Reverse the housing cuts: New federal affordable housing investment required

August 11, 2008

As Canadian rental and ownership housing markets teeter on the brink of major crisis, the federal government has made further drastic cuts in affordable housing investments in 2008 – and even more cuts are set for the end of the current fiscal year. These massive cuts will have a powerful impact on the health and lives of Canadians and our communities and put a drag on the economy.

The Wellesley Institute, an independent research and policy institute celebrating our first decade of advancing urban health, welcomes the opportunity for our annual pre-budget submission to the House of Commons Standing Committee on Finance. With the U.S. economy threatened by a housing-led downturn, and deep turmoil also led by a domestic housing crisis in Britain, Canada can avoid some of the economic pain through strategic affordable housing investments.

Specifically, we are recommending ***increased affordable housing investments*** to meet the urgent housing needs across Canada as part of a comprehensive and fully-funded new national housing strategy that is integrated with provincial and local housing plans across the country. The good news is that government investments in affordable housing will not only deliver the healthy, affordable homes that are so urgently required, but those investments will ***generate good jobs, increase economic activity, stabilize communities and increase government revenues***.

Our recommendations to the Standing Committee include the following:

1. an immediate commitment to ***renew and enhance the federal homelessness strategy*** which is due to expire at the end of fiscal 2008;
2. an immediate commitment ***to renew and enhance the federal housing rehabilitation program***, which is due to expire at the end of fiscal 2008;
3. an immediate commitment to ***renew and enhance federal affordable housing dollars***, which will expire at the end of fiscal 2008; and,
4. as part of a comprehensive and fully-funded national housing strategy, in conjunction with provinces, municipalities, Aboriginal people, housing providers and others, a set of ***targets for renewed housing investments*** starting in the next federal budget. Part of the revenues to support this investment can be drawn from the growing surplus at Canada Mortgage and Housing Corporation, the federal government's housing agency.

Canada is one of the only major countries in the world without a comprehensive national housing strategy, and our ***federal government is failing in its international housing commitments***, as noted by several recent reviews by United Nations' authorities.

Good homes vital for good health, good communities, strong economy

Good quality, affordable housing is a basic necessity for good health, and is also vital for the social and economic health of the country. Investments in affordable housing deliver multiple dividends, including good homes, good jobs, increased taxes and positive economic activity. The Wellesley Institute has produced a variety of research reports on key aspects of housing and homelessness. We have worked with Aboriginal housing and service providers across Canada. We have worked with specific communities to produce specialized reports on housing issues ranging from supportive housing to housing for people with HIV/AIDS. In 2006, the Wellesley Institute released our ***Blueprint to End Homelessness in Toronto***, a collaborative research process that produced housing indicators and practical and effective recommendations. The Blueprint model has been adopted in a number of other communities. The Blueprint and the companion Framework document (which includes statistics, indicators, an historical review and detailed recommendations) are available at www.wellesleyinstitute.com.

When it comes to housing, Canadians are caught in a triple squeeze:

- sky-rocketing shelter costs are growing faster than incomes, which leaves most households with higher expenses and limited money to pay for them – creating an ***affordability squeeze*** throughout the country;
- a growing population is pushing up the need for new homes, but construction is mainly on the upper-end of the ownership and rental scale – creating a ***supply squeeze*** in many parts of Canada; and,
- specific populations (those who require housing supports; Aboriginal people; the "unsheltered" homeless and the "hidden" homeless; racialized groups; youth; women) are facing difficult challenges, but government investment in housing initiatives remains sorely inadequate – creating an ***investment squeeze***.

A comprehensive, well-coordinated and fully-funded national housing strategy is urgently required – linked to provincial and local housing strategies.

This was the message delivered to the federal government by the United Nations Special Rapporteur on the Right to Adequate Housing after his official fact-finding mission to Canada in 2007, a message repeated in his observations to the UN Human Rights Council in 2008. It is the strong message delivered to the federal government in the last two five-year periodic reviews of Canada's compliance with the International Covenant on Economic, Social and Cultural Rights.

