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THE SHORTAGE OF RENTAL HOUSING IN CANADA

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TABLE OF CONTENTS

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THE SHORTAGE OF RENTAL HOUSING IN CANADA

SUMMARY

There is currently a shortage of rental housing, in particular affordable rental housing, in Canada. The shortage is due to a significant increase in the demand for housing, as well as to the tax and economic environment in which developers and builders are operating. Solutions to the shortage will require increased incentives for the creation of new rental housing and perhaps, in the short term, direct government intervention aimed at meeting specific needs that the market cannot satisfy cost-effectively.

INTRODUCTION

Housing is a fundamental element in the lives of the great majority of households throughout the world. Canadians are no exception. Considered as being among the best-housed people in the world, Canadians spend approximately 19% of their gross income on housing. This makes it their second-largest expenditure after personal income taxes.(1)

Today, the shortage of affordable rental housing is again making headlines across the country. However, unlike the situation a few years ago, the current scarcity of rental housing is no longer merely an economic issue; it is now also a structural problem.

The sustained trend toward home ownership over the past few years has meant that more affluent families are no longer part of the tenant population. This means that tenant households today are relatively less well off than they were 20 years ago, as well as facing more difficulties in finding housing. The challenge for government and industry is to help the housing market to self-regulate in order to meet the needs of all Canadians within the current housing system.

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(1) *2000 Survey of Household Spending*, Statistics Canada.

This paper examines the causes of the current shortage of rental housing in Canada. After reviewing housing conditions and the recent economic situation of housing markets in general and rental markets in particular, the paper goes on in its second part to discuss factors at the root of the current rental housing shortage. The third part contains an analysis of housing programs and grant mechanisms. Lastly, a series of appendices examine problems in the secondary rental market and the main directions of the current federal housing policy, as well as providing an overview of recent and past federal initiatives in support of affordable rental housing.

RECENT HOUSING MARKET CONDITIONS IN CANADA

A. The Housing Market Belies the Economic Slowdown

Canada is experiencing a boom in housing that runs completely counter to the 2001 economic slowdown. In February 2002, the Canada Mortgage and Housing Corporation (CMHC) announced that the seasonally adjusted annual rate of housing starts in Canada reached 204,000 units in January 2002, the highest level since May 1990. In 2001, total housing starts in Canada (162,733 units) jumped 7.3% over the previous year, a level of performance unequalled since 1992.

Matching the activity in new residential construction in Canada, housing resale markets reached record levels. Data from the Canadian Real Estate Association (CREA) show that house sales in Canada totalled 380,458 in 2001, an annual increase of 14%. In fact, it seems that the only factor now constraining the growth of the Canadian housing resale market is the increasing scarcity of houses for sale (listings), particularly in the most affordable market segments. High demand, of course, pushes up prices. In 2001, the average resale price increased by 4.8%, close to twice the annual rate of inflation (2.6%) measured by the consumer price index.

There are many factors underlying the boom in housing markets. The most significant is the strong economic situation during 1998-2000, which was characterized by significant job creation, an increase in households' disposable incomes, and the lowest mortgage rates in 40 years. These three elements combined with demographic factors to stimulate a growth in the number of households and in the demand for housing.

B. The Other Side of the Coin: Higher Prices and a Shortage of Housing Units

The vitality of Canada's housing market is a sign of prosperity. The strength of this economic sector contributes to the growth of the economy and collective wealth.

For households that were unable to benefit from the economic growth of the past few years to save enough money to buy a house, however, the growth in housing markets means higher rents and an unprecedented shortage of affordable places to live. They must spend more on accommodation or opt for lower-quality housing.

Moreover, the increased rate of home ownership is due in part to the current shortage of rental housing in most metropolitan areas. Better-off tenant households buy a house in order to realize a dream and to meet their needs and their aspirations – but also to escape from the constraints of a limited supply of rental housing and rising rents.

THE CURRENT ECONOMIC SITUATION IN CANADA'S RENTAL HOUSING MARKETS

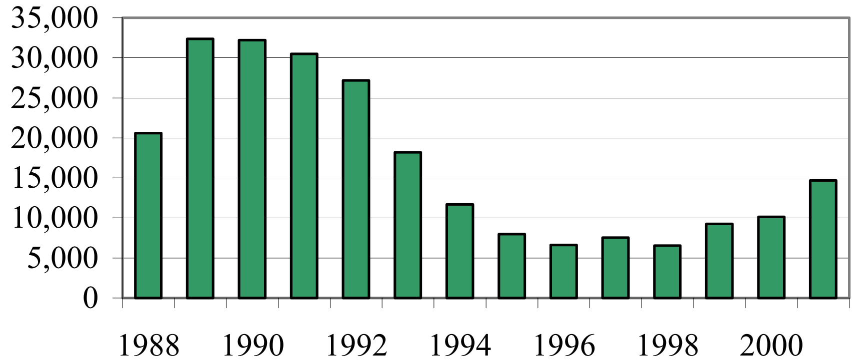
According to CMHC data published in November 2001, the average rental vacancy rate in Canada's 26 metropolitan centres was 1.1%, the lowest rate ever. In major metropolitan areas, such as Montréal, Toronto and Ottawa-Gatineau, the rental vacancy rate was even less than 1%. CMHC's Rental Market Survey provides vacancy rate and rent information on privately initiated houses and apartments in buildings of three or more units in urban centres of more than 10,000 inhabitants.

