



Canadian
Federation of
Apartment
Associations

Fédération
canadienne des
associations
de propriétaires
immobiliers

**CFAA SUBMISSION TO CMHC
ON ADOPTING
A HUMAN RIGHTS BASED APPROACH TO HOUSING**

May 31, 2018

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Introduction

The Canadian Federation of Apartment Associations (“CFAA”) represents the owners and managers of close to one million residential rental suites across Canada. The private rental housing sector provides four million rental homes for nine million Canadians of all ages, incomes and situations. Of those nine million Canadians, about three million receive low incomes in any given year. Every year, about two out of every three low income people live in for-profit rental housing, mostly at the affordable end of the rental market. However, due to their low incomes, they struggle to pay their rent.

CFAA is the national voice of the residential rental industry, advocating for the interests of the industry to the Government of Canada and CMHC. We believe that a healthy rental market contributes greatly to Canada’s national well-being and economic prosperity. We believe that the policies we advocate will benefit landlords, tenants and taxpayers.

CFAA believes that landlords and tenants have a common interest in free rental markets, in fair taxation of residential rental property, in high industry standards for customer service, and in housing assistance that supports tenants' rights to choose their housing and to move when and if they please. CFAA advocates reasonable government support for those who cannot adequately address their own housing needs due to disabilities or disadvantages.

Overall position on adopting a human rights based approach to housing

In principle, CFAA supports the move to adopt a human rights approach to housing. Governments should ensure that people have the means to access adequate housing. The vast bulk of people can and should address their housing needs for themselves, but some people need help. People with mental or physical disabilities need the help of family, charities or the government, as do children whose parents are not taking care of them.

People with low incomes may also need housing assistance, which can be in kind or through financial support. However, CFAA has concerns about the impact of particular positions that are sometimes advanced under the shelter of the human rights approach to housing, and CFAA has additional comments on other areas of the consultation.

PARTICULAR CONCERNS

CFAA fears that an over-emphasis on a human rights based approach to housing will hinder efforts to improve housing affordability by exacerbating delays and barriers in bringing much needed rental supply on-line. CFAA also fears that a human rights based approach risks redirecting much-needed income support away from those who need it most.

CMHC’s recent study of house prices in five major housing cities found a high degree of correlation between high house prices and a low elasticity of housing supply. The cities with the highest house prices, namely Vancouver and Toronto, also have the highest residential rents. Facilitating new housing supply to make housing supply more elastic is the most effective way to make housing more affordable and available at all points on the cost spectrum, including at the low-cost end.

Rental development and re-development is onerous and costly, but the human rights approach risks making re-development more onerous and more costly.

“No forced evictions”

Some of the housing-as-a-human-right advocates would take the approach further, and give each person a right not just to “a home”, but to the particular home that person occupies at any given time. They phrase their goal as “no forced evictions,” or “better security of tenure”.

At the CMHC consultation in Ottawa on May 28, reference was made to a re-development project in Ottawa in which 95 tenant households need to be relocated in order for 300 to 600 new homes to be built to replace the existing units, which have reached the end of their economic life. The advocates found that plan appalling, and want to make sure that the new human rights approach means it and similar projects cannot happen in the future.

Across Canada, tenants do have significant security of tenure under existing provincial law. In Ontario, for example, landlords cannot terminate a tenancy because a lease comes to an end. Instead, the landlord has to establish a specific ground listed in the *Residential Tenancies Act*, in order to obtain possession of a rental unit. Some of those grounds are bad tenant behaviour, such as substantial interference with the reasonable enjoyment of other tenants, damaging the rental unit, or not paying the rent. Other grounds include major repairs or renovations so substantial as to require vacant possession and a building permit, or demolition.

For the re-development of an area, demolition is required. A property which has reached the end of its economic life or is physically distressed needs to be demolished and replaced. Tenants currently have the right to be provided with a new unit or to monetary compensation. That is the process being followed in the Ottawa project.

Already, before any change to a human rights approach, rental development and re-development is onerous and costly. Rental re-development would become prohibitive if every tenant in any building to be demolished had to be bought out at a price which that tenant determined. Tenants could effectively extort substantial amounts of money from developers, or could block re-development entirely.

Providing absolute security of tenure through the rule “no forced evictions” would seriously limit or prevent all large scale re-developments of properties with housing on it now. That would interfere with the supply of new housing, and make low-income people worse off than they are now. Ample evidence from the U.S. and elsewhere shows that the number one cause of housing affordability problems in any jurisdiction is barriers to the supply of housing.¹ This research demonstrates that the cause of affordable housing problems has little to do with the supply of new “affordable” housing.² Rather, it is driven by obstacles that prevent the supply of homes at all price ranges.

