



Ontario pre-budget submission 2008:

**When the economy sneezes, low, moderate and middle-income Ontarians face hypothermia:
*The economic case for an effective housing strategy***

Submitted by:

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Thank you for the opportunity to make these pre-budget submissions. The Wellesley Institute is a community-centric, independent policy and research institute dedicated to advancing urban health through community-based research, public policy and community engagement.

Members of this committee, along with most Ontarians, are looking with great anxiety at the United States and wondering whether the sub-prime mortgage scandal will drag that economy into a full-blown recession and take Ontario down with it.

Three important lessons can be drawn from the shattering experience in the U.S.:

What starts in the housing sector doesn't stay in the housing sector: The actions of sub-prime mortgage brokers peddling risky financial products to desperate people is bad enough for the estimated two million U.S. households that are expected to lose their homes, but the impact is flowing through all parts of the U.S. economy and throughout the world. Housing is not marginal to the macro economy, as some policy-makers seem to suggest.

The deliberate government policy of neglecting housing has been very costly: The roots of the U.S. economic crisis are in the policies of successive administrations to ignore the critical housing needs of low and moderate-income households and leave them to the vagaries of private and unregulated mortgage brokers. Housing is not only a fundamental human need (one of the most important social determinants of health and a key factor in preventing illness and early death), but it is a critical pillar for the overall economy. Desperate U.S. households were forced into the grip of sub-prime mortgage brokers because they had no other choice – they were abandoned by their elected representatives. A similar policy of neglect has been adopted by successive provincial governments in Ontario for more than 15 years. In the U.S., an added factor is the lack of a comprehensive health care plan, which has left almost fifty million Americans uninsured and tens of millions more underinsured. Research by the U.S. group AARP

(among others) suggests that 40% of the people who signed up for sub-prime mortgages were using the funds to cover health care costs.

When the economy sneezes, low, moderate and middle-income households face hypothermia:

The euphemisms for the shredding of the U.S., and Ontario, economies mask a brutal reality. Even before the so-called “downturn”, deteriorating conditions in both the ownership and rental markets in Ontario created widespread housing insecurity and homelessness for Ontarians. Evictions reached record highs in both 2005 and 2006. Sky-high housing costs are not only affecting individual households, but housing insecurity and homelessness are disrupting communities and causing a major drag on regional and the provincial economies. In Ontario’s last official recession in the early 1990s, we still had a provincial social housing program and various income supports that provided a minimal “social safety net” for people who became victims of macro-economic forces. That social safety net was slashed in the mid-1990s. Low, moderate and middle-income households in Ontario in 2008 face the prospect of looming recession with a badly frayed and chronically under-funded social safety net.

The good news is that the practical and effective housing solutions that are needed for individual households that are already suffering in Ontario will have a positive knock-on effect across the province by stimulating the economy, generating jobs and contributing taxes to municipal and provincial coffers. ***Housing solutions can not only meet the existing economic and social challenges, but they can also help the province weather the troubled economic times.***

We begin with three overall observations (for more details, see “Housing Outlook 2008” below):

1 ***Provincial rental and owner housing crisis:*** A comprehensive housing outlook for 2008 that looks at the renter and the owner sectors demonstrates that there is more than enough bad news on both the supply and affordability side:

- new construction began to taper off in 2004,
- new rental supply remains desperately short of the need,
- average rents have outpaced the rents that most tenant households can afford to pay,
- eight of the ten least affordable rental communities in Canada are in Ontario, and
- the price of owned housing is growing out of reach of middle-income households.

2 ***Plenty of fiscal capacity for solutions:*** No matter how you measure it, the provincial government is spending less on housing now than at any point in the last 15 years. Ontario’s housing record is the worst in Canada when compared to the other provinces and territories. Ontario is the only province spending less on housing in 2007 than in 2001, when all the provinces and territories signed the Affordable Housing Framework Agreement and promised to ramp up housing spending to match new federal housing dollars.

3 ***Housing solutions will help Ontarians, and the Ontario economy:*** the Wellesley Institute is recommending that this committee adopt four specific housing measures that will not only provide a practical benefit to the millions of Ontarians suffering from housing insecurity, but will also provide jobs and other economic benefits.

2008 pre-budget recommendations

Our pre-budget housing and homelessness recommendations are:

1. Complete the *upload of affordable and social housing program funding* started in the 2006 provincial budget by returning housing costs to the provincial budget, where they belong (estimated cost: \$600 million);
2. Offer *45,000 rent supplements to lower-income households* to help them maintain their housing (estimated cost: \$220 million);
3. Create a *new provincial social / affordable housing program* and provide capital grants for 8,300 new truly affordable homes (estimated cost: \$830 million);
4. Fund a *social housing rehabilitation and renovation fund* (estimated cost: \$260 million).

In addition, we would urge the committee to adopt these additional recommendations:

End the logjam on off-reserve Aboriginal funding: Virtually all of the recent provincial action on housing and homelessness has been funded entirely or mostly by federal housing dollars, including \$312.3 million last year. Ontario has the worst record among the provinces and territories for housing funding, as noted in more detail below. Ontario has failed to pass on \$80.2 million in federal off-reserve Aboriginal housing funding. It is surprising that the provincial government has not yet concluded a plan with Aboriginal housing authorities to flow these urgently-needed federal dollars. The clock is ticking on these monies, which were allocated in 2006 and which will be withdrawn at the end of fiscal 2008 if they are not fully committed.

Make an immediate down payment on a provincial poverty reduction strategy: We are urging this committee to recommend these housing investments in the 2008 provincial budget as part of a down payment on the poverty reduction strategy promised by the Ontario government. We recognize that it will take months to properly consult with Ontarians on the scale and scope of a poverty reduction strategy, identify the indicators and timelines and fully implement and fund such a strategy. In the meantime, the Wellesley Institute joins with our partners in a number of groups, including the 25 in 5 Network for Poverty Reduction and Campaign 2000, in calling for an immediate and substantial financial investment in the 2008 provincial budget as a clear signal from the government that it intends to honour its commitment to the people of Ontario.

