

## Rent supplements help, but only if landlords cooperate

By Nick Falvo, M.A.

There are many ways in which money for affordable housing can be put to use.

Three key methods are:

1. build non-profit housing;
2. provide housing allowances or rent supplements; and
3. provide tax credits for the developers of rental housing.

All three methods have strengths and weaknesses that merit study.

The private housing market, by itself, is ineffective at delivering newly-built housing for low-income tenants in large urban centres.

In Toronto, for instance, a single welfare recipient with no dependents receives a \$342/month shelter allowance that is supposed to cover shelter. Yet she would be lucky to find a decent bachelor apartment for double that amount.

Even if she were willing to spend her entire welfare cheque of \$548, she would be hard pressed to find a liveable bachelor apartment.

Working Canadians face the same problem. Indeed, a recent report notes that in Toronto, Calgary and Vancouver, a single parent must earn three times more than the minimum wage in order to afford average market rent for a two- or three-bedroom apartment.

Regrettably, it simply is not profitable for private developers to build units that are immediately affordable to low-income tenants. In Toronto, it is not profitable for a developer to build one-bedroom units that begin renting for less than \$1,500 a month. Using the standard affordability benchmark, a household must earn at least \$60,000 a year to afford such rent.

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In 1993, the federal government announced that—with a few exceptions, such as on-reserve Aboriginal housing—there would be no new commitments for social housing.

By the time of this announcement, over 600,000 social housing units had been built, representing roughly 6% of total housing stock in Canada (or 16% of all rental stock).

In 2001, the federal government agreed to a framework agreement with the provinces and territories wherein it would eventually commit \$1 billion towards affordable housing over a five-year span. The entire plan is called the Affordable Housing Initiative (AHI).

Outside the framework of the AHI, \$1.6 billion over two years was then pledged in the 2005 NDP/Liberal budget (a.k.a. Bill C-48). Most of this money was then allocated to three housing trust funds by the Harper government in the 2006 federal budget. While not part of the AHI, this has added momentum on the affordable housing front.

Direct government involvement in financing capital in the building of housing is important, largely because location matters. To be sure, some communities need new, affordable

housing stock.

Most observers would agree that poor people being able to live only in certain neighbourhoods of a city is not a good thing. In the Greater Toronto Area (GTA), for instance, there are high-growth areas that will need affordable housing. They include the waterfront, North York Centre, Whitby, Brampton, Richmond Hill, the Downsview subway area, and new suburbs. (And it's certainly no secret that many parts of Alberta are now in desperate need of new rental construction.)

One drawback to the non-profit approach is time. From the time that funding is awarded, it takes an average of three years for a unit to be built from scratch.

Indeed, there are many steps involved in building—from site identification, to the plan being presented, to the funding being awarded, to the completion of the land purchase, to the application for planning approval, to the completion of the working drawings, to the application for the building permit, to the construction tender call, to the actual construction.

Rent supplements became more popular throughout the industrialized world since the mid-1980s. They make already-existing rental housing more affordable to low-income tenants.

After years of debate stretching back to the 1980s, rent supplements have become quite popular in Ontario in the past half dozen years, especially as vacancy rates increased. One of the more well-known rent-supplement programs of recent years is the one created to help house former residents of Toronto's Tent City squatter camp. The Emergency Homelessness Pilot Project (EHPP) began in September 2002, almost immediately after Tent City residents were removed from their squat.

Administered by the Toronto Community Housing Corporation, the EHPP pays a rent supplement directly to the landlord. It covers the affordability gap, dollar for dollar, up to a maximum rent of \$865 for a bachelor or one-bedroom apartment. The Tent City program has been viewed as a huge success.

This success has made rent supplements even more popular. Whereas affordable-housing advocates used to say "build, build, build" (and saw rent supplements as subsidies to private landlords), now they tend to say: "do both."

But it's been anything but a panacea in some cases. For example, during the Tent City re-location, it was often challenging to find landlords willing to accept tenants. Indeed, the stigma that goes along with a formerly-homeless person receiving social assistance is quite powerful, especially with a landlord used to renting to people who don't require rent supplements.

