

## MARION STEELE

Dr. Marion Steele is an Emeritus Associate Professor of Economics at the University of Guelph and a resident research associate at the Centre for Urban and Community Studies, University of Toronto. Marion has researched housing allowances for over 25 years. She is the author of *Canadian Housing Allowances: an Economic Analysis* published by the Ontario Economic Council, a report on housing allowances for the Canadian Home Builders Association and many articles and papers on the topic.

Dr. Marion Steele was the only Canadian on a team which wrote a major report for CMHC, *Housing Allowance Options for Canada*, Abt Associates, published in 2006. Marion was also chosen to be the author of the Canada chapter in a major book on housing allowances in different countries, *Housing Allowances in Comparative Perspective*, Peter A Kemp, Editor, London 2007. Marion also researches in other areas of housing economics, and has been a consultant to CMHC and Statistics Canada, as well as other clients.

# Housing allowances: how they work, why they make sense

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## Introduction

- A housing allowance: cash payment to households which depends on their rent and income
- Why is it good housing policy?
  - Aimed squarely at the number one housing problem, lack of affordability
  - High benefit to recipients relative to government cost
- Why is it a good family, good seniors policy?
  - Helps families and their kids, and seniors, who are in the most need, those living where market rents are high

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## What is a housing allowance-- more concretely?

### Basic

- Depends on both income AND rent
- Paid to all eligibles who apply —no waiting list
- Cash—ideally direct deposit—goes directly to the tenant

### Payment to all eligibles

- not true of the US Voucher
- true in Quebec, BC, Man, Sask, Europe, Australia

### Payment to tenant

- not true of the US Voucher
- true in Quebec, BC, Man, Saskatchewan, Ontario & almost all other plans

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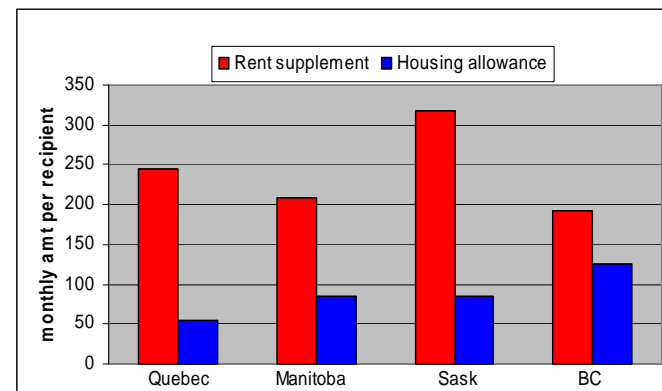
## Housing allowances vs Rent Supplement

### Rent Supplements vs HA

- Landlord contrasts
  - Under RS, **by contract, landlord is required**
    - to provide a set number of units for set number of years
    - often, to take tenants from social housing waiting list
    - to charge a specified, negotiated rent
  - RS landlords are usually big landlords
  - Under HA, **landlord not restricted**
- Tenant contrasts
  - Under RS, **tenants' choice strictly limited**  
tenant does not get subsidy payment (landlord does)
  - Under HA, **tenant has free choice**  
tenant receives subsidy directly from government

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## Housing Allowance vs Rent Supplement costs



Notes: 1. Source year varies. 2. BC Rent Supplement monthly amount is estimate, likely understated

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## Housing allowances vs welfare shelter allowances

- Housing allowances of the classic Canadian type **never increase by a dollar for every dollar increase in rent** but welfare shelter allowances do (up to a maximum)
- **Housing allowances are a top-up amount**; tenant is still expected to pay most rent out of own resources but welfare shelter allowances intended to pay the whole amount
- Housing allowances much, much cheaper than welfare shelter allowances

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## What provinces have housing allowances?

- Classic type:
  - Quebec, Shelter Allowance/ Allocation Logement
  - Manitoba, Shelter Benefit
  - BC, SAFER (seniors 60+), RAP (working families)
- Other types
  - Saskatchewan, Rental Housing Supplement
  - Ontario, Rental Opportunity for Ontario Families

BC's, Ontario's, Sask's plans for families are all very recent

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## What countries have housing allowances?

- Australia
- New Zealand
- United Kingdom
- France
- Netherlands
- Germany
- Sweden
- Czech Republic
- Hungary
- Poland
- US (although housing choice voucher more like a RS than a housing allowance)

These are national programs. Most have higher benefits than in Canada

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## Payments usually based on the affordability gap

The affordability gap tells you the cash a tenant needs to make the rent he or she pays affordable.

