

**SECTION 56.1 NON-PROFIT AND
COOPERATIVE HOUSING
PROGRAM EVALUATION**

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Abstract

This report presents the results of an evaluation of the Non-Profit and Cooperative Housing Programs undertaken by CMHC in consultation with interested parties.

These programs have met a number of objectives. They have succeeded in integrating various income groups in the projects. As such they have succeeded in overcoming one of the features of public housing which contributed to community resistance and which was seen as creating ghettos. The quality of housing provided under the programs has been high. These programs have helped serve the housing needs of special groups such as the elderly and the handicapped and contributed to the provision of special care facilities for the mentally and physically disabled.

These programs have also contributed to the availability of affordable rental accommodation. In recent years non-profit and cooperative housing has accounted for a significant proportion of new rental housing nationally and ranges to over 50 per cent in some metropolitan areas.

The programs have been less successful in meeting a central objective. Only one third of the program's beneficiaries are drawn from the population most in need of social housing assistance. This is primarily attributable to program design based on achieving a mix of households of varying incomes in the projects. In terms of serving low and moderate income households, the programs have performed better. About 50 per cent of the occupants are of low and moderate income.

If serving the population of those most in need is the central objective then the growing cost of the programs and the fact that they serve only one per cent of that population each year must be of concern. Assistance equivalent to a reduction in mortgage rates down to two per cent is provided over a 35 year period.

NON-PROFIT AND COOPERATIVE HOUSING
PROGRAM EVALUATION

EXECUTIVE SUMMARY

1. Introduction

Non-profit and cooperative housing is now the Corporation's principal on-going program responding to the housing problems of low-income Canadians. To the end of 1982, \$255.9 million in subsidy assistance had been provided through the programs. Within ten years, the annual subsidy budget is estimated to exceed \$1.3 billion.

Since their introduction in 1978, more than 65,000 units have been committed for non-profit and cooperative housing through the Section 56.1 programs. Of these, more than one-half were private non-profit units, 28 percent were public non-profits and close to 20 percent were cooperatives.

This evaluation has been undertaken to assess in an objective fashion, the achievements of the Non-Profit and Cooperative Housing Programs. It addresses a broad spectrum of issues, ranging from the continued need for the programs through to their results, impacts and effects and the costs associated with them.

Several sources of information have been used for the evaluation, including a nation-wide survey of project managers and occupants of non-profit and cooperative housing, administrative records, briefs submitted by the range of actors involved in program delivery, a small survey of lending institutions and numerous other existing sources of data. Throughout the course of the evaluation, advice was provided by a Committee with representation from the Cooperative Housing Foundation, municipal non-profit organizations, private non-profit corporations, the Canadian Council on Social Development and the Canadian Association of Housing and Renewal Officials. Regional input was coordinated through CMHC's Regional Offices.

The overall evaluation approach is consistent with guidelines established by the Office of the Comptroller General. Indicators have been established to measure each aspect of the programs using data from the sources identified above.

2. Continuing Need for the Programs

The first stage in the evaluation was to document the magnitude and nature of the need for social housing assistance. Historical trends indicate that while problems of dwelling inadequacy and overcrowding are diminishing, the problem of housing affordability has increased. An estimated 521,600 renter households, or 18 percent of the renter population, are unable to obtain a suitable and adequate dwelling without paying more than 30 percent of their income.

The incidence of these housing problems is most severe among the elderly, the very young, single women and mother-led families. The most prevalent characteristic, however, of households facing an affordability problem, is that of low income: 93 percent of those in need fall within the lowest income quintile.

It is apparent that social housing problems have continued to persist, signalling a need for continuing low-income housing assistance.

3. Program Objectives

The Non-Profit and Cooperative Housing Programs were designed to achieve three objectives:

- a) to provide modest, affordable housing appropriate to the needs of low and moderate income families and individuals;
- b) to produce housing at minimum costs by implementing appropriate cost controls; and
- c) to encourage approved lenders to provide capital for low and moderate income housing needs.

Findings related to each aspect of these objectives are summarized below:

Modest Housing

In delivery of the programs, modest housing is defined by Maximum Unit Prices which are established for each market area and housing type. Using this guideline, 84 percent of the units provided through the programs are modest.

In order to provide an alternative criterion, units were also assessed against the size guidelines (in square metres) which define modest housing under the Assisted Rental Program. On the basis of this maximum unit size guideline, 56 percent of the units in the programs are modest.

Appropriate Housing

Appropriate housing has been measured in terms of crowding, physical condition and suitability for occupants.

Non-profit and cooperative units are not overcrowded: 98 percent of the units have at least one room per person and at least one bedroom for every two persons. There is some evidence of overconsumption of housing: 15 percent of self-contained units have more bedrooms than there are occupants.

In terms of physical condition, the units ranked highly: approximately 90 percent were considered by occupants and project managers to be in good or excellent condition, not requiring major repair.

Generally, the housing is also well-suited to the needs of occupants. Satisfaction with the projects is high and, for the most part, special needs such as those for the elderly or the disabled are accommodated.

Affordable Housing

Housing is intended to be affordable as subsidies are provided to enable low-income households to pay rent on the basis of their incomes, while others pay rent which is at the lower end of comparable market rents. In fact, close to one-third of the households in the programs pay more than 30 percent of their incomes for these housing units. Affordability problems of this nature are experienced by both income-tested and market rent tenants. Analysis of the lower end of market rents used in the programs has shown that they are not affordable to low and moderate income senior citizens or to family households in some metropolitan areas.

Low and Moderate Incomes

As no operational definition of low and moderate income exists for the programs, three criteria have been used for the evaluation. Using the first criterion, below average renter income, 69 percent of the households in the programs have low or moderate incomes. Using the second criterion, below median renter income, 57 percent would be low or moderate income. Finally, based on the proportion of households in the two bottom income quintiles for renters, 47 percent of non-profit and cooperative households would be considered to have low or moderate incomes.

Private non-profit projects are most effective in serving low and moderate income households. While partly due to the emphasis in these projects on senior citizens, family households in private non-profits also have lower average incomes than those in public non-profit and cooperative housing.

Minimum Cost Housing

As indicators of minimum costs, private sector capital, financing and operating costs have been compared with the costs incurred through the programs. Available data on private sector costs do not permit conclusive comparisons. These data do suggest the following trends which should be more fully explored in a subsequent study.

Overall capital costs of non-profit and cooperative housing were not found to differ significantly from total costs in private dwellings insured through Section 6 Mortgage Insurance. This reflects differences in cost components: building costs per square metre were found to be higher in Section 56.1 housing than in the private sector, while land costs are lower.

With respect to financing costs, private non-profits and cooperatives obtained interest rates from .18 to 1.36 percent higher than rates quoted by lenders. This pattern does not hold for public non-profit corporations which are assigned a lower risk by lenders.

Monthly operating costs in non-profit and cooperative housing (\$167 on average) were found to be higher than average costs in the private sector (\$120), but lower than average public housing operating costs (\$200). Within the programs, cooperative housing operating costs are lower than those in non-profit projects.

Private Lender Capital

Since the inception of the programs, 93 percent of the capital funds required have been obtained from approved lenders.

For the evaluation, it was considered important to assess not only the extent of private financing, but also its implications on the government's subsidy budget and overall cash requirements. If direct lending had continued, approximately \$1 billion annually would be required to finance non-profit and cooperative housing. In the short term, the use of private sector capital significantly reduces cash requirements, but the reduction is offset over time by higher subsidy costs. Subsidy costs are higher because of the requirement to pay market interest rates to lenders rather than reduced rates through direct government lending.

4. Additional Objectives

There are three additional purposes for the programs implied by their design and the way in which they have been used.

The first is to achieve income integration, or a mix of income groups within projects. This was in part a reaction to the social and community acceptance problems which faced large-scale public housing projects in the 1970's. On an overall basis, approximately one-quarter of the program recipients fall into each of the first three income quintiles, with 19 percent in the fourth quintile and 10 percent in the top quintile. Thus the programs are serving a wide range of income groups. The survey data do not permit similar analysis at the project level. However, based on the split between assisted and unassisted households, a mix was not evident in 45 percent of the projects. Income mixing entails a cost in terms of the low income households served by the programs: without this requirement, 200 percent more income-tested units could be provided for the same overall subsidy amount.

The second implicit objective is to contribute to the stock of rental accommodation. Non-profit and cooperative housing nationally accounted for 13 percent of new rental starts in 1980-81. In some metropolitan areas, the programs represented over one-half of new rental starts.

The third implied objective is to contribute to the development of a housing delivery capability in the third sector. Compared with the previous non-profit and cooperative housing programs, a higher proportion of activity is now undertaken by cooperatives but a lower proportion is carried out by private non-profit groups.

5. Housing Need and Program Effort

The impact of the programs on the total identified need for assistance is marginal. On an annual basis, only 1 percent of the renter population in core housing need is served through Section 56.1 commitments. This is primarily due to restrictions in budget allocations, but is also because only one-third of those assisted through the programs are drawn from the population in need.

6. Other Impacts and Effects

The impact of the programs on a wide range of related variables was assessed in the course of the evaluation. Findings are capsulized below:

Income Redistribution: The programs were found to have a progressive effect on the income distribution of parti-

cipants, benefitting lower income groups proportionately more than higher income groups.

Priority Target Groups of the Government: When considered in terms of identified housing needs, the programs under-serve the lowest income groups and women, but adequately serve the elderly. Data on housing needs for Natives and the disabled do not allow this comparison, but these groups represent a higher proportion of program recipients than their incidence in the population at large.

Improved Housing Conditions: About 50 percent of the program recipients indicated an improvement in their housing condition, while a further 30 percent identified no change from their previous dwelling.

Social Impacts: Forty-five percent of program recipients indicated that their life as a whole had improved since their entry into the programs, while a further 42 percent identified no effect. Most occupants (80 percent) interact with other residents in their projects. High levels of occupant participation in management and decision-making were found especially in cooperatives.

In-situ Tenants: Tenants residing in existing units acquired through the programs generally were allowed to remain.

Rental Markets: Overall, the Non-Profit and Cooperative Housing Programs have been consistent with rental market conditions in terms of increasing the proportion of commitments for new units as vacancy rates have declined. The magnitude of program activity in some areas raises the danger of crowding out private sector activity although this has not been documented.

Mortgage Insurance Fund: There have been no defaults under the programs to date. However, should defaults occur, the potential loss to the MIF is greater than with private rental accommodation.

Relationship to other Federal and Provincial Programs: Approximately one-quarter of all units in the programs receive additional provincial assistance, but the provincial contribution averaged only 9 percent of the federal subsidy. Most provincial assistance is directed towards special care facilities. Disentanglement permits deeper income penetration when the provinces combine additional assistance with Section 56.1 and on projects to which provinces have directed priority attention.

7. Support Programs

Two programs which operate in support of the Non-Profit and Cooperative Housing Programs are included in this evaluation - Non-Profit RRAP and Section 44(1)(b) subsidy stacking. An evaluation of Start-up funding and the Community Resource Organization Program is being undertaken separately.

Non-Profit RRAP

Projects receiving Non-Profit RRAP assistance obtain a double subsidy, which is not reflected in higher-quality projects or lower-income groups served. However lower capital costs for these projects offset this to some extent.

Section 44(1)(b) Subsidy Stacking

Projections of future requirements for subsidy stacking depend largely on assumptions with respect to increases in operating costs and the lower end of market rent. However, financial requirements are expected to be relatively low with a present value of \$2.1 million for a 35-year period if rent increases equal increases in operating costs.

8. Cost-Effectiveness

The subsidy costs of the Section 56.1 programs were estimated for each unit provided and for each rent-geared-to-income (RGI) unit produced. With an interest rate of 18 percent, Section 56.1 subsidies are lower than those for other social housing programs on a per unit basis, but are the most costly way of providing RGI units. At a 13 percent interest rate, the Non-Profit and Cooperative Housing Programs continue to have higher subsidy costs per RGI unit than Public Housing, but Non-Profit costs are lower than those for the Rent Supplement Program.

Subsidies paid to market rent tenants in Section 56.1 projects are estimated to be one and one-half times those provided under the Assisted Rental Program and two times those given under the Canada Rental Supply Plan.

9. Program Design and Delivery

This section of the evaluation links the findings on the achievement of program objectives to the design of the programs and the way in which they have been delivered. It provides a summary of the findings and identifies

conflicts in program objectives which limit the extent to which all objectives can be achieved. Key conflicts in objectives are those that target the programs to low and moderate income households, while at the same time aim to achieve a mix of income groups and increase the stock of rental accommodation. The use of private sector capital also conflicts with the objective of producing housing at minimum cost, given the higher cost of financing through private lenders.

10. Conclusions

The following represent the principal conclusions of the evaluation. Conclusions for each evaluation issue are presented in the final chapter of the report.

The Section 56.1 programs are ineffectively targetted to those most in need.

Depending on the criterion used, between 47 and 69 percent of the households served by the programs would be considered to be low and moderate income. Only 21 percent of the programs' client group are low-income households using the Statistics Canada low-income cut-offs, although the incidence of need for social housing assistance is overwhelmingly concentrated among this income group.

The Section 56.1 programs are not a cost-effective way of producing rent-g geared-to-income housing units.

Cost-effectiveness comparisons revealed that Public Housing requires the least amount of subsidy assistance for each RGI unit produced. Non-Profit and Cooperative Housing is the most costly at high interest rates, although it becomes more cost-effective at lower rates.

The Section 56.1 programs have only a marginal impact on the outstanding need for assistance.

More than one-half million renter households continue to have a need for social housing assistance. However, only one-third of the households served by the current programs are drawn from the population in need. This, combined with the limits on annual program activity, means that only 1 percent of the outstanding need is met in any given year.

The quality of accommodation and the resulting social benefits provided by the programs are high.

Section 56.1 housing projects were found to be adequate and appropriate. As well, opportunities exist for occupant participation in decision-making and project management, as well as more informal interaction among tenants with a range of social and economic backgrounds.

Non-Profit and Cooperative Housing has made an important contribution to the stock of affordable rental accommodation.

In 1982, about 14 percent of all rental starts were provided by the programs. In some metropolitan areas, Section 56.1 activity has accounted for one-half of all rental starts.

The Section 56.1 programs have contributed significantly to the stock of special purpose housing.

The private Non-Profit sector in particular has produced accommodation such as halfway houses, group homes and care facilities for the mentally and physically infirm.

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I. INTRODUCTION

A. Purpose of the Evaluation

The Section 56.1 Non-Profit and Cooperative Housing Programs, since their introduction in 1978, have become the major social housing instrument of Canada Mortgage and Housing Corporation (CMHC). Because the programs have now been in operation for three full years, this evaluation has been undertaken to determine the extent to which they are achieving the objectives established for them, as well as to assess the continued rationale for the programs and their broad impacts and effects. The cost-effectiveness of each program type, that is, public non-profit, private non-profit and cooperative housing, as well as their overall cost-effectiveness vis-à-vis initiatives directed through the private sector and through other social housing programs, are also addressed by the evaluation.

In addition, because of the central position which these programs occupy in CMHC's overall social housing strategy, the results of this evaluation are a major component of the Comprehensive Social Housing Evaluation, the subject of a separate report. It is that report which deals most completely with the question of alternative mechanisms for achieving social housing objectives.

The timing of this evaluation was influenced in part by the length of operation of the programs. While they were instituted in 1978, they did not become fully operational until 1979. It was considered necessary to allow two full years of program operation before undertaking to evaluate the achievements and effects of the programs. In addition, the evaluation was directed by Cabinet as a precondition for seeking subsidy funds to be stacked onto the programs beyond 1981. Authority for subsidy stacking, through Section 44(1)(b) of the NHA, has subsequently been extended to allow sufficient time for completion of this evaluation.

B. Historical Perspective

CMHC's involvement with non-profit and cooperative housing pre-dates the Section 56.1 programs, and in fact can be traced back to 1944 when CMHC offered direct loans at preferred interest rates to non-profit and limited dividend bodies. Greater stimulus for non-profit and cooperative housing was provided in

1973, when amendments were passed to offer 100 percent financing at preferred interest rates and 10 percent capital grants to non-profit and cooperative housing groups. Subsidies for low-income households in non-profit projects were also made available through Section 44 of the National Housing Act (NHA). The intent of the 1973 amendments was to widen the range of housing choices available for low and moderate income households.

Thus the amendments introduced in 1978 represented part of a long history of federal aid to private non-profit and cooperative housing organizations. The federal subsidies accorded under previous programs were characteristically shallow and insufficient to meet the needs of the lowest income groups without the voluntary contribution of additional subsidies by the provinces. Public housing constituted the federal program intended specifically for the lowest income groups. Canada's public housing programs involved deep subsidies, sufficient to meet the greatest needs, but these were necessarily shared by the provinces, either on a 75/25 percent federal-provincial basis or on a 50/50 basis, depending on the type of program used. The 1978 amendments were designed to provide a single financial subsidy technique, capable of meeting the needs of both moderate and very low-income people, and available to both public and private sponsors, provinces, private non-profit organizations, and cooperatives.

While the 1978 amendments did not repeal those sections of the National Housing Act which provide the powers for financing and subsidizing public housing, and for providing loans and capital grants to cooperatives and non-profit organizations, there was a clear intent to minimize the use of these powers and if possible not to have further recourse to them. The administration of the previous low-income housing programs had been beset by a number of difficulties:

- a) The programs made heavy demands on federal capital resources, since the federal government provided 100 percent of the capital for non-profit and cooperative projects, and either 75 or 90 percent of the public housing capital.
- b) The public housing programs required provincial subsidy sharing in fixed proportions, and provinces were not equally capable of taking advantage of them; this inequity was perverse in that the most disadvantaged provinces had to make the greatest sacrifices to participate.

- c) The federal and provincial subsidy exposure was open-ended. The tenants paid rents according to their income, and tended in time to come from lower and lower income groups. Operating costs were subject to inflationary growth and usually exceeded rental revenue. Even the interest costs for the federal government on the capital were subject to changes in the rate, since in effect, the federal government has not been a long term borrower for some time.
- d) The fixed share subsidy arrangements maximized the hazard of federal-provincial jurisdictional disputes in matters of policy, budget, and administration for the public housing program, since both parties perceived themselves as legitimate sources of authority; the inherent risks of this situation were aggravated by the prevailing federal-provincial tensions on other issues.
- e) Public housing tended to be occupied almost wholly by very low-income groups with high proportions of what are called "problem households"; this led to allegations that the program itself, where projects were larger, resulted in segregation and "ghettos" precisely because it served those in greatest need; whether justifiable or not, the unfavourable image fastened on the program and led to local public resistance to the initiation of projects.

The 1978 amendments represented an attempt to overcome these long standing problems. The basic program rationale - serving the needs of households unable to afford decent housing accommodation - remained the same. But the program was altered in the following ways to overcome ancillary constraints.

- a) Private mortgage financing replaced federal capital, with the federal government acting as loan insurer if required, as well as a lender of last resort.
- b) Mandatory federal-provincial sharing of subsidy costs, which was in place for public housing, was supplanted by a unilateral federal housing subsidy. This subsidy was intended to cover the difference between annual project costs and revenues, but was subject to a maximum limit, representing the amount by which 100 percent mortgage financing at the market interest rate prevailing at the time of project origination exceeds the hypothetical amount of these financing costs at a mortgage rate of 2 percent.

- c) Occupancy was not intended to be confined to the lowest income groups, and occupancy charges, or rents, were to be based on local market rents. Tenants unable to afford this rent, however, were to be eligible to pay rent according to their income. The projects were thus intended to accommodate a range of income groups, with income testing only for those households eligible to pay less than the market based rent.
- d) The respective roles of the federal and provincial governments were to be clearly defined and to a large degree distinct, with the federal government acting as loan insurer and principal or sole source of subsidy, and with either party acting as the program administrator, depending on the arrangements made between governments and on the type of project sponsor.
- e) Overall, project costs were to be subject to maximum unit price ceilings established for each market area, in order to avoid public subsidies for lavish or excess accommodation but at the same time making realistic allowance for the construction or acquisition of compact and frugal housing appropriate to the needs of modest income households.
- f) Provincial and municipal governments, private non-profit corporations, and cooperative groups alike were to be eligible as project sponsors for the same basic subsidy arrangement, with minor differences made necessary by practical realities.

C. Evaluation Issues

The range of issues addressed by this evaluation consists of the following:

1. Program Rationale

In this evaluation, two main questions arise with respect to program rationale. First, does the need which prompted introduction of the programs continue to exist. Second, is the design of the programs reasonable and consistent with the objectives which they are intended to achieve.

The key element in determining the need for the programs is an assessment of the housing problems which would warrant continuing government action.

Thus continuing need for the programs is examined by reviewing the nature and the extent of housing problems in Canada, and the characteristics of the population most severely affected by these problems.

The second set of program rationale issues, which deals with the consistency between program design and objectives, is examined by:

- a) reviewing the factors which influenced the design of the programs;
- b) identifying the stated objectives of the programs as well as those which are implied by the programs' design; and
- c) examining the linkages among program design, objectives and need.

The purposes of this portion of the rationale section are to identify whether the objectives of the programs are amenable to evaluation and to assess the degree to which there is a logical basis for expecting that program objectives could be achieved.

2. Objectives Achievement

The second major set of evaluation issues relates to the extent to which objectives established for the programs have been achieved. The stated objectives of the Non-Profit and Cooperative Housing Programs are:

- a) to provide modest affordable housing appropriate to the needs of low and moderate income families and individuals;
- b) to produce housing at minimum cost by implementing appropriate cost controls; and
- c) to encourage approved lenders to provide capital for low and moderate income housing needs.

To evaluate the achievement of these objectives, measurable indicators of each of the concepts contained in the objectives statements have been derived and are used to assess the results of the programs.

Secondly, there are certain objectives implied in the design and implementation of the programs. These implicit objectives are examined by assessing:

- a) the extent to which income integration has been achieved;
- b) the effect the programs have had on the supply of rental housing units generally and on the supply of affordable housing stock; and
- c) the participation of the voluntary sector in the resolution of housing problems.

3. Housing Need and Program Effort

The third major evaluation issue links findings of the previous two sets of issues by showing the extent to which results of the programs are affecting the identified need for assistance. The pattern of program activity is compared with the nature of housing needs to determine if the two are consistent. Secondly, the depth of effort provided by the programs is examined with respect to the magnitude of housing need to assess the impact of the programs on the overall resolution of social housing problems.

4. Impacts and Effects

The next set of evaluation issues deals with the broad impacts and effects of the programs. These include impacts which can be expected to occur as a result of the programs, and which may be desirable or undesirable, intended or unintended. The following impacts are assessed:

- a) the extent to which the programs result in a progressive redistribution of income;
- b) the extent to which the programs are consistent with the government's social policy priorities;
- c) the degree to which the programs result in improvements in housing conditions;
- d) the social impacts which are generated by the programs;
- e) the impact of the programs on in-situ tenants occupying existing housing units;

- f) the extent to which the programs have responded to local housing market conditions and have affected housing markets;
- g) the degree to which the programs affect the viability of the Mortgage Insurance Fund; and
- h) the relationship of the programs to provincial housing initiatives.

5. Support Programs

Four separate program elements operate in conjunction with the Non-Profit and Cooperative Housing Programs: Start-Up funding, the Community Resource Organization Program, the Non-Profit Residential Rehabilitation Assistance Program (RRAP) and the Section 44(1)(b) subsidy stacking provision. CROP and Start-up are the subject of a separate report. Non-Profit RRAP and Section 44(1)(b) are assessed in this report in terms of the achievement of their specific objectives and their impact on the overall Non-Profit and Cooperative Housing Programs.

6. Program Comparisons

In this section, the cost-effectiveness of the three types of Non-Profit and Cooperative Housing Programs - public, private and cooperative - is examined. In addition, comparisons are drawn with housing initiatives directed to the private sector, including the Assisted Rental Program and the Canada Rental Supply Program. Finally, the cost-effectiveness of the programs is compared with that of other social housing programs, including Public Housing, Rent Supplement and the former Non-Profit and Cooperative Housing Programs.

7. Program Design and Delivery

This section of the report links the findings in the issues presented above with program design and delivery features. It is intended to identify why particular impacts occurred, and to assess the effect of various aspects of design and delivery.

D. Major Evaluation Activities

1. Management

The evaluation study was managed and conducted internally by the Program Evaluation Division of CMHC. Two committees were established to provide advice and direction on the study. The first was a Steering Committee, consisting of representatives from the Policy Development Directorate, the Social Housing Division, the Rural and Native Housing Division, the Program Evaluation Branch of the Office of the Comptroller General and the City of Ottawa Housing Division. The second was an Advisory Committee composed of representatives from several non-profit and cooperative organizations as well as other agencies with interest and involvement in the programs. The membership and terms of reference for the Advisory Committee are contained in Annex 1.

2. Regional Input

Regional contacts were established through the General Managers' and Provincial Directors' offices of CMHC to ensure input from provincial government agencies and third sector groups. In some provinces, committees were established to coordinate regional involvement; in others consultations were carried out on a bilateral basis. The regional contacts assisted with study organization, submitted their views on the programs and provided comments on the analysis and draft reports.

Considerable emphasis has been placed on the incorporation of this regional input to the evaluation, in recognition of the extensive experience gained through program delivery, as well as the wide variation throughout the country in the way in which the programs operate.

3. Data Collection

The study involved a number of data collection initiatives designed to provide sufficient information on the programs in order to thoroughly evaluate them.

The underlying methodological approach is one based on multiple lines of evidence. This provides a means of balancing the depth of some approaches with the breadth of others, as well as compensating for validity and reliability problems inherent in studies done under non-experimental conditions. Data sources included:

- a) a survey of non-profit and cooperative housing occupants and project managers;
- b) computerization and analysis of administrative data on non-profit and cooperative housing units and occupants;
- c) views of the programs submitted by CMHC local offices, provincial housing agencies, non-profit and cooperative groups, CROP groups, other third sector organizations including the Cooperative Housing Foundation and the Canadian Association of Housing and Renewal Officials and the private sector;
- d) analysis of data on local markets collected through the Statistical Services Division of CMHC;
- e) a small telephone survey of lenders that provide capital for the programs; and
- f) analysis of data from existing sources of information, such as Statistics Canada and housing-related literature.

The survey of occupants and project managers was conducted by the Institute for Behavioural Research at York University (IBR)¹. In total 400 Section 56.1 Non-Profit and Cooperative Housing projects with 9,131 units were surveyed. The survey sample was based on the projects that were occupied in June, 1981. A regional breakdown of the sample and response rates is included in Annex 5. The total population of occupied projects at that time was 658 with 17,257 units. It should be noted that by March, 1983 the number of occupied units had increased to 46,000. As a result, sampling based on considerably fewer units may not accurately reflect the current situation in all respects.

¹. Sample verification and data collection in Quebec was undertaken by the Centre de sondage at the University of Montreal.

Details on the survey methodology are contained in a separate technical report. Generally the sample was designed so that analysis could be conducted by project type, size categories and provinces. Both national and provincial analyses were required to ensure that the unique characteristics of the programs in each province were captured.

One major anomaly in sampling occurred with respect to projects in Quebec. In the initial sample, no provincial non-profit projects from Quebec were included. Upon investigation, it was found that no subsidy claims on these projects had been made, although some of them had been occupied since 1979.² In order to include the projects in the survey, a special sample of the Quebec projects was subsequently drawn. Because the projects in the subsequent sample had a different probability of selection from projects in the main sample, a separate set of weights was calculated for the Section 56.1 provincial projects in Quebec.

The Section 56.1 provincial non-profit projects in Quebec differ from the usual non-profit projects on other counts as well. The projects are operated by the provinces in a manner similar to that for public housing projects. As a result, Project Managers' questionnaires were not completed for these projects. In addition, the projects were financed through the issuing of debentures by the province. Moreover, no assistance under Section 56.1 had been paid by CMHC for the operation of the projects. In some sections of this report, data on the Quebec provincial projects are reported separately in order to eliminate any bias in general findings which might result from these differences.

While considerable effort has been applied to obtaining and analyzing several sources of data, there are limitations to the completeness and accuracy of some of the information sources used. This is particularly the case for administrative data. While audited financial statements are to be submitted for each occupied

². During the 1982/83 fiscal year all claims for these projects have been received and paid, including retroactive amounts.

project annually, a relatively small number were available for use in the evaluation. Similarly, commitment forms were not always thoroughly and accurately completed. Data on comparable private market accommodation were difficult to obtain or, in the case of Section 6 insured projects, not always accurate and complete. With respect to the survey, the main limitation concerns special care projects where many respondents experienced difficulties in completing questionnaires (this is reflected in the overall response rate for special care projects which was only 20%). These projects, therefore, have not been included in the analysis of the survey data. Finally, the time lag between the period on which the survey sample was based, June 1981, and the present introduces a potential bias because of the significant increase in the number of occupied units.

Despite these limitations, the use of multiple data sources wherever possible and a range of indicators provides the most complete assembly of information on the programs to date. Thus, while caution must be exercised in interpreting all findings as firm and conclusive, there is ample reason to consider that most findings provide sound evidence on the programs.

E. Structure of the Report

This evaluation report begins with a description of the Section 56.1 Non-Profit and Cooperative Housing Programs, and an overview of the support programs which operate in conjunction with them. Subsequent chapters then focus on the evaluation issues identified above - program rationale, objectives achievement and impacts and effects. Further details on support programs are provided in the following chapter. Finally, the three concluding chapters provide an overview comparison of the Section 56.1 programs in terms of their overall cost-effectiveness, relate findings on evaluation issues to the design and delivery of the programs and provide general evaluation conclusions.

II. PROGRAM DESCRIPTION

A. Section 56.1 Non-Profit and Cooperative Housing Programs

1. General

The mandate for the revised Non-Profit and Cooperative Housing Programs, introduced in 1978, is found in Section 56.1 of the National Housing Act (NHA). This Section authorizes the Corporation to make contributions to eligible borrowers to offset the repayment charges on loans for non-profit and cooperative housing projects. The amount of the contribution is determined by an interest rate reduction with the minimum rate of interest established by regulation. The programs are intended to serve low and moderate income households.

Non-profit and cooperative housing is one element of a global funding arrangement with the provinces for social housing programs. Global funding agreements were signed with all provinces except Newfoundland, in 1978 and 1979. These agreements were intended to transfer detailed policy implementation and program delivery procedures to the provinces and to institute three and five-year planning cycles for social housing budgets. The global funding agreements apply to all social housing programs with the exception of Rural and Native Housing.

In addition to global funding agreements, provinces enter into operating agreements with the Corporation. These agreements provide additional details on the administration of programs covered by global funding, the respective responsibilities of the federal and provincial governments and procedures for allocating budgets, obtaining capital funds, publicity, auditing and research activities.

The programs are allocated funds by Parliament in support of the Corporation's overall social housing objective: "To assist Canadians whose income is insufficient to gain access to adequate housing by encouraging and supporting, in conjunction with provinces, municipalities, and their agencies, the provision of low and moderate income public housing, and by encouraging the establishment of non-profit and cooperative housing corporations".

Non-profit and cooperative housing can take a variety of forms: single or multiple family housing, hostel accommodation, care facilities or group homes. It can be provided by constructing new buildings or acquiring existing buildings and rehabilitating them, as necessary. Occupants of non-profit and cooperative housing include families, senior citizens and persons with special housing needs, such as the disabled.

The Section 56.1 programs comprise three program types: public non-profit, which may be municipal or provincial; private non-profit; and cooperative. While all three program types are basically similar, there are certain key differences which will be described below.

(a) Private and Public Non-Profit Housing

Loans of up to 100 percent of the accepted capital costs of a housing project are made to municipal and private non-profit corporations, and provincial housing corporations by private lenders, generally with NHA insurance. Provinces are entitled to maximum loans of up to 90 percent of acceptable capital costs. The federal government then makes contributions towards the operating costs (including mortgage costs) of these projects up to the difference between monthly amortization costs at the market rate of interest and those at an interest rate of 2 percent.

The federal contributions provide two forms of assistance to the projects. The first bridges the gap between economic rent (that is, the rent required to break even on a project) and the lower end of market rent (that is, the rent established each year by CMHC and the province as representing the lower range of rents for equivalent accommodation in a given market area). The remaining assistance is used to aid tenants who cannot afford market rents by offering them rents geared to their incomes (generally equal to 25 percent of their adjusted family income). The programs are intended to encourage a mixture of rent-to-income and market rent tenants.

In addition to offsetting on-going operating costs, a portion of the Section 56.1 assistance, in CMHC-led projects may be deposited in a subsidy surplus account. This account may not exceed \$500 per unit plus accumulated interest. The subsidy

surplus account may only be used in future years to offset project deficits where the maximum Section 56.1 subsidy is not sufficient to do so. It is to be used prior to the application of any additional subsidy assistance. Residual Section 56.1 assistance is to be returned to the Consolidated Revenue Fund. Figure 2.1 illustrates how the subsidy arrangements under the programs operate.

Public non-profit projects are developed and administered by provincial or municipal non-profit housing corporations. Three provinces and the Yukon Territories are directly involved in delivery of non-profit housing: Nova Scotia, Quebec and Saskatchewan.

Private non-profit corporations arise in a number of ways. In some cases, they are formed by informal community-based groups; in others they are formed by sponsoring organizations such as the Kiwanis. In addition, several Native organizations have developed private non-profit housing groups as a component of CMHC's Urban Native housing initiative. This initiative involves a special allocation of subsidy units directed specifically to Native households in urban areas. Non-profit housing is also delivered on Indian reserves, where the Band is designated as an eligible recipient without the requirements for incorporation applied to other non-profit organizations.

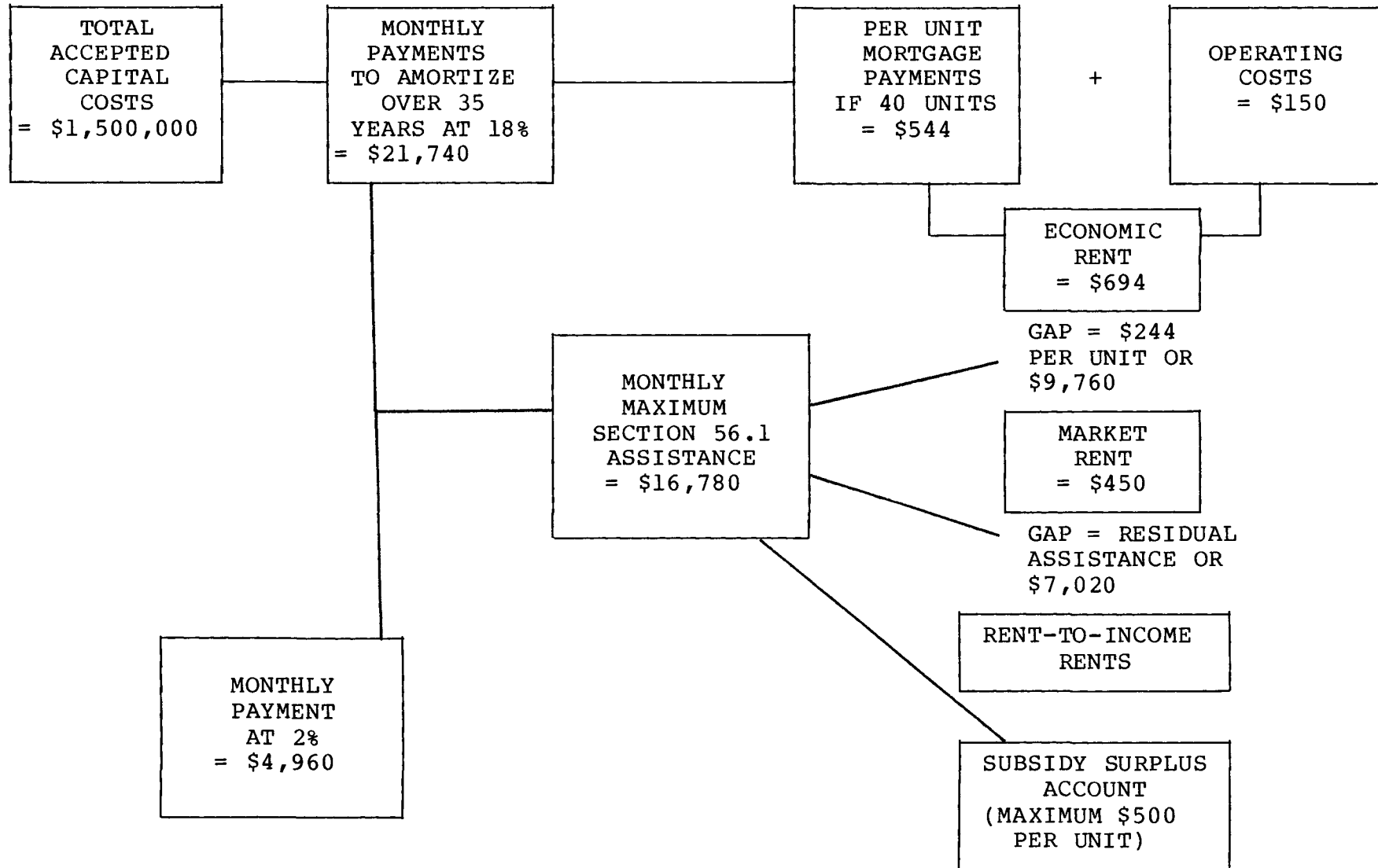
(b) Cooperative Housing

In housing cooperatives, the housing is owned collectively by the cooperative members. They do not own their individual units, but each owns a share of the project. Cooperatives are generally community-based, formed by groups of individuals who will both develop and reside in the housing projects.

Cooperatives obtain 100 percent loans from approved lenders and receive Section 56.1 differential interest rate contributions. However, the subsidy arrangement for cooperative housing is somewhat different than that described for non-profit housing. A predetermined amount of assistance, based on the difference between economic rent and the maximum occupancy charge

FIGURE 2.1

HYPOTHETICAL ILLUSTRATION OF SECTION 56.1 SUBSIDY ASSISTANCE



(project rent) is established for a three-year period. During that period, any changes to the occupancy charges for individual cooperative units are based solely on changes in operating costs. In the fourth and subsequent years, occupancy charges related to mortgage payments increase by 5 percent per year compounded until such time as full mortgage payments are reached. This separation between the mortgage amortization costs and other operating expenses is intended to provide an incentive to cooperative members to keep operating cost increases low. Any surplus assistance resulting from savings in operating costs is retained by the cooperative.

The remaining Section 56.1 assistance is available for income-tested occupants. A subsidy surplus pool of up to \$500 per unit may be established by the cooperative only after 15 percent of the units are occupied by income-tested households. The account is used to supplement low-income households in future years when supplement requirements exceed the assistance provided.

2. Delivery

The delivery process is described below for situations where CMHC has the lead role. Where the province has the lead role in delivery, the process is similar, with the province performing CMHC's functions. The province is required to certify that CMHC standards and criteria are being met.

Delivery of the Section 56.1 programs commences with an annual allocation of subsidy units to each region, and subsequently to each CMHC Branch Office. The allocation is based on measures of need established by CMHC at the national level and by CMHC and the province on a sub-provincial level.

Non-profit and cooperative groups may then submit an application for assistance and may also apply for Start-up funding. Groups are expected to perform a "best-buy" analysis which is intended to ensure the provision of the best quality shelter at minimum costs and the most appropriate type of housing to meet the needs of the intended clientele.

Once the application is approved and the group has made arrangements for land purchase if necessary, an application for loan funds will be filed with an approved lender. CMHC will provide Section 6 loan insurance on private loans if required.

Groups are responsible for development of the project, including the preparation of final plans and specifications, as well as the selection of a procurement technique (tender call, proposal call, turnkey, construction management or development tender). Once a fixed price is received, an individual project operating agreement is signed by the group and CMHC. This agreement details all of the terms and conditions of the program, as well as specific project information.

Construction or rehabilitation then commences. As the work proceeds, advances are made by the lender which may be NHA-insured. Inspections are carried out by CMHC inspectors to ensure compliance with Residential Standards.

Costs of non-profit and cooperative housing projects are controlled through Maximum Unit Prices (MUPs) which are established by CMHC and the province for each market area. This schedule of prices, set by type of housing and bed or bedroom count, defines the acceptable total cost of a housing unit, and is used as a ceiling for the Section 56.1 assistance on a particular project.

A review of expected capital and operating costs is carried out prior to renting the units. The non-profit or cooperative group is responsible for on-going project administration and is required to submit an audited financial statement each year in order to receive the Section 56.1 assistance.

The delivery process is summarized in Figure 2.2.

3. Provincial Variations

Because of the process of disentanglement, considerable variation in design and delivery of the programs has occurred among provinces and even among particular municipalities. A summary of key provincial aspects to the programs is contained in Chart 2.1

FIGURE 2.2

SECTION 56.1 DELIVERY PROCESS FOR
CMHC-LED PROJECTS

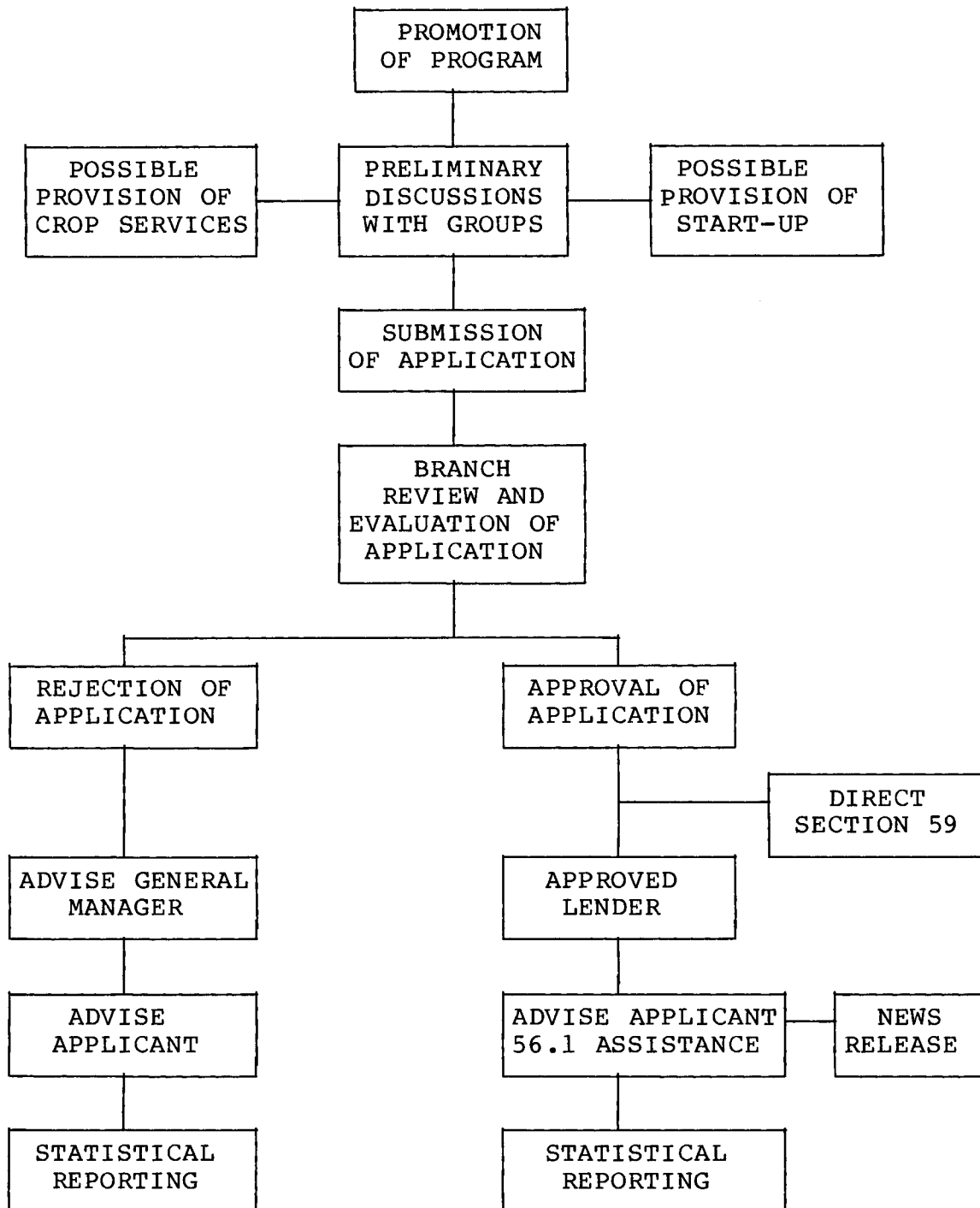


FIGURE 2.2 (Cont'd)

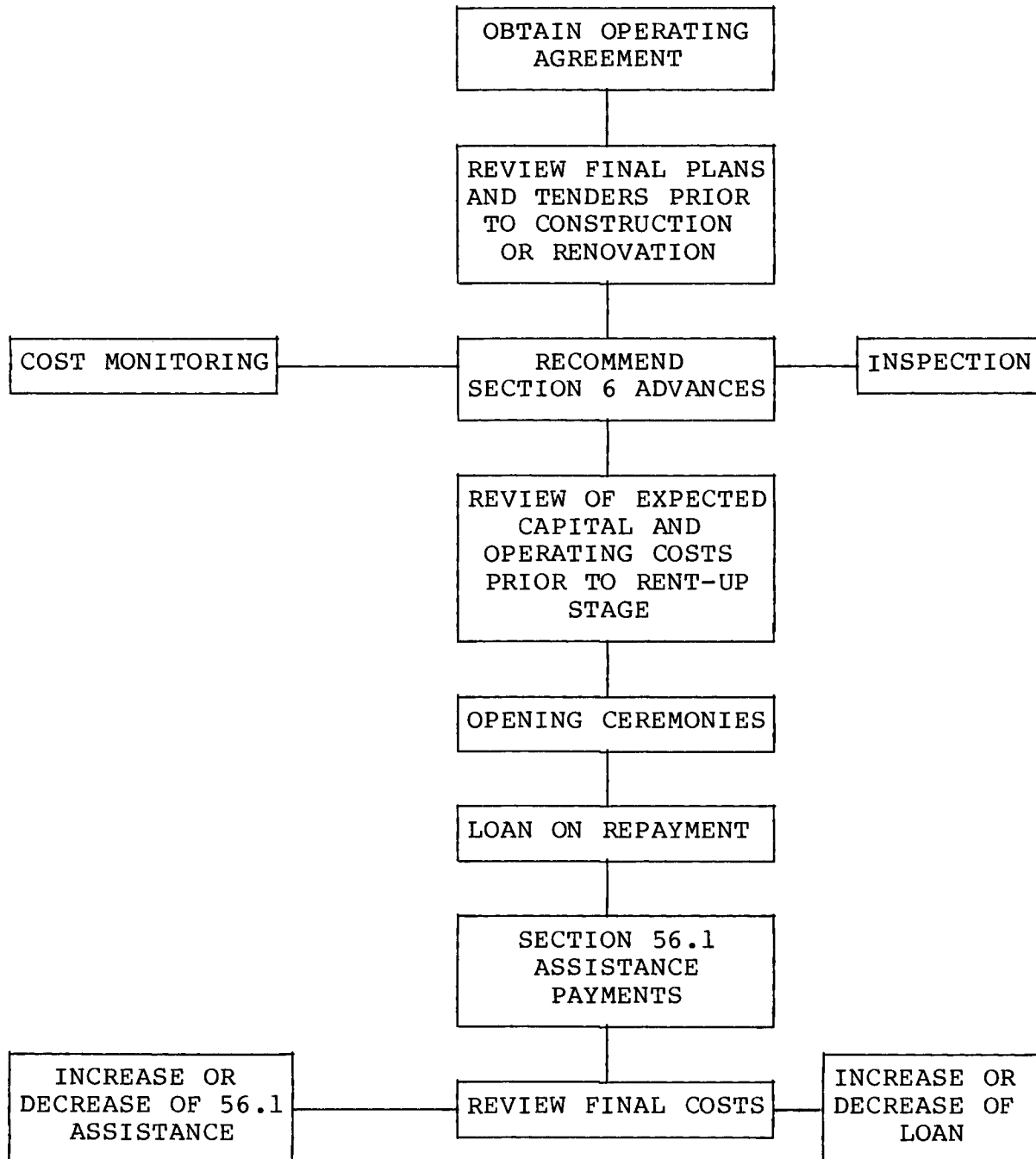


CHART 2.1

PROVINCIAL VARIATIONS

	NFLD.	P.E.I.	N.S.	N.B.	QUE.	ONT.	MAN.	SASK.	ALTA.	B.C.	N.W.T.	YUK.
Global Agreements	-	Aug. 79	Sept. 79	May 79	May 79	Feb. 79	Dec. 79	Nov. 78	Feb. 79	Mar. 79	-	-
Operating Agreements	-	Aug. 79	Sept. 79	May 79	May 79	Feb. 79	-	Nov. 78	Feb. 79	Mar. 79	-	-
Provincial Delivery ¹	-	2	1 and 2	-	1 and 2	2	*	1, 2 and 3	2	3	-	1
CMHC Delivery ¹	2, 3 and 4	3 and 4	3, 4 and 5	3 and 4	3, 4 and 5	3, 4, 5 and 6	2, 3, 4, 5, and 6	3, 4, 5, and 6	3, 4, and 5	2, 3, 4, 5 and 6	3 and 4	3 and 5
Provincial Contributions ¹					1 and 2	OCHAP ²		3 and 6		3		
Section 44(1)(b) Subsidy Stacking												Special Urban Native Agreement

* Manitoba has an allocation of 56.1 Private N/P Global units for their use. However, these are approved as if they were CMHC-Led Projects. 1981 - 200 units; 1982 - 200 units.

1. Code: 1 Provincial Non-Profit
 2 Municipal Non-Profit
 3 Private Non-Profit
 4 Cooperative
 5 DIAND Non-Profit
 6 Urban Native

2. Ontario Community Housing Assistance Program.

CHART 2.1 (Cont'd)

	NFLD.	P.E.I.	N.S.	N.B.	QUE.	ONT.	MAN.	SASK.	ALTA.	B.C.	N.W.T.	YUK.
Provincial Guidelines												
- Maximum Unit Prices						85% MUP for existing units						
- RGI Ratio					100% RGI Prov. N/P	Mun N/P - 25% family - 50% senior						
- Lower End of Market Rent										95% of Market Rent		
Other					Operates Prov N/P Projects as Public Housing Projects							

This chart illustrates that the split between CMHC and provincial delivery responsibilities varies by province, although provincial governments generally have focussed their involvement on the public non-profit program. In some instances, provincial guidelines have been instituted which are inconsistent with federal program parameters. Further details on provincial involvement with the programs are provided in Chapter VI.

B. Support Programs

There are four programs which operate in support of Section 56.1 Non-Profit and Cooperative Housing. These include Start-Up funding, the Community Resource Organization Program (CROP), the Non-Profit Residential Rehabilitation Assistance Program (RRAP) and Section 44(1)(b) Subsidy Stacking. A brief description of these programs is provided below.

1. Start-Up Program

As a fundamental component of the Section 56.1 delivery process, Start-up funds are provided to assist non-profit and cooperative groups from their initial incorporation through to project development.

The Section 37.1 Start-up Program is designed to provide financial resources to assist community sponsored groups in planning and developing proposals to meet the housing needs of low-income families and individuals. It is intended that these funds facilitate the development of the group to a point where a fully documented loan application can be made for construction or acquisition of the project and where the group can manage the project effectively.

Private non-profit and cooperative groups and Band Councils on Indian Reserves are eligible for Start-up funding if they intend to utilize an NHA program (Section 56.1) to develop adequate accommodation for low-income families and individuals who otherwise could not afford such housing on the open market.

Start-up funds are provided in two phases. The first phase, for which a maximum of \$10,000 is provided, is to assist the project group to develop its capability for undertaking and managing the proposed project and to determine the economic viability of the project. The second phase, for which a maximum of \$65,000 (plus any funds not expended in Phase 1) is provided, is to fund activities necessary to develop the project to the loan commitment stage.

In assessing the amount of Start-up funds that might be available for a particular project, the nature of the housing (new or existing), the size of the project, the experience of the sponsoring group, the amount of voluntary labour or professional skills donated to the group, other sources of financial assistance and the income level to which the project is directed are all considered.

Start-up funds are included in the capital costs of the project, and are normally recovered from the first loan advance, paid directly to CMHC by the lender. If the full amount is not recovered in the first advance, the balance of the Start-up funds is recovered over the next advances. There is no interest charged by CMHC on the advances made under the program whether the project proceeds or not. If the project does not proceed, the Start-up funding is basically treated as a grant.

2. Community Resource Organization Program (CROP)

The objectives of the Section 36(g) Community Resource Organization Program (CROP) are to provide financial assistance to resource groups offering technical and professional services to non-profit and cooperative groups active in community housing; and to provide assistance to resource groups to enable them to develop new non-profit housing organizations.

CROP funds are intended to cover the difference between what a resource group can recover from its fees-for-service and what it actually costs to provide the service. Funds are to cover basic administration and operating costs but are not to be used to cover program expenses recoverable through the mortgage or eligible under the Start-up program. Funds are usually granted on a yearly basis. Groups are normally expected to become self-sufficient in a three to five year period through revenues received as a result of charging fees for their services.

3. Non-Profit Residential Rehabilitation Assistance Program (RRAP)

Funds are available in the form of forgivable loans to permit non-profit and cooperative groups to rehabilitate existing housing units. RRAP funds were provided in conjunction with the pre-1978 non-profit and cooperative housing programs but were initially discontinued upon introduction of the Section 56.1 programs. However, in 1979 Non-Profit RRAP was reinstated and may now be used in conjunction with Section 56.1.

In municipalities with maintenance and occupancy by-laws existing residential projects purchased by a non-profit or cooperative housing corporation under the Section 56.1 program are eligible at the time of acquisition for Non-Profit RRAP assistance. Funds may be used for rehabilitation or conversion. To qualify for rehabilitation assistance, a dwelling must be deficient in one or more of the following categories: electrical, fire safety, plumbing, structural, heating or livability for a disabled occupant. The work done must be sufficient to bring the dwelling into conformity with RRAP standards. Conversions are permitted on residential family units or hostel and dormitory type accommodation.

Loans for Non-Profit RRAP are provided by private lenders, with NHA mortgage insurance provided if necessary. A maximum of \$5,000 (\$6,500 for disabled clients), depending on total rehabilitation costs, is forgivable and is earned over a ten-year period. The costs of rehabilitation are included in the total eligible costs for a project which are controlled by Maximum Unit Prices. In addition, these costs including the forgivable portion of the RRAP loan are included in the calculation of Section 56.1 assistance.

The objective of the Non-Profit RRAP program element is to assist low and moderate income people by encouraging non-profit corporations to participate in the rehabilitation of substandard residential properties.

4. Section 44(1)(b) Stacking

When the Section 56.1 programs were introduced, they were intended to operate independently without a requirement for a mandatory provincial contribution. It was recognized, however, that higher proportions of low and moderate income households could be served if the provinces provided assistance matching the Section 56.1 funds.

During the federal-provincial negotiations surrounding the introduction of the new programs, the provinces expressed concern about the limits on the amount of federal Section 56.1 assistance. Their concern was that if operating costs on projects increased over time, additional subsidies would be required to keep the projects viable for the same clientele. With a fixed amount of Section 56.1 assistance determined for each project, the provinces felt that escalating subsidies would be their responsibility where they stacked funds onto the Section 56.1 assistance.

To respond to this concern, the federal government agreed to provide cost-shared subsidy assistance once the provincial matching contribution equalled the amount of Section 56.1 assistance. This subsidy assistance would be shared on a 50/50 basis through Section 44(1)(b).

To date, the subsidy stacking provision has been used in only four Urban Native housing projects in Saskatchewan.

C. Program Logic

Figure 2.3 identifies the way in which all of these programs interact to produce non-profit and cooperative housing units. The direct and indirect impacts of these programs and their outputs are also shown.

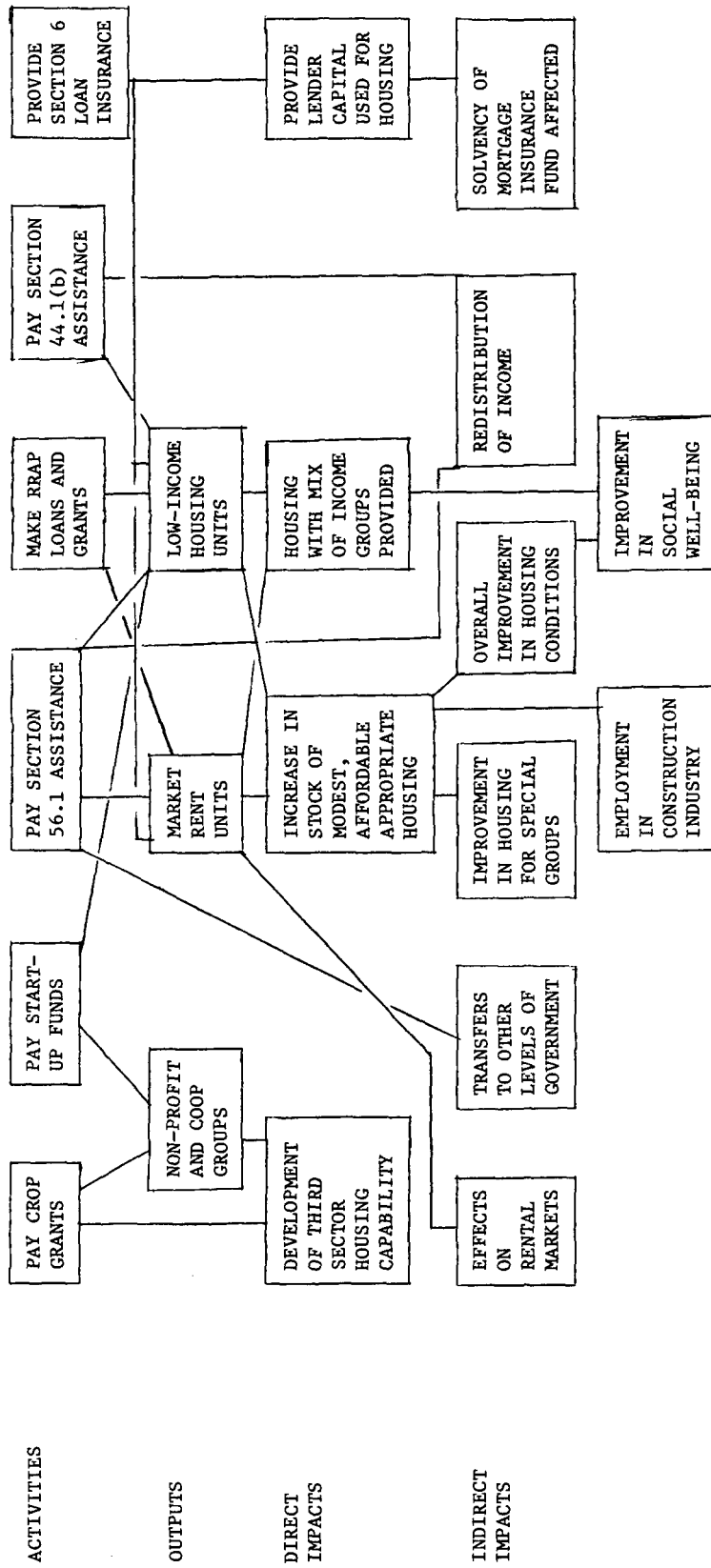
Key CMHC activities are the provision of CROP and Start-up funds, Section 56.1 interest rate contributions, RRAP loans and grants, subsidy stacking assistance and loan insurance. The major outputs of these activities are non-profit and cooperative housing projects comprising units for income-tested recipients and for market rent occupants. Another output is the establishment of non-profit and cooperative groups responsible for development and administration of the projects.

The direct impact of assisting non-profit and cooperative housing projects is intended to be an increase in the stock of modest, affordable and appropriate housing serving a mix of income groups. Support to non-profit and cooperative groups themselves, through CROP and Start-up, is designed to develop a third sector housing capability. The provision of mortgage insurance, through Section 6, is to encourage approved lenders to provide the necessary capital funding for social housing projects.

Activities related to non-profit and cooperative housing may also result in a number of indirect impacts. These include effects on rental markets, transfers to other levels of government, and improvements in housing conditions and social well-being of program recipients, including special target groups. As well, the programs may be expected to have redistributive effects in overall income levels, and an impact on the solvency of the Mortgage Insurance Fund.

The range of these activities, outputs and direct and indirect impacts defines the scope of the issues addressed in subsequent chapters of this evaluation report.

SECTION 56.1 NON-PROFIT AND COOPERATIVE HOUSING LOGIC CHART



D. Program Take-up

1. Section 56.1

Since the introduction of the Section 56.1 programs, 2,201 projects had been committed by the end of 1981 for a total of 66,757 units. Table 2.1 shows the distribution of these units by program type and by province. For the country as a whole, over one-half of the units committed under the program have been private non-profit units. Public non-profit units make up 28 percent of the total, while cooperatives account for 9 percent and Native projects 2 percent of the total units.

Program take-up has posed no problem since the introduction of the programs, with close to 100 percent of allocated units being committed each year. This is in contrast to take-up of social housing programs prior to 1978: in 1977, for example, only 61 percent of the allocated budget was committed.

In examining the provincial distribution of program take-up, it is apparent that some provinces, notably Newfoundland, Prince Edward Island, New Brunswick and Manitoba have almost exclusively used the programs for private non-profit projects. The highest proportion of the programs used for public non-profit projects occurs in Nova Scotia, Quebec, Saskatchewan, Alberta and the Yukon. (With the exception of Alberta, these are the locations where provincial non-profit corporations exist.) The programs have been used for cooperative housing in a higher proportion than the average in Nova Scotia, Ontario and British Columbia.

