Housing Affordability in Ontario:
Anatomy of a Crisis

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Introduction

> *"Homelessness and the lack of affordable housing are Ontario-wide problems, and not confined to Toronto. The plight of renters, as measured by the twin indicators of affordability and availability, is getting worse. The private rental market is not addressing these problems."* (www.housingagain.web.net)

Since this observation was made in the opening of *Where's Home? A Picture of Housing Needs in Ontario* in 1999, the situation is much worse. More Ontarians cannot afford the housing the need. (for this report and updates on it, see: www.housingagain.web.net)

Four factors are important in any analysis of housing affordability: (1) household income trends; (2) the availability of lower-rent housing (vacancy rates in this sub-market); (3) rent levels (and the rate of increase compared to changes in household income); and (4) the extent of housing discrimination (a barrier that makes it more difficult for some individuals to find housing they can afford).

Through the 1990s government policies have exacerbated the already serious rental market conditions. The private sector ceased building very many rental units in the 1980s. The federal and Ontario government did the same in the 1990s. As the economy created fewer 'good jobs,' more 'Mcjobs,' and more long-term unemployment, major cuts were made in unemployment benefits and social assistance rates. Eligibility for both programs was also restricted. The Ontario government's promise to deliver an expanded rent supplement program in place of social housing supply has not been kept.

The housing affordability indicators discussed in the *Where's Home* report, therefore, have all deteriorated.

- vacancy rates continue to decline
- rents are increasing at a faster rate than inflation
- more people live poverty
- the gap between tenant income and owner income continues to increase
- tenant affordability problems continue to increase throughout the province

This paper reviews the income trends and income assistance policies as the affect housing affordability in Ontario.

1. Income and Wealth Trends of Owners and Renters in Ontario

Although there is one housing market with one set of land and housing costs, there are two pools of housing consumers with dramatically different incomes and wealth (assets and savings).

In the 1960s the income gap between homeowners and renters in Ontario was about 20%. That is, homeowners had about 20% higher incomes compared to renters in the province. There could be – and there was – a great deal of rental housing construction. Most tenants could afford what was being built. Developers could make money building for renters. Vacancy rates in existing rental housing were high enough to allow the market to function (at least 3% or 4%). The federal government was also building a great deal of public housing for families and the elderly. The social housing stock increased from about 12,000 units in 1963 to about 200,000 by 1975 (more than half the units were in Ontario).

In 1970 legislation allowing condominium ownership was introduced, which meant that apartments could be owned. Up to that time, residential land was zoned for either homeowners (low density areas) or for renters (areas were higher density apartment buildings were allowed). There was a great deal of real estate speculation in the 1970s as the baby boomers entered the housing market, forcing up land and house prices. It was also a time of dramatic swings in interest rates (mortgage interest rates peaked at 21% in August 1981).

It was during the early and mid-1970s that market conditions changed, making it unprofitable for the private sector to build unsubsidized rental apartments.

- Given that any long-term investment was risky due to dramatic fluctuations in inflation and interest rates, why would anyone invest in rental apartment buildings?
- Given that 'ownership apartment buildings' (condominiums) were now possible, whereby the developer obtained an immediate return on the investment (once the units were sold), why would anyone build rental apartment buildings?
- Given that renter apartment developers had to compete for zoned land (building sites) with condominium developers who were building for a higher income group of consumers (homeowners), who could always afford to pay more for the land, why would anyone build rental apartment buildings?
- Given that the gap between rich and poor, and homeowners and renters, continued to widen, why build for a group of consumers (renters) who could not afford the rent levels in new apartment buildings?

The answer is that very few developers built rental housing under these conditions. A market with a great deal of demand but no very little supply is a market that has failed.

Between 1975 and 1985, therefore, the federal and some provincial governments, in recognition of this market failure, began subsidizing market rental housing supply. Three programs subsidized almost all private sector rental housing construction during this period: the Assisted Rental Program, the MURB tax deductions, and the Canada Rental Supply Program. After 1985 there were no more private rental supply programs. These programs did not build low-rent housing, but they did increase the availability of rental housing.

Since that time the ability of a majority of renters to be able to afford housing has further deteriorated. Land and house prices keep rising faster than inflation and the income of renters has not kept pace. A major impediment for market supply of rental housing is the growing gap between owners and renters.

By the early 1980s Ontario's homeowners had almost double the income of renters. The gap has continued to widen. By 1999 (the most recent Statistics Canada survey of income and wealth), the median income of renters was $23,200, about the same as fifteen years earlier. This means that half of Ontario's 1.8 million renter households have incomes under $23,000. The median income of homeowners, in contrast, was $26,000 *higher* than renters: $49,200 (an 11% increase from fifteen years earlier).