CMHC's annual Rental Market Survey also found that average monthly rents for two-bedroom apartments for the year ending in October 2001 increased by between 0.2% (Sudbury) and 8.8% (Edmonton). Calgary saw an increase of 5.8%. In Gatineau, Saint John, Toronto, St. Catharines, Ottawa, London and St. John's, rents increased by more than 4%. Toronto still has the highest average rent for a two-bedroom apartment ($1,027), followed by Vancouver ($919) and Ottawa ($914). The lowest rents were in Trois-Rivières ($419) and Sherbrooke ($446).

Rent increases reflect the relative scarcity of housing, as well as the presence or absence of rent control mechanisms.

Despite higher rents and lower vacancy rates, the construction of rental housing is falling off in Canada. Builders prefer to invest in products for owner-occupiers and in condominium properties, which sell quickly and generate a higher profit margin. For example, while construction began on more than 30,000 rental units every year during the 1970s in Ontario, this figure had fallen to approximately 2,000 by the end of the 1990s.[2]

Rental housing starts in urban centres in Canada



Source: CMHC

CAUSES OF THE RENTAL HOUSING SHORTAGE

The rental housing shortage is due primarily to the following factors:

- A drop in the construction of new rental units by the private sector because of low profitability.
- A significant reduction in social housing construction by all three levels of government.
- An increase in the number of households because of increased immigration and economic growth between 1998 and 2000.

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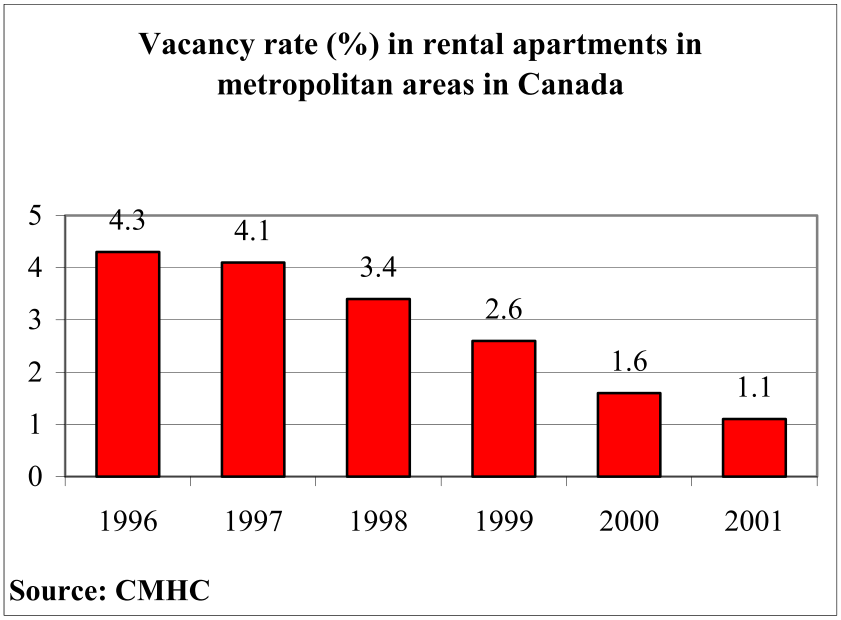
(2) Canada Mortgage and Housing Corporation.



A. The Erosion of Federal Tax Incentives for Investing in New Rental Housing in Canada

If there is to be rental housing development, builder-developers and long-term investors must receive an adequate return on their investment.

Furthermore, sufficient spread between builder-developer and investor returns is a key driver of new rental development.(3) When returns are sufficient only for the long-term investor, there is a strong demand for rental development as an investment, and thus potential buyers for rental projects; but builder-developers will not build, as *their* returns are insufficient.

One of the factors behind the decline in rental housing development was the tightening of federal income tax rules. Beginning in 1972, the federal government implemented a series of reforms to the tax treatment of rental housing in response to concern that the existing system was encouraging speculation. Tax reform restricted the use of "paper losses" from capital cost allowances (CCA) as tax shelters against income from other sources. It also put an end to "pooling" which had allowed rental owners to avoid recapture of CCA upon disposition of a property if another property was acquired with the proceeds. In subsequent years, further changes included restrictions on the use of soft costs as an upfront deduction for income tax

(3) Ernst & Young: *Comparative Real Estate Finance Analysis,* prepared for the Ontario Ministry of Municipal Affairs and Housing, Toronto, May 2001.

purposes, reductions in the CCA rate, and other measures targeted at restricting the use of syndicated rental tax shelters.

Outlined below are the main elements of the federal taxation system[(4)] for which tighter rules over the past few decades have contributed to a gradual decrease in private investment in private rental housing.

1. Income Taxes and the Goods and Services Tax (GST)

The federal income tax environment has a big impact on the economics of rental investment and is a key factor in private-sector investment in rental housing. The preferential tax treatment of rental housing in the 1960s and 1970s, and the absence of the GST, helped encourage the development of most existing purpose-built rental housing units.