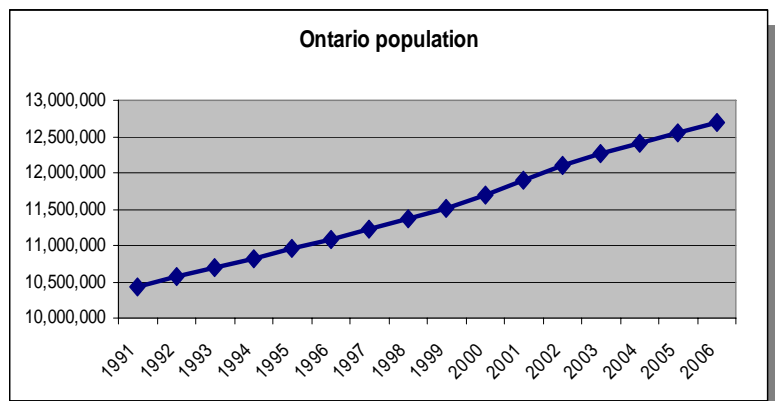
Adopt several non-fiscal measures: There are significant policies that the province can adopt to meet the housing needs of Ontarians that will not have a strong budgetary impact. We would ask that this committee to adopt these recommendations. These include:

- ***End vacancy decontrol:*** The gutting of tenant protection legislation in 1998 has encouraged landlords to empty their units and raise the rents as high as they want. A downward tick in the rental vacancy rates in some parts of the province has not protected tenants from this predatory practice. For instance, Windsor has both the highest vacancy rates in the province and also the worst rental housing affordability problems in the entire country.

- ***Authorize mandatory inclusionary housing zoning:*** The private housing markets have generated huge amounts of new homes in recent years, but – as noted in more detail below – only a tiny fraction is affordable to low, moderate and even middle-income households. Many U.S. communities use require developers to include a range of housing in new developments to create inclusive neighbourhoods. While the Ontario government’s Provincial Policy Statement 2005 makes a tentative step towards inclusionary housing zoning, some experts believe that it doesn’t provide the explicit legal authority that municipalities require for this important housing policy tool.
- ***Support the renewal and enhancement of federal housing and homelessness initiatives:*** The Ontario government is joining with all the other provinces and territories at a national housing ministers’ summit in Vancouver on February 6. The federal minister has “not yet confirmed his participation”, to use the political parlance. All three major national housing and homelessness initiatives (federal homelessness program, federal housing renovation program and federal affordable housing initiative) will expire in fiscal 2008. If they are not renewed and enhanced, then homeless services, transitional housing projects and other vital programs will be cancelled at great cost to homeless people, low-income households and communities across the province. ***Ontario needs to return to a leadership role amongst the provinces and territories, instead of its current position at the bottom of the heap.***

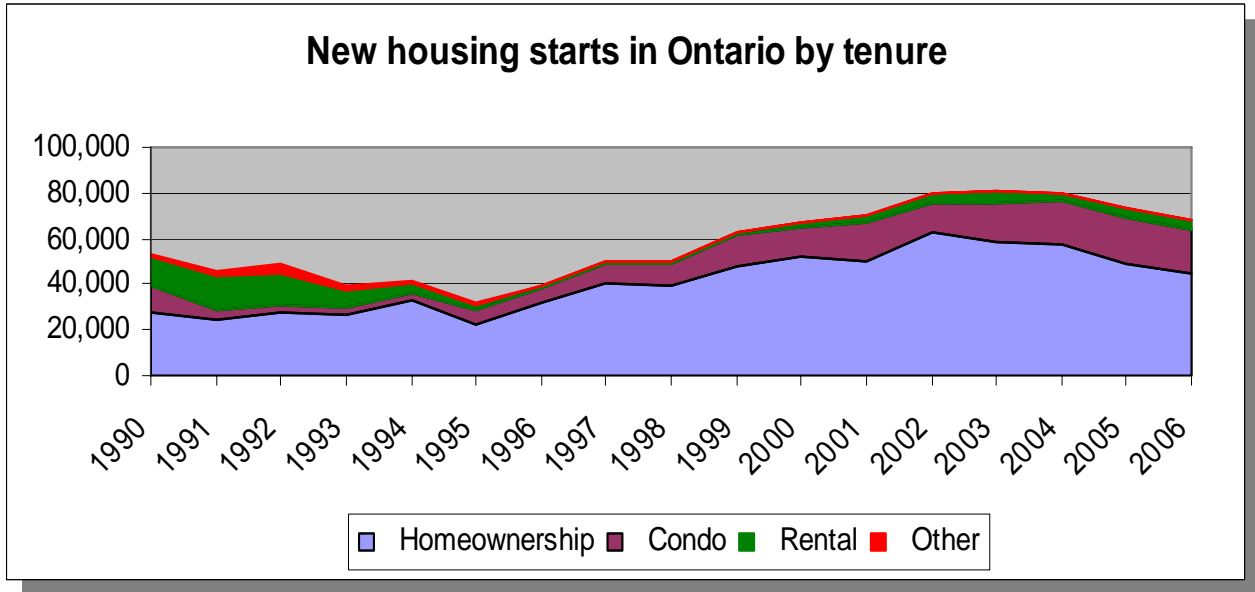
Housing outlook – 2008

Ontario’s population is increasing through immigration and natural increases. New household formation, along with the growth in the seniors’ population, is driving the need for additional affordable housing. The demographics are clear and, when added to existing acute housing needs, underline the urgency of a comprehensive and fully-funded provincial housing strategy that is linked to a broader poverty reduction strategy and which, in turn, is linked to a national housing strategy developed and implemented by senior levels of government across the country.



