

**Shared Accommodation in Toronto:
Successful Practices and Opportunities for Change
in the Rooming House Sector**

**Component 3
Three Business Cases: The Economics of
Rooming Houses in Toronto**

Prepared for:
East York East Toronto Family Resources
and the Rooming House Working Group

May 30, 2008

ORIOLE RESEARCH & DESIGN INC.

URBAN AND SOCIAL POLICY, PROJECT MANAGEMENT AND CONSULTING

Acknowledgements

This study included interviews with tenants, landlords, service providers, and municipal staff. The research team gratefully acknowledges all of the individuals who directly contributed to this study. We thank you for sharing your stories, your opinions and your expertise.

We also appreciate the practical help received from housing workers, staff in drop-in centres and landlords who introduced us to individuals who live in shared accommodation. We could not have completed the study in the timeframe available to us without your thoughtful assistance. Thank you as well to those staff who helped administer one of the survey tools.

This study was guided by an Advisory Committee, comprised of members of the Rooming Housing Working Group. They are:

Janet Fairfield	Housing Help/Landlord Liaison Specialist, East York East Toronto Family Resources
Rosemary Foulds	Policy Development Officer, Shelter, Support & Housing Administration; City of Toronto
Joe Magalhaes	District Supervisor, Toronto & East York District, Municipal Licensing & Standards Division; City of Toronto
Bill Munro	Broker, Bosley Real Estate Ltd.,
Phil Nazar	Community Worker, Toronto Christian Resource Centre
Arnie Rose	Manager: Housing Improvement Programs, Affordable Housing Office; City of Toronto
Bob Yamashita	(Former) Development Consultant, Habitat Services

We thank each of you for your time, insights and enthusiasm during the course of this project. The project is richer as a result of your participation.

East York East Toronto Family Resources provided administrative and management support for this project. A special thank you to EYET staff Janet Fairfield, Rosalee Bender and Sandra Guerra for your expert assistance during the course of our work.

Project Team
Deborah Hierlihy
Kaaren Christ
Sue Hierlihy

This report is one of four reports prepared as part of the study *Shared Accommodation in Toronto: Successful Practices and Opportunities for Change in the Rooming House Sector*. The four reports are:

Executive Summary and Recommendations

Component 1 Good Practices in Toronto's Rooming House Sector

Component 2 Learning from Tenants in Rooming Houses

Component 3 Three Business Cases: The Economics of Rooming Houses in Toronto

Table of Contents

1.0 Introduction	4
1.1 Purpose.....	4
1.2 Scope	5
1.3 Methodology and Limitations.....	5
1.4 Structure of the Report.....	5
2.0 The Business Case for Rooming Houses: Three Scenarios.....	6
2.1 Scenario 1.....	6
2.1.1 The Scarborough Property.....	6
2.1.2 Conversion Costs.....	6
2.1.3 Income and Operating Expenses	7
2.1.4 Discussion Points.....	8
2.2 Scenario 2.....	8
2.2.1 The Etobicoke Property	8
2.2.2 Purchase and Renovation Costs.....	9
2.2.3 Income and Operating Expenses.....	9
2.2.4 Discussion Points	10
2.3 Scenario 3.....	11
2.3.1 The North York Property.....	11
2.3.2 Purchase and Renovation Costs	12
2.3.3 Income and Expenses.....	12
2.3.4 Discussion Points	14
2.4 Economic Viability in the Rooming House Sector.....	14
3.0 System Costs of Unlicensed Rooming Houses.....	16
4.0 The Cost of Homelessness	17
4.1 The Cost of Providing Support to Vulnerable Tenants	17
4.2 Shelter and Institutional Costs.....	17
4.3 Costs of Emergency Services	18
4.4 Cost of Housing for Singles.....	19
4.5 Summary	19
5.0 Summary and Recommendations.....	20

References 21

List of Tables

Table 1: Scenario 1 Conversion Costs7
Table 2: Scenario 1 Operating Costs.....7
Table 3: Scenario 1 Net Income and Return on Investment7
Table 4: Scenario 1 Quick Ratios 8
Table 5: Scenario 2 Purchase and Renovation Costs9
Table 6: Scenario 2 Operating Expenses9
Table 7: Scenario 2 Net Income and Return on Investment.....9
Table 8: Scenario 2 Quick Ratios10
Table 9: Scenario 2 Quick Ratios (14 beds) 11
Table 10: Scenario 3 Purchase and Renovation Costs 12
Table 11: Scenario 3 Revenue..... 12
Table 12: Scenario 3 Monthly Mortgage Costs 12
Table 13: Scenario 3 Operating Costs..... 13
Table 14: Scenario 3 Net Income and Return on Investment13
Table 15: Scenario 3 Quick Ratios 13
Table 16: Costs Associated with Emergency Services18

1.0 Introduction

In February 2008, East York East Toronto Family Resources contracted Oriole Research and Design Inc. to undertake research on the rooming house sector in Toronto. The goal of the research is to:

...raise awareness of the positive contribution rooming houses make as part of the city's housing continuum and to work towards increasing the supply of legal, safe and affordable housing for single people with low incomes.¹

The project is divided into five components. They are:

- (1) Document 'good practices' in the rooming house sector, highlighting initiatives to:
 - a) Assist tenants to maintain their tenancies in rooming houses and personal care boarding homes; and
 - b) Support landlords to invest in safe affordable and stable housing for single people with low incomes.
- (2) Compile a profile of rooming house tenants and their needs through interviews and a review of recent literature on the rooming house sector.
- (3) Prepare a business case that documents the costs of creating rooming houses from the existing suburban housing stock compared with the costs of providing temporary shelter and emergency services and the costs of investigations into illegal units.
- (4) Formulate recommendations to the City of Toronto's Affordable Housing Framework.
- (5) Present the findings of the research at a community meeting of stakeholders hosted by the Rooming House Working Group.