¹ See for example Malpezzi, S. & Green, R. K. (1996). *What has happened to the bottom of the U.S. housing market?* *Urban Studies*, 33, 1807-1820.

² *ibid*

CMHC's recent study of house prices in five major housing cities found a high degree of correlation between high house prices and a low elasticity of housing supply. The cities with the highest house prices, namely Vancouver and Toronto, also have the highest residential rents. Creating the rule "No forced evictions" would reduce the elasticity of supply even more, driving prices and rents yet higher.

Facilitating new housing supply has the opposite effect. Adding to the overall housing stock creates new opportunities for households who can afford the cost of new construction to move up, freeing up more affordable units. As more affluent households move into the new, higher-valued supply, they vacate lower cost (more affordable) housing, create vacancies, and put downward pressure on housing costs. Each move into a newly constructed home (at any price) creates a "chain of housing turnover generated by people moving into new constructed units".³

Creating the rule "no forced evictions" would work exactly in the opposite direction to CMHC's goal of facilitating housing supply at affordable housing prices and rents. A few tenants would receive a direct gift at the expense of increased housing costs to many other people, including other vulnerable people.

Getting targets right

Another goal of the human rights based approach to housing is to enshrine targets in legislation so that they cannot be easily changed. However, that comes with serious risks, especially if the targets are too coarse or out-of-date, or become inaccurate over time.

CFAA submits that the current affordability standards are not adequate as permanent targets. See the attached paper for various issues regarding the current standard for affordability. With today's widespread data availability, clearer, more equitable and more precise affordability standards should be created and adopted before any targets are enshrined.

The attached paper was written and submitted to CMHC in 2007 with little apparent effect, and even since then major demographic and market shifts have occurred, which have impacted significantly on how the 30% affordability figures should be interpreted.

Over the past 10 years, debt has been cheap and homeownership became more accessible than ever before to first-time homebuyers. Builders targeted that market with ever-smaller condos and less expensive single family homes to keep pricing attractive. A huge swath of the demographic that would previously have rented – the 25-35 year old group – bought. As a result, renters as a group are less affluent today because of that market shift.

There has also been an explosion in the attendance of foreign students at post-secondary education. Estimates put the number at 50,000 in Toronto alone. The proportion of rentals occupied by students overall is definitely higher today, and purpose-built student housing further exaggerates their shelter to income ratios because it is more expensive "per bed" than traditional rental alternatives.

³ Kristof, Frank S (1965). *Housing Policy Goals and the Turnover of Housing*, Journal of the American Institute of Planners, August, 31: 232-245

These examples show that there are significant issues in setting targets, and they should be flexible over time, not cast in stone.

The measures of housing affordability

The attached paper on the current standard for affordability also shows that the standards need to be more flexible to be useful as realistic and equitable targets. CFAA and others advocate for different affordability standards for different size households, such as 50% for singles, 40% for two-person households and 30% for large households, again to focus support on those who are worst off.

As desired interim outcomes, CFAA advocates a focus on moving households from deep core need to a less dire situation, so that those who are worst off presently receive support. In other words, we should address the needs of households paying 60% or 70% of their income on rent before we address the needs of households of the same size paying 40%.

In contrast, a goal of moving the greatest number of households out of core need could easily result in a misallocation of resources, by concentrating resources on those in shallow need, who can most economically be moved out of housing need entirely. Instead, the focus should be on improving the situations of those who are worst off, namely those who are homeless or in deep core housing need, and particularly those with grossly inadequate incomes after paying the cost of housing.

A focus on those who fall into minority groups

Thanks to participants at the consultation Roundtable on May 28, 2018, those in attendance received statistics from the 2016 Census on the numbers and rates of low-income among different groups. Here are some highlights (rounded to the nearest thousand people).

| Community | Population in the community | Population in low income | Percent of population in low income |
|-------------------------|-----------------------------|--------------------------|-------------------------------------|
| Total population | 34,460,000 | 4,809,000 | 14.2% |
| Total peoples of colour | 7,675,000 | 1,590,000 | 20.8% |
| Not people of colour | 26,785,000 | 3,219,000 | 12.2% |

While these figures show a greater incidence of low income among people of colour, they also show that for every person of colour in low income there are more than two people who are not of colour who are also in low income.

