

# ADVISORY DOCUMENT

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*Report of the Rental Housing Supply Roundtable*

October, 2012

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## Preface

Strong population and economic growth has caused Manitoba's rental housing market to undergo a major shift in the previous decade. Rising rents and persistently low vacancy rates necessitate the development of new and expanded supports for new rental housing investment.

Manitoba Housing has a legislative mandate to study and bring about change in the housing market for the good of all citizens. According to *The Housing and Renewal Corporation Act* two of the objectives of Manitoba Housing are:

(c) to maintain and improve the condition of existing housing stock; and

(d) to stimulate and influence the activities of the housing market to the benefit of Manitobans as a whole.

To this end, the Minister of Housing and Community Development invited various housing stakeholders to assemble for the creation of a consultative and collaborative group to provide professional expertise and specialized knowledge relevant to the issue of developing rental housing in Manitoba.

Through the representation of a wide spectrum of communities, population groups, and sectors, the roundtable has operated under a principle of collective responsibility as it provided balanced advice and expertise.

## **1.0. Introduction**

This advisory document is the report from the Rental Housing Supply Roundtable. In it contains proposals for the production of new rental housing in Manitoba. These proposals are the result of discussions Roundtable members engaged in beginning in June, 2011.

The purpose of this advisory document is to capture to the work of the Rental Housing Supply Roundtable which was to identify issues, solutions, and put forward proposals. From these identified issues, solutions, and proposals, further analysis is required to determine implementation specifics.

This report was prepared with a “Made in Manitoba” lens in mind. It is organized by two sections, one that focuses on matters under the control of the Province and/or Manitoban municipalities, and a second section that outlines longer-term issues and proposals that require the engagement of the federal government.

### ***1.1. Rental Housing Supply Roundtable***

The Minister of Housing and Community Development invited various housing stakeholders to assemble for the creation of a consultative and collaborative roundtable to provide professional expertise and specialized knowledge relevant to the issue of developing rental housing in Manitoba. Through the representation of a wide spectrum of communities, population groups, and sectors, the roundtable has operated under a principle of collective responsibility as it provided balanced advice and expertise.

The Roundtable employed a broad-based, solutions focused approach for the development of informed, strategic proposals that identified gaps, barriers, and options for the response to rental housing supply issues in Manitoba.

The purpose of the Rental Housing Supply Roundtable was to:

- create a forum for the engagement of stakeholders, in a collaborative fashion, towards the development of broad-based solutions to rental housing issues in Manitoba;
- provide the Minister of Housing and Community Development with a consultative forum that can provide expert advice on matters related to the production of new rental housing in Manitoba;
- provide the Minister or Housing and Community Development with advice on the efficacy of strategic directions, plans, policies, programs, and services related to the production of rental housing in Manitoba;
- strengthen and develop partnerships across sectors that will enable the development of new rental housing at a variety of affordability levels.

## *1.2. Major themes*

Roundtable sessions yielded the following major themes:

- New rental housing investment, at various affordability levels, is what is needed.
- New rental supply is dependent on the creation of an environment that fosters investor confidence.
  - Various measures were discussed and considered by Roundtable members; general agreement was reached on some options.
  - Many of the proposals included in this report are the result of exploring key issues and solutions; in some cases further analysis may be required to determine the specific design of the tool or policy.
- A long-term strategy is required, but there also needs to be short-term incentives for investment. Incentives should come from the federal, provincial, and municipal levels.
- Federal tax treatment of rental housing changes are key to creating an environment for investment.
  - Prior to approaching federal government, a “Made in Manitoba” strategy that addresses specific issues should be developed.
- Addressing lack of rental supply requires a multi-faceted, broad approach. This approach must bring together public, private, and non-profit stakeholders in a partnership package that includes various measures.
  - A partnership package is a central concept because it conveys the variety of tools and measures essential to addressing rental supply shortages.
  - Further, the concept recognizes that all sectoral stakeholders have a role and must work in partnership with one another.

## 2.0. Made in Manitoba - Issues and proposed solutions

Roundtable members agreed that measures that address rental housing issues and challenges specific to Manitoba must be developed. It was urged that in addition to engaging the federal government on matters external to the province, a concerted effort by the Province, municipalities, housing providers, social advocates, and private industry must be made to address barriers and provide incentives for the formation of a Made in Manitoba approach.

### *2.1. Issue – Tax treatment of rental housing*

Tax treatment of rental housing must be reviewed to better foster an environment that promotes rather than discourages new rental investment.

#### PST

Provincial Sales Tax adds cost on services and materials needed to develop new purpose-built rental housing. In 2002, Manitoba expanded the tax base of the 7% PST beyond construction materials to include mechanical and electrical work. Again in 2004, PST was further expanded to legal, architectural, and engineering fees. Because PST is the singular domain of the provincial government, waiving or reducing the tax would be a clear signal to developers that the Province is committed to a Made in Manitoba approach to new rental housing supply.

*The Rental Housing Supply Roundtable proposes a PST reduction on materials and services used in the construction of new purpose-built rental housing.*

#### Property or income tax

Municipalities and the Province should stimulate the development of rental housing by attracting investment through property tax relief. “Tax holidays” for a stated period of time can be established to reduce construction costs during development and reduce operating costs during the first few years of operation.

