Canadian Federation of Apartment Associations

Fédération canadienne des associations de propriétaires immobiliers

HOUSING POLICY

INFORMATION & IDEAS

April 4, 2016

John Dickie
President
Canadian Federation of Apartment Associations
640 – 1600 Carling Avenue
Ottawa, Ontario K1Z 1G3
Tel. 613-235-0101
Fax 613-238-0101
www.cfaa-fcapi.org
president@cfaa-fcapi.org

EXECUTIVE SUMMARY

The Canadian Federation of Apartment Associations ("CFAA") represents the owners and managers of close to one million residential rental suites in Canada, through 11 associations across Canada and direct landlord memberships. The private rental housing sector provides 4,000,000 rental homes for more than eight million Canadians.

More low-income people live in the private for-profit rental sector than live in social housing. CFAA's members are vital partners in addressing housing affordability and homelessness. CFAA is supportive of the government's agenda and direction. We want to help support your implementation of sound housing policy to address housing affordability and homelessness.

An overlooked, but key, housing fact

For many years the rate of core housing need has varied very little above or below 13%. Since the rate is so stable there is a tendency to think that it is the same people each year. However, CMHC's research makes it clear that the people move into and out of core housing need rather rapidly. Each year one third of people in core need at the beginning of the year leave core need, being "replaced" by new people. In addition, another one third leave core housing need during the second year, being replaced by new people during that year. Only about 6% of the population remains in core housing need for all three years of any three year period.

CFAA's key recommendations are the following:

1. Portable housing allowances are the most cost effective and most equitable way to help the most households, and they take effect in the shortest time.
   - The government should consider a national housing allowance OR ensure funding flowed to provinces enables a housing allowance.
   - In the long term, the issue of divergent rents should be taken into account in designing any guaranteed income program.

2. Next to a portable housing allowance program, a rental RRAP program is one of the most cost effective ways to help a large number of households, in addition to creating jobs and preserving affordable housing.

3. The private sector is happy to participate in the government's efforts to improve the supply of affordable housing for low- and moderate-income households.
   - We have ideas how to do this most effectively to help the most households.
   - Direct incentives, and the promised 100% GST rebate are a good start.

4. Homelessness can best be reduced by ensuring sufficient supportive housing for the chronic homeless, who often have serious mental health problems or addictions.

CFAA is ready and eager to participate in the various consultations about housing strategy, policies and programs. Our experience and expertise will help the government achieve the best results with the available funding.

TABLE OF CONTENTS

Who does CFAA represent?

The Canadian Federation of Apartment Associations (“CFAA”) represents the owners and managers of close to one million residential rental suites in Canada, through 11 associations across Canada and direct landlord memberships. In existence since 1995, CFAA is the sole national organization representing the interests of Canada's $480 billion private rental housing industry, which provides 4,000,000 rental homes for more than eight million Canadians.

CFAA believes that a healthy rental market contributes greatly to our national well-being and economic prosperity. We believe that the policies we advocate will benefit landlords, tenants and taxpayers.

Overview

This submission focuses on how to best meet the Liberal campaign promises on affordable housing.

Key Liberal Campaign promises related to housing

Here are the key campaign promises made by the Liberal Party related to housing:

On Housing directly

- To make it easier for Canadians to find an affordable place to call home
- Refurbish existing housing units
- Renew operating agreements with housing co-operatives
- Help build more housing units
- Provide operational funding support for municipalities, including for Housing First
- Direct CMHC and the new Canada infrastructure Bank to provide financing to support rental housing construction for middle and low-income Canadians.

On Housing related tax issues

- To increase the new residential rental property rebate to 100%, eliminating all GST on new capital investments in affordable housing,
- Provide $125 million per year in tax incentives to increase and renovate (private) rental housing

On improved income support for low-income families and seniors

- to increase the Child Benefit for low-income families
- to increase the Guaranteed Income Supplement for low-income seniors.