This report for Component 3 of the project presents three business cases to illustrate the opportunities and costs associated with owning and operating rooming houses in suburban locations. The process associated with investigating illegal rooming houses is also outlined to provide a context for favouring more widespread licensing of rooming houses. The costs of providing housing and supports to individuals who are homeless or at risk of homelessness are presented alongside the cost of institutional and emergency responses to homelessness.

1.1 Purpose

The purpose of this report is to look at the costs of establishing and operating quality rooming houses outside of the former City of Toronto. The premise is that rooming houses need to be explicitly identified and integrated into the City's 10-year Affordable Housing Framework. Further, the Affordable Housing Framework needs to recognize rooming houses as a viable choice for many low income singles primarily due to affordability issues and to a lesser extent the benefits of having roommates.

¹ Excerpted from Rooming House Working Group Research Proposal – Housing for Single People with Low Incomes, November 15, 2007.

While this report focuses on the economics of rooming houses as part of a continuum of housing options, there is recognition that this form of housing is not suitable for all low income singles. For example, individuals actively using substances, or individuals with complex mental health and addictions issues would not typically be well-housed in a rooming house (Patterson 2008). In other words, this examination of rooming houses does not preclude the ongoing need for a variety of forms of supportive housing, as well as boarding homes, self contained units and other residential forms of accommodation where intensive supports are provided on-site to tenants.

1.2 Scope

In preparing three business cases, actual properties in Scarborough, Etobicoke and North York were identified and used as the basis for this discussion. Each property illustrates different approaches to developing rooming house units. Attempts were made to realistically project costs and revenues which would be associated with each site and to note variables which would affect the economic viability of each property. Conversion or renovation costs are assumed to include work that is required so that each property would meet all relevant municipal standards.

1.3 Methodology and Limitations

The business cases were constructed by selecting three sites according to a set of criteria proposed by members of the advisory committee for this project. With information coming from the experience of a real estate broker, a boarding home operator and City staff familiar with the rooming house sector, the expected costs, revenues and expected investment returns for the properties were identified and tabulated. The results and implications of the three business cases were reviewed and debated by the advisory committee for this project.

A review of recent literature from Canadian cities was undertaken to identify approaches to quantifying homelessness in social and monetary terms. Key findings of recent studies are presented.

1.4 Structure of the Report

Section two presents the three business cases for rooming houses and a discussion of the results. Section three highlights the process followed by municipal officials in responding to complaints about unlicensed rooming houses and section four looks at the costs of various responses to homelessness. Section five summarizes the results of this study and makes a case for the City to actively work with rooming house owners with the goal of legitimizing rooming houses as a viable housing option for low income single adults.

2.0 The Business Case for Rooming Houses: Three Scenarios

The following three scenarios for developing and operating rooming houses illustrate opportunities that could exist outside of the former City of Toronto where rooming houses are currently, generally, illegal. These properties show rooming house accommodation on three different types of sites:

Scenario 1: single detached home

Scenario 2: multiplex dwelling that formerly operated as a lodging home

Scenario 3: commercial/retail site that could be renovated and used for housing

2.1 Scenario 1

In interviewing tenants living in unlicensed rooming houses outside of the former City of Toronto (See Component 2 of this study), we heard that roomers value many aspects of the neighbourhoods where they live, including neighbourhoods with single family homes, well maintained properties, and neighbours who have lived in the area for generations. We heard that many who are satisfied with their rooming house like a dwelling that blends well with its surroundings and has not been significantly altered on the inside apart from locks on bedroom doors.

As a result of tenant views on where they live, the following rooming house scenario was chosen to explore an opportunity for establishing small scale accommodation for singles in a neighbourhood well away from downtown Toronto.

2.1.1 The Scarborough Property



- The property is a three bedroom 1 1/2 storey house on an arterial road in Scarborough.
- This property represents a common form of post-war housing throughout Toronto's suburbs.
- To be converted to a 5-bed rooming house, with two of the bedrooms in the lower level or basement.
- The landlord is assumed to live off-site.

The assumption is that the property has been owned for a period of time and the owner has no mortgage but will take out some equity before converting the house to a rooming house. This approach may be quite common among small landlords and means the mortgage amount based on the equity taken out can be fairly low.

2.1.2 Conversion Costs

The following table summarizes the costs of conversion of this three bedroom house into a five bedroom rooming house. It assumes that the owner is mortgage free at the time of conversion.

Table 1: Scenario 1 Conversion Costs

Conversion costs	Capital costs	Cash Required
House Value	\$300,000.00	
Equity Take-out (25% house value) ²	\$75,000.00	
1st Mortgage (@6.5% interest rate);with monthly principal and interest payments of \$502.37 or \$6,028.41 annually	\$75,000.00	
Legal and Mortgage Broker Fees	\$2,625.00	\$2,625.00
Improvements + Fees	\$50,000.00	\$50,000.00
Total Initial Investment	\$352,625.00	
Total Cash Required (estimate)		\$52,625.00

2.1.3 Income and Operating Expenses

The income for the property is projected at \$2,500 a month or \$30,000 a year, with five rooms renting at \$500 a month.

