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TO BUY OR RENT? HOMEOWNERSHIP BIAS, RISK, AND LABOUR MOBILITY OUTCOMES OF THE DND LIVING ACCOMMODATION POLICY

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Exercise Solo Flight

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EXERCISE *SOLO FLIGHT* – EXERCICE *SOLO FLIGHT*

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INTRODUCTION

The Government of Canada recognizes that access to suitable accommodation impacts the operational effectiveness, morale, and the well-being of Canadian Armed Forces (CAF) personnel.¹ In fact, Department of National Defence (DND) policy recognizes the unique pressure that military life creates for members and their families who are “expected to readily change their place of residence to meet the demands of the CAF.”² Access to adequate and affordable housing assists military personnel in finding a new place to live and enables them to carry out their military development by occupying various positions of employment and advancing throughout their military career.

However, in 1997, the House of Commons Standing Committee on National Defence and Veterans Affairs (SCONDVA) investigated social and economic challenges impacting the quality of life (QOL) of CAF members after many years of budget cuts, leadership problems, and poor living conditions. What the Committee found was a housing crisis in the Canadian military. It heard stories of mould, flooded basements, and military personnel living near poverty in locations such as Esquimalt where housing costs were extremely high. The Committee visited CAF members living in substandard and unhealthy military housing constructed in the 1940s and 1950s. After years of neglect and lack of maintenance, these accommodations had fallen well below an acceptable standard of habitation.

¹ Canada, Department of National Defence and Canadian Armed Forces, *DAOD 5024-0, DND Living Accommodation*, effective date 01 April 2007, last accessed 23 April 2018, <http://www.forces.gc.ca/en/about-policies-standards-defence-admin-orders-directives-5000/5024-0.page>, para 3.2.

² *Ibid.*

Evidence of military personnel reeling from a lack of adequate and affordable housing elicited a vigorous response from SCONDVA. In the final report, Chapter III addressed the CAF housing crisis. The Committee explicitly reaffirmed the moral commitment between the military, the government, and Canadian society at large to provide CAF personnel with “ready access to suitable and affordable accommodation.”³

In addition, the report made several policy recommendations that were intended to mitigate the DND housing crisis identified. One recommendation of specific interest was SCONDVA’s strong encouragement for increased private homeownership amongst military personnel and greater emphasis on private markets to better meet the housing needs of Canada’s military in the new millennium. The Committee believed this recommendation would also promote improved long-term financial investment outcomes for military members while commensurately reducing the amount of DND-managed, publicly funded housing accommodation infrastructure required. However, the Committee also commented on the significant risk and complexity in developing policy reliant on Canada’s real estate market, dramatic regional differences in housing prices, and the risk levied on CAF members needing to sell their homes frequently and at times not of their choosing. The Committee warned that some CAF personnel might suffer serious equity losses and thus abandon their dreams of homeownership entirely.⁴ In this paper, academic research will show that real estate equity loss is one of several factors that negatively impact labour mobility because people become reluctant to move if they are required to sell their house at a significant loss.⁵ One then asks the question:

³ Canada, Parliament, House of Commons, Standing Committee on National Defence and Veterans Affairs, *Moving Forward: A Strategic Plan for Quality of Life Improvements in the Canadian Forces* (Ottawa: The Committee, 1998), 6.

⁴ *Ibid.*, 23-40.

⁵ The Economist, “*Home Ownership: Shelter or Burden?*”, last accessed 18 March 2018, <https://www.economist.com/node/13491933>, 8.

does a DND accommodation policy that favours homeownership actually impede relocation flexibility and labour mobility?

This paper seeks to show that the DND homeownership bias and a reliance on private housing markets negatively impacts CAF labour mobility. Section one begins by examining the difference between shelter and housing. Section two will examine the DND Living Accommodation policy and relocation benefits that favour homeownership over renting. Section three examines the multidimensional elements of housing and the academic research associated with policies that promote homeownership over leased accommodation and the spillover effects each option creates. The essay concludes that Canadian federal government and DND accommodation policies favouring private market homeownership compared to renting create negative implications for the labour mobility of military personnel. This has implications for quality of life and operational effectiveness of the CAF.

SHELTER VERSUS HOUSING

Housing is a basic human need. The requirement for physical shelter forms part of seven categories of basic needs common to all people identified by psychologist Abraham Maslow in his “hierarchy of needs theory”, represented hereafter in the shape of a pyramid.⁶ According to Maslow’s theory, lower level needs must be met successfully before humans can be motivated to challenge higher levels.⁷ A graphical representation of Maslow’s hierarchy of needs theory is presented below in Figure 1.

⁶ D. Martin and K. Joomis, *Building Teachers: A Constructivist Approach to Introducing Education* (Belmont: Wadsworth, 2007), last accessed 15 March 2018 from https://www.cengage.com/resource_uploads/downloads/0495570540_162121.pdf, 72.

⁷ D. Martin and K. Joomis, *Building Teachers*, 72.

