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BACKGROUNDER

Helping 21,000 more Manitobans

The Case for Selling Public Housing in Manitoba

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Adequate housing

Manitoba has 3.5% of Canada's population, 7% of her public housing...

The provision of adequate housing for Canadians in need has always been a challenge. Social housing (i.e., non-profit and government-assisted housing) began in an effort to assist low income families. Currently, some 650,000 social housing units exist in Canada; of this, government owned and managed public housing makes up one-third, or about 205,000.

Social housing is, historically, a recent phenomenon in Canada. It commenced in 1949 through a variety of housing programs and most public housing was developed prior to 1980. After that year, the majority of provincial governments lost their appetite for directly-owned and managed facilities.

In the case of Canada-Manitoba comparisons, while Manitoba represents only 3.5% of the Canadian population, the province contains 7% of all public housing in the country. This plethora of government-owned housing stock reflects the ideological mindset of the NDP, the most dominant political party in the province over the last fifty years.

Housing programs available in Manitoba

The NDP has, in partnership with the federal government, introduced several "streams" to ease the housing crunch for low-income households; in total, over 19,300 social housing units have been created under non-profit owned and/or managed housing projects (Manitoba 2007a).

• A five-year $50 million New Rental Supply (NRS) program provides additional affordable new rental units working, on a restricted basis, with the private sector by providing them access to capital funding.

• The Development Funding program (for the construction of new homes), provides builders with up to $60,000, it is, however limited only to non-profit organizations.

• The Affordable Housing Initiative program assists home buyers with down payment assistance to a maximum of $9,000 or provides qualified home builders with a one- time grant (forgivable over 10 years) for a home purchase.

This array of programs has merit. However, the paralyzing fear of private sector involvement severely limits the amount of housing that could be made available to people that most need help.

The Manitoba Housing Authority

The Manitoba Housing Authority (MHA) was incorporated in 1992 as an agency of The Manitoba Housing and Renewal Corporation (MHRC). It functions as the property management arm of the Housing Division. The MHA is responsible for the ongoing operation and management of the provincially-owned public housing portfolio of approximately 13,100 housing units. Most of the 13,100 public rental units in Manitoba are mature (30 to 50 years old), lower density (townhouse or three storey apartment type), and in poor condition.

The housing is targeted to households whose income is too low to obtain affordable, adequate accommodation in the private sector without spending more than 27% of their household income on shelter. Although there is a higher concentration within Winnipeg's inner city, public housing is located throughout the city and province. In all cases, however, public housing always means the concentration of low-income families in some form, be it in a 100-unit apartment building or in a 20-unit townhouse complex. Fortunately Manitoba has never indulged in mega-size "projects" like the St. James Town apartments complex in Toronto which consists of several 20-storey buildings stuffed into one city block. Unfortunately, the concentration of families with similar income demographics and on occasion, similar problems, can often lend itself to a destructive "groupthink" among the young occupants.

"Fortunately Manitoba has never indulged in mega-size "projects" like the St. James Town apartments complex with 18,000 people in Toronto..."

Problems within the Manitoba Housing Authority

Efficiency within a government bureaucracy has a short half-life...

A commissioned study (KPMG, 2007) concluded that the agency is everything one would not want it to be: over-staffed, expensive and dysfunctional. There is also a lack of direction, communication and morale. Valuable time is consumed by the bureaucratic process, tenants are poorly served and the physical assets are largely ignored. The reason for this is a lack of efficiency. Efficiency within a government bureaucracy has a short half-life where all is fine at the beginning of an initiative but soon rigor mortis sets in and, if not caught in time, the department becomes dysfunctional. When this occurs it is easier to continue the same process rather than to institute major, painful change.

As a consequence, the study notes that substantial money is required to bring the rental stock up to modern standards. Heating systems, roofing, and windows are the main elements that require replacement and their replacement alone would cost, $30 million to $40 million. About $20 million of additional improvements are also recommended but a lack of capital may postpone implementation.