Source: Statistics Canada

Since the Ontario government announced in 1995 that it was “getting out the housing business” and cancelled all provincial funding for new social / affordable housing (and killed more than 17,000 homes that had been approved for development), housing starts have increased substantially – growing from about 30,000 units annually in 1995 to a peak of about 80,000 new units in 2003. But almost all of those homes have been in the ownership sector (including a growing number of condominiums). The private rental sector has generated an average of less than 3,500 new units annually since the year 2000.



Source: Canada Mortgage and Housing Corporation

Few new social / affordable homes in Ontario despite growing need: After funding and program cuts in the 1980s and 1990s at the federal and provincial levels led to a big increase in housing insecurity and growing homelessness, the Ontario

government joined with all the other provinces and territories to sign the Affordable Housing Framework Agreement with the federal government. Ontario signed a bi-lateral housing deal with the federal government in 2002 and a second deal in 2005. The McGuinty Liberals promised

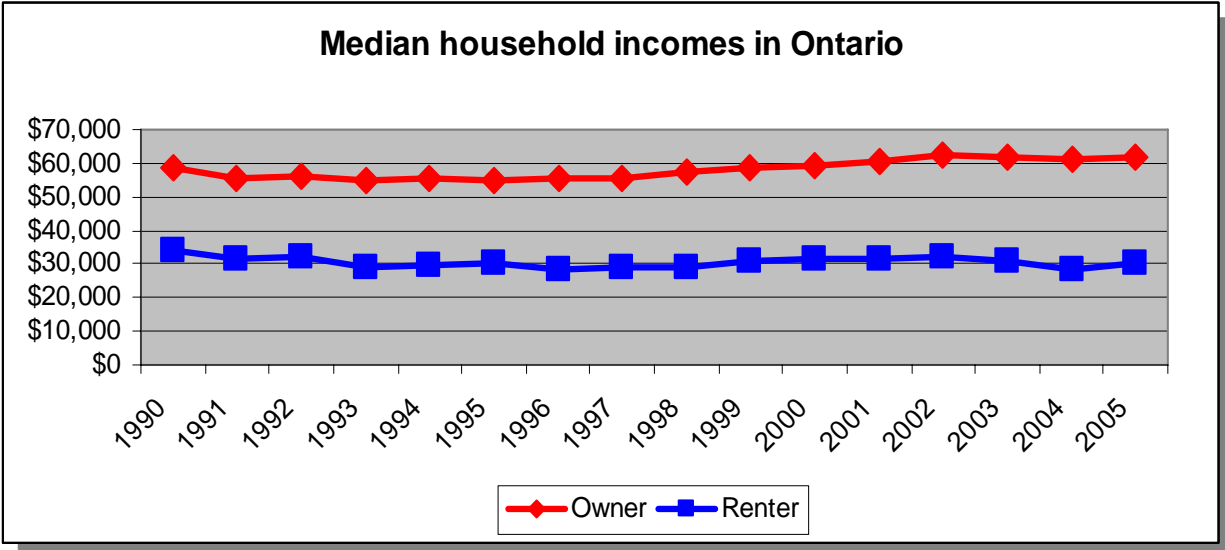
Affordable housing in Ontario

| | Occupied | Under construction | Seeking approval |
|---------------------|--------------|--------------------|------------------|
| Rental / supportive | 3,195 | 2,184 | 3,520 |
| Ownership | 620 | 18 | 170 |
| Northern housing | 245 | 187 | 359 |
| Total | 4,060 | 2,389 | 4,049 |

Source: Ontario Ministry of Municipal Affairs and Housing

during the 2003 election to fund 26,600 new social / affordable / supportive homes. As of November 2007, the Ontario Ministry of Municipal Affairs and Housing reported that 4,060 of those had been occupied and 2,389 were under construction. More than half the funding for this new affordable housing came from the federal or municipal governments, or from community partners. See “the fiscal picture” below for more details on funding.

In Ontario, roughly two-thirds of households own their homes, and one-third rent. **Tenant household incomes are, on average, less than half of owner households – and the gap is growing.** Most low and moderate-income households, and an increasing number of middle-income ones, are in the rental sector. Many immigrants and a significant number of seniors rent. Despite rapidly rising costs in the owned and rented sectors, **median household incomes have been sluggish over the past 25 years.** The median income for owner households was \$58,800 in 1990 and only increased slightly to \$61,500 by 2005. The picture is worse for tenant households – which started off lower and dropped further. The median income for renter households in Ontario was \$34,000 in 1990 and had dropped to \$30,200 by 2005.

