

Affordable Home Ownership

Principles and Practice

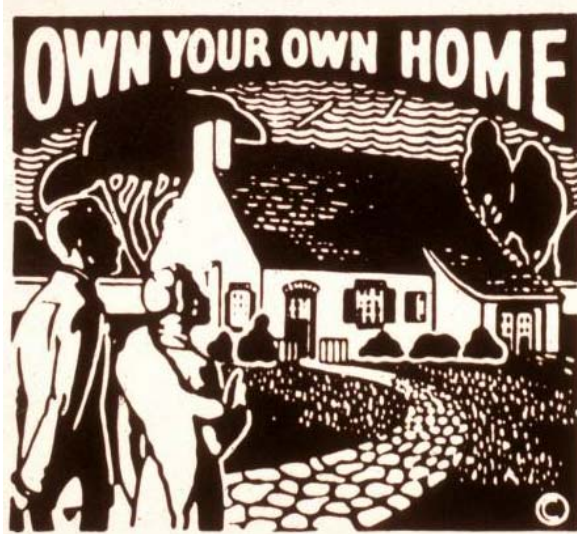
Asset Based Community Development Conference

Ottawa - February 25, 2004

Russell Mawby, Director Housing, City of Ottawa

- Thank for the opportunity to participate in this important event
- I have had some direct experience in promoting and supporting affordable home ownership solutions while working out west for 6 years
- What I can tell you is that it was wildly successful, from a number of perspectives.
- Just as a teaser, you might be interested to know that over 200 families have been able to use their shelter allowances under social assistance to become prospective homeowners, proving that if properly supported, homeownership really can be for just about anybody
- But, not everybody, for there are clearly some good reasons not to pursue homeownership as the panacea to end affordable housing problems.
- And, in thinking about this session, I feel compelled to try to not just presume to suggest answers, but also to present some questions about what it is we are trying to achieve as we pursue new models to support affordable homeownership.

The Canadian Dream?



Why Housing?

- **Housing is a verb**
 - More than just houses, housing is how we build communities
- **Housing is a fundamental determinant of quality of life**
 - City
 - Community
 - Citizens

- I always begin by going back to principles
- Why Housing? Why do we do “housing”, why is it important?
- Mainly because it is clear to me that Housing has been generally taken for granted as an area of public policy and action
- Perhaps because most of us take our ability to house ourselves appropriately for granted
- Housing boom since 1960 or so, rapid growth, continued high demand
- Has allowed us to assume that all is well, except for a few poor unfortunates
- Approach has been to provide funding programs to fill the gap – Social Housing
- But little if any attention to housing system as a whole, particularly with recognition that housing is the fundamental tool we have for building communities
- Need for affordable housing programs is symptomatic of the failure of the system
- Needs systemic solutions
- Thus the need to go back to why housing?
- What are our expectations from housing, beyond keeping people warm and dry?

Why Housing?

- **Significant costs of not addressing housing issues**
 - Community stability / economic vitality
 - *Health, education, safety*
 - *Economic segregation / social inclusion*
 - *Neighbourhood decline and disinvestment*
 - *Family and community stability*

• Looking at the costs of not paying attention to housing help me, anyway to frame why we should do a better job housing ourselves

• In my experience, a primary benefit of housing, visible by what happens if it is not present, is STABILITY – of people, families and neighbourhoods

• When you have families moving all the time to find better and more affordable living conditions, you have kids who keep revolving through the school system – some schools report over 200% turnover among their class rooms – no learning going on there, nor is there much hope for good, stable employees when day to day life is in such chaos

Why Homeownership?

