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Current Practices for Procuring Affordable Housing: The Canadian Context

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Abstract

This article describes the current housing system in Canada, focusing particularly on the various mechanisms still available for providing affordable housing. Beginning with an overview of the Canadian housing system, it provides a brief history of Canadian housing policy and program initiatives instrumental in developing the inventory of affordable housing available today.

Current practices and procedures in private lending for affordable housing are highlighted. A discussion of current initiatives available to provide affordable housing follows, with a focus on the role of government, the third sector, and new partnership arrangements implemented to encourage more affordable housing. The conclusion highlights recent changes, the current state of the affordable housing sector, and the impact these changes may have on low- and moderate-income households in Canada.

Keywords: Canada; Housing; Programs

Introduction

For the majority of Canadian households, access to adequate, affordable housing is achieved with little difficulty. Approximately 63 percent of Canadian households are homeowners, and, on average, Canadian homeowners pay only 9.5 percent of their household income for shelter (Canada Mortgage and Housing Corporation [CMHC] 1994b). On average, renters pay considerably more of their income for shelter (approximately 24 percent), but more than 35 percent of renters are still able to purchase an average starter home[1] in the marketplace (CMHC 1996).

But despite rather glowing figures reflecting desirable housing circumstances, in Canada more than 1 million households, or 12 percent of total households (CMHC 1996), still have housing

[1] An average starter home is defined by CMHC as the average price for two- and three-bedroom existing homes that receive mortgage insurance under the National Housing Act.

circumstances falling below acceptable standards.[2] The Canadian housing system has certainly not been able to accommodate all households in adequate and affordable housing.

This article describes the current housing system in Canada, focusing on practices for procuring affordable housing. Specifically, it has the following objectives:

1. To provide an overview of Canada's housing system

2. To provide a brief history of Canadian housing policy and program initiatives instrumental in the development of the inventory of affordable housing available today

3. To detail recent and current practices and procedures in private lending for affordable housing

4. To review current government initiatives to facilitate access to affordable housing

5. To examine the characteristics and role of the third sector in the provision of affordable housing

6. To summarize recent changes and current trends in the provision of affordable housing

Affordable housing in the context of this article is restricted to housing for low- and moderate-income people—approximately the bottom two quintiles of the income range. Thus it refers to modestly priced rental housing or starter-priced dwellings for purchase.

Affordable housing includes, but is not restricted to, "social housing"—housing that receives public subsidies but is owned and operated by the government or by nonprofit and cooperative housing organizations (generally known as the "third sector").

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[2] A dwelling is "adequate" if it requires only regular upkeep and possesses hot and cold running water, an inside toilet, and an installed bath or shower. "Suitable" dwellings are those that meet the national occupancy standards. Specifically, no bedroom should contain more than two persons; children aged five or above of opposite sexes should not share a bedroom; and a separate bedroom should exist for each lone parent or each husband and wife and for each other household member aged 18 or older. Dwellings are "affordable" if households do not have to spend 30 percent or more of their total household income on shelter. Shelter payments include mortgage payments, property taxes, and utilities for owners, and rent and utilities for renters. Households living in units not meeting these standards are considered to be in core need.

The housing system in this article is more broadly defined than just the building and financial system. The housing system also encompasses the regulatory environment operated by various levels of government and a diverse range of actors in addition to builders, lenders, and governments.

Canada's housing system: A brief overview

The housing industry in Canada is a complex network of organizations ranging from builders and renovators to lenders, manufacturers and suppliers of building products, land developers, real estate agencies, architects, engineers, and government agencies (CMHC 1996). Some of these—builders, renovators, developers, nonprofit groups, and governments—play key roles in the housing production process.

The builder plays a major role as an integrator of services within the housing network by purchasing land, arranging financing, hiring construction trade work, and organizing the sale of the finished product. The single-family home building industry is characterized by small firms (often consisting of one or two people building five or fewer homes annually) operating on a local basis. Only a very small number of builders operating in larger urban markets build 100 or more units annually. While most single-family housing is constructed on site, manufactured housing also contributes to Canadian housing production. Manufactured components, panels, and products are used in on-site construction (Canadian Home Builders Association 1991).

The renovation sector is also characterized by small firms, because the low value of most renovation projects and the need to maintain close contact with the consumer necessitates specialization that favors small firms. Many firms consist of only one or two people, and almost 90 percent of renovation firms have annual revenues of $250,000 or less. Larger renovators specialize in high-volume work, such as renovating bathrooms and kitchens, adding rooms, and finishing basements. "Do-it-yourselfers" continue to be an important part of the industry, but they generally do not undertake extensive projects.

Developers of apartments and row-house projects are more diverse. Some assemble land and construct rental projects that they also manage, while others sell completed projects to investors. Some developers build both residential and nonresidential projects. Most are locally based, although a small number operate in several urban centers, often in different provinces.

The land development industry differs from the housing construction sectors. Firms are large, and it is not uncommon for four or five major ones to dominate the market in some urban areas. Very large firms have become necessary because most municipalities require that the developer, through lump-sum charges or lot levies, pay all or part of the cost of installing such improvements as roads, sewers, water lines, sidewalks, and parks. Only large developers can shoulder the extra burden of front-end project financing. Few firms operate on a national basis.

A discussion of Canada's housing delivery system would not be complete without mentioning the third, or nonprofit, sector. This sector is covered in more detail later in this article.

All aspects of residential construction—new home construction, renovation, and delivery of social housing—are conducted within a regulatory environment. Building regulations are generally enforced by municipalities or federal and provincial departments concerned with health, safety, and quality control of building products. Regulations cover many different areas, including (1) fire, health, safety, occupancy, and building code requirements at the unit level and (2) zoning, site requirements, planning policies, servicing standards, and the planning approval process at the community level. Regulations are legitimate tools that ensure the quality of housing and living environments in a community, but they can add to the cost of housing, restrict and discourage innovation, and result in a lengthy and complex approval process (CMHC 1996).

Canadian housing policy and program initiatives and the funding of affordable housing

Most levels of government today have reduced or eliminated direct involvement in stimulating housing production and in the actual development of land or buildings. However, this has not always been the case. In the postwar period, governments saw their role as fixing up market shortcomings and helping those whom the market could not serve. Beginning in the 1950s, and continuing through the 1970s, governments assumed a much more activist role. They deliberately used new housing construction to stimulate the economy and provide housing for groups unable to access adequate affordable accommodation in the private market.

Background on funding

Before 1973, social housing was provided mainly through the Public Housing Program. Most of the financing was provided directly through the federal housing agency, CMHC, with provincial governments contributing 10 to 25 percent of the capital. The loans were secured by 50-year fixed-rate mortgages. The residents paid rent based on income, and the difference between this revenue and the full project operating costs (including mortgage repayment) was covered by an operating subsidy whose cost was shared between the federal and provincial (and sometimes municipal) governments (Van Dyk 1995).

Additional affordable housing was provided through the Limited Dividend Rental Program, which encouraged private investors to develop and operate low- to moderate-rent housing. Rents on these projects were based on break-even costs and a rate of return approved by the government. The developers benefited from high-ratio, direct government loans at interest rates approximately 2 percent below prevailing conventional mortgage rates. Projects were governed by an operating agreement that dictated the targeting of units to households below specified income levels and placed restrictions on rent increases (Van Dyk 1995).

Post-1973 amendments to the National Housing Act (NHA) made significant changes to the way assisted housing was provided. The changes fostered the development of a third sector as the principal vehicle through which to continue developing a permanent stock of affordable housing.

In 1973, the federal government introduced a program specifically for nonprofit and cooperative housing groups. The new program provided direct government long-term mortgages for the full capital cost of a project at an 8 percent interest rate (which was slightly below the market interest rate at the time). In addition, only 90 percent of the mortgage amount had to be repaid. The remaining 10 percent was a capital grant, earned over the life of the mortgage.

An additional innovative financing feature was included in the program. Households with incomes more than 4.5 times the rent paid a surcharge that was used to create a subsidy pool for households with lower incomes. The surcharge was set at an amount that would cover the subsidy provided by the below-market interest rate (8 percent). The subsidy-surcharge concept allowed for limited income mixing.

Through the mid-1970s, rising interest rates rendered the below-market interest rate and capital grant insufficient to allow for the development of affordable housing in many of the major urban areas. Some provinces began to provide additional assistance in the form of ongoing operating subsidies to allow continued activity.