In terms of household wealth, homeowners are much richer (mainly due to paying down some or all of their mortgage) and renters much poorer over the fifteen year period (1984 to 1999). Half of Ontario's tenants have less than $2,300 in savings (compared to nearly double that amount in 1984). See the Table 1 below.

More and more renters, therefore, faced very serious problems affording housing during the 1990s. Incomes were not rising, there were more part-time jobs without benefits, and unemployment benefits and social assistance payments were dramatically cut (the amount paid as well as the number of people eligible). The federal government since 1993 and the provincial government since 1995 have provided no new social housing. More people find themselves paying a huge percentage of their income on housing, and some are finding themselves houseless – using municipal emergency shelters.

Table 1

Income and Wealth of Owner and Renter Households in Ontario and Toronto, 1984 and 1999 **(1984 $ adjusted to 1999 $)**

		owners	renters		owners	renters
Ontario	1984	$44,134	$22,796	1984	$134,949	$4,242
	1999	$49,174	$23,215	1999	$182,000	$2,350
	change	$5,040	$419	change	$47,051	-$1,892
	% change	11%	2%	% change	35%	-45%
		owners	renters		owners	renters
Toronto	1984	$48,821	$24,212	1984	$174,254	$4,291
	1999	$53,563	$27,039	1999	$248,400	$3,300
	change	$4,742	$2,827	change	$74,146	-$991
	% change	10%	12%	% change	43%	-23%

Source: Statistics Canada, *Survey of Financial Security*, 1984 and 1999. Special tabulations compiled by Statistics Canada for the Centre for Urban and Community Studies, University of Toronto.

See also: Statistics Canada, *The Assets and Debts of Canadians*, March 2001. http://www.statcan.ca/cgi-bin/downpub/research.cgi

2. Poverty in Ontario

About 1.5 million people in Ontario live in poverty, according to the National Council on Welfare (a federal government research agency). The poverty rate in Ontario in 1998 was 13.5% (1,543,000 people). Households headed by women have the highest rates of poverty.

- 51% - Single-Parent Mothers under 65 With Children under 18
- 35% - Unattached Women under 65
- 31% - Unattached Women 65 and Older
- 29% - Unattached Men under 65:
- 28% - Unattached Men 65 and Older
- 9% - Couples under 65 With Children under 18
- 6% - Childless Couples under 65
- 5% - Couples 65 and Older: 4.6%

Source: National Council of Welfare, Poverty Profile 1998, Ottawa.

Poverty Profile 1998 is the latest annual report by the National Council of Welfare based on factual material compiled by Statistics Canada. It includes numerous statistics for 1998 and poverty trends dating back to 1980. Most of the following observations about Canada apply to Ontario (which is about 40% of Canada):

- A total of 4.9 million people or 16.4 percent of the people in Canada were poor in 1998. This was 1.4 million or 41 percent more than in 1989, the last full year before the last recession.

- In spite of talk by governments about putting children first, approximately one in five children in Canada, or 1.3 million, were poor in 1998. This was an increase of 42 percent, since 1989, the year of the House of Commons resolution to end child poverty by 2000. The jump was especially noticeable in Ontario where the number of poor children was close to double what it was in 1989.

- It has become obvious that people on the low end of the income scale are cut off from the ongoing economic growth that most Canadians are enjoying. It is also obvious that in these times of economic prosperity and government surpluses that most governments are not yet prepared to address these problems seriously, nor are they prepared to ensure a reasonable level of support for low-income people either inside or outside of the paid labour force.

Some of the poverty statistics are particularly disturbing:

- Most poor people live thousands of dollars below the poverty line. In fact, the number of people living at less than 50 percent of the poverty line has grown dramatically in recent years, from 143,000 families and 287,000 unattached individuals in 1989 to 233,000 families and 463,000 unattached individuals in 1998. Living at less than 50 percent of the poverty line means that a family of four in Toronto survives, somehow, on total income of $16,353 or less per year, or $1,363 or less a month.

- Even with slight improvements in 1998, poverty rates for single-parent mothers and their children remain shockingly high, a sad testimony to the 1989 House of Commons resolution to eliminate child poverty by the turn of the century. The overall poverty rate for single-parent mothers was 54.2 percent in 1998, and the rate for families led by single-parent mothers less than 25 years old was an abysmal 85.4 percent. Eighty-three thousand single-parent mothers were living at less than 50 percent of the poverty line in 1998. This was the highest number recorded between 1989 and 1998 other than the peak of 99,000 in 1996.