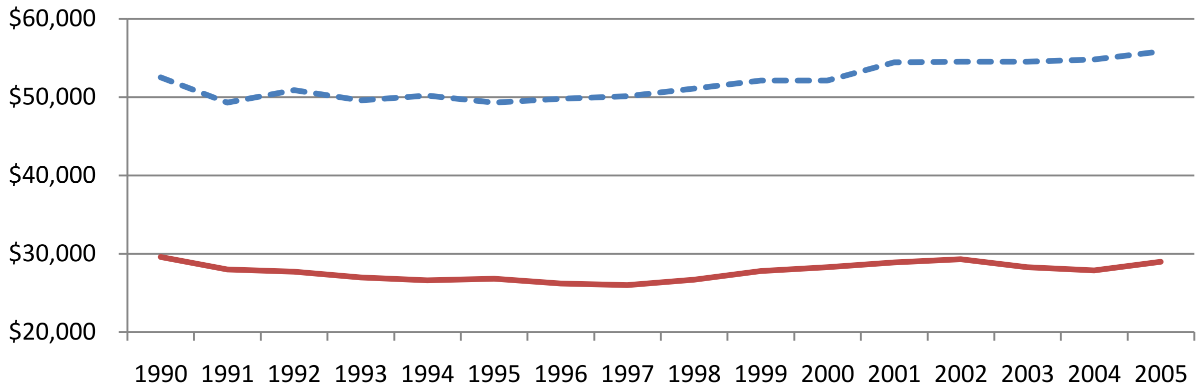
The Organization for Economic Co-operation and Development ranked Canada as number two among 18 developed countries in public housing investments in 1980. By 2003 (the latest year that numbers are available), ***Canada had dropped to number seven*** – below Ireland, Sweden, New Zealand, Denmark, France and the United Kingdom (which, that year, invested more than two and one-half times as much as Canada)[1]. Canada ranks at the bottom of the list when compared to European nations in the size of our social housing sector: Below the Netherlands, Austria, Denmark, Sweden, England, France, Ireland and Germany[2]. About 5% of Canadian households are in social housing.

[1] OECD.stat, Social Expenditure, Housing, Per Head at current prices in US dollars. 1980 to 2003
[2] London School of Economics and Political Science, *Social Housing in Europe*, 2007

One-in-four in affordability danger zone

One-in-every-four households – that's three million households or more than eight million women, men and children – are spending 30% or more of their income on shelter (that's the commonly-accepted danger zone – spending more means less money available for food, medicine, energy, transportation, childcare and other necessities)[3].

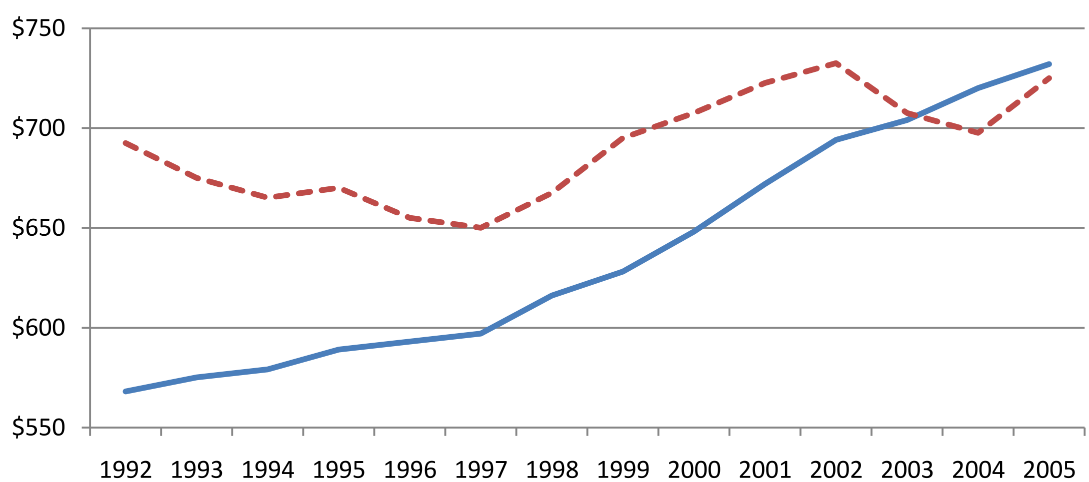
Stagnant median household incomes – renters and owners



Median owner household incomes (dotted line) up slightly, and renter household incomes (solid line) down slightly.
Sources: Survey of Consumer Finances, Survey of Labour and Income Dynamics

The 1.5 million households in owned housing have incomes about double the 1.5 million renter households. Since 30% of $29,000 (median renter household income in 2005) is less than 30% of $55,800 (median owner income), ***a key priority should be renters at or below the median***[4]. By 2003, rents charged by private landlords had risen above the affordable median rent (affordable rent for half of tenant households – or more than five million women, men and children).