In this era, the federal government also used tax instruments as a vehicle for housing policy. The 1974 federal budget introduced two initiatives:

1. The Registered Home Ownership Savings Plan, a tax-sheltered savings plan to encourage savings for home purchase

2. The Multiple Unit Residential Buildings (MURB) program, a tax provision to permit investors to shelter income by deducting capital cost allowances and front-end development soft costs for rental investment from their income

These initiatives were motivated by a desire to address a rental housing shortage and high unemployment.

The general assessment of the MURB program suggested that it was less effective than claimed. The benefits were quickly eliminated by increases in land prices as the number of projects initiated drove up the demand for land. Housing-related tax expenditures in 1979 were about $5 billion, three times as much as CMHC's direct subsidy programs (Van Dyk 1995).

To further address the largely demographically produced rental shortage, the Assisted Rental Program was announced in 1975. Directed at private landlords, the program provided a monthly grant to generate a return on equity. Later versions of the program in 1976 and 1978 involved repayable but interest-free loans to bridge the gap between market rents and economic rents.

Paralleling these rental initiatives, the 1973 Assisted Home Ownership Program offered a 95 percent loan with a 35-year amortization period at rates as low as 8 percent (while conventional loans were at 11 percent) to first-time home buyers. Additional grants from provinces reduced the maximum payable for mortgage principal, interest, and taxes to 24 percent of income.

In 1978, amendments addressed the heavy demands placed on the federal government by the direct financing approach. The amendments also addressed the exposure of the federal

government to the open-ended subsidy mechanisms that were becoming more costly as interest rates rose. The federal government had been financing social housing with government revenue, general borrowing from major lenders that the government received at a preferred rate (150 to 250 basis points below market interest rates), and the issue of bonds in capital markets. To reduce its capital borrowing requirements, the government moved away from this direct lending approach and financed social housing with mortgages from private lenders, which CMHC then insured for 100 percent of project capital costs.

The insured private lending mechanism reduced the federal government's capital borrowing requirements by $851 million annually in the 1978–81 period, but this advantage was offset to some degree by the interest rates, which were 150 to 250 basis points higher than those associated with direct lending. During the first four years of the program, 1978 to 1981, this use of private lender mortgages was estimated to have imposed a subsidy cost of $38 million to cover the difference between the lower interest rates of direct lending and the higher rates on mortgages from private lenders. The $38 million accounted for 13 percent of the total subsidy expenditures associated with these projects (Van Dyk 1995).

In retrospect, the use of direct private capital was not cost-effective and was subsequently reversed in a return to direct lending in 1992. CMHC raises the financing by issuing bonds in capital markets. When project mortgages come up for renewal, they are converted to direct CMHC mortgages unless a private lender agrees to match the CMHC direct lending rate.

In 1978, to reduce the exposure to open-ended subsidies, the maximum amount of assistance for nonprofit projects was calculated by determining the difference in annual payments between the payment based on mortgage market rates and the payment that would be required if the rate were only 2 percent. However, as a method to control open-ended subsidies, this instrument was a failure. As interest rates increased after 1978, reaching peaks of close to 20 percent in the early to mid-1980s, the assistance costs for social housing projects developed under this mechanism increased drastically. To achieve reduced interest rates, CMHC then required sponsors of social housing projects to tender their mortgages at renewal time—the Competitive Financing Renewal Process—rather than simply accepting a mortgage from a local lender at current market rates.

In 1985, the programs were once again changed—to a return to increased targeting, as fiscal constraints dictated allocating limited funds only to those most in need. The financing was still provided through a private mortgage for 100 percent of the capital costs, but only households in core housing need would qualify.

The previous interest rate differential formula was abandoned. The full difference between the project's total operating costs and the income from the rent was covered by government assistance. This wide-open assistance formula allowed projects to house all low-income households, and projects were very strictly targeted to low-income households.

In 1985, changes also included an innovative financing mechanism to allow cooperatives to develop affordable housing for households not in core need. A program using index-linked mortgages (ILMs) was approved on an experimental basis. Cooperatives could develop projects that were 100 percent financed with an ILM and receive an ongoing operating grant that would cover the difference between the total project operating costs and the market rent.

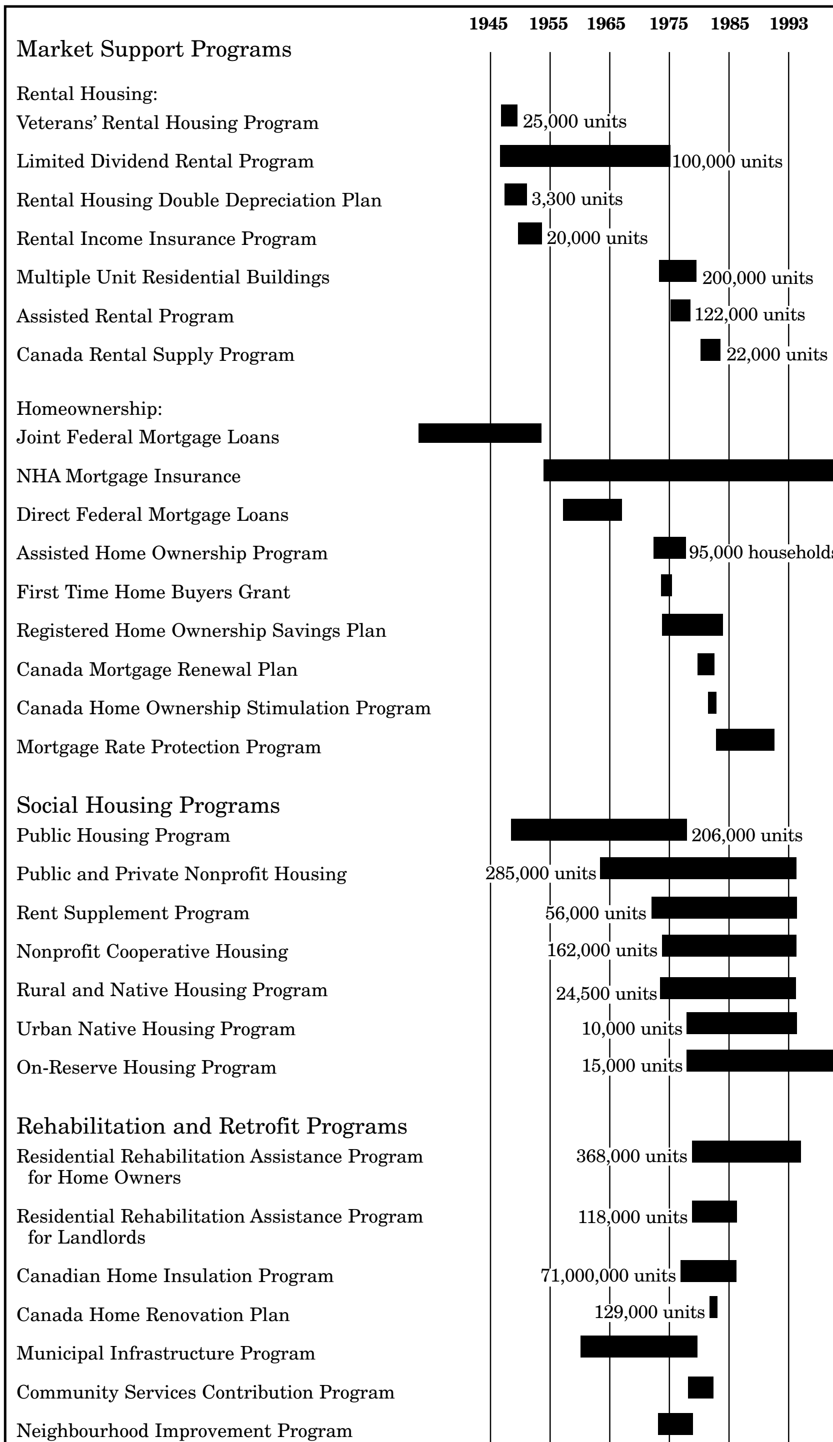
The ILM proposed, and still used, by the cooperative housing sector adjusts payments annually by the inflation rate less 2 percent. This means that the payments drop slightly in real terms each year. This lag in the adjustment to annual payments added protection against the risk that incomes would not keep pace with inflation. The lender is compensated by adjusting the outstanding balance for actual inflation, while also receiving a contracted real rate of interest.

The idea was based on the concept that as rents increased, the net income would also increase, allowing the project to carry higher mortgage payments. ILMs had lower initial payments, which increased as the project could afford to carry higher payments. However, the negative amortization under this instrument increases the default risk for the lender.

Although the preceding discussion highlights the main initiatives undertaken by the federal government, generally in partnership with the provinces and the third sector, there were many other initiatives to support the production of affordable housing. A number of these programs are shown in figure 1. They fall into five areas:

1. *Market support programs* were directed toward supporting either the private rental or private homeownership sectors.