- People under age 25 have seen their poverty rates shoot up in the 1990s from rates that were already too high. The poverty rate for families with heads under age 25 went from 28 percent in 1989 to 43.3 percent in 1998, and the rate for unattached individuals under 25 went from 47.8 percent in 1989 to 60.7 percent in 1998.

3. Unemployment Assistance

Since the late-1980s a number of dramatic changes in the unemployment insurance system in Canada mean that more unemployed are not eligible for benefits, the benefit levels are lower and the amount of time benefits can be collected is shorter.

The current unemployment insurance rules are out of sync with today's labour market realities. In addition, the changes in unemployment insurance rules have resulted in a massive transfer of money into the federal government's general revenue. Not only do the unemployed receive fewer benefits to help pay for the necessities like housing, but the loss of these funds has negative economic impact in the communities in which the unemployed live. Canada's unemployed and their communities have been financing a significant portion of the federal government's budget surpluses and the ensuing tax cuts.

Research carried out by the Canadian Labour Congress, based on access to federal databases for 1997, provides for the first time a detailed look in each local area at who is receiving insurance and who is not. (see: www.clc-ctc.ca/policy/ui/takenaway.html)

The following are the highlights of the research:

- The changes adopted since the Liberals' election in 1993, have cut one million unemployed workers a year from insurance coverage. A decade ago most were covered.
- UI reform in the 90's has had a disproportionate and negative impact on women. The fall in coverage for women in many of the regions has been twice – even three and four times as great as it is for men.
- The portion of the unemployed receiving insurance in most big city EI regions is below 30%. The lowest coverage rate is 19% in Regina and Ottawa.

The annual dollar loss for Ontario is $2.3 billion and $7.1 billion for Canada. The estimated annual loss of unemployment benefits for Ontario's largest cities and the percentage of the unemployed receiving unemployment benefits is:

	Annual loss	*% receiving benefits*
Hamilton	$ 163 million	27 %
Kitchener	61 million	24
London	98 million	20
Oshawa	62 million	21
Ottawa	133 million	19
St. Catharines	105 million	28
Sudbury	81 million	33
Thunder Bay	45 million	30
Toronto	985 million	24
Windsor	60 million	25

4. Social Assistance

A turning point for welfare policy in Canada came in the 1995 federal budget. Most provinces then passed on the cuts in federal transfer payments to the recipients – providing lower benefits to fewer people.

In Ontario, this means that welfare recipients must get by with benefits that are about 30% less than when the Harris government was elected in 1995, according to a report by the Ontario Social Safety NetWork. In real value, welfare benefits are the lowest that they have been for 35 years. (see: www.welfarewatch.toronto.on.ca/ossn/fiveyears.htm)

Prior to 1995, federal funding for social assistance was provided to the provinces through a designated transfer program called the Canada Assistance Plan (CAP). The CAP Act specified five clearly defined rights:

- the right to an adequate income;
- the right to income assistance when in need;
- the right to appeal welfare decisions;
- the right to claim welfare whatever one's province of origin; and
- the right to welfare without forced participation in work or training programs.

The 1995 federal budget cut transfers to the provinces, eliminated the CAP, and rolled federal funding for social assistance, post-secondary education and health into the new Canada Health and Social Transfer. In so doing, the federal government understood that it was releasing provinces from the requirement to provide adequate assistance on the basis of need alone. Since then, almost all provinces have introduced significant changes to the nature and delivery of social assistance programs. Ontario began introducing its major cuts in social assistance rates and eligibility criteria in October 1995.

Policy changes were explicitly designed to encourage people to leave welfare and to deter new cases. Changes consisted of lowered benefits, tighter eligibility criteria (in particular, reductions in allowable assets), and welfare-to-work requirements. Welfare-to-work requirements compel welfare recipients to participate in skills upgrading or employment counseling programs; to "actively" look for paid work; or to work in the voluntary or private sectors. These reforms were supplemented with a change in the administrative culture of social assistance delivery, including increased pressure on financial aide workers to reduce cases.

Changes to welfare in each province reflect a distinctly punitive approach. The workfare component of these policies is based on false assumptions about both the availability of jobs and the character of welfare recipients. These programs assume that being on social assistance is due to a deficiency on the part of the individual, either resulting from insufficient experience or job search skills, or simply a refusal to adequately look for work. Welfare-to-work reforms do not address external causes of poverty and unemployment; namely, they do not take into account the reality of a shortage of adequate and secure jobs, or the unique challenges faced by single mothers on social assistance.