CURRENT HOUSING CONDITIONS

Core housing need

CMHC measures whether a household is properly housing based on three criteria:

- Affordability (i.e. the cost is less than 30% of the household income, or the household could rent a median-rent unit of the size it needs in the community for less than 30% of the household income)
- Suitability (i.e. the unit is considered large enough for the family, based on its composition)
- Adequacy (i.e. the unit in a good state of repair or only in need of minor repairs, rather than in worse condition)

Recent CMHC statistics report that 87% of Canadians are well or adequately housed or could be at a rent affordable to them. 13% are in core housing need. Of that 13%, about 75% are in core housing need only because of affordability. They are paying more than 30% of their income to obtain suitable and adequate housing, and they need to pay that because their household income is such that the median rent in their community is more than 30% of their income.

Another 15% are in core need because of affordability together with one or two of the other criteria. Taking those two groups together, affordability is the key issue for 90% of the people in core housing need each year.

For a decade or more the rate of core housing need has varied between 12% and 14%. Since the rate is so stable there is a tendency to think that it is the same people each year. However, CMHC's longitudinal research makes it clear that the people move into and out of core housing need rather rapidly.

Each year one third of people in core need at the beginning of the year leave core need. That is about 4% of the total population. About the same number of people move into core housing need, so that the year-end figure is similar to the figure at the beginning of the year. In addition, another 3% or 4% of the total population leaves core housing need in the second year, being replaced by new people during that year. Only about 6% of the population remains in core housing need for all three years of any three year period.[1]

In most cases, as CMHC notes, the moves into core housing need are related to changes in family composition. Life partners split up, or one partner dies, and the housing that was affordable with two incomes is not affordable with one. But a year later the survivor has moved to affordable housing or both halves of the household which experienced separation have moved to housing they can afford. Or the sole female parent has arranged child care and has moved back into the work force, thereby earning the income needed to afford suitable housing

[1] *Canadian Housing Observer 2011*, CMHC. pp. 86-87.

Rents vary greatly across Canada

Rents vary greatly across Canada. In many areas rental housing is affordable to all but those with the very lowest incomes. In other areas, average rents are higher, although rental housing is much more affordable than housing meant for owner-occupation. See chart 1, which shows average rents in select census metropolitan areas and in representative smaller centres across Canada for the primary rental market, which consists of purpose-built buildings of three units or more.

Chart 1 Average rents in various CMAs and provinces

Location	Average rent (Oct 2015 - $)		Comment
	1Bedroom	2 Bedroom	
Atlantic Canada			
St John's (NL)	798	923	Will decline due to oil decline
Moncton	640	760	
Saint John (NB)	600	718	
Halifax	833	1,048	
Cape Breton (NS)	601	749	
Quebec			
Québec City	666	788	
Montréal	668	760	
Sherbrooke	486	608	
Ontario			
Ottawa	972	1,174	Face continued upward pressure due to continued population growth
Toronto	1,103	1,288	
London	781	963	
Windsor	689	824	Samples of smaller communities, which have much lower rents
Pembroke	628	808	
The West			
Edmonton	1,029	1,259	Will decline due to the drop in oil sands development
Calgary	1,122	1,332	
Vancouver	1,079	1,368	Face continued upward pressure due to continued population growth
Victoria	867	1,128	
Prince George	667	794	Samples of smaller communities, which have much lower rents
Nanaimo	723	847	

Source: CMHC

Availability of social housing varies greatly

In addition, social housing is available to varying degrees in different provinces and cities, and is operated by varied providers. See chart 2, which shows the number of social housings units, including both public housing and non-profit housing units and the number per thousand people in the population.

Chart 2 Availability of social housing in various cities and provinces

Location	Social housing		Comment
	Number of units	Per 1,000 of population	
Atlantic Canada			
St John's (NL)	3,178	17.5	This social housing consists of provincial public housing and non-profit housing.
Moncton	1,962	15.5	
Saint John (NB)	2,029	16.6	
Halifax	6,096	16.4	
Quebec			
Québec City	13,342	18.6	The province and the cities are the main providers.
Montréal	46,685	12.8	
Gatineau	5,239	16.7	
Ontario			
Ottawa	23,471	27.7	This social housing consists of municipal public housing, and non-profit housing.
Toronto (City)	94,520	18.5	
London	7,576	16.6	
The West			
Edmonton	19,800	19.1	This social housing consists of provincial and municipal public housing, and non-profit housing.
Calgary	15,151	14.0	
Vancouver	50,349	23.8	
Victoria	7,751	23.5	

Sources: Various city and provincial reports, listing the amount of social housing, by type, in each community.

