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## **A NEW WAY OF THINKING ON AFFORDABLE HOUSING REQUIRED, SAY TD ECONOMISTS**

**TORONTO** – In a comprehensive report released today, TD Economics calls on policy makers across the country to develop a new approach to addressing the problem of affordable housing “...one that situates the problem in a larger economic and social context.”

Entitled *Affordable Housing in Canada: In Search of a New Paradigm* and available online at <http://www.td.com/economics/special/special.html>, the study represents the fourth in a series of TD Economics reports that address the challenges facing Canada’s urban areas. These studies were undertaken on the heels of a number of speeches in 2001 and 2002 by A. Charles Baillie, past TD Bank Financial Group Chairman of the Board, who focused on the goal of raising Canada’s standard of living above U.S. levels within 15 years. Living standards in Canada, as measured by GDP per capita, still stand about 15 per cent below the U.S. average.

### **Affordable housing is not just a social and health issue**

Affordable housing is frequently viewed as a social and health issue, but the fact of the matter is that it runs deeper than that. “Working to find solutions to this problem is also smart economic policy,” said Don Drummond, Senior Vice President and Chief Economist, TD Bank Financial Group. “An inadequate housing supply can be a roadblock to business investment and growth, and influences a potential immigrant’s decision on whether or not to locate in Canada.” As such, Drummond added, “Addressing this serious situation ties in well with the goal of raising the standard of living for all Canadians.” At last count, some 1.7 million households in Canada, or about one in five, could not find adequate and suitable housing without spending 30 per cent or more of their pre-tax income.

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### **Affordability improved of late, but only modestly**

Recently, the news emanating on the affordable housing front has provided a dose of encouragement, notably the spike in the average rental market vacancy rate in 2002, on the back of the recent surge in residential building activity. But, Drummond argued, “We should be very cautious about proclaiming a turning point in the crisis of affordable housing.” He points to the fact that the recent slackening in rental-market conditions in Canada has been largely at the higher-end of the rent range, not at the lower end where affordability problems are most pronounced. Moreover, the proportion of households with affordability problems, while improving in the second half of the 1990s, remains well above where it stood in 1990.

### **Not just a big city problem**

One striking finding in the TD Economics study is that shortages of affordable housing are not strictly a phenomenon affecting large urban centres. “Large cities such as Toronto and Vancouver are home to some of the highest overall costs of rental accommodation of Canada’s major urban markets, but two medium-sized cities, Halifax and Regina, rank first and third in terms of the share of renter households suffering from an affordability problem.” Moreover, average shelter-cost ratios for renter households in non-metropolitan areas are virtually on par with those in metropolitan areas.

### **Crunch happening on two fronts**

While Drummond acknowledges that the lack of new supply of rental accommodations, particularly at the lower end of the rent range, is at the heart of the housing problem, he believes an even larger contributor is that there are too many Canadian households with low incomes. “In virtually every region of the country, gains of lower income families have paled in comparison to those recorded at the average and higher ends.” He notes that for some specific groups, such as new immigrant families, poverty rates continued to worsen during the boom-times of the late 1990s.

### **The ultimate solution**

In its report, TD Economics lays out a new paradigm for finding solutions to the affordable housing problem. Whereas most approaches undertaken in recent years have focused on the supply side of the equation, TD Economics' ultimate solution is grounded in raising market incomes. "Maintaining a strong and stable economic environment, combined with measures to knock down barriers for low-income households to improving their income prospects, should be at the top of governments' priority list." Among the recommendations in the study, TD Economics points to the need to ramp up efforts to lower high-school drop-out rates, which are astonishingly high in Canada for a developed country, and to improving immigration settlement services. The Bank also recommends adjusting the design of federal and provincial benefit and tax systems to make work pay and to help low-income earners save for retirement.

### **Interim complementary actions also needed**

Drummond acknowledges that working to lift market incomes at the low end will take time. Accordingly, he points to the need to take interim measures targeted at lower-income families. "Income support, both shelter-specific and more general, are an efficient way to target assistance to those most in need," Drummond said.

However, he adds that in an environment of tight supply, income subsidies for rents can lead to the benefits flowing up to the landlord, highlighting the need to complement them with measures to boost supply. In the study, TD Economics argues that recommendations put forward to spur private rental investment in recent years have been largely on the tax side, many of which do not appear to be very effective in improving the situation for affordable housing. "There is no compelling reason to think that these tax breaks would work more effectively than direct capital grants targeted at affordable housing."

On the supply front, in addition to the tax recommendations, much of the emphasis has been on boosting affordable housing availability through producing *new* rental stock.

Drummond said, “In many cases, it is more economical to target public resources on preserving and rehabilitating the *existing* stock.”

### **Remove market imperfections**

Drummond also underscores the importance of eliminating various market imperfections that have impeded the creation of affordable housing. These imperfections include everything from higher municipal property taxes on multiple-unit residential dwellings than on single-detached, to rent controls, to a lack of available land in reasonable-cost locations. Furthermore, development codes often prevent the construction of lower-cost housing. “Fostering the building of more modest housing stock, such as single-room occupancy units, can play a key role in assisting very low-income individuals and people transitioning out of the shelter system,” Drummond said.

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This report, “Affordable Housing in Canada: In Search of a New Paradigm,” (including charts) is available in PDF format on TD Economics’ Home Page at:  
<http://www.td.com/economics>.