

Canada Mortgage
and Housing
Corporation



Société canadienne
d'hypothèques et
de logement

FINAL REPORT ON THE
PUBLIC CONSULTATION ON
RESIDENTIAL RENOVATION
IN CANADA

FINAL REPORT ON THE
PUBLIC CONSULTATION ON
RESIDENTIAL RENOVATION
IN CANADA

FINAL REPORT ON THE PUBLIC CONSULTATIONS
ON RESIDENTIAL RENOVATION IN CANADA

CANADA MORTGAGE AND HOUSING CORPORATION

OTTAWA

AUGUST 1989

TABLE OF CONTENTS

	<u>Page</u>
1. INTRODUCTION	1
2. PRIVATE RENOVATION MARKET	1
2.1 Objective	1
2.2 Background	1
2.3 Impediments to Residential Renovation	2
2.4 What Needs to Be Done	2
3. ASSISTED RESIDENTIAL RENOVATION	4
3.1 Homeowner RRAP	5
3.2 RRAP for the Disabled	8
3.3 Modification Needs of the Frail Elderly	9
3.4 Emergency Repair Program	9
4. CONCLUSION	9
4.1 Market Renovation	9
4.2 Residential Rehabilitation Assistance Program	10

1. INTRODUCTION

This paper describes the consensus that has emerged from the public consultation process on residential renovation in Canada.

The objective of the consultation on residential renovation was to solicit advice on:

- ° the appropriate role for government in private renovation markets and
- ° modifications to RRAP to ensure that it will operate as an effective social housing program.

The terms of reference for the consultation preclude any major new spending programs or direct subsidies for market renovation, and require that proposals for assisted renovation respect current budget limits.

Consultation papers were published in 1987 and 1988 that outlined the rehabilitation needs of the Canadian housing stock and options for government action.

Over 80 submissions to the two rounds were received from provincial housing agencies, housing interest groups, federal government departments, and private citizens.

2. PRIVATE RENOVATION MARKET

2.1 Objective

The federal government is concerned about health and safety hazards faced by some occupants of seriously deteriorated dwellings. Rehabilitation is frequently less costly than demolition and new construction and should be undertaken where appropriate. Repairs and rehabilitation should be of sufficient quality to remove health and safety hazards, and to prolong the life of the housing stock.

2.2 Background

Throughout the 1980s, from 10 to 12 percent of Canada's housing stock has been rated as needing major repair by respondents to Statistics Canada surveys. In 1988 the total was 943,000 dwellings. About 60% of units needing major repair are occupied by moderate and high income households indicating that lack of income is not the primary cause of inadequate maintenance. While the volume of renovation expenditures has grown rapidly and now is roughly equivalent

to the volume of new construction, about 75% of expenditure is on additions and improvements. Repair projects on deteriorated dwellings receive only 25% of the total.

The National Housing Survey sponsored by CMHC in 1986 showed that occupants underestimate their dwelling's need for repair so the Statistics Canada data may be regarded as a conservative estimate of the extent of repair needs. Only half of the owners of deteriorated dwellings do any rehabilitation and the average expenditure by those who have done repairs (\$3,200 in 1985 according to the NHS) was less than required.

2.3 Impediments to Residential Renovation

The consultation papers suggested four possible impediments to renovation which might be removed by government intervention:

- ° inadequate consumer knowledge of repair need;
- ° exaggerated consumer perception of risk in the purchase of renovation services;
- ° cumulative influence of neighborhood-wide residential deterioration;
- ° inadequate availability of debt financing.

There was general agreement that the first two factors were key to the promotion of an effective campaign of home renovation. Evidence on the importance of neighborhood effects is mixed. There was also agreement that commercial sources of debt financing are adequate.

2.4 What Needs to Be Done

There were no objections raised in either round of consultations to the rationale for federal government interest in housing stock condition, and initiatives designed to support consumers and the industry received favourable comment.

Consumer Information:

The consultation provided general support for provision by CMHC of educational material for consumers and for a media campaign promoting maintenance and rehabilitation. Some

organizations expressed willingness to participate in an information campaign. It was emphasized however that duplication of private and existing public information services should be avoided.

