Major Themes in the Evolution of Canadian Rental Housing Policy, 1900-1984

by Joan Selby
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MAJOR THEMES IN THE EVOLUTION OF CANADIAN RENTAL HOUSING POLICY, 1900-1984

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There is widespread agreement among housing policy analysts that there is currently a serious problem with Canada's rental housing sector. This problem consists of three elements: persistently low vacancy rates; declining private sector rental starts, despite the low vacancy rates; and declining affordability of both new and existing private rental stock for a considerable portion of the low- and moderate-income renter population. This situation has prompted a debate as to whether the past and current approach to rental housing policy is appropriate to the solution of rental housing problems, or whether new or different strategies for addressing rental problems are warranted.

This paper seeks to contribute to the current rental housing policy debate by providing an overview of three discrete, yet interrelated factors, which together have shaped the rental housing policy-making environment in Canada over the course of the twentieth century.

The paper examines, first, a set of fundamental and rarely-questioned assumptions. These assumptions relate to important questions about the appropriate role of government in housing, about the capacity of the private rental sector to meet Canada's rental housing needs, and about the role of rental tenure in our society. The paper argues that these assumptions have severely constrained rental policy and program options and have prevented the implementation of potentially more effective rental programs. These constraints on government rental policy have resulted in either the neglect of Canada's rental problems or the adoption of a variety of short-term, ad hoc programs in response to immediate crisis situations. The major constraints discussed in this paper include: the almost exclusive reliance on the private sector for housing supply and housing program delivery; the focus on home ownership as the desirable tenure option; the belief that severe housing problems are temporary aberrations rather than manifestations of fundamental, long-term problems; and the view that housing is largely a local matter, with problems best left to the municipalities and provinces to sort out.

The second factor examined is a set of opportunities for government intervention in the rental sector. The paper argues that in spite of the constraints, macro-economic circumstances as well as circumstances in the rental sector have forced government to intervene from time to time for political, economic and social reasons. The opportunities for government intervention all relate to the poor performance of the private rental market throughout both the nineteenth and twentieth centuries. This poor performance has been manifested in three specific problem areas: the poor quality of much of the rental stock, especially early in this century; the insufficient supply of rental units; and the high cost of rental housing - the affordability problem.

The third factor examined is the inadequate definition of the nature of the rental problem. Before deciding what to do about a problem, it is necessary to define what the problem is. This section reviews the specific types of activities the government undertook based on the way in which it chose to define rental sector problems. The paper argues that, because of the constraints outlined in Section 1 and due to the opportunities which made necessary some form of government action, as outlined in Section 2, a clearly sequential pattern can be identified in how the problem was defined. This means that the major elements of the rental housing problem - quality, supply and affordability - were treated in relative isolation of each other with the government continually failing to consider the interrelationships between them. Thus, while unlimited numbers of good quality rental units can now, in theory, be delivered, in practice the economic costs of supplying modern, urban rental housing far outpace the ability of many low- and moderate-income households to pay financial recovery rent levels. In effect, then, the quality and supply aspects of Canada's rental housing problem have not been "solved" as many suggest - they have simply been repackaged and subsumed under one major problem area, affordability.

1. CONSTRAINTS ON GOVERNMENT INTERVENTION

1A. Housing as a Market Commodity and the Role of the Private Sector in Housing Programs

The first and probably major constraints on government intervention in the rental sector are adherence to the belief that housing is a market commodity whose provision is a private sector responsibility, and its corollary that the market is the best allocative mechanism. Accordingly, government involves itself in housing provision only in extraordinary or emergency circumstances, and only in order to aid the market rather than circumventing or competing with it. From this, it follows that when government must intervene, actors in the market place are used for program implementation. R.H. Winters, Minister responsibile for CMHC, noted in 1954, for instance:

> "The government...believes in making it possible for private enterprise to do as much of the job as possible and then - and only then - for the state to participate."[1]

Similarly, in May 1985, at the annual meeting of the Co-operative Housing Foundation, current Housing Minister Bill McKnight remarked:

> "Government actions, where they may be required, should be directed to facilitating the operation of a free and competitive market, not impeding it."[2]

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[1]Canada, House of Commons Debates (1954) Ottawa, p. 1574.

[2]"Remarks by the Honourable Bill McKnight" (1985) Co-operative Housing Foundation Annual Meeting, Calgary, May 23, p.4.

This sanctity accorded the private housing market appears to be based on the theory of individualism which implies that the acquisition of housing is a personal responsibility. Thus, except in the case of a narrowly-defined group of "truly needy" (the elderly, mentally or physically disabled, and single parents on welfare), who are incapable of assuming such responsibility, an attempt is made to minimize the nature and extent of the government's role in the housing market.

For Canadian housing policy, this underlying assumption has meant that government intervention in the housing market has generally been of an indirect, market-oriented nature and, particularly in the period before the 1960's, rationalized as a response to extraordinary circumstances. The 1919 Home Loans Program was a tool in post-war reconstruction, the 1935 Dominion Housing Act (DHA), the 1937 Home Improvement Loans Program, and the 1938 National Housing Act (NHA) were responses to the devastation of the Great Depression, and the 1944 NHA was aimed at post-war reconstruction. Moreover, the latter four interventions all relied on the private sector, with the aid of government loans or grants, for housing provision, as did the loan insurance introduced in the 1954 NHA and the majority of the housing programs adopted in the 1970's.[3] The nature of these interventions is indeed remarkable given widespread recognition among housing experts throughout the twentieth century of the

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[3]See J.D. Hulchanski and B. Grieve, "Housing Issues and Canadian Federal Budgets, 1968 to 1984," UBC Planning Papers, CPI 12, Vancouver: University of British Columbia.

need for major government intervention in the rental market, for the creation of a federal housing authority, and for public responsibility for low-rental housing provision.

The federal government's direct intervention in the rental sector during World War II with the creation of Wartime Housing Limited (WHL) - a crown corporation engaged in constructing and managing temporary rental housing for war-industry workers - and the imposition of rent controls is an obvious exception to the pattern of indirect involvement, but the use of the War Measures Act to authorize WHL's activities had redefined the wartime housing shortage as a "war problem".

Indeed, the government's perception of the wartime housing situation as an emergency is reflected in the following 1947 statement by C. D. Howe, Minister responsible for WHL:

> "The aspects of population dislocation and emergency that characterized the needs of many war workers and justified the wartime housing program were also apparent among war veterans as soon as large-scale demobilization started. ..From this it is clear that the extent of the Dominion's direct participation in providing accommodation has been limited in scope and treated as an extraordinary provision."[4]

Moreover, as soon as the war ended, the government essentially reverted to its indirect position. WHL was dismantled, the 31,000 housing units sold off, and CMHC was created "to stimulate the private sector to serve as large an area as

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[4]C.D. Howe (1947) "Meeting Canada's Housing Needs," Public Affairs, 10(4), pp. 217-218.

possible of the housing field."[5]

The public housing programs introduced in 1949 and 1964, and the social housing programs of 1973 and 1978 are also obvious exceptions. The government's lack of committment to these programs and the direct role they imply is manifest, however, in program underfunding - in 1981, public and non-profit sector units represented only 2.8% of total Canadian housing stock. (See Table 1) Moreover, the programs have received only short-term, year-to-year funding committments,[6] and have been designed to ensure the production of minimal, modest housing which poses no threat to private market supply.[7]

Even this relatively minor direct role appears to have become unacceptable, however, as is evidenced by the appointment in 1979 of a Task Force on CMHC to study the potential for privatizing or at least encouraging the private sector to take a larger role in many CMHC activities.[8] Indeed, Paul Cosgrove, Minister responsibile for CMHC, confirmed the government's

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[5]From a Memorandum to Cabinet, as cited in C.J. Wade (1984) "Wartime Housing Limited, 1941-1947: Canadian Housing Policy at the Crossroads," Masters Thesis, University of British Columbia, p. 150.

[6]M. Dennis and S. Fish (1972) Programs in Search of a Policy: Low-Income Housing Policy in Canada, Toronto: Hakkert, p. 14.

[7]From a February 12, 1957 letter to the President of CMHC from a senior government official and Board Member of CMHC, as cited in Dennis and Fish, Programs in Search, p. 174.

[8]Canada, Task Force on Canada Mortgage and Housing Corporation (1979) Report on Canada Mortgage and Housing Corporation, Ottawa: CMHC, p.2.

position with respect to the housing market in his keynote address at the 1981 All Sector Housing Conference:

> "The private market is now the best tool for providing housing for most Canadians. The federal government is determined to let market forces operate for the broad majority of households who can afford to choose what the market offers...the best long-term course for all concerned is to let the market sort itself out."[9]

1B. Home Ownership as the Desirable Tenure Option

A second constraint on government intervention in the rental sector is the reverence accorded home-ownership given its allegedly stabilizing effect on family life and society. Indeed, references to the stabilizing influence of home-ownership pervade both early and recent Canadian housing literature. In the Parliamentary debate over the 1919 housing bill, one Member of Parliament declared:

> "It is in the national interest that a man may have the opportunity to rear his family in a comfortable house of his own equipped with modern sanitary conveniences...[it] induces him to take more practical interest in the affairs of the country and thus tends to the strength and stability of our national life."[10]

In introducing the 1938 NHA, Finance Minister Dunning stated:

> "One of the great objectives [of this Act] is to co-operate... [with] those who...desire to own a home of their own, which is one of the most healthy aspirations in the breast of any man."[11]

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[9]Canadian Real Estate Association (1982) Housing in Canada: A Continuing Challenge, Report on the All Sector National Housing Conference in Ottawa, March 1981, Don Mills, Ont.: CREA, pp.13-14.

