National Housing Council | Conseil national du logement

Scaling-up the non-market housing sector in Canada

Prepared by the National Housing Council and respectfully submitted to the Minister of Housing, Infrastructure and Communities

MARCH 2025

Chair's Introduction

Dear Minister Erskine-Smith,

In his letter of 27 May 2024 to Tim Richter, the Co-Chair of the National Housing Council, Minister Fraser explained the approach taken in *Solving the Housing Crisis: Canada's Housing Plan*, stating, "The focus is not just on accelerating housing supply; we also need to look after the most vulnerable members of our community... No one level of government, home builder, not-for-profit, or community can do it alone. We need every partner pulling in the same direction to build the homes Canadians need."

In response, the National Housing Council established a working group to examine what actions might be taken to provide the fuel for the sustainable growth of Canada's non-market housing sector. This sector is characterized by units owned and managed by a non-profit organization or government agency, where rents are below the standard market rate. It is important to note that the evidence in this report points to the need to proactively provide the impetus that will fuel the growth of the non-market housing sector that is led and operated in perpetuity by community sector organizations. These housing units are some of the most suitable, secure housing units that can be made available at a reasonable cost to low and moderate-income individuals or families who cannot afford market-priced housing.

One of the concerns raised about the National Housing Strategy is that funding for non-market housing options has not been sufficiently robust. Canada lags behind other OECD countries in the percentage of housing stock that is considered to be non-market. This reality is the consequence of several factors, some of which we touch on in this report. Canada has a lot of catching up to do and the cost of doing nothing will be far greater than the investment required to get moving in the right direction.

One of the imperatives, identified by all the experts interviewed by the working group, is the need for long term predictable funding for the sector. For Canada to course correct, a federally orchestrated policy shift is required. It will not be enough to simply fund a few more projects. Doing more of what we have been doing for 25 years will not respond to the need. Rather, a well-planned effort that invests in the supply and maintenance of non-market housing will have a ripple effect in the entire housing sector producing a corresponding return that will impact the broader Canadian economy. After all, when people have a permanent place to call home they are typically both healthy and productive.

On behalf of the working group, and the National Housing Council, I invite you to consider the three recommendations in the attached report. We welcome the opportunity to discuss our conclusions with you at your convenience.

Finally, the working group wishes to express its thanks for the outstanding support and assistance of the Secretariat of the NHC in the preparation of this report.

Respectfully submitted,

Sam Watts, Chair, Scaling-up the non-market housing sector working group

Ann McAfee, Member

Tim Ross, Member

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About the National Housing Council

The National Housing Council (NHC) is an advisory body that promotes participation and inclusion in the development of Canada's housing policy.

The NHC is appointed by, and provides advice to the Minister of Housing, Infrastructure and Communities on urgent housing issues - including how to improve the National Housing Strategy. The NHC's work puts marginalized voices and the needs of those made vulnerable by systemic issues at the forefront.

For more information on the work performed by the NHC, please visit the website: National Housing Council - Shaping the future of housing in Canada through inclusion and participation

Executive Summary

Scaling-up the non-market housing sector in Canada is crucial to restoring housing affordability and improving living conditions across Canada. Furthermore, expanding the non-market housing sector would improve productivity through gains in employment, health, and education. Analysis by Deloitte for the CHRA and Housing Partnership Canada found that scaling-up the non-market housing sector to the size found in similar high-income countries would boost productivity by 5.7-9.3%, adding between $67b to $136b to Canada's GDP.

In its past work, the National Housing Council has consistently recommended scaling-up Canada's non-market housing sector. We are pleased that the need to do so has also been recognised in Canada's Housing Plan. We believe Canada should scale-up non-market housing from the current 3.5% of the housing system to at least the OECD average of 7%. To provide sufficient affordable housing for all who need it, a higher target of 20% may be required.

This report sets out the policy changes that could underpin the growth of the sector. The starting point for these recommendations is the need to shift perceptions of non-market housing from a 'nice to have' item of public spending, to one that is seen as essential infrastructure, without which our communities cannot function. Debate on transportation or sanitation focuses on 'how' and not 'if'. The conversation on delivering housing people can afford should unfold in the same way.

Our recommendations are therefore based on the need to view the sector as an essential asset. Not only is the amount of government capital funding important, but it must also be sustained and stable, fluctuating according to need and not political and economic cycles. Stable and permanent rent supports must also be available to ensure the availability of deeply affordable homes for those on the lowest incomes. Finally, we recommend resources be invested into asset building and the strategic development of the sector, enabling it to deliver the homes we need at scale.

Recommendation One: Build, acquire and preserve non-market housing through long-term federal funding and financing

We recommend that the federal government commit to long-term, predictable funding and financing of non-market housing, with annual targets based on unmet need, projected population growth, and an ambition to attain at least the OECD average size of 7%. We recommend that this support include a mix of low-cost financing and contribution funding to create and maintain viable developments. We recommend that the federal government provide support to enable new construction, acquisition, and preservation of non-market housing.

Recommendation Two: Ensure permanent rent supports for the lowest-income households, separating asset management from income supports

We recommend that the federal government ensure the availability of rental assistance on a permanent basis to low-income households, and that this rental assistance be scaled up in proportion to future growth of non-market housing. By separating the income assistance needed at a household level from the imperative to offer economic, at-cost housing, non-market housing providers will be empowered to improve asset management outcomes and establish the financial capacity for more self-reliant growth.

Recommendation Three: Enable non-market housing providers to build assets and scale-up through the strategic development of the sector

We recommend that the federal government support the growth of the non-market housing sector through supply programs that incentivise scale, amalgamation and aggregation of sector assets. Furthermore, we recommend that sector leadership be convened to consider establishing professional and operational standards of excellence in governance, development, management, and community engagement and to establish alternative and complementary sources of sustainable sector financing to augment government funding and financing.

Overview of the Working Group: Purpose and Process

The federal government has recognised that a larger non-market housing sector will be a vital part of Canada's response to the housing crisis, with Canada's Housing Plan stating:

> *"We can help support vulnerable people if we have a strong and growing community housing sector that can protect more Canadians from rent increases, keep affordable housing affordable, and help build a strong pipeline of new affordable options that meet everyone's needs. Everyone has a right to decent housing, regardless of income."*

This is also something that the National Housing Council has consistently recommended in its reports and advice to the Minister:

> *"The Council recommends that the Government of Canada establish new targets and redirect associated corresponding funding to increase the share of non-market housing stock in Canada."*
> Renewing Canada's National Housing Strategy, Recommendation 2
>
> *"Immediate and Sustained Investment in Urban, Rural, and Northern Indigenous Housing."*
> Urban, Rural, and Northern Indigenous Housing, Recommendation 3
>
> *"Partnerships and investment to elevate non-profit housing to a greater share of our housing stock."*
> Co-Creating the Right to Adequate Housing in Canada, Solution Direction 7
>
> *"Establish a comprehensive non-market rental housing plan to manage and distribute federal funding and lending to increase the supply of affordable non-market rental housing."*
> The Financialization of Purpose-Built Rental Housing, Recommendation 1.3

Therefore, as one of its priorities for 2024-25, the Council chose to establish a three-person working group to investigate actions the federal government should take to scale-up the non-market housing sector. The working group:

- Defined its focus to include permanent, non-profit, rental housing, provided off First Nation reserves. This definition includes public housing, non-profit housing, co-operative housing, community land trusts and Urban, Rural and Northern Indigenous (URN) housing. The report excludes non-market housing that does not fit this definition, such as temporary and transitional non-market housing, non-market home ownership products, affordable housing provided in the private sector and non-market housing provided on First Nation reserves. The challenges and opportunities facing these sectors could be the subject of future work.
- Assessed the non-market housing sector in Canada as well as countries that excel in this area.
- Consulted leaders in the non-market housing sector with experience of developing and managing housing. We asked them what their organisations need to flourish and how they would change the system to scale-up the non-market housing sector. We are grateful for their time and expertise and offer our sincere thanks for their participation.
- Prepared draft recommendations for advice and approval from the National Housing Council.
- Forwarded several recommendations to the Minister of Housing, Infrastructure and Communities, outlining the policies we believe are essential if the non-market housing sector is to rise to the challenge of providing affordable homes for Canadians.

