



Canadian
Federation
of Apartment
Associations

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Canadienne Des
Associations
De Propriétaires
Immobiliers

Rental Housing Stimulus in the 2009 Federal Budget

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EXECUTIVE SUMMARY

In the current economic climate, it is a given that the 2009 Budget will include considerable economic stimulus. As much as possible, the measures to stimulate the economy should meet the criteria listed across the top of the table, which are discussed in more length on page 1.

Recommended Budget Measures & Benefits									Cost range	Cost assumed for job creation estimates	Job Creation Estimates	Job Creation (with 2.5 multiplier)
	1. Take effect quickly (i.e. within 4 to 6 months)	2A. Be capable of being withdrawn quickly when the need is over	2B. Be measures that are helpful to the economy or the social fabric of Canada in the long term	3a) Reduce the size of government	3b) Increase Canadian competitiveness	3c) Increase autonomy and choice among beneficiaries	3d) Increase the incentive to invest	3e) Increase labour force attachment				
1. Allow the deferral of capital gains tax and CCA recapture on the sale of rental property and reinvestment in another rental property	✓	✓	✓	✓	✓	✓	✓		\$275 - 325M	\$300M	5,000 jobs	12,500 jobs
2. Increase funding for portable housing allowances	✓	✓	✓		✓	✓	✓	✓	\$100M - 800M	\$200M	2,500 jobs	6,250 jobs
3. Increase funding for the Rental Residential Rehabilitation Assistance Program (Rental RRAP)	✓	✓	✓		✓	✓	✓		\$50 - 500M	\$200M	2,000 jobs	5,000 jobs
4. In addressing homelessness, fund social services supports rather than new construction	✓	✓	✓		✓	✓		✓	\$30 - 100M	\$100M	1,300 jobs	3,250 jobs

APPENDIX A – ADDITIONAL DESIRABLE TAX MEASURES

In case the government wants to focus more of the stimulus measures on tax reductions, additional desirable tax reduction measures are set out in Appendix A, starting on page 6.

APPENDIX B – TEMPORARY FEDERAL HOUSING ALLOWANCE PROGRAM

In case the government does not want to negotiate program expansions with the provinces or considers that the time delays would be detrimental, a time limited program using the federal income tax system is set out in Appendix B, starting on page 9. Such a program could easily be larger than the expansion of provincial programs. At the top end such a program could create or maintain 50,000 jobs.

Who CFAA represents

The Canadian Federation of Apartment Associations represents the owners and managers of close to one million rental suites across Canada through 17 local and provincial associations. We are the sole national voice of the private rental housing industry, which has annual gross revenue of \$40 Billion and assets worth \$180B. Our members range from the largest private rental housing providers in Canada to the landlords of one or two rental units.

As a whole, the private rental housing industry houses more than three million Canadian households, whose incomes vary from quite high to very low. On average, renters receive half the income of homeowners, reflecting the number of private market renters who depend on social welfare, disability benefits or low-paying jobs. Despite their low incomes, such private market renters receive very limited government housing assistance, in contrast to social housing tenants most of whom receive deep subsidies.

Objectives

In the current economic climate it is a given that the 2009 Budget will include considerable economic stimulus. As much as possible, the measures to stimulate the economy should:

1. take effect quickly (i.e. within 4 to 6 months); AND
- 2A. be capable of being withdrawn quickly when the need for stimulus is over;
- OR
- 2B. be measures that are helpful to the economy or the social fabric of Canada in the long term; AND
3. be consistent with the long-term goals of
 - a) reducing the size of government,
 - b) increasing Canadian competitiveness,
 - c) increasing autonomy and choice among beneficiaries,
 - d) increasing the incentive to invest, or
 - e) increasing labour force attachment.

