

Demand or Supply Side Housing Assistance?

Updating the Debate

INTRODUCTION

What are the relative merits of building homes to assist low-income households in need—the “supply approach”—versus simply providing some form of allowance to assist them in paying their rent—the “demand approach”? This research paper outlines the policy debate, provides an updated look at Canadian housing conditions and discusses policy responses.

Supply programs in Canada in the past have provided publicly developed housing for lower-income households.

- Rising costs mean that break-even rents, which provide adequate funds for operation and ongoing maintenance, were not affordable for lower-income tenants.
- Ongoing operating subsidies to housing operators were required to ensure financial viability to augment tenant contributions for rent.

In Canada today, there is a reasonable balance between housing demand and supply.

- Potential housing demand from population growth and household formation is met by new construction.
- Market supply does not address some conditions:
 - Insufficient construction of purpose-built rental units
 - Replacement of obsolete housing stock
 - Renewal of neighbourhoods or intensification
 - Insufficient supply of housing for low- or moderate-income households
 - Landlord disinterest in renting to lower-income or benefit-dependent tenants
 - Housing for special need populations

Difficulty balancing operating costs against affordable rents is the chief limitation of supply side housing programs.

- Substantial subsidies (of \$100,000+) are required to stimulate the construction of a unit of affordable housing in many locations in Canada.
- Units with insufficient rents to cover long-term maintenance can become liabilities.
- Once built, subsidized units with low rents are in a fixed location, which may hamper residents’ labour mobility or access to needed services.
- There are administrative costs to ensure ongoing compliance with program objectives.

Demand versus supply: What is the difference?

Demand side housing assistance refers to mechanisms that provide funds to a household to assist with payment of housing expenses.

It can be in the form of:

- a portable housing/rental allowance provided to a household; or
- a project-linked rent supplement, usually provided through a contract with the landlord.

Supply side housing assistance refers to financial support or incentives given to investors/developers of residential housing to stimulate construction, leading to an increased supply of housing.

- In pure form, holding rents low is not necessarily a condition of supply stimulus.
- In Canada, a hybrid approach both stimulates new construction and requires affordable rents (an implicit rental allowance).
- Supply side assistance may be given to publicly owned organizations (for example municipal affordable housing), community-based non-profit organizations (for example, housing co-operatives) or privately owned companies.

A key limitation of demand side programs is related to the amount of subsidy.

- Calculation of the rental allowance is critical. Too low an allowance will not provide access to sound, uncrowded housing, nor create sufficient demand to stimulate new construction.
- Too high a rental allowance will have an inflationary effect on rents.
- In a low-vacancy rental market, there could be rent gouging.
- Rental allowance allows spatial mobility as household needs change.
- Rental assistance does not ensure recipients find adequate, safe, suitable housing, or directly add to the housing supply.

Current housing conditions

1. The predominant problem in Canadian housing is affordability.¹

- Core housing need can occur when a household lives in poor quality (inadequate) housing, lives in crowded conditions (unsuitable), or if it pays more than 30% of household income for housing (unaffordable).
- For over two decades, the predominant issue putting both renter and owner households in core housing need has been affordability, rather than adequacy or suitability. (See figure 1.)
- For households with only (or mainly) an affordability problem, a housing allowance may be more effective than supply side approaches.

2. Until recently, an inadequate supply of rental housing in Canada was not being addressed by new construction.

- Since 2000, only 11% of housing starts have been intended for rental use, despite the fact that almost one third of households are currently renters.²
- Across 11 large Canadian cities, between 15% and 35% of condominium units were rented, but these mainly added to the upper end of the rental segment.
- It would appear that new housing starts have not been creating sufficient rental options.

3. New additions to the housing stock create supply, but do not add many lower-rent or affordable homes.

- The purchase price of new single-family and detached homes is generally above the existing median home price.³
- Rental units completed in the last 10 years have rents about 30% to 40% higher than the overall average rental in each local market.
- Since new starts add less than 2% to the existing stock, it follows that in many markets low to moderate rentals are largely older existing units.
- From 2001 to 2015, there were 275,000 rental housing starts, but a net growth of only 85,000 purpose-built rental units. (There are about 1.9 million purpose-built rental units) (See figure 2.) Much of the new rental construction was replacing older units that had been removed from the housing stock.