Rising private market rents have eclipsed affordable rents



Private market rents (solid line) have risen steadily, while affordable median rent has dipped (dotted line).
Sources: CMHC rental market surveys, Survey of Labour and Income Dynamics, Wellesley Institute calculations

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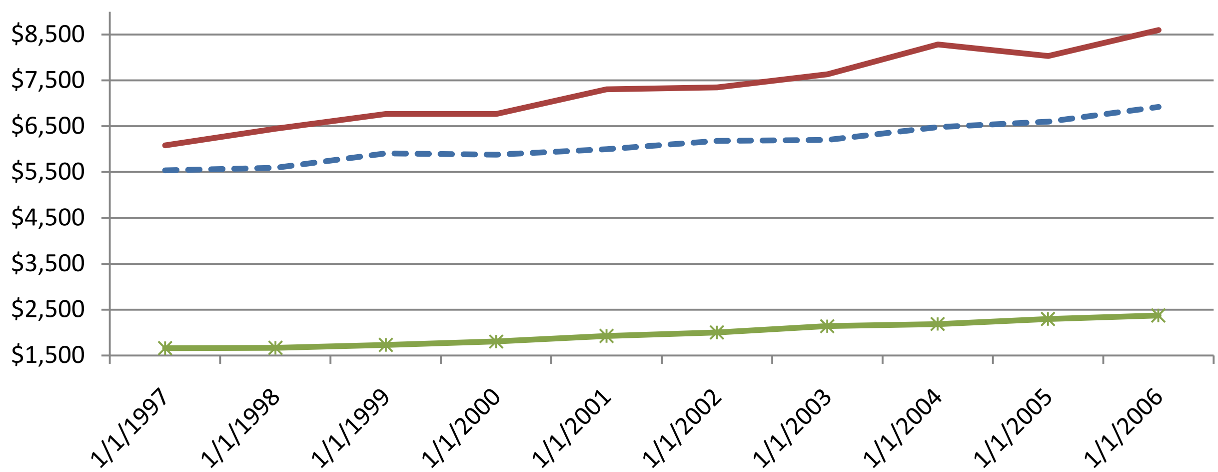
[3] Statistics Canada, *Changing Patterns in Canadian Homeownership and Shelter Costs*, 2006 Census
[4] Statistics Canada, *Survey of Labour Income and Dynamics*, 2005

While household incomes have stagnated over the past decade, ***median shelter costs for owners and renters have jumped faster than inflation*** – a 25% increase for renters from 1997 to 2006 and 41% for owners (compared to a 21% rise in the Consumer Price Index)[5]. Canadians experienced a larger increase in water, fuel and electricity – which grew by 43%.

Rising cost of shelter, water and utilities

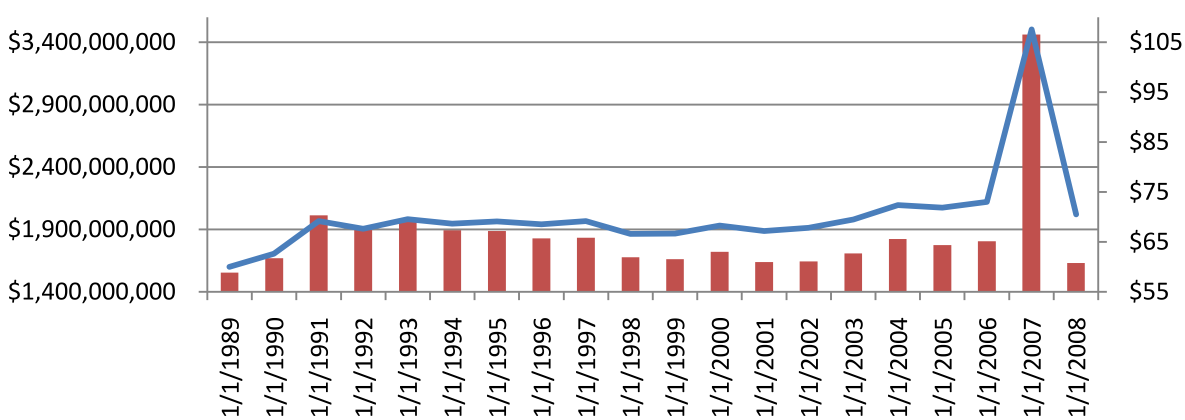


Owner costs (solid line), renter costs (dotted line) and water, fuel and electricity (hatched line) have risen steadily.
Sources: Statistics Canada Survey of Household Spending