[10]Hansard, 1919, 2532-2533

[11]Commons Debates (1938) June 8.

Similarly, during the debate over the 1954 amendments to the NHA, another M.P. warned:

> "If Canada is going to be great and strong...at home and abroad; if we are going to make a contribution to the world of today, then this nation of ours must be a nation of home-owners."[12]

Most recently, in defending the existence of tax provisions which favour home ownership over rental tenure, Housing Minister Bill McKnight told an annual conference of municipal officials that "as a society, we believe in and encourage home ownership"...and that any changes in the tax benefits to the ownership sector would "be unfair and counter to our strongly held belief in the value of home ownership."[13]

Relative to home ownership, rental tenure has enjoyed "second class" status in Canada.[14] Government housing policy has reflected this attitude. The response to the working-class housing problem of the 1910's and 1920's was to facilitate home ownership through the 1919 Home Loans Program. Even with the well-documented evidence of rental problems during the 1930's and clear indications that a majority of working-class households were incapable of financing even assisted home-

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[12]Hansard, 1954, 1343

[13]"Remarks by the Honourable Bill McKnight" (1985) Annual Conference of Saskatchewan Urban Municipalities Association, January 28, pp. 9,10.

[14]See Rose, RP, 18; Steed, 15; LaBerge, 25; All Sector, Streuss, 52; Flemming, 61; Dalzell, 19; HCSCH, 171

ownership, the 1935 and 1938 housing acts initiated only home ownership assistance programs. The very modest low-rental provisions included in the 1938 NHA were never implemented. The 1954 amendments to the NHA, which introduced mortgage insurance and permitted the chartered banks to lend on residential property, were designed to augment the supply of mortgage capital in order to render home ownership accessible to more Canadians. Only during the 1970's did the goverment initiate several rental housing supply subsidy programs. These were outnumbered and outfunded, however, by a series of home ownership subsidy and tax incentive programs including AHOP, RHOSP, CHOSP, CMRP, MRPP, and tax exemption of capital gains on principal residences.[15] Moreover, the potential long-term benefits of the rental programs were reduced by the registration of many subsidized private rental units as condominiums, which means they will eventually be removed from the rental stock.

1C. The Housing Problem as a Temporary Aberration

The contention that not only rental sector but housing problems in general are temporary follows from the belief in the efficiency of the market mechanism. Although there has been plenty of evidence suggesting that the problems experienced by working-class and low-income renters are chronic, the belief that short-term market imperfections or ephemeral macro-economic conditions are responsible for the problems has meant that

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[15] See Hulchanski and Grieve, "Federal Budgets"; Arthur Andersen and Co. (1984) "Federal and Provincial Government Expenditures to Assist and Promote Rental Housing in Canada, 1976-1982."

government has consistently either not responded or responded with ad hoc, short-term interventions. In 1918, for instance, Thomas Adams suggested public assistance to the private sector appeared necessary <u>until</u> capital became more plentiful and private investment in building more secure.[16] The rental problems of the 1930's were rationalized as a product of the Depression, as the following remarks by a Liberal M.P. during the debate over the 1935 DHA suggest:

> "I should be very sorry to see the government go into a general policy of socialism based on the general conditions today. The fact there is a large number of people in Canada today who cannot provide proper housing for themselves does not in my opinion justify a policy for all time to meet those special conditions of today."[17]

Similarly, the rental problem of the World War II years was dubbed a "war problem" and would, according to C.D. Howe, ameliorate once the war ended and construction costs stabilized.[18] Thus the rental dwellings constructed by WHL were constructed as temporary units. Yet, by the 1970's, prohibitive financing and construction costs continued to thwart private sector construction, and the number of Canadians unable to afford adequate housing had reached unprecedented levels. The government's response to this situation was to implement <u>temporary</u> incentive programs. The Multi-Unit Residential Building (MURB) program, for instance, initially applied only to

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[16]Cdn. Engineer, Vol. 35, 1918, 501

[17]Hansard, 1935, 3773

[18]Howe, 219

rental construction undertaken between November, 1974 and December, 1975, although it was subsequently extended, almost annually, to the end of 1981. Similarly, the Assisted Rental Program (ARP) and the Canada Rental Supply Plan (CRSP) were temporary programs lasting three and two years, respectively. Not only have these short-term programs failed to address what is obviously a long-term problem, but they have tended to exaccerbate that problem by disrupting the market and creating instability.[19] A 1984 CMHC analysis of the rental market observed that the private sector incentive programs of the 1970's likely created disincentives for the market to adjust to changing conditions.[20]

1D. Provincial Jurisdiction over Housing

Because Section 92 of the British North America (BNA) Act delegates responsibility for housing to the provinces, federal involvement in housing was slow to evolve. Only when it became apparent the provinces were financially incapable of coping with the ongoing housing problems did the federal government intervene. Even then, it was careful to require either provincial administration of housing programs, as with the 1919 Housing Loans Program, provincial cost-sharing of the programs,

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[19] See CREA, Housing in Canada, p. 152; Clayton Research Associates (1984) A Longer Term Rental Housing Strategy for Canada, Housing and Urban Development Association of Canada, pp. Iii, 12; "Remarks by Bill McKnight," CHF, p. 4; "Remarks by the Honourable Bill McKnight" (1985) Canadian Home Builders Assocation, National Conference, Ottawa, February 11, p. 9.

[20] CMHC (1984) "An Analysis of the Rental Market," Ottawa: CMHC Planning Division, p. 24.

as with the 1949 and 1964 public housing programs, provincial enabling legislation, as with the 1938 and 1944 NHA's and the 1949 public housing provisions, or local initiative for action as with the 1938 and 1949 rental programs.

These requirements for bi- or tri-level co-operation on policy and programming have presented a serious obstacle to action. It has been suggested, for example, that the complexity of co-ordinating three levels of government was likely a factor in the sparing use of the 1949 public housing provisions by the municipalities.[21] Moreover, when the federal government preferred not to act at all, the constitution provided a convenient excuse. In defending federal failure to include rental provisions in the 1935 DHA, for example, the federal Minister responsibile for the Act observed:

> "In view of the fact that the provision of low-rental housing is primarily a municipal and provincial responsibility, the Dominion government did not feel justified in proceeding...without a further examination of municipal and provincial plans for low-rental housing and slum clearance."[22]

Similarly, in defending the federal government's failure to include a low-rental public housing program in the 1944 NHA or

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[21]The Toronto Housing Authority was required to go through fifty steps, back and forth between the three levels of government, before it was authorized to proceed with one public housing project. A. Rose (1980) Canadian Housing Policies, 1935-1980, Toronto: Butterworth's, p. 34.

[22]Clark, 1937, The Housing Act, p 37 Interestingly, provincial responsibility for housing did not appear to be an obstacle to the home-ownership provisions of the DHA.

to continue the operation of Wartime Housing Limited in the post-war years, C.D. Howe remarked in 1947:

> "Since housing is a function of property and civil rights, a matter within the jurisdiction of provincial and municipal governments, direct participation by the Dominion in a housing program is circumscribed...Where the subsidization of low-rental housing is necessary or desirable it is rightly a responsibility of municipal and provincial authorities."[23]

The one time the federal government did take direct, unilateral action on rental problems - during and immediately following World War II - the provinces acquiesced given the "emergency" circumstances.

In the past several years, even the indirect federal role has increasingly devolved to the provinces. Currently, negotiations are under way to transfer the last vestiges of federal rental policy - the social housing programs - to provincial administration.[24]

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[23]Howe, 217, 220

[24]Communique, July 4, 1985

2. OPPORTUNITIES FOR GOVERNMENT INTERVENTION

In spite of the constraints on government housing activity, economic and political realities have required government to intervene. The primary opportunity for government intervention is the private rental market's poor performance for much of the twentieth century. This poor performance is manifested in a set of three inter-related rental problems areas which have been well-documented and debated over the century: the poor quality of the rental stock, the insufficient supply of rental dwellings, and the inaffordability of the rental stock for many tenants. These rental problems have been most pronounced among lower-income households.[25]

Even given the severity of rental problems and the political and economic imperatives for government action, however, intervention in the rental market has been of a rather minimal and ad hoc nature because of the constraints and because the lower-income households who have experienced the problems most keenly are relatively unorganized and politically impotent. The intervention has been carried out without significant political and institutional change and, whenever possible, with minimal violation of the four principles articulated in Section 1. In fact, "cautious crisis management" appears to be a fitting description of the Canadian governmnent's record of intervention

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[25]Reports of the 1930's; Carver, 121-122; Curtis, 14,110; CMHC Brief, 24

in rental housing.