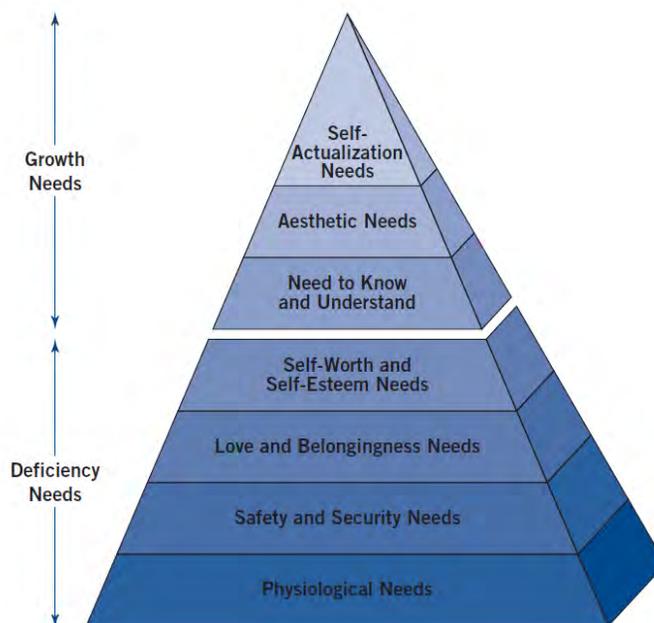


Figure 1 – Maslow’s Hierarchy of Needs

Source: D. Martin and K. Joomis, *Building Teachers: A Constructivist Approach*

At the base of the pyramid, physiological needs, such as air, water, and food form the necessities of life and must be met first. For humans, housing as a form of shelter is considered part of the next higher level of safety and security needs. Maslow’s theory considers safety as “the feeling people get when they know no harm will befall them, physically, mentally, or emotionally; security is the feeling people get when their fears and anxieties are low.”⁸ Thus, military postings and relocation involve a significant investment of government time and financial benefits in moving CAF personnel and their families to ensure they secure access to shelter – either owned or rented – at the new destination.

⁸ *Ibid.*, 73.

However, I contend that housing has evolved multidimensionally beyond simple physical shelter. Aesthetic and financial dimensions of housing have become associated with higher levels on Maslow's hierarchy of needs, such as self-esteem through pride of ownership and self-actualization of material success through equity and wealth accumulation. These elements draw military members to invest in homeownership rather than transient rental, as this appeals to higher levels on Maslow's hierarchy of needs. However, there are negative impacts caused by high levels of homeownership not conducive to labour mobility. This will be discussed further in the paper.

DND LIVING ACCOMODATION POLICY

In the wake SCONDVA's recommendation, in June 1999 DND developed and released *Defence Administrative Orders and Directives (DAOD) 5024-0, DND Living Accommodation*. In a marked change from past practice, the Canadian government, vis-à-vis DND policy, provided new, deliberate direction that private housing markets were to become the primary means of housing military families. The DAOD states the federal government will provide publicly-funded DND housing for military members only if: "a. the private sector marketplace does not provide sufficient suitable living accommodation; b. the work site is isolated; or c. there is an operational requirement (e.g. for training and transient quarters)."⁹ The DAOD further states the government is committed to providing suitable living accommodation through the establishment of "policies, plans and programs which encourage CAF members to obtain living accommodation in the private sector marketplace."¹⁰ As amplification, the DAOD refers to the *DND Living Accommodation Instruction*. This secondary policy document reveals DND's conceptual intent

⁹ Canada, Department of National Defence and Canadian Armed Forces, *DAOD 5024-0*, para 3.3.

¹⁰ *Ibid.*, para 3.5.

to expand the definition of a military community beyond the physical boundaries of military property. The policy states:

Military Community. A community consisting of CF members and their families having a common bond by virtue of sharing a common profession and way of life and are an entity wherein they, and the military organization to which they belong, share similar values and are supportive of one another. The military community therefore is not necessarily dependent on the provision of Crown-owned accommodation or being located on Crown property.¹¹

From a sociological perspective, this definition provides an important distinction. It signifies a significant shift away from the historical creation and support of Crown-owned military enclaves of single and Permanent Married Quarters (PMQs), known as a “company town” setting, where military members received access to low-cost housing clustered around DND-managed stores and facilities.¹² The *Instruction* further extends the definition of suitable living accommodation to mean either public or private sector marketplace housing which:

meets Canadian societal norms relative to the CF member’s household circumstances for size, form, condition, construction/living standards, maintenance, design, occupancy and storage space, safety and security; is within reasonable proximity to the workplace; and affords access to CF based personnel support programs or similar programs in the civilian community.¹³

¹¹ Department of National Defence, *DND Living Accommodation Instruction*, updated version 30 March 2007, last accessed 18 March 2018, http://cmp-cpm.mil.ca/assets/CMP_Intranet/docs/en/publications/living-accomm.pdf, 5.

¹² Major Carrie A. Fortier, “The Military Company Town – An Outdated Concept” (Command and Staff Course Masters Thesis, Canadian Forces College, 2004), 18.

¹³ Department of National Defence, *DND Living Accommodation Instruction*, 6.

Nevertheless, DND appears to have predicated its emphasis away from Crown-owned, publicly-funded military housing in the belief that partnerships with local governments, businesses, and marketplaces would develop based on the government's emphasis on private housing.¹⁴ However, evidence indicates DND may have developed *DAOD 5024-0* and the *Accommodation Instruction* without fully analyzing the implications, nor obtaining full institutional acceptance of these policies. A 2001 Chief of Review Services (CRS) independent review entitled *DND Accommodation/Housing Issues and Canadian Forces Housing Agency (CFHA)* found that despite the longer-term recommendation for DND/CAF to extract itself from the management of a large inventory of publicly-funded military housing, strategic policy gaps hindered the overall viability of the plan. For instance, differing views remained at senior institutional levels concerning the requirement for a physically-defined military community preserved through an enclave of Crown-owned housing units and services. Furthermore, CRS found that the DND/CAF were unable to define, substantiate, or project an operational requirement for a specific number of CFHA-managed housing units to be retained.¹⁵ Nor did the CRS review find confirmation that the DND accommodation strategy had evaluated and quantified the difference between the CAF's needs and private-sector supply: "Key to defining this "gap" is an appreciation of the capacity of the private-sector to respond to changing demand...[and its capacity] to respond to demand stimuli, including a variety of possible Crown interventions."¹⁶ Fourteen years after the official release of the DAOD, a 2015 audit by the Office of the Auditor General (OAG) of Canada concerning CAF Housing found that National Defence was still unable to clearly define an operational requirement for military housing, nor

¹⁴ Department of National Defence, *DND Living Accommodation Instruction*, 6.

¹⁵ Canada, Chief Review Services, *DND Accommodation/Housing Issues and Canadian Force Housing Agency (CFHA)*, last accessed 18 March 2018, http://publications.gc.ca/collections/collection_2015/mdn-dnd/D58-87-2001-eng.pdf, 2-3.