Figure 1. **Evolution of Federal Housing Programs, 1945 to 1993**



Source: Canadian Housing Statistics, various years; CMHC.

Many were formulated with the twin objectives of housing market stimulation and job creation.

2. *Social housing programs* represented efforts by the federal and provincial governments to provide affordable housing to low- and moderate-income Canadians.

3. *Rehabilitation and energy retrofit programs* encouraged rehabilitation or energy retrofitting of the nation's stock of existing housing.

4. *Community/infrastructure development programs* were designed to arrest urban decay and modernize the older parts of Canadian cities.

5. *Housing research and information expenditures* supported the transfer and expansion of knowledge about housing and community issues.

These programs have provided a portfolio of 661,000 units of affordable housing built under NHA and funded by the federal and provincial governments (CMHC 1994b). This number does not include units sponsored unilaterally by provinces. Approximately 30 percent of these units were built under the Public Housing Program in the 1950s and 1960s and are owned and managed directly by the government. Close to 50 percent are nonprofit and cooperative units owned and managed by the third sector but receiving public subsidies. Some of the units are owned by the private sector and rented to low-income households at less than market rates. Landlords receive subsidies under the Rent Supplement Program to cover the difference between market rents and the preferred rent (generally 25 or 30 percent of income) paid by the low-income household. Some properties are private sector units where the landlord provides affordable rents in return for low-interest loans and grants to repair and modernize the units (the Residential Rehabilitation Assistance Program for Landlords).

The portfolio provides housing for low-income seniors, families, and nonelderly single households. The assistance provided is more or less evenly distributed between elderly households on one hand and family and nonelderly single households on the other. A growing proportion of the low-income families in social housing are single parents. In family projects, about 50 percent of the units are occupied by single parents (Chamberland 1993). Approximately 30 percent of social housing units are occupied by residents on social assistance (Canadian Housing and Renewal

Association 1994). Dependence on social assistance rises to almost 50 percent in family-oriented projects (Chamberland 1993). Approximately 7 percent of the social stock is targeted to Aboriginal people, and an increasing number of units are designed for people with special needs. Without funding for new units, this affordable stock will disappear as it ages, leaving fewer units to accommodate those with very low incomes.

Spending restraint (1986 to 1993)

The April 1993 federal budget cut nearly all funding to new affordable housing. Although this announcement was a shock to the housing system, it was really only the culmination of almost nine years of more or less constant spending restraint measures with respect to housing programs. The details of these measures are outlined in table 1.

Savings resulting from the various measures shown in table 1 totaled almost $560 million for the period 1984–85 to 1991–92 and is projected to total a further $1.265 billion for the period 1992–93 to 1997–98. As most federal spending on housing programs since 1986 has been cost-shared under federal-provincial agreements, federal spending restraint has in most cases resulted in reduced provincial spending as well (Carter, Kastes, and Patterson 1994). Notable exceptions (since 1993) include British Columbia, Ontario, and Quebec.

Federal funding to subsidize the ongoing operation of the existing social housing portfolio, however, continued to increase during this time frame as projects previously committed were added to the inventory. From less than $150 million in 1971, funding to subsidize the operation of the social federal-provincial housing portfolio surged to just over $2 billion in 1990.

The government's rationale for program cuts was the need for spending restraint. Assuming an ongoing need for housing assistance, these measures also reflected the priority accorded housing programs relative to other government initiatives and activities by the government of the day.

The declining priority accorded federal spending on housing parallels, and is no doubt connected to, developments on the constitutional front. The Charlottetown Accord, reached between the federal government and the 10 provinces in 1991, proposed that the federal government recognize the exclusive jurisdiction of the provinces in six program areas and withdraw from those

Table 1. **History of Reductions to CMHC's Budget, 1984 to 1993**

Date	Change
November 1984	*Economic statement:* Reduced nonprofit and Rural and Native Housing subsidy units, eliminated nonprofit Residential Rehabilitation Assistance Program (RRAP), and reduced the research budget. The impact over the seven-year period from 1985–86 to 1991–92 was $217.8 million.
February 1986	*Budget:* Reduced rental RRAP and funds for research and communications. The impact over the seven-year period from 1985–86 to 1991–92 was $80.3 million.
April 1989	*Budget:* Eliminated rental RRAP. The impact over the five-year period from 1987–88 to 1991–92 was $146 million.
February 1990	*Budget:* Reduced new commitments by 15 percent across the board and reduced the research budget. The impact over the two-year period from 1990–91 to 1991–92 was $58.4 million.
February 1991	*Budget:* Continued the 15 percent across-the-board reduction in new commitments, reduced the operating budget and research funding, and imposed various efficiency measures. The impact during the one-year period of 1991–92 was $54.8 million.
February 1992	*Budget:* Terminated the Co-op–ILM program; imposed limits on new social housing commitments, limiting new delivery to a $70 million cap in 1992 and $45 million thereafter; reduced by 3 percent the nonsalary personnel reduction; imposed various efficiency measures; and continued the reduction in research and communications. The impact over the five-year period from 1992–93 to 1996–97 was $664.8 million.
December 2, 1992	*Economic and fiscal statement:* Imposed a cap on new social housing commitments, limiting new delivery to $41 million in 1993 and $37.0 million for 1994 onward; imposed a two-year wage freeze; and further reduced the research budget. The impact over the five-year period is included in the April 1993 budget (see below).
April 26, 1993	*Budget:* Eliminated new social housing commitments for 1994 onward, except for on-reserve programs, and again reduced the research budget. The impact over the five-year period, including the 1992 December Economic Statement and 1993 Federal Budget (1993–94 to 1997–98), was $600 million.

Source: CMHC.

areas in a "manner appropriate to each sector and respectful of the provinces' leadership" (Canada 1992, 12). One of the six enumerated fields was housing (Hulchanski 1993).

The Charlottetown Accord was defeated in the Canadian and Quebec referenda held in October 1992. It is widely acknowledged, however, that the proposal to devolve further responsibility in the six jurisdictional areas to the provinces could proceed either through negotiation with the provinces or by unilateral federal withdrawal (Carter, Kastes, and Patterson 1994).

Canada's housing finance system and the provision of affordable housing

Housing is financed almost entirely through mortgage loans and homeowner equity. Canada's system of financing residential construction is part of the larger capital market. There are no special mechanisms to channel funds into the housing market. Housing must be able to compete with other demands for money. Interest rates for housing loans are competitive, and capital is generally readily available (Fallis 1985). This was not always the case in the past, when regulations setting mortgage interest rates and specifying what amounts financial institutions could lend often impeded the free flow of funds into the residential mortgage market.

Brief history of evolution and development in the postwar period

A major emphasis of financial housing policy in Canada in the postwar period has been to facilitate the smooth functioning of the private market through the development of an effective mortgage finance system.

At the end of World War II, the major players in mortgage lending were CMHC and the life insurance companies. Smaller amounts of money were provided by individuals who provided loans on homes they were attempting to sell and corporations that provided housing loans for employees.

Life insurance companies provided 95 percent of mortgage lending (McKellar 1994). Loan-to-value ratios were low, requiring high down payments. Interest rates for lending institutions were fixed at 6 percent for the amortization period of the mortgage—

often 20 years. No insurance was provided to protect lenders from borrower default. Under these circumstances, the supply of mortgage funds was limited.

Following the war, the high housing demand created a significant demand for mortgage funds. The government faced the choice of expanding its own lending or changing the regulations to foster the growth of private supply. The government, lacking the funds to expand its own lending, opted over the next two and a half decades to change the regulations. Major changes included the following:

1. Government mortgage insurance was provided starting in 1954 to protect lenders against default. The insurance was financed by borrower premiums. Removing lender risk from what had been perceived as a risky business and drawing the banks into the mortgage lending industry increased the supply of mortgage funds substantially. To stimulate employment, mortgage insurance was initially applicable only to loans on new homes, but it was later extended to existing units and the rental market.

2. During the 1960s, loan-to-value ratios were raised from 60 to 75 percent. This increase reduced down payment requirements and improved affordability and accessibility.

3. In 1969, the historical interest rate ceiling of 6 percent was removed. This step opened the door for wider involvement by banks, which were leaving the residential mortgage market because higher interest rates could be obtained from other investments in their portfolios.

4. The 25-year fixed term was reduced to 5 years, and then to 3 in 1978. This drop reduced the interest rate risk of borrowers and helped maintain the supply of private funds. It shifted the responsibility for interest rate risk to the borrowers but provided them with a range of term options to reduce their risks.

