

## **Portable housing benefits – a cost-effective way to reduce poverty and housing need**

### **Introduction**

The Eastern Ontario Landlord Organization (EOLO) represents the owners and managers of more than 37,000 residential rental suites in Ottawa. Founded in 1990, EOLO's members include some of the largest landlords in Ontario, as well as many small and medium size landlords.

The majority of low income people live in for-profit rental housing which is at the affordable end of the market. However, due to their low incomes they struggle to pay their rent.

EOLO advocates an expanded use of portable housing benefits (PHBs) to address poverty in an efficient and cost-effective way. So does the National Housing Collaborative (NHC), whose work will be addressed below.<sup>1</sup>

*This submission explains why a broad portable housing benefit program needs to be included in any effective and cost-effective poverty reduction strategy, and why an increased use of PHBs in the City of Ottawa's housing program mix would be advantageous.*

### **Why a poverty reduction strategy needs to address housing costs**

Deprivation (or real poverty) is a function of the relationship between a person's (or a household's) income and the expenditures they need to make. In Canada, we have done a good job of addressing the costs of medical care, but by and large we have not addressed the huge differences in the housing costs that people need to pay.

Consider two seniors in Ottawa. Both receive \$1,443 per month in OAS and GIS from the federal government. They *seem* equally poorly off, but Cameron lives in social housing, while Diane rents in the private market. Cameron's rent is based on his income (at 30%), and so he pays \$433 for his one bedroom apartment, leaving Cameron with \$1,010 for food, clothing and other necessities while Diane rents a one bedroom apartment at the median rent, paying \$1,023 for rent, and leaving her with \$420 for food, clothing and other necessities.

Or suppose Diane's sister, Eugena, has been lucky and lives in an apartment costing only 85% of the median market rent. That would be \$870, leaving her with \$573. Despite her good fortune (or housing locating skills), even Eugena has only a little more than half as much money for other necessities as Cameron has. Frank has been more economical than Eugena and lives in an apartment renting for \$650. All those figures are shown in Table 2.

---

<sup>1</sup> The NHC consists of Canadian Alliance to End Homelessness, Canadian Federation of Apartment Associations, Canadian Home Builders' Association, Co-Operative Housing Federation of Canada, Housing Partnership Canada, Habitat for Humanity and National Association of Friendship Centres. The NHC is supported by a team of charitable foundations and funders, including Maytree Foundation, Metcalf Foundation, McConnell Foundation, Vancity, Evergreen, United Way Toronto & York Region and United Way Centraide.

Table 2 - Rent and income after rent

	<b>Cameron</b>	<b>Diane</b>	<b>Eugena</b>	<b>Frank</b>
Income	\$1,443	\$1,443	\$1,443	\$1,443
Rent	\$433	\$1,023	\$870	\$700
Income after rent	\$1,010	\$420	\$573	\$743

*What causes Diane, Eugena and Frank to be worse off than Cameron? It is the conjunction of two facts:*

- 1. Low-income people usually need to spend a large portion of their income on their housing costs, and*
- 2. Housing costs vary a great deal between different markets across provinces and across Canada (and between the private market and the social housing sector --- which provides rents-g geared-to-income).*

*The solution is to add to our social programs a PHB program, which provides a financial benefit based on the person's income AND their rent. PHBs can be targeted precisely at the deepest real poverty among low income groups.*

A PHB is a payment made by a government agency to a tenant to help the tenant pay for their rent and the other necessities of life. Tenants who qualify for benefits find and rent rental homes in the same way they do now, except that the benefits help them pay the rent. Tenants can use the money to help stay where they are (since 90% of low-income tenants already live in suitable housing), or to move to another rental home of their choice in the private market. It is the household's freedom to choose where to live that makes the housing benefit "portable".

Several provinces use PHB programs now, but those programs are all targeted at particular and limited groups of poor people, such as families with children, the disabled, victims of domestic violence, seniors or near seniors. The target groups vary by province, and in no province are all those groups included. As well, there are many, many single people and couples who are in deep poverty and deep core housing need, who are not eligible for the provincial programs in any province, and cannot access social housing because the amount of it falls far short of the demand for it.