¹⁶ *Ibid.*, 2.

had DND considered, at some locations, “how the private housing market could meet the needs of [CAF] members.”¹⁷ The OAG reported that senior military officials remained concerned with DND’s strategic approach to private market reliance for military housing, citing factors of concern such as commuting distance and volatility of the private housing market.¹⁸

Notwithstanding DND’s poorly defined strategic vision for CAF living accommodation, the OAG found that only fifteen percent of CAF personnel continued to live in military housing.¹⁹ Thus, despite lingering concerns regarding the viability of the DND housing strategy due to private market risk, capacity, and the implications on labour mobility, the 2001 policy shift toward private housing markets achieved its intent over time and now a large proportion of the CAF population live amongst the communities surrounding military bases and wings.

RELOCATION HOMEOWNERSHIP BIAS

An examination of the Canadian Forces Integrated Relocation Program Directive (CFIRPD) shows significant financial incentivization encouraging CAF personnel to undertake homeownership risk. Transactional costs are unbiased in the CFIRPD for either housing tenure, meaning that both buyers or renters are fully compensated in this regard.²⁰ However, SCNDVA recommended that the Guaranteed Home Plan and the Home Equity Assistance Program (HEAP) relocation benefits be continued beyond their initial trial period to compensate military

¹⁷ Canada, Office of the Auditor General of Canada, *Report 5: Canadian Armed Forces Housing* (Ottawa: 2015), last accessed 18 March 2018, http://www.oag-bvg.gc.ca/internet/English/parl_oag_201602_05_e_41062.html, 4.

¹⁸ *Ibid.*, 6.

¹⁹ Canada, Office of the Auditor General of Canada, *Report 5*, 1.

²⁰ Transaction costs associated with the decision to purchase a home are covered in the CFIRPD, such as real estate commission, fees associated with legal, appraisal, and building inspection, bridge financing costs, mortgage early repayment penalties and default insurance. The transactions costs with rental or leased accommodations are comparably covered; such as, early termination costs due to relocation prior to the end of a contract, and one month or more of dual rental payments to secure a property at destination prior to vacating the previous.

homeowners who were forced to sell at a loss due to relocation.²¹ The CFIRPD contains a modified version of those initial financial compensation programs seen in the updated Home Equity Assistance (HEA) benefit. Homeowners are reimbursed under the relocation policy for 80% of a loss upon selling a home up to a maximum of \$30,000.²² If a certain region can be demonstrated to meet the criteria of a depressed market area by Treasury Board Secretariat (TBS), homeowners qualify for 100% of their loss.²³

SCONDVA also believed that some military personnel “might want to keep a home in one location while posted elsewhere because it is a good investment or because they wish to return there in a few years, for example, upon retirement.”²⁴ Of particular interest was the Committee’s recommendation number 37, advocating “that a program be developed to facilitate the leasing by the Housing Agency of homes owned by military personnel for use as PMQs when homeowners are posted to another region of the country or overseas.”²⁵ The Committee believed military members could be encouraged to maintain ownership of their homes upon relocation and have CFHA lease them on their behalf, thereby creating a pool of CAF-member owned off-base civilian homes with all associated equity, maintenance, and liability risk borne by CAF personnel. One can see how this program coincides with the government’s intent to extract itself from managing a large portfolio of publicly-funded military accommodations. Although this

²¹ Canada, Parliament, House of Commons, *Moving Forward*, 37-38.

²² Department of National Defence, *CANFORGEN 073/18, Relocation Policies and Benefit Changes – APS 2018*, last accessed 26 April 2018, <http://vcds.mil.ca/apps/canforgen/default-eng.asp?id=073-18&type=canforgen>. The Home Equity Assistance benefit had previously been established at \$15,000 and was increased to the new limit of \$30,000 effective 19 April 2018. The CFIRPD specifically identifies the compensation applies to the difference between the home’s purchase price and sale price unless the property sells for less than the 95% of the market value as determined by an appraiser. In this scenario Director Compensation and Benefits Administration (DCBA) approval is required.

²³ Department of National Defence, *Canadian Forces Integrated Relocation Program Directive, APS 2009-2015*, last accessed 18 March 2018, http://www.forces.gc.ca/assets/FORCES_Internet/docs/en/about-policies-standards-benefits-relocation/relocation-directive-2009-2015.pdf, 79-80.

²⁴ Canada, Parliament, House of Commons, *Moving Forward*, 38.

²⁵ *Ibid.*

program did not materialize in the manner envisioned by the Committee, the CFIRPD Real Estate Incentive (REI) provides financial incentivization of up to 80% of the real estate commission, to a maximum of \$12,000 based on the property's appraised value, when CAF personnel elect not to sell their principal residence during relocation.²⁶ Despite undertaking private market real estate risk, some military personnel leverage this relocation incentive to acquire real estate in every location they are posted to and become, over time, amateur absentee landlords.

Notwithstanding that renters are provided financial compensation to mitigate risk for breaking a lease or holding two concurrently for a certain period, the CFIRPD currently contains no other significant financial incentives to encourage renting as the preferred living accommodation choice over buying.²⁷ Thus, DND relocation policy is financially incentivized toward encouraging CAF personnel to accept the greater private market housing risk associated with homeownership compared to leased accommodation. Although homeownership offers potential equity gain, the occurrence of equity loss creates a negative stressor impacting labour mobility, as will be further discussed.

MULTIDIMENSIONAL FRAMEWORK OF HOUSING

To analyze and understand the social and economic impacts of the *DND Living Accommodation* policy and its implications on military labour mobility, this paper will present academic research demonstrating various perspectives concerning the role of housing in society.

²⁶ Department of National Defence, *Canadian Forces Integrated Relocation Program Directive*, 81.

²⁷ The Post Living Differential (PLD) allowance compensates military personnel for cost of living (COLA) differences based on geographic location as compared to a standardized cost of living calculation using the National Capital Region (NCR) as a baseline. As PLD applies to both homeownership and renters, it does not bias the rent or buy decision as the after-tax amount would likely be factored into either financial decision.