*The Rental Housing Supply Roundtable proposes a property or income tax program for the first 5 to 10 years of the project’s life.*

In some municipalities, property tax on multiple unit buildings is higher than rates levied on owner-occupied dwellings. Reducing the property tax on rental properties would reduce operating costs and could pass lower rents on to tenants.

*The Rental Housing Supply Roundtable proposes the Province work with municipalities to equalize property tax rates on rental housing.*

#### Education tax

In Manitoba, education is financed as a portion of property taxes rather than general revenues. A coalition lead by the Manitoba Real Estate Association, WinnipegREALTORS, the Winnipeg Chamber of Commerce, and the Manitoba Chambers of Commerce are calling for the removal school taxes from the

property tax bill. With respect to rental properties, eliminating the education tax would reduce operating costs and could pass lower rents on to tenants.

*The Rental Housing Supply Roundtable proposes that the Province remove the education tax from property tax bills of rental housing properties, both primary and secondary markets.*

### Tax increment financing

Tax increment financing (TIF) is a tool that allows for the promotion of specific types of development by earmarking anticipated tax revenue increases into a revitalization fund. In simple terms, it enables a local authority to trade anticipated future tax income for a present benefit. Tax revenues generated incrementally after a property's assessment has increased due to any improvement go into a fund for grants for developers creating or refurbishing residential housing.

*The Rental Housing Supply Roundtable proposes that the Province, in collaboration with the City of Winnipeg, expand TIF for purpose built rental housing to areas beyond downtown Winnipeg. Further, the Rental Housing Supply Roundtable proposes that TIF be expanded to other municipalities beyond Winnipeg.*

## **2.2. Issue - Costs of construction that influence rental rate and rate of return on investment**

New rental supply is dependent on the creation of an environment that fosters investor confidence. The demand for both market and subsidized rental units, has not been met by new production, and within the current environment investors have demonstrated only limited interest in new construction. Simply the risk is too high and rate of return unattractive. Further, where there has been new rental construction, the costs are such that it creates rents unaffordable to many Manitobans. The problem of a lack of construction is compounded by the erosion of the existing private affordable stock through dereliction, condo conversion, and renovation.

In particular, some members argued that Manitoba's rent guideline system needs to be a transparent and predictable process.<sup>1</sup> Further, Manitoba's rent guideline process was described as problematic because it lacks voluntary vacate<sup>2</sup>, no tenant-landlord negotiation, and burdens the industry with too much paperwork at the RTB's request.

Views on the Provincial rent guidelines remained contentious throughout the Roundtable process. Property managers and developers maintain that the guidelines discourage new investment in rental housing by negatively impacting the rate of return, while other members made the case that the regulations are necessary because they protect tenants from drastic rent increases, especially in tight rental markets. Further, some members pointed out that numerous exemptions are already in place.

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<sup>1</sup> Ontario and British Columbia were cited as examples of transparent, predictable guideline systems.

<sup>2</sup> When a tenant chooses to leave a unit, the landlord is then exempt from the rent control guidelines. Once a new tenant moves into the unit, the rent regulations are re-applied.

This lack of consensus on the matter resulted in no rent guideline-specific proposals being included in the Roundtable’s report.

Capital Grant

For the purposes of estimating the required per unit subsidy for the creation of new reasonable market rent units, the City of Winnipeg modeled a pro-forma revenue and costs exercise, that assumed low rise (e.g. no elevator requirement) wood-frame construction apartment buildings.<sup>3</sup> Unit sizes were assumed to be 650 sq ft for a 1 bedroom unit, and 800 sq ft for a 2 bedroom unit.

The benchmark for rent affordability is often seen as median rent. For 2011, the unadjusted median rent for a one-bedroom unit in Winnipeg was \$655/month, and \$860/month for a 2-bedroom unit.<sup>4</sup>

<b>Table 1: Estimated Required Subsidy for Construction of New Affordable Rental Units, Winnipeg</b>		
	Working estimate, 1 BR unit (650 sq ft)	Working estimate, 2 BR (800 sq ft)
Per unit cost of construction	\$110,000 (\$170/sq ft)	\$125,000 (\$155/sq ft)
Capital cost supported by annual operating income	\$50,000	\$85,000
Net deficit/required subsidy per unit	<b>\$60,000</b>	<b>\$40,000</b>

Source: City of Winnipeg, Winnipeg Housing Steering Committee (2011).

This exercise roughly estimates a \$60,000 required subsidy per one-bedroom unit and \$40,000 per two-bedroom unit for the creation of a new affordable unit.

Manitoba Housing, in consultation with the private sector, has been conducting similar analyses and estimates a required \$45,000 to \$55,000 subsidy for the creation of affordable rental units.