The working group acknowledges that non-market housing providers often rely on market developers to develop new units, and thereby face many of the same challenges. These include the need to train more construction workers, ensure infrastructure keeps up with housing development, and streamline municipal regulations to accelerate home construction. While these steps are crucial for Canada to meet its homebuilding goals, this report focuses only on the policy changes that are specific to enabling the non-market housing sector to scale-up and provide a larger proportion of Canada's homes.

Scaling-up Canada's Non-Market Housing Sector

Non-Market Housing in Canada

Canada's non-market housing sector comprises around 600,000 homes, or 3.5% of the housing system.[1] Alternatively known as social housing or community housing, the non-market housing sector is made up of provincial and territorial Crown Corporations, municipally owned providers, community non-profits, co-operatives, and URN Indigenous housing organisations.

Only a handful of providers, typically provincial housing corporations and larger municipalities, operate at the scale required to hire specialist staff, benefit from economies of scale and effectively manage the risks associated with housing development. The ownership of the rest of the sector's assets is highly disaggregated. There are many small providers, each typically owning fewer than 100 units.

The sector is targeted towards those most in need, with allocations criteria mostly prioritising households on low- and moderate-incomes. There are many more households in need of affordable housing than the sector can accommodate, and most applicants will spend a significant time on a waiting list before being offered a home. While a variety of models exist, rent is most commonly charged on a rent-geared-to-income (RGI) basis, where tenants pay a percentage of their income, usually 25% or 30%. Historically, this level of deep affordability was made possible through a time limited operating subsidy, while other providers were able to access rent supplements. More recent projects have typically been funded through repayable financing and a one time contribution that comes with a set of time bound conditions (usually 20 years). This has limited the depth of affordability that can be provided.

The federal government has historically been the main source of funding for non-market housing, often in cost-sharing agreements with provinces and territories (PTs). The Canada Mortgage and Housing Corporation (CMHC) has generally provided capital funding for non-market housing projects in the form of a grant or loan and has signed an operating agreement with the provider to pay a subsidy over a 30-to-50-year period. Operating agreements also provide a form of project-level regulation, setting out the conditions the provider must meet to receive the subsidy.

Federal funding has supported the development of non-market housing since the creation of CMHC in 1946. The sector reached a peak in 1996, when it made up 6% of the housing system. [2] The 1993 federal budget removed all new funding for non-market housing, signalling the beginning of a retrenchment of the sector. Only governments in Québec and British Columbia continued to provide some funding for new non-market homes and as a result, the sector in these two provinces has more capacity than elsewhere. The federal government began to re-engage with housing policy in 2001, launching a new Affordable Housing Framework, and recognised its role as an important economic driver in 2009 in Canada's Economic Action Plan.

In 2017 the federal government passed the National Housing Strategy (NHS) Act, committing to progressively realize the right to housing. Canada's Housing Plan, the 2024 Federal Budget and Fall Economic Statement included a range of measures closely targeted at restoring housing affordability and scaling-up non-market housing. These include:

- $4.3 billion for the Urban, Rural and Northern Indigenous Housing Strategy
- $1.5 billion for a new Co-operative Housing Development Program
- $1.5 billion to create the Canada Rental Protection Fund and enable non-market providers to acquire at-risk naturally occurring affordable housing units
- $1 billion in additional funding for the Affordable Housing Fund, and
- The Federal Community Housing Initiative will be extended to 2033 and made more flexible to ensure eligible providers can access funding to protect affordable housing units.

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[1] OECD Affordable Housing Database, indicator PH4.2 Social rental dwellings stock
[2] Canadian Housing and Mortgage Corporation, Canadian Housing Observer 2011

Challenges facing the sector

Current stock requires investment

Canada's non-market housing providers face a raft of challenges when looking to scale-up. First among them is the need to ensure that the current stock of non-market homes is preserved. Most non-market homes were built over 40 years ago and due to underfunding, close to a third need repairs. For some providers the repairs backlog stems from operating agreements that under-estimated the amount of revenue needed for maintenance and capital reserves, resulting in the underfunding of assets. For others, retrofitting housing for today's higher accessibility and environmental standards represents a major expense. At the same time, operating agreements for pre 1990s developments, and with them subsidies, have largely ended, creating shortfalls between revenues and costs.

Not only is it difficult for providers to maintain their current assets with their limited revenues, they must also try to maximise the benefit they offer to tenants by keeping rents low and maximising the amount of deeply affordable housing. Without adequate funding arrangements, many providers are left with little choice but to reset rents on turnover, changing deeply affordable units to something closer to market rent, and reducing the supply of housing available to low-income households. Nationally, the situation has been likened to a leaking bucket, where the loss of existing affordable rentals undermines efforts to create new units.

Smaller providers suffer from diseconomies of scale

The current small size of many providers also constrains their ability to scale-up, creating a cycle that will be difficult to break. Small providers do not benefit from economies of scale and their staff can lack support and specialist skills, meaning any problem can become a crisis. This is the result of policy decisions to support small scale organizations that offer an important community asset, without the economies of scale to professionally manage assets and support sector growth. They may not have the resources to seek out funding and the risks and complexity of housing development could be too much to take on. Few providers have enough ongoing development projects to sustain a full-time development director and the knowledge gained on one project can easily be lost before the next. This problem has been summarised as follows:

"So overall, with some notable exceptions, the traditional community sector is characterized by a large number of quite small unprofessional organizations with quite limited expertise and capabilities, especially in relation to asset renewal or development. They have a big heart and are dedicated to helping poor tenants, and this often trumps disciplined sound business practice."[3]

Development challenges can be felt more keenly by non-market providers

Those non-market housing providers who have the capacity to consider a development project, face the same challenges as market housing developers, only without their wider portfolios and ability to bear risk. Both land and skilled construction workers are in short supply, and the prices of both, along with materials, are rising. For non-market providers, donations of land often come with additional costs, for example on design to make an oddly-shaped lot work, or remediation costs for contaminated ground. Getting municipal approval for zoning and permitting is costly, complex, time consuming, fraught with risks and vulnerable to nimbyism – especially for non-market projects which can be misunderstood by the public. With no guarantee of success, this is money most non-market housing providers can ill afford to lose.

[3] Pomeroy, S., 2021 Background Primer on Canada's Housing System

Current government funding is insufficient to scale-up the sector or provide deep affordability

While federal support for housing has increased by 50% under the NHS compared to the 10 years prior, the approach of the federal government often does not match up with its stated vision. Despite the goals of the NHS, current federal programs do not offer deep enough contributions to provide the deeply affordable housing that the lowest-income groups require. The variety and complexity of federal funding programs can also make them difficult for providers to access and their short-term nature can make long-term planning hard. Federal programs often do not align with what is on offer from PTs and municipalities, leaving small providers to try to coordinate between several layers of government.

Securing government funding for development poses its own set of challenges

Securing the funding to take a development project forward is perhaps the most significant challenge providers face. Firstly, there is a lack of funds for pre-development work. Funders understandably want to know that a project is viable before they commit to it, but getting a project to that stage takes work and investment. This means that providers must find sizeable sums for pre-development work before a project is seen by a funder, leaving many without a way to get projects off the ground. The problem is worse when funding is allocated after an RFP process, where much of this pre-development work can be wasted. For example, a call for projects may attract applications for many times more units than it can fund and providers who are not selected may lose the resources they have already spent developing their proposal. As funding is given at the project level, rather than at the provider level, providers can be left going through the same administrative steps and 'reinventing the wheel' for each new development, restricting their ability to maintain a development pipeline and build at pace.

While non-government funding can be hard to access

While some non-market housing providers have sought non-governmental sources of finance, they face barriers here too. Despite the substantial equity represented by the sector's 600,000 homes, there is minimal leveraging of this capital into financing new development. This is due the disaggregated nature of the sector, banking rules that can limit access to private mortgage finance, and the incompatibility between the rate of return required by the products currently on the market and providers' objective to maintain affordability. Many lenders are also unwilling to consider non-market housing providers for loans, as they do not want the risk to their public image that any foreclosure would bring. When non-market providers are able to secure outside sources of finance, they often find they are incompatible with CMHC lending rules, for example on the treatment of patient capital.[4] Many non-market housing providers offer some market rent or low end of market units, but higher rents can be unpopular with the public, incompatible with the deeper levels of affordability often required by funders or municipalities, and can lead to tax complications for providers with charity or non-profit status.

