The Ontario Alternative Budget 2002

Profiting from a manufactured housing crisis

Technical Paper #5

by Michael Shapcott

Canadian Centre for
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Technical Paper #12 of the Ontario Alternative Budget Working Group (OAB) and the Canadian Centre for Policy Alternatives (CCPA), released in May 2001, reported on the "made-in Ontario housing crisis." It included the latest numbers on the provincial housing crisis and looked at 10 urban centres, along with a number of smaller communities. One year later, this technical paper updates the figures and examines how the Harris-Eves government has set in place programs and policies that allow corporate interests, including privately-held real estate investment trusts (REITs), to profit from the very housing crisis that the government helped to create.

The 4.8 million women, men and children living in rental housing in Ontario remain mired in the province's worst housing crisis in more than a decade. The province's rental vacancy rate is stuck at a dangerously low 1.7%, rents are increasing at more than double the rate of inflation and homeless shelters are overwhelmed. The Ontario government's "fast-track" eviction process has forced more than 200,000 households out of their homes since the so-called *Tenant Protection Act* came into effect in June of 1998.

But the bad news for millions of renter households is a virtual goldmine for investors and their financial advisors, including a former assistant deputy provincial housing minister. The province's over-heated rental market is showering them with big returns even as tenants struggle to make their monthly rent. Property developers are taking advantage of policy and program changes by the Harris-Eves provincial government since 1995. They are buying up rental buildings with moderate rents, then using weakened tenant protection laws to drive up the rents and bank the profits, a big chunk of them tax-free.

Dino Chiesa was an assistant deputy housing minister during the years that the provincial government was slashing housing supply programs and gutting rent regulation and tenant protection laws. He left the provincial ministry three years ago to move into private sector property development. As Chief Executive Officer of Residential Equities Real Estate Investment Trust (ResREIT) for more than two years, he is helping investors take maximum financial advantage of those changes.

"ResREIT is one of Canada's largest residential real estate investment trusts offering investors significant returns through stable, tax-efficient income monthly distributions and the inherent growth potential of Canada's urban apartment market," according to a May 22, 2002, media release from the trust.

ResREIT, according to information posted on its public Web site, buys existing buildings with moderate rents, then uses the new provincial laws to drive up rents. "We don't just want to buy buildings because it's part of our business plan," says Chiesa in the 2001 ResREIT annual report. "They have to be the right properties – apartments that are below market rents and fit within our strategy of 100 units or more, high-rises in a prime location. The leveraged return has to be at least 10%, with an allowance for future growth."

Two of the "right properties" listed on their Web site include:

- 100 Wellesley Street East in Toronto, a 424-unit apartment building that ResREIT bought in 1999. Before ResREIT, the average rent was $839. Two years later, rents had jumped 22% to $1,021. The province's official rent review guideline was 2.6% in 2000 and 2.9% in 2001. ResREIT raised the rents four times higher than the guideline amount.

- 2515 Bathurst Street in Toronto, a 115-unit apartment building bought in 1998, when the rents were an average of $660. Ontario's official rent review guideline was 3% in 1999, 2.6% in 2000 and 2.9% in 2001. ResREIT pushed up the rents 37% over three years to $902, well over four times the official rent review guideline.

In addition to the whopping increases that ResREIT tenants are already paying, they face more than $8 million in future increases as the trust uses complicated new rules under the *Tenant Protection Act* to win approval for additional rent hikes from the government-appointed rental housing tribunal. And the corporation says on its Web site that it wants even more rent hikes to cover what it calls "the extraordinarily high cost of gas". Once ResREIT gets those increases, the provincial rent laws practically guarantee that the tenants will pay the higher gas costs forever, even if gas prices drop in the future.

As of December, 2001, ResREIT had 9,643 units in 43 buildings, most of them in Toronto, Mississauga, Burlington and St. Catharines. Other REITs are buying properties in Ottawa, London, Brampton and Kitchener-Waterloo. It's no surprise that speculators are active in the tightest rental markets, but by driving already expensive rents even higher, they are helping to make a bad situation even worse.

Rent increases piled on top of rent increases, followed by even more rent increases – this is the money-making formula for REITs. Chiesa's ResREIT and others are taking advantage of provisions in the *Tenant Protection Act* developed at the same time that he was in the upper reaches of the Ministry of Municipal Affairs and Housing. Buying affordable units and driving up the rents is further eroding the already limited affordable rental stock in Ontario. Not only do REITs make big returns, but many of the cash distributions are tax-deferred, which delivers another bonus to wealthy investors.