In total, the social housing stock amounts to about 600,000 units, or one sixth of the amount of rental housing provided by the private rental sector. Not all social housing is occupied by low-income people, and a substantial amount of the private rental stock is occupied by low income people. In fact, more low-income people are housed in the private for-profit rental stock than are housed in social housing.

Availability of direct financial support for tenants varies

Besides providing subsidized social housing, another way to assist low-income people with their housing needs is through financial support. In each province, the social welfare system provides a “shelter allowance” as part of what is paid to welfare recipients.[2] The shelter allowance is usually enough to obtain a rented room for a single person, or a small apartment for a family in the lowest rent community in the province. However, in most provinces there are substantial variations in market rents across communities, and the shelter allowance does not enable recipients to afford the rents in the higher costs locations. Welfare recipients need to spend money meant for other needs on rent. They then obtain food from food banks or somehow supplement their incomes to pay for other necessities.

The working poor face similar difficulties, especially if there is only one wage earner in a family with several children. Chart 3 shows the degree to which the provinces make provision for low earned incomes and the different rents across the province, through housing allowances. The programs in chart 3 vary in whether they are used for people on social assistance, or just for households who are not on social assistance.

Chart 3 Availability of financial support for rents

Province	**Program**	**Coverage**	**Maximum monthly subsidy amounts**
BC	SAFER	Seniors	Up $765 for singles in Metro Vancouver, or $667 in other locations Up $825 for couples in Metro Vancouver, or $727 in other locations
	SAFER for families	Families with children	Up to $846 in Metro Vancouver, or $688 in other locations
Alberta	Direct Rent Supplement		Up to $500
Saskatchewan	Rental Housing Supplement	Families with children Disabled singles or couples	$186 to $364 depending on location and family size, or more if the family includes both children and disabled adults

[2] In Ontario there are two levels of welfare, namely Ontario Works (OW) and Ontario Disability Support Program (ODSP). For a single person the total OW payment is about $650 per month. For ODSP it is about $1,050 per month.

Manitoba	Rent Assist	Low-income people, including welfare recipients	Up to $300 or $400 depending on location and family size
Ontario	Being developed Some limited municipal programs	Victims of domestic abuse Homeless families and individuals	To be determined City of Ottawa: $250 for singles plus $50 for each additional person
Quebec	Allocation Logement	Families with children	Up to $150 (approx.)
Atlantic Canada	none		N/A

The various housing benefit programs have grown in recent years as the provinces have realized the advantages of those programs. The amount of money spent on the programs is a small fraction of the money spent on subsidizing social housing. The groups who qualify are also limited, and in many cases exclude the poorest of the poor. Long term federal funding could assist the provinces to expand those programs, and to apply them to the poorest of the poor.

Note on a guaranteed annual income

CFAA supports a guaranteed annual income (GAI) in principle. However, we are concerned about the design of the program.

Low-income people need to pay a substantial amount of their income on rent, either directly or by means of receiving a subsidized rent. There are substantial variations in market rents across Canada. Social assistance systems which do not adjust for that will be ineffective or unduly expensive or both. CFAA urges the government to consider that in designing any guaranteed annual income program.

CFAA has valuable input to offer on a GAI program, would like to provide input on that project.

Homelessness

Current research divides the homeless population into three categories:

- Chronic
- Episodic
- One-time

At any point in time, the greater numbers of people who are homeless are one-timers. Their home has burned down, or they have left their home, or been forced out of it by a separation. They will find housing quickly and not become homeless again.

The next greatest number of people who are homeless are homeless on an episodic basis. They lose their apartment because of not paying rent or behavioural issues. They too find housing, but for them the new housing lasts for a year or two, but then they cycle into homelessness again.

The smallest number of people who are homeless are chronically homeless, but over a year they use the largest number of bed-nights. They are generally homeless because they have serious mental health problems or addictions or both. A few live on the street, but most spend their nights in homeless shelters. Some of them have lived in homeless shelters for five or 10 years.

Before Housing First, the chronic homeless were required to accept treatment for their addictions or mental illnesses and succeed in treatment before they would be placed in housing. Now leading thinking, and the federal government’s policy, is that they should be offered and encouraged to take housing first, while also receiving supports and/or treatment. Those supports can be attached to the person while they live in private rental housing, or the supports can be attached to the rental unit in supportive housing.