Operating costs are calculated to be approximately \$1,240 per month or \$14,850 per year, taking into consideration utilities, taxes, insurance, maintenance, and an allowance for vacancy and bad debt. No amount is budgeted for an on-site or live-in manager.

Table 2: Scenario 1 Operating Costs

Operating Costs	Yearly
Utilities	\$6,720.00
Taxes	\$2,010.00
Repairs & Maintenance	\$3,000.00
Vacancy and Bad Debt- Annual Allowance @ 5% of Income	\$1,500.00
Insurance	\$1,620.00

Table 3: Scenario 1 Net Income and Return on Investment

Gross Annual Income (5 rooms @ \$500/month)	\$30,000.00
Less Total Expenses	\$14,850.00
Net Operating Income	\$15,150.00
Less Mortgage Payments	\$6,028.41
Net Cash Flow	\$9,121.59
Add Principal Repayments	\$1,254.60
Return on Investment (ROI)	\$10,376.19

² The \$75,000 new first mortgage would provide sufficient funds for capital improvements, a cushion for cost over-runs and provide the investor with seed capital for further investments.

Table 4: Scenario 1 Quick Ratios

Ratio	Definition	Amount	Comments
Capitalization Rate (CAP rate)	Net Operating Income divided by property value. The rate at which the property "converts" value into an income stream.	5.05%	A low value indicates low income and high value. Lenders tend to set their own capitalization rates for rooming houses quite high (8% to 10%) to reflect their perceived risk of lending to this housing type.
Cash Return	Net Cash Flow as a percent of Total Cash Required	17.33%	
Investment Return	Return On Investment divided by Total Cash Required	19.72%	Investors generally expect returns greater than 15%.
Debt Service Coverage	Net Operating Income divided by mortgage payments.	2.51	An indicator of available funds to service mortgage debt. Lenders look for ratios greater than 1.20

2.1.4 Discussion Points

- Rents set at \$500 a month are not affordable for single adults on OW. A rent subsidy would be needed to make these rooms affordable for this client group.
- This property, with the small first mortgage would still be viable if the rents dropped to \$400 a month. The CAP rate would be 3.21 percent, the cash return would be 6.84 percent, the investment return would be 9.23 percent (a little lower than some investors would expect) and the Debt Service Ratio would be 1.60, well above most lenders' criteria.

2.2 Scenario 2

This property was originally a four-plex that was converted to a lodging house (retirement home) several years ago. In the spring of 2008 it was listed for sale. The assumption is that the property would be vacant at time of purchase and is set up in such as way that it could very easily operate as a rooming house.

2.2.1 The Etobicoke Property



- The building is a two-storey multi-plex located on an arterial road in South Etobicoke.
- Already a licensed lodging house and includes a basement kitchen and dining room for communal meals.
- To be converted to a 9-bed rooming house, with 1 tenant per existing bedroom.

2.2.2 Purchase and Renovation Costs

The purchase price is assumed to be \$50,000 less than the asking price on MLS. As this property formerly operated as a lodging home, little renovation is assumed to be required in this scenario.

Table 5: Scenario 2 Purchase and Renovation Costs

Capital Costs	Total	Cash Required
Purchase Price	\$700,000.00	
Down payment @ 35%	\$245,000.00	\$245,000.00
1st Mortgage	\$455,000.00	
Land Transfer Tax Province and City	\$21,200.00	\$ 21,200.00
Mortgage Broker and Legal Fees	\$10,325.00	\$10,325.00
Improvements + Carrying Costs	\$10,000.00	\$10,000.00
Total Initial Investment	\$730,800.00	
Total Cash Required (estimate)		\$286,525

2.2.3 Income and Operating Expenses

The gross annual income for this property is assumed to be \$54,000, assuming 9 rooms are rented out at \$500 per month. This scenario assumes the owner will live on-site and manage the rooming house. Utilities, taxes, repairs and maintenance, vacancy and bad debt allowances, and insurance are the identified operating expenses.

Table 6: Scenario 2 Operating Expenses

Operating Costs	Yearly
Utilities	\$11,016.00
Taxes	\$3,618.00
Repairs & Maintenance	\$4,158.00
Vacancy and Bad Debt Allowance	\$2,700.00
Insurance	\$2,916.00
Total Operating Costs	\$24,408.00

Table 7: Scenario 2 Net Income and Return on Investment

Gross Annual Income (9 rooms @ \$500/month)	\$54,000.00
Less Total Expenses	\$24,408.00
Net Operating Income	\$29,592.00
Less Mortgage Payments	\$36,572.38
Cash Flow	(\$6,980.38)
Add Principal Repayments	\$7,611.25
Return on Investment (ROI)	\$630.88

Note: () in the tables indicate a loss.

