

Solutions to Alberta's affordable housing challenge

Definition of affordable housing

Employing the City of Calgary's definition, housing is affordable when it meets the needs of households earning less than \$37,621 per year (or 65 per cent of median income) whose shelter costs do not exceed 30 per cent of pre-tax income.

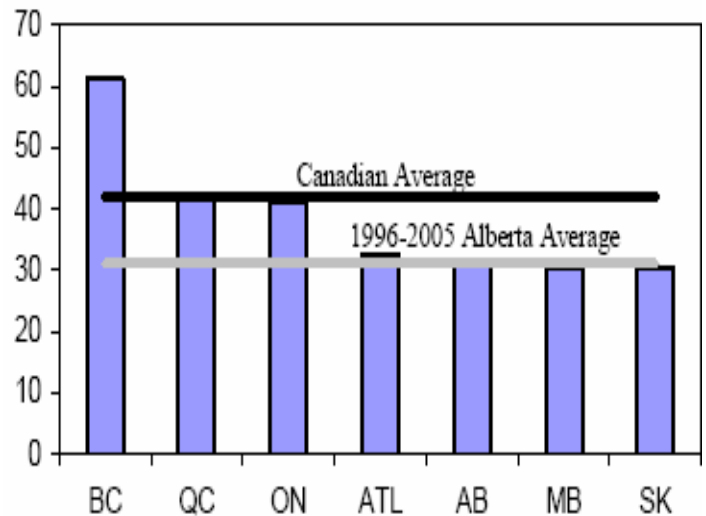
Housing affordability in context

In 2006, RBC Financial Group reported that Alberta's "Housing Affordability Index" between 1996 and 2005 (based on a standard two-storey home), was just over 30 per cent – a figure 10 per cent below the Canadian average. Albertans have therefore (historically) been used to spending less for housing than other Canadians.

While the dramatic price increases of the last two years do no more than bring Alberta up to the national average, in one respect, the shift also means that a major component of the "Alberta Advantage" has effectively been lost. This has two critical implications: the risk it poses to Alberta's long-term competitive position; and the role that higher housing costs have in exacerbating already problematic labour shortages.

Housing Affordability Index (2005)

(Pre-tax household income absorbed by home ownership costs for a standard two-storey)



Source: Economic Spotlight – Alberta's Housing Market, Alberta Finance, June 12, 2006 (created from RBC Financial Group Data)

Single-family housing data

According to Canada Mortgage and Housing Corporation's *Fist Quarter 2007 Housing Market Outlook*, Alberta housing prices increased 29 per cent in 2006, more than double the highest growth rate on record. Last year Alberta surpassed Ontario as the second most expensive resale market in Canada.

A December 2006 RBC *Housing Affordability* report indicates that the average ownership cost in Alberta for a single-family home reached the Canadian average of over 40 per cent of pre-tax income. A notable exception, condos and townhouses, still remain under 30 per cent.

Predictably, Alberta builders have responded to these market signals. In 2006, single-family housing starts reached a record 31,835, while multi-family housing starts were the strongest in 24 years.

Rental market data

In 2006, the province's 13 major urban centres all reported a decrease in apartment vacancies. The vacancy rate for privately initiated rental apartments declined from 3.1 per cent in October 2005 to 0.9 per cent in October 2006. This is the lowest vacancy rate on record for the province. The CMHC expects the rate to remain extremely low for the foreseeable future.

Unlike house construction, however, the market has not reacted to the decrease in vacancy rates, and corresponding rental price increases. New rental construction has been minimal, large numbers of former rental units have been converted to condominiums, and industry participants still claim that new rental construction does not provide sufficient return on investment. The unavailability of rental units at affordable prices is problematic.

Business impacts

There are five key reasons why the combined problem of affordable housing's availability, and affordable rental accommodation are critical to Alberta's continuing economic prosperity.

First, the rapid increase in house prices, decrease in rental vacancy rates, and increasing rents, are undermining the province's reputation as an affordable place to live and work. This makes attraction and retention of employees much more difficult, and expensive.

Second, the upward pressure on wages and labour costs created by increased housing prices puts, in turn, significant upward pressure on the price of all products and services, and the cost of living – further eroding the competitiveness of Alberta businesses and exports.

