

# B.M.R. COMMENT



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## REHABILITATION - ONE MORE DEMONSTRATION PROJECT

The City of Toronto and Central Mortgage and Housing Corporation (C.M.H.C.) have entered into a tentative agreement for a \$1.5 million demonstration rehabilitation project concentrated primarily in Don Vale. The programme is designed to upgrade the existing stock of low-income housing. Programme emphasis is on a system of loans for the rehabilitation, made possible under two sections of the National Housing Act<sup>1</sup>. In the case of owner-occupiers, the owner must earn less than \$7,000 annually to qualify. In the case of landlords, the \$7,000 restriction applies to the tenant renting the unit. The loans must:

- (a) be secured by a first mortgage (therefore, if the unit is already mortgaged it must be refinanced): and
- (b) be for a maximum of \$18,000 per unit (which includes both refinancing and rehabilitation costs).

Interest notes will vary from zero to 7 7/8% with biennial adjustments depending on the gross income of the owner-occupier or tenant. Both owner-occupiers and landlords must agree not to sell the unit for a certain term, and landlords must enter into a 15 year rental agreement to preserve the low income character of the housing. Except in the case of overrun in administrative costs<sup>2</sup>, neither the City nor the Province are participating financially.

How successful will this arrangement be in eliciting the desired participation? In view of past experience with rehabilitation loan offers, both in the City -- remember Alexandra Park -- and elsewhere, the arrangement is not likely to be too successful.

### Alexandra Park

Alexandra Park was touted at its inception as a great step forward in combining renewal and rehabilitation. The original intention

1

National Housing Act, as amended to 1970, sections 16 and 40.

2

The City acts as the agent for C.M.H.C. and receives \$75.00 per mortgage issued and .375 % per annum of the outstanding balance to compensate for administration costs.

was to have 42<sup>3</sup> rehabilitated public units, that would serve as an inspiration to private homeowners to rehabilitate.

The first stumbling block, apart from an existing desire to rehabilitate, was the ability of the homeowners to pay for the private rehabilitation. 1961 census data indicates that the average income of area homeowners was \$4,300 per year. In addition, 34% of the owners worked in service occupations ( a category not noted for job security): nearly 12 % were in the building trades (subject to seasonal employment): 11 % were pensioners: and 5% were unemployed. Homeowners in the area, then, tended to have low and relatively insecure incomes.

Low-income people generally are unlikely to have sufficient cash to undertake major rehabilitation. As with the present demonstration rehabilitation project in the City, no rehabilitation grants were available. What public sector loans were available? Insured loans at 8 3/4% were available from C.M.H.C. These carried long terms and required that the work bring the unit up to the extremely stringent standards of the national building code. The higher the standard, the more expensive the rehabilitation becomes. The City also had loans available, under a <sup>4</sup> special programme, with an interest note of 6 1/2% with a ten year term. Neither programme was used in Alexandra Park. Part of the reason was suggested in a 1966 study of the effectiveness of the City's 6 1/2% loan <sup>5</sup>:

... an elderly group of homeowners is exceedingly wary of increased debt; partly as a result of age and partly as a result of a long period of repayment of a previous mortgage debt and other loans...even where age is not a factor...low income...coupled with large families and the well known disabilities of families who may be self-supporting and yet are always on the verge of deprivation in the event of some interruption of their employment, are strongly inhibiting factors...

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<sup>3</sup>The public rehabilitation was never undertaken due largely to the high costs of bringing houses up to stringent standards which would permit a 50 year life expectancy for the units. The number of houses considered suitable was dropped successively from 42 to 19, to 17, to 6. Six was considered by the City to be too low a number to be economic and the public rehabilitation project was dropped.

<sup>4</sup>These loans have been part of an almost completely unused City programme for private rehabilitation that dates back to 1934.

<sup>5</sup>Albert Rose. Rehabilitation of Housing in Central Toronto, 1966, p.64

Are the low-income owners in Don Vale and elsewhere likely to be in a better position to assume an additional debt?

### Lessons from Vancouver

Like many citizens' groups elsewhere in Canada, the Strathcona Property Owners' and Tenants' Association (SPOTA) in Vancouver, was founded in response to an attempt to clear and redevelop the community. Their objection to the destruction of their own homes has led to a unique rehabilitation agreement.

The City of Vancouver and Province of British Columbia are giving their co-operation in the form of technical assistance and new enabling legislation. Negotiations for the demonstration project are being carried out by the Strathcona Rehabilitation Committee, which is made up of 3 SPOTA members and one municipal, one provincial and one C.M.H.C. representative. The cost of the programme is to be shared by the three levels of government: 50 % federal, 25 % provincial, 25 % municipal (the latter in the form of an interest-free loan repayable over 5 years).

Apparently in an effort to overcome some of the problems of rehabilitation loan programmes, the Strathcona Committee has arrived at a formula which provides a grant of \$3,000 (with no matching equity required) for owners with incomes up to \$6,000 per year. Beyond that point, the amount of the grant drops by 25 % per \$1,000 increase in income. In the case of tenant-occupied properties, a 5 year moratorium on rent, regardless of whether the landlord makes improvements or not, has been declared by the City. The Strathcona experiment is a step toward recognizing that one of the reasons low income, owner-occupied properties are in a state of disrepair is that these owners lack the money to do the repairs in the first place.

Theoretically, the \$3,000 grant does not have the potential for generating rehabilitation that an \$18,000 loan has. But, as has been shown, it is difficult to interest low-income owners in undertaking such a debt. What is more, the present requirements of the loan system make it an extremely inefficient way of generating rehabilitation. As noted above the loan must be secured by a first mortgage. The amount available for actually rehabilitating the dwelling, then, is what is left over after the amount of any outstanding debts on the property has been subtracted from the \$18,000 available. Given the high value of central city mortgages, the programme appears to be designed more to promote refinancing than rehabilitation.

Other factors that may influence rehabilitation success have not been accounted for in either the Toronto or Vancouver programmes.

What sort of moratorium should be available on assessment increases that result from property improvement? Vancouver is experimenting with interest-free loans repayable in 5 years; what about loans (interest-free or otherwise) that have deferred payment collectible on the owner's death or sale of the property? What about community rehabilitation that focuses on neighbourhood groups, rather than individuals, who agree to undertake rehabilitation of dwelling in their area? Phasing the rehabilitation work is an important cost factor. What arrangements are possible to phase the rehabilitation (and its financing) over a period of, say, 5 years? There is no reason why the heating system that will serve adequately until Year Five needs to be replaced in Year One.

Rehabilitation, as a technique to expand the supply of adequate low-income housing merits further investigation. It is hoped that future demonstration rehabilitation projects will take better account of past results and will attempt to test the effectiveness of different techniques. Let us not demonstrate all over again that the arrangements that led to failure in the past are likely to do so again in the future.