In an effort to improve the new rental investment environment, the Rental Housing Supply Roundtable is proposing the following:

*The Rental Housing Supply Roundtable proposes that the Province provide capital grants on a per unit basis to stimulate the development of reasonable market rents. The amount would have to be enough to contribute to, in conjunction with other measures, addressing the gap between reasonable market rents and revenue required for an attractive rate of return. In some parts of the province, this grant at minimum may have to be 15K per door. This estimated grant level would incent new production at current new rental market rates, but not necessarily an affordable unit.*

*Because of cost variances from centre to centre, rather than proposing a specific grant amount, it the Rental Housing Supply Roundtable is proposing that developers apply for grants through a request for proposal (RFP) competition. Developers would be required to document how much they needed to produce rental units, and available grants would vary depending on the details of the project and location.*

<sup>3</sup> Cost realities vary across Manitoba and indeed within Winnipeg. Model is helpful for establishing a rough guide only.

<sup>4</sup> Source for adjusted, cold rents is CMHC’s Rental Market Survey.

### Development Cost Charges

Development cost charges are levied on new development to offset the cost of new infrastructure serving needs. Developers have to pay the levies, which contributes to the cost of construction and factors into the rents that are ultimately charged. Development cost charges vary from municipality to municipality and cross-jurisdictional comparison is difficult because different municipalities categorize their fees differently.

*The Rental Housing Supply Roundtable proposes the Province work with municipalities towards reducing or waiving development costs on purpose-built, rental housing development.*

*The Rental Housing Supply Roundtable proposes that the Province encourage municipalities who do levy development charges to do so on a per project, rather than per door basis.*

### Tax Credit Program

A major barrier preventing the production of new rental housing is an investment environment that does not allow the industry to gain a strong rate of return. The provincial government could stimulate the creation of affordable rental housing by offering tax credits to developers who create affordable housing. Tax credits could be issued directly to develop rental units or could be handled through a credit trading system to attract other investment.

A housing tax credit program, the Low-Income Housing Tax Credit (LIHTC), was introduced in the United States in the 1980s. LIHTC is strongly supported by housing advocates and the building industry and is considered by analysts to be an effective tool for creating new affordable rental supply. The program provides tax credits worth a high percentage of construction costs under the condition that landlords accept only tenants with incomes no higher than 60 percent of area medians and set rents at an affordable level (30 percent of tenant gross household income). These conditions tend to last for the first 30 years of the project's life.

It should be noted that because of differences between the US and Canadian tax systems, the LIHTC is not a model that can be directly imported to the Manitoba context. However, there are "in principle" lessons that can be learned from the LIHTC.

*The Rental Housing Supply Roundtable proposes that the Province create an affordable, rental housing tax credit program that has specific applicability to the Canadian and Manitoban tax environments.*

### **2.3. Issue – Affordability**

The affordability issue is a matter of two distinct but overlapping matters: a range of supply options at a variety of affordability levels and income.

#### Housing supply variety

An accepted standard of affordability used by provincial jurisdictions across Canada, CMHC, the US Department of Housing and Urban Development, and elsewhere in the world is a 30% shelter-cost-to-income ratio (STIR). STIR is a measure that refers to the proportion of total before-tax household income spent on shelter. The cost of adequate shelter should not exceed 30% of gross household income,

housing which costs less than this is considered affordable. Defining affordability in terms of a percentage of income allows for the relativity of situation in which income becomes insufficient to pay shelter cost as well as the myriad of other household expenses.

Based on household incomes, as a point of reference, 27.6% of Winnipeg households cannot afford the average 2BR rent (\$837).<sup>5</sup>

<b>Table 2: Winnipeg income ranges and affordable rents based on 30% threshold.</b>			
Household income in 2005 of private households (\$)	Total households in income range (%)	Accumulative total (%)	Approximate affordable rent
Less than 10, 000	5.5		>250
10,000 - 19,999	10.8	16.3	250 – 500
20,000 - 29,999	11.3	27.6	500 – 750
30,000 - 39,999	12.1	39.7	750 - 1000
40,000 - 49,999	10.5	50.2	1000 - 1250
50,000 - 59,999	9.1	59.3	1250 – 1500
60,000 - 69,000	8.1	67.4	1500 - 1750
70,000 and over	32.7	100	<1750

Source: Statistics Canada, 2006.

<b>Table 3: Average rent by type, Winnipeg.<sup>6</sup></b>	
Housing type	Rent (\$)
Bachelor	488
1BR	649
2BR	837
Townhouse (all sizes)	873
3BR	1056

Source: CMHC. Rental Market Report, Winnipeg CMA (Fall, 2011).

Individuals and households with lower incomes have less access to private market units and therefore are limited to non-profit providers offering social and/or affordable housing options. It should also be noted that the Department of Housing and Community Development estimates that 60% of households that fall under Low Income Cut-Offs (LICO) in Manitoba are working poor who maintain employment as their main source of income.

The following two tables illustrate low-income rates for all persons as well as specific groups who would likely have difficulty competing in the private rental market.

<sup>5</sup> In reality the percentage of households who cannot afford a 2 BR apartment is likely higher as it is expected that a portion of the \$30,000 to 39,999 range cannot afford the \$837, but the number is unknown.

<sup>6</sup> Excludes utilities.