Summary of Recent Welfare Policy Changes in Ontario

- The number of welfare cases in Ontario peaked in 1994. Declining welfare caseloads preceded welfare policy changes in 1995. This decline in cases was in part a result of the onset of recovery from the recession of the early 1990s, which resulted in a somewhat improved employment picture.

- In 1995 changes to welfare policy consisted of drastic cuts to welfare rates – 21.6% for everyone except seniors and people classified as disabled – and tightened eligibility requirements.

- In addition, a welfare fraud line was established to catch and discourage suspected abuse of the system. In 1997, the Ontario Works Act introduced a workfare program applicable to employable recipients. Individuals on welfare were required to participate in employability training programs or were required to work in the voluntary sector.

- The stated intent of the Ontario Works Act is to provide temporary assistance to individuals in need, so long as recipients 'satisfy obligations to become and stay employed.' It also states accountability to taxpayers as a key priority. Single mothers are required to work, but there is no corresponding requirement for the Ontario government to provide access to childcare.

- The real aim of Ontario Works is to promote the shortest route to paid employment, not long-term self-sufficiency. Hence, postsecondary training opportunities requiring more time are de-emphasized in favour of quick-fix job search programs (a common trend in most provinces). Emphasis is on individual responsibility, and the government's role appears to be one of policing, not support.

- Overall, the welfare caseload shrank by 40% between 1995 and 1999.

  SOURCE: Seth Klein and Barbara Montgomery, *Depressing Wages: Why welfare cuts hurt both the welfare and working poor*, Canadian Centre for Policy Alternatives, BC Office, March 2001.

5. Rising Rents and Low Vacancy Rates Throughout Ontario

The result of Ontario's changes in landlord/tenant legislation and the rent decontrol of apartments when a tenant moves is that, in many areas of the province, rents are increasing at a much greater rate than inflation and at a greater rate than increases in the income of renters. The existing rental stock is, therefore, becoming more increasingly unaffordable for many tenants every year.

The following presents a summary of rent increases for two recent years, as calculated by the Canada Mortgage and Housing Corporation in its annual survey of vacancy rates and rents.

Twelve of these 21 cities had rent increases above 3% during 2001. The average rent increase for Ontario was 4% in 2001 (it was 6.2% in 2000).

	Rent Increases	
	1999	*2001*
Barrie	1.8%	5.0%
Brampton	5.0%	5.7%
Cornwall	2.0%	0.0%
Guelph	2.3%	4.0%
Hamilton	5.4%	3.3%
Kingston	0.0%	4.3%
Kitchener/Waterloo	3.0%	3.6%
London	0.0%	3.9%
Muskoka	1.8%	2.7%
North Bay	0.0%	1.9%
Oshawa	2.6%	1.5%
Ottawa	3.8%	3.9%
Owen Sound	0.0%	3.8%
Peterborough	1.6%	3.7%
Sarnia	4.7%	1.8%
St. Cath./Niagara	2.8%	3.3%
Sudbury	0.2%	0.0%
Thunder Bay	0.0%	0.0%
Timmins	0.0%	0.0%
Toronto	4.0%	4.5%
Windsor	2.4%	0.0%

6. Ontario's Rent Supplements

> *Ontario is fulfilling its promise to help the homeless by providing over 5,000 individuals and families with new rent supplements, today announced Minister of Municipal Affairs and Housing Tony Clement. As part of a $50 million initiative, funding has been allocated to communities throughout the province to provide needy Ontarians with affordable housing. "We are a government of action and we are committed to addressing the problems associated with homelessness," said Clement. These rent supplements will help house the homeless or those at risk of becoming homeless, including people living in temporary shelters and those on waiting lists for assisted housing.*
>
> – January 14, 2000 Ontario Ministry of Municipal Affairs and Housing Press Release.

The provision of rent supplements is one way the Government of Ontario can directly help large numbers of low-income renters afford the housing they are living in (whether it is market housing or social housing). Unfortunately, the Ontario government has not kept its rent supplement promises.

The first promise, for a province-wide rent supplement program to help all low-income renters, made in the 1995 in the Common Sense Revolution, was never kept. The Harris government promised this rent supplement program as a replacement for the provincial social housing supply program. The Harris government killed the social housing supply program but did not implement a new rent supplement program.

The second promise came in March 1999. Ontario received $50 million from the federal government in association with taking over the federal social housing units in the province. This money, the province announced, would be part of the Harris government's "Homelessness Initiative." The federal government's transfer of $50 million for housing assistance would be spent on 10,000 rent supplements for low-income tenants living in private sector renter buildings. However, only a few hundred rent supplements were ever allocated.