Federal housing investments down in 2008

For the past quarter-century, successive federal governments have slashed housing investments, cut programs and downloaded housing to the provinces and territories. There was a one-year surge in spending in 2007 as the government allocated $1.4 billion authorized by Parliament in 2005. By 2008, investment had dropped by 5% from 2006 – a cut equal to the biggest cuts during the mid-1990s. ***Per capita federal housing spending is at its lowest level in two decades.***

Federal housing spending and per capita spending on housing

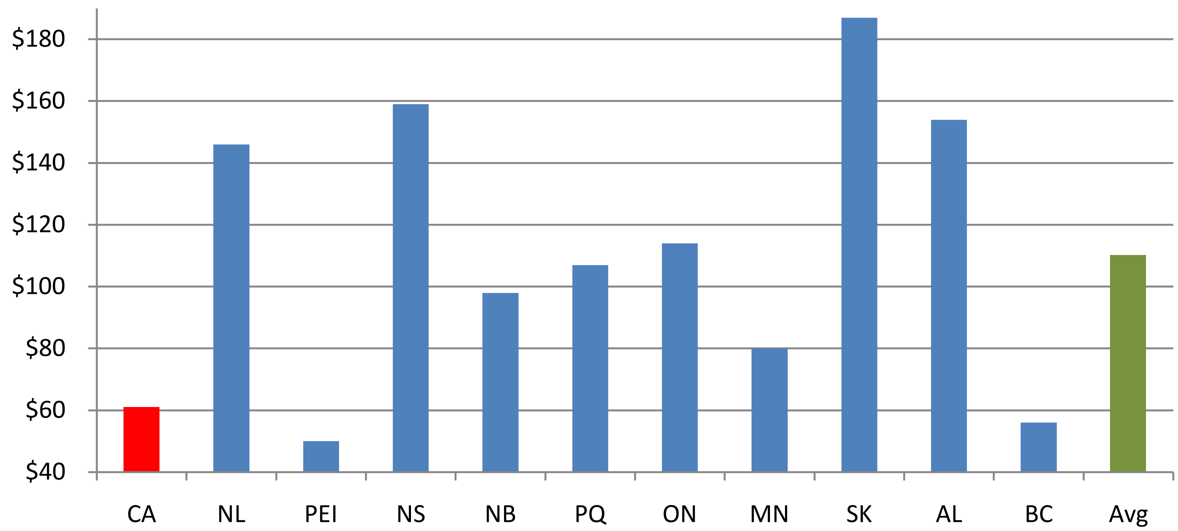


Federal housing spending – solid line, left axis; per-capita housing spending – bars, right axis.
Sources: Statistics Canada Survey of Government Expenditures and Revenues, 1989 – 2008;
Statistics Canada population estimates; Wellesley Institute calculations

[5] Shelter costs from Statistics Canada, Survey of Housing Spending; CPI from Bank of Canada calculator

Federal housing spending, on a per capita basis, at $61 is just over half of the average of Canada's provinces (including municipal contributions). Only British Columbia and Prince Edward Island have a worse record on per capita investments.