2A. Quality

The apalling living conditions of the urban working-class were first widely publicized by the public health movement of the late nineteenth and early twentieth centuries.[26] The unco-ordinated and speculative development pattern of Canadian cities had resulted in the concentration of working-class households in central slums or peripheral shanty towns characterized by poor sanitary conditions, a lack of basic water and sewer services, periodic outbreaks of contagious diseases, and high mortality rates. A 1911 Health Department Survey in Toronto, for instance, revealed:

> "homes in cellars, lanes, stables and shacks, where adults and children mingled with chickens and cows; where the number of lodgers or family [sic] outnumbered the beds; where thousands of families lived without drains or drainage, and people outnumbered baths five to one; and where high rents seemed matched only by high disease rates."[27]

Similarly, Dr. Charles Hodgetts, Medical Advisor to the Public Health Committee of the federal Commission of Conservation, wrote of Canadian slums in the Commission's Second Annual Report in 1911:

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[26]Post-1895 studies of urban working-class living conditions were conducted by Montreal Businessman Herbert Ames, child welfare advocate, J.J. Kelso, Winnipeg clergyman and social reformer, J.S. Woodsworth, Toronto reformer, Bryce Stewart, and the Labour Gazette. See also Canada, Commission of Conservation (1911) Second Annual Report, Montreal: John Lovell & Son., Ltd., p. 53.

[27]As cited in Saywell, 117

> "Indeed, all is dilapidation, decay and desolation. The environment reeks with the odours of successive strata of dirt, household refuse, and domestic slops, while the walls are cracked, and stairways rickety and unsafe, narrow and dark. The houses are often without cellars, are low and damp, being sometimes built flat upon the ground; while darkened rooms, inaccessible to sunlight, add a sombre hue to a condition which can only be summed up as 'damnable'."[28]

The wretched living conditions of the working-class were also documented by a 1919 federal Royal Commission on Industrial Relations, two Nova Scotia Royal Commissions on mining in 1920 and 1926, in A.G. Dalzell's 1928 study on the housing conditions of the working-class and in a number of major housing reports of the 1930's and 1940's. The most notable of the later reports include the 1934 Report on Housing Conditions in Toronto, commissioned by Lt. Gov. Bruce (the Bruce Report), the 1935 Report on Housing and Slum Clearance for Montreal, sponsored by the Montreal Board of Trade and the City Improvement League, the 1935 report of the Special Parliamentary Committee on Housing, and the 1944 report of the Housing and Community Planning Subcommittee of the federal Advisory Committee on Reconstruction (the Curtis Report). These reports confirmed the continued existence of slum neighbourhoods containing thousands of overcrowded dwellings characterized by dampness, filth, and vermin, and failing to meet even minimum health standards for fresh air, sunlight, adequate water and sewer services, and food storage.[29] Furthermore, the 1944 Subcommittee Report noted that

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[28]Commission of Conservation, Second Report, p.53

[29]Bruce, 35.

given the reduced maintenance on all housing during the depression years of the 1930's,

> "With very few exceptions...the conclusions reached by the [1935] Parliamentary Committee are as valid for rental housing in 1943 as they were in 1935, the situation having become actually worse in most cities than it was ten years ago."[30]

With the gradual imposition of health and construction standards, the general quality of the rental housing stock improved, especially in the post-war period. By 1974, less than 12% of rental dwellings were found to be in poor external condition.[31] Even in the 1960's and 1970's, however, residual pockets of nineteenth and early twentieth century slum dwellings remained in evidence in large urban centers, while much rural and native housing still remains in extremely poor condition.

2B. Supply

The reports produced by the public health movement around the turn of the century documented a serious shortage of adequate and affordable working-class rental housing. Despite the construction booms of the pre-World War I period, the 1920's, and the 1950's, a severe shortage not only of low-rental units but of rental units in general persisted well into the 1960's.

The major reports of the 1930's provide evidence of the

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[30] Curtis, 35

[31] Rose, CHP, 169

severity of rental overcrowding in Canadian cities. According to evidence presented before the 1935 Parliamentary Committee, Montreal alone required 25,000 to 35,000 flats or apartments in 1935 just to keep up with population increases,[32] with 4,000 of those required for low-income renters.[33] Winnipeg suffered a 1,500-2,000 low-rental shortfall in 1935,[34] while Vancouver required an additional 12,000 low-rental dwellings.[35] Thus considering only three of Canada's larger urban centers in 1935, low-rental needs stood as high as 18,000 units, and were undoubtedly much higher on a national scale. In fact, the 1944 Curtis Report recommended a minimum annual urban construction target of 15,000 low-rental units in the post-war decade to eliminate the existing urban backlog, to replace scattered obsolete units, and to meet additional requirements.[36]

Unfortunately, figures documenting the general rental shortage of the 1930's and 1940's are not readily available. Nevertheless, a 1949 article in the Financial Post suggested that a shortage of rental housing, particularly in the low- to medium-rent range, was a general condition in the larger

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[32]HCSCH, Rancourt, 226. Montreal, however, is somewhat atypical of large Canadian centers given the high rates of tenancy in the province as a whole.

[33]HCSCH, Nobbs, 33

[34]HCSCH, Officer, 175

[35]Hansard, 1938, 325 Figure is for 1938.

[36]Curtis, 152

Canadian cities,[37] while a 1955 article in the Monetary Times documented the impossibility of finding any type of rental unit in Winnipeg, Regina, Saskatoon, and Edmonton.[38]

Moreover, any progress made on relieving the shortage during the apartment construction boom of the 1960's and early 1970's was more than offset by record rates of population growth and family formation, and by the size of the accumulated construction deficit. By the 1970's and 1980's, apartment vacancy rates had dipped to record levels and were approaching zero in some large centers.[39] Indeed, the federal minister responsible for housing in 1975 described the rental housing situation at that time as the "closest thing approaching a crisis which confronts us,"[40] and a delegate at the 1981 All Sector Housing Conference reported the rental housing shortage to be unparalleled in the history of the nation.[41]

This apparently chronic shortage of rental dwellings in Canada derives from a number of difficulties inherent in virtually exclusive reliance on the private sector for rental supply. In the first place, the private sector's capacity to supply not only a sufficient number of rental dwellings to meet demand but dwelling units of any description was clearly

[37]Rents to Rise, Fin. Post, 1

[38]House and Apt. Const. Boom., Mon. Times, 52

[39]All Sector, Foreward, 11

[40]1975 Hansard, 719

[41]All Sector, 155

inadequate until the 1960's. Continual shortages of manpower, materials and mortgage funds, particularly during and after the two world wars and during the Great Depression, maintained production at relatively low levels until the 1960's. In the post-World War II period, additional factors such as the shortage of serviced land and the obsolete building practices of an industry which had essentially lain dormant for a generation further thwarted accelerated production. Thus as Table 2 indicates, the shortfall of dwellings increased dramatically from 84,000 units in 1901 to 145,000 in 1921, and reached a peak of 407,000 units in 1949.

The second difficulty reliance on the private sector presents for rental housing supply is that sector's almost exclusive focus on the construction of units for owner-occupiers. As Figure 1 indicates, aside from a relatively minor apartment construction boom between 1923 and 1929, which accounted for 15 to 18% of all residential construction during the period,[42] the construction and design of dwellings intended specifically for multi-family rental occupancy remained at very low levels for the first sixty years of this century. As a result, until the apartment booms of the late 1950's and the 1960's, renters were forced to rely primarily on the conversion of older single-family dwellings to multi-family use, or the

[42] Saywell, 164-165; HCScH, 199.

"filtering down" of older, often substandard,[43] units for a supply of rental housing.[44]

A third supply-related difficulty with reliance on the private sector for housing provision is that the supply of units is completely dependent on macro-economic conditions, the boom-bust business cycle, and the profit motive rather than on need or often even effective demand. Following World War I, for example, when war veterans were returning home and seeking housing, and again during the Great Depression when rural people were migrating to larger centers in search of employment (and consequently housing), private sector residential construction virtually ceased. Similarly, from 1973 onwards, rental construction has declined consistently, except for a few spurts of activity resulting from government incentive programs, despite tremendous need for affordable rental housing. (See Figure 1) By the 1980's, in fact, when rental vacancy rates were at an all-time low, many large private developers were leaving the rental construction business in favour or more profitable single-family dwelling, condominium, commercial or industrial development, leaving behind them a largely comotose private rental sector.

2C. Affordability

Documentation of serious housing affordability problems

[43]HCSCH, Cauchon, 48. As well, many of the substandard dwellings recorded in the 1951 Census were initially single-family units which had been converted to multi-family use. CMHC Brief, 30

[44]Marsh, Economics of LRH, 26; Wheeler, Need for LR, 6,30

among working-class households was first made in the 1886 report of a federal Royal Commission investigating the conflict between labour and capital, and in the reports prepared by the public health reformers at the turn of the century. Lower-income affordability problems subsequently became a major theme of housing reports and conferences over the course of the twentieth century.

Aggregate statistics, though not an entirely reliable measure of reality, provide some indication of the extent of rental affordability problems for employed working-class and lower-income households since the turn of the century. In an article on early Toronto civic affairs, historian John Weaver reports that, in terms of real wages, rents escalated by 60-70% between 1900 and 1913.[45] By the 1930's, average rent levels in existing modern apartments in Canada ranged from $20 to $30 per month,[46] with rents in the few new units being produced as high as $35.[47] Yet according to the major reports of the 1930's, semi-skilled and unskilled urban wage-earners could afford rent levels of no more than $9 to $15 per month at the then-accepted 20% rent-to-income ratio.[48] Even the rents in Toronto Housing Company units, which received some assistance from the

[45]Weaver, To. Civic Affairs, 63

[46]HCSHC, Cauchon, 24, Bruce, 63-64

[47]Commons Special Committee, Minutes, p. 37.