In my analysis, the Canadian and United States (US) housing markets are predicated on similar Western democratic and capitalist societal values and economics. Therefore, in several cases research referring to American military housing or the US housing market can be extended to Canada, in principle.

To begin, consider a study completed for the US Department of Defence (DoD), published by Pamela Twiss and James Martin of the Military Family Institute of Marywood University, that found military housing is a fundamental component of military quality of life and the military community:

...more than a commodity to buy and sell, and more than a basic human requirement...housing situates members of the military in relationship to others – both within and outside of the military...as well as military and civilian goods and services that meet social and material needs such as friendship, kinship, community, employment, transportation, health and welfare...Housing is more than bricks and mortar; it is a fundamental component of community social and economic life.²⁸

Notwithstanding Twiss and Martin's perspective that military housing and community are an importance component of military quality of life, this research bolsters DND's updated concept of a military community as existing beyond the physical layer of military housing itself – beyond on-base housing and the “company town” – and reinforces the idea that housing has multidimensional levels in society. This is also the research perspective of Dr. Anne Shlay, Professor of Sociology, who examined the differing dimensions of housing's role in society and argued that housing creates social stratification in society that results in the ordering of group membership with related access to resources, income, and wealth. Her research conceptualizes

²⁸ Pamela C. Twiss and James A. Martin, *Quality of Life and Shelter: A History of Military Housing Policy and Initiatives (1973-1996)* (Scranton: Military Family Institute, 1998), v.

housing as a broader framework of dimensions that influence “people’s life chances and social mobility prospects.”²⁹ Shlay’s housing dimensions are shown in Table 1.

Table 1 – A Multidimensional Definition of Housing

Layers	Elements	Effects
Physical	Structure type, dwelling size, lot size, amenities, age, condition, design, density	Security, well-being, satisfaction
Economic	Cost/affordability, investment, tenure, taxes, value	Disposable income, wealth/savings, security, debt
Consumption	Building materials, furnishing, decorating, consumer durable goods, maintenance	Employment, economic stimulation, debt
Location	Neighbourhood, political jurisdiction, accessibility, public services, community, infrastructure, economic development, crime/safety	Human capital, employment, social mobility, income, security, well-being

Source: Anne B. Shlay, “Life and Liberty in the Pursuit of Housing”

The first column separates housing by four different layers: physical, economic, consumption, and location. The table further identifies the various elements and effects conceptualizing housing beyond its influence as just simple shelter. Overall, Schlay’s four layers of housing provide a useful framework for analyzing the multidimensional influences of housing and their importance and influence on Canada and CAF accommodation policy.

²⁹ Anne B. Shlay, “Life and Liberty in the Pursuit of Housing: Rethinking Renting and Owning in Post-Crisis America”, *Housing Studies* 30, No. 4 <http://dx.doi.org/10.1080/02673037.2014.963521>

ECONOMIC DIMENSION OF HOUSING

The impact of housing in society is a highly contentious and emotional subject. The evolution of housing as more than just shelter within modern society and a predominate homeownership bias in a variety of literature has created vast, varying perspectives in research, opinion, political debate and governmental policy along all four dimensions of Schlay's conceptual framework. Therefore, the purpose here is not to examine every layer in absolute detail but rather to consider how certain aspects of housing may impact CAF labour mobility in the context of the existing *DND Living Accommodation* policy.

First, the societal narrative biasing homeownership over renting is predominantly associated with the economic layer. Arlo Chase, an American Affordable Housing Professional, cites President Franklin Roosevelt's argument during The Great Depression that "special safeguards should be thrown around home ownership as a guarantee of social and economic stability."³⁰ The Canada Mortgage and Housing Corporation (CMHC), evolving from the Dominion Housing Act (1935) through to its post-WWII inception in 1946, embodies Western democracy political economic thinking during the 1930s that government intervention using housing to generate national economic stimulation would restore desperately needed social stability. Consequently, over the course of many decades since the Great Depression, a widely shared societal perception has evolved that homeownership is more economically beneficial than renting. Over time, as North America experienced greater peace and economic stability, a major indicator of success was seen in owning a home, with an expectation "that if people played by the rules, they were rewarded with homeownership. This housing realization became known as

³⁰ Arlo Chase, "Rethinking the Homeownership Society: Rental Stability Alternative", *Journal of Law and Policy* 18, no. 1 (2009), last accessed 18 March 2018, <http://brooklynworks.brooklaw.edu/jlp/vol18/iss1/2>, 71.

the American Dream...[and] has been virtually synonymous with wealth acquisition.”³¹ This belief has been reinforced for many generations in two ways: first, homeownership and the amortization of debt in the form of a mortgage gives households a forced savings mechanism that builds a form of private social insurance to fund retirement or other potential life endeavours. Second, increased equity enables homeowners to leverage capital appreciation.³²

From an economic standpoint, the Canadian federal government biases homeownership over renting through the political economics of the tax-and-transfer system for redistribution of wealth to influence income and social equality.³³ The Macdonald-Laurier Institute (MLI), a non-partisan, independent national public policy think-tank, argues that homeownership forms a basic aspiration of the middle-class: “It has been seen for decades as the quintessential step on the path to financial security and personal stability.”³⁴ The Canadian federal government provides economic financial incentives inherently designed to assist first-time home buyers save for a down payment, cover closing costs, or encourage homeowners to build equity in their primary residences.³⁵ Canadian homeownership is even further privileged over renting in this regard through government tax policy treatment. Table 2 depicts the total cost of three Canadian federal government homeownership tax programs, valued in 2015 at an estimated \$6.1 billion of foregone revenue.

³¹ Anne Shlay, “Life and Liberty in the Pursuit of Housing”, 563; economic commentary examining this societal belief following the Great Financial Crisis was also scrutinized by *The Economist*, “Home Ownership: Shelter or Burden?”, 16 April 2009, last accessed 18 March 2018, <https://www.economist.com/node/13491933>, 2.

