
Two Voices on Canadian Housing Policy

Appraisals of the Canadian Housing Act

By B. H. HIGGINS

"Adequate and healthy housing presents the largest single objective for desirable outlay after the war and affords the largest scope for raising the standard of life, health and happiness. Housing involves the setting up of a long-term programme of building to approved designs with the maximum of economy. The scale of the programme must be determined not arbitrarily but with reference to the total labour available; some forms of building and construction can be used as the balancing factor in the national manpower budget. The prospective importance of housing makes it vital to secure, by new methods if necessary, the maximum efficiency of the building industry. It is even more important to secure that national planning of town and country is made a reality, before permanent housing begins."

THIS proposition from Sir William Beveridge's recent book on *Full Employment in a Free Society*,¹ applies equally well to Canada or the United States as to Britain. Few would quarrel with it. It is generally agreed among post-war planners of all political faiths that housing must rank near the top of any list of post-war projects because of the large contribution it can make both to social welfare and to the maintenance of full employment.²

In recognition of this fact, the Canadian government's Advisory Committee on Reconstruction appointed a special Sub-committee on Housing and Community Planning, to study the housing problem in Canada and to make recommendations for its post-war solution. This Committee comprised professional town planners, architects, federal, provincial, and municipal government officials, economists, sociologists, and statisticians, all with special knowledge in the field of housing

and planning. The Committee devoted about a year to research and discussion, and had the advantage of prior discussions of a panel that had been set up within the Sub-committee on Post-war Construction Projects, with much of the same personnel. The concrete result of the Committee's deliberations was a 330-page report, published in March, 1944. Some five months later, the Dominion Government passed "An Act to Promote the Construction of New Houses, the Improvement of House and Living Conditions, and the Expansion of Employment in the Post-war Period," with the title "The National Housing Act, 1944." Because of the vital importance of housing in the post-war picture, a comparison of these two documents should be of interest to every Canadian.

Housing for Home Owners

Part I of the Act is concerned with stimulation of home ownership. At first blush, it seems to follow the recommendations of the Report quite closely. The chief proposals of the Sub-committee with regard to home ownership were that down payments should be reduced, interest rates lowered, and amortization periods lengthened. The Act gives lip service to all these recommendations. For example, the Sub-committee recommended a 10 per cent down payment on loanable values up to \$6,000, instead of the 10 to 30 per cent down payment required under the 1938 National Housing Act. The 1944 Act provides for mortgages up to 95 per cent of the first \$2,000 of lending value, 85 per cent of the next \$2,000, and 70 per cent of the rest. Thus, for a house with a lending value of \$4,000, which is about as cheap a house as the Canadian construction industry provides, the loan would amount to \$3,600, so that the down payment

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1. London, 1944, p. 163.

2. The contribution of housing to welfare and employment is discussed by the author in "Housing and Full Employment," PUBLIC AFFAIRS, March, 1944.

would be just 10 per cent of the lending value. For more expensive houses, however, the down payment would be more than 10 per cent; on a \$6,000 house it would be not 10 per cent but 16 $\frac{2}{3}$ per cent. Moreover, there is a joker in the term "lending value." Indications to date suggest that lending values as determined by the Minister of Finance, in agreement with the lending institutions, will be considerably below actual cost—probably not more than 75-80 per cent of construction cost. Thus the actual down payment on a house costing \$6,000 will probably run closer to 25 than to 10 per cent.

Under the former Act (as administered) the interest payable by the borrower was 5 per cent. This rate yielded a rate of 5.7 per cent to the lending institution, since the government provided 25 per cent of the mortgage funds at 3 per cent. Under the new Act, the government's share in the loan is unchanged, but the interest rate paid by the borrower is reduced to 4 $\frac{1}{2}$ per cent and the rate received by the lender to 5 per cent.³ This reduction is less than most members of the Sub-committee had in mind, although no specific interest rate was mentioned in the Report.