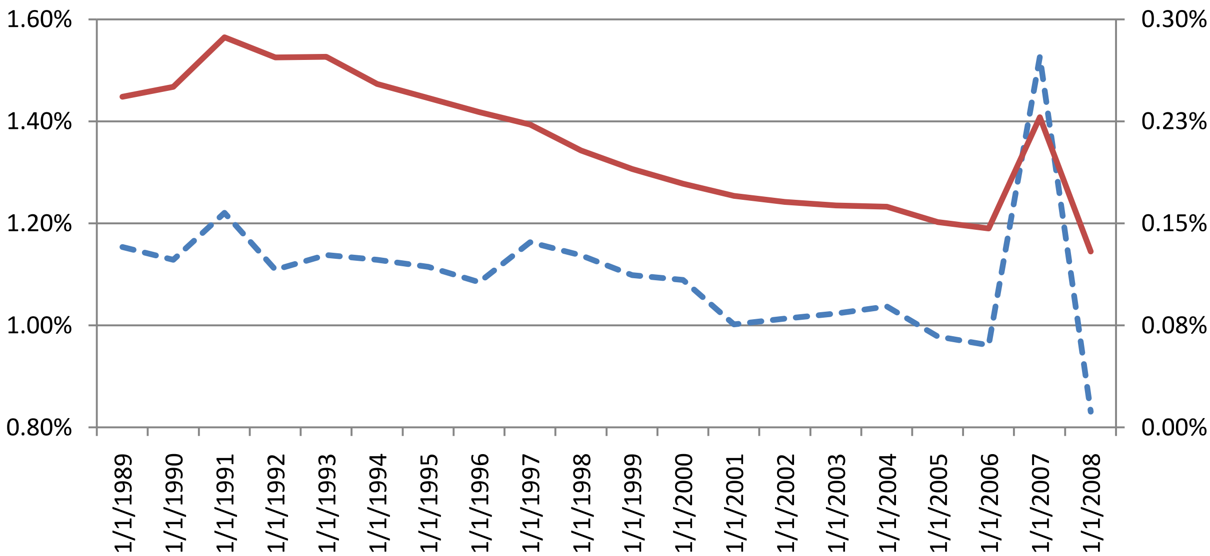
Federal and provincial housing investments per capita, 2008



Provincial numbers include municipal investments in housing programs.
Sources: Statistics Canada Survey of Government Expenditures and Revenues, 1989 – 2008;
Statistics Canada population estimates; Wellesley Institute calculations

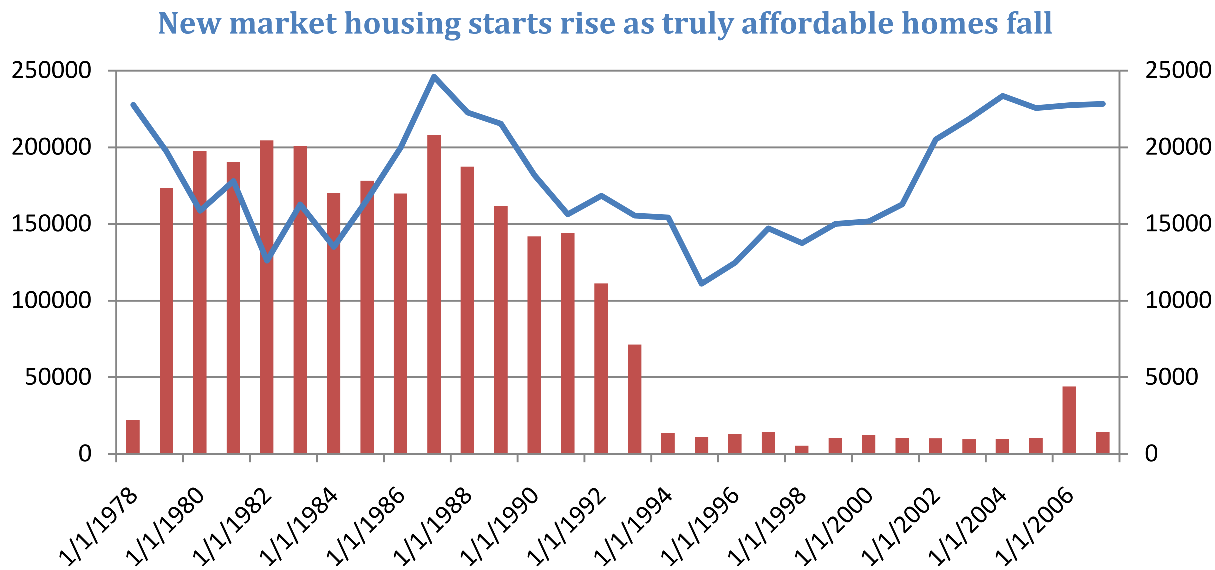
While the fiscal capacity of the federal government to support increased housing investments has grown in recent years, the relative share for housing investments has shrunk. ***Federal housing investment as a percentage of the GDP is at its lowest level in two decades.***

Federal housing spending relative to overall spending and GDP



Dotted line: housing relative to overall spending (left axis); solid line: housing relative to GDP (right axis).
Sources: Statistics Canada Survey of Government Expenditures and Revenues, 1989 – 2008;
Statistics Canada GDP 1989 -2007;GDP 2008 is estimated; Wellesley Institute calculations