<b>Table 4: Low-income rates (%) for all persons and selected groups in Manitoba, 2009</b>		
<b>Group</b>	<b>2009</b>	
	LICO <sup>7</sup>	MBM <sup>8</sup>
All Persons	8.9	9.7
Children	9.1	11.6
Seniors	6.2	3.6
Lone-parents	21.9	24.2
Unattached non-elderly	27.3	27.4
Off-reserve Aboriginal	13.5	17.2
Activity Limited	12.1	12.7

  

<b>Table 5: Low-income rates (%) for all persons and selected groups in Winnipeg, 2009</b>		
<b>Group</b>	<b>2009</b>	
	LICO	MBM
All Persons	10.6	8.3
Children	11.9	8.3
Seniors	9.7	3.6
Lone-parents	26.5	20.8
Unattached non-elderly	NA	NA
Off-reserve Aboriginal	13.6	13.8
Activity limited	13.6	11.3

Source: Statistics Canada. Low Income in Canada: A Multi-line and Multi-index Perspective (2012).

Providing a diverse range of housing options will better allow people, of various needs, to access suitable housing. Fostering housing choices at various affordability levels and of a variety of housing sectors, will move us forward to meeting the housing needs of our most vulnerable citizens as well as households looking to compete in the non-profit, co-op and private rental markets.

*The Rental Housing Supply Roundtable proposes that the Province pursue supply measures that housing sectors across the housing continuum, including non-profit, co-op, affordable private, and private market rental units have equal access to.*

*The Rental Housing Supply Roundtable proposes that private rental development subsidy programs be designed to include a conditional affordability eligibility requirement. The size and depth of subsidy should be established based on a sliding scale of affordability.*

In addition to providing incentives that support housing supply across the continuum, protecting the existing affordable and social housing stock requires a continued public investment. To this end, support for the existing social, non-profit and co-op sectors is needed.

*The Rental Housing Supply Roundtable proposes that the Province continue investing in the publicly-supported stock and improve the quality of the affordable, private rental stock.*

<sup>7</sup> **Low Income Cut-Offs** – a measure intended to convey the income level at which a family may be in straitened circumstances because it has to spend a greater portion of its income on the basics (food, clothing and shelter) than does the average family of similar size. LICO is a relative approach to measuring low-income.

<sup>8</sup> **Market Basket Measure** - a measure of low income based on the cost of a specified basket of goods and services. MBM is an absolute approach to measuring low-income.

With a need for a range of housing options in mind, affordable housing choice can be further supported through secondary suites. The Province already has a secondary suite grant program and the City of Winnipeg is in the process of reviewing its relevant bylaws.

*The Rental Housing Supply Roundtable proposes that the Province and municipalities work together to further support the development of secondary suites.*

### Incomes

Incomes have not kept up with the rate in which rents have risen in Manitoba. While there is some new rental supply at higher rent levels, lower incomes are unable to access them. The following table illustrates the manner in which income growth has not kept pace with the rise of rents.

Table 6: Rent increase compared to income growth, Manitoba													
	2000	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	% change (2000-2009)
Median Household Income After-Tax, Homeowner and Renter Households (\$000)	42,2	43,6	43,2	43,8	44,3	45,4	45,5	47,2	49,7	49,3	NA	NA	16.8%
Median Household Income After-Tax, Renter Households (\$000)	25,6	26,7	28,8	27,5	26,8	27,3	27,6	28,1	29,4	28,4	NA	NA	10.9%
AVG Rent for Two-Bedroom Apartments (\$)	581	596	612	633	650	669	692	721	748	788	815	850	35.6%

Source: CMHC. Canadian Housing Observer (2011).

The shelter allowance component of Employment and Income Assistance (EIA) has fallen too far below the cost of living and households of limited financial means are having great difficulty competing in the private rental market. EIA shelter allowances must be reviewed and re-indexed to better reflect conditions and costs of living. The Right to Housing Coalition, in a February 2012 letter sent to Manitoba Housing and Community Development, recommended that the Province raise EIA Housing Allowances and Manitoba Shelter Benefits to allow recipients to afford 75% of median market rental levels. The Coalition argues that such an increase would restore the benefit to its 1992 level.

Further, low income working households not collecting EIA could benefit from a portable shelter allowance that pays the different between 30% of the household's monthly income and market rent of the unit. A portable shelter allowance program pays a subsidy directly to working low income Manitobans to improve their living situation and better compete the in the existing private rental market. Portable shelter allowances differ from rent supplements which are attached to a specific unit.

The table below illustrates how for a large number of Manitobans, low-income is a product of labour market participation, not exclusion from it. In 2006, 19.4% of all employed workers in Manitoba were

earning less than \$10 an hour, 3.7% higher than the national rate. When youth are excluded the rate falls to 10.6%, however climbs again when women workers are isolated.

<b>Table 7: Low Paid Workers - 2006</b>			
	Canada	Manitoba	Difference
All paid less than \$10/hr	2,194,100	97,100	
% of all employed workers	15.70%	19.40%	3.70%
Adults (age 25+)	1,013,600	42,900	
% of employed adults	8.80%	10.60%	1.80%
Women (15+)	1,355,100	55,600	
% of employed women	19.70%	22.50%	2.80%

Source: CUPE Research. Low Paid Work Still Widespread in Canada (2007).