Taken together, these challenges explain why Canada's non-market housing sector is only 3.5% of the housing system, down from 6% in 1996. These issues stem from policy decisions made over the past three decades and are not intrinsic to non-market housing. In Austria, the non-market housing sector provides almost 1 in 4 homes nationally. The largest non-profit providers in the United Kingdom have upwards of 100,000 units each and possess substantial professional capacity. Denmark has engineered a financial framework to direct private investment to non-market housing, while France does so through tax-free savings accounts. Both have insulated the sector from the uncertainty of the political cycle. Another approach is possible in Canada too. In the following section, we outline our recommendations on how to get there.

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[4] Patient capital refers to long-term investments where investors are willing to offer flexible terms and wait several years for potential returns.

A Vision for Non-Market Housing

In the latter part of the last century, Canada invested in affordable homes through co-operatives, non-profit organisations and municipal and provincial governments. This ensured many low- and moderate-income Canadians could count on a roof over their heads. We believe that a new era of non-market homes is urgently needed to restore affordability to the housing system, to enable families to find homes close to their jobs, schools and communities, and to ensure that all Canadian's have an affordable, adequate and safe home.

It is encouraging that the Federal government has articulated this need in Solving the Housing Crisis: Canada's Housing Plan, which states, *"We can help support vulnerable people if we have a strong and growing community housing sector that can protect more Canadians from rent increases, keep affordable housing affordable, and help build a strong pipeline of new affordable options that meet everyone's needs.*"

However, this will be no small undertaking.

Canada's non-market housing sector makes up 3.5% of the housing system and is only half the size of those of our OECD peers. We need to close this gap. In doing so, we would provide an affordable home for 576,625 more Canadian households, along with the benefits to productivity, health, education and employment that go hand in hand with having a safe and secure place to live.[5]

Whether it is the key worker who can find an affordable home near their workplace, the single parent who can finally afford to go back to school, or the business owner who can now find local staff, scaling-up non-market housing would also have considerable economic benefits. Scaling-up to just the OECD average size would boost productivity by 5.7 to 9.3% and would add between $67b to $136b to Canada's GDP.[6]

So how do we get there?

We believe it begins with a shift from seeing non-market housing as a 'nice to have' item of public spending, added on when budgets allow, towards treating affordable housing as essential infrastructure. Everyone accepts that we need roads and rails to keep people and goods moving. It's obvious too that cities need water pipes, power lines and garbage collections to function. And while all of these services have a cost, we know our economy and our society wouldn't work without them. Housing that people can afford plays a similar role in making sure our towns and cities work for Canadians.

Our recommendations are based on the need for sustained and stable funding, free from the ups and downs of economic and political cycles. We also recognise the need for a change in the framework within which non-market housing operates in Canada. The sector is small and disaggregated because prior policies and programs made it that way. Better policy and program design can fix it.

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[5] Figure of 576,625 taken from Statistics Canada Table 98-10-0241-01 Housing indicators by tenure. We assume that in doubling the size of the subsidized housing sector, the number of households housed within it could also be doubled.
[6] The Impact of Community Housing on Productivity, Deloitte for the Canadian Housing Renewal Association

Recommendation One:

Build, acquire and preserve non-market housing through long-term federal funding and financing

In seeking to accelerate the supply of homes to the market, the federal government has faced a trade-off between affordability and the developers who could get shovels in the ground soonest. In the first half of the National Housing Strategy, they chose the latter, mainly funding homes for market rent and sale. We are now seeing the limitations to that approach, with many new homes out of reach for Canadians on average incomes. Our first recommendation calls for renewed funding for and investment in non-market housing, through both construction, acquisition and the preservation of existing homes. We also believe the way government funding operates needs to change, to offer more longevity, flexibility and clarity. If providers can bank on federal funding, they will invest accordingly.

We recommend that the federal government:

1.1 Commit to annual targets for the construction or acquisition of non-market homes, based on unmet need, projected population growth, and an ambition for the sector to reach at least the OECD average size of 7% of the housing system.

1.2 Provide more grants, forgivable loans and lower-interest loans as part of the funding mix. Contribution funding is an essential part of making rents more affordable and providing the deeply affordable homes that those on the lowest incomes need and also helps non-profits qualify for financial underwriting.

1.3 Expedite the $4.3 billion announced for the Urban, Rural and Northern Indigenous Housing Strategy and $1.5 billion announced for the Canada Rental Protection Fund, getting these funds to the organisations that need them.

1.4 Provide grant funding for the pre-development work needed for qualified providers to get a project ready for funding applications. De-risking proposal development is essential for non-profits and co-ops to 'jump the gap' from being able to develop new units in theory, to being able to do it in practice.

1.5 Fund portfolios of projects, rather than one development at a time. Taking a business-level approach, as happens with the Frequent Builder Program, rather than project-level approvals, is necessary for non-market providers to build at pace and at scale.

1.6 Improve program clarity, predictability and longevity to enable providers to be certain of their funding options and plan for the long-term. The success of the UK's Decent Homes program can be credited to its clear and predictable funding model, which ran for over a decade with minimal changes. Arms-length bodies may be better placed to ensure this continuity, based on the example of the BC Rental Protection Fund.

1.7 Give a measure of priority to non-market housing providers in programs that support both market and non-market housing, such as the Federal Lands Initiative. This would recognise the many benefits of non-market housing, including that non-market homes are likely to increase in affordability over time, relative to similar market rental units.

1.8 Consider aligning programs to successful municipal and PT initiatives, so applicants can benefit from a streamlined application process and in recognition of the fact that different approaches may be needed in different parts of the country.

1.9 Allocate a proportion of federal funding by PT to ensure that all areas have an opportunity to access funding.

Recommendation Two:

Ensure permanent rent supports for the lowest-income households, separating asset management from income supports

A significant portion of the non-market housing portfolio is dedicated to meeting the housing needs of low-income households through the provision of geared-to-income rental assistance funded by government programs. Rental assistance fills the gap between what a household can afford to pay for housing and the economic cost of operating non-market housing. This ensures non-market housing is attainable and accessible to the most vulnerable households. Many use rental assistance for a short period of time because housing stability often empowers households to improve their economic standing, shedding their reliance on financial assistance. Rent-geared-to-income housing is often the only form of housing accessible and affordable to the most vulnerable in our communities.

With the majority of funding for rental assistance set to expire in 2028, these households are threatened with economic eviction. The permanent loss of this deeply affordable housing would also deepen the housing crisis. The loss of rental assistance also threatens the long-term asset management and growth potential of non-market housing providers. Without rental assistance to support low-income households, many providers, given their mission-driven nature, may seek false economies to keep costs artificially low. Evidence indicates this results in the degradation of capital assets, higher demand on government funding to renovate/repair housing, and hollowed growth potential for non-market housing.

We therefore recommend the federal government ensure the availability of rental assistance on a permanent basis to non-market housing providers, and that rental assistance be scaled up in proportion to future growth of non-market housing. By separating the income assistance needed at a household level with the imperative to offer economic, at-cost housing, non-market housing providers will be empowered to improve asset management outcomes and establish the financial capacity for more self-reliant growth.

We recommend that the federal government:

2.1 Ensure the availability and affordability of non-market housing for those on the lowest incomes through the provision of long-term rent supports. This could be done in a variety of ways:
   - Through the provision of rent supplements to non-market housing providers
   - By expanding and further extending the Federal Community Housing Initiative and the Canada Community Housing Initiative
   - By expanding the role of Canada Housing Benefit, and considering targeting a stream for tenants in the non-market sector.

2.2 Recognise the value for money non-market housing providers offer in the context of long-term rent supports. The level of rent supplement required to reach RGI rents in the non-market sector reduces over time compared to the cost of similar units on the market.

Recommendation Three:

Enable non-market housing providers to build assets and scale-up through the strategic development of the sector

Policy choices over the past half century have led to a highly disaggregated non-market housing sector in Canada. As a consequence, many small providers are not well placed to hire and retain staff with diverse skillsets, implement strong governance or asset management processes, nor have the economic means to enable sustainable asset management and growth. An opportunity has also been missed to spur the development of the sector through diverse, non-governmental, sources of funding. While an increase in government funding is essential, this can be further augmented from other sources, allowing the sector to build more homes, faster. It will also insulate the sector from political and economic changes, and enable the development of sustainable non-market housing systems, like those seen in France, Austria and Denmark.

We recommend that the federal government:

3.1 Support the continuous growth of the sector and mergers between non-market housing providers through supply programs that incentivise scale, amalgamation and aggregation. Prioritize providers who have demonstrated the potential or track record to consolidate and expand, thereby achieving the growth and economies of scale the sector needs. Larger providers will lead to greater professionalization and more diverse skillsets, higher pay and better staff retention, more effective governance and stronger property management.