Here are the desiderata in paragraph form rather than a list. To be useful for stimulus, measures must take effect quickly; that is point 1. To be desirable, measures need to be capable of being withdrawn quickly when the need for stimulus is over OR be measures that are helpful to the economy or the social fabric of Canada in the long term. In other words, both point 2A and point 2B would be ideal, but either is sufficient. Ideally, stimulus measures would also be consistent with the government's long-term goals as set out in point 3 above.

RECOMMENDED BUDGET MEASURES AND BENEFITS

1) Allow the deferral of capital gains tax and CCA recapture on the sale of rental property and reinvestment in another rental property.

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). Would cost \$400 to 450M per year, less increased taxes from new activity, for a net first year cost of \$275 to 325M, and that net amount would decline over time, reaching a positive impact over several years. This measure would create 5,000 jobs.

A deferral of tax on sale and reinvestment would stimulate economic activity quickly since it would be clear that the tax deferral could be removed. The measure would stimulate the buying and selling of rental property, generating activity for mortgage brokers, lawyers, accountants, home inspectors, appraisers, real estate brokers and other real estate professionals. The measure would also stimulate renovation and repair activity, because new buyers of existing buildings often see opportunities that

current owners do not see. Repairs and renovations are often performed within 4 to 12 months of purchase.

Besides promoting economic activity in facilitating transactions and in performing repairs and renovations, allowing tax deferral on real estate reinvestment would:

1. Reduce the cost of rental housing, and improve affordability and housing supply;
2. Promote efficient capital allocation across the economy;
3. Promote more compact, environmentally sound urban redevelopment;
4. Help small investors and middle-income families;
5. Permit relocation by owner-managers;
6. Level the rules between rental property and other businesses;
7. Level the rules between businesses which rent and which own their premises;
8. Level the rules between rental property and shares in companies; and
9. Provide fairer and more efficient help in promoting rental housing development than construction subsidies.

For more details about the benefits of tax deferral, please see CFAA's information piece at http://www.cfaa-fcapi.org/pdf/CFAA_Tax_deferral_facts_0809.pdf. According to research by the Canadian Real Estate Association, the first year "cost" of tax deferral on reinvestment would be between \$400 and 450M, less increased taxes from the new activity. CFAA estimates that the initial annual increase in economic activity would be about \$500M, which would create or sustain about 5,000 jobs. The new activity would also return about \$125M to the federal Treasury in various taxes, making for a net cost in the first year of \$275 to 325M. The net amount would decline over time as the deferred gains become taxable, reaching a positive impact over several years. Thus, the measure would not need to be withdrawn; since it is a tax deferral the deferred revenues (along with the taxes on the increased activity) would soon make up the revenue being deferred in any given year. However, the measure could be withdrawn if that is considered to be appropriate government policy.

2) Increase funding for portable housing allowances.

Meets objectives 1, 2A, 2B, 3 a), b), c), d) & e). The money allocated would be scalable. \$100 to 150 M would provide a worthwhile increase to existing provincial program;; \$300 to 400M would provide widespread benefits; and \$600 to \$800 M would be as much as should sensibly be spent in the next 18 months. This measure would create 1,875 to 10,000 jobs depending on the money allocated to it.

There are suggestions that new social housing be constructed as part of the stimulus package. However, the actual construction of new social housing would take two to three years to begin, which would be too long for the stimulus to be of any benefit in addressing the current economic situation. A useful way to include housing support in the stimulus package would be to increase funding for portable housing allowances.

A portable housing allowance is a payment made by a government agency to a tenant to help the tenant pay for their rent and the other necessities of life. Tenants who qualify for allowances find and rent rental homes in the same way they do now, except that the allowances help them pay the rent. Tenants can use the money to help stay where they are (since 93% of low-income tenants already live in suitable housing), or to move to another

rental home of their choice in the private market. It is the household's freedom to choose where to live that makes the housing allowance "portable".

