



UNDERSTANDING SHELTER AFFORDABILITY ISSUES: TOWARDS A BETTER POLICY FRAMEWORK IN ONTARIO

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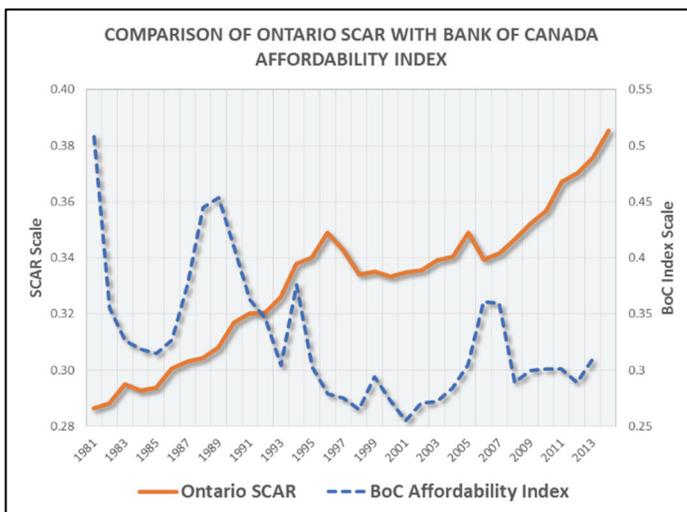
Housing affordability has become an increasing problem for a growing number of Canadian households. Despite the growing public profile and media interest in this issue, there has been limited appreciation of the broad range of forces creating this problem and the complexity of their interaction. The objective of this research was to identify and connect the concepts and factors that contribute to the affordability challenges of shelter in Ontario.

SHELTER CONSUMPTION AFFORDABILITY RATIO

From our research, CANCEA created a Shelter Consumption Affordability Ratio (SCAR index) that focuses upon the consumption needs of shelter by dividing a household's Shelter Consumption Costs by its Discretionary Net Income after Other Necessities.

- 🍁 **Shelter consumption costs:** Rental costs for tenants, imputed rent among homeowners, utility expenses, maintenance/repair costs, associated taxes and transportation costs associated with the proximity of shelter.
- 🍁 **Discretionary net income after other necessities:** Amount of money a household has available to pay for the consumption costs of shelter. It includes after-tax disposable income less finance obligations and less necessary consumption expenses on food, clothing, and private health care costs.

Using the SCAR framework, some of the issues that emerge in the report include:

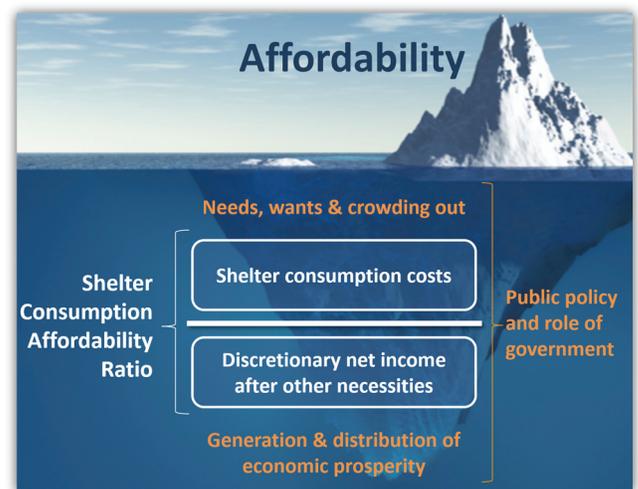


Ontario affordability pressures are at an all-time high: Given historically low interest rates, a number of indices show affordability pressures near their long term average, when in fact they have been significantly increasing.

In Ontario, the SCAR index shows that affordability pressures have grown by 13.5% since 2006. The Index is now at historically high levels. The results for the Greater Toronto and Hamilton Area are expected to be even more pressing, which will be analyzed as part of our future research agenda.

- 🍁 **Stagnating wages and worsening job quality:** Wages paid to the bulk of the population have not kept pace with costs and workers under the age of 45 are significantly represented in precarious labour. Moreover, income and wealth inequality have increased, accelerating substantially since the financial crisis of 2007.

- ❁ **Needs of some are crowded out by the wants of others:** Competition for desirable housing, investor activity, and access to cheap credit have fuelled a process by which some households have found it more difficult to find suitable and affordable shelter. Given the need for shelter, many such households have taken risks and become vulnerable to small economic shocks that affect either income or the cost of supporting their significant debt levels.



Our preliminary analysis estimates that **at least 1.2 million Ontario households are under significant pressure:**

- 840,000 households representing 26% of homeowners have affordability pressures that are twice as high as the rest of the population.
 - 480,000 of those households are younger, middle class households (under the age of 45 years).
 - Ontario has about 380,000 renting households that fulfil CMHC’s definition of core housing need.
- ❁ **Affordability is a significant public policy issue:** Given that the “needs” of some are being crowded out by the “wants” of others, and households in need are having to expose themselves to unacceptable financial risks, the roles of government and its agencies involved in housing are critical. Yet, while affordability is now much more than a low-income household problem, the actions taken by government are unclear while the risks of inadequate policy responses are growing.

AFFORDABILITY PRESSURES AND SYSTEMIC RISK

The aforementioned problems have been magnified by easy access to cheap credit, which has allowed households a greater ability to bid for shelter, leading to a near doubling of the household debt-to-GDP ratio since 1990. Given that “needs”, lower-income, middle-class and younger households are increasingly reliant on access to cheap credit, a significant proportion of the population is now especially vulnerable, which makes economic growth more uncertain. Indeed, an array of systemic risks have emerged:

- ❁ **An uncomfortable status quo that will hinder future economic growth:** The significant debt burdens of younger households can adversely impact future growth unless their incomes increase considerably.
- ❁ **Smaller economic shocks could lead to contagion:** A squeeze on economically vulnerable homeowners makes the risk of contagion more likely, which could reverberate across the economy, destabilize housing and other complementary markets, exacerbating a future general consumption problem.
- ❁ **Risk to the economic contribution of residential construction:** Already confronted with higher construction costs, the residential construction industry is fully exposed to the risks of recent affordability pressures. Weakness in housing prices – let alone a swift breakdown – would change residential construction activity substantially and endanger developers’ business models, thus placing another significant component of the economy at risk.

- **Significant implications for fiscal policy and taxpayers:** Future taxation revenues are now more prone to market shocks. The government’s disproportionate exposure to the guarantee of mortgage risks puts taxpayers at risk of bearing the costs of mortgage defaults, which could be in excess of \$10 billion according to CMHC. Canada’s position, with near zero short-term interest rates and high total public sector debt-to-GDP levels, has exposed a “trap” that could limit the effectiveness of the usual stimulus tools (lowering interest rates, borrowing and spending) when most needed, thus placing another significant part of the economy at risk.

CONCLUSIONS

Shelter affordability is now a serious systemic and broad societal problem that has generated significant risk to Ontario’s economic prosperity. The current discussions about housing affordability have yet to fully appreciate the important connections between many of the factors that underlie the problem. It will need a sophisticated, proactive and co-ordinated response by many government agencies; such a response would require a different line of analysis and co-ordination to the one that was present during the creation of the problem. Our future research agenda is focused on this goal.

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