³² Arlo Chase, “Rethinking the Homeownership Society”, 72.

³³ Tavia Grant, “Canada’s Tax, Transfer System Needs Rethink Amid Growing Inequality: Study”, *The Globe and Mail*, updated 25 March 2017, last accessed 23 April 2018, <https://www.theglobeandmail.com/report-on-business/economy/canadas-tax-transfer-system-needs-rethink-amid-growing-inequality-study/article21720250/>

³⁴ Sean Speer and Jane Londerville, *A Home to Call Our Own: A Federal Strategy for Affordable and Responsible Homeownership* (Ottawa: Macdonald-Laurier Institute, 2017), last accessed 5 March 2018, https://macdonaldlaurier.ca/files/pdf/MLI_FederalHousing_webF.pdf, 12.

³⁵ Sean Speer and Jane Londerville, *A Home to Call Our Own*, 26.

Table 2 – Federal Tax Incentives for Homeownership, 2010-2017 (\$Millions)

	2010	2011	2012	2013	2014	2015	2016	2017
First-Time Home Buyers' Tax Credit	105	110	110	105	115	120	120	120
Non-taxation of capital gains on principal residences	4105	4700	3900	4160	5100	5920	5320	4975
Home Buyer's Plan	75	75	75	75	75	75	75	75
Total	4285	4885	4085	4340	5290	6115	5515	5170

Source: Sean Speer and Jane Londerville, *A Home to Call Our Own*, 27.

The non-taxation of capital gains on a single principal residence receives the greatest preferential tax policy treatment of any financial asset class. A Canadian resident is able to claim the principal residence capital gains exemption and pay no tax on the price appreciation gained upon selling their home.³⁶ For example, notwithstanding provincial tax rate variations, BDO Canada calculates that in 2017 a Canadian taxpayer at the top personal tax bracket, paying rates in the province with the highest marginal rates, would pay 27% on capital gains (other than the sale of the taxpayer's principal residence), 43% on eligible dividends, 47% on non-eligible dividends, and 54% on salary or interest income.³⁷ However, the tax privileging of homeownership only applies to price increases, and only for a single designated principal residence. Homeowners cannot deduct the capital loss from the sale of their home if they sell for less than the original purchase price as principal residences are considered personal-use property by Canadian tax

³⁶ Government of Canada, "Personal Residence and Other Real Estate", last accessed 23 April 2018, <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-127-capital-gains/principal-residence-other-real-estate.html>.

³⁷ BDO Canada, "Capital Gains Versus Dividends – What is the Issue?", last accessed 7 April 2018, <https://www.bdo.ca/en-ca/insights/tax/tax-articles/capital-gains-versus-dividends-what-is-the-issue/>.

policy.³⁸ This differs from capital losses related to financial investments such as securities, like stocks and bonds, which can be used to offset other forms of taxes like personal income and carried-forward indefinitely.³⁹ Of note, from an economic risk-reward perspective for CAF personnel who are posted and selling their principal residence upon relocation, this non-taxation policy only benefits CAF personnel who are homeowners selling with a capital gain. Military members who purchase homes rather than rent must absorb a capital loss from other personal equity without any tax advantage to write-off such capital loss against personal income. If insufficient equity is available upon selling a principal residence, CAF homeowners face a situation where they may need to take out a personal loan to pay off the mortgage if faced with a forced residence sale scenario on posting.

Additional Canadian financial tax policy incentives also favour homeownership, such as the First-Time Home Buyer tax credit or the Home Buyers' Plan (HBP), a program enabling Canadians to withdraw up to \$25,000 per calendar year from registered retirement savings plans (RRSPs) to build or buy a home.⁴⁰ A 2015 research report, conducted by Carleton University Centre for Urban Research and Education (CURE) on behalf of CMHC, cites taxpayers' ability to leverage these tax incentive programs toward purchasing a home as significant factors responsible for contracting the relative size of the Canadian rental housing sector and shifting of

³⁸ Government of Canada, "Personal Use Property", last accessed 7 April 2018, <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-127-capital-gains/completing-schedule-3/personal-use-property.html>. A similar tax policy comparison can be made with the US. Rather than tax-emption of the capital gain on housing, American homeowners are permitted to deduct mortgage interest against personal income. This tax policy treatment economically incentivizes homeowners to over-leverage the purchase of larger homes using large mortgages with government subsidization of the interest payments. Source: Arlo Chase, "Rethinking the Homeownership Society", 70.

³⁹ Government of Canada, "Capital Gains – 2017", last accessed 7 April 2018, <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4037/capital-gains-2016.html>.

⁴⁰ Government of Canada, "What is the Home Buyers' Plan (HBP)?", last accessed 7 April 2018, <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/what-home-buyers-plan.html>

previously-existing rental stock to owner-occupied housing.⁴¹ Tax policy incentivization biases the financial risk-reward comparison in favour of homeownership, thereby influencing CAF personnel, and all Canadians, to undertake increased financial risk as compared to renting.

CONSUMPTIVE LAYER OF HOUSING

Next, the third layer of Schlay's framework considers the consumption aspects of housing and its influence through employment and financial outlays associated with both homeownership and renting. Currently, the housing sector has a disproportionate influence on the Canadian economy. For 2016, the latest official year figures are available from Statistics Canada, data reveals that "real estate selling, managing, renting and leasing" was the largest segment of the Canadian economy at 13% of Gross Domestic Product (GDP),⁴² residential construction approximately 7%, and real estate and financial services accounting for 20% of the economy, a level not seen since the 1960s.⁴³ Real estate, renting, and leasing has greater impact within the Canadian economy than manufacturing, at just over 10% of GDP, or mining, oil and gas extraction, at 8%.⁴⁴

As recent history has shown however, a rapid and exaggerated investment in real estate can result in massive distortions in a nation's economy and lead to elevated risk for homeowners and renters seeking affordable places to live. Analysis of the 2008 United States financial crisis,

⁴¹ Steve Pomeroy, Jaime Horn, and Maude Marquis-Bissonnette, *Literature Review of International Rental Housing Policies* (Ottawa: Canadian Mortgage and Housing Corporation, 2015), last accessed 18 March 2018, https://carleton.ca/cure/wp-content/uploads/Literature_Review_International_Rental_Housing_w.pdf, 1.