2. Capital Gains

Currently, in calculating income for tax purposes, 50% of any capital gains from the sale of rental properties are included. Prior to tax reform in 1972, capital gains on the sale of rental properties were not taxable. After 1972, however, 50% of capital gains were included in taxable income; this was increased to 66.67% in 1988 and to 75% in 1990. The 1999 federal budget rolled back the percentage to 66.67%, and the October 2000 mini-budget rolled it back still further to 50%.

In 1985, the federal government introduced a lifetime capital gains exemption of $20,000 for individuals. At the time, the intent was to gradually raise the limit to $500,000 by 1990. The level, however, was capped at $100,000 in 1987 and the exemption was ultimately removed in 1994. While in effect, this exemption encouraged small investors and increased the supply of non-purpose-built rental housing (such as condominium units being rented out by the owners).

3. Capital Cost Allowance

Capital Cost Allowance deductions allow an investor to treat depreciation on a building as an expense for income tax purposes, in most cases at a rate in excess of actual

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(4) Ontario Ministry of Municipal Affairs and Housing, *Affordable Rental Housing Supply: The Dynamics of the Market and Recommendations for Encouraging New Supply*, Housing Supply Working Group Interim Report, May 2001, pp. 14-15.

depreciation. The CCA claimed on the building is subject to recapture as income when the building is sold, if the sale price exceeds the depreciated value of the building. The use of CCA is attractive in that it can be viewed as an interest-free loan until it is recaptured upon the sale of the building.

Since 1981, only companies in the real estate business can use CCA losses to offset other income. Prior to tax reform in 1972, however, all investors in rental housing could deduct CCA from income from other sources. Now, individuals investing in rental properties are limited to using CCA to offset income from the property itself, not from other sources.

B. Property Taxes and Development Charges

In a number of municipalities, property taxes, which typically account for about 20% of rent, have a significant impact on the returns yielded by rental investments. Although there have been some reforms to the property tax system, owners of multi-residential buildings (purpose-built rental buildings) still pay disproportionately high property taxes compared to owners of condominiums and other types of ownership housing in a number of provinces.(5)

In some municipalities, development charges, introduced to provide municipalities with a source of financing to pay for the incremental infrastructure associated with new development, also have a significant effect on rental housing economics. This type of taxation has increased the cost of housing construction. In the case of rental units, the difference between the rent required to meet the developers' viability threshold and, on the other hand, market rents and tenants' ability to pay has increased proportionally.

C. Interest Rates and Alternative Investment Vehicles

The cost of borrowing money has a profound effect on the amount of money that a developer is able to borrow, and also on a project's potential return. Since the general level of interest rates also affects the return on alternative investments (particularly fixed income investments such as bonds and guaranteed investment certificates (GICs)), it will affect the relative attractiveness of rental housing investment. During first half of the 1990s, the collapse of the real estate market following the wave of speculation at the end of the 1980s and higher

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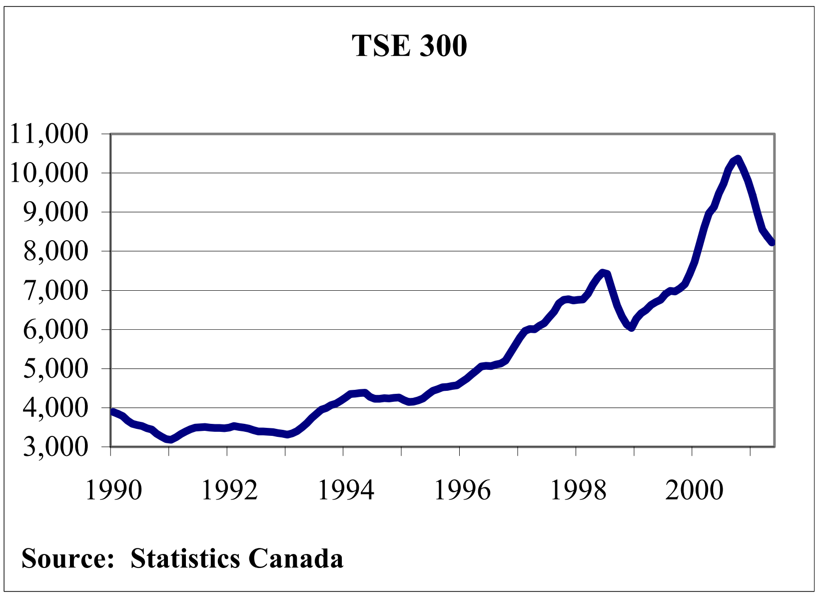
(5) Greg Lampert, *Update on the Economics of Investment in Rental Housing*, prepared for the Rental Housing Supply Alliance, December 1999.

mortgage rates turned many investors away from the rental housing market. This was followed by a depressed period on Canadian real estate markets (except in British Columbia) that was characterized by a low level of inflation. However, inflation encourages real estate investment, as it helps to reduce the real value of a loan (liability) and increases the value of an asset. The late 1990s were notable, in the investment field, for phenomenal growth in the stock markets (see figure below). The expansion of the telecommunications and information technology sector, in particular, absorbed most of the savings that small and large investors had previously channelled into the rental housing market.



D. Rent Control and Regulations

All the provinces have codified relations between tenants and owners, and most have established arbitration mechanisms to settle any kind of dispute between the two groups. Some provinces also have rent control.(6) Quebec and Ontario, in particular, fix the maximum rate of rent increases, using very specific methods.

