

*The*  
**CO-OPERATIVE  
HOUSING  
FEDERATION**  
*of Canada*

Co-operative Housing Federation of Canada's submission to the

2009 Pre-Budget Consultations

**Non-Profit Co-operative Housing:  
Working to Safeguard Canada's Affordable Housing Stock  
for Present and Future Generations**

August 2009



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## EXECUTIVE SUMMARY

Federal policy makers in Canada can take an important housing policy lesson from the 2007-2008 United States sub-prime mortgage crises: the aggressive promotion of homeownership as a one-size-fits-all solution to housing need is not in fact a solution at all.<sup>1</sup> And for the 1.5 million households in core housing need in Canada, growth in the supply of private rental market housing cannot be relied on to provide a housing solution either, as the market cannot deliver housing at rents lower-income Canadians can afford.

New non-market housing options, such as non-profit housing co-operatives, must therefore form an integral part of any policy that seeks to reduce housing need in Canada. Demand-side solutions such as rent supplement programs have a role to play but an increase in the supply of affordable housing is essential to any comprehensive housing strategy for Canada.

The Co-operative Housing Federation of Canada (CHF Canada) and its 900 member co-ops have welcomed the important housing investments announced by the federal government in September 2008 and then again in 2009 as part of *Canada's Economic Action Plan*. These investments have permitted the renewal of federal-provincial-territorial affordable housing supply agreements and have provided much-needed assistance for the improvement of Canada's aging social housing stock through renovations and energy retrofits. These measures offer hope for those in housing need in Canada while stimulating our nation's economy through the creation of construction jobs in communities across the country.

Parliamentarians have an opportunity to build on the admirable initiatives that have been developed at the federal level, and without increasing current spending commitments. CHF Canada makes the following recommendations for policy consideration in the 2010 federal budget.

### Recommendations:

The Co-operative Housing Federation of Canada proposes that the federal government:

1. provide repayable loans for affordable housing repair and new affordable housing development through CMHC's Direct Lending Program. There is no cost to government to making the necessary policy changes to facilitate this borrowing, which will build on the construction jobs that are being created under *Canada's Economic Action Plan*;
2. develop a plan to protect the affordability of the existing stock of federally sponsored affordable housing through the creation of a successor subsidy program as current funding agreements expire, by maintaining housing appropriations at current levels;

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<sup>1</sup> For more details, see Nicholas Gazzard, "Nicholas Gazzard: Economic Crisis offers housing policy lessons to Canada," *The Georgia Straight*, 8 June 2009, available at <http://www.straight.com/node/229390>. Accessed 22 July 2009.

3. ensure full and transparent accountability for federal housing transfers to the provinces and territories by linking federal housing spending to reductions in core housing need. This policy outcome would be realized through the creation of an accountability framework, agreed to with the provinces and territories, which sets out targets to ensure that reductions in core housing need take place in every region across Canada. New non-profit co-op development needs to be a key component of the above-noted framework.

## **INTRODUCTION**

The government is to be congratulated on the housing funding announced in the 2009 federal budget, *Canada's Economic Action Plan*. CHF Canada's 900 member housing co-operatives are making fast and effective use of the social housing renovation funding announced in the budget, and the renewed funding of the Affordable Housing Initiative will help address the urgent need for more affordable housing in Canada.

CHF Canada proposes that the government build on these investments in housing by adopting cost-effective housing policies focused on measurable outcomes and value for money. Our proposal would ensure a continuing reduction in housing need in Canada, while also protecting the public's legacy investment in existing affordable housing assets and ensuring that this stock continues to provide secure, affordable housing to as many low-income Canadians as possible. Canada needs a housing policy that will help reduce the numbers of Canadian households in core housing need,<sup>2</sup> and this government is in a position to deliver it. The co-op housing sector is already a willing partner in promoting existing federal government housing solutions and we are ready to do more.

## **CANADA'S NON-PROFIT HOUSING CO-OPERATIVES**

For over 40 years, Canada's non-profit co-op housing sector has played an important role in creating more than 93,000 permanent affordable homes for over a quarter of a million Canadians in every province and territory across the country. Approximately 40 percent of these homes use federal or provincial assistance to help pay their housing charges, which are set at affordable levels according to household incomes. Other households pay the market rent.