It is the **difference between**

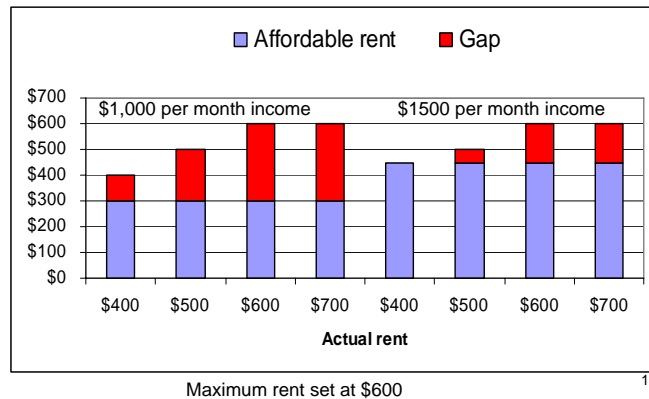
**Actual rent**  
and **Rent which is affordable**

EXCEPT once actual rent reaches a set maximum, the gap is the difference between

**Maximum rent**  
and **Rent which is affordable**

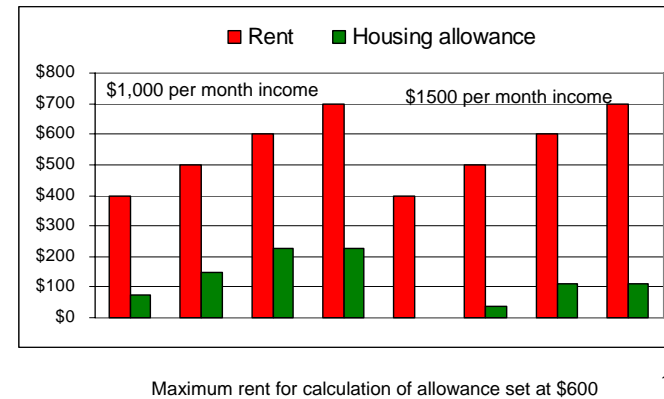
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Examples of gaps:  
two income levels, \$1,000 and \$1,500 per month  
four rent levels, \$400, \$500, \$600, \$700



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A simple classic housing allowance: 75% of gap



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How do existing programs differ?  
Who is eligible?

- All provinces with programs cover families
- Almost all cover elderly
- Disabled covered in Man and Sask
- Welfare recipients covered in Quebec and Sask—seen as way to give welfare families paying high rent a little more which they keep if they leave welfare
- All provinces include landed immigrants, refugees
  - BC has a one-year BC residency requirement
- BC and Ontario have fairly tight asset limits for families, reminiscent of welfare or social housing requirements

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How do existing programs differ?  
How much do recipients get?

- Manitoba, BC and Quebec pay a percent of affordability gap
- The percent of the gap paid varies
  - only 67%, in Quebec
  - in Manitoba and BC, 90% at lowest incomes, and 65% at higher incomes
- Saskatchewan and Ontario use very different schemes
  - Problems with both schemes
- Housing allowance schemes allow higher payments in some places in province than others in BC and Saskatchewan

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## How does Manitoba program work?

- Covers elderly 55+, families (kids less than 18), disabled
- Gap more generous for lowest income recipients
- Maximum benefit: \$200 per month
- Maximum rent for affordability gap is \$480
  - CMHC average rent, 2 bed apt is \$746, Winnipeg
- Evidence of rent required (lease, receipt, or notice of increase)
- Evidence of income required
- About 4,000 elderly, between 1,000 and 2,000 families now in the program

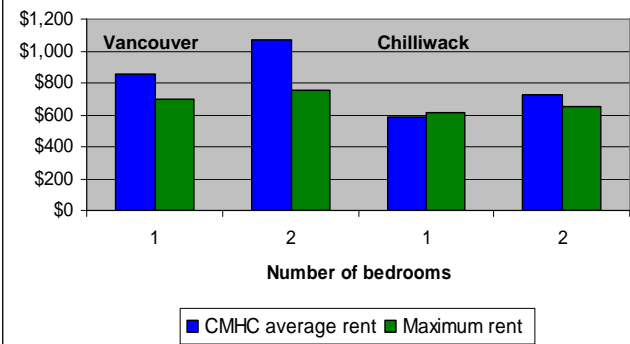
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## How does BC's SAFER, for seniors, work?

- 30-year-old program for seniors, aged 60 and over
  - simple application if GIS recipient
- Payment formula like Manitoba's
  - maximum rent is **higher in Vancouver area than elsewhere**
- Results
  - over 15,000 recipients, vast majority women
  - **nearly half over 80 years of age**
  - average payment: \$169 as of 2006
  - average rent \$602, income \$1,215 as of 2005

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CMHC average rents and SAFER maximums



Maximum for singles is compared to 1 bedroom rent  
couples is compared to 2 bedroom rent

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## How does BC's RAP for families, RAP, work?

