Viewpoint

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Affordable Housing: An Opportunity for Foundations

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We know that since Canada has one of the most advanced development industries in the world, we have the capability to solve the affordable housing crisis for people on social assistance and/or low wages. We are also aware of the social and economic costs of the crisis. Yet, a review of government policy statements and election promises over the past 20 years reveals an endless litany of unmet goals. In many years, we have lost more low-rental housing than the number of new units constructed. The recent failure to meet objectives of the Ontario Government's "Homes Now" and "Homes First" programs provides only the most recent example of failed expectations. Is it so difficult to meet affordable housing objectives? Inadequate funding and the lack of political will have been two important factors, but there are also other fundamental issues which must be addressed. Foundations could play a role in focusing attention on such issues. One important question is the relationship of the non-profit housing sector to the private development industry.

For 20 years, authorities have debated diametrically opposed views about the solution to the problem of affordable housing. The first, held by, for example, Joe Lebovic, current chair of the Urban Development Institute, believes that developers should be given incentives to create new affordable housing or, alternatively, that tenants should be given shelter allowances so they can afford a level of rent that will make it economically feasible for developers to build new rental housing. The alternative view, to which I subscribe, holds that the key to increasing the supply of affordable housing is non-profit housing programs. The decades-long debate between these opposing views has continued to the detriment of many who are directly affected by the crisis in affordable housing.

This article will present a personal view of the problem based on my 20 years of experience in the real estate development industry and my long-term involvement as a community volunteer.

As an example of the confusion and waste of resources which have resulted from this debate, we might take a quick look at Ontario housing policy under the Liberals, before the recent change in government. Chaviva Hosek, as Housing Minister, was strongly supportive of non-profit housing. She persuaded the Liberal cabinet to more than double the number of allocations to non-profit groups and she initiated actions which resulted in strong "sector support" to provide more resources to these groups. Her successor, John Sweeney, in his last budget, offered no new allocations for non-profit housing groups. His commitment to "sector support" was uncertain and he left the non-profit sector in total confusion as to his position; consequently, the goals set by the previous minister remained largely unmet. Instead, he listened to the voice of the private development industry and preached "home ownership" as the key to dealing with the problems of affordable housing.

A third party could play an important role in resolving this dispute rather than letting it drag on as it has. Since it is a question affecting a large proportion of their charitable activities, many foundations have a vested interest in the affordable housing issue. They also have credibility which could be an important factor in a disinterested investigation. They could sponsor independent research on this issue and/or oversee a representative group to assess both sides of the debate.

Foundations allocate much of their funding to health and social services. Numerous studies by groups such as The Vanier Institute of the Family and The Canadian Council on Social Development have concluded that the cost of dealing with the human problems caused by lack of affordable housing is far greater than the cost of providing adequate housing. Social agencies find it very difficult to help people with other problems when they have a serious housing problem. In addition, communities are finding that a wide range of housing is required if they are to attract people to meet their employment and service needs.

The Non-Profit Housing Sector

In searching for solutions to the housing crisis, it is important to recognize the essential role played by non-profit housing groups—over 700 in Ontario alone.

The sector is comprised of three distinct types of non-profit group:

1. *Municipal non-profits*: such as Toronto's "Cityhome", are operated by local governments.
2. *Co-operatives*: are operated by the residents of a building.
3. *Community non-profits*: are operated like private companies with a board of directors—usually volunteers from the community and including accountants, developers, lawyers, social workers, architects, housing workers, tenants, etc. This expertise can be important in assisting housing groups with real estate development and property management.