In general, rent control and regulations presuppose that tenants are in a position of weakness vis-à-vis owners in their negotiations. This position derives from the facts that

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(6) Jean-Claude Thibodeau, *Étude comparative de la législation sur le contrôle des loyers au Canada entre 1950 et 2000* [Comparative Study of Rent Control Legislation in Canada Between 1950 and 2000 – Tr.], Government of Quebec, September 2001.

information about the housing market is not easily available, tenants' financial flexibility is narrower than owners', and tenants will incur significant expenses if they move.

At present, owners' representatives across the country blame the weakness in rental housing construction in part on tenant-oriented regulations and the various types of rent control.(7) They feel the limits on rent increases erode a building's profitability and discourage construction starts during peak demand periods.

Economic theory suggests that rent and price controls result in a reduction of supply.(8) This, in fact, is what is happening in several rental markets in Canada. Moreover, rent control prevents the price mechanism from playing one of its most important roles, that of allocating goods to the consumers who benefit the most from them. At present, advocates of rent control abolition argue that rent control promotes the misallocation of housing among tenants. For instance, some tenants currently live in rent-controlled units even though their financial status is such that they are able to pay more, leaving affordable housing for tenants with more limited financial resources. In the absence of new units, lower-income tenants must compete for available units with those who are better off. Lastly, rent control discourages large-scale renovations, since owners are not allowed to increase their rents to the level necessary to make their investments profitable.

While rent control protects and benefits low-income tenants in the short term, the resulting housing shortage penalizes all those who are now looking for affordable rental units. In the long run, all tenants will be disadvantaged, because owners simply have no interest in investing to maintain existing housing or build new units.

E. The Booming Condominium Market

Over the past 20 years, condominium construction has taken off in Canada. This growth is attributable to our ageing population, the smaller size of households, urbanization and the strong trend toward home ownership. However, the boom in the construction of new "condos" and the popularity of the existing stock has been at the expense of the rental housing market.

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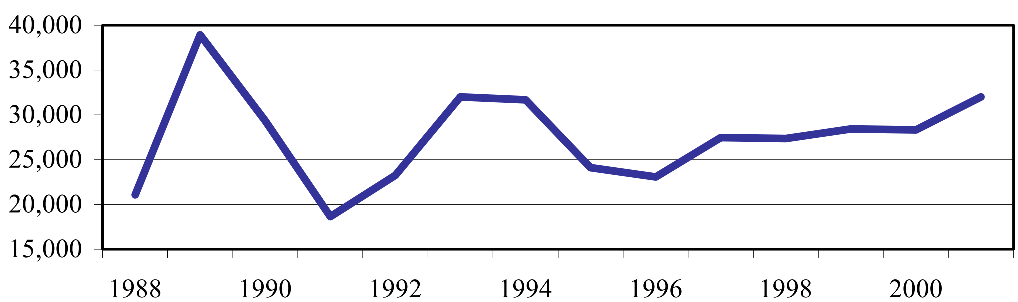
(7) Michel Kelly-Gagnon, "Le logement en crise" [Housing in Crisis – Tr.], *La Presse*, 10 January 2002.

(8) Edward L. Glaeser et al., "The misallocation of housing under rent control," National Bureau of Economic Research, second draft, 10 July 2001.

In the past few years, many affordable rental units have been converted into condominiums or renovated into high-end housing. Some municipalities have not imposed a moratorium on condominium conversion despite low vacancy rates. In certain cases, the tax treatment is more favourable for condominium owners, as municipalities tax condominiums at the ownership housing rate rather than the multi-residential tax rate. Upgrading low-cost units to high-end rentals also provides better investor returns, and encourages condominium rental rather than the development of high-end rental housing.

The construction of rental housing is even less attractive given that such units must be finished before being rented out, whereas condominiums can be sold before they are entirely completed. This makes condominium construction even more profitable for builders when the housing market is thriving and prices are skyrocketing.

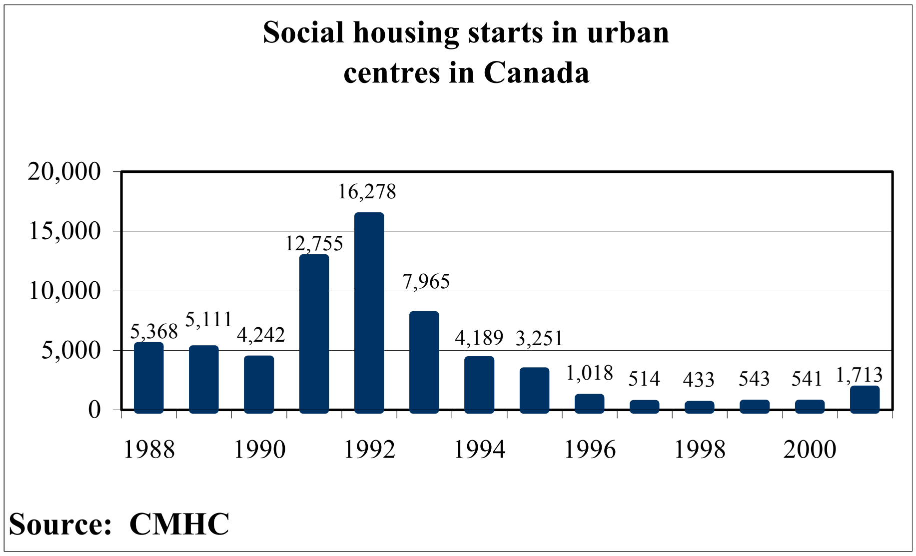
Condominium housing starts in urban centres



