



Archived Content

Information identified as archived is provided for reference, research or recordkeeping purposes. It is not subject to the Government of Canada Web Standards and has not been altered or updated since it was archived. Some of this archived content is available only in one official language. Translation by CMHC can be requested and will be provided if demand is sufficient.

Contenu archivé

Le contenu identifié comme archivé est fourni à des fins de référence, de recherche ou de tenue des dossiers; il n'est pas assujéti aux normes Web du gouvernement du Canada. Aucune modification ou mise à jour n'y a été apportée depuis son archivage. Une partie du contenu archivé n'existe que dans une seule des langues officielles. La SCHL en fera la traduction dans l'autre langue officielle si la demande est suffisante.

Ca1
MH15
78E87

EVALUATION OF TENANT DISPLACEMENT
UNDER LANDLORD RRAP

cal
MHIS
78 887

EVALUATION OF
TENANT DISPLACEMENT
UNDER LANDLORD RRAP

Jeanne Leong
Program Evaluation Unit,
Corporate Planning Division,
Central Mortgage and Housing
Corporation

/

September 1978

TABLE OF CONTENTS

	PAGE
A. GENERAL RATIONALE AND APPROACH	1
B. PRE-RRAP VACANCIES	2
(a) Extensiveness of Planned Repairs	2
(b) Tenant Concerns	6
(c) Effectiveness of Rent Control	7
C. RRAP REPAIR STAGE	8
(a) Duration of Repair Work	8
(b) Amount of Rehabilitation	8
(c) High Grading	9
(d) Code Enforcement	10
D. POST-RRAP EFFECTS	11
(a) Immediate Effects	12
(b) Long Term Effects	15
E. SUMMARY AND RECOMMENDATIONS	18
(a) Summary	18
(b) Recommendations	21

EVALUATION OF TENANT DISPLACEMENT UNDER LANDLORD RRAP

A. GENERAL RATIONALE AND APPROACH

The primary objective of this report is to examine the relation between landlord participation in the Residential Rehabilitation Assistance Program (RRAP) and recent concerns about tenants being displaced under the program. Rehabilitation studies and press reports on RRAP from Montreal, Quebec attribute the problem of tenant displacement to rent increases and large scale renovations financed partly by landlord participation in RRAP. The Central Mortgage and Housing Corporation (CMHC) Corporate Planning Group has evaluated landlord RRAP activity in three separate studies with similar observations to the Montreal cases.¹ The reports conclude that excessive rent increases and large scale renovation activity may lead to permanent relocation of tenants. A recent CMHC General Memorandum issued by the RRAP Division suggests recognition of a potential problem of displacement in that it requests municipalities to plan for the re-housing of any persons who are likely to be displaced.²

This investigation disaggregates landlord participation in RRAP into three stages in an attempt to identify when and how displacement could

¹H. Rostum, "RRAP: An Evaluation of Performance" August, 1977; "An evaluation of RRAP for Landlords in Seven Municipal Areas", Feb. 1978; "A Follow-up to the Evaluation of RRAP", April 1978.

²RRAP Division, CMHC, GM B-1279, "Part IV.I Section 34 NHA RRAP," May 12, 1978.

occur. Factors that can lead to displacement are discussed as issues to be studied and resolved with respect to RRAP at the pre-RRAP, repair, and post-RRAP stages. Some ~~indications~~^{recommendations} are suggested as a basis for ~~grantifying~~^{justifying} these issues in future client impact surveys.

B. PRE-RRAP VACANCIES

(a) Extensiveness of Planned Repairs

Issue: What effect does the extent and cost of planned repairs have on pre-RRAP vacancies?

