

# **CANADIAN FEDERATION OF APARTMENT ASSOCIATIONS**

## **REMARKS TO INFORMAL P/T MINISTERS MEETING**

**Oct 8, 2008**

**CHECK AGAINST DELIVERY**

Good afternoon. My name is John Dickie. I am the President of the Canadian Federation of Apartment Associations (CFAA).

Through 17 associations across Canada, CFAA represents more 10,000 apartment owners and managers, who own and rent out close to one million rental homes. Our Chair is not able to be here today. With me is Mike Chopowick, a member of CFAA's Board of Directors. On the CFAA Board, Mr. Chopowick represents the Federation of Rental-housing Providers of Ontario, CFAA's largest provincial member association.

I want to thank you for inviting CFAA to speak today, and also to thank FCM for its role in this event. CFAA agrees with the "Guiding Principles Towards a Housing Action Plan", which FCM presented this morning.

In these remarks we will address the role that private landlords play in housing Canada's low income population, and suggest what steps Canada's governments can take to work with rental housing providers to improve the situation of those low income Canadians.

### **Background**

Across Canada in the year 2000, the average household in an owner-occupied home had an income of \$70,000. By contrast, the average tenant household had an income of \$36,000.

In 2001, 1,011,000 renter households were considered to be in core housing need. Of those tenants, two thirds live in private rental accommodation. In addition, most people who are on public assistance rent from CFAA's members and other private landlords.

For analytical purposes, the rental market is divided into two sectors, the purpose-built sector and the "secondary market". For years the apartment buildings and row house complexes that make up the purpose-built sector were the main focus of CMHC's statistics, and of housing policy. Thanks in part to CFAA's input, CMHC is now also reporting on the secondary market.

Proportions vary greatly in different communities, but in the City of Ottawa for example, there are 22,000 units of social housing, 58,000 rental units in the purpose-built private sector, 4,000 rented condominiums and 36,000 other rental units in the secondary market. Those 36,000 units consist of single family homes, duplexes, doubles and accessory suites. The average rent charged for those rental homes is between 5% and 15% below the average rent in the purpose-built rental sector.

In most communities, the secondary market makes up a higher proportion of the rental market than it does in Ottawa. Often in smaller communities, the secondary market is virtually the whole of the rental market.

### **Housing allowances**

As you know, Canadians are considered to be in core housing need if their accommodation is **inadequate** (i.e. in serious need of repair) or **unsuitable** (i.e. not large enough for the household) or **unaffordable** (i.e. if the household needs to pay more than 30% of their income for their housing).

Based on the number of households affected, the overwhelming housing problem across Canada is affordability. 93% of households in core housing need are in need because of affordability. In other words, the private market is providing adequate and suitable housing, but the income of some households is not high enough to pay for that housing and still have 70% left over for other household expenses, such as food, clothing and other necessities.

Since the main housing need is affordability, government policy should target that problem. In particular, governments should first target the most serious part of that problem, namely the situations where multi-person households are having to pay 40%, 50% or 60% of their household income for housing.

CFAA advocates portable housing allowances as the main policy tool to address affordability. The Housing Allowance Fact Sheet in our material lists the advantages of portable housing allowances. The key advantages are that:

- housing allowances tap the existing affordable housing (especially the secondary market, with rents 5 to 15% below the CMHC average rent),
- housing allowances can be provided quickly (when households move into housing need),

- housing allowances can be used with equal effectiveness to support Canadians in large cities, and in towns and rural areas, where the secondary market predominates, and

- housing allowances enhance tenants' choice in housing, so that recipients can easily move to take employment, or when their circumstances change.

For several years, CFAA has been asking the federal government for flexibility so that its housing funding can be used for housing allowances or rent supplements. We note that several provinces use housing allowances and are expanding those programs. We commend you for that policy direction. However, there is a long way to go. Recent figures suggest that provincial spending on housing allowances ranges from 0% to 10% of provincial housing spending. As a result, less than 10% of housing money is being spent on the best solution to 93% of the problem. CFAA urges you to address that mis-allocation of funding, by

- adopting housing allowances, if you haven't already,
- expanding eligibility for housing allowances, and
- setting payment limits at reasonable amounts in each community.