The consultation discussion sometimes seemed to focus on helping those at greatest risk, identified by group membership, such as being immigrants or racialized. Instead, CFAA submits that in the context of low-income housing support programs, the focus should be on those in the greatest housing need (as measured by the shelter-cost-to-income ratio), regardless of identity group membership, and without discrimination.

ADDITIONAL COMMENTS

A New Federal Housing Advocate

According to the discussion paper, CMHC will appoint a new Federal Housing Advocate to focus on those Canadians who are in greatest need of assistance, by helping to identify systemic issues and barriers that many Canadians face in accessing a suitable or affordable place to live. This includes low-income individuals and families, people who are experiencing core housing need and homelessness, and racialized and other vulnerable groups. The Housing Advocate will identify and propose solutions to systemic barriers through ongoing dialogue with those in greatest need.

While dialogue with those in greatest need is an excellent starting point, CFAA believes that the Housing Advocate should also have regard to the second order consequences of possible action. For example, some housing advocates call for ever tighter rent control. In so advocating, they ignore the second order consequences of that policy, which is to reduce future rental housing supply. To achieve positive results, the Housing Advocate needs to take the second order consequences of possible measures into account.

In a similar vein, CFAA would like the Housing Advocate to be free to address the housing system, and to recommend measures to increase housing supply, such as an improved tax regime for rental housing providers, reduced development charges, and reduced power in the hands of neighbourhood organizations opposed to development of all kinds.

To achieve those goals the Housing Advocate should be independent of government (reporting to Parliament) and well resourced.

A New National Housing Council

According to the discussion paper, the new National Housing Council will be made up of “people from a wide variety of backgrounds, including representatives from CMHC, CMHC’s primary housing partners the provincial and territorial governments, municipalities, housing experts, researchers, and practitioners, Indigenous people, newcomers to Canada, and Canadians who have lived experience with housing need and homelessness”.

CFAA submits that the Housing Council should also, as a matter of course, include the knowledgeable representatives of the associations representing those who provide the bulk of housing for low-income households, including CFAA and CHBA.

Public Engagement Campaign

Lastly, in 2020, the discussion paper says CMHC will carry out a national public engagement campaign to inform public views about the different types and tenures of affordable housing that exist today, and support the development of more socially-inclusive housing projects in vibrant neighbourhoods. CMHC thinks that will help to reduce or eliminate stigmatization and discrimination of low-income housing. The goal is to foster access to adequate housing and more inclusive homes and communities across the country.

While CMHC phrases it in a positive way, this is essentially a campaign against NIMBYism. Since other aspects of the new approach are to be addressed first, CFAA reserves comment on how a government education program can best counter neighbourhood opposition to new socially-inclusive housing projects, and, for that matter, opposition to for-profit rental developments.

As a starting point, CFAA recommends that further work be done on approaches and methods to achieving and promoting mixed-tenure, mixed-income, mixed-use developments rather than single-purpose social housing developments.

CONCLUSION

CFAA supports the move to adopt a human rights approach to housing, provided that:

- 1) attention is paid to avoiding further interference with the re-development process, which process is critical to expanding the supply of housing generally, which is to the benefit of everyone, and
- 2) the targets which are adopted are flexible and adequate to show progress to the reduction of housing affordability issues in the face of changing demographic and market conditions.



HOUSING AFFORDABILITY MEASUREMENT CONCERNS WITH THE 30% AFFORDABILITY STANDARD

Prepared December 2007

Revised May 2018

The current affordability standard (30% of household income) was devised to determine the allocation of housing funds across Canada. The affordability measures may have been well suited for that purpose. However, it was devised when social housing was limited to families or even families with children, and not provided to households consisting of individuals. CFAA is concerned that the current rent-to-income measurements provide a misleading picture of housing affordability.

1. Affordability measures and household size

The affordability measures are now used in the context of housing for individuals, and also to portray changes in rental affordability over time. Problems in using the 30% affordability standard include the following:

- Average household's size has decreased over time.
- Smaller households can afford to pay a larger percentage of their income for housing than larger households, because the remaining money feeds, clothes and entertains fewer people.
- Smaller households are also more expensive per person to house because of minimum size constraints and because by modern standards every household needs a kitchen and a bathroom whether it consists of four people or one person, and those are the most expensive rooms to build and furnish.
- Rising minimum standards and the increasing quality of housing distort the current affordability measure.

There is a growing view that the 30 percent rule of thumb is too inflexible. Depending on their income level and age, it may be perfectly reasonable for single people or couples to pay more than 30 percent of their income for their housing. The examples below illustrate the point. They also show how a more accurate picture may be obtained from housing affordability measures that consider how much income per family member is left over after paying for housing. Such measures are used in many countries other than Canada.