[48]This is based on average wage levels of $500-800/year. See HCSHC,13, 33, 106, 236; LSR, 11, 22, 27; Bruce, 115-116; Montreal Report, 13, as cited in Grauer, 58.

municipality and other sponsor organizations, ranged from $23 to $40 per month,[49] and some units failing to meet even minimum health standards and lacking minimal amenities were renting for up to $30 to $45 per month in some urban centers.[50] Given these figures, households hoping to occupy even an average-priced existing rental unit required an annual income of $1,200 to $1,800 if they were not to exceed the 20% rent-to-income ratio. Yet, 1931 Census figures indicate that 56.2% of Canadians at that time earned less than $1,000 per year.[51]

Similarly, in the 1950's, average rent levels in larger centers ranged from $75 to $155 per month,[52] while 53% of urban households earned less than $2,500 per year and were thus unable to afford more than $42 per month.[53]

CMHC figures on national shelter costs and family income suggest that with the apartment construction boom of the 1960's, rental housing for the average family actually became more affordable during the 1960's and 1970's.[54] The figures conceal, however, the real affordability problems faced in some

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[49]Bruce, 75;HCSCH, Ivey, 185.

[50]Bruce, 63; HCSCH, Officer, 172; Nobbs, 36

[51]As cited in LSR, 16; Excludes farm labourers.

[52]Tracey, LR Hsg, 34; Want to Rent, Fin. Post, 13

[53]CCL Brief, 93

[54]1978, Projecting, 15. Average rent-income ratios, for example, dropped to 17.9% in 1972 from 18.3% in 1962, and declined even further to 16.3% in 1976. (1977, Smith, Anat, 13)

geographic areas and by some groups, particularly large families, senior citizens, and other traditionally low-income groups. In the early 1970's, for instance, the average rent level paid in Canadian urban centers was $120 per month,[55] although rents were significantly higher in the larger urban areas like Toronto where older, one-bedroom units in the central city commanded average rents of $185 per month.[56] First and second quintile households, however, could afford, on average, only $38.70 and $94.60 per month, respectively, at the then-accepted 25% rent-to-income ratio.[57] By 1981, the average rent paid in Canada was $296 per month,[58] although average rents on new two bedroom units ranged from $500 to $666 per month,[59] with many in the larger urban centers in the $800 per month and above range.[60] Yet the upper limits for first and second quintile renter households, even at the newly-accepted 30% rent-to-income ratio, were $173 and $303 per month, respectively.[61]

The options for lower-income renters faced with such affordability problems have always been few and unattractive.

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[55]CMHC, Projecting, 15

[56]1972, Fin. Post, Food and Hsg. 8

[57]Based on average annual income levels of $1,858 and $4,541. Dennis/ Fish, 1969 figures, 60

[58]1984, CMHC, RM anal, 7

[59]1982, Green, RC's Tighten; S17; All Sector, Duncan, 203

[60]Shortell, Fin. Post, Higher Rents, C18

[61]Based on 1980 upper annual income limits for renter househologs of $6,900 and $12,100. Clayton, RH Strat, 6.

One option is to double-up with others in otherwise unaffordable units in order to reduce housing expenses, a recourse which simply serves to lower the living standard of all concerned. Yet many renters, particularly in the years before and during World War II, did double up. In fact, the number of households without units of their own was almost double the actual shortfall of dwelling units during the late 1920's and early 1930's - probably an indication of an affordability problem. (See Table 2) Similarly, CMHC estimates suggest that in both 1951 and 1964, 500,000 households remained doubled-up[62] - most of them because of affordability problems.[63]

A second option for low-income renters, and again one used extensively in the pre-World War II era, is to retreat to those substandard units which <u>can</u> be acquired at affordable levels. Indeed, documentation at various times throughout the century has illustrated a close correlation between income and housing conditions. In an article on early housing reform in Toronto, for example, Shirley Spragge suggests that the working-class's inability to afford either home-ownership or adequate rental housing was obviously the major factor in their occupation of substandard housing in the early years of the century.[64] Moreover, the 1944 Curtis Report noted that during the 1930's,

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[62]Nicholson, 6; Across, Can, "Amend To", 229; Firestone, Snowballing, fin post, 13; Bates, 261

[63]Dube, 48; CCL Brief, 91

[64]Spragge, 251

low-rents were being charged on many units solely for the purpose of securing tenants for substandard and slum dwellings which otherwise would have remained vacant.[65]

A final option for lower-income renters faced with affordability problems is to spend a disproportionate percentage of income to secure adequate housing. Doing so, however, reduces the amount of income available to acquire other basic necessities such as food and clothing, and can lead to poverty-related social problems.[66] Nevertheless, the record of renter households paying excessive portions of income for housing is long. As early as 1913, renters were reported to be paying on average 25% of family income to secure adequate housing,[67] although the then-accepted rent-to-income ratio was between 1/10 and 1/8 of gross family income.[68] By 1931, the average rent-to-income ratio for employed wage-earners had risen to 30%,[69] and

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[65]Curtis, 241

[66]HCSCH, Cauchon, 19; Mont. Report, 35 as cited in LSR, 457 The conventional levels chosen for rent-to-income ratios are, of course, arbitrary. In addition, they ignore that there is a critical income level below which even the accepted ratio becomes too high without causing deprivation of other basic necessities of life. (Carver, 79)

[67]Spragge, 249

[68]Fripp, 1277

[69]Calculated from average working-class wage and average monthly market rent figures in F. H. Leacy (1983) Historical Statistics of Canada, 2e. Ed., Ottawa: Statistics Canada and Social Science Federation of Canada, Series E41-48; Canada, Dominion Bureau of Statistics (1931) The Canada Year Book: The Official Statistical Annual of the Resources, History, Institutions and Social and Economic Conditions of Canada, Ottawa: King's Printer.

the accepted ratio to 20%. The 1944 Curtis Report's documentation that 89% of lower-tercile renters and 50% of middle-tercile renters were paying in excess of 20% of income for rent suggested the affordability problem had extended to moderate-income renters as well.[70] In 1976, 23% of renters overall, and 57% and 36% of first and second quintile renters continued to spend disproportionate percentages of income to secure adequate accommodation.[71]

The major factor underlying rental affordability problems throughout the twentieth century has been the private sector's inability to construct housing for lower-income and, increasingly, even moderate-income renters while maintaining a reasonable profit level. As early as 1919, an Ontario Housing Committee Report noted the gap between the costs of constructing and maintaining satisfactory dwellings and rent levels affordable to working-class households, and concluded:

> "...private enterprise cannot be depended on to meet the existing demand as the returns on the present cost of building are not adequate to the outlay."[72]

An article appearing in a 1921 issue of Town Planning and Conservation of Life was even more pessimistic regarding private sector capabilities in reporting:

> "The Philadelphia Chapter of the American Institute of

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[70]Curtis, 14

[71]CMHC, TF, 33-35

[72]As cited in Jones, 7

> Architects, a body to which not [a] taint of radicalism has ever attached, has lately declared that houses for those who earn low wages can no longer be built anywhere in the world at a cost which will permit them to be either sold or rented without loss, and that it is unquestionably true than an industrial system, or even any particular industry, which fails to make possible adequate shelter, food, clothing, and recreation for all of its operatives is unworthy to exist. The Chapter proposes that housing for those earning low wages or salaries be legalized as a public utility; that the manufacture of this class of homes as a profitable industry shall cease in theory as it has already ceased in fact; and that the Government, national and local, should at once adopt measures making possible this prime necessity of life."[73]

Thirty years later, housing analyst Leonard Marsh presented data demonstrating that the provision of low- and even moderate-income housing was not a commercial proposition, particularly if it was to meet decent standards, and he suggested the gap between commercial feasibility and income structure was greater than ever before.[74] By the late 1950's and early 1960's, the private rental sector was deemed ineffective in housing the lowest one-half of the income range (and thus a portion of even middle-income households),[75] prompting an American housing expert to warn at an Ontario Conference of Real Estate Boards in 1956:

> "...except for the higher income group, the apartment house is becoming obsolete."[76]

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[73]"Housing as a Public Utility," <u>Town Planning and Conservation of Life,</u> January-March, 1921, p. 19.

[74]Marsh, Economics of LR Hsg, 31

[75]Murray, 43; Jones, The Role of P/E, 215

[76]James C. Downs, Housing and Redevelopment Co-ordinator, City of Chicago and President of the Real Estate Research Corporation. As cited in House and Apt. Boom, Mon. Times, 54

3. INADEQUATE DEFINITION OF THE NATURE OF THE RENTAL PROBLEM

Historically, the rental sector in Canada has been plagued by an inadequate supply of good quality, affordable housing. From the reports of the early public health reformers and the Royal Commissions of the late 1910's and 1920's, through to the writings of housing reformers in the 1960's, the co-existence of the three elements of the rental problem has been documented. However, because of the assumptions outlined in Section 1, and because those responsible for developing rental policy failed to make the connection between the three problem areas, a long-term, comprehensive rental policy did not evolve. Instead, Canadian rental policy has consisted of a series of ad hoc, short-term programs which have focussed on the three key problem areas in a clearly sequential manner. This latter statement does not imply exclusive treatment of any of the three elements of the problem at any one time. Indeed, there has been a great deal of overlap in problem treatment, especially during transition periods between the government's focus on one or another element. The government's primary focus, however, has been sequential with poor housing conditions largely commanding attention in the early years, inadequate supply in mid-century, and the affordability issue most recently.