CFAA also asks you to work with us to encourage the federal government to provide flexibility and long term commitment of funding to facilitate cost-sharing for housing allowances.

Now Mr Chopowick will address rental supply issues.

**MIKE CHOPOWICK:**

Because Canadians have been shifting to home ownership, and because the secondary rental market has been growing, it is not clear to CFAA that there is a widespread housing supply problem. However, the purpose-built rental market has certainly seen much less activity than it did before 1972. For many years before 1972, developers built 50,000 to 60,000 new rental homes per year across Canada. With substantial variation from year to year, that has declined, until the last 10 years, when fewer than 15,000 rental homes have been built per year, on average.

### **Provincial or municipal regulation**

A major factor in the long decline in purpose-built rental housing construction has been the growth of government regulations and charges. These are almost all within the authority of the provinces.

The policy with the most chilling effect on the rental supply was and is rent control. Brought in based on various triggers, rent control has reduced the rental housing supply and interfered with the efficient working of housing markets. There can be no doubt that Ontario would have 100,000 or 200,000 more rental units today if rent control had not been applied and kept in force. A supply effect of a similar relative size undoubtedly applies to Manitoba and BC, and a significant effect would apply in Quebec.

Rent control continues to be a political football that scares off investment in rental housing, and makes rental housing less available and less affordable in the long run. Rent control should be recognized as a failed public policy, repealed in all provinces, and never reinstated. If that is not possible for political reasons, then the rent increase guideline needs to cover all cost increases, and rents should be freely negotiated on turnover.

Development charges also decrease new rental housing supply. While new private housing is invariably built at higher price points, new supply at the high end draws renters up through the housing market and makes affordable rental housing available at the lower price points. Thus all development charges reduce housing affordability, not just the charges that the municipalities sometimes waive for "affordable housing developments".

Zoning rules and procedures also decrease new rental housing supply by increasing risks, delays and costs. The "not in my backyard" syndrome applies to private rental developments only slightly less than it applies to new social or supportive housing. In many cases, zoning rules also get in the way of secondary suites, which can provide very affordable housing.

Greenbelts and other restrictions on the supply of land drive up the price of land and make housing less affordable.

Increased municipal powers are often aimed at the rental housing industry, with a chilling effect on new development.

In many provinces and cities, excessive and unfair property taxes and other charges penalize tenants and work against affordability.

In summary, the various current provincial and municipal policies should be reformed to reduce the costs and risks of housing development. In imposing new regulations, CFAA asks you to consider carefully the effect on the housing supply, and on affordability.

JOHN DICKIE:

### **Income tax reforms**

The other major cause of the decline in purpose-built rental housing construction is the long list of income tax changes that have made rental housing development less attractive than it was before. See the list of those changes in our material. Many of the broad based changes had a particularly negative effect on rental housing. Investment in real property is certainly treated less favourably than investments in other businesses, or investments that can be part of an RRSP.

In order to increase the supply of purpose-built rental housing, discriminatory income tax rules need to be reformed. CFAA joins with the Canadian Real Estate Association (CREA) in advocating tax deferral on reinvestment as a first reform to encourage additional rental housing construction. We have identified 9 major benefits that would flow from allowing tax deferral on reinvestment. See the fact sheet on "Tax Deferral" in our material.

CFAA asks for your support to encourage the federal government to provide for tax deferral on rental property.

### **Conclusion**

In conclusion, CFAA advocates portable housing allowances as the best method for making housing affordable for most Canadians in housing need. CFAA also advocates supports for housing people with special needs, and acknowledges that social housing is a useful approach in some circumstances.

CFAA asks you to work with private landlords to improve housing choice and affordability, rather than imposing rules that get in the way of choice and affordability.

You have heard CREA support greater use of housing allowances, and tax deferral on reinvestment in rental real estate. The published policy statements of the Canadian Home Builders Association (CHBA) and the Real Property Association of Canada (REALpac) also support those two measures. CREA, CHBA, REALpac and CFAA are the key representatives of the private real estate and housing sector in Canada. We all seek greater use of housing allowances, and tax deferral, as key immediate steps.

CFAA and our member associations, and landlords across Canada, want to work with you and with other stakeholders to achieve more effective government housing policies at all levels.

Thank you.