⁴² Data source is Statistics Canada, <http://www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/gdps04a-eng.htm>; Shawn Allen, "The Canadian Economy at a Glance", *InvestorsFriend*, last accessed 15 March 2018, <http://www.investorsfriend.com/canadian-gdp-canadian-imports-and-exports/>.

⁴³ The Canadian Press, "The housing market's oversized contribution to Canada's economy is about to shrink", *Financial Post*, 16 January 2017, last accessed 15 March 2018, <http://business.financialpost.com/personal-finance/mortgages-real-estate/the-housing-markets-oversized-contribution-to-canadas-economy-is-about-to-shrink>.

⁴⁴ Shawn Allen, "The Canadian Economy at a Glance".

also referred to as the “Great Financial Crisis” (GFC), eventually led back to the ultimate root cause being housing.⁴⁵ Low interest rates led citizens to overextend mortgage debt that became unaffordable when interest rates increased. This, combined with loose underwriting practices and the securitization and sale of bad debts, brought economic ruination for many people. Global stock markets plunged, housing prices plummeted, and homeowner equity disappeared. Anne Shlay writes, one of the most significant lessons of the GFC is that a balanced, stable housing market is essential for economic prosperity, otherwise it can undermine the economy.⁴⁶

A counterexample to the heavy American dependence on homeownership to drive growth in the United States economy is Germany’s balanced housing market. Dr. Alexander Reisenbichler, who researches how public policies shape the political economy of homeownership, financial, and labour markets in advanced economies, examined Germany’s approach to rebuilding its housing stock following the extensive destruction experienced during World War II. Although the German government provided economic subsidies to both types of housing tenure, it empowered regional authorities with the distribution of housing development funding and whom tended to favour the rental sector “as being more pragmatic [in] providing affordable housing for more people and as showing sensitivity to the housing needs of local communities...[as a result,] Germany managed to develop a well-functioning, affordable, and high-quality rental market.”⁴⁷ Germany’s political economic policies were focussed toward developing exports and savings. Thus, Germany created a balanced housing market and their national economy is much less dependent on housing.⁴⁸

⁴⁵ Anne B. Shlay, “Life and Liberty in the Pursuit of Housing”, 560-561.

⁴⁶ *Ibid.*

⁴⁷ Dr. Alexander Reisenbichler, “A Rocky Path to Homeownership: Why Germany Eliminated Large-Scale Subsidies for Homeowners”, *Cityscape: A Journal of Policy Development and Research* 18, no. 3 (Washington, DC: U.S. Department of Housing and Urban Development, 2016), 286, 288.

⁴⁸ *Ibid.*

The important positive socio-economic benefits of a balanced housing market have been acknowledged by the Canadian Government in its National Housing Strategy. This policy and action plan commits \$2.5 billion toward the Rental Construction Financing Initiative designed to “provide low-cost loans to encourage the construction of rental housing across Canada, where the need for rental homes is clearly demonstrated. Over 30% of Canadians rely on rental housing as an alternative to homeownership.”⁴⁹ Germany’s balanced housing market is a tangible example demonstrating that CAF personnel, and Canadians in general, would benefit from a vibrant rental market as it creates a balanced, healthy private housing sector that reduces risk and increases affordability, thus increasing quality of life by reducing financial risk and stress.

LOCATIONAL DIMENSION OF HOUSING

Lastly, when analyzing the locational layer of housing I found differing research perspectives concerning its impact on neighbourhoods and communities and its influence on labour mobility. The locational layer overlaps with the previously discussed economic and consumptive dimensions. However, the layers of Schlay’s housing framework are not mutually exclusive given the complex interactions between each. Also, within the locational layer the societal and economic aspects are not always congruent depending on the contextual perspective of a certain government study or academic research paper. These divergent perspectives serve to reinforce the complex interrelationships between each of the layers. Nevertheless, as will be discussed my research found a clear homeownership bias in Canada’s national housing strategy. This will be shown to have implications for CAF labour mobility affected by frequent postings and relocation.

⁴⁹ Government of Canada, *Canada’s National Housing Strategy: A Place to Call Home* (Ottawa: 2018), last accessed 18 March 2018, <https://www.placetocallhome.ca/pdfs/Canada-National-Housing-Strategy.pdf> 37.

I begin with locational housing-related research viewed from the perspective of the Macdonald-Laurier Institute. They examined a breadth of social science research related to homeownership which found “positive association with a raft of economic and societal benefits that extend beyond the individual to society as a whole.”⁵⁰ The federal government conducted its own research leading up to its development of Canada’s first National Housing Strategy (NHS) released in January 2018. Its research cited the Macdonald-Laurier Institute study but also included additional consultations and surveys with Canadians who had transitioned to homeownership. Overall, as seen in Figure 3, Ottawa concluded that homeownership predominantly results in five broad-based positive economic and social outcomes; they are: “improved family life, improved happiness, sense of stability, more financial control, and financially better off.”⁵¹

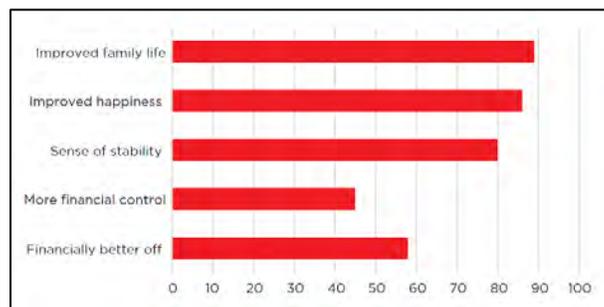


Figure 3 – Canadian Federal Government Discussion Paper

Benefits and Impacts of Homeownership (%)

Source: Source: Sean Speer and Jane Londerville, *A Home to Call Our Own*, 13.