Table 8: Scenario 2 Quick Ratios

Ratio	Definition	Amount	Comments
Capitalization Rate (CAP rate)	Net Operating Income divided by Property value. The rate at which the property "converts" value into an income stream.	4.23%	A low value indicates low income and high value. Lenders tend to set their own capitalization rates for rooming houses quite high (8% to 10%) to reflect their perceived risk of lending to this housing type.
Cash Return	Net Cash Flow as a percent of Total Cash Required	-2.22%	
Investment Return	Return on investment divided by Total Cash Required	0.22%	Investors generally expect returns greater than 15%.
Debt Service Coverage	Net Operating Income divided by mortgage payments.	0.81	An indicator of available funds to service mortgage debt. Lenders look for ratios greater than 1.20

2.2.4 Discussion Points

As this is already a licensed lodging house in South Etobicoke including a basement commercial kitchen and dining room, the property may command a higher price than allowed for in this scenario.

- This model means that the owner is purchasing a building that is already licensed for use as a rooming/lodging house. In this case, the asking price is approximately \$75,000 per bed (at 9 beds). To do this, the property requires full funding through equity and mortgage financing.
- A less expensive option would be to purchase a building that is not already licensed, and acquire it for less: for \$50,000 per bed for example. Then RRAP funding which has no debt service requirements could be used to pay for \$200,000 to \$300,000 in repairs required to create legal occupancy.
- It may be difficult to convince a lender to provide a first mortgage up to 65 percent of the purchase price when the Net Operating Income is only \$30,000. A large second mortgage would be expensive for the operator/owner and would further impact on the negative financial picture.

The project loses money at 9 beds; however, if the 9 beds are increased to 14 beds (which are shown in the existing plans), then the project is a financial winner. This would mean some rooms are single occupant and others are double. The purchase price shifts to \$50,000 per bed at 14 units. Table 9 presents the Quick Ratios for this scenario at 14 beds.

Table 9: Scenario 2 Quick Ratios (14 beds)

Ratio	Definition	Amount	Comments
Capitalization Rate (CAP rate)	Net Operating Income divided by Property value. The rate at which the property "converts" value into an income stream.	6.58 %	A low value indicates low income and high value. Lenders tend to set their own capitalization rates for rooming houses quite high (8% to 10%) to reflect their perceived risk of lending to this housing type.
Cash Return	Net Cash Flow as a percent of Total Cash Required	3.3 %	
Investment Return	Return on investment divided by Total Cash Required	5.96 %	Investors generally expect returns greater than 15%.
Debt Service Coverage	Net Operating Income divided by mortgage payments.	1.26	An indicator of available funds to service mortgage debt. Lenders look for ratios greater than 1.20

- Access to capital grants, operating subsidy, or a forgivable loan such as RRAP could help make this rooming house economically viable for the private sector landlord/operator.
- Rents set at \$500 a month are not affordable for single adults on OW. A rent subsidy would be needed to make this accommodation affordable for this client group.
- Double occupancy in rooms is not a recommended practice, due to overcrowding, a lack of privacy, and increased potential for conflict between tenants. Further it can lead to increased vacancy loss. Adequate funding needs to be available to make rooming houses viable without doubling up tenants in rooms.

2.3 Scenario 3

This scenario looks at the development and operating costs of renovating an existing commercial property into rooming house units. This puts affordable housing close to transit, services, and stores and is an opportunity to upgrade an aging and perhaps under-utilized building.

2.3.1 The North York Property



- Located in North York on an arterial road.
- Total area of 7,000 square feet.
- To be renovated to contain 22 beds (21 for income), each with its own washroom.
- Kitchen, dining and lounge area in lower level.

The assumption is that this conversion would take up to six months and would involve a complete renovation of building. All renovations would be to code and the rooming house would meet all municipal standards upon completion. The property would have a live-in manager who lives rent free and earns \$12,000 annually.

2.3.2 Purchase and Renovation Costs

In this scenario, an older detached building in a commercial strip is renovated into rooming house units. There are no provisions for retaining any commercial or retail space. The actual purchase price is \$808,000. The following tables illustrate the development of this rooming house with and without forgivable RRAP loans.

Table 10: Scenario 3 Purchase and Renovation Costs

Capital costs	With RRAP	Without RRAP
Total Development Costs including professional fees and capital improvements	\$1,219,799.00	\$1,571,799.00
Mortgage Broker's Fee	\$7,928.69	\$10,216.69
Down payment of 35%	\$426,929.65	\$550,129.65
1st Mortgage	\$792,869.35	\$1,021,669.35
Total Initial Investment	\$1,227,727.69	\$1,582,015.69

2.3.3 Income and Expenses

The estimated rental revenue for this is \$126,000 per year, with 21 rooms renting out for \$500 per month. Operating costs include maintenance and repairs, insurance, utilities, taxes, vacancy and bad debt allowance, and a management fee.