Portable housing allowances have numerous benefits, both for tenants and for flexible government policy. Specifically, portable housing allowances:

- allow the provision of assistance quickly;
- use the existing economical housing stock, rather than newly built housing (which is expensive and only becomes available after considerable delay);
- allow tenants a wide choice of where to live;
- allow the available funding to be spread more equitably among more low-income tenants;
- allow flexibility in program design to respond to different regional needs and provincial budgets;
- achieve income mixing without the cost of subsidizing middle income tenants;
- can eliminate deep core need regardless of a household's place on a chronological waiting list;
- support labour force attachment by allowing tenants to keep their housing assistance when they move to take a new job;
- avoid the stigma often associated with public housing;
- work very well in rural areas and small towns, as well as in large centres;
- can be administered at very low cost
- are completely scalable; and
- can be ended rapidly if that is the government's decision.

More information about portable housing allowances can be found at http://www.cfaa-fcapi.org/pdf/CFAA_Portable_housing_allowances_facts_0809.pdf and at http://www.cfaa-fcapi.org/pdf/Steele_HAs_P1_how.pdf.

There are existing programs in many provinces, which can be expanded quickly. BC, Saskatchewan, Manitoba, Ontario and Quebec all have housing allowance programs. Together those provinces represent more than 80% of the population of Canada. Alberta and the Atlantic provinces have rent supplement programs, many with portability features, and those programs could be expanded there in order to minimize delay for program implementation.

Because of their design, "Canadian provincial housing allowances do not result in rent inflation either for recipients or for the housing market as a whole." (CHMC & Abt Associates, *Housing Allowance Options for Canada*, 2006, p. 29) That means that those programs do not produce a housing demand effect. Instead of inducing an increase in housing consumption through the renting of larger or better rental homes, the housing allowance programs enable recipients to spend more on food, clothing and other necessities. That spending will distribute the economic stimulus broadly throughout the economy. CFAA has estimated that a \$200M increase in housing allowances would create or sustain about 2,500 jobs in farming, food processing, clothing manufacturing and retailing businesses.

In CFAA's view, and that of many other tenant and business organizations, an increase in housing allowances is a long term benefit to the social fabric of Canada. However, the measure could be largely withdrawn within one to three years if that is considered to be appropriate government policy. By means of a study of how many low-income households moved into and out of affordability over the three year period from 2002 to 2004, CMHC has shown how transitory housing need is. Of market renters, 33% paid more than 30% of income for at least one of the three years, but only 12% paid more than 30% of income for all three

years. Of female lone parents, 45% paid more than 30% of income for at least one of the three years, but only 14% paid more than 30% of income for all three years. As CMHC states, “over time there is an important turnover with different people encountering housing affordability constraints from year to year”. (CMHC “The Dynamics of Housing Affordability”, <http://www.cmhc-schl.gc.ca/odpub/pdf/65901.pdf> and CMHC 2008 *Housing Observer*, pages 14-15) That means that a program can provide funds to those in housing need in 2009, but if the economy recovers, most of them should move out of housing need by 2010 or 2011. If the government wants to end the program, it can be wound up quickly as recipients move out of housing need (or into less severe housing need). (Housing allowance programs can even be ended if the same people continue to be in housing need, but that is not desirable.)

In 2008 the provinces spent about \$150M on portable housing allowances to assist about 120,000 households, and \$200M on rent supplements to assist about 60,000 households. The amount of money to be allocated in the 2009 federal Budget would be completely scalable. \$100 to 150M would provide a worthwhile increase to existing provincial programs; \$300 to 400M could benefit 200,000 more households; and \$600 to 800M could benefit 400,000 more households, and would be as much as should sensibly be spent within the next 18 months. Those allocations would create or sustain 1,875 jobs, 5,000 jobs or 10,000 jobs, respectively.

Information about a Housing Benefit program for Ontario can be found at frpo.org. That Housing Benefit program was designed by a coalition of leading housing and anti-poverty groups as an improvement on the existing Ontario housing allowance program. It could be funded in full for \$240 M per year. Specific information about a program suitable for Atlantic Canada can be found at http://www.cfaa-fcapi.org/pdf/Steele_HAs_P2_cost.pdf.