Even though he has left the Ontario housing ministry, Chiesa maintains his contacts with governments. In addition to membership on industry lobby groups, Chiesa is on the board of the Canada Mortgage and Housing Corporation (the federal government's housing agency) and the Housing Committee of the City of Toronto. He is on Toronto's Waterfront Development Agency. Chiesa was appointed by former Ontario Premier Mike Harris to sit on a provincial "smart growth" task force in 2001 to look at property development issues in the greater Toronto area. "We continually work with all levels of government to make sure that the voice of the residential landowner is heard," says Chiesa, in a comment posted on the ResREIT Web site.

Another leading REIT, Canadian Apartment Properties Real Estate Investment Trust (CAP REIT), answers investors' questions on their corporate Web site:

> "Q: How have rents and vacancies performed over the past ten years?
>
> "A: Over the past ten years, rental rates for apartment suites have increased steadily with consistently low vacancy rates, resulting in a highly stable and growing income stream. Average rents for a downtown Toronto one-bedroom apartment have risen over 45% since 1989, while va-

cancies in Toronto have remained below 2%. For the past three years, vacancies have been under 1% throughout the entire Greater Toronto Area."

"Q: What is driving demand for apartments?

"A: Population growth in CAP REIT's key Toronto market of 26% has significantly outpaced Canadian population growth of 14%. This increase in population drives demand for rental accommodation, and combined with minimal new private or public sector supply has resulted in occupancy rates in CAP REIT's portfolio around 99%."

CAP REIT credits the legislative changes in Ontario with improving their cash flow:

"Q: Will changes to the Tenant Protection Act in Ontario benefit CAP REIT?

"A: The Ontario provincial government has recently amended the Ontario Landlord and Tenant Legislation to allow landlords to increase the maximum allowable rent increase based on market conditions. As more than two-thirds of CAP REIT's portfolio is located in Ontario, the ability to increase rents to reflect market values will enhance cash flow as the new rents take effect."

The motto of CAP REIT is "apartments make money", something they remind investors time and again in promotional materials.

The only dark cloud on the horizon is the fear that tight rental markets will ease if new affordable rental supply is created. Boardwalk Equities is one of the biggest landlords in Canada. In a note to investors on the Boardwalk Web site, two senior vice-presidents are optimistic:

"The biggest risk would be that of oversupply of new rental construction in our marketplaces. Unlike the U.S. market, however, Canada has had a very limited new supply of rental product over the past decade - actually, since the early 1980s. A significant advantage is having a portfolio that was accumulated at a fraction of replacement cost - which was by design. We are well positioned in our major markets with good demand growth and high barriers to new supply. For example, in our market areas, existing rental levels continue to be well below replacement cost rents needed to justify new construction. And, in fact, the rental stock in our two major markets has actually declined over the past 10 years due to condo conversions. Also, we do not believe that any potential future government-initiated programs aimed at spurring new rental construction will have a material impact on our market areas."

40% of Ontarians rent

Rental housing provides a home for fully 40% of all the residents of Ontario. The province has about 1.8 million renter households (including about 4.8 million women, men and children) and 2.1 million owner households. Canada Mortgage and Housing Corporation (CMHC), the federal government's housing agency, defines "conventional" rental housing as "privately initiated apartment buildings with three units and over." CMHC calculates that there are 612,417 units in the conventional market.

Social housing (or "assisted" rental) housing includes public, co-op and non-profit housing. There are about 264,000 social housing units in Ontario. The administration of most of those units was downloaded to municipalities over the past year. About 22,000 co-op units in Ontario are under federal administration, and there are 2,000 units in independent student co-ops.

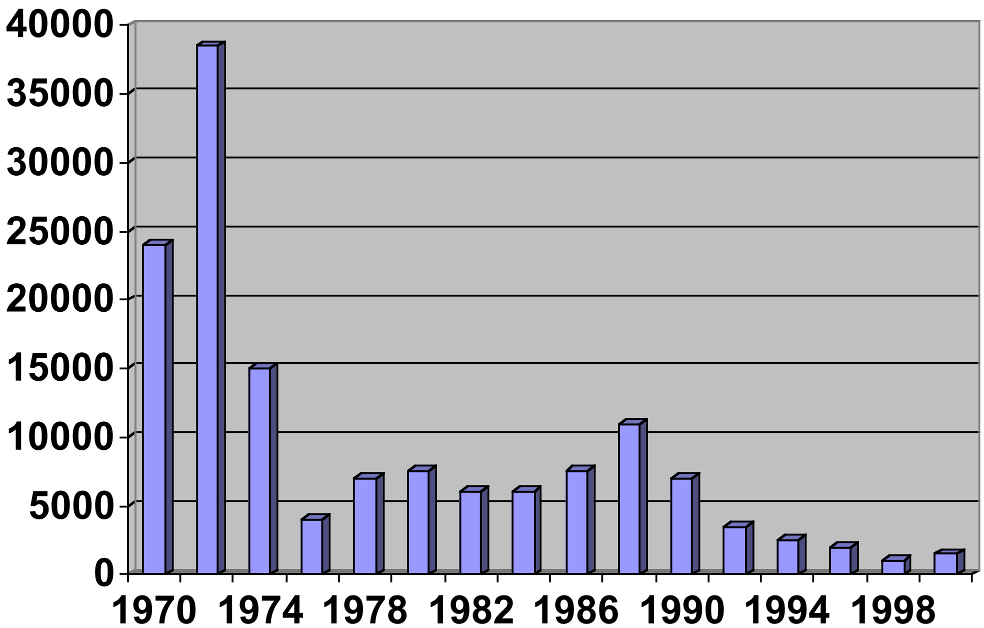
Adding conventional (612,420) to social units (264,000) amounts to about half of the 1.7 million renter households in Ontario. The other half live in "non-conventional" rental housing, or "secondary" housing. The secondary market includes tenant-occupied single, semi and row dwellings, rented condominium units, accessory apartments (self-contained basements and flats) and apartments over stores.