5. The gross debt service ratio used in screening applicants for loans on owner-occupied housing was gradually increased from 23 percent of gross income in 1945 to 32 percent in the early 1980s.

6. In 1972, lenders were authorized to consider any or all of a spouse's earnings (rather than the 50 percent limit imposed in 1968).

These and other regulatory changes in the three and a half decades following World War II improved the supply of mortgage funds for residential construction, increased consumer access and affordability, and gave consumers more flexibility in borrowing options. Despite these changes, housing affordability in the postwar period faced serious problems because of the rising trend and variability of interest rates in the 1970s and early 1980s. Affordability fell as inflation raised real (inflation-adjusted) interest rates rather than just nominal rates and shortened the term of available mortgages (Poapst 1993).

Governments responded in the 1970s and 1980s with changes in the mortgage financing system, including graduated-payment mortgages (GPMs) and the Mortgage Rate Protection Program (MRPP). GPMs start with low initial monthly payments, which increase gradually as income presumably rises. It is worth noting that the default risk is higher than with equal-payment mortgages, as incomes may not rise as fast as payments. GPMs also increase the risk that future loan balances, which rise because low initial monthly payments did not fully cover the principal and interest, will exceed property values (Poapst 1993).

A better instrument in inflationary times was the price-level-adjusted mortgage (PLAM). The PLAM featured a price index applied to the outstanding loan balance after the initial date of mortgage approval. Instead of adjusting the monthly payment as interest rates increased, the PLAM raised the outstanding balance by a specific index adjusting for inflation. Monthly payments were kept down, but there was no guarantee that house prices in all areas would rise at the rate of inflation. Borrowers could still end up with loan balances that exceeded property values.

The MRPP offered partial protection to borrowers against large increases in interest rates on renewal. But it never achieved any significant consumer interest, and very few policies were sold. The same premium was charged for different protection periods and for different interest rate expectations. It seemed that consumers' expectations about interest rate changes after the program was introduced were not adverse enough to justify purchasing policies (Poapst 1993).

The postwar experience provided a number of lessons. It illustrated that the regulatory framework needed to be less constraining, because ceilings on loan amounts and interest rates and similar restrictions can be disruptive to funds in times of high inflation. The lack of success of programs introduced to

counteract large increases in interest rates also suggested that it was more useful to fight the cause of inflation at a broader economic level than to introduce housing programs to counter its effects. The postwar experience also illustrated that private lenders, in the absence of undue constraints, were capable of vastly increasing the supply of mortgage funds.

Major players in the current system

Today the major mortgage lenders are financial institutions: banks, trust and mortgage loan companies, credit unions and *casses populaires*,[3] life insurance companies, and pension funds. Collectively they are commonly referred to as the lending institutions. Other lenders include government agencies, individuals, and nonfinancial corporations that continue to make loans to further sales or to assist employees with their housing.

Housing requires large amounts of financing. Newly approved residential mortgages on new and existing units in 1994 amounted to almost $67 billion on 803,511 units, down from about $83 billion on 1,053,000 units in 1992. The value of mortgage lending had generally been increasing, expanding by 26.3 percent in 1991 and 21.2 percent in 1992, but fell by 16.4 percent in 1993 and a further 5.1 percent in 1994 (CMHC 1994a). Declining demand for housing and consumer uncertainty about the economy account for recent declines in mortgage lending.

Outstanding mortgage debt for private lending institutions was $333 billion in 1994, up from $125 billion in 1985. The chartered banks held 51.9 percent of this debt, credit unions 13.7 percent, trust companies 13.1 percent, life insurance companies 6.23 percent, and pension funds and other sources approximately 10 percent (CMHC 1994a).

Chartered banks continue to be the leader in mortgage lending, with 60 percent of the market by value, followed by trust companies at 18.2 percent, loan companies at 10.2 percent, and life insurance companies at 6.1 percent. The importance of chartered banks in mortgage lending has been increasing at the expense of other types of lenders. In 1985, chartered banks accounted for 44.9 percent of mortgage lending in dollar terms, trust companies for 33.9 percent, and loan companies for 12.0 percent.

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[3] The equivalent of credit unions in the province of Quebec.

The structure of institutional lending varies among provinces, with credit unions and *casses populaires* being strongest in Quebec, Manitoba, and Saskatchewan, where in 1994 they handled 7.3, 8.4, and 11.8 percent, respectively, of mortgage approvals by value. The Canadian average is 4.9 percent (CMHC 1994a).

Current mortgage systems and practices

In Canada today, a variety of housing types—including new construction and existing buildings—as well as various forms of tenure are eligible to be mortgaged. The lender has the option of using CMHC mortgage insurance or that of a private mortgage insurer (General Electric Mortgage Insurance Company of Canada). Mortgage loan insurance protects lenders against loss in the event of borrower default. This insurance benefits the finance system by enabling lenders to make home buyer loans with lower down payments, thus improving access to ownership. Insurance also enhances the solvency of financial institutions. This protection enables small lenders to compete in a market that would otherwise be dominated by large lenders and helps keep rates and costs competitive. Public mortgage insurance (from CMHC) is offered at the same premium regardless of location, improving access to housing in riskier areas.

Mortgages may be obtained by a homeowner for an existing building or new construction and for both freehold and condominium tenure. The borrower may be an investor, and the units may include existing single detached, semidetached, row, or apartment units of freehold, leasehold, or condominium tenure intended for rental. Second mortgages are also available to assist in a purchase or for renovating or improving an existing unit. Table 2 summarizes mortgage loan programs available to individuals and the industry.

A number of mortgage vehicles are currently used to finance the purchase of a home. The standard vehicle is a level-payment, fixed-rate mortgage, typically with a term of 1 to 5 years, amortized over periods of up to 25 years. Short-term rates have become more popular in recent years, and variable-rate mortgages, where interest rates fluctuate monthly as market rates change, are also available. There is reason to believe that a growing number of home purchases are cash transactions. This trend may be due to increased conservatism toward mortgage financing as a result of high interest rates in the early 1980s. An increased number of affluent “move-up” buyers and older

Table 2. **Mortgage Rules and Regulations**

Type	Amount of Mortgage	Fees	Mortgage Insurance Premiums	Debt Service Qualifications All Mortgages	Prepayments
Regular and Open Fixed-Rate Mortgages (6-month to 5-year terms)		Appraisal Fee Fees vary according to outside appraisal company rates	Not Applicable (NA)	Gross Debt Service (GDS) • The ratio of the total of principal and interest payments, property taxes, and heating costs to a family gross income should not exceed 32%. • Secondary financing must be included. • GDS ratio for a 6-month term should not exceed 27%. • When calculating GDS ratios for condominium purchases, include 50% of the common element fees. $\frac{\text{Monthly Mortgage} + \text{Monthly Property Taxes} + \text{Monthly Heating Costs} \times 100\%}{\text{Family Monthly Gross Income}} = 32\%$ Total Debt Service (TDS) • TDS ratio examines the relationship between *all* monthly debts (mortgage payments, property taxes, car, credit cards, other loans) and monthly gross income. • The formula for calculating the TDS ratio: $\frac{\text{Monthly Mortgage} + \text{Monthly Taxes} + \text{Monthly Heating} + \text{All Other Monthly Debts} \times 100\%}{\text{Family Monthly Gross Income}} = 40\%$ • A rule of thumb is that these monthly payments (mortgage and all other debts) should not exceed 40% of income.	Regular Fixed-Rate Mortgages: • Once every 12 months, clients may, without bonus interest, – pay up to 10% of the original amount of the mortgage – increase regular payments by up to 10%. • At any time, clients can prepay part or all of outstanding balance and renegotiate interest rate, subject to bonus interest equal to: – the greater of 3 months' bonus interest or the rate differential for the remainder of the term between the contract interest rate and the current interest rate offered for a mortgage with a similar term. • Clients can "early renew" up to 12 months prior to maturity of their present contract. • Exception: Mortgages insured under the National Housing Act: – after 3 years of the existing term of a mortgage insured under NHA, the prepayment is subject to 3 months' bonus interest calculated on the principal amount prepaid. Open Fixed-Rate Mortgages: Prepayment at any time, in part or in full, without bonus interest. Variable-Rate Mortgages: Payments are fixed for 1 or 2 years; interest rate changes in conjunction with prime rate. On any given payment date, and as frequently as they wish, clients can prepay or pay in full without bonus interest, provided each prepayment is not less than $500.
Conventional	25% down payment required (10% from client's own resources) • Up to 75% of appraised value				
Low-Down-Payment Insured Mortgages NHA – Insured by Canada Mortgage Housing Corporation – Available in all urban areas – or – High Ratio – Insured by General Electric Capital Mortgage Insurance Company of Canada – Available in major urban areas	Minimum down payment 10% • 90% of first $180,000, 80% of the remainder	Underwriting Fees Basic (excludes appraisal) $75 Full (includes appraisal) $235	Loan-to-Value Ratio Under 65% | 65% – 70% | 70% – 75% | 75% – 80% | 80% – 85% | 85% – 90% NHA 0.50% | 0.75% | 0.75% | 1.25% | 2.00% | 2.50%		
Variable-Rate Mortgages (1-year to 2-year terms only)		Underwriting Fees Basic (excludes appraisal) $75 Full (includes appraisal) $235	High Ratio NA | NA | NA | 1.25% | 2.00% | 2.50%		
Conventional	30% down payment required (10% from client's own resources) • Up to 70% of appraised value	Appraisal Fee Fees vary according to outside appraisal company rates			
Low-Down-Payment Insured Mortgages High Ratio – Available in major urban areas – Insured by General Electric Capital Mortgage Insurance Company of Canada	Minimum down payment 15% • 85% of first $180,000, 80% of the remainder	Underwriting Fees Basic (excludes appraisal) $75 Full (includes appraisal) $235	Loan-to-Value Ratio Under 65% | 65% – 70% | 70% – 75% | 75% – 80% | 80% – 85% | 85% – 90% High Ratio NA | NA | 0.75% | 1.25% | 2.00% | NA		

