business in special affordable housing. All these goals are measured as a percentage of units financed by Fannie Mae. Fannie Mae exceeded all its goals by 2 to 5 per cent. (Source: Fannie Mae, Annual Report, Washington, DC, p. 34.)

¹¹ Currently, CMHC is the only corporation providing a timely guarantee on MBS payments. If other corporations become active, and similarly benefit from government regulation and the implicit government guarantee, a similar goal should be imposed.

should not impose a cost for CMHC. In fact, it would generate new business, with associated earnings for CMHC.

7. Rental Assistance Measures

In addition to the lack of new rental supply, which is driving up rents, a significant part of the housing problem is one of affordability. Households may be adequately housed but are paying a large part of their limited income for shelter, and as a result cannot afford other necessities. This is particularly stressful for families with children.

A shelter allowance can be effective in bridging the gap between actual market rent and an affordable rent -- typically based on 30 per cent of household gross income.

As a separate measure, the option of a rent supplement is identified in this section. This approach has strong potential when used in conjunction with capital grants, reducing the size of the grant needed to ensure affordability to low-income households paying rent based on 30 per cent of household income.

Rental assistance measures are directed to provincial and territorial governments in these proposals because these jurisdictions have primary responsibility for income assistance. It is not intended, however, to preclude provinces and territories from undertaking capital initiatives.

Targets and Costs

The 1996 Census reported that more than 800,000 renter households, or more than 20 per cent of all renters, pay more than 50 per cent of their income for housing. FCM's national housing strategy has established a goal to provide rent relief to half of these households (400,000) over the next decade. FCM proposes an incremental program of shelter allowances be introduced, to assist an additional 40,000 households annually.

The cost of such a program is subject to the level of assistance provided. For example, a program of modest relief lowers the net rent paid from more than 50 per cent down to 40 per cent; a program with more substantial relief lowers the effective rent to 30 per cent of income, the norm typically applied as an indicator of affordability.

Targeting an increment of 40,000 households annually, a program providing relief to reduce rental costs to only 30 per cent of income would require an initial annual expenditure of roughly \$55 million to \$65 million, gradually increasing over 10 years to an ongoing total in the tenth year of some \$600 million. As outlined below, this expenditure may be offset, in part, by opportunities to achieve savings in welfare programs.

Increase welfare shelter maximums

Further examination of the 830,000 households paying more than 50 per cent of their rent for housing reveals that a significant proportion are already assisted under provincial income assistance programs; they are receiving seniors benefits, disabled benefits or welfare assistance. (See Appendix C for details.) In total, some 450,000

households, or 54 per cent of households paying more than 50 per cent of income for rent, rely on government transfers.

The 345,000 non-senior households dependent on welfare (1996) already receive a form of shelter allowance, but in many cases the shelter maximums do not realistically reflect true rental costs. A sample of jurisdictions is provided in Appendix C to illustrate the current deficiency in welfare shelter maximums. In these cases the maximum benefit is between \$130 to \$340 less than average market rent for an appropriate-sized rental unit. Increasing the welfare shelter maximums and indexing these to a market measure would be an effective way to address these affordability problems.

Shelter allowances to ease the burden of excessive rents for working poor

The working poor comprise roughly 380,000 households, or 47 per cent of the total households paying more than half their income for rent. With long waiting lists for the limited stock of social housing, many of these households are under severe stress; families are often in rent arrears and face eviction and homelessness simply because they cannot afford the rent at their low wages.

Currently, given the backlog in social housing waiting lists, the only way that a working-poor household can secure assistance with high housing costs is to resort to welfare. Other than small programs in Manitoba and Quebec, there are no programs that enable working-poor households to stay in the labour force and still receive some assistance in paying the rent. (Four provinces, including Manitoba and Québec, have shelter allowance programs for low-income seniors.) While many provinces have implemented reforms intended to help welfare households acquire skills and work experience to make the transition back to work, these approaches have not recognized the critical role that stable and affordable housing can play in this process. Outside existing social housing, there are currently no transitional mechanisms that enable households to move off welfare, accept minimum wage work, and still be able to afford to pay their rent.

Welfare households considering work are discouraged because as soon as they leave welfare they lose their shelter benefit. Without ongoing housing assistance, welfare reforms are less effective. A shelter allowance, separate from welfare, can be a valuable complement to other initiatives to enable households to move back into the labour force.