3.2 Convene sector leadership to consider establishing professional and operational standards of operational excellence in governance, development, management, and community engagement.

3.3 Foster partnerships among non-market housing providers to leverage the expertise of successful peers and with private sector developers, as demonstrated by Manitoba's Collaborative Housing Alliance Real Estate Investment Trust. Encourage smaller non-market housing providers to collaborate, as happens in the co-operative sector, to pool resources, share skills, and achieve economies of scale.

3.4 Fund mentorship programs to equip the next generation of non-profit leaders and support professional training and credentials, especially in real estate development, for example by including skills development as an eligible expense in capital programs. Dedicate adequate funding to ensure mentorship and skills development is available to Indigenous-led and Black-led non-market housing providers as well as providers led by other equity-denied groups.

3.5 Incent private capital into the non-market housing space, while protecting non-market ownership and security of tenure. Review how providers can be supported to leverage their existing assets, as well as international approaches to funding the non-market sector. Denmark harnesses private capital through government support and intervention during the lending process, while in France deposits made in tax-free savings accounts are used to make low interest loans to non-market housing providers.

3.6 Encourage non-market providers to develop more low-end-of-market and market rent units in addition to deeply affordable homes. This will enable providers to secure additional revenue, provide homes for Canadians with moderate and median incomes and achieve economies of scale. Protected from market speculation, the affordability of these units will increase over time. Amend the Income Tax Act to simplify this kind of revenue-raising activity for non-profit and charity non-market housing providers.

3.7 Provide incentives for philanthropic foundations to deploy a greater proportion of their capital towards issues of urgent social concern, such as housing.

Conclusion

Non-market housing is an essential part of the solution to Canada's housing affordability crisis. As well as providing affordable homes, and contributing to health, educational and employment outcomes, it is an important driver of economic growth.

Despite this, the sector has been allowed to shrink from 6% of Canada's housing system in 1996 to 3.5% today, well below the average size of 7% seen in other high-income countries. Policy choices and program design over the past 30 years have made it this way. Better policies and programs can fix it and unlock more self-reliant growth.

We can start by recognising affordable housing as essential infrastructure, and not merely as a 'nice to have' add-on. Like every other piece of essential public infrastructure, it needs sustained and stable funding, commensurate with the level of need. We recommend long-term federal funding and financing, permanent rent supports and the strategic development of the sector to accomplish this.

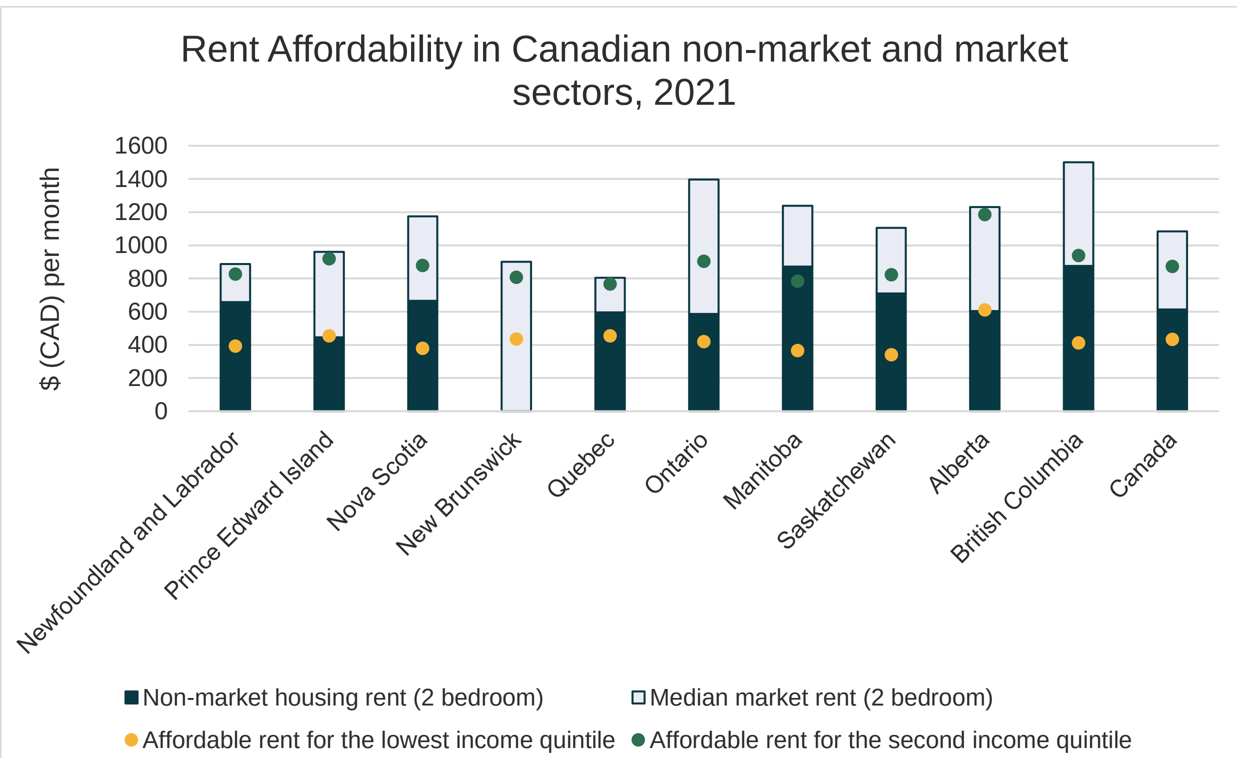
The costs of doing this will be considerable. The costs of doing nothing will be even greater. Nowhere is this more clearly demonstrated than in the rising costs of homelessness. Multiple studies have shown that unhoused individuals can be supported in non-market housing at a fraction of the cost of the emergency shelters or institutional responses that will be needed if we fail to act. Scaling-up non-market housing will allow us to restore housing affordability, boost productivity and avoid unsustainable demands on emergency systems.

Appendix A: Why is Non-Market Housing Important?

A.1 Canada needs urgent action on affordability

There is no doubt that Canada faces a housing crisis, driven in large part by a long-term failure to build sufficient affordable homes for a growing population. Shortages, along with demographic and economic factors, have led to rising house prices and rents, driving down homeownership rates, while simultaneously increasing costs for the growing proportion of Canadians renting their homes.[7] Housing unaffordability, defined as spending more than 30% of household income on housing costs, now affects 1,624,715 Canadian households. This includes 43% of senior (65+) households and 37% of young (15-29) households, as well as 34% of racialized and 32% of Indigenous households.

Research by Scotiabank has revealed the extent to which rents are outstripping the incomes of ordinary Canadians. In all provinces, average rents are well above what the lowest-income 20% of Canadians can afford. However, they have now also surpassed what is in budget for the next 20% - a group which includes many full-time workers. In both Ontario and British Columbia, where rents have risen by 27% and 30% respectively between 2016-2021, these households are short by around $1,000 per month. A shortfall of this size is impossible to make up without serious financial hardship. It makes saving for a downpayment a distant dream, while increasing the risk of homelessness for too many Canadians.



Source: Scotiabank Economics, CMHC, Statistics Canada. 'Affordable' calculated as 30% of before-tax income of renters (using 2019 income data inflated at 2% to reduce pandemic distortions). Rent prices from 2021, latest available. New Brunswick social housing data unavailable.

[7] Homeownership has fallen from 69% of households in 2011 to 66.5% in 2021. Over the same period, rents increased by 17.6% while the Consumer Price Index only increased by 9.5%.

A.2 Market housing alone cannot solve the problem

The federal government has recognised the need to urgently restore affordability but has focused on doing so by increasing the supply of units for market rent and homeownership. This is unlikely to be effective for several reasons. An increase in supply on the scale CMHC is calling for, from the current 250,000 units annually to 750,000, is simply unattainable in the context of a construction industry already at capacity and facing serious labour shortages. Even if it were possible, it is unlikely developers would choose to oversupply the market and cause prices to fall.