The issue of pre-RRAP vacancies has been examined by H. Rostum of the Corporate Planning Division at CMHC. He observes that tenant displacement "... could be due to increased rent or landlords terminating leases before the rehabilitation process."¹

Rostum compares vacant landlord units at the start of rehabilitation in 1977, on a sample basis, from seven cities. "Montreal and Calgary show high vacancies, while in the other cities the problem is not serious.... However, the fact that landlords may be terminating leases just before applying for RRAP is still open to question. This is a problem which requires further investigation, especially in Montreal and Calgary."²

¹H. Rostum, "An Evaluation of RRAP for Landlords in Seven Municipal Areas" Feb. 1978, p.61. The cities in the sample are: Montreal, Outremont, St. John's, Ottawa, Winnipeg, Calgary and Vancouver.

²Ibid., The figures for Montreal and Calgary are 39 and 20 per cent of rental units vacant, respectively.

A factor which may contribute to rent increases or early termination of leases by landlords is the scale of renovation. The cost of numerous repairs may exceed a landlord's income from present rents and he may prematurely raise rents in anticipation of covering future RRAP expenses. Landlords may terminate leases prior to the repair stage if they foresee tenants being unable to afford a rent increase or being physically inconvenienced by the magnitude of the repair work.

The RRAP Division suggests that high levels of displacement occur when renovation costs exceed \$20,000. Their recent imposition of an income viability test for landlords applying for RRAP loans in excess of this sum shows CMHC's concern for preventing economic stress for landlords and possible displacement to tenants. Evidence from a rehabilitation study done by the University of Montreal indicates considerable displacement when the expense of rehabilitation exceeds \$10,000 per unit. As shown in Table I, the level of displacement increases directly with renovation costs. At \$2,000 per unit less than one-third of the renters move. But, repairs costing more than \$10,000 displace about seventy per cent of the residents.

The Rostum study of RRAP in seven municipal areas substantiates the fact that displacement due to the scale of repairs is high in Montreal, being associated with high rent increases. However, as the author of that report states, the level of displacement may be unique to that city due to the stacking of provincial/municipal financing, on top of RRAP funding.

The additional grant of up to twenty-five per cent or \$2,500 may encourage more landlords in Montreal, of lower incomes than elsewhere, to undertake more repair work and subsequently having to repay higher RRAP loans.

The magnitude of the displacement problem due to the scale of rehabilitation remains a question in cities outside the province of Quebec. Further research should be done to correlate the cost of RRAP repairs to tenant displacement to observe first, whether RRAP expenses cause excessive rent increases and second, if the \$20,000 threshold is the correct minimum for testing income viability and thereby averting one factor behind such rent increases.

The second factor possibly linked to pre-RRAP vacancies is that landlords may terminate leases in anticipation of tenant problems of affordability or physical inconvenience. If the number of units designated for renovation is a majority of a building's apartments then the tenants cannot be accommodated elsewhere and may therefore have their leases terminated prior to the stage of repairs. If the landlord anticipates that the tenants would be physically inconvenienced if repairs are numerous or of a major structural nature, he may also terminate leases.

At the present there is a need for data on the factors behind pre-RRAP vacancy levels, especially for the cause of premature lease terminations. The present RRAP application form indicates the occupancy history of the unit. From a sample of units vacant at the time of application, a study based on landlord interviews could reveal reasons behind the vacancies.

TABLE 1
PER CENT OF TENANTS DISPLACED
BY AMOUNT OF REHABILITATION

Amount of Rehabilitation (\$ per unit)	Per Cent Tenants Displaced
2,000	28
4,000	46
10,000	70

SOURCE: Clinique D'Aménagement, Restauration: dossier-clinique,
Université de Montréal, décembre, 1976.

(b) Tenant Concerns

Issue: Is tenant apprehension about rent increases and the future of their neighbourhood after rehabilitation a cause of their relocation, prior to actual RRAP repairs?

If tenants fear rent increases and associated neighbourhood socio-economic change that does not match with their present life style they may, themselves, choose to relocate. The landlord may play some role in the process if he threatens to raise rents or announces major renovative work for most of the building and alludes to early termination of leases.

In a recent NIP evaluation, tenant apprehension about rising rent levels and the imminent change they perceive in the social character of their area with a high turnover of residents is identified as a cause of pre-RRAP displacement.¹

Whether tenant displacement is greatly affected because of these anticipations could be answered by a tenant survey inquiring where they expect to reside after renovations are complete and their reasons for moving.

