BUILT TO LAST: STRENGTHENING THE FOUNDATIONS OF HOUSING IN CANADA

FCM
FEDERATION OF CANADIAN MUNICIPALITIES
FÉDÉRATION CANADIENNE DES MUNICIPALITÉS

Prepared for the Federation of Canadian Municipalities
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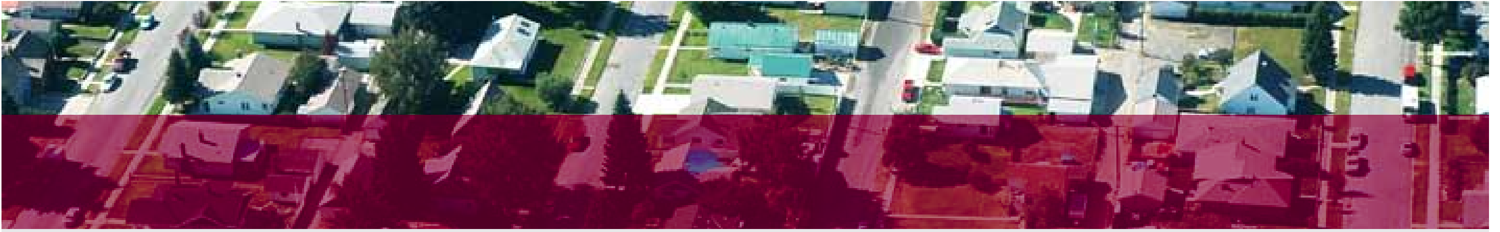

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PRESIDENT'S MESSAGE

A strong Canada begins with strong hometowns and housing is the backbone of healthy and thriving communities. Housing is for families, young and old; for businesses and their workers, and for communities and their citizens. A strong and effective housing system is the foundation of vibrant communities, and a true aspiration for every Canadian.

As a country, we are not keeping up with demand for housing options and Canadians from coast to coast to coast feel the housing crunch. Household debt, most of it mortgage debt, is at a historic high of 163 per cent and is one of the greatest threats to our economy, according to the Bank of Canada. Homeownership is increasingly out of reach for many Canadians as prices have outstripped incomes.

With 850,000 lower-rent units lost in the last decade, our rental sector is ill prepared for any downturn in the housing market. One in five renters pays more than 50 per cent of their income on housing. As a result of the federal government's accelerating exit from the social housing sector, one third of Canada's social housing stock is at risk. Meanwhile, across the country, waiting lists for affordable rental housing continue to grow.

According to public opinion research commissioned by FCM, 63 per cent of Canadians from all political stripes believe new affordable housing will make life better in their communities. The same research showed that building affordable housing was seen as an important concern for all cities and communities, large and small.

Investments in housing pay off and pay forward. If we can increase vacancy rates, communities can attract workers and students. More social and affordable rental units will open doors to opportunities for low-income Canadians, newcomers, seniors and families.It will help address some of the homelessness issues facing Canada which cost us an estimated $7 billion annually. A strong social and affordable rental housing system makes for more affordable homeownership, and everyone benefits.

This report lays out an action plan for more resilient and prosperous housing in Canada. The scope and range of problems are too complex for any one order of government to solve alone. It requires collaboration and leadership to implement an effective housing action plan where all Canadians can access adequate housing.

Municipal leaders from across the country are ready to partner with our provincial and federal counterparts and work toward a housing system that is built to last.

Brad Woodside,
FCM President

INTRODUCTION

Access to affordable housing is critical to the health, well-being, and economic prosperity of every community in Canada.

Availability of housing translates into the economic and social benefits of being able to support labour mobility and student populations, increase affordable homeownership, and meet the needs of the aging population as well as middle and low income earners. The housing sector, including rental and construction, makes up 20 per cent of Canada's Gross Domestic Product (GDP).

Achieving affordability is inextricably linked to all aspects of the housing system — from homeownership, to renting, to social housing, to homelessness. All orders of government must provide purposeful stewardship through economic, social and fiscal policy, to both facilitate an effective system and, in the case of system failure, to help manage any undesirable consequences.

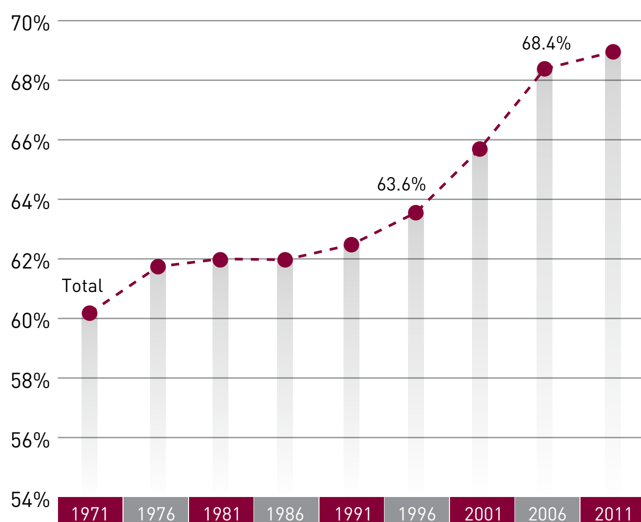
In recent years, studies of Canada's housing sector have explored various aspects of the housing system in isolation. This report ties together recent trends, and considers their impact on an integrated Canadian housing system. It further identifies a number of weaknesses in Canada's housing system including the fragility of the homeownership segment, an anticipated shift in demand back to an ill-prepared rental sector, the erosion of existing lower-rent options, and reduced availability of lower-rent social units as federal subsidies expire and makes policy recommendations aimed at improving affordability across the housing system.

ANALYSIS

Cracks in the foundation

Over the past two decades, Canada has enjoyed relatively strong economic growth, with only two minor slowdowns. This economic strength has both contributed to and been supported by a strong housing market.

FIGURE 1:
THE RISING RATE OF HOMEOWNERSHIP



Source: Statistics Canada Census to 2006; from NHS Statistics Canada

The proportion of Canadian families who own their homes has increased substantially: after 20 years (1971–1996) of hovering within a narrow range of 62–64 per cent, the rate of homeownership rose to 68.4 per cent between 1996 and 2006. During the following five years (2006–2011) growth slowed, while still nudging up to an all-time high of 68.8 per cent (National Household Survey 2011).

For more than two thirds of Canadians, a rising rate of ownership, along with gains in the value of their homes, has created a sound financial asset, enabling many to build their net wealth. Not all have shared in these gains, of course. There is evidence to suggest that access to ownership is now being constrained, and that Canadian homes are, in general, overvalued (TD Economics, Bank of Canada). Many leading economists, as well as the Bank of Canada, continue to identify imbalance in the housing sector as the number one domestic risk to the economy.[1]

A healthy housing system is essential to community and economic growth. However, recent trends have placed Canada's housing system at risk:

- Ownership costs have risen dramatically and, in many cities, young families , people newly entering the workforce and other would be first-time buyers can no longer afford to buy.
- Rental housing options are limited by very low levels of new rental construction.

[1] Bank of Canada. "Bank of Canada Says Household Imbalances Remain Most Important Risk to Financial Stability." Bank of Canada (online), n.p., December 10, 2014. Accessed on January 17, 2015.

