How an Aussie initiative could help solve Canada’s housing affordability crisis

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The problem of affordable housing is particularly acute in Canada, where a significant number of people are priced out of the housing market – across ownership and rental.

Housing ownership is out of reach for many potential first-time home buyers. Specific populations are also bringing new housing needs which local housing providers must respond to, including Ontario’s aging population and new arrivals to Canada.

Given the recent price increases in housing in Canada, particularly in Toronto and Vancouver, the demand for affordable housing has never been greater. In Ontario:

- more than 171,000 people are on wait lists for social housing (ONPHA waitlist Survey 2016); and
- this number has significantly increased in recent years, especially as housing affordability is also becoming a larger issue for those higher up on the income scale.

Rising housing prices are pushing more people into a crowded (and more expensive) rental market with little hope of owning their own home.

Is there a role for institutional investors?

We know there is no one single solution to affordable housing, rather it is about providing a range of options across the continuum and market. Moreover, governments across all levels do not have the resources to solve this issue on their own – nor should they have to.

An interesting missing voice in the affordability housing debate has been the private sector – no, not the builders, developers or other associated services, rather, the investment sector (particularly the institutional investors).

This sector has access to large capital pools that can be used to build affordable housing at scale – and by scale I mean in the thousands or tens of thousands. This is the scale of response required to make a realistic difference for affordable housing.

Most institutional investors invest in infrastructure (i.e. roads, rail, and airports) because:

- it is a stable investment generating stable returns and usually with a government incentive included (this could be a subsidy or agreement about future competition); or
- the investments have monopolistic characteristics.

Affordable housing can take on these characteristics if it is reframed as essential community infrastructure.

So, what does this have to do with the Canadian Housing Strategy?

Australia – an interesting initiative

It presents an opportunity for the Canadian government to not only frame the issue from their own perspective, but to also provide the incentives for new capital to flow into the system and assist in supplying more affordable housing.

For inspiration, the Canadian government could look towards New South Wales in Australia and their Social and
Affordable Housing Fund (SAHF), which aims to deliver 3,400 new affordable properties in the first instance. The initiative brings together developers/builders, not-for-profit housing associations, and investment funds to deliver a package of housing and support services.

The incentives have been structured such that the government does not provide the upfront capital, but provides:
- a service payment over a 25-year period providing a market return to institutional investors that satisfies their objectives
- investment stability and certainty, and
- the signal to the market that affordable housing can be a new investment class.

As the Social and Affordable Housing Fund is likely to be self-sustaining, providing a steady return to the NSW government, it will provide a continuous pool of funds to invest into affordable housing. The first tranche delivered 2,200 properties and included investment from the big superannuation funds (pension funds) who were attracted to the 25-year timeframe, stable returns and the ability to invest in community infrastructure.

Canadian funds
Canada has some of the largest pension funds in the world, including the Ontario Teachers’ Pension Plan and Healthcare of Ontario Pension Plan, which could be looking for new investment opportunities – and potentially for their members who have been priced out of the housing market near their places of employment – key worker housing.

This investment can also increase economic development, with the Ontario Non-Profit Housing Association (ONPHA) highlighting in their 2015 report, Affordable Housing As Economic Development, that every $1 million investment in residential housing development generates 10-12 jobs.

Affordable housing could be the next frontier for investments – it could deliver a win for investors, a win for the economy and importantly a win for the people of Canada.

However, it will require new ways of thinking, strong and active leadership from the sector, a collaborative mindset, shared values and new and exciting partnerships. Most importantly, it will require all stakeholders to be at the table – public, private and not-for-profit entities – as equal partners, with a shared interest in working with Canadian communities!

Let’s hope the governments at all levels do not miss this unique opportunity to provide another option to the housing affordability crisis. And one that could provide a hand to so many currently missing out during this period of unprecedented price growth.

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