The Sub-committee recommended extension of the maximum amortization period for mortgage loans to 30 years. The new Act provides for 30-year amortization only when the house is "to be constructed in an area which, in the opinion of the Minister, is adequately protected by community planning and appropriate zoning restrictions." The Report laid special emphasis on community planning as a prerequisite to housing construction, and if the restriction of the 30-year mortgage privilege to adequately planned communities stimulates community planning, it is all to the good. On the other hand, it may mean simply that the 30-year amortization privilege will not be available to any significant number of prospective home owners,

because community planning may lag far behind housing needs.

Finally, Part I of the Act appropriates \$100,000,000 to cover the government share in loans made under the Act, and to pay losses arising from loans made under this or previous National Housing Acts. On some \$80 million of loans under previous Acts, total losses of government and private lenders was less than \$1,000; so this appropriation can safely be regarded as available in its entirety for new mortgage loans.

Housing for Rental Purposes

Part II of the Act extends the privileges of Part I to builders who construct houses for rent. The government's share of mortgage loans for such purposes is 25 per cent as under Part I, and the interest rate to the borrower is again 4 $\frac{1}{2}$ per cent. Under Part II, however, the mortgage is limited to 80 per cent of the lending value of the project, and the amortization period is limited to 25 years even when the project is adequately protected by community planning. The government undertakes to share losses on such loans up to an amount equal to 15 per cent of the lending institution's share in all joint loans. These provisions simply reiterate those of the 1938 Act, except that the provisions as to interest rates and amortization periods are somewhat more liberal, and the government's share in losses is made slightly more specific. The Sub-committee made no recommendations with regard to provision of rental housing in general, directing its attention to the low-rental field.

It is precisely with respect to low-rental housing that the Act departs farthest from the recommendations of the Sub-committee. Following the practice in countries where slum clearance and provision of low-rent housing has been successfully attacked, the Sub-committee recommended the establishment of Local Housing Authorities to own and manage low-rental projects, Dominion Government loans at "the lowest possible interest rates" to cover the capital costs of such undertakings,

3. For single family dwellings of not over \$2,500 occupied by the owner, loans were provided of 5 to 9 % of lending value; but almost no houses were built with such low value.

and annual grants from the Dominion Government to cover the difference between rents necessary to recoup all costs of the projects, and rents that people in the lowest income-third can pay. The Report made it clear that such subsidies were the very essence of the solution of the housing problem for this lowest income group; provision of satisfactory housing at the \$10-\$20 per month rentals that families in the lowest income-third can afford would be impossible without such subsidies. As an afterthought, the Sub-committee suggested that "limited-dividend housing corporations, in appropriate circumstances, and subject to the approval of the Provincial Government in the area concerned, should be eligible for operation and incorporation as Housing Authorities."⁴

Only one of the suggestions made by the Sub-committee for solution of the low-rental housing problem has been incorporated in the Act: assistance to limited-dividend housing corporations for construction of low-rental housing projects. First, the government offers such corporations 3 per cent loans for 90 per cent of the lending value of low-rental projects, with an amortization period of 50 years. Second, the Federal Government undertakes to cover half the loss borne by a municipality in purchasing slum areas and reselling them to limited-dividend corporations for low-rental housing projects. In addition, life insurance companies are permitted to invest 5 per cent of their total Canadian assets in "low cost or moderate cost rental housing projects," and to take advantage of the Federal Government sharing of losses on purchase and resale of slum properties. The insurance companies are also provided with a guarantee $2\frac{1}{2}$ per cent return on their investment in housing, and unlike the limited-dividend corporations, are not limited to a 5 per cent maximum profit on such investment. No federal subsidization is provided for rent reduction, but limited-dividend corporations may accept contributions for rent reduction from any other source.