Scenario 1: same income and rent (per month)

| | Julie | Esther |
|------------------------------------------------------------|---------|---------|
| Julie's Income (single person) | \$2,000 | |
| Esther's Income (single parent with three children) | | \$2,000 |
| Rent | \$800 | \$800 |
| Ratio | 40% | 40% |
| After rent income | \$1,200 | \$1,200 |
| After rent income per person | \$1,200 | \$300 |

Julie has plenty of money for food, clothing, transportation, entertainment and other needs. Esther has very little money for food, clothing, transportation, entertainment, diapers, child care and other needs. Yet according to the standard housing affordability measures, Julie and Esther are equally badly off.

Scenario 2: the single person has less income and lower rent (per month)

| | Pedro | Khaled |
|------------------------------------------------------------|--------------|---------------|
| Pedro's Income (single person) | \$1,200 | |
| Khaled's Income (single parent with three children) | | \$2,000 |
| Rent | \$600 | \$1,000 |
| Ratio | 50% | 50% |
| After rent income | \$600 | \$1,000 |
| After rent income per person | \$600 | \$250 |

Pedro still has adequate money for food, clothing, transportation, entertainment and other needs. Khaled has very little money for food, clothing, transportation, entertainment, diapers, child care and other needs. Yet according to the standard housing affordability measures Pedro and Khaled are equally badly off.

In the consultation on the National Housing Strategy, the National Housing Collaborative (NHC) did substantial work on the optimal design of a portable housing benefit. NHC members included anti-poverty groups such as Maytree, Metcalf Foundation, the United Way (Toronto and York Region) and the Canadian Alliance to End Homelessness, as well as numerous housing advocacy groups. Within the NHC there is broad agreement that the affordability standard should vary with household size, being higher than 30% for individuals and two person households. **CMHC and other policy makers should review the affordability standard with a view to raising the percentage for small households.**

CMHC and other policy makers should also evaluate other affordability standards, such as income per person left after housing costs. Having a variety of pictures from different angles will provide a clearer total picture of the affordability question.

2. Changes in household incomes and rental affordability

Recent income data shows that more Canadians are earning high incomes. In addition, the average income of tenant households appears to be stable or declining. Some advocates are trumpeting those statistics as evidence of increasing income disparity in Canada, or even of the impending disappearance of the middle class. However, we believe that tenants are not getting relatively poorer, rather the division of the population between renters and owners is changing. Because higher-income renters are transitioning to home ownership, the average income of renters is declining, even if the incomes of individual renters are rising. A trend to smaller renter households would also make the average renter household appear to be poorer, so that the whole apparent effect (or much of it) could be due to the changes in household composition. CMHC should help clarify this issue with appropriate research.

We are concerned that the current affordability measures are presenting a misleading picture. In at least two ways the current measures can show the housing affordability situation is getting worse when in fact it is getting better:

- Increasing incomes among lower income persons (greater affordability) will encourage household formation, which will appear as an increased ratio of shelter cost to income (lower affordability) if these new low income households cause average tenant household income to decline.

- Decreasing rents (greater affordability) encourage household formation for low income people, which will appear as an increased ratio of shelter cost to income (lower affordability) if the propensity for lower income household formation is significant.

Scenario 3: Household Growth with Income Growth

| | Case A | Case B | |
|------------------|---------|---------|---------|
| | | Mark | Paul |
| Mark's Income | \$1,670 | \$2,000 | |
| Paul's Income | \$1,670 | | \$2,000 |
| Household Income | \$3,340 | \$2,000 | \$2,000 |
| Rent | \$950 | \$850 | \$850 |
| Ratio | 28.5% | 42.5% | 42.5% |

In scenario 3, incomes increase which induces each individual to increase their housing consumption by taking a separate unit. The individuals are better off, but the current housing affordability measure makes it appear that they are worse off. In fact, instead of one household which is not in "core housing need", we have two households which are shown as being in core housing need. The situation of the people got better, but the measure says that it got worse.