⁵⁰ Sean Speer and Jane Londerville, *A Home to Call Our Own*, 12-13.

⁵¹ *Ibid.*

These benefits of housing are considered *positive externalities*, or spillover effects that “are shared by the community surrounding the homeowner households.”⁵² Canada’s NHS cites that “safe, affordable housing is a launch-pad for better socio-economic outcomes for our citizens, a more inclusive society where everyone has the opportunity to be well and to succeed, a stronger economy and a cleaner environment.”⁵³ Overall, Ottawa’s conclusion is consistent with certain scholarly research attributing positive societal and economic externalities with increased stability, such as improved health, better educational outcomes, stronger families, and higher rates of civic engagement.⁵⁴

However, homeownership and longer-term rental tenures each provide an equivalent mechanism for stability in a neighbourhood and community. Arguably, “many of the arguments supporting homeownership follow from the claim that homeownership is a more stable form of tenure than renting.”⁵⁵ Contrary to this perspective, William Apgar, a former U.S. Assistant Secretary of Housing and member of Harvard University’s Joint Center for Housing Studies, argues “often the social/psychological aspects of housing are discussed in terms of owner-occupied housing. Yet there is nothing inherent in the concept of “home” that is necessarily linked to homeownership.”⁵⁶ A much-cited 1998 paper put forward by Denise DiPasquale and Edward Glaeser, two leading housing economists, provides empirical support to the assertion that a “positive spillover effect associated with increased homeownership in fact results from

⁵² Arlo Chase, “Rethinking the Homeownership Society”, 72.

⁵³ Government of Canada, *Canada’s National Housing Strategy: A Place to Call Home*, 3.

⁵⁴ Sean Speer and Jane Londerville, *A Home to Call Our Own*, 13. Similar positive externalities associated with homeownership are discussed in Arlo Chase, “Rethinking the Homeownership Society”, 71-75.

⁵⁵ Arlo Chase, “Rethinking the Homeownership Society”, 75.

⁵⁶ William Apgar, *Rethinking Rental Housing: Expanding the Ability of Rental Housing to Serve as a Pathway to Economic and Social Opportunity* (Cambridge: Harvard University Joint Center of Housing Studies, 2004), last accessed 18 March 2018, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.163.5199&rep=rep1&type=pdf>, 15.

longer term residences, and *not* homeownership *per se* [sic].”⁵⁷ This contrarian perspective is important when one considers that longer-term tenants have the same interests as homeowners in living and raising their families in clean, safe neighbourhoods with good schools. William H. Simon, Professor of Law at Columbia Law School, argued that rent control, the regulatory limitation imposed on rent increases paid by tenants, might in fact encourage greater long-term societal benefits associated with the locational dimension of housing than homeownership, as it “forces the tenant to stay in place to share the benefits of community improvement, rather than enabling the resident to benefit from those improvements by selling their home at a premium.”⁵⁸ DiPasquale and Glaeser’s research concluded with the assertion that “promoting homeownership also limits mobility which may impose costs that far exceed any benefits from better citizenship.”⁵⁹

This leads to an important aspect of the locational layer of housing in the reallocation of human capital – people as workers relocating for employment reasons. David Blanchflower, a labour economist, and Andrew Oswald, a Professor of Economics and Behaviour Science, documented robust statistical association using over fifty years of American housing and employment data that evidence high levels of homeownership gradually interfere with the efficient functioning of a labour market. Their findings demonstrate homeownership creates negative externalities that manifest in lower labour mobility, longer commute times, and lower rates of business formation.⁶⁰ They concluded that increased homeownership was a “major

⁵⁷ Denise DiPasquale and Edward L. Glaeser, Incentives and Social Capital: Are Homeowners Better Citizens? *Journal of Urban Economics* 45, no. 2 (1999): 354-384, quoted in Arlo Chase, “Rethinking the Homeownership Society”, 76.

⁵⁸ William H. Simon, “Social-Republican Property”, *UCLA Law Review* 38, no. 6 (1991): 1335, quoted in Arlo Chase, “Rethinking the Homeownership Society”, 77.

⁵⁹ Denise DiPasquale and Edward L. Glaeser, Incentives and Social Capital, 31.

⁶⁰ David G. Blanchflower and Andrew J. Oswald, *Does High Home-Ownership Impair the Labor Market?* (Cambridge: National Bureau of Economic Research, 2013), 1.

reason for high unemployment rates of the industrialized nations in the post-war era.”⁶¹ The findings were consistent with European studies analyzing the same trend. Blanchflower and Oswald also linked unemployment with basic levels in Maslow’s hierarchy of needs wherein losing one’s job “is a major source of unhappiness, mental ill-health, and lost income [vis-à-vis security].”⁶²

Housing’s impact on labour mobility was again confirmed by a study analyzing patterns of residential mobility⁶³ and housing policies across the thirty-four countries of the Organization for Economic Cooperation and Development (OECD), of which Canada is a member. The evidence concluded that residential mobility, housing market forces, and labour mobility are closely associated. Some of the key findings were: homeowners are less mobile than renters; high transaction costs involved with buying and selling property decrease residential mobility; more responsive housing supply corresponds to greater residential mobility; and, easier access to housing finance credit loans increases residential mobility. This last finding has significant importance for younger households given their early stage and little personal equity in the residential housing market. It was noted that easier mortgage credit increased residential mobility but caveated this with a caution of “the potential risks that very high leverage [pose] to mobility.”⁶⁴

⁶¹ David G. Blanchflower and Andrew J. Oswald, *The Danger of High Home Ownership: Greater Unemployment* (London: The Royal Institute of International Affairs, 2013), 1. The research used fifty-year longitudinal changes in U.S. homeownership rates (1950-2000) against sixty-years of unemployment rate changes (1950-2010).

