

Possible Directions for Housing Policy in Nova Scotia

Background paper prepared for Affordable Housing Association of Nova Scotia

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Introduction

As part of Housing week, 2006, the Affordable Housing Association of Nova Scotia (AHANS) convened a one-day symposium to examine affordable housing issues in Nova Scotia. The objective was to review issues and opportunities and to outline suggestions for a more comprehensive framework that might guide the respective activities of association members and the evolving direction of provincial housing policy.

AHAHS is an association of non-profit and cooperative housing providers and advocates interested in the issue of affordable housing.

AHANS recognizes that the vast majority of housing is owned and operated by individuals and corporations and that the housing market is a critical feature of the housing system. In Nova Scotia, social and assisted housing accounts for roughly 6% of the total housing stock (a similar proportion to the Canadian average). The community sector (non-profit co-op and charitable organizations that delivery emergency, supportive and affordable housing are an important element in the housing system, complementing and supplementing the market.

The housing market in Nova Scotia functions well, with new construction activity exceeding the level of population growth and enabling some replacement of older dwellings. However there are some imperfections and undesirable outcomes of this market system. Most notably, the market is not able to respond to the needs of a small subset of the population that lacks the income and resources to have market demand – including those with mental health illness, individuals recovering from substance abuse, the homeless as well as some seniors, households that rely on income assistance (ESIA) and others with low wage income. This is why public assistance and an appropriate provincial housing policy is necessary.

AHANS also recognizes that there are not infinite resources available to address issues of non-market housing need. A number of federal programs and funding agreements do however provide some funding with varying degrees of conditions on how funds can be used. The province, primarily through the Dept of Community Services is able to contribute some provincial funding to augment these transfers. It is therefore important that these limited fiscal resources be strategically invested to maximize the impact on addressing unmet housing need and, where appropriate, to support and encourage initiatives that can increase the effectiveness of the private market.

Defining and measuring the problem

Any housing policy or comprehensive strategy must be founded on a clear understanding of the issue or problem. One way to assess need is to measure outcomes - symptoms of the problem. Another is to examine how the housing system functions and whether there are deficiencies or gaps in the system that contributes to these symptoms.

Formal measures of need

Traditionally affordable housing issues have been framed by a nationally (CMHC) defined set of housing standards called core housing need, which helps to quantify the size of the problem.

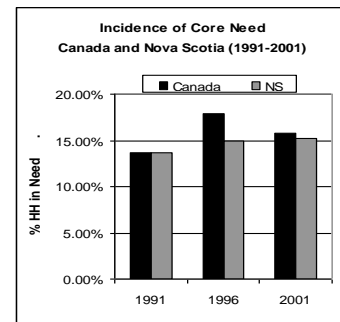
Tracking trends in both the characteristics and level of core need can also help to refocus existing policy and programming. Core need uses three separate standards:

- Affordability: is the household paying above a defined benchmark of 30% of income for shelter?
- Condition: is the dwelling in a safe and sound state of repair?
- Suitability: is the dwelling over-crowded?

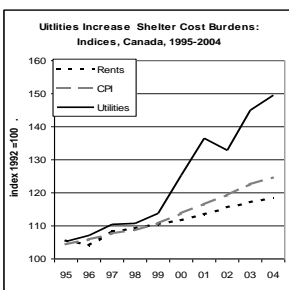
In addition, an income threshold is used to assess whether households have sufficient income to solve remedy the problem without assistance.

In Nova Scotia, as in the rest of Canada, the predominant problem is affordability – almost 90% of core need issues relate either to affordability only or some other combination of suitability and adequacy but also includes affordability. That said, Nova Scotia is above the national average for households living below the adequacy standard more than 10% of households in Nova Scotia live in inadequate dwellings, highlighting the need for rehabilitation programs.

The number of households facing core housing need in Canada has remained stubbornly at around 15% for over a decade. In Canada as a whole the rate declined marginally between 1996 and 2001, but still remained above the rate in 1991. Nationally, in absolute terms there are 200,000 more households in need in 2001 than in 1991, despite a period of sustained economic growth and improving employment and incomes since the mid 1990's. In Nova Scotia, the rate of need has continued to grow. Nova Scotia did not share the benefit of more recent economic growth as much as the rest of Canada. The incidence of need rose from 13.6 to 15.2% and in absolute terms from 45,000 to 52,000 households.