4. Nationally, there is a mismatch in the price level and availability of existing rental stock.

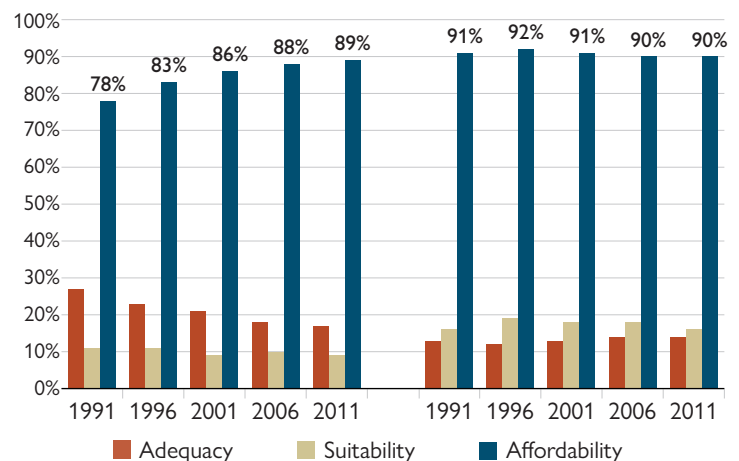
- The number of units at the lowest rent levels has been dropping, while the number in the highest category has increased. (See figure 3.)
- There is a shortfall of rental units in the lower rent range (less than \$500 monthly rent) and extra units in the mid-ranges.

5. Many renters are in core housing need even though their rents are below the local average market rent.

- In 2011, of the 989,380 renter households in core housing need, about 575,000 (58%) were paying less than the average market rent, but still using more than 30% of income.
- Another 319,000 renter households, or 32% of renters in core housing need, were paying more than the average market rent in their area, and could not afford to do so.⁴

Between 1991 and 2011, the majority (78% and 92%) of households in core housing need had an affordability problem.

Figure 1: Incidence of Core Need Households Below Housing Standards, by Tenure



Source: CMHC Housing Indicators in Canada Online

¹ Nevertheless, some First Nation communities, and the core of some large cities, do have an absolute shortage of housing or housing stock in poor condition.

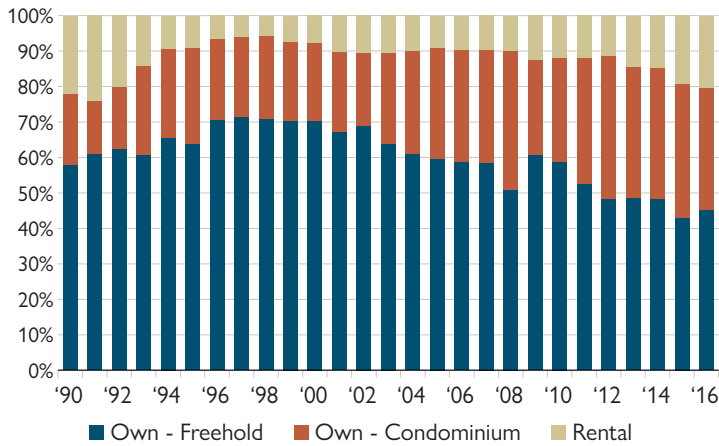
² Purpose-built rentals moved up to 19% of new housing starts in 2015.

³ Data not collected for new rental units.

⁴ The remaining 10% were in core housing need for reasons of suitability or adequacy.

Rental units accounted for less than 20% of all housing starts from 1993 until 2014.

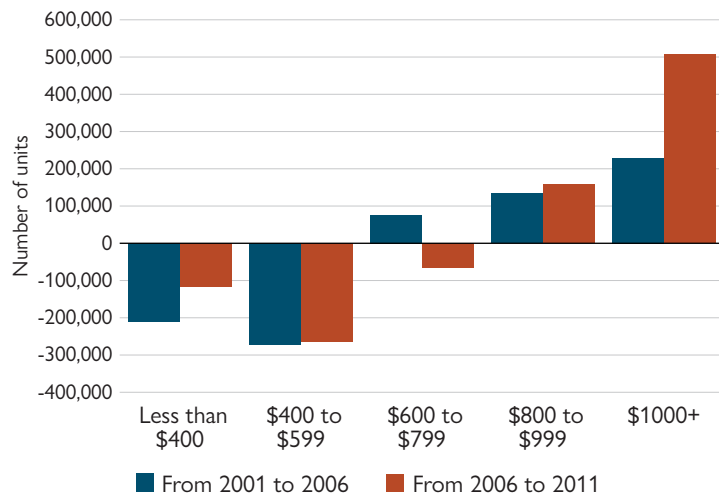
Figure 2: Canada Housing Starts by Intended Market



Source: CMHC Canadian Housing Observer

The number of units with relatively low rents decreased substantially from 2001-2006 and again from 2006-2011.