Third, if Alberta is to maintain its reputation as a high quality service environment, lower income earners (those most affected by escalating housing costs, and who typically work in service industries such as hospitality, tourism and retail) need to be attracted and retained. If workers see housing costs as a significant barrier, they will not move to the province, and those already here will begin to look elsewhere, affecting service quality.

Fourth, businesses benefit from healthy and productive employees. Companies incur a high cost in lost productivity, absenteeism, and illness when employees are under increasing stress. A major component of employee stress is economic and financially-based, a major component of which is, in turn, affected by escalating housing costs.

Finally, due in some part to rental shortfalls and housing affordability, homelessness has increased. Chronic homelessness leads to higher costs for public services such as hospitals, police, and emergency medical response. It also creates challenges for building healthy and vibrant communities that lead to economic development opportunities.

Ability of lower income earners to purchase housing

Lower income earners, and entry-level employment opportunities are vital to the long-term health of the economy. Such opportunities and workers are typically found in industries such as hospitality, tourism and retail. There is also tremendous benefit from lower income workers

being able to establish roots in the community, through affordable accommodation, and ultimately, pride of ownership.

To address this challenge, the Alberta Chambers of Commerce advocates that government create, and industry participants work together, to give greater focus to this issue, and thereby create innovative solutions that result in the development of higher volumes of affordable housing.

Availability and affordability of rental accommodation

As noted, the drastic changes to market dynamics in the last five years have not triggered new investment, or the building of rental accommodation. The market has been further tightened by the conversion to condominium ownership of large volumes of former rental units. Discussions with industry indicate that investment in new rental construction still does not provide a sufficient return on investment, given the risk involved.

As the market has not responded, or is perhaps unable to sufficiently respond to the clear and growing demand, a measured and sustained response needs to be considered in order to alleviate the critical shortage of affordable rental accommodations.

We have a situation in Alberta's communities of rapid social change - where many people are being forced out of accommodation because of rising rental rates, conversion of existing apartment units to condos and lack of construction of new accommodation at affordable prices; Alberta's very strong growth is itself leading to the creation of these problems. We have a whole new class of homeless people including – those working at the bottom of the pay scale, those who have come to Alberta from elsewhere only to get sick or injured, single mothers who were paying \$600 per month and cannot afford to pay the \$1,200 their landlords are now asking. This situation has also exacerbated problems for the mentally ill, those trying to recover from alcohol and drug additions, those on AISH, seniors on fixed incomes, and others who struggle in our society.

Our business members need a stable environment, healthy communities, and strong social services for their workers; all these are being threatened by the lack of affordable housing.

Recommendations

The Alberta Chambers of Commerce supports a targeted response to the specific problem areas, rather than wholesale changes to the broader development and building markets. Support for this approach is founded on the observation that Alberta's housing market has functioned well in the past, and has maintained a balance between supply and demand to allow affordability for the majority of Albertans.

While overall housing costs are still somewhat in line with those found in other provinces, increasing numbers of lower income Albertans cannot afford to purchase housing (at any level), and the unavailability and price of rental accommodation is currently (and increasingly) prohibitive.

Our recommendations, therefore, identify and address the two most pressing concerns:

- Ability of lower income earners to purchase housing
- Availability and affordability of rental accommodation

Specifically, we recommend that the Government of Alberta focus its efforts in four main areas:

STRATEGIC LEADERSHIP

1. Create an Alberta Commission on Affordable Housing & Homelessness made up of the deputy ministers of all provincial departments involved with housing services to the homeless, the addicted, the mentally ill etc. in order to give this pressing matter the focus and coordination required.
2. Develop a provincial 10-year plan for housing which will have measurable goals aimed at assuring an adequate supply of affordable housing; and update the plan every three years.
3. Within existing funding commitments to affordable housing, allocate resources to include research and facilitators/field workers to help communities develop 10-year plans to end homelessness in their towns and cities.
4. Take a leadership role with municipalities in Alberta and encourage them to play a full and active role in taking appropriate action to solve the affordable housing shortages in their areas. Consider allocating priorities within existing infrastructure funding for those municipalities which:
 - Develop 10-year plans aimed at eliminating homelessness in their communities;
 - Continue to commit existing funds to affordable housing as documented in the above plans;
 - Develop policies and programs similar to the Surplus Federal Real Property for Homelessness Initiative;
 - Work with the province, and the private and non-profit sectors to create regulatory incentives to engage the private sector more readily in affordable housing development.
 - Create guidelines in local land use regulations that require and encourage residential developments to include a certain percentage of affordable and mixed housing;
 - Amend land use bylaws to allow for secondary suites, and the creation of guidelines for implementation that promote these as a source of affordable housing, while safeguarding appropriate building and safety standards.
 - Enter into discussions with local school boards, and the Province aimed at developing agreements (as Edmonton has with the province and its school boards) to determine how excess school lands can be put back into productive community-use for projects such as affordable housing.