If funding is increased across Canada, housing allowance programs would provide tremendous assistance to low income Canadian households, AND stimulate the economy AND cost relatively modest amounts of money.

3) Increase funding for the Rental Residential Rehabilitation Assistance Program (Rental RRAP).

Meets objectives 1, 2A, 2B, 3 b), c) & d). \$125M would double the current RRAP funding and create 1,250 jobs. \$250M would triple the current RRAP funding and create 2,500 jobs

The Rental Residential Rehabilitation Assistance Program (Rental RRAP) offers financial assistance to pay for mandatory repairs to self-contained units occupied by low-income tenants. The program is available in both rural and urban areas right across Canada. Eligible repairs include repairs required to bring properties up to minimum levels of health and safety, such as new roofs, furnaces and windows, and electrical, plumbing and fire safety upgrades. The repairs are to extend the useful life of the dwelling for at least 15 years.

Rental RRAP is currently funded at about \$125M per year. It is always heavily oversubscribed. Sometimes seven to ten times as many applications are received as can be accepted by the program. Many of CFAA’s members could make use of Rental RRAP, but have stopped applying because the likelihood of being accepted is so low. CFAA estimates that a \$200M expansion of the Rental RRAP program would create about 2,000 well paid renovation jobs.

While completely scalable, RRAP could easily be expanded by hundreds of millions of dollars, and deliver value for every cent, both in immediate stimulus and in lasting improvements to the housing supply.

4) In addressing homelessness, fund social services supports rather than new construction.

Meets objectives 1, 2A, 2B, 3 b), c) & e). Social service supports are completely scalable and would save money on health care expenditures. \$60 to 100M would provide a major increase in such services, and create 800 to 1,300 jobs.

As noted above, there are suggestions that new social housing be constructed as part of the stimulus package as a way to alleviate homelessness. However, the actual construction of new social housing would take two to three years to begin, which would be too long for the stimulus to be of any benefit in addressing the current economic situation.

In addition, the key bottleneck in relieving homelessness is the social supports the chronic homeless need to maintain a stable household. As an example, the City of Ottawa has 24,000 units of social housing. The chronic homeless constitute less than 1,000 households (mostly individuals). With the current turnover rate in social housing all the homeless could be housed within 4 months. Many of them are being housed, but they cannot maintain their housing because they disturb their neighbours or commit other anti-social acts, which result in their being evicted. The City of Ottawa believes that the key need is to spend \$3M per year on social services to support the chronically homeless in the housing that is already available.

Scaled up from Ottawa to Canada as a whole, an expenditure of an additional \$60 to 100M would address much of the homeless problem in a quick and cost-effective way. Increased expenditures can be directed through the existing National Homelessness Initiative of the Ministry of Human Resources and Social Development Canada. CFAA estimates that \$100M allocated to social supports for the homeless would create about 1,300 jobs per year among social workers and office workers.

Particularly if combined with making increased Rental RRAP available for rooming houses, and some additional expenditures on housing allowances or rent supplements, the recommended social service expenditures could simultaneously provide economic stimulus and make a tremendous and cost effective reduction in homelessness. Under the "Housing First" approach, the homeless are first established in housing. That enables many of them to address their addictions and mental health problems and to improve their employability. Those helped would have a reasonable prospect of moving out of the need for the social service assistance within one to three years. If the government wants to end the program, it can be wound up as recipients move out of need (or to less severe need).

If despite the inherent and serious time delays, the government chooses to subsidize new housing construction, the subsidies should be focused on special needs or supportive housing (including single room occupancies), and not spent on generic "affordable housing".

APPENDIX A – ADDITIONAL DESIRABLE TAX MEASURES

In case the government wants to focus more of the stimulus measures on tax reductions, additional desirable tax reduction measures are set out below, first in summary and then in detail.