Source: Adapted from Royal Bank of Canada (1995).

purchasers with equity from previous homes may also be contributing to this trend. More detail on the mortgage financing system is provided in table 2.

Recent mortgage initiatives to improve access to affordable housing

In 1987, CMHC introduced mortgage-backed securities (MBS). These securities are pools of government-insured mortgages sold to investors, who are fully protected against loss and are guaranteed timely payments by the government. MBS affect the housing finance system by making more capital available for mortgages, encouraging mortgages with longer terms, and generating private market capital for construction of affordable housing projects. By the end of 1995, sales had provided just over $25 billion for investment in housing (CMHC 1995c).

The federal government recently lowered the equity barrier through two mortgage provisions. In 1992, CMHC introduced First Home Loan Insurance (FHLI). Under the FHLI program, CMHC will insure mortgages for up to 95 percent of the cost of affordable housing units for first-time home purchasers. This means that the down payment requirement is only 5 percent. Since its inception in 1992, a total of 340,380 units have been insured (CMHC 1995c).

In addition, the minister of finance allowed tax-free withdrawals, up to a maximum of $20,000 per individual, from a Registered Retirement Savings Plan (RRSP) to assist with down payments.[4] However, these funds must be replaced in the future. The RRSP down payment program was started in 1992 as a short-term program that all home purchasers could use. In early 1994, the government made the program permanent but restricted its use to households that had not owned a home in the previous five years. Since its inception, more than 300,000 households have withdrawn in excess of $25 billion of their RRSPs to finance homeownership (CMHC 1995c).

[4] RRSPs are tax-sheltered savings plans that individuals can use to defer taxes until the funds are used. Funds deposited in RRSPs can be deducted from an individual's taxable income, and withdrawals are added to taxable income. When used for a down payment under the Home Buyers Plan, the withdrawn funds are exempted from taxable income as long as they are "repaid" in equal installments over a 15-year period. If the RRSP is not repaid, the amount due must be added to taxable income.

The role of government has been to use its regulatory powers to instill stability and confidence in mortgage lending, to expand the sources of capital for housing finance, and to create a secondary market to maintain the competitiveness of the mortgage markets with other asset classes. These regulatory powers have been used to promote the widespread use of standardized mortgage documents, mortgage insurance, and the creation of securities that would appeal to investors. The result is a mortgage market that is attractive to both large and small operators and in which uniformly high underwriting standards are maintained. This market has been a very significant asset in providing affordable housing in Canada.

A profile of Canada's affordable housing providers

The provision of affordable housing in Canada is no longer so centered on the government as it was during the first three or four decades following World War II. Governments still play a role, but this role, at least for the federal government and for most of the provinces, is that of a facilitator and manager of existing portfolios as opposed to a provider of new units. What affordable housing is provided is generally developed on a partnership basis, with community groups or third sector organizations playing the lead role. The following discussion provides a profile of agencies involved in the development of affordable housing and highlights current activities, program mechanisms, and types of services provided. This overview also provides information on the areas and types of clients served.

Organizations involved

Federal government. The federal government's role in direct provision of affordable housing is relatively modest. The history of federal government withdrawal from the provision of social housing has been documented earlier in this article. Only modest program vehicles remain in place for direct delivery.

In April 1996, the federal government, through CMHC, announced its housing initiatives for the year. The focus of the announcement was as much on job creation as on improving housing conditions and quality of life for disadvantaged households. The initiatives announced, which represent the most up-to-date information on the federal government's role in the provision of affordable housing, are outlined below (Minister Responsible for CMHC 1996).

Home Adaptations for Seniors Independence (HASI) assists low-income seniors who have difficulties with activities of daily living in the home by providing financial assistance for minor home adaptations. Homeowners and landlords may apply. To be eligible, the occupant or occupants of the unit intended for modification must be age 65 or over and have incomes below the core need income threshold.

General adaptations to the home will be permanent additions, replacements, or relocations that allow for easier and safer performance of daily home activities. These adaptations may include handrails in hallways and on stairways, easy-to-reach work and storage areas in the kitchen, lever handles on doors, walk-in showers with grab bars, and bathtub grab bars and seats.

A total of $6 million is allocated to HASI, which provides one-time nonrepayable contributions of up to $2,500. The exact amount of each grant is based on the cost of materials and labor necessary for the required adaptations. Up to 2,400 elderly households in both rural and urban areas will benefit from the assistance.

The Shelter Enhancement Program, introduced in 1995, has been continued until March 31, 1997. CMHC allocated $4.3 million for 1996 to deal with the shelter needs of women and children who are victims of family violence. The funding will cover three aspects of shelter: (1) renovation and upgrading of existing shelters to bring them up to an acceptable standard of health, safety, and security; (2) development of a limited number of additional shelter spaces; and (3) development of second-stage housing.

Funding will be provided only for capital costs for the three program components. Ongoing operating subsidies will have to be provided by provinces, territories, or the groups involved in the operation of the projects. CMHC may contribute up to 100 percent of a project's capital cost to eligible sponsors. Sponsors must be private nonprofit corporations or charities and must have the operation of housing for abused women and their children as a principal objective.

The Remote On-Reserve Housing Initiative provides funding for new housing on remote reserves. Assistance is only available to reserves meeting the definition of "remote": (1) having a population of 2,500 or fewer; (2) being without year-round road, rail, or ferry access; and (3) being located more than 200 kilometers

from the nearest service center. Eligible projects must be modest in nature, and eligible families (as determined by the Aboriginal band) or other members of the band must contribute volunteer labor. Through volunteer labor, band members have the opportunity to develop construction skills.

After construction is complete, the bands will own and operate the projects. The federal government will contribute capital funds only. Bands are responsible for the cost of any ongoing operating expenses.

The federal government has provided $20 million for 1996, which will support the construction of approximately 150 houses. Several bands have agreed to contribute additional funding, so the number of units developed will be somewhat higher.

The Remote Housing Initiative provides funding for the construction of new ownership and rental housing in remote (as defined above) off-reserve communities. Provinces and territories share the costs of this initiative. The federal government provides 75 percent of the required capital to a maximum of $50,000 per unit. In-kind services such as administration, planning, design, and land provided by the provinces or territories will be counted as part of their 25 percent contribution.

Assistance will be targeted to clients in core need. Under the ownership option, clients are expected to provide up to $10,000 in sweat equity (through either their own labor or that of friends or the community at large). Ownership clients will have a 15-year mortgage to cover any remaining cost after the maximum federal contribution of $50,000 and the provincial or territorial share have been applied.

Rental projects will be small in scale, and clients will make payments geared to their incomes. However, monthly rents will not exceed the level of shelter and utility allowances under the Social Assistance Program for the area.

The federal government will contribute only capital funds for construction. Provinces and territories may contribute capital and subsidy. However, in most jurisdictions, clients under the ownership option will be responsible for any and all ongoing costs associated with the remaining mortgage amount or ongoing operation, such as insurance, utilities, and taxes.

The federal government will provide $25 million in 1996 for this program, which is expected to support the production of

approximately 170 units. Contributions by provinces, territories, and individual clients may help raise the total number of units provided on a national basis.