*The Rental Housing Supply Roundtable proposes that the Province review existing EIA shelter rates and increase the benefits to better reflect the cost of housing; and further, that this review be made a regularly scheduled process.*

*The Rental Housing Supply Roundtable proposes that the Province provide an RGI portable shelter allowance for low-income working households.*

## **2.4. Issue – Capacity**

The capacity issue is a matter of two distinct matters: labour shortages as well as community planning capacity.

### Labour Market Support

Rental Housing Supply Roundtable members have stated that industry conditions are such that even in a pro-development investment environment, new construction would likely be impeded by capacity issues. In other words, in Manitoba we do not have the industry capacity to meet the demand for new supply because skilled labour shortages constrict the rate of new development.

According to Construction Sector Council’s labour market forecast for Manitoba, *Construction Looking Forward* (2011), construction employment is expected to rise more than 20% between 2011 and 2014 and 11% from 2011 to 2019. The report says an estimated 6,000 new workforce entrants will join the construction industry, but that retirements will also reduce it by about 6,400. The exit of 6,400 workers attributed to retirements and mortality raises the total labour force requirement to 10,700. With only 6,000 new entrants expected to join the industry across the 2011-2019 scenario, a balance of 4,600 workers will need to be recruited from outside the local construction market to meet labour requirements.

Manitoba Construction Sector Council, a partnership of the Construction Association of Rural Manitoba, the Manitoba Building and Construction Trades Council, the Manitoba Heavy Construction Association, the Manitoba Home Builders' Association and the Winnipeg Construction Association, have already initiated a series of training programs to help address the labour shortage.

*The Rental Housing Supply Roundtable proposes that the Province partner with the Manitoba Construction Sector Council to help support labour market training programs; and further, that*

*labour market training programs with a specific aim towards training Aboriginal Peoples, new Canadians, women, and youth be developed.*

### Community Capacity

In addition to labour shortages, capacity is also a concern with regards to what some Manitoba communities are able to achieve. Many communities across Manitoba want to increase their supply of rental housing, but are unaware of options/tools available to them. There is a general need to build expertise in many municipalities. Many that are being affected by immigration and experiencing population growth have not had to plan, develop land, try and attract housing investment and improve infrastructure for many years. Some of these municipalities need funding support for land and infrastructure development but they also need help building a base of expertise that will facilitate planning and housing development. The Province already provides support to planning districts, these support should be intensified to make communities aware of tools available to increase rental housing supply.

Supports for municipalities could include:

- Help with market analysis;
- Development of housing needs assessments;
- Support for development of economic development strategies;
- Help with developing community planning and development strategies;
- Assistance with preparing long term growth strategies;
- Assistance with land development;
- Help with preparing packages of information that developers need if they are interested in working in the community.

*The Rental Housing Supply Roundtable proposes that the Province develop a set of resources, supports, and capacity building tools to help communities in the production of new rental housing. The Association of Manitoba Municipalities, Housing and Community Development, Manitoba Local Government and Manitoba Agriculture, Food and Rural Initiatives could partner for this purpose.*

### **2.5. Issue - Regulatory obstacles**

In some instance, counter-productive or unnecessary regulations pose a barrier to new rental supply development. Regulations ought to support rather than impede affordable rental development and at times they add cost and reduce capacity.

### Permitting Process

Expedited approval processes for rental development applications could provide incentives for rental project development. Both Vancouver and Toronto have made efforts in this regard including assigning a planner to each application and being responsible for seeing it through the process. Efforts like this would prevent developers from facing additional expenditures as a result of long approval processes.

*The Working proposes that the Province work with municipalities to help them establish an expedited permit approval processes for rental development applications.*

### Regulatory Environment

Other regulatory obstacles include:

- Apprentice-journeyman labour training ratios that reduce the amount of skilled trades people entering the already too small workforce.
- Excessive health and safety regulations that can delay projects and add costs.
- Building codes that are handed down from federal and provincial levels and are not tailored to best suit local conditions, and therefore hinder the development of creative forms of housing.
- Parking requirements that reduce housing affordability by adding development cost. Currently the City of Winnipeg requires 1.5 parking spaces per unit of multi-family housing.

Regulatory obstacles such as these require significant study and consultation before appropriate decisions can be made, therefore the Rental Housing Supply Roundtable has concluded that further consideration is required before specifics can be offered.

*The Rental Housing Supply Roundtable proposes that the Province engage in dialogue and partner with relevant provincial departments, municipal governments, labour organizations, or industry associations to create a regulatory environment more hospitable to new rental development.*

### **2.6. Issue – Awareness**

Many Manitobans are well-housed and are not aware of the social and economic problems associated with low rental housing production. Attempts to engage the general population on this issue are often instigated by niche organizations and the media tends to pigeonhole their efforts.

A lack of awareness of the economic and social benefits of new, rental housing development can lead to NIMBYism, a tendency for residents to oppose new rental development. The Province should be a leader on the issue and mount a public awareness campaign to explain the numerous benefits and contributions rental housing can make to a community. Furthermore, getting the public on side with a rental housing agenda would support a longer-term effort to convince the federal government to provinces in facilitating a better investment environment.