The effects of these provisions will depend very much on their administration, with respect to which the Act leaves a great deal of latitude. It is clear that these provisions open the way for abuses if they are not carefully administered. For example, there is nothing in the Act to prevent influential realtors who own slum properties from persuading municipalities to buy their properties at high prices, and to sell them back at low prices to the same group, now organized as a limited-dividend corporation, by arguing that the Federal Government will cover half the loss anyhow, and that the citizens of the municipality will gladly pay the other half to be rid of slums.

More serious, there is nothing in the Act to guarantee that this federal assistance will be used to provide housing for people in the lowest income groups. In the case of limited-dividend corporations, it is indeed required that "low rental housing" be built. However, "low rental housing" is defined only as housing for "a family of low income," which in turn is defined as "a family which receives a total family income less than five times the economic rental of a family housing unit required to provide sufficient accommodation for the said family." Finally, "economic rental" is defined as "a rental at the rate of 12 per centum per annum of the cost of construction of the family housing unit." Thus if it costs \$5,000 to provide satisfactory accommodation for a family of six—and there is nothing in past experience to suggest that it would cost less—an economic rental for the dwelling would be \$600 per annum. By definition, a family of low income would then be one earning less than \$3,000 a year and such families could be accommodated in the housing project and still meet the requirements of the Act.

In Canada, less than one-third of our families earned \$2,000 in 1941, and probably not more than 15 per cent earned more than \$3,000. Thus under the new National Housing Act limited-dividend corporations can obtain federal assistance to provide housing for families in the

4. *Report, op. cit.*, p. 19.

upper 15 per cent of the income scale. Insurance companies, which are permitted under the Act to build "moderate cost housing" on slum property, can presumably build projects for people in the top 5-10 per cent of the income-scale. The Act makes it possible for slum dwellers to be ejected from their homes, in order that private corporations can utilize federal funds, provided at the very low rate of 3 per cent, can take advantage of the federal and municipal governments' willingness to absorb the loss on purchase and resale of slum properties, and can then use the properties to provide housing for families in the top income brackets. Under such conditions, it is probable that the slum problem would be aggravated rather than alleviated, since slum dwellers would be driven into other low-rent houses, increasing the extent of overcrowding, and accelerating the deterioration of existing slum or near-slum properties.

On the other hand, if the Act is administered so as to limit rents to a level that families in the lowest income-third can pay, it is highly unlikely that private capital can be attracted into the low rental housing field, even with funds provided at 3 per cent, and financial assistance for land acquisition. At best, the 1944 National Housing Act will be ineffective in clearing slums and providing truly low-cost housing; at worst, it could intensify the problem of the slum dweller.

Rural Housing, Home Improvements, Research and Planning

The farm housing problem, which gave the Sub-committee particular trouble, has received little attention in the new legislation. It provides only for financial assistance to lending institutions to cover the administrative and travelling costs of making loans to farmers,⁵ for collection of instalments on mortgages at times coinciding more closely with the receipt of income from farming, and for assistance with experimental production of plumbing and heating

equipment. Virtually all experts agree that rural housing on this continent is even less adequate than urban housing; but the Sub-committee's recommendations for special subsidies to lower interest rates on rural mortgages, for assistance with down payments, for low-cost loans to erect cottages for farm labourers, and for building community centres in rural districts, have been completely ignored.

Part IV of the Act provides financial aid for home improvement and extension. Part V assigns to the Minister of Finance responsibility for investigation into housing conditions, and provides a small sum to stimulate research in "construction, standards, materials, equipment, fabrication, planning, designing and other factors," and to engage in experimental production of housing parts or equipment. This provision for research is the only cognizance of the Sub-committee's extensive recommendations for reducing housing cost. These recommendations included agreements with construction workers' unions to obtain economies in labour cost in exchange for stable employment, thus raising incomes of construction workers while lowering labour costs per dwelling unit; review of tariff schedules with a view to reducing tariffs that raise costs of building materials; removal of sales taxes on building materials and equipment; and, perhaps most important, a special mandate to the Commissioner of the Combines Investigation Act to investigate the construction industry in Canada, with particular attention to the multiple basing point system for transportation charges on building materials and equipment.