To understand the affordable housing issue as it relates to rental housing, it is helpful to recognize four functions:

1. *Development*
   This includes purchasing a site, planning and designing a building, and arranging the financing. Usually the ownership will determine who is in charge of development, but there are examples where a private developer and a non-profit group have co-operated to the advantage of both.
2. *Construction*
   The actual builder is usually decided through a tender process. Almost 100 per cent of non-profit sector housing is actually constructed by the private sector. Thus, the argument is about development, management and ownership of the housing, not who will build it.
3. *Management*
   This function deserves special attention since people on low incomes often suffer from other problems in addition to poverty. Community non-profit and co-operative groups have an advantage because of their access to community and volunteer resources. It is difficult to operate low-rental housing projects without a "community component". Co-ops depend on the active participation of their residents, and community non-profits thrive on a tremendous volunteer component. As well, these groups are able to build effectively on their cumulative experience—by learning from their successes as well as their mistakes. For example, a key challenge is to encourage more resident involvement in the boards and management of community non-profit groups.
4. *Ownership*
   Ownership is a key factor in creating a long-term supply of

affordable low-rental housing. The question of who should own rental housing which is created for people on low incomes relates back to issues of design and economics, and these factors must be examined in detail.

Housing Design

The developers of low-rental housing must take into account the dynamics of property management and the social environment if they are to avoid the mistakes of past public- and private-sector housing projects. Bad designs and "ghettoization" have rendered many developments obsolete in a few years, but it is to be hoped we have learned from these experiences.

An upcoming issue will be how to create mixed-income developments when the condominium market is soft. We have learned that large low-rental projects are seldom successful unless they are part of a large mixed-income development. Because of the current oversupply in the condominium market, such projects will now have difficulty attracting market-value renters to make up the desired mix.

The decision, at least for the short term, should be to focus on smaller projects such as co-ops and community non-profit projects which have more "core-needy" rental units and are integrated into existing mixed-income neighbourhoods. Architects can play an important role in finding creative ideas to tighten and consolidate the way we use land—through intensification of neighbourhoods, smaller lots, and innovative designs—as demonstrated in Toronto's recent Main Street Design Competition which attracted over 800 entries and generated much energy and creativity.

The Economics of Rental Housing

In Toronto, "housing for people on low incomes" usually refers to rental housing with rents below $800 per month. A recent *Toronto Star* article (July/90) indicated that in Metro Toronto there are 176,624 people relying on either welfare or family benefits, and in addition, there are many "working poor" who have difficulty affording more than $800 per month. (As the current recession has deepened these numbers have no doubt increased.)

A crucial issue today is the large gap between the rents of new housing and the incomes of people who need rental housing. In order to finance and operate low-rental housing, heavy subsidies are necessary. Policies which result in low minimum wage laws and high unemployment leave increasing numbers of people without sufficient income to afford

market-value rents and are reflected in higher welfare, health and social costs—now up to $145 billion by all levels of government.

Numerous studies have confirmed a 15-year trend during which tenants' wages have continually lost ground to escalating rents. A recent study by the Fraser Institute indicates that "property prices in Metro Toronto have jumped a whopping 1,700% since 1961, but during the same period, family incomes (before tax) have only risen 911%". Adding to the problem, the same report indicates that taxes have increased over 1300 per cent in the same period.

In addition we have demographic trends which have seriously aggravated the housing problem, e.g., the increase in single-parent families, the migration to large cities, the high increase in the number of households and the de-institutionalization of patients with all types of disabilities. For example, statistics indicate that single-parent families are five times as likely to fall beneath the poverty line as are two-parent families.

Why does new rental housing require high subsidies? Research indicates that in order to meet the economic rent of a new two-bedroom unit, the subsidy required is currently over $16,000 a year for a mother on social assistance. For example, it might cost $20,000 per year to finance a two-bedroom apartment ($140,000 @ 12 per cent interest, 35-year amortization), and realty taxes and operating costs could add another $6,000/year for a total economic rent of $26,000/year. If the mother can afford to pay a rent of $700/month, or $8,400 per year, then the subsidy required would be $17,600/year. These figures always scare governments and it is no wonder—housing is expensive. Even with the cutbacks at CMHC, housing is the second fastest-increasing budget item in the federal budget because of the cumulative financing costs associated with past housing development.