*The Rental Housing Supply Roundtable proposes that a broad-based coalition, made up of advocates and industry associations, be formed to raise rental housing issues to the broader Manitoba community. Such a body could evolve as an offshoot of the Roundtable and be continuous and on-going.*

*The Rental Housing Supply Roundtable proposes that a broad-based education campaign be formed to address and education the public on NIMBYism.*

*The Rental Housing Supply Roundtable proposes that the broad-based coalition give talks and presentations at various forums across the province.*

## Made in Manitoba summary table

Made in Manitoba Issues – Summary Table			
Issue	Proposal #	Rental Housing Supply Roundtable proposal	Relevant level of government (P=provincial, M=municipal)
Tax treatment of rental housing	A1	The Rental Housing Supply Roundtable proposes a PST reduction on materials and services used in the construction of new purpose-built rental housing.	P
	A2	The Rental Housing Supply Roundtable proposes a property or income tax relief program for the first 5 to 10 years of the project's life.	P, M
	A3	The Rental Housing Supply Roundtable proposes the Province work with municipalities equalizing property tax rates on rental housing.	P, M
	A4	The Rental Housing Supply Roundtable proposes that the Province remove the education tax from property tax bills of rental housing properties, both primary and secondary markets.	P
	A5	The Rental Housing Supply Roundtable proposes that the Province, in collaboration with the City of Winnipeg, expand TIF for purpose built rental housing to areas beyond downtown Winnipeg. Further, the Rental Housing Supply Roundtable proposes that TIF be expanded to other municipalities beyond Winnipeg.	P, M
Costs of construction that influence rental rate and rate of return on investment	B1	<p>The Rental Housing Supply Roundtable proposes that the Province provide capital grants on a per unit basis to stimulate the development of reasonable market rents. The amount would have to be enough to contribute to, in conjunction with other measures, addressing the gap between reasonable market rents and revenue required for an attractive rate of return. In some parts of the province, this grant at minimum may have to be 15K per door. This estimated grant level would incent new production at current new rental market rates, but not necessarily an affordable unit.</p> <p>Because of cost variances from centre to centre, rather than proposing a specific grant amount, it the Rental Housing Supply Roundtable is proposing that developers apply for grants through a request for proposal (RFP) competition. Developers would be required to document how much they needed to produce affordable rental units, and available grants would vary depending on the details of the project and location.</p>	P
	B2	The Rental Housing Supply Roundtable proposes the Province work with municipalities towards reducing or waiving development costs on purpose-built, rental housing development.	P, M
	B3	The Rental Housing Supply Roundtable proposes that the Province encourage municipalities who do levy development charges to do so on a per project, rather than per door basis.	P, M
	B4	The Rental Housing Supply Roundtable proposes that the Province create an affordable, rental housing tax credit program that has specific applicability to the Canadian and Manitoban tax environments.	P
Affordability	C1	The Rental Housing Supply Roundtable proposes that the Province pursue supply measures that housing sectors across the housing continuum, including non-profit, co-op, affordable private, and private market rental units have equal access to.	P

Made in Manitoba Issues – Summary Table			
Issue	Proposal #	Rental Housing Supply Roundtable proposal	Relevant level of government (P=provincial, M=municipal)
	C2	The Rental Housing Supply Roundtable proposes that private rental development subsidy programs be designed to include a conditional affordability eligibility requirement. The size and depth of subsidy should be established based on a sliding scale of affordability.	P
	C3	The Rental Housing Supply Roundtable proposes that the Province continue investing in the publicly-supported stock and improve the quality of the affordable, private rental stock.	P
	C4	The Rental Housing Supply Roundtable proposes that the Province and municipalities work together to further support the development of secondary suites.	P,M
	C5	The Rental Housing Supply Roundtable proposes that the Province review existing EIA shelter rates and increase the benefits to better reflect the cost of housing; and further, that this review be made a regularly scheduled process.	P
	C6	The Rental Housing Supply Roundtable proposes that the Province provide an RGI portable shelter allowance for low-income working households.	P
Capacity	D1	The Rental Housing Supply Roundtable proposes that the Province partner with the Manitoba Construction Sector Council to help support labour market training programs; and further, that labour market training programs with a specific aim towards training Aboriginal Peoples, new Canadians, women, and youth be developed.	P
	D2	The Rental Housing Supply Roundtable proposes that the Province develop a set of resources, supports, and capacity building tools to help communities in the production of new rental housing. The Association of Manitoba Municipalities, Housing and Community Development, Manitoba Local Government, and Manitoba Agriculture, Food and Rural Initiatives could partner for this purpose.	P, M
Regulatory obstacles	E1	The Rental Housing Supply Roundtable proposes that the Province work with municipalities to help them establish an expedited permit approval processes for rental development applications.	P, M
	E2	The Rental Housing Supply Roundtable proposes that the Province engage in dialogue and partner with relevant provincial departments, municipal departments, labour organizations, or industry associations to create a regulatory environment more hospitable to new rental development.	P, M
Awareness	F1	The Rental Housing Supply Roundtable proposes that a broad-based coalition, made up of advocates and industry associations, be formed to raise rental housing issues to the broader Manitoba community. Such a body could evolve as an offshoot of the Roundtable and be continuous and on-going.	
	F2	The Rental Housing Supply Roundtable proposes that a broad-based education campaign be formed to address and education the public on NIMBYism.	
	F3	The Rental Housing Supply Roundtable proposes that the broad-based coalition give talks and presentations at various forums across the province.	