5. Discuss with the federal government the development of a population-based ratio to determine ongoing fund allocations for affordable housing and homelessness. Funding adjustments should be made to meet local needs and building costs on an ongoing basis.
6. Advocate to the federal government to make the existing federal/provincial grant program more flexible so that funds can be used to buy land and existing structures for conversion to affordable housing, as well as new construction. It should be noted that the opportunities to create affordable housing will be greatly enhanced by this change and the cost per unit of housing created to the government will be lowered by allowing grants for the conversion of existing units.
7. Encourage the federal government to eliminate taxes on donations of real estate to registered charities for the purpose of affordable housing in the same manner that taxes have been eliminated on donations of land to environmental not-for-profits.
8. Encourage the federal government to increase the GST New Housing Rebate on sales of new affordable housing, or otherwise reduce or eliminate GST borne by purchasers or lessors of affordable housing.

LAND SUPPLY

9. Develop a policy and program similar to the Surplus Federal Real Property for Homelessness Initiative to contribute surplus or underutilized provincial properties (land and buildings) for development as protected affordable, and appropriate and supported housing initiatives.
10. In the major communities in Alberta the lack of availability of suitably located land, within walking distance to public transportation and shopping, is a major impediment to the development of affordable housing. In many communities abandoned and underutilised school sites represent a significant source, sometimes the only source, of such land. We urge the Government of Alberta to determine how to return excess school land to productive public use for projects such as affordable housing.
11. Amend the MGA to allow municipalities to use municipal and surplus school reserve lands for affordable and appropriate housing initiatives.

DEVELOPMENT INCENTIVES

12. Clarify the MGA so as to enable municipalities to use inclusionary zoning; both mandatory and voluntary, as an affordable housing tool, and amend if necessary.
13. Enable municipalities to create regulatory incentives to better engage the private sector in affordable housing development. For example:
 - Elimination of development fee levies
 - Fast tracking of permits
 - Waiving of permit fees

SECONDARY SUITES

14. Accept the MLA Task Force on Secondary Suites recommendations on legalizing secondary suites, and create appropriate building and safety standards. Amend the Alberta Fire and Building Code legislation to incorporate these recommendations.
15. Consider going beyond the Task Force recommendations to allow secondary suites in semi-detached and duplex buildings as has been done in Ottawa. (Note: secondary suites represent one of our best opportunities to quickly add to the inventory of affordable housing stock – an additional benefit is that they encourage intensification in built up areas close to existing amenities and the public transit required by people who need affordable housing).
16. In collaboration with municipalities, create incentives for homeowners who want to bring existing secondary suites to new standards and/or develop new secondary suites to rent them at affordable rates.

Summary

Business is increasingly concerned about the lack of affordable housing. In an environment of serious labour shortages, affordable accommodation is not only critical to attracting and retaining workers, but maintaining a competitive economy.

Alberta's housing market has worked well in the past, and Albertans have historically enjoyed some of the most affordable accommodation in the country. On average, new home construction has responded to market signals. The current rate of increases, while a difficult adjustment for the economy as a whole, will also level out over time.

It is clear, however, that with the rapid increase in prices, affordability for many Albertans is a real and growing problem. For the growing numbers of Albertans not able to afford a home, or those who are renters the substantial reductions in rental accommodation and subsequent sharp price increases have acted to exacerbate the situation. The market in this case has not responded well, and governments must examine ways in which to promote and create a more sustainable supply.