The take-up of the Section 56.1 programs may also be reviewed by project type, as shown in Table 2.2. For the country as a whole, one-half of the units provided have been in family projects, while 39 percent have been senior citizen projects and 10 percent special purpose (nursing homes, group homes, transition houses and so on). There are particular patterns evident in the way in which the programs have been used in each province. Newfoundland, New Brunswick, Manitoba and the Yukon have primarily used the programs for senior citizen projects. Prince Edward Island, Nova Scotia and Alberta have relatively high proportions of special purpose projects. The Northwest Territories and Saskatchewan have concentrated on family housing.

Budgetary expenditures for the Non-Profit and Cooperative Housing Programs since their inception are shown in Table 2.3. Over the four-year period, Section 56.1 subsidies have totalled \$255.9 million. Of this, only \$434,000 has been refunded to CMHC by non-profit and coop groups as surplus subsidies. The sizable increases in subsidies from year to year reflect the growth in the number of units under subsidy as the programs have gathered momentum.

TABLE 2.1

DISTRIBUTION OF SECTION 56.1 UNITS BY PROGRAM TYPE AND PROVINCE

	Public Provincial		Public Municipal		Private N/P		Native N/P		Coop		Total	
	#	%	#	%	#	%	#	%	#	%	#	%
Newfoundland	0	0	0	0	561	81.4	0	0	128	18.6	689	100.0
P.E.I.	0	0	0	0	224	95.7	0	0	10	4.3	234	100.0
Nova Scotia	138	11.3	292	23.9	406	33.3	25	2.0	360	29.5	1,221	100.0
New Brunswick	0	0	60	3.4	1,407	79.4	151	8.5	153	8.6	1,771	100.0
Quebec	8,328	38.6	1,061	4.9	9,350	43.4	154	0.7	2,669	12.4	21,562	100.0
Ontario	22	0.1	3,554	19.3	10,339	56.3	78	0.4	4,383	23.9	18,376	100.0
Manitoba	0	0	0	0	2,604	92.9	54	1.9	146	5.2	2,804	100.0
Saskatchewan	1,849	57.3	148	4.6	741	22.9	411	12.7	80	2.5	3,229	100.0
Alberta	0	0	1,051	37.9	1,041	37.6	156	5.6	524	18.9	2,772	100.0
B.C.	0	0	1,569	12.5	6,908	55.2	181	1.4	3,859	30.8	12,517	100.0
N.W.T.	0	0	0	0	4	100.0	0	0	0	0	4	100.0
Yukon	44	80.0	0	0	11	20.0	0	0	0	0	55	100.0
Canada	10,381	15.9	7,735	11.9	33,596	51.5	1,210	1.9	12,312	18.9	65,234 ¹	100.0

1. The data file contains 83 projects with 1,523 units that are not identified by program type. The actual number of units is 66,567.

Source: Section 56.1 Administrative Data

TABLE 2.2

DISTRIBUTION OF SECTION 56.1 UNITS BY PROJECT TYPE AND PROVINCE

	Family		Senior Citizen		Special Purpose		Total	
	No.	%	No.	%	No.	%	No.	%
Newfoundland	128	18.4	502	72.2	65	9.4	695	100.0
P.E.I.	25	10.7	93	39.7	116	49.6	234	100.0
Nova Scotia	708	57.1	177	14.3	356	28.7	1,241	100.0
New Brunswick	386	21.4	1,130	62.7	287	15.9	1,803	100.0
Quebec	11,141	51.5	10,057	46.4	457	2.1	21,655	100.0
Ontario	10,531	54.9	6,274	32.7	2,381	12.4	19,186	100.0
Manitoba	404	13.7	2,355	80.1	183	6.2	2,942	100.0
Saskatchewan	2,533	74.9	542	16.0	306	9.1	3,381	100.0
Alberta	1,973	68.5	192	6.7	715	24.8	2,880	100.0
B.C.	5,849	46.1	4,833	38.1	1,999	15.8	12,681	100.0
N.W.T.	4	100.0	0	0	0	0	4	100.0
Yukon	11	20.0	44	80.0	0	0	55	100.0
Canada	33,693	50.5	26,199	39.3	6,865	10.3	66,757	100.0

Source: Section 56.1 Administrative Data

TABLE 2.3

NON-PROFIT AND COOPERATIVE HOUSING PROGRAM BUDGETARY EXPENDITURES (SUBSIDIES)

<u>PROGRAM</u>	(\$ MILLION)				<u>TOTAL</u>
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	
Section 56.1 N/P and Coop Housing	1.0	16.6	60.9	177.4	255.9
Section 34.1 ¹ Non-Profit RRAP (Loan Forgiveness)	3.8	6.4	9.7	12.8	32.7
Section 44(1)(b) Stacking	-	-	0.256	0.207	0.463
(Federal Share)			(0.128)	(0.103)	(0.231)
					-
					31
					-

1. Includes all Non-Profit RRAP some of which may not have received funding under Section 56.1

Source: Treasurer's Directorate

2. Support Programs

Table 2.3 also identifies budgetary expenditures for Non-Profit RRAP and the cost-shared Section 44(1)(b) stacking program. Expenditures on stacking, in particular, have been minimal, reflecting the fact that only Urban Native projects in Saskatchewan have made use of this provision to date.

The regional distribution of the take-up of Start-up funding is shown in Table 2.4. Start-up has been used most extensively in Ontario and British Columbia, reflecting high levels of Section 56.1 activity in these provinces. Quebec, although it has produced the highest proportion of Section 56.1 units, has not received a proportional amount of Start-up funding. Overall, for the five-year period, Start-up funds have totalled \$22.1 million.

Table 2.5 identifies the amount of CROP funding which has been provided between 1978 and 1982, for a total of \$3.6 million. This is an average of approximately \$50 000 per year to each CROP group funded through the program. Regionally, CROP funding has been used most extensively in Ontario and Quebec.

TABLE 2.5 CROP FUNDING BY YEAR

	TOTAL FUNDS \$	NO. OF GROUPS	AVERAGE GRANT/YEAR \$
1978	552 514	12	46 043
1979	591 034	13	45 464 ¹
1980	780 977	17	45 940 ¹
1981	770 125	13	59 240 ¹
1982(est.)	881 309	17	51 842 ¹
TOTAL	3 575 959		49 666

1. If Milton Park is excluded in 1979 (\$74 975), 1980 (\$115 440), 1981 (\$208 814) and 1982 (est. \$322 000) the averages drop to \$43 005, \$41 596, \$46 776 and \$34 957 respectively.

Source: Social Housing Division.

TABLE 2.4
START-UP FUNDS COMMITTED BY REGION

	1978	1979	1980	1981	1982 ¹
	\$000	\$000	\$000	\$000	\$000
	%	%	%	%	%
Atlantic	56	180	202	394	692
	2.5	5.7	5.6	6.6	9.6
Québec	401	470	669	816	1 430
	18.0	14.9	18.6	13.7	19.9
Ontario	650	1 342	1 524	2 487	3 094
	29.1	42.6	42.3	41.7	43.1
Prairies ²	67	58	121	437	507
	3.0	1.8	3.4	7.3	7.1
British Columbia ³	1 059	1 100	1 087	1 829	1 457
	47.4	34.9	30.2	30.7	20.3
TOTAL	2 233	3 150	3 603	5 963	7 180
	100.0	99.9	100.1	100.0	100.0

1 1982 Start-Up estimates as of 5 August 1982.

2 Includes Northwest Territories.

3. Includes Yukon.

Source: Social Housing Division.

III PROGRAM RATIONALE

This section of the report introduces the first set of evaluation issues. Two fundamental questions are addressed. The first is an assessment of the continuing need for the programs. The second concerns the degree to which the design of the programs is logical and consistent with program objectives.

A. Need for the Programs

The identification of a need for the programs involves an assessment of the nature of housing problems in Canada and the characteristics of those households most severely affected by these housing problems. For the purposes of this evaluation, the existence of housing problems facing low and moderate income households will be considered a sufficient indicator of a need for social housing assistance.¹ There is no readily established measure of the magnitude of such problems to define at what point a national social housing program is warranted. This is clearly a matter of judgment. Some would argue that all Canadians as a matter of right should have access to affordable, suitable and adequate housing. In that case, the presence of even one household in need would warrant government activity. Others may suggest that government action should only be taken when the problems affect some arbitrary proportion of the population.

For the Section 56.1 programs, a comparison will be made of the magnitude of problems when the programs were introduced in relation to more recent indicators. Relative problems of approximately the same order of magnitude will be considered to be evidence of the continued need for the programs. While this assumes that the original justification for the programs was reasonable, the identification of close to 700,000 households experiencing housing problems in 1976 provides support for this assumption.

The nature of housing problems can be identified by the use of measures which are available on a national scale for different time periods. While these measures are, to some extent, arbitrary and do not permit an in-depth categorization of housing problems, they have the

1. A separate evaluation report, A Comprehensive Review of Social Housing Programs, addresses the more fundamental issue of the rationale and justification for government intervention to alleviate housing problems.

advantages of providing estimates of the type of housing problems in existence, as well as comparability among different household types, regions and time periods. These measures will be used to indicate:

- a) the change in the nature of housing problems for the periods before and after the introduction of the Section 56.1 programs; and
- b) the characteristics and magnitude of current housing problems.

1. Housing Problems Over Time

Traditional indicators of housing problems involve measures of crowding, adequacy and affordability. Definitions of these problems are provided in Table 3.1, which identifies the change in the nature of housing problems between 1976 and 1980. The table indicates that affordability is by far the most significant problem.² Further, while problems of crowding and adequacy have been declining over the years, the problem of affordability has grown in magnitude.

Table 3.1 shows the housing problems for renters only, rather than for owners and renters. While comparable data showing affordability problems for owners over time are not available, data from the 1978 Family Expenditure Survey indicate that the incidence of affordability problems among owners is less than one-third that of renters.³

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2. The definition of affordability used in this report is that of a 30 percent shelter-to-income ratio. This is basically an arbitrary measure, as there is no conclusive authority on the amount that a household should pay for shelter costs. Nor does a fixed ratio take into account variations in disposable income and expenditures for different household types and income levels. An alternative guideline, and one which is used to define minimum payments for income-tested households in the programs is a 25 percent shelter-to-income ratio. Using this indicator, in 1980, 849,058 renter households or 29.8 percent of the renter population would be considered to be facing an affordability problem. This provides even stronger support for the continuing need for the programs, although it too does not reflect variations by income group or household type.
3. Family Expenditure Survey, 1978, special tabulation.

TABLE 3.1

HOUSING PROBLEMS FOR RENTERS, 1976-80¹
(Incidence in Percentages in Parentheses)

	<u>1976</u>	<u>1980</u>
Crowding only	92,000 (3.4)	55,000 (1.9)
Adequacy only	50,000 (1.9)	29,000 (1.0)
Affordability only	509,000 (18.9)	595,000 (20.9)
Multiple Problems	40,000 (1.5)	21,000 (0.7)
TOTAL	691,000 (25.7)	700,000 (24.6)

1. See Notes, Annex 6

Definitions:

- Crowding - Dwellings with more than one person per room.
- Adequacy - Dwellings lacking basic facilities (no piped hot and cold water, no flush toilet or no exclusive use of installed bathtub or shower).
- Affordability - Households paying more than 30 percent of their gross income for rent (rent includes an allowance for heating).
- Multiple Problems - Households with more than one of the above problems.

Source: HIFE 1976 and HIFE 1980 Micro Data File and Projections by CMHC.

More fundamentally, it can be argued that the type of assistance offered through the Section 56.1 programs addresses problems faced by renter households more so than those experienced by owners. Non-profit and cooperative housing provides an alternative to private rental accommodation. Owner households are more likely to seek a form of government assistance which would permit them to remain in their own homes. Thus, in reviewing the need for Section 56.1 assistance, data on housing problems for renters only will be used.

Table 3.1 suggests that the alleviation of affordability problems represents the most significant area of need. In order to estimate the extent to which this need has changed since the introduction of the Section 56.1 programs, Table 3.2 shows the distribution of renter affordability problems in 1976, before the programs were introduced and in 1980, the year for which the most recent data are available. For the country as a whole, the incidence of affordability problems in that time period increased from 20.2 percent to 21.6 percent. This represented an absolute increase of 70,000 households who were paying more than 30 percent of their income for rent. Increases in the absolute numbers of households facing affordability problems between 1976 and 1980 were experienced in all provinces except Newfoundland, Nova Scotia and British Columbia.

While these measures of affordability problems provide an indication of the magnitude of the problem, they have a number of deficiencies.⁴ The most significant of these is that the measure includes households that choose to spend more than 30 percent of their income on housing although they could obtain suitable and adequate housing for less.⁵ Voluntary over-consumption of this type leads to an over-estimation of the extent of affordability problems.

4. A critique of the affordability approach to measuring housing problems is contained in Fallis, G. The Normative Basis of Housing Policy, Paper prepared for the Symposium, North American Housing Markets into the 21st Century, University of British Columbia, July 1981.
5. The term "suitable housing" is used here to refer to housing which is not crowded, that is, with at least one room per person.

TABLE 3.2
HOUSING AFFORDABILITY PROBLEMS
FOR RENTERS BY PROVINCE¹
(Percentage Distribution in Parentheses)

	<u>1976²</u>	<u>Incidence(%)</u>	<u>1980²</u>	<u>Incidence(%)</u>
Nfld.	8,000 (1.4)	24.6	6,000 (1.0)	23.3
N.S. & ³ P.E.I.	16,000 (2.9)	21.2	15,000 (2.5)	20.4
N.B.	8,000 (1.4)	15.2	15,000 (2.4)	25.9
Qué.	136,000 (25.0)	15.0	150,000 (24.5)	16.3
Ont.	209,000 (38.4)	22.4	225,000 (36.6)	22.2
Man.	22,000 (4.0)	19.5	27,000 (4.5)	25.6
Sask.	13,000 (2.3)	18.6	22,000 (3.5)	25.4
Alta.	47,000 (8.7)	23.2	61,000 (11.5)	28.8
B.C.	85,000 (15.6)	29.0	83,000 (13.5)	26.5
Canada	544,000 ⁴	20.2	614,000 ⁴	21.6
Total Households	2,689,000		2,848,000	

1. Households paying more than 30 percent of their gross income for rent (rent includes an allowance for heating).
2. Adjustments have been made for excluded cases. See Note 1, Annex 6.
3. Data based on very small samples are not published. Therefore, estimates for P.E.I. and N.S. have been combined.
4. The total number of households with affordability problems differs from that shown in Table 3.1 because "multiple problem" households with an affordability problem are included here, but are not included in the "affordability only" category in Table 3.1.

Source: HIFE 1976 and 1980 Micro Data Files and Projections by CMHC

On the other hand, the traditional shelter to income ratio approach tends to underestimate housing need because households occupying inadequate or unsuitable units in order to keep their housing costs down are not included. However, if such households were to occupy a suitable, adequate unit in their locality they may have to pay more than 30 percent of their income and hence, would experience an affordability problem.

To overcome these deficiencies an alternative approach to measuring housing problems has been developed.⁶ The core housing need approach identifies all households that would have to spend more than 30 percent of their income to obtain suitable and adequate housing in their locality.⁷ The measure includes households in inadequate or unsuitable dwellings who could not afford to improve their housing conditions without paying more than 30 percent of their income. It also includes those that are presently occupying suitable and adequate housing but spend more than 30 percent of their income to do so and could not obtain this level of housing in their locality for less than 30 percent of their income. Probably the most important aspect of this approach is that it excludes households which choose to spend more than 30 percent of their income on housing but could obtain suitable, adequate housing for 30 percent of their income or less.

While the concept of core housing need represents an improvement on the traditional measure of affordability problems, it is not without limitations. It remains necessary to specify a shelter-to-income ratio and, as indicated on page 35, the choice of 30 per cent is

6. U.S. Department of H.U.D. and CMHC, Housing Affordability Problems and Housing Need in Canada and the United States: A Comparative Study February, 1981.
7. To estimate core housing need, household income and rent paid are available directly from the Household Income Facilities and Equipment data file. Rent paid is the cash outlay for rent and includes an allowance of 15 per cent for heating for units where heat is not included in rent. The average rent for an adequate, uncrowded dwelling unit is estimated for each household size, by region and settlement size category and is referred to as a norm rent since it is attached to a dwelling unit meeting shelter norms. Households are defined as being in core housing need if they have to spend more than 30 per cent of their income to pay the norm rent.

essentially arbitrary. This implies that 70 per cent of income is sufficient, but no more than sufficient for elements in the cost of living other than housing. However, the relationship between these other costs and rent may vary from one market area to another. A more serious shortcoming is that the income required for other essentials varies by household size as well as the age of members of the household. These limitations of the core need approach apply whether the chosen shelter-to-income ratio is 25, 30 or 35 per cent. Of course, the lower the ratio chosen, the higher the estimate of households in core need will be. The 30 per cent ratio used in this report provides a conservative estimate of housing problems. Finally, it should be recognized that the estimates of core need presented here are based on survey data from Statistics Canada Household Income Facilities and Equipment (HIFE) data file. That is, the core need figures are based on a sample of households rather than a complete census. Moreover, because of the limited sample size, it is not possible to account completely for intra-regional variations in rental housing costs.⁸

Using the core housing need approach, 18.3 percent of renter households in 1980 experienced, or would experience affordability problems in obtaining suitable and adequate housing in their areas (Table 3.3). Thus, the incidence of affordability problems among renter households is 3.3 percent lower using the core need approach than using a simple affordability ratio. Moreover, the two approaches have different effects at the regional level. In the Atlantic region the incidence of problems increases somewhat under the core need approach while all other regions have a lower incidence of problems.

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8. The sample size for the HIFE file is such that norm rents cannot be estimated for individual cities within a region. Rather, the norm rents used to estimate core need within a region are the average norm rents over all urban areas in each of two settlement-size categories: settlements of 100,000 population or more and those less than 100,000 population. This approach could result in an under-estimate of core housing need in large urban areas within a settlement size category and an over-estimate in small areas. The extent to which this results in a general under-estimate or over-estimate of core housing need is unknown.

TABLE 3.3

AFFORDABILITY PROBLEMS AND CORE HOUSING NEEDS
FOR RENTER HOUSEHOLDS, 1980

	<u>Affordability Problems¹</u>		<u>Core Housing Need²</u>	
	<u>Number</u>	<u>Incidence %</u>	<u>Number</u>	<u>Incidence %</u>
Canada	614,467	21.6	521,643	18.3
Atlantic	36,043	22.8	36,341	23.0
Quebec	150,381	16.3	136,918	14.8
Ontario	225,101	22.2	179,688	17.8
Prairies	120,071	27.1	100,188	22.6
B.C.	82,871	26.5	68,508	21.9

1. Households paying more than 30 percent of their gross income for rent (rent includes an allowance for heating).

2. Households unable to afford adequate, uncrowded housing without paying more than 30 percent of gross income.

3. Adjustments have been made for excluded cases. See Note 1, Annex 6.

Source: HIFE 1980 Micro Data File and Projections by CMHC.

Although the incidence of affordability problems declines under the more precise core need approach, there remain in excess of half a million households experiencing affordability problems.⁹ In effect, both the core housing need approach and the traditional affordability measure indicate that those housing needs which prompted the introduction of the Section 56.1 programs continue to exist.

2. Current Housing Problems

Measures of core housing need may be used to identify the characteristics of households most in need. Table 3.4 shows the distribution and incidence of core housing need by the age of the household head, family type and income.

With respect to age, the table shows that affordability problems are most prevalent among senior citizens and particularly those aged 70 and over. Households headed by persons in the 55-64 year old category, as well as younger households under the age of 24 also represent a greater proportion of households in need than would be expected by their distribution in the population.

By family type, two groups with a very high incidence of need are female individuals and female single-parent families. Close to 50 percent of the former group consists of elderly women over the age of 65.

On the basis of income, affordability problems are overwhelmingly concentrated in the first quintile (93 percent). Sixty percent of the households falling in the lowest income quintile pay more than 30 percent of their income for shelter.

These findings suggest that in order to reflect core housing needs, social housing programs should focus on senior citizens, individual female households, female single-parent families and households in the lowest income quintile. These categories are not mutually exclusive, but can serve as indicators of the most appropriate target groups for assistance.

9. Using 25 percent as the shelter cost-to-income ratio, close to 700,000 renter households or 24.4% of all renters were estimated to be in core housing need in 1980.

TABLE 3.4

CORE HOUSING NEED¹ FOR RENTER HOUSEHOLDS² BY AGE OF
HOUSEHOLD HEAD, FAMILY TYPE AND INCOME, 1980

	Households in Core Housing Need		Distribution of Rental Population	Incidence of Core Need
	No.	%	%	%
<u>Age of Household Head</u>				
24 and under	100,500	20.8	18.2	20.9
25-34	99,320	20.5	30.7	12.2
35-44	49,530	10.2	13.8	13.6
45-54	49,730	10.3	11.1	16.9
55-64	52,390	10.8	10.2	19.5
65-69	40,380	8.3	5.3	28.8
70 and over	92,120	19.0	10.6	32.9
<u>Family Type</u>				
Individual(s) - male head	90,740	18.7	17.4	19.7
Individual(s) - female head	190,670	39.4	23.6	30.6
Family, no children	47,250	9.7	20.3	8.8
Family, with children	55,930	11.6	24.8	8.5
Single-parent - male	5,330	1.1	1.1	17.7
Single-parent - female	83,990	17.4	9.0	35.2
Other	10,060	2.1	3.7	10.3
<u>Income Quintile</u>				
First Quintile	452,060	93.4	28.7	59.7
Second Quintile	31,740	6.6	27.3	4.4
Third Quintile	*	0	20.6	0
Fourth Quintile	0	0	14.1	0
Fifth Quintile	0	0	9.3	0

1. Households unable to afford adequate, uncrowded housing without paying more than 30% of gross income.

2. Data unadjusted for excluded households. When adjusted for excluded households, the total number of renter households experiencing core housing need is estimated to be 521,643.

* The sample size is considered to be too small to provide a reliable estimate.

Source: Household Income, Facilities and Equipment data file, 1980.

To summarize, housing problems have not disappeared. With one-fifth of renter households in the country paying what is considered to be a disproportionate amount of their incomes for rent, the need for some form of assistance is evident. This is particularly the case for senior citizens and women and for those in the lowest income quintile with the least amount of disposable income.

B. Program Design and Objectives

The second issue to be addressed with respect to program rationale concerns the logic and consistency of the programs' design and objectives. The first step in this analysis is to review those factors which influenced the design of the programs to determine whether they have changed since the programs were introduced. The second step involves an examination of program objectives to ensure that they can be evaluated, and to assess their consistency with social housing needs. Finally, links between program design and objectives will be determined, to assess whether it is logical to expect that objectives could be achieved, given the design of the programs.

1. Program Design Considerations

Introduction of the Section 56.1 programs was influenced by the identification of a continuing need for social housing assistance. As well, the problems listed in Chapter I, which were being experienced with public housing, in addition to a recognition of the potential housing delivery capability of the third sector, shaped the Government's 1978 policy changes. The Cabinet Document which recommended the policy shift also identified three other factors which affected the particular design of the Section 56.1 programs: the fiscal situation of the government; housing market and economic conditions; and federal-provincial relations. A brief review of these factors is given in this section to show their impact on the design of the programs, as well as their current status.

(a) Government Fiscal Situation

Considerable concern was expressed in 1978 over the growth in government expenditures and the rise in the federal deficit. In 1977-78, the deficit for the first time exceeded \$10 billion, while total financial requirements reached a peak of \$11 billion in the following year.¹⁰

In response to this escalation in government cash requirements, in September, 1978, the President of the Treasury Board announced massive reductions in government expenditures for 1978 and 1979. William Teron¹¹ describes the way in which CMHC responded to this requirement for expenditure reductions. One aspect of the strategy was to replace the "capital intensive, subsidy intensive" public housing program with the non-profit and cooperative housing programs.

The fiscal situation of the Government and resulting cuts in spending influenced the design of the Section 56.1 programs in two ways. First, in order to reduce cash requirements, provisions were made to use private sector capital funding for loans, with NHA mortgage insurance available to encourage lenders to participate.

10. Department of Finance. Economic Review, 1981.

11. William Teron. "The Management Challenge of Restraint" in The Politics and Management of Restraint in Government edited by Peter Aucoin, 1981.

Second, the Section 56.1 programs were designed to provide a cap on federal subsidies. Previous social housing programs, particularly the cost-shared public housing and rent supplement programs committed federal and provincial governments to subsidize operating costs on an on-going basis. Considerable concern had been expressed in the mid-1970's about the rapid escalation of subsidy costs, as operating expenditures increased at a substantially higher rate than revenues. The Section 56.1 programs offered a fixed amount of assistance for the term of the loan, based on the difference between the market interest rate and the subsidized interest rate of 2 percent.

In 1983, concern with government expenditures continues. The October, 1982 statement by the Minister of Finance forecast a budgetary deficit for 1982-83 of \$23.6 billion, with net financial requirements of \$22.2 billion.¹² At the same time, the Minister indicated that the President of the Treasury Board would be re-examining federal expenditures to ensure that "outlays are pared down to the lowest level compatible with maintenance of adequate service to the public."¹³

(b) The Economy

A second set of factors which appeared to affect the initiation of the Section 56.1 programs relates to the economy generally, and housing markets in particular. Reference was made in the Cabinet Document proposing the introduction of the

12. The Honourable Marc Lalonde. Statement on the Economic Outlook and the Financial Position of the Government of Canada, 27 October, 1982, Page 21.

13. Ibid. Page 12.

Section 56.1 programs to the stimulation of employment through housing measures. However, the impact of economic conditions on program design is not straightforward, as no analysis was provided in the document to show the potential economic impacts of the programs.

It may be postulated that the choice of a housing supply initiative, rather than a demand-side program, was prompted by the desire to have direct influence on market conditions. In addition, specific emphasis was placed on using the non-profit and cooperative housing allocations to acquire units from the large inventory of unoccupied AHOP (Assisted Home Ownership Program) and ARP (Assisted Rental Program) projects. Thus the programs appeared to be intended to assist with rental market adjustments.

The rationale for introducing programs with potential market impacts may be gleaned from a brief review of the 1978 housing economy. In that year, housing starts were starting on the downward trend which has continued to the present time. Following two very strong years in 1976 and 1977, starts declined in 1978 to 7 percent below the 1977 level. The decline in housing starts was accounted for solely by the multiple-unit sector. Apartment starts dropped 16 percent while the decline in row housing starts was 23 percent below the 1977 level.

While housing starts were down, there was a high level of completions in 1978 due to the high number of starts in the two previous years. This resulted in an increase in average vacancy rates in major metropolitan areas to 3.0 percent in October, 1978 up from 2.2 percent during the same period in 1977. Unemployment in the construction industry was also emerging as a problem in 1978, with a rate of 16 percent.

In general, the economic outlook and housing market conditions have deteriorated since 1978. Housing starts at the end of 1982 had dropped to 125,860, the lowest level since 1962. At the same time, vacancy rates have been low in most metropolitan areas, creating severe pressure on rental markets. Unemployment in the construction industry during 1982 ranged from 17 to 24 percent.

To the extent that housing market considerations influenced the particular design of the Section 56.1 programs, it can be seen that these conditions continue to prevail. The degree to which the programs have contributed to rental market performance is examined in a subsequent chapter of this report.

(c) Federal-Provincial Relations

For the most part, social housing programs prior to the introduction of the Section 56.1 programs involved cost-sharing with the provinces. The new programs were introduced as solely federally funded. Yet the original Cabinet Document proposing introduction of the programs stated that "provincial subsidies will continue to be required if the program is to penetrate deeply enough to reach large numbers of those with very low income". In part to encourage the financial participation of the provinces, CMHC agreed to "disentangle" administration of the public non-profit program, leaving detailed project reviews to the provinces or municipalities.

The push for disentanglement was largely related to the climate of federal-provincial relations at the time. To provide a context for disentanglement, this section will review briefly the state of federal-provincial relations in housing from the mid-1960's when the provinces became actively involved, to 1978 when the new Non-Profit and Cooperative Housing Programs were introduced.

The year 1964 has been cited as a major turning-point in federal-provincial relations in housing. An NHA amendment in that year permitted the construction and operation of public housing by means of a 90 percent loan to provinces or municipalities and a 50 percent share of subsidies. The result of this amendment was that it enabled the provinces to operate much more independently, rather than being tied in to the previous 75/25 percent partnership arrangement with CMHC. The provinces began to establish provincial housing corporations to effect this independence, the first of which was the Ontario Housing Corporation established in 1964.

Thus the 1960's saw the first major entrance of the provinces into the field of housing.

During the early 1970's, the federal government initiated a number of new programs, both unilaterally and in cooperation with the provinces. Among the unilateral initiatives were the original Non-Profit and Cooperative Housing Programs, introduced in 1973.

An important feature of the amendments in 1973 was the removal of the requirement for matching funds from the provinces for housing subsidies on new programs. Provincial aid was provided by "stacking" additional subsidies on those provided by CMHC. Very complicated arrangements resulted, and the situation created several inequities in the overall level of subsidies provided to meet the needs of households in different circumstances.

The provinces began to implement a wide variety of housing programs on their own initiative. By 1976, there were fifty-three housing programs administered by the provinces independently of the National Housing Act, including direct construction and rental subsidies, housing rehabilitation, capital financing and rental controls. The provinces had developed programs to meet problems to which federal programs were not directed and they were using federal programs to attain maximum input to unique provincial housing problems.

By the middle of 1977, two forces were operating to change the pattern of events at the federal level. First, the Government was looking at all possible sources for a reduction in the federal deficit and secondly the housing market was changing with evident overbuilding and declining growth and demand.

In the meantime, the provinces were increasing their demands for block funding of capital expenditures; requesting tax points transferred as a substitute for federal program subsidies; and proposing three-year forward budget commitments and provincial review and concurrence of federal funding reductions or alterations. The common provincial position was that greater provincial

flexibility was required in the development and implementation of housing policies and programs and that there should be less duplication of federal and provincial efforts in housing delivery.

These two viewpoints - the federal desire for budget restraint and the provincial desire for greater control - coincided at a federal-provincial conference of housing ministers in February, 1978. A dramatic reduction in direct federal capital for public housing was proposed and in return, richer subsidy arrangements and increased program delivery responsibilities were offered to the provinces through the Section 56.1 Non-Profit and Cooperative Housing Programs. These increased delivery responsibilities were in the context of "global agreements" to be signed with each province.

Global funding agreements have now been signed with all provinces except Newfoundland. These agreements provide full delivery responsibility for public non-profit projects to the provinces. In the case of private non-profit housing, the provinces may assume the lead role only where they provide a grant or annuity equivalent to 25 percent of the capital of the project. This grant is applied against costs before the Section 56.1 assistance is provided. Two provinces - British Columbia and Saskatchewan - have chosen to make use of this provision. In British Columbia, the province has assumed the lead role on private senior citizens self-contained units. In Saskatchewan, the Province has the lead role for private non-profit projects, with the exception of Urban Native and On-reserve.

In 1979, negotiations were initiated with Ontario for the disentanglement of private non-profit projects. The Federal Minister agreed to withdraw the requirement for the 25 percent contribution and the resulting arrangements were to serve as a model for private disentanglement in other provinces. However, in November, 1980 a decision was reached to halt arrangements for the disentanglement of private non-profit housing projects. The principal rationale given was the lack of federal visibility in projects that are provincially-led.

Thus, while in 1978, the federal government appeared willing to divest itself of major administrative responsibilities for housing, the most recent decision to halt disentanglement suggests a renewed interest in more direct federal control.

d) Summary

Policy proposals were advanced in 1978 to respond to the identified need for social housing assistance, the problems encountered with public housing as the Government's primary social housing initiative and a recognition of the potential role for the third sector in housing delivery. The particular design of the Section 56.1 programs which were proposed was tempered by the Government's fiscal position, economic and housing market conditions and federal-provincial relations. A brief analysis of the current situation suggests that fiscal and economic conditions have deteriorated since 1978, while there is some evidence of a shift in federal attitudes towards disentanglement to the provinces.

The identification of comparable conditions to those experienced in 1978 does not in itself provide a conclusive rationale for continuing the current design of the programs. It does provide support for the current program design, insofar as the original rationale for the programs is accepted. However, to more fully assess the appropriateness of program design, it is necessary to determine whether it promotes the achievement of intended results. This type of analysis is conducted in subsequent chapters of this report.

2. Program Objectives

Three specific objectives have been set for the Non-Profit and Cooperative Housing Programs.¹⁴ These relate to the provision of modest, affordable and appropriate housing for low and moderate income households, the production of housing at minimum cost and the encouragement of private lender capital funding. In this section, these objectives will be reviewed to determine whether they are amenable to evaluation, and to assess their consistency with identified needs for the programs.

There are three additional objectives for the programs implied by the programs design and frequently raised in official descriptions of the programs. These will also be reviewed.

Finally, the views of individuals and groups involved in program delivery with respect to program objectives will be presented.

(a) Program Objectives

Objectives are intended to identify the desired ends of programs, for which organizations can be held accountable. As a result, they should indicate a desired end product in a clearly defined and measurable fashion.

Only one of the three stated objectives for the Non-Profit and Cooperative Housing Programs is related to a desired end product. This is modest, affordable housing appropriate to the needs of low and moderate income households. The second and third objectives refer to means rather than ends. The production of housing at minimum cost is a means of reducing government subsidy requirements and of ensuring that housing provided under the programs is "modest". The encouragement of private lender capital funding is a means of limiting government cash requirements. In evaluating the achievement of these objectives, it is necessary to go beyond the statements themselves to ascertain whether they are achieving their desired ends.

14. These objectives are stated in the Guidelines and Procedures manuals prepared by CMHC to govern program delivery. They will be referred to here as "stated" objectives to distinguish them from other objectives of the programs.

It is also necessary to determine the extent to which program objectives are measurable. The objectives statements contain a number of terms which are open to interpretation: modest, affordable, appropriate, low and moderate income, minimum cost. Some of these terms are defined in program guidelines or operating procedures; in other cases no definitions are provided. For the purpose of the evaluation, indicators to measure each of these terms are provided at the outset of the sections on objectives achievement. In addition, because there are not standard definitions or measures of performance for the objectives, wherever possible a range of indicators is used to measure objectives achievement.

Finally, program objectives may be reviewed to determine their consistency with identified needs for the programs. The previous section on housing need established that affordability problems are overwhelmingly concentrated in the lowest renter income quintile and are most prevalent among particular target groups such as the elderly and women. Objectives for the programs do not recognize this pattern of need, as the programs are not restricted only to low-income households, nor are they specifically targetted to a particular household type.

The second and third objectives for the programs are more accurately described as "means" rather than "ends". However, if it is assumed that their primary purposes are to minimize government spending requirements, the previous section on the Government's Fiscal Situation suggests that this is a reasonable pursuit.

(b) Additional Objectives

There are three additional objectives which are implied by the design of the programs and are frequently cited as intended program aims.

The first of these is a mix of income groups. In addition to providing a means for project viability, the integration of different household income groups is seen to be a desirable end product for the programs. For example, the 1978 CMHC Annual Report states that the Non-Profit Program has made possible "... the phasing out of the old

public housing program which tended to isolate low-income people in favour of the privately financed Non-Profit and Cooperative programs which allow a more acceptable blending of population groups and are more responsive to the plans and priorities of local governments.¹⁵

In part, the emphasis on income mix was a reaction to the social and community acceptance problems which faced large-scale public housing projects in the 1970's. In addition, it has been argued that social benefits accrue to the households involved when there is diversity in household income and composition.

The second apparent purpose of the programs is to increase the stock of rental accommodation generally, and the stock of affordable rental accommodation in particular. This is manifested in the announcement of increases in Section 56.1 unit allocations as a response to the tight rental market situation and the emphasis on new construction over the purchase of existing units in areas with low vacancy rates. That the programs are intended to increase the stock of affordable rental accommodation is illustrated by their supply-side emphasis. This can be achieved both through new construction and the acquisition of existing units.

Third, because the programs are directed through non-profit and cooperative housing organizations, there is an implied objective of promoting the third sector. This is interpreted by some as support for an alternative housing market, one that operates outside the realm of the private sector. In addition, there is an emphasis on social development in third sector housing, particularly in cooperatives where the residents themselves own and manage the projects. The goal of the Cooperative Housing Program, as stated by the Cooperative Housing Federation of Toronto, is not simply to provide affordable places for low and moderate income people to live, but also to build self-governing communities in which the members have direct democratic control.

15. Canada Mortgage and Housing Corporation. Annual Report, 1978.

CMHC's support of the social development aspects of non-profit and cooperative housing is illustrated in the following extract from the 1978 Annual Report: "Recent policy changes have shifted the emphasis away from the public housing programs, which have acquired some negative social implications, and have strengthened those programs such as non-profit and cooperative housing which are privately financed and which help people to help themselves.¹⁶

In this evaluation, the extent to which these objectives have been achieved will be assessed. These are not, however, the basis on which the programs shall be judged for accountability purposes.

(c) Views on Objectives

As one source of information on the programs, a wide variety of provincial, municipal, private non-profit and cooperative housing organizations, as well as CMHC Branch Office personnel, were requested to submit their views on various program issues. One of these issues was the definition of objectives of the programs.

While the objectives submitted were phrased in a wide variety of ways, the most frequently mentioned related to the first objective of the program: "to provide modest, affordable housing appropriate to the needs of low and moderate income families and individuals". In several cases, respondents mentioned special target groups: senior citizens, Natives, handicapped or single-parent families. The importance of providing good quality housing was emphasized.

The second most frequently mentioned objective was that of income integration, while the third most frequent category of responses related to increases in the supply of rental stock. In some cases, special situations such as rural locations or tight market areas where the private sector seemed unable or unwilling to respond were mentioned as factors necessitating the programs. For cooperative housing, the importance of self-help and cooperation was identified.

16. Ibid.

Other objectives for the programs were raised less frequently, but covered a wide spectrum. These included providing a stock of non-market, non-inflationary housing; providing a stimulus to lending or construction industries; improving the quality of the community; and enabling the integration of Native people into the broad spectrum of society.

A summary tabulation of the views on objectives is provided in Table 3.5.

The views on program objectives submitted by those involved with program delivery support the analysis of program objectives in this report. The first "stated" objective is seen to be the most meaningful, while the second and third objectives related to minimum costs and private lenders were not mentioned at all. These views also support the existence of additional objectives - income integration, rental stock increases and third sector participation in the programs.

3. Linkage Between Program Design and Objectives

Previous sections have reviewed separately the considerations which affected program design and the objectives of the programs. As a final step in assessing the rationale for the programs, the following issue will be considered: does the design of the programs logically permit the achievement of objectives.

Although the objectives are not precisely defined in program manuals, generally mechanisms have been put in place to promote their achievement. Table 3.6 summarizes the relationship between program objectives and program design. This illustrates that there are some program design features in place to promote the achievement of each objective. Whether the objectives are in fact being achieved will be reviewed in subsequent sections of this report. It is intended to illustrate here that there is a logical basis for expecting that objectives could be achieved.

TABLE 3.5

SUMMARY OF VIEWS ON PROGRAM OBJECTIVES

Provide affordable accommodation to:	<u>No. of Responses¹</u>	<u>% of Total Responses²</u>
a) low income	56	84%
b) moderate, average income	31	46%
c) special needs	26	39%
d) those who can't afford private sector	10	15%
e) greatest need	6	9%
f) full spectrum of public (incl. high income)	5	7%
Good quality units	23	34%
Income integration	19	28%
Additional units (increase supply)	17	25%
Supplement - not replace - private sector	14	21%
Permanently affordable housing	8	12%
Allow tenants control over housing	7	10%
Rehabilitation of existing units	7	10%
Stimulate construction industry	6	9%
Security of tenure	5	7%
Self help approach to meeting housing needs	4	6%
Temporary assistance	3	4%
Assistance without loss of dignity	3	4%
Moderate rents in private sector	3	4%
Community atmosphere	2	3%
Responsive to community needs	1	1%
Prevention of private appropriation of public investment	1	1%

1. 67 letters were received.

2. Averages do not total 100 because some groups listed a number of goals for social housing.

Source: Views on the programs submitted by provincial, municipal, private non-profit and cooperative housing organizations and CMHC Branch Offices.

TABLE 3.6

RELATION BETWEEN PROGRAM OBJECTIVES AND PROGRAM DESIGN

<u>Objective</u>	<u>Concept</u>	<u>Link to Program Design</u>
To provide modest, affordable housing appropriate to the needs of low and moderate income families and individuals.	Modest housing	Maximum Unit Prices control size and quality of housing. CMHC design guidelines specify size and quality.
	Affordable housing	2 percent interest rate contribution provides subsidy to reduce rents. Rent-to-income scale for low-income households permits rent at 25 percent of income. Lower end of market rent for non-income-tested households allows rents to be less than private sector.
	Appropriate housing	Residential standards and CMHC design guidelines specify criteria and quality of housing.
	Needs of low and moderate income households.	Budget allocation process is based on assessment of affordability need. CMHC market studies are to ensure local need and demand. Need and demand studies by non-profit and co-op groups are to match housing provision with households in need. Waiting lists are established to identify demand. Guidelines in co-op program specify at least 15 percent of households served are to be income-tested.

TABLE 3.6 (Cont'd)

RELATION BETWEEN PROGRAM OBJECTIVES AND PROGRAM DESIGN

<u>Objective</u>	<u>Concept</u>	<u>Link to Program Design</u>
To produce housing at minimum cost by implementing appropriate cost controls	Minimum cost (Capital, operating and financing costs)	Co-ops receive predetermined assistance to encourage low operating costs. Financial arrangements and operating budgets are reviewed by CMHC Branch Offices.
	Appropriate cost controls	Maximum Unit Prices limit housing cost. Best-buy analysis is to ensure good value for money in choice of housing. Appraisal guide permits assessment of value of housing.
To encourage approved lenders to provide capital for low and moderate income housing needs.		Section 6 Mortgage Insurance insures lenders against defaults. On-going government subsidy reduces risk of default.

The one concept in the three objectives statements which is least reflected in program design guidelines is that of "minimum cost". Minimum cost can be considered in terms of capital costs and operating costs. With respect to capital costs, there is no incentive for projects to be built at costs lower than the Maximum Unit Price (MUP). In fact, because there is no penalty to groups unless the MUP is exceeded, it is to the advantage of groups to have projects built for costs equivalent to the MUP. (This may result in the Maximum Unit Price in fact becoming a minimum.) As well, particularly in co-ops, there is an incentive to build in features during construction or renovation which may increase capital costs but will lead to lower on-going operating costs.

With respect to operating costs, there is an incentive for cooperative projects to keep costs to a minimum. (This is described in Chapter II of this report). However, for other projects where fully serviced accommodation is provided on a rent-to-income or lower end of market rent basis, there is no incentive to incur minimum operating costs. There is also little incentive to incur minimum financing costs. However, both operating budgets and financing terms are subject to review by CMHC local office staff, thereby providing some control through the program delivery process.

For the remaining concepts in the objectives statements, there do appear to be program guidelines in place which are linked logically to the achievement of the objectives.

It should be noted that this review of the linkages between program design and objectives has focussed only on the three explicit program objectives. To the extent that the additional objectives associated with the programs - income mixing, contribution to the rental stock and support for the voluntary sector - are inconsistent with the stated program objectives, achievement of program objectives is hindered. The findings on objectives achievement presented in Chapter IV and the chapter on Program Design and Delivery, Chapter IX, identify some of these inconsistencies and their impact on the extent to which program objectives have been achieved.

C. Summary

This chapter has addressed the fundamental rationale for the programs. The major housing problem facing renter households in Canada was established as one of affordability. Using this criterion to measure the need for the programs indicates a clear requirement for continuing social housing assistance. By far the greatest proportion of this need is faced by low-income households. In that context, the objective of the programs to serve both low and moderate income households is inconsistent with the identified need for assistance.

The rationale for particular program design features was also reviewed. Continuing problems with the government's fiscal situation and housing markets support efforts to reduce cash requirements and stimulate rental market adjustment. A modification to the government's previous position on further program disentanglement to the provinces suggests that there is renewed interest in a more direct federal role in housing.

Finally, program objectives were reviewed to determine the extent to which they are amenable to evaluation and also whether they could logically be expected to be achieved. The lack of rigorous definitions and performance measures for the objectives has necessitated the use of a wide range of evaluation indicators in order to assess objectives achievement. Generally, the consistency between program design features and program objectives suggests that it is reasonable to expect objectives to be achieved, although this is hindered by inconsistencies with the additional objectives for the program.

IV ACHIEVEMENT OF OBJECTIVES

As described earlier, there are three stated objectives for the Section 56.1 programs. In addition, there are three objectives which are implied by the design of the programs and the way in which they have been applied. In this chapter of the report, evaluation findings on each of the stated and unstated objectives will be reviewed.

A. Modest, Affordable Housing Appropriate for Low and Moderate Income Households

To assess the achievement of the first Section 56.1 objective, each aspect of the objective statement has been defined and measured against particular indicators. These include:

- a) the extent to which the housing provided through the programs is modest;
- b) the extent to which the housing is appropriate;
- c) the extent to which low and moderate income households are served by the programs; and
- d) the extent to which the housing provided is affordable.

1. Modest Housing

For the purpose of program delivery, modest housing has been defined in the program guidelines as follows:

"Project costs must be related to modest housing within prescribed Maximum Unit Prices except as provided for in the policy statement on Maximum Unit Prices".

This definition is used as one indicator of modest housing for the evaluation. However, to provide an independent measure as well, Section 56.1 housing has also been examined with respect to unit size, using maximum size criteria contained in the CMHC Appraisal Guide and in guidelines for the Assisted Rental Program (ARP). Size guidelines have not been adopted for use in the Section 56.1 Programs to define modest housing.

The first indicator of modest housing is based on unit costs relative to Maximum Unit Prices (MUPs). Table 4.1 shows the number of projects for each program type which had unit costs equal to and greater than MUPs. In total, 16 percent of Section 56.1 projects had unit costs in excess of MUPs, while an additional 11 percent had costs equal to the Maximum Unit Price.

Provincial non-profit corporations had the highest incidence of projects both exceeding (37.7 percent) and equal to (24.8 percent) MUPs. Provincial non-profits, unlike private non-profit and co-operative groups, are not required to contribute \$2 in equity for every \$1 of capital cost in excess of MUPs. The absence of this requirement is likely to be the major factor in explaining the higher proportion of costs in excess of MUPs by provincial corporations. Further details on the costs of Section 56.1 projects are contained in a subsequent section of this chapter on Minimum Cost Housing.

The second indicator of modest housing involves a comparison of unit sizes with the maximum size guidelines contained in the Appraisal Guide and those in use for ARP projects. These sizes have been compared by housing form, unit type and client group. This means, for example that unit sizes for Section 56.1 senior citizen, self-contained apartments are compared with the unit size guidelines for the same dwelling and client type.

Table 4.2 illustrates this comparison by program type and by province. On a national basis, 43.8 percent of the projects committed were found to contain units larger than the maximum sizes. Quebec has the highest proportion of unit sizes exceeding the maximum, with 62.3 percent of projects containing units larger than the maximum size guidelines. By program type, municipal non-profits have the greatest proportion of projects with units over the maximum size, with 64.6 percent of the projects approved greater than the maximum sizes contained in the "modest housing" definition.

TABLE 4.1

SECTION 56.1 COSTS¹ VS MUPs BY PROGRAM TYPE

Program	Projects Approved Greater than MUPs		Projects Approved Equal to MUPs		Projects Approved Greater than or Equal to MUPs	
	#	%	#	%	#	%
Provincial N/P	134	37.7	88	24.8	222	62.5
Municipal N/P	11	11.0	13	13.0	24	24.0
Private N/P	72	12.1	44	7.4	116	19.6
Private Native	4	3.3	1	0.8	5	4.1
Co-operative	10	3.9	9	3.5	19	7.4
Canada	231	15.9	155	10.7	386	26.6

1. Costs associated with care, commercial and non-residential facilities have been removed from total project costs to ensure comparability.

Source: CMHC Section 56.1 Administrative Data

TABLE 4.2

SECTION 56.1 PROJECTS WITH UNIT SIZES GREATER THAN MAXIMUM SIZE GUIDELINES BY PROGRAM TYPE AND PROVINCE

	Private N/P		Public Provincial N/P		Public Municipal N/P		Co-op		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Newfoundland	2	33.3	-	-	-	-	-	-	2	33.3
P.E.I.	2	33.3	-	-	-	-	-	-	2	33.3
Nova Scotia	0	0	24	20.3	0	0	13	54.2	37	23.7
New Brunswick	5	21.7	-	-	-	-	1	100.0	6	25.0
Quebec	33	40.7	97	89.0	0	0	19	48.7	149	62.3
Ontario	63	46.0	-	-	14	63.6	28	57.1	105	50.5
Manitoba	20	41.6	-	-	-	-	0	0	20	40.8
Saskatchewan	11	28.2	14	23.0	1	50.0	1	100.0	27	26.2
Alberta	9	26.5	-	-	12	80.0	3	75.0	24	45.3
B.C.	17	26.6	-	-	4	66.7	13	86.7	34	40.0
N.W.T.	-	-	-	-	-	-	-	-	-	-
Yukon	-	-	-	-	-	-	-	-	-	-
Canada	162	36.1	135	46.9	31	64.6	78	58.0	406	43.8

1.(-) denotes no projects of this type, for which unit size data are available.

Source: CMHC Section 56.1 Administrative Data

Table 4.3 illustrates the relationship between Section 56.1 unit sizes and the "modest housing" unit sizes by project type and by province. Senior citizen projects have the highest incidence (63.3 percent) of units greater than the maximum sizes. This may be explained by the fact that maximum sizes contained in the guidelines for senior citizen projects are smaller than those for family projects and some provinces, notably Quebec, feel that this is discriminatory. Thus groups may be encouraged to build seniors projects with the same unit sizes as those used in family projects.

It has been argued that larger sized units are most likely to be found in existing projects where groups have less control over size. In fact, if project costs fall under the Maximum Unit Price, it is considered an advantage to have larger sized units as they are more marketable. However, administrative data show that new projects have a higher incidence of units greater than the maximum sizes than do existing projects (48.3 percent compared with 41.5 percent). New projects also account for 67 percent of the projects which have units over the maximum size criteria.

To summarize, the findings on modest housing have shown that 56 percent of Section 56.1 projects are modest in terms of unit size and 84 percent are modest in terms of unit cost. Private non-profit projects have the most modest projects in terms of unit size, while private Native and cooperative projects are most modest using the criterion of unit cost.

2. Appropriate Housing

The second concept in this Section 56.1 objective is that of appropriate housing. For housing to be appropriate, it should meet physical space and design criteria, as well as the needs of the occupants. In order to evaluate the achievement of this part of the objective, criteria for appropriate housing have been developed and are used to measure Section 56.1 housing projects. These criteria are arbitrary, insofar as they are not covered by program guidelines, but the range of indicators used permits a reasonable assessment of the extent to which the housing provided is appropriate.

TABLE 4.3

SECTION 56.1 PROJECTS WITH UNIT SIZES GREATER THAN MAXIMUM SIZE GUIDELINES BY
PROJECT TYPE AND PROVINCE

	Family		Senior		Special Purpose		Handicapped		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Newfoundland	-	-	1	20.0	1	100.0	-	-	2	33.3
P.E.I.	-	-	-	-	1	20.0	1	100.0	2	33.3
Nova Scotia	37	25.5	-	-	-	-	-	-	37	23.7
New Brunswick	2	28.6	4	23.5	-	-	-	-	6	25.0
Quebec	43	36.7	107	89.9	-	-	-	-	150	62.8
Ontario	71	52.6	32	61.5	2	10.0	-	-	105	50.5
Manitoba	6	46.2	14	48.3	-	-	-	-	20	40.8
Saskatchewan	19	22.9	7	63.6	1	12.5	-	-	27	26.2
Alberta	22	75.9	1	100.0	1	6.3	-	-	24	45.3
B.C.	25	75.8	8	20.0	1	8.3	-	-	34	40.0
N.W.T.	-	-	-	-	-	-	-	-	-	-
Yukon	-	-	-	-	-	-	-	-	-	-
Canada	225	40.0	174	63.3	7	8.8	1	8.3	407	43.8

Source: CMHC Section 56.1 Administrative Data

The first criterion to be used in assessing appropriate housing is a measure of crowding. To derive this criterion, provincial guidelines as well as those of the United States Department of Housing and Urban Development (HUD) have been reviewed. These, as well as CMHC criteria for measuring overcrowding, suggest the following guidelines:

- a) The number of rooms should be greater than or equal to the number of individuals in the household. All rooms, excluding bathrooms and hallways, are included.
- b) The number of persons per bedroom should not exceed two.

The inverse of crowding, that is, underutilization of space, is also an indicator of appropriate housing. To measure this aspect, the incidence of units with more bedrooms than occupants is examined.

Finally, occupant views of the adequacy of space are used as a measure of this criterion.

The second criterion for appropriate housing deals with the physical condition of the dwelling. For all dwellings newly constructed under the programs, CMHC Residential Standards are used to ensure certain minimum requirements for physical condition. In addition, housing which is acquired or rehabilitated through the programs is required to meet CMHC Standards for Existing Housing. Inspectors carry out compliance inspections throughout the course of the construction or rehabilitation work as well as final inspections to ensure adherence to these standards. While it would appear that a sufficient mechanism is in place to promote adequate physical condition of dwellings, occupants and project managers were requested to provide their assessment of the need for repairs¹, as well as ratings of the interior and exterior condition of the dwellings. Thus to measure this second criterion, the identification of a need for major repairs and of good or excellent physical condition are used as indicators of appropriate housing.

1. The question used to obtain information on the need for repairs has been extensively pre-tested in a pilot study of rehabilitation need and was shown to provide estimates of housing condition relatively comparable to those given by building experts. (See Ekos Research Associates, "Pilot Study of Physical House Condition and Rehabilitation Need", October 1980).

The third criterion for appropriate housing deals with the suitability of housing for the occupants. The following measures of suitability rely on assessments of project managers and occupants of several features related to their projects. They cover a range of factors which are likely to influence the extent to which housing is appropriate:

- a) occupant satisfaction with projects;
- b) occupant intentions to move;
- c) occupant satisfaction with location;
- d) the presence or absence of facilities in the project or neighbourhood as well as their accessibility and quality;
- e) ratings of neighbourhoods;
- f) the presence or absence of special design features for those with special needs; and
- g) leasing arrangements for units.

(a) Section 56.1 as Appropriate Housing

The first appropriate housing criterion relates to the degree of crowding in each dwelling unit. Table 4.4 identifies the number and proportion of dwelling units that have more than one person per room. On an overall basis, only 2.5 percent of the dwelling units surveyed contained more than one person per room. Further analysis of this space criterion has shown that 100 percent of the senior citizens projects have sufficient space, while 96 percent of family projects do as well. Those situations where there was a higher incidence of inadequate space tended to occur, as would be expected, in larger households with more than six persons. These households, however, make up a relatively small proportion (3 percent) of the total client population.

TABLE 4.4

SECTION 56.1 DWELLING UNITS¹ WITH
MORE THAN ONE PERSON PER ROOM

<u>No. of Rooms in Dwelling Unit</u>	<u>Percent of Units with More Than One Person Per Room</u>
	%
1	7.9
2	3.1
3	0.1
4	2.2
5	4.8
6	1.3
7	0
8	0
Total	<hr/> 2.5

1. Self-contained units only.

Source: Section 56.1 Occupant Survey

Using the criterion of number of persons per bedroom produces similar findings. On an overall basis, the average number of persons per bedroom was 1.13. Family units were slightly higher at 1.16 persons per bedroom than were senior citizen units at 1.05. Only one percent of dwelling units were found to contain more than two persons per bedroom.

The second concept of appropriate housing is the inverse of crowding, that is, over-consumption of housing. To examine this issue, the number of dwelling units containing more bedrooms than occupants has been identified. Table 4.5 shows the proportion of households residing in units where the number of bedrooms exceeds the number of occupants. A total of 15 percent of Section 56.1 units have more bedrooms than occupants. By program type, public non-profits have the highest incidence of units with more bedrooms than occupants (29 percent) while private non-profits have the lowest proportion (12 percent).

Further analysis of this phenomenon has shown that the greatest incidence of overconsumption occurs among households with no children in the 55-64 year-old age category. Occupants paying the lower end of market rent are more likely to occupy units with additional bedrooms (17 percent), but 13 percent of rent-to-income households also have units with more bedrooms than occupants.

TABLE 4.5

PROPORTION OF HOUSEHOLDS RESIDING IN UNITS¹
WHERE THE NUMBER OF BEDROOMS EXCEEDS THE NUMBER OF
OCCUPANTS IN SECTION 56.1 PROJECTS

<u>Project Type</u>	<u>Units with More Bedrooms than Occupants</u>	
	<u>No.</u>	<u>%</u>
Family	1965	18.1
Seniors	148	4.8
Total	2113	15.2

1. Self-contained units only.

Source: Section 56.1 Occupant Survey.

As a final indicator of the appropriateness of space provided, occupants were asked to rate their satisfaction with it. A total of 78 percent of the occupants surveyed expressed satisfaction with the amount of space provided in their units. This is approximately 20 percent lower than the proportion with appropriate space using the persons per room criterion.

In general with respect to the physical space provided by the Section 56.1 units, it can be concluded that appropriate housing is being provided. Objective measures show that at most 2.5 percent of the units are overcrowded. With respect to the over-consumption of housing, 15 percent of the units contain more bedrooms than the number of occupants. It is evident that occupant assessments of space requirements do not coincide with these objective measures, although the amount of space was rated as satisfactory by 78 percent of the occupants.

The second criterion for appropriate housing relates to the physical condition of dwelling units. Project managers and occupants were asked to rate the need for repair in their dwellings. The results are shown in Table 4.6.

TABLE 4.6

ASSESSMENT OF THE NEED FOR REPAIR

	<u>Project Managers</u>			<u>Occupants</u>		
	<u>New Units</u>	<u>Existing Units</u>	<u>Total</u>	<u>New Units</u>	<u>Existing Units</u>	<u>Total</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Major Repair	3.6	11.9	9.3	2.8	12.7	8.1
Minor Repair	20.0	26.8	24.7	17.1	28.2	23.0
Regular Maintenance	76.4	61.3	66.0	80.1	59.1	68.9

Source: Section 56.1 Project Manager and Occupant Surveys.

There was relatively close correspondence between the ratings given by occupants and those given by project managers. As would be expected, the need for repair is greater in existing units than in new. In total, 9.3 percent of the project managers and 8.1 percent of the occupants identified a need for major repairs.

Project managers and occupants were also asked to give their assessments of the physical condition, both interior and exterior of the projects. Only 8 percent of the dwellings were rated by project managers as being in poor or fair condition on the inside, while 12 percent received this rating for the exterior. Occupants were slightly more critical, with 12 percent rating the interior of the projects as fair or poor and 14 percent assigning this rating to the exterior. Generally, this evidence suggests that in terms of physical condition, Section 56.1 projects appear to be appropriate.

Adequacy of Replacement Reserves

Non-profit and cooperative housing projects could face substantial cash outlays in future years for repair and replacement of major components of the housing structures. In order to cover these future costs, replacement reserve funds are required to be maintained by non-profit groups and cooperatives. To determine the annual amount to be set aside, the current replacement cost of each component included is divided by its remaining economic life.

In the Section 56.1 Project Managers Survey, managers were asked if they felt that replacement reserves would be adequate to meet future needs. Over 65 per cent of managers indicated that they felt replacement reserves would be adequate. Managers of new projects more frequently identified the reserves as adequate (80 percent) than did managers in existing buildings (60 percent).

There was also a close relationship between ratings of the need for repairs in projects and managers' perceptions of the adequacy of replacement reserves. For projects which were not considered to require repairs, 76 percent of managers indicated that replacement reserves were adequate. Where minor repairs were deemed necessary, 55 percent of managers identified replacement reserves as adequate, while for projects needing major repairs, this proportion declined to 38 percent.

Using the data provided through annual project data reports, it has been estimated that replacement funds are set aside at the rate of \$250/unit per year. At this rate it is estimated that about \$6,000,000 had been set aside by the end of 1981. Assuming that non-profit and cooperative

units continue to be occupied at the present rate, in five years it is estimated that these funds will grow to \$150,000,000 or an average of \$1,300 per unit. The Cooperative Housing Foundation has estimated that in five years there would be \$50,000,000 in replacement reserves in the cooperative housing sector.

Replacement reserves are not normally established in the private sector. However, non-profits and cooperatives do not have the same resource or income capabilities as a private sector project to offset future repair and maintenance costs and therefore replacement reserve funds have been established. Generally, project managers are satisfied that these reserve funds are adequate especially for newly-constructed projects and projects which at present do not require major repairs. Some concern does exist in existing projects and projects which now require major repairs.

The third criterion for appropriate housing deals with the extent to which the projects and dwelling units meet the needs of occupants.

In a general sense, occupants of the projects are very satisfied with their accommodation. More than three-quarters of the clients surveyed indicated that they were satisfied with their units, with 33 percent responding that they were completely satisfied (a score of 11 on an 11-point scale). Of those clients who stated intentions to move, the lack of facilities in either the project as a whole or their individual units was given as a reason in only 1 percent of the cases.

The location of projects was rated highly by occupants as well, with 78 percent indicating that it was good. Occupants were also asked to give their views on the accessibility and quality of facilities in their projects and neighbourhoods. In general, over 75 percent of the occupants who use these facilities found them to be convenient. The least accessible were day care for seniors and day care for children. The quality of facilities was also found to be good, with over 76 percent of the occupants rating them positively.