## Made in Manitoba proposal shortlist

Roundtable members recognized the need to identify a shortlist drawn from the larger Made in Manitoba proposal list. A voting process yielded the following shortlist:

Made in Manitoba Proposal Shortlist	
A2	The Rental Housing Supply Roundtable proposes a property or income tax relief program for the first 5 to 10 years of the project's life.
B1	The Rental Housing Supply Roundtable proposes that the Province provide capital grants on a per unit basis to stimulate the development of reasonable market rents.
C1	The Rental Housing Supply Roundtable proposes that the Province pursue supply measures that housing sectors across the housing continuum, including non-profit, co-op, affordable private, and private market rental units have equal access to.
C5	The Rental Housing Supply Roundtable proposes that the Province review existing EIA shelter rates and increase the benefits to better reflect the cost of housing; and further, that this review be made a regularly scheduled process.
C6	The Rental Housing Supply Roundtable proposes that the Province provide an RGI portable shelter allowance for low-income working households.
D1	The Rental Housing Supply Roundtable proposes that the Province partner with the Manitoba Construction Sector Council to help support labour market training programs; and further, that labour market training programs with a specific aim towards training Aboriginal Peoples, new Canadians, women, and youth be developed.

No single proposal had unanimous support, however B1, C1, and C5 all received votes from much of the Roundtable.

Furthermore, C2<sup>9</sup> and C3<sup>10</sup> received significant support and nearly made the shortlist.

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<sup>9</sup> The Rental Housing Supply Roundtable proposes that private rental development subsidy programs be designed to include a conditional affordability eligibility requirement. The size and depth of subsidy should be established based on a sliding scale of affordability.

<sup>10</sup> The Rental Housing Supply Roundtable proposes that the Province continue investing in the publicly-supported stock and improve the quality of the affordable, private rental stock.

### 3.0. Federal matters - Issues and proposed solutions

There is general agreement among Roundtable members that federal action on rental housing development incentives is crucial. There was some debate with regards to the efficacy of lobbying the federal government as Ottawa has been resistant to rental housing incentive programs for the last couple decades. This situation is reflected in this report being divided by a Made in Manitoba approach as well as long-term matters.

The following outlines issues and proposed solutions relevant to federal jurisdiction and federal engagement.

#### *3.1. Issue - Capital cost allowance*

Prior to federal tax changes in the early 1970s, rental property owners could defer paying income tax on the profits they made when they sold one of their buildings by investing the money in a new building that cost the same or more as the building that had been sold – this practice was known as “pooling” or “rolling over” the capital cost allowance. Developers could therefore take the money earned on the sale of one apartment building and re-invest it new rental development. Today, rental building owners must pay full income tax on the difference between the sale price of buildings and the depreciated value of the project and capital gains tax if the building sells for more than its original cost. There is no incentive to encourage rental building owners to invest in new rental developments. Reforming this tax scheme would not represent a loss to government revenue, only a deferral. Further, stimulate further development would, in turn, ultimately expand the tax base.

*The Rental Housing Supply Roundtable proposes that the federal government increase the capital cost allowance deduction on rental properties.*

#### *3.2. Issue - GST*

Eliminating or lower sales tax on rental development would decrease the cost associated with rental investment. Currently, the United States does not charge sales tax on rental construction, a tax environment that encourages new rental supply. Also, rents are classified as GST-exempt, which means GST is not charged to renters, but owners cannot claim input credits in constructing or operating buildings. Owners could only claim these credits if rents were re-classified as zero-rated goods.

*The Rental Housing Supply Roundtable proposes that landlords be allowed to claim refundable GST credits for GST they pay on purchase of material and services in operating the building and the GST they pay if they purchase a building.*

GST is due once the first unit of a new building is rented, which contributes to a cash flow problem for new buildings and places a further disincentive on rental construction.

*The Rental Housing Supply Roundtable proposes that landlords be allowed to pay GST on a pro-rated basis.*

### **3.3. Issue - Mortgage insurance requirements**

In the 1990s CMHC increased its insurance premiums and introduced underwriting criteria that made it more difficult for developers, both private and non-profit, to get mortgage insurance and, therefore, to access financing for new rental construction. The mortgage insurance premiums effectively doubled and the restrictive underwriting criteria had the effect of limiting mandating that investors put up a much larger equity investment than might otherwise have been necessary.<sup>11</sup>

*The Rental Housing Supply Roundtable proposes that CMHC revise its underwriting criteria for new rental development mortgage approval.*

### **3.4. Issue - Federal land for affordable housing development**

Cheap land reduces development cost and could substantially reduce housing costs to the consumer. The federal government could institute a review of its own surplus lands and determine what land would be appropriate for rental housing development. Further, the federal government could make the lands available, at preferential terms, for rental development.