3A. Quality

The first of the rental problem areas to be tackled was the poor quality of much of the rental stock. Given the confidence placed in the market's allocative capability, government action was apparently based on the belief that with the improvement of housing conditions, the rental problem would be solved. The connection between poor housing conditions and poverty was not made,[77] although a number of later studies contained references to the apparent correlation between the two.[78]

Intervention in issues relating to the quality of the housing stock originated largely as a municipal and provincial activity, and was initially facilitated not through housing-specific programs but through public health reform and town planning. Recognizing that their success in combatting existing urban health problems and in eliminating the causes of bad urban conditions was heavily dependent on the active support of government, early public health reformers agitated for municipal action in establishing minimum standards of health and hygiene with respect to basic living conditions. They were initially impeded in their attempts to secure government action by a number of circumstances, including engineering and technical difficulties,[79] and the relatively small tax base of the municipalities. Even more important was the lack of precedent in Canada for government intervention into matters involving individual responsibility or individual and property rights. It took over fifty years in Ontario for the reformers to establish

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[77]Spragge, 251

[78]Reports of the 1930's; Carver, 121-122; Curtis, 14,110; CMHC Brief, 24

[79]JDH, Thesis, 23

that the state not only had a right but a duty to intervene to eliminate conditions detrimental to public health.[80]

Eventually, the provinces involved themselves in regulating urban health conditions. The Ontario government led the way with its 1884 Public Health Act. This Act obliged Ontario municipalities to establish health bureaucracies to deal with health matters, and eventually they did begin to pass nuisance laws, regulate privy pits, and monitor lodging houses for overcrowding.[81] Other provinces followed suit.[82] Action to improve the actual housing conditions of the working-class, or to augment the supply of adequate working-class housing, however, was not forthcoming, perhaps, as Weaver suggests, because the improvement of working-class housing conditions implied a great expense with far fewer returns to the powerful middle-class than did public health measures.[83]

Later, reformers pressed for a federal role in regulating urban health conditions, if only as co-ordinator for the various municipal schemes. This demand was, in some ways, satisfied by the creation in 1909 of the Commission of Conservation, a federal advisory body concerned with the preservation of human and natural resources. Although the BNA Act precluded direct

[80]JDH, THesis, 13

[81]Spragge, 249; Andrews, 19

[82]Manitoba in 1909, and Saskatchewan in 1910

[83]Weaver, TO Civic AFfairs, 67; Weaver, Shaping, 29

federal activity on public health and urban matters, the Commission functioned, in part, to promote provincial action on urban problems.[84]

Efforts to involve government in regulating housing quality were given a boost by the emergence, in the 1900's, of the town planning movement. Dedicated to the improvement of urban living conditions, and inspired by the arrival in Canada in 1914 of Thomas Adams to direct the newly-established Town Planning branch of the Commission of Conservation, early Canadian planners sought solutions to health, housing and traffic problems, with the amelioration of working-class housing problems as their first priority.[85] To accomplish their goals, they advocated the use of zoning to regulate land use, the imposition of construction standards and height restrictions to control density and ensure the penetration of adequate sunlight and fresh air to dwelling units, and the development of planned suburbs of single-family, detached owner-occupied housing to eradicate urban working-class slums. The profession was ultimately successful in prompting town planning legislation. Between 1910 and 1918, several provinces passed planning-related legislation to provide their municipalities with wider powers to regulate subdivision development.[86]

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[84]JDH, Thesis, 31

[85]Van Nus, 1977, 171-172

[86]Nova Scotia, New Brunswick, Ontario, Saskatchewan, Alberta, and Manitoba.

The implementation of public health regulations and town planning measures undoubtedly helped to alleviate some of the worst urban health conditions and to facilitate healthier and more orderly urban development. They were so successful, in fact, that by 1976, only 3% of the Canadian housing stock lacked running water, sanitary facilities, or central heating, and less than 5% of Canadian households were living in overcrowded conditions.[87]

Nevertheless, the regulations were not, as the early reformers had hoped, a panacea to urban living conditions, and particularly to working-class housing problems, especially in the earlier years. One reason was that home ownership was not the solution to the housing problems of most lower-income wage-earners. The combination of high prices for land, construction, and materials and unsteady employment had traditionally made the procurement of a downpayment impossible for many working-class families, and regular mortgage payments difficult. (See Table 3) As a result, the middle- and upper-classes proceeded to occupy the newer suburban homes,[88] while the working-class remained in overcrowded and often substandard inner-city tenements.

Secondly, enforcement of the regulations proved difficult in that condemnation and closure of unfit housing was bitterly

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[87]Task Force on CMHC, <u>Report,</u> p. 30.

[88]Rutherford, 375

and often successfully resisted by property owners and developers. Yet without enforcement, much new construction continued to be of a shoddy nature. Overcrowding and poor maintenance ensured that it rapidly degenerated into slums.

Finally, and most importantly, successful enforcement of the regulations and standards, when it was achieved, intensified supply and affordability problems. By raising construction costs, enforcement discouraged new private investment and the conversion of older single-family units for multi-family use.[89] It also rendered any new housing produced unaffordable to many working-class households who were forced either to pay excessive proportions of income for rent, to double-up, or to remain in substandard housing. Moreover, with the eventual elimination of poor quality rental housing, this latter option was precluded, causing further exaccerbation of the affordability problem.

The persistence of urban slum conditions well into the 1960's and the obvious financial impediments to more comprehensive and sustained provincial and municipal action have resulted in almost continual pressure since the 1930's for comprehensive, federal action on slum clearance and rehabilitation of salvagable rental units falling below health and amenity standards. Reformers have also pressed for the establishment of a federal housing authority with powers to impose quality standards on private development and to

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[89]Weaver, Tomm. Metro, 408

facilitate the integration of town planning principles with housing development.

Federal response to the problem of poor quality rental housing has, however, been minimal. Aside from the introduction of a narrowly-conceived and thus scarcely-used $20 million slum clearance program in 1944, a concerted federal attack on the scattered pockets of urban slum housing was not made until the 1960's. In 1960, home improvement loans were extended to rental housing, and in 1964, federal grants for the preparation and implementation of "urban renewal" schemes were introduced. The 1964 program did stimulate municipal and provincial action on slum clearance, but because the municipalities were not required to redevelop cleared land as residential areas, and because much of the clearance was carried out insensitively, the benefits to lower-income households were limited. Moreover, because slum housing was destroyed faster than alternate housing was provided,[90] the program served to exaccerbate the low-rental supply problem.

As a result, the urban renewal program was suspended in 1969, and replaced in 1973 by two programs designed to facilitate more selective redevelopment and more extensive use of rehabilitation and conservation measures. The Neighbourhood Improvement Program (NIP) offered federal loans and grants to municipalities to upgrade municipal services and to finance the

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[90]Hellyer, TF, 65; Lithwick, 205; Wheeler, Study and Action, 5

provision of social and recreational facilities, without extensive site clearance, in specially-designated deteriorating low- and moderate-income residential neighbourhoods. Its companion program, the Residential Rehabilitation Assistance Program (RRAP), provided matching federal-provincial grants to home-owners and landlords, primarily in NIP areas, to rehabilitate low and moderate-income housing. The NIP was terminated in 1979 and its successor, the Community Services Program, in 1980.

Given that current federal policy regarding rental housing quality is based on only one program, RRAP, and that the funds for even that program were reduced by 25% in November, 1984, it would seem that additional government intervention to improve urban rental quality standards is considered to be of low priority.

3B. Supply

The second rental problem area which Canadian governments addressed, and the one which has commanded the most attention, is the supply of units. Given the key role of housing in the national economy, it is the federal government which has focussed on supply initiatives. As with intervention on qualitative problems, attempts to solve the rental problem by simply stimulating rental supply appear to have been based on confidence in the market's allocative capabilities. Again, the connection between income and accessibility to housing was not made, and effective demand was not differentiated from social need.

Despite early and continued documentation of a serious shortfall of rental units, there was little government intervention before World War II. The city of Toronto co-sponsored the establishment of the Toronto Housing Company in 1913 in order to facilitate the construction of dwelling units for sale or rent to moderate-income working-class families, but it was an isolated experiment and the scale of the project was very small.[91] The rental supply provisions of Part II of the 1938 NHA were, as mentioned above, never used for a number of reasons including a lack of federal committment in promoting the program and provincial negligence in passing the required enabling legislation.

