



**Commentary on
The Conference Board of Canada
Report:**

***“Building From the Ground Up: Enhancing
Affordable Housing in Canada (March 2010)”***

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INTRODUCTION

The Conference Board of Canada (CBOC) recently published an analysis of affordable housing issues, funded by a collaboration of provincial housing departments as well as by the Canadian Housing and Renewal Association (CHRA) and the Social Housing Services Corporation (SHSC).

This commentary is a response to some specific issues in the CBOC report and is put forward by three Ontario-based organizations with broad social housing mandates: SHSC, the Ontario Non-profit Housing Association (ONPHA) and the Co-operative Housing Federation of Canada – Ontario Region (CHFC). These organizations' members comprise close to a quarter-million units providing housing to well over a half-million people.

The production of the Conference Board report is a welcome contribution to the ongoing policy debate on Canada's affordable housing issue. The report provides a fresh and non-partisan perspective from a highly regarded organization. It brings expertise in economic analysis to a persisting public policy concern – the impact of insufficient supply of affordable housing on the economy and on Canada's economic competitiveness.

The report reinforces the critical importance of a sufficient supply of affordable housing to Canada's economy. It provides a number of new insights and suggestions on how governments should rethink their traditional approaches to addressing the growing unaffordability of housing. It also proposes some more controversial views, some of which regrettably marginalize the role and contributions of the community housing sector.

The report consolidates and repackages much information well known and often articulated by affordable housing advocates. It calls for a comprehensive diagnosis of the housing problems and recommends a toolbox approach through which different cities and communities can select tools and mechanisms appropriate to their particular circumstances.

In addition to discussing illustrative examples in the report, the Conference Board has created a website with a toolbox of program and policy options, much focused on housing supply elements. To some extent this simply consolidates and in part duplicates information already warehoused by CMHC, but this may provide a useful resource to proponents seeking to respond to the lack of affordable housing.

REINFORCING THE NEED FOR AFFORDABLE SUPPLY

Based on a review of existing research, CBOC highlights and reinforces what many affordable housing advocates have been saying for many years: housing unaffordability is a serious concern. *“Lack of good quality and affordable housing negatively affects health and well-being which in turn impacts on labour force productivity, limits national competitiveness and indirectly drives up the cost of health care and welfare”.*



The Board uses previous research on the costs of supportive housing and pro-active responses to homelessness. These are compared to much higher costs for emergency responses that are caused in the absence of supports to make the argument that absolute lack of housing, or homelessness imposes significant costs on the health care and emergency system. There is a sound case to argue that supportive housing can help manage escalating costs in the health and emergency system. This suggests a need to develop stronger partnerships between housing and supportive housing providers with health and emergency service agencies. This could develop more integrated programming and appropriately share the costs and benefits of housing based strategies.

The analysis states that persistent unaffordability appears to be “*a fundamental structural feature of the Canadian economy*”. We have a mainstream economic problem that governments and the private business community should take seriously. The lack of production of rental housing is central to this problem. Undersupply and ongoing erosion of relatively affordable private rental units are shrinking available options for a growing population, including growth in the low-income segment. The report notes that affordable housing need has been expanding for almost two decades and is predicted to increase further. Yet the public policy response has been minimal at best.

As discussed further below, CBOC asserts that past approaches to affordable housing development are inefficient. The Board, perhaps somewhat naively, proposes that a less regulated and less taxed private sector can solve the supply issue, while separately addressing the affordability issue via rent supplements. It concurrently demotes and minimizes the role of community housing to one of managing assets and subsidies, belittling extensive and complex past and ongoing contributions.

SOME INTERESTING IDEAS

The Board identifies a range of ideas that might force traditional providers and analysts to reconsider how we do business.

The report examines the two contributing sets of influences on housing unaffordability:

- On the one hand, low income exacerbated by lack of employment skills or education undermining capacity to earn and afford housing.
- The second set of influences is high and rising housing costs (both for existing and new housing) that in many cities are increasingly out of reach for low and even some moderate-income households.

In examining these influences, the report highlights the critical important of enhancing income as part of a long-term strategy to reduce housing need and poverty. CBOC stresses the importance of linking housing assistance to specific initiatives to improve employment skills and connection to the labour market. While affordable housing eases poverty pressure, affordable housing alone cannot enable households to escape a poverty trap – this requires increased, and sustained, earning and means that



housing providers need to strengthen relationships and partnerships with organizations involved in labour force training and reattachment.