Renter population growing

The renter population, in overall terms and as a percentage of the entire population, is growing. In 1986, about 1.1 million households (34%) were renters out of a provincial population of 3.2 million households. By 1999, the number of tenant households had grown to 1.8 million (40%) out of a provincial population of 4.5 million.

The latest population projection from the Ontario Ministry of Finance (July 2000) estimates that the province's population will grow significantly from 1999 to 2028. The "reference" – or mid-range – scenario is 3.8 million more people. Using this reference, Ontario's population will grow by an average of 125,000 people annually. Based on average household sizes, the province will need 18,400 new rental units annually to keep pace with the growing need – or a total of 368,000 units for the 20-year-period to 2019.

Private rental starts – 1970 to 1990



Source: Ontario Ministry of Municipal Affairs and Housing, 2001

Without that new housing, the rental market will continue to remain in crisis, a situation that property speculators and landlords know is good for their bottom line.

Little new private rental housing

Private investment in new rental housing dropped dramatically in 1972. Private sector lobbyists blame provincial rent regulation for killing new construction, but Ontario's first rent regulation laws were not introduced until 1975. Rent regulation did not apply to new construction until more than a decade later.

New construction of rental housing has been less than 2,000 units annually for the province in recent years. Compare this to the average of 15,000 new units annually for 1988 to 1992. But even that tiny amount of new construction has been outpaced by demolition and conversion of existing stock. There was a net loss of 631 conventional rental units in Ontario from 1999 to 2000. Some communities that experienced a net loss in 2001 include: Hamilton – 503 units; Ottawa – 643 units; and, St. Catharines-Niagara – 73 units (in addition to 122 units lost in 2000).

The prospects of new private development remain low due to the heavy financial realities of rental construction. There is little room for the private sector to build new rental housing except at the highest end of the rental scale, a point conceded by the Ontario Ministry of Municipal Affairs and Housing's Housing Supply Working Group, which noted in May, 2001:

> "The economics of the rental market are such that, regardless of the business climate, developers will tend to build at the high end of the market, where economic viability is greatest. Improvement in business climate conditions will encourage an increase in new rental development but will not increase the relative attractiveness of building low end rental market housing: even in the most favourable business climate, it will generally be more profitable to build for the high end of the market."