Conclusion

Federal government policies and programs need to take into account the huge variances in what is currently available and in what is needed by different groups of people.

KEY HOUSING PROGRAM OPTIONS

A number of different housing programs can address the overarching promise "to make it easier for Canadians to find an affordable place to call home." Some will help more people (or many, many more people) for the same budgetary cost. This submission addresses the cost, the speed of action, and the difficulties and benefits of different programs to make housing affordable, either directly or by encouraging new construction or renovations. We address them in turn:

1. Funding repairs to social housing and long term self-reliance

One possible program is to assist social housing providers with capital repairs. The Federation of Canadian Municipalities and Canadian Housing Renewal Association have documented the backlog of repairs needed in both public housing and non-profit housing. Funding some part of those repairs could consume whatever money is allocated to them. At $10,000 per door, a 1 billion dollar program would improve the quality of life of 100,000 households, who are already living in affordable, subsidized housing.

In Budget 2016, $574M was allocated to that over this year and next year.

There are also long term issues involved in addressing the expiry of the operating agreements, and in helping the social housing sector achieve self-reliance. CFAA notes that Budget 2016 proposes to reallocate $30M to help maintain rent-geared-to-income for households living in social housing. Such funding could be attached to the unit or the household. Both offer advantages and disadvantages.

The government has announced its intention to consult with key stakeholders. CFAA is looking forward to being part of that consultation. Many of our members sit on the boards of social housing providers. Others provide management services for social housing groups. CFAA's members are deeply involved in social housing and have many ideas about what works well and what does not.

2. Funding the building of new social housing

Another possible program is to assist social housing providers with new construction for either public or non-profit housing. There are three main drawbacks to such a program. The cost of subsidizing new construction is prohibitive. In most areas a subsidy of $120,000 per unit is only able to produce rental units at 80% of current market rents. Those rents are not low enough for large numbers of low-income people, let alone the poorest of the poor.

In many areas, building new social housing is not the most useful policy response, especially for people whose only need is for financial assistance. For them, it is much more economical to subsidize their rents in the existing rental stock, either through rent supplements arranged with their landlords, or through portable housing allowances paid directly to the tenants without the landlord's involvement.

Across Canada, many areas are blessed with ample supplies of rental housing, as reflected in the low level of market rents for many smaller or eastern communities shown in Table 1 above. Those areas have more rental buildings than they need; as a result, repairing or renovating existing buildings is a much more sensible and economic approach than building more rental housing.

Even in areas with higher rents, social housing is still not the best response to housing need. It is very expensive to construct, and even more expensive in those areas. Social housing brings with it future demands for repair funding. It is not optimal to address core housing need, since building one unit takes one household out of core need, but in most cases that household would have moved out of core need within two years anyway. Public policies do not generally allow that household to be evicted to allow a new household which is now in core housing need to move in. As shown by the CMHC statistics for movement into and out of core housing need, eliminating core need through social housing would require not social housing for 12% of the population, but rather social housing for 20 or 25% of the population. The cost would be astronomical. Core housing need can be reduced or eliminated much more affordably through direct financial assistance to low-income households.

Funding new construction could easily consume whatever money is allocated to it. A program of $1 billion would generate fewer than 8,000 new rental units. That is less than one half of 1% of the people in core housing need this year, and less than one quarter of 1% of the people who will be in core housing need at some point over the next 5 or 10 years. (Eight thousand rental units is also one-fifth or one-sixth as many as the number of units which can be saved from demolition through a Rental RRAP program of the same cost, which will be discussed below.)

3. Funding new supportive housing

If social housing construction is part of the infrastructure spending plan, then we would urge the priority to be placed on supportive housing, which serves people with the greatest needs, such as those with physical or mental disabilities or addictions. For supportive housing, operational funding is also needed. Wisely, providing such operational funding for special needs related to housing was also one of the campaign commitments. The operational funding commitment can produce the best result when it is married to the new construction commitment AND focused on supportive housing.

The construction costs of supportive housing are usually less per unit than for mixed-income social housing because there is no need to subsidize units for people who do not need the support. As well, those in need of supportive housing are usually singles, Single room occupancies (SROs) are usually what they expect and are comfortable living in. (Usually a greater amount of common areas is provided as well.)