Table 11: Scenario 3 Revenue

Rent Revenue	Amount
Rent/bed/month	\$500.00
No. of rentable rooms	21
Annual Revenue	\$126,000.00

Table 12: Scenario 3 Monthly Mortgage Costs

	Interest Rate	With RRAP	Without RRAP
First Mortgage	6.500%	\$5,310.83	\$6,843.38

Table 13: Scenario 3 Operating Costs

Operating Costs	Yearly
Utilities	\$32,208.00
Taxes (estimated)	\$12,000.00
Repairs & Maintenance	\$9,984.00
Management and Professional Fees	\$13,320.00
Vacancy and Bad Debt Allowance	\$6,300.00
Insurance	\$6,600.00
Total Operating Costs	\$80,412.00

Table 14: Scenario 3 Net Income and Return on Investment

	With RRAP	Without RRAP
Gross Annual Income	\$126,000.00	\$126,000.00
Less Total Expenses	\$80,412.00	\$80,412.00
Net Operating Income	\$45,588.00	\$45,588.00
Less Mortgage Payments	\$63,729.96	\$82,120.61
Cash Flow	(\$18,141.93)	(\$36,532.61)
Add Principal Repayments	\$13,263.14	\$17,090.52
Return on Investment (ROI)	(\$4,878.79)	(\$19,442.09)

Table 15: Scenario 3 Quick Ratios

Ratio	Definition	With RRAP	Without RRAP	Comments
Capitalization Rate (cap RATE)	Net Operating Income divided by Property value. The rate at which the property "converts" value into an income stream.	3.74%	2.90%	A low value indicates low income and high value. Lenders tend to set their own capitalization rates for rooming houses quite high (8% to 10%) to reflect their perceived risk of lending to this housing type.
Cash Return	Net Cash Flow as a percent of Total Cash Required	-4.25%	-6.64%	
Investment Return	Return on investment divided by Total Cash Required	-1.14%	-3.53%	Investors generally expect returns greater than 15%.
Debt Service Coverage	Net Operating Income divided by mortgage payments.	0.72	0.56	An indicator of available funds to service mortgage debt. Lenders look for ratios greater than 1.20

2.3.4 Discussion Points

- Even with the RRAP forgivable loan, there is not a reasonable return on investment given the operating assumptions and acquisition and renovation costs. Without the RRAP loan the projected losses are very high. Without capital assistance such as an RRAP loan or significant rent supplement assistance, this model does not appear to be viable.
- Alternate approaches that could make this model more economically viable include: shared bathrooms (a departure from the initial plan), less finished communal space, higher rent, and additional income for laundry and parking.
- Rents set at \$500 a month are not affordable for single adults on OW. A rent subsidy would be needed to make this affordable for this client group. Feedback from the housing help sector suggests that rents at \$500 a month where the tenant is sharing his or her bathroom would seem too high. Making room for a small fridge and hot plate in each room makes the accommodation more attractive.

2.4 Economic Viability in the Rooming House Sector

Operating revenues in rooming houses are driven by the housing allowances provided under Ontario Works and Ontario Disability Support Plan. Rents that are much higher than these rates are unaffordable for low income singles, although studies show that many tenants do use some of their living allowance to afford a higher rent than the OW/ODSP housing allowances cover (Pomeroy 2007b, Social Data Research Ltd. 2006). This means tenants have less money for other necessities such as phone service, food and personal or health needs.

Since the low rent levels restrict how much revenue rooming house operators can obtain from a property, it stands to reason that landlords will try to minimize operating expenses or forgo upgrades to the dwellings (Pomeroy and Dunning 1998). They also may double or triple occupancy to increase revenue. These practices can lead to problems related to health and safety in this sector that are the basis for community and political concern about rooming houses. Having rooming houses meet current code requirements comes at a price.

The three business cases presented in this report were calculated assuming a room rental at \$500 a month. Two scenarios, when purchased and renovated to comply with municipal standards, failed to show an attractive return on investment when projected revenues were compared to costs. This result is similar to the Toronto case studies of rooming house operations reported by SHS Inc. (2004a).

While operationally, landlords may not experience an attractive return on investment, some landlords interviewed for this study noted that their properties had appreciated in value over the years and as a result were valuable to them as assets. Some landlords interviewed for this study have properties that are mortgage free or were inherited. Others still are motivated by a conviction that they want to help homeless individuals turn their lives around. A consideration for some owners though, is that rooming houses can be difficult to sell as viable businesses, as new owners may have difficulty obtaining mortgage financing (SHS 2004a).

When considering the operational issues in rooming houses, both property management and tenant relations work need to be properly resourced. Front-line

staff need to be available to collect rent, manage rent arrears, deal with tenant conflict, do cleaning and daily maintenance, pay bills, arrange for repairs, monitor compliance with regulations, and respond to neighbourhood issues. While smaller rooming houses may be the preference of tenants, the need for management staff may make the optimal size of rooming houses upwards of 15 units.

The results of the business cases point to the disparity between what low income singles who are in minimum wage jobs or on fixed incomes can actually afford and what it costs to profitably operate a rooming house if the property was purchased, renovated according to current municipal standards and operated with one tenant per room. Interestingly, the maximum market rent for a single occupancy room permitted by CMHC under RRAP is \$537 in Toronto, which is almost \$200 more than the housing allowances received through Ontario Works. The business cases demonstrate the need for rent supplements to be available for tenants in rooming houses. Rent supplements would likely be a welcome financial incentive for rooming house owners, given the apparent difficulty in realizing a healthy return on investment for newly acquired rooming houses that are upgraded to comply with municipal standards.

A variety of other factors which affect the economic viability of rooming houses have been identified in recent studies. They include: difficulty obtaining financing for purchase, conversion, renovation and operations; difficulty obtaining mortgage insurance; high cost of insurance premiums for fire, public liability, and property damage; rapid increases in operating costs; insufficient financial support from government for individuals with mental illness to provide the care that they need; increase in and complexity of government regulations, especially related to the fire code, and insufficient operating revenue to afford to hire qualified staff (SHS 2004a, Social Data Research 2006).