Secondly, a strategy focussed solely on the number of homes we need overlooks the vital question of who needs them. In analysis for the Office of the Federal Housing Advocate, Dr Carolyn Whitzman found that 4.3 million additional homes are needed for very-low and low-income households, 3.9 million are needed for moderate and median-income households, and 1.4 million for higher-income households. While the market may deliver for this latter group, Scotiabank's research concluded that, '*market-priced housing will likely never be affordable for a serious share of households – and easily those in the lowest income quintile'.*[8]

A.3 Wider benefits of non-market housing

The benefits of scaling-up non-market housing extend beyond ensuring Canadians have an affordable place to call home. Affordable housing also means tenants no longer need to accept overcrowding or dilapidated units just to make ends meet. It means long-term residents can stay in their neighbourhood, rather than moving to cheaper accommodation away from families, jobs and communities. Greater security of tenure reduces the need for frequent disruptive moves, allowing tenants to focus on work and school. Non-market housing is also well-positioned to meet the needs of priority tenant groups: providing accessible homes, wrap-around support services and culturally appropriate housing.

While these are important goals, they have a wider impact. Providing non-market housing leads to significant improvements in the health, education and employment of residents. This not only has a positive impact for tenants, but also for local communities and economies. Improved health and wellbeing frees up public funds needed elsewhere. The development of supportive and accessible neighbourhoods lets tenants build networks and social capital. Non-market housing allows workers to relocate to or remain in areas where their skills will be best utilized, while affordable rents and security of tenure frees up household resources to spend in sectors that enhance human capital and aid access to the labour market. Analysis by Deloitte found these factors would yield substantial benefits were Canada's non-market housing sector scaled-up to the OECD average size. The study found that this would boost productivity by 5.7-9.3% and add between $67b to $136b to Canada's GDP. Another study carried out by AECOM for the Société d'Habitation du Québec, found that for every $1 invested in non-market housing in the province, $2.30 was injected into the local economy.

The benefits of new non-market housing go far beyond just the tenants on the lease. If more tenants have the choice of a quality, affordable, non-market home, it raises the bar for what property owners at the lower end of the private rented market need to offer to remain competitive. Building new homes also creates vacancies in the units their occupants leave behind. When the new homes built are in the non-market sector, the chains of moves that are created reach lower-income households much faster and the vacancies that are created are much more likely to be accessible to those in housing need. This means that 100 new units of non-market housing has the potential to help many more than 100 low-income households.

Non-market housing can also act to stabilise the housing market. Private sector developers operate in synchronicity with market conditions, building new homes only when conditions are right. Non-market housing can act countercyclically, utilizing spare industry capacity in times of economic retrenchment. The Danish National Building Fund is a good example of non-market housing acting as a safety net for the

[8] Young, R., 2023. Canadian Housing Affordability Hurts - Scotiabank Economics

wider construction sector. During the pandemic, the Fund deployed more than €4b for the renovation of 70,000 social housing units. In doing so it safeguarded construction industry jobs, gave a vital boost to the economy, and ensured the continuity of supply chains.

A.4 Costs of doing nothing

Failing to scale-up Canada's non-market housing sector would not only forgo these benefits, there would also be a price to pay. Nowhere is this more clearly demonstrated than in the rising costs of homelessness. Affordability is already the leading cause of homelessness, causing 41.8% of cases. Failure to build enough non-market housing and restore affordability will force more Canadians into homelessness. The tragic human costs aside, this is not a cheap option.

The shelter spaces, additional health and social care needs and emergency medical and law enforcement interventions homeless households require can be far more than the costs of even market housing. A study in British Columbia indicated that it costs $30,000 - $40,000 annually in emergency supports for one unhoused person. Another study in Nova Scotia found that investing in supported housing units would be 41% cheaper than providing shelter beds. A comprehensive review of the costs of homelessness in four Canadian cities found that the annualized costs of supports for an unhoused person in pre-existing facilities were:

- $66,000 to $120,000 in institutional settings
- $13,000 to $42,000 in emergency shelters
- $13,000 to $18,000 in supportive and transitional housing, and
- $5,000 to $8,000 in affordable housing without supports.[9]

With rising unaffordability and homelessness, the question is not whether Canada can afford to invest in more non-market housing, but whether we can afford not to.

[9] The Cost of Homelessness: Analysis of Alternate Responses in Four Canadian Cities, Steve Pomeroy for the National Secretariat on Homelessness, March 2005.

Appendix B: The Canadian Non-Market Housing Sector

Accounting for 3.5% of the housing system, Canada's non-market housing sector is much smaller than the OECD average of 7%. The development of non-market housing began later and on a much smaller scale in Canada than in comparable high-income countries and suffered a major setback in 1993 when the federal government withdrew funding.

Despite its small size, the non-market sector plays a crucial role in providing affordable housing, and its expansion would offer many benefits to Canadians. When addressing the question of how the non-market sector can be scaled up, it is important to understand what the sector looks like today, and what policies have led to this point.

B.1.1 Sector Overview

The Canadian non-market housing sector has a highly disaggregated ownership structure. One half of the sector has several thousand small providers, who each typically own fewer than 100 of Canada's 600,000 non-market homes. This small scale limits a provider's revenue, ability to hire staff and capacity to undertake new development projects. In contrast, a handful of larger providers, typically provincial and municipal public housing organizations, stand out. Collectively, the largest 40 providers own and manage about half of Canada's non-market homes.[10]

The sector is targeted towards those most in need, with allocations criteria mostly prioritising households with low and moderate incomes. The system is oversubscribed, and most applicants will spend a significant time on a waiting list before being offered a home.

- Families with children and seniors are the two largest tenant groups
- 13% of non-market tenants have experienced homelessness
- 19% require an accessibility adaptation
- 44% have difficulty meeting their financial needs[11]

Rent is most commonly charged on a rent-geared-to-income (RGI) basis, where tenants pay a percentage of their income, usually 25% or 30%. A variety of other rent models exist such as the cost-based break-even and low-end-of-market rents more common in the Community Non-Profit and Co-operative sectors. Historically, the level of deep affordability provided by RGI rent was made possible through a time limited operating subsidy, while other providers were able to access rent supplements. More recent projects have typically been funded through repayable financing and a one time contribution that comes with a set of time bound conditions (usually over 20 years). This has limited the depth of affordability that can be provided. Canada Housing Benefit also provides a personal subsidy to some low-income households, but it is not an entitlement, operates differently in each PT and is not sufficiently funded to meet the needs of all eligible households.

Through CMHC, the federal government has historically been the main source of funding for non-market housing, often in cost-sharing agreements with provinces and territories (PTs). CMHC has generally provided capital funding for non-market housing projects in the form of a grant or loan and signed an operating agreement with the provider to pay a subsidy over a 30 to 50 year period. The end of an agreement, and therefore subsidy, can mean it is no longer viable for a provider to offer deeply affordable rents. Operating agreements also provide a form of project-level regulation, setting out the conditions the provider must meet to receive the subsidy. There is no sector regulator conducting provider-level governance, or providing oversight for projects whose operating agreement has expired. A range of national, provincial and regional organisations exist to provide support and advocacy for the sector.

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[10] National Housing Council analysis of provider public websites and annual reports.
[11] Canadian Housing Survey, 2018: A portrait of renter households living in social and affordable housing

B.1.2 Provider Overview

Government-owned Housing
Est. 54% of sector, 322,222 units

Provincial Public Housing
Est. 18% of sector, 106,101 units
All but two provinces, and all three territories, operate a stock of public housing through a Crown Corporation. PT-owned housing is allocated to tenants on very-low incomes through a central waiting list, is focussed on the needs of families and seniors, and has affordability ensured by RGI rent policies. Most provincially owned housing was developed during Canada's first wave of non-market housing in the 1950s-60s and the aging stock presents challenges. Provincial corporations can have substantial capacity and expertise in housing development. In the Prairies and Territories, the day to day management of units is sometimes delegated to non-profits.

Municipal Public Housing
Est. 33% of sector, 198,801 units
In Ontario and Québec, public housing is provided at the municipal level, often by subsidiaries working at arms-length from the parent municipality. Like provincial public housing, most of the housing is allocated to low income tenants paying an RGI rent, although it is common in both provinces for providers to also maintain a low-end-of-market (LEM) or affordable rent portfolio. Much like the provincial Crown Corporations, municipal stock is older and can have maintenance challenges. Larger municipalities can have substantial capacity and expertise in housing development and management.