- The stock of lower-rent dwellings is shrinking as properties are demolished for new condominium development, and as rents rise beyond levels affordable to lower and moderate-income households.
- Canada's small but vital social housing sector is being put at risk by the termination of long-term federal subsidies.

As a result of these trends, Canada is experiencing greater affordability issues and higher levels of stress among both renters and owners.

These issues manifest themselves in Canada's cities and communities, and become a major challenge for local governments. These are not just local issues, however. While housing markets are inherently local, the impact of a fragile housing system has a significant impact on the national economy and requires a coordinated and shared response.

Investments in a healthy housing sector make sense to all orders of government. As an industry, the housing sector comprises 20 per cent of Canada's GDP. Because of its importance to the national economy, housing was a central focus of the federal government's stimulus package in 2009–2011. This funding, however, was only temporary.

The federal government has historically been an important partner in supporting the development of affordable housing. In the 1970s and 1980s, federal policies also had a major influence on the creation of incentives for private investment in the development of apartment buildings with moderate rents. This helped to ensure balance across various parts of the housing system.

The withdrawal of the federal government in the mid-1990s, both from an ongoing funding role and from establishing an enabling policy framework (e.g. tax treatment of rental investment) has left a policy and funding void. Despite the modest efforts of local and provincial/territorial (P/T) governments, housing markets have failed to generate an appropriate range of housing to meet the needs of all Canadians.

The consequences of inadequate and fractured policies — and, more to the point, a lack of policy coordination at the federal and provincial levels — plays out at a local level. And these are not just big city issues. They affect all communities, large and small, rural and urban, northern, remote and central.

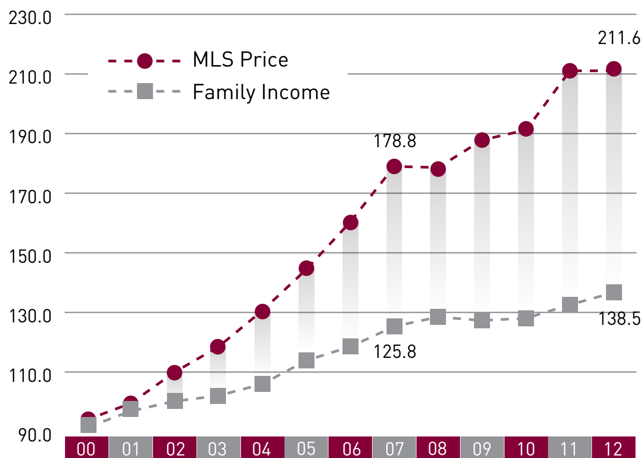
The time has come for a course correction within Canada's housing system. Historically, all orders of government have worked closely to manage these issues and correct for market failure. This proactive partnership must be renewed.

The outcomes that we have witnessed, along with current and emerging trends in the housing system, highlight the need for careful review and development of a more proactive, long-term and purposeful policy framework, supported by ongoing monitoring and adjustment.

The rising cost of homeownership

Since the late 1990s, there has been a steady increase in home prices, often far outstripping the rate at which income concurrently rises (see Figure 2). As noted by the Bank of Canada, this has been an important factor in the growth of per capita debt, which is currently at an all-time high of 163 per cent of average income.

FIGURE 2:
INDEX OF HOUSE PRICES AND INCOME LEVELS (NATIONAL AVERAGES)

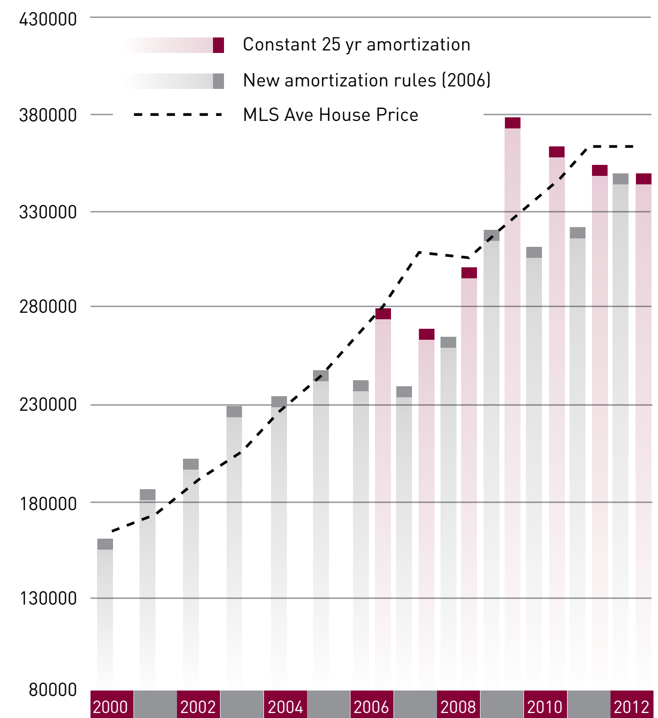


Source: MLS price from CMHC Can Hsg Observer Table A-10
Income from Cansim Table 111-0017 family incomes

To some extent, the impact of house prices has been offset by a steady downward trend in mortgage rates since the 1990s. In fact, lower mortgage rates have improved the ability of Canadians to buy homes, and had contributed significantly to rising prices. Lower rates, combined with a period of strong economic growth and higher incomes, have improved the purchasing power of Canadians, causing house prices to rise.

Figure 3 shows the maximum price (dotted line) an average-income household could afford at the prevailing five-year mortgage rate and prevailing annual average income.[2] Initially, prices remained within reach of the average family. However, since 2011, this has no longer been the case: the average price is now well above the average ability to buy. Figure 3 also shows the impact of a federal policy change that extended the maximum amortization period from 25 to 40 years in 2006, followed with a subsequent reduction to 25 years by 2012.

FIGURE 3:
ABILITY TO BUY A HOME



Source: Statistics Canada Census to 2006; from NHS Statistics Canada

[2] Sources for Figure 3: Price is the national MLS average from CREA, as published in the CMHC *Canadian Housing Observer* (annual); income data are average household incomes drawn from Statistics Canada Cansim series 111-0017, with ability to buy calculated by the author.

This federal policy initially had the unintended effect of over-stimulating house prices. The extension of the maximum amortization period to 40 years in 2006 increased the potential mortgage an average Canadian household could get, at a time when the economy's fundamentals were already positive and house prices were already increasing — at double-digit rates in some cities.

As this policy was gradually reversed, the amount an average household could afford also declined. By 2011, buying power was below the average house price, where it has remained. This means that, for an average household, ownership is less achievable, despite persisting low interest rates.