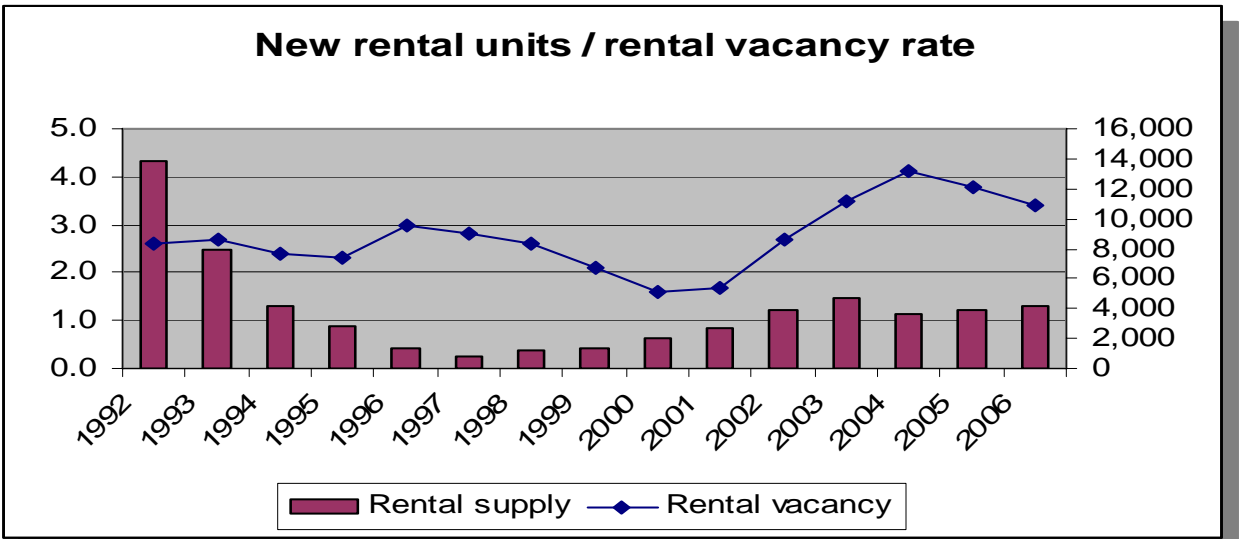


Source: Statistics Canada (SLID)

Steady increase in core housing need: Housing insecurity has been growing steadily worse in Canada over the past 25 years, according to Canada Mortgage and Housing Corporation’s measure of core housing need (which measures unaffordable, substandard and over-crowded housing). The number of Ontario households in core housing need has grown from 408,000 in 1991 to 594,300 in 1996 to 599,700 in 2001. The latest numbers (for 2006) will be released in May of 2008 and are expected to signal yet another increase in core housing need.

Rental market

As noted, virtually all low and moderate-income households and a growing number of low-income households live in private rental or social housing. On the supply side, the need for new rental homes has been increasing even as new supply has remained sluggish. On the affordability side, average market rents in the private sector eclipsed the affordable rent and the **housing affordability gap for renter households has grown to more \$1,776.**



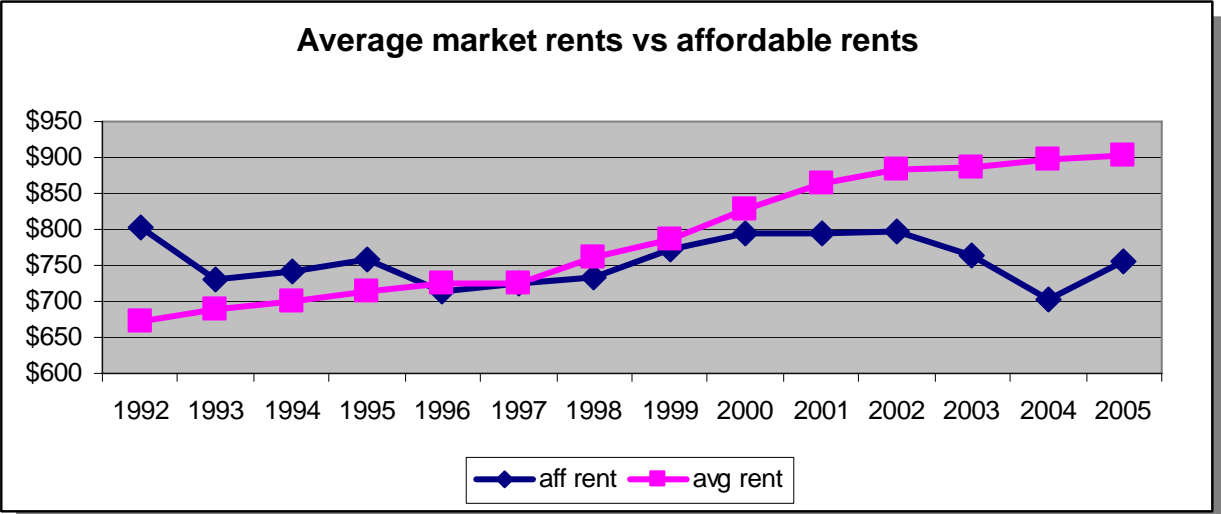
Source: Canada Mortgage and Housing Corporation

Rental supply

Private developers dramatically withdrew from new construction in the early 1970s in Ontario (before the province’s first rent regulation laws were introduced). New construction of rental units has never exceeded 5,000 homes annually in more than a decade. When the Ontario government announced it was “getting out of the housing business” in 1995 (by cancelling provincial social housing programs and gutting tenant protection and rent regulation laws), the then-Minister of Municipal Affairs and Housing, Al Leach, confidently predicted that the private rental sector would starting building 10,000 new rental homes within two years. In fact, the private sector has managed to build only a fraction of that number.

Some policy-makers have tried to draw a link between rental vacancy rates (which measure the number of vacant units in the private rental market) and new supply. Under conventional economy theory, a higher demand (as measured by a lower vacancy rate) leads to increased rent which, in turn, stimulates the market to provide new supply. However, in Ontario’s private rental market, new construction and vacancy rates do not operated in a supply-demand relationship. For instance, from 2000 to 2004, new construction was increasing along with vacancy rates – in direct contradiction to private market theory.

