The Case for Affordable Housing in Regina

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Introduction

Housing in Regina got much more expensive in 2008. According to the Association of Regina Realtors, average house prices rose to $234,600 last year, up 37 per cent from 2007.[1] At the end of the year Regina was one of the few jurisdictions in Canada where housing prices were not in steep decline. At the same time prices were rising the federal government was putting an end to its experiment in allowing 40-year and no-down payment mortgages, further limiting access to housing for people with low and moderate incomes.[2]

Rental units were also harder to find in Regina. Between 1997 and 2007, there was a net loss of 500 rental units in the city and the vacancy rate stood at 0.5% at the end of 2008.[3] According to a January 15, 2009 CBC news report, many families are sharing small homes in North Central Regina and others are 'couch surfing' from place to place as the availability and quality of rental housing in the area continues to decline. Both the North Central and Regina Core Community Associations have identified speculation on rental housing by local and out-of-province investors as contributing to the problem.

Sales of subsidized housing in Regina slowed to a trickle in 2008. The 29 units in the Maple Leaf Estates project sold in six weeks and only 12 more units were under construction. The HomeFirst Homeownership Program has been fully subscribed and the Saskatchewan Housing Corporation is not accepting new applications for this program.

As a result of the increased housing prices and tight rental market, monthly rent for an average two-bedroom apartment in Regina was $740 in 2008, well up from $661 in the previous year. The Canada Mortgage and Housing Corporation (CMHC) is predicting a further increase to $805 per month in 2009.[4]

The steep rise in housing prices and corresponding decline in affordable rental opportunities raises two main questions:

What can the municipal government do to help meet the housing needs of low to moderate-income people?

What measures can be taken to mitigate the shock of rising housing prices and rents for low to moderate-income people?

This paper explores four issues that must be considered before these questions can be answered, including: the critical importance of adequate and affordable housing, the sustainability of affordable housing in Regina, the choice between purchase or rental for low to moderate income people, and the feasibility and cost-effectiveness of various measures which have been proposed to increase the supply of affordable housing.

The Role of Government

There have been two approaches to providing sustainable, affordable housing in Canada and other developed countries. First came the social democratic approach, which recognized the need for housing for all, and a role for government in providing decent housing for low-income people. With the rise of neo-liberalism in the early 1980s, housing policy began to shift to the alternate model of depending on the market with minimal government involvement. Since that shift in approach, many governments have given only lip service to the UN Declaration of Human Rights that states that adequate housing is a basic human right.

Canadian governments had a significant role in providing housing from World War II until 1993 when the federal government stopped funding social housing. The NDP government in Saskatchewan did not oppose this development and supported the devolution of housing to a provincial responsibility.

In 1992 the Romanow government eliminated rent controls. This opened the door for Boardwalk Corporation to move into the province, buying 25-30 per cent of Regina privately-owned rental housing as well as the Gladmer Park social housing project. Boardwalk made cosmetic improvements, and then raised rents significantly, greatly reducing the city's supply of affordable rental housing.

In addition to virtually ending the construction of social housing in Saskatchewan, the provincial government decreed that social assistance recipients should rely on private housing. When rents rose well beyond what was affordable to recipients, the Calvert government adopted a policy of using taxpayers' money to subsidize private landlords. While there is a need to encourage the private sector to increase the supply of rental units, no level of government should leave the task of providing affordable housing only to the private sector.

Housing Affordability in Regina

According to the fourth Annual Demorgraphia International Housing Affordability Survey (2008), Regina ranked 5th among large cities in Canada in 2007 compared to first in 2006. Affordability data for western Canadian cities are shown in Table 1. (The data was abstracted at the end of the 3rd quarter of 2007 and at the end of the 3rd quarter 2006 respectively.)

The table indicates that Regina had the lowest price/income ratio during 2006-2007 among the selected cities. However, the ratio for Toronto, Winnipeg and Calgary increased only 9.09 per cent, while the ratio for Regina increased 20 per cent.