Providing support to help rent costs provides greater stability for low-income parents with children -- helping to avoid the arrears and evictions that often cause families to move continuously, disrupting children's development and schooling.

This proposal outlines a shelter-allowance mechanism that can effectively fill this void. A modest shelter allowance in combination with minimum wage work can leave a household with more income than it would receive on welfare, at a cost to government significantly lower than the cost of welfare benefits.

This approach is targeted to working-poor households, but would be offered to households leaving welfare.

How would a shelter allowance work?

Typically, shelter allowances are designed to provide relief against excessive rental costs while leaving an incentive for the household to economize, limiting program costs. This is achieved by a formula that covers part of the gap between a specified percentage of income and actual rent, up to a rent maximum¹².

The precise formula can be adjusted to ensure that the recipient does not pay more than a specified percentage of income for rent. The formula can be varied by household size and composition; larger households have higher food budgets and must also pay higher rent for larger units. A shelter subsidy of roughly \$150 to \$250 per month, depending on the market, can effectively reduce a rent burden of 55 per cent down to a more reasonable proportion of income (30 to 35 per cent).

For people leaving welfare to return to work, such an allowance, costing government less than \$3,000 per year, would leave households in a better financial position than welfare benefits that may cost government more than \$12,000 to \$15,000 annually. The level of the shelter assistance would phase out as earned income improves. The phase-out can be designed to be gradual and avoid the inherent tax-back disincentives that often undermine assistance programs when participants seek to earn an income.

Since there are many more than the targeted 40,000 households with severe affordability problems in any given year, it would be necessary to restrict access to this program. This is possible through the use of vouchers (as used in the U.S.) or restrictive eligibility criteria that target the worse case rent burdens first.

For a transitional program helping individuals move off welfare, the size of the program could similarly be managed by targeting households already enrolled in training initiatives and seeking to move into employment. Each year an additional increment of households would be assisted.

Stacked Rent Supplements to Complement Capital Grants

In the past, rent supplements have been used in two ways. One is to contract with private landlords to place low-income tenants in private units and provide a payment to the landlord to subsidize the rent; the other is to stack rent supplements on an existing non-profit supply program, where the non-profit assistance is insufficient to lower rents to affordable levels.

While rent supplements with private landlords remains an option, past experience has shown poor participation of private landlords in rent supplement programs, especially in tight rental markets, such as those that prevail in many centres at this time. Either

¹² For example, a shelter allowance may provide assistance equal to 85 per cent of the difference between actual rent and 35 per cent of income. If income is \$1,500 and rent is \$600/month (40 per cent of income), a shelter allowance may provide relief of $[\$600 - (\$1,500 \times 35\%)] \times 85\% = (\$600 - \$525) \times .85 = \64 . This lowers net rent to \$536 or 36 per cent of income. This formula can be adjusted so the net effect lowers the shelter-to-income ratio to 30 per cent -- equivalent to social housing rents. A maximum rent, say \$600, might be imposed to prevent households selecting expensive units -- although the disincentive there is having to pay a share of the higher rent.

landlords have not been interested in registering units, or have chosen not to renew rent supplement contracts at maturity.

Community support organizations working with disabled adults have had some success with this. As a result of ongoing support and building relationships with landlords, a number of community support agencies have used private rent supplement placements to enable disabled adults to live semi-independently in the community.

An alternative approach is to use rent supplements to complement capital grants that are used in non-profit development. The use of stacked rent supplements to cover some or all of the affordability gap below market rents means that fewer grant funds are required. This approach also creates opportunities for mixed-income projects.

Appendix C details the potential cost of stacked rent supplements based on the rental properties used to estimate capital costs and grant requirements. The level of rent supplement required to bridge the gap between market rent and rent-gear-to-income ranges from \$250 to \$475 per month for one-bedroom units and from \$350 to \$700 per month for three-bedroom units.

Relative to private market-rent supplements, there is a significant benefit in stacking rent supplements on properties developed or acquired by non-profit owners. Over the long term, the costs of a shelter allowance or rent supplement will typically increase as rents inflate. In the current environment of limited supply and rising rents, rental assistance programs are more vulnerable to rising expenditures. Research has shown that the operating costs of non-profit projects have typically increased at a slower rate than general rent inflation¹³.