The federal government became very involved in stimulating rental housing supply, however, with the outbreak of the Second World War, when the critical shortage of urban housing to accommodate war industry workers threatened the war effort. It imposed eviction controls on new and existing accommodation in all urban centers in 1940. In 1942, it introduced the Home Extension Plan which guaranteed private loans to home-owners to convert single-family units to multi-family use. In 1944, the government itself intervened in conversion activities with the 1943 Home Conversion Plan, which enabled it to lease, convert, and sublet privately-owned buildings in urban centers. In 1944,

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[91]The Toronto Housing Co. produced 334 units. Bruce, 75

it reinstated the Limited Dividend rental provisions of the 1938 NHA which had expired in 1940, and which had offered private developers long-term, low-interest loans to construct low-rental housing. Most importantly, however, enjoying government-mandated priority on scarce building materials, the federal crown corporation, WHL, constructed 17,190 units for war workers and their families between 1941 and 1944.[92]

The return of the war veterans, the post-war population boom, and concerns regarding the health of the post-war economy kept the federal government active in stimulating rental housing supply well into the 1950's. In 1945, the operations of WHL were expanded to include construction of rental units for returning veterans. Between 1944 and 1948 when the corporation was dismantled, WHL constructed 14,323 units for ex-servicemen,[93] bringing its total contribution of rental units since 1941 to well over 31,000. In 1946, loans were made available to primary industries to construct rental housing for their employees. In 1947, in order to help offset declining returns in the rental market, the federal government introduced a number of tax system subsidies to rental developers, including a double depreciation rate on rental housing. The 1948 Rental Insurance Plan provided rental investment insurance, and empowered lenders to make larger loans to rental projects covered by the insurance. Finally, the 1954 NHA contained provisions to facilitate direct

[92]Wade, 47

[93]Wade, 61

CMHC construction of new rental housing for armed forces personnel, and to encourage the conversion of single- family dwellings to multi-family use. It also continued the Limited Dividend program established under the 1944 NHA, and replaced the joint loan system whereby the federal government had participated with private lenders in mortgage financing, by a mortgage insurance scheme whereby CMHC would underwrite lenders' loans against default.

Federal action to stimulate rental housing supply fell off in the mid-1950's when favourable demographics and economics triggered a major apartment construction boom which lasted into the early 1970's. Indeed, apartment construction during the 1960's represented 42% of all residential construction.[94] As Figure 2 indicates, at the height of the boom in 1969, apartment starts accounted for fully 52% of all residential starts. The health and vitality of the private rental sector during the 1960's lent credence to the long-standing assumption that the market could produce the required numbers of rental units, maintaining federal intervention at low levels for most of the period. Aside from the 1957 Small Homes Loan Program, which was very small scale,[95] and the 1960 Municipal Sewage Treatment Loan Program, which was introduced in acknowledgement of both municipal difficulties in financing the servicing of residential

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[94]Saywell, 191

[95]The program produced less than 6,000 rental units. Clayton, Scenarios, Appendix B. Table B-11

land, and the importance of the availability of serviced land to housing supply, the Limited Dividend program was virtually the only private rental supply program in effect between 1954 and 1975.[96] Although it successfully stimulated the production of 101,337 units over the course of its lifetime,[97] its inability to produce low-rental units, apparent as early as 1947,[98] prompted the introduction of the public housing programs which will be discussed more fully in the section on affordability.

In the early 1970's, a combination of factors including falling demand for rental housing, and the deteriorating economics of rental investment, precipitated the decline of the private rental sector. The development of a new gap between the costs of developing, financing and operating rental housing (financial recovery rents) and market rents even moderate- and middle-income renters were willing or able to pay rendered private sector rental development increasingly unprofitable. (See Table 4) By the 1980's, it was clear that little private sector rental development would take place in the absence of significant government incentives,[99] and ~~that~~ that which did take place would be in the form of luxury units for those who

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[96]Even the Limited Dividend program was suspended for four years in 1960.

[97]Clayton, Scenarios, Append B., Table B-11

[98]Marsh, Rebuilding, iv; Wade, 60; Marsh, Principles, 235

[99]Green, Vac. Rate SQueeze, 31

[100]Shelter for Poor, McLeans, 62

could afford to pay near economic rent levels.[100] Indeed, in a 1982 article in the Financial Post, Richard Shiff, Chairman of Bramlea, one of the largest rental developers in Toronto, is quoted as saying:

> "'I fully realize that to proceed in the rental market today without some form of government assistance would be economic suicide.'"[101]

With the decline of the private rental sector in the 1970's, the federal government again became very involved in stimulating rental housing supply, launching three private sector rental supply incentive programs designed to bridge the gap between financial recovery rent and market rent levels, and thus entice private developers back into rental development. It also introduced a number of minor private sector supply schemes[102] and, given the extension of the affordability problem to significant portions of moderate- and middle-income households, two non-profit sector supply programs targetted at low- and moderate-income renters. The non-profit programs will be discussed in the section on affordability.

The three major private sector incentive programs included

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[101] 1982, Mkt. Has Potential, S16

[102] The minor programs included a 1975 authorization for CMHC to directly finance rental housing in low vacancy areas, the 1975 Municipal Incentive Grant Program, which offered $1,000/unit grants to municipalities approving medium-density moderate-rental housing, and 1978 conversion loans to facilitate the conversion of non-residential buildings to rental units. As well, in 1978, the Municipal Infrastructure Program replaced the Municipal Sewage Treatment Program.

MURB, ARP, and CRSP. The 1974 MURB program, which has been credited with stimulating 195,000 multi-family units,[103] restored a tax system subsidy which had been first introduced in the late 1940's and eliminated in 1972. Under the program, rental investors were once again permitted to shelter income by deducting losses due to Capital Cost Allowances and front-end (soft) costs from income from any other source. The 1975 ARP replaced the Limited Dividend program. Credited with stimulating the production of 122,791 units before being phased out in 1978,[104] ARP offered private developers initially capital grants and later interest-free loans to construct low- and moderate-rental housing. ARP was followed in 1981 by CRSP, which offered private developers interest-free loans to construct moderate-rental housing in particularly tight market areas. CRSP was terminated in 1984, with somewhat in excess of 21,000 units to its credit.[105] Currently, there are no private sector rental supply incentive programs in operation.

As the blips in Figure 2 indicate, the three incentive programs did succeed in stimulating the supply of multi-family dwellings while they were in effect. Apartment starts fell off drastically, however, with their withdrawal, and by 1983

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[103]Dowler, 44

[104]JDH, ARP, 17. Actually, because the provisions permitted the stacking of ARP and MURB subsidies, it is difficult to assess accurately how many units were produced as a direct result of either of the programs.

[105]1984, CMHC, RH Anal, 24

represented only 27.1% of all residential starts. (See Figure 2) Private sector rental starts accounted for about only 10% of those rental starts.[106] Indeed, by 1984, dwellings left vacant by renters purchasing homes were the single most important source of available rental units.[107]

3C. Affordability

Having attempted and failed to solve the rental housing problem through isolated quality- and quantity-targetted initiatives, government finally intervened in the affordability element of the rental housing problem in the 1960's. By the time it did, however, the well-documented and long-standing affordability problems of lower-income households had become even more acute. Both the chronic shortage of rental dwellings and the rising costs of constructing new and improving existing housing[108] had exaccerbated the problem over the course of the century. It has been even further complicated, since the late 1960's, by the increasingly low-income profile of tenant households, such that in 1981, approximately 80% of renters were drawn from the first three income quintiles.[109] Moreover, almost 60% of those renters derived from the lowest two income

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[106]Smith, RH Crisis, 60. 10% figure is actually for 1980-81.

[107]CMHC, RM Anal, 7

[108]See T. Adams (1918) "The Housing Problem and Production," Conservation of Life, 4(3), July, p. 54; "House and Apartment Construction," p. 53; Task Force on Housing and Urban Development, Report, p. 37.

[109]See JDH, Tax Costs, Table 3

quintiles - the very group the private rental sector has traditionally been unable to provide for.

Given the early and continued documentation of low- and moderate-income rental affordability problems, and the clear inability of the private sector to address the issue, government responsibility for low-rental assistance has been a major theme of the housing reports and conferences of the twentieth century. As early as 1917, the Premiers called upon the federal government to assist the private sector in constructing working-class housing. The reports of the 1930's and 1940's were unanimous in their recommendations for a large and long-range program of publically-assisted low-rental housing to be developed by limited dividend corporations or public utility companies, and the 1944 Curtis Report recommended that in addition to construction assistance, the federal government contribute to a rent reduction fund to keep market rents below financial recovery rents. Some groups, like the social democratic League for Social Reconstruction, even went so far as to advocate <u>federal</u> construction, ownership, and management of low-rental, non-profit housing. Throughout the 1950's, 1960's and 1970's, housing reformers and major housing reports and conferences continued to emphasize the need for low-rental assistance, recommending aid to co-operative and non-profit groups to develop low-rental housing, and a more viable and user-responsive public housing program than the ones finally introduced in 1949 and 1964.

Nevertheless, relatively little action was taken before 1964, and that which was proved largely ineffectual. The rent controls introduced in 1940 - motivated more by concern for the war effort than concern for the welfare of low-income renters[110] - were lifted in the early post-war years. The Limited Dividend program, did not, as mentioned above, produce low-rental units. The municipality of Toronto's 1947 pioneer public housing project, Regent Park, was an isolated experiment. And the long-awaited 1949 public housing program was, as mentioned above, scarcely used by the provinces and municipalities. By 1964, only 12,000 low-rental public housing units, a mere 2.4% of total rental starts during the 1950-1964 period (See Table 1), had been constructed across Canada, although an estimated 870,000 low-income households occupied substandard or overcrowded housing or paid excessive portions of income to secure more adequate housing in 1964.[111]

In the 1960's and 1970's, the federal government finally attacked the rental affordability problem. It responded first with loans to stimulate the construction of rental housing for university students. More importantly, however, with the 1964 NHA, it extended the limited dividend provisions to non-profit organizations willing to construct low-rental housing, particularly for the elderly, and introduced an alternate formula for the financing of public housing. The improved

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[110]Wade, 42

[111]Murray, 43.

funding of the public housing scheme succeeded in stimulating considerable interest in low-rental housing among the provinces, who began to establish provincial housing corporations to administer their public housing programs.[112] By 1970, 57,241 public housing units had been produced through the 1964 program compared to a total of only 19,045 through the 1949 program.[113] Even at those levels, however, the program was small-scale, with public housing stock representing less than 1.5% of total housing stock in 1971. (See Table 1) Moreover, the poor design and minimal amenity standards of public housing projects, the low-income profile of project residents, the insensitive uprooting of established low-income communities for slum clearance and public housing development, and the social stigma generally accorded project residents spawned and/or exaccerbated serious social problems.

