

Portable Housing Allowances – Information Sheet

The Canadian Federation of Apartment Associations (“CFAA”) is a strong proponent of government putting money towards direct assistance to low-income renters rather than building new social housing units. Whether in the form of rent supplements or portable housing allowances, direct assistance to low-income renters is the single most cost-effective way to reduce housing affordability problems.

Rent supplements are based on contracts between social housing authorities and landlords. Low-income tenants then enter into a tenancy agreement with the landlord to rent that specific unit. These tie rent supplements to units, so that the program in effect functions as privately supplied public housing units without the problem of ghettoization. Rent supplements are easier to implement immediately since a program infrastructure exists in many provinces. In the short term, the government may want to allocate funding into rent supplements until it can put in place the infrastructure for a portable housing allowance program.

Portable housing allowances are not tied to a contract between a social housing agency and a rental property owner. The government provides the assistance directly to low-income tenants. That means normal landlord-tenant leasing procedures are followed. Those who qualify can use the assistance to help them stay where they are (since most low-income tenants already live in suitable housing), or to move to another unit of their choice in the private market.

Benefits of Portable Housing Allowances

The best way to solve the “housing problem” is to address affordability by providing portable housing allowances for low income tenants to obtain the housing they need in the market-place.

Portable housing allowances have the following advantages over supply-side programs:

- They cost much less than building new housing.
- They are neutral between tenants of small landlords and large landlords.
- The money available for affordable housing can be spread equitably among more low income tenants.
- Low income tenants can live where they want, and take the allowance with them when they move.
- Tenants can take jobs in different places without losing their housing benefits, which is good for them and for the economy.
- Program design permits flexibility to respond to different regional needs and provincial budgets.

How Portable Housing Allowances Work

Housing allowances can be targeted to any needy group or groups, or made universally eligible, depending on available funding. A housing allowance program can include different parameters (e.g. rent caps, income percentages, and subsidy rates) for different groups (e.g. seniors, families, non-elderly singles, etc.). It can also be designed to recognize regional variation in housing costs.

In Canada the most commonly discussed program has been the “income-gap” plan:

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

where

RENT = rent currently being paid by household

A = target percent of income to be spent on rent

B = percent of the gap to be subsidized.

Example:

Take a single parent family whose rent is \$725 a month and average income is \$1,666 per month (\$20,000 per year). They spend 43.5% of their income on rent.

Suppose that the government set A at 30% (the current CMHC standard) and B at 75%. The formula would see the household receiving, from the government, a monthly allowance of:

$$\$169 = 75\% \times [\$725 - 30\% (\$1,666)]$$

The household would continue to live in their \$725 unit, but the cost of rent would be shared between the household (at \$556) and government (at \$169). The family would spend only 33% of their income on housing.

In the City of Ottawa, the cost of providing a new, two bedroom social housing unit has been estimated at \$1,400 per month. A subsidy of \$844 per month is required to rent that unit at \$556 per month. Rather than providing affordable housing for one family through the subsidizing of building new units, we can provide the same benefit to 5 households through housing allowances.

International Experience

Portable housing allowances have seen long and successful use in Germany and most European countries. For the last two decades, Australia and New Zealand have expanded the use of portable housing allowances to provide effective housing assistance, while reducing the cost to their taxpayers.

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