Core housing need is most acute among renters. Of the 52,000 in need, 32,000 are renters (61%, while renters only make up less than 30% of all households). While the overall rate (in 2001) is 15.2, this is comprised of a subset of 8% of all owners, but 34% of renters. Issue for owners tend to be more related to adequacy (poor condition), and among seniors.



Recently, utility costs have exacerbated affordability issues. Typically tenants are required to pay utilities on top of rent and are consequently directly impacted by rising utility costs. At a national level, inflation has increased 24% since 1992 but utilities have increased by 50%, much of this between 1999 and present.

Against the trend of increasing housing need, Nova Scotia is experiencing slow or no growth in total population. Between 1996 and 2001 the population grew only 5.6% (and more recently it has stagnated and declined .0.6% in 2004). But, this is comprised of important intra-provincial shifts. The HRM, together with two or three other counties are experiencing growth while all other parts of the province loose population. This imposes challenges in terms of resource allocation as well as appropriate programming with flexibilities to respond differently to urban

and rural need. For example it may not be a sound investment to build new homes in depopulating areas, even though there are unmet affordability, suitability and adequacy needs.

Some perceptions from the front lines

Augmenting these statistics, participants in the symposium were asked to write down what they perceive as the critical housing issue in their community and in the province as a whole (the majority of participants were from the HRM, so reflect a more metropolitan perspective). In summary, a majority of respondents highlighted two key themes: ***lack of affordable and accessible housing; and the lack of supportive housing*** (for both mental health and seniors).

Participants also highlighted related symptoms:

- Lower rent properties are often in poor repair, but low-income renters are victimized;
- Safe and adequate housing for students is insufficient (although university dorms may have space but are too expensive, so students share apartments or homes in market – crowding out other low income non-students).
- The shelter component of income assistance is low and leaves income assistance dependents (including those of long term disability) with very limited choice.
- When supportive housing does exist, there is often insufficient funding to ensure appropriate and sustainable supports
- Insufficient lower rent (and adequate) rental units cause a bottleneck in emergency and transitional housing (individuals remain in emergency shelter system)
- Utility costs increase affordability problems as tenants usually pay heating bills (especially and issue for seniors and disabled on fixed income)
- Lower rent housing is often poorly located in areas that lack amenities or services. There are increasing concentrations of poverty in certain areas or neighbourhoods, which fuels a spiral of neighbourhood decline.
- Existing (older neighbourhoods) lack a mix of housing (building type and tenure) limiting choice, especially for seniors.
- AHI programs tend to focus on rental; ignore positive effects of homeownership in stabilizing distressed neighbourhoods.
- Lack of affordable land in appropriate locations, correctly zoned. New affordable development in HRM also impeded by NIMBY opposition
- Outside HRM, weak growth (de-population), older homes in poor condition and weak market to sell.

Optimizing the role of the market

The discussion also highlighted the important role and impact of the housing market. It was already noted that 85% of households enjoy good housing at rents and prices they can afford (i.e. they are not defined to be “in need”). It is extremely difficult to address the backlog of core need (other 15% of households) with the limited resources available (discussed further below) so initiatives and policies to support and improve market outcomes, in short to grow the 85% not in need, must be identified and implemented.