Also, consider that the money which the Ministry of Housing allows for land and construction costs (the "maximum unit price" or MUP) more than doubled from 1986 to 1990. The MUP for a two-bedroom apartment increased from $73,000 in March/89 to $152,000 in March/90. It should be understood that these units are all constructed by the private sector usually through a competitive tender process, so the high prices are a function of market conditions and not rates of productivity. The MUP amounts comprise, on average, a land cost of about $35,000 so the increases are also due to escalations in building costs, financial carrying charges and other costs. Both land and building costs have decreased substantially in the last eight months due to the recession.

Private Sector Incentives

1. *Tax and Loan Subsidies*

Incentives have been effective in some cases in preserving existing housing, but in high-growth areas such as Toronto, large subsidies given to investors or developers as incentives to encourage new construction, either through interest-free loans or through income tax benefits, have not been effective over the long term in building a stock of low-rental housing. In fact, one of the main reasons we have a housing crisis today is that for many years government poured billions of dollars into programs such as the "MURB" tax scheme and the "Renterprise" loan program only to see much of this affordable housing eventually lost to the inflationary real estate market through resale, conversions to condominiums, etc.

Because of misplaced priorities, thousands of people have been deprived of affordable accommodation. For example, a report on an 87-unit building in central Toronto, which was constructed in 1974 for low-income singles, indicated that in 1986, the building still had a few bachelor units which rented for under $270 a month, but most of the units had been converted to hotel rooms at $1,800 per month. Toronto is not unique and this is not an isolated example. These units are among over 2,000 rental units converted to hotel rooms from 1976 to 1986 before the Housing Ministry tightened the rent review laws. In all, the City of Toronto lost more affordable rental units to conversions, demolitions and "gentrification" than all the 10,000 rental units built from 1976 to 1986 (excluding condominiums). Also, the number of rooms in rooming and boarding houses in Ontario declined from 206,000 in 1971 to 61,000 in 1987. A number of studies have indicated that private landlords lost money on rooming house operations, but made high profits from capital appreciation when selling their properties. No wonder private rental units have been disappearing.

2. *Shelter Subsidies*

As noted, there has been a continuing debate on the question of whether to subsidize low-income tenants so that they can afford new rental units, or whether to use the money to subsidize the construction of new non-profit units. The major issue is the high level of public subsidy required and whether this public investment serves to create more rich landlords or a greater stock of low-rental housing.

Shelter allowances and rent supplements given to tenants can be important in assisting low-income people to afford existing housing, but

in a tight rental market, a review of the history of welfare increases demonstrates that government has little control over whether such subsidies will improve a tenant's housing or will simply result in a landlord receiving more rent for existing units.

Experience has demonstrated that the real estate market creates incentives for landlords to realize profits by selling their buildings, and there is little incentive to continue to rent the units to low-income tenants. Thus, such subsidies are not a sound investment of public dollars unless there is some guarantee that the housing will remain rental and affordable. One means which the Ontario government has experimented with is a leaseback arrangement whereby a non-profit group leases the land and building for 15 years from a private developer and then has the right to purchase it at an agreed cost. Further research is required to evaluate such schemes.

Rent Controls

It is important to discuss rent controls since they are so often mentioned as the cause of the housing problem. In my view, the private sector can agitate as much as it wants for an end to rent controls, but until we increase the long-term supply of low-rental housing controls are very unlikely to disappear. Some 82 per cent of people on social assistance live in private-sector units and we have to make a choice between throwing more people out on the street or increasing the long-term supply of affordable housing. Rent control disputes are best understood by comparing the disputes of landlords and tenants to a management/labour dispute in which each side is trying to win at the expense of the other. The result is rent review programs which neither side likes.