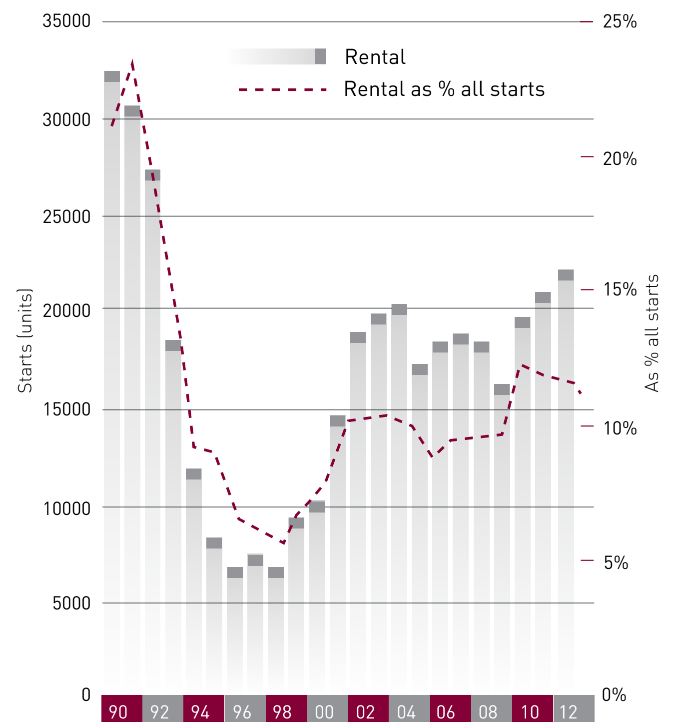
Canada's Department of Finance has accordingly made it harder for first-time buyers — who represented more than half of new buyers in 2012 — to enter the housing market. Although a downward price correction may help hopeful buyers, it will also have a broader negative impact on existing and recent buyers who have borrowed against higher values. Access will remain challenging for marginal and first-time buyers, who are also constrained by the tighter credit conditions imposed by the Department of Finance in recent years.

One of the key consequences of constraints on ownership is that demand will shift back to the rental sector — which is ill prepared to accommodate new demand.

The strain on Canada's rental market

Juxtaposed against the ownership gains of the past decade, construction of purpose-built rental apartments remains minimal. While almost one third of households are renters, only 11 per cent of housing starts since 1996 have been intended as rental units (see Figure 4).

FIGURE 4:
THE LOW VOLUME OF PURPOSE-BUILT RENTAL



Source: CMHC Housing Observer, data tables

Rental housing, and especially options offering moderate rents, has been widely recognized as an important contributor to the labour market, and to economic productivity.[3] Rental housing is critical to a mobile labour force, as it enables households to more easily relocate to areas with stronger employment prospects. It is also important to new Canadians, as they commence new lives in Canada, renting until they find employment and have accumulated a large enough down payment to purchase homes of their own.[4]

Past rental conditions contributed to a rise in the rate of homeownership from under 64 per cent in 1996, to almost 69 per cent in 2011. They also served as an important economic release valve, and drove demand away from the rental sector.

From 2001 to 2011, the number of households in Canada grew by 1.75 million. Between 2001 and 2006, all of these were in the ownership sector. While there was some growth in rentals between 2006 and 2011, most growth in the number of households (77%) was again in the ownership sector: on average, 160,000 new households became owners each year.

However, after an unprecedented rise in homeownership from 63.6 per cent in 1996 to 68.4 per cent in 2006, the homeownership rate increased only marginally to 68.8 per cent in 2011 (Statistics Canada Census and National Household Survey).

The homeownership "release valve" is closing (or has already closed). Interest rates have likely bottomed out, and will slowly begin shifting upward. Income gains are more modest (compared to pre-2009) and favourable mortgage amortization of up to 40 years was withdrawn by the federal government in 2012. The fundamentals that drove increases in both ownership rates and home prices are eroding.

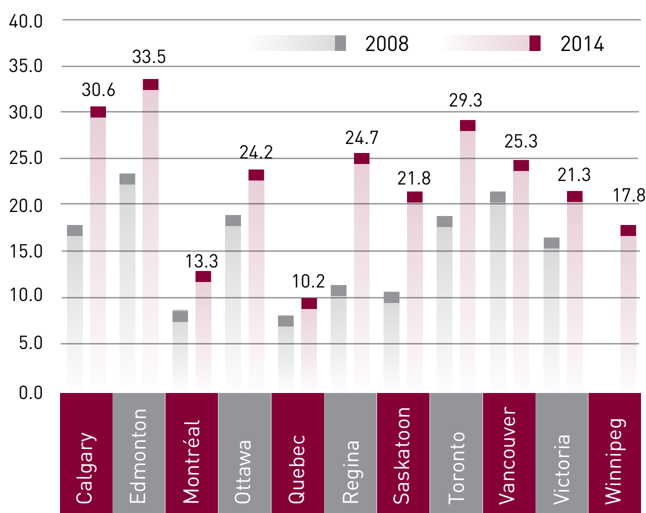
Pressure on the rental sector is already evident. While vacancy rates are not rock-bottom, they remain low: 18 of 34 census metropolitan areas (CMAs) have vacancy rates below the three per cent benchmark considered healthy, and 10 of these are below two per cent. In addition, average rents in a number of cities are increasing between four and seven per cent, well above the rate of inflation (CMHC Fall 2014 Rent Survey).

Low rates of purpose-built rental construction are partially offset by the new phenomenon of investor-owned condominiums. But these are not affordable for lower and moderate-income households. Condominiums have become the primary source of new rental supply (see Figure 5), primarily through individual investors who are buying to rent. These buyers are largely motivated by rising prices, and expect to generate a return from selling in future at a higher price, while the renter subsidizes much of the mortgage cost.

In 2011, condominiums made up 11 per cent of the rental market in Canada.[5] In the 11 larger cities surveyed, rented condominiums are now onequarter of all condo units (CMHC 2014 Fall Rental Market Report). In Edmonton, Calgary and Toronto, as many as 30 per cent of units built as condominiums are now occupied by renters, and across mid-sized cities such as Ottawa, Saskatoon and Victoria, one fifth are investor-owned units (see Figure 5).

3 See discussion in MacLennan (2008), "Housing in the Toronto Economy," University of Toronto, Cities Centre Research Paper 212; and FCM (2012) *The Housing Market and Canada's Economic Recovery*.
4 See FCM (2011) *Starting On Solid Ground: The Municipal Role in Immigrant Settlement.*
5 CMHC *Canadian Housing Observer*, 2014.

FIGURE 5:
PERCENTAGE OF INVESTOR-OWNED CONDOMINIUM UNITS OCCUPIED BY RENTERS



Source: CMHC Fall Rental Market Report 2008, 2014

This new type of rental supply, however, is not creating affordable rentals. In general, these rents are 20 to 30 per cent above the rates for new purpose-built rental units. According to the 2011 National Household Survey, one in five renters pay more than 50 per cent of their income on housing. Security of tenure in condominiums is also not as strong as it would be for purpose-built stock, as investors can evict tenants at any time, to use the unit for themselves.

While condominium investor-buyers have added indirect rental supply in some of the larger metropolitan areas, their enthusiasm may wane as the rate of price appreciation slows well below the double-digit rates seen in the 1998–2009 period.

Why affordable rent options matter

With pressure shifting back to renting, the declining rate of rental construction has left insufficient stock, especially when it comes to lower-rent units. Most significantly, the existing stock of lower-rent units is dramatically diminishing. In some cases, rental buildings are being demolished for redevelopment, and others have already been converted to condominiums for owner occupancy or investment purchase.

Apartments in detached homes have also been lost; as such properties have similarly been purchased for owner occupancy. In most cases, however, the unit is not lost; it simply becomes more expensive. The end result is fewer lower- rent homes, creating serious challenges for lower-income tenants, as well as for individuals seeking to exit homelessness under Housing First strategies.