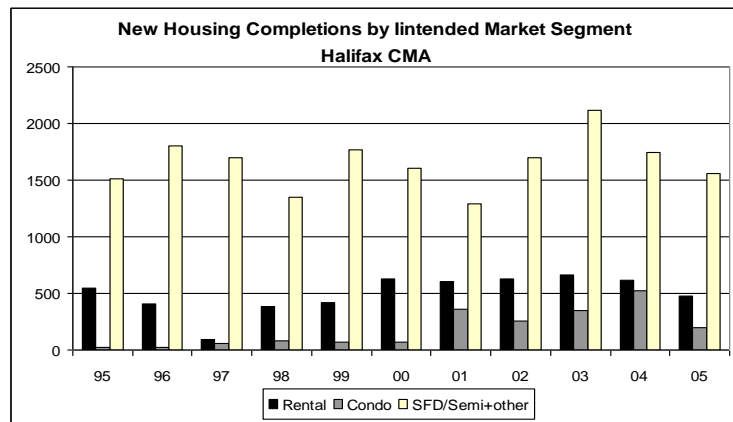
The goal should be to help the market work better to serve those in need. That said, it is not realistic for the market to respond to the needs of the lowest income or most vulnerable, especially those requiring supports. Similarly, for example individuals or families able to pay less than \$500/month are unlikely to stimulate a private entrepreneurs to build rental housing that is affordable to them. However the private entrepreneurs will, and have, constructed new rental housing at higher rent levels. While this rents are not affordable, indeed the rents in new properties often exceed \$1,000 per month, even at high rents, this new supply creates opportunities for moderate income households. Consequently, it enables some households who would otherwise occupy lower rent units to move up in the market and thereby free up lower rent units. It also creates supply that stabilizes vacancy rates at a more healthy level – when rental vacancy rates are very low, landlords are able to raise rents more (demand exceeds supply). So policies that encourage and stimulate new rental (including an adequate supply of appropriately zoned land, together with removing existing regulatory barriers and deterrents) are critically important to a healthy rental market.

Improving the opportunity for moderate income households to buy also increases rental vacancies removes pressures from the rental sector. This can include initiatives to facilitate households in the upper end of core need to purchase homes.

Initiatives to stimulate market responses apply more to the HRM and perhaps some of the larger communities outside the HRM. They are not applicable in much or the hinterland of Nova Scotia where markets are weak.

As a major regional hub, Halifax tends to attract in-migration from the rest of the Maritimes and has a number of larger post-secondary institutions with large student population. This has created a fairly sustained level of rental demand.

Halifax has recorded a fairly steady level of new rental activity since 2000, with just over 600 new rental units completed annually. With the exception of two smaller developments, funded under the affordable housing program, this has been all privately initiated and targeted to the high end of the market. Typically rents in these new properties have been 25% to 30% above the average market level.



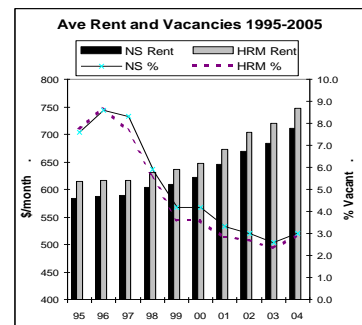
Until very recently, condominium development has not been significant in Halifax, but this has changed. New condo starts in HRM have jumped from almost none prior to 2000 to over 300 units annually (and over 500 in 2004). The emergence of a condominium market in Halifax has two effects. First, because developers are targeting the more wealthy homeowners that are trading home equity for condominiums, they tend to be higher priced which causes upward pressure of land prices and undermined viability of new (especially affordable) rental

construction. Second, condominiums are often purchased as investments by individuals and rented out. Some developers also build as condominiums but initially operate the project as rental projects. So condominium construction creates an informal source of rental supply (albeit at higher rent levels).