The Residential Rehabilitation Assistance Programs (RRAPs) provide federal funding for renovation, modernization, and home repair under four separate components:

1. *Homeowner RRAP* provides assistance to low-income families to bring their properties up to minimum levels of health and safety. The assistance is in the form of a loan, part of which does not have to be repaid. In southern areas of Canada, the maximum loan amount is $18,000; in northern areas, it is $21,000; and in the far north, it is $27,000. The amount that does not have to be repaid varies from $12,000 in the south to $18,000 in the far north, depending on household income (the lower the income, the higher the amount forgiven) and the cost of required repairs.

2. *RRAP for Disabled Persons* provides assistance to households occupied by persons with disabilities who require special modifications to improve the accessibility of their residences. The maximum loan and forgiveness levels are the same as those for homeowner RRAP.

3. *Rental RRAP* provides assistance to landlords of affordable housing to pay for mandatory repairs to self-contained units occupied by tenants with incomes below the core need income thresholds. Eligibility is limited to projects having and maintaining rents at or below the median market rent for the local area. The assistance is in the form of a fully forgivable loan of up to 100 percent of the cost of mandatory repairs. The maximum forgivable amounts available are the same as those for homeowner RRAP. Rooming houses that provide permanent accommodation with rents affordable to low-income individuals are also eligible.

4. *The Emergency Repair Program* provides assistance to homeowners in rural and remote areas to undertake emergency repairs required for the continued safe occupancy of their homes. A significant portion of program funding is directed to Aboriginal people. The amount of assistance depends on the cost of necessary repairs and does not have to be repaid. The maximum available varies from $4,600 in southern areas of Canada to $8,100 in far northern areas.

The federal government has allocated $50 million for the initiatives under RRAP in 1996, the same level of funding provided in 1995. Many of the provinces provide cost sharing, which increases the amount of money available. The level of provincial funding varies from province to province.

A number of observations can be made about the federal commitment to funding affordable housing:

1. The most important observation relates to the very small level of new dollars committed in 1996. The total commitment to the above initiatives is $105 million. This amount is only a very small percentage of the level of funding existing in the late 1970s. It does, however, reflect the level of new dollars provided since the federal government announced in 1993 that it would no longer provide extensive funding for new social housing.

2. The federal government no longer commits funds to ongoing subsidies. All this funding is for capital costs only. Any ongoing costs are the responsibility of other levels of government, groups, or individuals.

3. The federal government expects much more significant contributions from clients who are the beneficiaries of housing assistance under these programs, through either sweat equity or responsibility for all ongoing costs of operation once clients take possession of the unit.

4. Much of this assistance is targeted to rural and remote areas, where a viable private building sector is less likely to exist and where a high proportion of very low income Aboriginal people live.

5. Finally, the federal government has moved away from a mainstream targeting approach of providing assistance to a wide range of low-income groups, to a very targeted approach focusing on some special-needs groups.

One should not lose sight of the fact that the federal government also provides approximately $2.1 billion a year in subsidies to maintain the operation of the existing portfolio of social housing units. This portfolio consists of approximately 661,000 units, and the total subsidy cost of operating these units amounts to about $4.1 billion a year. These units accommodate approximately 6 percent of Canada's households (Carter, Kastes, and Patterson 1994). However, this portfolio comes nowhere near meeting the

need. As pointed out previously, more than 1 million households, or 12 percent of all households, have housing that falls below acceptable standards; these people are in core need. Approximately 31 percent of the households in need are headed by nonelderly unattached individuals. Another 29 percent are seniors, 22 percent are two-parent families, and 18 percent are single-parent families. Almost 4 in 10 female single-parent families are in need, and these families are most likely to rent (CMHC 1994b).

The unmet need is further highlighted when the number of social housing units is compared with the percentage of the Canadian population living in poverty. In 1994, 1,108,000 families (13.7 percent of all families) and 1,421,000 unattached individuals (37 percent of all individuals) were living below Statistics Canada's poverty line (National Council of Welfare 1996). Total households in poverty exceed 1,800,000. Approximately two-thirds of all poor families and more than 80 percent of all unattached individuals in poverty are renters.

Provincial and territorial governments. Provincial and territorial governments fall into three categories in terms of their affordable housing initiatives. Several provinces focus their housing dollars on sharing the cost of the ongoing subsidies for the existing portfolio. Their share of existing portfolio operating costs ranges from 25 percent in some of the smaller and less wealthy provinces (such as Newfoundland and Saskatchewan) to 50 percent or slightly higher in provinces such as Ontario and British Columbia. Nationally, the provinces provide about 48 percent of the $4.1 billion required to maintain the existing cost-shared portfolio of social housing units.

Other provinces, as well as funding the existing portfolio, provide a limited amount of housing funding through unilateral programs. Manitoba and New Brunswick, for example, have shelter allowance programs. The Manitoba program provides a shelter allowance up to a maximum of $75 a month for families and seniors paying in excess of 30 percent of their income on rent. The New Brunswick program, although targeted only to families, operates in a similar fashion. These are only two examples of a number of small-dollar, small-volume provincial programs across the country.

A few provinces have developed quite a substantial portfolio of social housing units subsidized entirely from provincial resources and have been quite active in the provision of affordable housing. The number of new units is significant only in Ontario

and British Columbia, although Quebec has been very active in the provision of assistance for renovation. Currently only Quebec and British Columbia have active assisted-housing initiatives. To keep the material current and focused on the most significant initiatives, only the programs in British Columbia and Quebec will be discussed.

Homes BC: Building Affordable Housing—Strengthening Communities is a housing program funded by the government of British Columbia. It is delivered by BC Housing, an agency of Municipal Affairs and Housing, through the nonprofit and cooperative housing sectors. The initiative provides nonprofit rental and cooperative units and affordable housing for first-time buyers under four program components (British Columbia Municipal Affairs and Housing 1996b):

1. *Nonprofit Housing* provides operating subsidies to enable nonprofits and cooperatives to build affordable homes for low- to moderate-income renters. Families, individuals with disabilities, and seniors are eligible clients, with priority given to families with children. Sponsors are required to serve households with a range of incomes but must allocate 60 percent of their units to households in core need, while the remaining 40 percent can be for moderate-income households. Low-income residents pay rents that are 30 percent of their income, while moderate-income households pay rents at or near local market rates.

   The provincial government, through BC Housing, will provide construction financing during development and an operating subsidy to enable sponsors to operate their developments on a break-even basis. All sponsors are required to make 5 percent of their units wheelchair accessible and are strongly encouraged to allocate additional units for individuals with special needs. Up to 800 nonprofit units will be provided in fiscal year 1996–97.

2. *Homeless/At Risk Housing* provides operating subsidies to groups working in partnership with community agencies to provide stable, affordable, and well-managed self-contained housing for individuals who require support services to live independently. The emphasis is on individuals who are homeless or at risk of homelessness, and who may need support on site or through outreach community services. Street people (including youth), young single mothers (and their children) who are at risk of abuse or require training in parenting and life skills, and other women (with or

without children) who are at risk of abuse and do not have safe and secure housing are eligible. The program will also provide second-stage housing for up to two years for those requiring support before making the transition to permanent independent housing.

Capital financing is provided through a first mortgage with an approved lending institution for up to 100 percent of the approved project cost. Subsidy payments, provided entirely by the provincial government, will cover the difference between the operating cost of the project and rental revenue, generally based on 30 percent of income. Up to 150 units will be committed during the 1996–97 fiscal year.

3. *New Options for Home Ownership* provides construction financing to enable cooperatives and nonprofit housing groups to develop new forms of limited-equity cooperatives for first-time buyers with moderate incomes. Preference will be given to sponsors who can contribute land or other resources to reduce project costs.

   Priority will be given to developments targeted to moderate-income families. Housing built under the program is intended to be modest and should sell for 15 to 20 percent less than local market prices.

   The assistance under the program includes project development funding to assist with consulting fees, feasibility studies, design, permits, and other start-up costs and construction financing for up to 100 percent of project costs, with interest charged at provincial government rates.

4. *Community Housing Initiatives* provides grants to community housing groups for public education, advocacy, community development, or research projects. The purpose is to build housing awareness and develop housing expertise in the community that will be useful in subsequent project development or other initiatives to address housing issues.