IN SUMMARY:

5) Increase CCA allowances on rental property, and allow losses created by CCA to be deducted against other income.

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). Would probably cost \$300 to \$450M per year, less increased taxes from new activity, and create up to 2,700 jobs.

6) Reduce the tax on capital gains to eliminate taxes on inflationary “gains”.

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). If implemented along with recommendation #1, and limited to real estate, would probably cost \$200 to \$300M per year, less increased taxes from new activity, and create up to 3,400 jobs.

7) Determine the value of new or renovated rental buildings for the GST self-supply rules on the basis of “cost plus”

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). Could cost \$5 to 15M per year, less increased taxes from new activity, and create 200 jobs.

IN DETAIL:

5) Increase CCA allowances on rental property, and allow losses created by CCA to be deducted against other income.

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). Would probably cost \$300 to \$450M per year, less increased taxes from new activity.

Improving capital cost allowances would have its stimulative effect by changing the tax environment so that buildings would become more attractive assets. In turn, that would promote more repairs and renovations to existing buildings, and the construction of new buildings. Normally the actual construction of new buildings would take one to three years to begin, which would be too long for the stimulus to have much beneficial effect on the current economic situation. However, in the current economic environment there are private projects on which construction has already begun or is ready to begin, but developers are deciding to stop. An improvement in the income tax rules should stimulate the completion of many projects which would otherwise be stopped. An improvement in the income tax rules will also stimulate continued land assembly, project design and planning steps in order to prepare the projects of the future.

In the 2007 budget, the CCA rate was increased for industrial and commercial buildings to encourage renovation and new construction in those sectors. Only for rental housing is the rate still 4%. (Until 1988 the CCA rate was 5%, and before the late 1970s it was 10% for wood-frame construction.)

The inadequacy of the Canadian capital cost allowances can be seen by contrasting the proportion of a building which has been "written off" under the American, German and Canadian tax systems, as shown in the table below.

Proportion of a building which has been "written off"			
Years from construction or purchase	Current Canadian CCA system	Current U.S. CCA system	1989 German system
5	17%	18%	33%
10	32%	36%	58%
15	45%	55%	64%
20	55%	73%	70%
25	63%	91%	77%
30	70%	100%	85%

Wood-frame is the construction method of choice for the more affordable new construction, consisting of row-houses or stacked townhouses in the suburbs. A modest increase in the CCA rate to 5% for concrete structures and 6% for wood-frame structures would be an important step toward rebalancing the tax system for renters across Canada, which is a worthwhile long term objective. Increases in the CCA rate are in a sense a tax deferral rather than a tax decrease since any excess in the CCA is recaptured at the time of sale.

Based on the industry's asset values, and the current CCA rules, CFAA estimates that the gross "cost" of the recommended changes in the CCA would be \$300 to \$450M. There would be an offset for the increased taxes from new activity. Since the change would be a tax deferral, the net amount would decline over time, potentially reaching a positive impact over several years. Thus, the measure would not need to be withdrawn; however, it could be withdrawn if that is considered to be appropriate government policy. On implementation this measure could create up to 2,700 jobs.

6) Reduce the tax on capital gains to eliminate taxes on inflationary "gains".

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). If implemented along with recommendation #1, and limited to real estate, would probably cost \$200 to \$300M per year, less increased taxes from new activity.

Like recommendation #5, reducing the tax on capital gains would have its stimulative effect by changing the tax environment so that buildings would become more attractive assets. In turn, that would promote more repairs and renovations to existing buildings, and the construction of new buildings. As noted above, the actual construction of new buildings would normally take one to three years to begin, which would be too long for the stimulus to have much beneficial effect on the current economic situation. However, there are private projects on which construction has begun or is ready to begin, but developers are deciding to stop. An improvement in the income tax rules should stimulate the completion of many projects which would otherwise be stopped.