Where consumers are indifferent to repair or where they are making deliberate choices to spend disposable income on other goods, CMHC could more aggressively advocate repair of items that constitute a health or safety hazard or items that, if deferred, would accelerate dwelling deterioration. A mass media campaign may be effective in this regard. This suggestion was supported by some interest groups and provinces, although some reservations were expressed about the cost and the likelihood of attracting industry participation.

There was interest in the proposal for CMHC to initiate a renovation advisory service but several groups indicated that there is some danger in competing unfairly with the private sector. Developmental assistance for the emerging private home inspection industry could help avoid this problem.

Consumer Confidence:

Many groups recognized that the renovation industry does not have a good image. CMHC is seen by some respondents as having the capacity to lead an industry development initiative. Contractor training was supported as a means of improving professional and technical capacity by several respondents.

Contractor certification and renovation warranties were viewed as having potential to protect consumers, and received support from several respondents. Such support is subject to their feasibility being demonstrated. Preliminary research done by CMHC has indicated that a national renovation warranty program would be financially self-sustaining. Direct government delivery of warranty services was opposed. Some interest was expressed in a voluntary, industry-based warranty program, with some governmental participation at the start-up stage.

Research on Neighborhood Dynamics and Residential Deterioration:

Another question that arises in the development of new policy is whether programs should be targeted to deteriorated neighborhoods to stimulate their revitalization. The alternative is to aim programs more

broadly at all affected consumers and producers.

There was widespread opposition to targeting social housing programs to declining neighborhoods. This opposition may be based on the lack of strong evidence that government generated renovation activity stimulates private activity, or on concerns about introducing constraints that would reduce social housing program cost-effectiveness. The majority of briefs opposed geographical targeting of market programs. There was one in support and several omitted comment.

There was support for more research into factors constraining renovation activity including the processes governing neighborhood deterioration and effects of public policy on housing quality.

Financial Market Constraints:

None of the respondent organizations offered evidence of financial constraints (as distinct from low incomes) to renovation. Large volumes of funds are available from commercial lenders for home improvement purposes. These usually take the form of secured or unsecured personal loans or personal lines of credit. There were comments that the CMHC second mortgage insurance program is largely unknown to middle income consumers and suggestions were made that marketing improvements be made. CMHC could expand the coverage of its second mortgage loan insurance program to include more widely used forms of renovation financing.

3.0 ASSISTED RESIDENTIAL RENOVATION

In 1985 the Residential Rehabilitation Assistance Program was converted from a housing stock maintenance program to a social housing program with few changes being made to its design. Concerns were subsequently expressed about its effectiveness as a social housing program. During the first round of consultations, CMHC requested input on what RRAP's role should be as a social housing program.

A second round of consultations solicited comments on specific program design issues, such as how assistance should be related to ability-to-pay, definition of eligible repairs, whether non-market areas warranted a special program design, and whether renovation needs other than health and safety should also be eligible for assistance.

Issues considered with respect to special renovation needs

included whether Disabled RRAP should be targeted to core need households and whether a program should be introduced to meet the needs of the frail elderly. The adequacy of benefits provided by the Emergency Repair Program was also raised during the second round discussions.

3.1 Homeowner RRAP

Objectives

The consensus of views expressed during the consultations is that Homeowner RRAP is a cost-effective alternative to the non-profit and the rent supplement programs in dealing with adequacy problems and rural crowding. It should therefore continue to be part of the social housing program package. The objective of Homeowner RRAP should be to renovate substandard dwellings occupied by core need households. Assistance should take into consideration the client's ability to bear some share of repair costs.

There was support both from interest groups and from provinces to consider allowing second RRAP loans where repair needs re-emerge. Clients would have to remain in core need and would be expected to show evidence of proper maintenance of their dwellings.

Program Design

The majority of respondents supported continuation of a program providing loans to cover eligible rehabilitation costs. A portion of the loan would be forgiven, depending on the client's ability-to-pay. The period over which the loan is forgiven is currently related to the size of the loan and is dependent on continued ownership of the property. There were no proposals to the contrary.

To ensure equitable treatment of similar clients, households with higher renovation costs should receive more assistance than others with lower renovation costs where the two have similar abilities to pay. Given this, it is more appropriate to base forgiveness on a percentage of renovation costs than to provide a fixed dollar limit based on income, as is currently the case.