Rental affordability



Source: Canada Mortgage and Housing Corporation

Affordable rents are considered by Ontario’s Ministry of Municipal Affairs and Housing, and other authorities, as 30% of a renter household’s income. The chart above compares the affordable rent for Ontario’s median tenant household (the household in the statistical middle, with half the households below and half above) with the average market rent from Canada Mortgage and Housing Corporation. Private market rents began to outpace affordable rents in 1998 and the rental housing affordability gap has been growing wider since then. As of 2005, the affordability gap for half of all renter households in the province started at \$1,776 annually and grew higher as renter household income dropped. To cover this gap, renter households were forced to cut back on other necessities such as food, energy, medicine, clothing and

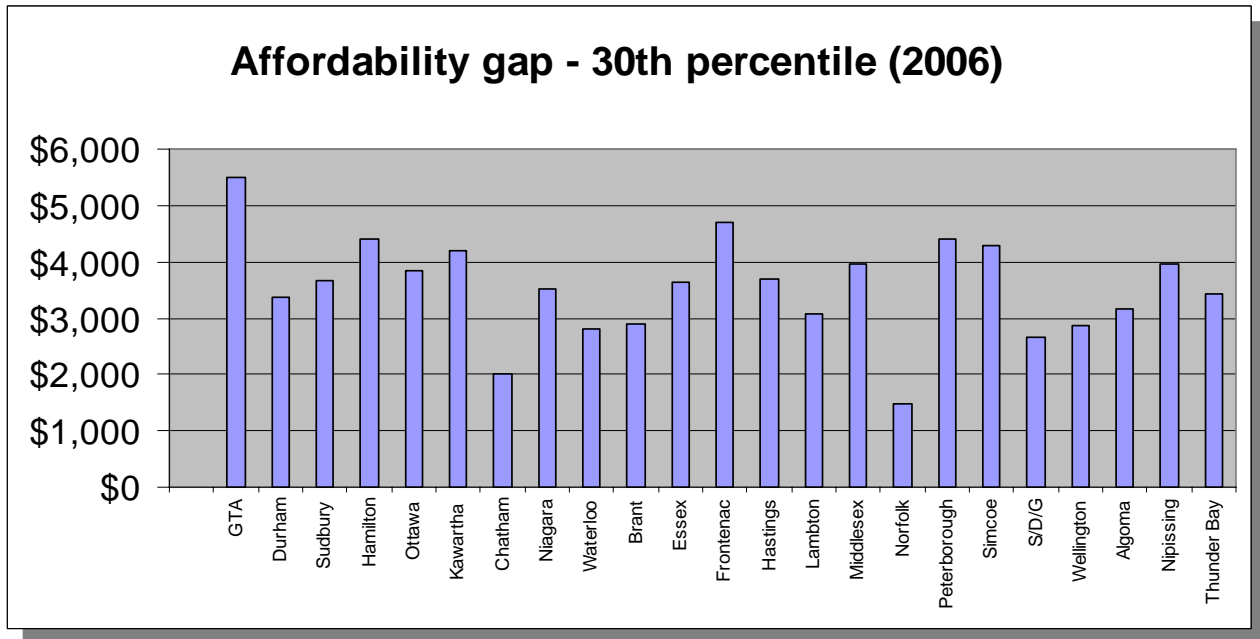
transportation. *A growing number of renter households face eviction because the affordability gap had grown so wide.* The number of tenant households facing eviction set an all-time record in 2005, then broke that record in 2006.

The gutting of Ontario’s tenant protection laws in 1998 and the introduction of *vacancy decontrol has fueled the eviction process.* Under vacancy decontrol, landlords are allowed to charge any rent that they want on a vacant unit, creating an incentive for landlords to evict a tenant, even for a trivial amount of rental arrears.

Rising energy costs are the second-leading cause of eviction in Ontario, after rising rents. The Ontario government has a small energy assistance program, but *the province has failed to create a comprehensive low-income energy assistance plan* that includes a rates structure that doesn’t penalize low-income households, energy retrofit programs and emergency energy assistance.

In December of 2007, Canada Mortgage and Housing Corporation introduced a new, nation-wide affordability indicator for renter households. *Eight of the top ten least affordable municipalities in the entire country are in Ontario.* The top ten in order of least affordability are:

- | | | |
|-------------|-------------|---------------|
| 1. Windsor | 5. London | 9. Calgary |
| 2. Victoria | 6. Hamilton | 10. Kitchener |
| 3. Ottawa | 7. Oshawa | |
| 4. Toronto | 8. Sudbury | |



Sources: Ontario Ministry of Municipal Affairs and Housing; Canada Mortgage and Housing Corporation

Another clear indicator of the large and growing affordability gap for Ontario renters is the difference between affordable rents for the 30th percentile of households (as published by the Ontario Ministry of Municipal Affairs and Housing) and average market rents. The chart above shows the *affordability gap for the bottom third of households ranges from \$1,500 annually in Norfolk County to \$5,500 in the Greater Toronto Area.*