The policy rationale for the housing cuts of the 1980s and 1990s was that as government investments were cut, private developers would pick up the slack. There have been a growing number of new housing starts since 1994, including a near-record level by 2004. But the cost of that housing has been increasing expensive – excluding a growing number of low, moderate and even middle-income households from the new homes. **In the early 1980s, more than one-in-ten new homes in Canada were truly affordable, by 2007, it was less than one-in-one-hundred.**



Overall new housing starts (solid line / left axis); new federally-funded social housing (bars / right axis).
Source: Canada Mortgage and Housing Corporation

Securing new supply

Canadian housing expert Humphrey Carver, writing in 1946, suggested a simple formula to calculate the amount of new affordable housing required[6]:

Total new housing needed, equals:
Amount to make-up the **accumulated shortage**, plus,
Amount to **restore vacancy rates** to healthy levels, plus,
Amount to house the **growth in population**, plus,
Amount required to **replace substandard housing**, plus
Amount for **normal replacement of aging housing**.

The federal government should set ***annual targets for new housing supply*** and monitor the production of new homes to evaluate the adequacy of new supply as part of a comprehensive and fully-funded national housing strategy. These targets should be costed and the necessary investments should be made to meet the annual goals.

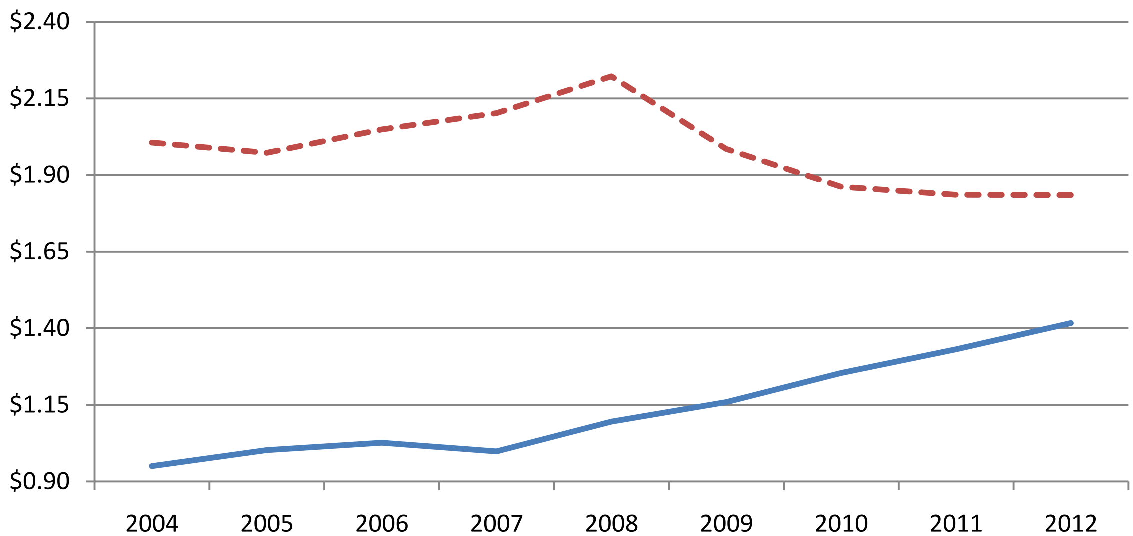
Major cuts at CMHC as surplus grows larger

Canada Mortgage and Housing Corporation has been posting a billion-dollar-plus net income in recent years, and this is projected to grow to almost $1.5 billion by 2012. Total equity at

[6] Humphrey Carver, *How Much Housing Does Greater Toronto Need*?, Toronto: Metropolitan Toronto Housing Research Project, 1946.