Municipal Non-Profit Housing
Est. 3% of sector, 17,320 units
Several municipalities such as St. John's, Calgary and Edmonton, have developed non-market rental portfolios in addition to the public housing stock owned by their province. Other municipalities have developed non-market housing in partnership with their neighbours, such as the 21 municipalities behind Metro Vancouver housing, or the 13 (and one First Nation) that established the Capital Regional Housing Corporation in the Victoria area. This type of municipal housing has a model closer to non-profits than public housing, with rents often set at low-end-of-market levels.

Community Non-Profit Housing
Est. 26% of sector, 155,979 units
Encompassing the most variety, non-profit housing corporations range from professional organisations with specialist staff managing several thousand units, to providers who have a handful of units perhaps managed by one member of staff. A mixed rent model is typically used to allow for some cross-subsidy. Tenants taken from public waiting lists could pay an RGI rent, while those on somewhat higher incomes can apply for a LEM unit directly from the non-profit. Many non-profits serve a wide range of tenants, but it is also common for them to specialise in housing for seniors, people with support needs, or other priority groups.

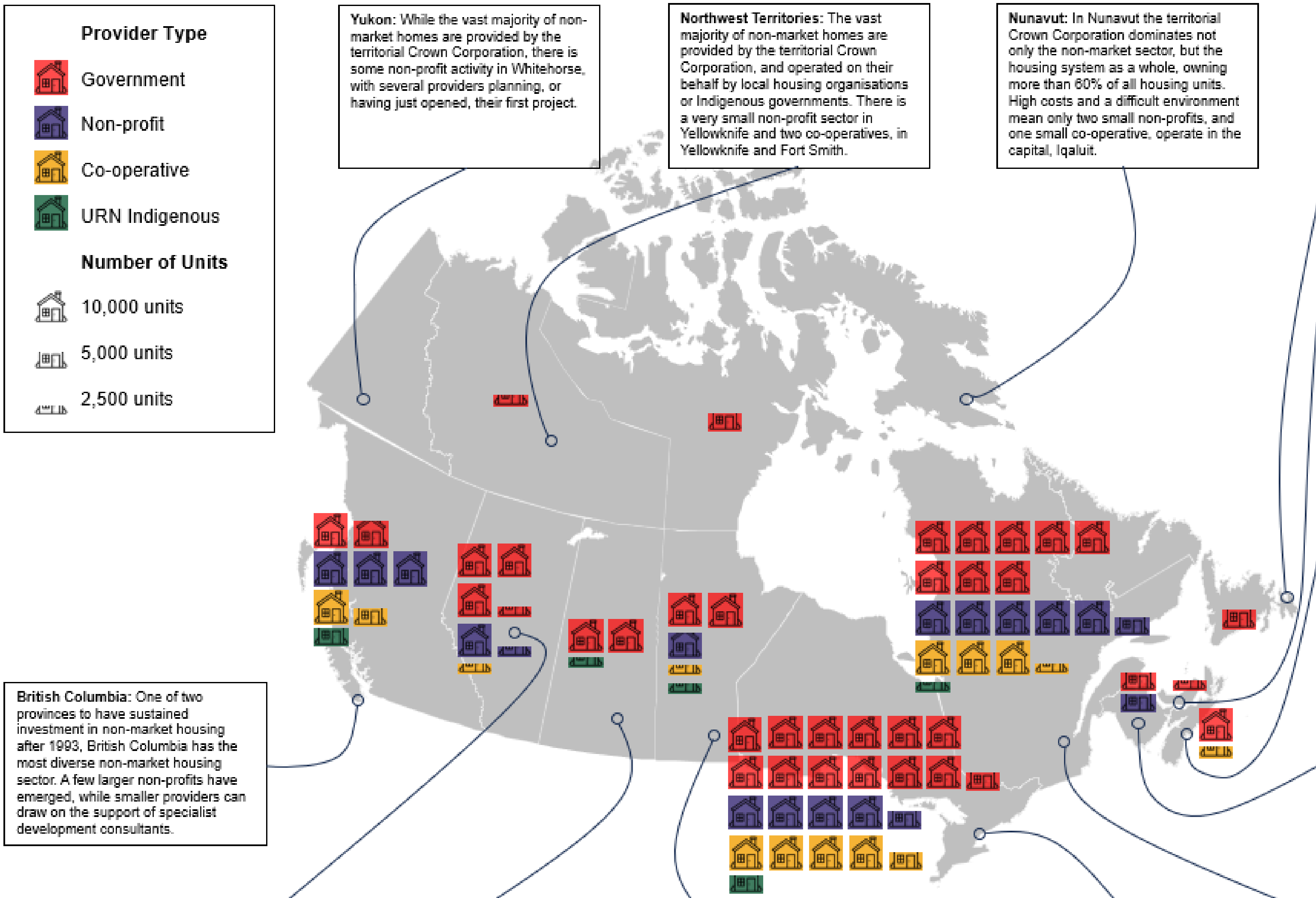
Non-Profit Co-operative Housing
Est. 16% of sector, 92,370 units
Co-operative housing is distinct from renting and owning. Residents are members, rather than tenants, there is no landlord and all the co-operative's revenues are reinvested for the benefit of members. Together, members are responsible for the governance and management of the co-operative and enjoy the benefits of affordability, security of tenure and a strong sense of community. Co-operatives operate on a not-for profit basis, and their cost structures are typically well below comparably aged market rental buildings. The average co-operative owns approximately 40 units, with the smallest co-operative holding less than 10 units, and the largest, City Park Co-operative Apartments Inc in Toronto, owning 770 units.

URN Indigenous Housing
Est. 3% of sector, 19,244 units
From 1970 onwards, URN (Urban, Rural, Northern) Indigenous housing organisations were established to provide housing to Indigenous people living away from First Nation reserves. Funding was provided by CMHC through the 'Rural and Remote' and 'Urban Native' housing programs, in response to growing Indigenous housing needs off-reserve. URN Indigenous providers typically operate RGI housing and take applications directly from prospective tenants. Many providers grew by acquiring units from the private sector and the age of this stock can pose challenges.

B.1.3 Geographic Overview

The size of the non-market housing sector in each province is generally close to the national average of 3.5% of the housing system. Ontario, Manitoba and Saskatchewan have slightly larger sectors than the national average, while in Alberta, British Columbia and Québec the sector is slightly smaller. The three territories all have large non-market housing sectors, from 8% in Yukon to 69% in Nunavut.

While the size of most provincial non-market housing sectors is broadly in line with their populations, there are significant differences in their composition:



Yukon: While the vast majority of non-market homes are provided by the territorial Crown Corporation, there is some non-profit activity in Whitehorse, with several providers planning, or having just opened, their first project.

Northwest Territories: The vast majority of non-market homes are provided by the territorial Crown Corporation, and operated on their behalf by local housing organisations or Indigenous governments. There is a very small non-profit sector in Yellowknife and two co-operatives, in Yellowknife and Fort Smith.

Nunavut: In Nunavut the territorial Crown Corporation dominates not only the non-market sector, but the housing system as a whole, owning more than 60% of all housing units. High costs and a difficult environment mean only two small non-profits, and one small co-operative, operate in the capital, Iqaluit.

Newfoundland and Labrador: Most non-market homes are provided by the provincial Crown Corporation. A small community sector is primarily focussed on emergency and transitional housing, although efforts are underway to build capacity and encourage non-profits to build new rental housing.

Prince Edward Island: Most non-market homes are provided by the provincial Crown Corporation, while there are small non-profit and co-op sectors.

Nova Scotia: Most non-market homes are provided by the provincial Crown Corporation. There is a small co-operative sector, and the non-profit sector is developing - the Nova Scotia Non-Profit Housing Association having been founded in 2023.

British Columbia: One of two provinces to have sustained investment in non-market housing after 1993, British Columbia has the most diverse non-market housing sector. A few larger non-profits have emerged, while smaller providers can draw on the support of specialist development consultants.

New Brunswick: In contrast to the other Atlantic provinces, New Brunswick has a well-developed non-profit sector and a relatively small provincial Crown Corporation. New Brunswick is also home to a small co-operative sector and the largest URN Indigenous provider in the region.

Alberta: Around half of Alberta's non-market homes are owned by the provincial Crown Corporation and managed by non-profit local management bodies. The municipalities of Calgary and Edmonton are both important local providers and there are large stock-owning non-profits in both cities.

Saskatchewan: Saskatchewan has a large provincial Crown Corporation and one of the largest URN Indigenous sectors. However, the non-profit and co-operative sectors are both very small.