Source: CMHC

F. The Federal Government and Social Housing

In 1993, in order to rein in the budget deficit, the federal government froze spending on social housing. During second half of the 1990s, it then withdrew partially from social housing by signing agreements to transfer the administration of social housing resources to most of the provinces. These agreements were intended to give the provincial governments the flexibility they needed to meet their residents' housing needs and to use the savings generated to reinvest in social housing, in accordance with national principles and a responsibility framework. The agreements were also intended to avoid duplication, improve service delivery and optimize the use of tax dollars for social housing administration. Some provinces subsequently transferred responsibility for social housing to their municipalities. Later, all provinces, also because budgetary constraints, reduced or cut back their new budgets for social housing, which led to a drop in the new construction of such housing.



Recently, however, in response to pressure from the provinces and many other groups regarding the current crisis, the federal government has committed new funding for housing support in the shape of two major, one-time initiatives:

1. The *National Homelessness Initiative* (NHI), with a budget of $753 million over three years, aims at giving communities access to programs, services and support measures in order to alleviate and prevent the problem of homelessness in 61 urban centres and rural communities in the provinces and the territories.

2. The *Affordable Housing Program*, with a budget of $680 million over five years, seeks to increase the number of affordable housing units, in accordance with the priorities of each province and territory; it includes various elements that are described in the next section.

THE AFFORDABLE HOUSING PROGRAM[9]

On 30 November 2001, federal, provincial and territorial ministers responsible for housing met in Quebec City and agreed on a framework to guide the development of bilateral agreements on the creation of affordable housing.

The framework states that, in light of declining vacancy rates and low production of rental housing, federal, provincial and territorial governments believe there is an urgent requirement for short-term measures to increase the availability of affordable housing across Canada.

The framework also states that although short-term housing initiatives, such as the one agreed to by federal, provincial and territorial ministers, address the immediate situation, continuing effort is required to develop strategies to ensure the sustainability of affordable housing supply in Canada

In addition, the federal, provincial and territorial governments agreed that interventions must recognize and respect the differences in housing markets, priorities, circumstances and conditions across the country.

The framework confirms the federal, provincial and territorial governments' common understanding of the following:

- Provinces and territories have the primary responsibility for the design and delivery of housing programs within their jurisdiction.
- Provinces and territories require flexible programs to address their affordable housing needs and priorities.
- This initiative needs to create affordable housing for low- to moderate-income households.
- This short-term initiative in no way diminishes federal, provincial and territorial governments' commitment to continue examining the need for long-term, sustainable improvements to the business and tax climate for affordable housing.
- Nothing in the framework shall be construed as derogating from the respective governments' jurisdictional responsibilities.

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(9) Text adapted from the final news release issued following the Federal-Provincial-Territorial Meeting of Ministers responsible for Housing, Quebec City, Quebec, November 2001; available on-line at http://www.scics.gc.ca/cinfo01/83073904_e.html.

Consequently, bilateral agreements between the Government of Canada and the provinces and territories will include the following program parameters:

- The initiative will be aimed at creating a supply of affordable housing in each jurisdiction. Affordable housing initiatives may include interventions such as construction, renovation (beyond the existing Residential Rehabilitation Assistance Programs), rehabilitation, conversion, home ownership, new rent supplements and supportive housing programs. Details of eligible programs in each jurisdiction will be mutually determined by both parties in the context of bilateral agreements

- Units funded will remain affordable for a minimum of 10 years.

- The maximum federal contribution is an average of $25,000 per unit over the duration of the program.

- Federal funding can be used for capital contributions and for the costs of administering this initiative in the provinces and territories.

- The administrative burden should be minimal; it should not unduly delay program delivery or create unnecessary levels of administrative processes or approval mechanisms.

- The federal government has committed a total contribution of $680 million over five years.

- Provinces and territories will be required to match federal contributions overall. Provincial and territorial contributions may be capital or non-capital in nature, and may be in cash or in kind. These contributions may be made by the province or territory or by a third party.

- The federal government will recognize as matching contributions those commitments made by provincial and territorial governments and third parties for eligible programs, retroactive to 1 January 2001.

- Federal funding will not commence before a bilateral agreement is signed with a province or territory.

HOUSING SUPPORT GRANT MECHANISMS: DEMAND-SIDE VS. SUPPLY-SIDE

In Canada, federal housing programs have always aimed primarily at supply-side support (construction of new buildings). Demand-side support (rent subsidies for tenants) is different, in that it is provided to a particular household rather than a particular rental unit.

A. Advantages of Supply-Side Support

The principal advantage of supply-side support is its immediate impact on the construction of new units, an effective strategy in the current housing shortage. It is thus a more proactive approach than demand-side support, and it is more useful in offsetting in the short run any market malfunction, or the lack of a market as is the case in remote and sparsely populated areas.