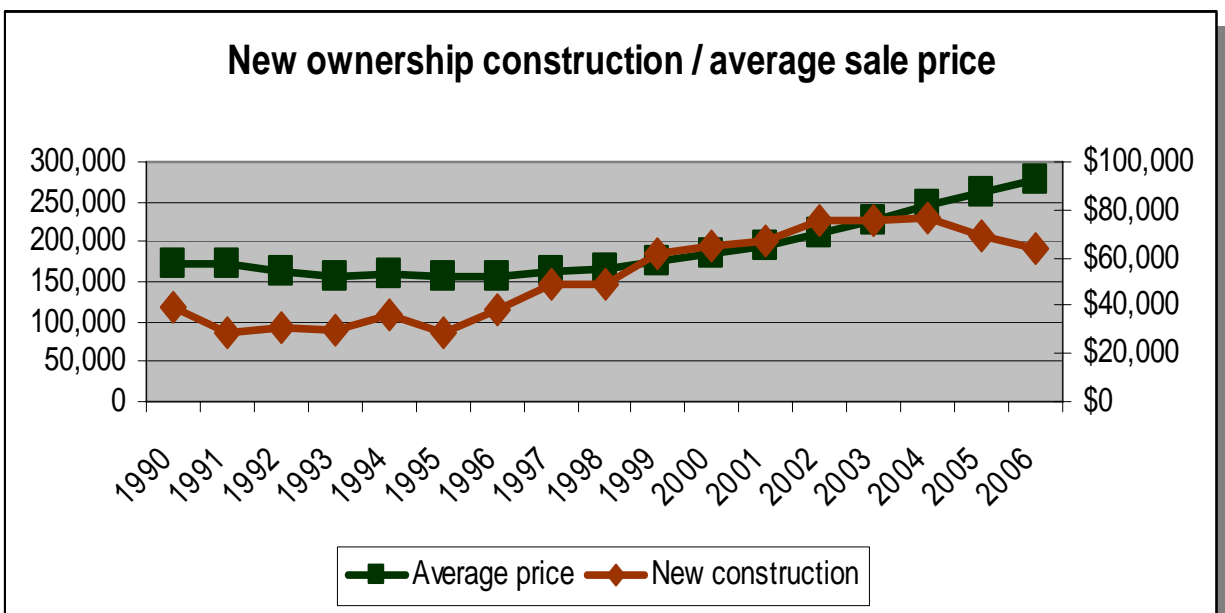
Owner market

The percentage of owner households in Ontario edged up slightly in the last half of the 1990s as renters at the upper end of the income scale took advantage of relatively low mortgage rates and relatively strong supply of new homes. New financial instruments – including low down payment mortgages – lowered the barrier to home ownership. However, while these new measures (such as lowering the down payment from 25% to 5%) made it easier for renters to buy a home, they raised the monthly carrying cost of a mortgage (a lower down payment means a higher principal and higher mortgage costs). So, by the late 1990s, *Ontarians found it easier to buy a home, but more difficult to make the monthly mortgage payments.*

The so-called “law of supply and demand” hasn’t been working in the private ownership market (just as there is no evidence of this economic theory having a positive effect in the private rental market). *Ontarians experienced both increasing house prices and also an increasing number of new homes.* Conventional economy theory suggests that prices should drop as new supply reached near record levels from 2000 to 2003, but that didn’t happen in Ontario.

By 2004, new construction had peaked and started a downward trend, just as ownership affordability was starting to decline. The bottom line: While some tenant households were able to move into ownership in the 1990s and early part of the 21st century, the ownership market is not expected to offer much relief for beleaguered Ontario households as the province braces for a U.S.-led economic downturn or even a recession.

Owner supply



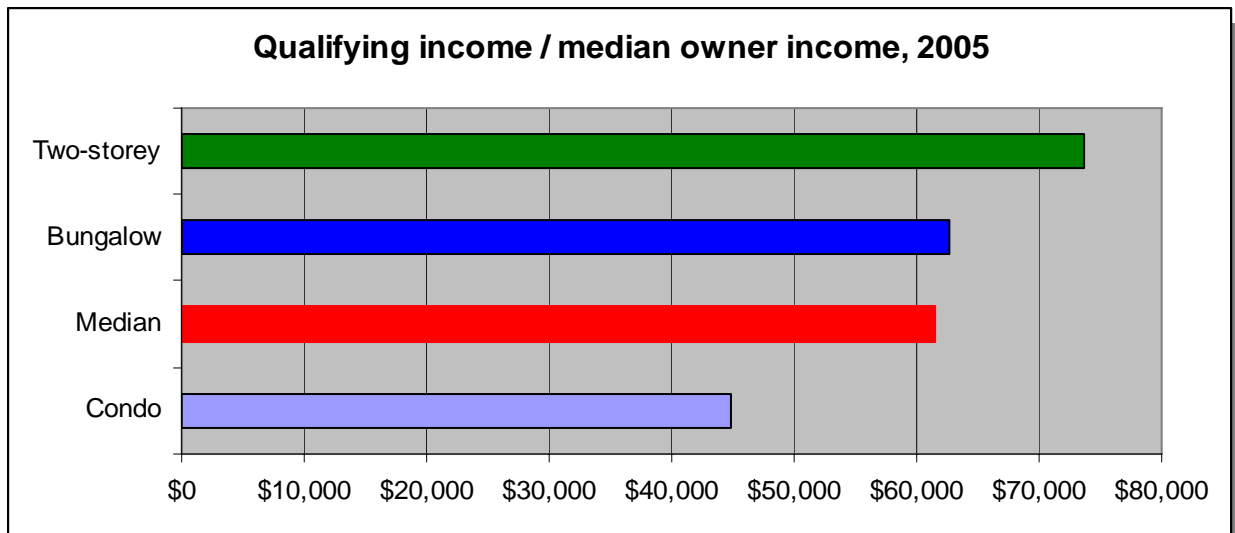
Source: Canada Mortgage and Housing Corporation

New construction in the ownership sector began to drop in 2004, even though the need for new housing continued to grow. The downturn in the U.S. economy is expected to continue to depress