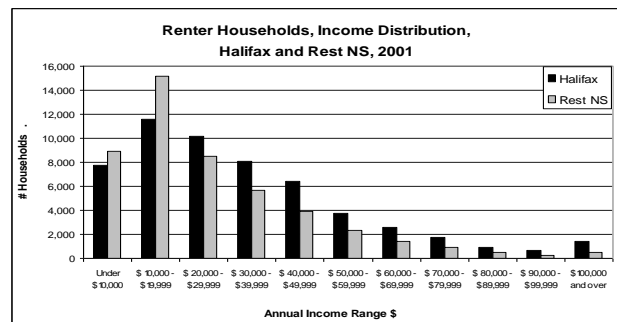
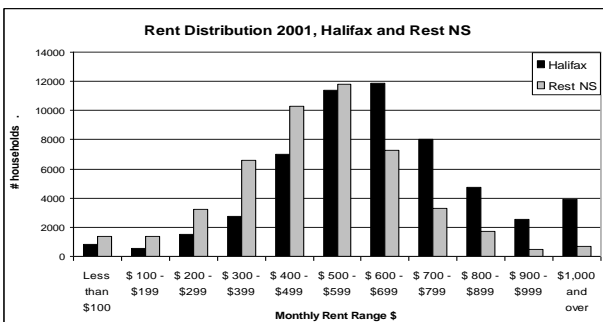
This raises another important fact. The rental sector is not just rented apartment buildings, it includes a variety of different building types – such as rented houses, apartments in homes, including basement suites, and as indicated above, rented condominium units. This *non-conventional* part of the rental sector is very significant. The 2001 census identified 93,000 renter households in Nova Scotia; CMHC's formal survey of purpose build rental apartments (structures of 3 or more units) counts only 45,000 (37,000 of these in Halifax), so more than half of renters live in the informal part of the rental sector.

Policies to encourage installation of secondary suites in existing homes (or more accurately reform of local regulations that prohibit such suites) may encourage construction of additional rental units – often at moderate rent and often more appropriate for families (e.g. lone parents with one child would have ground access to garden space).

Overall, the Halifax housing market has functioned well. In response to declining vacancy rates, developers have increased the volume of new rental construction, and thereby mediated the upward pressure on rents. Halifax is one of the better markets in Canada in terms of relative level of rental development. While one third of all households in Canada are renters (34%) rental construction has accounted for less than 10% of total new housing starts over the past decade. Halifax has done much better, with rental starts continually exceeding 20% of all new housing construction for most of the past decade.

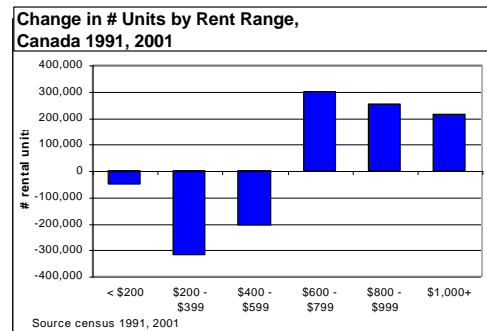


The combination of formal rental and informal rental, via condo and other sources) suggests that NS in general and Halifax as the dominant market, does not have a serious supply problem. However there is a serious and potentially worsening combination of affordability problems (especially, but not exclusively in the HRM) and an issue of declining physical condition, some concentrated in certain neighbourhoods of Halifax and more generally across the hinterland.



Although there may not be a serious supply problem there is a distortion, or mismatch between what people can afford to pay for rent and the rent level of units available. The rent distribution is decidedly clustered around the average rent level, with few units in low rent ranges and few (but most newer ones) at the upper end. Meanwhile the income distribution of renter households (who tend to have lower income than owners and the overall average income) is markedly distorted to the lower income bands. In Halifax 35% of renter households have incomes below \$20,000, but only 23% of rental units rent below \$500, the maximum rent they can afford. Outside of Halifax the mismatch is less serious (50% are below 20,000 income but 47% of rental units have rents below \$500).¹ Given the volume of units in mid market ranges, and the relatively healthy conditions of the Halifax rental market, rent supplements are an appropriate response for households experiencing only and affordability problem.

There is a critical issue of an insufficient and eroding volume of lower rent accommodation. The number of rental units below \$500 (affordability level for households earning \$20,000 annually) is steadily declining. The lower priced stock is reduced through three processes: demolition (absolute loss), conversion to condominium ownership, or through rising rents which lifts rents to higher, less affordable levels.



One of the most serious aspects in this erosion is the acquisition of existing properties where rents may be low to moderate. The investors make some capital improvements and gradually move rents higher to improve the cash flows and rate of return for the investor – often large institutional investors, but also three rental investment corporations that still view Halifax as an attractive investment market. For investors it is more feasible to buy existing property than to build new.