- **Need for affordable housing has been focused on rental**
 - Partly as a way to control use of publicly invested resource
 - Assumptions about role of subsidized housing – temporary, transitional

- But, why homeownership? Why can't rental be just as stable?
- Fact is, it can for many people, if it is good quality and affordable
- However, one of the reasons we are here today is to explore other options and to explore the other things that housing does or can do beyond providing shelter
- I am reminded that we still tend to equate affordable housing with rental housing, largely because for so many years, affordable housing was social housing
- As social housing depends on direct public investment, rental tenure is a good way to protect that investment for the future, to ensure that housing built today will remain affordable as long as possible into the future
- This is something publicly supported affordable homeownership initiatives will have to grapple with
- However, still some presumption that social housing is transitory, temporary, until the tenant can get out into the "real world"
- I hope that concept continues to be challenged, since social housing, or non-profit housing, is and should be a place for people to build their lives, it is home, and should be treated as such. Problem is we need more, not that we need to keep moving more people through it.

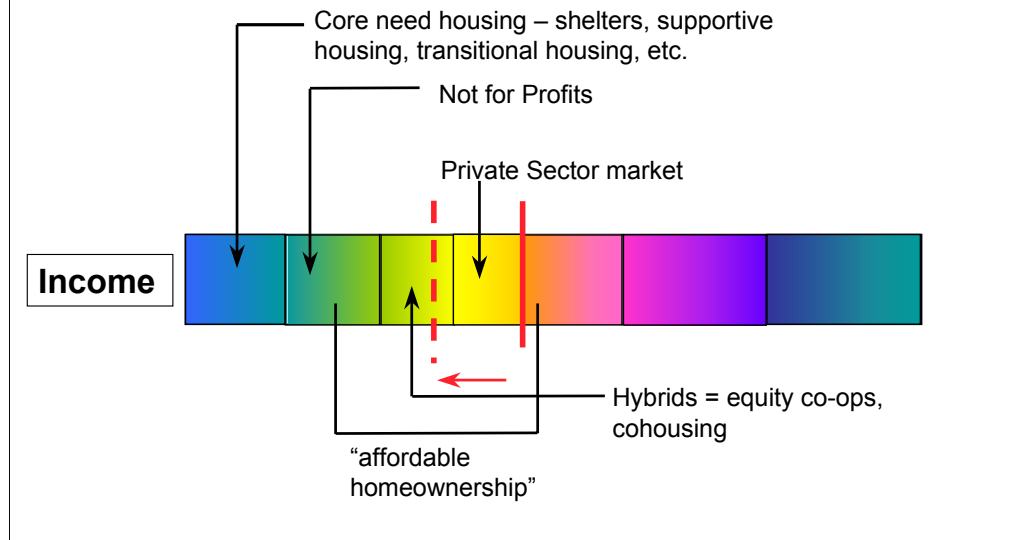
Why Homeownership?

- **Presumed benefits to society, residents**
 - Building assets
 - Sense of belonging
 - Equation of ownership with citizenship?
 - Better way to fund development?
 - *Financing of rental housing still more difficult*
 - *Short term investment (builder) vs. long term (landlord)*

- Primary reason for pursuing affordable homeownership is, or at least should be, because of the presumed benefits to the residents and owners
- Like it or not, owning does confer some benefits that renting does not
- Primary benefit is building financial assets for the future – retaining some of those shelter payments that would otherwise go to pay off someone else's mortgage
- I would also add that one reason many people say they want to own is to gain control over their housing
- I recall one new owner of a home in Saskatoon proudly painting his bedroom walls deep pink, because that is what his child wanted, and could never do in their previous rented home
- Not to mention getting a pet or two
- And why not? It is something that probably everyone in this room takes for granted

Housing Continuum

Low-Income Homeownership



- As I mentioned, main problem with housing in Canada is the limited tool kit we have to work with
- We have, or had, some good programs to work with on specific areas of housing need, but there were and are big gaps in the system that leave some people struggling to find decent, stable, affordable housing
- I would suggest that the goal is to try to fill in those gaps
- Various kinds of affordable housing would seem to be necessary, whether ownership or not
- Affordable homeownership bridges a range of tools, solutions along this continuum