Even at the same cost as social housing, supportive housing is better for tax payers, landlords and policy reasons. More supportive housing is needed to eliminate chronic homelessness, whereas social housing is only one of several ways to address housing affordability, and the other ways are less costly.

The GIS increase and the Child Benefit

While not noting the changes as a housing program, Budget 2016 proposes to increase the amount paid to low-income seniors through the GIS, and the amount paid to low-income families through the Child Benefit. CFAA very much supports those policy moves.

We do note, however, that the funding is not as well targeted as it could be. Low-income seniors may own their homes, thereby living rent-free, and receive the increase, while other seniors face a hard struggle to pay rent. Among renters, allocating the benefit based on income alone does not take into account the different position of seniors who may have ready access to rental units at $500 per month, or have to struggle to find them and afford them at $1,000, in high-rent communities like Toronto or Vancouver. Families may have ready access to rental units at $800 per month, while others have to struggle to find them and afford them at $1,400 per month.

4. Direct financial assistance to low-income households, such as rent supplement or portable housing allowances

Rent supplements

Under a rent supplement program a provincial or municipal housing agency agrees with private landlords for the rental of units in their buildings. The agency then send low-income tenants to the buildings, where they pay a fixed percentage of their income as rent (rent-geared-to-income"), while the agency tops the rent up to the market rent as agreed between the landlord and the agency.

Portable housing allowances

Portable housing allowances are money paid directly to low-income renters to help them pay their rent. In most cases, the recipients do not move, but rather use the money to increase what they spend on other necessities, like food and clothing. Quebec, Manitoba, Saskatchewan and BC already use portable housing allowance programs, but they are limited by the group of people who qualify, and to some extent in the amount of assistance that they provide.

Additional funding would enable more people to be assisted, or for the amount of assistance to be increased modestly, in those provinces. In provinces without such a program, programs could be instituted through the provincial or municipal social assistance authorities. For example, in 2014, the City of Ottawa instituted a limited program of housing allowances as part of its plan to end homelessness. That plan succeeded in reducing the number of people occupying emergency shelters.

Alternately, a federal program could be launched through refund cheques through CRA. As part of a detailed study of portable housing allowances generally, that approach was thoroughly studied by CMHC in its report *Housing Allowance Options for Canada*, produced by Abt Associates, 2006. (For a positive effect on the poorest of the poor, the provinces would need to agree to refrain from clawing back the allowances from social assistance recipients. Ontario made that agreement to make the City of Ottawa housing allowance program work.)

A Canada- wide housing allowance programs would be extremely economic. A program costing 1 billion dollars per year could assist 300,000 to 500,000 households, or even more. Portable housing allowances are completely scalable, from 50 million to a billion dollars per year or more.

Portable housing allowances can be launched quickly. They produce benefits broadly through the local economy because the recipients are likely to spend the money immediately upon receiving it and on a wide variety of items. Portable housing allowances would be useful in all areas since they support people paying unaffordable amounts for housing, and that applies to a greater or lesser degree across Canada.

5. Renovation subsidies for the private sector (like the former Rental Residential Rehabilitation Assistance Program --- Rental RRAP)

Another way to make housing more affordable is to provide renovation subsidies for the low-end of the market. In almost all areas the rental stock includes numerous old rental buildings. Absent major repairs, those buildings are nearing the end of their useful lives, and will need to be torn down. Yet they provide a great deal of the most affordable housing in many communities.

Until recently, CMHC provide a program known as the Rental Residential Rehabilitation Assistance Program (“Rental RRAP”). Under that program, landlords renting to low-income tenants at modest rents could apply for up to $24,000 per rental unit to pay for structural repairs, life safety repairs or new heating plants. Successful applicants received a loan forgivable over 15 years, and in return they had to agree not to raise the rents more than a limited percentage each year (often the Consumer Price Index.)

The Rental RRAP program was heavily over–subscribed. In most cities applications were received every year for 7 to 10 times as much money as was available. A few years ago CMHC withdrew from administering that program; instead the funding was bundled and directed to the provinces, who distributed it to the cities.