Project manager responses generally supported those of the occupants. Facilities were stated to be available in over 80 percent of the projects. However, the quality of the facilities received a slightly lower rating, with an average of 65 percent of the project managers responding positively. The quality of parks, recreational facilities, playgrounds and day care for children were given the lowest rating by project managers, particularly in family projects.

In rating the neighbourhood as a whole, 82 percent of the project managers and 79 percent of the occupants responded positively. The one problem identified was with respect to safety from crime. Only 66 percent of project managers and 50 percent of occupants considered their neighbourhoods safe. While precisely comparable data on views toward crime among the general population have not been obtained, crime statistics show that total criminal code offences in Canada increased by 31.1 percent between 1977 and 1981.² A Gallup poll taken in January, 1982 reported that 25 percent of Canadians had been a victim of crime in the past year. Finally, as far back as 1972, a Gallup poll showed that 63 percent of Canadians considered their neighbourhoods to be less safe than they had been five years earlier.³ Thus, this concern with crime likely reflects the situation generally rather than a particular problem with neighbourhoods in which Section 56.1 projects are located.

A further measure of appropriate housing is the extent to which special design features are provided for occupants requiring them. Most senior citizens and disabled persons with special needs appear to be residing in suitable accommodation. Project managers indicated that 11.6 percent of disabled persons and 5.9 percent of senior citizens were occupying units that were not specifically designed to meet their needs. This is supported by the views of disabled and elderly occupants, 76.5 percent of whom indicated satisfaction with their accommodation.

2. Statistics Canada. Juristat Service Bulletin, August 1982.

3. Obtained by telephone from Gallup poll service.

The final indicator of appropriate housing is the extent to which occupants are satisfied with the length of the lease offered. Program guidelines provide for a maximum twelve-month lease. This is intended to ensure that income reviews for income-tested occupants and adjustments to the lower end of market rent for non-income-tested occupants are carried out on an annual basis. Twenty-three per cent of the occupants surveyed indicated that leases should be longer. Approximately the same proportions of non-income-tested and income-tested respondents identified a preference for longer leases.

(b) Summary on Appropriate Housing

Numerous measures have been taken of the extent to which Section 56.1 housing is appropriate. Findings are summarized in Chart 4.1 for each of the indicators. In almost all respects, Section 56.1 projects have been shown to be appropriate, with positive ratings in over 80 percent of the cases examined. In some instances where slightly lower ratings were obtained, for example with respect to location and facilities in the neighbourhood, the features being rated are not within the total control of the programs. Location choices may be dictated by cost considerations and the availability of sites. Thus while project groups may endeavour to locate projects in areas which are accessible and well-served by facilities and amenities, this cannot always be achieved within the constraints imposed by cost and availability. Given these considerations, the findings indicate that Section 56.1 projects have performed very well in meeting the needs of occupants.

3. Low and Moderate Income

The non-profit and cooperative programs are intended to focus on the housing needs of low and moderate income families and individuals. Because a definition of low and moderate income is not provided in the program guidelines, for evaluation purposes, three alternative criteria are used: average income of Canadian renter households; median income of renters; and the second income quintile boundary for renter households. Households with income which is less than criterion income values are considered to be low and moderate income households. To assess the extent to which the programs serve the intended target group, client income data from the survey of occupants of Section 56.1 projects are compared to these criteria.

Chart 4.1

SUMMARY OF INDICATORS ON APPROPRIATE HOUSING

<u>Indicator</u>	<u>Findings</u>	
<u>Appropriateness of Space</u>		
<u>Crowding</u>		
No. of rooms greater than or equal to no. of occupants.		98%
No. of persons per bedroom not exceeding two.		99%
<u>Overconsumption</u>		
No. of bedrooms exceeding no. of occupants.		15%
<u>Physical Condition</u>	<u>Project Managers</u>	<u>Occupants</u>
Dwelling not requiring major repairs.	91%	92%
Assessment of good to excellent interior condition.	92%	88%
Assessment of good to excellent exterior condition.	88%	86%
<u>Meeting Occupant Needs</u>		
General occupant satisfaction (rating higher than 6 on an 11-point scale).		77%
Satisfaction with location		78%
Convenience of facilities	80%	75%
Quality of facilities	65%	76%
Positive rating of neighbourhood	82%	79%
Elderly in specially-designed units	94%	
Disabled in specially-designed units	88%	
Satisfied with length of lease		77%

Renter households, rather than owners or all households, have been used to establish the criteria for low and moderate income. The objective of the Section 56.1 programs indicates that the intended clientele are low and moderate income families and individuals, without qualification regarding tenure. Yet, the programs provide only rental accommodation or quasi-rental accommodation in the case of the cooperative program where the element of common ownership of projects exists. As such, it is evident that Section 56.1 is aimed at renter households which, as a group, experience more severe housing problems and have lower incomes than owners. In the following sections, therefore, the income of Section 56.1 households is examined mainly in relation to the income of renter households only.

Analysis of the extent to which the programs are targetted to low and moderate income households is carried out initially at the national level with households of all types and sizes grouped together. No account is taken of variation in the income criteria or in Section 56.1 household income by region or household composition and size. In order to take account of this variability, a subsequent section examines the extent to which the programs serve low and moderate income households by region, age of household head, household type and size. Finally, the incidence of low and moderate income is examined with respect to the different sources of income and occupations of Section 56.1 households.

Values for the low and moderate income criteria are derived from the 1980 Household Income, Facilities and Equipment (HIFE) data file produced by Statistics Canada. The HIFE data file includes more than 35,000 responses from a survey of households across Canada. Household income data on this file have been updated to 1981 using changes in the index of industrial wages.

The HIFE income estimates used as criteria for low and moderate income apply to renter households in self-contained units only. Occupants of Section 56.1 projects, on the other hand, may reside in self-contained units or may occupy hostel beds. Inclusion of hostel bed occupants in estimates of Section 56.1 household income would result in an inconsistency when comparisons are made with the national income values. Also, if hostel bed occupants were to be included, comparisons among program types would be distorted. This is because most of this type of accommodation is provided through the private non-profit program. Moreover, hostel beds represent less than one-fifth of overall Section 56.1 activity.⁴ For these reasons, the income data in the following sections pertain to Section 56.1 households in self-contained units only.

Finally, in the following sections, household income data are presented separately for provincial non-profit projects in Quebec. As indicated previously, these projects are operated differently from other Section 56.1 projects and, hence, are treated separately in the analysis.

(a) National Criteria

(i) Average Income

Perhaps the most widely used criterion for low and moderate income is income which is less than average. Table 4.7 presents data on the average income of Section 56.1 households in relation to the average income of all renter households.

The average income of renter households in Canada is much lower than that for owner households or for all households combined together. Because the Section 56.1 programs focus on renter households, the average income of Section 56.1 households is expected to be close to the average for all Canadian renters. This is illustrated in Table

4. About 16 percent of total Section 56.1 accommodation (units and beds) consists of hostel beds, divided equally between senior citizen and special purpose projects. Hostel beds account for over 90 percent of accommodation in special purpose projects, which have been excluded from the study because of low response rates.

TABLE 4.7

AVERAGE INCOME OF SECTION 56.1 HOUSEHOLDS - 1981¹

	<u>Average Income \$</u>	<u>Percentage of Canadian Average Income for Renters %</u>	<u>Percentage of Section 56.1 Households with Income Greater than Canadian Average for Renters %</u>
<u>All Households (Canada)</u>	26,824	-	-
Owners	30,518	-	-
Renters	20,226	-	-
<u>Section 56.1 Households</u>	16,980	84.0	31.5
<u>By Project Type:</u>			
Family	18,916	93.5	38.6
Senior Citizen	9,579	47.4	4.1
<u>By Program Type:</u>			
Public Non-Profit	19,619	97.0	38.6
Private Non-Profit	14,713	72.7	22.4
Cooperatives	20,220	100.0	45.8

1. Includes Households in self-contained units only.

Source: HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

4.7 which shows that the average income of all Section 56.1 households is 84 percent of the average income of all renter households, but amounts to only 63 percent of the average for all households combined.

Occupants of family projects had the highest average income, amounting to 94 percent of the average for all renter households. In senior citizen projects, household income was about one-half that in family projects and amounted to less than one-half the average income for all renters. The high average income in family projects relative to senior citizen projects is to be expected. Family households are more likely to have one or more wage earners and they are more likely to be in age groups with higher earning capacity. Senior citizen households, on the other hand, are primarily dependent on pension income and old age security.

The lower average income of Section 56.1 households in relation to renter households suggests that the programs are achieving the objective of serving low and moderate income families and individuals, according to this criterion. An indication of the extent to which the objective is being achieved can be obtained by examining the percentage of Section 56.1 households with income greater than the criterion value (Table 4.7). Thirty-two percent of all Section 56.1 households had income greater than the average for all renter households. This means that 68.5 percent of the program clientele are in the intended low and moderate income target group. However, family projects have a higher percentage (39 percent) of households with above average income, while only 4 percent of households in senior citizen projects have income greater than the average for all renter households.

There are also considerable differences in household income by program type. The average income of households served through the public non-profit and cooperative programs is much higher than that for the private non-profit program. This is partly due to the higher proportion of family households served by the public non-profit and cooperative programs. About 85 percent of the self-contained units provided through the public non-profit programs and 95 percent through the

cooperative program are family units. Under the private non-profit program, only 70 percent of self-contained units are in family projects with the remainder in senior citizen projects where households have much lower average incomes.

However, the lower average income of private non-profit households is not entirely due to the presence of senior citizen households. The average income of private non-profit households in family projects is lower than the average for family projects under the public non-profit and cooperative programs.

<u>Program</u>	<u>Average Income of Households in Family Projects</u> \$
Public Non-Profit	20,491
Private Non-Profit	17,209
Cooperative	20,564

The average income of public non-profit and cooperative households in self-contained units is almost identical to that of renter households generally. In contrast, the average income of private non-profit households amounted to only 71 percent of the average for renter households.

The percentage of households with income greater than the average renter household income also varies among the individual program types. The private non-profit program is most effective in serving the target population with only 22 percent of households having income greater than the average renter household income. For the public non-profit program, about 39 percent of households have income greater than the average for all renter households and for cooperative program households, the corresponding figure is 46 percent. As indicated above, the cooperative

and public non-profit programs serve a higher percentage of family households than the private non-profit program.

(ii) Median Income

Another criterion for low and moderate income is income which falls below the median income for Canadian households. This criterion is often preferred to average income since it more accurately reflects the distribution of income. The median income for rental households is estimated to be \$17,920 in 1981 (Table 4.8). It is the income level below which 50 percent of all renter households lie. The median income for renter households is lower than the average, reflecting the positively skewed shape of the income distribution.

The median income of Section 56.1 households was about \$15,000 in 1981, or 84 percent of the median for all renter households. Examination of Section 56.1 median incomes by project and program type in relation to the median income for renter households reveals a similar pattern to that described above for average income.

With regard to the extent to which Section 56.1 serves low and moderate income households, the pattern is similar to that described for average income. However, because the median income is lower than the average, the percentage of Section 56.1 households with income greater than the median is higher than the percentage with income greater than the average. In effect, the median income is a more stringent criterion for low and moderate income than the average.

About 57 percent of Section 56.1 households are low and moderate income using the median income criterion. In family projects, less than one-half of all households fall into the target group whereas more than 90 percent of households in senior citizen projects are low and moderate income. Among program types, the private non-profit program is most effective in serving the target group while less than one-half of cooperative and public non-profit households are low and moderate income.

TABLE 4.8

MEDIAN INCOME OF SECTION 56.1 HOUSEHOLDS - 1981¹

	<u>Median Income</u> <u>\$</u>	<u>Median Income</u> <u>of Section 56.1</u> <u>Households as a</u> <u>Percent of the</u> <u>Canadian Median</u> <u>Income for</u> <u>Renters</u> <u>%</u>	<u>Percentage of</u> <u>Section 56.1</u> <u>Households</u> <u>with Income</u> <u>Greater than</u> <u>Canadian Median</u> <u>Income for Renters</u> <u>%</u>
<u>All Renter Households (Canada)</u>	17,920	-	-
<u>Section 56.1 Households</u>	15,011	83.8	42.6
<u>By Project Type:</u>			
Family	17,973	100.3	51.9
Senior Citizen	8,035	44.8	7.1
<u>By Project Type:</u>			
Public Non-Profit	17,995	100.4	54.6
Private Non-Profit	11,988	66.9	31.9
Cooperatives	20,003	111.6	58.5

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1. Includes households in self-contained units only.

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

(iii) Income Quintiles

A third criterion for low and moderate income is whether households fall into the two lowest income quintiles. Income quintiles divide the population of Canadian households into five groups of equal size, based on income. The estimated income boundaries separating the quintiles for all renter households in 1981 are as follows:

<u>Quintile</u>	<u>Renter Households Boundary</u> \$
1st	7,753
2nd	14,625
3rd	21,500
4th	30,350

Renter households with incomes equal to or less than \$7,753 fall into the first or lowest quintile and represent 20 percent of all households. Other quintiles are interpreted in a similar manner. Assuming that the first two quintiles represent low and moderate income households, the criterion household income value is \$14,625 for renter households. Section 56.1 households with income equal to or less than \$14,625 would be considered low and moderate income in relation to all renter households.

About half of the Section 56.1 households fall into the first and second quintiles and, hence, are low and moderate income households according to this criterion (Table 4.9). As with the average and median income criteria, a much higher percentage of households in senior citizen projects (87 percent) are low and moderate income, while less than half of the households in family projects fall into the first and second quintiles.

TABLE 4.9

PERCENTAGE OF SECTION 56.1 HOUSEHOLDS¹ IN THE FIRST AND
SECOND INCOME QUINTILES FOR RENTER HOUSEHOLDS, BY PROJECT AND
PROGRAM TYPE, 1981

	Percentage of Section 56.1 Households in 1st and 2nd Quintiles for Renters
	<u>%</u>
<u>Section 56.1 Households</u>	46.7
By Project Type:	
Family	36.2
Senior Citizen	87.0
By Program Type:	
Public Non-Profit	28.6
Private Non-Profit	58.7
Cooperative	31.3

1. Includes households in self-contained units only.

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

Again, a much higher percentage (59 percent) of households served through the private non-profit program falls into the target group, while the cooperative and public non-profit programs serve low and moderate income households to a lesser degree. However, in this case, the cooperative program ranks slightly ahead of the public non-profit program in terms of percentage of households in the target group.

(iv) Quebec Provincial Projects

Data on low and moderate income households in projects operated by the Province of Quebec and designated to receive Section 56.1 assistance are presented in Table 4.10. Virtually all households are low and moderate income, even under the most stringent criterion. In addition, differences between family and senior citizen projects regarding the percentage of low and moderate income households are minimal. These projects are operated as public housing projects rather than Section 56.1 non-profit projects and this explains their success in focussing on the low and moderate income target group.

(v) Summary

The extent to which the Section 56.1 programs serve low and moderate income families and individuals has been examined using three different criteria: average income; median income; and the boundary for the second quintile. These criteria have been defined using data for all Canadian renter households. The values for these criteria and the extent to which the programs have served low and moderate income households are summarized in Table 4.11.

The extent to which the programs have been successful in serving low and moderate income households depends greatly on the criterion used. Using the average income of renter households, close to 70 percent of Section 56.1 households are low and moderate income.

TABLE 4.10

HOUSEHOLDS IN QUEBEC PROVINCIAL PROJECTS¹ WITH LOW AND MODERATE
INCOME ACCORDING TO VARIOUS CRITERIA, 1981

<u>Criterion</u>	<u>Value</u> \$	<u>Percentage of Households with Low and Moderate Income</u>		
		<u>Family Projects</u> %	<u>Sr. Cit. Projects</u> %	<u>Family & Sr. Cit.</u> %
Average Income: Renter Households	20,226	100.0	99.4	99.5
Median Income: Renter Households	17,920	100.0	98.8	99.0
2nd Quintile Boundary: Renter Households	14,625	96.0	98.1	97.8

1. Projects designated to receive Section 56.1 assistance.
All units are self-contained.

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

TABLE 4.11

SECTION 56.1 HOUSEHOLDS¹ WITH LOW AND MODERATE INCOME
ACCORDING TO VARIOUS CRITERIA, 1981

<u>Criterion</u>	<u>Value</u> \$	Percentage of Section 56.1 Households with Low and Moderate Income %
Average Income: Renter Households	20,226	68.5
Median Income: Renter Households	17,920	57.4
2nd Quintile Boundary: Renter Households	14,625	46.7

1. Includes households in self-contained units only.

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

However, using the second quintile boundary, fewer than one-half of the households in Section 56.1 self-contained units would be classified as low and moderate income. Under this most stringent criterion, the programs appear to be serving the general renter population rather than focussing on low and moderate income households. This is particularly the case for public non-profit and cooperative programs which have a lower than average percentage of low and moderate income households. These programs primarily serve family households which have higher incomes than senior citizen households. In contrast, the private non-profit program, which serves a higher proportion of senior citizen households, serves a higher than average percentage of low and moderate income households. Even under the most stringent criterion, this program achieves some success in focussing on the target group, with six out of ten households in self-contained units classified as low and moderate income.

The extent to which the programs have served the target group can also be considered in terms of the incidence of low and moderate income among Section 56.1 households in relation to the incidence among all renter households. The data in Table 4.11 indicate that Section 56.1 programs serve proportionately more low and moderate income households than exist in the general population of renters. For example, while 50 percent of all renter households have less than the median income, 57 percent of Section 56.1 households are below the median. Similarly, while 40 percent of all renters fall into the first two income quintiles, 47 percent of all Section 56.1 households are in this category. In effect, the incidence of low and moderate income is greater, but not much greater, among Section 56.1 households than among renters in general. Indeed, among households served through the public non-profit and cooperative

programs, the incidence is less than for renter households generally. In contrast, a much higher incidence of low and moderate income is evident for the private non-profit program than for all renters.

Finally, it must be recognized that the programs operate under constraints which limit their ability to focus on the target group. The moderate success achieved in serving the target group has been accomplished in the context of a program design which reflects the unstated objective of achieving a mix of income levels among Section 56.1 households. Thus, the ability of the programs to focus on the target group is limited. The conflict between the low and moderate income objective and the objective of income mixing is examined in a subsequent section.

(b) Regional and Household Income

To this point, the extent to which the Section 56.1 programs focus on low and moderate income groups has been assessed at the national level, grouping households of all types together. However, the use of national values masks differences in the extent to which the programs serve low and moderate income households in different regions and of different age, composition and size. In order to provide a more precise indication of the low and moderate income nature of Section 56.1 households in self-contained units, these differences are examined using average income as the criterion.⁵

5. In order to reduce the length of this section only one criterion for low and moderate income is considered. Average income is used since it is easiest to calculate and interpret. However, readers should keep in mind that it is the least stringent of the three criteria.

(i) Household Income

In order to more accurately reflect differences among programs, average incomes of Section 56.1 households in different age categories and household types have been compared with the average incomes for comparable households in the general renter population. For example, incomes for family households in each of the programs are compared with the average renter income for family households.

Table 4.12 identifies the average income of public non-profit, private non-profit and cooperative households for two age categories and household types. This table shows results similar to those presented earlier, with lower average incomes for senior citizens and somewhat higher incomes for households with heads under the age of 65. In both cases, public non-profit and cooperative average incomes are about the same, while incomes of private non-profit residents are lower.

Compared with the average incomes of all renter households in the same age categories, public non-profit and cooperative household incomes are over 90 percent of the average income in each age category. Private non-profit households have incomes just over three-quarters of the average income for renters in the same age category.

When examined by household type, the general pattern is the same, although public non-profit incomes show more variation. Individuals in public non-profit projects have incomes which are 20 percent higher than the average income for individuals in the general renter population. Family households in public non-profit projects, on the other hand, have average incomes which are 86 percent of the average renter family income. For cooperatives and private non-profit projects, there is much less variation, with average incomes in cooperative projects again just over 90 percent of the average for both household types and private non-profit incomes approximately three-quarters of the average.

TABLE 4.12

SECTION 56.1 AVERAGE INCOMES¹ BY AGE
OF HEAD OF HOUSEHOLD AND TYPE OF FAMILY BY PROGRAM

	<u>Public Non-Profit</u>		<u>Private Non-Profit</u>		<u>Cooperative</u>	
	Average Income ($\$$)	Percentage of Average Income ²	Average Income ($\$$)	Percentage of Average Income ²	Average Income ($\$$)	Percentage of Average Income ²
Age of Household Head						
64 and under	20,469	94.4	17,320	79.9	20,988	96.8
65 and over	11,275	90.3	9,730	77.9	11,330	90.6
Family Type ³						
Individuals	18,589	119.8	11,723	75.6	14,536	93.7
Families	20,186	85.8	17,034	72.4	21,572	91.7

1. Self-contained units only.

2. Shows percent of average income of renter households for each age category or household type.

3. Family type is determined by the characteristics of the primary economic family in the household.

Source: Section 56.1 Occupant Survey.

HIFE 1980 Micro Data File and Projections by CMHC, see Note 3, Annex 6.

Table 4.13 identifies the proportion of households by program in each age and household type category with incomes greater than the comparable average renter income. Using the average income criterion, the proportions shown in the table represent those that would not be considered low and moderate income. For the two age categories, private non-profit projects again have the highest proportion of low and moderate income households. Cooperatives have fewer low and moderate income households with heads under the age of 65 than do public non-profit projects, but the reverse is true for those aged 65 and over.

By household type, it can be seen that cooperative projects have a lower proportion of low and moderate income family households than do public non-profit projects, but the latter have fewer than one-half of individual households which would be classed as low and moderate income. Private non-profit projects have an equal proportion of low and moderate income families and individual households, again with proportions higher than the other two program types.

(ii) Regional Income

Table 4.14 compares the average incomes of Section 56.1 households in two age categories by region with the average incomes for all renter households in those age groups in the same region. In all instances, Section 56.1 households had average incomes which were lower than their counterparts in the general renter population. For households headed by individuals under the age of 65, Section 56.1 incomes tended to be closer to the general renter averages than was the case in older households. This was particularly so in the Atlantic provinces and the Prairies, where Section 56.1 incomes were almost the same as those of the general renter population under the age of 65.

TABLE 4.13

PERCENTAGE OF SECTION 56.1 HOUSEHOLDS WITH INCOMES¹ GREATER
THAN THE AVERAGE INCOME OF RENTER HOUSEHOLDS BY AGE AND
HOUSEHOLD TYPE

	<u>Public</u> <u>Non-Profit</u> %	<u>Private</u> <u>Non-Profit</u> %	<u>Cooperative</u> %
Age of Head of Household			
0-64	38.1	28.9	45.3
65 +	39.1	18.6	26.9
Type of Household			
Individual	51.0	24.0	37.2
Families	31.6	24.2	42.4

1. Self-contained units only.

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

REGIONAL AVERAGE INCOME FOR SECTION 56.1 HOUSEHOLDS COMPARED
WITH REGIONAL AVERAGE INCOME FOR RENTER HOUSEHOLDS BY AGE OF
HOUSEHOLD HEAD

	<u>Age of Household Head</u>				Sec. 56.1 as a % of Renter Household Average Income \$	
	<u>64 and under</u>		<u>65 and over</u>			
	Sec. 56.1 Average Income \$	Renter Household Average Income \$	Sec. 56.1 Average Income \$	Renter Household Average Income \$		
Atlantic	17,957	18,287	98.2	10,402	11,367	91.5
Quebec	18,529	21,578	85.9	9,714	14,960	64.9
Ontario	19,362	22,000	88.0	10,365	11,584	89.5
Prairies	21,011	21,831	96.2	9,603	10,656	90.1
B.C.	17,013	22,500	75.6	7,594	11,545	65.8
All Regions	19,023	21,686	87.7	9,734	12,484	78.0

1 96 1

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

For elderly households (aged 65 and over), Section 56.1 incomes averaged 78 percent of those of the elderly renter population for all regions. In Quebec and British Columbia, the average incomes of Section 56.1 households were only 65 percent of the elderly renter average.

To determine the extent to which the programs are serving low and moderate income households in each region, the results using the combined regional/age of household head average income criterion are shown in Table 4.15. For all regions, 36 percent of households headed by persons under 65 had incomes higher than the average renter incomes for the same age and regional categories. The one region that is noticeably different is British Columbia, where only 21 percent of the Section 56.1 households had incomes above the comparable renter population averages.

Among the elderly, the programs serve a higher proportion of low and moderate income households, with only 22 percent over all regions having incomes higher than those of the comparable renter population. Quebec and British Columbia, in particular, appear to be targetting the programs to low and moderate income households, with only 13 and 15 percent respectively of Section 56.1 households having incomes higher than the renter population averages.

Regional average incomes for the renter population in two types of households - families and individuals - are shown in Table 4.16. Once again, in all instances the average incomes for Section 56.1 households are lower than the average renter population incomes for families and for individuals in each region. The most outstanding differentials occur in British Columbia where the average incomes for Section 56.1 individual households were less than one-half the average incomes of individuals in the general renter population, and for family households, Section 56.1 incomes were about two-thirds of the average family renter income.

TABLE 4.15

PERCENTAGE OF SECTION 56.1 HOUSEHOLDS WITH INCOME GREATER THAN
THE REGIONAL AVERAGE INCOME OF ALL RENTER HOUSEHOLDS BY AGE OF
HOUSEHOLD HEAD

	<u>Age of Household Head</u>	
	<u>64 and under</u> %	<u>65 and over</u> %
Atlantic	38.4	30.6
Quebec	36.1	12.6
Ontario	34.2	28.5
Prairies	40.4	28.4
B.C.	20.8	14.5
All Regions	35.8	22.1

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.

TABLE 4.14

REGIONAL AVERAGE INCOME FOR SECTION 56.1 HOUSEHOLDS COMPARED
WITH REGIONAL AVERAGE INCOME FOR RENTER HOUSEHOLDS BY AGE OF
HOUSEHOLD HEAD

	Age of Household Head				
	<u>64 and under</u>		<u>65 and over</u>		
	Sec. 56.1 Average Income \$	Renter Household Average Income \$	Sec. 56.1 as a % of Renter Household Average Income %	Sec. 56.1 Average Income \$	Sec. 56.1 as a % of Renter Household Average Income \$
Atlantic	17,957	18,287	98.2	10,402	91.5
Quebec	18,529	21,578	85.9	9,714	64.9
Ontario	19,362	22,000	88.0	10,365	89.5
Prairies	21,011	21,831	96.2	9,603	90.1
B.C.	17,013	22,500	75.6	7,594	65.8
All Regions	19,023	21,686	87.7	9,734	78.0

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Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

TABLE 4.16

REGIONAL AVERAGE INCOME FOR SECTION 56.1 HOUSEHOLDS COMPARED
WITH REGIONAL AVERAGE INCOME FOR RENTER HOUSEHOLDS BY HOUSEHOLD TYPE

	<u>Household Type</u>					
	<u>Individuals</u>			<u>Families</u>		
	Sec. 56.1	Renter	Sec. 56.1	Sec. 56.1	Renter	Sec. 56.1
	Average Income \$	Household Average Income \$	as a % of Renter Household Average Income %	Average Income \$	Household Average Income \$	of Renter Household Average Income %
Atlantic	10,238	13,556	75.5	17,208	19,075	90.2
Quebec	13,324	14,522	91.8	18,932	23,679	80.0
Ontario	12,141	15,627	77.7	19,425	23,721	81.9
Prairies	15,246	16,516	92.3	21,086	23,503	89.7
B.C.	7,168	16,450	43.6	16,652	25,324	65.8
All Regions	12,726	15,512	82.0	19,139	23,537	81.3

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

The extent to which low and moderate income households are served under the programs using this criterion is shown in Table 4.17. Over all regions, 30 percent of individual households and 32 percent of family households in the programs had incomes which were higher than average individual and family renter incomes in each region. With this criterion, British Columbia again has the highest proportion of low and moderate income households served through the programs.

Incomes may vary within regions as well as among regions, with generally higher average incomes occurring in larger cities. Unfortunately, neither the data for all renters (HIFE) nor the data for Section 56.1 households permit variations in income among different city-size categories to be fully accounted for in the analysis of low and moderate income. However, it is possible to distinguish between settlements of less than 100,000 population and those of 100,000 population and larger within each region. To examine the influence of settlement size on the incidence of low and moderate income, the incomes of Section 56.1 households in each of the two settlement-size categories in each region, were compared to the average income of all renters for the corresponding settlement-size category in each region.⁶

6. It would be preferable to examine intra-regional variations in income using a more detailed settlement-size breakdown. The average income of renters is likely to be higher in a large city of, say, 1 million population than in a small city of 100,000 population. Yet both cities would be included in the same settlement-size category (i.e. 100,000 population or greater), and the income criterion for determining low and moderate income would be the weighted average for renters in both cities. This could result in either an over-estimate or an under-estimate of the incidence of low and moderate income among Section 56.1 households. For example, Section 56.1 households in the large city may have incomes greater than the income criterion (i.e. the average for both small and large cities) but less than the average income of renters in their city. Such households would not be counted as low and moderate income within the broad settlement-size category even though they would be considered low and moderate income relative to renters in their own city. On the other hand, the reverse situation could occur for Section 56.1 households in the small city, thereby offsetting the "under-estimate" of low and moderate income in the large city. In effect, this offsetting tendency which is inherent in the use of averages is likely to ensure that the extent of under/over estimation is small.

TABLE 4.17

PERCENTAGE OF SECTION 56.1 HOUSEHOLDS WITH INCOME GREATER THAN
THE REGIONAL AVERAGE INCOME OF ALL RENTER HOUSEHOLDS BY
HOUSEHOLD TYPE

	<u>Household Type</u>	
	<u>Individuals</u>	<u>Families</u>
	%	%
Atlantic	17.8	36.4
Quebec	36.9	33.1
Ontario	23.1	31.9
Prairies	34.9	34.3
B.C.	6.1	14.6
All Regions	29.5	32.1

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.

When the results were aggregated over all regions, about 26 per cent of Section 56.1 households in the less than 100,000 population category and 34 per cent in the 100,000 and larger category, had incomes greater than the average for all renters in their region and settlement-size categories. Stated alternatively, the incidence of low and moderate income was lower in the larger settlement-size category. The overall incidence of low and moderate income among Section 56.1 households was 67.6 per cent after accounting for regional and city-size variations. This compares closely to the estimate (68.5 per cent) obtained using the national average income for renters as the criterion (see Table 4.11) and suggests that regional and city-size variations in income do not alter the estimates based on national criteria.

In general, incorporation of the household age/type and regional measures have little impact on the overall proportion of low and moderate income households served by the Section 56.1 programs. They do, however, reveal some major differences among regions in the extent to which the programs are serving the intended target group.

(c) Source of Income and Occupation

It is evident from previous sections that the incomes of Section 56.1 households and the effectiveness with which low and moderate income groups are served vary considerably by program type. The purpose of this section is to further examine this variation by considering the sources of income and occupational structure of Section 56.1 households.

The main source of income for residents in family projects and in senior citizen projects is shown for each program type in Table 4.18. In family projects, the major source of income in all programs is earnings from employment. In public non-profit projects, however, 90 percent of the occupants have earnings from employment, while this percentage is lower in the other two program types. Private non-profit projects have a higher proportion (12.8 percent) of residents in family projects receiving social assistance than do the other two programs.

TABLE 4.18

SOURCE OF INCOME FOR SECTION 56.1 HOUSEHOLDS BY PROJECT AND
PROGRAM TYPE

	<u>Family Projects</u>			<u>Senior Citizen Projects</u>		
	<u>Public</u> <u>N - P</u> <u>%</u>	<u>Private</u> <u>N - P</u> <u>%</u>	<u>Coop</u> <u>%</u>	<u>Public</u> <u>N - P</u> <u>%</u>	<u>Private</u> <u>N - P</u> <u>%</u>	<u>Coop</u> <u>%</u>
Employment	89.7	66.0	79.3	4.3	3.6	19.0
Private Retirement	0	0.5	0.6	2.3	1.3	1.8
Other Retirement	2.3	7.2	4.7	72.5	70.4	55.7
Investment or Savings	0.3	0.7	0.2	2.3	4.0	-
UIC	0.3	1.6	0.7	-	-	-
Social Assistance	2.6	12.8	6.3	2.0	1.0	3.8
Other	4.8	11.1	8.2	16.7	19.8	19.8
Total	100.0	99.9	100.0	100.1	100.1	100.1

Source: Section 56.1 Occupant Survey

In senior citizen projects, as would be expected, the main source of income is most frequently retirement income. The cooperative program has a much higher proportion of residents in senior citizen projects who still earn income from employment.

These findings with respect to income sources support previous results on the proportions of low and moderate income households served by each program type. Table 4.19 identifies the average income of Section 56.1 households according to their main source of income. It is apparent that average incomes derived through employment are considerably higher than those based on social assistance and other government sources. The high proportions of households in public non-profit and cooperative projects with earnings from employment support previous findings on the higher average incomes in these projects and the lower proportions of low and moderate income households served.

Table 4.19

INCOME BY SOURCE
SECTION 56.1 SELF-CONTAINED UNITS

<u>Main Source of Income</u>	<u>Percent of Households</u>	<u>Average Income</u>
	%	\$
Employment ¹	57.0	21,564
Retirement Income ²	22.0	8,832
Investment/Savings	1.3	*
Unemployment Insurance	0.8	*
Social Assistance	7.2	6,353
Other ³	11.7	12,473

1. Includes a small proportion of households which identified a combination of Unemployment Insurance as the main source of income.

2. Includes Old Age Security, Canada Pension Plan, Disability Pensions, Private Pensions and combinations of these with or without Investment Earnings.

3. This is comprised of those who reported more than 1 main source of income.

* Sample size is too small to permit estimates.

Source: Section 56.1 Occupant Survey.

For those households with employment as a main source of income, Table 4.20 identifies the occupation of the principal wage-earner. Blue-collar workers account for approximately 43 percent of employed occupants, while sales and clerical occupations were the next most common (21.6 percent). Managerial and professional workers comprised approximately 12 percent of the main wage-earners. These latter occupations, with the highest average incomes, have the highest incidence in cooperative housing and in public non-profit projects, providing additional explanation for higher average incomes in these projects.

Table 4.20

OCCUPATION OF THE PRINCIPAL WAGE-EARNER IN SECTION 56.1
SELF-CONTAINED UNITS WITH MAIN SOURCE OF INCOME FROM
EMPLOYMENT OR SELF-EMPLOYMENT

<u>Occupation</u>	<u>Percent of Households</u> %	<u>Average Income</u> \$
Blue Collar Worker:	43.4	
Technician	6.2	23,353
Skilled Crafts	10.9	22,720
Service Worker	7.0	18,981
Other Blue Collar	19.3	20,785
Sales, Clerical	21.6	22,889
Teacher, Accountant, Nurse	13.7	18,866
Supervisor, Foreman	5.8	24,962
Manager, Professional, Business Owner	12.4	25,671
No Main Wage Earner	3.0	15,029

Source: Section 56.1 Occupant Survey

(d) Summary

This section has assessed the extent to which the Non-Profit and Cooperative Housing programs are achieving the objective of housing low and moderate income households. No operational definition of "low and moderate income" has been established for the purpose of program delivery. As a result, to evaluate the achievement of this objective, a range of indicators representing alternative ways of defining low and moderate income has been used. Each of these indicators is based on measures pertaining to the general population of renter households - their average income, median income and income quintile distribution.

The initial analysis compared all Section 56.1 households to the general renter population, with the result that 68.5 percent were low and moderate income using the average renter income criterion, 57.4 percent using the median renter income criterion and 46.7 percent fall within the two bottom quintiles of the renter household income distribution.

Subsequent analysis refined this approach by comparing average incomes on a regional basis for particular household types and age groups. Despite this more sensitive approach, the overall findings of 29.5 percent of individuals and 32.1 percent of Section 56.1 family households with greater than average income were not inconsistent with the initial analysis. Similarly analysis on the basis of settlement size had little impact on the overall findings.

By program type, public non-profit and cooperative projects were found to be least effective in serving low and moderate income households. This is in part due to their greater concentration on family households, as opposed to senior citizens. However, when family households alone are considered, average incomes in private non-profit projects are still lower than those in public non-profits and cooperatives. This is supported by an examination of income sources and occupations which shows that private non-profits have a higher incidence of social assistance recipients and a lower incidence of professional and managerial occupations than do the other two program types.

4. Affordable Housing

As well as providing modest, appropriate housing, the Section 56.1 projects are intended to be affordable to the clientele they serve. Housing is said to be affordable if a household is required to spend no more than a specified percentage of gross income for shelter. In this section, affordability is determined using both 30 percent and 25 percent as criteria.⁷ Rent/occupancy charge includes heat and other costs such as water, electricity, stove, refrigerator and parking where applicable.

(a) Results

Data from the survey of Section 56.1 occupants indicate that 29.2 percent of program households were paying more than 30 percent of gross income for rent (Table 4.21).⁸ In comparison, the incidence of affordability problems among all renter households in Canada was only 21.6 percent in 1980. Using 25 percent as the criterion for determining affordability problems, the incidence of problems increases to 43.0 percent among Section 56.1 households compared to 29.8 percent

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7. While a 30 percent shelter-to-income ratio was used earlier to define affordability problems and core housing need, 25 percent is the ratio contained in the federal rental scale used in social housing programs. Both ratios are used in this section. In addition, the 35 per cent is used to indicate the extent of more serious problems and to illustrate the sensitivity of affordability problems to the assumed rent to income ratio.
 8. This may represent an over-estimate of affordability problems among Section 56.1 households due to two factors. First, incomes reported in the survey were for 1981 (to obtain a complete annual income figure) while rents were reported for 1982. Income data have been adjusted to 1982 based on an index of industrial wage rates; however, some households may have experienced higher than average rates of income growth. Second, there may be instances of under-reporting of incomes, frequently the case in mail-out surveys. Nevertheless, other surveys have also identified affordability problems in non-profit and cooperative housing. A survey of co-op members in Metro Toronto found 19 percent of households were paying more than 30 percent of their income for shelter. This is comparable to the 17 percent found for cooperative households in this study. A Vancouver study of non-profit and cooperative projects found that 58 percent of households in municipal non-profit projects pay more than 25 percent of their income. This is an even greater percentage than the 39 percent found in this study for public non-profit projects.

TABLE 4.21

SECTION 56.1 HOUSEHOLDS WITH AFFORDABILITY
PROBLEMS BY PROJECT TYPE AND TYPE OF PROGRAM

	<u>Incidence of Affordability Problems</u>		
	35 Percent Of Income	30 Percent Of Income	25 Percent Of Income
	<u>%</u>	<u>%</u>	<u>%</u>
<u>All Renter Households (CANADA)</u>	16.3	21.6	29.8
<u>All Section 56.1 Households</u>	20.6	29.2	43.0
By Project Type:			
Family	15.0	22.2	34.7
Senior Citizens	42.0	56.5	75.4
By Program Type:			
Public Non-Profit	13.2	20.7	38.9
Private Non-Profit	27.2	37.3	50.1
Cooperative	11.0	17.3	31.3

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC
See Note 3, Annex 6.

for all renter households. In effect, use of the 25 percent criterion increases the incidence of affordability problems among Section 56.1 households relative to the incidence of problems among all renter households.

Affordability problems were especially prevalent among occupants of senior citizen projects, where more than one-half of the occupants paid more than 30 percent of gross income for rent and over three-quarters paid more than 25 percent. However, about one quarter of all senior citizen occupants experiencing affordability problems at the 30 percent criterion, were paying between 30 and 35 percent of their income for housing. In effect, about 42 percent of all senior citizen occupants were experiencing more difficult affordability problems in the sense that they paid more than 35 percent of income for shelter.

The higher incidence of affordability problems among Section 56.1 households relative to all renter households is primarily due to the affordability problems experienced by households in senior citizen projects. While the incidence of affordability problems among households in family projects is close to that for all renter households, the incidence in senior citizen projects is more than double that experienced by all renter households. Moreover, the proportion of senior citizen households served by the programs (about 27 percent) is greater than their representation in the general population of renter households (about 14 percent). Consequently, their influence on the overall incidence of affordability problems among Section 56.1 households will be greater than their influence in the population at large. Apart from the proportionately greater representation of senior citizen households in Section 56.1 projects, the incidence of affordability problems is higher among these households than among senior citizen renter households generally (Table 4.22). This is primarily due to the low income of senior citizen households in Section 56.1 projects relative to senior citizen renter households generally.

The incidence of Section 56.1 households experiencing affordability problems is greater in projects generated through the private non-profit program (Table 4.21). This program provided 90 percent of all Section 56.1 senior citizen units

TABLE 4.22

DISTRIBUTION OF HOUSEHOLDS¹ AND INCIDENCE OF AFFORDABILITY PROBLEMS² FOR ALL RENTERS AND
SECTION 56.1 HOUSEHOLDS, BY AGE OF HOUSEHOLD HEAD

Age of Household Head	Distribution of Households		Incidence of Affordability Problems	
	All Renters %	Section 56.1 %	All Renters %	Section 56.1 %
24 and under	18.8	9.8	24.7	23.0
25 - 34	31.6	32.1	15.8	15.4
35 - 44	14.2	15.3	15.7	24.4
45 - 54	11.4	7.3	18.6	20.7
55 - 64	10.5	8.8	21.5	39.5
65 - 69	5.4	6.8	34.1	44.1
70 and over	8.1	20.0	37.6	60.2

Source: Section 56.1 Occupant Survey.

HIFE 1980 Micro Data File and Projections by CMHC.

See Notes 1 & 2, Annex 6.

1. Includes households in self-contained units only.
2. Households paying more than 30 percent of gross income for shelter.

occupied as of 1 June 1981. The incidence of affordability problems among public non-profit and cooperative households is considerably less than that for private non-profit households. Nevertheless, households served through the public non-profit program experience affordability problems to a greater extent than renter households generally using either the 25 percent or 30 percent criterion. In contrast, cooperative households experience affordability problems to a lesser extent than renters generally using the 30 percent criterion but have a higher incidence of affordability problems when the criterion is 25 percent.

To provide another indication of the affordability of Section 56.1 housing, occupants were asked whether their monthly rent was too high, about right or too low in relation to their monthly income. About 26 percent of occupants in self-contained units indicated that their rent was too high in relation to their income. This is consistent with the estimated incidence of affordability problems (29.2 percent) using the 30 percent criterion.

The evidence presented here on affordability problems experienced by Section 56.1 households indicates that much (close to 70 percent using the 30 percent criterion) of the accommodation provided is affordable to the occupants. However, it is also evident that Section 56.1 residents have a higher incidence of affordability problems than renter households generally. On the one hand, this is to be expected since the programs serve a clientele with average incomes which are generally lower than the averages for all types of renter households. On the other hand, the subsidy received by non-profit and cooperative projects is intended to permit groups to assist those with housing need. The availability of this assistance might be expected to reduce the incidence of affordability problems among Section 56.1 households generally. Data from the survey of Section 56.1 occupants indicate that while a significant proportion of Section 56.1 households are paying rent or occupancy charges on the basis of income, the assistance provided is insufficient to permit many of these households to pay 30

percent or less of their income for shelter (Table 4.23). About 37 percent of all Section 56.1 assisted households in self-contained units are paying shelter costs in excess of 30 percent of their income as opposed to 20 percent in unassisted units. In senior citizen projects the incidence of affordability problems is about 50 percent for assisted households but is even higher among unassisted households, reflecting the very low income of senior citizen households.

Information from the survey of project managers also suggests that affordability problems are present among both assisted and unassisted households. About 25 percent of the project managers surveyed indicated that one-half or more of the tenants paying market rents in their projects would qualify for rent-geared-to-income assistance if more subsidies were available. In addition, 23 percent of project managers indicated that one-half or more of the tenants already receiving rent-geared-to-income assistance would require more assistance to bring their payments in line with the rent-geared-to-income scale.

This is not to say that the assistance provided is ineffective. For a household which would otherwise be paying 40 percent of income for shelter, assistance which decreases the shelter to income ratio to 35 percent is indeed welcome. This is supported by the fact that not all households paying more than 30 percent of their incomes for shelter felt that their rents were too high (55 percent did not indicate that they were paying too much). The overall quality of dwellings and the lack of affordable alternatives may ease the perceived burden of excessive shelter expenses. Another possible explanation for the acceptability of high shelter costs is that households may choose to pay more for additional space in their dwellings. An analysis of affordability problems by the number of bedrooms per occupant has shown no difference among those with adequate space and those that are overconsuming housing. Thus the incidence of households with high shelter to income ratios appears to be independent of the amount of space provided by additional bedrooms in their dwellings.

TABLE 4.23

DISTRIBUTION OF ASSISTED AND UNASSISTED HOUSEHOLDS AND INCIDENCE OF AFFORDABILITY
PROBLEMS¹ AMONG SECTION 56.1 HOUSEHOLDS², BY PROJECT TYPE

		<u>Assisted (R-G-I) Households³</u>	<u>Unassisted Households</u>
Distribution of Section 56.1 <u>Households (percent)</u>			
By Project Type:			
Family			
Senior Citizen			
		41.4	58.6
Incidence of Affordability <u>Problems</u>			
By Project Type:			
Family			
Senior Citizen			
		40.1 46.5	59.9 53.5
		32.8	24.4
Family			
Senior Citizen			
		27.6 50.4	16.6 59.0

1. Households paying more than 30 percent of gross income for shelter.
2. Includes households in self-contained units only.
3. Assisted households are defined as those who indicated on the Occupant Survey that their rent or occupancy charge was determined on the basis of their household income.

Source: Section 56.1 Occupant Survey

It was indicated above that both assisted and unassisted households are experiencing affordability problems, although the incidence is higher among the former. The two mechanisms in place in the program to promote affordable housing are the federal rental scale for assisted households and the lower end of market rent concept for non-income-tested households. The findings on affordability among assisted households indicate that the federal scale, which establishes rents at 25 percent of income or less, is not being used. The federal scale is the minimum rent which can be charged under the program

Rather, it appears that the subsidy funds available for income-tested households, once the gap between economic and lower end of market rent has been bridged, are being spread over a large number of households with the result that many continue to experience affordability problems although they are receiving assistance through the programs.

(b) Lower End of Market Rent

To explain the incidence of affordability problems among non-income-tested households, an analysis of the lower end of market rents used in the programs has been conducted. This analysis used data from two sources - the survey of occupants and 1981 commitment forms - to identify lower end of market rents. The incomes required to support these rents at rent-to-income ratios of 25 and 30 percent were then compared with median renter incomes in each region for family and senior citizen households.

Results using data from the national survey are shown in Table 4.24. For family projects in all regions, the incomes required to support average lower end of market rents for fully serviced accommodations without incurring affordability problems are well below the median incomes of family renter households. This suggests that the lower end of market rent would not result in affordability problems for moderate income family households. For senior citizens, the results are very different. In all regions, the incomes required to support the average lower end of market rent at both a 25 and 30 percent shelter-to-income ratio are above the median income for senior citizen renter households. This is consistent with the findings on the incidence

Table 4.24

COMPARISON OF INCOMES REQUIRED TO SUPPORT SECTION 56.1 LOWER-END OF MARKET RENTS TO MEDIAN RENTER HOUSEHOLD INCOMES BY REGION BY TYPE (SURVEY DATA)

REGION	FAMILY				SENIORS			
	Income Required to Support Lower-End of Market Rents		Median Incomes of Family Renter Households ²		Income Required to Support Lower-End of Market Rents		Median Income of Senior Citizen Renter Households ³	
	Average ¹ Lower-End of Market Rents	Rent-to-Income Ratio of 25%	Rent-to-Income Ratio of 30%	($\$$)	Average ¹ Lower-End of Market Rents	Rent-to-Income Ratio of 25%	Rent-to-Income Ratio of 30%	($\$$)
Atlantic	352.86	16,913	14,094	($\$$) 16,325	275.52	13,225	11,021	($\$$) 8,525
Quebec	285.47	13,703	11,419	19,600	266.99	12,816	10,680	9,480
Ontario	383.05	18,386	15,322	20,220	272.09	13,060	10,884	8,070
Prairies	369.90	17,755	14,796	19,665	264.00	12,672	10,560	6,570
B.C.	423.64	20,355	16,946	19,735	319.80	15,350	12,792	8,235
TOTAL	317.03	15,217	12,681	19,525	274.22	13,163	10,969	8,582

1. Section 56.1 Occupant Survey

2. HIFE 1980 Micro Data File and Projections by CMHC based on median incomes in households with a household head under the age of 65.

3. HIFE 1980 Micro Data File and Projections by CMHC based on median incomes in households with a household head 65 years or over.

4. Family type is determined by the characteristics of the primary economic family in the household.

of affordability problems presented earlier which showed the proportion of senior citizen households with affordability problems to be approximately double that of family households.

Data from the 1981 commitment forms for Section 56.1 projects produce somewhat different results, as shown in Tables 4.25 and 4.26.

At 30 percent shelter-to-income ratios, family households at the median income level would be able to support the lower end of market rent in most cities, although not in Vancouver or Victoria for both types of accommodation shown. Using a 25 percent shelter-to-income ratio, households with median incomes would be unable to afford Section 56.1 ground-oriented accommodation or apartments in Toronto, Regina, Edmonton, Vancouver or Victoria.

The problem is, once again, most severe for senior citizens, where in all cases the lower end of market rent is unaffordable to the median income renter household. The situation in certain centres is exceptionally serious. In Toronto, for example, at a 30 percent rent-to-income ratio, the required income to support the lower end of market rent is double that of the regional median income of senior citizen renter households.

Differences in the results obtained using the two data sources are likely due to two reasons. One is the type of units for which the lower end of market rents were reported. Data from the national survey are for units which were committed in 1978, 1979 and 1980 and include existing as well as new units. The commitment data consist only of units approved in 1981 and have a high concentration of new units. The second is that the LEMR from the commitment data is an estimate as the actual rent would not be established until the project is completed and occupied. The survey data, on the other hand, is the actual rent charged. The implication of these results is that the lower end of market rents in recently-committed new units lead to affordability problems in several cities for low and moderate income family households and in all cases for senior citizens with incomes below the median renter income.

(c) Summary

This section has assessed the extent to which the Section 56.1 programs are achieving the objective of providing affordable housing. The measures of affordability used were a 25 percent and a 30 percent shelter-to-income ratio.

It was found that, using a 30 percent shelter-to-income ratio, Section 56.1 housing is affordable for most (78 percent) family households, but not for senior citizen households (44 percent). With 25 percent shelter-to-income ratios, the extent of unaffordable housing becomes even more severe (35 percent not affordable for families and 75 percent for seniors).

Affordability problems are faced to a greater extent among income-tested occupants (33 percent) than non-income-tested households (24 percent). This suggests that subsidy assistance is not being focussed on these households to permit rental payments in accordance with the federal rental scale, but rather is being spread over more households, giving them some assistance with their rental payments but not to a 25 percent of income level.

Affordability problems among non-income-tested occupants reflect the fact that the lower end of market rents are generally not affordable to senior citizens with incomes below median renter incomes. This is also true for family households in some centres living in recently-committed new units.

B. Housing at Minimum Cost

The second major objective of the Section 56.1 programs is to produce minimum cost housing by implementing appropriate cost controls. It was proposed earlier that this objective represents a "means" rather than a desired end. The desired ends were postulated to be to ensure modest housing and to minimize government cash requirements. A previous section has dealt with the concept of modest housing and the use of cost controls as a means of ensuring that housing produced is modest. This section, therefore, will focus on the extent to which minimum cost housing has been achieved in the context of reductions in government financial requirements.

Table 4.25

COMPARISON OF INCOMES REQUIRED TO SUPPORT SECTION 56.1 LOWER-END OF MARKET RENTS TO MEDIAN INCOMES
OF FAMILY RENTER HOUSEHOLDS BY REGION (1981 COMMITMENT DATA)

CMA	Family Apt. ¹ 2-Bedroom Ave. LEMR	Incomes Required to Support LEMR at Rent		Family Ground Oriented 3-Bedroom Ave. LEMR		Incomes Required to Support LEMR at Rent		Median Incomes ² of Family Renter Households by Region	
		25%	30%	25%	30%	25%	30%		
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
St. John's	340	16,320	13,600	385	18,480	15,400	16,325		
Halifax	308	14,784	12,320	433	20,784	17,320	16,325		
Saint John	441	21,168	17,640	325	15,600	13,000	16,325		
Quebec	273	13,104	10,920	319	15,312	12,760	19,600		
Hull	221	10,608	8,840	316	15,168	12,640	19,600		
Ottawa	362	17,376	14,480	412	19,776	16,480	20,220		
Hamilton	271	13,008	10,840	375	18,000	15,000	20,220		
London	275	13,200	11,000	395	18,960	15,800	20,220		
Toronto	436	20,928	17,440	503	24,144	20,120	20,220		
Winnipeg	350	16,800	14,000	408	19,584	16,320	19,665		
Regina	453	21,744	18,120	459	22,032	18,360	19,665		
Saskatoon	346	16,608	13,840	386	18,528	15,440	19,665		
Edmonton	452	21,696	18,080	516	24,768	20,640	19,665		
Vancouver	589	28,272	23,560	659	31,632	26,360	19,735		
Victoria	546	26,208	21,840	659	31,632	26,360	19,735		

1. CMHC Section 56.1 Administrative Data.

2. HIFE 1980 Micro Data File and Projections by CMHC based on median incomes for households with a household head under the age of 65.

Table 4.26

COMPARISON OF INCOMES REQUIRED TO SUPPORT SECTION 56.1 LOWER END OF MARKET RENTS TO MEDIAN INCOMES OF SENIOR CITIZEN RENTER HOUSEHOLDS BY REGION (1981 COMMITMENT DATA)

CMA	Senior Citizen ¹ 1-Bedroom Apt. Ave. LEMR (\$)	Incomes Required to Support		Median Incomes ² of Senior Citizen Renter Households by Region (\$)
		LEMR at Rent-to-Income Ratios of	30%	
		25%	30%	
		(\$)	(\$)	
Montreal	309	14,832	12,360	9,480
Quebec	238	11,424	9,520	9,480
Ottawa	224	10,752	8,960	8,070
Hamilton	256	12,288	10,240	8,070
Kitchener	288	13,824	11,520	8,070
Ste. Catherine	300	14,400	12,000	8,070
Thunder Bay	335	16,080	13,400	8,070
Toronto	404	19,392	16,160	8,070
Winnipeg	379	18,192	15,160	6,570
Regina	345	16,560	13,800	6,570
Vancouver	232	11,136	9,280	8,235
Victoria	232	11,136	9,280	8,235

1. CMHC Section 56.1 Administrative Data.

2. HIFE 1980 Micro Data File and Projections by CMHC based on median incomes for the region for households with a household head 65 years or over.

The nature of the Section 56.1 subsidy arrangements was illustrated in Figure 2.1. The major factors affecting the amount of the Section 56.1 subsidy are the approved capital costs of projects, the Maximum Unit Prices and the interest rates through which projects are financed. To a lesser extent, operating costs affect the amount of Section 56.1 assistance required. While there are no explicit definitions of "minimum cost", the assumption made here is that costs incurred by the private sector are reasonable standards against which to measure Section 56.1 costs.

In order to assess the achievement of this objective, the following criteria will be used:

- a) the capital costs of Section 56.1 units should not be higher than comparable housing provided through the private sector;
- b) Maximum Unit Prices should reflect the costs of comparable private sector accommodation;
- c) financing arrangements for Section 56.1 projects should not result in higher costs than those experienced in private sector housing;
- d) operating costs should be comparable to those incurred in the private sector.

1. Capital Costs

Capital costs differ among various Section 56.1 program types. These differences will be reviewed and potential explanations for them presented. Capital costs will then be compared with comparable private sector costs to assess the extent to which each Section 56.1 program type provides housing at minimum cost. Data on Section 56.1 capital costs have been obtained from the project commitment forms, while data on private sector costs were obtained from applications for mortgage insurance. It should be noted that there are concerns with respect to the quality and completeness of these data. As a result, they are presented here as general indicators rather than conclusive evidence on minimum costs.

Table 4.27 shows the average capital cost per unit for each of the Section 56.1 program types between 1978 and 1981. In all years except 1979, municipal non-profits and cooperatives have the highest average capital cost. In 1981, for example, the average capital cost for municipal

SECTION 56.1 CAPITAL COSTS AVERAGE COST PER UNIT

Source: CMHC Section 56.1 Administrative Data.

TABLE 4.28

SECTION 56.1 CAPITAL COSTS
AVERAGE COST/UNIT - EXISTING UNITS AND NEW CONSTRUCTION

PROGRAM	1978		1979		1980		1981	
	Existing \$	New \$	Existing \$	New \$	Existing \$	New \$	Existing \$	New \$
Provincial N/P	-	-	30,534	34,676	36,992	37,083	31,812	40,542
Municipal N/P	-	47,776	17,968 ¹	42,469	32,845	46,773	21,951 ¹	61,863
Private N/P	16,636	30,029	14,507 ¹	36,810	16,883 ¹	39,440	23,559	48,552
Native	25,000	20,919	16,021	39,246	33,155	46,685	46,693	53,758
Cooperative	40,219	43,740	25,893	42,411	36,607	52,684	35,077	67,988
All Programs	17,975	32,430	18,141	37,249	22,058	42,548	29,212	53,667

1 122 1

1. Mainly CMHC Core Real Estate Sales Units

Source: CMHC Section 56.1 Administrative Data.

non-profit units was \$61,020 and for cooperatives \$57,906. The lowest-cost units generally tended to be in private non-profit housing projects, which ranged from \$27,105 per unit in 1978 to \$42,083 in 1981.

Table 4.28 provides similar data on average capital costs distinguishing between new and existing units. New units were consistently more costly than existing. For newly-constructed units, municipal non-profits and cooperatives again showed the highest average costs, while provincial non-profit projects had the lowest cost units.

In order to identify the factors contributing to these cost differences, a regression analysis was carried out. The analysis identified the extent to which differences in capital costs are determined by dwelling type, region, program type and new versus existing dwellings.

Results of this analysis indicate that the difference in costs between newly-constructed and existing dwellings has the greatest impact on overall capital costs per unit, followed by regional differences and the type of housing provided. New units average \$14,228 per unit higher in capital costs than existing units.

By region, the highest capital costs for Section 56.1 units were in Ontario, which averaged \$16,228 per unit higher than the average capital costs in the Prairies, the lowest-cost region. The region with the second highest capital costs was British Columbia (\$7,201 per unit higher than the Prairies), followed by the Atlantic (\$1,400 higher than the Prairies) and Quebec (\$1,085 higher than the Prairies).

With respect to dwelling types, semi-detached dwellings were found to be most costly, with average costs of \$18,833 per unit more than apartments, the lowest cost housing form. Single-detached and row/townhouse units had average costs per unit of \$7,136 more than apartments, while duplexes were \$3,227 more costly than apartment units.

Table 4.29 identifies average capital costs for private sector dwelling types insured through Section 6 Mortgage Insurance. Overall, Section 56.1 costs are comparable to those incurred in the private sector. Results of the regression analysis show no significant differences between overall capital costs in Section 56.1 projects and those in Section 6 private projects.

An interesting difference, however, between Section 56.1 costs and private costs is that there are no economies of scale evident in Section 56.1 projects. On a per unit basis, small projects (1-5 units) cost the same as medium and large sized projects. In the private sector, however, medium-sized projects were less expensive than either small or large projects. This difference likely reflects the fact that Maximum Unit Prices for Section 56.1 projects are provided on a per unit basis regardless of project size. Given the incentive to build at costs as close as possible to the MUP, economies related to projects of a particular size are not realized.

TABLE 4.29

	AVERAGE SECTION 6 CAPITAL COSTS BY HOUSE TYPE			
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
	\$	\$	\$	\$
Single detached	51,667	26,455	46,360	53,057
Apartment	34,264	29,909	33,516	31,755
Row/townhouse	42,224	34,656	42,543	50,971
Duplex, triplex, Semi-detached	44,373	46,750	43,944	72,291

Source: CMHC Section 6 Administrative Data

In order to further explore differences between Section 56.1 costs and those in the private sector, total capital costs have been sub-divided into building costs per square metre and land costs. Building costs per square metre are presented on a regional basis in Table 4.30 for all building types and then only for apartments, the most common dwelling type under both Section 56.1 and Section 6 mortgage insurance. The cost data on a per square metre basis show a very consistent pattern across all regions for each year shown of higher costs under Section 56.1 than in private insured dwellings. The cost differentials vary dramatically, with Section 56.1 costs ranging from 10 percent to over 100 percent higher than Section 6 costs. Averaged over all regions and years, Section 56.1 costs are 60 percent higher than those in Section 6 dwellings. Unfortunately, further details on the components of these costs to determine reasons for these differences are not available.

Table 4.30 COMPARISON OF SECTION 56.1 AND SECTION 6
BUILDING COSTS PER SQUARE METRE

	1979		1980		1981	
	<u>\$/m²</u>		<u>\$/m²</u>		<u>\$/m²</u>	
<u>Region</u>	<u>Sec. 56.1</u>	<u>Sec. 6</u>	<u>Sec. 56.1</u>	<u>Sec. 6</u>	<u>Sec. 56.1</u>	<u>Sec. 6</u>
<u>All Building Types</u>						
Atlantic	N/A	298	479	279	542	382
Quebec	378	242	397	284	469	293
Ontario	406	314	455	289	N/A	384
Prairies	406	367	577	340	473	333
B.C.	571	333	650	327	645	385
<u>Apartment Buildings</u>						
Atlantic	-	298	-	261	-	379
Quebec	373	242	396	223	472	281
Ontario	367	308	484	317	-	391
Prairies	376	361	599	289	-	296
B.C.	596	334	701	323	647	374

Source: CMHC Section 56.1 and Section 6 Administrative Data.