Considering the challenging condition of, both, the department and the capital starved rental units, the obvious question arises, why not sell the real estate portfolio? First, let's examine the value of the portfolio.

What is the market value of Manitoba's housing portfolio?

Two extracts from the most recently available Manitoba Family Services and Housing Annual Report (2006-07) detail the Holdings and Operations numbers.

Holdings	
Land	21,734,065
Buildings	387,234,098
Total	408,968,163
Less CMHC finance	3,336,712
Less accumulated amortization	338,375,505
Book Value	**$67,255,946**

Housing Operations	
Rental revenue	63,611,525
Expenses	
Administration	17,079,574
Property Operation	57,720,518
Grants in lieu of taxes	10,464,895
Amortization & Interest	34,086,740
Total	119,351,727
Operating loss	**$55,740,202**

The "Holdings" column indicates that the total public investment has been $408 million. Of that amount, $338 million has been paid off which leaves a book value of just $67 million. The "Housing Operations" column indicates that total revenue is $63 million or $408 per month for each of the 13,100 units. Housing is subsidized on a rent - geared-to-income approach; in Manitoba rent cannot exceed 27% of household income.

The rental units range from bachelor up to five bedroom apartments. If placed on the open market the rent, on average, would be about $800 per month, double what Manitoba Housing collects. Administration, Property Operation and Grants in lieu of taxes totals $85 million or about $25 million more than private industry standards. Therefore if privately operated at market rents, the value of the portfolio would be as follows:

Rental Revenue	125,760,000
Less Expenses	60,000,000
Net	65,760,000
Less 3% vacancy	3,772,800
	61,987,200
At 6% cap rate value	1,033,120,000
Less book value	67,255,946
	965,864,054
Less upgrade cost	60,000,000
Net Market Value	**$905,864,054**

The optimum use of the sale proceeds would be to reduce the provincial debt. Since provincial borrowing costs are about 6% the annual saving would be $54M. This saving would be off-set immediately by the necessary increase in rental subsidies which is contemplated by the disposition of the portfolio. Thus, the question then arises: why sell public housing if the gain is offset by the increase in total rent subsidies? The reason is straightforward: it is to eliminate expensive public administration and to reduce inflated operating costs estimated at approximately $25 million. If this money were applied to additional needy tenants, almost 21,000 more people would be helped (assuming a $400 subsidy per month and occupancy of a family of four).

Hard-to-house families or individuals

It is important to distinguish between families who require financial assistance only, and those who have serious personal issues that go beyond affordability. Susan Popkin et al (2008, 9) writing for the Urban Institute identified six types of "at risk" residents.

- Multiple-barrier households: These are long-term public housing residents who are unemployed and may have alcohol, drug or mental problems or a criminal record;
- Households that include members with physical disabilities;
- Elderly households;
- Grand-families: Households with a single elderly adult who is the primary caregiver for one or more children;
- Large households: Families that require four or more bedrooms;
- Households with a member with a criminal record.

Some of the families with the above described "at risk" characteristics may require unique housing that government agencies must recognize. In addition, a public subsidy will likely be required to ensure proper facilities are accessed. However direct management or ownership by government is not required in such circumstances.

Summary

Ensuring that quality housing for "at need" residents will always be a challenge for society. The removal of direct ownership by government will translate into more public dollars available for more families—for 21,000 more Manitobans in the case of selling of Manitoba's government-owned housing stock. Those additional 21,000 people could be assisted because scarce public capital would be recovered through the sale of public housing. Also, private administration will provide the efficiencies that cannot be accomplished with public bureaucracies. Using this approach, needy families would have a greater choice in where they can live while the more serious "at risk" families could be better served.

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About the author

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The author of this study has worked independently and the opinions expressed are therefore his own, and do not necessarily reflect the opinions of the Board of the Frontier Centre for Public Policy.

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