Improving Affordability

- **Official Plan**
- **Regulatory tools**
- **Direct investment**
- **Active support / Facilitation**
- **Community partners are essential**
 - Banks
 - Builders
 - Public

- One key goal is to try to move the ability of the market to meet these housing needs by improving the depth of affordability able to be built as a matter of course
- That would be a conference in itself, but Ottawa, like other Cities, is struggling to improve the development system as a whole to encourage and perhaps even require improved affordability
- Official plan is calling for inclusionary zoning that will either strongly encourage or possibly require developers to meet defined affordability levels - \$53,000 incomes for ownership and \$41,000 incomes for rental
- Not without contention, but I would suggest the need to implement such requirements is a signal of just how unaffordable the housing system is for many Canadians.
- I would add that the above income levels represent 30 to 40 per cent of all households in Ottawa, so we are not just talking about the needy few.
- Mainly means some real regulatory reform, and a commitment to ensuring that the necessary tools are also in place so that developers of all stripes can meet the desired targets
- Includes need for some direct public investment, but in exchange for defined benefits to target populations
- **All** Community Partners are essential for success
- Remember that even volunteer time and charitable donations are public investment

Homeownership How?

- **Ability to sustain homeownership?**
 - *Financially, operationally*
 - Some can, some can't
 - *Need for on-going supports?*
- **Use of public resources to support?**
- **Legal ownership versus Sense of ownership?**
- **The equity question?**

•But all that is good theory

•Question is, how? How can we help people who may currently have trouble paying the rent to become homeowners, with all the responsibility that implies

•As promised, some questions:

•What do we mean by ownership? Does it have to mean full legal title, or is just conveying a greater sense of control, and perhaps participation in any equity gains, enough?

•And what about all the other costs and responsibilities that come with ownership that former tenants often have no experience with? Who changes the lightbulbs? Who pays for the new water heater?

•Especially if mortgage affordability is all that is being considered – no income capacity for other things

•What happens when mortgage rates inevitably rise?

•I continue to advocate that the affordability test assumes 8% interest rates, and takes some form of operating reserve into account

•Suggests that a benign management function needs to be included in the project design, to help provide support and reasonably ensure that people are not getting themselves into trouble in pursuit of the “Dream of Owning their own home”

The Equity Question

- **Capture = Control equity growth**
- **Investment = Convey equity growth**
- **Mix = Controlled conveyance**
- ***Who pays when equity goes down?***

• Equity question is a good way to test your assumptions about what you are trying to achieve in promoting affordable homeownership

• Models neither good or bad, all have their purposes, benefits and costs

• Helps to make sure the Dream of Ownership does not cloud thinking on questions like who pays when equity goes down

• Look to UK, Maggie Thatcher's right to buy as an lesson, where huge numbers of people now have negative equity and are trapped in deteriorating, but "owned" homes.

• CAPTURE?

Ensure no or minimal windfall or long term profit taking

Generate funds for other development?

Reduces primary benefit of ownership > building equity at a rate equivalent to rest of market

INVESTMENT?

Public investment to bridge opportunity gap to "get people in the market"

(Controlled)Retention of equity by owner to enable full participation in benefits of ownership

MIX? Who gets what benefit, when, how?

Case Study – Quint

- **QUINT = CED corporation > sponsor agency**
- **5 core neighbourhoods > Saskatoon**
 - Concentrated poverty, abandonment of neighbourhood
- **Premise was stabilizing neighbourhood, not just permanent affordability**
- **Provided City & Prov \$ as a sort of downpayment > +35% of value**
- **Allowed qualifying family to get a mortgage they could afford**

•The Quint Housing initiative taught me most of what I know about why housing is important and how to do it well

•The summary is easy: low-income residents of Saskatoon’s inner-city neighbourhoods have turned around the slow spiral of poverty and decline and have not only taken back their neighbourhoods, they have in many cases taken back their lives

•My favourite story is of one single mom, a 3rd generation welfare recipient. Quint, with the assistance of the City and the Province, helped her buy her home from her landlord. This seemingly small shift of tenure changed her life and the life of her children. In fact, she went from being “a nobody” – her words, to running for City Council.