An examination of land costs produced the opposite results. Section 56.1 land costs ranged from \$1200 to \$4500 lower on a per unit basis than those in Section 6 projects. On average, Section 6 land costs comprised 19 percent of the total cost of the project, whereas Section 56.1 land costs comprised only 14 percent of the total cost. There are a number of possible explanations for this. There may be differences in location of the two types of projects, with Section 56.1 project groups seeking lower-cost sites. Alternatively, there may be differences in defining the land and building cost components in the two programs. Finally, Section 56.1 average land costs may be lower due to reduced cost or donated land available to some groups, particularly public non-profit projects. While no data are available to document the scope of these occurrences, it is known that municipalities provide this form of contribution to non-profit housing.

The analysis of project costs by components sheds light on the lack of a consistent pattern in differences between total capital costs of Section 56.1 and insured private projects. Higher building costs in Section 56.1 projects are offset by lower land costs, producing an inconsistent relationship overall. Unfortunately, both the quality of the data and the lack of detail provided on components of capital costs do not permit a conclusive assessment of the extent to which overall Section 56.1 capital costs are "minimal" in comparison with private sector costs.

(a) Maximum Unit Prices

Maximum Unit Prices (MUPs) are established by CMHC branch offices for each housing form and market area in which Section 56.1 activity is anticipated. Formal reviews of MUPs occur twice yearly with interim adjustments if market indicators change. Separate land and building components are included in each MUP. Building construction costs are estimated through different appraisal techniques, including the use of basic rates and a schedule of adjustments; costing manuals; and analyses of previous experience and cost trends. Land values used in establishing MUPs are determined by market comparisons with recent sales of similar property.

MUPs are published on a regional basis and thus are available to non-profit and cooperative groups as well as builders.

Two issues will be addressed with respect to MUPs. The first is the extent to which MUPs have acted as a control on costs. This will be examined by comparing actual costs of Section 56.1 projects to MUPs in place at the time of commitment. The second issue

deals with whether or not MUPs, because of their impact on the amount of Section 56.1 subsidies, have resulted in minimum cost housing and thus have minimized government cash requirements. This issue will be addressed by:

- a) comparing increases in MUPs to the increases in average house prices, as reflected in the Royal Trust Survey of Canadian House Prices; and
- b) comparing the rate of change in the MUPs with the rate of change of private sector rental costs, using Section 6 rental projects cost data.

Table 4.1, in the Modest Housing section, showed the number of Section 56.1 projects which had costs that were greater than or equal to MUPs. For the country as a whole, 16 percent of the projects approved had costs in excess of MUPs, while 11 percent had costs equal to MUPs. The highest proportion of projects with costs greater than MUPs occurred in Quebec and New Brunswick. In Nova Scotia, close to one-half of the projects approved had costs equal to the MUP.

For all types of non-profit and cooperative projects, there is no incentive to build at costs below the MUPs, as the maximum amount of assistance is provided if project costs equal the MUP. There is a disincentive to exceeding the MUP for private non-profit and cooperative groups. They are required to provide equity contributions to their projects equal to twice the amount by which costs exceed the MUP. For public non-profit corporations, costs are permitted to exceed the MUP without this equity requirement, provided that the following conditions are met:

- a) costs over the MUP are not charged to the occupants and do not increase the projects' economic rent;
- b) the Section 56.1 assistance is limited to the lesser of the lending value or the MUP; and
- c) the loan amount is based on the appraised lending value.

Views submitted on this aspect of the programs from a wide variety of non-profit and cooperative groups, as well as CMHC offices, identified some concerns with MUPs as a cost control mechanism. Tying the amount

of assistance provided to the MUP was viewed as a disincentive to keeping construction costs down. In addition, the fact that MUPs are published and available to builders reduces the competitiveness of bids submitted on Section 56.1 projects.

The available evidence indicates that for 84 percent of the projects approved, "minimum" capital costs as defined by the MUP limits were attained. However, in order to determine whether the MUP process does result in minimum cost housing, it is necessary to assess the increases in MUPs themselves. The discussion above has shown the degree of adherence to MUPs in the programs. What must be addressed now is, even if MUPs are enforced, would this result in minimum cost housing?

Data on price increases for various forms of accommodation are not readily available at a national level. However two measures may be applied as rough indicators of the degree to which MUP increases are reasonable. The first indicator is the increase of an average three-bedroom bungalow, as reported in the Royal Trust Survey of Canadian House Prices. This cost increase is compared to the MUP increase in ground-oriented, 3-bedroom family accommodation in Table 4.31.

Prices contained in the Royal Trust Survey of House Prices are not strictly comparable to the Maximum Unit Prices, as they include both new and existing accommodation and thus depend to some extent on the resale market. They do, however, provide a general indication of the price trend in particular markets, as they reflect land and construction costs in addition to demand considerations.

There is no consistency between MUP increases and increases in private sector housing prices. For approximately one-half the cities shown in Table 4.31, MUPs increased considerably more than the price increases, while the reverse is true for the remainder. Generally, in areas which experienced very high price increases (Vancouver, Calgary, Mississauga, Toronto, Montreal and Halifax), MUP increases were lower than the average increase in private accommodation. It should be noted that even where the percentage MUP increases were greater than the rate of increase in the market prices, the actual cost of this form of private housing was higher than the MUP.

TABLE 4.31

INCREASES IN THE MUPs FOR 3-BEDROOM, GROUND-ORIENTED
FAMILY ACCOMMODATION COMPARED WITH PRICE INCREASES FOR 3-BEDROOM BUNGALOW

	Maximum Unit Prices			Royal Trust House Prices			Difference Between the % Change in MUP and Royal Trust Prices
	April 1979	March 1982	% Change	Feb. 1979	April 1982	% Change	
Vancouver	52,000	93,000	78.8	81,625	168,750	106.7	- 27.9
Edmonton	58,000	71,000	22.4	85,360	103,610	21.4	1.0
Calgary	58,000	71,000	22.4	87,300	129,600	48.5	- 26.1
Regina	48,000	58,000	20.8	57,000	76,250	33.8	- 13.0
Saskatoon	48,000	58,000	20.8	62,500	74,500	19.2	1.6
Winnipeg	43,000	59,500	38.4	61,150	71,520	17.0	21.4
Thunder Bay	49,000	66,000	34.7	75,000	72,500	-3.3	38.0
Sudbury	45,000	51,000	13.3	52,000	55,000	5.8	7.5
Windsor	45,000	63,000	40.0	66,000	62,300	-5.6	45.6
Hamilton	47,000	57,000	21.3	57,000	62,000	8.8	12.5
Mississauga	54,500	71,000	30.3	69,000	99,000	43.5	- 13.2
Toronto	54,500	75,000	37.6	81,600	130,000	59.3	- 21.7
Montreal	43,000	55,000	27.9	40,000	58,708	46.8	- 18.9
Quebec	44,000	52,000	18.2	51,250	60,500	18.1	.1
Fredericton	39,000	50,000	28.2	43,000	48,000	11.6	16.6
Charlottetown	38,000	47,550	25.1	47,200	58,000	22.9	2.2
Halifax	43,000	55,000	27.9	56,000	108,875	94.4	- 66.5
St. John's	49,000	65,800	34.3	49,500	68,433	38.3	- 4.0

Source: CMHC Administrative Data and Royal Trust Survey of Canadian House Prices,
1 October 1982 and 1 February 1979.

MUP increases may also be compared with the cost increases for new construction in privately-financed Section 6 dwellings. The average increase in the MUP for ground-oriented family accommodation between 1979 and March 1982 was 30.4 percent. For comparable private sector accommodation between 1979 and the end of 1981, the cost of new construction increased by 64.4 percent. For apartment buildings, this finding is reversed: MUPs increased by 93.8 percent while Section 6 costs increased by only 6.1 percent.

To summarize, 84 percent of the projects funded through Section 56.1 had costs which were equal to or less than the MUP. Generally, evidence suggests that these were "minimum" costs, insofar as MUPs have not increased more than private sector dwellings or are at lower levels initially. This is the case for ground-oriented family accommodation, but not for apartment buildings.

(b) Best-Buy Analysis

The second form of cost control in place to limit capital costs under the programs is the requirement for a best-buy analysis which is to be performed by each group at the outset of a project. The best-buy analysis is intended to determine the most cost-effective housing solution to meet the needs of non-profit or cooperative groups at the best dollar value. The analysis is to respect user needs within alternatives such as project quality, market conditions, long-term cost/benefit and environmental and locational criteria. Specifically the analysis is to measure trade-offs between size and quality versus construction cost; capital cost versus on-going operating cost; new construction versus the purchase of an existing unit; land costs versus building costs; location; efficiency of land use; control of design; and various alternative procurement techniques.

Views submitted on this aspect of the programs were consistent in stating that the best-buy analysis is generally not undertaken. The main reasons given were that no existing units were available for purchase or that tight market conditions necessitated the construction of new units. This indicates that the best-buy analysis has generally been interpreted only in the context of a choice between purchasing an existing unit or constructing a new one. The guidelines for best-buy analysis identified above, however, show that it was intended to be a much more comprehensive mechanism.

Without analysing all of the criteria to be assessed in a best-buy analysis, it is not possible to determine whether or not the "best-buy" is being obtained. However, because of indications that little or no best-buy analyses are being undertaken, this mechanism per se has little impact on controlling costs.

2. Financing Costs

The interest rates obtained for the financing of Section 56.1 projects are a critical factor in the amount of subsidy available to the project and the cost of the programs to the government. Tying the available subsidy to the interest rate provides no incentive for groups to seek the best financing arrangements and thus to reduce the costs of the programs. Views submitted on this aspect of the programs support the notion that there is no incentive to seek the best financing arrangements. In addition, it has been argued that the use of private capital rather than direct government financing has resulted in higher interest rates and thus an increase in subsidy costs. The additional costs of private, compared with direct, financing are reviewed in the section of this report entitled "Lender Provision of Capital".

In order to assess the extent to which financing arrangements have resulted in minimum costs to the government, the following indicators have been used:

- a) interest rates obtained by non-profit and cooperative groups on a monthly basis have been compared with rates quoted by lenders; and
- b) views of lenders and others involved with the programs have been obtained to identify potential differences in financing arrangements for social housing projects compared with private rental accommodation.

Table 4.32 summarizes the difference in interest rates between rates quoted by approved lenders and those obtained for social housing projects and for Section 6 rental projects in 1979, 1980 and 1981. The difference in interest rates shown is a weighted average, based on the volume of activity in each month and compared with the average interest rate offered by lenders.

TABLE 4.32

DIFFERENCES¹ BETWEEN SECTION 56.1 AND
SECTION 6 INTEREST RATES AND RATES QUOTED BY LENDERS

	<u>1979</u>	<u>1980</u>	<u>1981</u>
Private Non-Profit	+1.22	+1.36	+0.18
Municipal Non-Profit	+0.36	+0.17	-0.20
Provincial Non-Profit	+1.15	-0.37	-0.52
Cooperative	+0.91	+1.07	+0.78
Native (Non-Profit)	-0.55	+0.50	+1.23
Section 6 Rental	-0.54	+0.17	-0.79
AVERAGE LENDERS INTEREST RATES	11.976	13.646	18.192

1. Differences are calculated by comparing monthly interest rates obtained, weighted for the volume of activity, with average interest rates quoted by lenders.

Source: CMHC Section 56.1 Administrative Data.

There is little consistent pattern in interest rates for non-profit and cooperative housing overall, compared with rates quoted by lenders. However, the same is true for interest rates in private Section 6 rental accommodation. In both cases, interest rates varied both above and below rates quoted by lenders.

When viewed by program type, more consistent differences among interest rates are apparent. Private non-profit and cooperative housing showed average interest rates above those quoted by lenders in all three years. Apart from 1981, private non-profit projects had the highest average interest rates of all program types. In 1981, the highest interest rate differential was received by Native non-profit housing projects.

Municipal non-profit projects generally had lower average interest rates than those obtained by other program types, but only in 1981 was this average lower than the rate quoted by lenders. Provincial non-profit corporations obtained average interest rates lower than those quoted by lenders in 1980 and 1981.

To explain differences among program types, a survey of lenders was conducted which indicated that they assess a higher risk to private non-profit or cooperative projects and therefore charge higher interest rates. Public non-profits on the other hand, have the backing, not just of the NHA insurance but also of the provincial or municipal government, which reduces the risk and therefore the interest rate charged. Cooperative projects also have a higher interest rate because of the .5 percent contribution which some lenders choose to make to the Cooperative Housing Foundation for the housing stabilization fund. This contribution is made by the lender, at the request of the cooperative, and is reflected in an increase in the interest rate. It should be noted, however, that although the average interest rate for cooperatives was more than .5 percent higher than the rate quoted by lenders, it was not generally higher than the average rate obtained by private non-profit projects. This suggests that the level of risk assessed by lenders contributes more to the higher interest rates charged than does the housing stabilization fund.

The program guidelines do not contain a requirement for groups to seek the best financing arrangements. In fact, tying the subsidies to the interest rates provides a disincentive to seek the lowest interest rate. In addition, other factors such as mortgage terms, and mortgage servicing arrangements may also lead to higher rates. While it does not appear that groups are seeking the highest rates, possible, interest rates obtained by non-profit and cooperative housing projects generally were higher than those obtained for Section 6 private rental projects.

In order to assess the implications of these higher interest rates on overall subsidy requirements, a hypothetical example may be used. The average interest rate obtained by Native non-profit projects in 1981 was 1.23 percent higher than the average lender rate of 18.192 percent. For a unit with a capital cost of \$50,000, this interest rate differential would mean an average yearly increase in subsidy of \$573 or 8.5 percent higher than the subsidy which would be provided with the lenders' rate of interest. Accumulated over several thousand units, this magnitude of subsidy increase would be substantial.

In summary, it has been shown that private non-profit and cooperative housing projects consistently obtained average interest rates higher than the average rates quoted by lenders. Provincial and municipal non-profit projects tended to receive lower rates, although in some years these too were higher than the average interest rates. Further it was shown that these interest rate differentials have an important bearing on the amount of Section 56.1 subsidy provided.

3. Operating Costs

While operating costs have a less direct impact on the amount of government subsidy provided, they are a factor in determining the way in which subsidy funds are used within projects. Very high operating costs would result in a larger gap between the economic rent and the lower end of market rent, with the result that fewer subsidy funds would be available for income-tested occupants.

In order to assess the extent to which Section 56.1 operating costs are reasonable, the following indicators have been used:

- a) Section 56.1 operating costs have been compared with operating costs in comparable private rental accommodation;
- b) Section 56.1 operating costs have been compared with operating costs under the previous non-profit and cooperative housing programs, Sections 15.1 and 34.18; and
- c) Section 56.1 operating costs have been compared with public housing operating costs.

The data used as indicators for private sector operating costs and for Section 56.1 operating costs are subject to the same concerns regarding quality and completeness that were identified for capital costs. As a result they should be interpreted with some caution.

Table 4.33 provides a breakdown of operating costs by program type for all project types and specifically for family and senior citizen projects. Public non-profit projects in all categories were found to have the highest reported operating costs. Native projects had the lowest reported operating costs. However this may be accounted for by the fact that many of these projects were single-unit projects, with utility costs paid directly by

TABLE 4.33

OPERATING COSTS - SECTION 56.1 BY PROGRAM

<u>Program</u>	<u>Projects¹</u>	<u># Units</u>	<u>Average Monthly Cost/Unit</u>
			(\$)
Public Non-Profit	26	747	197.34
Private Non-Profit	63	2,441	166.77
Native	25	85	119.61
Cooperative	57	893	145.95
Total	171	4,166	166.75
<u>Family</u>			
Public Non-Profit	23	679	196.00
Private Non-Profit	34	1,600	171.51
Native	25	85	119.61
Cooperative	56	883	146.56
Total	138	3,247	168.38
<u>Seniors</u>			
Public Non-Profit	3	68	210.78
Private Non-Profit	29	841	157.75
Native	-	-	-
Cooperative	1	10	91.67
Total	33	919	160.95

1. Due to incomplete data on operating costs, these data are shown only for the number of projects identified and are unweighted. This is the case for all tables in this section on operating costs.

Source: Section 56.1 Project Managers Survey.

the tenants. In addition, this table does not include the operating costs of Urban Native projects in Saskatchewan funded through the Urban Native pilot project. The operating costs of these projects are very high, primarily due to administrative costs. Native groups have been established to manage large portfolios of units, many of which are not yet occupied. The cost of this administrative arrangement is, therefore, reflected in the operating costs of the current projects.

Table 4.34 shows operating costs for new projects, existing projects which did not receive RRAP and existing projects which did use RRAP funding. Existing projects without RRAP had the lowest operating costs on a per unit basis. This may be explained by the fact that many of these were smaller projects where the tenants paid some or all of the utility costs. Projects which had received RRAP funding did not have lower operating costs than existing projects without RRAP, but they were somewhat lower than the operating costs of new projects.

There were considerable differences in operating costs per unit when examined by the size of the project, as shown in Table 4.35. Overall, large projects had the highest per unit operating costs and small projects the lowest. This is particularly the case for senior citizen projects, while in family projects, small and medium sized projects had the lowest operating costs.

The main reason for small projects to consistently have the lowest operating costs is due to the way in which utility costs are treated. Many of the small projects require that utility costs (heat, hydro, water) be paid by the tenants directly. Very few of the tenants in large projects pay their own utility costs.

TABLE 4.34

OPERATING COSTS - SECTION 56.1 BY NEW, EXISTING

<u>Program</u>	<u>Projects</u>	<u># Units</u>	<u>Average Monthly Cost/Unit (\$)</u>
New	58	1,804	169.21
Existing	58	1,254	161.21
Existing RRAP	55	1,108	169.00
Total	<u>171</u>	<u>4,166</u>	<u>166.75</u>
<u>Family</u>			
New	28	918	176.47
Existing	57	1,244	161.51
Existing RRAP	53	1,085	169.43
Total	<u>138</u>	<u>3,247</u>	<u>168.38</u>
<u>Senior</u>			
New	30	886	161.68
Existing	1	10	125.00
Existing RRAP	2	23	148.55
Total	<u>33</u>	<u>919</u>	<u>160.95</u>

Source: Section 56.1 Project Managers Survey.

TABLE 4.35

OPERATING COSTS - SECTION 56.1- BY SIZE¹

<u>Family and Senior</u>	<u># Projects</u>	<u># Units</u>	<u>Average Monthly Cost/Unit (\$)</u>
Small	94	464	140.27
Medium	35	744	145.61
Large	42	2,958	176.22
Total	171	4,166	166.75
<u>Family</u>			
Small	84	348	152.54
Medium	23	487	152.64
Large	31	2,412	173.85
Total	138	3,247	168.38
<u>Senior</u>			
Small	10	116	103.45
Medium	12	257	132.30
Large	11	546	186.66
Total	33	919	160.95

1. Small projects are those with 1 to 15 units; medium projects have 15 to 30 units; and large projects have more than 30 units.

Source: Section 56.1 Project Managers Survey.

It should be noted that most respondents (77 percent) to the request for views on the programs identified measures which had been taken to reduce operating costs. The most frequently mentioned were energy conservation practices, although the use of volunteer labour was also identified as a cost-saving technique.

Table 4.36 compares Section 56.1 monthly operating costs per unit with those in private dwellings insured through Section 6. For all dwelling types, Section 56.1 units had higher average monthly operating costs than did the private sector units. Additional evidence on operating costs in private rental structures is presented in Table 4.37. Elevator and low-rise buildings are shown in that table to have lower operating costs than the \$162 per unit per month paid in Section 56.1 apartment buildings. Garden-type projects in the private sector averaged operating costs of \$129 per unit per month, compared with \$173 for Section 56.1 row/townhouse projects.

Table 4.38 compares Section 56.1 operating costs with those in other NHA-financed projects. Overall, Section 56.1 costs are comparable to those expended in the previous non-profit and cooperative housing programs, and are considerably lower than those in public housing projects. Differences are more apparent when viewed separately for senior citizen and family projects. Family projects under Section 56.1 had much lower operating costs than did public housing family projects and somewhat lower costs than the previous non-profit and cooperative housing programs. For senior citizen projects, however, costs in all four programs were similar, with Section 56.1 projects having slightly higher operating costs than the others.

Generally, it has been shown that operating costs are greater in Section 56.1 projects than private sector projects. A more detailed analysis of this relationship was not completed because the components of operating costs were not available. For example, it was not known if utility costs were charged as operating costs or whether they were charged to the tenants. The

TABLE 4.36

SECTION 56.1 OPERATING COSTS
COMPARED WITH OPERATING COSTS
IN PRIVATE SECTION 6 PROJECTS

	<u>Section 56.1 Average Monthly Costs/Unit (\$)</u>	<u>Section 6 Average Monthly Costs/Unit (\$)</u>
Single-detached	213	141
Duplex, Triplex, Semi-detached	191	86
Row/townhouse	173	114
Apartment	162	122
Mixed	165	-
Total	167	120

Source: Section 56.1 Project Managers Survey.
CMHC Section 6 Administrative Data.

TABLE 4.37

OPERATING COSTS IN PRIVATE RENTAL STRUCTURES

	<u># Projects</u>	<u># Units</u>	<u>Average Monthly Cost/Unit (\$)</u>
Elevator Building	71	11,119	143.39
Low-Rise Building	83	5,019	130.98
Garden Type Building	31	3,068	129.17
Total	<u>185</u>	<u>19,206</u>	<u>137.87</u>

Source: Income/Expense Apartments 1981 Edition,
Institute of Real Estate Management of the National
Association of Realtors. Data consist of operating
costs obtained in twelve Canadian cities.

TABLE 4.38

SECTION 56.1 OPERATING COSTS
COMPARED WITH THE PREVIOUS NON PROFIT
AND COOPERATIVE PROGRAMS (SECTIONS 15.1/34.18)
AND PUBLIC HOUSING (SECTIONS 40 AND 44)

	<u>Average Monthly Cost/Unit</u>			
	<u>Section 56.1</u>	<u>Sections</u>	<u>Section 40</u>	<u>Section 44</u>
	<u>(\$)</u>	<u>15.1/34.18</u>	<u>(\$)</u>	<u>(\$)</u>
		<u>(\$)</u>		
Family	168	186	241	255
Senior	161	160	147	155
Total	167	170	200	205

Source: Section 56.1 Project Managers Survey.
Section 15.1/34.18 Project Managers Survey.

level of maintenance and repair expenses may be greater in a non-profit or cooperative project than in a private sector project. Replacement reserve funds, established by non-profits and cooperatives are not normally established in market projects. Differences may also exist in management expenses in the two projects. Non-profits and cooperatives must income test clients, keep waiting lists and set some rents according to income. These are expenses which are not normally incurred by private sector projects. While operating costs of Section 56.1 units are generally higher than those in the private sector, they are lower than those in public housing projects, due to considerable differences in the operating costs of family projects, and roughly comparable to the costs incurred through the previous non-profit and cooperative housing programs.

4. Summary

This section has assessed the extent to which minimum cost housing is provided through the Section 56.1 programs with the use of appropriate cost controls. The assessment has been hampered by the lack of reliable data on comparable private sector accommodation and concerns with the quality of data on private dwellings insured through the Section 6 Mortgage Insurance program.

It was shown that overall capital costs of Section 56.1 projects are not consistently related to the costs of private sector projects. Building costs in Section 56.1 projects were found to be higher (60 percent) than those in insured private dwellings. However, this is offset by the fact that land costs in Section 56.1 projects are lower than in Section 6 projects. Thus, overall capital costs were found to be "minimum cost". This is supported by the fact that 84 percent of project costs fall within the Maximum Unit Price guidelines and MUP increases are relatively consistent with the increases in private sector costs.

With respect to financing, it was shown that private non-profits and cooperatives pay interest rates up to 1.4 percentage points above the rate quoted by lenders. However, this is not generally the case for public non-profit corporations. Finally, operating costs in Section 56.1 projects were shown to be higher than in the private sector, similar to those in the previous non-profit and cooperative housing programs and lower than in public housing projects.

C. Lender Provision of Capital

The Non-Profit and Cooperative Housing Programs are intended to encourage the provision of capital by approved lenders. As indicated above, this objective of the programs refers to a means of providing the desired end product of the programs: namely, modest, affordable housing for low and moderate income families and individuals. The rationale for encouraging approved lenders to provide capital was based on the need to reduce the Government's cash requirements. The Section 56.1 programs provided a device for reducing cash requirements by replacing CMHC direct capital funding for public, non-profit and cooperative housing projects with private capital funds. However, because funding by approved lenders can involve higher interest rates, there is a concern that subsidy costs to the Government are greater than they would be if projects were financed directly.

In this section, the extent to which capital funds have been provided by approved lenders is assessed by examining the sources of financing for Section 56.1 projects. The views and attitudes of financial institutions and client groups are then reviewed to identify problems and constraints with regard to the use of private capital funding. Next, changes in CMHC's capital budget and budgetary expenditures are examined to provide an indication of the extent to which cash requirements have been affected. Finally, the extent to which private capital funding results in increased subsidy costs is examined.

1. Provision of Capital by Approved Lenders

Sources of financing for Section 56.1 Non-Profit and Cooperative Housing projects are identified in Table 4.39. Since the inception of the programs in 1978 to the end of 1981, approved lenders have been designated as the funding source for 93 percent of project commitments. Moreover, in every year, with the exception of 1978, approved lenders have provided funds for about 95 percent of Section 56.1 projects committed. When Section 56.1 programs were first introduced in 1978, some legislative changes were still required before private financing for all projects could be utilized. As a result, in the first year, more than half the approved projects were to be financed with CMHC direct loans under Section 15 of the NHA, with subsidy assistance under Section 56.1.

CMHC direct lending has persisted on a relatively small scale primarily for Native projects, including both Urban Native and On-reserve projects. Several reasons have been advanced for the lack of private financing of Native projects. Initially, legislative changes were required to allow CMHC to insure loans on reserves secured by a ministerial guarantee. Native client groups, in their submission of views on the programs have indicated that lenders were unfamiliar in dealing with groups on-reserve and were reluctant to become involved with Native projects because of the groups' lack of experience. Finally, many Native projects are located on reserves or in small communities where approved lender services or availability of funds are limited. At present, it appears that many of these barriers to private sector involvement are becoming less restrictive. In 1981, only 4 of 35 Native projects required CMHC direct financing.

TABLE 4.39

NUMBER OF PROJECTS BY SOURCE OF FINANCING, SECTION 56.1

<u>YEAR</u>	<u>PROGRAM</u>	<u>APPROVED LENDERS</u>	<u>CMHC DIRECT</u>	<u>EXISTING FINANCE</u>	<u>OTHER</u>
1978	Prov. N/P	0	0	0	0
	Mun. N/P	1	0	0	0
	Priv. N/P	33	34	0	0
	Native	0	6	0	0
	Coop	12	2	0	0
	Other	3	22	0	0
	Sub-Total	49	64	0	0
1979	Prov. N/P	126	0	0	0
	Mun. N/P	46	3	0	0
	Priv. N/P	211	5	0	0
	Native	23	17	0	0
	Coop	81	0	0	0
	Other	0	0	0	0
	Sub-Total	487	25	0	0
1980	Prov. N/P	230	0	0	0
	Mun. N/P	50	0	0	0
	Priv. N/P	302	9	1	0
	Native	43	34	0	0
	Coop	160	2	0	1
	Other	1	0	0	0
	Sub-Total	786	45	1	1
1981	Prov. N/P	71	0	0	17
	Mun. N/P	44	0	0	1
	Priv. N/P	270	0	0	2
	Native	31	4	0	0
	Coop	243	0	0	3
	Other	57	0	0	0
	Sub-Total	716	4	0	23
Total		2,038	138	1	24

Source: CMHC Section 56.1 Administrative Data.

It should also be noted that in 1981, several projects utilized sources of financing other than NHA approved lenders or CMHC direct loans. These other sources include conventional or uninsured mortgages, mortgages with private insurance and debenture financing which has been utilized for provincial non-profit projects in Quebec.

The evidence presented here on sources of financing for Section 56.1 projects indicates that the programs have been successful in encouraging approved lenders to provide capital funding. Moreover, lenders of various types have responded to the lending opportunities provided by the programs (Table 4.40). Trust companies and chartered banks have been most active in providing capital for Section 56.1 projects, but loan companies, co-op credit societies and life insurance companies have also played an important role.

2. Lender and Client Views

To discover the main reasons for lender involvement in the programs, telephone interviews with a cross-section of lenders were conducted. The interviews attempted to obtain the views and attitudes of 15 lenders and brokers on a variety of other issues as well. When asked why their firms had taken an interest in Section 56.1 projects, the financial institutions responded in two ways. About one-half the respondents indicated that they were interested in the programs from a business point of view because social housing loans provided a secure and profitable way to utilize funds especially at a time when private sector activity is languishing. The remaining respondents suggested that their interest stemmed from a sense of social responsibility to meet the need for good, affordable housing and to assist those who might otherwise not have access to decent housing.

Overall, the respondents expressed positive views on the programs, particularly those who indicated their involvement was based on a sense of social responsibility or philosophy. When respondents expressed their general attitudes on the social housing programs only four out of fifteen expressed negative views. The negative views were based on assertions that social housing was competing with private development, that private developers could produce

TABLE 4.40

SECTION 6 LOANS ON SECTION 56.1 PROJECTS BY LENDER TYPE BY
PROGRAM

<u>Type of Lender</u>	<u>Private</u>	<u>Public</u>	<u>Coop</u>	<u>Total</u>	<u>%</u>
Life Insurance Co.	29	-	2	31	8.4
Loan Companies	64	1	10	75	20.4
Trust Companies	73	2	52	127	34.6
Coop Credit Societies	18	-	20	38	10.4
Chartered Banks	77	2	6	85	23.2
Pension Funds	1	-	-	1	0.3
Mortgage Investment Brokers	9	-	-	9	2.5
Prov. Housing Corp.	1	-	-	1	0.3
TOTAL	<u>272</u>	<u>5</u>	<u>90</u>	<u>367</u>	<u>100.0</u>

Source: CMHC Section 56.1 Administrative Data.

the same units at lower cost given the same amount of subsidy and a general philosophical disagreement with the use of public funds for too few people, many of whom do not need the assistance.

However, those expressing strong negative views were outnumbered by the respondents with positive views on the Section 56.1 programs. Seven respondents had strong positive views, two were moderately positive and two did not express any definite views. Positive views on the programs were supported by statements relating to both business and social factors. The programs were said to provide a source of business (lending) activity when there was little private sector activity. There were no major arrears problems and the loans were considered to be secure. The programs had proven successful in the long-run and some resource groups had proven themselves to be successful developers. Finally, it was stated that the need for social housing was well established considering the high cost of rental and ownership.

With regard to the design of the programs, all respondents cited NHA insurance and the interest rate subsidy as the most important features. Other features of the programs considered to be important by lenders included the provision for flexible term mortgages, flexible interest rates (between commitment and interest adjustment dates) and the blended income nature of tenants.

The importance of the interest write-down subsidy was also apparent when lenders were asked how their assessment of the risk factor on Section 56.1 projects would be affected if the interest subsidy were decreased. Only one respondent indicated that this would not be of concern. Eight respondents indicated that a thorough reassessment of individual projects or re-examination of the financial viability of projects and effects on cash flow would be in order. Five respondents indicated that a decreased subsidy would definitely increase the risk on loans while one respondent indicated that his institution would probably not make a loan under such conditions. Another question dealing with a hypothetical change to the programs asked respondents if they would consider loans for non-profit rental projects if all renters were to require rent subsidies in addition to the project's interest subsidy. Although eight respondents indicated that their firms would consider such loans, there was some concern expressed regarding the lack of income blending and problems associated with the physical deterioration of such buildings.

Although lenders were generally positive in their support for the programs, several operational problems associated with non-profit and cooperative housing were cited. The most frequently mentioned of these were excessive paperwork and the time required for committals. Some specific but infrequently identified problems were: the uncertainty of the loan amount; unsophisticated groups; slow construction; lack of cooperation from some local offices; the excess and sometimes inefficient bureaucracy to be dealt with; the power that some resource persons/consultants carry over non-profit and cooperative groups; delays in getting the undertaking to insure from CMHC (530s issued late); and finally the understaffing of local offices. It should be made clear that these problems were not cited frequently by respondents. In fact, two lenders, with considerable experience in lending for social housing, found no problems specifically attributable to the programs.

With the exception of Native projects, the views on the programs submitted by various client groups, CMHC local offices and other involved organizations reported little difficulty in obtaining private capital funding but respondents were concerned with the terms under which funds were obtained. The most frequently mentioned problems were fluctuating interest rates and the difficulty in obtaining 5-year term mortgage funds. These problems were attributed to unsettled money markets and disruptions in the normal flow of capital for mortgages. However, several respondents reported difficulties in obtaining funds at year-end, regardless of the length of term. This was attributed to budget constraints rather than disinterest on the part of lenders. One respondent indicated that difficulties in obtaining financing arose because of competition among non-profit sponsors. It was suggested that because cooperative projects were approved at higher rates, mortgage funds were shying away from municipalities as well as resulting in higher interest rates for municipal non-profit projects. Another respondent stated that once it is known the non-profit group receives subsidies, the price becomes non-negotiable and normal market rules no longer apply.

Two respondents did not comment on problems in obtaining private sector funding but rather noted the difficulties that are created in developing a project by the requirement to obtain private sector funding. Project development is made more difficult because an extra step is involved thereby increasing both the time

and paper work required for project development. Lack of understanding of the program by lenders and lawyers and the difficulty of coordinating the various approvals were also mentioned. The absence of fixed interest rates was said to make budgeting more difficult. Also, lenders' insistence on observing the original payment date prevents early repayment by groups.

Some respondents identified difficulties in obtaining funds for particular types of projects. One respondent indicated that obtaining funds for special purpose projects was difficult while another suggested that lenders are much less receptive to small projects because they do not want to be bothered with small loans. Another indicated difficulties in obtaining funding for large-scale projects which may exceed the capacity of individual lenders. It should be noted that each of these problems was mentioned only once by different respondents.

There was also an indication by respondents that interest by lenders may be declining. One respondent suggested that the lending market may be showing resistance to social housing loans because of experience with unsophisticated borrowers. Another indicated that pension funds may be concerned that too much of their portfolios are invested in non-profit projects.

3. Cash Requirements

It should be noted at the outset that this section deals with financial requirements for the operation of social housing programs and not with the costs of the programs as such. Direct lending increases cash requirements since funds must be made available by the federal government through CMHC. The purpose of this sub-section is to provide an indication of the extent to which cash requirements have been altered as a result of the Section 56.1 programs. The effect of direct lending on subsidy costs is considered below.

CMHC's capital budget for the years 1976 to 1981 is presented in Table 4.41. Over this period, the capital budget was reduced by \$1.259 billion, with the largest reduction occurring between 1978 and 1979. The Section 56.1 Non-Profit and Cooperative Housing Programs contributed substantially to the decline in the capital budget between 1978, when the programs were first introduced, and 1979, their first full year of

TABLE 4.41

CAPITAL BUDGET - LOANS AND INVESTMENTS NON-BUDGETARY FUNDS AUTHORIZED UNDER THE NHA (\$ Millions)						
<u>Section</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
43 Public Hsg.	350.4	153.4	176.1	21.8	21.6	16.8
40 F/P Public Hsg.	53.0	45.5	68.4	56.7	63.3	53.1
15.1 Non-Profit Corporations	288.0	157.4	120.6	4.6	4.9	3.3
34.18 Cooperatives	40.3	62.8	36.9	2.5	1.4	0.1
Sub-Total	731.7	419.1	402.0	85.6	91.2	73.3
Other Sections/ Programs	852.9	947.0	783.3	264.6	235.4	252.5
<u>Total</u>	<u>1,584.6</u>	<u>1,366.1</u>	<u>1,185.3</u>	<u>350.2</u>	<u>326.6</u>	<u>325.8</u>

Source: 1980 and 1981 Canadian Housing Statistics, Table 27

operation. Between 1978 and 1979, non-budgetary funds authorized for the social housing programs (excluding the Rural and Native Housing Program) declined by \$317 million. Moreover, overall commitments for social housing units increased by 32 percent between 1978 and 1979 (Table 4.42).

In 1978, the main social housing programs involving capital budget funds for direct loans (Section 43 Public Housing and Sections 15.1/34.18 Non-Profit and Cooperative Housing) accounted for \$333.6 million, or 28.1 percent of CMHC's capital budget. In 1979, these programs accounted for \$28.9 million or 8.3 percent of the capital budget. By 1981, about 6.2 percent of the capital budget was used for direct loans under the social housing programs.

Considering only the substantial reduction achieved in capital fund authorization for direct loans, the substitution of private capital for direct lending under Section 56.1 has had a dramatic impact on cash requirements. However, requirements reflect not only funds required for non-budgetary loans and investments, but also budgetary expenditures for subsidies, grants and contributions. The reduction in capital funding achieved by the replacement of direct funding with private capital could be offset if subsidy requirements increase under the new programs. Indeed, differential interest contributions under the Section 56.1 Non-Profit and Cooperative Housing Programs have increased dramatically since 1979.

TABLE 4.42

SOCIAL HOUSING COMMITMENTS BY SECTION OF THE NHA
(Units/Beds)

<u>Section</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Public Housing Sections 40, 43	15,022	7,547	9,163	1,928	1,841	1,555
Non-Profit and Cooperative Housing Sections 15.1, 34.18	13,931	7,362	5,078	-	-	-
Non-Profit & Co-op Housing Section 56.1	-	-	2,948	20,734	24,430	24,758
<u>Total</u>	28,953	14,909	17,189	22,662	26,271	26,313

Source: CMHC Annual Reports and Administrative Data

SECTION 56.1 DIFFERENTIAL INTEREST CONTRIBUTIONS
(\$ Millions)

<u>1979</u>	<u>1980</u>	<u>1981</u>
1.0	16.6	60.9

The increase in subsidies reflects both the increasing number of Section 56.1 projects coming under subsidy as the programs have geared up since 1978 and the high level of mortgage interest rates, particularly in 1981. However, even the high subsidy level experienced in 1981 amounts to less than one-fifth the reduction in capital fund authorizations achieved between 1978 and 1979, and which continue to be realized on an annual basis.

Another way of viewing the effect on cash requirements for the Section 56.1 programs is to consider capital funding authorities that would have been required if projects were financed using direct loans rather than private capital. Estimates⁹ of the capital funding authorities required under these conditions are as follows:

<u>Year</u>	<u>Estimated Capital Authorities (\$ Millions)</u>
1978	89.0
1979	603.2
1980	871.1
1981	1,078.4

Over the period 1979 to 1981, when the programs were well underway, the average annual capital fund authorities would have been \$851 million.

When viewed in these terms, the impact on cash requirements of the switch to private sector financing has been substantial.

Since their introduction in 1978 to the end of 1981, it appears that the Section 56.1 programs have made a significant contribution to reducing cash requirements. However, this time period is quite short

9. The estimates are the capital costs associated with the annual Section 56.1 commitments shown in Table 4.42.

relative to the 35-year period over which projects are eligible for subsidy. Assuming that about 18,500 new commitments are made each year, the budgetary expenditures associated with Section 56.1 will accumulate rapidly (Table 4.43). In the long run, it appears likely that cash requirements will approach and even exceed pre-Section 56.1 levels.

4. Impact on Subsidy Costs

The subsidy cost for Section 56.1 projects is directly related to the interest rate at which funds can be obtained. To the extent that capital funding through approved lenders involves higher interest rates than direct lending, the subsidy cost to the federal government will be greater under the approved lender approach. Table 4.44 shows the difference between the average Government of Canada 3 to 5 year bond rate and the average interest rate on Section 56.1 projects over the period 1978 to 1981. While the difference varies considerably from year to year, it is clear that approved lender interest rates are higher, particularly in 1981 when the difference amounted to 2.7 percentage points.

If it were assumed that direct lending by CMHC could occur at a rate which is $\frac{1}{2}$ a percentage point above the average bond rate, an estimate of the difference in subsidy costs between direct and private financing can be made. Table 4.45 shows the estimated subsidy costs associated with each year's capital commitments for Section 56.1 projects for both private and direct lending. Over the four-year period since the inception of the programs, increased subsidy costs of approximately \$38 million or 13.3 percent of the subsidy under private financing would have resulted due to the difference between private financing interest rates and assumed rates for direct lending. If direct lending is assumed to occur at a full percentage point above the average long-term bond, the difference in subsidy costs falls to \$26 million or 9.1 percent of the subsidy under private financing. It should be recognized that these figures are estimated for the capital commitments made under the programs in the year of commitment only. They do not reflect the accumulated subsidy costs which would occur in subsequent years. Also, because the estimates are based on commitments, they are not comparable to the actual subsidy costs incurred as shown above.

TABLE 4.43

ESTIMATED DIFFERENTIAL INTEREST CONTRIBUTIONS - SECTION 56.1

<u>Section 56.1</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Differential Interest Contribution (\$Millions)	52.5	123.2	257.4	397.1	520.1	630.5
No. of Units	20,122	38,029	62,404	83,400	100,610	117,745

Source: CMHC Administrative Data

TABLE 4.44

AVERAGE INTEREST RATES, SECTION 56.1 PROJECTS AND
GOVERNMENT OF CANADA BONDS, 1978-1981

	(1) Average Government Of Canada 3 - 5 Year Bond Rate <u>%</u>	(2) Average Interest Rate Section 56.1 Projects <u>%</u>	Difference (2)-(1) <u>%</u>
1978	9.0	11.1	2.1
1979	10.4	12.1	1.7
1980	12.3	13.9	1.6
1981	15.5	18.2	2.7

Source: CMHC Section 56.1 Administrative Data
Bank of Canada Review, January 1982.

TABLE 4.45

ESTIMATED SECTION 56.1 SUBSIDY COSTS BASED ON ANNUAL COMMITMENTS
FOR PRIVATE LENDING AND DIRECT LENDING, 1978-1981

	<u>Capital Cost Commitment</u> (\$M)	<u>Subsidy Cost</u>		<u>Difference in Subsidy Cost (Private-Direct)</u> (\$M)
		<u>Private Lending</u>	<u>Direct Lending</u> (\$M)	
1978	89.0	6.4	5.1	1.3
1979	603.2	48.6	41.8	6.8
1980	871.1	84.0	75.1	8.9
1981	1,078.4	146.0	124.9	21.1
TOTAL	2,641.7	285.0	246.9	38.1

Source: CMHC Section 56.1 Administrative Data.

5. Summary

To summarize, the Section 56.1 programs have been effective in encouraging approved lenders to provide capital for social housing projects. Over 95 percent of the projects committed in 1981 were financed by approved lenders, while direct lending by CMHC was provided to only four Native projects under the programs. Moreover, the views of both lenders and others, including client groups and CMHC local offices, indicate that the provision of capital by approved lenders is working well, although some problems have been noted. Up to the end of 1981, the large decrease in non-budgetary funds realized by the substitution of private capital for direct loans has not been offset by increased budgetary outlays for project subsidies. However, over the longer term, expected rapid increases in subsidies will likely result in cash requirements at least equal to pre-Section 56.1 levels. Finally, because private lender interest rates are higher than interest rates that might be obtained under direct lending, the subsidy costs of the Section 56.1 programs are higher.

D. Additional Objectives

In addition to the objectives specified in the program manuals, the design and use of the Section 56.1 programs indicate that they are intended to achieve objectives with respect to the income mix of tenants, increases in the stock of rental housing and the promotion of non-profit and cooperative housing organizations. Consideration of these additional objectives indicates that two of the three are likely to be in conflict with the objectives stated in the program manuals. Achievement of a mix or blending of incomes among Section 56.1 households conflicts with the stated objective of focussing on low and moderate income households. In addition, the achievement of increases to the stock of rental housing conflicts with the objective of providing housing at minimum cost. This is because additions to the rental stock are generated primarily through new construction and, as shown in Section IV.B., the cost of providing rental housing through new construction is higher than the cost of acquiring existing units. Minimum costs could be achieved by concentrating on the acquisition of existing units, but this would add little to the stock of rental units. The cost difference between new construction and acquisition of existing units also gives rise to a conflict between the objective of increasing the rental stock and the stated objective of assisting low and moderate income households. If program

funds were concentrated on the acquisition of lower cost existing units, more units could be made available to low and moderate income households. However, this approach would add little to the stock of rental housing.

In this section, the extent to which each of these additional objectives has been achieved is examined. However, it should be recognized that conflicts exist between these objectives and those stated in the program manuals.

1. Income Mixing

The achievement of a mix of income groups in Section 56.1 projects was viewed as desirable for two reasons. First, a mix of assisted tenants with tenants paying market rents would contribute to the financial viability of the projects. Second, social problems associated with projects which contained high concentrations of low-income households would be reduced. Issues related to the financial viability and social aspects of Section 56.1 projects are addressed in other chapters of this report. The purpose of this section is to assess the extent to which the programs have achieved a mix of income groups within projects. As well, the concept of the lower end of market rent as a tool for promoting income mixing is assessed. Finally, the cost of requiring a mix of income groups in non-profit and cooperative housing is examined. As with the stated objectives, a measurable definition for income mixing in Section 56.1 projects is not available. For purposes of this study, the objective is interpreted in two ways. First, income mix is considered to refer to a distribution of households across different income size classes. The quintile distribution of renter households, which was used to define low and moderate income households in Section IV.A. above, is an example of such a distribution. Second, income mix is considered to be the integration of assisted households or households paying rents based on their income with unassisted households or households paying lower end of market rent. Support for both these interpretations of income mix is found in the program manuals. The sections dealing with Income Priorities state that "priorities will be given to proposals which support the principle of blending incomes and which intend to house a proportionate number of tenants who receive an income insufficient to permit them to rent modest housing accommodation...". The reference to "blending incomes" suggests a distribution of households across different income size

classes, while a "proportionate number" of tenants with insufficient income indicates a mix of assisted and unassisted households. The extent to which income mixing is achieved according to both these interpretations is examined below.

(a) Income Distribution

Income mixing in the sense of a distribution of households across income groups was intended to be achieved within Section 56.1 projects. However, the available data on Section 56.1 household income do not permit the examination of income distributions within individual projects. In this section the income distribution of Section 56.1 households for all projects grouped together is examined to provide an indication of the extent to which income mixing occurs at the aggregate level and may be occurring within individual projects.

A useful way to examine the distribution of Section 56.1 households among income groups is to use the quintile distribution for renter households as a norm. The quintiles serve as a norm in the sense that if Section 56.1 households have the same distribution among the income classes as the general renter population, they would be achieving complete income mixing. Alternatively, if all Section 56.1 households fall into one quintile, income integration would be at a minimum. Furthermore, the income quintiles provide a convenient framework for identifying low, moderate and higher income households. Table 4.46 presents the distribution of Section 56.1 households among the income quintiles for renter households, by project type and program type.

Considering all Section 56.1 households, a dispersion across all income classes is evident, with most households concentrated in the first three quintiles and a relatively small proportion in the highest quintile. Of course, the norm of complete income integration will not be achieved since the modest rental housing provided under Section 56.1 is unlikely to be attractive to households in the highest income brackets which demand luxury accommodation. However, the distribution of Section 56.1 households across income classes indicates that the programs are achieving a degree of income integration. Table 4.46 also indicates that the distribution of Section 56.1 households among quintiles is much more uniform for households in family projects

TABLE 4.46

DISTRIBUTION (PERCENT) OF SECTION 56.1 HOUSEHOLDS¹ BY INCOME
QUINTILES BY TYPE OF PROJECT AND TYPE OF PROGRAM

	Quintile				
	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>
<u>Renter Households</u>					
(Canada)					
Quintile Boundaries (\$)	7,753	14,625	21,500	30,350	
<u>Section 56.1 Households</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
All Sec. 56.1 Households	21.3	25.5	24.2	19.5	9.5
By Project Type:					
Family	14.7	21.5	28.1	24.0	11.6
Senior Citizen	46.5	40.5	9.3	2.4	1.3
By Program Type:					
Public Non-Profit	8.2	20.4	36.5	23.9	10.9
Private Non-Profit	28.7	29.9	20.7	13.7	6.9
Cooperative	12.2	19.1	26.1	28.8	13.8

Source: Section 56.1 Occupant Survey
HIFE 1980 Micro Data File and Projections by CMHC.

1. Includes households in self-contained units only.

than for households in senior citizen projects. Nearly 90 percent of senior citizen households fall into the first two quintiles as opposed to 36 percent of households in family projects.

Comparison of the distribution of these households by program type highlights some key differences among programs. The private non-profit program, which serves a higher proportion of senior citizen households, has the least uniform distribution with about 58 percent of households in the first two quintiles and more than one-quarter of the households in the lowest quintile. In contrast, the cooperative housing program is closest to a uniform distribution of households among the quintiles. The public non-profit program lies between the other program types in this regard, with the largest deviation from a uniform distribution occurring in the second quintile.

Households in provincially-operated projects in the Province of Quebec are not included in the data presented in Table 4.46. Although designated to receive assistance under Section 56.1, these projects are operated by the Province in a similar manner to public housing. As such, the projects are not geared to achieving a dispersion of households among income groups. About 91 percent of the households in these projects fall into the first quintile and 98 percent fall into the first two quintiles.

The distribution across income quintiles provides an indication of the income mix among all Section 56.1 households taken together. However, the unstated objective regarding income mix was intended to apply at the project level. That is, the intent is to achieve a mix of income groups within Section 56.1 projects. The distribution of Section 56.1 households across the income quintiles for renter households suggests, but does not confirm, that a mix of income groups is being achieved within projects. Because households in all projects are grouped together, the distributions shown in Table 4.46 could occur even though very little income mixing is achieved within individual projects. Had complete information on the income of all occupants in each project been available, it would be possible to examine the distribution of households across income quintiles within projects. However, the response rate to the survey was not high enough to provide reliable estimates of the income distribution of occupants at the individual project level.

(b) Assisted and Unassisted Households

The extent to which an income mix has been achieved within projects is examined using information on the proportion of assisted and unassisted households from the survey of occupants and project managers of Section 56.1 family and senior citizen projects. These two sources of information on the proportion of assisted households within projects provided generally consistent information. However, lack of data on certain projects or clear inconsistencies between responses of occupants and those of project managers meant that about 37 percent of the projects surveyed had to be eliminated from the analysis.¹⁰

While an optimum level or range of income mixing cannot be defined, it is clear that projects which have no assisted households or projects in which all households are assisted are not achieving a mix of assisted and unassisted households. However, such projects could still have income mixing in the sense used in the previous section. That is, the projects may have households distributed over different income quintiles even though none or all are paying rent based on their income.

The extent to which no income mixing occurs in Section 56.1 projects is shown in Table 4.47 which summarizes the proportion of assisted households within projects, based on responses to the project manager's questionnaire. About 29 percent of all projects examined had no assisted households while all households were assisted in about 16 percent of the projects. Thus, no income mix was evident in about 45 percent of the projects examined. These projects, however, accounted for only 23 percent of all units in the projects under

10. Of the 283 projects reviewed, there were no occupants' responses to the rent-geared-to-income question for 54 projects. These were mostly small projects of 5 units or less. In addition a discrepancy of greater than 15 percent between the project manager's estimate of the percentage of RGI units and the estimates based on the occupants' response occurred for 51 projects. These projects were not included, leaving 178 projects for consideration.

TABLE 4.47

DISTRIBUTION OF SECTION 56.1 PROJECTS ACCORDING TO THE PERCENTAGE OF ASSISTED HOUSEHOLDS
WITHIN A PROJECT, BY PROJECT TYPE

Percent of Households Assisted	FAMILY			SENIOR			ALL PROJECTS		
	Number of Projects	Percent of Projects %	Percent of Units %	Number of Projects	Percent of Projects %	Percent of Units %	Number of Projects	Percent of Projects %	Percent of Units %
0	40	27.7	8.4	12	35.3	34.4	52	29.2	15.0
1 - 10	7	4.9	18.9	0	0	0	7	3.9	14.2
11 - 15	6	4.2	8.0	2	5.9	14.9	8	4.5	9.7
16 - 25	28	19.4	27.8	1	2.9	2.2	29	16.3	21.3
26 - 50	21	14.6	19.3	5	14.7	10.3	26	14.6	17.0
51 - 75	11	7.6	6.0	2	5.9	2.5	13	7.3	5.1
76 - 89	8	5.6	4.7	4	11.8	10.3	12	6.8	6.1
90 - 99	2	1.4	1.6	1	2.9	9.9	3	1.7	3.7
100	21	14.6	5.3	7	20.6	15.5	28	15.7	7.9
Total	144	100.0	100.0	34	100.0	100.0	178	100.0	100.0

Source: Section 56.1 Project Managers Survey.

scrutiny, indicating that zero income mixing occurs most frequently in small projects. Zero income mixing is more prevalent in senior citizen projects where 56 percent of the projects, accounting for 50 percent of the units, had no income mixing. In contrast, only 42 percent of family projects had zero income mixing but these projects tend to be small accounting for only 14 percent of units in the projects analysed.

The rather high number of projects which had no assisted households is partly due to their small size. Thirty-two of the 52 projects in this category had 10 units or less. In many cases these small projects consist of individual units which are administered as part of a larger subsidy pool with several scattered units. Examination of the remaining 20 projects with more than 10 units indicates that almost one-half are located in Quebec and most are private non-profit projects. Because very few Section 56.1 subsidy dollars are returned unused to CMHC, it appears that these projects require the full subsidy to bridge the gap between economic and lower end of market rent. Alternatively, project groups may utilize the full subsidy to reduce the rent as much as possible, charging everyone the same minimum rent so that individual households are not identified as receiving assistance.

The data in Table 4.47 indicate that some degree of income mixing occurs in about 55 percent of the projects examined, accounting for over three-quarters of the units. The question of whether the degree of income mixing achieved in these projects is acceptable is difficult to address since the programs do not specify an acceptable range in the percentage of assisted units for which projects should strive. Any specification of an acceptable range for income mixing is essentially arbitrary but some guidance is available from program manuals. The program manual for the cooperative program indicates that cooperative groups should strive for 15 percent assisted households. Thus, a conservative boundary for the lower end of an acceptable range for the percentage of

assisted households is assumed to be 11 percent. Specification of an upper boundary for the percentage of assisted households is more difficult since the Section 56.1 manuals provide no guidelines in this direction. Thus, an arbitrary upper boundary for an acceptable range is assumed to be 50 percent.

About 35 percent of all projects examined fall within the arbitrarily defined acceptable range of 11 to 50 percent assisted households. These projects tend to be larger than average, accounting for almost half the units in the projects included in the analysis. The proportion of family projects and units included in the acceptable range is higher than that for senior citizen projects.

The Quebec projects operated by the Province as public housing do not strive for a mix of assisted and unassisted tenants. Over 95 percent of the households in those projects surveyed indicated that they were paying rent based on their income.

(c) Lower End of Market Rent

One of the program design features put in place to promote income mixing was the lower end of market rent (LEMR), used as the rent level for non-income-tested households. The intent of establishing project rent levels below average market rent was to ensure non-profit and cooperative projects were sufficiently competitive with private accommodation to attract moderate and higher income households.

Program guidelines do not define the "lower end" of market rent in terms of a set proportion of average market rents. Rather, LEMRs are established by CMHC branch offices based on local market analyses and, in the case of disentangled projects, by provincial housing corporations.

Views submitted on the programs indicate that many non-profit organizations feel that LEMRs are set too high and fluctuate erratically, thus reducing their ability to house the intended target group and to plan future

revenues. On the other hand, LEMRs which are too low mean that non-income-tested households receive a higher proportion of the available subsidy, reducing the remaining amount of subsidy for those most in need.

For the purpose of the evaluation, LEMRs are compared with average market rents by urban areas. An appropriate range for the "lower end" of market rent is arbitrarily selected as 85 to 95 percent of the average market rent. LEMRs below 85 percent are judged to be too low while those above 95 percent are considered too high. Data for this comparison have been obtained from two sources. First, data on LEMRs obtained from the national survey of Section 56.1 projects are compared with market rents for selected cities provided by the Statistical Services Division of CMHC. Second, LEMRs for new projects identified in the 1981 commitments data file were compared with 1981 market rents for newly-constructed buildings by Census Metropolitan Areas provided by CMHC Appraisal staff. The results are shown in Tables 4.48 and 4.49.

It is apparent from these tables that there are wide variations in the interpretation of the "lower end" of market rent. On an overall basis, the survey data on rents produces an average LEMR which is 88 percent of market rent. This falls within the acceptable range determined for the evaluation. For newly-constructed dwellings committed in 1981, the data show an average LEMR which is 80 percent of market rent. This is judged to be too low, using the evaluation criteria.

Further analysis of the distribution of the relationship between the LEMR and market rents, as presented in Table 4.50, shows greater consistency between the two approaches than the overall averages suggest. In both instances, the proportion of cases in the "acceptable" range of 85-95 percent is 30 percent. Close to one-half of the cases involve LEMRs lower than 85 percent of market rent.

Table 4.48 COMPARISON OF LOWER END OF MARKET RENTS TO MARKET RENTS PROVIDED BY STATISTICAL SERVICES DIVISION FOR SELECTED CITIES

CITY	# BEDROOMS	LOWER END OF MARKET RENT \$	MARKET RENT	LEMR AS A % OF MARKET RENT %
Brantford	2	404	295	137.0
	3	374	355	105.0
Hamilton	2	285	312	91.3
	3	338	392	86.2
Oshawa	1	240	307	78.2
	2	304	341	89.1
	3	305	411	74.2
Ottawa	1	281	318	88.4
	2	321	394	81.5
	3	457	493	92.7
Thunder Bay	3	391	380	102.9
Toronto	1	283	339	83.5
	2	313	403	77.7
	3	606	479	126.5
Mississauga	1	252	343	73.5
	2	314	407	77.1
	3	357	470	76.0
Brampton	2	400	354	113.0
	3	460	396	116.2
Windsor	1	175	281	62.3
	2	205	361	56.8
	3	295	530	55.7
Peterborough	3	264	358	73.7
Montreal	1	221	263	84.0
	2	252	275	91.6
	3	286	297	96.3
Quebec City	1	259	277	93.5
	2	309	304	101.6
	3	293	343	85.4
Halifax	3	302	397	76.1
Overall Average				88.2

Source: Section 56.1 Occupants and Project Managers Survey and Statistical Services Division.

Table 4.49 COMPARISON OF LOWER-END OF MARKET RENTS BY CMA TO
MARKET RENTS FOR NEWLY COMPLETED STRUCTURES (1981)
(COMMITMENT DATA)

CMA	ROW 3 BEDROOM UNIT			APARTMENT 2 BEDROOM		
	LEMR \$	MARKET RENT \$	LEMR AS A % OF MARKET RENT %	LEMR \$	MARKET RENT \$	LEMR AS A % OF MARKET RENT %
<u>Atlantic</u>						
St. John's	400	450	88.9	-	-	-
Halifax	478	650	73.5	392	560	70.0
<u>Quebec</u>						
Montreal	330	460	71.7	220	420	52.4
Quebec	420	450	93.3	355	400	88.8
<u>Ontario</u>						
Hamilton	415	455	91.2	390	550	70.9
London	395	450	87.8	365	395	92.4
Ottawa	415	600	69.2	363	510	71.2
Toronto	510	650	78.5	439	550	79.8
<u>Prairies</u>						
Winnipeg	410	425	96.5	350	450	77.8
Regina	460	535	86.0	450	470	95.7
Saskatoon	390	560	69.6	325	450	72.2
Edmonton	515	675	76.3	452	475	95.2

OVERALL AVERAGE % 80.4%
For 3 Bedroom Row 81.9%
For 2 Bedroom Apt. 78.8%

SOURCE: LEMR - CMHC Section 56.1 Administrative Data.
Market Rent - CMHC Appraisal Staff.

Table 4.50 SUMMARY OF THE RANGES OF LOWER END OF MARKET RENT
IN RELATION TO MARKET RENT FOR SURVEY DATA AND
FOR 1981 COMMITMENT DATA

LEMR AS A % OF MARKET RENT								
	Over 95%		85-95%		Under 85%		Total	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Survey Data	7	23.3	9	30.0	14	46.7	30	100.0
Commitment Data	3	13.1	7	30.4	13	56.5	23	100.0

1. Each LEMR given for unit type and city is considered to be one observation.

Source: Section 56.1 Occupant and Project Manager Surveys,
Statistical Services Division, CMHC Section 56.1
Administrative Data and CMHC Appraisal Staff.

To provide additional evidence on the relationship between LEMRs and market rents, project managers were asked to indicate how LEMRs in their projects compared with rents in their local market areas. It is apparent from the results in Table 4.51 that project managers view the relationship differently than the objective analysis suggests. Eliminating cases of non-response, 45 percent of project managers feel that LEMRs were lower than market rents, which should approximate the "acceptable" range. Only 17 percent identified LEMRs as much lower than market rents, while 38 percent felt that they were about the same or higher than comparable market rents. By region, there is relatively little variation, although in Ontario, over one-half of the project managers indicated that LEMRs were about the same as market rents.

Table 4.51 PROJECT MANAGERS' VIEWS ON THE RELATIONSHIP BETWEEN
LOWER END OF MARKET RENT AND MARKET RENTS

	Atlantic		Quebec		Ontario		Prairies		B.C.		Total	
	#	%	#	%	#	%	#	%	#	%	#	%
LEMRS:												
Much												
Higher	1	4.2	6	6.4	1	1.6	-	-	1	4.8	9	3.9
Higher	-	-	6	6.4	2	3.2	-	-	-	-	8	3.5
About												
the												
same	2	8.3	16	17.0	36	57.1	9	31.0	8	38.1	71	30.7
Lower	16	66.7	48	51.1	15	23.8	16	55.2	9	42.8	104	45.0
Much												
Lower	5	20.8	18	19.1	9	14.3	4	13.8	3	14.3	39	16.9
Total	24	100.0	94	100.0	63	100.0	29	100.0	21	100.0	231	100.0

Source: Section 56.1 Project Managers Survey.