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# Non-profit housing is still the best option for Canada's poor

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Some tenants found it demoralizing to be repeatedly rejected on this basis—and with the difficulty of finding landlords, tenants often had to settle for “slumlords.”

The EHPP was able to be up and running very quickly. Indeed, within three months of the program's start, most of the former Tent City residents had been housed. The fact that this was done so quickly with such a high-needs population of tenants (and with only three housing support workers) is unprecedented.

Rent supplements are often seen to be more appropriate when vacancy rates in a given jurisdiction are high. After all, in many ways, it only stands to reason that if units are sitting vacant, it makes more sense to help low-income tenants access those units than to build brand-new housing from scratch. It is also easier for tenants to find good units (and good landlords) when vacancy rates are high. In such situations, it's more of a renter's market and more landlords are going to be interested (and less fussy about which tenants they'll accept).

Another major problem with rent supplements is their potential to have a significant inflationary impact on low-end rental units across any given jurisdiction in which they're prevalent. A major U.S. study done by New York University's Scott Susin looked at the U.S.'s 90 largest metropolitan areas. The study concluded that “shelter allowances,” while providing US\$5.8 billion to participants, had caused an average rent increase of 16% for non-recipient families over a 19-year period, representing a US\$8.2 billion increase in total rent paid by non-recipient renter households. Thus, low-income households in general saw a net loss of US\$2.4 billion.

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In its 2006 election platform, the federal Conservative party promised a \$200 million yearly tax-credit plan that was clearly inspired by the U.S.'s Low Income Housing Tax Credit (LIHTC).

The U.S.'s LIHTC program has a long-established track record, has lasted over three different administrations, and is now that country's primary

mechanism for encouraging the production of housing to be occupied by low- or moderate-income households.

Insofar as a Canadian tax-credit program would resemble the U.S. one—

- tax credits would be sold by the Canada Revenue Agency and administered by a provincial ministry;
- the ministry in question would, effectively, outsource the job of marketing the tax credits to firms;
- the firms that market the tax credits would be called “syndicators;”
- provincial housing agencies would oversee a competition process wherein well-off individuals who already own real estate would bid on the tax credits;
- bidders would make offers to invest in rental housing being developed by either non-profit or for-profit developers that meets various affordability criteria;
- bidders making the most appealing offers would be awarded tax credits by the provincial agency (the latter would award the credits it has received from CRA);
- at tax time, individuals receiving tax credits would then use the credits to reduce their net rental income; they would also get to use the capital cost allowance (CCA) from a building as a deduction in the computation of their net rental income;
- in effect, under such an approach, the wealthy person is buying a share of the property: she won't get any rental income from it, but she will be able to deduct this “loss” generated from the CCA.

While housing developed under this program in the U.S. (naturally) tends to require rent that is lower than for newly-built private units, the rent required is considerably higher than in social housing units.

The federal tax credits, in the U.S. context, do not by themselves make units affordable for poor households. Thus, an important component of the U.S. program is that most units tend to receive one to two additional layers of subsidy. One very serious drawback of the LIHTC approach is its inefficiency. For every one dollar of federal tax credits, only between \$0.60 and \$0.85 goes into the housing development.

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A rather simple costing-out exercise looks at how far \$100 million in federal

spending would go on each approach, respectively, if it were spent within a one-year period.

This exercise reveals that \$100 million dollars could produce 24,000 affordable

household years if it were spent on the non-profit approach, roughly 17,000 affordable household years if spent on the rent-supplement approach, or roughly 14,000 affordable household years if it were spent on the tax-credit approach.

In short, the non-profit approach appears to be the most cost-effective of the three.

The above policy alternatives should not necessarily be seen as competing alternatives. Rather, finding the right *mix* of policy measures is key. Some are better in the short term. Others take many years to pay off as a long-term investment. Some have inflationary effects.

Others contribute to supply and thereby have the potential to decrease the cost of unsubsidized units to low-income renters. Some have attributes that make them very appealing to politicians bent on increasing their popularity.

Finally, some households prefer one type over another.

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(Nick Falvo works at Street Health in Toronto. A longer version of this paper is being presented at this year's annual meetings of the Canadian Economics Association to be held in Halifax June 1-3.) 