Among the landlord community, there would be strong take-up of a restored Rental RRAP program. A program of up to $350 million per year could easily be rolled out across Canada. With a three year life, the total funding could be set at $1 billion, providing much need repairs to 40,000 to 50,000 low-rent rental units. Or a smaller scale program could be rolled out instead.

Private landlords know what needs to be done in their buildings, and can quickly get and compare quotes from renovation contractors. That would provide construction jobs across Canada, enabling oil workers to return to their home provinces and find well paid work. Such a program would also improve the condition of the housing stock, and help to moderate rents, both in the buildings which benefited directly, and through maintaining the supply of private low-rent housing, which would indirectly benefit 50,000 to 100,000 additional households.

Budget 2016 provided $504M for the Affordable Housing Initiative over this year and next year. Based on provincial or municipal priorities and choices, that money can be used for new social or supportive housing construction, forgivable loans for repairs to private housing or direct financial assistance to tenants.

6. Construction incentives for private rental construction

Low interest loans for new private rental construction

The Budget's promise to direct CMHC and the new Canada infrastructure Bank to provide financing to support rental housing construction for middle and low-income Canadians is welcome. The issues in implementation here are that virtually all rental housing is more affordable than most housing meant for owner-occupation. All rental housing forms part of the housing continuum, and incenting the construction of more of any type of rental housing assists low-income Canadians access housing, either directly or through the filtering effect. Therefore, it would be beneficial for most or all new rental construction qualifies for the financing, not just a limited subset called "affordable housing."

CFAA would be pleased to participate in the design of the conditions and criteria of the support for rental construction in order to optimize the results. Many of our members are eager to build new rental housing. However, the program conditions will have a major impact on the take up, and the program results. Hybrid options are available in which the private sector builds mixed-income communities with subsidized housing mixed in with middle market and up-scale units. Presumably that is one thing the government wants the new Affordable Rental Housing Financing Initiative to address. CFAA looks forward to dealing with CMHC in the design of that initiative.

Residential rental property rebate on the GST

The campaign promise to increase the new residential rental property rebate to 100%, eliminating all GST on new capital investments in affordable housing, is also a positive move. That was not included in Budget 2016, but CFAA hopes the reform will be made soon. To make it the most valuable, three matters need to be addressed in program implementation.

First, the reform needs to apply to all rental housing, not just to social housing or some form of housing said to be "affordable housing." Virtually all rental housing is more affordable than most housing meant for owner-occupation. All rental housing forms part of the housing continuum, and more of any type of rental housing assists low-income Canadians access housing, directly or through the filtering effect. If a value test is applied it should be the same test as is now applied to eligibility for the partial GST rebate.

CMHC reports a large and growing gap between the cost of owning one's home and the cost of renting. More rental housing needs to be encouraged at all price points.

Second, the reform needs to apply to retrofits and renovations, not just to new construction. That seems to be inherent in the wording of the campaign promise which referred to capital investments, not new construction.

Third, the reform needs to remove the GST on all substantial retrofit or renovation regardless of whether the retrofit or renovation is considered to be a capital item under income tax law. Many replacements of items are considered to be repairs. If a requirement of gaining the 5% GST rebate is that the work be considered to be capital then the rebate will result in a far inferior income tax treatment than it would receive being treated as a repair.

Tax credits for low-income housing (LIHTC)

The U.S. Low Income Housing Tax Credit (LIHTC) was enacted to encourage new construction for low-income households by the private sector. The US government recognized that a private sector developer may not receive enough rental income from a low-income housing project to cover the costs and provide sufficient return to investors. The tax credits may be shared among the owners of a project (equity investors), much as income and losses are shared among business partners for tax purposes. Generally, the investors are recruited by syndicators, and ownership rights are controlled by limited partnership agreements. The private investors use the tax credits to offset taxes otherwise owed on their tax returns. The money private investors pay for the credits is paid into the projects as equity financing.

However, the cost to the Treasury exceeds the subsidy received by the builders by about 40 to 50%. It is more cost effective to provide a direct subsidy rather than to impose the costs of the LIHTC process.

The LIHTC can be one part of a broader strategy to house low income households. However, new construction remains a much more expensive way to house low-income households than through housing allowances. Moving households from the lower cost housing they currently occupy into higher cost new construction is a questionable strategy. Assistance provided through this mechanism will increase “horizontal inequity”: a few households get the benefit of brand new housing, while hundreds of thousands in need get no assistance at all. Use of this mechanism should be limited to specific physical types of housing that are not being provided in the marketplace.