Table 1: Price/Income Ratio Comparison of Selected Cities

	2007	2006	2007	2006	2007	2006
Toronto	318500	295900	66300	66900	4.8	4.4
Winnipeg	148500	130100	55600	52300	4.8	4.4
Regina	154300	115000	63200	57500	2.4	2.0
Saskatoon	212900	138000	60900	52100	3.5	2.6
Calgary	366800	319000	77000	73300	4.8	4.4
Edmonton	300100	233800	70400	66500	4.3	3.5

(Source: 4th Annual Demorgraphia International Housing Survey: 2008 & 2007 available at: *www. demorgraphia.com*)

The price-income ratio is just one of several housing affordability indicators that can be examined. Table 2 is additional affordability data from Statistics Canada.

These measures indicate that Regina is doing relatively well overall, but Winnipeg and Saskatoon get more government transfers; and rent for families with children is more affordable in Winnipeg and Edmonton.

Average mortgage payments for low and moderate-income families in Regina and Winnipeg are listed in Table 3.

The table indicates that low to moderate income families in Winnipeg have lower mortgage payments than those in Regina with the exception of those earning less than $10,000 a year. The difference is especially significant in the income groups between $10,000 and $29,999.

Table 3: Median Owner Major Monthly Mortgage Payments (2006)

	Mortgage Payments	
	Regina	Winnipeg
Under 10,000	544	567
10,000 – 19,999	472	422
20,000 – 29,999	496	458
30,000 – 39,999	608	568
40,000 – 49,999	679	651
Average	560	533

(Source: Statistics Canada, 2006 Census: Data Products)

Table 4 illustrates the decline in vacancy rates resulting from economic and population growth in Regina and Saskatoon in 2007-08. Federal and provincial government housing programs have focused on assisting low income families (not individuals) with the purchase of housing in recent years and little attention has been given to increasing the supply of affordable rental units.

Table 2: Housing Welfare Comparison in 2006

Place	Own/Rent Cost Ratio	Rooms Per Capita	Income/Price Ratio	Government Transfers as % of Total Income	Income of Families with Kids/Rent
Toronto	1.19	2.20	0.14	9.20	6.79
Winnipeg	1.86	2.50	0.39	11.30	11.36
Regina	2.16	2.75	0.46	9.90	9.45
Saskatoon	1.77	2.75	0.38	10.20	9.70
Calgary	1.43	2.68	0.21	5.50	9.77
Edmonton	1.70	2.63	0.27	8.80	10.36

(Source: Statistics Canada, 2006 Community Profiles)

Table 4: Vacancy Rates in Privately Initiated Rental Apartments (%)

	April 2007			April 2008		
	Bachelor	2-Bedroom	3-Bedroom	Bachelor	2-Bedroom	3-Bedroom
Toronto	4.0	4.1	4.3	2.5	2.8	2.8
Winnipeg	1.3	1.3	1.0	2.3	0.9	0.7
Regina	3.2	2.8	0.6	1.6	1.3	0.9
Saskatoon	5.8	2.8	4.2	0.6	0l.9	1.0
Calgary	0.1	0.6	0.1	2.6	2.2	NA
Edmonton	3.6	0.6	0.3	3.1	3.1	8.3
Average	3.0	2.0	1.8	2.1	1.9	2.7

Source: Statistics Canada, Rental Market Statistics, spring 2008

Sustainability of Housing Affordability

Sustainability of housing affordability depends on income increases keeping pace with increases in mortgage or rent payments. It can be determined by comparing disposable income with personal debt as illustrated in Table 5.

Table 5: Debt and Income Growth Comparison Among Provinces in 2006

Place	Increase in Per Capita Disposable Income (%) over 2005	Increase in Per Capita Personal Debt (%) over 2005
Canada	3.0	1.1
SK	1.6	6.6
MB	3.1	3.2
BC	4.3	1.6
AB	4.7	3.9
ON	1.9	1.0

(Source: Chartered Accountants of Saskatchewan, Saskatchewan Check-up 2007)

The table indicates that the 2006 rate of increase in per capita debt in Saskatchewan is much higher than the rate of increase in per capita disposable income and in fact was by are the worst when compared to other western provinces.

Inadequate Government Funding

Table 6 demonstrates Saskatchewan Housing Corporation (SHC) grants and subsidies for affordable housing did not keep pace, on average, with the provincial government agency's increased revenues during the 2004-2007 period.

Increases in shelter rates for Saskatchewan individuals and families receiving social assistance have failed to keep up with rent increases since 1997. A number of years of zero social assistance increases have inevitably led to double digit shelter rate increases in the last two years (see Table 7).