Notice that the stimulative effect comes from making the whole asset class more attractive. Measures limited to new developments would not have nearly as much stimulative effect. Notice also that the long term growth in the volume of buildings would lead to lower rents for building users, whether those users are businesses using offices and industrial plants or families living in rental housing. Thus, the ultimate benefits will be spread broadly through the economy, and not be limited to the real estate sector. Growth in Canada's real property assets would improve productivity and future income of Canadians.

Based on the industry's asset values, and the current level of sales and reported capital gains, CFAA estimates that the gross "cost" of the recommended changes in the CCA would be \$200 to \$300M, if the reform were implemented along with recommendation #1, and limited to real estate. There would likely be an offset for the increased taxes from increased activity. The measure would be a long term improvement increasing the incentive to invest and increasing Canadian competitiveness; however, the measure could be withdrawn if that is considered to be appropriate government policy. On implementation this measure could create up to 3,400 jobs.

7) Determine the value of new or substantially renovated rental buildings for the GST self-supply rules on the basis of "cost plus"

Meets objectives 1, 2A, 2B, 3 a), b), c) & d). Could cost \$5 to 15M per year, less increased taxes from new activity, and create 200 jobs.

The current application of the GST self-supply rules to multi-residential buildings is contrary to sound housing policy, and to the purpose of the GST self-supply rules, which is to charge GST on the value that is added to the residential complex "by GST exempt inputs such as the value of the employed labour, financing costs and profit." (GST/HST Memoranda Series 19.2.3, para. 5.)

Currently the GST audit department often seeks to charge GST on the fair market value as if the building were intended to be sold as individual condominium units. That value includes the premium paid for condominiums which would be earned through a costly marketing campaign. The value which is sought would be more accurately captured by a building value determined on the basis of "cost plus [profit]".

More importantly determining building values for the self-supply rules on the basis of "cost plus" would provide certainty for builders. Especially in these uncertain times, certainty on the GST costs would eliminate a barrier to entry for would-be builders and promote the construction of new purpose-built rental housing, which would be good for the economy, taxpayers and tenants.

Because the positive effect of certainty would add to the modest saving in costs, CFAA estimates that \$10M tax relief in this regard would create or sustain about 200 well paid construction jobs per year. The new activity would also provide a significant offset to the gross cost, perhaps in the order of \$5M, resulting in a net cost of \$5M. On a per job basis, this could well be the most efficient way to create jobs, although the measure cannot be made larger to create more jobs.

CANADIAN FEDERATION OF APARTMENT ASSOCIATIONS

APPENDIX B to PRE-BUDGET SUBMISSION dated Dec 23, 2008

Suggestions for a temporary, federal housing allowance program

What follows is a suggestion for a housing allowance program which

- would be administered through the federal income tax system
- can be operational by April 2009
- does not need negotiations with the provinces
- would be fully under federal control
- can be ended after 18 months
- would deliver up to \$1.6 Billion into the hands of low-income Canadians who would spend the money, supporting the economy in a broad based way from coast to coast
- would support housing needs without the long delays of infrastructure spending.

At page 3 of the Dec 23 submission CFAA stated, “there are existing programs in many provinces, which can be expanded quickly.” This appendix describes an alternative implementation model, which would be of interest if the government does not want to negotiate the expansion of the various provincial housing allowance programs, or considers that the time delays would be detrimental. The model could be implemented within two to four months, and may also assist in keeping the program temporary.

As stated in the recent CMHC Study of housing allowances options, “A housing allowance using the income tax system could be modelled on the method used for the Goods and Services Tax (GST/HST) credit received by low-income tax filers.” (CHMC & Abt Associates, Housing Allowance Options for Canada, 2006, p. 64) The formula for the GST credit requires the net income of both spouses and the ages of any children, thus indicating the number of children in the household.

GST credit amounts are calculated by Revenue Canada after the tax return is submitted. Using the 2007 net income¹ would mean that all calculations for a housing allowance can be made now without waiting for the 2008 income tax returns. Quebec’s existing housing allowance system uses that time lagged income from its own income tax system to compute the amount payable as its housing allowances. Spousal Social Insurance Numbers, and the number and ages of children are already available in the federal income tax records.