Recent sales of small investment properties have ranged from \$40,000 to \$65,000 units per unit, far below the cost of new development (in excess of \$120,000 even for modestly designed units). So, as affordable housing providers continue to seek funding to build new properties (with limited success) at the higher costs, they are losing ground. For every new unit it is likely that two or three existing units are eroding from the lower rent stock.

An alternate approach to new non-profit construction would be to permit and even encourage a similar acquisition approach to enable non-profit corporations to acquire some existing properties and thereby preserve longer-term affordability.

Potential to increase access to ownership

Another area where the market offers potential is in the area of homeownership. In a recent research study undertaken for HRSDC, the price and volume of home sales both for newly constructed homes and resale homes were compared to the income levels and affordability potential for households in the upper tier of core housing need (those with incomes in the top 30% of core need (which in Halifax is between \$19,000 and \$27,000 for singles and \$24,500 and

¹ All data on rents and incomes used here is from 2001 census. Obviously there have been subsequent shifts in both incomes and rents.

\$35,000 for families). The study determined that for families there were more existing homes sold in Halifax in 2001 than the number of households in the upper 30% of housing need. The volume of sales affordable to single persons was very small. In the new construction market (data only for detached and semidetached homes, so this is relevant for families only) 16% of newly constructed homes in Halifax are at prices affordable to the upper tier of core need.

While a significant number of core need households appear to have sufficient income to buy entry-level homes, they may lack the financial literacy to explore this option. In addition, they may have poor or impaired credit, which causes difficulties in qualifying for a mortgage. Low cost initiatives to provide credit counseling and homeowner/ homebuyer education could have an important impact in addressing affordable housing need, and in having a quantum impact on reducing the number of households in core need.

Potential resources to support affordable housing options

There are a variety of existing funding mechanisms. The primary programs include:

- The Federal-Provincial Affordable Housing Initiative (AHI), which has allocated some \$57million of which roughly one-third remains to be invested. This source has some flexibility and can fund rent supplements, assisted ownership, acquisition/rehabilitation and new construction.
- The recently funded Affordable Housing Trust, under which the federal government will provide \$23 million between 2006 and 2009 with a further \$7.8 million, allocated specifically for initiatives targeted to non-reserve aboriginal households. There are minimal conditions on use of these funds, however they cannot be used to fund existing housing operations or capital repair, nor can they be allocated for rent supplements.
- The Residential Rehabilitation Assistance Program (RRAP), providing grants and loans to facilitate upgrading and rehabilitation of homes as well as adaptation for disabled residents, the elderly and most recently grants to encourage upgrading of emergency shelters and rooming houses for homeless at risk persons and to convert existing properties into rental use. RRAP has been in place since 1974, through a continuous cycle of renewals, with the most recent renewal for one year, expiring in March 2007. In 2006/07 this program provided \$9 million for rehabilitation programs in NS. It is not known if this program will continue to be available beyond March 2007.
- The National Homeless Initiative (NHI), including the Supporting Community Partnerships Initiative (SCPI) has been instrumental in establishing a more comprehensive and coordinated approach to homelessness. Since 1999 over 15 million has been funded (over 7 years) for initiatives to alleviate homelessness in Nova Scotia. Like RRAP, the NHI expires in March 2007; it is not known if this program will continue to be available beyond March 2007.

Given the brief scan of housing issues reviewed above, there is a critical need for ongoing funding to support rehabilitation. Nova Scotia is among the provinces with the highest level of rehabilitation need, especially outside the HRM.

The initiative facilitated under SCPI to improve services to homeless and at risk individuals and families) are just beginning to have an impact. Renewal of SCPI would enable initiative to respond to the identified lack of transitional and supportive housing together with available lower rent affordable options to facilitate movement out of transitional into permanent housing. While AHANS has and will continue to advocate for renewal of RRAP and SCPI with the federal government, it would be beneficial if province officials and Minister can similarly advocate with their federal counterparts.

