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A Better way to Build Low-Income Housing: C.D. Howe Institute

May 28, 2009 – Many Canadian cities are short of affordable rental housing. Waiting lists for low-income housing are years in length, and new-build construction of rental housing has fallen over the last two decades.

In *Building Affordable Rental Housing in Unaffordable Cities: a Canadian Low-Income Housing Tax Credit*, authors Marion Steele and François Des Rosier propose a better way to build low-income housing in expensive Canadian cities. A made-in-Canada Low-Income Housing Tax Credit (LIHTC) could leverage private sector expertise in site location, building, ownership, and management, to build more and better low-income rental housing.

The LIHTC would provide a federal tax credit that provincial housing authorities could disburse to housing developers, based on local needs. A similar program in the United States has served as the main tool for building low-income housing since the late 1980s. The United States LIHTC was instituted in response to tax reforms in the 1980s that made rental housing a less attractive investment. Canada underwent similar tax reforms in the 1980s, but did not implement a rental housing tax credit. Furthermore, the federal government largely withdrew from financing low-income housing.

The result has been a significant drop in rental housing construction since the 1980s. An LIHTC, with modifications for unique Canadian needs, would help level the taxation playing field between homeownership and rental housing, making investment in purpose-built rental housing more attractive.

The tax credit could work with existing provincial and local housing policies such as Rent Supplements and housing allowances to make all programs more effective. The tax credit would create competition among developers to build low-income housing, and would impose a market test on the need, location, and management of low-income housing.

The LIHTC is a better way for the Canada Mortgage and Housing Corporation to disburse among the provinces funding for social housing. The LIHTC would be administered federally through the Canada Revenue Agency's enforcement mechanisms. Such a program would be an ideal way to leverage into a long-term investment some of the February 2009 federal budget's \$2 billion in short-term stimulus funding for social housing.

Building Affordable Rental Housing in Unaffordable Cities: a Canadian Low-Income Housing Tax Credit is available at www.cdhowe.org.

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Building Affordable Rental Housing in Unaffordable Cities: a Canadian Low-Income Housing Tax Credit C.D. Howe Institute Commentary No. 289, by Marion Steele and François Des Rosier (May 2009). 21 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN 0-88806-761-5.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at www.cdhowe.org.