¹³ A B.C. study found that between 1974 and 1999 the break-even rent, before subsidy, on a sample of non-profit projects developed in the early 1970s increased 65 per cent. In comparable private units, market rents increased 135 per cent over the same 25-year period. This reflects the distinct objectives of the private and non-profit landlord. The private landlord is concerned with increasing revenues to generate an improved return on investment. Conversely the non-profit landlord is interested primarily in maintaining rents at an affordable level. Thus, over time, the expenditure on a stacked-rent supplement premised on break-even rent should increase less than a rent supplement placed on a private property and premised on market rent.

8. Estimated Costs of the National Housing Strategy

Targets

The June 1999 FCM report “A Call to Action” developed a set of numerical targets based on erasing half of the outstanding housing need over the next decade. These targets were:

- New Affordable Supply: 20,000 new affordable units annually to meet half of the new rental demand;
- Housing Rehabilitation: 10,000 units annually as part of a 10-year plan;
- Relief of Affordability Problems: 40,000 extra households assisted annually in a 10-year plan to reduce by half the 800,000 tenants whose rent is more than half their income

Although the June 1999 report did not identify a specific target for private rental development, it did recommend a series of initiatives to stimulate private investment and suggested that these measures should assist in stimulating new supply to meet the remaining growth in renter households (the remaining 20,000 of the anticipated 40,000 to 45,000 units required annually over the next decade).

Modified Targets

Since little funding has yet been provided to address the 1999 targets, they are retained in this proposal. However some modification of the related approaches has been incorporated.

- The option of acquisition has been identified as a cost-effective way to preserve affordable units and is included as an alternative to new construction, where feasible.
- In addition, a new option, assisted home ownership, has been identified as it has been shown to be very cost effective in cities where existing homes are readily available at cost below that of new construction.
- Finally, the need for income mixing is recognized. In order to reach the target of 20,000 affordable units for low-income households¹⁴, the addition of up to 20 per cent market-rent units in some projects may expand the total output to 25,000 units.

Together with these enhancements, the new supply and rehabilitation target (10,000 units) has been combined within the flexible capital grant proposal (20,000 affordable and 5,000 market-rent units). Under this approach, municipal governments and local

¹⁴ That is, households fitting CMHC’s definition of Core Need.

groups together would develop strategies and determine an appropriate mix of rehabilitation versus development, as local need dictates.

For the purpose of estimating the funding required, the following annual mix is assumed (recognizing that the precise outcomes would be determined in the aggregate based on local determination of priorities):

- Targeted new development	15,000 units
- Targeted acquisition	5,000 units
- Market rent mixed units	(up to) 5,000 units
- Rehabilitation and assisted homeownership	<u>10,000 units</u>
Total	<u>35,000 units</u>

In addition, the previously stated target of 40,000 additional households assisted annually through rental assistance is retained. Provinces and territories may elect to use stacked rent supplements as a mechanism to extend the impact of federal capital grants for new supply, may enhance welfare shelter maximums, or may introduce new shelter allowance for working poor families and households making the transition off welfare.

Estimated Costs

Based on the targets given, the total expenditures required for each element are outlined below.

1. Flexible Capital Grant Program

FCM estimates that a capital grant program of up to \$1.48 billion per year for 10 years is required to produce 20,000 affordable units per year using supply initiatives, including new construction and acquisition, and a further 10,000 affordable units per year through rehabilitation and home ownership initiatives.¹⁵ This level of expenditure would be sufficient to provide all 20,000 of these units at rents geared to 30 per cent of income.

Up to an additional 5,000 market-rent units would also be developed as part of mixed-income projects. The additional annual grant capital required to support these market rent units is \$122 million, bringing the total cost of the capital grant initiative up to \$1.6 billion annually, with a 10-year target duration.

Municipalities and community groups will contribute to development costs and may offset up to 15 per cent of the grant requirements. Some cities and regions may contribute more. Grant funds would be allocated with priority to initiatives that secure funding partners so there would be a strong incentive to contribute.

The annual federal capital contribution required, therefore, is approximately \$1.5 billion. This assumes municipal/community contributions in the order of 10 per cent of costs.