The initial analysis on the lower end of market rent found that only 30 percent of LEMRs were within 85-95 percentage points of the average market rent. Based on project managers' perceptions, this would increase to 45 percent. The objective data indicated that in close to 50 percent of the cases examined, LEMRs were less than 85 percent of the market rent. The implications of this finding are that non-income-tested occupants are receiving subsidized rents in these projects in order to achieve the desired income mix. It should be noted that this finding is not supported by the perceptions of project managers, only 17 percent of whom felt that LEMRs were much lower than market rents.

One problem with the analysis of market rents and LEMRs was the treatment of utility costs. There was no consistent pattern on the inclusion of utility costs in rents. Some market rents and lower end of market rents included utility costs, others did not. This may have some impact on the level or magnitude of rents used in the analysis.

Further support for the relationship between LEMR and market rents can be found in a study completed by CMHC's National Office Support Centre in May 1981. The study used actual projects in selected cities and calculated market rents for each project. On average, LEMRs were found to be 87 per cent of market rents. This is similar to the findings of the analysis contained here and also within the acceptable level for LEMR.

In a previous section on Affordable Housing, it was pointed out that the level of LEMRs for the most part permits moderate income family households to attain affordable housing. Increasing the LEMR to a level closer to market rents would reduce the extent to which affordable housing could be provided to moderate income households, and thus would inhibit achievement of the "low and moderate income" objective of the program. However, the use of LEMRs as a means of ensuring that moderate income households are served through the programs has a major disadvantage. Households paying the lower end of market rent

are not income-tested. This means that a low LEMR may benefit moderate income households, but the same benefits would be given to higher-income groups. The result is a violation of the principle of vertical equity.

For senior citizens, the situation is not the same. Even at current levels of LEMR, it was shown that moderate income households would experience problems of affordability. Thus, those households able to afford the lower end of market rent are not in the "low and moderate income" target group, yet would receive subsidized rents at current or lower levels of LEMR.

This analysis supports the proposition that the objective of income mixing is inconsistent with the objective of serving low and moderate income households. The cost of achieving a mix of income groups, in terms of the reduction in low and moderate income households able to be served by the programs is examined below.

(d) The Cost of Income Mixing

The concept of a mix of income groups housed in non-profit and cooperative housing projects emanated from a concern with the creation of low-income housing ghettos. It must be recognized, however, that there is a cost associated with achieving this objective that acts to reduce the number of low-income households assisted by the programs.

To illustrate this cost, a hypothetical situation is used, with parameters for the illustration based on averages for all Section 56.1 projects. The assumptions and calculations are shown in Chart 4.2.

The result of this calculation is that 13,294 more income-tested units could be provided for the same amount of subsidy assistance in the first year than is the case with current program parameters. This is an increase in assisted units of 212 percent.

There are two factors contributing to the reduced number of RGI units attainable with the current programs. The first is that

Chart 4.2 ILLUSTRATION OF THE NUMBER OF INCOME-TESTED
HOUSEHOLDS WHICH COULD BE SERVED FOR THE SAME
SECTION 56.1 SUBSIDY BUDGET IN THE ABSENCE OF
INCOME MIXING

Assumptions¹

Project Capital Costs	\$48,481/unit
Interest Rate	18%
Average LEMR	\$352.57/unit/month
Average RGI rent	\$249/unit/month
Operating costs	\$163/unit/month
Total 1981 Commitments	22,243 units

Calculations for Program with Income Mixing

Maximum Federal Subsidy (Mortgage payment @ 18% less mortgage payment @ 2%)	\$542.23/unit/month
Total Annual Subsidy (all Section 56.1 units)	\$144,730,000
Economic Rent (Mortgage Payment \$702.62 + Operating Costs \$163)	\$865.62/unit/month
Total Annual Expenses	\$231,050,000
Total Rent Revenue Required (Total Expenses less Total Subsidy)	\$86,320,000
Rent Available from RGI units	\$249/month/unit
Rent Available from LEMR units	\$352.57/month/unit
Given Total Number of Unit Commitments and Total Rent Revenue Required:	
Number of RGI units	6265
Number of Market Rent Units	15,978
% RGI	28.16%

Calculations for Program with No Income Mixing (i.e. 100% RGI)

Total Annual Subsidy (same as above)	\$144,730,000
Economic Rent	\$865.62/unit/month
RGI Rent	\$249/Unit/month

Assistance Required to Bridge Gap Between Economic and RGI Rent (\$865.62 - 249.00)	\$612.62
---	----------

No. of RGI Units which Could be Provided (\$144,730,000 ÷ (612.62 x 12))	19,559
---	--------

Differences Between Two Programs

Difference in RGI Units with no income mixing	+13,294
---	---------

Difference in Total Units with no income mixing	-2,684
---	--------

1. Assumptions are based on average data for Section 56.1 projects obtained from the Survey of Occupants and Project Managers and Administrative Data Files.

subsidy budgets for Section 56.1 programs are allocated on the basis of units rather than budgetary expenditures. This means, with income mixing, a high proportion of the available units are allocated to non-income-tested households, reducing the number available for low-income groups. The second factor is that a considerable proportion of the available subsidy is used to reduce economic rents to the lower end of market rents paid by non-income-tested households. This is partially due to the fact that economic rents are not competitive with market rents, but also due to the gap between LEMRs and market rents illustrated previously.

The end result is that the requirement for income mixing in non-profit and cooperative housing projects bears a cost with respect to the ability of the programs to resolve low-income housing needs.

(e) Summary

Considering households in all projects together, the Section 56.1 programs are serving a mix of income groups in relation to the income distribution of all renter households. A more uniform distribution of households among quintiles, indicating a better income mix, is evident for family projects than for senior citizen projects which have a higher concentration of households in the two lowest quintiles. With respect to program type, the private non-profit program has the least uniform distribution, with the highest concentration of households in the two lowest income quintiles.

The distribution of all Section 56.1 households grouped together across income quintiles suggests that income mixing occurs, but provides no information regarding income mixing within individual projects. While the available data do not permit an examination of the income distribution of households within individual projects, data on the extent of assisted and unassisted households within projects are available. These data show that no mixing was evident in about 45 percent of

the projects analyzed although these projects tend to be small and account for only 23 percent of the total units. The extent of zero mixing was greater in senior citizen projects than in family projects. When assessed against an arbitrarily defined acceptable range of 11 percent to 50 percent assisted households, only 35 percent of the projects examined fell into the acceptable range.

This section has also examined the lower end of market rent as a tool for encouraging income mixing. Using objective data, it was found that only 30 percent of LEMRs were within the range selected as acceptable in relation to average market rents. Most LEMRs were found to be lower than this range, indicating that as a means of promoting income mixing, they were likely successful in attracting non-income-tested households. Low LEMRs, however, are an inequitable means of allocating subsidies. These findings were not supported by the perceptions of project managers, most of whom indicated that LEMRs were lower or the same as market rents.

The cost of income mixing was also reviewed, in terms of the restrictions it places on enabling the programs to serve low and moderate income households.

2. Rental Stock

The Section 56.1 programs also have been designed to increase the stock of rental housing particularly the stock of affordable rental housing. This objective is implied by the use of the programs to generate additional rental accommodation in response to tight rental market conditions. Additional Section 56.1 unit allocations have been made annually since 1980 for this purpose. Announcements of these additional allocations indicate that they were intended to increase the stock of rental housing in areas of low vacancy rates, for the purpose of assisting low and moderate income families to find suitable accommodation at a price they could afford. The objective is also implicit in the program manuals which emphasize new construction over the acquisition of existing units in areas with low vacancy rates. The purpose of this section is to assess the extent to which the programs have increased the stock of rental housing. A subsequent section examines the consistency of Section 56.1 activity with rental market conditions.

The Section 56.1 programs make a net contribution to the stock of self-contained rental units in two ways. First, the programs add to the stock through the construction of new rental units. Second, the conversion of non-residential buildings to rental accommodation or the conversion of existing residential buildings to provide more rental accommodation also result in a net increase to the stock of rental units. It should be noted that the programs also prevent net decreases to the rental stock through the acquisition and rehabilitation of existing residential buildings. However, such activity does not usually involve an immediate addition to the stock. Rather, the effects are likely to be felt in the future in the form of decreased demolitions of the older stock.

(a) New Construction

An indication of the relative contribution of the programs to the total rental stock through new construction is provided in Table 4.52. To the end of 1981, Section 56.1 dwelling starts comprised only 0.7 percent of the total rental stock in Canada in 1980. The most significant contributions to the rental stock have occurred in Newfoundland, Ontario and British Columbia, while the programs have had the least influence in P.E.I., Nova Scotia, Saskatchewan and Alberta. This apparently minor contribution of the programs to the rental stock primarily reflects the short time period they have been in existence. Although introduced in 1978, the first full year of operation for the programs was 1979. However, 1979 can be considered a "gearing up" year as only 2,378 dwelling starts were generated. It was not until 1980 and 81 when 7,684 and 8,702 starts respectively were forthcoming that the programs reached their potential.

A better indication of the influence of Section 56.1 on the rental stock can be achieved by examining annual additions to the rental stock through new construction (Table 4.53). From 1979, when the first Section 56.1 dwelling starts occurred, to the end of 1981, Section 56.1 programs have accounted for 9.9 percent of all rental housing starts. For the years 1980 and 1981, when the programs were operating at full potential, Section 56.1 provided 13.3 percent of the total additions to the stock of rental housing through new construction. While this contribution to the rental stock at the national level is substantial, Section 56.1 has been particularly important in metropolitan

TABLE 4.52

SECTION 56.1 DWELLING STARTS AND TOTAL RENTAL STOCK

	(1) Section 56.1 Dwelling Starts to end of 1981	(2) Rental Housing Stock 1980	(3) Proportion (1) to (2)
	(units)	(units)	(percent)
Newfoundland	316	26,190	1.2
P.E.I.	5	8,710	0.1
Nova Scotia	121	66,400	0.2
New Brunswick	281	56,590	0.5
Quebec	4,543	923,340	0.5
Ontario	9,502	1,010,610	0.9
Manitoba	861	107,440	0.8
Saskatchewan	113	84,970	0.1
Alberta	624	250,840	0.2
B.C.	2,398	312,610	0.8
TOTAL	18,764	2,847,700	0.7

Source: CMHC Administrative Data.

TABLE 4.53

RENTAL DWELLING STARTS, SECTION 56.1 AND TOTAL CANADA, 1979-81

	(1) Section 56.1 Dwelling Starts	(2) Estimated Total Dwelling Starts	(3) Proportion (1) to (2)
	(units)	(units)	(percent)
1979	2,378	65,896	3.6
1980	7,684	54,264	14.2
1981	8,702	69,258	12.6
TOTAL	18,764	189,418	9.9

Source: CMHC Administrative Data.

areas. For the years 1980 and 1981 the Section 56.1 programs accounted for 16.8 percent of all rental housing starts in the 23 Census Metropolitan Areas (Table 4.54). In Oshawa and Hamilton, the non-profit and cooperative programs contributed 75 percent and 68.3 percent respectively of total dwelling starts intended for the rental market, while in Chicoutimi-Jonquière and Winnipeg almost one-half of all rental starts were attributed to Section 56.1. The programs also made significant contributions to the rental stock in the two largest CMAs, accounting for one-third of rental starts in Toronto and almost one-fifth in Montreal.

Contributions to the rental stock through new construction have been generated primarily by the private non-profit program which accounts for 41.1 percent of all new units committed to the end of 1981 (Table 4.55). However, the public non-profit program which accounts for 36.3 percent of all new units committed, concentrates most heavily on the provision of new units. Over 90 percent of all units committed under the public non-profit program were to be provided through new construction. In contrast, the private non-profit and cooperative programs utilize existing buildings to a greater extent. About 62 percent of all units committed under these programs were to be provided through new construction.

TABLE 4.54

DWELLING STARTS, INTENDED FOR THE RENTAL MARKET
BY CMA 1980 AND 1981

	<u>Total Rental Starts</u>	<u>Section 56.1 Starts</u>	<u>Proportion of Section 56.1 to Total Rental Starts</u>
	(units)	(units)	(percent)
Calgary	8,001	312	3.9
Chic-Jonq.	397	189	47.6
Edmonton	9,308	211	2.3
Halifax	686	22	3.2
Hamilton	628	429	68.3
Kitchener	1,208	246	20.4
London	1,945	71	3.7
Montreal	7,823	1,435	18.3
Oshawa	411	321	78.1
Ottawa-Hull	2,933	625	21.3
Quebec	3,212	595	18.5
Regina	1,062	62	5.8
Ste.Cath.-Niag.	334	124	37.1
Saint John	18	-	-
St. John's	1,175	284	24.2
Saskatoon	1,841	-	-
Sudbury	147	24	16.3
Thunder Bay	407	133	32.7
Toronto	12,108	4,574	37.8
Vancouver	13,493	1,814	13.4
Victoria	1,310	-	-
Windsor	1,421	71	5.0
Winnipeg	687	325	47.3
 TOTAL	 <u>70,555</u>	 <u>11,867</u>	 <u>16.8</u>

Source: CMHC Administrative Data.

TABLE 4.55

SECTION 56.1 COMMITMENTS FOR NEW AND EXISTING UNITS,
BY PROGRAM TYPE, 1978-81

<u>Program Type</u>	<u>New</u>		<u>Existing</u>		<u>Total</u>	
	(units)	(%)	(units)	(%)	(units)	(%)
Public	14,250	36.3	1,246	7.9	15,496	28.2
Non-Profit	(92.0)		(8.0)			
Private	16,132	41.1	9,820	62.5	25,952	47.3
Non-Profit	(62.2)		(37.8)			
Cooperative	7,534	19.2	4,567	29.1	12,101	22.0
	(62.3)		(37.7)			
Missing	1,288	3.3	79	0.5	1,367	2.5
	(94.2)		(5.8)			
TOTAL	39,204	100.0	15,712	100.0	54,916 ¹	100.0
	(71.4)		(28.6)			

¹ Total differs slightly from that for total units committed under Section 56.1 shown elsewhere in this report because the designation of new or existing is missing for some projects.

Numbers in parentheses indicate the percentage of new/existing units for each Program Type.

Source: CMHC Section 56.1 Administrative Data.

(b) Conversions

An accurate indication of additions to the rental stock resulting from conversions cannot be derived from the available data. Information is available on the number of Section 56.1 projects undertaking rehabilitation activity, but rehabilitation does not necessarily involve conversions which change the number of units. Commitments data to the end of 1981 show that about one-quarter of all projects providing self-contained rental units were designated to receive Non-Profit RRAP assistance. As shown in Table 4.56, these projects accounted for 15.7 percent of all Section 56.1 units committed and almost 90 percent are located in the two largest provinces where most of the older housing stock exists.

The extent to which these units involve contributions to the rental stock through conversions is unclear, although it is likely to be small. In many projects RRAP assistance may be used only for rehabilitation without conversions which would add to the rental stock. Also, because RRAP assistance is only available for existing residential buildings, the number of additional units generated through conversions is likely to be small. The level of RRAP activity for Section 56.1 projects does, however, suggest that the programs are contributing significantly to the preservation and retention of the existing rental stock.

Conversions can also be generated through projects which involve the purchase of existing buildings but which are not designated to receive RRAP assistance. Such projects could involve conversions of existing residential or non-residential buildings. Again, the extent to which such conversions have occurred under Section 56.1 is unknown. Commitments for existing projects, including those receiving Non-Profit RRAP, accounted for about 29 percent of all units committed to the end of 1981 (see Table 4.55). As indicated, it is likely that only a small proportion of these commitments would result in net additions to the rental stock through conversions. In contrast, commitments for new units amounted to 71 percent of all commitments. Assuming these projects are carried through to completion, all units would be additions to the rental stock. Thus, the major contribution of the Section 56.1 programs to the rental stock has been through new construction. Conversions also add to the stock but their effect is probably small in relation to new construction.

TABLE 4.56

COMMITTED UNITS DESIGNATED TO RECEIVE NON-PROFIT RRAP
TO END OF 1981, BY PROVINCE

	(1) Total Units ¹ Committed		(2) Units in Projects to Receive Non-Profit RRAP		(3) Proportion (2) to (1)
	Number	%	Number	%	%
Newfoundland	588	1.1	22	0.3	3.7
P.E.I.	63	0.1	7	0.1	11.1
Nova Scotia	725	1.3	158	1.8	21.8
New Brunswick	1,044	1.9	283	3.3	27.1
Quebec	19,289	34.8	5,620	64.6	29.1
Ontario	17,670	31.9	2,200	25.3	12.5
Manitoba	2,432	4.4	50	0.6	2.1
Saskatchewan	2,954	5.3	-	-	0.0
Alberta	2,446	4.4	47	0.5	1.9
B.C.	8,263	14.9	315	3.6	3.8
TOTAL	55,474	100.1	8,702	100.1	15.7

1. Self-contained units only.

Source: CMHC Section 56.1 Administrative Data.

(c) Hostel Beds

The Section 56.1 programs also contribute to the provision of hostel beds, both with and without care facilities. The main clientele served are the elderly, the disabled and others such as transients, occupants of transition houses (half-way houses for parolees, former alcoholics and drug addicts), homes for victims of family violence and group homes for children.

Over the period 1978-81, commitments for over 11,000 hostel beds were made under the Section 56.1 programs (Table 4.57). Almost 40 percent of these commitments were in the Province of British Columbia, with Québec and Ontario together accounting for about 35 percent. Hostel bed commitments reached a peak in 1980 at 4,167 beds and declined by 14 percent to about 3,600 beds in 1981.

Hostel beds have accounted for about 17 percent of all commitments (units and beds) since the inception of the programs. To provide an indication of the contribution of Section 56.1 programs to the stock of hostel beds in Canada, expected additions to the stock as a result of commitments over the 1978 to 1981 period are compared to total beds in homes for special care as defined under the Canada Assistance Plan (CAP).¹¹ These are residential welfare institutions listed in federal provincial agreements for cost sharing under CAP. As of March, 1982, the number of rated beds (i.e. bed capacity) in homes for special care in Canada was 226,328. This total includes beds provided by private, proprietary institutions, provincial or municipal institutions and voluntary or charitable institutions.

Data on loan approvals for Section 56.1 hostel beds indicate about 75 percent of all hostel beds were to be provided through the construction of new buildings and, hence, represent additions to the stock. Additions to the stock of hostel beds can also result from the acquisition and conversion of existing buildings although the extent to which this occurs is unknown. Assuming 75 percent of commitments involve new construction, the Section 56.1 programs would result in an additional 8,418 beds based on commitments between

11. Health and Welfare Canada, Statistical Information on Homes for Special Care. March 31, 1982.

TABLE 4.57

SECTION 56.1 HOSTEL BEDS COMMITTED BY PROVINCE 1978 - 1981

<u>Province</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Total</u>	
	(Beds)				(Beds)	%
Nfld.	6	65	32	4	107	1.0
P.E.I.	33	59	67	12	171	1.5
N.S.	19	130	222	145	516	4.6
N.B.	0	355	270	134	759	6.7
Que.	50	91	546	1,679	2,366	21.1
Ont.	144	81	943	348	1,516	13.5
Man.	0	162	240	108	510	4.5
Sask.	40	87	112	188	427	3.8
Alta.	43	117	114	160	434	3.9
B.C.	439	1,550	1,621	808	4,418	39.4
TOTAL	774	2,697	4,167	3,586	11,224	100.0

Source: CMHC Section 56.1 Administrative Data.

1978 and 1981. Moreover, it is likely that almost all of these would be accepted as residential welfare institutions eligible for cost sharing under CAP.¹²

Over the period 1978 to 1981, Section 56.1 commitments for new hostel beds represent 3.7 percent of the total bed capacity in homes for special care in Canada. If beds provided by private, proprietary institutions are removed from the total, the Section 56.1 commitments account for 5.6 percent of beds provided through governmental and voluntary organizations. These figures indicate that Section 56.1 has made a substantial contribution to the stock of hostel beds over a relatively short period of time, especially in comparison with the estimated contribution of the programs to the rental stock (0.7 percent of the rental stock) over the same time period. However, it must be recognized that this estimate for hostel beds is based on commitments while the contribution to the rental stock is based on Section 56.1 dwelling starts data.

Commitments data indicate that the private non-profit program provides most of the hostel accommodation under Section 56.1 (Table 4.58). Private non-profit projects accounted for three-quarters of all hostel bed commitments, including almost 90 percent of commitments intended for other special groups and 70 percent of commitments for senior citizens. Almost all the remaining hostel bed commitments were generated through the public non-profit program, mostly for senior citizens. The cooperative program accounts for less than one percent of all hostel bed commitments.

The main clientele groups for hostel bed accommodation provided under the Section 56.1 programs are the elderly (62 percent) and other special groups (34 percent). In contrast, the handicapped are intended to benefit from about 4 percent of hostel bed commitments.

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12. Residential welfare institutions acceptable as homes for special care include homes for the aged, nursing homes, hostels for transients, child care institutions, homes for unmarried mothers and homes of other kinds including rape crisis centres, transition homes for battered women, rehabilitation centres for alcoholics and drug addicts and institutions for the physically handicapped and/or mentally retarded. Almost all Section 56.1 hostel bed commitments would fall into these categories. For more detail on types of homes for special care see National Health and Welfare, Revised Notes on Homes for Special Care Under the Canada Assistance Plan, April 1982.

TABLE 4.58

SECTION 56.1 HOSTEL BEDS COMMITTED BY INTENDED CLIENT
GROUP AND PROGRAM TYPE, 1978-81

<u>Program Type</u>	<u>INTENDED CLIENT GROUP</u>				<u>Total Beds</u>	<u>%</u>
	<u>Senior Citizen</u>	<u>Handicapped</u>	<u>Other Special Groups</u>			
Public Non-Profit	2,093	125	278		2,496	22.2
Private Non-Profit	4,864	342	3,324		8,530	76.0
Cooperative	10		32		42	0.4
Missing ¹			156		156	1.4
TOTAL	6,967 (62.1)	467 (4.2)	3,790 (33.8)		11,224	100.0

¹ The missing category indicates hostel beds which were committed but which were not identified by program type.

Source: CMHC Section 56.1 Administrative Data.

(d) Summary

The Section 56.1 Non-Profit and Cooperative Housing Programs have contributed significantly to the annual additions to the stock of rental units through new construction. The programs accounted for 13.3 percent of dwelling starts intended for the rental market in 1980 and 1981 and were particularly important in some metropolitan areas where over one-half of the dwelling starts for rental accommodation were Section 56.1 units. Section 56.1 programs also contribute to the rental stock through the acquisition and conversion of existing buildings. While the number of new units generated through conversions is unknown, it is probably small in relation to new construction.

In addition to their contribution to the rental stock the programs are actively providing hostel beds, mostly through the construction of new buildings and primarily for the elderly. It is estimated that Section 56.1 will have contributed about 3.7 percent of all beds in homes for special care as a result of hostel bed commitments between 1978 and 1981. In relation to the contribution to the stock of self-contained rental accommodation this shows greater emphasis under Section 56.1 on the provision of hostel beds.

3. Participation of the Voluntary Sector

The focus of the Section 56.1 programs on non-profit and cooperative housing groups reflects an implicit objective to develop a non-governmental delivery capacity for housing. While part of the rationale for the increased emphasis placed on non-profit and cooperative housing stems from the negative social impacts which were generated by public housing programs, there also appear to be more positive reasons for this approach. These include a belief in the inherent benefits generated by a community-based, self-help program, the desire to provide opportunities for altruistic involvement of voluntary organizations and the advantages of providing alternatives to both private and public sector participation in housing.

Without comment on the appropriateness of such an approach, this section will deal solely with the extent to which the Section 56.1 programs have contributed to the development of the third sector.¹³ This will be done by examining the

13. Analysis of some of the social benefits derived from non-profit and cooperative housing is contained in Chapter VI.D.

TABLE 4.59

NON PROFIT AND COOPERATIVE HOUSING PROJECTS AND UNITS PROVIDED
THROUGH THE PREVIOUS PROGRAMS AND SECTION 56.1

	<u>Sections 15.1/34.18</u>		<u>Section 56.1</u>	
	<u>Projects</u>	<u>Units</u>	<u>Projects</u>	<u>Units</u>
Public	429	10,277	589	18,116
Private	1,321	33,376	1,025	34,806
Coop	289	7,779	504	12,312
Total	<u>2,039</u>	<u>51,432</u>	<u>2,118</u>	<u>65,234</u>

NOTE: Projects and units shown for Sections 15.1 and 34.18 were provided between 1973 and 1978, while those for Section 56.1 were provided between 1978 and the end of 1981.

Source: CMHC Section 56.1 Administrative Data.

level of third sector activity in housing before and since the introduction of the Section 56.1 programs. In addition the number of new non-profit and cooperative groups which have formed since the programs will be assessed.

The first indicator relates to the level of activity undertaken by private non-profit and cooperative housing groups. Table 4.59 shows the number of projects and units committed by non-profit and cooperative groups under the previous programs between 1973 and 1978 and under Section 56.1 between 1978 and the end of 1981. Unfortunately the data do not identify the actual number of groups involved in the provision of these projects. It is apparent, however, that in the four-year period from 1978 to 1981, non-profit and cooperative groups have provided approximately the same number of projects, with considerably more units, than they had in the previous five years.

From the point of view of the third sector, it is interesting to note the shift which has occurred among the three types of sponsoring organizations. Under the previous programs, private non-profit groups accounted for 65 percent of the projects provided, while public non-profits and cooperatives provided 21 percent and 14 percent respectively. Under the Section 56.1 programs, both public non-profit and cooperative housing have increased relative to the total number of units (to 28 and

TABLE 4.60

	NON-PROFIT AND COOPERATIVE APPROVALS BY GROUPS RECEIVING START-UP					
	<u>1976¹.</u>	<u>1977¹.</u>	<u>1978².</u>	<u>1979².</u>	<u>1980².</u>	<u>1981².</u>
Number of Groups	94	78	89	135	175	154
Number of Projects	102	85	104	135	175	225
Number of Units/Beds	4,952	2,797	2,604	4,677	8,121	7,325

1. CMHC Section 15.1/34.18 Administrative Data.
2. CMHC Section 56.1 Administrative Data.

24 percent respectively), while the proportion of projects provided by private non-profit corporations has decreased to 48 percent. In terms of the implicit objective to support third sector housing, this finding suggests that increased support has been provided to cooperative housing but not to private non-profit organizations.

A second indicator of the extent to which the programs have contributed to the development of a housing delivery capacity in the third sector is derived from the number of groups which have received Start-up funding. This is a very approximate measure of the increase in the number of third sector groups involved in the programs, as not all groups receive Start-up funding. Nevertheless, as shown in Table 4.60, there has been a steady increase over the years in the number of groups receiving Start-up funds and subsequently participating in the programs. This indicates an increase in the extent to which support is being given to develop third sector housing. Further details on the Start-up program are provided in a compendium report.

In sum, conclusive evidence on the impact of the programs on enhancing third sector housing capabilities is not feasible. A complete list of the groups involved with the programs, compared with those which were funded under the previous programs, is not readily available. The data presented here suggest that public non-profit housing

corporations and cooperatives have increased their share of program activity, while private non-profit organizations have decreased their involvement. On the other hand, there has been an increase in the number of private non-profit and cooperative housing groups which have received Start-up funding. This may simply reflect expanded use of Start-up rather than an increase in the magnitude of private non-profit and cooperative housing activity, although it does show increased support for the development of third sector housing capabilities.

V. HOUSING NEED AND PROGRAM EFFORT

This report began with a critical examination of the rationale for the Section 56.1 programs in the context of a continuing need for social housing assistance. The characteristics of those households determined to be in need were also identified. In the next chapter of the report, data were presented on the achievements of the programs with respect to the type of housing provided as well as the recipients of program benefits.

This chapter is intended to link together these two areas by examining the relationship between program activity and the need for assistance. It addresses the following two issues:

- (a) to what extent has activity under the programs been consistent with housing needs; and
- (b) to what degree does the level of program effort correspond to the magnitude of housing problems.

A. Program Activity and Housing Needs

As a first step in assessing the relationship between program activity and housing needs, the take-up of the programs can be compared to the pattern of need for the programs established earlier. This will be done here by comparing the distribution by province of activity under the programs with the distribution of housing need. Secondly, the general characteristics of the population served by the programs will be compared with the characteristics of those households determined to be in need.

Table 5.1 compares the distribution of program take-up by province with the distribution of renter households that experienced affordability problems in 1980.¹ The correspondence between program take-up and affordability needs is, for the most part, relatively close. There are discrepancies in Quebec, Saskatchewan and British Columbia

1. This comparison uses data on affordability problems rather than the more precise core housing need indicators, because analysis at a provincial level is not possible with the latter data.

TABLE 5.1

COMPARISON OF SECTION 56.1 PROGRAM TAKE-UP
WITH DISTRIBUTION OF AFFORDABILITY PROBLEMS

	<u>Distribution of Section 56.1 Units</u>	<u>Distribution of Affordability Problems</u>
Newfoundland	1.1	1.0
P.E.I. & Nova Scotia ¹	2.3	2.5
New Brunswick	2.7	2.4
Quebec	33.1	24.5
Ontario	28.2	36.6
Manitoba	4.3	4.4
Saskatchewan	4.9	3.5
Alberta	4.2	11.5
B.C.	19.2	13.5
Canada	100.0 ²	100.0

1. Affordability data based on very small samples are not published. Therefore the estimates for P.E.I. & Nova Scotia have been combined.
2. Units committed in the Northwest Territories and the Yukon have been omitted for the purpose of this comparison, because data on affordability problems in the territories are not available.

Source: CMHC Section 56.1 Administrative Data.
HIFE 1980 Micro Data File and Projections by CMHC.
See Notes 1 & 2, Annex 7.

where the proportion of Section 56.1 units provided is higher than the proportion of affordability problems, and in Ontario and Alberta where the proportion of units in the programs is less than the proportion of affordability needs. However, these differences are not major, with the exception of Alberta, where the proportion of units provided under the programs is less than half the proportion that would be expected on the basis of need.

The relatively close correspondence between program take-up and need at the provincial level may be attributable to the use of housing need estimates in the budget allocation process. The fact that Alberta is the exception to this pattern may reflect the sizable number of provincial programs which operate as alternatives to Section 56.1.

To provide an indication of the extent to which the characteristics of those served by the programs match the characteristics of those with core housing needs, Table 5.2 provides this comparison on the basis of age, family type and income quintile.

With respect to age, there is not a totally consistent pattern between the distribution of core housing need and the distribution of Section 56.1 households. Very young households (under the age of 24) are under-served by the programs, although there is a relatively high proportion of households in the next age category (25-34). Older households (over the age of 55) are marginally under-represented in the programs compared with their needs, but this may be due to the exclusion of hostel units in the comparison, which are primarily occupied by the elderly.

The comparison of household types served by the programs with those in core housing need shows that individuals are not served by the programs in proportion to their need, while families represent a higher proportion of the programs' clients than would be the case based on need. This is consistent with the priorities contained in program guidelines which identify family households as the first target group.² Female single parents are also somewhat under-represented in the programs.

2. In fact, some provinces, such as Ontario, do not permit individuals under the age of 60 to participate in the programs except on medical grounds.

TABLE 5.2

COMPARISON OF SECTION 56.1 CLIENT
CHARACTERISTICS WITH CORE HOUSING NEED

	<u>Distribution of Core Housing Need^{1.}</u>	<u>Distribution of Section 56.1 Households^{2.}</u>
<u>Age of Household Head</u>		
24 and under	20.8	9.8
25 - 34	20.5	32.1
35 - 44	10.2	15.3
45 - 54	10.3	7.3
55 - 64	10.8	8.8
65 - 69	8.3	6.8
70 and over	19.0	20.0
	<hr/> 100.0	<hr/> 100.1
<u>Family Type³</u>		
Individual(s) - male	18.7	8.7
- female	39.4	26.9
Family, no children	9.7	17.9
Family with children	11.6	29.2
Single parent - male	1.1	1.3
- female	17.4	13.8
Other	2.1	2.2
	<hr/> 100.0	<hr/> 100.0
<u>Income Quintile</u>		
First Quintile	93.4	37.0
Second Quintile	6.6	32.1
Third Quintile	-	17.7
Fourth Quintile	-	10.4
Fifth Quintile	-	2.8
	<hr/> 100.0	<hr/> 100.0

1. Core Housing Need is defined as renter households unable to afford adequate, uncrowded housing without paying more than 30 percent of gross income.
2. Only includes Section 56.1 households in self-contained units to permit comparability with core housing need.
3. Family Type is determined by the characteristics of the primary economic family in the household.

Source: Section 56.1 Occupant Survey.
HIFE 1980 Micro Data File and Projections by CMHC.
See Notes 1 & 2, Annex 7.

On the basis of income, 100 percent of the core housing need population falls into the first two quintiles, while 69.1 percent of the programs' clients are within these income bands. This discrepancy between core housing need characteristics and those of the programs' client population is even more evident for the first quintile, where 93 percent of core housing need is found compared with 37 percent of the client population.

To summarize on an overall basis, there is a relatively close relationship between the take-up of the programs and the distribution of affordability problems on a provincial basis. Very young and elderly households are somewhat under-represented in the programs based on need, as are single individuals and, to a lesser extent, female-headed families. Finally, the income distribution of Section 56.1 clients differs considerably from the income of renters with core housing need, with virtually all those in need falling in the lowest income quintile compared with just one-third of the programs' clients.

B. Program Effort and Housing Needs: Horizontal Equity

The target group identified in the Section 56.1 program objectives is low and moderate income families and individuals. Considering only renter households and assuming that households in the first and second income quintiles are low and moderate income, the target group for the programs included 1,139,100 households or 40 percent of all renter households in 1980. As indicated in Chapter III, however, not all of these households were experiencing housing problems. About 20.0 percent of renters were estimated to have core housing need in 1980. While the stated objectives of the programs do not specifically refer to housing needs, it is clear from Chapter III above that the basic rationale for these programs is to assist those with housing need.

The purpose of this section is to assess the extent to which the programs are serving the target group in relation to the size of this group in the population generally. The underlying issue is that of horizontal equity or the equal treatment of households in the same circumstances. The key indicator is the proportion of all households eligible for the programs that are actually served by the programs. The analysis is conducted for the target group identified in the program objectives (i.e. low and moderate income families and individuals) and for renter households with core housing need.

The extent to which the Section 56.1 programs are able to address housing needs depends first of all on the number of units allocated and taken up by non-profit and cooperative groups in the form of commitments each year. Annual commitments for the Section 56.1 programs are shown in Table 5.3. Commitments for 1978 and 1979 are low relative to other years, reflecting lower activity in the initial years of the programs. Considering only 1980 and 1981, years for which the programs were fully underway, average annual commitments for both units and beds stand at 23,575. Of these, about 16 percent are commitments for hostel bed accommodation, leaving 19,699 commitments per year for self-contained dwelling units.³ If it is assumed that all commitments will result in occupied units, the average annual commitments represent the total additional units available annually to serve the target group and to meet the housing needs.⁴

TABLE 5.3

SECTION 56.1 COMMITMENTS FOR UNITS AND BEDS, 1978 TO 1981

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Total</u>
Units	2,191	13,945	20,740	18,657	55,533
Beds	774	2,697	4,167	3,586	11,224
Total	2,965	16,642	24,907	22,243	66,757

Source: CMHC Section 56.1 Administrative Data.

3. The commitments data reflect commitments made as a result of special, additional allocations of Section 56.1 units which have been made each year since 1979. To the extent that these special allocations might be terminated or reduced in future years, the annual commitments estimate of 19,699 units would over-estimate the total additional units available annually under Section 56.1.
4. Of course, not all commitments in a given year will result in occupied units in that year. As shown in Section VI.F, some commitments may not come on stream for two or three years from the year of commitment. For this reason, commitments may not equal occupied units in the first few years of the programs. Over time, however, the commitments made in a given year should approximate the number of occupied units coming on stream each year as occupied units "catch up" with commitments.

The first analysis presented is an assessment of the proportion of all low and moderate income households served by the Section 56.1 programs annually. The criterion used for low and moderate income is the upper boundary of the second quintile for all renter households. Based on income data from the survey of occupants of Section 56.1 projects, the incidence of low and moderate income is shown in Table 4.9 in Chapter IV for Section 56.1 households in self-contained units. Applying these incidence values to the average annual Section 56.1 commitments yields an estimate of the extent to which the target group is served by the programs each year (Table 5.4).

In this case, the Section 56.1 programs would provide for .81 percent of all low and moderate income renter households annually.

While the target group identified in the program objectives is low and moderate income families and individuals, the provision of assistance to households with housing needs is the *raison d'être* for the programs. The percentage of Section 56.1 households which would experience core housing need⁵ if they were required to pay norm rents is shown in Table 5.5.

About one-third of all Section 56.1 households would experience core need if required to pay norm rents. With respect to project type, the incidence of core need among households in senior citizen projects is more than double the incidence in family projects, reflecting lower household incomes for senior citizens. The high incidence of core need among households served through the private non-profit program reflects the lower average income of these households relative to those served through the other programs. The private non-profit program serves a much higher proportion of senior citizen households than either of the other two programs. The incidence of core need is

5. Households in core housing need would have to spend more than 30 percent of their income to afford a norm rent. Norm rent is the average rent for a dwelling unit and is settlement size and regionally specific. The norm rents used in this study are calculated from the HIFE data file for post-war rented units. The 1980 norm rents from the HIFE file are updated to 1981 to be consistent with the 1981 income data from the survey of Section 56.1 occupants. Otherwise, the estimation of core housing need for Section 56.1 households is identical to that carried out for all renters as described in Chapter III, pp.38-40 and is subject to the same limitations.

TABLE 5.4

LOW AND MODERATE INCOME HOUSEHOLDS SERVED BY SECTION 56.1 ANNUALLY

Incidence of Low and Moderate Income (Section 56.1)	(1)	Section 56.1 Commitments Annually for Low and Moderate Income Households (Units)	(2)	Low and Moderate Income Households (Canada 1980)	(3)	Proportion (1) : (2)
%				(Units)		%
	46.7		9,199	1,139,080		0.81
Section 56.1 Unit Commitments (Units Only)						

Source Section 56.1 Occupant Survey.
HIFE 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.
CMHC Section 56.1 Administrative Data.

TABLE 5.5

INCIDENCE OF CORE HOUSING NEED AMONG SECTION 56.1
HOUSEHOLDS IN SELF CONTAINED UNITS

<u>Section 56.1 Households</u>	<u>Incidence of Core Need</u>
<u>%</u>	<u>%</u>
By Project Type:	
Family	26.9
Senior Citizen	59.3
By Program Type:	
Public Non-Profit	26.0
Private Non-Profit	39.2
Cooperative	24.2
All Section 56.1 Households	33.0

Source: Section 56.1 Occupant Survey.

lowest among households served through the cooperative program, reflecting the higher average income of these households. Public non-profit households, with slightly lower average income than cooperative households reveal a higher incidence of core housing need.

To identify the number of households in core need served each year by the programs, the percentage of Section 56.1 households in core need (as shown in Table 5.5) is applied to average annual unit commitments under Section 56.1. This number is then divided by the number of renter households in core need in the population at large, as estimated from the HIFE data file for 1980, to yield an estimate of the extent to which renter households in core need are served annually by the Section 56.1 programs. The results of these calculations are as follows:

Section 56.1 Households

(1) Percentage of Section 56.1 Unit Commitments Serving Households in Core Need	33.0
(2) Number of Unit Commitments Serving Households in Core Need, Annually	6,500

All Renter Households

(3) Percentage of All Renter Households in Core Need (1980)	18.3
(4) Number of Renter Households In Core Need (1980)	522,000
Proportion (2) : (4)	1.25

Item (1) identifies the percentage of Section 56.1 households that would be in core need based on their income alone. In comparison with the incidence of core need among renter households generally (Item 3), the Section 56.1 programs serve a larger proportion of core need households. Thus, the Section 56.1 programs are giving priority attention to households in core housing need.

Nevertheless, only 1.3 percent of all renter households estimated to be in core need in 1980 would be served by the programs annually.⁶ This suggests that horizontal equity is not being achieved. Each year, a large proportion of

6. If core housing need is estimated using 25 per cent as the shelter cost-to-income ratio, the programs would serve 1.22% of all renter households in need in 1980.

households in need are unable to benefit from the programs. Of course, with each successive year, a larger proportion of core need households would benefit from the programs and horizontal equity would be approached over time. However even if the programs were 100 percent effective in serving those with core housing need, more than 25 years would be required to service the backlog of core need at present levels of annual allocations and commitments.

The problem of horizontal equity was also evident in views on the programs submitted by various groups and organizations. In response to the question "how do you feel the programs are serving your areas?", about three-quarters of those responding indicated that the programs were not meeting all needs. Moreover, over one-half of the respondents indicated that a constraint to meeting needs was the lack of budget or unit allocations.

To summarize, the proportion of the total low and moderate income target group served each year by the Section 56.1 programs is quite low. Section 56.1 commitments would serve only 0.8 percent of all low and moderate income renter households in a given year. The programs serve a higher proportion of all renter households in core housing need each year (1.3 percent). Moreover, households which would have core housing problems are about twice as likely to be found in Section 56.1 projects than in the population at large. However, with respect to renter households in core housing need, there is a problem of horizontal equity: a large percentage of households in need are not able to benefit from the programs.

VI. IMPACTS AND EFFECTS

This chapter considers those impacts and effects of the programs which have not already been addressed in connection with the achievement of program objectives. The Section 56.1 programs have a broad range of impacts and effects on individuals, markets and other government programs and priorities. Individuals are affected by changes in their housing conditions, by changes in their income and in their social milieu as a result of receiving subsidized housing. Housing markets are affected through the provision of rental housing. The Section 56.1 programs also affect and are affected by provincial housing programs. Finally, the programs affect the extent to which social policy priorities established by the federal government are met. These priorities indicate that assistance should be directed first to those who need help most, and that attention should be focussed on special groups including the elderly, the disabled, Native people and women.

A. Income Distribution

The Section 56.1 programs are intended to assist low and moderate income households and, hence, are consistent with government efforts to effect a more equitable distribution of income and to promote individual welfare. As a redistributive program, Section 56.1 affects the income of client households by providing benefits in the form of lower rents than would otherwise be paid for similar accommodation.

The purpose of this section is to estimate the extent to which the programs have affected the income distribution of Section 56.1 clients and the more general income distribution of the population at large. More specifically, the issue is whether the programs have had a progressive, regressive or neutral effect on the income distribution of participants and of donors (i.e. tax-payers). An income redistribution measure is considered to be progressive if it provides relatively greater benefits to those in lower income groups than to those in higher income groups. Progressive measures are, of course, consistent with efforts to promote greater equality in the distribution of income. Regressive measures would promote greater inequality in the distribution of income, while neutral measures would have no effect on the distribution, with lower and higher income groups benefitting to the same degree.

1. Income Distribution Effects on Program Participants

Estimation of the income distribution effects of the Section 56.1 programs follows the method developed by G. Fallis at the Ontario Economic Council.¹ The basic approach is to compare the program benefits received by participating households in each income class to the benefits that would be received if the programs were replaced by a program which benefits participants in proportion to their income. The hypothetical replacement program is neutral in terms of its effect on the distribution of income among program participants and, as such, provides a norm or benchmark against which to measure the progressive/regressive effects of the Section 56.1 programs. Total program benefits under the hypothetical replacement program are the same as under the Section 56.1 programs.

Fallis refers to this approach as a differential incidence approach. Essentially, the analysis compares the influence of a program on household income (i.e., the expenditure incidence of the program) to the incidence of a substitute or replacement program of equal cost. Because the hypothetical substitute program is of equal cost, government expenditures, revenues and borrowings would remain the same so that macroeconomic effects need not be considered.²

1. Fallis, G. Housing Programs and Income Distribution in Ontario, Ontario Economic Council, University of Toronto Press, Toronto, 1980.
2. It is important to note that this approach deals only with the direct beneficiaries of the program (i.e., the program participants). However, it is clear that the initiation of a housing program would affect the income of many people other than the direct beneficiaries. Price, wage and output changes could be expected in housing and related sectors which in turn would influence the returns to labour, land and capital in these sectors and in sectors seemingly unrelated to the housing program. While it would be preferable to be able to measure the redistribution which occurred after the initiation of the Section 56.1 programs, the research tools to do so are not available. A very detailed model of the housing sector and the economy would be required. Under the differential incidence approach, however, the broad income effects of initiating a program can be ignored. This is because the existing program is assumed to be replaced by an equal cost program which involves no change in government expenditures and under which the program participants remain the same. The income levels of non-participants would be affected very little, if at all.

The first step in implementing the differential incidence approach is to measure the benefits received by households participating in the program. Incomes are affected because households receive rental housing for a lower price (rent) than its market value. Thus, one measure of the benefit to a household of participating in the Section 56.1 programs is the market value measure. It is the difference between the market rent for comparable housing and the actual rent paid. Data on rent paid by Section 56.1 households are available from the survey of occupants and market rent data are available for selected cities from Statistical Services Division, CMHC.

One difficulty with the market value measure is that it may not represent the income equivalent of the benefits to the household. The market value measure of benefits to program participants represents the extra money required to increase each household's consumption of housing by a given amount. That is, the benefit is tied to a given level of housing which households are required to consume. However, if households were free to consume housing and non-housing goods in whatever proportion they chose, the theory of consumer choice suggests that an unrestricted cash transfer, which is less than the market value of the benefit tied to housing, would leave the household just as well off.

Thus, a second measure of the program benefits to a participating household is used. The consumer surplus measure represents the income equivalent of the program to the household. It is the cash transfer which would leave the household just as well off if the program were stopped. The difference between the market value and consumer surplus measures is a measure of the inefficiency of the program. Inefficiency arises because the program benefit is tied to housing. Participants are not free to spend the subsidy as they choose. As a result of this restriction on consumer choice, participants require more subsidy to make them as well off as under a program of unrestricted cash transfer which would allow participants full freedom of choice in how they spend their subsidy.

It should be understood that the differential incidence approach described here considers only the direct benefits to households from participating in the program. However, benefits may also accrue to non-participating households due to externalities arising from the consumption of housing. These benefits are experienced by other members of society and may include lower crime rates, improved public health, less time lost from work and improved family

management and child raising. If such benefits do result from increased consumption of housing, housing programs such as Section 56.1 which tie the program subsidy to a given level of housing consumption may be more efficient than an unrestricted income transfer. In effect, they would generate a higher level of external benefits than a straight income transfer.³

The equation used to estimate the consumer surplus measure for participating households is presented in Annex 2. The calculations are more complex and the data requirements more extensive than required for the market value measure. In addition to market rent and rent paid by program participants, data are required for household income and the rent-to-income ratio of non-subsidized renter households in the same income groups. Section 56.1 household income is available from the survey of occupants and rent-to-income ratios for non-subsidized renter households are estimated using data from the 1980 Household Income Facilities and Equipment data file. Details concerning the calculation of the rent-to-income ratios are presented in Annex 2.

Benefits for each Section 56.1 household included in the analysis were calculated according to both the market value and consumer surplus measures. Benefits for each household within an income class were then added and divided by the number of households in the income class to obtain the average benefit by income class for both measures of benefit (Table 6.1). Using the market value measure, average benefits are highest for the lowest income groups and decrease as income increases up to the highest income bracket (\$25,000 and over).

A similar pattern is evident for the consumer surplus measure of average benefits. However, for all income groups the consumer surplus measure is less than the market value measure. In effect, the income equivalent of the

³Evidence on the benefits associated with housing related externalities is not available. However, the difference between the market value measure and the consumer surplus measure of benefits to participating households provides an estimate of the minimum external benefits required to justify a housing program over a straight cash transfer. See Fallis, op cit, pp. 139, 140 and De Salvo, J.S., "A Methodology for Evaluating Housing Programs". Journal of Regional Science. Vol. 11, No. 2, (1971).

housing subsidy from the point of view of the participating household is less than the cost of the subsidy. The amount of the difference between these benefit measures is an indication of the transfer inefficiency of the programs which arise because participating households are restricted in terms of how the subsidy can be spent.

The next step in the differential incidence analysis is to estimate the average benefit which would accrue to each income group if the Section 56.1 programs were replaced by an equal cost program which distributes benefits to program participants in proportion to their household income. This is accomplished by summing up the benefits received by households in all income classes and allocating the total benefits among the income groups in proportion to the percentage of income accounted for by each group. The average benefit is obtained by dividing total program benefits for each income group by the number of households in the income group. The average benefits under the distributionally neutral, equal cost, alternative program are also shown in Table 6.1.

TABLE 6.1

AVERAGE BENEFITS FOR SECTION 56.1 HOUSEHOLDS, MARKET VALUE AND
CONSUMER SURPLUS MEASURES, BY INCOME GROUPS

<u>Income</u> \$	<u>Market</u> <u>Value Measure</u>		<u>Consumer</u> <u>Surplus Measure</u>	
	Avg. Benefit Section 56.1	Avg. Benefit Neutral Alternative	Avg. Benefit Section 56.1	Avg. Benefit Neutral Alternative
	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>
0 - 4,999	1,535	82	1,188	54
5,000 - 9,999	652	143	408	94
10,000 - 14,999	341	245	205	161
15,000 - 19,999	174	343	106	225
20,000 - 24,999	130	441	51	290
25,000 and over	57	649	-	427

Average benefits under the neutral alternative program show exactly the opposite pattern of benefits to the pattern obtained for the Section 56.1 programs. Under the neutral alternative, average benefits are lowest for the lowest income group, and increase steadily with each high income group. The pattern is the same for both the market value and consumer surplus measures of benefits.

The change in income for each income group which results from the substitution of the distributionally neutral alternative program for the Section 56.1 programs is referred to as the average differential benefit (Table 6.2). For both measures of benefits, Section 56.1 households in the lowest income groups would suffer a loss if the programs were replaced by a distributionally neutral program of equal cost, and households in the highest income groups would gain. Thus, in relation to the distributionally neutral alternative program, the distribution of benefits under the Section 56.1 programs is progressive.

The differential incidence measure shown in Table 6.2 is the ratio of the average differential benefit to the average income within each income class. This measure yields a more precise indication of income distribution effects by providing a measure of the incidence of the housing programs on the average income of participants in each income class. If the Section 56.1 programs were replaced with an equal cost, neutral alternative program, the ratio of differential benefits to income would rise with income. Households in the three lowest income groups experience a decline in income under both benefit measures, although those in the lowest income group would experience the largest relative decline. In contrast, the differential benefits to income ratio is positive for the four highest income groups indicating that households in these groups would be better off if total program benefits were distributed among program participants in proportion to their income.

TABLE 6.2

DIFFERENTIAL BENEFITS AND DIFFERENTIAL INCIDENCE, MARKET VALUE AND
CONSUMER SURPLUS MEASURES BY INCOME GROUPS

Income ($\$$)	Distribution of Households ($\%$)	Average		Differential Incidence	
		Market Value Measure ($\$$)	Consumer Surplus Measure ($\$$)	Market Value Measure	Consumer Surplus Measure
0 - 4,999	4.0	-1,453	-1,134	-0.351	-0.274
5,000 - 9,999	26.6	-509	-314	-0.071	-0.044
10,000 - 14,999	18.7	-96	-44	-0.008	-0.004
15,999 - 19,999	16.6	169	119	0.010	0.007
20,000 - 24,999	14.0	311	239	0.014	0.011
25,000 and over	20.1	592	427	0.018	0.013

To summarize, the Section 56.1 programs appear to have distributed benefits among participating households in a progressive manner relative to a distributionally neutral alternative program. By providing relatively greater benefits to low-income households, the programs are consistent with efforts to promote vertical equity in the distribution of income.

2. General Income Distribution

The above analysis indicates that the Section 56.1 programs distribute benefits progressively among program participants. However, in order to determine whether the programs are consistent with efforts to redistribute income among groups in society generally, it is necessary to consider the extent to which the various income groups pay for the programs through their taxes. While a detailed analysis of tax and expenditure incidence for the federal government is beyond the scope of this evaluation,⁴ a rough indication of the redistributive aspects of the programs can be obtained by examining the distribution of Section 56.1 benefits (expenditures) among income groups in relation to the distribution of all taxes among income groups. The distribution of benefits (using the market value measure of benefits) among Section 56.1 households is as follows:

Income Group	Distribution of Benefits %
0 - 4,999	18.4
5,000 - 9,999	52.0
10,000 - 14,999	12.0
15,000 - 19,999	8.7
20,000 - 24,999	5.5
25,000 and over	3.4

4. Such an analysis has been conducted for the three levels of government by Gillespie. See Gillespie, W.I., "On the Redistribution of Income in Canada", Canadian Tax Journal. Vol. XXIV, No. 4, July-August, 1976.

Information on the decile distribution of all taxes (i.e. income taxes, sales and excise taxes, property taxes, etc., by all levels of government) is available for 1978 from the Fraser Institute.⁵

<u>Income Decile</u>	<u>Distribution of Taxes</u>
1st	0.7
2nd	2.2
3rd	4.2
4th	6.2
5th	7.7
6th	8.8
7th	10.8
8th	13.0
9th	16.6
10th	30.0

While the income groups do not match for the two sets of data, it is clear that the lowest income groups receive most of the benefits under Section 56.1 while accounting for the smallest proportion of taxes. In contrast, the highest income groups account for most taxes and receive a much lower share of benefits. It would appear, therefore, that the programs are consistent with efforts to redistribute income from higher to lower income groups.⁶

5. Pipes, S. and Walker, M., Tax Facts 3, The Fraser Institute, Vancouver, 1982.

6. Although this conclusion is based on a cursory examination of the distribution of benefits and taxes among income groups, it is consistent with the results of Gillespie's rigorous fiscal incidence analysis for federal taxes and expenditures. Gillespie found that the federal sector was broadly redistributive from higher income classes to lower income classes. (See Gillespie, op.cit. pp. 430,431).

B. Federal Social Policy Priorities

The second broad impact of the Section 56.1 programs to be addressed is their contribution to the Government's overall social policy. Social policy priorities established by the federal government are concerned with equity, the provision of assistance to those most in need and attention to the needs of special groups. The extent to which the programs provide assistance on an equitable basis has been addressed in previous sections. The purpose of this section is to examine the extent to which the Section 56.1 programs have assisted those most in need and those in special, priority groups.

1. Households Most in Need

One criterion for identifying those most in need is household income. Simply stated, households with the lowest incomes are the ones most in need. This approach is supported by information on the incidence of housing problems which shows that 93 percent of households experiencing core housing need are concentrated in the lowest income quintile.

One way of assessing the extent to which the programs are assisting those most in need is to examine the income distribution of Section 56.1 households. Table 6.3 presents the income distribution of Section 56.1 households, all households and renter households in self-contained units.

Examination of the Section 56.1 household income distribution indicates that program recipients are not concentrated in the lowest income groups. Only 30 percent of Section 56.1 households fall into the two lowest income groups and less than one-half are included in the three lowest groups. The two lowest income groups shown in Table 6.3 correspond roughly to the lowest income quintile for all households within which more than 90 percent of renters with core housing problems fall.

The income distribution data for Section 56.1 households suggest that the programs are not assisting those most in need to a large extent. Yet, comparison with income distributions for all households and renter households shows that the programs focus on the lowest income groups to a larger extent than they are represented in the population. Thirty percent of Section 56.1 households fall into the two lowest income

TABLE 6.3

INCOME DISTRIBUTION FOR SECTION 56.1 HOUSEHOLDS IN SELF-
CONTAINED UNITS, ALL HOUSEHOLDS AND RENTER HOUSEHOLDS

<u>INCOME CLASS</u>	<u>SECTION 56.1 HOUSEHOLDS</u> (%)	<u>ALL HOUSEHOLDS</u> (%)	<u>ALL RENTER HOUSEHOLDS</u> (%)
0 - 4,999	4.9	5.3	9.2
5,000 - 9,999	25.2	11.9	17.4
10,000 - 14,999	17.1	11.0	14.6
15,000 - 19,999	16.6	11.1	14.6
20,000 - 29,999	23.7	23.5	23.5
30,000 - 39,999	9.7	17.9	11.7
40,0000 and over	2.9	19.2	9.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Section 56.1 Occupant Survey.
HIFE, 1980 Micro Data File and Projections by CMHC.
See Note 3, Annex 6.

classes, as opposed to only 17.2 percent of all households and 26.6 percent of renter households. Considering the three lowest income classes, 47.2 percent of Section 56.1 households are included as opposed to only 28.2 percent of all households and 41.2 percent of renter households. For households falling into the lowest income category, however, the programs assist such households proportionately less than they are represented among all renter households.

In Québec, 103 senior citizen and 17 family projects, operated by the province as public housing projects, are designated to receive assistance under Section 56.1. These projects have not been included in the data presented in Table 6.3 because they are not representative of non-profit or cooperative housing projects. The public housing nature of the Québec provincial projects sets them apart from the usual Section 56.1 projects, particularly with respect to the concentration of low-income households. Over 86 percent of the households in these projects fall into the two lowest income groups and 98 percent fall into the three lowest groups.

One shortcoming of the income distribution data as an indication of the extent to which the programs assist those most in need is that no account is taken of the expenditure requirements of individual households. Large households located in large cities will have greater requirements than small households located in rural areas. To take account of variations in household size and location, the percentage of Section 56.1 households lying below the Low Income Cut-Offs established by Statistics Canada for 1981 has been established (Table 6.4).

Only 21.1 percent of Section 56.1 households in self-contained units have low income using the low-income cut-offs criteria. Assuming that households with low income, after accounting for household size and settlement size, are those most in need, it is evident that the programs are not assisting such households to a large extent. In effect, more than three-quarters of the households served are not those most in need. The programs are assisting low-income households to about the same extent as they are represented among renter households generally. In relation to the incidence of low income among all households (about 14 percent), however, the programs are serving proportionately more low-income households.

TABLE 6.4

INCIDENCE OF LOW INCOME AMONG SECTION 56.1 HOUSEHOLDS
IN SELF-CONTAINED UNITS

	<u>Incidence of Low Income (%)</u>
<u>Section 56.1 Households</u>	21.1
Family	20.7
Senior Citizen	22.8
Public Non-Profit	11.3
Private Non-Profit	26.0
Cooperative	15.7
<u>All Households</u>	14.1
<u>Renter Households</u>	23.0

Source: Section 56.1 Occupant Survey.
HIFE, 1980 Micro Data File and Projections by CMHC.

There is a slightly higher incidence of low income among households in senior citizen projects than households in family projects. This is to be expected, given the lower average income of senior citizen households (see Section IV.A above). However, because these cut-offs account for family size, the difference is not large. The incidence of low-income households among the three program types shows considerable variation. The private non-profit program has the highest incidence of low-income households, while the incidence of low income among cooperative and public non-profit program households is considerably lower than that for all Section 56.1 households, and for the renter population at large.

The Québec provincial projects, designated to receive assistance through Section 56.1, are much more effective in serving low-income households than the regular Section 56.1 projects reported in Table 6.4. More than 56 percent of the households in these projects were low income, with the incidence of low income highest among households in senior citizen projects (59 percent). About 41 percent of households in family projects had low income using this definition.

2. Special Groups⁷

Special groups identified for priority attention by the federal government include the elderly, the disabled, Native peoples and women. This section briefly describes the nature of housing problems experienced by each of these groups. The extent to which the programs have given priority attention to special groups is assessed initially by examining the proportion of Section 56.1 households included in each special group in relation to each group's representation in the population at large. The intent is to see whether the programs are serving such groups to a larger extent than their representation in the population alone would warrant. If so, the programs can be said to have given priority attention to the special groups. The extent to which the groups have received special attention in the form of rent-gearred-to-income assistance or the provision of specially-designed units is also noted.

7. While data on special purpose projects have been excluded from most sections of this report, they have been included here to provide a more accurate indication of the treatment of priority target groups, many of whom reside in special purpose units.

The second, and more appropriate, approach to assessing the extent of priority attention to special groups is to examine the treatment of the groups in relation to the housing problems they experience. The Section 56.1 programs are intended to address housing problems and, as such, their focus on priority groups should be assessed in terms of the housing problems experienced by these groups. Lack of comprehensive data on housing problems experienced by Native households and the disabled prevents such an assessment for these groups. However, the attention given to both the elderly and women through the Section 56.1 programs is examined in relation to the core housing problems they experience.

(a) The Elderly

In 1980, a total of 1.3 million households, about 16.3 percent of all Canadian households, were headed by individuals aged 65 and over. Projections prepared by CMHC indicate that the proportion of elderly households will increase to 17.4 percent by 1991, to 17.9 percent by 2001 and will continue to grow even more rapidly beyond 2001. Elderly households account for 16.7 percent of all owner households and make up a slightly smaller proportion of all renters, accounting for 15.5 percent of renter households in 1980.

The incidence of housing problems among elderly households generally is greater than the incidence among households in the total population, but is particularly high among elderly renter households. About 35 percent of elderly renter households experienced core housing problems in 1980 as opposed to 20 percent of all renter households. The high incidence of housing problems among elderly renters reflects their relatively low incomes. In 1980, the average income of elderly renters was \$12,481, about 62 percent of the average income for all renter households.

The survey of Section 56.1 occupants indicates that 25.2 percent of household heads are 65 years of age and older (Table 6.5).

Table 6.5

ELDERLY HOUSEHOLDS IN SECTION 56.1 PROJECTS

<u>Project Type</u>	<u>Incidence</u> (%)	<u>Distribution</u> (%)
Family Projects	7.1	18.9
Senior Citizen Projects	87.6	79.8
Special Purpose Projects	3.4	1.3
TOTAL	25.2	100.0

Source: Section 56.1 Occupant Survey.

