

## RESEARCH - ANALYSIS - SOLUTIONS

# CCPA REVIEW

## Economic & Social Trends

March 2009

### The Trouble with Housing for Low-Income People

**W**e are plagued by a massive shortage of low-income rental housing – in Winnipeg and throughout Canada. This has been acknowledged over and over by those involved with housing issues all across the country. The shortage has led to a debate about how to fix the problem, with some calling for more government intervention and others more private-sector involvement. Below we explain why the private sector has not, and cannot, meet the housing needs of low-income Canadians.

#### The Failure of Private, For-Profit Housing

The housing shortage exists because private, for-profit developers do not build low-income rental housing. They don't build low-income rental housing because doing so is not profitable to them. The low rents that can be earned from low-income rental – in part the result of the appallingly low shelter component of social assistance, and low minimum wage rates – prevent their making profits.

Instead, private for-profit developers build large suburban sub-divisions, where profits can be earned

from mass production techniques and high sales prices, and they build condominiums, attractive to high-income earners. Low-income people in need of affordable rental housing are left out because meeting their needs is not profitable.

The solution to the problem of low-income rental, therefore, must of necessity be a non-market solution – rental housing that is built by government, or by non-profit builders supported by government. It gets done that way or it doesn't get done.

Government action and investment is needed if we are to fill the gap created by the failure of the private for-profit housing industry to invest in low-income rental housing. And it is the *federal* government that has the greatest capacity to fill this gap. Municipal governments have limited fiscal capacity. Provincial governments have more, but not enough on their own.

It follows that the provincial government's recent decision to direct economic stimulus dollars at the renovation of existing public housing was an intelligent policy move. The usable life of a valuable asset that is in short supply – low-income rental housing – will be extended; local people will be put to work doing the renovations; low-income communities will be strengthened; and the economy will be stimulated. Investment in infrastructure

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makes good sense. Social housing is infrastructure. We need much more such infrastructure.

## Could Privatization Work? If So, For Whom?

In some cases right-wing organizations or governments oppose an active role by governments in the provision of social housing. They call instead for a bigger role for the private sector. Some even recommend turning existing social housing over to the private, for-profit sector.

But approximately 95 percent of housing in Canada is *already* in the private for-profit realm, and still we face a crippling shortage of low-income rental housing. Why would a still greater role for the private, for-profit housing industry solve the problem? Clearly it would not.

A recent privatization proposal in Manitoba, for example, would have *doubled* the rent of low-income renters in order to make privatization ‘work’. Obviously, this would not work for low-income renters.

## What Has Privatization of Housing Achieved Elsewhere?

In Britain, Margaret Thatcher experimented with privatizing public housing. Some have argued that this was a good thing, because it led to some “dark, dingy dismal housing blossom[ing] into well-kept, colourful homes as people took pride of ownership”. But this cosmetic transformation did not remedy the UK’s housing ills. The overall effect has been negative. There are now fewer social units available.

The effects of Thatcher’s ‘right-to-buy’ policy were contradictory. The most economically stable low-income tenants – many thousands over the past 30 years – purchased their units. Many of them benefited. But many others have since lost their homes, unable to afford the operating costs. And the total number of social housing units available for those in need has declined.

The result: the good fortunes of some have come at great cost to the hundreds of thousands of low-income households who now have fewer, not more, housing options. Wait lists for social housing units continue to grow; nearly 4 *million* households in England are now on wait lists for the remaining social housing stock; and the number of households requiring subsidized housing grows by around 48,000 per year.

In the US, privatization of public housing has evolved through the HOPE VI program. The objec-

tive of HOPE VI was to demolish the most “severely distressed” public housing units and to provide public housing authorities and their private partners with grants to create new units. The initial promise was that there would be no net loss in subsidized rental units. But the promise to replace subsidized units one-for-one has not materialized; many tens of thousands of residents have been displaced; and the number of social housing units – already in terribly short supply in the US – has been further reduced.

## A Similar Process, With Similar Consequences, in Canada

These UK and US policies are strikingly similar to the policies that have brought Canada to our current state. In all three countries, the process of privatization began years ago. It started with disinvestment, reducing the number of units available, decreasing on-site support staff, allowing remaining supply to deteriorate, and reducing its appeal and availability for anyone but the most desperate. The result is housing of last resort that stigmatizes and segregates. The few social units available are allocated to those in most dire need, resulting in the segregation of households with extremely complex social, economic and health issues. This then promotes the many problems known to be associated with the spatial concentration of poverty. The next step, in the minds of some, is to tear down or sell off the social units characterized by spatially concentrated poverty at fire-sale prices, justifying doing so on the basis of the very conditions that those in favour of privatization have themselves created.

Some argue that social housing should be sold and former tenants should be given subsidies to enable them to purchase private-sector housing. Selling off the social housing supply and attaching subsidies to individuals rather than units may sound good in theory, because it appears to give tenants the freedom to choose where they live. But in a tight rental market such as ours, the landlord has the choice, not the tenant. In the US, private landlords choose tenants who pose the least risk, leaving many low-income households with no housing options at all, because they have no social housing units to fall back on. Britain is now attempting to reverse the damage done by the privatization of public housing through a building program aimed at replacing the units that were sold.