¹Neighbourhood and Residential Improvement Division, Evaluation of Neighbourhood Improvement Areas, Vol. 3 Case Study 631.

(c) Effectiveness of Rent Control

Issue: If landlords view rent control regulations as lenient does it increase the level of tenant displacement prior to RRAP repairs?

Landlords may evict present, low-income tenants prior to the receipt of RRAP funding if they perceive that post-RRAP rent controls are not stringently enforced. They may want to defray their share of RRAP expenses through rent increases and therefore need to acquire higher-income tenants.

The experience from past rent reviews shows high rent increases being allowed through the RRAP provisions of local discretion and increments to the rent ceiling. These two factors contribute to the observation that the rent control agreement with landlords is somewhat "open-ended"¹. Evidence as discussed in Part C of this report indicates that landlords may have a basis in fact for a favourable view of post-RRAP rent control.

¹
H. Rostum, "An Evaluation of Landlord RRAP in Seven Municipal Areas," Feb. 1978

C. RRAP REPAIR STAGE

(a) Duration of Repair Work

Issue: How is tenant displacement affected by the duration of rehabilitation work?

A recent evaluation of RRAP observes that "the longer the work time the more likely will a displaced tenant have to consider permanent accommodation elsewhere."¹ CMHC has two time checks at the repair stage: 90 days to commence work, and one year to complete all repairs. The system ensures the loan is on repayment within a reasonable period of time. However, one year is perhaps too much of a break to enable former tenants to return to their original accommodation. For verification of the extent of permanent relocation due to time spend on repairs occupancy histories are required from landlords, and from tenants. These should be cross-referenced by the dates and extent of repair work.

(b) Amount of Rehabilitation

Issue: How does the amount of rehabilitation affect the level of tenant displacement?

As the Rostum report also indicates, the duration of the repair

¹H. Rostum, "An Evaluation of RRAP for Landlords in Seven Municipal Areas", Feb. 1978, p. 58.

stage is dependent on the scale of repairs. The report states "...the largest time spent on work is in Montreal and Outremont. Both of these cities do considerable amounts of work per unit..."¹

Not only would a large amount of renovations extend the repair stage, but it would also mean physical inconvenience to tenants, forcing them to move.

Many repairs also mean increase costs. As shown in Section B, displacement increases with higher RRAP costs if accompanied by rent increases.

(c) High-Grading

Issue: Is high-grading common under RRAP and does it lead to tenant displacement?

"High-grading" or the making of repairs much above the minimum health and safety standards is primarily done for attracting higher paying tenants. Consequently, present lower-income tenants must pay higher shelter costs or relocate.

¹"Ibid", p. 59

The extent of high-grading can be indicated by comparing RRAP repair list items to those required by minimum municipal by-law requirements. Numerous repairs done primarily for appearance may indicate high-grading. A check on the tenant history of units that have been high-graded, may indicate the amount of tenant displacement attributable to RRAP repairs.

(d) Code Enforcement

Issue: Does the enforcement of building code standards inflate repair costs resulting in tenants being displaced?

Code enforcement can inflate repair costs in two ways: by the quality of materials required and by the strictness with which the code is enforced. High quality materials and rigid standards for the protection of residents' health and safety directly affect repair expenses. When building codes are strictly enforced, the contractor cannot lower costs by bypassing designated repairs or using inferior materials. The issue is the extent to which increased costs are linked to code enforcement.

In the Rostum paper evaluating the RRAP program in seven municipalities, the level of code enforcement is cited as contributing to the cost of repairs. But the paper observes that there is an absence of strict code enforcement if municipalities anticipate subsequent

affordability problems for landlords or tenant displacement: "... municipalities have generally developed lenient approaches to enforcement, unless they can ensure the necessary assistance for repairs available."¹ However, it remains useful to investigate the application of code enforcement in other centres using RRAP, to substantiate Rostum's observation.