Landlords complain that most tenants who live in rent-controlled apartments could afford to pay more. There is some truth to this argument, but we have to remember that these same landlords chose to rent the units to these tenants rather than to lower-income people. If landlords really wanted to solve the housing crisis, then they could lease these low-rent units to people who have an income problem. If this is expecting too much, then government might consider incentives to private landlords, such as providing a limited guarantee for non-payment of rent by low-income people. The Rental Rehabilitation Assistance Program has been used as an incentive with limited success because many landlords do not want to make a commitment to keep their rents at the levels required by the program.

In summary, the combination of more people with low incomes and rapidly escalating development costs over the past 10 years, has resulted

in a huge and growing gap between the rents necessary for a new building to be economically viable and the incomes of people on social assistance or earning low wages. These trends have resulted in the need for low-rental housing. It is essential that this money be used wisely. It takes many years to build up a supply of affordable rental housing and non-profit-sector ownership is important in preventing such housing being lost to the inflationary real estate spiral.

Joint Action

The non-profit and for-profit sectors of the housing industry share a wide range of problems and challenges which make co-operation essential:

- the need to educate the public and government about the importance of affordable housing
- finding ways to respond to community and ratepayer concerns
- encouraging municipalities to change rigid zoning by-laws
- finding ways to expedite the development review process
- introducing new housing technology
- holding government and politicians accountable for their housing policies
- finding ways to deal with tenants and landlords who fail to live up to their responsibilities
- planning for a constant supply of housing given the "roller-coaster" conditions of the market.

Canada has one of the most advanced construction industries in the world. We have the means to solve the housing crisis and spending public funds to provide basic shelter is an excellent investment for the future since it will reduce health and social welfare costs.

Finding a Starting Point

How can the two segments of the housing sector work together? In fact they already have much in common. Both have an interest in creating housing and there are many "social entrepreneurs" involved with non-profit housing groups who understand the frustrations experienced by private builders. A consultation process could be developed which would take into account several important factors:

1. We need a framework which encourages both the entrepreneurial skills of the business person and the creativity of architects and planners. The experience of business people can be an asset in dealing with complicated problems such as assuming the risk

of purchasing and carrying land to be used for housing sites; in gaining community support by working closely with non-profit housing groups; in lobbying for municipal zoning changes; and in gaining support for improved designs. Business people understand risk factors and the cost of delays, and they have experience in finding ways to overcome obstacles. Both segments can work together to resolve issues such as finding ways to deal with unreasonable municipal by-laws and in finding ways to house difficult tenants.

We need more willingness to experiment with new ideas through demonstration projects. We have become intellectually lazy and we often ignore the value of ideas such as sweat equity and the importance to residents of creating a sense of ownership. Ideas such as shared housing, community land trusts, resident equity plans, etc. can be explored in small ways to determine if the concepts are feasible.

2. Secondly, we need a framework which recognizes and nurtures the potential relationship between the non-profit sector and the private sector. The non-profit sector should be in the driver's seat, but the relationship must allow for flexibility, innovation and quick responses by the private sector partner. It amazes me that there has been so little consultation on this matter. The approach to date has been ad hoc and based more on patronage relationships than on optimum solutions.
3. Thirdly, the framework must provide for the resolution of potential conflicts of interest in the private sector—in an open way that prevents abuse, but encourages viable working relationships. We should recognize that tensions will exist, but this should not thwart co-operative initiatives such as improving the quality of construction or creating employment on projects for low-income people.

There is also a need to build better relationships with municipal housing officials. The City of Toronto controls considerable staff and information resources which could be valuable to smaller private non-profit groups but which are often inaccessible. For example, the City has a large amount of material on past hearings of the Committee of Adjustment which would be useful in planning new projects, but gaining access to such information has proved very difficult. Also, the municipality should be encouraged to share information such as studies on parking patterns and computer data on properties.

Foundations can play a useful role by encouraging governments at all levels to engage in greater consultation with those who want to make a contribution to housing solutions. We live in a complex society and government is finding it increasingly difficult to deal with critical issues such as housing. At the municipal level, I often see government using its substantial resources to further its own projects and ignoring the needs of other non-profit groups. At the senior levels of government, there is a need to work with non-profit groups with a sense of common purpose.