In effect CBOC is stressing that unless affordable housing is closely integrated as part of a labour force strategy, it cannot achieve the labour productivity and competitiveness effects that are desired (and argued as a basis for investment in affordable housing). In short, affordable housing is a necessary but insufficient pre-condition to improving health, well-being and economic outcomes. This implies broadening the roles (and funded mandates) of social housing providers.

The Conference Board analysis dissects the *unaffordable housing problem*, breaking it down into three distinct groups of issues:

- a very small but acute issue of homelessness;
- a relatively small core group of households who have persistent problems in affording shelter (chronically in housing need); and
- a much larger segment, labeled transitional housing need, who may experience unaffordability for only a temporary period.

The report then seeks to outline more tailored responses to these three separate groups.

This segmentation of housing need is a particularly interesting aspect of the Conference Board report. CBOC concludes that those with persistent affordability problems account for perhaps five to six percent of total households, coincidentally a statistic that mirrors the percentage that social housing makes up in the overall stock (six percent). CBOC goes on to suggest that many residents of social housing are not in deep need, so they should be encouraged to move on, out of social housing to free up this limited resource for those more in need. This ignores the reality that community housing provides both housing and income support. The mixed income attributes of much of community housing has been critical to its success and acceptance and cannot be diminished.

Certainly it should be an objective to help people get to the point where they are not reliant upon government income assistance, but as the report itself well notes, this cannot and should not be a role confined to community housing exclusively. But housing – a home – is a source of stability and community capacity building whose unique value is complex and far-reaching. To support both household mobility and stability, community housing as “place” is no different from any other housing, except that community housing can be more proactively planned and delivered where and when than private housing – an important consideration in neighborhood renewal and development.

In examining the costs of producing housing, CBOC refers to studies that detail the significance of publicly imposed fees and charges on development, suggesting that this works against developers’ efforts to reduce costs and improve affordability. The Board articulates a particular concern that property taxes and development charges are regressive and drive up housing costs, making housing less affordable especially for lower income households. The Board fails to examine or mention that



responsibilities for housing and affordable strategies have been increasingly pushed down to the municipal level, to a unique extreme in Ontario, where the primary source of revenue is a property tax, along with user fees. A broader municipal mandate results in further imposition of fees and charges on new development and works against affordability objectives. To the degree that low income is a significant factor in the housing affordability issue and income redistribution is the domain of the provinces and federal government through the income tax system, responsibilities and funding must be rebalanced with the senior levels taking a more active role to avoid such costs mounting at local and project level. However, CBOC does not articulate this related argument.

As a prescription for future rethinking, the Board highlights a new approach to rental supply, and promotes a US-style Low Income Housing Tax Credit (citing recent work by Steele and Desrosier, 2009, on a Canadian adaptation). It separately articulates the use of rent supplements as a way to more directly respond to affordability concerns.

The separation of the supply and affordability issue into separate components is one that has merit. However it is debatable whether a LIHTC is the best or only approach to stimulate affordable supply. As successful as it has been in the US, few involved in housing system management there would endorse that notion. The Conference Board significantly misses the mark in stating *“the program [LIHTC in the US] is very simple and efficient to administer”*. To the contrary, many US analysts and commentators argue that it is one of the most cumbersome and sophisticated programs ever invented!

Certainly the cost of public administration under the LIHTC is minimized (or hidden) by moving the program from the housing department into the tax department (Internal Revenue Service) but a high level of expensive legal fees and transaction costs are imposed on providers, more than offsetting any public administrative savings. The US LIHTC involves a substantial level of subsidy per unit and in a Canadian context that lacks the history of tax-exempt investment products there is some question about the practicality of marketing the credits to potential investors.

That said, to the extent that tax treatment of rental investment is a significant deterrent to private investors, and has contributed to very low levels of general rental supply (as distinct from affordable supply) this is an area to explore more carefully, especially if general rental supply is an objective.

SOME CONTROVERSIAL IDEAS

While presenting these broad arguments, the Conference report also introduces some more controversial ideas. It recommends that policy makers and stakeholders rethink both the way they frame the affordable housing issue, and their respective roles in responding to this challenge.

For example, the report argues that the partnership approaches (advocated and promoted by CMHC and the provinces) are inherently inefficient. *“Joint venture arrangements with government as co-designer and builder are generally thought to be too bureaucratic and time consuming”*... and *“produce lower rates of return for developers and add process costs”*. It argues that these arrangements involve excessive entanglement and constraints, reducing the creativity and innovation of the private sector.



There may be a degree of truth in this argument, as many providers have been frustrated by the lengthy bureaucratic processes involved in new development.