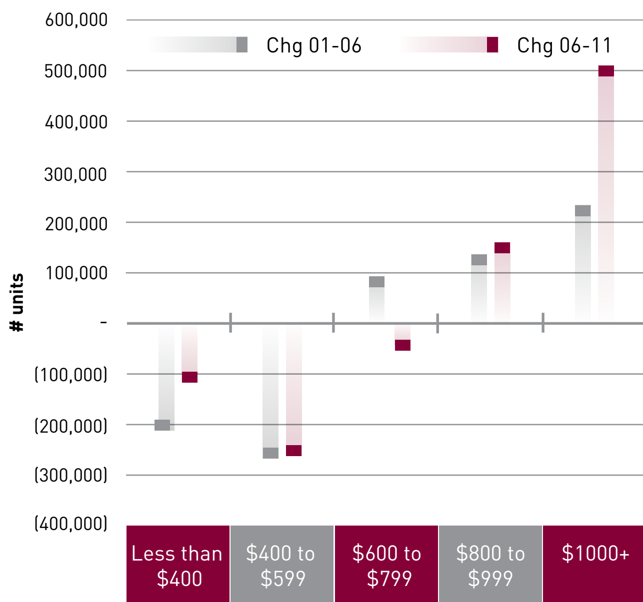
For young families starting out in higher-cost centres, renting is an important option. This allows them to remain in the towns in which they grew up, where they may still have strong family ties and other social networks.

Young workers, recent graduates and others in entry-level employment and at the beginning of their earning careers have also depended on the rental sector as an affordable option.

In regions with strong economies that are actively creating jobs and attracting new employment, an influx of migrants — inter-provincial as well as international — is placing pressure on already tight markets.

Many higher-cost communities also require rental units in which to house key workers such as nurses, first responders, teachers and others. This is especially true in smaller municipalities with limited rental sectors, as well as in resource communities where prices and rents are high. As noted above, rental demand pushes up the cost of renting, and has the most significant impact on lower-income renters, increasing the percentage of households spending more than 50 per cent of their income on housing.

FIGURE 6: THE DRAMATIC DECLINE IN LOWER-RENT UNITS

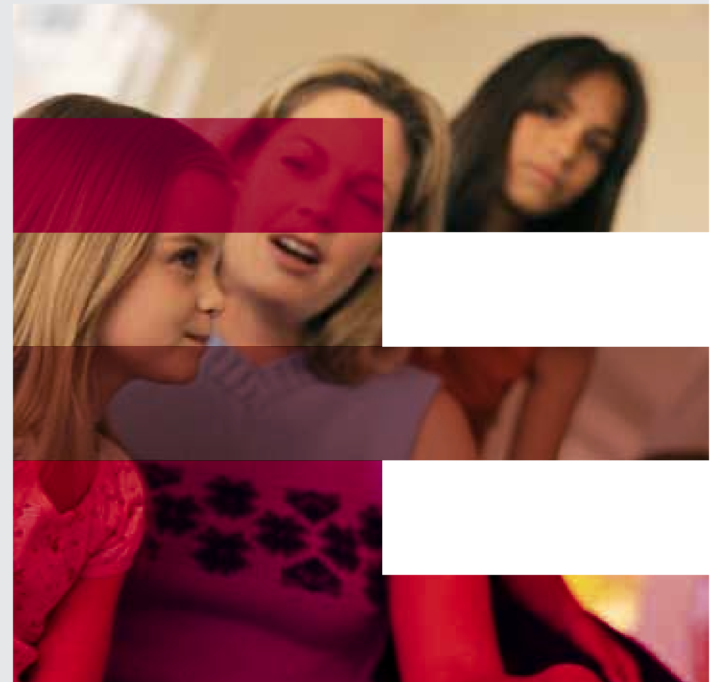


Source: Census 2001, 2006 and NHS 2011

Demand for a limited and diminishing supply of lower-rent units is causing rents to rise, pushing many units into a higher rent bracket. The net effect is that, between 2001 and 2011, the volume of lower-rent units declined dramatically. The number of units with rents below $600 per month has fallen by 327,000 (9% of all rental units), while those between $600 and $800 have fallen by over 525,000 in the decade since 2001 (see Figure 6).

By 2011, there were 850,000 fewer units available for less than $800 per month in Canadian municipalities than in 2001. This means that, although there has been some improvement in income levels, many lower and moderate-income households continue to struggle to find housing that they can reasonably afford.

According to the 2011 Canadian National Household Survey (NHS), 42.3 per cent of young adults ages 20 to 29 lived with their parents, up from 26 per cent in 1980.[6]



[6] 2011 Census in Brief. Ottawa: Statistics Canada, 2012 (Cat. No. 98-312-X2011003).

More households at risk

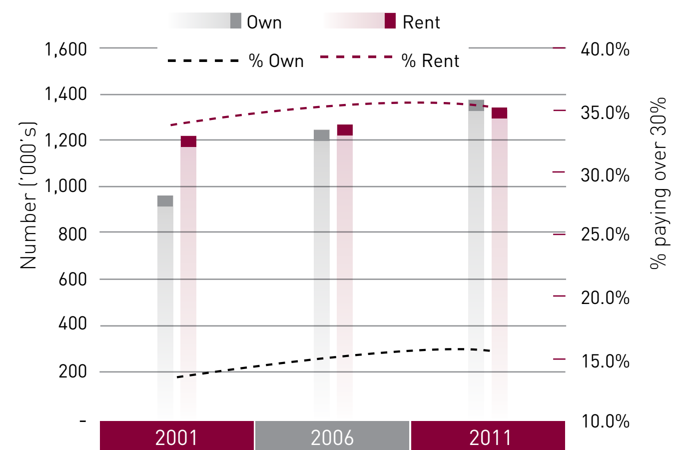
In late 2014, the CMHC released updated estimates of core housing need — the official measure of housing need since the mid-1980s.

The CMHC reported a marginal improvement in core housing need (the proportion of all households deemed in need) between 2006 and 2011, with the overall incidence of need falling from 12.7 to 12.5 per cent. However, while the incidence of core housing need fell, the absolute number of households in need continued to rise, from 1.49 million to 1.55 million (an increase of almost 60,000 households).

The minor improvement in the incidence of core housing need is attributed to a continued strong economy and rising incomes. These two factors effectively pulled households out of core need, as incomes rose above the income threshold used to define need. It was not the result of any improvements in housing. Indeed, the lack of intervention beyond minimal funding for affordable housing, under the federal-provincial Affordable Housing Framework, has offset the benefits of rising incomes, as rents and house prices worked against these gains.

While the narrower, income-adjusted rate of core housing need fell, the incidence and absolute number of households paying more than the 30 per cent benchmark for shelter continued to increase. The number of households in marginal situations — that is, just above core need — grew substantially, especially among homeowners (see Figure 7).

FIGURE 7:
INCREASING AFFORDABILITY BURDENS (PAYING →30%)



Source: CMHC Fall Rental Market Report 2008, 2014

Despite lower mortgage rates, which should ease housing costs, more households took on greater levels of mortgage debt in order to acquire homes. The desire for homeownership is a significant contributor to record levels of household debt in relation to income, and leaves these households vulnerable to a weakening economy (income loss) and future increases in interest rates.