•Some may debate the value of this outcome...

•But it is what housing is supposed to do, to help people live full lives in and with the community

•A brief description of the Quint program:

•City and Province provided capital as a sort of downpayment to allow residents in 5 core neighbourhoods in Saskatoon to purchase homes in those neighbourhoods

•Neighbourhoods were identified because of high concentration of poverty, declining housing conditions > disinvestment and signs of abandonment

•Idea was that helping residents take over ownership would stabilize them, and their neighbourhoods, provide reinvestment.

•The downpayment allowed qualifying families to get a mortgage that they could

Case Study – Quint

- **Priced at Social Assistance rates**
 - Allowed people on assistance to qualify
- **Co-op (shared) ownership**
 - Tenants of Member Coop
 - 10 households each
 - Opportunity to purchase after 5 yrs
- **Built-in supports, assistance**
 - e.g. repair fund

- Affordability was established based on shelter allowance rates under Provincial Social Assistance
- And included mortgage, other operating costs of homeownership, because there was no landlord to bail out if problems arose
- Premise was that this was the lowest income a family was likely to have
- Not everyone was on social assistance – 7 out of first 10 were to begin with
- Province agreed to allow social assistance to be used this way because resident did not have automatic access to the home as asset, but owned the unit through a coop – were in effect tenants of the coop for at least first 5 years, and maybe longer.
- City also publicized that over \$17 million in rent payments was already going into just 2 of those 5 neighbourhoods, and paying mortgages already > not of neighbourhood residents, but out of province landlords
- Coop also important because residents had no experience of home ownership, always rented, and did not have capacity to manage problems of homeownership if they occurred – a broken water heater would have meant no mortgage payment, eviction
- Coop managed a repair fund - \$35 per month from each household, on the premise that all 10 water heaters would not break at the same time.

Case Study – Quint

- **Public investment not clawed back**
- **Asset value not clawed back**
- **Was discussion on capturing appreciation/equity, but benefit of asset building was implicit in program design**

- Residents had opportunity to purchase unit after 5 years if they could get financing on their own (so had to be employed)
- Banks agreed to recognize 5 years of good “rent” payments as evidence of ability to service mortgage, so more like refinancing than new financing
- Put onus on residents to manage money, be responsible
- Consistent arrears led to eviction by other coop members – so responsibility was to neighbours, not the bank
- Public assistance was seen as an investment in the neighbourhood, and was not to be clawed back upon purchase or resale
- Some discussion of retention of appreciation by coop, but coop not prepared to cover loss of value, so no capture to date
- Also, sponsoring agency, Quint, based on ABCD principles, so value of asset building was implicit in program design
- Program still continues, about 20 to 30 units per year in Saskatoon, same in Regina

Summary

- **Affordable homeownership more than just cheap mortgages**
- **Need capacity to provide supports**
 - Operating and future capital needs
- **Focus on Outcomes – what are you trying to achieve?**
 - Stability of defined population?
 - Market for lower-cost housing?
 - Getting people out of rental?
 - Long term outcomes of (public) investment
- **The Equity Question**

•So, in summary

•We need to be sure we are testing our reasons for pursuing homeownership, so that we can design a program, initiative, what ever, that works for both getting people into homes as well as keeping them there

•This means some capacity needs to be available to provide supports – to help ensure people qualify financially, but also that they know what they are getting into

•The question of who brings and keeps equity is a good test, but I cannot stress enough the need to build in on-going supports, financial and social

•Remember, affordable homeownership is about helping people with significantly less capacity to respond to unforeseen circumstances than average income households

•One hopes that programs are explicitly designed to minimize the chance of getting any of the houses back in the future

•In other words it is not just about getting people into mortgages and houses, but about helping people build stable, ideally permanent places to call home