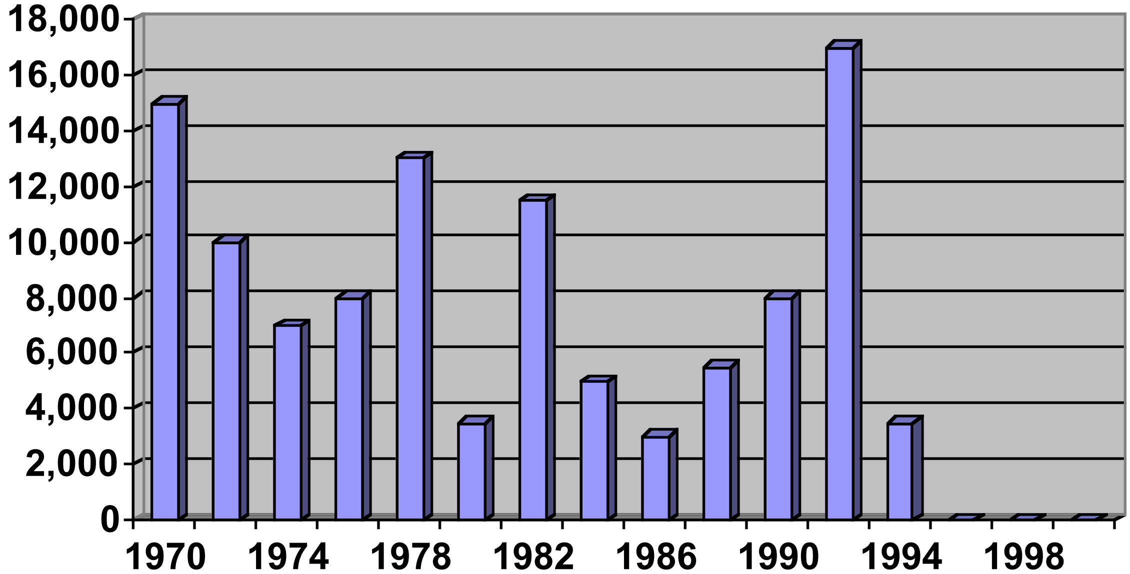
No new social housing

The investment decision by the private sector to abandon new construction in the early 1970s did not have an immediate impact because the federal government launched a major social housing program in 1973. Over the next 20 years, the federal government funded several hundred thousand co-op and non-profit units across the country, including 100,000 units in Ontario. The federal government began to cut funding for new social housing in 1984. Over the next decade, the federal government cut almost $2 billion from federal housing programs, then stopped all funding of new housing in 1993.

The federal cuts were not immediately felt in Ontario because, in 1997, the province launched the first of several programs that funded tens of thousands of co-op and non-profit units. But all that ended when newly-elected Premier Mike Harris, emerging from his first Cabinet meeting in June of 1995, cancelled 17,000 units of co-op and non-profit housing that had been approved for development. And he stopped all funding for new social housing.

During its first three years in office, the Harris-Eves government cut more than

Social housing starts (mostly co-ops, non-profits) – 1970 to 1999



Source: Ontario Ministry of Municipal Affairs and Housing, 2001

$300 million in housing programs (one-quarter of overall housing spending). In 1998, the province downloaded the entire cost of social housing to municipalities. In four short years, Ontario moved from spending more than $1.1 billion annually on housing to spending zero.

The combined effect of the private sector withdrawal in 1972; the federal withdrawal in 1993 and the provincial withdrawal in 1995 has led to a province-wide rental housing crisis as the need for new housing continues to dramatically outstrip supply.

In addition to cutting funding for new supply, the provincial government has cut funding for rent-geared-to-income (RGI) subsidies and rent supplement programs for low-income renter households. More recently, the province restored funding for 7,000 rent supplement units, using surplus federal housing dollars. This cost will be downloaded to municipalities once the federal money runs out.

The lack of new social housing supply, combined with cuts to existing subsidies, has created long and unmanageable waiting lists for social housing. Applicants in many parts of the province are being told that the list is four or five years long. In Toronto, the latest estimate is 19 years. Burgeoning waiting lists have led to the need for a growing bureaucracy to administer the allocation of scarce units. The *Social Housing Reform Act, 2001*, and accompanying regulations, devote dozens of pages to detailed rules governing administration of waiting lists.

Over-stuffed social housing waiting lists can have deadly consequences, as the jury in the Gillian Hadley inquest determined. Gillian Hadley was murdered by her husband in June, 2000. She was on a waiting list for social housing. In their recommendations in February of 2002, the Hadley jury found that “the present long wait for housing is unacceptable.” They called on federal and provincial governments to immediately provide adequate funding for new permanent and transitional housing. Neither government has formally responded to this recommendation, nor the seven other housing recommendations.

Conventional rental crisis

The annual rental market report for 2001 from Canada Mortgage and Housing Corporation confirms a conventional rental market in deep crisis. A rental vacancy rate of 3% or less is a danger sign, warning of a rental market in severe distress. The province's rental vacancy rate has been below 3% for more than a decade. Fifteen of the province's 21 urban areas are experiencing a vacancy crisis. Four of the six urban areas currently in the healthy zone have seen their rates drop significantly in the past year.

Four Ontario centres are among the worst 10 rental markets in Canada. And vacancy rates are expected to remain critically low in Toronto and Ottawa in the next two years, according to official forecasts.

The rapid increase in average rents is another troubling sign. Average rents in Ontario rose at more than double the rate of inflation in 2001 and also in the year 2000. All this at a time when tenant household incomes are stagnant or declining.