Conclusions

The National Housing Act of 1944 takes a short step towards facilitation of home-ownership. The reduction in interest rates will save the owner of a \$5,000 house about \$1.25 per month during the period of amortization. Lengthening the amortization period to 30 years, where it is permitted, will save him about \$5.00 per month during the amortization period, but will increase

5. This clause is similar to the one in the 1938 Act "to encourage the making of small loans in small or remote communities."

the total cost by spreading interest charges over a greater number of years. The lower down payments, if "lending values" are not set too low, will certainly help. However, homes in Canada will still cost the average owner about 1 per cent of their value per month, when amortization, taxes, maintenance and repairs, insurance, and interest (including interest lost on down-payment and closing fees as well as mortgage interest) are added together.

As demonstrated in a recent publication of the U. S. National Housing Agency,⁶ only reductions in land and construction costs will make truly significant decreases in costs of home-ownership. The Act does little to reduce such capital costs. The stimulation of research is highly desirable; but without power to undertake experimental housing projects of the sort recently conducted by the British Ministry of Works,⁷ and without an attack on monopolistic elements in the construction industry, such research will be of limited effectiveness.

The assistance provided by the Act to tenants in the middle and upper income groups is limited by the same factors,

6. *Housing Costs*, National Housing Bulletin 2, Washington, 1944.

7. Vide U. K. Ministry of Works, *Demonstration Houses*, London, His Majesty's Stationery Office, 1944.

unless the provisions regarding "low-rental housing" are so administered as to make the special privileges granted to limited dividend corporations available even if they build for middle and upper income groups. In that event, however, assistance to middle and upper income tenants would be at the expense of slum dwellers, who would be forced out of their present houses without any new accommodations being provided.⁸ For urban and rural families in the lowest income-third, whose substandard homes constitute the true "housing problem," the Act provides no real relief.⁹

8. Why can't slum-dwellers move into houses vacated by middle- and upper-income tenants moving into new projects? This "seeping-down process" is a notoriously ineffective means of providing low-rental housing. Some of the reasons are: The vacated houses are often improperly located and designed for people in the lowest income-third; they remain too expensive until they in turn have degenerated into slums; zoning restrictions often prevent proper adaptation of those dwellings that might be usable; costs of maintenance and repairs are often excessive relative to tenants' incomes, and consequently landlords allow such properties to run down. Indeed, the "seeping-down process" is precisely the manner in which our existing slums developed.

9. There are, of course, a few landlords who think that the Report of the Sub-committee goes too far. This group is represented by Messrs. W. H. Bosley and H. E. Manning, in their recent pamphlet *This Housing Problem*. The author of the present article was sorely tempted to reply to this collection of unsupported (and unsupportable) statements point by point; but their argument really boils down to the declaration, "We are large-scale real-estate operators; consequently, we are opposed to any significant increase in the housing supply, and we favour higher rents and lower real estate taxes." Since this is the attitude to be expected from "practical" landlords, there seems little reason to quarrel with it.

Bringing Down Building Costs

By D. P. REAY

EVERY family wants and needs a decent home to live in. The demand for good homes is the most widespread and insistent in our society, and yet the most cursory of surveys shows that it is the one demand which has never been supplied. Why?

The basic reason is because under normal conditions the cost of what is considered to be a minimum standard dwelling is beyond the financial resources

of about two-thirds of the population. If the standard minimum were to be lowered, this proportion would be lowered: and of course if everyone received the same income, differences in the standard of housing accommodation would depend only on geographical location.

This inability of the greater part of the population to be able to afford what is considered a minimum standard of accommodation is a world wide phenomenon; it is no respecter of geography or political systems, and its root cause is the low output per operative in the building industry.

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