Separate from the sources of funding for new initiatives, AHANS recognizes that there are needs within the existing social housing stock – both the parts owned and operated by the NS Housing Development Corp and those properties owned and operated by non-profit and cooperative corporations. This includes rising operating costs, related to inflating operating expenses, especially insurance and utility costs as well as historic under funding of capital replacement reserves, on which there is an increasingly high draw and properties reach a peak replacement stage of the building lifecycle.²

Looking to the immediate future (next 3 years) there is some certainly around the level of funding available under AHI and the AHT, although how that funding might be invested remains to be determined. Renewal and extension of SCPI and RRAP remains unknown, but there appears to be some optimism about renewal, so the following suggestions assume that some level of resourcing is also in place from these two programs.

Under the AHI the Department of Community Services channeled funding through four programs:

New Rental Housing Initiative: to encourages the conversion or construction of new, modest and affordable rental housing for low-to moderate income households in areas of need. Developers are provided with a one-time capital contribution to make renovations. Rents are offered at or below average market rents. A portion of the units receive rent supplement assistance for low-income households.

Rental Housing Preservation Program: Preservation of existing affordable multi-family housing for low-income households. Provides non-profit organizations with up-front capital funding to renovate existing rental housing at risk of being lost, or for the conversion of non-residential buildings into affordable housing.

New Home Purchase Program: Supports the creation of modest new homes in areas of revitalization for moderate-income households in designated Urban Areas of revitalization. Households must be first time homebuyers who are currently renting in the community. The level of funding will vary depending on development costs, down payments, and the owners ability to finance.

Home Ownership Preservation Program Helps low-income homeowners make major repairs to their home. Major repairs must improve the integrity or structure of the home

² While CMHC continues to transfer subsidy funding to cover debt servicing and operating expenses, this transfer is frozen at the 1995/96 level, so that the provincial treasury must absorb the inflating costs, net of any saving from reduced mortgage payments resulting from mortgage term renewal at lower rates than those in place in 1995/96.

and address health and safety issues. The level of funding will vary depending on the cost of repairs.

This suite of programs provides considerable scope to respond to identified housing need and may have the potential to address some of the issues outlined earlier. However in order to maximize the impact of the limited funding under AHI/Housing trusts the following refinements are suggested:

Refine the ***Rental Housing Preservation Program*** to facilitate and emphasize acquisition of existing private rental investment properties. This should not target only properties in disrepair (for which rehab cost may result in expensive per unit costs), but also seek properties that are in reasonable condition but at risk of loss to the affordable sector if purchased by private investors. A proactive strategy of selective purchase would be more cost effective than building new and would minimize the problem of erosion of the existing relatively affordable stock. Acquisition also helps to avoid NIMBY, which has been problematic in HRM to date and has caused proposed developments to be withdrawn.

Where acquisition not possible (no appropriate sound quality properties available) new construction or conversion of non-residential properties should continue to be pursued.

A significant portion of capital investment should be directed to enhancing and expanding the stock of transitional and supportive housing to address the needs of most vulnerable households not well served in private rented housing. Addressing the issue of available lower rent properties to facilitate transition (for those able to continue moving up the housing ladder) can be achieved either through the aforementioned acquisition approach, or in the short term by utilizing rent supplement assistance (recall the large supply of existing rental units in mid market rent ranges).

Improved supports services need to be negotiated with appropriate agencies to ensure that supportive housing can properly serve its clientele and to minimize the risk of unsupported individuals falling back into homelessness (with associated higher costs in the emergency system).

Greater use of rent supplements should be explored, both stacked with acquisition grants to enable deeper low-income penetration, and with existing private landlords. Halifax has a healthy rental market, with many units in the median rent ranges and with reasonable new supply accompanied by a healthy vacancy rate; precisely the conditions where rent supplements can be effective.

Rent supplements are also a possible strategy in non-HRM where there are weak markets so investment in new buildings may not be advisable (and the issue of undersupply and mismatch between rent levels and income levels is not so acute).

The current homeownership program (***New Home Purchase Program***) should be revised to allow purchase of existing properties (of which there is a healthy supply at affordable prices).

Separately, homeowner education and counseling programs, emphasizing financial literacy and repair of poor credit can be cost effective ways to enable modest income households to access entry level homeownership. There is a greater volume and choice of affordable homes in the

existing resale market. There is potential to partner with realtors and local financial education to extent the impact of this approach with minimal cost to government