While the burden of shelter costs for renters eased slightly (a small decline in the percentage of those paying more than 30%), the number of renters above this threshold remains high, with more than one in every three renters exceeding the benchmark figure.

More significantly, many renters, who typically have incomes much lower than owners, are spending over 50 per cent of their gross incomes on rent.

In 2011, one in every five (19%) renter households was spending over 50 per cent of its income on rent. This had risen from 18.2 per cent in 2006, meaning that acute affordability has regressed (Statistics Canada — NHS).

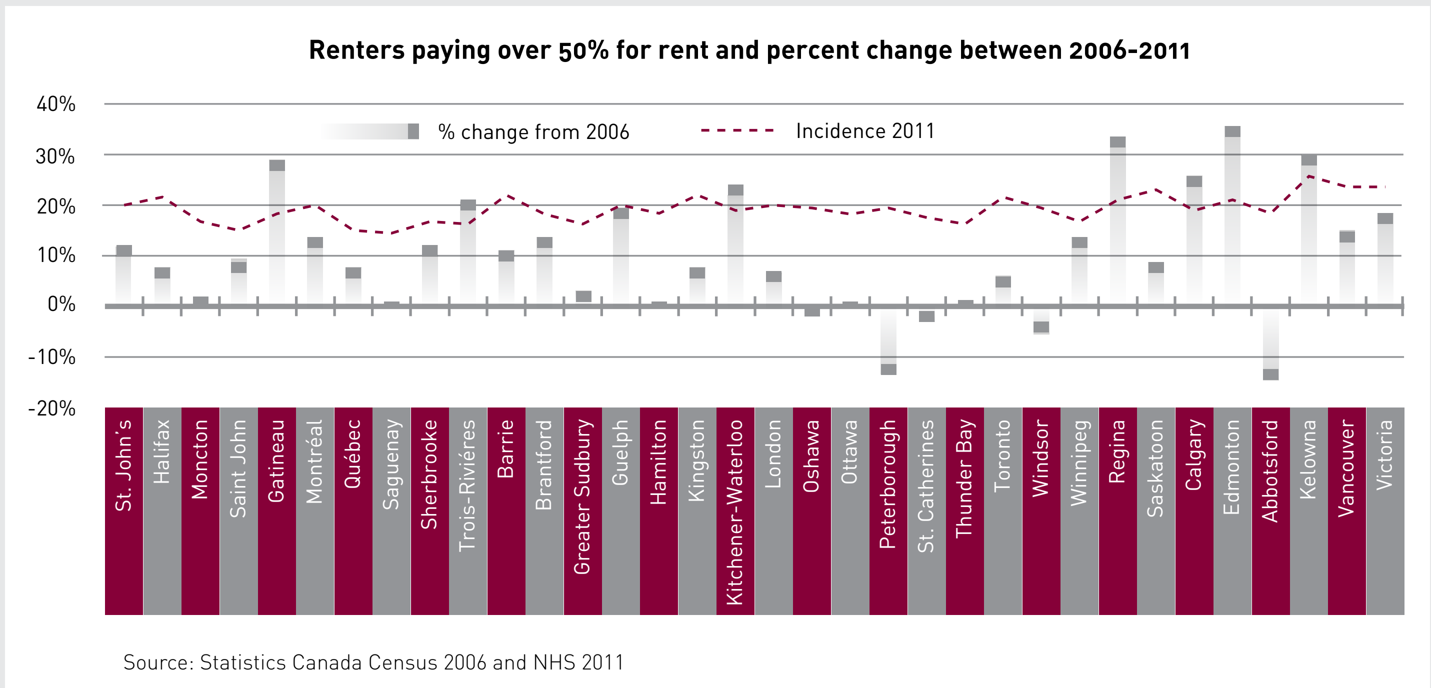
Among those who continued to rent, despite increased income, the percentage spending more than 50 per cent of their income on rent increased, both in relative and absolute terms. Figure 8 shows that the incidence of renters spending more than 50 per cent (dashed line) is approximately 20 per cent (one in every five renters).

When examined at the municipal level using Statistics Canada's CMAs, it is clear that the impact of housing affordability varies across the country. Figure 8 shows the change in the percentage of renters paying over 50 per cent from 2006 to 2011, across all CMAs.

It is clear that there has been a significant increase in acute affordability issues (see Figure 8). Even traditionally lower-rent communities — Gatineau, Trois-Rivières, Regina — have seen high increases in the percentage of people paying more than half their income for rent. In a few communities — Peterborough, Windsor, Abbotsford — the rate has declined, suggesting some improvement in acute issues; however, this is rare.

In general, affordability challenges — affecting those paying more than 50 per cent of their income on housing —have become more acute since 2006.

FIGURE 8:
INCIDENCE AND CHANGE (2006–2011) AMONG RENTERS WITH ACUTE AFFORDABILITY CHALLENGES (THOSE PAYING →50%)



Source: Statistics Canada Census 2006 and NHS 2011

Declining federal funding and market failure

Issues of affordability and the loss of lower-priced stock in the rental and homeownership markets will be exacerbated as federal spending to support lower-rent housing in the social housing sector begins an accelerated decline, and critical rent-geared-to-income (RGI) units are placed at risk or lost.

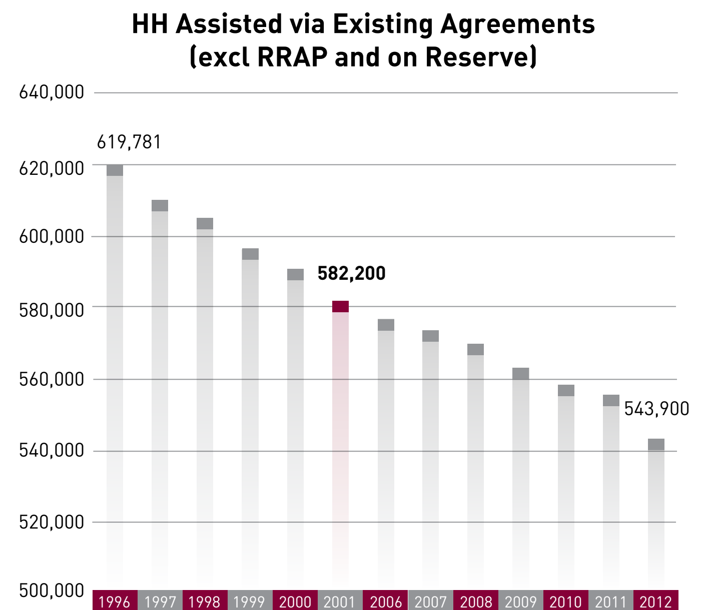
It is estimated (see Figure 9) that federal subsidies in long-term operating agreements have already ended for more than 70,000 federally assisted units — or 10 per cent of all existing social housing.

Other key federal affordable housing and homelessness programs totaling $372 million annually are set to expire in 2019. As a percentage of GDP, the Government of Canada spends 40 per cent less on housing than it did in 1989.

By 2023, less than a decade from now, federal subsidies, which peaked at $1.8 billion in 1995, will have ended for more than 50 per cent of federally assisted social housing. In addition, by 2023, associated federal spending will have declined by almost $1 billion annually: a cumulative reduction of more than $6 billion in federal spending on social housing since 1996 (see Figure 10 and Appendix A).