We should be wary of simplistic models that place private sector interests ahead of the public good. The private, for-profit housing industry has not, and cannot, meet the needs of low-income people for good quality, affordable housing. That requires a *more* active role for government.

## Might Rent Control be the Problem?

Those who claim that the private for-profit housing industry can best meet the needs of low-income people often blame rent controls for their failure to build low-income rental housing. This argument is simplistic. First, there is a shortage of low-income rental housing in *all* provinces whether or not they have rent control legislation. The fact that rental accommodation is in short supply across the country suggests that there are other factors at play. Second, a close examination of Manitoba's *Residential Tenancies Act* makes it clear that rent control is not the problem.

The *Residential Tenancies Act* includes rent regulations to protect tenants from drastic rent increases, which is especially important in tight rental markets such as today's.

But the *Act* also includes exemptions to encourage the private sector to build rental housing. Analysis of rent control must begin with an understanding of the legislation. Here is how Manitoba's residential rent regulations work.

- Under most circumstances, landlords can increase rents once every 12 months at the rate set by the Province. The rate in 2008 was 2 percent; in 2009 it is 2.5 percent.
- There are several situations in which residential units are exempt from rent regulations. These include:

- *New supply*

Manitoba rent regulations do *not* apply to new developments. As stated in the legislation, rental complexes built and occupied after March 7, 2005, are exempt from the guidelines for 20 years. This means developers who build new units can set their rental rates as they wish and raise them as they wish. After 20 years, they will be bound by the guidelines in place at that time.

- *Rehabilitations*

Landlords wishing to rehabilitate their units can apply for exemptions to allow them to boost their rents beyond the rent guidelines after improvements have been made. Many landlords have taken advantage of this. Thousands of units have been renovated or upgraded in Manitoba. Some have been completely overhauled; others have received exemptions for minor improvements.

While there have been some significant improvements to the aging private rental stock, the downside has been sharp increases in rental rates and displacement of many low-income households. Tenants can be moved out during renovations, but after completion of the renovations the landlord may be able to raise rents beyond levels that the original tenants can afford. The inner-city West Broadway neighbourhood is a prime example of a neighbourhood in which many low-income renters have been displaced because they are no longer able to afford the rent after private for-profit developers got around the rent control guidelines.

- *Exemptions for high-end rental units*

Rent regulations do not apply to high-end units. For 2009, this means units renting at \$1,095 per month or higher. If there is a market for this type of unit, it is not rent regulations that are deterring the private sector from building them.

Other exemptions include units owned by governments or agencies of the government, non-profit corporations, cooperatives, units funded under the Residential Rehabilitation Assistance Program, and rental units funded and operated in accordance with the Affordable Housing Program.

There are many ways around our current rent control legislation. Rent control is not the cause of the shortage of low-income rental housing.

## Other Cities and Provinces

Manitoba has a rental-housing crisis not unlike that in large cities across the country. Rent controls have been abolished in most provinces, yet virtually all provinces have a shortage of rental units for low and mid-income households. For example, the rental vacancy rate in Winnipeg now is 1.0 percent. In comparison, the two major centres in Saskatchewan, a province *without* rent controls, also have very low vacancy rates: Regina's is 0.5 percent; Saskatoon's is 1.9 percent.

Calgary's vacancy rate is a bit higher at 2.1 percent. But rents are among the highest in Canada, as is homelessness. While Calgary's population increased by 13 percent in 2007, there was a 6 percent *decline* in rental units – 1,817 of which were lost to condo conversion in 2007 alone. Alberta does not have rent controls.

The Ontario experience is similar. The Harris government in Ontario eliminated rent controls in 1998. The predictable argument was that rent regulations were a disincentive to development, and deregulation would allow the market to correct the shortage in

rental supply. The theory proved wrong. Rental rates increased and options for low-income tenants were greatly reduced.

In 2007 the McGuinty government reintroduced rent regulations.

In cities across the country, low- and mid-income families are struggling to find affordable rental housing. This is the case in rent control and non-rent control jurisdictions. The rental market need is in the medium and low-end markets. For-profit developers don't invest there because it is not profitable for them. Full deregulation won't change this.

## How Can We Solve the Problem?

It is time that we acknowledge the limits of the unregulated free market. We have much to learn from the US, the most deregulated nation in the western world, as it sinks further into economic crisis. The US crisis is a result of the blind trust that has been placed in a deregulated free market. We should stop making the same mistake with housing in Canada.

Canada's trust in the private for-profit housing industry is the root cause of the long-standing failure to meet Canadians' pressing need for low-income rental housing. To remedy that, we need a national housing strategy – Canada is one of the very few countries in the industrialized world without one – led by the federal government, with important roles played by provincial and municipal governments and non-profit housing providers, and with a commitment to a significant annual increase in the supply of low-income rental housing.

A national housing strategy would allow governments to stimulate our struggling economy by investing in public housing. Many good jobs would be created; fundamental human needs would be met; long-term benefits would follow.

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