Manitoba: Manitoba has both a large provincial Crown Corporation as well as a sizable non-profit sector. It is also home to Canada's first co-op, Willow Park Housing Co-operative, and first URN Indigenous provider, Kinew Housing Inc.

Ontario: Municipalities provide the majority of non-market homes, supported by moderately sized non-profit, co-operative and URN Indigenous sectors. Canada's largest non-market housing provider, Toronto Community Housing, owns around one in ten of the country's non-market homes.

Québec: One of two provinces to have sustained investment in non-market housing after 1993, mainly through the AccèsLogis program of forgivable loans and commercial loan guarantees. The non-profit sector has grown in recent years, supported by regional federations and resource and technical groups.

The Role of Government

B.2.1 The Role of the Three Levels of Government

The policies that influence the non-market housing sector originate from all three levels of Canadian government: federal, provincial/territorial and municipal. Certain powers are the exclusive domain of one level of government, while others are shared between them. In both cases, the effective operation of the system relies on close collaboration and alignment between stakeholders.

In the post-war period, the federal government took the lead on housing issues. It did so primarily through the superior revenue collecting and spending powers, that allow the federal government to make payments to individuals, organisations and other levels of government for purposes that are not necessarily explicitly federal constitutional responsibilities. This funding is used to develop the non-market sector directly, through CMHC loans and grants, or through funding or cost-sharing agreements with PTs. The federal government is also responsible for the banking and financial system upon which housing development relies (including providing mortgage insurance through CMHC) the census and statistics, which form the basis of calculations of housing need, and Indigenous affairs and lands, including housing.

Provinces and territories have responsibility for local infrastructure and municipal institutions, often delegating planning and development responsibilities to municipalities. PTs manage property and civil rights, covering the rights and responsibilities of property owners and tenants. They have their own revenue raising powers and provide their own funding for the non-market housing sector. Under Social Housing Agreements signed in most provinces between 1996 and 2006 (Alberta 2016, Québec has not signed an agreement) responsibility for the management of most off-reserve housing was transferred to PTs. Most PTs provide and maintain a stock of public housing. Both the federal government and PTs are responsible for building standards, through the National Building Codes and PT building codes.

Municipalities administer a range of powers delegated from the PT. These frequently include many of the functions essential to the delivery of new homes such as zoning, permitting and levying development charges. Municipalities also have the power to enact bylaws relevant to the housing sector, for example around residential occupancy and repair. Local governments often lead on delivery and implementation and, in Ontario and Québec, are responsible for providing public housing. While municipalities are best positioned to understand housing needs and associated infrastructure and community services, they have the least revenue generating authority. Unlike Federal and PT governments, municipalities must balance their budgets and rely on property taxes and user fees to deliver services. This has led local governments to increasingly rely on various development charges to upgrade and fund new infrastructure. On one hand, development charges provide needed community services. On the other, development fees contribute to the cost of providing new housing. The need to address municipal responsibilities and revenues remains an issue underlying the provision of many local services including non-market housing.

All three levels of government are responsible for the management and sale of public land, which can be a valuable asset for developers of non-market housing.

Although Canada’s Housing Plan is a federal government document, it recognises the key role PTs and municipalities will play in addressing Canada’s housing challenges. It calls on them to commit to a slate of actions to support the scaling-up of non-market housing including; having clear targets related to housing need and non-market housing, minimizing or waiving planning application fees and development charges for affordable and non-market housing projects, and setting aside publicly owned land for affordable and deeply affordable housing. Canada’s Housing Plan also proposes PTs and municipalities implement measures that, while not specifically targeted at non-market housing, would support the scaling-up of the sector. These include zoning reforms to support densification and transit-orientated development, expediting municipal approvals and permitting and supporting technology and productivity improvements, such as through modular housing.

B.2.2 The Evolution of Federal Policy

The Canadian government's involvement in non-market housing began with the National Housing Act 1938, and the construction of the Benny Farm project and the creation of CMHC in 1946. In the decades that followed, most of Canada's stock of non-market housing was built, until at a peak in 1996, non-market housing made up 6% of the housing system.

The evolution of non-market rental housing in Canada can be divided into several key phases. The first phase ran from the late 40s to late 60s and built public housing, beginning with the Regent's Park project in Toronto. Projects were financed with contributions from three levels of government and, from 1964, with loans from CMHC. Initially aimed at lower income workers, public housing was soon refocused on the most vulnerable, with affordability ensured through RGI rents. Operating funding was cost-shared between the federal and PT governments. In the 60s PTs increased their involvement by setting up crown corporations to manage their stock.

The exclusive focus on the most vulnerable led to concerns about concentrated disadvantage in public housing projects. In the late 60s a second phase of non-market housing began, led by non-profits and co-operatives, seeking to offer smaller developments, well-integrated into their communities and open to tenants with a range of incomes. This phase was funded by low-interest CMHC loans with 10% forgiveness and had a greater mix of rental policies by both design and necessity. Some rents were based on a provider's costs, others tracked the low end of the market. From the mid 70s an RGI component was reintroduced to maintain affordability in the light of rising inflation and interest rates.

From 1978 this model gathered pace, and more than 180,000 non-market homes were built over the next decade. Funding was again federal, with CMHC capital contributions, CMHC loans and CMHC insured private mortgage loans. Tenants and rents were mixed, with a minimum of 25% RGI. PTs had the option of contributing to projects to raise the RGI component up to a maximum of 60%. Subsidies provided were finite and lasted for 35 years, based on a 2% mortgage write down. From 1986, the program was amended to focus again on core housing need, with 90,000 homes built offering mainly RGI rents, with a full operating subsidy provided to cover the shortfall between revenues and costs.

Federal funding for non-market housing grew from $400m in 1978 to $1.8b in 1994. As a result of growing costs and government deficits, the 1993 federal budget reduced public spending in a number of areas, including all new funding for non-market housing. Factoring into this decision was not only the capital expenditure involved in providing a new non-market home, but also the 30-50 year operating subsidies required to sustain RGI projects. Beginning in 1996, the federal government signed Social Housing Agreements with most PTs, transferring the management of most off-reserve housing programs.

Canada's system of government-led non-market housing growth had worked for as long as the government remained committed to the sector, but ultimately proved unable to continue growth when federal funds were withdrawn due to the constraints of long-term operating agreements. Provincial governments continued to provide some funding in Québec and British Columbia, but nationally non-market housing development stagnated. As market housing continued to be built, the relative size of the non-market sector shrank from 6% of the housing system in 1996 to a low of 3.5% today.

The federal government began to re-engage with housing policy in 2001, launching a new Affordable Housing Framework. This created around 50,000 units at below-market rents by 2016. Funding was provided solely as one-time capital grants, which 'bought-down' break-even rents to an affordable level, but lacked the ongoing subsidy required to create deeply affordable housing. Faced with the global financial crisis in 2009, the federal government launched Canada's Economic Action Plan to stimulate the economy and protect jobs. Together with PTs, $2 billion was invested to renovate 200,000 non-market housing units, recognising the role the sector could play as an important economic driver.[12]

[12] Canada's Economic Action Plan: The Budget in Brief 2009

In 2017, the federal government passed the National Housing Strategy (NHS) Act, and committed to the progressive realization of the right to adequate housing. The NHS sought to preserve existing non-market housing, support new construction to meet housing need, and introduce demand-side measures to help tenants. Canada's Housing Plan was outlined in 2024 and proposed additional measures that could support the scaling up of the non-market housing sector.

B.2.3 Current Federal Policy

Since the Federal government re-engaged with housing policy in 2017, it has done so through the framework of the National Housing Strategy. The NHS Act affirmed the government's commitment to the progressive realisation of the human right to adequate housing and the strategy initiated a range of measures to meet a target of building 240,000 new homes and removing 580,000 people from housing need. In the non-market sector specifically, the NHS aimed to protect 385,000 existing units.

The policies introduced during the first half of the NHS focussed on supply-side measures to increase the supply of homes coming onto the market. The National Housing Council has previously concluded that while there were some successes, such as the Rapid Housing Initiative, the majority of NHS initiatives had a limited impact on building deeply affordable housing or meeting the needs of low income households.

