

## CMHC Report: Housing Allowance Options for Canada

By June Carter, Vice-President, CFAA-FCAPI

In Canada, several provinces have housing allowance programs. Many countries have some form of housing allowance program. Some programs are large, providing substantial benefits to a large number of people. Other programs are small, providing limited benefits to targeted populations.

CMHC sought a report from Abt Associates, a consulting firm with substantial expertise in housing policy, to describe various housing allowance options and to present key issues relating to housing allowances. Abt Associates presented a summary of their report, *Housing Allowance Options for Canada*, at the CFAA/EOLO Housing Conference on June 9, 2006.

Set out below are some observations made in the report about the current provincial programs, and about possible national housing allowance programs.

### Current Provincial Housing Allowance Programs

Currently four Canadian provinces have limited housing allowance programs: British Columbia, Saskatchewan, Manitoba and Quebec. Depending on the province, the programs are open to senior citizens or families with children or the disabled.

The first Canadian housing allowance program was started in B.C. in the late 1970s, motivated by the desire to help low-income elderly tenants paying high rents, particularly in Vancouver. Over time, other provinces adopted the B.C. idea.

Contrary to initial concerns, the provinces found that costs are not explosive;

in fact, program costs have tended to decrease over time.

After some years of experience, Manitoba and Quebec decided to reduce the minimum age for eligible households to 55. In addition, Manitoba broadened eligibility to families. Among Canadian provincial programs, only Quebec includes homeowners as well as renters.

To control costs and mitigate work disincentives, current provincial partial gap programs have additional formula parameters or constraints. B.C. has variable parameters that become more generous as income declines. To avoid the serious work disincentive, it is considered important to ensure that the marginal effective tax rate of adults in prime working years is never extremely high.

A repeated finding from the provincial housing allowance programs is that not all eligible people apply. As well, receipt of the allowance induces very few, if any, moves to another unit. A Manitoba survey asked those who had not moved why they had not: 89% of recipients said they were satisfied with their present residence; 76% said they were close to amenities and services.

The Canadian provincial housing allowances do not result in rent inflation either for recipients or for the housing market as a whole. A comparison of increases in the rental component of the CPI between cities with housing allowances and similar, non-allowance cities shows no differences. Households understand the importance of controlling their housing costs in a Partial Gap Coverage program.

The current partial gap programs are aimed at helping the problem of housing

affordability and they do this well, either by reducing the number of households in core need or by reducing the severity of core housing need for households.

### Possible National Housing Allowance Programs

The same CMHC report included detailed cost estimates of various possible programs.

As to **design options**, the report considers:

1. Full Affordability Gap Coverage
2. Partial Gap Coverage (the report uses 75%)
3. Flat Subsidy (the report uses \$1,000 per year)
4. Rent Co-Payment (the report uses 20%)

Within those four options, the report considers six **eligibility options** for specifying the population eligible to participate in the housing allowance program:

- a. All households in core housing need (renters and homeowners)
- b. Program size limited by a waiting list to meet a specific budget
- c. Program size based on household income
- d. Program size limited by current rent burden
- e. Limiting the program to renters
- f. Limiting the program based on household type, such as older residents.

The report then considers four possi-

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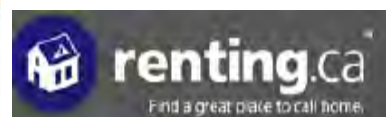


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## Housing Allowances (Cont'd)

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### ble implementation options:

- i. Federal Government through income tax filing system
- ii. Federal government, but outside the income tax system
- iii. Federal-provincial, cost shared program permitting provincial discretion over some program features
- iv. A block grant program with national purposes and eligible uses of funds, but substantial provincial discretion over program design

Housing allowance programs are often open enrolment or entitlement programs, for all households below an income threshold, and in many cases other criteria related to the type of household. However, housing allowances can be rationed (e.g. by a waiting list) to ensure that a budget limit is not exceeded.

The report notes that the case for using housing allowances compared with housing supply subsidies rests on several premises:

- Fairness, or horizontal equity
- the view that choice promotes greater value in the subsidy
- the view that choice promotes self-reliance and self-respect

- the view that dispersal of low-income families is better than concentration
- Empirical evidence that supply-side subsidies cost more
- the greater feasibility of providing a modest subsidy to a large number of households for a demand-side program
- the wish to avoid adding unnecessary capacity in markets with vacancies.

The subsidy formula is usually based in part on the household's income and in part on housing costs, but formulas differ and are often quite complex.

The larger the subsidy, the larger the potential impacts will be on recipient housing. Under any implementation option, a program can be designed that has an effect on housing consumption and avoids inflating rents.

The impact on demand depends on whether the subsidy is used primarily to reduce rent burden in the current unit or whether it is used to move to new units or create new households. The impact also depends on the size of the allowance program relative to the overall market. To the extent that there is an impact from housing allowances on local housing markets, the impact depends on the rent caps allowed in the program and how they relate to local market rents, as well as on the number of assisted households.

A housing allowance may have a positive effect on work incentives for social assistance recipients by lowering the "welfare wall." If a housing allowance is paid based on income and shelter costs (and perhaps other criteria) regardless of whether the recipient is on assistance or working, then recipients will no longer face as high a financial loss upon leaving social assistance. One of the central objectives of many social programs is to reduce poverty. A housing allowance will reduce poverty if it is well targeted and provides additional income or benefits to poor people.

In CFAA's view, what needs to be done to advance the issue is the following:

1. a review of the 30% affordability standard; and
2. the determination of a series of practical options for a national housing allowance program which combine various limits on the possible program options in practical ways.

In pursuing practical options, regard should be had to the current provincial programs, which are very successful and operate at a reasonable cost.

For more information about housing allowances, visit [www.cfaa-fcapi.org](http://www.cfaa-fcapi.org).

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La FCAPI souhaite continuer à faire progresser les intérêts de l'industrie du logement locatif au niveau fédéral. Sachez que nous travaillons conjointement avec les associations provinciales et locales, puisque les politiques en matière de logements locatifs et de fiscalité sont étroitement liées, et ce, de maintes façons.

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