



# **ENDOWMENTS FOR HOUSING: COMPARATIVE BENEFITS OF PORTABLE HOUSING ALLOWANCES**

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The Canadian Federation of Apartment Associations is a strong proponent of government putting money towards housing allowances rather than building new social housing units. This brief paper will show you why.

Various municipalities are currently debating how to deliver social housing. Some people propose that the cities and the other levels of government provide capital subsidies to build new social housing units that can be rented at below market rents to low income households. In fact, an investment in housing allowances would go much further than investments in new social housing. That investment can be made one-time and permanent, by using an endowment of capital money to fund housing allowances.

Below is our comparison of the costs of the two approaches in the context of the Province of Ontario and specifically in the City of Ottawa.

CMHC has developed a shelter cost to income ratio measure to determine whether a household is in core housing need. According to the latest CMHC study on core housing needs (using 2001 data), there are 674,000 households in core housing need in Ontario. 414,000 (or 60%) of those households are tenants, and the remaining 40% are owners.

Over 92% of the tenant households in core need are there because they cannot comfortably afford their rent. For most of them, that is the only reason they are in core need.

Half of the tenant households in core need are one person households. These individuals can be comfortably housed in bachelor units. This paper looks at single parent families, who need a two bedroom rental unit.

**Table 1: Family units in Core Housing Need**

	# in core housing need	% of core housing households	average income	average housing cost
one person households	206,375	50%	\$16,586	\$622
couples without children	43,830	11%	\$22,269	\$789
couples with children	62,240	15%	\$25,566	\$879
single parents	84,435	20%	\$20,462	\$723
other	17,195	4%		
<b>TOTAL</b>	<b>414,075</b>	<b>100%</b>	<b>\$19,682</b>	<b>\$708</b>

Source: CMHC: "2001 Census Housing Series: Issue 2 — The Geography of Household Growth and Core Housing Need: 1996:2001"

### Cost of building new social housing

The cost of building a new 2 bedroom social housing unit in Ottawa at today's costs has been estimated at \$145,000<sup>1</sup> which, without subsidies, would need to rent at \$1,408 monthly to break even on financing and operating costs.<sup>2</sup>

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<sup>1</sup> City of Ottawa Housing Branch report to Ottawa City Council Jan 14, 2005. The cost would likely be slightly lower for most other cities, however in those cities, the market rents would also be lower.

<sup>2</sup> City of Ottawa Housing Branch report to Ottawa City Council Jan 14, 2005. According to the Ministry of Municipal Affairs & Housing, in 1996-97 the average monthly cost per unit in the Ontario Non-Profit Housing Portfolio, 1996-97 was **\$1,127**. Considering the unit size in question and the increase in construction and operating costs since 1997, today's provincial average figure is likely close to the \$1,408, that is the City of Ottawa estimate.

Non-profit advocates are now seeking to fund new social housing through upfront subsidies. The apparent rationale is to reduce the mortgage financing cost so that the provider can charge a below average rent to their low income tenants. For instance, if 92.5% of the building cost is financed through upfront government subsidies, a non-profit housing agency would only need tenants to pay about \$55 per month for financing (\$10,150 at 6.0% over 40 years) and \$445 per month<sup>3</sup> for operating costs.

To be able to charge tenants a monthly rent of \$500 (i.e. 30% of the average annual income of \$20,000) without ongoing subsidies, a **capital subsidy of \$134,000 per unit** would be required. Social housing advocates, and many municipalities expect that the Province would contribute between 1/4 and 1/3 of the cost.

### **Income Mixing**

Current social housing practices dictate that there needs to be an income mix within social housing projects. As a result, projects will only be undertaken if a certain percentage of the tenants units are paying average market rents.

The \$134,000 capital subsidy will be paid for the units that will be paying the subsidized rent. But the “market rent” units also require a subsidy. If the market rent is \$1,000, then the subsidy required for those units would be \$44,000<sup>4</sup>

If the income mix target is 67% for those on the social housing waiting list, and 33% for market rent households, then **the upfront subsidy is actually \$156,000 per unit**<sup>5</sup> used to assist low income household. The Province would be expected to contribute between \$39,000 and \$52,000 as its share per unit.

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<sup>3</sup> Ibid

<sup>4</sup> The rent received from the market rent tenant could pay \$555 for financing costs (\$101,000 at 6.0% over 40 years) + \$445 operating costs

<sup>5</sup> (\$134,000 + \$134,000 + \$44,000) divided by 2 low rent units = \$156,000.

### **What else could be done with \$156,000?**

Rather than investing \$156,000 per unit in building new social housing, **government could create an endowment for housing** and invest the money in long term investments.