To avoid the need to ascertain the recipient’s actual rent, while still targeting the payments where the payments would be most likely to be spent (and where the need is the greatest), payments could be based on the average rental housing cost in the community where the tax filer lives.

CFAA recommends that the payment be 75% of the gap between the CMHC average rental housing cost in each census metropolitan area and the household’s “required contribution”, where the required contribution is 50% of income for single person households, 40% for two person households and 30% for households of three or more people.

¹ The CMHC/Abt Study addressed the question of what income to use, and concluded that net income is an appropriate income, since “the problems in the use of net income are not sufficiently great to offset the administrative ease of using the same definition of income as used for the GST/HST credit and child tax credit.” (p. 66).

Here are some examples of incomes and payments under the proposed design.

Example 1 – Family of two adults and two children in Alberta

Household income	Required contribution (30% of income)	Housing cost in Alberta (3BR apt at \$1154 per month)	Affordability Gap	Payment (75% of gap)	
				Per year	Per month
\$20,000	\$6,000	\$13,848	\$7,848	\$5,886	\$490
\$25,000	\$7,500	\$13,848	\$6,348	\$4,761	\$397
\$30,000	\$9,000	\$13,848	\$4,848	\$3,636	\$303
\$35,000	\$10,500	\$13,848	\$3,348	\$2,511	\$209

Example 2 – Single parent and one child in Toronto

Household income	Required contribution (40% of income)	Housing cost in Toronto (2BR apt at \$1068 per month)	Affordability Gap	Payment (75% of gap)	
				Per year	Per month
\$15,000	\$6,000	\$12,816	\$6,816	\$5,112	\$426
\$20,000	\$8,000	\$12,816	\$4,816	\$3,612	\$301
\$25,000	\$10,000	\$12,816	\$2,818	\$2,113	\$176
\$30,000	\$12,000	\$12,816	\$ 816	\$ 612	\$ 51
\$35,000	\$14,000	\$12,816	\$ 0	\$ 0	\$ 0

Example 3 – Couple in small town or rural Ontario

Household income	Required contribution (40% of income)	Housing cost in small town Ontario (1BR apt at \$645 per month)	Affordability Gap	Payment (75% of gap)	
				Per year	Per month
\$10,000	\$4,000	\$7,740	\$3,740	\$2,805	\$234
\$15,000	\$6,000	\$7,740	\$1,740	\$1,305	\$109
\$20,000	\$8,000	\$7,740	\$ 0	\$ 0	\$ 0

Example 4 – Single person in Vancouver

Household income	Required contribution (50% of income)	Housing cost in Vancouver (Bach apt at \$754 per month)	Affordability Gap	Payment (75% of gap)	
				Per year	Per month
\$10,000	\$5,000	\$9,048	\$4,048	\$3,036	\$303
\$15,000	\$7,500	\$9,048	\$1,548	\$1,161	\$97
\$20,000	\$10,000	\$9,048	\$ 0	\$ 0	\$ 0

Once the payments under the program are flowing, it should be possible to revise them to a more accurate amount. That could be based on the 2008 income (and household composition) as soon as the 2008 income tax returns have been received and processed. CFAA presumes that could be by sometime in the summer of 2009. Recipients could also be required to file their actual rent at December 31, 2008, in order to make the second round of payments depend on each household's actual affordability gap (i.e. the gap between the household's rent and the required contribution based on the relevant percentage of the household's 2008 income.)

CFAA would recommend making 6 months payments in 2009 based on the 2007 income (and the October 2008 average rents), and then 12 months payments based on the 2008 income and actual rent, if the household still qualifies. If a household did not qualify based on their 2008 income, then the government could leave them out of the program, even if they could later qualify based on their 2009 income, as shown in section B of the table below. Households with low incomes for 2007 and 2008, but not 2009 would drop out of the program after September 2010, as shown in section C, below.