The 2002 provincial rent guideline (the amount that landlords can legally raise

	1999 vacancy rate	1999 rent increase	2000 vacancy rate	2000 rent increase	2001 vacancy rate	2001 rent increase
Barrie	1% ⇔	1.8% ⇧	0.5% ⇩	5.8% ⇧	0.9% ⇧	5.0%⇧
Brampton	0.7% ⇧	5.0% ⇧	0.7% ⇔	4.3% ⇧	0.9% ⇧	5.7% ⇧
Cornwall	11.1% ⇧	2.0% ⇧	7.8% ⇩	2.3% ⇧	6.0% ⇩	0.0% ⇔
Guelph	0.5% ⇩	2.3% ⇧	0.7% ⇧	6.0% ⇧	1.0% ⇧	4.0% ⇧
Hamilton	1.9% ⇩	5.4% ⇧	1.7% ⇩	3.0% ⇧	1.3% ⇩	3.3% ⇧
Kingston	3.4% ⇩	0.0% ⇔	1.8% ⇩	3.2% ⇧	1.4% ⇩	4.3% ⇧
Kitchener/Waterloo	1.0% ⇩	3.0% ⇧	0.7% ⇩	5.6% ⇧	0.9% ⇧	3.6% ⇧
London	3.5% ⇩	0.0% ⇔	2.2% ⇩	2.8% ⇧	1.6% ⇩	3.9% ⇧
Muskoka	3.1% ⇩	1.8% ⇧	2.4% ⇩	2.6% ⇧	1.9% ⇩	2.7% ⇧
North Bay	3.9% ⇩	0.0% ⇔	5.5% ⇧	1.9% ⇧	2.7% ⇩	1.9% ⇧
Oshawa	1.7% ⇩	2.6% ⇧	1.7% ⇔	4.4% ⇧	1.3% ⇩	1.5% ⇧
Ottawa	0.7% ⇩	3.8% ⇧	0.2% ⇩	12% ⇧	0.8% ⇧	3.9% ⇧
Owen Sound	2.9% ⇩	0.0% ⇔	2.8% ⇩	3.2% ⇧	1.6% ⇩	3.8% ⇧
Peterborough	4.4% ⇩	1.6% ⇧	3.2% ⇩	0.4% ⇧	3.7% ⇧	3.7% ⇧
Sarnia	8.8% ⇩	4.7% ⇧	7.3% ⇩	0.5% ⇧	6.3% ⇩	1.8% ⇧
St. Cath./Niagara	3.2% ⇩	2.8% ⇧	2.6% ⇩	2.9% ⇧	1.9% ⇩	3.3% ⇧
Sudbury	11.1% ⇧	0.02% ⇩	7.7% ⇩	1.1% ⇧	5.7% ⇩	0.0% ⇔
Thunder Bay	7.5% ⇩	0.0% ⇔	5.8% ⇩	1.0% ⇧	5.8% ⇔	0.0% ⇔
Timmins	13.0% ⇧	0.0% ⇔	13.6% ⇧	2.3% ⇧	8.1% ⇩	0.0% ⇔
Toronto	0.9% ⇧	4.0% ⇧	0.6% ⇩	6.8% ⇧	0.9% ⇧	4.5% ⇧
Windsor	2.7% ⇩	2.4% ⇧	1.9% ⇩	5.7% ⇧	2.9% ⇧	0.0% ⇔
Ontario	2.1% ⇩	3.2% ⇧	1.6% ⇩	6.2% ⇧	1.7% ⇧	4.0% ⇧

Source: CMHC, 2001

rents without any reason) is 3.9% - once again, more than double the current rate of inflation. The guideline is not a ceiling. Average rents in Ontario in recent years have outpaced the guideline amount.

Provincial rent regulation rules allow landlords to increase the rents as high as they want on vacant units, which gives landlords a major financial incentive to force tenants out. And the rent rules allow landlords to get big rent increases for some expenses – such as increased energy costs – even though landlords are not required to lower rents when those costs decrease.

The number of evictions in Ontario continues to grow. During 2001, almost 61,000 tenant households faced eviction – more than 80% of them because they couldn't afford to pay the rent. Many tenants leave voluntarily, but close to 35,000 were ordered out by the provincial tribunal. An average of 250 Ontario households face eviction every working day of the year.

Whether tenants facing eviction leave voluntarily, or stay until they are ordered out, the bonus for the landlord is the same: they have a vacant unit which, under rent regulation rules, allows them to charge any rent that they want for the unit. "Vacancy de-control," as it is known, is the major mechanism that REITs use to increase the rents many times over official guidelines.

"Non-conventional" crisis

About half of all tenant households in Ontario live in "non-conventional" rental housing.

Municipal zoning regulations prohibit secondary units in many parts of the province, which means that the secondary stock is generally unregulated. Conditions are sometimes poor, even substandard, in illegal units. Fire safety and occupancy standards are not always enforced. Rent regulation is non-existent in much of the secondary stock.

The Ontario Ministry of Municipal Affairs and Housing and Canada Mortgage and Housing Corporation hired The Starr Group to research the secondary rental market. The final report was delivered in April, 2000. Among the conclusions in the report's executive summary:

> "This review, however, cautions that most forms of secondary rental housing are highly elastic; that is, their availability depends heavily on overall economic and real estate conditions and therefore they cannot be counted on as a long-term permanent supply. Indeed, our analysis shows that the supply of various forms of secondary rental housing in many communities has declined significantly at various times. . .
>
> "The market analysis finds that most forms of secondary rental housing have not been growing in most communities. Condominium rentals, in particular, have been declining as more owner-occupants move into the condominium market. . .
>
> "Because of the lack of expansion of these markets, vacancy rates for such forms of housing are quite low in most centres. Rents for most forms of secondary rental housing have been rising sharply in most areas, consistent with the low vacancy rates in both the secondary and conventional markets. Even the most affordable forms

> of secondary rental housing, accessory apartments, units over stores and duplexes/triplexes, are increasingly moving out of reach of those at the lower end of the income scale, especially those on social assistance or working at minimum wage. . .