Following the recommendations of two major federal Task Force reports in 1969 and 1972, the federal government began to scale down the increasingly costly and problematic public housing programs in favour of smaller, scattered and socially-mixed low- to moderate-income projects. Accordingly, 1973 amendments to the NHA extended the non-profit program and introduced a continuing co-operative program to facilitate the development of social housing projects. In addition to capital

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[112]By 1967, eight provinces had done so, signalling the advent of a greater provincial presence in the housing field. British and Saskatchewan were the exceptions.

[113]1970, CMHC, AR, 26

grants and loans, non-profit developers received federal and provincial contributions to cover the operating losses sustained by offering some units on a rent-geared-to-income basis. As well, a private sector rent supplement program, which enabled provincial agencies to lease rental units from private landlords at prevailing market rents and then rent those units at 25% of income to households from the public housing waiting list, was established as an alternative to public housing. In 1978, when the public housing programs had all but disappeared, the non-profit and co-operative programs were modified in order to reduce federal capital expenditure, the direct CMHC loans and grants being replaced by loan insurance on and underwriting of loans obtained from private lenders. Currently, the non-profit and co-operative social housing programs are the only federal rental schemes aimed at the affordability problem.

A 1983 CMHC evaluation of the social housing programs suggested they had been successful in overcoming many of the problems encountered with the public housing programs. That they were faulted, however, for failing to meet low-rental needs - only 1% of Canadian households with "core housing need" were being served by the program[114] - suggests they have been

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[114]Canada, CMHC (1983) <u>Section 56.1 Non-Profit and Co-operative Housing Programs Evaluation,</u> Ottawa: CMHC, Program Evaluation Division, pp. Abstract, 36, 41. "Core need" households are households unable to afford adequate, uncrowded housing without paying more than 30% of gross income. Crowding is defined as dwellings with more than 1 person/room. Inadequacy is defined as dwellings lacking basic facilities such as piped hot and cold water, flush toilet, or exclusive use of a bathtub or shower.

seriously underfunded in relation to need. At 1982-83 funding levels, in fact, it was estimated that it would take 52 years to house all those in need,[115] with no allowance for growing numbers of needy households as unemployment steadily climbed and social assistance benefits remained stable or fell. Indeed, in 1981 social housing stock represented only .8% of total Canadian housing stock. (See Table 1) Yet the 1981 Census reported that 30.5% of Canadian renters could not afford market rents at 30% of income, with half of those households enduring rent-to-income ratios in excess of 50%.[116] Even the 1982 CMHC Annual Report noted that:

> "Demand for assistance under all [social housing] programs continued to exceed the number provided for in the annual budget."[117]

Even the small number of units produced through the social housing programs are currently endangered both by restraint and by recent moves to turn the administration of and responsibility for the programs over to the provinces. As most of the provinces have shown little interest in social housing programs in the past,[118] this program too may decline or be discontinued at a

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[115]Where to Go? Falkenhagen, 42-43

[116]CMHC, 1984, RM Anal. 6

[117]1982, CMHC, AR, 16

[118]Between 1979 and 1981, for instance, only one quarter of committed Section 56.1 units received provincial assistance as well as federal, with special care units receiving almost one-half of that assistance. The co-operative program, which targets moderate-income households most specifically, received the least additional assistance. Section 56.1 Eval, 267, 269

time when tremendous social need for low- and moderate-rental housing exists.

CONCLUSION

In summary, the affordability of rental housing has always been the crucial issue in rental housing problems. When the opportunity arose in the early twentieth century to do something about supplying good quality, affordable rental housing, however, government did not take it up, both because of the constraints outlined in Section 1 and because of the inadequate definition of the problem. Instead, it attacked the problem with incremental, ad hoc and short-term measures, which focussed first on one aspect of the problem, then an another. As a result, the qualitative problems of the nation's housing stock appear to have been worked out, in that, except in rural areas and on reservations, Canada now has very few poor quality housing units. A recent CMHC estimate suggested that less than 3% of rental dwellings are presently overcrowded or of poor quality.[119] As well, the quantitative problems of developing a construction industry capable of supplying the required numbers of units appear to have been worked out, in that the residential construction sector is now capable of supplying a tremendous number of units. However, the rental market responds only to effective demand, not social need, and Canada's social need for rental housing today far outpaces the effective demand in the rental market. Rental housing, therefore, remains unaffordable to most low- and many moderate-income renters. Moreover, production of all but very expensive rental units has virtually

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[119] CMHC, Section 56.1 Program Evaluation, Table 3.1 p.36.

ceased because rental housing cannot be supplied at financial recovery rent levels affordable to low- and moderate-income renters. Only now, after all these years of ad hoc government activity in the rental sector, do we realize we are still in the same bind - a substantial percentage of our renter population is unable to afford good quality rental housing.

The rental programs of the past fifty years show a remarkable consistency in that they have, for the most part, been market-supportive, ad hoc, and minimal measures. Yet with the increasingly low-income profile of the renter population and the steadily rising costs of producing rental housing, it is apparent that we cannot continue to rely on the same approach to rental housing policy as we have in the past. No private sector incentive program has yet been successful in producing rental units affordable to low-income renters. Moreover, it is obvious that one underfunded social housing program cannot meet the tremendous social need. Increasing the incomes of low and moderate-income renters could go a long way towards resolving the longstanding affordability problem. Yet changing the income distribution of Canadian society is a monumental challenge. Even with the redistributive programs of the post-war Welfare State, the income distribution of the early 1950's has remained essentially static.[120]

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[120]See D.P. Ross (1980) The Canadian Fact Book on Income distribution, Ottawa: CCSD, p.12; Canada, Statistics Canada (1979) Income Distribution by Size.

We must concentrate on the possible. This paper does not claim a solution. It's main point is that in viewing rental problems and policy options in the past, we have been constrained. Removing those constraints can open up new options. We must rethink the conventional assumptions regarding the capabilities of the market and the role of rental housing in Canadian society which underly our rental housing policy. We must also think in terms of a long-term and comprehensive housing policy. Had we implemented such a policy in the 1930's, we would today have a substantial stock of adequate low- and moderate-rental housing, and we would be concentrating on rehabilitation to keep that stock in good repair rather than on trying to find ways to house the more than one-half million Canadian renter households with housing problems.[121]

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[121] CMHC, Section 56.1 Program Evaluation, Executive Summary, p. 2.

Table 1 Rental Starts by Sector
Canada 1950-1983

Selby

Year	Total Housing Stock (units)	Total Rental Starts[1] (units)	Private Sector Rental Starts (units)	Public Housing Starts[2] (units)	PH Stock as % of Total Stock (%)	Non Profit Rental Starts (units)	N-P Stock as % of Total Stock (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1950-64		497,086		12,138		144	
1965		77,890	75,633	1,128		1,105	
1966		51,551	45,452	3,879		1,617	
1967		74,258	63,866	8,555		1,164	
1968		103,383	90,757	9,278		2,237	
1969		110,917	90,792	15,603		2,919	
1970		91,898	68,211	19,669		3,430	
1971	6,304,685	106,187	81,102	21,244	1.4	3,109	.25
1972		103,715	85,074	16,083		1,813	
1973		106,451	91,707	13,429		1,207	
1974		74,025	56,570	12,403		5,052	
1975		70,361	51,999	13,354		5,008	
1976		89,324	67,251	13,828		8,245	
1977		92,327	81,002	6,763		4,560	
1978		77,327	66,346	7,800		3,178	
1979		58,387	52,065	1,601		4,721	
1980		48,329	38,827	1,331		8,171	
1981	8,756,675	61,609	48,462	1,367	2.0	11,780	.80
1982		53,162	38,709	1,210		13,243	
1983		44,124	30,617	1,299		12,208	
Total				181,965		94,847	

1 Apartment starts used as proxy for rental starts.

2 Does not include university student housing.

Source:

Columns 1, 2, 4, 6 CMHC, Canadian Housing Statistics, various years

Column 3 Adapted from Clayton Research Associates Ltd (1984) Rental Housing in Canada Under Rent Control and Decontrol Scenarios, 1985-1991, Appendix B, Table B-11.