### **A problem across Canada and within each province**

Table 3 shows the median rents for a one bedroom apartment in a selection of other communities across Canada

Table 3 Median rent comparison across and within provinces

Province	Low rent community		High rent community	
New Brunswick	Edmunston	\$468	Fredericton	\$697
Quebec	Trois Rivieres	\$469	Montreal	\$679
Ontario	Windsor	\$706	Toronto	\$1132
			Ottawa	\$1023
Manitoba	Portage La Prairie	\$614	Winnipeg	\$836
British Columbia	Chilliwack	\$679	Vancouver	\$1159

Rents in Vancouver are close to three times as high as rents in Edmunston or Trois Rivieres. Rents in Ottawa are more than twice as high. Rents in social housing can easily be one-third of private market rents in almost any community, but there is not nearly enough social housing to go around.

Moreover, people move into and out of core housing need frequently. Of the people in core housing need in any year, one third move out of housing need within one year, and another one third move out in the second year, whereas social housing turns over very slowly.

### **PHB design considerations**

Most First World countries use PHBs, and there are multiple design issues. The working paper on PHBs prepared by the National Housing Collaborative (NHC) addresses the design issues in detail. The paper is available at [www.nhc-cpl.ca](http://www.nhc-cpl.ca). This section addresses key design considerations in brief.

#### *Actual rent or average rent*

Some programs pay a subsidy based on the average rent in the community. NHC and EOLO believe that is an inferior design because it is not nearly as targeted as using actual rent. The average rent design gets at differences in average rents, but not at rents between people. As illustrated in the example of Cameron, Diane, Eugena and Frank, in Table 2, there can be huge differences between rents paid by people in the same community.

#### *Maximum rent for subsidy*

In using actual rent, a program needs to set a maximum rent for subsidy purposes. People should be allowed to rent at a higher rent, and some of them may need to, but the program should incentivize recipients to economize. The NHC advocates using the median rent as the maximum, and that would offer recipients the most choice and help. However, to address program budget limitations one could easily set the maximum rent for subsidy at a percentage of the median, such as 95%, 90% or 85%. One could set the percentage differently for different locations.

Research should inform this decision, but it seems likely that there are few high end rents in communities like Edmunston or Trois Rivieres or Chilliwack, so that the percentage should probably be 100% or 95% there, whereas in Ottawa, Toronto or Vancouver there are more high end rentals, so that a maximum rent of 90% or 85% of the median would still allow a wide range of units and unit locations for poor people to choose from. (Fredericton could be in the middle at 95%.)

#### *Affordability standard*

In Canada it has been traditional to consider housing affordable if it costs less than or equal to 30% of a household's income. However, there is no scientific basis for that standard. More importantly, single people can afford to pay a higher percentage of their total income on housing than couples or families. If a single person has an income of \$1,000 per month, and pays 30% as rent, then he or she has \$700 left for other needs. If a couple has an income of \$1,000 per month, and pays 30% as rent, they have \$700 left for other needs, which is only \$350 for each person, or half what the single person has. Both the NHC and EOLO recommend setting the affordability standard for a single person at 40%, while leaving it at 30% for couples or families.

#### *Percentage of the gap*

Programs pay different percentages of the calculated affordability gap. Some pay 100%, but that leaves no incentive to economize on rent. It could also encourage people to move from low rent to high rent areas, which is a positive for employable people, but not for unemployable people. The existing, limited Canadian programs usually pay some percentage between 50 and 90%. Both the NHC and EOLO recommend 75% as the subsidy rate once a new program is fully phased in.

The sample programs below show the application of the design issues, and the results a PHB program can achieve.