B. Disadvantages of Supply-Side Support

Supply-side support is generally more expensive. For this reason, it is now used less frequently than demand-side support in European countries, where a high proportion of households receive direct housing support from the government.(10)

This approach is also inequitable. Households with the same needs will not receive the same level of support, since the number of units built will probably always be lower than the demand. On the socio-economic level, supply-side support reduces labour mobility and can create ghettos.

C. Advantages of Demand-Side Support(11)

- Lower costs: It can provide an equal level of affordable housing for significantly less than the cost of new construction.
- Horizontal equity: It is easier to ensure that people of equal need are subsidized to the same extent. A key problem with public housing has always been the lottery aspect: some needy households are fortunate and able to obtain it, while others in similar circumstances are not.
- Maximum choice: Households are given a portable subsidy that can apply to whatever rental housing they choose.
- Affordability is immediately and directly addressed: Unlike supply-side programs, where it is difficult to ensure ongoing or even initial affordability, rent subsidies clearly increase affordability on an immediate and sustained basis.

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(10) Claudie Louvot-Ruvanot, "Le logement dans l'Union européenne : la propriété prend le pas sur la location" [Housing in the European Union : Ownership Overtakes Rental – Tr.], *Économie et Statistique*, n° 343, 2001-3, Institut national de la statistique et des études économiques, 2001, pp. 29-50.

(11) Ontario Ministry of Municipal Affairs and Housing, *Affordable Rental Housing Supply: The Dynamics of the Market and Recommendations for Encouraging New Supply,* Housing Supply Working Group Interim Report, May 2001, pp. 14-15.

D. Disadvantages of Demand-side Support

- Cost control: Demand-side support programs are difficult to administer from a budgetary point of view when demand is high. If the government awards a subsidy to all those who qualify, program spending may exceed the budget envelope.

- Inclusive prices: Some of the subsidy may go to landlords, because rents may be set higher than they would have been in the absence of a subsidy. However, it is difficult to gauge the extent of this problem. Some empirical studies argue that there is no evidence that rent inflation is caused by rent subsidies.(12)

E. A Balanced Strategy

While rent subsidies may be a cost-effective and immediate way of ensuring rental affordability for needy households, they are not appropriate in all circumstances and, therefore, cannot be the sole component of government housing policy. Nonetheless, they can be an effective complement to supply-side strategies (aimed at increasing the amount of rental housing available) in ensuring that both affordability and supply issues are addressed. The best way of ensuring that the private sector creates a sufficient supply of affordable rental housing may be to combine the two approaches.

DISCUSSION

The last few decades have offered many lessons on the dynamics of housing markets in Canada and the effects of governments' interventionist or laissez-faire approaches.

The first lesson learned is that there are no simple solutions to the current shortage of affordable rental housing in Canada. Moreover, several other countries are facing similar challenges and have noted the drop in private construction of rental units. Over the years, the initiatives launched to deal with the situation have usually proven inadequate to respond to the scope of the problem.

Today, governments are more actively involved in housing issues because there is a crisis. But governments' involvement in housing should be consistent and proactive, not limited to one-time interventions to resolve immediate problems. The injection of hundreds of

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(12) George Galster, "Comparing Demand-Side and Supply-Side Housing Policies: Sub-Market and Spatial Perspectives," *Housing Studies*, 1997, Vol. 12, No. 4, pp. 561-577.

millions of dollars through the Affordable Housing Program should not remain an isolated measure, or it will be doomed to failure in the mid-term, because the needs will persist. The Affordable Housing Program must therefore be supported by a review of the mechanisms and legislative framework that made the program necessary. The legal framework for rental housing must be re-examined, and tax policy on private rental housing must be amended. All levels of government will have to cooperate in developing a general framework that will allow the rental housing market to become functional again and able to generate a supply of housing that can meet Canadians' needs.

Clearly, however, a reform of the investment framework would be insufficient to create conditions that would enable the market to meet the housing needs of the poorest among the population. In view of construction costs and the concomitant market rents, some households will always require housing assistance even if the housing supply is adequate.

Stimulating production of affordable rental housing will require a greater permanent injection of public funds, either by direct subsidies to companies (such as the Affordable Housing Program) or to households (rent subsidies), or in the form of tax expenditures (tax benefits for developers, owners and builders). All three methods have advantages and disadvantages and are generally expensive for governments. It is therefore essential to conduct impact studies before the implementation of support measures for construction or for individuals.

Generally speaking, direct government intervention in housing construction should remain marginal and be geared toward households with exceptional difficulties in finding housing. In the past, large-scale public management of rental units proved ineffective and expensive. The injection of a few hundred million dollars to create a few thousand units would probably be particularly inequitable, since obviously not all the households in need could benefit from it. From an economic point of view, the support measures chosen should be those that maximize equity and minimize administrative costs. In this context, tax measures should be given priority, as they could subsequently be adapted to suit market needs and to meet public policy objectives on affordable housing. "Smart" tax measures that are sensitive to market rates would probably be able to prevent the excesses of the past without necessitating major government intervention.

CONCLUSION

After several years of a laissez-faire attitude in several provinces, the Affordable Housing Program marks the return of direct government support for rental housing construction. To be successful, this approach – facilitated by healthier public finances and motivated by an unprecedented shortage of rental housing – will require new money and must be founded on a comprehensive housing policy. There is reason to hope that a better understanding of the mechanisms governing housing markets and the experience of previous housing assistance programs will ensure that the current shortage of affordable housing is solved by measures that are designed better than in the past.