¹⁵ FCM's calculations assume 15,000 newly constructed and 5,000 acquired units – see Appendix D for the derivation of the \$1.5 billion cost estimate.

Provinces and territories would be strongly encouraged to participate, either in matching a capital grant initiative, or in supporting the ongoing rental assistance measures. No explicit provincial cost share is identified here. Any provincial/territorial stacking of rent supplement assistance on new units would be used to increase output rather than lower federal investment so that participating provinces/territories have an incentive to complement the grants and are not penalized.¹⁶

2. Private Rental Measures and Regulatory Enhancements

Tax-based mechanisms are highly sensitive to the specific circumstances of the owner/investor. Accordingly, cost estimates have not been developed for the measures relating to the extension of the small-business deduction to small-scale landlords and pooling of CCA recapture (this defers tax liability rather than eliminating it).

The cost of offsetting the GST (through zero rating or providing offsetting rebates) is estimated at between \$120 million to \$140 million annually, assuming these measures stimulated the production of 20,000 private rental units and extend the current partial rebate to a full exemption for non-profit development. This estimate assumes this provision is applied only to new rental development and is not extended to the existing rental stock.

Mortgage underwriting reform and the establishment of affordable housing goals for CMHC's Mortgage Backed Securities business would result in negligible impacts on the federal treasury.

The tax expenditure related to a new Labour Sponsored Investment Fund would depend on the size of the fund established. This may not create an entirely new expenditure as some investments may simply be diverted from other funds that are already providing LSIF tax credits.

For each \$1 million invested in an affordable housing LSIF, the federal cost (with a 15 per cent credit) will be \$150,000. In provinces that match the federal tax credit a similar tax expenditure would be incurred.

3. Rental Assistance

With a formula resulting in an effective shelter cost-to-income ratio of 32 to 33 per cent, the cost of a shelter-allowance initiative targeting 40,000 households in the first year

¹⁶ Without an explicit requirement for a matching provincial grant this proposal appears to impose the single largest cost on the federal treasury. In fact, provinces that develop rental assistance initiatives will confront significant and growing expenditures, especially as the number of households assisted increases over the ten-year window.

would be in the order of \$60 to \$65 million, gradually increasing over 10 years to an annual expenditure of \$650 million.

With a less generous formula oriented to very high rent burdens, the annual cost would be approximately half, in the region of \$30 million to \$35 million in the first year, and similarly increasing to \$350 million in year 10 and beyond.

9. Offsetting New Revenues and Funding Sources

In identifying the expenditures associated with these initiatives it is important to bear in mind the employment (direct and multiplier effects) and offsetting revenues that could be generated by the construction of 20,000 affordable and 20,000 private-market rental units (due to the stimulus of tax and regulatory changes).

Based on the estimated total capital cost of each property, these initiatives would generate total investment of more than \$4 billion. This is estimated to generate more than 80,000 direct jobs in the construction industry.

Depending on how the federal government chooses to treat GST, new construction activity of 20,000 affordable units and possibly 20,000 private-rental units would generate more than \$180 million in new GST revenue, although this proposal recommends an offsetting GST rebate to reflect the unique circumstances of rental landlords.

Current revenues collected by the federal government on activities directly related to housing are a realistic source of funding for the capital grants investment program. Leaving aside potential revenues from the GST on new rental construction, the federal housing agency, CMHC, projects an annual unappropriated surplus on mortgage insurance activities of more than \$200 million annually.

A significant number of rent supplements have been committed and cost shared by the federal government with 50-year funding commitments. Over time, as landlords choose not to extend existing rent supplement agreements, these units become dormant. Under the federal–provincial transfer, for all provinces and territories that have executed agreements, the federal funding associated with any units that have become dormant since 1995 continues to flow to the province or territory. Thus there is an existing funding source that could be used to fund provincial/territorial stacked rent supplement initiatives.

10. Conclusions

FCM believes these proposals provide the basis for a focused, immediate response to an immediate need. Just as importantly, these proposals suggest the foundation for a long-term approach by a partnership of government, housing and social service providers and industry. Because of the immediacy of need, FCM proposes the development of this long-term partnership concurrently with swift action.

FCM asks no one order of government or group to do this alone, yet some must take leadership to begin the creation of a healthy housing system in this country that benefits all Canadians.