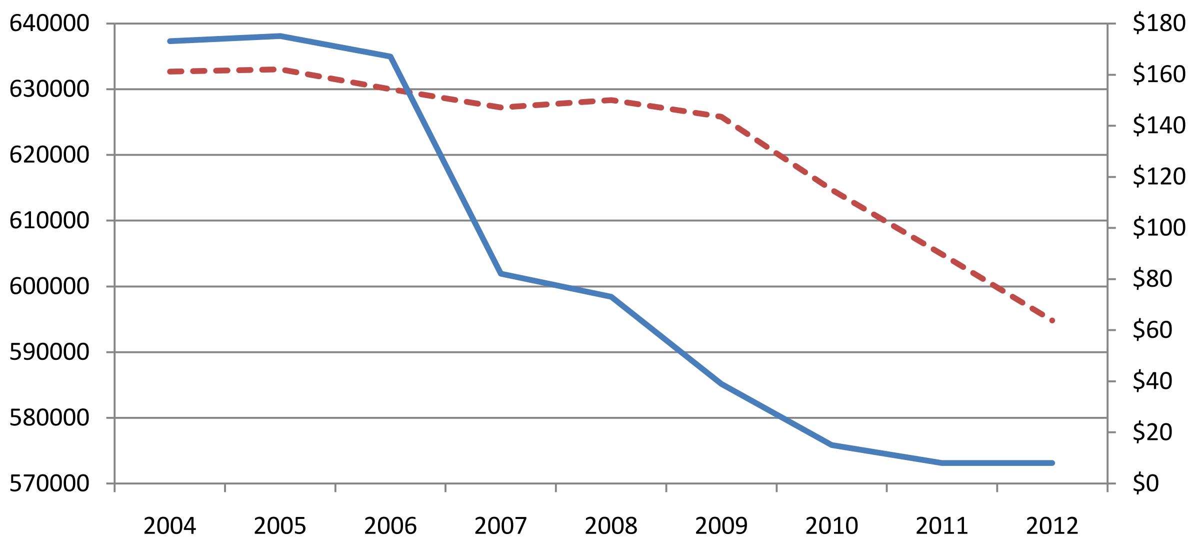
Canada's national housing agency will balloon from $3.4 billion in 2004 to a projected $13.9 billion by 2012. Since the government agency was "commercialized" in 1998, CMHC's support for affordable housing has been tepid, but it has made increasing large profits for the government from its mortgage insurance business. In a typical year, CMHC rings in $1.5 billion or more in premiums and fees, and pays out only a fraction of that. For instance, in 2004, CMHC received $1.4 billion in premiums and fees, and paid out $51 million in claims. By 2012, CMHC projects that it will collect $1.7 billion and pay out $314 million[7].

CMHC housing spending and net income (in billions)



Housing program expenses (dotted line); net income (solid line).
Source: Canada Mortgage and Housing Corporation

CMHC households assisted and affordable housing spending (in millions)



Households assisted (dotted line/left axis); affordable housing spending (solid line, right axis).
Source: Canada Mortgage and Housing Corporation

[7] All figures from Canada Mortgage and Housing Corporation, *2008-2012 Summary of the Corporate Plan*

Canada Mortgage and Housing Corporation has been locked into significant annual cuts in housing spending and in the number of households assisted since the federal government announced in 1996 that it was planning to download most federal housing programs to the provinces and territories. From 2004 to 2012, CMHC projects that its net income will rise by 49% while its housing program spending will drop by 9%. The number of households assisted will drop by 6% and the ***spending under the affordable housing initiative will shrink to almost zero – falling by a whopping 95%***.

Three major federal housing / homelessness programs due to expire

The federal homelessness program (Homelessness Partnering Strategy - $135 million annually), the federal housing repair program (Residential Rehabilitation Assistance Program - $128 million annually), and the federal affordable housing funding (which, as noted above, spiked in 2007 with the one-time infusion of the investments authorized by Parliament in 2005, but are slated to drop near to zero) will all expire during the current fiscal year. The loss of this funding will have a powerful and negative impact on an already grim housing crisis.

Canadians cannot wait until the next federal budget – which could come in February of 2009 or later – to receive a commitment on the renewal and enhancement of these critical programs. The federal government, to its credit, renewed the homelessness and housing repair programs two years ago – although it froze funding at the same level as in previous years, even though the need is growing. The federal government, also to its credit, allocated $1.4 of the $1.6 billion in affordable housing investments authorized by Parliament in 2005 (even though the governing Conservatives voted against this measure when they were in opposition). The homelessness funding supports hundreds of vital programs and services in 61 communities across Canada, and the housing repair program provides financial support for more than 20,000 substandard homes annually.

The renewal of these three programs – with increased annual investments – is an important down-payment towards the funding of a comprehensive new national housing strategy.

The Wellesley Institute advances the social determinants of health through community-based research , community engagement , and the informing of public policy.

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