⁶² David G. Blanchflower and Andrew J. Oswald, *Does High Home-Ownership*, 1.

⁶³ Residential mobility in the context of the OECD 2011 study refers to a change of dwelling. The study reinforces evidence linking specific factors impacting the rationale for changing dwellings with labour mobility at the location layer in Schlay’s framework associated with relocation of human capital.

⁶⁴ Aida Caldera Sánchez and Dan Andrews, “To Move or Not to Move: What Drives Residential Mobility Rates in the OECD?”, *OECD Economic Department Working Papers* no. 846 (2011), 6.

The OECD residential mobility study cites a combination of many micro and macroeconomic reasons for why people move, including the household family characteristics, life and career choices, and choice of dwelling. However, in the context of relocating military personnel, there is a lack of personal control in timing caused by CAF postings. Particularly salient from the OECD study to military households is that residential mobility is “strongly related to housing market conditions and economic circumstances at the local and national levels and influenced by government policies that shape housing market outcomes.”⁶⁵ Although one might consider this finding as intuitive, economic and behavioural science provide empirical evidence supporting this factor. Sánchez and Andrews cite that economic theory predicts residential mobility choices as a *gain versus cost* decision.⁶⁶ Their study presented empirical evidence that housing prices and rents influencing the cost of living will affect the move decision. One explanation is that “housing is an illiquid asset and in cyclical downturns higher real interest rates and falling prices may lock-in homeowners.”⁶⁷ Sánchez and Andrews posit that because housing is both an investment and consumptive good, mobility decisions are linked to a type of individual portfolio adjustment based on the gain versus cost or, considered in an economic/investment lens, decreased housing prices can be considered losses. This is particularly true in the case of a housing market downturn where homeowners may encounter a capital loss or negative equity scenario if forced to sell in a declining or depressed housing market. The study found that “a housing downturn can lead to substantial lock-in effects that reduce residential mobility, particularly because of the dominance of housing in the household

⁶⁵ *Ibid.*, 8.

⁶⁶ For military personnel who are posted, the decision of whether to relocate is not normally electable, notwithstanding in certain instances a member may have special circumstances. Thus, in this context the military relocation decision cost refers to most CAF personnel posted unrestricted to a new location.

⁶⁷ Aida Caldera Sánchez and Dan Andrews, “To Move or Not to Move”, 8.

asset portfolio.”⁶⁸ Given that CAF personnel are subject to relocation regardless of existing local or national housing markets, the study highlights the importance of a healthy rental sector in providing additional flexibility in deciding whether to rent or purchase a home depending upon the regional housing market conditions existing at the time of relocation: “a crucial factor that can influence households’ mobility is how responsive housing supply is to changes in demand.”⁶⁹ In economics this concept is referred to as the price-elasticity of housing demand.

Currently, social and economic factors have significantly limited the price-elasticity of housing demand in Canada and created an unhealthy housing market overall. In April 2018, CMHC’s Housing Market Assessment (HMA) assessed a high degree of vulnerability in Canada’s housing sector for the seventh consecutive quarter based on its assessment of four main factors: overheating, price acceleration, overvaluation, and price acceleration.⁷⁰ During the past fifteen years, house prices have increased almost three times faster than household incomes.⁷¹ In certain regions with anemic vacancy rates, rental scarcity inflates prices, making it more challenging to attract talented workers and families.⁷² This has severely impacted the supply and affordability of housing to CAF personnel whether renting or owning. Military personnel, particularly those most vulnerable being junior ranks, single members, or sole income families can easily become financially strained when faced with private market housing scenarios having extremely high rent, or real estate markets requiring offers over the asking price or removal of all offer conditions to secure adequate housing. The causes emotional concern regarding about

⁶⁸ Aida Caldera Sánchez and Dan Andrews, “To Move or Not to Move”, 8.

⁶⁹ *Ibid.*, 9.

⁷⁰ Canadian Mortgage and Housing Corporation, “Canadian Housing Market Still Highly Vulnerable”, 26 April 2018, last accessed 26 April 2018, https://www.cmhc-schl.gc.ca/en/hoficlincl/observer/observer_246.cfm?obssource=observer-en&obsmedium=link&obscampaign=obs-20180426-hma.

⁷¹ The Conference Board of Canada, *What We Heard: Shaping Canada’s National Housing Strategy*, last accessed 21 April 2018, http://publications.gc.ca/collections/collection_2017/edsc-esdc/Em12-30-2016-eng.pdf, 6.

⁷² Federation of Canadian Municipalities, *Canada’s Housing Opportunity: Urgent Solutions for a National Housing Strategy* (October 2016), last accessed 21 April 2016, [website CFC Library access], 5.

shelter and security at the foundational levels of Maslow's hierarchy of needs. It negatively impacts military quality of life due to financial and emotional strain. Most importantly, high levels of homeownership are proven to impact labour mobility and the reallocation of human capital, an essential component of military relocation for career development and ultimately linked to the operational effectiveness of the CAF.

CONCLUSION

This essay examined the various DND and Government of Canada policies relating to housing, relocation, and tax policies and concluded there is significant homeownership bias influencing CAF personnel in their choice of housing. The multidimensional analysis of housing examines the complex interaction amongst a variety of socio-economic factors. Notwithstanding the positive externalities cited by academic research related to homeownership, this paper demonstrated using academic research that high levels of homeownership have a negative impact on labour mobility. The government's strategic intent to decrease its publicly-funded Crown-owned housing infrastructure costs in the belief that greater reliance on private housing markets also promotes increased financial well-being of military personnel through equity accumulation does not negate the potential for significant equity loss. Despite some financial equity compensation and incentivization for CAF personnel nested within the CFIRPD favouring homeownership, military personnel accept the financial equity risk and reward associated with purchasing real estate as compared to renting. The decision to buy or rent is a crucial personal financial decision weighed by every CAF member being relocated and has significant implications for CAF labour mobility, quality of life, and CAF operational effectiveness.

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