Then there was another 'good news' press conference in January 2000 (part of which is quoted above) reannouncing the provincial rent supplement program, implying it was provincial money (rather than federal) and, for some reason, only allocating 5,000 rent supplements (instead of 10,000). It is now more than two years later and only some of the 5,000 have been allocated. No one is sure what has happened to the $50 the federal government gave Ontario for housing assistance. Therefore, even though there was a federal government source of money to help low-income renters in the province, the Harris government has failed to allocate it.

Rent supplement payments to low-income renters can be an effective method of helping people with their housing affordability problems. If properly implemented, as they are in the UK, the Netherlands, and other European countries, the program directly helps households in need of cash assistance with paying their rent. These countries, it should be noted, also have very large social housing sectors. In most of these countries, the rent supplement is available for as long as the household needs it. The Ontario program will likely provide funding for a limited number of years, as few as 3 to 5 years.

7. Passing the Buck: The Federal Role in Provincial Funding Cuts

It is important to place Ontario's budget cuts in the context of the federal government's downloading of the deficit onto provincial taxpayers. Provinces can either raise taxes to make up for the cuts in federal transfer payments (creating the conditions for a taxpayer revolt and the popularity of politicians who promise tax cuts) and/or they can pass on the cuts onto groups who have no electoral clout.

Federal cash transfers to the provinces and territories have been falling dramatically since the early 1980s. Over the past twenty years there are three distinct periods.

- From 1980 to 1986, the share of federal expenditures that was transferred to the provinces and territories ranged between 4% and 4.6% of GDP.
- From 1987 to 1995 the range was between 3.7% and 3.9% of GDP.
- From 1996 to the present, federal transfers have been 2.7% to 2.9% of GDP.

In short, huge piles of money that were once transferred to provinces and territories were unilaterally withdrawn. The money mainly helped pay for health, education and welfare.

Another way of looking at these federal budget cuts is to examine the share of total budget revenues that federal cash transfers represent. In Ontario, for example, during the first period (1980 to 1986) an average of 17% of provincial revenues came in the form of federal cash transfers. During the second period (1987-1995) this had fallen to an annual average of 13.4%. By the third period (1996-2001), only 9.3% of Ontario's budget revenues came from federal cash transfers.

In addition to the loss of federal transfers, the housing budget cuts (direct federal spending on housing, not transfer payments) now saves the federal treasury about $1.5 billion annually. Terminating social housing supply downloaded onto provinces and municipalities the indirect costs of inadequate housing and homelessness. These include physical and mental health care, emergency shelter and services, and police costs.

The federal money now spent on housing, about $2 billion (1% of total federal spending), pays for the subsidies on the approximately 550,000 social housing units built prior to the termination of a federal role in housing supply in 1993. About 5% of Canada's housing is non-market social housing. This compares with 2% in the U.S., 15% in France and Germany, 22% in the U.K. and 40% in the Netherlands. Most Western nations also have national shelter allowance programs (the exceptions are Canada, Australia, Spain and Japan).

As the table on the next page indicates, Canada is now at the bottom of the list of Western nations in terms of social expenditure targeted at people in need of assistance. This OECD data measures the efforts by all levels of government and by the private sector.

Net Total Social Expenditure

National Comparisons

Percent of GDP, OECD Indicators, 2001

The part of an economy's domestic production recipients of social benefits draw on.
A measure of what governments really devote to social spending.
Net (after tax) public and private expenditure, including tax system benefits.

% of GDP	*1997*	*+/- 1995 % of GDP*
Germany	28.8 %	+ 0.4 %
Sweden	27.3	- 0.8
Belgium	25.4	+ 0.1
Denmark	23.5	- 1.0
Italy	22.7	na
United Kingdom	21.8	- 1.5
United States	21.8	- 0.6
Netherlands	21.5	- 1.0
Australia	20.4	+ 0.1
Canada	**18.9**	**- 1.7**
New Zealand	17.5	na
Ireland	16.5	-1.4
Japan	14.7	na

OECD Definition of Social Expenditures

The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare. Such benefits can be cash transfers, or can be the direct (in-kind) provision of goods and services. Since only benefits provided by institutions are included, transfers between households – albeit of a social nature, are not.

Source: OECD, ***Net Social Expenditure***, 2nd Edition, Labour Market and Social Policy - Occasional Papers No. 52, Aug. 2001. Page 7 and Tables 7 and A2.1. DEELSA/ELSA/WD(2001)5