Selby

Table 2. Housing Stock and Households Canada 1901 - 1949

Year	Shortfall of Housing Units[1] (units)	Households Without Units of Their Own[2] (households)
	(1)	(2)
1901	84,000	104,600
1911	—	29,000
1921	145,000	197,000
1926	126,000	224,000
1931	116,000	222,000
1936	158,000	256,000
1941	247,000	310,000
1946	351,000	411,000
1949	407,000	473,000

1 Households minus Total Stock
2 Households minus Occupied Stock

Source:

O.J. Firestone (1951) Residential Real Estate in Canada, Toronto: Univ. of Toronto Press, pp. 205, 478; Firestone (1958) Canada's Economic Development, London: Bowes and Bowes, pp. 240-241

Selby

Table 3. Affordability of Home-Ownership Canada 1900-1936

Year	Average Annual Manufacturing Wage-Earner Income (Current $)	Ave Value New House[1] (Current $)	Ave Value Existing House (Current $)	Affordable House at 2.25 Times[2] Annual Income (Current $)
	(1)	(2)	(3)	(4)
1900	421	1,570	—	947
1905	375	1,810	—	844
1910	417	2,096	—	938
1915	570	2,160	—	1,283
1921	999	4,100	2,776	2,248
1926	999	4,205	2,430	2,248
1931	950	3,994	2,343	2,138
1936	896	3046	2,103	2,016

1 Detached or Semi-detached

2 Rule of Thumb: Affordable House Costs No More than 2-2¼ Times Annual Income

Source:

Column 1 F. H. Leacy (1983) Historical Statistics of Canada, 2nd ed., Ottawa: Statistics Canada and Social Science Federation of Canada, Series E41-48; O.J. Firestone (1958) Canada's Economic Development, 1867-1953, London: Bowes and Bowes, p. 207.

Column 2 J. Pickett, "Residential Capital Formation in Canada, 1871-1921," Canadian Journal of Economics and Political Science, 29, 1963, p. 51; Leacy, Historical Statistics, Series S323 325.

Column 3 O.J. Firestone (1951) Residential Real Estate in Canada, Toronto: Univ. of Toronto Press, p. 99.

Selby

Table 4.

The Gap Between Financial Recovery and Market Rent Levels Canada 1969-1983

Year	Monthly Payment For Average-Priced NHA-Financed Apartment (Current $)	Ave. Nominal Monthly Rent [1] (Current $)	Size of Gap (%)
	(1)	(2)	(3)
1969	94.20	108.60	-13.3
1970	96.20	116.00	-17.1
1971	92.00	120.00	-23.3
1972	97.70	122.00	-19.9
1973	110.90	127.20	-12.8
1974	124.30	138.00	- 9.9
1975	174.80	153.70	13.7
1976	198.80	175.00	13.7
1977	223.90	190.40	17.6
1978	235.80	204.00	15.6
1979	268.40	224.80	19.4
1980	358.50	248.00	44.6
1981	528.90	272.90	93.8
1982	506.70	310.00	63.5
1983	473.30	337.90	40.1

1 For entire Rental Stock - includes utilities

Source:

Clayton Research Associates Ltd. (1984) Rental Housing in Canada Under Rent Control and Decontrol Scenarios, 1985-1991, for Canadian Homebuilders' Association, November.

Figure 1

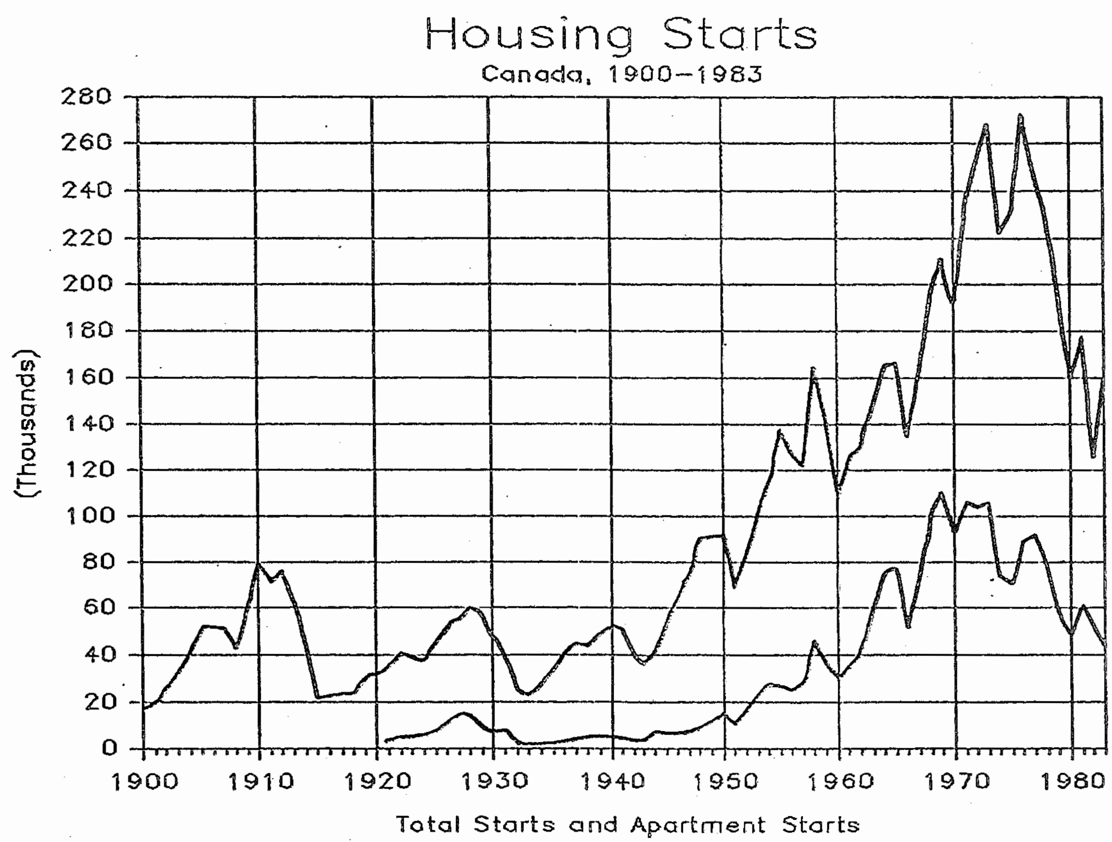
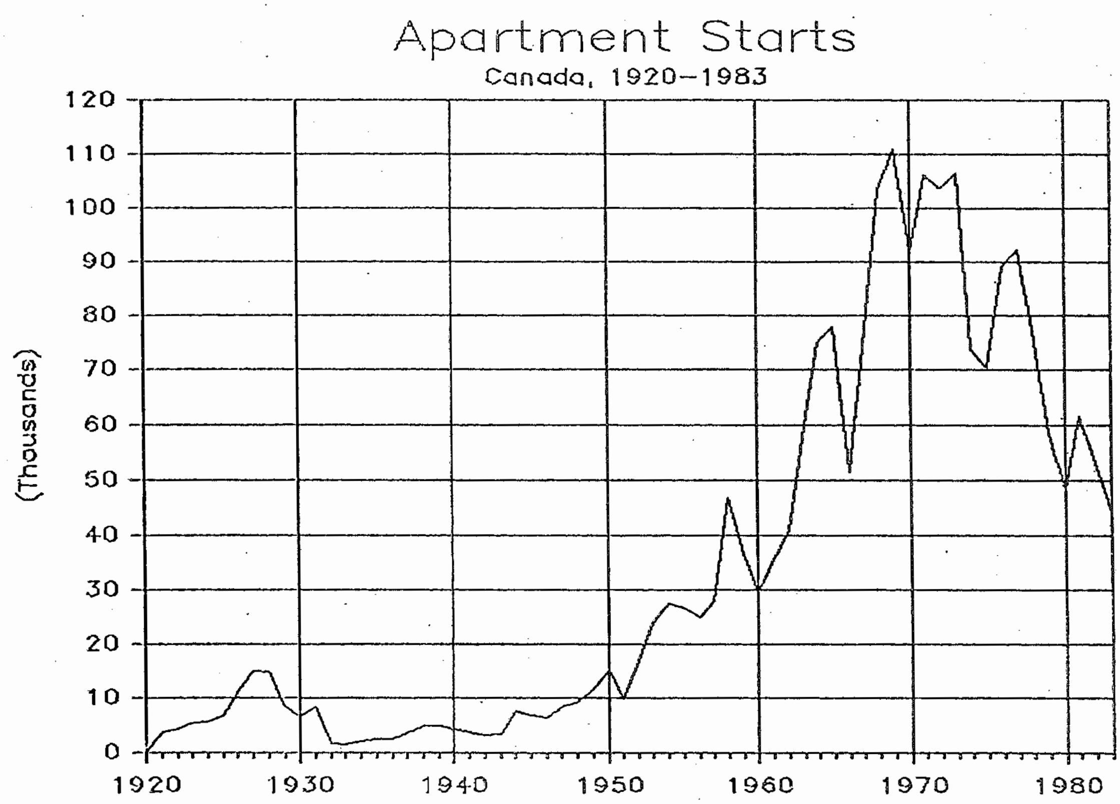

Housing Starts
Canada, 1900–1983
(Thousands)
280
260
240
220
200
180
160
140
120
100
80
60
40
20
0
1900
1910
1920
1930
1940
1950
1960
1970
1980
Total Starts and Apartment Starts

Figure 2


Apartment Starts
Canada, 1920–1983
(Thousands)
0
10
20
30
40
50
60
70
80
90
100
110
120
1920
1930
1940
1950
1960
1970
1980