An indicator of the costs of code enforcement may be a comparison of local regulations used for RRAP to the base case of provincial building standards. Interviews with local contractors and landlords who have both participated in RRAP may also give evidence to check the extent that the building code requirements inflate repair costs.

D. POST-RRAP EFFECTS

At the third stage of the RRAP process, post-RRAP effects are separated into two time frames: immediately following the completion of renovations and one to two years after renovations. It is hypothesized that there are several post-RRAP effects. Rent increases and changes in ownership or tenure affect the unit, while tenants may suffer from affordability problems with higher rents and later, housing quality and affordability difficulties in their new location.

¹II. Rostum, Evaluation of RRAP for Landlords in Seven Municipal Areas, Feb. 1978.

(a) Immediate Effects

Issue: Is the rent in RRAP units substantially contributing to a loss of low-rental accommodations?

The issue of whether there are excessive rent increases in RRAP units, after the completion of repairs, is extensively examined in the Rostum study of seven RRAP areas. The report concludes:

- (i) Allowable rent increases following rehabilitation vary from one municipal area to another, but they are generally on the high side, and
- (ii) The rental agreement is somewhat open-ended, conceivably allowing for several increases to the maximum monthly rental during the term of the loan ... the magnitudes of these increases are based on local interpretation.¹

Rostum observes that the rent control agreement landlords are required to sign over the forgiveness period of their RRAP loan does not effectively control rents. Of the seven municipalities surveyed, the greatest increase in rents is in Montreal. Average rents of \$76 monthly

¹Ibid., p. 35

before RRAP climbed to \$132 per month afterwards.¹ The difference of \$56 is followed by Outremont with a \$43 increase in average rents, then Ottawa with a \$36 increase. The Quebec figures may be inflated since the addition of provincial and municipal rehabilitation subsidies tends to stimulate a greater number of repairs and thus larger RRAP loans, as mentioned in part B. Table 2 shows per cent rent increases associated with various costs of rehabilitation for Montreal. Rents increase substantially, to over 100 per cent, as the costs of rehabilitation increase.

The short-term effect of RRAP then, is the decrease in the supply of low-rental stock, unless other units are built to replace RRAP units, or rents elsewhere fall to the low-rent level: The implication for the administration and delivery of RRAP is that rent control regulations should be reviewed for their effectiveness in maintaining rents at affordable levels through further study of post-RRAP rent increases in other RRAP centers.

Issue: Are tenants being displaced due to rent
increases at the post-RRAP stage?

The extent of RRAP-induced displacement is an issue associated with the previous problem of the decrease in the supply of low-rental

¹Ibid., p. 34

TABLE 2
PER CENT RENT INCREASE
BY AMOUNT OF REHABILITATION

Amount of Rehabilitation (\$ per unit)	Per Cent Rent Increases
2,000	36
4,000	66
10,000	143

SOURCE: Clinique d'Aménagement, Restauration: dossier clinique,
Université de Montréal, décembre, 1976

stock. If rent increases, as allowed by the RRAP rent control procedure, are still in excess of what a tenant feels he can afford to pay then he vacates the unit. Thus, rent increases as documented in both the Rostum and University of Montreal reports, impose social costs to tenants in the form of moving expenses and disruption from familiar surroundings if forced to permanently relocate in a different neighbourhood.

Whether tenants have an affordability problem is an issue that remains to be resolved. Rent-to-income ratios are required to substantiate the claim that rent increases are directly forcing tenants to relocate. At present there is no data available on RRAP tenant incomes. A special survey is required on client characteristics such as income, family size and occupation of family head, and reasons for moving. The demographic and economic characteristics of the family should provide a profile of tenants' shelter requirements and their ability to afford housing currently and over time. Reasons for moving, which may include high rents, would assist in verifying the impact of RRAP rent increases in the displacement of RRAP tenants.

ol
1879

(b) Long-Term Effects

Issue: Are there excessive rent increases in RRAP units resulting from changes in the ownership of rehabilitated buildings or general speculation in the RRAP area over time?