Some of the above factors also present barriers to encouraging new supply. Other barriers include: restrictive zoning that prohibits rooming houses in many areas of the city, reluctance on the part of investors to become involved in the sector due to the complex regulatory environment, gentrification, ratepayer opposition to rooming houses, and the absence of a funding program (SHS 2004a, Pomeroy and Dunning 1998, Social Data Research 2006, Starr Group Inc. 2000).

The discussion of good practices in the rooming house sector (Component 1 report of this study) identifies a number of initiatives that help to support and strengthen the rooming house sector. It also identifies successes, such as the Parkdale Pilot Project, the Parkdale Conflict Mediation Process, the Rupert Hotel Pilot Project and the Habitat Model which provide inspiration and possible directions for more pro-active approaches by the City in seeking improvements in the housing opportunities for low income singles. Earlier studies discuss options for the City in responding to the challenges of current zoning and licensing practices and provide additional evidence of worthwhile supports for the rooming house sector (SHS 2004a and b, Starr Group 2001; Patterson et al. 2008, Pomeroy 2008).

3.0 System Costs of Unlicensed Rooming Houses

The three business cases assume that the properties comply with all relevant standards and regulations and would be able to be licensed. This section considers the City's role in enforcing standards.

Currently, rooming houses are only permitted to operate legally in the former Cities of Toronto, Etobicoke and York – but with restrictions. Due to existing zoning, rooming houses are not able to be legalized or licensed in the former municipalities of East York, North York or Scarborough. This lack of consistency across the amalgamated city in terms of what is permitted and what contravenes by-laws presents a significant barrier to protecting and improving the rooming house stock.

In parts of the city where rooming houses are not licensed, all investigations are based on complaints. Investigating complaints is a lengthy and complex process (Chapman 2004). Data was not available during this study to document the costs of investigations, but an outline of the process points to the pressures on City resources, especially those of Municipal Licensing and Standards (MLS).

In brief, the responsibility to investigate complaints about illegal rooming houses rests with MLS. Investigation requires an external inspection and the owner's permission or a search warrant to conduct an internal inspection. For violations of municipal standards, notices or orders may be issued to the property owner and the owner may appeal any of the orders. When issues are not resolved, the City can initiate a prosecution, which means the case is heard by an Ontario Court Justice of the Peace. Owners who are found guilty of contravening zoning or property standards by-laws may be fined and may be prohibited from repeating the offence by a probation or court order. This can lead to subsequent proceedings including application for an Injunction Order to force compliance.

Investigating and prosecuting illegal rooming houses is costly to the City. The status quo wherein rooming houses are illegal in some areas of the city creates a situation that is unsustainable over the long term. On one hand, there is pressure and a mandate at the municipal level to ensure that the most vulnerable members of the community, including low income singles, can access housing that is safe and affordable. On the other hand, municipal officials are pressured to respond to and investigate complaints about rooming houses that are operating illegally or without a license. The outcome of investigations and prosecutions can be that landlords or City officials close down rooming houses, forcing tenants from their homes. This reactive response works against efforts to improve and protect the rooming house stock.

Pro-active efforts by the City to move towards more equitable zoning provisions for rooming houses across the City, more wide spread licensing, upgrades to properties and increased compliance with standards will have an impact on the monitoring, investigation and prosecution activities of MLS. Further analysis of pro-active versus reactive approaches to licensing and enforcement is needed to fully assess the possible impacts on municipal operations.

4.0 The Cost of Homelessness

Over the past decade there has been increasing interest on the part of governments and other stakeholders in identifying the costs of homelessness and responses to homelessness. Canadian studies in this domain have adapted methodologies used in the United Kingdom, United States and elsewhere and have applied them to homelessness research in Canadian cities. This report looks at how rooming houses contribute to a framework of supports that address homelessness. The discussion draws on recent studies and includes: providing support to tenants, shelter and institutional costs, emergency services and the cost of housing. The cost of homelessness can be assessed by looking at these components of the framework.

4.1 The Cost of Providing Support to Vulnerable Tenants

Support services can be described in terms of three levels of intensity. The level of support depends on the needs of the tenant and there is acknowledgement that needs may become more or less intense over time. The costs provided below reflect the cost of the services, not the housing. Lower levels of support include community workers who visit clients and support workers who are available on-call for emergencies. This low level of support can cost around \$7 a day per client. This reflects the cost of the support service, not the housing (Pomeroy 2005, 2007a; Foulds 2008).

Medium levels of support include in-house staff during the day, emergency help after hours, counselling and support for daily living. The cost of these services range from \$15 to \$42 per client per day. High levels of support, such as round the clock assistance with help from Assertive Community Treatment (ACT) teams are in the range of \$110 per day. (Pomeroy 2007a; Foulds 2008).

An assessment of services and supports provided to 90 clients of the Canadian Mental Health Association (Ottawa branch) looked at the global costs of supporting individuals with severe mental illness who had a history of homelessness and difficulty in managing the tasks of daily living. The study found that the average annual total costs of a medium level of support and housing to be \$68 per day for this client group.

4.2 Shelter and Institutional Costs

Operating costs for shelters are in the range of \$49 to \$75 per day depending on many variables related to the client group served and services offered. In 2008, the average shelter per diem in Toronto across the system was \$50.23. Shelters are considered temporary accommodation, although many individuals stay in a shelter for an extended period if other options are not available.