Scenario 4: Household Growth with Rent Decreases

In scenario 4, incomes stay constant while rents decrease (from \$950 to \$850 for a 2bdrm and \$750 to \$650 for a 1bdrm).

| | Case C | Case D | Case E | |
|------------------|---------|---------|---------|---------|
| | | | Hua | Ling |
| Hua's Income | \$1,670 | \$1,670 | \$1,670 | |
| Ling's Income | \$1,670 | \$1,670 | | \$1,670 |
| Household Income | \$3,340 | \$3,340 | \$1,670 | \$1,670 |
| Rent | \$950 | \$850 | \$650 | \$650 |
| Ratio | 28.5% | 25.5% | 39.0% | 39.0% |

If the individuals remained together, their rent to income ratios would decrease. However, each individual chooses to increase his housing consumption by taking a separate unit. The individuals are better off, but the current housing affordability measure makes it appear that they are worse off.

Even if greater affordability does not appear as lower affordability through the mechanisms illustrated in scenarios 3 and 4, improvements in affordability will definitely appear to be less than they actually are due to the effect of greater affordability on household formation. **CMHC and other policy makers should clarify this issue with appropriate research and with additional housing affordability measures that account for the effect of increased affordability on household formation.**

3. Shelter cost to income or expenditure

To a number of advocates and policymakers, housing affordability is a major concern. Affordable housing is seen as fundamental to the economic, social and physical well-being of families and communities. Affordable housing is seen as essential to healthy engagement in the local community.

Using the standard of shelter cost as 30% of income produces a picture of dramatic need among low-income Canadians. The table below shows the shelter cost to income data from the

Canadian Housing Observer, 2006, CMHC, at pages 65, 66 and 73, with percentage shelter cost calculations by CFAA. All figures are per month. The income levels are in quintiles, i.e. fifths. On average, households in the lowest income quintile pay 52.6% of their income for shelter. See Table 1.

Table 1: Shelter cost as % of household income – Canada 2001

| | Income level | | | | |
|----------------------------------|--------------|---------|---------|----------|---------|
| | High | Upper | Middle | Moderate | Low |
| Average monthly household income | \$11,245 | \$5,836 | \$3,933 | \$2,439 | \$1,015 |
| Shelter costs as % of income | 9.8% | 15.1% | 18.8% | 25.1% | 52.6% |

Looking at the figures in Table 1 makes Canada seem a very unequal place with an enormous burden of housing costs negatively impacting the poorest 20% of the population in a very severe way. However, looking at housing costs as a percentage of expenditure produces a very different result. See Table 2.

Table 2: Shelter cost as % of household expenditure – Canada 2001

| | Income level | | | | |
|----------------------------------------------------|--------------|---------|---------|----------|---------|
| | High | Upper | Middle | Moderate | Low |
| Average monthly household expenditure ⁴ | \$5,723 | \$3,939 | \$3,056 | \$2,263 | \$1,456 |
| Shelter costs as % of expenditures | 19.3% | 22.4% | 24.2% | 27.0% | 36.7% |

For the lowest income group, average expenditures significantly exceed reported income. Looking at shelter costs as a percentage of expenses, the difference in the housing cost burden between high and low income Canadian households is not nearly so dramatic, and the burden of housing costs on low income households is shown to be much less. Adding household size and labour force participation to the picture explains much of the remaining differences that exist. See Table 3.

Table 3: Household characteristics – Canada 2001

| | Income level | | | | |
|---------------------------------------------|--------------|-------|--------|----------|-------|
| | High | Upper | Middle | Moderate | Low |
| % of one person households | 3.9% | 9.8% | 20.9% | 33.5% | 61.9% |
| % of household head not in the labour force | 11.6% | 17.0% | 25.9% | 43.0% | 60.3% |

Taking into account household size, and shelter costs as a % of expenditure, through better and more varied measures of the extent and size of the issues would show the real areas of difficulty, and thus allow better targeted and more effective solutions.

SUMMARY OF RECOMMENDATIONS

1. CMHC and other policy makers should review the affordability standard with a view to raising it for small households.

⁴ Besides drawing down savings, the additional money which low income households spend may come from government benefits not reported in income, undeclared income, gifts or other sources of income. On the other hand, high income households pay out large sums in income taxes, and to a lesser extent for savings, both of which do not appear as expenditures.

2. CMHC should also evaluate additional affordability standards, such as income per person left after housing costs in order to use a variety of pictures from different angles to provide a clearer total picture of the affordability question.
3. CMHC and other policy makers should clarify the issue of the effect of household formation on housing affordability with appropriate research and with additional housing affordability measures that account for the effect of increased affordability on household formation.
4. CMHC and other policy makers should take into account household size, and shelter costs as a % of expenditure, to provide better, and more varied, measures of the extent and size of the issues in order to identify the real areas of affordability difficulty, and thus allow better targeted and more effective solutions.