Increased demand from higher-income tenants for renovated rental units may induce landlords to raise rents, forcing present tenants to move, or other landlords may view the building as a good investment for renting, or owner-occupancy. Evaluations of rehabilitation under the NIP program show increased demand and speculation inflating prices in NIP areas.

The study team concluded that the increased prices and general housing market activity in the area were at least in part because of NIP-RRAP.... The area is being treated more as a suitable place to purchase and hence there exists potential for change in the social make-up of the community through speculation and turnover.¹

The RRAP program has provisions for discouraging the resale of RRAP buildings. The loan and any unearned forgiveness must be immediately repaid in full.

Tenants can be displaced if rent increases upon resale are above what they can afford, or if leases are terminated by the new owner or if the building is sold and converted for owner-occupancy.

¹NRID, Evaluation of Neighbourhood Improvement Areas, Vol 3, Case Study 622, 1976.

There is as yet no evidence on the effectiveness of these regulations as deterrents to the sale of RRAP units. The verification of an upward trend in rent levels and in the increased demand for RRAP units would have to be based as a monitoring of present RRAP units or on landlord records and personal interviews to trace rent levels over time.

Should any of the aforementioned factors concerning the sale of RRAP units result in displacement there are certain social costs to tenants, over time. These effects are discussed in the next section.

Issue: Do displaced tenants suffer from affordability problems and low-quality accommodation where they relocate?

Renewal studies¹ prior to RRAP show a significant geographical correlation between the renewal area and tenants' area of relocation. New accommodation is found partly through publicly provided relocation services, while in other cases tenants find housing on their own usually within a mile of their former home. Areas peripheral to a renewal location may also be of low-quality housing. Occupancy by displaced tenants may crowd

¹D. Clairmont and D.W. Magill, Africville Relocation Report, Institute of Public Affairs, Dalhousie University, Halifax, 1971; F.J. Henry and P.C. Pineo, The Consequences of Relocation: A Study of Hamilton's North End, 1973.

existing conditions especially if rents are still relatively high, leading to further deterioration, renewal and continued displacement of tenants. Whether this scenario is duplicated under RRAP can be ascertained by correlating tenants' moves with the extension of RRAP activity, and examining the price and quality of housing in these areas.

Indicators of tenants' housing quality where they relocate would be the level of crowding i.e. more than 1.1 persons per room and the presence of shared or lacking bath facilities. If the proportion of income spent on rent exceeds 25 per cent it would indicate an affordability problem.

E. SUMMARY AND RECOMMENDATIONS

(a) Summary

This report's objective is to examine the factor of landlord participation in RRAP in light of recent concerns about tenant displacement under the program. Landlord RRAP is analyzed in three stages: pre-RRAP, repair, and post-RRAP in an attempt to isolate when and how displacement could occur. Issues are discussed in this summary. Associated indicators of the magnitude of displacement factors are presented in the recommendations and serve as possible information required from future client impact studies.

/

Three major issues are identified concerning tenant displacement at the pre-RRAP stage: the extensiveness and associated cost of repairs,

tenant concerns about the future of the area, and landlord perceptions of RRAP regulation. There are two major factors contributing to the displacement of tenants based on the extensiveness and cost of planned RRAP repairs. First, landlords may anticipate the expense of future repairs and prematurely raise rents forcing lower-income tenants to move elsewhere. The positive correlation between the cost of repairs and tenant displacement has been documented by both a University of Montreal study and a Corporate Planning evaluation of RRAP. Also, landlords may terminate leases if they foresee tenants being physically inconvenienced by the repairs or having financial difficulties in meeting planned rent increases when the RRAP loan becomes repayable. Tenant concerns are the basis for the second displacement issue. They may fear excessive rent increases or feel threatened in anticipation of socio-demographic change in their neighbourhood. The third issue is whether landlords perceive rent controls under RRAP as lenient, thereby contributing to tenant displacement on the basis of excessive rent increases.