The British Columbia housing initiative is one of only two remaining provincially funded initiatives in Canada. Within the past year, Ontario has basically eliminated any direct funding for nonprofit housing after being very active and providing more than 70,000 units of unilaterally funded housing over the previous decade. The British Columbia initiative, in addition to being more extensive than the federal program in terms of the number of new units provided, also maintains ongoing subsidy

responsibility for low-income households. It also focuses on providing an income mix, while the federal initiative is strictly targeted to the most needy. The British Columbia initiative, like the federal initiative, does depend on contributions from nonprofit and cooperative sponsors. The focus in British Columbia is very much on new supply with no specific attention to renovation, a heavy emphasis in the federal initiative. This is, no doubt, a reflection of the higher levels of demand in British Columbia, which are a function of in-migration and a much more buoyant economy than in other parts of the country.

Since its inception in 1994, Homes BC has supported the development of more than 2,600 units across the province. In fiscal year 1996–97, the initiative will support the development of another 1,160 homes (British Columbia Municipal Affairs and Housing 1996a).

Quebec: Revitalizing Older Neighbourhoods has as its focus the revitalization of older inner-city neighborhoods in the province of Quebec. The initiative has a number of components that can be used by individual owners, landlords, and nonprofit and cooperative sponsors to renovate existing residential buildings, convert vacant nonresidential buildings to residential units, improve the safety standards of buildings, demolish sheds, and build new units on vacant lots (Société d'habitation du Québec 1996).

1. *The Residential Renovation Program* provides grants for the renovation of the most seriously deteriorated dwellings. Subsidies are available for almost all types of rental and owner-occupied residential buildings: single detached homes, rooming houses, condominiums, and co-op and nonprofit projects. The nonresidential part of mixed-use buildings may also be eligible for subsidies.

   To be eligible, a building renovation plan must include correction of at least one major defect to the structure or to the plumbing, fire protection, electrical, or heating systems. The average cost of renovation work must be at least $10,000 per dwelling and $2,500 per room in a rooming house. The grant is determined as a percentage of the cost of the authorized work. The amount ranges from 50 percent of the cost of work for rentals, rooming houses, single-family homes, condominiums, and nonresidential space to 75 percent for nonprofit and co-op units. The maximum grant for any one building is $500,000, except for co-ops and nonprofits, where it is set at $750,000.

2. *Renovation of Boarded-Up Residential Buildings* provides funding for the renovation of boarded-up residential buildings to bring these units back into the affordable category. Depending on location, size of the building, and occupancy (private or public), grants of 50 to 75 percent of eligible costs varying from $14,000 to $38,000 per dwelling unit are available. Maximum grants per building are the same as in the Residential Renovation Program.

3. *Conversion of Boarded-Up Nonresidential Buildings* provides funding to convert vacant nonresidential buildings to affordable housing units. A grant of $12,000 is provided for every unit created in an existing structure and $10,000 for every unit in extra floors that are added. The maximum grant per building is $500,000.

4. *Demolition of Buildings and Reconstruction of New Buildings on Site* provides $12,000 per reconstructed dwelling on the same site up to a maximum of $500,000 per site. New commercial space is also eligible for assistance.

5. *The Safety Improvement Program for Residential Buildings* provides funding to help bring rooming houses and rental buildings with more than eight apartments into compliance with minimum safety standards required by municipal bylaws. Eligible work includes (1) the installation of fire protection equipment such as smoke detectors, sprinklers, and alarms; (2) the upgrading of fire exits; and (3) the installation of security and burglar protection equipment. The average cost of the work must be at least $500 per unit. Fifty percent of the cost of the work to a maximum of $1,500 per unit and $250,000 per building is allowed.

6. *The Shed Demolition Program* funds the demolition of sheds and other outbuildings that represent a fire risk. Eligible work includes demolition of the buildings and repairs to existing buildings to which the demolished buildings were attached. The grant is a lump sum with a maximum of $6,000.

7. *The Program for the Construction of New Dwellings* provides funding for the construction of new dwellings on vacant lots or dwellings added to an existing building through extensions. The maximum grant is $10,000 per unit to a total of $500,000 per building. Dwellings may be either rental or condominium, and the purchase of dwellings under this

program may be eligible for property tax breaks offered by the city of Montreal.

The focus of the Quebec program is clearly one of providing additional affordable housing but as part of a broader neighborhood revitalization initiative. Montreal has already agreed to participate in the program, with the province and the city providing $38 million on a 50/50 cost-sharing basis. Other cities are also expected to participate in the program. It is clear from the structure of the program that considerable private sector investment is also required, and this, combined with government assistance, will mean that an estimated $130 million will be invested in the provision of affordable housing (Société d'habitation du Québec 1996).

Municipal governments. Municipalities, because of their responsibility for many aspects of the regulatory environment (such as zoning, land use regulations, property taxation, land development, and subdivision design), have always played a role in the provision of affordable housing. Many aspects of the regulatory environment have an effect on the price of housing, and changes to this regulatory system can make housing either cheaper or more expensive. However, the majority of municipalities have traditionally left direct involvement in the provision of affordable housing to the senior levels of government.

It is possible to characterize municipal involvement in housing in one of three ways: (1) a passive role, allowing senior levels of government to take the lead in any housing initiatives; (2) a facilitator role, where the municipality takes steps to facilitate and encourage development of affordable housing by senior levels of government; and (3) the role of initiator, where the municipality takes the initiative to develop projects, working with and accessing senior government program funding as well as providing municipal funds (Carter 1990).

With the withdrawal of the federal and most provincial governments from the provision of any significant amounts of affordable housing, many municipalities are facing increasing pressure to become more involved. They have responded in a number of ways. The discussion below provides a number of examples of municipal involvement.

1. *Homelessness:* Many municipalities, including small ones, are now becoming involved in addressing homelessness. The municipality of Fort McMurray, with a population of 35,000, for example, has provided some funding for an eight-unit

shelter. In addition, it was responsible for forging a partnership with government departments, community groups, and the private sector to raise money to fund the entire project. Two private sector oil firms were major contributors (Kraus 1993). Other municipalities, including Toronto, Victoria, Vancouver, Winnipeg, and Regina, have provided grants, ongoing subsidies, space, tax reductions, and administrative assistance to support projects for the homeless.

2. *Intensification:* Almost all municipalities are attempting to make better use of existing serviced land and buildings to produce more affordable housing and are changing regulations to do so. Vancouver and St. John's have changed their regulations to allow secondary suites in existing homes. Vancouver has changed its zoning to allow houses above shops. Quebec City and Kingston have provided subsidies to convert nonresidential buildings to residential units. Several cities have changed their zoning to facilitate infill development on small lots, and St. John and Regina are providing tax exemptions to encourage housing through infill development (City of Regina 1995).

3. *Community improvement, rehabilitation, and preservation:* Several municipalities, including Edmonton and Winnipeg, have provided funding to preserve their existing housing stock. These and other cities have also undertaken a much more proactive and coordinated approach to inspection and enforcement of minimum standards of health and safety. Edmonton has established a Safe House Committee to take a more proactive approach to the inspection of multiple-occupancy housing (Kraus 1993). Stricter code enforcement, however, can be a double-edged sword. Evidence from the United States (Sontag 1996) indicates that stricter code enforcement can result in a reduction in the amount of affordable housing, leading to increased homelessness. Because of code enforcement, single-room-occupancy units in old hotels in cities such as Winnipeg, Vancouver, and Toronto have been lost. This loss has created displacement of low-income households and reduced affordable housing options, according to city officials.

4. *Administration and approval process:* Many municipalities are looking at ways to improve and streamline their administration and approval process so they can "fast-track" applications. Other cities are implementing "one-stop shopping" for residential and renovation permits. Kitchener and Nepean in Ontario have implemented mediation as a means

of reducing the number and cost of appeal hearings (Kraus 1993). Expediting the planning approval process reduces the length of time as well as the cost involved in the development approval process, thereby reducing the cost of housing.

5. *Land and financing for housing:* Many municipalities across the nation have provided loans to nonprofit housing groups to help them secure sites or have donated land or subsidized development costs by leasing or selling sites at below-market rates. Other municipalities, such as Regina and Saskatoon, working with the province, have maintained an adequate supply of land through land-banking programs to ensure that prices remain reasonable (Saskatchewan Municipal Government 1995). Several municipalities, working in cooperation with community groups, are also looking at the potential of land trusts to reduce the cost of housing (CMHC 1995b).

6. *Housing information and referral service:* Several municipalities across the country have helped address housing needs by funding housing registries (Ottawa-Carleton), home-sharing programs (Winnipeg), and general housing information services (Prince Albert). These initiatives help people gain access to affordable housing, provide information on the rental market and landlord and tenant regulations, and offer alternatives such as home sharing. They result in better use of existing stock and help direct people to other community organizations providing needed services, facilitating the link between housing and related services.

