What will 2019 hold for Canada's affordable housing sector?

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Part 1: framing the challenges

In a case of 'be careful what you ask for,' Canada's National Housing Strategy (NHS) delivered on what advocates had been clamouring for – the re-engagement of the federal government in housing and longer-term predictable funding in order to build and stimulate an ongoing pipeline of housing delivery. As it turns out, the federal government may not be so good in the pipeline business!

It has been over three years since Minister Jean-Yves Duclos was formally mandated to develop and implement a NHS (https://bit.ly/2BTSPCC) and 14 months since the release of the Strategy. He, along with CMHC President Evan Siddall have delivered many speeches, news releases and headlines, heralding what they assert to be Canada's first ever national strategy and largest ever financial commitment for affordable housing. Housing policy historians might quibble with those assertions, but the main point here is that to date, we have seen very little housing produced under the NHS. Will 2019 finally become the year where we start to see real momentum and real outcomes of the much-hyped National Housing Strategy?

In fairness, it takes time to plan, finance and build housing, and the NHS initiatives were formally implemented only in April 2018. But the glacial pace of implementation is still frustrating for many stakeholders – and more significantly for the many household in deep need, and those on the streets and emergency shelters all across the country. With any luck, 2019 will be the year that Canada's governments put their collective feet on the accelerator and start to show solid progress.

On the one-year anniversary of the Strategy's release, Canada Mortgage and Housing Corporation (CMHC) finally released a progress report on achievements to date. (https://bit.ly/2VpzRwz). Notably, these "achievements" were bolstered by including all activity under the Investment in Affordable Housing, the Innovation Fund and Rental Financing initiative, all programs in place much earlier, announced in the 2016 and 2017 federal budgets respectively. Progress on new initiatives implemented in April 2018 was much more limited, namely:

- 13,000 units preserved under the Federal Community Housing Initiative (FCHI) for renewal of expiring subsidy;
- 130 applications received and half with potential to be approved under the National Co-Investment Fund (ostensibly a unilateral federal initiative, but as it turns out quite dependent on provincial contributions as co-investors);
- 50 projects "prioritized for loans" and 5 announced under the Rental Financing initiative (a program in place since April 2017); and

- 12 proposals approved under the Innovation Fund (potential to create over 7,000 affordable homes).

In order to accelerate delivery and outputs in 2019, we must examine and address the existing friction and constraints in the housing delivery system – these include limited delivery capacity at the community level (with many small unprofessional providers), onerous application processes (particularly problematic for smaller less professional provider), and perhaps most significant, the underutilization of provincial and territorial conduits for effective delivery.

Make better use of existing PT delivery mechanisms

This is supposed to be a *national* housing strategy, not a *federal* strategy. As such the provinces and territories (PTs) are critical partners. Indeed, as CMHC sat on the sidelines for the past 25 years, since terminating new federal funding in 1993 (and most PTs joined them there until 2001) the PTs gradually expanded their expertise and competencies in program design and delivery, constrained mainly by fiscal capacity.

CMHC is not appropriately equipped to get back into direct delivery (reviewing and approving all projects). A selection of energetic and well intentioned affordable housing consultants sprinkled around the country does not come close to re-creating the extensive network of 95 well staffed expert branch offices of CMHC that existed in the golden years of 1978-94 where in excess of 25,000 social housing units were produced each year.

Instead, the appropriate way forward is to build on the newly existing PT expertise and capacity and utilize the PTs as the primary program delivery conduit.

Constitutionally, housing is a PT jurisdiction; the federal government got into the housing business on the backs of the federal spending powers. And it is in this area that CMHC excels. Through its insured and direct lending, CMHC has internationally-recognized expertise in underwriting and lending. That's where its active role should focus – as the banker (and funder) for Canada's housing system.

Unfortunately the critical PT plank of the NHS is not being strengthened or used to maximize outcomes. Since late 2016, we've all known that the NHS was coming and PTs were actively engaged in the consultation process. Despite that, it was six months (April 2018) *after* the release of the NHS that the federal minister sat down to negotiate a multilateral FPT housing partnership framework agreement with the PTs – and produced yet another news release and headline. This set up a process of negotiating bilateral agreements with each PT. And here we are, 14 months after releasing the NHS, with only three provinces and one territory having executed their respective bilateral agreements.