In other words, the secondary market is offering no relief from the crisis in the private rental and social housing sectors.

Rising homelessness, hunger

Perhaps the most cruel manifestation of the housing crisis is the province-wide homelessness disaster, and growing hunger.

Here is a brief snapshot of developments since the May 2001 OAB-CCPA provincial housing and homelessness report:

In Kitchener-Waterloo and Cambridge, a growing number of people with jobs are using the Out of the Cold program (a voluntary initiative by faith groups to provide overnight shelter) because they cannot find affordable housing. About 80 people are using the program on a typical winter night. An estimated 2,000 people are homeless in the region in the course of a year.

In Hamilton, the nightly count of people forced to stay in homeless shelters has increased from 172 in 1998 to 343 in 2001 – more than double in just three years.

In Peel Region, to the west of Toronto, single-bed shelters have reported a 22% increase in the last two years, while family shelters are reporting a 40% increase over the same period. A recent study found that only 30% of people leaving shelters in Peel were moving into housing.

Women's Community House, a hostel for women and children in London, provided shelter for 388 women and 327 children during 2000, but they had to turn away 1,025 women and children because there was no room. Other shelters in that city report a similar growth in need for temporary shelter. The Men's Mission had a daily average occupancy of 120% in November of 2001. The Salvation Army in London reports an increase of 63.5% in overnight stays in its shelters from 1998 to 2001.

Five of the six homeless shelters in York Region report 100% occupancy rates. The sixth, a women's shelter, has a 120% occupancy rate, according to a recent survey.

Toronto, the biggest city in the province, continues to have the most gruesome homeless statistics. The Toronto Disaster Relief Committee (TDRC) sponsors a monthly memorial to remember the homeless people who died over the previous month. With every memorial, more names are added to the hundreds already on the list of homeless people who have died on Toronto's streets or in shelters. In the winter of 2001, a tuberculosis outbreak at a Toronto homeless shelter led to 14 confirmed cases and two deaths. The city's shelters are so crowded that the TDRC has documented that some shelters fail to meet even the minimal standards set by the United Nations for refugee accommodation.

Hunger is a major concern for many renter households, as rapidly rising rents swallow a growing portion of their limited incomes. One emergency food program in Kitchener-Waterloo found that 9% of the food bank recipients had no income at all, a new phenomenon related to continuing cuts to federal and provincial income assistance programs.

In London, city council decided to restore the $37 monthly nutritional allowance for pregnant women on welfare, a subsidy cut several years ago by then-Finance Minister Ernie Eves. Dr. Evelyn Vigilis, professor of family medicine and epidemiology at the University of Western Ontario, has correlated the high rate of poverty in London with high rates of low birth weight infants and teen pregnancies.

Meanwhile, Dr. Valerie Tarasuk, a nutritional scientist in the Faculty of Medicine at the University of Toronto, and colleagues reported in the January/February 2002 issue of the *Canadian Journal of Public Health* that low welfare rates, combined with rising rents, leads to "serious problems of hunger and food insecurity."

Favouring the private sector

The election of the Conservative government in 1995 brought a major new ideology to provincial housing policy. Officially, the government said it was going to "get out of the housing business." But the real goal was much different. The Harris-Eves government set out to make the provincial housing crisis even worse, then re-wrote legislation and regulations to allow its corporate friends to benefit from the crisis.

The Harris-Eves government cut about 25% of provincial housing spending in its first three years in office, then dumped the entire cost of social housing off the provincial books by downloading to municipalities. It also carried out a comprehensive scheme to re-write provincial laws to make sure that private speculators could make a profit out of the housing crisis that the government triggered.

Under increased questioning in the Ontario Legislature over their housing policies, senior provincial politicians have offered up a couple of interesting comments.

Premier Ernie Eves, on May 21, 2002, told the Legislature that his government is spending $1.7 billion annually on shelter allowances for low-income households. What he didn't mention was that those shelter allowances, which are delivered through the welfare system, were cut by 21.6% in the fall of 1995 by then-Finance Minister Eves. And there has been no change since the 1995 cuts, even though rents have increased by more than 25% in the past seven years.