Examples of Partnerships/Joint Ventures

We are fortunate to have many existing examples of private and non-profit co-operation which can serve as models for future efforts.

One project which has incorporated an innovative approach to development is the Lakeshore Village project being planned for the former Goodyear Tire site in Etobicoke (on Toronto's west fringe), and being developed by the Daniels Group. It will include 40 per cent non-profit housing and will have many amenities for the residents, including day care, recreation and shopping. From the beginning, there has been a close working relationship between the developer and the Co-operative Housing Federation which is acting as the development consultant and actually found the site. The successful relationship which developed was helped by the fact that the developer had previously hired a number of his key people from co-operative housing groups.

In this case, the non-profit group was able to recommend an architect and is negotiating a "turnkey" contract with the developer which takes into account both quality and price. This group is also working on a similar arrangement with Camrost Development for the former McGuiness Distillery site near the lakeshore. These partnerships have been successful in the difficult task of convincing municipalities to rezone land from industrial to residential use and the developers have demonstrated leadership by including low-rental non-profit housing in their plans. The developers do it because it makes good business sense. We need to publicize such examples.

A continuing consultation process between the different segments, encouraged by government, can stimulate more partnerships. There are already several community initiatives, such as the Housing Development Resource Centre which is partly funded by the Ontario Ministry of Housing and has received support from the Laidlaw Foundation and the Maytree Foundation. This resource centre has been effective in

encouraging people in the housing sector in the Toronto area to share experiences and knowledge. Another initiative is the Rupert Hotel Coalition which is focusing on the terrible conditions in many low-rental rooming houses. More resources are also needed to assist non-profit groups with the time-consuming organizational work in the initial stages of new projects.

Foundations can play a role in encouraging government and the private sector to support a clear strategy for dealing with the housing crisis for the most vulnerable people in our society. They could also support research to demonstrate the importance of public support for community-based, non-profit housing groups.

It is evident to me that the for-profit segment of the housing industry has failed to offer community leadership by failing to support viable government initiatives which are directed towards increasing the supply of low-rental housing. This effort is where our first priority should be. Developers should offer leadership, for example, by committing a certain percentage of non-profit housing—in the "25 per cent affordable component" now required under Provincial planning guidelines—to rentals. That is, developers should insist that new communities include affordable rental housing as well as affordable ownership housing.

We also have to be concerned with the impact of the current recession. We are witnessing the virtual disintegration of our construction industry as large numbers of skilled workers are laid off and we are also faced with cutbacks in government spending on housing. To take up the slack, we will soon begin to see large amounts of public funds allocated to job-creation projects and "make-work projects". It is crucial that everyone—business, government at all levels, architects, housing workers, etc.—fight to ensure more funds are used for housing construction which is labour-intensive and is meeting a basic need. I remember trying to obtain funds for a housing project in a previous recession and having to compete against job-funding applications from golf courses and motel swimming pools. We have to ensure that housing is seen as more than just another commodity and point to the important role which housing dollars play in the economy of a community, a role which is continually underestimated.

With the current slump in housing prices, particularly condominiums, there is an opportunity to purchase units in mixed-income projects at prices substantially below the cost of new construction. The private sector can assist in identifying such opportunities.

If we can identify clear strategies, we will attract the interest of committed people, including people from the private sector. There will be a better sense of the problems and the alternative solutions. We can then call for greater public support and point to a clear direction for dealing with the housing crisis. People will be less frustrated by slow pace and conflicting interest and more willing to contribute.

Finally, we can concentrate on finding ways to encourage greater creativity by co-operative efforts that work towards less rigid zoning by-laws and more flexibility in the design of housing programs, trends which seem to be gaining support, as experience in the field demonstrates the benefits of innovation, improved physical designs, intensification, and the need for faster implementation of projects. We have to emphasize that it makes good business sense as well as providing social and economic benefits, to spend public dollars to create all types of affordable housing.