Since elderly households comprise only 16.3 percent of all households, the programs can be said to be giving priority attention to the elderly. The Section 56.1 programs, however, are primarily aimed at renter households and elderly renter households. Thus, in relation to their representation in the population, the elderly, and elderly renter households in particular, are receiving a high priority under the programs. Most elderly households are, of course, situated in senior citizen projects although family projects, some of which contain a mixture of family and senior citizen units, account for 19 percent of the elderly households served by the programs.

While the Section 56.1 programs give priority to the elderly in terms of their representation in the population, the programs serve this group roughly in proportion to the housing problems they experience. As indicated in Table 3.4, 27.3 percent of all renter households in core housing need are headed by elderly persons. The Section 56.1 programs are serving the elderly roughly in proportion to the core housing need experienced by this group.

Elderly households receive rent-geared-to-income assistance to the same extent as all Section 56.1 households. Responses to the occupants' survey indicated that 41.7 percent of all households and 42.4 percent of elderly households were paying rent based on their income.

The Section 56.1 programs also serve the elderly through the provision of units which are specially designed to accommodate senior citizens given the physical limitations which often accompany old age. Design features such as non-skid flooring, grab-bars and raised electrical sockets are included in many units intended for occupancy by the elderly. The survey of project managers indicated that 17 percent of all projects had units specifically designed for the elderly. Units designed for the elderly accounted for one-quarter of all Section 56.1 units and all were occupied by elderly households.

The data presented here on elderly households served by the Section 56.1 programs do not include elderly households in projects operated by the Province of Québec as public housing projects but which are designated to receive assistance under Section 56.1. Most of these Québec provincial projects are senior citizen projects and, as such, serve a much higher percentage of elderly households than the regular Section 56.1 projects. About 70 percent of the household heads in these projects were 65 years of age or older and almost all were paying rents based on their income.

(b) Disabled

Estimates from the Canada Health Survey, 1978, indicate approximately 2.67 million Canadians or 11.2 percent of the population are disabled to some extent. While data on housing problems of disabled persons are not available, an indication of the types of housing problems likely to be experienced can be derived by examining the characteristics of the disabled. Incomes of the disabled tend to be much lower than incomes of other Canadians. About 19 percent of all Canadians had incomes equal to or less than \$11,000 in 1978. In contrast, about 30 percent of all disabled persons are included in this income group. The relatively low incomes of disabled people stem from low employment rates which in turn are related to their disabilities. As the degree of disability increases, so too does the level of unemployment. Thus, for the severely disabled or handicapped, the income picture is bleak indeed. According to a study carried out by

the Ontario Ministry of Health in 1981, about 61 percent of disabled persons had family income of \$10,000 or less. The implication is that the disabled are more likely to experience affordability problems than the population as a whole.

The disabled are also likely to experience housing adequacy problems related to the nature of their disabilities. Severely handicapped persons with mobility, sight or hearing impairments often require special design features to accommodate these disabilities. The mobility impaired especially require modifications to kitchens and bathrooms to accommodate the wheelchair. The sight and hearing impaired require special features for safety and signalling.

Based on the Ontario Ministry of Health, it is estimated that there are 622,000 severely disabled people in Canada with mobility, sight or hearing impairments, representing about 2.6 percent of the population in 1978. It is not possible, given available data, to estimate how many of these people require assistance to overcome affordability problems or to provide for adequate design features. Given their low incomes, however, it is expected that a high proportion experience affordability problems or are unable to afford the required modifications and are living in housing which is inadequate to accommodate their disabilities.

Responses to the occupants' survey indicate that 12.8 percent of Section 56.1 households had disabled or handicapped members of the household (Table 6.6). This is a slightly higher percentage

Table 6.6

DISABLED HOUSEHOLDS IN SECTION 56.1 PROJECTS

<u>Project Type</u>	<u>Incidence</u> (%)	<u>Distribution</u> (%)
Family Projects	6.6	35.2
Senior Citizen Projects	18.9	32.9
Special Purpose Projects	44.9	31.9
TOTAL	12.8	100.0

Source: Section 56.1 Occupant Survey.

than the estimated 11.2 percent of the population which is disabled to some extent. Using this criterion, the programs might be said to be giving priority to the handicapped although not a high priority. In relation to the estimated percentage of severely disabled people in the population, however, the programs appear to be giving priority attention to the handicapped. Unfortunately, it is not possible to determine whether this is in fact the case since respondents were not asked to determine the severity of their disabilities.

While households with disabled persons are distributed rather uniformly among project types, the incidence of households with disabled persons is highest in special purpose projects, many of which are initiated for the purpose of serving the disabled. About 10 percent of households in senior citizen projects have disabled occupants, while family projects serve a much lower percentage of such households. Senior citizen projects are more likely to have a higher incidence of disabled people because of age-associated disabilities.

The Section 56.1 programs provide rent-geared-to-income assistance to a larger extent for households with handicapped persons than for Section 56.1 households generally. About 47 percent of households with disabled people indicated that they were paying rent based on their income as opposed to 42 percent of all Section 56.1 households. The programs also provide units specifically designed for the handicapped. Such units may have the same features as provided in units specifically designed for the elderly but, in addition, have design features to accommodate persons with mobility impairments such as three-foot wide doors and lower kitchen and bathroom shelves. Approximately 17 percent of the projects had units designed for the handicapped and about 20 percent of all units designed for the handicapped were in senior citizen projects.

The Section 56.1 provincial projects in Québec have a higher incidence (16.7 percent of all households) of households with handicapped persons than the regular Section 56.1 projects. Most of these households are situated in senior citizen projects but family projects have the highest incidence of households with disabled persons (21.0 percent of households in family projects).

(c) Native People

Native peoples experience higher unemployment rates and consistently lower incomes than non-Natives. In 1971, Native average family income amounted to only 53 percent of the national average for all families. Moreover, Natives were more reliant on government income, had less employment income and less access to other income sources than did non-Natives although these disparities tend to be smaller in urban than in rural areas. While data on housing affordability problems experienced by Natives is unavailable, the much lower levels of Native incomes suggest that the incidence of affordability problems among Natives is greater than that for non-Natives. With regard to housing adequacy, it is clear that Native peoples experience more severe problems than non-Natives, particularly in rural areas and small communities.

Under Section 56.1, assistance is specifically directed toward Native people in two ways. Rental accommodation is assisted in conjunction with the Indian and Northern Affairs Canada subsidy program and a special Urban Native component is available. The creation of a separate Native budget allocation permits units to be set aside to serve the Native population. Since 1980, allocations for Native units have amounted to 5.1 percent of all subsidy units allocated with the majority (60 percent) allocated for on-reserve rental housing.

ALLOCATION FOR SECTION 56.1 SUBSIDY UNITS

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Total</u>
Sec. 56.1 DIAND	624	631	949	2,204
Sec. 56.1 Urban	489	526	418	1,433
Total Subsidy Units Allocated	24,524	22,900	24,117	71,541

In addition, where provinces agree to participate, extra subsidies are available to allow all units in Urban Native projects to be occupied by low-income households paying rents geared to income. In effect, this permits Native groups to operate these projects without having to limit the number of low-income households in the project. To date only Saskatchewan has agreed to financial participation in the Urban Native initiative.

In 1981, Native peoples comprised 2.0 percent of the population of Canada. Results from the survey of occupants indicate that about 2.1 percent of Section 56.1 households are headed by Native peoples (Table 6.7). Thus, the programs can be said to be giving priority attention to Native people. Moreover, Section 56.1 assistance for Native people applies to rental accommodation only and is utilized primarily in urban areas and for band-owned rental housing on reserves. In rural areas and small communities, where ownership is the preferred tenure, the Rural and Native Housing Program provides assistance for ownership housing.

Most Native households responding to the survey resided in family projects, although more than one-fifth were situated in special purpose projects. About two-thirds of Native households receive income support through the payment of rent based on their income. This proportion was higher than that for any other special group.

Table 6.7

NATIVE HOUSEHOLDS IN SECTION 56.1 PROJECTS

<u>Project Type</u>	<u>Incidence</u> (%)	<u>Distribution</u> (%)
Family Projects	2.3	72.4
Senior Citizen Projects	0.4	3.9
Special Purpose Projects	5.2	23.6
TOTAL	2.1	100.0

Source: Section 56.1 Occupant Survey.

With the exception of 3 households (0.1 percent), the Section 56.1 provincial projects in Quebec did not serve households headed by Native peoples.

(d) Women

The extent to which priority attention is given to women is assessed by examining the proportion of two household types served by the programs: unattached female individuals and single-parent households headed by females. These household types represent 23.5 percent and 9.2 percent, respectively, of all renter households. Both unattached and single-parent female renter households have lower incomes than renter households generally and experience a higher incidence of housing problems.

Table 6.8

AVERAGE INCOMES AND CORE HOUSING NEED FOR
UNATTACHED INDIVIDUALS AND SINGLE-PARENT
FAMILY RENTER HOUSEHOLDS

	<u>Average Income</u> ($\$$)	<u>Incidence of Core Need</u> (%)
All Renter Households	20,226	18.3
Unattached Individual(s) (female)	13,023	30.6
Single-Parent (female)	13,175	35.2
Unattached Individual(s) (male)	18,878	19.7
Single-Parent (male)	22,561	17.7

Source: HIFE, 1980 Micro Data File and Projections by CMHC.

Average income of these two female-led household types is about 65 percent of the average for all renter households and is lower than the average income of the male counterparts for these household types. The incidence of core affordability problems for the female-led renter households is also higher than for male-led unattached individuals and single-parent households.

The extent to which Section 56.1 programs serve the two female-led household types is shown in Table 6.9.

Table 6.9

UNATTACHED FEMALE INDIVIDUALS AND SINGLE-PARENT FEMALE HOUSEHOLDS IN SECTION 56.1 PROJECTS

	<u>Incidence</u> (%)	<u>Distribution</u> (%)
<u>Unattached Individuals - Female</u>		
Family Projects	15.1	38.3
Senior Citizen Projects	58.5	51.9
Special Purpose Projects	26.2	9.7
TOTAL	26.3	99.9
<u>Single-Parent - Female</u>		
Family Projects	17.4	96.2
Senior Citizen Projects	0.1	1.6
Special Purpose Projects	2.7	2.2
TOTAL	12.1	100.0

Source: Section 56.1 Occupant Survey.

Unattached female individuals account for 26.3 percent of Section 56.1 households. Since these households comprise only 23.5 percent of all renter households, the programs are serving unattached female households proportionately more than their representation in the population. More than one-half of these households are situated in senior citizen projects with close to 40 percent in family projects. However, only 15 percent of the households in family projects are unattached female individuals, and it is quite likely that many of these are situated in mixed projects which are designated as family projects but which also contain senior citizen units. The incidence of unattached female households is highest in senior citizen projects although about one-quarter of households in special purpose projects are of this type. About 45 percent of unattached female households receive rent-gearred-to-income assistance as opposed to 42 percent of all Section 56.1 households.

With respect to the proportion of core housing problems experienced by unattached female households, the Section 56.1 programs are not sufficiently focussed on this household type. About 39 percent of all core housing need for renter households occurs among unattached female households (See Table 3.4). Yet, only 26.3 percent of all Section 56.1 households are unattached female individuals. In order to adequately reflect the housing problems experienced by unattached female households, increased targetting of the Section 56.1 programs on this group would be required.

With regard to single-parent female households, the programs include a higher percentage (12.1 percent) than the percentage of all renter households of this type (9.2 percent). Almost all (96.2 percent) single-parent female households are situated in family projects although this household type accounts for only 17.4 percent of all households in family projects. In terms of rent-geared-to-income assistance, single-parent female households receive a high priority under the Section 56.1 programs. About 61 percent of these households pay rent on the basis of their income, while only 42 percent of all Section 56.1 households receive this assistance.

Although the Section 56.1 programs give priority attention to single-parent females in terms of their representation in the population of renter households, they do not adequately serve this group in terms of the proportion of core housing problems experienced. Single-parent female households account for 17 percent of core housing problems (see Table 3.4), but only 12.1 percent of all Section 56.1 households are of this type. Increased attention to this household type is required if the programs are to adequately reflect their housing needs.

The Québec provincial projects serve unattached female households to a larger extent than the regular Section 56.1 programs. About one-half of all households in these projects were unattached female individuals and almost all were situated in senior citizen projects. Single-parent females, however, are served to a lesser extent with only 10.5 percent of households served included in this category, mostly in family projects.

(e) Summary

Each of the special groups identified for priority attention by the federal government has a higher incidence of housing problems than renter households in general. The Section 56.1 programs are giving priority attention to each of the groups in relation to their representation in the population. That is, the programs are serving these groups to a greater extent than their representation in the population of renter households would warrant. This is particularly the case for the elderly. Households headed by individuals aged 65 and over accounted for one-quarter of all Section 56.1 households but represent only one-sixth of all renter households. Moreover, the programs serve the elderly roughly in proportion to the core housing problems they experience. The social housing programs also provide specially-designed units to accommodate the elderly and the disabled. In addition, each of the special groups receives rent-geared-to-income assistance to a greater extent than Section 56.1 households generally, although the extent of such assistance is greatest for Native and single-parent female households. Finally, while the programs give priority attention to the special groups in relation to their representation in the population, they do not adequately serve female-led households (unattached individuals and single-parents) in terms of the core housing needs they experience.

C. Improvement in Housing Conditions

The third potential impact of the Section 56.1 programs is an improvement in housing conditions for program participants.

Data from the survey of occupants of Section 56.1 projects indicate a high level of satisfaction with the housing provided. Almost 90 percent of occupants rated their projects overall as good, very good or excellent and about the same proportion gave the same rating to the physical condition of buildings. Occupants were asked to indicate how satisfied or dissatisfied they were with their housing project as a place to live using a scale of 1 to 11, where 11 indicated complete satisfaction, 1 indicated complete dissatisfaction and 6 indicated neutrality with regard to satisfaction. The average response to this question was 9, indicating a generally high level of satisfaction. While

occupants are generally satisfied with Section 56.1 housing, the extent to which the programs have had the effect of improving the housing conditions of occupants needs to be addressed.

The Section 56.1 programs can be expected to improve the housing conditions of participating households through the provision of modest, appropriate housing subject to residential standards. The extent to which the programs have resulted in improved housing conditions is assessed by examining data from occupants' responses to survey questions concerning the physical condition of current and previous dwellings, reasons for moving and the type of housing currently and previously occupied.

1. Physical Condition

Occupants' ratings of the physical condition of their previous dwelling in relation to the ratings of the interior physical condition of their present housing are shown in Table 6.10. One-half of the occupants responding to these questions gave their present dwelling a higher rating than their previous dwelling, indicating that their housing conditions had improved. About 20 percent indicated that their present housing condition was worse than their previous dwelling, while 30 percent indicated no change in the physical condition of their dwellings. About 33 percent of Section 56.1 occupants rated the physical condition of their previous dwelling as fair or poor. Of these, almost 90 percent indicated that their housing had improved. At the other end of the scale, about 33 percent indicated that their previous dwelling was in excellent or very good physical condition. Of these, 29.5 percent gave their present dwelling a lower rating. A comparison of income-tested and non-income-tested occupants with respect to improvements in housing conditions showed virtually no difference between the two groups. With two-thirds of the respondents identifying their previous dwelling condition as good to excellent, there is support for the previous findings that affordability represents the major housing problem.

Improvement in housing condition was also assessed by examining space requirements of households. About 18 percent of respondents indicated that their reasons for moving out of their previous dwelling was because it was too crowded. Of these people, over 80 percent have rated the available space in their present dwelling as good, very good or excellent.

TABLE 6.10

OCCUPANTS' RATING OF THE PHYSICAL CONDITION OF THEIR PRESENT DWELLING
IN RELATION TO THEIR RATING OF THEIR PREVIOUS DWELLING

Present Dwelling Rating

Last Dwelling Rating							Greater		Same		Lower		Total	
	#	%	#	%	#	%	#	%	#	%	#	%	#	% Distribution
Excellent	-	-	690	36.6	1 195	63.4	1 885	13.2						
Very Good	767	21.8	1 587	45.2	1 160	33.0	3 514	24.7						
Good	2 298	53.5	1 553	36.2	441	10.3	4 292	30.1						
Fair	2 609	84.2	405	13.1	86	2.8	3 100	21.7						
Poor	1 413	96.6	49	3.4	-	-	1 462	10.3						
TOTAL	7 087	49.7	4 284	30.1	2 882	20.2	14 253	100.0						

Source: Section 56.1 Occupant Survey.

2. Reasons for Moving

Almost one-third of occupants indicated that the poor physical condition of their last dwelling was an important reason for their move to a Section 56.1 unit. Of these, 87 percent rated the physical condition of their present dwelling as good, very good or excellent, suggesting an improvement in their housing conditions. Moreover, only 12 percent of all occupants indicated that they planned to move from their Section 56.1 accommodation within the next two years. Most of these households planned to move because of changes in job location or because of plans to buy a home, reasons unrelated to their current housing conditions.

3. Type of Housing

Another indication of improvement in housing conditions is the change in type of housing occupied by Section 56.1 households. Households that have moved from less desirable housing (e.g. apartments) to more desirable types (e.g. townhouse) in Section 56.1 projects can be said to have improved their housing conditions. About one-half of all Section 56.1 households had previously resided in rented apartments. Of these, about 35 percent had acquired a more desirable housing type (i.e. townhouse, duplex/triplex or single-detached house) when they moved to a Section 56.1 project. A marked improvement in housing type was also experienced by occupants who had previously lived in boarding houses or hostels. Although these occupants represented only 4 percent of all Section 56.1 households, almost three-quarters of them obtained a more desirable housing type (mostly apartments) in Section 56.1 projects.

While a move from a townhouse, duplex/triplex or single-detached unit is generally thought to be desirable, this may not be the case for many senior citizens. Senior citizen households often prefer apartments to other housing types for a variety of reasons including the lower level of maintenance required. About one-half of the senior citizen households residing in Section 56.1 apartment units had previously resided in housing types other than apartments, rooming houses or hostels. To the extent that apartment accommodation was preferred by these households, the Section 56.1 programs improved their housing conditions as well.

4. Summary

To summarize, the programs have resulted in improved housing conditions for a large proportion of occupants. With respect to physical condition, over one-half of the occupants indicated that their Section 56.1 units were an improvement over their previous dwelling. Moreover, almost 90 percent of the households which previously resided in housing rated as fair or poor with respect to physical condition, indicated an improvement in their housing conditions. It should be noted, however, that for both income-tested and non-income-tested households, only one-third of Section 56.1 occupants had previously resided in dwellings rated in fair or poor condition.

The programs also improved the available space for households which had experienced crowding in their previous dwelling. Also, most households which had moved to Section 56.1 projects because of the poor physical condition of their previous dwellings indicated that their present dwellings were a significant improvement. Very few (about 12 percent) occupants indicated that they were planning to move from their Section 56.1 projects. Finally, the programs have improved housing conditions (in the sense of providing a more desirable housing type) for occupants which had previously occupied rented apartments, rooms and hostels and for senior citizen households which prefer apartment accommodation.

D. Social Impacts

The nature of the Section 56.1 programs suggests three ways in which the housing provided may affect the social well-being of program recipients: by improving their housing conditions; by providing opportunities for social interaction; and by providing mechanisms for participation in management and decision-making.

1. Social Impact of Improvements in Housing Conditions

The Section 56.1 programs are intended to provide housing which is suitable and adequate, built or rehabilitated to meet health and safety standards. As noted in the previous section, one-half of Section 56.1 occupants indicated that their housing conditions under the programs were an improvement over their previous housing conditions. It may be postulated that this improvement in housing condition could result in improvements in the health and general well-being of occupants.

There is considerable variation in the results of studies which have attempted to draw causal links between housing and health and behaviour.⁸ National Health Survey data from the U.S. related overcrowding, the absence of basic facilities and low rental value to the incidence of particular diseases and disabling accidents. However, this and other studies suffer methodological weaknesses which do not permit conclusive results to be drawn. Other research has shown that an improvement in housing condition associated with moving to a new dwelling may actually be harmful to the health of the occupants because of the stress generated by a major life change. A major study of the effects of "rehousing" found improvements in health only for the period 16 to 36 months after the move. The same study identified no differences in personal and family relations and an increase in neighbourly activity among households which had moved.

8. An extensive literature review is contained in "The Effects of the Residential Environment on Health and Behaviour: A Review" by S.V. Kase in The Effect of the Manmade Environment on Health and Behaviour by L.E. Hinkle and W.C. Loring (eds) U.S. Department of Health, Education and Welfare.

A definitive study of the social effects on residents of the Section 56.1 programs is beyond the scope of this evaluation. The indicators which will be used to assess the potential impacts of the programs on the well-being of residents rely on the subjective perceptions of residents themselves rather than on objective measures of actual improvements in physical or emotional health.

Table 6.11 identifies the perceived impacts of Section 56.1 housing projects on several aspects of the quality of life of residents. The percentage of all respondents identifying either no effect, an improvement or worsening of these quality of life measures is shown first; the second percentage shows the response of those residents who indicated an improvement in the physical condition of their current dwelling over their previous dwelling. Generally, most respondents perceived that their move to the projects had had no effect on these quality of life factors, particularly on health and marital and family relations.

The proportion of respondents whose quality of life situation had worsened since moving to the projects was very low. It is interesting to note, however, that those who had identified an improvement in the physical condition of their dwelling consistently had higher proportions of respondents perceiving improvements in their quality of life. This pattern holds for each of the quality of life factors examined, and particularly perceived effects on the health of the occupants. This finding supports previous studies which have related improved housing conditions to improvements in health. There is a very low incidence of households reporting deterioration in their quality of life, showing little evidence of major stress resulting from relocation.

The indicators used to identify the impacts of Section 56.1 programs on the social well-being of residents are far from conclusive. On most measures, the housing provided through the programs was generally considered to have little effect on respondents. The findings do suggest, however, that positive social impacts are perceived more by occupants who feel that the physical condition of their housing has been improved. Whether these impacts have a basis in fact, or only in the perceptions of the occupants is not known.

SOCIAL IMPACTS ON SECTION 56.1 RESIDENTS

1. Households who rated the condition of their current dwelling higher than the condition of their previous dwelling.

Source: Section 56.1 Occupant Survey.

2. Social Interaction

The second way in which the Section 56.1 programs may influence the social well-being of residents stems from the opportunities for social interaction provided by the project-oriented nature of the programs. Further, there are implied social benefits resulting from the mix of income groups which forms the basis for these projects.

Once again, related literature does not provide conclusive evidence on the degree to which social interaction is influenced by physical proximity, nor on the benefits derived from income integration in projects. Several researchers have emphasized that residential proximity affects social interaction only if there is social homogeneity among the neighbours.⁹ This means that social interaction is more likely to occur among residents of the same socio-economic status and life cycle position. Another study which involved a review of Canadian and international literature on social mix concluded that the social networks of lower class communities may be threatened by a policy of social mix.¹⁰ This was seen to be manifested in marriage problems, higher stress levels, social problems, disruption of kinship patterns, reduced rates of friendship formation and higher levels of community tension.

For this evaluation, evidence on social interaction is provided by responses from occupants on the number of households within their project and within their neighbourhood that they know well enough to visit in their homes. It is not possible to identify the extent to which residents of non-profit and cooperative projects would interact with their neighbours under

9. Ibid, p. 79

10. "A Review of the Social Interaction Effects of Social Mix, with particular reference to Housing and the Ontario Rent Supplement Program" by Morris Saldov, U. of T., Spring, 1981.

different housing circumstances. However, it is possible to examine the degree of social interaction in Section 56.1 projects, as well as differences in the incidence of interaction between rent-to-income and market rent tenants. Table 6.12 identifies the proportion of respondents who indicated that they did not know any other households in their project and in their neighbourhood well enough to visit. This table shows that there were consistently fewer rent-to-income households than market rent tenants who did not know other households in their projects. This may be interpreted to show a higher degree of social interaction among rent-to-income tenants than among market rent tenants. The findings on interaction with

Table 6.12 PROPORTION OF HOUSEHOLDS THAT KNOW NO
OTHER HOUSEHOLDS IN THE PROJECT AND
IN THE NEIGHBOURHOOD

	<u>Project Size (no. of units)</u>					
	<u>1</u>	<u>2-3</u>	<u>4-15</u>	<u>16-30</u>	<u>31+</u>	<u>Total</u>
<u>Know no households in project</u>						
Rent-to-Income	-	4.7	9.0	13.0	14.7	14.0
Market Rent	-	19.5	18.7	16.5	24.9	23.0
<u>Know no households in neighbourhood</u>						
Rent-to-Income	29.4	30.7	10.5	16.0	24.0	22.0
Market Rent	22.1	11.8	12.6	14.1	28.3	25.0

Source: Section 56.1 Occupant Survey.

the neighbourhood at large are not as consistent. In single-detached and two-to-three unit projects, rent-to-income households appear less likely to interact with their neighbours than do market rent households. In larger projects there are relatively minor differences in the degree of neighbourhood interaction.

Previous studies on social interaction have also found that satisfaction with housing, particularly for senior citizens, is largely related to the availability of services and facilities in the neighbourhood.¹¹ For the evaluation, the proportion of households indicating satisfaction with their housing has been examined in

11. Kasl, p. 80.

the context of their use of particular services and facilities. Table 6.13 shows that 75 percent of households with members over the age of 60 indicated that they were satisfied with their housing, while 73.4 percent of households with children also indicated satisfaction. The degree of satisfaction of those households who never used a series of services and facilities is compared in Table 6.13 with the overall proportion of satisfied households. This comparison shows little obvious effect on satisfaction of the lack of use of facilities by senior citizens. The proportion of satisfied seniors households was somewhat lower among those who did not use parks, shopping and medical facilities. For households with children, there is a lower incidence of satisfaction among those who did not use parks, recreation facilities, libraries, playgrounds, shopping and medical facilities.

To summarize these findings on social interaction, available evidence suggests a higher incidence of interpersonal contact within projects among rent-to-income tenants than among market rent tenants. For scattered units, this tendency is reversed when interaction with the broader neighbourhood is considered.

Interaction with the neighbourhood, measured through the use of services and facilities appears to have relatively little impact on the housing satisfaction of senior citizens and somewhat greater effect on the satisfaction levels of households with children.

3. Occupant Participation

The third type of impact which may be generated by the nature of non-profit and cooperative housing is related to the opportunity this form of housing provides for resident participation in decision-making. There have been numerous studies directed to determining the links between citizen participation and social development benefits. These benefits may be in terms of specific skills acquired by citizens involved in self-help activities, including management, financial, communication and organizational skills. They may also be benefits associated with the personal growth or psychological development of the individual. In several studies of self-help programs, social benefits are subjectively reported but there is no consensus in the literature based on objective measures of increases in either skills or psychological growth.

TABLE 6.13

RELATIONSHIP OF HOUSING SATISFACTION TO LACK OF
USE OF FACILITIES AND SERVICES

	Households with Member Over 60 Years		Households with Children	
	<u>%</u>		<u>%</u>	
General Proportion Satisfied	75.0		73.4	
Proportion Satisfied of those who never use:				
Parks	72.2	(32.1) ¹	62.8	(11.2) ¹
Recreation Facilities	76.7	(33.6)	69.3	(23.2)
Library	76.0	(30.8)	71.8	(28.7)
Playgrounds	81.6	(51.0)	70.0	(19.7)
Shopping	70.9	(4.5)	72.7	(2.1)
Schools	79.9	(56.1)	76.2	(32.3)
Seniors Day Care	78.7	(40.8)	75.8	(77.9)
Childrens Day Care	81.5	(57.2)	77.4	(69.5)
Public Transportation	77.0	(18.0)	75.8	(19.6)
Medical Facilities	69.5	(6.6)	69.1	(6.4)

1. Indicates proportion of respondents who never use these facilities.

Source: Section 56.1 Occupant Survey.

While there is no conclusive evidence on the benefits derived through resident participation in management and decision-making, non-profit and particularly cooperative housing have been promoted because of the opportunities which they provide for resident participation and involvement. Thus, this section will identify the extent to which residents are involved in management and decision-making and will also report on their perceptions of the impact of their voice on the management of projects.

There are considerable differences among program types in the existence of project meetings and occupant committees, as well as in the extent to which residents participate in these meetings and committees.

Table 6.14 shows the proportion of respondents who indicated that there were project meetings and occupant committees in their projects. The extent to which these forms of participation are available vary considerably, with almost all cooperative residents indicating the existence of meetings and committees and the lowest percentage of project meetings and occupant committees in public non-profit projects.

Table 6.14 also shows, for those cases where project meetings and occupant committees exist, the proportion of residents who participate in them. The pattern is again similar for high levels of cooperative participation and much less participation in public non-profit projects. A relatively high proportion of private non-profit residents appear to participate in project meetings but not in occupant committees. Reviewing these findings for rent-to-income households and market rent households showed relatively little variation in the extent of participation.

Occupants were also asked to give their impression of the impact of their participation on the management of the project. Specifically, they were asked whether their ideas for the way in which the project was run would be seriously considered and carried out if possible. Responses are shown in Table 6.15.

There is less variation by program type apparent on this issue than on opportunities for participation. However, a high proportion of respondents in cooperative projects indicated that they thought their suggestions would be seriously considered, while respondents in public non-profit projects were least likely to feel that they were having an impact.

TABLE 6.14

PROJECT MEETINGS AND OCCUPANT COMMITTEES
IN NON-PROFIT AND COOPERATIVE HOUSING PROJECTS

	<u>Project Meetings</u>		<u>Occupant Committees</u>	
	<u>% Occupants in Projects with Meetings</u>	<u>% Occupants Attending</u>	<u>% Occupants in Projects with Committees</u>	<u>% Occupants Participating</u>
Public	23.6	34.0	14.2	19.7
Private	58.7	59.2	50.9	21.0
Cooperative	97.2	92.1	96.0	62.1

Source: Section 56.1 Occupant Survey.

TABLE 6.15

RESPONDENTS VIEWS ON IMPACT OF THEIR SUGGESTIONS

	<u>Positive %</u>	<u>Negative %</u>
Public	49.7	50.3
Private	64.0	36.0
Cooperative	88.1	11.9

Source: Section 56.1 Occupant Survey.

The degree of participation in project management and decision-making has been shown to vary markedly by program type. The emphasis in cooperative housing on participatory democracy is clearly evident in the opportunities for resident participation, the extent to which they participate and the perceived impact of that participation.

4. Summary

The issue of social benefits related to housing conditions suffers generally from a lack of definitive research on which to base measurable indicators. Three potential types of benefits resulting from the provision of non-profit and cooperative housing have been assessed. It was found that close to one-half of the respondents perceived their life as a whole to have improved since their participation in the programs. Improvements in particular quality of life measures, and especially health, were reported more frequently among respondents who had identified improvements in their housing condition than among respondents generally. The majority of occupants interact socially with other households in their projects and in their neighbourhoods. Interaction within the project is more prevalent for income-tested respondents than for market rent tenants. Finally, resident participation in project meetings and occupant committees was found to be very high in cooperative housing and relatively low in public non-profit projects.

E. In-Situ Tenants

In the case of Section 56.1 projects which involve the acquisition of existing units, tenants already situated in these units may be adversely affected. These "in-situ" tenants may be required to move from the building so that Section 56.1 client households can be accommodated. For those projects where CMHC has the lead role, the treatment of in-situ tenants is determined by the non-profit or cooperative group subject to CMHC approval. Where a province has the lead role, the province determines the treatment of in-situ tenants. In this section, the treatment of in-situ tenants is examined using information from the survey of project managers and from the views submitted by various groups involved with the program.

Responses to the project manager's questionnaire indicated that in-situ tenants were permitted to remain in 62 percent

of the projects. In projects where occupants were permitted to remain, about 60 percent of the project managers indicated that most in-situ tenants remained for at least one year. Of those in-situ tenants who left the projects, managers indicated that most left because they wanted to. However, 16 out of the 165 managers who provided reasons why in-situ tenants did not remain indicated that it was because the building was converted to a special purpose project; 14 said that in-situ tenants did not want to live in cooperatives; 8 indicated that in-situ tenants left because renovations were to be undertaken. Only three managers indicated that in-situ tenants in their project had been evicted.

The views on the programs submitted by various groups suggested that in-situ tenants were treated the same as members of the group whenever possible. This was especially so for tenants who would qualify for rent-geared-to-income assistance or were in need of the special services offered in a special purpose project. Where projects involved extensive rehabilitation or conversion, tenants were given notices to vacate but were allowed to move back if the project was suitable for their needs.

Treatment of in-situ tenants varied depending on the type of project. In the case of family projects, most in-situ tenants were treated the same as other tenants by the groups. In cooperative projects, most joined the cooperative; those who did not were charged a higher occupancy charge. In senior citizen and special purpose projects, the treatment of in-situ tenants depended on the type of households. Senior citizens were allowed to remain in senior citizen projects. Those requiring the special services offered in a special purpose project were allowed to remain.

To summarize, the survey indicated that in the majority of cases, in-situ tenants were allowed to remain in units. Most of the tenants who remained stayed at least one year. The main reasons for tenants leaving were because they wanted to, the building was converted or they disliked living in a cooperative.

F. Rental Markets

The purpose of this section is to examine the consistency of housing activity under Section 56.1 with rental market conditions. The non-profit and cooperative programs influence the rental market by providing rental accommodation through either new construction or the acquisition of existing units. This flexibility permits the programs to ameliorate housing market conditions in two ways. In periods of low vacancy rates, Section 56.1 activity can contribute to an increase in the rental housing stock by providing new rental accommodation. Conversely, when the rental market is loose and vacancy rates are high, Section 56.1 activity can facilitate market adjustment by absorbing rental units.

This section examines the consistency of Section 56.1 activity with rental market conditions nationally and at the level of individual Census Metropolitan Areas. The extent to which Section 56.1 may be displacing or crowding out private sector rental market activity is also examined.

1. Rental Market Conditions

When the Section 56.1 programs were introduced in 1978, the average vacancy rate in metropolitan areas stood at 3.2 percent (Table 6.16). By October of 1981, the vacancy rate had fallen to the very low level of 1.2 percent, reflecting increasingly tight rental conditions in most Canadian centres. Although the vacancy rate had eased somewhat by April, 1982 the rental market remains exceedingly tight by historical standards.

The aggregate data presented in Table 6.16 suggest that Section 56.1 program activity has been consistent with rental market conditions. Total commitments under the programs increased by 50 percent between 1979 and 1980, reflecting in part a special allocation of additional commitments for 5,000 new dwelling units to alleviate tight rental market conditions. An additional 2,500 units were also authorized in 1981 to counteract continuing tight rental market conditions in many areas and, most recently, in June of 1982, another 2,500 additional units were authorized for non-profit and cooperative housing. These additional allocations in 1981 and 1982 were also to be utilized for the construction of new units. As a result of the lower level of additional units authorized in 1981 total

commitments declined by almost 2,100 units or 10 percent from the 1980 level. However, as indicated in Table 6.16 the percentage of total commitments designated for units to be provided through new construction increased from 67 percent to 78.3 percent. Increased emphasis on commitments for new units as vacancy rates declined meant that new unit commitments increased by 5.1 percent in 1981 over the 1980 level.

In general, as vacancy rates declined to a very low level, commitments for new units increased to expand the supply of rental accommodation. Indeed, the ability to increase allocations for new units as rental markets become tight is a key feature of the Section 56.1 programs. Because federal funding is not dependent on cost-sharing arrangements, action can be undertaken without lengthy consultations or agreements with several different parties. However, while increased unit allocations have been obtained in a timely fashion in response to tight rental market conditions, the timing of the ultimate effect of these allocations on the rental market is not instantaneous.

TABLE 6.16

VACANCY RATES AND SECTION 56.1 ACTIVITY, CANADA, 1978-81

<u>Year</u>	<u>Vacancy Rate¹</u>	<u>Section 56.1 Commitments</u>		<u>Section 56.1 Dwelling Starts</u>	<u>Total Rental Starts²</u>
	(%)	New Units	% of Total Units	(Units)	(Units)
1978	3.2	1,992	90.9	-	88,842
1979	2.9	8,979	64.5	2,378	65,896
1980	2.2	13,894	67.0	7,684	54,264
1981	1.2	14,605	78.3	8,702	69,258

¹ Average vacancy rate in metropolitan areas for privately initiated apartment structures of six units and over, based on the vacancy rate survey for October each year.

² Estimate based on assumptions regarding the proportion of starts for each housing type intended for rental accommodation.

Source: CMHC Administrative Data.

Commitments to provide assistance for new projects in a given year do not necessarily have an impact on rental market conditions in that year. This is evident from the discrepancy between commitments for new units and Section 56.1 dwelling starts in a given year. (Table 6.16). A considerable time lag may occur between commitment approval and start of construction and, further, between the registration of a dwelling start and completion of the units to the point where they are ready for occupancy. Moreover, a high proportion of commitments under Section 56.1 occur at the end of each calendar year.

Information on the time-stream of subsidy payments to Section 56.1 units committed in year t indicates the following distribution by program:

Proportion of Section 56.1 Units Committed in Year t Receiving Subsidies in Years t to $t + 4$					
<u>Program</u>	t	$t + 1$	$t + 2$	$t + 3$	$t + 4$
Public Non-Profit	0.00	0.16	0.60	0.24	-
Private Non-Profit	0.03	0.22	0.65	0.10	-
Cooperative	0.00	0.05	0.20	0.40	0.35

In effect, only 3 percent of commitments made in a given year result in completed units in that year. The bulk of these units come on stream in the second year after the year of commitment ($t + 2$). These data are based on historical experience with the programs and represent both new and existing units.

The time lag in the translation of commitments for new units to completed and occupied units indicates that increased allocations for Section 56.1 commitments for new units have a much smaller immediate effect on rental markets than their numbers would suggest. Also, if rental market conditions change dramatically from one year to the next year, increased allocations for new units and an increase in commitments for new units generally may be inappropriate. However, this does not appear to have happened over the period of operation of the Section 56.1 programs. As shown in Table 6.16 vacancy rates have declined steadily over this period and are expected to remain at low levels for some time.

While commitments data provide an indication of the direction of Section 56.1 activity in response to rental market activity they reveal little about the importance of the programs to the rental market. Information on Section 56.1 completions would be best for this purpose but such data are not available. However, data on dwelling starts under Section 56.1 are available and can be compared to estimates of total rental starts at the national level. Dwelling starts generated through the Section 56.1 programs tripled between 1979 (the first full year of operation for the programs) and 1980 and increased by 13 percent in 1981 over the 1980 level.

It should be recognized that the dwelling starts data do not reflect the total contribution of the programs to the supply of rental accommodation. The programs also contribute through the conversion of existing buildings to provide more rental accommodation in periods of low vacancy rates. However, as indicated in Section IV.D, the extent of this activity under the programs is unknown but is likely to be small in relation to the contribution achieved by new construction. In addition, acquisition and rehabilitation of existing stock which might otherwise have been removed from the rental stock, also serves to maintain the rental stock and hence ameliorate rental market conditions in periods of low vacancy rates.

The response of Section 56.1 program activity to tight rental market conditions is most apparent when viewed in terms of overall rental market starts. In 1979, Section 56.1 programs accounted for only 3.6 percent of total rental starts. By 1981, however, 12.6 percent of estimated rental starts were attributable to the non-profit and cooperative programs. This represents a significant proportion of annual additions to the rental stock in a period of low vacancy rates. However, in certain metropolitan areas Section 56.1 has been particularly important in increasing the rental stock in the face of extremely low vacancy rates.

2. Metropolitan Area Rental Markets

Declining vacancy rates at the national level generally reflect rental market conditions in metropolitan areas across the country. Over the four year period since the inception of the Section 56.1 programs, vacancy rates have declined or remained at very low levels in

all metropolitan areas with the exception of Windsor (Table 6.17). By October of 1981 only three CMAs had vacancy rates in excess of 2.0 percent (Saint John, Windsor and Winnipeg).

Considering all metropolitan areas together, Section 56.1 activity has been consistent with rental market conditions as reflected by the average vacancy rate. As the average vacancy rate in CMAs declined from 3.2 percent in 1978 to 1.2 percent in 1981, Section 56.1 activity increased to about 14,000 new and existing units committed in 1980 and 1981. As vacancy rates declined, an increasing percentage of these commitments were for units to be provided through new construction. When completed, such units add to the supply of rental accommodation, thereby ameliorating tight rental market situations. Although total unit commitments remained about the same in 1980 and 1981, the percentage of new commitments increased from 66.4 percent to 79.5 percent. As a result, the number of new units committed in CMAs increased by 1,497 or 15.3 percent.

The general pattern for CMAs as a group holds for most individual metropolitan areas. Perhaps the most notable exceptions are Halifax and Ste. Catherines - Niagara where the percentage of commitments for new units declined as vacancy rates declined or remained at very low levels. In Halifax, the low level of Section 56.1 commitments for new units can be explained through 2 points. One, because of the number of coop groups, wishing to acquire existing property, already in the pipeline, the process of change to produce new units was very slow. Second, the Section 40 F/P Public Housing program, which is still available in Nova Scotia, generated a considerable number of new units. Section 40 was used because of the greater income penetration which can be achieved in comparison to Section 56.1.

Overall, however, Section 56.1 activity has been consistent with rental market conditions in terms of increasing the proportion of commitments for new units as vacancy rates have declined.

The importance of Section 56.1 programs in alleviating tight rental market conditions in metropolitan area rental markets is illustrated in Table 6.18. Considering the CMAs as a group, Section 56.1 accounted for 16.5 percent of all dwelling starts intended for the rental market in 1980 and 17.3 percent in 1981. In certain metropolitan areas, however, non-profit and cooperative housing starts accounted for a much larger

TABLE 6.17

VACANCY RATES AND SECTION 56.1 ACTIVITY IN METROPOLITAN AREAS 1978 - 1981

	VACANCY RATE				SECTION 56.1 COMMITMENTS					
	1978/79			1981	1978/79		1980		1981	
	1978	1979	1980		Number	% New	Number	% New	Number	% New
Calgary	1.2	0.4	0.4	0.2	248	94	565	90	757	100
Chicoutimi-Jonq.	0.4	2.3	1.4	1.3	46	100	228	54	66	100
Edmonton	0.8	1.9	1.1	1.1	62	62	239	57	323	81
Halifax	2.2	2.4	1.2	0.5	33	0	115	34	227	33
Hamilton	3.5	1.8	1.3	0.7	116	0	677	17	1,041	49
Kitchener	2.6	1.9	1.1	0.7	46	100	157	68	103	100
London	2.3	4.7	4.1	1.9	42	48	113	0	92	45
Montreal	5.5	4.5	3.4	1.9	2,667	33	3,947	32	1,699	40
Oshawa	1.6	4.1	2.4	0.0	240	78	135	100	88	100
Ottawa-Hull	2.4	4.1	3.9	0.9	627	42	755	44	727	76
Ottawa	1.5	3.5	3.5	0.6	220	66	455	60	585	92
Hull	6.7	7.0	5.8	2.3	407	29	300	20	142	14
Quebec	3.6	4.4	2.8	1.8	869	12	375	54	551	47
Regina	2.0	1.9	0.7	0.5	239	98	237	92	504	81
Ste. Cath.-Niagara	1.4	1.6	1.8	0.8	0	0	79	81	113	53
Saint John	5.4	3.7	3.6	3.1	12	0	40	3	82	73
St. John's	7.7	0.9	0.1	1.4	0	0	261	100	74	53
Saskatoon	0.8	0.8	0.5	0.8	301	94	86	72	289	75
Sudbury	7.0	5.6	1.9	0.6	2	0	0	0	0	0
Thunder Bay	1.4	1.7	1.0	1.1	11	0	27	4	141	100
Toronto	0.8	1.2	0.5	0.3	2,340	83	3,417	88	4,149	95
Vancouver	1.4	0.2	0.1	0.1	785	77	2,578	98	2,387	97
Victoria	1.1	0.1	0.1	0.1	63	100	51	76	263	73
Windsor	1.1	1.3	6.1	7.0	673	95	89	80	0	0
Winnipeg	3.9	5.0	5.1	3.5	649	100	533	100	497	100
TOTAL	3.2	2.9	2.2	1.2	10,071	61.6	14,704	66.4	14,173	79.5

Source: CMHC Section 56.1 Administrative Data.
Canadian Housing Statistics

DWELLING STARTS INTENDED FOR THE RENTAL MARKET, BY CMA, 1981, 1982

	1980		1981		1981/1982	
	Total Rental Starts (Units)	Proportion of Section 56.1 Starts to Total Rental Starts (%)	Total Rental Starts (Units)	Proportion of Section 56.1 Starts to Total Rental Starts (%)	Proportion of Section 56.1 Starts to Total Rental Starts (%)	
Calgary	2,687	10.3	5,314	0.7	3.9	
Chicoutimi-Jonq.	201	66.2	196	28.6	47.6	
Edmonton	3,683	1.2	5,625	3.0	2.3	
Halifax	453	-	233	9.4	3.2	
Hamilton	253	22.9	375	98.9	68.3	
Kitchener	227	38.8	981	16.1	20.4	
London	800	3.8	1,145	3.6	3.7	
Montreal	3,995	23.8	3,828	12.6	18.3	
Oshawa	240	85.8	171	67.3	78.1	
Ottawa-Hull	1,089	10.0	1,844	28.0	21.3	
Quebec	1,517	5.3	1,695	30.4	18.5	
Regina	614	-	448	13.8	5.8	
Ste. Cath.-Niagara	152	42.1	182	33.0	37.1	
Saint John	2	-	16	-	-	
St. John's	549	9.5	626	37.1	24.2	
Saskatoon	779	-	1,062	-	-	
Sudbury	24	100.0	123	-	16.3	
Thunder Bay	154	14.3	253	43.9	32.7	
Toronto	5,543	37.1	6,565	38.4	37.8	
Vancouver	5,500	9.1	7,993	16.5	13.4	
Victoria	481	-	829	-	-	
Windsor	949	-	472	15.0	5.0	
Winnipeg	460	67.6	227	6.2	47.3	
TOTAL	30,352	16.5	40,203	17.3	17.0	

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Source: CMHC Administrative Data.

proportion of total rental market construction. In Hamilton, almost all rental starts were generated through Section 56.1 programs in 1981 in the face of a lower than average vacancy rate while in Oshawa CMA, 86 percent of all rental starts were accounted for by Section 56.1 activity in 1980. Although Hamilton and Oshawa portray extreme cases, Section 56.1 programs represented more than one-third of all rental starts in seven CMAs in 1980 and six CMAs in 1981. The proportion of total rental starts accounted for by Section 56.1 programs in individual CMAs can change dramatically from year to year. However, even when dwelling starts data for the two years are combined, the importance of Section 56.1 activity in relation to overall rental construction in certain CMAs is apparent. For the years 1980 and 1981 together the non-profit and cooperative programs accounted for one-half or more of all rental starts in Oshawa, Hamilton, Chicoutimi-Jonquière and Winnipeg. In the Toronto CMA, where about 26 percent of all Section 56.1 starts occurred in 1980 and 1981, the programs accounted for almost 38 percent of total rental starts, while in Montreal the programs accounted for over 18 percent of total rental starts.

Generally, it would appear that Section 56.1 activity has been consistent with rental market conditions and has played an important role in alleviating tight market conditions in many metropolitan areas. However, the high proportion of rental market starts accounted for by the programs in some metropolitan areas raises the question of whether Section 56.1 activity has displaced or crowded out private sector activity. Table 6.16 suggests that private sector rental starts have declined dramatically since 1979 as Section 56.1 dwelling starts have increased.

The decline in private sector activity has been attributed to a variety of factors. High interest rates have increased the cost of capital and, hence, the level of economic rents which must be charged to ensure an adequate return to new rental projects. Rent review procedures are said to have limited increases in rents charged in existing market rental units which in turn has affected the demand and supply of new units. Other government initiatives, such as the Multiple Unit Residential Buildings (MURBs) tax incentive, have had a positive influence on rental construction. Consideration of longer-term demographic factors, on the other hand, could have a negative influence. Population projections indicate lower rates of growth over the period 1981 to 2001, particularly for the youngest age groups which have the highest propensity to rent.

While several factors affect private sector activity, high and volatile interest rates are likely to be most important in the short run. Many rental projects which might have been undertaken in a period of lower interest rates or higher market rents have been postponed or cancelled, because the economic rents required are higher than the market rents that can be obtained once the units are ready for occupancy. As a result, there has been a decline in private sector rental starts. In contrast, Section 56.1 projects are protected from increased capital costs due to high interest rates by virtue of the interest rate subsidy. Such projects will often be viable where a similar private sector project would not.

Decreased activity in the private rental sector has also been attributed to the volatility of interest rates in recent years. Rental entrepreneurs wish to know the level of the mortgage payments that will be required for a project with certainty over as long a time period as possible. Five-year term mortgages are therefore, preferred to shorter terms. However, the supply of five-year mortgage funds has fallen since 1980 because investors are unwilling to put funds into medium term instruments. With volatile interest rates, there is a reluctance on the part of investors to commit funds over a five-year time period at an interest rate which may soon be disadvantageous. Given this situation, entrepreneurs are faced with shorter-term mortgages and increased uncertainty regarding future mortgage payments. As a result fewer rental projects will be undertaken.

Table 6.19

PERCENTAGE OF NHA APPROVED LOANS WITH FIVE-YEAR TERMS,
SECTION 56.1 AND PRIVATE RENTAL PROJECTS, 1978-1981

	<u>Private Rental Loans</u> (%)	<u>Section 56.1 Loans</u> (%)
1978	99.5	97.3
1979	97.6	89.4
1980	69.1	62.9
1981	47.7	74.3

Source: CMHC Administrative Data.

Data on loan approvals by length of term for NHA insured mortgages indicate that the proportion of five-year term loans for private rental projects declined dramatically in 1980 and 1981 reflecting the volatility of interest rates in these years (Table 6.19).

However, the proportion of five-year term loans for Section 56.1 projects has also fallen. The availability of five-year term mortgages is important to non-profit and cooperative groups for planning purposes but has little effect on the decision to proceed with a project since the interest write-down to 2 percent eliminates uncertainty regarding future mortgage payments.

It appears, then, that market conditions are primarily responsible for the decline in private sector rental starts. Non-profit and cooperative rental activity is being maintained because Section 56.1 projects are effectively insulated from high and volatile interest rates. Support for this view is provided by the interviews held with lenders and brokers to attain their views and attitudes on the Section 56.1 programs. Several respondents indicated that the Section 56.1 programs provided a source of business (lending) activity when there was little private sector activity, implying that the Section 56.1 programs are maintaining rental market activity rather than crowding out private sector activity that might have occurred in the absence of the Section 56.1 programs.

While market conditions have played a key role in the decline of private sector activity, it is, nevertheless, possible that the programs have contributed to this decline by displacing some private sector activity. The potential for displacement of private sector activity is greatest in small communities where Section 56.1 activity could saturate the rental market, leaving little scope for the private sector. The extent to which such displacement occurs is probably limited since most Section 56.1 activity occurs in large urban centres. About 70 percent of Section 56.1 units occupied as of 1 June 1981, were located in urban centres of 100,000 or more population.

This assessment of crowding out of private sector activity by the Section 56.1 programs is based on the experience over a relatively short time period. Over this period, subsidized rental housing production under Section 56.1 has been maintained while private sector activity has lagged in a difficult economic environment. However, to the extent that Section 56.1 is meeting demand for rental housing which would

otherwise be met by the private sector under less hostile economic conditions, the programs may be displacing private sector activity over the longer term. The demand for modest rental accommodation by moderate income households would be included in this category. In effect, demand which is currently met through the Section 56.1 programs by virtue of the subsidy arrangement will not be available to the private sector in subsequent years when market conditions would permit expanded private sector activity.

G. Impact on the Mortgage Insurance Fund

The Section 56.1 programs rely mainly on Section 6 insured loans as the source of capital financing. Any time Section 6 funds are used, a potential risk is placed on the Mortgage Insurance Fund (MIF). In this section, the potential risk to the MIF is assessed by examining two main components: foreclosure rates for this type of loan and the potential loss or cost to the MIF if a project is taken back. The results presented here draw heavily on a CMHC study of the underwriting risk associated with non-profit and cooperative housing loans.¹¹

1. Foreclosure Rate

Up to the end of 1982, there have been no claims against the MIF for Section 56.1 projects. In part, this can be attributed to the short time period the programs have been in existence. Also, in at least two cases, CMHC has acted quickly to salvage projects in financial difficulty by arranging for their sale to other viable non-profit groups. Because there has been a limited time period to assess foreclosure experience under Section 56.1, the experience under the previous non-profit and cooperative programs (Sections 15.1/34.18) provides another indication of the foreclosure rate. As shown in Table 6.20, the default rate for Sections 15.1 and 34.18 combined, stood at 3.4 percent up to the end of 1981. This was one-half the default rate for Assisted Rental Program (ARP) projects and about two-thirds the rate for regular Section 6 rental projects.

11. CMHC, Report on the Underwriting of Non-Profit Housing Loans, September, 1981

SOCIAL HOUSING VERSUS REGULAR INSURED LENDING
(1973 - 1981)

	NON PROFIT		COOPERATIVE		TOTAL SOCIAL HOUSING	REGULAR INSURED LENDING			
	SECTION 15.1	SECTION 6/56.1	SECTION 34.18	SECTION 6/56.1		ARP	GPM ¹	REGULAR RENTING	
<u>APPROVALS</u>									
No. of Units/beds	43,649	54,445	7,689	12,312	118,095	122,791	39,196	241,295	403,282
Loan per Unit/bed						\$ 22,940	\$31,236	\$ 21,648	\$ 24,219
<u>CLAIMS</u>									
No. of Units/beds	1,552	0	194	0	1,746	9,149	1,046	12,676	22,871
Claims per Unit/bed	\$20,682	-	\$16,133	-	\$20,177	\$26,873	\$33,388	\$23,371	\$26,726
<u>RATIOS</u>									
Claims/Approvals %	3.6	0	2.5	0	1.5	7.5	2.7	5.3	5.7
Value/Claims %						83.0	93.0	92.0	91.0

1. Includes Home Ownership.

Source: Report on the Underwriting of Non-Profit Housing Loans,
CMHC, September, 1981

The historical evidence indicating a lower foreclosure rate for non-profit and cooperative projects is supported by the views of mortgage lenders and brokers involved with the Section 56.1 programs. Nine of the fifteen lenders/brokers contacted indicated that Section 56.1 non-profit projects have an equal or lower risk than private rental projects, primarily due to the interest write-down subsidy. Public non-profit projects were identified as having the lowest risk because of the backing of provincial and municipal governments in addition to the federal subsidy. Those financial institutions which identified Section 56.1 projects as having a higher risk indicated that this was due to the sponsoring groups' lack of knowledge and experience with mortgages and lack of project management skills.

2. Potential Loss

The potential loss, or cost to the MIF in the event that a project fails depends on several factors, including: the difference between the selling price (estimated market value) and the amount of the loan; costs over and above the principal balance outstanding as at the date of default; the holding period or length of time between payment of claim and sale of the property; and the interest rate differential on sale.

The approach used in this evaluation to determine the potential loss focusses on the most important of these factors: the difference between the selling price and the Section 56.1 loan amount. The potential loss is estimated for both non-profit and cooperative projects with the aid of a theoretical model and assumptions regarding costs, market rents, and mortgage terms, which in turn are based on actual loan approvals data. Market value of the projects is estimated using the income approach. The assumptions and results of the model for a variety of project types are displayed in Table 6.21. The potential loss is shown as "The Loss If Sold For Market Value", and is expressed as a percentage of the "100 percent Loan Amount" or capital cost.

TABLE 6.21

THEORETICAL MODELS¹
POTENTIAL LOSSES IN EVENT OF DEFAULT:
RELATIONSHIP BETWEEN NORMAL INSURED LENDING CRITERIA AND
SECTION 56.1 CRITERIA

Basic Assumptions

Mortgage Terms: 16% interest rate, 5-year term, 35-year
amortization
Mortgage Ratio: 85%
Required Return on Equity: 0%
Debt Coverage Ratio: 1.00
Overall Capitalization
Rate: $(.85 \times .155616) + (.15 \times .00) = .1322736$

Market Rents Exceed Lower End of Market Rents by 15%.

a) <u>Family Self-Contained</u>	<u>Non-Profit</u>	<u>Cooperative</u>
Capital Cost	\$55,000	\$56,000
100% Loan	55,000	56,000
Lower End of Market Rent (per annum)	5,100	5,400
Market Rent - Section 6	5,880	6,100
Operating Expenses	2,000	1,600
Net Income - Year 1	\$ 3,880	\$ 4,500
Available Loan Based on Section 6 Underwriting Criteria	\$ 24,930	\$ 28,920
Estimated Market Value	\$ 29,330	\$ 34,020
Ratio: Available Loan/Capital Cost	45.3%	51.6%
Available Loan/Market Value	85.0%	85.0%
Market Value/Capital Cost	53.3%	60.1%
Loss if Sold for Market Value	46.7%	39.9%
Effective Interest Rate Based on Lower End of Market Rents	4.5%	6.0%

1. Based on recent approvals of actual projects

Source: Report on the Underwriting of Non-Profit Housing Loans,
CMHC, September 1981.

TABLE 6.21 (continued)

b)	<u>Senior Citizen - Self-Contained</u>	<u>Non-Profit</u>	<u>Cooperative</u>
	Capital Cost	\$ 35,000	\$ 35,000
	100% Loan	35,000	35,000
	Lower End of Market Rent (per annum)	3,300	3,300
	Market Rents - Section 6	3,780	3,780
	Operating Expenses	<u>1,700</u>	<u>1,700</u>
	Net Income	\$ 2,080	\$ 2,080
	Available Loan Based on Section 6 Underwriting Criteria	\$ 13,370	\$ 13,370
	Estimated Market Value	\$ 15,720	\$ 15,720
	Ratio: Available Loan/Capital Cost	38.2%	38.2%
	Available Loan/Market Value	85.0%	85.0%
	Market Value/Capital Cost	44.9%	44.9%
	Loss if Sold for Market Value	55.1%	55.1%
	Effective Interest Rate Based on Lower End of Market Rents	3.0%	3.0%
c)	<u>Hostel - Senior Citizen and Special Purpose</u>		
	Capital Cost	\$33,000	\$33,000
	100% Loan	33,000	33,000
	Lower End of Market Rents	2,400	2,400
	Market Rents - Section 6	2,760	2,760
	Operating Expenses	<u>2,000</u>	<u>2,000</u>
	Net Income	\$ 760	\$ 760
	Available Loan Based on Section 6 Underwriting Criteria	\$ 4,880	\$ 4,880
	Estimated Market Value	\$ 5,750	\$ 5,750
	Ratio: Available Loan/Capital Cost	14.8%	14.8%
	Available Loan/Market Value	85.0%	85.0%
	Market Value/Capital Cost	17.4%	17.4%
	Loss if Sold for Market Value	82.6%	82.6%
	Effective Interest Rate Based on Lower End of Market Rents	Less than 2% ¹	Less than 2% ¹

¹ Per diem or other financial support required.

The results of these calculations indicate that substantial losses would be incurred upon resale for all project types under both the non-profit and cooperative programs. In contrast, there would be no loss using Section 6 underwriting criteria since the available loan is always less than the market value. The loss would be least in relation to the loan amount for family self-contained units under the cooperative program (39.9 percent of the loan amount). If the same loan were granted to a non-profit group, the loss is somewhat higher (due to higher operating expenses and lower market rent) at 46.7 percent of the loan amount. Senior citizen or special purpose projects with hostel accommodation would incur the highest loss at 82.6 percent of the loan amount. Moreover, because these types of projects depend on financial support in addition to Section 56.1 assistance, the withdrawal of such support could have serious implications for the MIF.

Apart from the loss on resale, the potential loss to the MIF is also affected by the length of time between payment of claim and sale of property. For non-profit and cooperative projects, the length of time required to sell the project may be greater than for regular Section 6 rental projects. In particular, projects with care facilities and special purpose hostel accommodation would not be easily marketed. Also, overly modest projects may be difficult to market. As a result, the holding costs incurred on such projects are likely to be higher than for regular private sector projects.

The results presented in Table 6.21 indicate that the key items determining the potential loss on resale for Section 56.1 projects are the 100 percent loan (equal to the capital cost) and the market rents that could be obtained. The Section 56.1 programs maintain stringent capital cost controls, which are partly intended to reduce risks, through the application of Maximum Unit Prices. However, despite these controls, costs which cannot be supported by market rents represent a potential loss to the MIF which is not found in market housing.

3. Implications

There are indications that many projects may be approaching a point where there is insufficient subsidies to bridge the gap between economic and lower end of market rents.

- a) As indicated in Chapter IV the average lower end of market rent for newly constructed projects committed in 1981 was only 80% of the average market rents.
- b) The majority of projects use the maximum subsidy available from the start and therefore have no cushion to absorb rapid increases in cost.
- c) 27 percent of projects are approved at costs equal to or greater than the Maximum Unit Price.
- d) Some Maximum Unit Prices have been approved which cannot be supported by the lower end of market rents even after the maximum Section 56.1 assistance has been applied.

If the Section 56.1 subsidies were not sufficient, a project would not be viable and could either search out additional subsidies from other sources or be taken back by the MIF. In effect, as the gap between economic and lower end of market rent increases the historically low foreclosure rate for social housing loans may also increase. Should this occur, such loans would represent a high risk to the MIF because of the high potential loss associated with any claim.

Treatment of the potential high risk associated with social housing loans could be handled in two ways: higher premiums could be charged for social housing loans; or the liability of the MIF could be limited to the loss which would have been incurred had normal Section 6 lending criteria been used. Costs in excess of this would be the responsibility of the federal government. Increasing the premiums for social housing loans would further increase the costs of the social housing projects. This, in turn, would increase the operating costs of the projects and the subsidy costs paid by the federal government. The preferred approach would be to limit the liability of the MIF.