Until Canada has a national housing allowance program that improves horizontal inequity, a LIHTC program should not be a priority. However, if the government is interested in the idea, CFAA would be happy to provide more feedback on program design.

Higher CCA rate

Another means of promoting the development of new rental housing would be through an increase to the rate of capital cost allowance.

Until the late 1970’s the rate on wood-frame construction was 10%, as compared with 5% for concrete construction. In 1988 the CCA rate was reduced from 5% to 4% for all buildings acquired after 1988. Especially in Vancouver, wood-frame buildings are reaching the end of their useful life and being torn down while they still have a substantial undepreciated capital cost (UCC).

Canadian CCA rates are reduced by the half-year rule and the declining balance method, which are not used in the US CCA system or the German CCA system.

The rental housing industry would like to see a higher CCA rate generally, and in particular for wood-frame construction. Wood-frame is the construction method of choice for the more affordable new construction, consisting of row houses or stacked townhouses in the suburbs. CFAA's suggestion is that the general CCA rate on residential rental properties to be raised to 5%, and for the rate for wood-frame construction to be raised to 7.5%.

7. Capital gains deferral

A better tax change would be the deferral of capital gains when a residential rental property and the proceeds are invested in newly constructed rental housing. As well as stimulating new construction to meet an increased demand for those assets, such a rollover will result in major upgrades to the existing housing supply. A new owner very often brings a new vision and expertise to an older property resulting in upgrades to save energy, and to improve the property. This is good for tenants and for the environment.

While some tax is deferred, the tax is made up again in later years when the properties are sold by in owner who does not reinvest the proceeds in another residential rental property. There are also substantial offsets due to the tax revenue generated by sales and purchases and the tax revenue generated by the renovations which often accompany a sale.

With data for 2005 CFAA estimated that the gross deferral cost would be $258M in the first year, and less thereafter. After offsets, the net cost would be in the range of $150M in the first year. Adjusting for increased prices, that probably means a 2017 gross deferral cost of $400M with a net cost of $250M per year.

Those amounts could be reduced substantially if the government tied the deferral to public policy goals such as a requirement that to qualify either the property sold or the property bought was required to provide a percentage of rental units for Housing First or for a Rent Supplement program. Such a tie would also promote the achievement of other important policy goals directly.

Comparing housing programs

The table below sets out the comparative benefits of the seven different housing affordability programs.

Possible Program	Cost per unit	Speed and cost	Geographic Applicability	Households helped for $1 billion
1. Funding repairs to social housing	Probably $2,500 to $10,000	2 years Moderately expensive	Most areas	100,000
2. Building new social housing	$60,000 to $150,000	4-5 years Very expensive	Some areas	8,000
3. Building new supportive housing	$60,000 to $150,000	4- 5 years Expensive but helps the people in most need	Almost all areas	8,000
4. Direct financial assistance to low-income households	$1,200 to $6,000 per year	Speedy Economical	All areas	330,000 THE BEST BANG FOR THE BUCK!
5. Renovation subsidies for the private sector	$16,000 to $24,000	Speedy Economical compared to new construction	Almost all areas	50,000 (and 50,000+ indirectly)
6. Construction incentives for private rental construction (varies with the program)	$40,000 to $100,000	4- 5 years Economical compared to new social housing construction	Many areas	18,000
7. Capital gains deferral (producing both new construction and renovations of existing rental housing)	$40,000 average of new units and renovations	2 to 5 years Economical compared to new social housing construction	Many areas	25,000

CONCLUSION

There any many ways to address the Liberal Party campaign promises regarding housing and housing affordability. CFAA urges the government to have regard to the cost-effectiveness and timing of the various options. In particular, since they are cost-effective and fast acting, we urge the government to make use of

- a broad program of portable housing allowances, which varies with rent levels in different locations, and
- a Rental RRAP program.

To the extent that the government decides to support, fund or subsidize new housing construction, we urge the government

- to support the construction of any private rental housing (not just “affordable housing”), and
- to subsidize and fund supportive housing (rather than new housing to serve low-income renters whose only need is financial.)