

Administrative savings alone could house 21,000 more people

# Sell public housing

## Big Ideas

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By Dan Klymchuk

**T**HE Manitoba government continues to own and manage public housing long after this practice has been shown to be archaic and expensive.

Public housing in Canada began as an idealistic tenet of Fabian socialism that much of society could honestly embrace. After all, how could one doubt the caring, gentle hand of government as the entity to build, manage and otherwise care for needy families?

Unsurprisingly, jamming hundreds of families, each plagued with serious personal issues, into an apartment building, did not work that well. Quite unintentionally, the large government bureaucracy created to oversee this social effort ultimately became part of the problem and not the solution.

The Manitoba Housing Authority was created in 1992 to manage the province's public housing portfolio of 13,100 units. While Manitoba has only 3.5 per cent of the Canadian population, the province constructed seven per cent of all public housing. All public housing was constructed during the halcyon days of the NDP in the 1960s and 1970s.

The NDP's strong belief in activist government and distrust of private markets also spawned rent control (itself a contributing factor to the housing shortage) and fuelled the public housing construction binge.

Most of the 13,100 public units are mature (30 to

50 years old), lower density-type housing, and in poor physical condition.

Often, the public views large, government bureaucracies as expensive, ineffective, sinkholes of deprivation. This harsh, bitter assessment of government is sometimes uncalled for — except in this case.

The MHA commissioned an outside study that, unfortunately, supports the negative assessment. Serious neglect of the physical asset has left the department staring at a \$30-million-to-\$50-million hole in its capital budget to bring public housing up to modern standards. Considering the challenging condition of both the department and the rental units, the obvious question arises: Why not sell the real estate portfolio?

Based on the 2006-07 *MHA Housing Annual Report*, the asset has been paid down to \$67,255,946 million (book value). Annual rent revenue is \$63,611,525, or about \$404 per month per unit.

Coincidentally, on average, each public unit is subsidized by approximately the same amount — \$400 per month.

However, what stands out in the annual report is the extraordinarily costly figure for administration and property operation — \$75 million, about \$25 million above industry standards.

Assume an industry standard for administration and property operation of \$60 million, a three per cent vacancy provision of \$3.7 million, a market rent of \$800 per month per unit, at a capitalization rate of six per cent and the market value of the portfolio would be \$1,033,120,000.

So what would the government do with the \$1-billion-plus sale proceeds?

For simplicity, assume the capital is applied to our provincial debt. Assuming a borrowing rate of 6.5 per cent, the government would save about \$65 million each year. The government would need

to apply the total income to subsidize the 13,100 former public housing units.

If that is the case, why sell public housing if there is no apparent net gain? There are two excellent reasons to proceed with the sale.

First, the government would realize a permanent annual gain of \$25 million (the bureaucratic excess expense incurred when managed by the MHA).

This newfound money could subsidize an additional 5,250 subsidized units. From another perspective, it means housing 21,000 needy tenants (assuming a \$400 subsidy per month and occupancy of a family of four).

Second, by directly subsidizing the family (and not the real estate) the former public housing tenant would have a choice of residences. That helps individual families with unique needs make individual choices that are right for them.

It's not that a role for government doesn't exist in housing. Serious "at-risk" tenants, i.e., those with substance abuse or mental-health problems, may require more specialized housing. Thus, the appropriate social agency will likely require some unique, user-driven facility such as a day care or food-preparation area.

However, challenges like that are already substantial and should not be complicated by direct ownership and management of housing facilities that private management can provide and in a more efficient, cost-effective manner, thus leaving money on the table for more needy Manitobans.

Manitobans need public resources focused on families' needs, not on property management.

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