*The Rental Housing Supply Roundtable proposes that the federal government make land for rental development available at reduced costs.*

### **3.5. Issue – Affordability**

In addition to providing incentives that support new housing supply, protecting the existing affordable and social housing stock requires a continued federal investment. To this end, support for the existing social, non-profit and co-op sectors is needed.

*The Rental Housing Supply Roundtable proposes that the federal government renew operating agreements with social, non-profit, and co-op housing providers to maintain the viability of the publicly-supported affordable housing stock.*

*The Rental Housing Supply Roundtable proposes that the federal government provide predictable, long-term funding for new social housing supply and renovation programs.*

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<sup>11</sup> In 1998, CMHC announced a change in their underwriting criteria for existing rental projects which recognized market cap rates and market mortgage rates, rather than the previously (much higher) prescribed rates. There has been no announcement of similar changes with respect to underwriting for new rental projects.

### **3.6. Issue - Industry capacity**

As earlier outlined in 2.4., industry conditions are such that even in a pro-development investment environment, new construction would likely be impeded by capacity issues. In addition to support from the Province and municipalities, labour training and economic development partnerships could be strengthened by federal participation. Federal labour training initiatives already exist that may need re-focusing.

*The Rental Housing Supply Roundtable proposes that in partnership with the Province of Manitoba and the Manitoba Construction Sector Council, the federal government help support labour market training programs that aid industry capacity.*

### **3.7. Issue - Low-income housing tax credit program**

As outline above (2.2), a major barrier preventing the production of new rental housing is an investment environment that does not allow the industry to gain a strong rate of return. Earlier in this document it was proposed that the provincial government could stimulate the creation of affordable rental housing by offering tax credits to developers who create low cost housing. Such a tax credit program could be enhanced with federal participation.

A housing tax credit program, the Low-Income Housing Tax Credit (LIHTC), was introduced in the United States in the 1980s. LIHTC is strongly supported by housing advocates and the building industry and is considered by analysts to be an effective tool for creating new affordable rental supply. The program provides tax credits worth a high percentage of construction costs under the condition that landlords accept only tenants with incomes no higher than 60 percent of area medians and set rents at an affordable level (30 percent of tenant gross household income). These conditions tend to last for the first 30 years of the project's life

*The Rental Housing Supply Roundtable proposes that the Province of Manitoba, in conjunction with the federal government, create an affordable, rental housing tax credit program.*

### **3.8. Issue –Engagement**

It was proposed that a Made in Manitoba strategy ought to be developed while simultaneously making efforts to engage the federal government. It is thought that work put into a Made in Manitoba approach will bolster our position with respect to federal engagement

With that said, Roundtable members supported building a broad-based alliance of public, private, and non-profit stakeholders across Canada to help better make our case to the federal government.

*The Rental Housing Supply Roundtable proposes that a private-public coalition, specific to federal rental housing incentives, should be formed with counterparts in other provinces and territories. The coalition ought to be multi-stakeholder and should be supported by private industry and social policy organizations.*

*The Rental Housing Supply Roundtable proposes that the Province make efforts to bring the issue of rental housing supply on to the agenda at various forums such F/P/T meetings and the Western Premiers Conference.*

*The Rental Housing Supply Roundtable proposes that Roundtable members consider joining and become active in the Canadian Rental Housing Coalition.*

## Federal matters summary table

Federal Issues – summary table	
Issue	Proposal
Capital cost allowance	The Rental Housing Supply Roundtable proposes that the federal government increase the capital cost allowance deduction on rental properties.
GST	The Rental Housing Supply Roundtable proposes that landlords be allowed to claim refundable GST credits for GST they pay on purchase of material and services in operating the building and the GST they pay if they purchase a building.
	The Rental Housing Supply Roundtable proposes that landlords be allowed to pay GST on a pro-rated basis.
Mortgage insurance requirements	The Rental Housing Supply Roundtable proposes that CMHC revise its underwriting criteria for new rental development mortgage approval.
Federal land for affordable housing development	The Rental Housing Supply Roundtable proposes that the federal government make land for rental development available at reduced costs.
Affordability	The Rental Housing Supply Roundtable proposes that the federal government renew operating agreements with social, non-profit, and co-op housing providers to maintain the viability of the publicly-supported affordable housing stock.
	The Rental Housing Supply Roundtable proposes that the federal government provide predictable, long-term funding for new social housing supply and renovation programs.
Industry capacity	The Rental Housing Supply Roundtable proposes that in partnership with the Province of Manitoba and the Manitoba Construction Sector Council, the federal government help support labour market training programs that aid industry capacity.
Low-income housing tax credit program	The Rental Housing Supply Roundtable proposes that the Province of Manitoba, in conjunction with the federal government, create an affordable, rental housing tax credit program.
Engagement	The Rental Housing Supply Roundtable proposes that a private-public coalition, specific to federal rental housing incentives, should be formed with counterparts in other provinces and territories. The coalition ought to be multi-stakeholder and should be supported by private industry and social organizations.
	The Rental Housing Supply Roundtable proposes that the Province make efforts to bring the issue of rental housing supply on to the agenda at various forums such F/P/T meetings and Western Premiers Conference.
	The Rental Housing Supply Roundtable proposes that Roundtable members consider joining and become active in the Canadian Rental Housing Coalition.