When someone is remanded in custody, the costs of accommodation, incarceration, treatment, life skills activities, and security are estimated at \$155 a day. Eberle et al. (2001) in a small comparative study of homeless individuals in Vancouver found that the major cost category for many of the individuals in the sample was criminal justice, amounting to \$11,000 per year. By comparison, the major cost category for housed individuals in the same study was social assistance at \$9,000 per year.

The cost of an individual in institutional psychiatric care is approximately \$450 per day with acute and tertiary care hospital beds at even higher costs per day (\$686 to

\$855 per day), excluding medical costs billed to OHIP. Emergency out patient costs in hospitals are estimated at \$425 per day.

4.3 Costs of Emergency Services

Clearly emergency services exist to respond to a wide range of situations. While ample evidence exists to illustrate that police, fire, ambulance and hospitals do respond to situations involving homeless people, some argue that many circumstances which lead to interventions by emergency services would not arise if the individuals involved were housed. Pomeroy (2007a) provided the following as cost estimates of emergency services, including street outreach services:

Table 16: Costs Associated with Emergency Services

Service	Estimated Cost
Ambulance	\$240-\$700 per call out depending if transport is required
Community Policing/street arrests	\$377 per day per officer
Hospital – outpatient/emergency	\$425 per day
Hospital – in patient psychiatric care	\$455/day
Hospital – acute	\$900/day
Street outreach services	\$3.75 per person served per day

Source: Pomeroy 2007a

In presenting the costs of emergency services, the assumption is that by responding to the needs of homeless people through the provision of housing and supports, the deployment of emergency services to respond to the homeless community could be reduced, thus creating additional capacity in these services to respond to other types of emergencies and needs.

Previous studies have documented how the use of health and other services changes when an individual goes from being homeless to being stably housed. While some homeless individuals actively avoid interaction with any emergency or health services, others by contrast can be heavy users of these services. When housed, the trend is typically for continued use of services, but in the case of health services, the frequency and duration of hospital stays is reduced. Similarly, interaction with the police is reduced (Eberle et al. 2001; Blouin et al. 2004; Raine and Marcellin 2007).

Research in Ottawa examined the costs of services provided to an individual with severe and persistent mental health problems before and after being admitted to a new pilot program. The purpose of the pilot program was to tailor supports to meet the individual’s specific needs. Prior to entry in the program, daily supports were calculated at \$459 per day. Following a period of hospitalization (\$523 per day), the individual moved to permanent accommodation with supports (\$461 per day). The significant differences before and during the pilot program were:

- No use of emergency services during the 7 months in the pilot program (ambulance, police, fire, legal);
- A significant reduction in the number of MD consultations, ER assessments and hospital stays (2 days, down from 20 days in the first time period),
- Allocated resources provided supportive in-home support during the pilot program instead of crisis responses, leading to the individual achieving greater success in adapting to living in the community.

The Ottawa study illustrates the high costs of supporting individuals with severe mental illness in a 24-hour-a-day home-based model in comparison with the even

higher costs of emergency and institutional responses to homelessness. This is arguably a 'worst case' scenario in terms of tenant needs and service responses and is not considered to be typical among individuals who live in rooming houses.

In Toronto, interviews were conducted, post occupancy, with participants in the Streets to Homes program (Raine and Marcellin 2007). Similar to the study in Ottawa, participants are using ambulances and emergency rooms less often. Their stays in hospitals are shorter. Use of other emergency services also decreases dramatically once in housing, including a 75 percent decrease in the number of individuals using police detox ('drunk tank').

4.4 Cost of Housing for Singles

Newly constructed housing for singles (SRO, bachelor or 1 bedroom) that is subsidized and without support ranges in cost from \$13 to \$22 per day for singles.³ This also includes the cost of rent supplements for singles. In a Toronto study, the projected cost of a newly constructed shared dwelling with low support was \$19 per day and \$77 per day for shared accommodation with a high level of support (Pomeroy 2005).

If rooming houses can be shown to produce a modest return to the investor/owner, this form of shared accommodation can be developed and operated with relatively little cost to the public.

4.5 Summary

This discussion highlights some of the typical costs incurred by communities in responding to homelessness. The literature suggests that ensuring the availability of stable and affordable long term housing with appropriate supports is a key element in addressing homelessness.

There is growing acceptance that a number of different models of housing and supports can effectively stabilize vulnerable tenancies. A critical issue is how easily an individual who is disadvantaged by poverty, social or family status, or health challenges can access supports that address short term, ongoing or changing needs.

For many single adults, quality rooming house accommodation is a viable and affordable long term housing option. Tenants in this form of shared accommodation can be supported through appropriate linkages with support service agencies. From the perspective of allocating resources, investment in supported and affordable long term housing for singles can alleviate cost and service usage pressures in more expensive sectors such as the corrections and judicial systems, the health care system, policing and other emergency services.

³ Pomeroy derived these costs from projects that were recently constructed under the Affordable Housing Strategy. The costs include upfront capital costs, converted to an annualized and daily number through a 35-year amortization of the grant and related capital expenditures. (Pomeroy 2007:18)

5.0 Summary and Recommendations

By focussing on the housing needs of low-income single adults, the City is addressing the affordability crisis that makes this group of tenants extremely vulnerable to homelessness. There are few options for affordable housing for low income singles. The rent charged for studio, bachelor and one bedroom units in the private sector are unaffordable for those who depend on social assistance, unless a rent supplement is available.