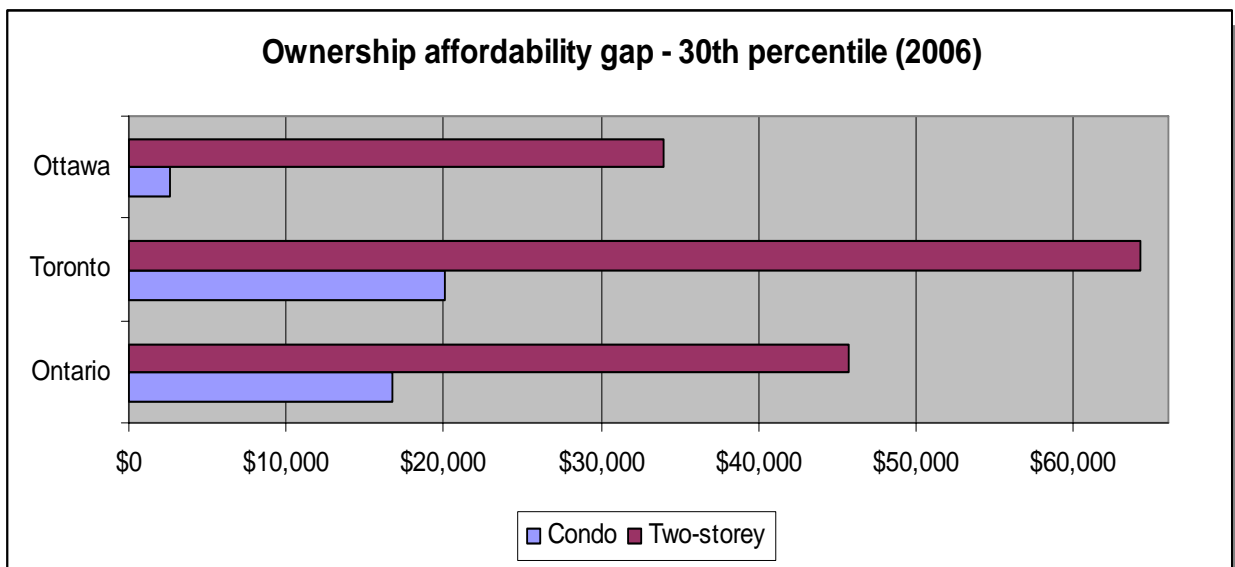
new housing construction. On the positive side, *private contractors are now freed up to work on social and affordable housing programs*. The hot ownership market drove up construction costs and made it harder for affordable housing developers to fund new projects. Taking the slack from the slump in the ownership market and putting it to work in affordable and social housing means that construction workers will continue to get paid, and the overall economy will benefit.

Owner affordability

RBC Economics Research, in its latest quarterly measure of ownership affordability, warns that in Ontario, “the province underwent a sharp deterioration in affordability in the second quarter [of 2007] due to higher prices, mortgage rates and utility bills.” The warning signs were evident in 2005, when RBC reported that the qualifying income for a typical two-storey house and even a modest bungalow in Ontario was higher than the median (middle) owner household income.



Sources: RBC Economics Research; Canada Mortgage and Housing Corporation

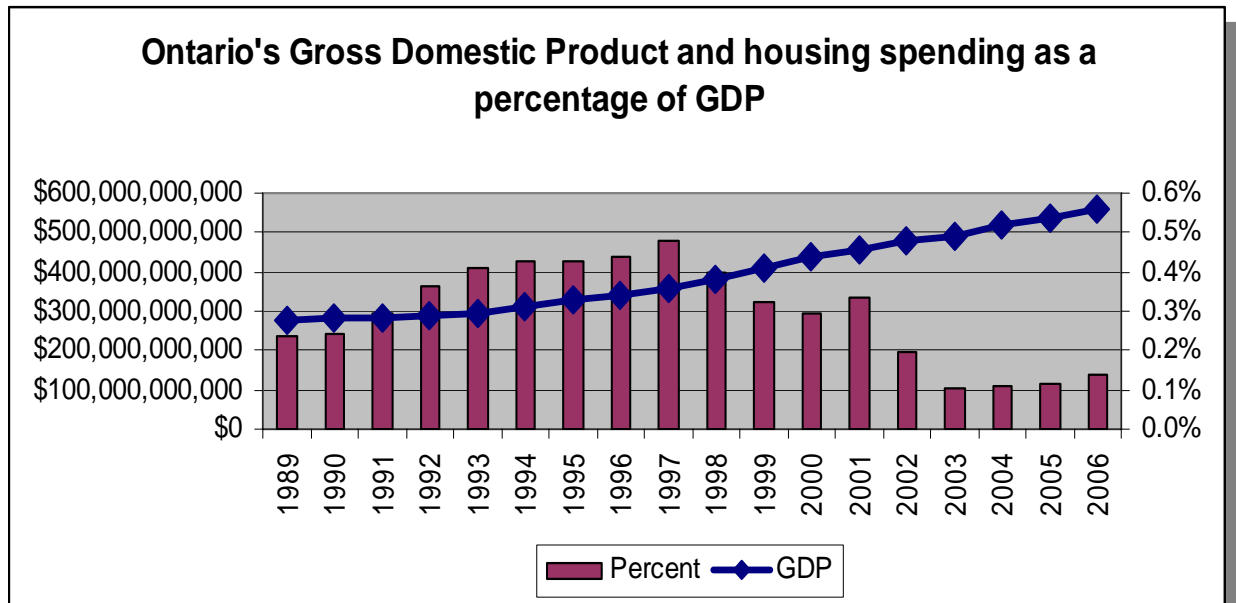


Sources: RBC Economics Research; Canada Mortgage and Housing Corporation

Housing: The fiscal picture

The housing sector is an important part of the overall Ontario economy. *Residential construction adds more than \$10.5 billion to the provincial economy* – a bigger share than mining, fishing, forestry, paper or chemical manufacturing. Housing is critically important to individual households, and it is a key part of the overall economy. As the housing-led downturn in the U.S. economy demonstrates, a crisis in the housing sector can drag down the entire economy.