Housing Minister Chris Hodgson, on May 14, 2002, boasted that his government is spending more per capita on housing than any other province in the country. While the Ministry of Municipal Affairs and Housing still had a substantial budget in 2001, most of the housing spending by the province was, in fact, funded by municipal and federal governments. In 2001, municipalities paid $741,089,341 and the federal government paid $589,597,806 to Ontario to pay for provincial housing programs.

Since 1995, the Harris-Eves government has handed millions in cash to the private sector:

- The Provincial Sales Tax Grant Program offers a grant of $2,000 per affordable unit to encourage builders to build affordable rental housing. Four million dollars in provincial sales tax relief on construction materials for new affordable housing has been provided for 2,000 units. The province has announced it will spend an additional $20 million in new funding for PST grants.
- Starting in 2001, the province has committed to make public land available to build at least 500 units of affordable housing on a number of sites.

The province is constantly touting these handouts, but is coy about specifics. It has refused to release information about which builders, which buildings and which sites have benefited from provincial spending. In response to requests from opposition politicians and housing advocates for details, Ministry of Municipal Affairs and Housing bureaucrats hide behind the cumbersome Freedom of Information process.

The province has also made a number of regulatory changes that benefit private developers:

- Regulations under the *Fair Municipal Finance Act* allow municipalities to create a separate class for new rental buildings and to provide these buildings with favourable tax treatment for 35 years. This means that these new multi-residential buildings can be taxed at the lower rate than single residential homes.
- Amendments made to a regulation under the *Municipal Act* will allow municipalities to provide financial incentives to private sector developers of affordable housing through reduced fees and charges, low interest loans, the elimination of taxes and waiving or reducing development charges.
- Amendments have also been made to the *Building Code, Development Charges Act* and *Planning Act* – all designed to cut the regulations and development charges that developers face in building new rental housing.

The financial burden of these changes fall entirely on municipalities, which will either give outright grants or offer up tax or fee cuts, which will leave the municipality with less revenue for local services.

But the biggest and most lucrative handout from the province has been the changes to the *Tenant Protection Act* in 1998. In addition to gutting rent regulation laws (which has allowed REITs and other speculators to make big profits through big rent increases), the Act abolished previous provincial legislation that controlled the demolition and conversion of affordable rental housing.

The Harris-Eves government, when it introduced the *Tenant Protection Act*, said that the rent increases were needed to help fund new affordable rental housing.

Based on CMHC numbers, Ontario tenants have paid about $850 million in rent increases since June of 1998 when the *Tenant Protection Act* was implemented. That money would have funded 17,000 new units of affordable rental housing (coincidentally, the same number of units that the provincial government axed in 1995).

Over the past three years, the private sector has built less than 2,000 new units annually across the province. Take away the thousands of units that have been lost to demolition and conversion, and there has been a net gain of only 300 units since 1998. All this at a time when the province needed tens of thousands of new units to cope with growing need.

In exchange for hundreds of millions of dollars in rent increases, renter households in Ontario have received almost no new rental housing, tens of thousands have lost their homes thanks to the "fast-track" eviction process, rents are increasing every year at double the rate of inflation and wealthy investors are cashing lots of mostly tax-free dividends based on the advice of shrewd property speculators.

Federal-provincial housing deal

After considerable political pressure from housing advocates, municipal leaders and others, the federal, provincial and territorial housing ministers meeting in Quebec City in November of 2001 signed an Affordable Housing Framework Agreement. The new housing deal commits the federal government to spend $680 million over five years on new housing. Every province and territory agreed to provide matching funding. Under the terms of the framework agreement, the federal government is supposed to negotiate separate deals with every province and territory, spelling out how the money will flow in each jurisdiction.

Ontario signed a bilateral deal with the federal government on May 30. As this report was being written, the full text of the deal still hadn't been released. But there are two serious flaws, and plenty of uncertainties that are already obvious. The federal government will pay $245 million over five years, but the Ontario government is only going to contribute about $20 million in new money.

The bulk of the so-called provincial share comes from about $180 million in future municipal tax cuts and $10 million from charities. The province also wants credit for about $35 million that it has already spent on housing programs since January of 2001. The Harris-Eves government is taking maximum advantage of loopholes in the framework agreement, but those accounting tricks won't fund new housing.

The second big flaw is the affordability definition. The housing is supposed to be affordable for low and moderate-income households. Ontario wants to define affordable as equal to current market rents. But years of rent increases, often at double the rate of inflation, means that market rents are much higher than the level most renter households can truly afford. The average market rent in Ontario is $815. Renters would need an income of $32,600 to afford that rent (based on 30% of income). Yet two-thirds of Ontario renter households (1.2 million of 1.8 million renter households) have annual incomes below $32,000.

So, only the richest one-third of renter households would be able to afford the housing Ontario wants to fund – a clear violation of the Quebec City deal.