The current situation in Toronto is that many rooming houses charge more than \$400 for a room, which is a rent level that is higher than the shelter allowance provided by Ontario Works. Further, as the business cases in this report show, it is difficult to make a licensed rooming house viable in today's market with a per unit rent much lower than \$500.

This report has illustrated the gap between what low income tenants can afford to pay for a room and the costs of operating a rooming house that complies with municipal regulations. The results of this study point to the need for rent supplement programs to be available to tenants in rooming houses and for the City to show leadership in pro-actively supporting and strengthening this sector. A starting point is to recognize rooming houses as a necessary and viable form of accommodation along a continuum of housing options that are needed in the city. From this, there are opportunities to work with rooming house landlords and other stakeholders towards more widespread licensing, and ensuring rooming houses conform to reasonable community standards. The desired outcomes of strategic support for the rooming house sector would be protection, enhancement and expansion of this housing stock to benefit low income singles and improve their quality of life.

Five recommendations to the City emerge from the business case analysis of rooming houses:

- Support the rooming house sector by including shared accommodation in the housing that is eligible for rent supplements.
- Ensure zoning provisions across the City permit the operation of rooming houses in residential and mixed use neighbourhoods.
- Implement a process to work towards licensing rooming houses across Toronto that meet accepted community standards and link the licensing process to financial, educational, and support service initiatives which benefit rooming house owners and their tenants.
- Fund initiatives that link housing and supports for individuals who are not already receiving services, and in doing so, expand opportunities to link tenants in private rooming houses to support services.
- Maintain or increase City support for initiatives that (1) assist low income individuals in finding affordable accommodation, and (2) provide appropriate levels of support to help maintain tenancies.

References

- Blouin, M. et al. (2004). Évaluation de coûts des services de soutien en santé mentale communautaire. *The Canadian Journal of Program Evaluation*. 19 (3): 175-184.
- Chapman, F. (2004). *Status Report on Studies on Rooming Houses and Second Suites and Measures in Place to Deal with Illegal Rooming Houses*. Report to Planning and Transportation Committee, City of Toronto.
- Eberle, M. et al. (2001). *Homelessness – Causes and Effects. The Costs of Homelessness in British Columbia*. Study sponsored by BC Ministry of Social Development and Economic Security, and BC Housing Management Commission. February.
- Farrel, S. and Aubry, T. (2002). Comprehensive Costing of Support Services for Vulnerable Populations: A Case Study. *The Canadian Journal of Program Evaluation*. 17 (3): 25-38.
- Foulds, R. (2008). Policy Development Officer, Shelter, Support & Housing Administration; City of Toronto. Personal Communication, February – May.
- Patterson et al. 2008. *Housing and Supports for Adults with Severe Addictions and/or Mental Illness in British Columbia*. Centre for Applied Research in Mental Health and Addiction. Faculty of Health Sciences, Simon Fraser University.
- Pomeroy, S. (2005). *The Cost of Homelessness: Analysis of Alternate Responses in Four Canadian Cities*. Prepared for National Secretariat on Homelessness. March.
- Pomeroy, S. (2007a). *Pro-Active Versus Reactive Responses for a Housing Based Approach to Reduce Homelessness in the Region of Waterloo*. Study commissioned by Housing and Social Planning, Policy and Program Administration Region of Waterloo, Sept. Available at www.region.waterloo.on.ca
- Pomeroy, S. (2007b). *Assessing Risk of Economic-Based Homelessness: Background Report for Waterloo Region's Housing Stability System*. Study commissioned by Regional Municipality of Waterloo Social Services, April. Available at www.region.waterloo.on.ca
- Pomeroy, S. (2008). *Sustaining the Momentum: Recommendations for a National Action Plan on Housing and Homelessness*. Prepared for the Federation of Canadian Municipalities, January.
- Pomeroy, S. and Dunning W. (1998). *Housing Solutions to Homelessness: Cost-Benefit Analysis of Different Types of Shelter*. Preliminary Assessment. Report prepared for City of Toronto Homelessness Action Task Force. July.
- Raine, L and Marcellin, T. (2007). *What Housing First Means for People. Results of Streets to Homes 2007 Post-Occupancy Reserch*. City of Toronto, Shelter, Support and Housing Administration.

Social Housing Strategists Inc (SHS) (2004a). *City of Toronto Rooming House Issues and Future Options. Background Report One. Description of the Rooming House Sector*. Study commissioned by the City of Toronto Shelter, Housing and Support Division. April.

Social Housing Strategists Inc (SHS) (2004b). *City of Toronto Rooming House Issues and Future Options. Background Report Two. Regulation and Licensing of Rooming Houses in the City of Toronto and Other Jurisdictions*. Study commissioned by the City of Toronto Shelter, Housing and Support Division. April.

Starr Group Inc. (2001) *Interventions for Rooming Houses/SROs and Tenants*. Ottawa: CMHC.

Starr Group Inc. and Richard Drdla Associates (2000). *Regulatory Factors in the Retention and Expansion of Rooming House Stock*. Ottawa: CMHC.