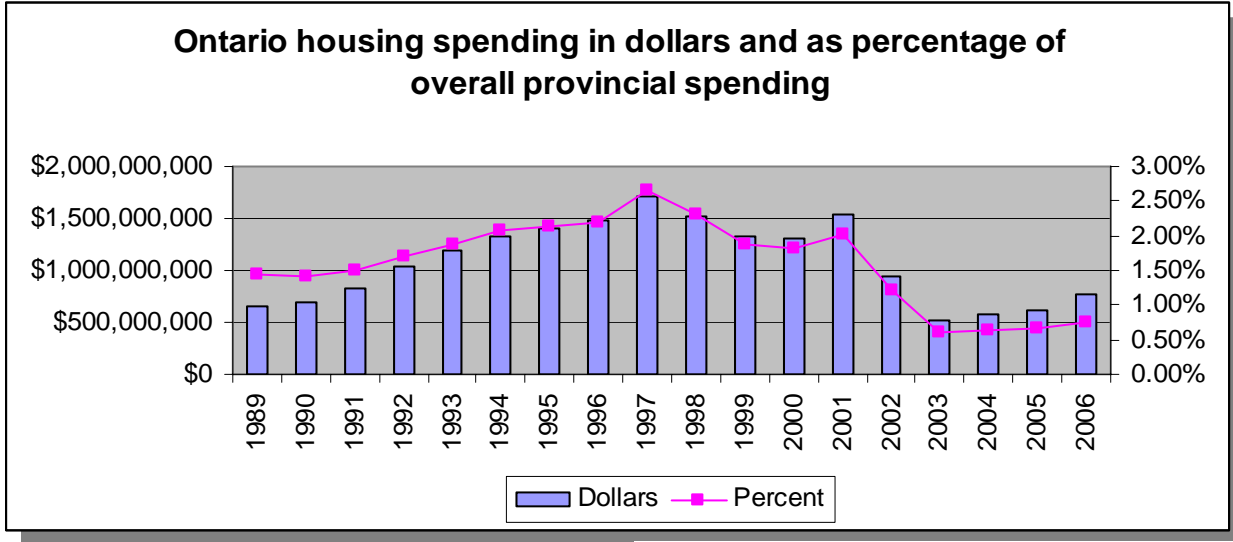
Policy-makers in Canada and the United States have relegated housing policy to the margins. Here in Ontario, for more than a 15, successive provincial governments have decided that the government should “get out of the housing business” and have relegated housing to the private markets. Even though Ontario’s Gross Domestic Product has been growing steadily since the early 1990s, the share of the GDP devoted to government-funded affordable and social housing programs has dropped from a paltry one-half of one percent in 1997 to slightly more than one-tenth of one percent in 2006.



Source: Statistic Canada

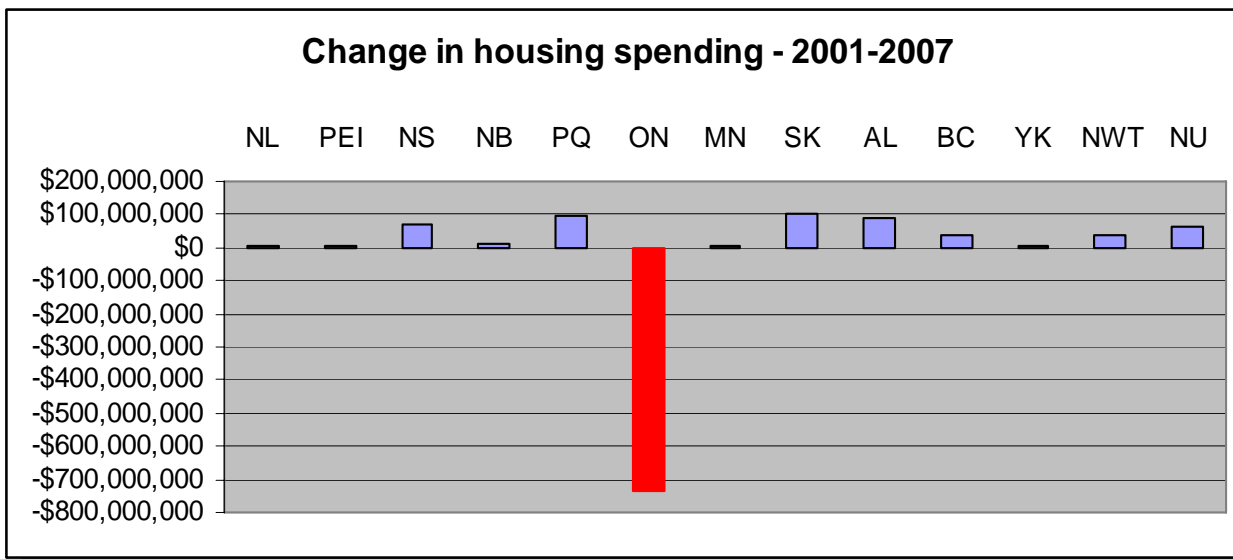
The newly-elected Ontario government set in place plans in June of 2005 to “get out of the housing business” by cancelling funding for new affordable and social housing, downloading most housing costs to municipalities and gutting rent regulation and other tenant protection laws. As there were several thousand social and affordable housing units in the funding pipeline, and it took the provincial government almost six years to complete its plan to download housing costs to municipalities, the major cuts in provincial housing spending didn’t show up until fiscal 2002. Provincial housing spending in that year dropped by more than one-third to less than \$1 billion, and continued a downward slide in 2003. The election of the McGuinty Liberals in late 2003 included a promise by the new government to increase provincial spending and meet the funding commitments made by the previous government in 2001 to add new provincial dollars to federal dollars promised for new affordable housing. Despite that promise, provincial housing spending

has remained stalled at less than three-quarters of a billion dollars. The Ontario government did a partial upload of housing costs in its 2007 provincial budget, by taking the housing costs from the “905” region around Toronto back to the provincial level, but *virtually all the new housing funding in Ontario in the last two years has come from federal housing and homelessness dollars*. Even the provincial housing allowance program that was announced with great fanfare in the 2007 provincial budget was funded entirely with federal dollars.



Source: Statistics Canada

Ontario’s record on housing spending since 2001 stands in sharp contrast with the rest of the provinces and territories. In November of 2001, Ontario joined with every other province and territory in signing the Affordable Housing Framework Agreement. Under that agreement, the provinces and territories agreed to cost-share a new \$2 billion housing program. *Every province has increased its housing spending except Ontario*. Saskatchewan, Quebec and Alberta increased spending by almost \$100 million. Even the three Northern territories have registered spending increases. Ontario cut its spending by more than \$700 million.



Source: Statistics Canada