Figure 3: Change in Number of Units in Each Rent Range 2001-2006, 2006-2011



Source: Census 2001, Census 2006 and NHS 2011

Economic impacts of supply and demand side approaches

Non-profit housing programs in Canada are often hybrid or blended approaches.

- Most non-profit housing programs are not purely supply programs, as rents are often limited to 25% or 30% of income (rent-geared-to-income [RGI]).
- A new non-profit housing unit often represents a higher quality home (albeit modest, but including services/amenities) than the household can afford to rent in the market.
- One study found the economic rent of new units to be 94% higher than average market rent.

Demand side programs add to household income either directly or indirectly.

- Low-income households typically spend a high proportion of income on shelter, and any shelter supplement could either be spent to improve housing or be diverted to consumption in other areas.
- If a cash transfer *equivalent to a new unit* were given, the household would likely not spend the entire amount on shelter and would divert some portion to optimize other expenditures.

Internationally, the trend is separation of supply and demand mechanisms.

- Assistance has evolved into two sets of programs: one to improve supply of housing at sustainable rent levels; the second to provide individuals the capacity to pay a modest rent.
- Separating the housing allowance from the dwelling and linking it directly to the household creates portability and mobility.

FURTHER READING

Full report – *Optimizing Demand and Supply Side Housing Assistance Programs: A Background Brief* (https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_2/optimizing_demand_and_supply.pdf)

Non-Profit Housing, Housing Allowances or Income Assistance: A Choice Among Policy Instruments, 1992
([ftp://ftp.cmhc-schl.gc.ca/chic-ccdH/Research_Reports-Rapports_de_recherche/Older3/Ca1%20MH%2092N56%20\(w\).pdf](ftp://ftp.cmhc-schl.gc.ca/chic-ccdH/Research_Reports-Rapports_de_recherche/Older3/Ca1%20MH%2092N56%20(w).pdf))

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ALTERNATIVE TEXT AND DATA FOR FIGURES

Figure 1: Incidence of Core Need Households Below Housing Standards, by Tenure

	1991	1996	2001	2006	2011	1991	1996	2001	2006	2011
Adequacy	27%	23%	21%	18%	17%	13%	12%	13%	14%	14%
Suitability	11%	11%	9%	10%	9%	16%	19%	18%	18%	16%
Affordability	78%	83%	86%	88%	89%	91%	92%	91%	90%	90%

Source: CMHC Housing Indicators in Canada Online

Figure 2: Canada Housing Starts by Intended Market

Year	Own - Freehold	Own - Condominium	Rental
1990	85,025	29,359	32,201
1991	77,083	18,649	30,495
1992	84,091	23,250	27,197
1993	78,220	32,017	18,193
1994	82,466	31,686	11,698
1995	56,684	24,106	7,998
1996	71,553	23,076	6,643
1997	88,009	27,471	7,559
1998	82,892	27,351	6,531
1999	89,189	28,434	9,276
2000	92,283	28,319	10,155
2001	95,125	31,986	14,681
2002	123,106	36,798	18,841
2003	121,890	49,212	19,939
2004	124,678	58,852	20,343
2005	114,008	60,251	17,210
2006	113,743	61,817	18,518
2007	112,730	61,595	18,605
2008	94,871	73,574	18,265
2009	78,617	34,382	16,237
2010	97,085	48,506	19,735
2011	91,250	61,605	20,721
2012	93,521	77,693	21,990
2013	82,778	62,794	24,267
2014	82,985	62,869	25,308
2015	77,756	68,169	35,136
2016	81,282	62,437	36,574

Source: CMHC Canadian Housing Observer

Figure 3: Change in Number of Units in Each Rent Range 2001-2006, 2006-2011

Change in number of units rent range	Less than \$400	\$400 to \$599	\$600 to \$799	\$800 to \$999	1000+
From 2001 to 2006	-211,080	-272,160	75,905	133,120	229,140
From 2006 to 2011	-115,870	-264,425	-66,045	157,940	506,985

Source: Census 2001, Census 2006 and NHS 2011