Why has it taken so long to put in place the necessary institutional-legal framework required to implement the NHS? A substantial portion of NHS funds depend on PT cost-sharing either formally – new IAH, reinvestment of federal expiring subsidy via the new Canada Community Housing Initiative, (CCFI) and the Canada Housing Benefit (CHB); or informally – with funding to facilitate the Co-investment fund.

Thus a pro-active and engaged PT role is a fundamental enabling requirement for effective implementation of the NHS.

The previous bilaterals executed by the Harper Conservatives with funding extending from 2014 through March 2019 kept the funding for provincial activity flowing (and Trudeau enhanced it temporarily in 2016-17), so there was no urgency to execute. But March 2019 is now very close, so one might expect, and hope, to see a flurry of signing (and yet more press releases) in order to sustain activity post April 1.

These bilaterals are much more important than simply extending the former IAH funding (rebranded as PT Partnership Fund). Notably the annually level of funding will decline substantially under the new PT Partnership stream ($123M/yr.), compared with the former IAH under Harper (253M/year).

But, more critically, this will be augmented by new funding ($4.8B over 10 yrs.) under two parallel funds, the Canada Community Housing Initiative (CCHI) and the Federal Community Housing Initiative (FCHI), which effectively replace the existing federal funding under past long term federal operating agreements. A proposed new Canada Housing Benefit (CHB, $2.0B/10 yrs.) is the third element of funds that require PT cost matching.

Advocates are justifiably concerned about the expiring federal funding related to co-op and NP projects constructed prior to 1985. Due to the concurrent maturing of mortgage payments, many such housing units should be viable without subsidy, but those with a high percentage of deep subsidy units (typically targeted at lower-income tenants) will be at risk; and many require funding to upgrade and renew physical assets. The CCHI/FCHI are the primary sources of funding to support existing social housing – both to replace existing subsidy, when needed, and to fund capital renewal. And most of this funding ($4.3B) will flow through and be managed by PT partners.

With these three new funds all having PT cost matching requirements, PTs, as equal funding partners will want—and should have—considerable discretion in the design and implementation of such funding streams. History suggests, however, that the federal government will be reluctant to treat PTs as equal partners. And to some extent, the non-profit and co-op stakeholders reinforce this culture – asserting the need for federal leadership and engagement, and largely overlooking the critical and expanding role of the PTs.

So back to the challenges for 2019 and the best way forward. What needs to happen to accelerate momentum and increase the number of units under construction, being renovated and households being assisted in addressing affordability issues? And how do we start to make a dent in the persisting number of chronic homeless individuals living in emergency shelters and on the streets? Part 2 proposes five suggestions on how implementation could be refined and accelerated in 2019.

Part 2: some possible solutions.

Part 1 has laid out what I see as some key challenges in accelerating delivery under the NHS. Part 2 now proposes a number of refinements to address those challenges.

1. Encourage and enable pro-active provincial-territorial roles

In order for 2019 to be the year of PT ascendency, they must be encouraged (exhorted) and supported in taking on a more active and pro-active role, rather than simply reacting to federally directed initiatives, which is essentially how the NHS has been framed. This requires completion of bilateral agreements across all jurisdictions in the first quarter of 2019.

PTs must then move to establish specific and transparent programming under the CCHI to maximize the input of these cost shared funds to improve and preserve the existing social housing stock, and ensure ongoing affordability for lower-income tenants (current and future). This requires careful examination of the problems and the design of new subsidy mechanisms, not just renewal and extension of the existing operating agreements. (The FCHI is the conduit for federally-administered projects – mainly coops and federal projects in Quebec and PEI, so a similar approach is needed there – ideally via the Agency for Cooperative Housing, which administers federal subsidy and oversight to co-ops).

2. Realign National Housing Co-investment Fund to Explicit Federal Priorities

The NHS has created a parallel universe with the National Housing Co-investment Fund (NHCF) and the PT partnership Fund (PTPF). In the recent months, providers have tried to access the NCIF (with over 150 applications made and roughly half likely to get a green light), but a critical issue with the Co-investment fund is an onerous application process due to multiple eligibility and priority criteria. It is primarily a loan fund and has inadvertently created reliance on PT grant funds to make proposals viable. But PTs are already challenged to come up with matching funds under the three formally cost-matched programs. It's not fiscally realistic for them to be also be the partners in this 'co-investment".