NHS Unilateral (Federal) Initiatives		
Policy Name	**Purpose**	**NHC Assessment**
Apartment Construction Loan Program *(Previously known as the Rental Finance Construction Initiative)*	Increase supply of housing affordable to middle income earners, available to market and non-market developers	Weak affordability criteria do not put downward pressure on rents or make homes affordable to those in need
Affordable Housing Fund *(Previously known as the National Housing Co-Investment Fund)*	Provide funding for affordable housing that charges below market rents	Around 35% of units funded are affordable to low income households
Rapid Housing Initiative (RHI)	The construction or acquisition of units suitable for those in severe housing need	Grant funding has enabled homes to be affordable to those on lowest incomes
Federal Community Housing Initiative (FCHI)	Provides rental assistance to support low-income housing and transitional funding to support long-term sustainability	Prevents some further loss of non-market units preserving stock and ensuring housing stability for low-income households
NHS Bilateral (Federal-PT) Initiatives		
Policy Name	**Purpose**	**NHC Assessment**
Canada Community Housing Initiative (CCHI)	Cost-matched funding to replace expiring operating agreements	Prevents some further loss of non-market units, though inconsistent across provinces
Provincial/Territorial Funding Priorities (PTFP)	Cost-matched funding to be used at provincial discretion for construction, renovation or affordability assistance	The funding provided is lower than previous similar schemes and will not add to supply
Northern Housing Initiative	A flat amount of funding to support housing in the territories	Funding provided is far below the level needed to make a difference to housing need
Canada Housing Benefit	A demand side measure to provide affordability assistance to households	As it is not an entitlement and as funding is not sufficient to meet the needs of all eligible households, the impact of CHB is limited

[13]

Canada's Housing Plan, Budget 2024 and the 2024 Fall Economic Statement included a range of measures more closely targeted at restoring housing affordability and scaling-up non-market housing. Two original NHS programs will see improvements. The Affordable Housing Fund will receive an additional $1 billion, a streamlined application process and adding a Rapid Housing Stream based on the

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[13] Renewing Canada's National Housing Strategy: A Report to the Minister of Housing and Diversity and Inclusion on the National Housing Strategy from the National Housing Council

success of the Rapid Housing Initiative. The Federal Community Housing Initiative will be extended to 2033 and made more flexible to ensure eligible providers can access funding to protect low-income households' housing stability. New programs have also been introduced:

- The Urban, Rural and Northern Indigenous Housing Strategy will receive $4.3 billion to provide 'by Indigenous, for Indigenous' housing.
- A new $1.5 billion Co-operative Housing Development Program will build capacity in the sector and support new co-operative housing projects.
- Inspired by the BC Rental Protection Fund, a $1.5 billion Canada Rental Protection Fund will be launched to enable non-market providers to acquire at risk affordable units from the market.
- A Public Lands for Homes Plan will lease federal lands for housing, aiding affordability by enabling both market and non-market developers to avoid rising land prices.
- Other government policies, such as the Goods and Services Tax (GST) Rental Rebate, will reduce the cost of building new homes for non-market housing providers.

Appendix C: How have other countries done non-market housing well?

C.1 European Non-Market Housing Systems

Canada's non-market housing sector is significantly smaller than those in most other OECD countries. Examining the policies that have facilitated the growth of non-market housing in these nations can inform the approach taken domestically to scale-up the sector.

France: Non-market housing, primarily owned by non-profits, makes up 17% of the French housing system. Finance for new development comes primarily from 'Livret A' savings accounts, with contributions from the non-profit's own funds, public grants and a contribution from employers. 'Livret A' is a secure, tax-free investment that attracts deposits from across French society. Deposits are used to make low-interest loans to non-market housing providers over periods of 40 years or more. Tenants pay rents set to cover the provider's costs and loan repayments and are around 65% of market prices. There is a duty on the sector to house the disadvantaged and rents are made affordable to lower-income tenants through housing benefit as a means-tested entitlement. Challenges still exist: waiting lists can be long, providers can find their loan repayments difficult when interest rates rise, and rising costs mean providers must fund an increasing share of project costs from their own funds.

Denmark: Non-market housing in Denmark makes up 20% of the housing system. The Danish model is based on a partnership between the state, which facilitates the funds for development, and non-profits, who own and manage the homes. Development finance comes primarily from private loans at very low rates of interest – made possible through government guarantees and interventions at every step of the lending process. Additional interest free loans are provided through the National Building Fund, a revolving fund fed by the rental income of previous non-market housing projects. Rents are set based on providers' costs and the amount needed to repay the loans. Housing benefit is available for tenants who would otherwise be unable to afford these rents. Three-quarters of tenants come from an open waiting list, with no income criteria, while municipalities can use one quarter of vacancies to meet the needs of priority groups. Recently development has been limited by rising land and construction prices. In high cost areas these escalating costs threaten to push non-market housing rents above what tenants could afford, making projects unviable. Tenants are also increasingly asked for a deposit equal to 2% of unit costs to bridge this gap, for which an interest-free loan is available if needed.

Austria: Austria has a large non-market housing sector at 23% of the housing system, made up of non-profit and municipal providers. Private mortgages at below-market interest rates cover up to half of new non-market housing construction costs, financed by the sale of bonds with a range of tax benefits to savers and investors. Another 40% of costs are covered by loans from municipalities, made on advantageous terms and willing to act as 'patient capital' while the mortgage loan is repaid. The remaining costs can be financed from a provider's own assets, usually rents from units that have repaid their loans, and a tenant downpayment, for which low-interest loans are available. Rents cover providers' costs and loans and are considerably lower than market prices (36% lower in Vienna). Housing benefit is available as an entitlement, based on household income. A strict legal framework and two tiers of regulation ensure good governance in the sector and give private lenders the confidence to make loans to providers without an explicit government guarantee.

United Kingdom: Non-market housing in the UK, provided by non-profits and municipalities, makes up 16% of the housing system. Tenants are chosen based on need, rents are set via a formula (on average equal to 46% of market prices) and housing benefit is available to low-income tenants as an entitlement. Historically non-market homes were financed through central government investment and housed 1 in 3 British households. Since privatisation policies were adopted in 1979, development has greatly slowed and the sector has shrank to its current size. Today, providers undertake some development through cross-subsidy, limited government grants and private loans, but this has not made up for the loss of government funds. As a result, waiting lists are long, while housing benefit payments to private sector tenants, who would once have been housed in the non-market sector, are a considerable expense. Since 2001, a long-term, central government funded program of capital renewal has largely been successful at improving the quality of older non-market homes.

C.2 European and Canadian Non-Market Housing Compared

	France	Denmark	Austria	UK	Canada 1980s	Canada Today
Non-market sector	Medium (17%)	Large (20%)	Large (23%)	Medium (16%)	Small (6%)	Small (3.8%)
Capital Costs	Private loans (78%) Provider funds (15%) Grants (5%) Employers (2%)	Private loans (86-90%) Municipal loans (10-12%) Tenant payments (2%)	Private loans (30-50%) Municipal loans (30-40%) Provider funds (10-20%) Tenant payments (2-8%)	Provider funds Grants Private loans	Public loans Grants Private loans	Public loans Some grant funding
Operating Costs	Rental income	Rental income	Rental income	Rental income	Operating agreements and rental income	Government programs and rental income
Primary Rent Policy	Cost-based	Cost-based	Cost-based	Formula	Income based	Income based
Primary Affordability Mechanism	Housing benefit	Housing benefit	Housing benefit	Housing benefit	Income based rent	Income based rent
Tenant Policy	Mixed	Universal	Universal	Targeted	Mostly targeted	Mostly targeted
Regulatory Regime	National regulator	Municipal regulators	National and provincial regulators	National regulator	CMHC through operating agreements	Limited

Canada's historical models of non-market housing development have relied on government funding for new projects, and a government commitment to make up the shortfall between operating costs and income-based rents. This worked for as long as successive governments remained committed to the expansion of the sector, but it has not provided the sector with the tools needed to thrive when government support ceased.

The United Kingdom has had a similar experience, using government funding to take the sector far further than Canada did, but experiencing a similar contraction when this was removed. In contrast, France, Denmark and Austria all rely on varied and private sources of finance to develop new non-market homes. This ensures that these systems are insulated from political and budgetary upheavals and provides the non-market housing sector with the certainty needed to undertake new projects.

In France, Denmark, Austria and the UK, social housing rents are set to at least cover providers' costs and in some cases provide a contribution to further development. This creates the important difference that every new non-market home added is a potential source of revenue, creating a strong incentive for growth. In each of the four countries studied, affordability is maintained in the face of cost-based rents through housing benefit as a personal entitlement. As this is equally available to tenants in the private sector, a low-income household moving from market to non-market housing represents a significant cost saving.

Appendix D: References

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