#### SAMPLE PROGRAM

Table 4A – Common parameters

	<b>Cameron</b>	<b>Diane</b>	<b>Eugena</b>	<b>Frank</b>
Median rent	\$1,023	\$1,023	\$1,023	\$1,023
Factor	85%	85%	85%	85%
Maximum rent for subsidy	\$870	\$870	\$870	\$870
Income	\$1,443	\$1,443	\$1,443	\$1,443
Affordability target (40%)	\$577	\$577	\$577	\$577

Table 4B – parameters which vary among the people				
Actual Rent	\$433	\$1,132	\$870	\$700
Rent for subsidy calculation	\$433	\$870 (the maximum rent for subsidy)	\$870	\$700
Deemed Affordability gap	\$0	\$293	\$293	\$123
Subsidy (75% of gap)	\$0	\$220	\$220	\$92
Income after rent & subsidy	\$1,010	\$640	\$793	\$835

Table 5 – Income after rent – before and after the PHB program

	<b>Cameron</b>	<b>Diane</b>	<b>Eugena</b>	<b>Frank</b>
Before	\$1,010	\$420	\$573	\$743
After	\$1,010	\$640	\$793	\$835
Increase	\$0	\$220	\$220	\$92
Increase as %	0%	52%	38%	12%

In relative terms, at 52%, Diane receives the most help because her situation is the worst. However, as a dollar amount Eugena receives the same amount of money because her rent is assumed to be equal to the maximum rent for subsidy. Frank receives a lower benefit because he needs less. Different parameters would affect those results.

Eugena, Diane and Frank are all better off than they were, but not as well off as Cameron, because he is still benefiting from the deep subsidy provided through the rent-gear-to-income system. Eugena and Frank are better off than Diane because they live in more economical rental units, but Diane has received the most help in relative terms, because she was the worst off of the three due to her relatively high rent.

The NHC prepared a short paper entitled “Myths and Facts about portable housing benefits”, which addresses some concerns of people who oppose PHBs. That paper can be obtained at [www.nhc-cpl.ca](http://www.nhc-cpl.ca). The Maytree Foundation addressed other issues about implementing PHBs. That paper can be obtained from Noah Zon at [nzon@maytree.com](mailto:nzon@maytree.com).

### **Funding sources**

Recognizing that government resources are limited, the question arises as to where to get the money to pay for one or more PHB programs. Besides applying more resources to relieve poverty, a key solution could be to target better the money now being spent. That applies at all three levels of government.

In a broad sense, the federal Old Age Security/Guaranteed Income Supplement system is a system to relieve poverty. It costs \$50B per year, but much of that money goes to people who are not poor at all. By redirecting \$1.2B, a mere 2.4% of that funding, to a portable housing benefit, 800,000 households who really are poor could be given much more relief than they receive now. See the NHC material [www.nhc-cpl.ca](http://www.nhc-cpl.ca).

The Province of Ontario provides many benefits to seniors with little regard to their income levels. Re-directing those concessions to address the housing needs of all low-income people in high rent cities would be a much more targeted use of the funding.

The City of Ottawa spends a great deal of money on supporting social housing, and at various times subsidizes new social housing construction. While there is an important place for social housing, it is much more cost-effective to provide housing benefits for low-income people to better afford existing economical housing rather than to build new housing at a total cost of \$200,000 or \$250,000 a unit.

### **Conclusion**

PHBs deliver the most help to the people who are experiencing the deepest real poverty. PHBs can be very efficiently targeted and very cost-effective. A broad PHB program is essential in any effective, cost-effective far-reaching poverty reduction strategy.

The City of Ottawa should add its voice to advocacy for portable housing benefits to be funded by the federal and provincial governments.

The City should also make more use of portable housing benefits itself.

## **APPENDIX A - Advantages of Portable Housing Benefits**

Portable housing benefits have numerous advantages, including the following. Portable housing benefits:

- allow tenants a wide choice of where to live;
- achieve income mixing without the cost of subsidizing middle income tenants;
- use the existing economical housing stock, rather than newly built (and therefore expensive) housing;
- allow the available funding to be spread more equitably among more low-income tenants;
- allow flexibility in program design to respond to different regional needs and provincial and city budgets;
- allow the provision of assistance quickly;
- can eliminate deep core need regardless of a household's place on a chronological waiting list;
- allow tenants to keep their housing assistance when they move to take a new job (which is good for them and the economy);
- avoid the stigma often associated with public housing;
- can easily be used in rural areas and small towns where there are no large rental buildings; and
- can be administered at very low cost.