Canada's 2,200 non-profit housing co-operatives have also created strong inclusive, self-directed mixed-income communities that promote positive social values and build families. For its part, the federal government was instrumental in creating Canada's first co-operative programs in the 1970s. It continues to provide subsidies to non-profit housing co-op providers to help low-income Canadians pay for their housing charges.

## **CANADIANS IN HOUSING NEED**

Data from the 2006 census shows that the number of households living in core housing need across Canada has increased from 2001 to 2006, from 1,485,000 to 1,494,000, although there has been a

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<sup>2</sup> According to Canada Mortgage and Housing Corporation (CMHC), a household is said to be in core housing need if its housing falls below at least one of the adequacy, suitability, or affordability standards and it would have to spend 30% or more of its before-tax income to pay the median rent of alternative local housing that is acceptable (meets all standards). 1.5 million Canadian households are in core housing need.

decline in the percentage of households over the same period from 13.7 percent to 12.7 percent.<sup>3</sup> This decrease in the proportion of households in core need has taken place during a period both of new investment in affordable housing by the federal government, and of sustained real GDP growth. This suggests that the combination of a strong economy and new housing spending does have a positive effect on the incidence of core need. However the rate of improvement is very slow, suggesting that unless targets for core need reduction accompany public spending on housing, Canada will not achieve the housing outcomes it needs.

Moreover, in the current recession it is likely that core need will once again begin to increase as the rate of unemployment grows. Census data for 2006 indicate that households with an unemployed maintainer are three times more likely to be in core housing need (25.7 percent) in comparison to households whose maintainer is employed (8.6 percent). Along with persons with disabilities, seniors, one-parent households and new immigrants, households maintained by an unemployed person are one of the vulnerable segments of the Canadian population that are disproportionately in core housing need. Current trends and forecasts for both the economy and employment predict that, absent an effective housing policy framework, by 2011 the incidence of core housing need in Canada could surpass the rate of 2001 (13.7 per cent; also the rate from 1991). If that is the case, there may be 1.7 to 1.8 million Canadians households in core need in less than two years from now, versus about 1.5 million in both 2001 and 2006.<sup>4</sup>

It may be tempting to turn to the private market for solutions. But the causes of the economic downturn, and their origins in over-leveraged homebuyers in the US, have shown that aggressive lending practices, while they can get lower-income families into homeownership, do not keep them there. Those in core need in Canada could neither qualify for a mortgage, nor sustain the required debt service.

Private market rental development isn't the answer either. The financial realities of residential construction are that developers cannot deliver new rental housing at rents lower-income people can afford to pay. This is not a political point of view; it is simply the reality of real estate economics. There are ways in which the private rental market can help, especially in addressing acute short-term housing gaps, if the government is willing to assist with shelter allowances to households. But without a new supply of affordable rental housing, without an overall increase to the stock in a country with a continuously growing population, the effect of relying disproportionately on shelter allowances will be rental market inflation, as demand increases for a fixed supply of housing.

## **PUBLIC INVESTMENT IS AT RISK**

The capacity of existing affordable housing providers to continue to offer low-cost affordable housing to seniors, people with disabilities and low-income Canadians is currently at risk. The funding agreements for federally sponsored affordable housing providers, including those for some

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<sup>3</sup> From the Statistics Canada microfile for the 2006 *Survey of Household Spending* PUMF (Public Use Microdata File).

<sup>4</sup> Projection by Will Dunning Inc., which focuses on long-term implications of changes in the population. Further, the projection does not consider the impacts of changes that may occur to government policies and programs. It is based on a simulation published in *Population Projections for Canada, Provinces and Territories, 2005-2031* Statistics Canada Catalogue number 91-520-XIE. Projection Scenario 3 is used here.

57,000 federally sponsored non-profit housing co-operative units, are beginning to expire and will do so in increasingly large numbers throughout the next decade. Yet, there is no plan in place to renew these agreements and protect the affordability of this housing.