Loan Forgiveness to be Related to Eligible Renovation Costs

The current objective for extended dwelling life was supported by most respondents. Eligible rehabilitation

costs would include repairs to health and safety hazards and basic amenities. In rural and remote areas, they would also include adding space to relieve crowding problems. Many respondents proposed increasing the maximum forgiveness.

Repairs should be of sufficient quality to last 15 years with proper maintenance. The objective of extending the useful life of the dwelling was seen as a more cost-effective approach to rehabilitation than addressing emergency repairs only, which would result in frequent applications for assistance.

In determining renovation needs and to achieve a rough parity with other social housing programs, RRAP assistance should be available to remove health and safety hazards, and should also assist in providing a basic level of livability. Basic amenity items, including energy-related renovations, provision of storage space and kitchen cabinets, should continue to be funded under RRAP. Amenity items should not determine program eligibility, nor should their repair/installation be mandatory. Flexibility should also be allowed to recognize differences in servicing requirements and other lifestyle preferences in rural and remote areas (e.g. no need for indoor running water), without jeopardizing basic health and safety.

The issue of whether RRAP should address crowding problems in urban areas has been raised. Owner crowding is not a large problem in urban areas and in most cases, other housing options are available. In light of this, overcrowding should continue to be addressed in rural areas only.

Maximum assistance levels should be sufficient to fully address the repair costs of most dwellings needing major repairs, with appropriate adjustments to reflect the higher cost of qualified labour and materials in northern and remote areas. Annual indexation of the maximum forgiveness to ensure that the program remains able to fully address repair needs was suggested. In 1985, the estimated cost of repairing units in need of major repair was almost \$7,000. Less than 20% of surveyed units which needed major repair would have cost more than \$12,000 to repair. The maximum forgiveness of \$5,000 under Homeowner RRAP is currently insufficient, resulting in partial rehabilitation of some units and exclusion of worst-off clients from the program.

Loan Forgiveness to be Related to Client Ability to Pay

The second consultation paper stated that the percentage of

renovation cost that is forgiven should depend upon the household's ability-to-pay. With a given repair need, a household with a lower relative ability to pay should receive more assistance than one with a higher ability-to-pay.

Under the current program, assistance is related to income alone and one forgiveness scale, by which assistance phases out at an household income of \$23,000, is applied nationally. This approach creates several problems, resulting primarily from the lack of sensitivity to local variations in incomes and shelter costs. These problems include exclusion of some core need households from any benefits (core need income thresholds can range upwards of \$35,000 for large families living in high cost areas) and the creation of a "cliff effect", whereby households with incomes one dollar over CNIT are ineligible for large benefits.

Several briefs supported using current gross household income relative to the core need income threshold (CNIT) as the measure of ability-to-pay. For example, scaling the percentage forgiveness to income relative to CNIT could allow one hundred per cent forgiveness for households with incomes below 50 per cent of CNIT. Forgiveness could be reduced to zero at CNIT. This would ensure that all clients in core need qualify for some benefit. In addition, the cliff-effect at the core need income threshold could be eliminated. The impacts of these changes would be to increase benefits to clients with very low incomes but also to eliminate the possibility of full subsidies to clients with incomes near CNIT.

The issue of treatment of personal wealth was raised during the consultations. Most respondents disagreed with explicitly basing assistance on wealth. Yet people with more assets are better off than others with fewer since they have more resources with which to solve their housing problem. Therefore, consideration should be given to prioritizing clients by taking some measure of wealth into consideration. For example, an occupant self-declaration of assets could be required. Any applicant with assets over a threshold level could be placed on a waiting list pending availability of funds toward the end of the program year. This would ensure that the highest priority is given to low income applicants with little personal wealth.

The option of requiring households with low shelter costs to assume more debt before being eligible for assistance was raised during the consultation. Most respondents opposed

the idea. Many clients, particularly the elderly who have repaid their mortgages, would be unlikely to participate in a program that required them to assume more debt. Those with high shelter cost to income ratios, in particular the young, would benefit even though their problem is temporary. Also, because owners have control over their shelter costs, they could increase them in order to benefit more from the program.