Table 6: Saskatchewan Affordable Housing Expenditures and Revenues Comparison (in thousands)

	2007		2006		2005		2004		Average	
Items	Amount	% of Increase	Amount	% of Increase	Amount	% of Increase	Amount	% of Increase	Amount	% of Increase
Gain on Disposal of Properties	5816	67%	3481	85%	1852	84%	1007	N/A	3039	80%
Rents + Other Income	84257	4%	80938	2%	79469	2%	77862	N/A	80632	3%
Land Sales	11322	82%	6211	18%	5258	24%	4236	N/A	6757	42%
Grants + Subsidies for Affordable Housing	15855	78%	8922	29%	6911	2%	6803	N/A	9623	30%

Source: Saskatchewan Housing Annual Reports (2004-2007)

Table 7: Comparison Between Median Rent Increase and Maximum Shelter Rate Increase (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Avg.
Rent	3	4.5	5	-1	6	1.5	1.5	3	2.8	2.8	6	12.3	4.0
Shelter	0	0	0	0	0	0	0	0	3.7	0	14.4	15.8	2.8

Source: CMHC, Rental Market Report (Regina CMA, 2007); Saskatchewan Media Backgrounder, Government Responds to Task Force on Housing Affordability, June 23, 2008

According to the 2001 agreement with the Federal Government, provinces and territories have the primary responsibility for design and delivery of housing programs and are required to match federal contributions.[5] The three programs designed to increase the supply of affordable housing in Saskatchewan are SHC's HomeFirst Rental Development Program, HomeFirst Homeownership Program, and HomeFirst Secondary Suites Program.

In many larger cities in Canada, local governments are directly involved in providing affordable housing in cooperation with the provincial and federal governments. Municipal governments have the ability to foster the development of affordable housing through their planning and zoning functions.

Condo Conversion Policy

One of the most obvious symptoms of the housing crisis is soaring rents and developers' zeal to convert apartments to condos. Before approving the conversion of apartments to condominiums, the local government should consider criteria such as those applied by the Toronto Shelter Support and Housing Administration:

- Whether the city's rental apartment vacancy rate is 2.5 per cent or more.
- Whether there is a net gain in the supply of rental housing.
- Whether the application to demolish or convert the rental housing has a negative effect on the supply or availability of rental housing, or on sub sectors of rental housing, such as affordable housing, housing for families, seniors, persons with special needs or students, either in the city or certain areas of the city[6]

If these criteria were applied in Regina with its .5 per cent vacancy rate, little or no conversion of apartments to condos would be approved.

Findings

- Regina housing became much less affordable in 2007 and 2008.
- Vacancy rates in Regina are extremely low.
- Increases in per capita debt in Saskatchewan are much higher than rate of increase in per capita disposable income.
- Grants and subsidies for affordable housing have failed to keep pace with the costs of rent and home purchases.
- Condo conversions exacerbate the affordable housing issue.

Policy Options

The Choice Between Designated and Non-Designated Zoning

Designated zoning provides several benefits including:

- Helps to foster a mixed, diverse, and integrated community.
- Allows for concentrated, mixed use, and transit-oriented development.
- Creates more education and job opportunities.
- Contributes to well located, affordable housing

Opponents of designated zoning point out that prices rise when supply is scarce and scarcity can result from government policies. Zoning rules such as minimum lot sizes, growth boundaries and greenbelts can artificially constrain the supply of developable land and available lots. They also draw attention to compliance costs associated with zoning and other housing regulations.

Australia's recent experience illustrates the pitfalls of this type of universal, mandatory zoning schemes that have been proposed by some. In 2005 Australia implemented a policy requiring 10 per cent of homes to go to those on low income, and 5 per cent to those with special needs. However, the South Australian Labor Government soon backtracked from the mandatory approach.[7] It sensibly switched to voluntary schemes, except where the government provides incentives such as discounted land.

The mandatory approach amounts to a narrowly focused tax that aims to serve a broad social function. The real estate industry has become a target because people view the lack of affordable housing as a real estate problem. However, experience in other jurisdictions suggests it is more of an income distribution and regulatory problem.