4. Summary

Although the historical default rate for non-profit and cooperative projects is lower than for regular private sector rental projects, the potential loss to the MIF is greater if a project fails. Moreover, trends in economic and market rents suggest that the foreclosure rate may increase. Should this occur, the risk to the MIF would increase significantly. To offset the higher risk of social housing loans, the liability of the MIF could be limited to the loss that would be incurred under normal Section 6 underwriting procedures for

private sector loans with losses in excess of this amount charged to the federal government.

H. Federal-Provincial Impacts

The Section 56.1 Non-Profit and Cooperative Housing Programs, when they became the major federal initiative in social housing, resulted in a change to federal-provincial relations with respect to housing. Most social housing activity prior to 1978 was carried out through public housing programs, cost-shared with the provinces. The introduction of Section 56.1 meant that federal expenditures on social housing were being applied without the requirement for provincial participation. As well, the concept of disentanglement meant that provincial housing corporations were given delivery responsibility for a significant portion of the federal program.

The purpose of this section is to assess the implications of unilateral federal funding and disentanglement, as they relate to the Section 56.1 programs. The issues considered are:

- (a) the extent to which provincial governments have provided complementary assistance or have channeled their funds to independent programs;
- (b) the impact of disentanglement on the achievement of federal program objectives; and
- (c) the implications of disentanglement for federal administrative costs. The effect of a unilateral federal subsidy on overall program costs is shown in a subsequent chapter on Program Cost Comparisons.

1. Provincial Government Assistance

The distribution of Section 56.1 units reporting additional provincial assistance is shown in Table 6.22 by program and project type. Nationally, for units committed during 1979, 1980 and 1981, one-quarter reported some additional provincial assistance. The public non-profit sector contained two-thirds of these units, a greater representation than for all Section 56.1 units. The remainder were private non-profit with the cooperative sector virtually excluded. Special care projects comprise 41 percent of the units receiving additional provincial assistance, although they represent only 10 percent of all Section 56.1 units. Senior citizen projects have approximately the same proportion of provincially-assisted units as their proportion of all Section 56.1 units, while family projects are much less likely to receive additional provincial funding.

TABLE 6.22 SECTION 56.1 UNITS RECEIVING ADDITIONAL PROVINCIAL ASSISTANCE BY PROGRAM AND PROJECT TYPE

	Units Receiving Additional Assistance		All Section 56.1 Units	
	#	%	#	%
Program Type				
Public Non-Profit	10,910	66.8	18,116	27.7
Private Non-Profit	5,375	32.9	34,866	53.4
Cooperative	43	0.3	12,312	18.9
Total	16,328	100.0	65,294 ¹	100.0
Project Type				
Family	3,699	22.7	33,693	50.5
Senior Citizens	5,938	36.4	26,199	39.2
Special Care	6,691	40.9	6,865	10.3
	16,328	100.0	66,757	100.0

1. Program type was not specified for 1,463 units
Source: Section 56.1 Administrative Data.

The provincial distribution of the 16,328 units reporting additional provincial assistance is shown in Table 6.23. Nova Scotia, Quebec and British Columbia each had a higher proportion of total assisted units than their proportion of total Section 56.1 units. These were also the only provinces in which the proportion of Section 56.1 units which received additional assistance was greater than the national proportion.

TABLE 6.23 SECTION 56.1 UNITS REPORTING ADDITIONAL PROVINCIAL ASSISTANCE BY PROVINCE¹

	Units Receiving Assistance		Total Section 56.1 Units		Proportion of Section 56.1 Units Receiving Assistance
	#	%	#	%	%
Nfld.	73	0.4	695	1.0	10.5
P.E.I.	15	0.1	234	0.4	6.4
N.S.	352	2.2	1,241	1.9	28.4
N.B.	268	1.6	1,803	2.7	14.9
Que.	8,292	50.8	21,655	32.4	38.3
Ont.	2,493	15.3	19,186	28.8	13.0
Man.	24	0.1	2,942	4.4	0.8
Sask.	598	3.7	3,381	5.1	17.7
Alta.	338	2.1	2,880	4.3	11.7
B.C.	3,875	23.7	12,681	19.0	30.6
TOTAL	16,328	100.0	66,698	100.0	24.5

1. Units committed 1978-81 and at time of application reporting receipt or expectation of provision of additional provincial assistance.

Source: Section 56.1 Administrative Data

A detailed breakdown of the distribution of the provincially assisted units in each province by program and project type is presented in Table 6.24. All provinces primarily support only one type of project, with the exception of Nova Scotia and Alberta. These projects are public non-profit in Quebec and Ontario, or private non-profit in the remaining provinces. Both types are assisted in Nova Scotia and Alberta.

Special care units are the only type supported in most provinces. British Columbia supports both care and senior citizen units while Saskatchewan supports both senior citizen and family projects. All three project types are given assistance in Quebec and Ontario although the majority are senior citizen and special care in Quebec and family projects in Ontario.

Provinces stack assistance onto the federal Section 56.1 subsidy in two ways. Contributions can be provided to sponsor groups in the form of capital loans, usually at preferred interest rates, or grants. The loans are used to reduce the amount of private financing required or as a last resort when private financing is not available. In Alberta, the province has chosen to unilaterally deliver many Section 56.1 projects, especially nursing homes, by providing up to 95 per cent of the capital costs. British Columbia provides one-third of the capital required to construct senior citizen projects. Grants are provided by several provinces to assist sponsor groups in organizing, developing plans and obtaining professional services to prepare applications for Section 56.1 assistance. In Manitoba, this takes the form of loan guarantees to provide interim financing. Quebec provides both per unit grants to sponsor groups and sustaining grants to Technical Resource Groups which provide professional and organizational assistance to sponsor groups.

Provincial subsidy stacking is intended to permit additional rent geared-to-income units to be provided. In Alberta, public (municipal) non-profit projects are eligible for additional subsidies. Both private non-profit and cooperatives are eligible under the Ontario Community Housing Assistance Program. The Quebec government operates all public (provincial) non-profit projects as public housing projects. In so doing, all of these units become eligible for rent geared-to-income subsidies. The extent to which these additional subsidies lead to deeper income penetration is assessed below.

TABLE 6.24:

DISTRIBUTION OF UNITS¹ REPORTING ADDITIONAL PROVINCIAL ASSISTANCE
BY PROVINCE, BY PROGRAM AND PROJECT TYPE

	PROGRAM TYPE				PROJECT TYPE				TOTAL					
	Public Non-Profit #	%	Private Non-Profit #	%	Coop #	%	Family #	%	Senior Citizen #	%	Special Care #	%	#	%
Nfld.	0	0	73	100	0	0	0	0	0	0	73	100	73	0.4
P.E.I.	0	0	15	100	0	0	0	0	0	0	15	100	15	0.1
N.S.	199	56.5	153	43.5	0	0	0	0	0	0	352	100	352	2.1
N.B.	0	0	268	100	37	0.4	0	0	0	0	268	100	268	1.6
Que.	8,210	99.0	45	0.5	0	0	1,402	16.9	4,812	58.0	2,078	25.1	8,242	50.7
Ont.	2,384	95.6	109	4.4	0	0	1,362	74.7	415	16.6	216	8.7	2,493	15.2
Man.	0	0	24	100	0	0	0	0	0	0	24	100	24	0.1
Sask.	0	0	592	99.0	6	1.0	435	72.7	163	27.3	0	0	598	3.7
Alta.	117	34.6	221	65.4	0	0	0	0	0	0	338	100	338	2.1
B.C.	0	0	3,875	100	0	0	0	0	548	14.1	3,327	85.4	3,875	23.8
CANADA	10,910	66.9	5,375	32.9	43	0.3	3,699	22.6	5,938	36.5	6,691	40.9	16,328	100.0

1. Section 56.1 units committed 1978-81.

Source: Section 56.1 Administrative Data.

The financial contribution under these programs varies from province to province. Table 6.25 shows the estimated average provincial contribution per unit for all provincially-assisted Section 56.1 units by province and the proportion of the average per unit Section 56.1 subsidy which this represents. Only three provinces, Newfoundland, Quebec and Alberta exceeded the national average of \$3,827 contribution representing 9.0 percent of the total subsidy. Quebec provided the greatest proportion of assistance (24 percent of Section 56.1 subsidy); however the actual amount of subsidy was greatest in Newfoundland (\$12,615) because it is all for care facilities.

Analysis of the average provincial contribution by program and unit type revealed that special care units received a higher average contribution (\$7,083, 14.4 percent) followed by seniors and family units. Public non-profit units received the greatest contribution (\$4,012, 9.9 percent), slightly more than the average for all units. Private non-profit units received slightly less in actual assistance but this represented the same proportion of total assistance (\$3,501, 10.6 percent).

The relatively low levels of provincial assistance, compared with the amount of federal subsidy provided, suggest that provincial governments are re-directing social housing funds to alternative programs. In fact, since 1977, five provinces (British Columbia, Manitoba, Quebec, New Brunswick and Nova Scotia) have introduced unilateral shelter allowance programs which provide direct assistance to low-income renters to cover a portion of their shelter costs. Expenditures on these programs in 1981 represented two-thirds of provincial social housing subsidy expenditures in British Columbia, one-quarter in Quebec, but only 5 per cent in New Brunswick and Manitoba.

A complete analysis of provincial expenditure patterns for social housing was not carried out for the evaluation. However, it would appear that the introduction of a unilateral federal subsidy through Section 56.1, relieving the provinces of additional cost-sharing commitments, has permitted them to pursue independent priorities for social housing.

	# of Provincially Assisted Units (#)	Ave. Provincial Contribution ¹ Per Unit (\$)	# of Provincially Assisted Units (#)	Ave. Provincial Contribution ¹ Per Unit (\$)	# of Provincially Assisted Units (#)	Ave. Provincial Contribution ¹ Per Unit (\$)	# of Provincially Assisted Units (#)	Ave. Provincial Contribution ¹ Per Unit (\$)	% of Average Sec. 56.1 Subsidy Per Unit (%)
Nfld.					73	12,615	73	12,615	21.8
P.E.I.					15	712	15	712	4.0
N.S.					352	2,159	352	2,159	5.0
N.B.					268	2,757	268	2,757	7.0
Que.	1,402	1,929	4,812	1,792	2,078	14,735	8,292	5,059	24.0
Ont.	1,862	286	415	1,011	216	734	2,493	445	0.8
Man.					24	1,551	24	1,551	3.2
Sask.	435	3,822	163	632			598	2,952	6.0
Alta.					338	7,364	338	7,364	14.1
B.C.			548	2,372	3,327	3,505	3,875	3,344	5.7
TOTAL	3,699	1,325	5,938	1,759	6,691	7,084	16,328	3,827	9.0

1. These data represent the annual amount of provincial assistance anticipated by project groups, as reported on their application forms. They are not actual provincial expenditures and therefore must be interpreted with some caution. (All Section 56.1 projects including care facilities are included)

Source: CMHC Section 56.1 Administrative Data.

2. Impacts of Disentanglement

The process of disentanglement has provided provincial governments a large measure of control over Section 56.1 projects with no mandatory financial participation. Provinces, in principle, are required to adhere to the guidelines and objectives for the programs established by the federal government. However, in practice, little monitoring occurs to assess the extent to which program objectives are met in disentangled projects. In this section, selected indicators pertaining to the achievement of objectives are used to assess the impacts of disentanglement.

Table 6.26 identifies average incomes by household type and age category for occupants residing in provincially-led projects. These average incomes may be compared with those for all projects in each region shown in Tables 4.12 and 4.14. Such a comparison reveals that in Quebec and British Columbia, the incomes in disentangled projects are considerably below those in all Section 56.1 projects in these regions. The situation in Quebec, whereby the province subsidizes all occupants to rent-to-income levels, has been described elsewhere in this report. In British Columbia, disentangled projects are private non-profit senior citizen self-contained units. In order for the province to take the lead role on these projects, a contribution equivalent to 25 per cent of the capital cost of the project is required. In B.C. the provincial contribution is equal to a 1/3 capital grant. This additional financial assistance from the province has permitted lower income households to be served.

In Ontario and the Prairies, average incomes for families and for households headed by persons under the age of 65 are lower than the average Section 56.1 incomes in those regions. This reflects the priorities of the provincial government in Saskatchewan, where disentangled projects are family units only with no projects specially targetted for senior citizens and in Ontario where family households are a key target group. In these two regions, the elderly and individual households in disentangled projects have incomes higher than in Section 56.1 projects generally. This reflects the overall lower average incomes of private non-profit projects which tend to focus on senior citizens, as well as the priorities of the provincial governments involved.

TABLE 6.26

AVERAGE INCOME OF HOUSEHOLDS¹ IN
SECTION 56.1 PROJECTS WHERE THE PROVINCE IS
THE ACTIVE PARTNER BY HOUSEHOLD TYPE AND AGE OF
HOUSEHOLD HEAD

Household Type	QUEBEC				ONTARIO				PRAIRIES				B.C.			
	Prov. Del. Proj. Ave. Inc. \$	Prov. Average Inc. of Renter Hshlds \$	%	Prov. Del. Proj. Ave. Inc. \$	Prov. Average Inc. of Renter Hshlds \$	%	Prov. Del. Proj. Ave. Inc. \$	Prov. Average Inc. of Renter Hshlds \$	Prov. Del. Proj. Ave. Inc. \$	Prov. Average Inc. of Renter Hshlds \$	%	Prov. Del. Proj. Ave. Inc. \$	Prov. Average Inc. of Renter Hshlds \$	%	Prov. Del. Proj. Ave. Inc. \$	Prov. Average Inc. of Renter Hshlds \$
Individuals	5,278	14,522	36.3	12,502	15,627	80.0	20,960	16,516	126.9	5,962	16,450	36.2				
Families	8,523	23,679	36.0	16,232	23,721	68.4	21,056	23,503	89.6	11,758	25,324	46.4				
Age																
0-64	6,892	21,578	31.9	17,103	22,000	77.7	21,000	21,831	96.2	12,031	22,500	53.5				
65+	6,413	14,960	42.9	11,173	11,584	96.5	12,750	10,656	119.7	6,573	11,545	56.9				

1. Self-contained units only.

Source: Section 56.1 Occupants Survey and HIFE, 1980.

A second indicator of the impact of disentanglement on the achievement of Section 56.1 objectives is the extent to which housing is affordable. Table 6.27 shows the proportion of households in disentangled projects that pay more than 25 per cent and more than 30 per cent of their incomes for shelter, compared with Section 56.1 households generally. With the exception of British Columbia, there is virtually no difference in the affordability ratios in disentangled projects compared with all Section 56.1 projects.

TABLE 6.27 AFFORDABILITY OF DISENTANGLED PROJECTS

	<u>% of Households Paying more than 30% of Income</u>	<u>% of Households Paying more than 25% of Income</u>
Quebec	23.0	42.8
Ontario	24.3	43.1
B.C.	47.1	80.1
All Section 56.1	25.5	46.6

Source: Section 56.1 Occupant Survey

To summarize, when the provinces have combined additional financing with the Section 56.1 subsidy, disentanglement appears to have resulted in deeper income penetration for those projects to which the provinces have directed priority attention. There is no apparent impact of disentanglement on the extent to which projects are affordable.

3. Administrative Costs

One of the advantages of disentanglement is that it should result in lower costs of administration for the federal government as the provinces take on responsibility for program delivery and loan administration. While administration costs are not reported separately for disentangled, as opposed to CMHC led projects, they are available by program type. With most public non-profit projects being disentangled to the provinces, this provides a reasonable proxy of the administrative costs associated with disentanglement.

Table 6.28 shows the administrative costs associated with program delivery and with on-going loan administration by Section 56.1 program type. In both cases, public non-profit projects have considerably

lower CMHC administrative costs than other types of Section 56.1 units. For program delivery, public non-profit costs represent 22 percent of the average per unit delivery cost for all Section 56.1 projects. For loan administration, public non-profit costs are 42 per cent of the average Section 56.1 cost.

TABLE 6.28 AVERAGE PER UNIT COSTS OF CMHC SALARY AND OVERHEAD FOR SECTION 56.1 ADMINISTRATION

	<u>Program Delivery</u> \$/unit	<u>Loan Administration</u> \$/unit
Public Non-Profit	44.74	9.08
Private Non-Profit ¹	284.56	15.58
Urban Native	339.34	101.55
DIAND	363.24	28.69
Cooperative ¹	276.88	51.39
All Section 56.1	203.75	21.62

¹ Includes time spent on administration of Start-up funds.

Source: Modified Time Reporting System, CMHC
Treasurer's Directorate

4. Summary

The Section 56.1 programs resulted in changes in the nature of federal-provincial involvement in social housing. The unilateral federal subsidy, without a mandatory requirement for provincial involvement, has permitted the provinces to pursue independent social housing priorities. Provincial financial contributions to Section 56.1 projects are estimated to be only 9.0 percent of the amount of the federal subsidy, although one-quarter of Section 56.1 units receive some additional provincial assistance.

Disentanglement, when the provinces make additional financial contributions, has permitted lower income households to be served by the programs, but has not affected the extent to which projects are affordable.

Finally, considerable administrative savings accrue to the federal government as a result of the provinces assuming the lead role in most public non-profit projects.

VII. SECTION 56.1 SUPPORT PROGRAMS

A. Non-Profit Residential Rehabilitation Assistance Program (RRAP)

The Residential Rehabilitation Assistance Program was established in 1973 to provide assistance for the repair or conversion of existing residential buildings. The program is available to homeowners, landlords and non-profit groups. Of concern in the present evaluation is only that element of the program which is directed specifically towards non-profit and cooperative housing groups receiving Section 56.1 assistance.

Non-Profit RRAP provides forgivable loans to a maximum of \$5,000 for self-contained units¹ to groups purchasing existing units through the Section 56.1 programs. The funds are intended to bring units up to minimum standards in terms of their electrical, fire safety, plumbing, structural and heating systems or to improve the accessibility of units for disabled persons. Conversions of self-contained or hostel units may also be undertaken, provided that they result in an increase in the number of units in the dwelling. The cost of rehabilitation or conversion is included in the total capital costs eligible for Section 56.1 assistance.

The issues to be addressed in this section of the evaluation may be broadly defined as:

- (a) the extent to which the specific objectives of Non-Profit RRAP have been achieved; and
- (b) the impact of this support program on the achievement of overall Section 56.1 objectives.

-
1. Maximum forgivable loans increase to \$6,000 for units designed for disabled persons. For hostel and dormitory accommodation, loan amounts are \$1,750 for each of the first three bed-units and \$2,500 per unit for the balance of the bed-units (for the disabled these maxima increase to \$2,250 and \$3,000 respectively). These forgiveness levels were just increased in 1982. Participants in the survey for this evaluation received maximum forgiveness levels of \$3,750 for self-contained units and for hostels, \$3,750 for the first three units plus \$2,000 for each subsequent unit.

As an introduction to these issues, the first section of this chapter provides some details on the magnitude of Non-Profit RRAP take-up and the characteristics of projects which have used the program. Subsequent sections present indicators which are used to measure the extent to which Non-Profit RRAP objectives have been achieved, and the impact of the program on Section 56.1 objectives.

1. Program Take-Up and Project Characteristics

In 1978, when the Section 56.1 programs were introduced, Non-Profit RRAP, which had been available for non-profit and cooperative projects since 1973, was discontinued. The intention appeared to be that the interest rate write-down provided through Section 56.1 would provide sufficient assistance to enable groups to purchase and rehabilitate existing dwellings. However, in 1979, the program was reinstated. The rationale for this policy reversal has principally been in terms of the improvements in the health and safety of projects resulting from the use of RRAP funds and the increase in subsidy assistance available for low-income households.

Since 1979, 508 Section 56.1 projects with a total of 10,189 units, have received Non-Profit RRAP assistance. The provincial distribution of program take-up is shown in Table 7.1. The program has been used predominantly in Central Canada, with nearly 60 percent of the projects to be found in Quebec and 81 percent in Quebec and Ontario combined.

Table 7.2 shows the extent to which Non-Profit RRAP has been used by each Section 56.1 program type and also identifies the relationship between the use of RRAP and the number of existing projects purchased. The program has been used predominantly by cooperatives, which account for over one-half of the projects which received Non-Profit RRAP funding. Provincial non-profit corporations have made almost no use of the program, which reflects a relatively low number of existing projects as well as limited use of RRAP. Municipal non-profit corporations, while representing a small proportion of the projects which used RRAP funding, have used RRAP for almost three-quarters of their existing projects. Overall, just over one-half of the existing units which have been purchased through the Section 56.1 programs have received RRAP funding.

TABLE 7.1

TAKE UP OF NON-PROFIT RRAP IN COMPARISON WITH NUMBER OF EXISTING
SECTION 56.1 PROJECTS AND TOTAL SECTION 56.1 PROJECTS

	<u>Non-Profit RRAP Projects</u>	<u>Existing Sec. 56.1 Projects</u>	<u>RRAP as % of Existing</u>	<u>Total Sec. 56.1 Projects</u>	<u>RRAP as % of Total</u>
Nfld.	4	14	28.6	29	13.8
P.E.I.	4	13	30.8	18	22.2
N.S.	39	171	22.8	243	16.1
N.B.	9	27	33.3	63	14.3
Que.	295	367	80.4	744	39.7
Ont.	117	183	63.9	387	30.2
Man.	8	19	42.1	78	10.3
Sask.	0	59	0	192	0
Alta.	9	54	16.7	127	7.1
B.C.	23	79	29.1	312	7.4
Canada	508	990 ¹	51.3	2,193	23.2

1. Four existing Section 56.1 projects do not have location identified in the data file.

Source: CMHC Section 56.1 Administrative Data

By household type, Non-Profit RRAP has been predominantly used in family projects (81 percent). In terms of location, while the program is available in rural areas and on reserves, it has been used primarily in urban areas (87 percent).

The total budget for Non-Profit RRAP in 1981 was \$8.8 million, which is relatively small in comparison with total subsidy commitments for Section 56.1 in 1981 of \$146 million.

TABLE 7.2

NON PROFIT RRAP BY SECTION 56.1 PROGRAM TYPE

<u>Program Type</u>	<u>Non-Profit RRAP Projects</u>		<u>Sec. 56.1 Existing Projects</u>	<u>RRAP as % of Existing Projects</u>
	<u>#</u>	<u>%</u>		
Cooperative	275	54.1	363	75.8
Private Non-Profit	182	35.8	401	45.4
Private Native	25	4.9	86	29.1
Municipal Non-Profit	24	4.7	33	72.7
Provincial Non-Profit	2	0.4	90	2.2
(Missing)			17	
Total	508	99.9	990	51.3

Source: CMHC Section 56.1 Administrative Data

2. Non-Profit RRAP Objectives

Two objectives are presented in the program manuals for Non-Profit RRAP, the first a general RRAP objective and the second a specific objective for the Non-Profit RRAP program element:

- a) to encourage and to assist in the rehabilitation and conversion of substandard housing to an agreed level of health and safety and promote its subsequent maintenance to an acceptable level;
- b) to assist low and moderate income people living in substandard housing by encouraging non-profit corporations to participate in the rehabilitation of residential properties.

These objectives relate to the rationale for re-introduction of Non-Profit RRAP identified earlier, that is, a focus on health and safety of projects, and assistance for low and moderate income households. To assess the extent to which these objectives have been achieved, the condition of dwelling units which received RRAP funding is compared with the condition of other Section 56.1 units and the proportion of low and moderate income households in Non-Profit RRAP units is compared with the proportion in other Section 56.1 units.

TABLE 7.3

PROJECT MANAGERS ASSESSMENTS OF DWELLING CONDITION FOR RRAP PROJECTS, EXISTING PROJECTS WITHOUT RRAP AND NEWLY-CONSTRUCTED PROJECTS

	<u>RRAP</u> %	<u>Existing</u> %	<u>New</u> %
Exterior Condition Rated Fair or Poor	15.5	15.3	4.5
Interior Condition Rated Fair or Poor	10.1	10.2	3.6
Need for Major Repair	10.1	14.7	3.6

Source: Section 56.1 Project Managers Survey

Table 7.3 presents three indicators of dwelling condition for projects which received RRAP funding, for other existing projects which did not receive RRAP and for newly-constructed projects. These indicators rely on the assessments of project managers on the exterior and interior condition of the dwellings as well as the need for major repair.

The proportion of RRAP projects rated to be in poor or fair condition on both the interior and the exterior was virtually identical to the proportion of other existing projects without RRAP funding. In both cases, the proportions were higher than for newly-constructed dwellings. This suggests that on an overall basis, the provision of RRAP funding results in the same housing condition as provided by existing units without RRAP, but does not achieve as great a proportion of high-quality units as new construction.

The need for repair assessment revealed a lower incidence of projects requiring major repairs among those which had received RRAP funds than among other existing units. The need for major repair in RRAP projects is, however, greater than it is in newly-constructed projects.

The second aspect of the RRAP objective relates to the provision of assistance for low and moderate income households. To assess the achievement of this objective, the three measures of low and moderate income presented in Chapter IV will be used to compare RRAP projects with other existing and new projects. Table 7.4 summarizes the results.

TABLE 7.4

PROPORTION OF LOW AND MODERATE INCOME HOUSEHOLDS IN
NON-PROFIT RRAP, OTHER EXISTING AND NEW PROJECTS

	<u>RRAP</u> %	<u>Existing</u> %	<u>New</u> %
Proportion of Households Equal to or Below Average Income	66.1	67.5	70.9
Proportion of Households Equal to or Below Median Income	56.6	55.1	61.1
Proportion of Households in 1st and 2nd Quintiles	49.9	41.6	51.5

Source: Section 56.1 Occupants Survey

Using all three measures, there is a lower proportion of low and moderate income households in dwellings which have received RRAP funding than in newly-constructed projects. The proportion of low and moderate income households in RRAP projects is generally comparable to the proportion in existing projects without RRAP funding. Using the first and second income quintile criterion, a relatively higher proportion of low and moderate income households are served in Non-Profit RRAP projects than in other existing projects, and this is almost as high as the proportion in new dwellings.

Thus, in terms of the objectives set for Non-Profit RRAP, 86 to 90 percent of the dwellings were rated as being in good to excellent condition without a need for major repair. This is comparable to the dwelling condition of other existing projects, but not as high as the ratings given to new projects. With respect to the objective of serving low and moderate income households, 50 to 66 percent of the households in Non-Profit RRAP projects met this criterion, which is similar to the proportions in other types of projects.

3. Contribution to Section 56.1 Objectives

There is a general correspondence between the objectives reviewed above for Non-Profit RRAP and the Section 56.1 objective concerned with appropriate housing for low and moderate income households. In this section, the impact of Non-Profit RRAP on the objective of Section 56.1 to produce minimum cost housing is reviewed. There are two aspects to this assessment of minimum cost housing with respect to Non-Profit RRAP. The first is the extent to which lower capital costs result from rehabilitating existing dwellings rather than constructing new projects. The second is the impact on subsidy costs of providing additional subsidy assistance through Non-Profit RRAP.

Table 7.5 compares average capital costs by dwelling type for newly-constructed units, existing units with RRAP and existing units without RRAP. In all cases, existing units with RRAP assistance had lower average capital costs than did new units. Furthermore, for most dwelling types, existing units which made use of RRAP funds had lower capital costs than did existing units without RRAP. These capital costs include the cost of rehabilitation, so that even when this is taken into account, the use of RRAP on existing dwellings appears to result in the lowest average capital costs per unit.

TABLE 7.5

COMPARISON OF CAPITAL COSTS PER UNIT FOR NEW, EXISTING WITH RRAP AND EXISTING WITHOUT RRAP PROJECTS (FAMILY)

<u>Type</u>	<u>1978-79</u>		<u>1980</u>		<u>1981</u>	
	<u>Units</u>	<u>Capital Cost/Unit \$</u>	<u>Units</u>	<u>Capital Cost/Unit \$</u>	<u>Units</u>	<u>Capital Cost/Unit \$</u>
<u>Single-Detached</u>						
New	371	37,637	359	46,780	733	62,581
Existing - RRAP	17	34,532	24	39,382	125	35,964
Existing - No RRAP	36	36,888	160	39,373	237	49,536
<u>Apartment</u>						
New	1,991	40,700	2,445	43,197	2,348	57,739
Existing - RRAP	640	22,941	2,452	18,875	1,521	23,440
Existing - No RRAP	1,293	14,426	1,055	14,025	245	40,794
<u>Row/Townhouse</u>						
New	1,806	45,702	2,478	54,821	3,759	70,393
Existing - RRAP	275	25,299	326	38,977	271	20,043
Existing - No RRAP	493	36,011	223	45,333	91	46,479
<u>Duplex/Triplex/ Semi-Detached</u>						
New	128	41,649	180	60,111	317	67,781
Existing - RRAP	2	33,030	112	33,622	338	34,974
Existing - No RRAP	66	34,623	61	35,701	30	52,575

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Source: CMHC Section 56.1 Administrative File.

It was pointed out earlier that the amount of Section 56.1 subsidy assistance is calculated on the basis of total eligible capital costs, which in the case of Non-Profit RRAP units includes the forgivable portion of the RRAP loan. This means, in effect, that a double subsidy is provided on the costs of rehabilitation that are eligible for RRAP forgiveness. An example of the way in which this double subsidy operates is shown in Table 7.6. Because the forgivable portion of the loan

TABLE 7.6

ILLUSTRATION OF THE DOUBLE SUBSIDY ON A NON-PROFIT RRAP PROJECT

Project Costs

Acquisition	\$ 84,724
Rehabilitation - Repayable Loan	8,454
- Forgivable Loan	8,454
Total Project Costs	<u>\$101,632</u>
Amount to Amortize Project Costs at an Approved Interest Rate of 13.75%	\$ 13,721
Less: Amount to Amortize Project Costs at 2% Interest Rate	<u>- 4,035</u>
Amount of Section 56.1 Assistance	<u>9,686</u>
<hr/>	
Project Costs Excluding Forgivable Loan	93,178
Amount of Section 56.1 Assistance	8,880
Difference in Annual Subsidy Assistance Because Forgivable Loan is Included in Section 56.1 Calculation	\$ 806 a year

is eligible for Section 56.1 assistance, a subsidy is provided on an annual basis on the loan amount for rehabilitation which basically is a grant. For the project illustrated, this increased subsidy amount is \$806 per year. Table 7.7 estimates the total additional subsidy costs for the programs resulting from the double subsidy provision on Non-Profit RRAP.

TABLE 7.7

AMOUNT OF DOUBLE SUBSIDY CREATED BY INCLUDING NON
PROFIT RRAP FORGIVABLE LOANS IN
SECTION 56.1 CALCULATIONS

<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
\$3,035	3,035 406,050	3,035 406,050 745,733	3,035 406,050 745,733 359,564
<u>\$3,305</u>	<u>\$409,050</u>	<u>\$1,154,818</u>	<u>\$1,514,382</u>

Source: Calculations based on CMHC Section 56.1
Administrative Data.

In conclusion, it has been shown that additional Section 56.1 subsidies result from the provision of a double subsidy on Non-Profit RRAP projects. The benefits of this additional subsidy are not reflected in either higher proportions of good-quality projects or of low and moderate income households than are served through newly-constructed projects. There are, however, lower capital costs for Non-Profit RRAP projects which to some extent offset the additional subsidy provided.

B. Section 44(1)(b) Subsidy Stacking

The Section 56.1 Non-Profit and Cooperative Housing Programs are funded solely by the federal government. At the time of their introduction, however, it was recognized that more low-income households would be served by the programs if provincial governments provided complementary subsidy assistance to projects. Thus, they were encouraged, although not required, to match the Section 56.1 subsidy provided by the federal government.

Previous cost-sharing agreements for public housing involved a fifty-year commitment on the part of both federal and provincial governments to provide subsidies equal to the difference between operating costs and revenues. Thus, this was basically an open-ended subsidy approach. The Section 56.1 programs, on the other hand, involve a subsidy fixed by the eligible capital costs of a project and varying only as interest rates change. The maximum subsidy amount is indifferent to either the operating costs of projects or the incomes of the households served by the programs.

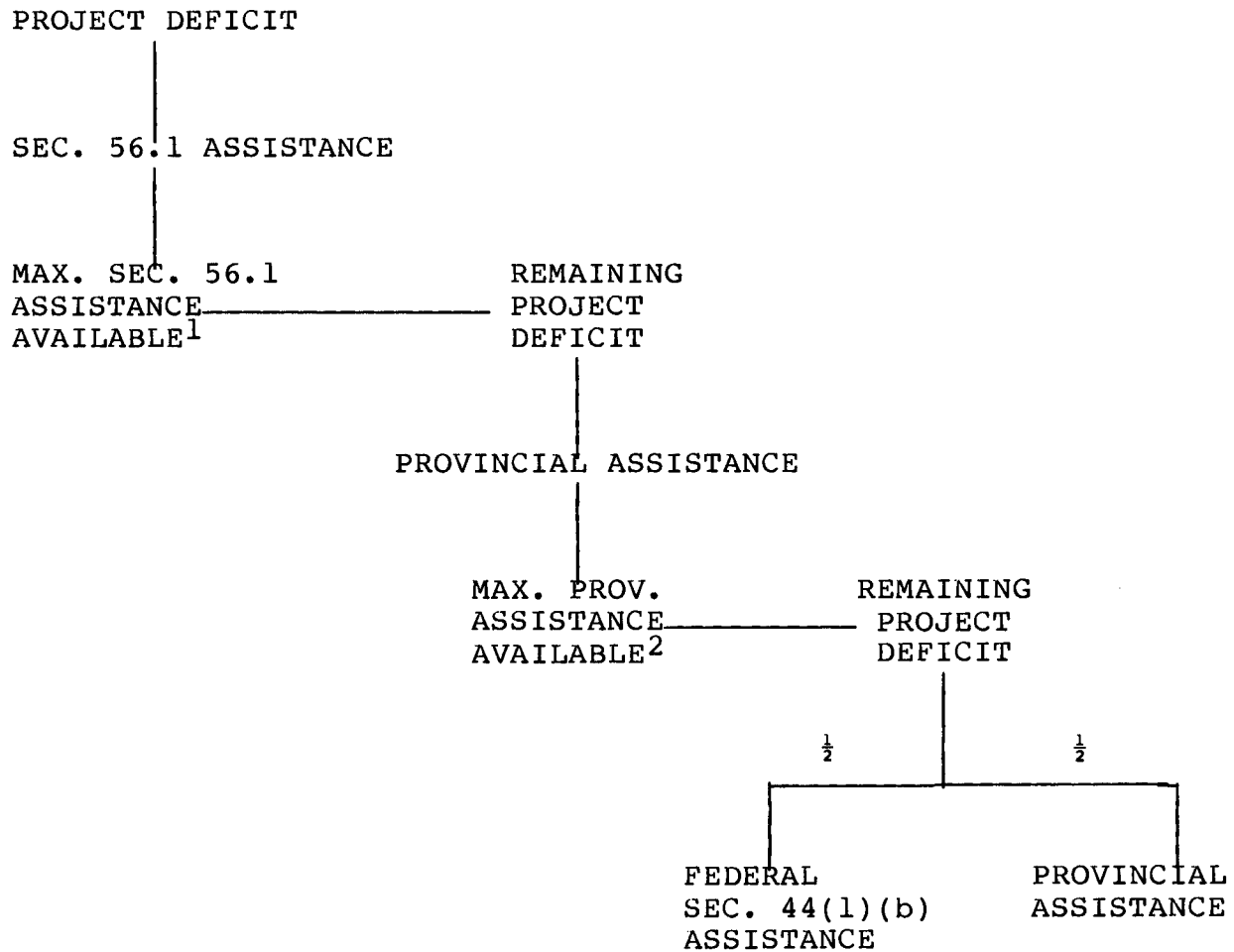
During the federal-provincial negotiations surrounding the introduction of the new programs, the provinces expressed concern about the limits on the amount of federal assistance. Their concern was that if operating costs on projects increased over time, additional subsidies would be required to keep the projects viable for the same clientele. Because of the fixed amount of Section 56.1 assistance, the provinces felt that if they were to become involved in the programs at all, they would be held responsible for providing all additional subsidies required to keep the projects viable in the long-term.

To respond to this concern, a cost-sharing formula for additional operating subsidies was devised. This is illustrated in Figure 7.1. Once the maximum federal Section 56.1 subsidy is matched by an equal provincial contribution, any additional subsidies are provided on a 50/50 cost-sharing basis by the federal and provincial governments. This additional cost-shared subsidy for non-profit and cooperative housing was authorized through Section 44(1)(b) of the NHA in 1979 by the Cabinet.

When Cabinet approved the cost-sharing agreement, it was authorized only for those Section 56.1 commitments made from 1978 to 1981 inclusive. Further, Cabinet specified that prior to seeking authority to extend the provision beyond 1981, CMHC would submit to Cabinet a review

FIGURE 7.1

APPLICATION OF SECTION 44(1)(b) ASSISTANCE TO SECTION 56.1
APPROVED PROJECTS



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1. Max. Sec. 56.1 Assistance Available equals Sec. 56.1 Eligible Capital Costs at Market Rate of Interest less Sec. 56.1 Eligible Capital Costs at 2% Interest Rate
 2. Max. Provincial Assistance Available equals Max. Sec. 56.1 Assistance.

and evaluation of the Non-Profit and Cooperative Housing Programs. Subsequently, an extension of this authority was granted by the Minister of State for Social Development to allow for completion of this review.

The critical issues with respect to the Section 44(1)(b) subsidy stacking provision are:

- a) the extent to which it is required to maintain the long-term viability of the Section 56.1 programs;
- b) the extent to which it is necessary for the achievement of Section 56.1 objectives, particularly with respect to meeting the needs of low and moderate income households; and
- c) the budgetary implications of the projected requirements for subsidy stacking assistance.

1. Long-Term Project Viability

The extent to which subsidy assistance within a project is available for income-tested households depends upon the amount of subsidy required to close the gap between economic and market rents (Refer to Figure 2.1). Economic rents over the long term vary with interest rate changes and project operating costs. The lower end of market rent charged in Section 56.1 projects reflects changes in market rents in the surrounding community. Thus in order to forecast long-term viability and the consequent amount of subsidy assistance available for low-income households, it is necessary to make certain assumptions about changes in interest rates, operating costs and market rents.

A model of the long-term viability of Section 56.1 projects has been developed. The model takes as given the capital costs of Section 56.1 projects, the rate of interest for the first five-year term of the mortgage, and operating costs and the lower end of market rent for the first year of the projects' operation. These variables were based on data available for the current stock of Section 56.1 projects.² In order to forecast

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2. Data were available for 600 projects. To calculate the total requirements for Section 44(1)(b) assistance, these data were adjusted to reflect 1,377 projects. Cooperative projects were excluded from this analysis because the cooperative formula for subsidy assistance precludes a requirement for Section 44(1)(b) subsidies. Data also exclude special care projects because of the additional subsidies they require for the provision of care services.

the future viability of projects, a range of assumptions regarding changes in interest rates, operating costs and market rents was established. Interest rates were set to vary randomly every five years at a rate of $\pm 1\frac{1}{2}$ percent from the initial interest rate. Variations in operating costs and market rents were held constant over the 35-year life of the projects and were based on the average rate of inflation for the last 20 years.

It should be noted that the outputs of the model are very sensitive to the assumptions with respect to changes in interest rates, operating costs and market rents. The values shown for Section 44(1)(b) requirements are not definitive and will depend on actual changes in market conditions.

Table 7.8 shows three estimates of the maximum number of projects which in any given year would require Section 44(1)(b) subsidies in order to have subsidy assistance available for income-tested occupants. As the table indicates, there is considerable variation in both the number of projects requiring additional Section 44(1)(b) assistance, and in the time period in which the assistance would be required according to the assumptions made on rates of change in the lower end of market rent and operating costs. The estimates range from a minimum of 13 projects to a maximum of 323 projects which would require Section 44(1)(b) assistance in any one given year. This means that as few as 1 per cent of Section 56.1 projects or as many as 20 per cent would require subsidy stacking in order to have assistance available for income-tested households over the 35-year life of the projects.

The case 2 and 3 assumptions result in a subsidy stacking requirement in only one to two percent of Section 56.1 projects. Case 1 assumptions result in a greater requirement for subsidy stacking. However, while it may be feasible in the short term for increases in operating costs in projects to exceed the rate of increase in market rents, this situation would not prevail over the long term. The results of Case 1 have been included here as a "worst-case" scenario which would reflect the need for subsidy stacking only if operating costs in Section 56.1 projects increase at higher rates than the lower end of market rents.

TABLE 7.8

ESTIMATES OF THE NEED FOR SUBSIDY STACKING						
	Case 1		Case 2		Case 3	
	#	%	#	%	#	%
Nfld.	0	0	0	0	0	0
P.E.I.	2	50.0	0	0	0	0
N.S.	1	0.8	1	0.8	1	0.8
N.B.	21	43.5	0	0	0	0
Que.	131	25.8	3	0.7	3	0.7
Ont.	70	30.5	0	0	0	0
Man.	4	6.3	2	3.1	2	3.1
Sask.	53	31.3	14	8.3	7	4.2
Alta.	9	17.6	9	17.6	0	0
B.C.	32	20.0	11	6.7	0	0
TOTAL	323	20.3	40	2.3	13	0.8

Source: Internal CMHC Model of Section 56.1 Projects

NOTE: Assumptions regarding average rates of change in the Lower End of Market Rent and Operating Costs:

	Lower End of Market Rent	Operating Costs
Case 1	6.0%	7.7%
Case 2	7.7%	7.7%
Case 3	9.0%	7.7%

In Case 1, assistance would first be required in Year 4; in Case 2, in Year 10; in Case 3 in Year 14.

2. Low and Moderate Income

The projections shown in Table 7.8 show the projects which would require Section 44(1)(b) subsidies simply to bridge the gap between economic and market rent. Of course, the aim of the Non-Profit and Cooperative Housing Programs is not only to provide subsidy assistance so that tenants may pay the lower end of market rent, but also to provide assistance so that low and moderate income households can pay rents on the basis of their income. This means that a sufficient pool of subsidy funds must be available for income-tested households after the gap between economic rent and market rent is filled.

TABLE 7.9

ESTIMATED NEED FOR SUBSIDY STACKING (MAXIMUM # OF PROJECTS REQUIRING 44(1)(b) ASSISTANCE IN ANY ONE YEAR), TO MAINTAIN CURRENT LEVEL OF INCOME-ASSISTED HOUSEHOLDS						
	Case 1		Case 2		Case 3	
	#	%	#	%	#	%
Nfld.	0	0	0	0	0	0
P.E.I.	2	50.0	0	0	0	0
N.S.	1	0.8	1	0.8	1	0.8
N.B.	21	43.5	0	0	0	0
Que.	151	29.8	3	0	3	0.7
Ont.	80	35.2	2	0.8	0	0
Man.	4	6.3	2	3.1	2	3.1
Sask.	63	37.5	14	8.3	7	4.2
Alta.	9	17.6	9	17.6	0	0
B.C.	40	25.0	11	6.7	0	0
TOTAL	371	23.3	42	2.5	13	0.8

Source: Internal CMHC Model of Section 56.1 Projects

The survey of Section 56.1 projects has shown that 30.1 per cent of households in non-profit projects were income-tested. The average rent paid by income-tested households was 86.3 per cent of the market rent for the project. The analysis completed here estimates the maximum number of projects requiring Section 44(1)(b) assistance in any given year in order to maintain the same level of RGI units at the same ratio of income-tested rent to market rent.

As in the long-term project viability analysis three cases were provided to show a range of potential subsidy stacking requirements. Results are shown in Table 7.9.

To maintain the same level of rent-geared-to-income units, the number of projects requiring Section 44(1)(b) assistance ranges from 13 projects to 371 projects. There is very little difference between the number of projects requiring assistance in terms of viability and the number requiring assistance to maintain the same level of RGI units.

The implication of this finding is that projects which are forecast to be economically viable throughout their duration will also be able to maintain current levels of assisted households without requiring additional subsidy stacking. The fear that the Section 56.1 programs would be unable to sustain sufficient numbers

of low-income households without subsidy stacking does not appear to be justified, if current levels of assisted households are considered 'sufficient'.

3. Financial Requirements

Table 7.10 provides long-term forecasts of the amount of federal Section 44(1)(b) assistance which would be required to maintain the viability of projects currently in the Non-Profit and Cooperative Housing portfolio, under the three scenarios. The worst case shows additional subsidies needed by year 4, with financial requirements reaching \$61 million by the 35th year. The most optimistic scenario is that subsidy stacking would be necessary only in the 14th year of operation and would total \$2.2 million by year 35. The projected requirements to maintain current levels of assisted households vary relatively little from the viability forecasts shown in Table 7.10.

The most probable case is considered to be Case II, with operating costs increasing at the same rate as the lower end of market rent. With these assumptions, the present value of the total Section 44(1)(b) requirements over 35 years is estimated to be \$2.1 million (with a 10 per cent discount rate).

4. Summary

There is almost no Section 44(1)(b) stacking currently in place for Section 56.1 projects. Analysis of the future requirements for subsidy stacking depends to a large extent on assumptions with respect to increases in operating costs and the lower end of market rent. It is most likely that only 1 or 2 per cent of Section 56.1 projects may require subsidy stacking to maintain their financial viability.

Introduction of the stipulation that present levels of assisted households be maintained results in little change to these findings. This indicates that for projects which are financially viable, their ability to continue to serve low-income households throughout their 35-year life is not hampered.

Total financial requirements estimated for subsidy stacking are relatively low. Under the assumption that operating costs increase at the same rate as the lower end of market rent, the present value of subsidy requirements over the 35-year period would be \$2.1 million.

TABLE 7.10

PROJECTED REQUIREMENTS FOR SECTION 44(1)(b)

	<u>Case I</u> (<u>\$</u>)	<u>Case II</u> (<u>\$</u>)	<u>Case III</u> (<u>\$</u>)
1	0	0	0
2	0	0	0
3	0	0	0
4	459	0	0
5	1,265	0	0
6	2,196	0	0
7	3,263	0	0
8	6,199	0	0
9	14,466	0	0
10	27,183	921	0
11	43,529	5,520	0
12	61,400	10,464	0
13	84,616	22,617	0
14	227,958	48,803	10,184
15	429,857	102,552	45,957
16	653,663	167,381	84,659
17	947,828	237,199	126,464
18	1,412,468	312,396	181,921
19	1,941,462	408,050	243,329
20	2,519,317	517,238	315,962
21	3,200,061	634,832	393,550
22	4,134,317	761,479	480,460
23	5,316,829	903,623	570,272
24	6,845,418	1,053,432	665,278
25	8,766,726	1,214,774	767,303
26	11,121,264	1,388,539	875,195
27	13,936,853	1,577,958	989,809
28	17,314,438	1,784,544	1,111,520
29	21,136,957	2,007,027	1,236,303
30	25,516,570	2,240,443	1,375,787
31	30,933,758	2,565,867	1,524,515
32	38,431,307	2,880,074	1,683,065
33	44,270,087	3,231,545	1,852,043
34	52,348,514	3,617,518	2,032,094
35	61,451,194	4,033,215	2,223,896
	<u>LEMR</u>	<u>Oper. Cost</u>	
Case I	6.0%	7.7%	
II	7.7%	7.7%	
III	9.0%	7.7%	

Source: Internal CMHC Model of Section 56.1 Projects

VIII. PROGRAM COST COMPARISONS

Previous chapters of this report have reviewed the achievement of Non-Profit and Cooperative Housing programs objectives, but little attention has been given to the costs or resource outlays required to achieve program results. Given that limited resources are available for social housing programs, these resources should be used to attain the greatest amount of output. Moreover subsidy costs for the Section 56.1 programs are expected to increase rapidly over the next five years, reaching \$630.6 million by 1986, as compared to \$60.1 million in 1981.¹ It is, therefore, important to assess the cost-effectiveness of these expenditures.

The purpose of this chapter is to compare the subsidy cost to the federal government of providing social housing under each of the Section 56.1 program types. As well, the programs are compared with other social housing programs, as well as with market housing programs to obtain a comparative view of their costs. The technique used to compare programs with respect to cost is cost-effectiveness analysis. As used here, cost-effectiveness analysis measures the subsidy cost per unit of program output. Ideally, the measure of program output or effectiveness should accurately reflect the key program objective: "to provide modest affordable housing appropriate to the needs of low and moderate income families and individuals". However, practical difficulties in establishing a single, precise output measure for this objective suggest that two simple measures of program output be used: the total number of units provided and the number of rent-geared-to-income (RGI) units provided.

The preferred approach to measuring cost-effectiveness for the three program types is to use actual subsidy costs paid out as the measure of costs and total units and RGI units provided as measures of output. However, while historical subsidy cost data are readily available, data on the number of units associated with actual subsidy costs are not. In addition, subsidy costs for the program extend for the full 35 years that the projects are under agreement. An accurate measure of costs must take into account the total value of these future subsidy payment.

1. CMHC Treasurer's Directorate, Main Estimates and Operational Plan, 1982-83.

Consequently, subsidy costs for Section 56.1 projects have been estimated using models which were developed to represent the operation of hypothetical non-profit and cooperative projects over time. The models attempt to deal with the long-term, cost-effectiveness of the programs by focussing on the amount of subsidy available for RGI tenants. These approaches and the cost effectiveness measures derived are presented in detail below.

A. Section 56.1 Program Cost Comparisons

Cost effectiveness analysis involves a computation of the stream of costs associated with the outcomes of net programs over time. To derive the cost side of the equation, subsidies were calculated for a hypothetical 20-unit townhouse over a 35-year period. The capital, operating costs and market rent levels were equal to the average levels of projects of this type constructed under the Section 56.1 programs in 1981. The operating costs and market rent rates of increase were set equal to the average annual rate of inflation over the last 15 years as determined by the Consumer Price Index. Costs are shown for two interest rate assumptions - 18 percent, which represented the average interest rate for projects included in the social housing survey, and 13 percent, which approximates the interest rates available in the latter part of 1983.

Two cost-effectiveness measures are presented. The first identifies the cost per unit based on the total number of units provided. This figure represents the average future subsidy cost to the government estimated for each Section 56.1 unit made available. The drawback to this measure of cost-effectiveness is that the programs' effectiveness is defined in terms of all units provided, rather than focussing on units directed to low and moderate income households, which is the intent of the programs.

The second measure of cost-effectiveness deals more directly with this intent to provide social housing by averaging future subsidy costs only over the RGI units made available through the programs. The proportion of RGI units which could be produced was calculated according to the amount of subsidy assistance available after filling the gap between economic and market rents. For future years, it was assumed that the total Section 56.1 assistance would be used to increase the proportion of RGI units provided.

Table 8.1 illustrates in summary form the results of these cost-effectiveness calculations. For each non-profit and cooperative unit committed, the present value of the total subsidy cost over the 35-year period averages \$46,911 at a 13 percent interest rate and \$71,820 at an interest rate of

18 percent. When viewed only in terms of the RGI units provided, these costs are considerably higher. This reflects the fact that for each RGI unit produced, subsidies are also required to support market rent units.

The analysis on the basis of RGI units also illustrates a difference in the operation between the cooperative program and the non-profit program. Fewer RGI units result over the long term in the cooperative program, because the monthly payments of non-RGI occupants in cooperative projects are not linked to market rents. Consequently, in future years of the program, when market rents exceed economic rents in non-profit projects, the additional revenues generated can support a greater number of RGI tenants. This is not the case in cooperatives.

Table 8.1

COST-EFFECTIVENESS MEASURES OF SECTION 56.1 PROGRAMS
WITH TWO INTEREST RATE ASSUMPTIONS

<u>Program</u>	<u>Present Value¹ of Total Subsidy Cost</u>			
	<u>Per Unit</u>		<u>Per RGI Unit</u>	
	<u>13%</u>	<u>18%</u>	<u>13%</u>	<u>18%</u>
Section 56.1 Non-Profit	\$46,911	\$71,820	\$92,893	\$128,905
Section 56.1 Cooperative	\$46,911	\$71,820	\$105,418	\$147,875

¹Present value calculated using a 10% discount rate

Source: Hypothetical Model of A 20-Unit Townhouse Project developed by the Program Evaluation Division.

Table 8.2 permits a more detailed inspection of the stream of subsidy costs on an annual basis. In the initial years of the programs, much of the subsidy is directed to decreasing the gap between economic rent and market rent, resulting in less subsidy available for RGI units. As a consequence, the cost for each RGI unit provided is high - in year one, a subsidy of \$18,619 is required to support each RGI unit. In subsequent years, as market rents increase, a higher proportion of the subsidy is available for RGI units, thus reducing their average subsidy cost. However, this trend does not continue for the entire 35-year life of the project. In the latter years of the project, the number of RGI units which can be provided decreases somewhat as deeper assistance is required to provide affordable housing for RGI tenants whose incomes are not projected to increase at the same rate as project operating costs.

Table 8.2

ANNUAL SECTION 56.1 SUBSIDY COSTS AND COST EFFECTIVENESS

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Year	Total Annual Subsidy	Non-Profit and Coop		Non-Profit		Coop	
		Cost Per Unit	Present Value	Cost Per RGI Unit	Present Value	Cost Per RGI Unit	Present Value
	\$	\$	\$	\$	\$	\$	\$
1	148,955	7,448	6,771	18,619	16,926	18,619	16,926
2	148,955	7,448	6,155	16,551	13,679	21,279	17,586
3	148,955	7,448	5,596	14,896	11,192	21,279	15,987
4	148,955	7,448	5,087	14,896	10,174	18,619	12,717
5	148,955	7,448	4,625	13,541	8,408	18,619	11,561
6	148,955	7,448	4,204	12,413	7,007	16,550	9,342
7	148,955	7,448	3,822	11,458	5,880	16,550	8,493
8	148,955	7,448	3,475	11,458	5,345	14,896	6,949
9	148,955	7,448	3,159	10,640	4,512	14,896	6,317
10	148,955	7,448	2,872	10,640	4,102	14,896	5,743
11	148,955	7,448	2,611	9,930	3,480	14,896	5,221
12	148,955	7,448	2,373	9,930	3,164	13,541	4,315
13	148,955	7,448	2,157	9,310	2,697	13,541	3,922
14	148,955	7,448	1,961	9,310	2,462	13,541	3,566
15	148,955	7,448	1,783	8,762	2,096	13,541	3,242
16	148,955	7,448	1,621	9,310	2,026	12,413	2,701
17	148,955	7,448	1,474	9,310	1,842	12,413	2,456
18	148,955	7,448	1,340	9,930	1,786	12,413	2,233
19	148,955	7,448	1,218	9,930	1,624	12,413	2,030
20	148,955	7,448	1,107	10,640	1,582	12,413	1,845
21	148,955	7,448	1,006	10,640	1,442	12,413	1,682
22	148,955	7,448	915	11,458	1,408	12,413	1,525
23	148,955	7,448	832	11,458	1,280	12,413	1,386
24	148,955	7,448	756	12,413	1,260	12,413	1,260
25	148,955	7,448	687	12,413	1,146	12,413	1,146
26	148,955	7,448	625	13,541	1,136	13,541	1,136
27	148,955	7,448	568	13,541	1,033	13,541	1,033
28	148,955	7,448	516	14,896	1,033	14,896	1,033
28	148,955	7,448	470	14,896	939	14,896	939
30	148,955	7,448	427	16,551	949	16,550	949
31	148,955	7,448	388	16,551	862	16,550	862
32	148,955	7,448	353	18,619	882	18,619	882
33	148,955	7,448	321	18,619	802	18,619	802
34	148,955	7,448	292	18,619	729	18,619	729
35	148,955	7,448	265	21,279	757	21,279	757
TOTAL PRESENT VALUE			71,8321		128,6161		149,2731

Totals differ from Table 8.1 due to rounding.

The results in Tables 8.1 and 8.2 are based on a hypothetical model of a Section 56.1 project operating over time. In order to provide additional evidence on subsidy costs, two further sources of data have been used. The first is a calculation of the maximum subsidy available based on average cost information from the records of project commitments. While the maximum subsidy does not necessarily reflect the actual amount of subsidy paid, to the end of 1982, only \$434,000 had been returned to the Corporation, so that 99.8 percent of the maximum subsidy assistance was being used. The second data source is based on annual project reporting statements which provide information on actual subsidy claims. The main drawback to this data source is that it is incomplete and largely private non-profit projects.

The use of these additional sources of data permits more analysis of differences among programs. The comparisons are made on the basis of first-year subsidy costs, using only an 18 percent interest rate. With lower interest rates, the absolute subsidy amounts would be lower, but the relative position among programs would remain unchanged.

Up to the end of 1981, commitments had been made under Section 56.1 for more than 2,000 non-profit and cooperative projects. The administrative data associated with these commitments include the maximum federal contribution to write down the interest rate to 2 percent and the total number of units for each project. Estimates of the subsidy cost per unit, based on these data, are shown in Table 8.3. To estimate subsidy costs per RGI unit, it was necessary to use data on the ratio of RGI units to total units for each program type from the survey of Section 56.1 project managers.

Based on the Section 56.1 commitments data, the private non-profit program has the lowest cost-effectiveness ratio in terms of both total units and RGI units, while the cooperative program has the highest ratio. Moreover, the difference in subsidy cost per unit between the two programs amounts to \$2,330 or 62 percent of the per unit subsidy cost for the private non-profit program. This difference is explained in part by the higher incidence of existing units and of hostel beds and senior citizen units in the private non-profit program. Per unit capital costs are lower for existing units than for new units. Also, hostels and senior citizen units have lower capital costs per unit than family units which predominate under the cooperative program. However, when self-contained family units are considered, the cost-effectiveness ratio remains higher for the cooperative program by more than \$2,000 per unit for both

TABLE 8.3

FIRST YEAR COST-EFFECTIVENESS RATIOS FOR SECTION 56.1 PROGRAMS
(BASED ON COMMITMENTS DATA)

Program	Projects No.	Total Units No.	RGI Units No.	Cost-Effectiveness	
				Subsidy Cost per Unit \$	Subsidy Cost per RGI Unit \$
Public Non-Profit	589	18,149	5,426	4,498	15,047
Provincial Projects	444	10,414	3,113	3,776	12,631
Municipal Projects	145	7,735	2,313	5,471	18,298
Private Non-Profit	1,017	34,616	10,857	3,762	11,995
Native Projects	158	1,213	469	4,359	11,274
Other Projects	859	33,403	10,388	3,740	12,028
Cooperative	504	12,342	4,320	6,092	17,404
Total-All Programs	2,110	65,107	20,603	4,409	13,934

Source: CMHC Section 56.1 Administrative Data

new and existing units. The difference in per unit subsidy cost reflects higher capital and financing costs under the cooperative program (see Chapter IV, B). Within the private non-profit program, Native projects have higher subsidy costs per unit, reflecting the high incidence of higher capital cost, family units provided by these groups.

The public non-profit program lies between the other programs in terms of subsidy cost per unit. Within the public non-profit program, the cost per unit for provincial projects (which have a high incidence of senior citizen units) is much lower than for municipal projects (which provide relatively more family units).

With respect to the cost-effectiveness ratios for RGI units, the same patterns prevail: the private non-profit program is most cost-effective, followed by the public non-profit and cooperative programs. However, the subsidy cost per RGI unit is highest for municipal projects. These projects were found to have a lower incidence of RGI tenants (30 percent) than cooperative projects (35 percent).

The cost effectiveness ratios shown in Table 8.3 vary greatly by program. Some of these variances can be explained by differences in the types of units being subsidized, the intended applicants and the year of approval. For example, interest rates and capital costs were highest for commitments made in 1981 (see Chapter IV, B). If one program had a higher concentration of activity in 1981 than other programs, its subsidy costs per unit would be overstated. To overcome this problem the analysis was conducted by year, by unit type (new or existing) and for family self-contained units only. This was to ensure that like units were being compared.

The results of this analysis showed that for self-contained family units, private non-profit projects have the lowest subsidy costs per unit and cooperatives have the highest. The same relationship holds true in terms of subsidy costs per RGI unit. For new self-contained family units, private non-profits are again lowest and cooperatives highest, but the subsidy costs are much closer. Examining these costs by year also shows the same relationship. Overall costs for existing units are much lower than for new, but there is little change in the pattern among programs.

The second source of administrative data, the annual project reporting statements, provides more accurate information regarding subsidies. These statements (CMHC 2254s and 2374s) identify subsidy claims by projects for the previous year. Although the data are incomplete (statements are available for less than one-third of projects/units occupied in 1981), and are heavily influenced by the private non-profit program, they provide another source of information with which to examine the patterns and levels of subsidy costs per unit and per RGI unit.

Data from the project reporting statements (Table 8.4) indicate the same patterns of cost-effectiveness among the Section 56.1 program types as the commitment data in Table 8.1. The private non-profit program is most cost-effective, followed by the public non-profit program and the cooperative program. Because the private non-profit program is over-represented in this partial data set, the average per unit subsidy cost over all programs (\$9,716) is much lower than would occur with proportional representation for all program types.

While subsidy costs per RGI unit are generally lower based on this data, the cost of supporting one RGI unit under the cooperative program remains in excess of \$15,000 in the first year and under the public non-profit program, over \$14,000 in year one (municipal projects only).

B. Section 56.1 Cost-Effectiveness Compared with Market Housing Programs

Cost-effectiveness analysis is most useful as a tool for comparison among alternative subsidy expenditures. In this section the level of Section 56.1 subsidies is compared to subsidies available under market housing programs and the implicit subsidies available through the tax system for private sector rental accommodation. The programs included are the Section 14.1 Assisted Rental Program (ARP) and the Section 14.1 Canada Rental Supply Program (CRSP). The 1976 ARP guidelines are used because they provided the highest level of subsidy. As well, tax expenditures provided to these projects are included in the subsidy calculation.