Like other markets, the housing market in Canada is local and cyclical. These characteristics must be taken into account in designing an intervention strategy to prevent shortages as well as periods of high speculation and over-construction, as have been seen in several areas of the country in the past. Government programs have often accentuated market imbalances by remaining in effect longer than necessary or by not adapting the general investment framework to suit the economic situation in the marketplace.

In future, governments, particularly municipalities, must also look seriously at the secondary rental market (see Appendix II). This will have to be thoroughly studied so that its dimensions and dynamics can be more clearly understood. It must also be integrated sooner or later into the strategy to increase the supply of affordable rental housing.

After having developed its home-ownership model (see Appendix I) and exported it successfully throughout the world, Canada must now focus on the rental segment of its housing market.

APPENDIX I

CANADIAN POLICY ON HOUSING: FIRST, HOME OWNERSHIP

Owning property is a symbol of social success in the West. It enables households to build up savings in the form of an estate. Property ownership has been encouraged by authorities in almost all European countries, the United States and Canada. Against a backdrop of growth and increased buying power, home ownership increased steadily after the war, especially during periods of low interest rates and rising prices.

In Canada, property has become a fundamental value and home ownership is a general trend in the socio-economic sector of housing. The federal government played a significant role in this regard, as the key element in the federal housing policy is home ownership. Despite some diversification into other kinds of assets over the past two decades, a home is still the most important asset of Canadian households. At present, nearly 65% of Canadian households own their home, and half of these no longer have a mortgage.

Over the years, the federal government has encouraged home ownership primarily by reducing the financial obstacles that impeded or delayed the ability of households to become owners. The government did this by encouraging the use of various financial mechanisms (mortgage loan insurance, reducing the minimum down-payment, using RRSPs for the initial down-payment, etc.). Financial institutions also demonstrated creativity in marketing diverse and flexible tools and methods of innovative mortgage financing. Today, credit outstanding in residential mortgages is approximately $450 billion and is one of the most important assets in the Canadian financial system. The growth in home ownership has thus been achieved through the use of private-sector mechanisms. Since 1954, the Canada Mortgage and Housing Corporation (CMHC), the federal housing agency, has enabled one in three Canadian households to obtain a mortgage to become home owners.

Provincial and municipal governments have played a more traditional and more circumscribed role in terms of home ownership (grants, tax credits and abatements, tax spending). Housing has always been seen as a tool for economic development, and in the past some provincial governments have not hesitated to use this economic sector to stimulate household consumption and the economy in general during periods of low economic activity.

Despite the strong incentives for home ownership, more than a third of Canadians remain tenants, often by necessity, sometimes by choice.

APPENDIX II

THE SECONDARY RENTAL MARKET

While there has been a substantial decline in the volume of purpose-built rental housing over the past two decades, that decline has been partially offset by an increase in the volume of "non-conventional" or secondary rental market housing. The secondary rental market (defined as tenant-occupied single, semi and row dwellings; rented condominium units; and accessory units such as self-contained basement apartments, and apartments over stores) is now a significant source of affordable rental housing. Most forms of secondary rental market housing are relatively affordable, such as basement apartments and apartments over stores. Rented condominium units, however, are generally not; they tend to be substitutes for high-end purpose-built rental. Like high-end rental, however, rented condominiums help to relieve pressure on the existing stock of purpose-built rental.

While the secondary rental market plays an important role in providing affordable rental housing, it is a less secure source than purpose-built rental housing. The availability of secondary rental market housing depends heavily on economic and real estate conditions, and thus cannot be counted on as a stable long-term supply. For example, some families will rent out a basement apartment only when their financial situation makes this necessary. Different municipalities have different zoning by-laws governing secondary units in houses. In some municipalities, secondary units may be illegal and may never have been certified as meeting the municipality's construction, safety and zoning standards. In this case, the residents of such units have no contract protection.

According to the *Secondary Rental Market Study*,[(1)] growth in the secondary rental market has been stagnant for some time in most communities. As a result, vacancy rates for such forms of housing are now quite low in many centres. This, in turn, has led to a steep rise in rents for most forms of secondary rental housing, consistent with the situation in the conventional rental market. The report concluded that even the most affordable forms of secondary rental housing – accessory apartments, units over stores and duplexes/triplexes – are increasingly beyond the reach of those at the lower end of the income scale. Nevertheless, the study argues that, despite the recent reduction of this market, it could become an even more significant source of affordable rental housing with the appropriate government policy support.

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(1) This study, undertaken by The Starr Group Inc., was jointly commissioned by the Ontario Ministry of Municipal Affairs and Housing and Canada Mortgage and Housing Corporation. It was released in November 2000.

APPENDIX III

FEDERAL HOUSING SUPPORT PROGRAMS OVER THE PAST 50 YEARS

LIMITED DIVIDEND PROGRAM (FEDERAL) 1946-1975

This program was developed to increase the supply of moderately priced rental housing for low-income persons. CMHC provided loans to finance new construction and for the purchase or improvement of existing buildings. Loans were for 95% of a project's capital costs and were set at a below-market rate of interest. In return, building owners allowed CMHC to control rents in their buildings. Rents were set to allow owners an "acceptable rate of return on their investment" (5%) but were still affordable for low-income households.