As federal subsidies begin to wind down at an increasing rate, it is estimated that as many as 30,000 homes that receive only federal assistance are at high risk of being lost. Without subsidies, these properties are not viable (unable to cover their costs), so rents will have to increase, leading either to abandonment of the units, or their sale as non-rental properties.

FIGURE 9:
THE DECLINING NUMBER OF FAMILIES HELPED BY FEDERAL SUBSIDIES



Source: CMHC CHS various years table 55

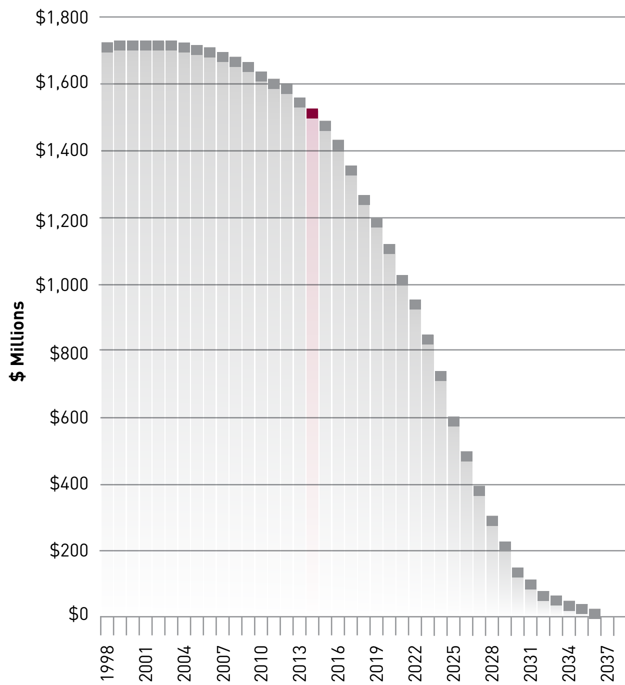
A further large subset (370,000), also affected by the ending of federal subsidies, involves P/T cost sharing.

It is expected that most of the provinces and territories, as well as municipalities in Ontario, will be forced to absorb ongoing subsidy costs, or risk losing more than half of Canada's social housing stock.

This will impose a significant financial burden especially in the Territories, where the per unit subsidy is high due to high capital and operating costs, as well as greater dependence on federal cost sharing, and in Ontario, where municipalities carry this funding obligation.

Canada's provinces and territories (and Ontario municipalities) are already shouldering a heavy burden, absorbing 56 per cent of the expenses related to existing cost-shared portfolios.[7] These contributions are projected to rise by $500 million, to over $2 billion by 2023, by which time the P/T share will be 76 per cent.

FIGURE 10: THE DRAMATIC DECLINE IN FEDERAL FUNDING FOR EXISTING SOCIAL HOUSING ($ MILLIONS)



Source: Compiled from Sch E to PT agreements

The risk is not that RGI units will immediately be lost; it is whether provinces and territories (and municipalities in Ontario) have the fiscal capacity and political will to sustain increasing expenditures. It does, however, represent a significant shift in funding responsibilities, with a substantial decline in federal support, with lower orders of government, despite less fiscal capacity, expected to take on a greater burden.

[7] Estimates based on unpublished analysis undertaken for P/T Housing Ministers Working Group, 2013.

Regeneration and repair of aging assets

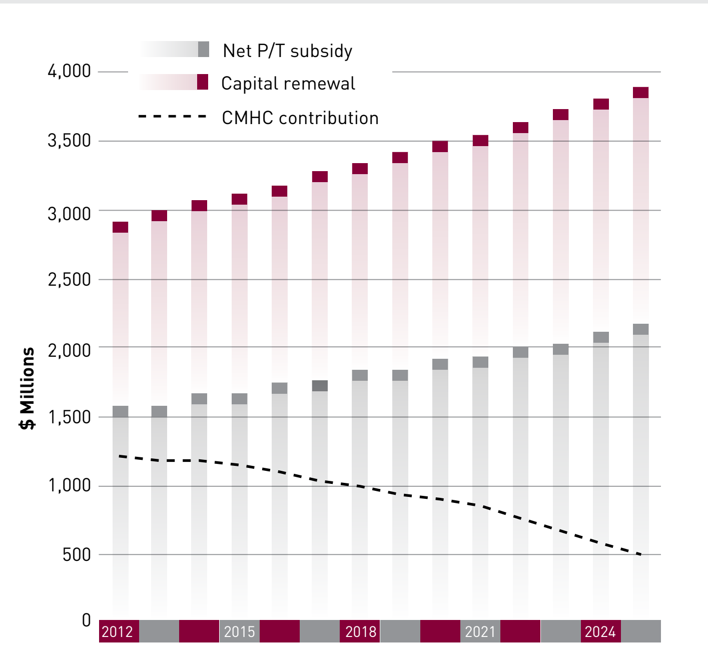
Provincial and territorial capacity will be further challenged by additional requirements to unilaterally fund the necessary capital renewal of these aging but important assets.

Because the properties will be 35 to 50 years old when federal subsidies expire, they will be in need of significant capital renewal (roofs, elevators, parking garages, appliances, boilers, etc.). While some non-profit and co-op properties have capital reserves, in most cases these reserves are insufficient, and will need to be augmented by substantial new capital subsidies, or ongoing assistance with refinancing.

If housing operators are unable to keep up repairs and maintenance, including capital replacement of aging components, these units will no longer be habitable, and there will be greater risk of loss of lower-rent (RGI) housing. As with Canada's roads and bridges, the longer investments in repairs are put off, the more expensive they will be to fix in the long run.

Estimates of necessary capital investments are premised on the industry standard of spending an amount equal to two per cent of the asset value each year for capital renewal and modernization. Based on aggregate asset values, as provided by the provinces and territories, total capital investment in the amount of $1.35 billion is required in 2014–2015, which inflates to $1.7 billion over the period to 2023. This entire amount falls upon the shoulders of the provinces and territories, and in some cases municipalities, because federal transfers are fixed.

FIGURE 11:
THE SHIFTING BURDEN OF SUBSIDIES (OPERATING AND CAPITAL)



This annual amount is close to the current total value of expiring federal subsidies.

Figure 11 presents both the impact of ongoing operating subsidies, and the estimated level of capital funding needed to support total provincial and territorial (and in Ontario, municipal) spending requirements.[8]

The combined burden of inflating operating costs and investment in capital renewal imposed annual aggregate costs in 2012–2013 of almost $3 billion, which is expected to rise to $3.7 billion by 2023.

[8] Amounts in Figure 11 use only the portion of federal operating subsidy linked to P/T cost-sharing agreements, which is slightly lower than the total federal subsidy amount.

This upward trajectory in P/T costs is contrasted against rapidly declining federal spending (falling to only $540 million by 2024). At that time, Canada's provinces and territories will need to spend, in aggregate, $6 for every federal dollar of subsidy.

The CMHC has asserted that existing operating agreements are contracts, and that the federal government has fully met its obligations. The Minister of State for Social Development commented, following a meeting of Big City Mayors in February 2014, that "The federal government has fulfilled their end of the agreement. [. . .] It's not a cut."[9]

However, FCM notes that the existing housing stock was created under a partnership between all orders of government. As a result, it is not reasonable for one of the partners to unilaterally extricate itself; leaving the burden, in this case, to provinces, territories and municipalities that lack the fiscal capacity, on their own, to preserve RGI homes and to maintain these assets in sound condition.