As a result, thousands of low-income Canadians, including the disabled and the frail elderly, will eventually lose the subsidies that help keep their housing affordable to them, based on their incomes. Federal subsidy streams used to help low-income individuals and families pay for their rents are inextricably linked to the operating agreements currently in place between their respective federally sponsored housing co-op and CMHC. If this housing loses its capacity to house its traditional constituent groups, the public legacy investment will be lost with it.

## **PHYSICAL CONDITION OF THE AFFORDABLE HOUSING STOCK**

As noted earlier, the funding for social housing renovation and retrofit, as announced in *Canada's Economic Action Plan*, is welcomed by housing providers. But the overwhelming response to the program shows that more is needed, if the aging stock of publicly sponsored social housing is to continue to serve future generations.

Since the introduction of the first federal public housing program, in 1949, more than 600,000 units of social housing have been developed in Canada, most of it through federally initiated programs. This stock is now aging fast and in need of extensive redevelopment if Canada's original investment is not to be lost. Recognizing that the government cannot continue to fund renovation programs at the taxpayers' expense, CHF Canada understands that other financing vehicles must be found to overhaul Canada's social housing.

## **CHF CANADA'S PROPOSALS**

### **Fiscal responsibility**

To address the challenges identified in this submission, CHF Canada has three housing policy proposals for the government, none of which requires an increase to current housing spending levels. We believe that a responsible approach requires that we take account not only of the need to meet the level of real housing need in Canada, but also of the fiscal realities of the times. CHF Canada's proposals depend on the government maintaining existing annual appropriations for housing, but not on the government increasing them as it seeks to rebalance the federal budget over the medium term. They are:

#### **1. Expanding CMHC's Direct Lending Program**

To meet the need for reinvestment in existing social housing assets, beyond what will be possible under the current renovation and retrofit stimulus program, CHF Canada proposes the expansion of CMHC's Direct Lending Program. This would present more social housing providers with an opportunity to access low-cost repayable direct loans for housing repair and renovation. This program measure would come at no net cost to government, as we would expect CMHC to expand its bond issue to raise the capital required for the program. Mortgage insurance would offer CMHC and the government the security it needs to operate an expanded program on a firm commercial footing.

## **2. Creating a New Successor Subsidy Program**

As previously noted, funding agreements for a great deal of federal program housing, including some 57,000 units of co-op housing, are beginning to expire and will do so in large numbers over the next 10 years. In order to protect the affordability of the entire existing stock of federally sponsored affordable housing, which also includes community-based non-profit housing, we propose that the present RGI subsidy streams need to be renewed so that this housing can continue to accommodate low-income households. The government could fund such a successor subsidy initiative program simply by maintaining CMHC's annual parliamentary appropriations at the present levels for these programs. Accordingly, this program would require no new spending.

Moreover, this program would offer significant value for money. To cite one example, we estimate that to continue to subsidize a low-income household in the Section 95 federal co-op program costs some \$3,600 per unit per year. This is an extremely cost-effective affordable housing option to consider as the Minister of Finance works to both eliminate the deficit and balance the budget.

## **3. Ensure Full and Transparent Accountability for Federal Housing Transfers**

Since 2006, federal contributions have amounted to more than \$5 billion for social housing and homelessness initiatives. This includes the September 2008 announcement of \$1.9 billion in funding over a five-year period to support housing and homelessness programs and the \$2.1 billion announced in January 2009 through *Canada's Economic Action Plan*. The government is to be commended on these commitments, which have demonstrated the willingness of the federal government to show real leadership in the affordable housing arena.

However, there is a growing need to ensure full, transparent accountability for federal housing transfers. For their part, the provinces and territories need to do more to achieve greater transparency and demonstrate measurable outcomes in housing need reduction.

At present, no direct link exists between federal housing spending (which is mostly transferred from Ottawa to the provinces and territories) and reducing core housing need. Accordingly, CHF Canada proposes that, in consultation with the provinces and territories, the federal government set targets for meeting the shelter requirements of all demographics that are identified as being in core need, through the mechanisms of demand and supply side solutions, including the development of new co-operative housing. This policy change would improve accountability for public monies committed and increase value for money in federal housing spending.

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