Former New Zealand Reserve Bank Governor, Donald Brash, recently stated: the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land. Econometric studies from the United States, a great policy laboratory with so many housing markets applying different policies, find that the impact of zoning, building regulations and permit delay are responsible for anywhere from 15 per cent to 90 per cent of house price increases.[8]

The Choice Between a Tight and Loose Mortgages

In his first budget federal Finance Minister, Jim Flaherty, allowed U.S companies into Canada's mortgage insurance market and doubled the amount of government money available to back up private insurers to $200 billion. With the entrance of new private mortgage insurers Canada saw a dramatic weakening in the standards for mortgage insurance. This enabled Canadians to purchase homes they otherwise couldn't have financed, and in many cases shouldn't have bought. It also kept house prices rising. An analysis in the Toronto Star pointed out: "A 40-year mortgage (on a $350,000 home) will save you $73 a week on payments but cost $254,000 more in interest than if you had opted for 25 years. It's a tradeoff that works way better for the bank than your personal finances."[9]

In cities throughout the United States the housing market crisis is worsening by the day as struggling families lose or abandon their homes because they are unable to keep up mortgage payments. More than 2 million Americans lost their homes to foreclosures in 2007 and the figure for 2008 will be much higher.[10]

The federal government must be cautious about encouraging American companies to promote financial innovation in Canada. Mortgages should not be based on complicated and high-risk financial products such as the exotic derivative bundles that Wall Street promoted in recent years. Warren Buffett famously called derivatives "financial weapons of mass destruction."[11]

The Choice Between Rental and Purchase Supports

According to a recent study in Winnipeg,[12] owning a home has economic benefits for households, including financial security and asset accumulation, but policies that exclusively support home ownership adversely affect renters. In particular, continuing support for owner occupation progressively marginalizes people in other tenure groups. For many people, houses renovated under recent programs are prohibitively expensive. Carrying costs such as mortgage payments, insurance, repairs and maintenance expenses exclude those with low incomes. This underlines the need for a diversity of tenure and a variety of subsidies to address the housing need. Inclusion must be enhanced through provision for other tenures such as co-operatives.

The Choice Between Cash Subsidies and Rent Control

With rents rising in tandem with increasing house prices some suggest the adoption of rent controls to rein in escalating rates. The drawback to rent controls is that price is controlled, but not supply and demand, resulting in a disincentive for developers considering the construction of rental housing. In addition, landlords may allow their rental units to fall into despair if they cannot recoup the cost of maintaining or upgrading their properties. Landlords faced with controlled rents may also be forced to convert apartments to condominiums. Rent control is a blunt policy instrument that should be used sparingly.

Others have suggested cash subsidies to renters as an alternative to rent controls in rising housing markets. This is unlikely to be adopted by governments, for other than social assistance recipients, because governments are unwilling to make open-ended commitments of public money that are subject to fluctuations in real estate markets. Therefore, while this policy can provide relief to many low income people in renting an affordable house or apartment, it may not be the one that is sustainable or the one executed with equity.

The Choice Between Distribution and Production

The most significant problem with token solutions is that they convey the impression that something is being done while diverting attention away from the housing affordability crisis and crowding out the strategies that are necessary for material progress. While attention is focused on distribution of the housing pie, the fundamental supply problems remain unsolved. A better approach is to enlarge the pie to be shared. Production of affordable housing needs to be encouraged with measures such as allowing houses to be built on lower-cost urban fringe land and establishing socially equitable and economically efficient financing infrastructure.

Policy Alternatives

A balance of equity and efficiency can be achieved in housing policies to support low to moderate-income people. Governments should strive to achieve affordable housing for all. The following policy alternatives can contribute to the achievement of this goal:

- More municipal release of surplus land and buildings
- More construction of rental housing for targeted groups by both private companies and non-profit organizations
- Imposition of a levy on every foot of development to replace affordable housing lost through redevelopment
- Establishment of a retention tax based on the purchase value for rental units vacant for more than half a year to increase costs for speculators
- Stricter limits on conversion of apartments to condos
- Reversing the loosening of mortgage regulations
- Promotion of voluntary zoning and provision of compensation such as density bonuses to both reduce the legal risk of mandatory programs and increase the productiveness of voluntary ones
- Incentives for developers and co-operatives to make more units available for low-income families or individuals at affordable rates
- Regular adjustment of rental subsidies to account for increases in the cost of living and rental rates

With housing becoming less affordable it's time for the municipal and provincial governments to step up to the plate and implement a new housing program.

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