Limited funding to expand affordable housing

A further concern is that these subsidies relate only to existing portfolios (i.e. historical commitments made prior to 1995). In addition, there is a need to increase the supply of affordable housing options.

Across Canada, numbers on affordable housing wait lists grow, and homelessness persists. The City of Calgary has over 3,000[10] applicants waiting for affordable housing; in Metro Vancouver, that number is 4,100. In the City of Toronto the waiting list for social housing currently stands at 97,000 households.[11]

The Federal-Provincial-Territorial (F/P/T) framework for Investments in Affordable Housing (IAH) — which was initiated in 2001, after an eight-year absence of federal funding for new affordable social housing — provides limited funding. The Metro Vancouver region estimates the need for 6,000 new rental units per year to meet demand. In contrast, in the decade from 2001 to 2011, the IAH generated fewer than 5,000 new affordable units a year.[12]

This is a much lower volume than the number being lost as a result of declining federal subsidies (70,000 since 1996). In addition, post-2001 funding programs have used one-time capital grants, rather than ongoing operating subsidies, and target modest "affordable" rents (at or below average market rents) rather than the more targeted pre-1995 social housing system, with rents geared to income.

Moreover, as a cost-shared initiative requiring P/T matched spending, the cost-shared IAH initiative further exacerbates P/T spending pressures, especially since the current level of funding is insufficient. As a result, many provinces are unilaterally funding a higher volume of investments. Municipalities have also contributed in other ways, providing municipal land, waiving development fees, and in some cases offering reduced property taxes.

This is not a balanced or sustainable distribution of costs. It does not reflect the principle of partnership endorsed in numerous F/P/T agreements, and it does not reflect the respective fiscal capacities of the different orders of government.

Provinces and territories face mounting financial pressures. Despite constrained fiscal capacity, they are providing their share of subsidies, where required, to ensure that expiring federal subsidies do not put people on the street, or cause the absolute loss of RGI housing.

9 Curry, B. "With Ottawa spending less on social housing, provinces will be forced to foot the bill Globe and Mail", March 4, 2014.
10 http://www.calgary.ca/CS/OLSH/Pages/Calgary-Housing-Company/Applicant%20information/Waiting-list-for-housing.aspx
11 Canadian Centre for Economic Analysis Socio-economic Analysis of TCHC, 2015
12 The CMHC reports that, for the period of funding covering 2001–2011, the total number of households assisted under the Affordable Housing Program framework was 52,000. Some portion of these were assisted with rental allowances, and others through affordable-ownership assistance. This suggests that the estimated average of 5,000 new rental units is likely on the high side.

FCM believes that the federal government can rebalance a recent shift in spending. This can be achieved by reinvesting some portion of declining expenditures to partner with provinces, territories and cities in preserving limited but important housing assets.

The federal government stated in its 2013 Budget, and reaffirmed in 2014, that it would extend funding for both the IAH and the Homelessness Partnering Strategy (HPS) to 2019. This statement is welcomed by the affordable housing and homelessness sectors, and by municipalities, many of which have developed housing and homelessness strategies.

However, the planned level of spending is very low ($253 million for IAH and $119 million for HPS, annually). This is likely insufficient when it comes to enabling municipalities to effectively implement Housing First strategies.

Housing First strategies and affordable housing

Housing First initiatives are predicated on assisting individuals in transitioning from the street or shelter system into self-contained accommodation or rooming houses.

Recent efforts in a number of cities, including Vancouver, Calgary, Edmonton and Toronto — as well as associated research under the At Home/Chez Soi initiative — have shown that this approach can help significantly reduce homelessness. It is predicated, however, on the availability of housing with very low rents for formerly homeless individuals (CMHA 2014).

The potential success of this approach is severely weakened by a lack of units that rent at affordable levels. Most formerly homeless persons are initially, and sometimes persistently, dependent on income assistance programs that provide only a small housing allowance that is well below average market rents.

It is important to address the increasing shortage of lower-rent options within the context of a new federal focus on homelessness programs, such as the Homelessness Partnering Strategy.

As noted earlier (see Figure 6), the existing stock of lower-rent "affordable" housing is eroding dramatically. Between 2001 and 2011 alone, 850,000 units renting below $800 were lost. So the options and availability of lower-rent housing to facilitate housing first is contracting.

BUILDING A STRONGER FOUNDATION

Canada's social and affordable housing system was built through decades of collaboration between all orders of government. Now, however, federal investment is scheduled to decline substantially, leaving a significant and unmanageable burden to provinces, territories and municipalities, while placing a small but important social housing sector at risk.

It is critical that these historically joint efforts are reinvigorated to rebalance respective levels of funding and policies to better align with fiscal capacity. It is equally important to develop a balanced framework to sustain a healthy and complete housing system.

Consultation and coordination across all orders of government is essential to developing, funding and implementing effective and comprehensive policy and funding solutions to emerging housing challenges. Officials from all orders of government have extensive understanding of and expertise with these issues. Professional and industry associations across the sector are also well informed, capable, and able to assist governments in developing an appropriate and comprehensive suite of policies designed to restore balance while sustaining a healthy housing system.

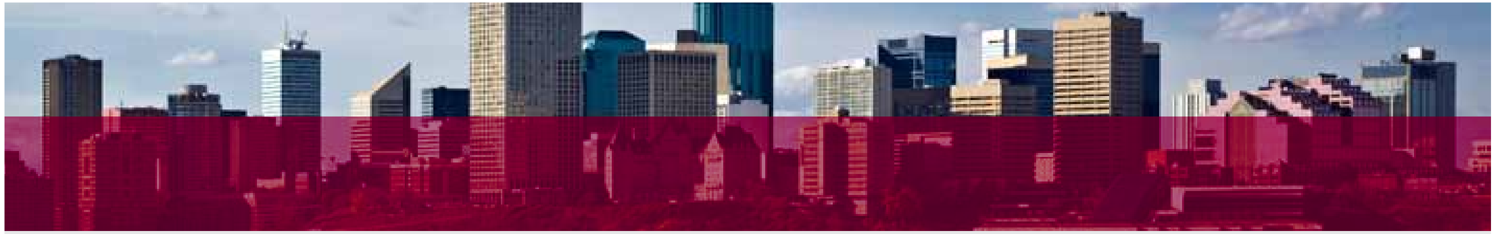
At a minimum, a framework for improved housing affordability should include policies in each of the following areas.

1. Stimulate market and affordable rental construction

A stronger rental sector can ease pressure on both the homeownership and social housing systems, while also improving labour mobility to ensure that the housing sector is supporting the overall economy.

Adding new supply is critical to avoid declining vacancy rates, which will place upward pressure on rents. Private investment in the rental sector is needed to generate new supply as demand shifts back from the ownership sector to rentals. This will not only address the significant demand for lower-rent options, it will create construction jobs.