Comparisons among the programs are again made using an identical hypothetical project, assumed to be financed and assisted under the terms of each program. The hypothetical project chosen for comparison purposes is a 20-unit

TABLE 8.4

FIRST YEAR COST-EFFECTIVENESS RATIOS FOR SECTION 56.1 PROGRAMS
(BASED ON PROJECT REPORTING STATEMENTS)

<u>Program</u>	<u>Total Units No.</u>	<u>RGI Units No.</u>	<u>Cost-Effectiveness</u>	
			<u>Subsidy Cost per unit \$</u>	<u>Subsidy Cost per RGI Unit \$</u>
Public Non-Profit	868	260	4,916	16,411
Provincial Projects	-	-	-	-
Municipal Projects	868	260	4,916	16,411
Private Non-Profit	3,826	1,197	2,284	7,303
Native Projects	98	38	3,389	8,737
Other Projects	3,728	1,159	2,256	7,256
Cooperative	324	113	5,240	15,027
Total-All Programs	5,018	1,570	2,931	9,176

Source: CMHC Section 56.1 Administrative Data

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townhouse project, with assumptions regarding capital, operating costs, and market rent levels as given previously.

Calculations of the annual subsidy cost and the present value of the annual subsidy costs, discounted at 10 per cent, will form the basis of comparison among the programs.

For both ARP and CRSP, subsidies related to tax expenditures are included in addition to the interest rate subsidies provided under these programs. The subsidy calculations for ARP include the Multiple Unit Residential Building provision for the write-off of soft costs and a capital cost allowance at 5 per cent of the declining balance. In addition, tax savings on operating losses, when incurred, are included. Detailed calculations for each program are contained in Annex 3.

Table 8.5 summarizes the subsidy costs for each program on the basis of the time period over which the program operates and on the basis of a common, ten-year time period for each program. Subsidy costs under Section 56.1 are considerably higher than those provided through the market housing programs on the basis of either the program period or the equal ten-year period.

TABLE 8.5 COMPARISON OF SECTION 56.1 PER UNIT SUBSIDY COSTS WITH SUBSIDY UNDER THE ASSISTED RENTAL PROGRAM AND THE CANADA RENTAL SUPPLY PLAN¹

Program	Present Value of Subsidy Over The Program Period	Present Value of Subsidy Over Ten Years
	\$	\$
Section 56.1 (Non-Profit)	71,820	45,727
Assisted Rental Program	19,525	19,525
Canada Rental Supply Plan	22,964	19,218

1. Based on a hypothetical 20-unit townhouse. See Annex 3 for detailed calculations.

However, the Section 56.1 subsidies shown in Table 8.5 include both the subsidy to bridge the gap between economic rent and market rent and the subsidy to assist income-tested households. A more suitable comparison with the market programs would include only the subsidy to

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market renters. The subsidy required only to bridge the gap between economic rent and market rent for a ten-year period is as follows:

Section 56.1 Non-Profit: \$30,062

Section 56.1 Cooperative: \$35,178

Even under these circumstances, the subsidy cost under the Section 56.1 programs is more than one and one-half times as great as that under ARP and CRSP.

It should be pointed out, however, that while subsidy costs are higher under Section 56.1 a project with those cost characteristics may not have been undertaken under the market housing programs due to the large difference between economic and market rent.

C. Section 56.1 and Other Social Housing Programs

In this section, cost-effectiveness analysis is used to provide comparable information on the level of subsidy available under each of the social housing programs. Comparable estimates of subsidy costs are difficult to derive using historical project information for the various programs. Projects are initiated at different times and account must be taken of changing factor prices and technology. Moreover, tenant incomes also change over time and comparable historical data are simply not available.

The approach taken here is to assume that an identical, hypothetical project is financed and assisted under the terms of each program. Calculations of the annual subsidy costs, present value of the annual subsidy cost, the number of RGI units provided, and the cost per rent-geared-to-income unit provide the basis for comparison among the programs.

The hypothetical project chosen for comparison purposes is a 20-unit townhouse project. The capital, operating costs, and market rent levels are equal to the average levels for projects of this type constructed under Section 56.1 programs in 1981. The income levels for the rent-geared-to-income tenants were determined using data for public housing tenants from the survey of social housing occupants. The operating cost and market rent rates of increases are equal to the average annual rate of inflation

over the last 15 years as determined by the Consumer Price Index. The annual rate of increase in RGI tenants' income is based on the average rate of increase of the upper boundary of the 1st income quintile of all households over a 15 year period as determined by Statistics Canada.

The number of rent-geared-to-income units provided by each program differs because of the nature of the subsidy. In public housing and rent supplement, 100% of the units are RGI. The subsidies bridge the gap between economic rent, or market rent in rent supplement, and the rent-geared-to-income. In Section 56.1, the subsidies are first used to bridge the gap between economic and lower end of market rents. Whatever subsidy is left is available for income-tested households. The subsidies provided under Sections 15.1/34.18 are used to reduce economic rents to a breakeven rent. Subsidies for RGI tenants are received through Section 44(1)(b) rent supplement. The survey of social housing managers indicated that 60% of units in small Sections 15.1/34.18 projects paid rent-geared-to-income. The 60% figure has therefore been used in this analysis.

Results of the subsidy calculations are summarized in Table 8.6². These results reflect the full operating period for each of the programs.

The results indicate that on a per unit basis, the present value of Section 56.1 subsidies is lower than those on other social housing programs. Rent Supplement has the highest present value subsidy cost, followed by Public Housing.

However, as was indicated previously, not all of the Section 56.1 subsidies are directed to RGI units. When the cost-effectiveness comparison is made on the basis of the number of RGI units produced, it is apparent that Section 56.1 is by far the most costly. The present value of the subsidy associated with producing one RGI unit under the Section 56.1 programs is approximately 1.5 times as great as than under the Public Housing programs, the lowest cost alternative.

Section 56.1 subsidies are particularly sensitive to interest rates. The analysis shown in Table 8.6 is based on an interest rate of 18 percent, which was the average rate for projects included in the social housing survey. The same comparisons are displayed in Table 8.7 using a 13 percent interest rate assumption. On this basis, Public

2. The detailed assumptions for each program are contained in Annex 4.

SUBSIDY COSTS FOR ALTERNATIVE SOCIAL HOUSING PROGRAMS WITH AN 18% INTEREST RATE

	<u>Present Value Total Subsidy</u>	<u>Average No. of RGI Units/Year</u>	<u>Present Value Per Unit</u>	<u>Total Subsidy Per RGI Unit</u>
Section 56.1 N/P	1,436,558	11.1	71,820	128,905
Section 56.1 Co-Op	1,436,558	9.7	71,820	147,875
Section 15.1/34.18 N/P and Co-op with 44(1)(b)	1,450,774	12	72,555	120,890
Section 40 Public Housing	1,898,847	20	94,942	94,942
Section 43 Public Housing	1,898,847	20	94,942	94,942
Section 44(1)(a) Rent Supplement	1,930,263	20	96,513	96,513
1. Hypothetical Model of a 20-Unit Townhouse Project				

TABLE 8.7

SUBSIDY COSTS FOR ALTERNATIVE SOCIAL HOUSING PROGRAMS
WITH A 13% INTEREST RATE

	Present Value Total Subsidy \$	Average No. of RGI Units/Year \$	Present Value	
			Per Unit \$	Total Subsidy Per RGI Unit \$
Section 56.1 N/P	938,222	10.1	46,911	92,893
Section 56.1 Co-Op	938,222	8.9	46,911	105,418
Section 15.1/34.18 N/P and Co-Op with 44(1)(b) Assistance	944,496	12.0	47,225	78,708
Section 40 F/P Public Housing	1,449,406	20	72,470	72,470
Section 43 F/P Public Housing	1,449,406	20	72,470	72,470
Section 44(1)(a) Rent Supplement	1,930,263	20	96,513	96,513

1. Hypothetical Model.

2. 13% Interest Rate.

3. 7.7% Rate of Inflation.

4. 10% Discount Rate.

Housing continues to be the most cost-effective program in terms of RGI units produced. Rent Supplement, however, because it is not as directly linked to interest rates, becomes less cost-effective for each RGI unit than the Section 56.1 Non-Profit program. The Section 56.1 Cooperative program remains the most costly way of providing rent-g geared-to-income units.

It should be noted that under the Non-Profit, Cooperative and Public Housing programs there is a build-up of equity which does not occur in the case of Rent Supplement. When this equity build-up was considered over the 35-year period, the total cost of the programs changed but the rankings of the total cost remained the same. Rent Supplement had the highest present value of the total cost and Section 43 Public Housing had the lowest cost per RGI unit. In the case of Section 40 Public Housing, 75 percent of the equity value would accrue to the federal government. For Section 43 Public Housing, equity would accrue to provincial governments, while in Section 56.1 projects, the value of equity would be passed on to non-profit or cooperative groups. However, units would still be available to serve low and moderate income households after the termination of the subsidy agreements, which is not the case with Rent Supplement.

In conclusion, when costs are considered in terms of the number of RGI units provided, the Non-Profit and Cooperative Housing Programs are the least cost-effective alternatives at an interest rate of 18 percent. At a lower interest rate of 13 percent, Cooperative Housing remains least cost-effective, but Non-Profit Housing becomes more cost-effective than the Rent Supplement Program.

D. Administrative Costs

This section provides information on the level of Section 56.1 administrative costs incurred by CMHC. These costs are considered in relation to costs incurred for other social housing programs and the Canada Rental Supply Plan (CRSP). Administrative costs are considered to be CMHC salary and overhead costs for the following categories:

- Program Development and Support
- Program Delivery
- Loan or Agreement Administration

Program development and support includes activities related to the planning, development, monitoring and evaluation of programs as well as the clarification of policies,

TABLE 8.8

CMHC SALARY AND OVERHEAD COSTS ASSOCIATED WITH THE OPERATION OF VARIOUS PROGRAMS, 1982

Program	COST CATEGORY				
	Program Development and Support		Program Delivery		Loan/Agreement Administration
	Total Cost (\$1,000)	Total Cost (\$1,000)	Cost per Unit (\$)	Total Cost (\$1,000)	Cost per Unit (\$)
Section 56.1					
Public Non-Profit	50.7	342.1	44.74	74.4	9.08
Private Non-Profit	188.3	1,975.72	288.56		
Urban Native	58.5	128.3	339.34	861.6	24.55
DIAND	74.7	300.4	363.24		
Cooperative	204.8	1,785.32	276.88		
TOTAL 56.1	577.1	4,531.8	203.75	936.0	21.62
Section 15.1/34.18 Non-Profit/Coop.	323.1	540.4	-	102.8	1.50
Section 40 Public Housing	63.1	257.9	225.27	885.0	26.01
Section 43/44 Public Housing	87.6	62.9	254.57	359.7	2.31
Section 44(1)(a) Rent Supplement	14.6	34.6	12.99	30.9	2.15
Section 44(1)(b) Rent Supplement	45.0	7.2	41.23	51.2	3.45
Rural and Native Housing	782.1	1,679.23	1,177.57	1,360.1	97.15
TOTAL CRSP	2,008.4 ¹ 168.5	7,114.0 1,027.8	255.02 95.68	3,725.7 -	11.13 -

1. Includes time spent on start-up and project funds.

2. Includes time spent on start-up.

3. Includes time spent on project funds.

Source: Treasurer's Directorate, Program Divisions, Modified Time Reporting System

procedures and guidelines for program delivery. Costs incurred for these activities are not necessarily related to the production or administration of a given number of units. For this reason, only total cost figures are shown in Table 8.8. However, program delivery and loan/agreement administration costs are directly related to the number of units involved. These costs are therefore presented in total and on a per unit basis. In the case of program delivery costs, the number of units is equal to commitments during the year. For loan/agreement administration, the number of units is based on estimates of units occupied at the end of 1982.

Program delivery costs are those costs incurred from the start of a project to its completion including the review of applications and plans, inspections and appraisals, the negotiation of operating agreements and issuing of advances. Loans and agreement administration costs include cheque processing, preparation of statements of accounts, ledger keeping, foreclosure activity and other general mortgage administration matters.

Examination of the total cost columns in Table 8.8 indicates that program development and support costs account for the smallest portion of CMHC administrative costs for social housing, amounting to only 16 per cent of the overall total for the three cost categories. For Section 56.1, these costs amounted to 10 per cent of the total for the three cost categories.

The most important cost category in terms of total cost is program delivery, accounting for 54 per cent of administrative costs for all social housing programs and 75 per cent for the Section 56.1 programs. Section 56.1, the most active of the social housing programs (accounting for 80 per cent of commitments in 1982) has the highest total costs for program delivery activity. On a per unit basis, however, Section 56.1 has the lowest cost among the social housing programs with the exception of the Private Landlords Rent Supplement Program which is delivered almost exclusively using provincial resources. Provincial delivery also accounts for the very low unit costs for public non-profit projects under Section 56.1. Urban Native and DIAND projects have the highest program delivery costs per unit primarily due to the low volume of commitments. Certain delivery activities must occur whether a project involves one unit or 100 units and these projects are mainly small.

Program delivery costs per unit are somewhat higher for Public Housing (Section 40 and Section 43/44) than for the

Section 56.1 programs as a group. For Section 40 Public Housing, CMHC is the active partner in 40 per cent of projects and this contributes to high administrative costs. Also, all Section 43 public housing activity occurs in the Northwest Territories where delivery costs are greater.

Program delivery costs on a per unit basis are much lower for the Canada Rental Supply Plan (CRSP) than for Section 56.1. In part, this reflects incomplete data for this program since most buildings are still under construction and not all inspection costs are included. Nevertheless, lower per unit costs for program delivery are expected under this program due to the nature of the client group. Involvement by CMHC staff tends to be greater with non-profit and cooperative groups, many of whom have little experience with housing projects, than with developers.

With respect to loan and agreements administration, total costs are highest for the Rural and Native Housing Program, which accounts for over one-third of these costs for all social housing programs. Section 56.1 accounts for about one-quarter of total social housing costs for this cost category. Within the Section 56.1 programs, per unit costs are lowest for public non-profit projects since these are disentangled in most provinces, with administration handled by the provinces. CMHC administration costs are mainly for processing reporting forms and payment of subsidy claims. Other program types under Section 56.1 involve administration by CMHC and require the processing and preparation of monthly subsidy payments.

Section 56.1 per unit costs for loans/agreements administration compare favourably with those incurred under Section 40 Public Housing. Section 40 also involves direct administration of projects in some provinces as well as the loan administration function. Under this program direct administration also includes annual income reviews of tenants.

To summarize, program development and support costs amount to only 10 per cent of Section 56.1 administrative costs. Program delivery, which reflects the high level of activity under Section 56.1, is the most important administrative cost category, accounting for more than one-half of total costs for the three categories. On a per unit basis, Section 56.1 has the lowest program delivery cost with the exception of the Rent Supplement Programs which are delivered by the provinces. Provincial delivery also results in lower per unit costs for Section 56.1 public non-profit projects which are disentangled for the most

part. Urban Native and DIAND projects have relatively high delivery costs per unit due mostly to low volumes and small projects.

Section 56.1 reveals much lower delivery costs than the RNH program but much higher costs than CRSP. Under CRSP the Corporation deals with a much different clientele so that involvement with client groups is not as demanding as Section 56.1.

Finally, Section 56.1 loan/administration agreement costs on a per unit basis again reflect the extent of disentanglement. Public non-profit projects have low per unit costs relative to private non-profit and cooperative projects, which are administered directly for the most part. Moreover, Section 56.1 unit costs compare favourably with those incurred under the Section 40 Public Housing Program.

IX. PROGRAM DESIGN AND DELIVERY

A. Introduction

In the Rationale chapter of this report, the linkages between program objectives and program design features were identified and it was asserted that for the most part it was reasonable to expect that objectives could be achieved. In the Objectives Achievement chapter, it was shown that program objectives are being achieved to varying degrees. The purpose of this chapter is to attempt to explain the findings on the achievement of objectives in terms of both the design and delivery of the programs.

Given that program design features to promote the achievement of objectives were generally found to be in place, there would appear to be three general conditions which would explain why objectives have not been fully achieved. The first would be that the program design features which are in place are not sufficient to guarantee achievement of objectives. The second would be that the program features established for the programs are not being implemented. The third would be that fundamental conflicts in objectives do not allow for all objectives, explicit and implicit, to be achieved. This section will attempt to identify which of these conditions appears to account for the results identified for each particular objective.

B. Links to Findings on Objective Achievement

1. Modest Housing

Two criteria were identified for measuring modest housing. The first was the extent to which the costs of Section 56.1 units were less than Maximum Unit Prices (MUPs); the second was a comparison of the size of Section 56.1 units to the sizes identified as modest for the purposes of the Assisted Rental Program (ARP).

In terms of costs, 84 percent of Section 56.1 projects had per unit costs which were equal to or lower than Maximum Unit Prices. Considerable differences were found on this criterion among program types: 96.7 percent and 96.1 percent of private Native and cooperative projects had costs less than MUPs, while for provincial, municipal and private non-profit corporations, the proportions were 62.3, 89.0 and 87.9 percent respectively.

The relatively high proportion of projects meeting this modest housing criterion overall can be explained by the use of Maximum Unit Price guidelines in the calculation of the Section 56.1 assistance. The differences among program types in particular are largely explained by the way in which these guidelines are applied. For private non-profit and cooperative projects, groups are required to make a \$1 equity contribution for every \$2 by which capital costs exceed Maximum Unit Prices. Public non-profit corporations are not subject to this equity contribution requirement. This explains why provincial non-profit corporations have a relatively higher proportion of costs in excess of MUPs than do private Native and cooperative projects.

With respect to unit sizes, overall 56 percent of Section 56.1 projects had units which were the same size or smaller than modest housing sizes identified in the ARP guidelines. Once again, differences among program types were identified, but these were not the same as the differences shown for the cost criterion. Private non-profits had the highest proportion of projects meeting the size criterion (63.9 percent), followed by provincial non-profits (53.1 percent), cooperatives (42.0 percent) and municipal non-profits (35.4 percent).

The lower level of correspondence between these size guidelines and actual unit sizes can be explained by the fact that these guidelines are not explicitly used in the delivery of the programs. Minimum sizes are specified in CMHC's design guidelines to ensure that adequate space is provided, but these sizes are smaller than the maximum sizes contained in the ARP guidelines.

To summarize, a program design feature, that is the use of MUPs in the calculation of subsidy assistance for private non-profit and cooperative housing, is in place to promote modest housing in terms of unit cost. Differences in the way in which costs in excess of MUPs are treated for public non-profit housing explains to a considerable degree the 16 percent of projects which were not found to be modest using this criterion. No program design features control sizes under the programs, which explains the lower proportion of "modest" housing identified using maximum size criteria.

2. Appropriate Housing

For this evaluation, appropriate housing was defined in terms of the amount of space in relation to occupants, the physical condition of the dwellings and the location and design features of projects in relation to occupant needs.

With respect to the first criterion, virtually no evidence of overcrowding was found, but there was some indication of over-consumption of housing in the programs. For example, 15 percent of self-contained Section 56.1 units had more bedrooms than occupants. CMHC design guidelines specify minimum sizes for units, but do not contain criteria which relate the number of rooms or bedrooms to the number of occupants.

With respect to physical condition, 86 to 92 percent of the projects received high ratings, using criteria of both project managers' and occupants' assessments of condition and the need for major repair. This reflects the requirements in the delivery of the programs for inspections ensuring compliance with CMHC's Residential Standards. Existing projects were more likely to be in poor condition than were new projects which is likely due to differences in standards between existing and new dwellings.

The extent to which projects meet occupant needs tended to be rated positively in at least three-quarters of the cases. These ratings for the most part were higher than ratings given on a similar range of services and facilities by a sample of the general population in twenty-three major urban centres in 1978.

In sum, housing provided through the programs was found to be appropriate. Mechanisms are in place to ensure that dwellings meet minimum standards. No guidelines protect against over-consumption of housing.

3. Low and Moderate Income

The Section 56.1 programs are intended to serve low and moderate income households.

Three measures of the extent to which these households are served by the programs were developed for the evaluation. These indicate that between 47 and 69 percent of the households in the programs could be considered to be low and moderate income. Two major reasons may account for the relatively low achievement of this objective. First, the subsidy arrangements for the programs require that a mix of income groups be accommodated to ensure that projects are viable. This is basically a conflict between the design of the programs and the "low and moderate income" objective. Second, no operational definitions for low and moderate income are provided in the delivery of the programs. This means basically that no firm guidelines are in place to ensure that low and moderate income households are served by the programs. Guidelines for the cooperative housing program specify that at least 15 percent of the households served are to be income-tested, but this does not guarantee that households below a specified income range are served.

To summarize, the findings with respect to low and moderate income identify inconsistencies between the design of the programs and the objectives, as well as the lack of specific guidelines related to this particular objective.

4. Affordable Housing

Two criteria were used for measuring the extent to which Section 56.1 housing is affordable: rent or occupancy charges greater than 25 percent of total household income and rents or occupancy charges greater than 30 percent. Findings indicate that, depending on the criterion used, 29 to 43 percent of Section 56.1 households have affordability problems. There is a higher incidence of affordability problems among income-tested households (33 percent paying more than 30 percent of their incomes), than among non-income-tested occupants (24 per cent pay more than 30 percent of their incomes).

Two specific program design features, in addition to the provision of Section 56.1 subsidy assistance, are intended to ensure that the housing provided is affordable. The first is the use of a rent-to-income scale for income-tested households which generally specifies rents to be no greater

than 25 percent of income. The high incidence of rent-to-income households with affordability problems indicates that the scale is not always used. In fact, many groups use the scale to identify the minimum rental charge, but not the rent which is actually paid.

The second feature is the use of the lower end of market rent as the rental charge to be paid by non-income-tested households. The incidence of affordability problems among non-income-tested households indicates that the lower end of market rent is too high to be affordable for tenants in the income ranges served by the programs. In fact, analysis of the lower end of market rents has shown that they generally are not affordable to senior citizens with incomes below median renter incomes or for family households in some centres living in recently-committed new units. This points to another conflict between the design and the objectives of the programs. Although the programs are designed to serve low and moderate income households, affordability problems are created because of the high level at which market rents are frequently set.

Thus, the findings related to this objective indicate that program design features are not being implemented and that there is conflict between the design and objectives of the programs.

5. Minimum Costs and Appropriate Cost Controls

The minimum cost objective was examined in terms of capital costs, financing costs and operating costs of the Section 56.1 programs.

With respect to capital costs, it was found that Section 56.1 total costs were roughly comparable to those in the private sector. This may be attributed to the techniques used to establish Maximum Unit Prices, and the fact that generally MUPs have acted to limit costs. As well, reduced land costs provided by some municipalities act to decrease overall total costs, as building costs were actually found to be higher than in the private sector. Best-buy analyses do not tend to be used and thus can be said to have no impact on the achievement of minimum cost.

It was found that new units were consistently more costly than existing units. This results in a conflict between the "minimum cost" objective and the implicit objective to use the programs as a stimulus to the rental stock through the construction of new units. Furthermore, an emphasis on new construction, because of the higher costs associated with it, detracts from the capacity of the programs to serve low and moderate income households. This occurs because high costs require a higher proportion of the subsidy assistance to be used to fill the gap between economic and market rent, with fewer funds available for income-tested assistance.

With respect to financing costs, private non-profit and cooperative housing projects were found to have interest rates above average rates quoted by lenders. This represents an additional cost resulting from the use of private lender capital and to that extent reflects a conflict in the minimum cost objective with the objective to promote the use of private funds.

Operating costs were shown to be higher than in private accommodation but lower than in public housing projects. There is no incentive in the programs to achieve minimum operating costs, except for cooperatives which do have lower average operating costs than private and public non-profit corporations.

Generally, although there are few incentives in the programs to achieve minimum costs, the controls in place through Maximum Unit Prices appear to enable minimum capital costs to be achieved. There are no controls for achieving minimum financing costs, which is reflected in higher interest rates paid for private non-profit and cooperative housing projects. The lack of controls or incentives for minimum operating costs has led to costs which are generally higher than costs in private accommodation.

6. Lender Provision of Capital

Since the inception of the programs, 93 percent of project commitments have been financed by private lenders. The provision of Section 6 mortgage insurance as well as the ongoing Section 56.1 subsidy have acted to encourage the participation of private lenders.

In the short-term, the use of private capital has resulted in lower cash requirements than would be the case using direct loan funds. However in the longer term, increased subsidies will offset these cash reductions. In addition, higher subsidy costs are paid for private loans than would be the case using direct government financing. As noted above, this reflects a conflict between this objective and the objective of achieving minimum costs.

X. CONCLUSIONS

The Section 56.1 Non-Profit and Cooperative Housing Programs were introduced largely to overcome a number of deficiencies which were seen to pervade the traditional federal role in social housing. The bulk of federal funding for social housing prior to 1978 had been directed to public housing programs, cost-shared with the provinces. Problems associated with the concentration of low-income households in readily identifiable public projects, the rapidly-escalating subsidy and capital budgets, as well as perceived duplication and overlap in respective federal and provincial activities, led to the development of the new Section 56.1 approach as the main social housing vehicle.

The objectives of the Section 56.1 programs reflect the concerns which prompted its introduction. The traditional social housing objective to provide modest, affordable housing to low-income households was retained, but expanded to incorporate assistance to moderate income households as well. Objectives of producing housing at minimum cost and encouraging private lender provision of capital were intended to respond to the need to limit escalating costs.

This evaluation was designed to determine the effectiveness of the Section 56.1 programs in meeting their established objectives. As well, additional objectives associated with the programs and their broad impacts and effects on a range of related issues were examined.

Finally, the cost-effectiveness of Section 56.1 programs, both as social housing programs and as measures to provide housing generally has been assessed. Conclusions on each segment of the evaluation are presented below:

There is a continuing need for social housing assistance.

Indicators of housing problems show that, over time, improvements have been achieved in the adequacy and suitability of dwellings. The most significant housing problem facing Canadians, particularly renter households, is one of affordability. With more than half a million renter households required to pay more than 30 percent of their income to obtain adequate and suitable accommodation, there is ample evidence of a continuing need for assistance.

The Section 56.1 programs are providing modest, appropriate accommodation.

Not all housing provided through the programs met the criteria established to assess modest and appropriate

housing. However, for the most part, Section 56.1 housing is modest in terms of cost, but less so in terms of size. The housing is not overcrowded and generally not underutilized. Physical condition is rated highly and occupant needs with respect to facilities, amenities and location are generally satisfied.

The Section 56.1 programs are not totally effective in directing assistance to low and moderate income households.

Depending on the criterion used, between 47 and 69 percent of the households served by the programs are considered low and moderate income. Private non-profit projects most effectively serve low and moderate income family households and senior citizens. By region, Quebec and British Columbia are most effective in directing assistance to low and moderate income households.

Affordability problems for those households participating in the programs are not totally resolved.

One-third of income-tested households and one-quarter of market rent occupants continue to pay more than 30 percent of their gross income for shelter in Section 56.1 projects. In many cases, the limited assistance available for income-tested households appears to be dispersed so that a higher proportion of households is provided with at least a partial subsidy. The lower end of market rent does not permit low and moderate income senior citizens to obtain affordable accommodation, nor low and moderate income families in some centres.

The Section 56.1 programs may not be providing housing at minimum cost.

The available evidence on private sector costs does not permit a conclusive assessment of the extent to which Section 56.1 housing is minimum cost. The general indicators available, however, showed that building costs under Section 56.1 are higher than those in insured private dwellings, although land costs are lower. Financing costs for private non-profit and cooperative projects are somewhat higher than average interest rates quoted by lenders. Operating costs in non-profit and cooperative projects are higher than in private sector accommodation, but lower than public housing costs. Further study would be required to fully document cost differentials.

The Section 56.1 programs have encouraged the use of private sector capital for social housing.

Over 95 percent of the projects committed in 1981 were financed by approved lenders. However, over the long term, increased budgetary outlays for project subsidies will offset savings in cash requirements derived from the use of private capital.

On an overall basis, the Section 56.1 programs serve a mix of income groups, but income mixing does not necessarily occur in all projects.

There is a relatively uniform distribution of Section 56.1 households across all renter income quintiles, with the exception of the highest income quintile. However in 45 percent of Section 56.1 projects, no mix of assisted and unassisted households was reported.

The Section 56.1 programs have been effective in contributing to the stock of rental accommodation.

The programs accounted for 13 percent of all rental starts in 1980 and 1981 and in some market areas represented over one-half of the dwelling starts for rental accommodation. Section 56.1 has also contributed to the provision of hostel beds.

The Section 56.1 programs have promoted housing delivery by the third sector.

Compared with non-profit and cooperative housing activity prior to 1978, Section 56.1 has resulted in more projects and units provided by the third sector, particularly cooperatives.

The programs meet only a fraction of the identified need for social housing assistance annually.

Only 1.3 percent of renter households estimated to be in core housing need in 1980 are served by the programs each year. This is due in part to budget limitations restricting the number of unit allocations. However, it also reflects the fact that only 33 percent of the households served by the programs are drawn from the population experiencing core housing need.

Section 56.1 contributes to efforts to promote a progressive redistribution of income.

Analysis of the benefits accorded to different income groups within the programs indicates that the programs are consistent with efforts to promote vertical equity in the distribution of income.

The programs do not support the government's social priority to serve those most in need, but generally are effective in serving other priority target groups.

Only 21 percent of Section 56.1 households have low income according to Statistics Canada low-income cutoffs. However, the elderly, Natives and the disabled are well-represented in the programs. Female-led households, both single-parent and individuals, are not served in proportion to their core housing need.

The Section 56.1 programs have resulted in some improvements in housing conditions, but most occupants lived in adequate housing previously.

One-half of the occupants in Section 56.1 projects rated their current dwelling condition higher than their previous dwelling. However, two-thirds considered that their previous dwelling had been in good to excellent condition.

The programs appear to have positive social benefits, although these are not readily measurable.

Close to one-half of the occupants in Section 56.1 projects reported improvements in their quality of life as a result of the programs, while only 3 percent considered it had deteriorated. Most occupants interact with others in their projects and neighbourhoods. Opportunities for resident participation in decision-making are frequently available, particularly in cooperative projects.

There has been very little involuntary displacement of in-situ tenants as a result of the programs.

In only three projects were tenants evicted when their buildings were acquired through the programs. Other reasons for displacement were that the buildings were converted to special purpose projects, tenants did not choose to live in a cooperative or major renovations were to be undertaken.

The programs have been consistent with rental market conditions.

For the most part, Section 56.1 has been consistent with rental market conditions providing new units during periods of low vacancy rates and using existing units where they were available. The programs may be displacing private sector activity by meeting the demand for rental accommodation in periods when private activity was not viable.

To date, the programs have not had an impact on the Mortgage Insurance Fund, but would result in considerable losses if defaults occurred.

There have been no Section 56.1 claims on the Mortgage Insurance Fund to the end of 1982. Should a project default, however, the potential loss to the fund is greater than for private rental projects.

The programs have permitted provincial governments to pursue independent priorities. Disentanglement, when additional provincial subsidies are provided, permits more lower income households to be served and has reduced federal administrative costs.

Provincial governments contribute relatively little financing in comparison with federal subsidies for Section 56.1. When they do provide additional assistance, lower income groups are served. CMHC administrative costs for public non-profit projects, mainly disentangled, are considerably lower than for those projects where CMHC has the lead role.

The programs are not cost-effective with respect to other social housing programs or market housing programs.

The present value of total subsidy costs per rent-to-income unit provided through Section 56.1 is higher than for any other social housing program provided by the federal government. Comparing the subsidy provided to market rent tenants only, the present value of the total cost is considerably higher than that provided through market housing programs. Private non-profit projects are most cost-effective, followed by public non-profits and finally, cooperatives.

General Conclusions

Throughout this report, evidence has been presented which indicates that the conflicting objectives for the Section 56.1 programs have hampered the extent to which they can operate effectively as a social housing vehicle. Given that the vast majority of the social housing unit allocation is directed to Non-Profit and Cooperative Housing, it is a cause for concern that the programs contribute so marginally to the resolution of the considerable outstanding need for social housing assistance.

The programs have been effective in stimulating rental accommodation, although the cost of doing so is greater than through the private sector.

Should the programs continue to be the main federal initiative for social housing, the costs associated with income mixing and rental market stimulation should be clearly recognized. Even if Section 56.1 were totally effective in meeting objectives, the high subsidy cost for each low-income unit provided prohibits the extent to which social housing problems can be resolved through these programs.

MEMBERSHIP AND TERMS OF REFERENCE FOR THE ADVISORY COMMITTEE

MEMBERSHIP

Jim Anderson	Canadian Association of Housing and Renewal Officials
Judy Forrest	City of Ottawa Non-Profit Housing Corporation
Rod Manchee	Social Planning Council of Ottawa-Carleton
Jan McLain	Canadian Council on Social Development
Richard Peddie	City of Toronto Municipal Non-Profit
Nick Van Dyk	Cooperative Housing Foundation

PURPOSE

CMHC is engaging in a number of evaluation activities related to social housing programs, including an evaluation of the Section 56.1 Non-Profit and Cooperative Housing Program and a comprehensive evaluation of Social Housing programs and policy. In the Non-Profit and Cooperative Housing Program in particular and generally with respect to social housing it is recognized that non-governmental organizations have a great deal of experience and interest.

The purpose of the Advisory Committee is to provide a forum for the participation and involvement of individuals from such organizations to assist in providing relevant, accurate and thorough program evaluations.

ACTIVITIES

The following activities are proposed for the Advisory Committee to provide input to the Section 56.1 Non-Profit and Cooperative Housing evaluation and the comprehensive Social Housing evaluation:

- 1) To review and comment on the process proposed for the evaluations;
- 2) To review and comment on the issues to be addressed in the evaluation and the analysis plan for dealing with these issues;

(ii)

- 3) To identify specific concerns or problems with the programs and propose means of analyzing them;
- 4) To review and comment on results of specific analysis as it is carried out;
- 5) To recommend alternative types of analysis which could be performed;
- 6) To review and comment on draft reports as they are prepared.

CONSUMER SURPLUS MEASURE EQUATIONINCOME DISTRIBUTION

Estimation of the effects of the Section 56.1 programs on the distribution of income among participating households is based on the differential incidence approach developed by G. Fallis at the Ontario Economic Council. Readers are referred to Fallis' work for the conceptual/theoretical underpinning of the method.¹ This appendix identifies the calculations carried out and the data used for purposes of this report.

MEASURES OF BENEFITS

The market value measure of benefits accruing to households participating in the Section 56.1 programs can be expressed in equation form as follows:

$$B_v = R_m - R_p$$

Where B_v = market value measure of benefits to participants

R_m = market rent of comparable housing

R_p = actual rent paid

Consumer's Surplus: The consumer's surplus measure is calculated using the following equation:

$$B_c = [R_m/b]^b [(Y_o - R_p) / (1-b)]^{1-b} - Y_o$$

Where R_m , R_p are as defined above

B_c = consumer's surplus measure of benefits to participants

b = rent paid to income ratio

Y_o = household income

This equation is derived by maximization of a Cobb-Douglas utility function subject to a budget constraint. See Fallis¹ or DeSalvo² for details relating to the derivation.

1. Fallis, G., Housing Programs and Income Distribution in Ontario, Ontario Economic Council, University of Toronto Press, Toronto, 1980.
2. DeSalvo, J., A. "Methodology for Evaluating Housing Programs", *Journal of Regional Science*, Vol. II, No. 2, August, 1971, pp.173-186.

DATA SOURCES

Calculation of the market value and consumer's surplus measures requires data on rent paid and income for households participating in the Section 56.1 programs. These data are available from the survey of occupants of Section 56.1 projects.

Data are also required on the market rent which Section 56.1 households would be required to pay for comparable housing. Unpublished market rent data are available for selected cities from CMHC's Statistical Services Division. These data are based on a sample of privately-initiated apartment structures visited during the apartment vacancy survey. Since no attempt has been made to adjust data to the total universe, the rents are not necessarily representative of the private market as a whole. However, these data represent the best consistently collected information available for a cross-section of cities.

Because the market rent data are only available for selected cities, not all the Section 56.1 household income and rent paid data collected in the survey can be used. Only household data from apartment/projects located in cities for which market rent data are available are used in the calculations. For each city, market rent is the average rent paid over all areas of the city for a market rental unit of comparable bedroom count to that occupied by the Section 56.1 household. Comparability of the market rental unit with the Section 56.1 unit is, therefore based on the city in which the unit is located and the size of the unit in terms of number of bedrooms. The market rents are also comparable to rent paid by Section 56.1 households with respect to time. Market rent data are for April, 1982, while the survey of Section 56.1 occupants was conducted in May and June 1982. No attempt has been made to achieve further comparability by distinguishing rents for specific areas within cities. While the market rent data would permit this to be done in many cases, the additional time and resource costs are substantial.

The remaining data item required to implement the differential incidence approach is the utility parameter b in the equation for the consumer's surplus measure. The parameter is the rent paid to income ratio for renter households. It is calculated using data on individual households from the Household Income Facilities and Equipment data file for 1980. The values are computed for each income class in each province, by size of settlement. The b parameters, therefore, reflect differences in rent-to-income ratios due to regional and city size factors.

SECTION 56.1 COST EFFECTIVENESS COMPARED WITH
MARKET HOUSING PROGRAMS

Project:

No. of Units	20
Capital Costs	\$54,979/unit
Total	\$1,099,580
Interest Rate	18.125
Operating Costs	\$163.38/unit/month
Total Annual	\$39,211.20
Lower-End of Market Rent	\$450.00/month

Annual Rates of Change:

Operating Costs	8%
Lower-End of Market Rent	8%
Market Rents	8%

Discount Rate used in Present

Value Calculations	10%
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A. Section 56.1 Non-Profit and Cooperative HousingSection 56.1 Non-Profit Program

Subsidies available under Section 56.1 are equal to the difference between amortization of the total project cost at the mortgage rate of interest and at a 2 per cent rate of interest. A 35-year amortization period is used. Assistance is first used to bridge the gap between the economic rent and the maximum occupancy charge. Any remaining assistance is available for income tested occupants.

(a)	Total Capital Cost	\$1,099,580
(b)	Loan	1,099,580
(c)	Mortgage Payments (monthly @ 18.125)	16,041
(d)	Mortgage Payments @ 2% (monthly)	3,638
(e)	Subsidy (c-d) (monthly)	12,403
(f)	Total Annual Subsidy	148,836
(g)	Present Value of Total Annual Subsidies over 35 years (discounted at 10%)	1,436,558
(h)	Minimum Rent (breakeven rent)	345.28
	Operating Costs	\$163.38
	Mortgage Payment @ 2% (3638*20)	<u>181.90</u>
	Total	\$345.28
(i)	Required Income (@ 30% rent-to- income ratio)	13,811

(vii)

Section 56.1 Non-Profit
Subsidies to Market Rent

Section 56.1 subsidies required to bridge the gap between economic and lower-end of market rents.

<u>Year</u>	<u>Economic Rent</u>	<u>Market Rent</u>	<u>Subsidy Required</u>	<u>P.V of Subsidy</u>
1	231,820	108,000	123,820	112,308
2	234,956	116,639	118,316	97,339
3	238,344	125,971	112,373	83,854
4	242,003	136,048	105,954	71,714
5	245,955	146,932	99,022	60,791
6	250,222	158,687	91,535	50,970
7	254,831	171,382	83,449	42,147
8	259,809	185,093	74,716	34,228
9	265,185	199,900	65,285	27,127
10	270,992	215,892	55,099	20,766
11	277,262	233,163	44,098	15,075
12	284,034	251,817	32,217	9,989
13	291,349	271,962	19,386	5,452
14	299,248	293,719	5,528	1,410
15	307,779	207,779	-	-
Total				633,170

(viii)

Section 56.1 Cooperative
Subsidies to Market Rent

Section 56.1 subsidies required to bridge the gap between economic and lower-end of market rents.

<u>Year</u>	<u>Economic Rent</u>	<u>Max. Occ. Charge</u>	<u>Subsidy Required</u>	<u>P.V of Subsidy</u>
1	231,820	108,000	123,820	112,308
2	234,956	111,136	123,820	101,867
3	238,344	114,524	123,820	92,396
4	242,003	121,623	120,380	81,478
5	245,955	129,186	116,769	71,686
6	250,222	137,245	112,977	62,910
7	254,831	145,836	108,995	55,050
8	259,809	154,994	104,814	48,017
9	265,185	164,760	100,425	41,729
10	270,992	175,176	95,816	36,112
11	277,262	186,286	90,767	31,029
12	284,034	198,140	85,894	26,633
13	291,349	210,790	80,559	22,656
14	299,248	224,291	74,956	19,121
15	307,779	238,705	69,073	15,982
16	316,992	254,095	62,897	13,200
17	326,943	270,532	56,411	10,738
18	337,690	288,088	49,601	8,564
19	349,296	306,845	92,451	6,648
20	361,831	326,888	34,943	4,964
21	375,369	348,309	27,060	3,486
22	389,990	371,208	18,782	2,194
23	405,781	395,689	10,091	1,070
24	422,835	421,869	965	93
25	441,253	441,253	0	
			Total	869,931

B. Section 14.1 Assisted Rental Program - 1976

Assistance is in the form of a repayable loan of up to \$1,200 per unit (later reduced to \$900) per year, interest free for 10 years or the period of disbursement up to 15 years. The loan is decreased by 1/10 of the original amount each year. Repayment of the loan starts one year after the end of the disbursement period. A 35-year amortization period is used in the calculations. In addition, tax expenditure subsidies also apply (CCA).

1. ARP Assistance

(a) Capital Costs	\$1,099,580
(b) Loan Amount @ 90%	989,622
(c) Required Revenue	212,453
Operating Costs	\$ 39,211
Debt Charges	173,242
Total	<u>\$212,453</u>
(d) Market Rents	120,000
(e) Shortfall	92,453
(f) Max. ARP loan	24,000

ARP Assistance

<u>Year</u>	<u>Annual Amount of ARP Loan (\$)</u>	<u>Cumulative Amount of ARP Loan (\$)</u>	<u>Interest Subsidy (\$)</u>	<u>Present Value (\$)</u>
1	24,000	24,000	4,547	4,124
2	21,600	45,600	8,640	7,108
3	19,200	64,800	12,277	9,161
4	16,800	81,600	15,460	10,464
5	14,400	96,000	18,188	11,166
6	12,000	108,000	20,462	11,394
7	9,600	117,600	22,281	11,253
8	7,200	124,800	23,645	10,832
9	4,800	129,600	24,554	10,203
10	2,400	132,000	25,009	9,426
		Total	175,063	95,131

(x)

2. Tax Expenditure Subsidy

(a) Capital Cost Allowance

(a) Improvements equal 70% of total cost	\$759,706
(b) Soft costs equal 20% of improvement costs	153,941
(c) Balance of improvements depreciated at 5% of declining balance	615,765
(d) Income tax bracket of owner	50%

<u>Year</u>	<u>Tax Savings on Soft Costs</u> ($\$$)	<u>Balance of Improvement Costs</u> ($\$$)	<u>Tax Savings on Balance of Improvement Costs</u> ($\$$)	<u>Present Value of Total Subsidy</u> ($\$$)
1	76,971	615,765	15,394	83,778
2	-	584,977	14,624	12,031
3	-	555,728	13,893	10,367
4	-	527,941	13,199	8,934
5	-	501,544	12,539	7,698
6	-	476,467	11,912	6,633
7	-	452,645	11,316	5,715
8	-	430,012	10,750	4,925
9	-	408,511	10,213	4,244
10	-	388,086	9,702	3,657
Total	76,970		123,542	147,982

(b) Operating Loss - Subsidy

<u>Year</u>	<u>Required Revenue</u> ($\$$)	<u>Gross Revenue</u> ($\$$)	<u>ARP Subsidy</u> ($\$$)	<u>Operating Loss</u> ($\$$)	<u>Tax Benefit</u> ($\$$)	<u>P.V.</u> ($\$$)
1	212,453	120,000	24,000	68,453	34,227	31,115
2	215,590	129,600	21,600	64,390	32,195	26,607
3	218,978	139,968	19,200	59,810	29,905	22,468
4	222,637	151,165	16,800	54,672	27,336	18,671
5	226,588	163,259	14,400	48,929	24,465	15,191
6	230,856	176,319	12,000	42,537	21,269	12,006
7	235,465	190,425	9,600	35,440	17,720	9,093
8	240,443	205,659	7,200	27,584	13,792	6,434
9	245,819	222,112	4,800	18,907	9,454	4,009
10	251,625	239,881	2,400	9,344	4,672	1,801
				Total		147,395

Total Tax Expenditure = ($\$$) 147,982
+ 147,395
Total ($\$$) 295,377

(xi)

3. Total Subsidy	\$ 95,131 <u>295,377</u>	\$390,508
4. Max. Subsidy in 1 Year		\$131,139

C. Section 14.1 Canada Rental Supply Program

An interest free loan is provided for 15 years to bridge the gap between financing at 80% of cost and EPM first mortgage with a 35-year term. No principal payments will be required during the 15-year term. Repayment of the loan plus interest can be amortized over a period which will not exceed the amortization period of the first mortgage. The average loan amount to date was \$11,500 per unit. This has been used in these calculations.

CRSP ASSISTANCE

1. Capital Costs		\$1,099,580
2. Maximum Loan (80% of costs)		879,664
3. CRSP Loan 2nd Mort. (11,500 x 20)		230,000
4. Required 1st Mortgage		649,664
5. Required Income		152,940
Operating Costs	\$ 39,211	
Debt Charges	113,729	
6. Market Rents		120,000
7. CRSP Assistance		420,773
8. Tax Expenditure Subsidies		38,508

(xii)

<u>Year</u>	<u>Required Income</u> ($\$$)	<u>Market Rent</u> ($\$$)	<u>Loss</u> ($\$$)	<u>Tax Benefit</u> ($\$$)	<u>P.V.</u> ($\$$)
1	152,940	120,000	32,940	16,470	14,973
2	156,077	129,600	26,477	13,239	10,941
3	159,465	139,968	19,497	9,749	7,325
4	163,124	151,165	11,959	5,980	4,084
5	167,075	163,259	3,816	1,908	1,185
6	171,342	176,319	-	-	-
				Total	38,508
9. Total Subsidy		\$420,773			
		38,508			
			\$459,281		
10. Max. Subsidy					
1 Year		\$ 60,046			

SECTION 56.1 COST EFFECTIVENESS COMPARED WITH
SOCIAL HOUSING PROGRAMS

Project:

No. of Units	20
Capital Costs	\$54,979/unit
Total	\$1,099,580
Interest Rate	18.125
Operating Costs	\$163.38/unit/month
Total Annual	\$39,211.20
Lower-End of Market Rent	\$450.00/month
Market Rent	\$500.00/month
Average Income of RGI Tenants	\$9,228
Average Rent of RGI Tenants	
(25% of income)	\$192.25/month

Annual Rates of Change:

Operating Costs	8%
Lower-End of Market Rent	8%
Market Rents	8%
RGI Rents	6%

Section 56.1 Non-Profit Program

Subsidies available under Section 56.1 are equal to the difference between amortization of the total project cost at the mortgage rate of interest and at a 2 per cent rate of interest. A 35-year amortization period is used. Assistance is first used to bridge the gap between the economic rent and the maximum occupancy charge. Any remaining assistance is available for income tested occupants.

(a)	Total Capital Cost	\$1,099,580
(b)	Loan	1,099,580
(c)	Mortgage Payments (monthly @ 18.125)	16,041
(d)	Mortgage Payments (2% monthly)	3 638
(e)	Subsidy (c-d) (monthly)	12,403
(f)	Total Annual Subsidy	148,836
(g)	Present value total annual subsidy	1,436,558
(h)	No. of RGI Units	390
(i)	Present Value Total Subsidy/RGI Unit	3,683

Section 56.1 Co-Operative Housing Program

Subsidies available under Section 56.1 are equal to the difference between amortization of the total project cost at the mortgage rate of interest and at a 2 per cent rate of interest. A 35-year amortization period is used. Assistance is first used to bridge the gap between the economic rent and the maximum occupancy charge. Any remaining assistance is available for income tested occupants.

(a)	Total Capital Cost	\$1,099,580
(b)	Loan	1,099,580
(c)	Mortgage Payments (monthly @ 18.125)	16,041
(d)	Mortgage Payments (2% monthly)	3,638
(e)	Subsidy (c-d) (monthly)	12,403
(f)	Total Annual Subsidy	148,836
(g)	Present value total annual subsidy	1,436,558
(h)	No. of RGI Units	340
(i)	Present Value Total Subsidy/ RGI Unit	4,225

Section 15.1/34.18 Non-Profit & Cooperative with 44(1)(b)
Stacked Assistance

Subsidies available under Section 56.1/34.18 are a 10 per cent capital grant and an interest reduction grant to reduce the interest rate to 8 per cent. A 50-year amortization period is used. In addition, 60 per cent of units qualify for subsidies under Section 44(1)(b) (12 units per year).

(a)	Total Capital Cost	\$1,099,580
(b)	10% Capital Grant	109,958
(c)	Loan Amount	989,622
(d)	Mortgage Payments @ 18.125% (monthly)	14,406
(e)	Mortgage Payments @ 8.0% (monthly)	6,714
(f)	Subsidy (d-e) (monthly)	7,692
(g)	Total Annual Subsidy (15.1/34.18 subsidy including 10% Capital Grant)	92,304
(h)	Total Annual Subsidy 44(1)(b) (Year 1)	44,208
(i)	Total Subsidy (Year 1) (g) + (h)	136,512
(j)	Present Value of Total Subsidy (Discounted at 10%) + 10% Capital Grant	1,629,107
(k)	# RGI Units	600
(l)	Present Value of Total Subsidy + 10% Capital Grant/RGI Unit	2,715

Section 40 F/P Public Housing

100% capital funding - shared 75% Federal - 25% Provincial

Operating subsidies - difference between economic rent and rent according to the rent-to-income scale (approx. 25% of income) shared 75% Federal-25% Provincial.

(a)	Total Capital Cost	\$1,099,580
(b)	Loan	1,099,580
(c)	Mortgage Payments (monthly @ 18.125)	16,041
(d)	Monthly Operating Costs (163.38 x 20) (Year 1)	3,268
(e)	Total Operating Expenses Monthly (c+d) (Year 1)	19,309
(f)	Monthly Revenue (Year 1) (\$192.25 x 20)	3,845
(g)	Subsidy Required (Monthly) (e-f) (Year 1)	15,464
(h)	Total Annual Subsidy	185,568
(i)	Federal Share (Year 1) Annual Subsidy (35 year discounted at 10%)	1,898,847
(m)	Number of RGI Units	700
(n)	Present Value/RGI Unit	2,713

Section 43 Public Housing

90% Capital Funding - Federal

Operating subsidies - difference between economic rent and rent according to the rent-to-income scale (approx. 25% of income) shared 50% Federal - 50% Provincial under Section 44.

(a)	Total Capital Cost	\$1,099,580
(b)	Total Loan (90% of costs)	989,622
(c)	Mortgage Payments (Monthly @ 18.125%)	14,406
(d)	Monthly Operating Costs (163.38 x 20) (Year 1)	3,268
(e)	Total Operating Expenses (Monthly) (Year 1)	17,674
(f)	Monthly Revenue (Year 1) (\$192.25 x 20)	3,845
(g)	Subsidy Requirement (Monthly) (Year 1)	13,829
(h)	Annual Subsidy	165,948
(i)	Federal Share (Year 1) (50% of Total)	82,974
(j)	# RGI Units (Year 1)	20
(k)	Annual Cost/RGI Unit (Year 1)	8,297
(l)	Present Value of Total Annual Subsidy (35 year discounted at 10%)	1,714,757
(m)	# of RGI Units	700
(n)	Present Value/RGI Unit	2,450

Section 44(1)(a) - Private Landlord Rent Supplement

Subsidy provided to bridge the gap between market rents and rents-geared-to-incomes. Shared on a 50:50 basis with the province. Since the hypothetical project is less than 80 units, all 20 units may receive rent supplement. The maximum subsidy term is 15 years.

(1)	Market Rents (monthly/unit)	\$	500
(2)	RGI Incomes (Ave.) (Year 1)	\$	9,228
(3)	Monthly RGI Rent (Year 1/unit)	\$	192.25
(4)	Subsidy Required (Year 1) (monthly/unit 1-2)	\$	307.75
(5)	Total Annual Subsidy (Year 1)	\$	73,860
(6)	Federal Share (50%) (Year 1)	\$	36,930
(7)	Total Annual Cost/Unit (Year 1)	\$	3,693
(8)	Federal Annual Cost/Unit (Year 1)	\$	1,847
(9)	Present Value of Total Annual Subsidy	\$	935,179
(10)	Number of RGI Tenants	\$	300
(11)	Present Value/RGI Unit	\$	3,117

SAMPLE SIZE AND RESPONSE RATES

In September 1981, the Institute for Behavioural Research (IBR) at York University was awarded a contract by Canada Mortgage and Housing to conduct a national sample survey of social housing projects constructed under Sections 56.1, 15.1, 34.18, 40 and 43 of the National Housing Act.

Data was collected by means of mail-back questionnaires from a stratified random sample of occupants of non-profit and cooperative housing units and from the project managers responsible for these units. For public housing units, data were collected from occupants only.

The sample design reflected both the need to provide estimates of population parameters and to allow comparisons among program types, project types and sizes, and provinces. These dimensions were employed as stratifying variables in a design where strata were formed from the intersection of the three program types (Section 56.1 non-profit and cooperative, combined Sections 15.1 non-profit and 34.18 cooperative, and combined Sections 40 and 43 public housing), three project types (family, senior citizen and special purpose), three size categories (small, medium and large), and ten provinces. This yielded 90 cells or strata for Section 56.1 projects, 90 cells for Sections 15.1/34.18 projects and 60 cells for Sections 40/43 projects (no special purpose projects).

For the Section 56.1 program, a large sampling fraction, amounting to 60 percent of all occupied projects as of 1 July 1981, was employed since this program was to undergo detailed examination. For the other programs, a 15 percent sample for 15.1/34.18 and a 5 percent sample for public housing were selected from each cell, drawn by simple random sampling with replacement¹. In total, 890 projects were sampled, distributed

¹A minimum of two public housing projects and four non-profit projects were selected from each cell, in order to provide proper "within cell" estimates of variance to allow comparisons among provinces, housing types and project size categories. The sample was therefore, not selected with equal probabilities, and as a result the analysis utilized weighted data.

as follows: 396 Section 56.1 projects, 295 Sections 15.1/34.18 projects and 154 Sections 40/43 projects¹. In addition forty Section 56.1 projects operated as public housing in Québec were included as a separate program type.

All occupants in the non-profit and cooperative projects selected were surveyed. This was, in effect, a stratified cluster sample. For the public housing projects and the special Québec projects, although no managers were interviewed, the occupant sample was otherwise identical, except that for a few very large projects (over 175 units) a subsample of the occupants was selected. The project managers surveyed were those for the sample of Sections 15.1/34.18 and 56.1 non-profit and cooperative projects selected. The special Section 56.1 projects in Québec and the Sections 40/43 public housing projects do not have project managers and were not surveyed².

To correct for non-response, the statistical weights of the manager and occupant respondents were adjusted by uniformly distributing among them the statistical weights of the non-respondents. This correction assumes non-respondents are similar, in the characteristics of interest, to the respondents. The non-response was distributed, in this fashion, separately within each program-by-type-by-size-by-province stratum. Occasionally it was necessary to "pool" the weights and non-response correction factors for a number of adjacent strata because there were no completed questionnaires obtained. The statistical weights and correction factors were recalculated over the combined strata. The pooling usually involved combining adjacent size categories, however it was sometimes necessary to group provinces into Atlantic and Prairie regions.

For the Section 56.1 program 92% of managers surveyed and 44% of the occupants surveyed responded to the questionnaires.

Sample sizes and response rates for the Section 56.1 occupant survey are broken down by province in Tables A6.1, 2 and 3.

¹During the sampling process done by CMHC from their master list of projects, discrepancies were discovered between the actual universe of projects and the data on their distribution provided to IBR for the sample design. As a result there were differences between original sample design and the actual sample selected.

²It was thought that the housing authorities administering the projects would not be familiar enough with the project and clientèle to complete the managers questionnaire.

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TABLE A5.1

FIELD REPORT FOR OCCUPANT SURVEY
BY PROVINCE, PROGRAM, TYPE AND SIZE

Section 56.1

Family

PROVINCE	SIZE	SMALL	MEDIUM	LARGE	TOTAL
NEWFOUNDLAND		0 0 0	0 0 0	0 0 0	0 0 0
PRINCE EDWARD ISLAND		8 8 4	0 0 0	0 0 0	8 8 4
NOVA SCOTIA		31 30 6	39 39 22	0 0 0	70 69 28
NEW BRUNSWICK		38 38 11	30 1 1	202 117 51	270 156 63
QUEBEC		321 314 163	522 520 275	2640 1172 485	3483 2006 923
ONTARIO		96 95 50	109 108 64	878 876 389	1083 1079 503
MANITOBA		7 7 0	17 17 0	0 0 0	24 24 0
SASKATCHEWAN		163 155 69	69 68 32	386 386 118	618 609 219
ALBERTA		32 32 10	102 102 33	451 451 181	585 585 224
BRITISH COLUMBIA		66 64 22	89 88 31	181 180 106	336 332 159
TOTAL		762 743 335	977 943 458	4738 3182 1330	6477 4868 2123

Cell entries are - Total number of occupant units in sampled projects
Number of questionnaires distributed
Number of completed interviews returned

(xxiii)

TABLE A5.2

FIELD REPORT FOR OCCUPANT SURVEY
BY PROVINCE, PROGRAM, TYPE AND SIZE

Section 56.1

Senior Citizens

PROVINCE	SIZE	SMALL	MEDIUM	LARGE	TOTAL
NEWFOUNDLAND		0 0 0	20 20 15	45 45 0	65 65 15
PRINCE EDWARD ISLAND		13 13 8	0 0 0	0 0 0	13 13 8
NOVA SCOTIA		0 0 0	32 32 3	0 0 0	32 32 8
NEW BRUNSWICK		20 20 10	115 114 52	215 147 22	350 281 84
QUEBEC		59 43 29	183 183 114	223 222 139	465 448 282
ONTARIO		35 32 22	89 89 28	521 426 264	645 547 314
MANITOBA		26 26 22	44 42 17	383 318 175	453 386 214
SASKATCHEWAN		0 0 0	0 0 0	0 0 0	0 0 0
ALBERTA		0 0 0	0 0 0	0 0 0	0 0 0
BRITISH COLUMBIA		22 22 18	113 113 47	484 234 68	619 369 133
TOTAL		175 156 109	596 593 276	1871 1392 668	2642 2141 1053

Cell entries are - Total number of occupant units in sampled projects
Number of questionnaires distributed
Number of completed interviews returned

TABLE A5.3

FIELD REPORT FOR OCCUPANT SURVEY
BY PROVINCE, PROGRAM, TYPE AND SIZE

Section 56.1

Special Purpose

PROVINCE	SIZE	SMALL	MEDIUM	LARGE	TOTAL
NEWFOUNDLAND		20 11 5	0 0 0	0 0 0	20 11 5
PRINCE EDWARD ISLAND		49 48 35	0 0 0	0 0 0	49 48 35
NOVA SCOTIA		33 20 1	20 20 3	125 0 0	178 40 4
NEW BRUNSWICK		8 8 2	0 0 0	0 0 0	8 8 2
QUEBEC		66 27 12	42 16 7	84 34 7	192 77 26
ONTARIO		61 51 29	76 56 5	0 0 0	137 107 34
MANITOBA		8 8 0	0 0 0	0 0 0	8 8 0
SASKATCHEWAN		34 19 3	0 0 0	0 0 0	34 19 3
ALBERTA		108 104 66	20 0 0	0 0 0	128 104 66
BRITISH COLUMBIA		112 45 26	0 0 0	294 257 38	406 302 64
TOTAL		499 341 179	158 92 15	503 291 45	1160 724 239

Cell entries are - Total number of occupant units in sampled projects
Number of questionnaires distributed
Number of completed interviews returned

FOOTNOTES ON CHARTS WITH HIFE DATA

NOTES:

1. When shelter cost to income ratios are prepared, it is necessary to exclude approximately 206,000 or 7 percent of all renters represented on the HIFE 1980 micro data file from the calculations. The renters excluded are those who reported zero or missing rents or rents coded as 650 on the micro data file, zero or less than zero incomes, and/or possessed shelter cost to income ratios greater than one.

To ensure that affordability estimates represent the number of renters in need in the full population, the average incidence of affordability problems amongst renters for whom shelter cost to income ratios have been calculated must then be applied against the total of excluded renter households. This adjustment for excluded cases has been carried out to complete the estimates presented in this table.

2. Shelter cost to income ratios are not calculated directly from the rent and income data on the file. HIFE rent file data refer to April 1980 expenditures while income file information is for gross annual income 1979. The data differ on two counts: the points in time to which reference is made, and the time periods covered. To ensure that all data apply to the same reference point, CMHC has projected HIFE incomes data, using provincial update factors computed from average weekly earnings data for the industrial composite, to bring incomes from levels of the previous year to estimates for April 1980 survey time. To adjust for the time period covered, HIFE rents have been annualized. Where rent records indicate that heating was not included in rent, a 15 percent heating allowance has been added.
3. CMHC has projected HIFE 1980 micro data file incomes, using provincial update factors computed from average weekly earnings data for the industrial composite, to bring 1979 incomes on file to estimates for 1981 for comparison to Section 56.1 Occupant Survey Data. All average incomes, median incomes and quintiles cited in the report are based on 1981 income estimates.