A 40 year Serial debenture loan through the Ontario Strategic Infrastructure Financing Authority is currently at 5.22%. Using that rate, an investment of \$156,000 would yield a monthly sum of \$678. ( $\$156,000 \times .0522$  divided by 12)

### **Cost of Portable Housing Allowances**

The typical single parent currently in core housing need that would move into a newly built social housing unit is currently living in a private market unit and is paying \$723 monthly rent (which represents about 42% of their income)<sup>6</sup>

If government wanted this family to pay only 30% of its income on rent, the household could stay in their current housing if they were given a housing allowance of \$211. The family would continue to live in their \$723 unit, but the cost of rent would be shared between the individual (at \$512) and government (at \$211).

**Rather than providing affordable housing for one** family through the subsidizing of building new units (at an opportunity cost of receiving \$678 per month), we **can provide the same benefit to 3.2 households through housing allowances**. Alternatively, we can provide the same benefit to 3 households and direct some of the income to build up the endowment.

In fact, we can do better than that.

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<sup>6</sup>Average income and average shelter cost taken from CMHC figures set out in Table 1 above. (Lower costs would apply to one person households or couples without children.)

## Percentage Subsidy

Traditional RGI subsidies provide a subsidy of 100% of the gap between what the household can comfortably afford (30 percent of income) and rent. It is possible to provide households with greater incentive to economize on their housing costs by designing a subsidy that provides a percentage of the gap. A common housing allowance formula is:

$$\text{Allowance} = B \times [\text{RENT} - A \times \text{income}]$$

where

RENT = rent currently being paid by household

A = target percent of income to be spent on rent

B = percent of the gap to be subsidized.

### Allowance at 75%

Suppose that the government set A at 30% (the current CMHC standard) and B at 75%. Using the typical single parent discussed above, the formula would suggest that the household would receive a monthly allowance of:

$$\$159 = 75\% \times [\$723 - 30\% (\$1705)]$$

The household would continue to live in their \$723 unit, but the cost of rent would be shared between the household (at \$564) and government (at \$159).

By providing them with a subsidy that is a percentage of the gap, their housing costs will have an impact on their household income, net of housing costs.<sup>7</sup>

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<sup>7</sup>Suppose the family can find suitable accommodation at \$650 instead of \$723 (or negotiate a reduction from their landlord.) The household will be paying \$512 and government \$138. The subsidy it receives will decrease by \$20. The family's rent after allowance will decrease by \$41, and its income available for other expenses will increase by \$41. That is a strong incentive to keep their housing cost as low as they can.

**Rather than providing affordable housing for one** family through the subsidizing of building new units, we **can deliver a slightly lower benefit to 4.3 households through housing allowances** with a 75% subsidy rate.

Some may argue that a \$159 subsidy would still mean that the typical household remains in core housing need. However, the subsidy would move them from paying 42% of their income on housing to 33% of their income. It is surely much better public policy for 4 households to pay 33% of their income on rent than to have 1 lucky household paying 30% and the other 3 households paying 42%.

### **Allowance at 60% of rent**

Suppose that the government set A at 30% (the current CMHC standard) and B is at 60%. Using the typical household discussed above, the formula would suggest that the single parent would receive a monthly subsidy of:

$$\$127 = 60\% \times [\$723 - 30\%(\$1,705)]$$

The household would continue to live in their \$723 unit, but the cost of rent would be shared between the household (at \$596) and government (at \$127).

**Rather than providing affordable housing for one** family through the subsidizing of building new units, we **can deliver a somewhat lower benefit to 5.3 households through housing allowances** with a 60% subsidy rate.

The subsidy would move the typical household from paying 42% of their income on housing to 35% of their income.

Every effort should be made to help as many households as possible or to keep the

cost to the taxpayer as low as possible. Housing assistance should not be a lottery system for the lucky few, or the connected few.

For the same money that would be invested to help subsidize building 20,000 new social housing units, we could substantially improve the lives of 80,000 to 100,000 households in need.

## **Conclusion**

During the last provincial election campaign, the Liberal Party of Ontario spoke of providing assistance to 55,000 households whose income is insufficient to comfortably afford their housing costs.

The campaign spoke of the Provincial government spending \$345 million to help 55,000 families pay rent that is affordable to them. This was to be done by partially subsidizing 20,000 new social housing units (spending \$245 million) as well as providing shelter allowances for 35,000 families paying more than 50% of their income on rent (spending \$100 million).

Endowments to fund shelter allowances would take only a fraction of the dollars that would otherwise need to be spent to subsidize the building of expensive new social housing. This Government could create a legacy that would far exceed the stated goal of helping 55,000 low income families with their housing needs at a fraction of the cost.

**Canadian Federation of Apartment Associations**

**Fédération Canadienne des Associations de Propriétaires Immobiliers**

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