The report speaks only tangentially to joint venture arrangements utilized by the community non-profit sector (“civil society-private partnerships”), but similar criticism is implicit (i.e. when directly involved in procurement, the non-profit partners similarly burden the developer and add inefficiency). This is an unwarranted characterization of the non-profit/co-operative role. In the private sector it’s perfectly normal for the eventual property owner (client) to be involved in decisions impacting the quality and design of the asset; so why should the situation be different when a non-profit/co-operative housing entity is the owner?

The Board also observes that non-profits do not typically have the core competencies to design build and finance housing. While this may be true in some jurisdictions, especially where non-profits are very small and do lack these competencies, and the expertise of the resource group sector has largely eroded away during years of inactivity. However there is a core of expertise, especially in BC and Quebec where ongoing development has sustained this expertise, as well as among larger providers in other jurisdictions.

A central focus of CBOC’s recommendations on “What to do about it” suggests a distinct separation of roles and responsibilities, with each of the three sectors, public, private and third (Non-Profit), focusing on their particular core competencies. It suggests that:

- The public sector should use its assets (funding and land) and regulator levers, such as waiving development fees or allowing density bonusing, while managing a more hands-off” procurement process (avoid “micro-management” practices that have layered on delays and costs). Essentially set the parameters and design specifications, then tender the work and stay out of the way. This ignores the legislative impediments in Ontario to simply “waiving” development charges.
- The private sector ingenuity and expertise should be unleashed and allowed to flourish without excessive public oversight. Through competition the Board asserts this will drive down costs and enhance affordability.
- The report highlights the expertise of the non-profit sector in operating and managing affordable housing on a relatively cost effective basis, and equally their role in preserving long term affordability. Thus it suggests that the non-profit role would focus on asset management and administration, including a broader array of supports and services necessary to enable assisted households to reenter and be successful in the labour market.

These prescriptions appear overly simplistic in trying to fully disentangle roles and responsibilities.

The report states that “our interviews revealed a number of examples of private sector innovations that can drive down costs”; however none of these examples are identified nor described. In reality, there is little evidence of private sector ingenuity “driving down” development costs; indeed in a highly



competitive environment over the decade 1996-2007, development costs increased dramatically, heavily influenced by demand from the more affluent ownership sector.

On the other hand, there are many, many examples of non-profit/co-operative housing providers showing meaningful leadership in design, construction and management. Examples include innovative uses of factory assembly – pointing the way to future production methods; achievement of the highest LEED certification levels and inclusion of geothermal systems in high-rises – demonstrating environmental stewardship; combining residential and unique uses such as schools and fire/EMS facilities; comprehensive reinforcement of broader neighbourhood planning; achievement of the highest levels in management accreditation; designing for universal accessibility. These are just some examples of the trends which have drawn expertise to the sector, resulting in skilled and efficient delivery that takes a back seat to no-one.

Certainly some reform may be in order, especially the often prescriptive and inflexible program rules in the affordable housing programs that frustrate both private and non-profit developers. But precluding eventual asset owner (non-profits) from the development process is a recipe for disaster. Had the Conference Board reviewed a little more history they would have discovered that their approach was already tried in constructing public housing in the 1960s. The experience of the late 1960's and early 1970's when public housing was simply specified and put out to tender is the root cause of poorly constructed properties that now impose significant demand to reinvest in upgrading and modernization of assets.

Similarly, promoting private sector development and retention of assets and using the non-profit sector only as managers does little to add to or ensure long-term preservation of permanent affordable stock.

Another serious concern is that CBOC suggests that “the federal government could transfer monies previously set aside for maintaining existing social housing toward more building a flexible and accessible stock. This is an alarming suggestion, given the general absence of funding for renewal and modernization prior to the very recent stimulus budget. Reinvestment to maintain the existing stock is most often cheaper than replacement and therefore the most cost effective approach to overall supply.

SOME CONCLUDING COMMENTS

The overall contribution of the volume of work by the Conference Board is the articulation of the link between a sufficient stock and supply of affordable housing and the nation's competitiveness.

The issue of unaffordable housing is significant and will require a substantial commitment of political will and resources if the persistent and growing level of need is to be addressed. The Conference Board's objectives to reduce homelessness by one-third and the level of unaffordable housing need by one-half by 2015 are commendable targets, consistent with others such as those articulated by the caucus of Big City Mayors and FCM (2008).



The report presents both some interesting new ideas as well as some more controversial ones. It is important to better understand the implications of some of the suggestions proffered. This report should stimulate housing providers and policy makers to re-examine and to re-think some long held “conventional wisdoms” and perhaps to explore some new approaches. This should include engagement and consultation with the community-based housing sector that has proven its value in preserving long term affordability and creating homes for people.