These are only a few of the many roles municipalities play in facilitating the development of affordable housing. Many municipalities are now promoting affordable housing as a way of generating jobs as they recognize the important link between housing and economic development. Other cities have moved toward more sustainable development and planning practices that will result in lower costs in the future. Still others play an active role in facilitating the partnerships necessary to bring together government, community groups, and the private sector to facilitate the planning and cost sharing of housing projects. Municipalities are definitely playing a more important role as senior levels of government reduce their involvement and funding levels.

Third sector. The community nonprofit and cooperative housing sectors have become the major coordinators of the production of nonmarket or affordable housing in Canada. This sector, which

includes municipal nonprofits, cooperatives, and community-based groups representing charitable, religious, and special-interest organizations, has grown in importance since changes to NHA in 1973. At that time the Public Housing Program was replaced by Nonprofit Housing. The government, instead of delivering, owning, and managing the social housing stock, decided to place the delivery and management of assisted housing in the hands of the third sector (Van Dyk 1995).

Within this sector are organizations incorporated strictly to develop, deliver, and manage housing projects. This sector also includes other organizations whose initial mandate focused on other community or institutional endeavors. Examples include the Lions and Rotary Clubs, whose community service obligations are much broader than housing, and churches, with their religious focus. Also included in the third sector are special-interest groups, such as the Cape Breton Labourers' Development Company Limited, with its union foundations. It is estimated that 4,000 to 5,000 third sector organizations in the country are involved in some manner in housing (Canadian Housing and Renewal Association 1996a). This number includes close to 100 Aboriginal nonprofit housing corporations managing more than 10,000 units (CMHC 1996).

This sector's importance in the housing system is underscored by the fact that it owns or manages approximately 50 percent of Canada's social housing inventory of 661,000 units built under federal-provincial agreements. In addition, where provinces have provided unilateral units, the third sector has played the role of coordinator, owner, or manager. For example, provincially funded units operated by the third sector in Ontario exceed 70,000.

The strength of this sector lies in its ability to organize volunteers, access private capital to support projects, and link housing with other support services. The third sector provides, in addition to regular nonprofit and cooperative housing, other community housing services, such as group homes, housing registries, transitional housing and shelters for women and children at risk, and emergency shelters. The sector is also key to identifying housing issues and needs in communities and plays an advocacy role with all levels of government for those with housing problems. In addition, many third sector organizations have developed considerable expertise in project design, construction management, property management, and service coordination (British Columbia Municipal Affairs and Housing 1996a).

In the past, most nonprofits depended on government assistance for planning and building projects. With declining levels of funding for affordable housing and no new projects being funded, many nonprofits have lost their development component and have become mainly property management organizations. However, many of the nonprofit organizations have answered this challenge by looking for new partnerships and new sources of funding to provide affordable housing.

To document the many initiatives currently under way or being considered would be a mammoth effort. A few examples illustrate that the nonprofit sector continues to play a role, even if the government assistance they have depended on has virtually come to an end:

1. The Bluestem Housing Cooperative in Winnipeg, Manitoba, is a 100 percent privately financed cooperative that has purchased and renovated a six-suite building. Bluestem financed the purchase and renovation of the property through funding raised from members' equity and a mortgage from a credit union.

2. The Cape Breton Labourers' Development Company has already financed and built 24 homes using a savings fund to which union members donate 25 cents per hour of pay. The company is currently negotiating with the International Labourers' Union Pension Fund for a loan to set up a revolving fund to build additional housing.

3. Abbeyfield Canada is currently developing a seniors' project in Burnaby, British Columbia, with support from the Diocese of New Westminster and the Burnaby Centennial Lions Club, as well as equity contributions from future residents.

4. Habitat for Humanity has developed several hundred units nationally through donations from private sector companies, community groups, and individuals and sweat equity from occupants.

Important partnership arrangements. Over the past few years, several ongoing partnership arrangements have been structured to promote the development of affordable housing. These partnerships have developed because of a recognition that government funding on any significant scale will not be available to provide additional affordable housing in the future. In addition, communities recognize that there are alternative ways to reduce the cost of housing (and provide affordable housing) besides

government funding for new units. Some of these partnerships are outlined below:

1. *Affordability and Choice Today (ACT) Program:* The ACT Program is a partnership initiative between CMHC, the Canadian Homebuilders Association (CHA), the Canadian Housing and Renewal Association (CHRA), and the Federation of Canadian Municipalities (FCM). Recognizing that reform of the regulatory environment for housing can result in lower housing costs, these private, public, and third sector agencies fund projects that incorporate change to the regulatory environment. The program's goal is to demonstrate and promote changes in planning, building, and administrative regulations that will improve the affordability of housing (ACT 1994). Projects ranging from revised building codes for renovation of older apartment units to streamlining of the approval process, the introduction of one-stop application procedures, revised parking standards for condominiums, and revised design and development guidelines for infill housing have been funded and have helped increase the supply of affordable housing.

2. *Home Grown Solutions:* CMHC, again in cooperation with CHA, CHRA, and FCM, is sponsoring Home Grown Solutions. Funding is provided to projects that demonstrate initiative and explore innovations in self-help to address housing-related issues. The initiative provides grants to local groups to explore promising new approaches, such as self-help housing and land trusts. The intention is to showcase the contributions that individuals and community groups, working with government and the private sector, can make to improving the affordability of housing (CHRA 1996b).

3. *Canadian Centre for Public-Private Partnerships:* Although the above are formally structured partnership arrangements, many informal arrangements among government, the private sector, and community groups are being established to facilitate the production of affordable housing. CMHC has established the Canadian Centre for Public-Private Partnerships to foster such arrangements. Among the projects fostered are life leases or equity cooperatives, often targeted at seniors who are asset rich but cash poor and who thus have the potential to sell their current home and purchase a life lease on a more appropriate dwelling unit (Centre for Public-Private Partnerships 1996).

> The availability of CMHC mortgage insurance makes it possible for these types of ventures to raise required funding without a great deal of difficulty, as long as some sponsor equity is available. Upfront project development risk (or start-up) loans are provided by the Centre.

Affordable housing providers represent a diverse group of government departments, municipalities, community groups, and individuals. They struggle in the face of reduced funding for affordable housing, with no decline in demand for their product. With governments playing a reduced role, new leaders, particularly at the municipal level and in the third sector, are stepping forward to take the initiative.

Conclusion

The most significant change over the past few years has been the declining importance of the federal role. Following four decades of active involvement in the provision of affordable housing, the two senior levels of government have ceased to provide any significant number of new units, although they continue to fund the existing portfolio. Although the federal government continues to be active in initiatives to smooth the operation of the marketplace, particularly through regulation of the financial system, funding for new affordable units has virtually ground to a halt. This trend continues in the face of rising deficits and debt and a growing political movement to decentralize responsibility for a number of social areas, including housing, to the provinces. Despite a growing acceptance that housing is a provincial responsibility, most provinces, with a couple of exceptions, have followed the federal lead and cut funding step by step with the federal government. The level of new affordable units provided each year is less than 5 percent of the level provided in the late 1970s or early 1980s. Most governments are also avoiding programs that build in ongoing subsidy responsibilities.

In addition to the lower level of production, other characteristics of the affordable housing sector are becoming more significant. Greater importance is being placed on partnerships among government, the private sector, and community groups to support affordable housing initiatives. Community groups and other third sector organizations are playing a much greater role in initiating projects and forging partnerships. There is also growing recognition by the private sector that it too must play a role and work in partnership with other actors in the marketplace to take up some of the slack left by the government's withdrawal.

All actors in the housing system have turned their attention more closely to changes in the regulatory environment, to reduce unnecessary bureaucracy and change and streamline regulations to lower the cost of development. Much more responsibility is also being placed on individuals to bear a greater share of the cost of affordable housing. This expectation is supported by the recent emphasis on self-help approaches to housing (CMHC 1995a) and raising of rent-to-income ratios in existing social housing units.

There may, however, be one inescapable conclusion in all these changes. Without the deep ongoing subsidy programs provided by the senior levels of government, it may be impossible to accommodate the very low income households that are unable to access adequate affordable housing in the private sector. Many of the new initiatives mentioned in this article accommodate only limited numbers of low-income households. Many focus more on moderate-income families or rely on a mix of income groups to balance operating budgets. This imbalance may result in a growing number of households living in poor housing as well as in poverty. For many, household incomes are not keeping pace with inflation. This discrepancy tends to be true for some of the most rapidly increasing groups in society—single-parent families, elderly women, and Aboriginal households. Without a sustained program of housing support by the senior levels of government, many Canadian households may face deteriorating housing circumstances in the future.

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