FCM is calling for federal tax incentives aimed at removing barriers to new affordable and market-rental housing, including a Rental Incentive Tax Credit. To stop the serious erosion — through demolition and conversion to condominiums — of existing lower-rent properties, this incentive would credit property owners for selling affordable assets to eligible non-profit providers (including a municipality), thereby preserving assets and promoting long-term affordability. The credit would target small investors that face large tax liabilities when they sell properties.



2. Preserve and renew federal investments in social housing to rebalance the fiscal burden between the federal government and provincial/territorial governments

Perhaps the most serious issue in the affordable housing sector is the accelerating withdrawal of federal subsidies, as past operating agreements mature. This is creating significant spending reductions at the federal level, while adding a new burden to P/T governments and municipalities that are struggling to fill gaps left by declining federal funding.

The single greatest challenge is the capacity of provinces and territories, and in some cases municipalities, to fund necessary capital renewal in these aging assets. This cannot be overlooked if these assets are to remain in sound condition and continue to house lower-income families and individuals.

Without ongoing federal investments in social housing, more than 200,000 households are at high risk of losing homes from Canada's already small pool of social housing. This is a particular concern when it comes to seniors, lower-income singles, single-parent households, and urban Aboriginal families living off reserve.

Expiring federal operating agreements and their associated subsidies leave growing fiscal room at the federal level to invest in critical capital repair and re-generation projects. Federal funds could also be used to preserve ongoing rent subsidies, where needed, to stabilize at-risk social housing units in partnership with P/T governments and municipalities.

The recent experience under the Social Housing Retrofit component of Canadian Economic Action Plan (CEAP) stimulus funding suggests that federal investments targeting this specific need can help to preserve and extend the useful life of these assets. The estimated cost to fund capital renewal is roughly $1.3 billion (2013), inflated to $1.7 billion over the next decade — coincidentally a similar amount to the expiring federal subsidy ($1.6 billion in 2014–2015).

FCM is calling for the federal government to recommit to its current level of investment as a fixed contribution to the F/P/T partnership, to sustain and preserve Canada's existing social housing stock of 600,000 lower-rent homes reserved for households in need.

3. Develop a supporting framework for homeless strategies

There has been significant effort to address persistent issues of homelessness, especially chronic homelessness. Financial analyses by federally funded organizations — such as the Mental Health Commission of Canada, and the former National Welfare Council of Canada, among others — have demonstrated that a proactive housing approach can cost much less than reactive emergency responses to homelessness (Pomeroy 2005, 2007).

Housing First strategies provide positive evidence that chronic homelessness (and its associated costs) can be significantly reduced. Canada's Minister of State for Social Development has highlighted this fiscally responsible approach.[13]

What is often overlooked, however, is that the ongoing success of the Housing First model depends upon the ready availability of lower-rent options for formerly homeless persons. As this report has demonstrated, there are fewer and fewer options in the market.

FCM is calling for current allotments of $253 million annually to the federal investment in the Affordable Housing (IAH) program and the $119 million annually for the Homelessness Partnering Strategy (HPS) to be renewed and made permanent when they expire in 2019. FCM is also calling for further collaborations across governments for appropriate funding to ensure that rental subsidies are made available, to ensure that persons and families exiting from homelessness can be affordably stabilized in permanent housing.

[13] Speaking Notes for the Honorable Candice Bergen to the Housing First Partners Conference." Housing First Partners Conference. Chicago, Illinois, USA. March 13, 2014. http://news.gc.ca/web/article-en.do?nid=824829

APPENDIX A: REDUCTION IN FEDERAL OFF-RESERVE SOCIAL HOUSING SPENDING

	Annual Spending ($ Millions)	As % Fiscal 95/96	Reduction from Prior Year	Reduction from Base Year (95/96)	Cumulative Federal Reductions
1996/97	$1,691.5	100%	$0.0	$0.0	$0.0
1997/98	$1,691.5	100%	$0.0	$0.0	$0.0
1998/99	$1,691.4	100%	$0.1	$0.1	$0.2
1999/00	$1,691.2	100%	$0.2	$0.3	$0.5
2000/01	$1,690.3	100%	$0.9	$1.2	$1.7
2001/02	$1,687.1	100%	$3.2	$4.4	$6.2
2002/03	$1,682.5	99%	$4.5	$9.0	$15.1
2003/04	$1,676.8	99%	$5.7	$14.7	$29.8
2004/05	$1,667.4	99%	$9.4	$24.1	$54.0
2005/06	$1,656.1	98%	$11.2	$35.4	$89.3
2006/07	$1,640.6	97%	$15.6	$50.9	$140.3
2007/08	$1,625.7	96%	$14.8	$65.8	$206.1
2008/09	$1,605.2	95%	$20.5	$86.3	$292.3
2009/10	$1,582.9	94%	$22.3	$108.6	$400.9
2010/11	$1,558.3	92%	$24.6	$133.2	$534.1
2011/12	$1,529.5	90%	$28.8	$162.0	$696.1
2012/13	$1,497.5	89%	$32.0	$194.0	$890.1
2013/14	**$1,457.0**	**86%**	**$40.4**	**$234.5**	**$1,124.6**

	Annual Spending ($ Millions)	As % Fiscal 95/96	Reduction from Prior Year	Reduction from Base Year (95/96)	Cumulative Federal Reductions
2014/15	$1,408.4	83%	$48.6	$283.1	$1,407.7
2015/16	$1,347.1	80%	$61.3	$344.4	$1,752.1
2016/17	$1,272.0	75%	$75.1	$419.5	$2,171.5
2017/18	$1,202.3	71%	$69.7	$489.2	$2,660.7
2018/19	$1,126.4	67%	$76.0	$565.1	$3,225.8
2019/20	$1,055.1	62%	$71.2	$636.4	$3,862.2
2020/21	$979.0	58%	$76.2	$712.5	$4,574.7
2021/22	$898.2	53%	$80.8	$793.3	$5,368.1
2022/23	$773.4	46%	$124.8	$918.1	$6,286.2
2023/24	$645.5	38%	$127.9	$1,046.0	$7,332.1
2024/25	$530.3	31%	$115.2	$1,161.2	$8,493.3
2025/26	$423.9	25%	$106.5	$1,267.6	$9,760.9
2026/27	$329.2	19%	$94.7	$1,362.3	$11,123.2
2027/28	$238.9	14%	$90.3	$1,452.6	$12,575.8
2028/29	$162.5	10%	$76.4	$1,529.0	$14,104.7
2029/30	$112.1	7%	$50.4	$1,579.4	$15,684.1
2030/31	$81.4	5%	$30.8	$1,610.1	$17,294.2
2031/32	$63.9	4%	$17.4	$1,627.6	$18,921.8
2032/33	$50.5	3%	$13.4	$1,641.0	$20,562.8
2033/34	$37.8	2%	$12.7	$1,653.7	$22,216.5
2034/35	$21.4	1%	$16.5	$1,670.1	$23,886.6
2035/36	$7.1	0%	$14.2	$1,684.4	$25,571.0
2036/37	$0.4	0%	$6.7	$1,691.1	$27,262.1

Source: Schedule "E" to Provincial-Territorial Social Housing Agreements (as provided under an FOI request to CMHC); and CMHC Canadian Housing Statistics 1998, Table 57 (Public Funds Authorized under the *National Housing Act*). Data complied by Steve Pomeroy, Focus Consulting Inc. Ottawa.