### Coverage

- Families with kids less than 19, or older but up to 25 and in university, or disabled of any age
  - intended for working families only
  - some employment income prev year or working now
  - not on social assistance
  - Maximum liquid assets \$10,000
  - formidable application form --lots of documentation of income and assets required
- Families with income up to \$35,000 eligible
  - when program started max income just \$20,000

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### BC program, benefit levels, recipients

- Maximum benefit (large families, Vancouver): \$765
- Maximum rent Vancouver \$975, small families \$1100, large families
- Payment based on affordability gap, like Manitoba's
  - But **RAP has a minimum, \$50** per month, no matter what the formula gives
- Number of recipients about 5,000  
one-third of province's 2006 prediction  
(April 2008 changes not yet fully felt)

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### How does Quebec housing allowance work? Coverage and enrollment

- Very broad coverage
  - Home owners as well as renters
  - Welfare recipients as well as working families
  - Families, seniors (age 55+)
  - Loose asset requirement—up to \$50,000 in assets (excluding home, car, furniture)
- Very easy enrollment
  - Phone Revenue Quebec to see if eligible—they check in computer files to see if income low enough and then mail out application form.
  - Only documentation required is evidence of rent

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### How does Quebec housing allowance work? Benefit levels, recipients

- Maximum benefit: \$80
- Maximum rent (families of 5 or more): \$606
- Number of recipients 128,903
- Average payment \$56
- Payment based on affordability gap
  - Pay only 2/3 of gap
  - Have a minimum rent recipient must pay out of own pocket before getting any subsidy
  - --if 30% of income less than min. rent, use min rent in formula. What is the effect?

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### What happens to the Quebec payment when rent and income change (single parent, one child)



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### How does Ontario's ROOF work?

- Runs **only for five years**
- Working families with kids under 18
  - At least \$5,000 employment income in 2006
  - Not on welfare
  - Maximum liquid assets \$10,000
- Families with income up to \$20,000,
- **Single door:** originally last fall, now June 30
- Once in program can stay even if situation changes somewhat

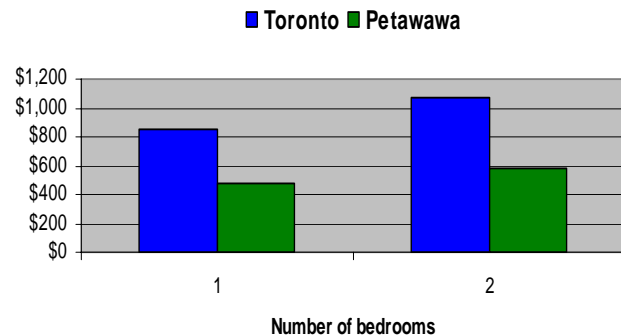
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### ROOF payment scheme, numbers

- Payment a flat \$100 per month if rent more than 30% of income
  - Single mother with one child receives the same as couple with 6 children
  - Family paying \$510 rent receives the same as one paying \$1,100
- About 15,000 recipients now; predicted 27,000
- Comment:
  - If family income is \$1500 and
    - rent is \$445 per month receive zero per month
    - rent is \$455 per month receive \$100 per month
    - rent is \$755 per month receive \$100 per month

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### CMHC average rents, two Ontario urban areas



A Petawawa single parent would not qualify if she paid \$30 less than the CMHC average rent for 1 bed apt while a similar family paying the CMHC average qualifies for \$100 per month.

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### How does Saskatchewan's program work?

- Some similarities to Quebec program
- Broad coverage
  - Welfare recipients as well as working people
  - Families and disabled
  - No asset requirement
- Quite easy application process
  - Starts with phone call; caller is asked rent, sent application form if eligible

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## Saskatchewan benefits, numbers

- Does not use gap-based formula, but no payment where rent less than 35% of income
- Has a minimum rent feature, like Quebec
- Maximum income \$26,400
- Maximum benefit for largest family, \$113
- Number of family recipients, about 3,000 in late 2005; predicted before start of program, 10,000

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## Answering critiques of housing allowances

Tends to cause rent inflation? Why?

1. Claim: subsidies to housing tend to increase demand for housing
  - True, in general, but not here, because these low income households
    - Typically pay 40%, 50% or more of income on rent before allowance
    - Stay where they are and use the subsidy for food
  - If no increase in demand for housing, no increase in market rent

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Tends to cause rent inflation? Why?

2. Claim Irresponsible landlords will increase recipients' rent?
  - Highly unlikely if housing allowance is a gap plan
    - Tenants receive the payment; landlords don't know the amount
    - Tenants must pay any rent increase out of their own pocket before they get any increase in allowance
- Evidence from allowances in Quebec, Manitoba strongly points to fact there is no rent inflation

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## Another critique: only a good idea when vacancy rates high

- Response
  - No increase in demand so no increased tightness in housing market
  - Recipients have to pay high rent relative to income **before** they get the allowance. So, will not move into vacant units.
  - The housing allowance is needed and used because not enough is left for food, after paying rent.
- Good evidence exists that gap-based allowances don't cause moving or household splits.

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### Final comments

#### Canadian housing allowances

- Cost small amounts, much less than rent supplements, and
  - Help recipients buy more food and other necessities
  - Target cash at households who live in high-cost markets
- More efficient ways of targeting help to the families who most need it than an increase in child tax benefit

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### Final comments (cont'd)

#### Canadian housing allowances

- Encourage welfare recipients to leave welfare
    - put them on a housing allowance while on welfare and ensure they know they'll get it when they leave.
  - Greatly increase fairness: otherwise, low income tenants in public housing get a large subsidy; others get nothing
- Gap—based housing allowances have always cost Canadian governments less than predicted

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