Whether to continue any further payments after September 2010 for households which continue to suffer a housing affordability gap based on their 2007, 2008 and 2009 incomes could be decided in the 2010 budget. The amount of such payments could also be set at that time, based on better information about the impact of the allowances.

Housing affordability gap	Payment – Apr 2009 to Sept 2009 (6 months)	Payments – Oct 2009 to Sept 2010 (12 months)	Payment – Oct 2010 to Sept 2011
A. Low income in first year only			
2007 income	Yes	Yes	
2008 income	No		No
2009 income	No		No
B. Low income in first and last year			
2007 income	Yes	Yes	
2008 income	No		No
2009 income	Yes		No
C. Low income in first two years			
2007 income	Yes	Yes	
2008 income	Yes		Yes
2009 income	No		No
D. Low income in all three years			
2007 income	Yes	Yes	
2008 income	Yes		Yes
2009 income	Yes		To be decided in the 2010 Budget

As noted in CFAA's submission at pages 3 to 4, CMHC reports that "over time there is an important turnover with different people encountering housing affordability constraints from year to year." That turnover would enable the government to cancel the program while minimizing the number of people who stop receiving the payment despite still suffering from a housing affordability gap. CMHC's statistics show that only one third of those who suffer a housing affordability gap in a particular year, suffer from that gap for three consecutive years. Still fewer people would suffer from a housing affordability gap for four or five consecutive years. (Alternately the program could be continued in modified form for people with long-term affordability problems, at a much lower cost than the initial spending.)

The cost of the program proposed would probably be in the order of \$1.1 Billion for fiscal 2009-10 when it would operate for 12 months at maximum enrolment and \$400M to \$500M for fiscal 2010-11, when it would operate for 6 months at a lower enrolment. If decided upon, a continuation of the program for those in long-term housing need would add another \$200 to \$250 M in fiscal 2010-11, and then an annual amount declining toward \$200M to \$350M per year, depending on the program parameters.

Those cost estimates are based on the estimates made in the CMHC/Abt Study *Housing Allowance Options for Canada*, 2006. For a 75% partial gap program reducing net housing costs to 30% of income, the cost estimate was \$1.84B (p. 146). For a 75% partial gap program reducing net housing costs to 50% of income, the cost estimate was \$333M (p. 148). The program proposed above is half way between those two programs since it proposes shelter cost to income targets of 30%, 40% or 50% of income depending on the size of the household. At pages 137-138, the CMHC/Abt Study reports that there are disproportionately large numbers of single member households in housing need; therefore the number of households limited to 50% should be larger than the number of larger households with the target set at 30%. Rents have risen since the year of the estimates, but so have incomes, and housing affordability has improved in many areas of Canada.

The program is highly scalable since it can be changed in a variety of ways, such as raising or reducing the housing cost to be used, changing the proportion of the affordability gap that will be covered, limiting the payment amount or changing the required contribution. Good sense would dictate not expanding the program much beyond what is proposed, especially if the complete cancellation of the program is contemplated.

Impact on the economy

Regardless of how much money is paid out under the proposed program, almost all of it will be spent on goods and services other than housing. The program proposed is modelled on the provincial portable housing allowance programs which have operated in various provinces for up to 40 years. The CMHC/Abt Study reviewed those programs and concluded that under that model "the housing allowance has an undetectable effect on housing consumption" (p.31). However, the Study continued, "the impact of the improvement in affordability should not be underestimated." The vast majority of elderly recipients in Manitoba reported that they spent the savings in rent provided by the allowance on food. For households with children, one would expect increased spending on food, clothing and children's needs, and thus a broad and rapid impact on the economy.

The full program described should directly create or maintain 20,000 person years of employment. Applying a Keynesian multiplier of 2.5, the full program would create 50,000 person years of employment at a one-time cost of \$1.6 Billion.