At the RRAP repair stage, tenants are more likely to be permanently displaced if repairs take several months to complete. The RRAP program limit of one year for the completion of repairs may be too long to enable tenants to take up their former residence. A related issue that may displace tenants is the amount of repair work which causes physical inconvenience or contributes to higher rents if the expense is passed on by landlords. If the type of repairs is much above those required by local or CMHC building codes, the extra costs may again be passed to tenants. High quality materials required by building codes and the strictness of

code enforcement may be factors increasing landlord costs and perhaps rents.

At the post-RRAP stage, effects on tenant shelter costs and dwelling characteristics are divided into two time frames for analysis: immediate and long-term. Immediate post-RRAP rent increases are shown to be generally high with rent controls largely ineffective. RRAP may thus be contributing to a decrease in the supply of low-rental housing. Data on tenant incomes is lacking but if rent increases are greater than tenants can afford they must relocate. Moving, searching for new accommodation and being disrupted from familiar surroundings are other costs to be borne by displaced tenants.

Rent increases may result from increased demand and turnover of RRAP units in the long term. Rehabilitation enhances a building and may attract higher income tenants or landlords who view the premises as a good investment. Previous NIP evaluations have documented this effect. Tenants can be displaced by increased rents, or termination of leases prior to entry by higher-income tenants or conversion to owner-occupancy. The long-term effects on tenants also concern the type of substitute accommodation they find. Renewal studies, prior to RRAP, show displaced tenants occupy housing with higher rents and of lower quality compared to similar socio-economic groups. Further study is needed to extend the same conclusions to displaced RRAP tenants.

(b) Recommendations

This report has discussed issues regarding landlord participation in RRAP and associated tenant displacement problems. The recommendations focus on the data requirements for resolving these issues and for documenting the magnitude of displacement under RRAP. The nature of the displacement problem, as outlined in this report, changes over time. Therefore, the recommendations follow the three-tiered structure of pre-RRAP, repair and post-RRAP stages in the RRAP process.

Pre-RRAP

1. A sample survey is required of landlords who have completed a RRAP application form, but whose eligibility has yet to be determined. Data are needed on previous and proposed rent levels, the past and anticipated occupancy of the premises, and the type and number of repairs planned. They indicate the likelihood of tenants being displaced due to rent increases or the physical inconvenience from repair work.
2. RRAP tenants should be surveyed to inquire about their anticipations of rent increases or future neighbourhood change and if they plan to move because of the proposed rehabilitation.

3. An investigation of landlords' perceptions of the strictness of the RRAP rent control mechanism is required to estimate the extent that RRAP costs could be transferred to tenants in the form of higher rents.

RRAP Repair Stage

1. Interviews with both landlords and rehabilitation contractors are required for estimating the duration of the repair stage and thereby the number of tenants likely to face permanent displacement. Factors contributing to the duration of repair work should also be determined in the interviews to assist the RRAP administrator in anticipating tenant displacement at particular sites. The amount and type of repair work can also be documented as the extent to which tenant are inconvenienced or that landlords anticipate rent increases to cover costs.
2. For evidence on the costs of RRAP and as a factor contributing to rent increases, local building inspectors, landlords, and contractors should be interviewed to ascertain the stringency of code enforcement.

Post-RRAP

Immediate Effects

1. A history of rent levels after the commencement of RRAP loan repayment is needed to evaluate the effectiveness of the rent control system under RRAP.
2. Evidence on displacement due to increased demand, speculation and sale of RRAP buildings is required through a monitoring of rent levels, the change in ownership of RRAP buildings, and associated tenant occupancy histories.
3. A sample of displaced RRAP tenants should be traced and surveyed to determine the costs of moving, of searching for alternate housing and of the general disruption to their life.

Long Run Effects

1. To ascertain the cost and quality of the alternative housing of displaced RRAP tenants the occupants of units in the program one to two years previous need to be traced and interviewed personally.

2. An evaluation of the long-term effects of RRAP on rent levels and tenant occupancy requires a survey of units that have been rehabilitated one to two years previously, comparing present rents and tenants to the situation immediately after the completion of RRAP repairs.