The NHCF needs to shift to a stronger focus on federal priorities – and to secure active engagement and funding from appropriate federal departments aligned with those priorities (veterans, new refugees and immigrants and indigenous, for example), alongside local and/or community contributions, as accessed in BC's Community Partnership Initiative or Quebec's community contribution requirement.

3. Rethink Approach on The CHB

The NHS proposed the creation of a Canada Housing Benefit (CHB), essentially a housing allowance to specifically address affordability issues for households already housed in suitable and adequate homes, but paying too much (90% of core need). To fund it, the Federal government withdrew $2Billion from the PTP fund (former IAH), which substantially diminishes the funding and effectiveness of that established and ongoing funding conduit. This should be reversed, with $2B reallocated back into the PTPF to restore it to the $3.1B originally announced in the 2017 federal budget.

The requisite $2B can be readily reallocated from the National Housing Co-investment Fund, which is the single largest fund in the NHS.

The advantage of doing this is that it would restore and expand new affordable development in an existing proven conduit (IAH) and separate out the CHB as a distinct federal initiative, no longer requiring PT cost sharing. This would reduce the CHB budget to only $2B as there would no longer be PT matching. But it also removes what will inevitably be a very difficult (and likely futile) negotiating process to design a housing benefit in each and every PT.

The key issue with a housing benefit is that it overlaps substantially with PT income assistance welfare programs and therefore requires substantial welfare reform – a process that is inherently difficult and will act to stall the implementation of a cost-shared CHB. The proposed budget of $4B (over 8 years) is far too small to create a meaningful universal housing benefit, so inevitably it will provide shallow assistance to many households and remove no one from core need, thus failing to achieve one of the two NHS priorities, and yield the Minister a failing grade on his ministerial mandate letter.

Instead the federal government can design a CHB as a unilateral, targeted federal initiative and target either the working poor (to avoid overlapping the morass of welfare programs, and strengthen incentive to work) or to target specific federal priorities. One option could be as a way to augment and strengthen the rebranded homeless initiative Reaching Home (discussed below) – the CHB could explicitly fund a housing benefit to enable Housing First programs to access existing housing for which PT welfare assistance housing rates are grossly insufficient.

4. Enhance funding for Reaching Home

The rebranded federal homelessness initiative, Reaching Home, relates specifically to one of the two objectives of the NHS: the goal to reduce chronic homelessness by 50%. But only $2.3B (1/20th of total NHS funding) is allocated toward this priority. Is that realistic? The reality on the ground is that Reaching Home provides only a tiny fraction of the funding directed to addressing homelessness – in most PTs it accounts for less than 10% of homeless system funding. The majority of funding to address homelessness flows from PT programs in social and community services and health ministries. So again, PTs are critical allies in achieving the NHS outcome, and carry a disproportionate fiscal burden.

A strong emphasis on Housing First implies that a sufficient stock of low-rent appropriate housing is available. We know there is a large gap in supply of lower rent units and that the rent capacity of those living in existing shelters is woefully inadequate to afford what little there is. One consequence is increasing reliance on lower-cost forms of accommodation, such as rooming house beds. There is a need to expand supply of supported and supportive housing – ideally via small-scale developments and via new build or acquisition/rehab. But where is the programming and funding needed to create or acquire such stock? To effectively implement a Housing First model, there is a prerequisite of (appropriate suitable and affordable) housing first.

The aforementioned suggestion to design an initial phase of the CHB to specifically target this priority population is one way to assist in affording existing housing. Additional initiatives and funding are needed to expand the supply of purpose-built supported housing for the formerly homeless.

5. Enumerate new affordable housing construction

Since the commencement of the IAH program in 2001, there has been a paucity of reporting and data on outputs and specifically on the count of new affordable units constructed. Instead, we have an array of ribbon-cutting ceremonies and press releases, which a very diligent researcher could assemble to determine how many units are being created. And CMHC has published a running total households assisted since the commencement of the initiative or since new bi-laterals were signed (e.g. 2011, 2014), while removing earlier data. There is a distinct lack of transparency and reporting. Meanwhile, CMHC maintains a very effective system of enumerating new housing starts, units under construction, completions and units absorbed, disaggregated by freehold, condo rental and other. CMHC also had a category "social housing". It terminated that category in 2002.

How difficult would it be to re introduce a box on the enumeration form "funded under NHS program"? The enumerator is visiting the site and speaking to the builder anyway. While not capturing renovations or households assisted via allowances etc. it would add transparency and accountability to the NHS and provide a monitoring tool on new affordable supply.