In all, 101,300 units were produced nationally under this program.

MULTIPLE UNIT RESIDENTIAL BUILDINGS – MURB (1974-1979)

A significant program but not targeted to affordable rental, MURB was a tax expenditure program operated through the federal tax system. The MURB program allowed owners of eligible rental complexes to defer taxes on revenue from other sources by writing off certain "soft costs" (promotion expenses, mortgage fees, legal and accounting fees, interest expense during construction, and interest and property taxes). A total of 195,000 units were produced nationally at a cost of $2.4 billion in forgone tax revenue.

FEDERAL-PROVINCIAL RENTAL SUPPLY PROGRAM (1984)

This joint federal-provincial program provided loans to developers to build modestly priced rental housing for families. Loans were interest-free and repayable starting in the 15th year.

**NON-PROFIT AND CO-OP HOUSING
(VARIOUS PROVINCIAL AND FEDERAL PROGRAMS)**

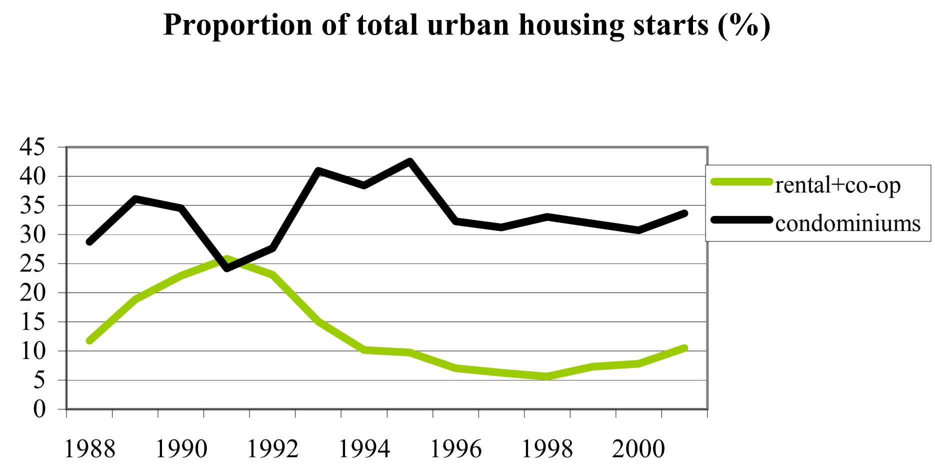
Terms varied; they included low-interest loans, interest subsidies, 100%-insured loans, and grants to offset operating expenses.

**PUBLIC HOUSING
(VARIOUS PROVINCIAL AND FEDERAL PROGRAMS)**

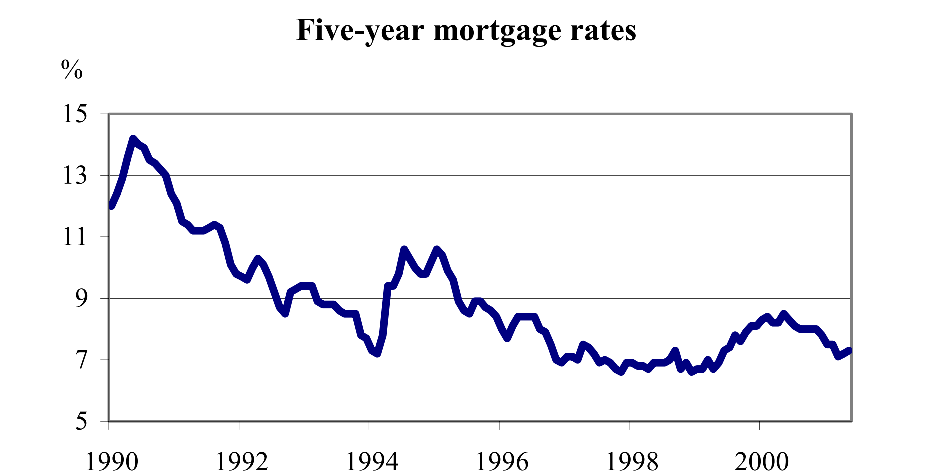
Under various federal/provincial arrangements, each level of government shared capital costs and operating costs for projects aimed at the needy.

APPENDIX IV

SOME MAJOR INDICATORS OF THE HOUSING MARKET IN CANADA

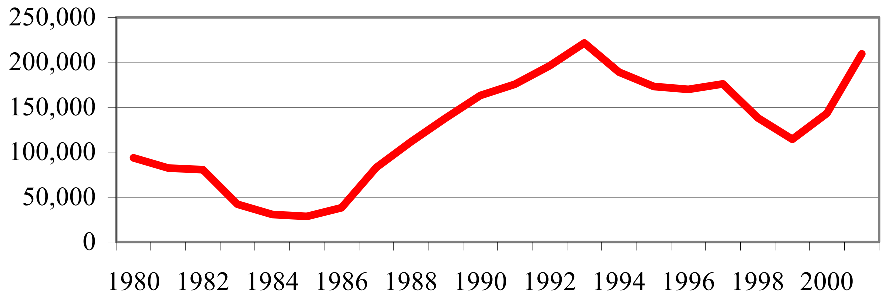


Source: CMHC



Source: Statistics Canada

Total net migration to Canada



Source: Statistics Canada