Repayable Loans

There was support from financial industry organizations for government insuring high risk loans, and for acting as a lender of last resort. There were other suggestions that the availability of both the forgivable and repayable loan portions from CMHC improves the operation of the program.

This means that CMHC should continue to offer repayable loans to cover the balance of the repair costs not covered by forgiveness. It is recognized, however, that clients who face an existing affordability problem may be disenfranchised from program participation. Recognition of the value of self-help will be explored as an option for reducing repayment requirements. In addition, a payment deferment option would permit clients facing hardship to have access to RRAP assistance to address their repair needs.

3.2 RRAP for the Disabled

At present, the unique income limits under RRAP for the Disabled means that some disabled households are ineligible for Homeowner RRAP because their incomes are over the \$23,000 maximum. In such cases, they may be disqualified from receiving assistance under RRAP for the Disabled if they are unable to bring their unit up to standard themselves.

CMHC is soliciting advice on four options to deal with this problem. The first option would be to bring RRAP for the Disabled in line with the other federal social housing programs and target assistance to households with incomes below the core need threshold. If this policy were followed, twenty five percent of the disabled RRAP clients would become ineligible for assistance. Under the second option, adjustments to the income thresholds would be made in recognition of the higher housing costs faced by disabled households. This approach would resolve the mismatch

between eligibility for Homeowner RRAP and RRAP for the Disabled. But it would expand eligibility for assistance under the other social housing programs as well. A third option would be to separate Disabled RRAP from the social housing programs, requiring only that assisted units be free from health and safety hazards. Lastly a gradual move towards targeting could be employed, with a phase out of the current program as the core need income thresholds "catch-up" with the income limits currently in place.

3.3 Modification Needs of the Frail Elderly

Many frail elderly, while not disabled, require modifications to their homes in order to continue to live independently. A separate program component directed at elderly households with incomes below the core need income thresholds could provide funding for such modifications. These modifications would include items such as relocating switches, and installing lever-type door handles, slip-resistant finishes in baths and showers, and hazard warning devices, etc. The amount of assistance required to carry out these modifications is substantially less than that available under RRAP for the Disabled, possibly up to \$2,500.

3.4 Emergency Repair Program (ERP)

ERP assistance addresses emergency repairs required for the continued safe occupancy of a unit. If benefit levels under RRAP are increased, this would permit units with a higher level of repair need to be brought up to acceptable health and safety standards than is currently possible. ERP would continue to be available for those units in rural areas which cannot qualify for RRAP, either because of excessive repairs or prohibitive costs beyond the revised RRAP limits.

Since ERP is being examined as part of the Rural and Native Housing Program evaluation, it would be premature to introduce amendments to the program at this time.

4. CONCLUSION

4.1 Market Renovation

The consensus of the consultation process supports the following roles for the federal government:

- ° to advocate high standards of home maintenance, to produce and disseminate information on home repairs, and to support the private house inspection industry;
- ° to educate consumers about their rights and obligations when hiring contractors to do renovations, and to support the private renovation industry;
- ° to conduct research on factors leading to residential and neighborhood deterioration, and to disseminate the results;
- ° to improve the effectiveness of existing government renovation financing programs.

4.2 Residential Rehabilitation Assistance Program

A Consultation Paper on Housing Renovation suggested cost-effectiveness, equity, and targeting efficiency as criteria for assessing alternative program designs. The design supported by the majority of participants in the consultation achieves cost-effectiveness by ensuring that those with high repair costs receive enough assistance to completely remove health and safety hazards. Further, those with higher incomes must bear some portion of the repair costs themselves.

Vertical equity is achieved by ensuring that the core need households who are least well-off receive more assistance than those with higher incomes or more wealth. If not explicitly used to determine benefit levels, wealth could at least be used as a means of establishing priority among potential applicants. Horizontal equity is achieved by relating assistance to real income, which is nominal income appropriately adjusted by the local cost of living as reflected by housing costs.

Targeting efficiency is achieving by scaling assistance out at the core need income threshold. This eliminates large differences in benefits between those with incomes immediately above and below the income eligibility thresholds, thus removing incentives to cheat or to lower earnings in order to become eligible.

CMHC would be pleased to receive comments on whether participants in the renovation consultation support the conclusions of this paper.