It remains uncertain exactly who will get the money to build the new housing. The province is expected to try to steer all or most of the money to private developers. Barriers to participation by co-op and non-profit housing providers could be invisible (such as mandatory equity requirements, which would prevent social housing providers from participating), or there may be actual limits on the number of social housing units that can be funded.

The province insists it should set the basic rules for the new housing program, even though it is making only a tiny financial contribution, just a fraction of the share of the federal or municipal governments. Ontario will start negotiations with 47 municipal service managers across the province to sign another set of housing deals that will set out more of the specifics of the new programs. Municipalities will make the final decision on who will get the new units.

The media release from the federal and provincial governments at the time of the signing says that the deal will produce 10,500 new units over five years, but the tiny provincial contribution means that it is unlikely that all of those units will actually be built.

Even with the announcement of the new housing deal, Ontario will fall well short of the level of new affordable rental housing that is needed. The federal-Ontario deal provides less than 5% of the new housing that is required every year in this province.

Housing doesn't trickle down

Taking the lid off rent regulation at a time when the rental housing market is in deep distress will only lead to one result: Rapidly increasing rents. And that has happened with a vengeance in Ontario. This policy, combined with all the other initiatives of the Harris-Eves government, rest on a very shaky ideological premise: Provide public benefits for the creation of expensive, private rental housing, and the benefits will trickle down to those who need it the most, low and moderate income households.

The provincial government's Housing Supply Working Group says this explicitly in their interim report, issued in 2001. They say that wealthy renters will move out of existing units to move into the new supply, then slightly less wealthy tenants will move into the recently vacated units, and so on down the line until a homeless family living in a shelter can move into a vacant unit at the bottom end of the rent spectrum.

Interesting theory, but affordable housing doesn't trickle down, especially in Ernie Eve's Ontario. Any vacancy in the province triggers an immediate rent increase, under the terms of the *Tenant Protection Act*, so the most likely outcome of the provincial policies to create middle and upper-income rental housing is rent increases right across the spectrum. The homeless family won't be able to afford any units that may open up.

The Ontario Alternative Budget Working Group, and key advocacy groups such as the Housing and Homelessness Network in Ontario, are calling for a provincial housing policy that specifically targets the housing needs of low, moderate and middle-income renter households.

The Ontario Alternative Budget proposes that the province get back into the housing business with a set of programs that address both affordability and supply. About 15,000 new affordable units would be funded annually under this plan, two-thirds of which would be geared to the lowest income households.

In addition, the OAB would make the rents affordable for more than 27,000 households living in existing private or social housing. And we would upload the cost of provincial social housing programs from municipalities back to Queen's Park, where the responsibility should be.

On the supply side, the OAB would provide $49 million annually as the province's matching share of the Affordable Housing Framework Agreement. Ontario signed this agreement in Quebec City last November, and agreed to match the $49 million annually over five years that the federal government has promised to spend on new housing in Ontario.

Despite its commitment in Quebec City, Ontario has only promised about $4 million annually. Matching the full federal share will help to generate about 2,000 new affordable rental units in Ontario each year over the next five years.

That 2,000 is a good start, but it's not enough. The OAB will also provide an additional $650 million to fund 13,000 new rental units annually. About 15,000 units would be created under these two initiatives. The supply dollars would fund a one-time capital grant to housing developers to build affordable housing. The program would be simple and cost-efficient, unlike the administratively-cumbersome social housing programs of the 1980s and early 1990s.

Add to the 15,000 new affordable units the expected 2,000 or so private sector rental units, and the total number of units comes close to the need estimated by the Ministry of Finance.

On the affordability side, more than 47,000 renter households would receive rent supplements annually to help them pay their rent. About 10,000 of these households would be in the units that will be funded by the OAB supply program. Subsidizing two-thirds of the new units ensures that low and moderate-income households will find a place to call home. Ensuring that the remaining one-third of units are set at market rents will create mixed-income communities, the model that has been used so successfully in the past 30 years in Ontario.

The remaining 27,200 rent supplement agreements will cover renter households living in existing private or social housing units.

The OAB sets aside $850 million to return the funding responsibility for provincial social housing programs back to the province, where it belongs. Many tenants, co-op members and housing providers believe that the administration of housing programs can remain at the municipal level, but the funding should come from the province.

The capacity of co-op and non-profit housing providers to build new units has been severely cut under the Harris-Eves years. The OAB program would be phased in. The first year would see the full provincial share of the new federal-provincial program (2,000 new units), plus almost half of the planned new annual allocation of units (6,000 new units out of the planned total of 13,000). In addition, half the new rent supplement units (28,500 units) would be funded in the first year, with the full annual allocation in subsequent years.❖

Statistics for this technical report are drawn from Statistics Canada, Canada Mortgage and Housing Corporation, the Ontario Ministry of Municipal Affairs and Housing and the Centre for Urban and Community Studies, and from research reports by members of the Housing and Homelessness Network in Ontario.

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