



Canadian
Federation of
Apartment
Associations

Fédération
canadienne des
associations
de propriétaires
immobiliers

Federal Budget 2016-2017

Pre-budget Submission: How best to use money for housing to stimulate the economy

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EXECUTIVE SUMMARY

The Canadian Federation of Apartment Associations represents the owners and managers of close to one million rental homes in the private rental market across Canada. This submission focuses on how the government can best address the Liberal campaign promises to residential tenants and landlords.

We first list the relevant campaign promises. They fall in three areas:

- promises about housing directly,
- promises about housing-related federal tax issues, and
- promises about increased income support for low-income families and seniors.

We then provide background information about the diversity of rental housing markets across Canada. We then address key housing program options, as summarized in the table below:

Possible Program	Speed	Cost	Geographic applicability	Households helped for \$1 billion
Portable housing allowances	Mid 2016	Economical	All areas	500,000
Renovation subsidies for the private sector	Mid to late 2016	Economical compared to new construction	Almost all areas	50,000 (and 50,000+ indirectly)
Funding repairs to social housing	2017	Moderate	Most areas	100,000
Building new supportive housing	2018	Expensive	Most areas	8,000
Building new social housing to address financial needs	2018	Very expensive compared to the other options	Some areas	8,000

We move on to recommendations with respect to the promised housing-related tax measures, and income support for low-income families and seniors.

We conclude with a summary of our key recommendations, namely:

- a broad program of portable housing allowances,
- improving income support for low-income families and seniors,
- a Rental RRAP program

and to the extent that the government decides to support fund or subsidize new housing construction,

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

What is CFAA?

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 quality 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, while also stimulating the economy. The submission addresses what can best be done about affordable housing both through the proposed infrastructure program and through tax reforms. The submission also addresses two campaign promises relating to support for low-income Canadians.

Key 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.

The downturn in the economy has added another priority, namely

- that much infrastructure funding be rolled out quickly, and take effect quickly in order to stimulate the economy.

Background to the housing situation

The housing situation varies 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
	1 Bedroom	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 places, which have much lower rents
Pembroke	628	808	
The West			
Edmonton	1,029	1,259	Will decline due to oil decline
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 places, which have much lower rents
Nanaimo	723	847	

Source: CMHC

In addition, social housing is available to varying degrees in different provinces and cities. 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.

The programs which are adopted need to account for the huge variances in what is currently available and in what is needed.

The key goals

The key goals for federal government policy should be to adopt programs which will be the most useful, and which will act quickly.

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 act more quickly than others and some will help more people for the same budgetary cost. This submission addresses the speed of action, the cost and the difficulties and benefits of four different programs to make housing affordable, namely:

1. Portable housing allowances
2. Renovation subsidies (like the former Rental Residential Rehabilitation Assistance Program --- Rental RRAP)
3. Funding repairs to social housing
4. Funding the building of new social housing

1. 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 have portable housing allowance programs, but they are limited both by the group of people who qualify, and 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 can 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 between 500,000 households, or more. Portable housing allowances are completely scalable, from 50 million to a billion dollars per year.

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.

2. Renovation subsidies for the private sector (like the former Rental Rehabilitation Assistance Program)

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 CPI.)

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.

The first year’s worth of such projects could be undertaken over the summer and fall of 2016 if a program were announced in the 2016 federal budget. 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.

3. Funding repairs to social housing

A third possible program is one 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.

Because the affected buildings and repair projects are larger than the private buildings which would benefit from a Rental RRAP program and the approval processes are longer, a program of funding social housing repairs would tend to kick in starting in 2017. Such a program would certainly be useful in most areas.

4. Funding the building of new social housing

A fourth possible program is one to assist social housing providers with new construction for either public or non-profit housing. There are three main drawbacks to such a program. First, the shovels could probably not be in the ground until 2018, due to the need to plan projects, acquire land and obtain development approvals. Second, due to the time required for construction, rental units under a new program would only be available for rent a year or two later, i.e. in 2019 or 2020. Third, 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.

If such a program 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.

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 at page 3. 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.

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, which is 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.

Conclusion on housing programs

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

Possible Program	Year of impact on jobs	Year of impact on households in need	Cost per unit	Speed and cost in words	Geographic Applicability	Households helped for \$1 billion
Portable housing allowances	Mid 2016	2016	\$1,200 to \$3,000 per year	Speedy Economical	All areas	500,000
Renovation subsidies for the private sector	Mid to late 2016	2017	\$16,000 to \$24,000	Speedy Economical compared to new construction	Almost all areas	50,000 (and 50,000+ indirectly)
Funding repairs to social housing	2017	2018	Probably \$2,500 to \$10,000	Moderate speed Moderately expensive	Most areas	100,000
Building new supportive housing	2018	2019 or 2020	\$60,000 to \$150,000	Slow Expensive but helps the people in most need	Almost all areas	8,000
Building new social housing	2018	2019 or 2020	\$60,000 to \$150,000	Slow Very expensive	Some areas	8,000

Low-cost financing for new rental construction

The 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 more of any type of rental housing assists low-income Canadians access housing, either directly or through the move-up effect. Therefore, it is important that most or all new rental construction qualifies for the financing, not a limited subset called “affordable housing.”

Tax reforms

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 a positive one. To make it the most valuable, three matters need to be addressed in program implementation.

First, 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.

Second, 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 move-up effect. If a value test is applied it should be the same test as is now applied to eligibility for the partial GST rebate.

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. Because of that the GST rebate will have no stimulative effect on any retrofit or renovation which is treated as a repair.

Tax incentives for rental housing

The campaign promise to provide \$125 million per year in tax incentives to increase and renovate (private) rental housing is best implemented as a deferral of capital gains when a property is sold 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.

Financing to support rental housing construction

CFAA supports the Liberal Party promise to direct CMHC and the new Canada infrastructure Bank to provide financing to support rental housing construction for middle and low-income Canadians. Virtually all rental housing would fall in those categories since it is more affordable than high-end new construction meant for owner-occupation. If a value test is applied, it should be the same test as is now applied to eligibility for the partial GST rebate.

Support for low-income families and seniors

The Liberal Party promised to increase the Child Benefit for low-income families and to increase the Guaranteed Income Supplement for low-income seniors. CFAA supports both measures, and notes that they would both have a speedy stimulus effect by allowing low-income parents and seniors, respectively, to spend more on necessities.

CONCLUSION

There are 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, 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.)

We also urge the government to improve income support for low-income families and seniors, especially in high cost rental markets, including many large cities (such as Toronto, Vancouver and Ottawa.)