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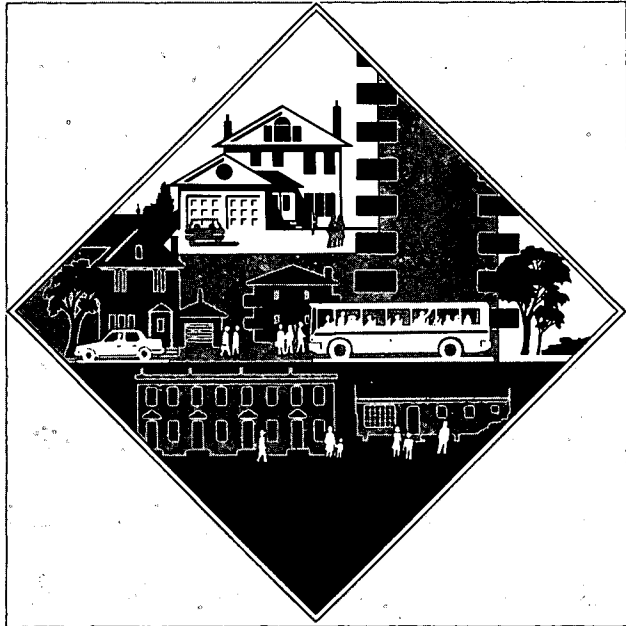
## **AFFORDABILITY OF HOUSING IN CANADA**

Canada



## AFFORDABILITY OF HOUSING IN CANADA

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by Pierre Filion and Trudi E. Bunting

Published under the authority of the Minister of Regional Industrial Expansion.

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## PREFACE

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**T**he 1986 Census of Canada provided, as did all the previous censuses, a rich source of information on individual, family and household characteristics of Canadians. The census data allow individual researchers as well as academic, business, cultural, social and governmental organizations to undertake in-depth enquiries and analyses on those social issues which interest and concern them.

This study is part of the 1986 Focus on Canada Series. The series is a modest effort by Statistics Canada to provide overviews of a wide variety of subjects on which the 1986 Census collected information. The studies have been written by experts, both inside and outside Statistics Canada, in non-technical language supported by simple tables and attractive charts. The topics include demographic characteristics (population, families, farmers, youth, seniors, the disabled), socio-cultural characteristics (ethnicity, language, education), and economic characteristics (women in the labour force, affordability of housing, occupational trends, employment income, family income).

The present study on "Affordability of Housing in Canada" was contracted out to the Institute for Research on Public Policy and was authored by Professors Pierre Filion and Trudi E. Bunting of the University of Waterloo for the Institute.

I would like to express my appreciation to the authors, to the reviewers and to the staff of the Bureau involved in managing and producing this series.

We hope that the studies in the Focus on Canada Series will not only provide Canadians with very useful information on various facets of Canadian society, but will also be an inducement for them to undertake further research on the topics.

Ivan P. Fellegi  
Chief Statistician of Canada



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## HIGHLIGHTS

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- The causes of current housing affordability problems include a heightened housing demand triggered by the maturing of the baby-boom generation; accelerated rates of household formation; national population migration shifts towards Ontario, Alberta and British Columbia; intra-provincial migration towards large urban centres; a pent-up demand caused by the past recession; and low incomes among the under-employed, unemployed, elderly, and working poor.
- Affordability problems are also caused by rising production costs, government regulations and a tendency for builders to construct higher priced, more profitable house models.
- Affordability problems defined as the allocation of 30% or more of a household's income to housing expenses affect tenants far more than home-owners. Among tenants, low-income households suffer the most from affordability problems.
- Households with lower incomes are much more likely to spend a high proportion of their income on shelter costs. This is particularly true for younger and older households, for lone parent and for one-person households.
- Urban tenants are more affected by affordability problems than their rural counterparts. Tenants in rapidly growing urban areas in Western Canada are worst off. Tenants in low-income urban areas also experience severe affordability problems.
- Owner-occupant households also suffer from affordability problems, albeit to a much lesser extent than tenants. It is largely young owner-occupant households that face affordability problems but these problems will abate as their income augments and their mortgage principal is gradually paid off.



## INTRODUCTION

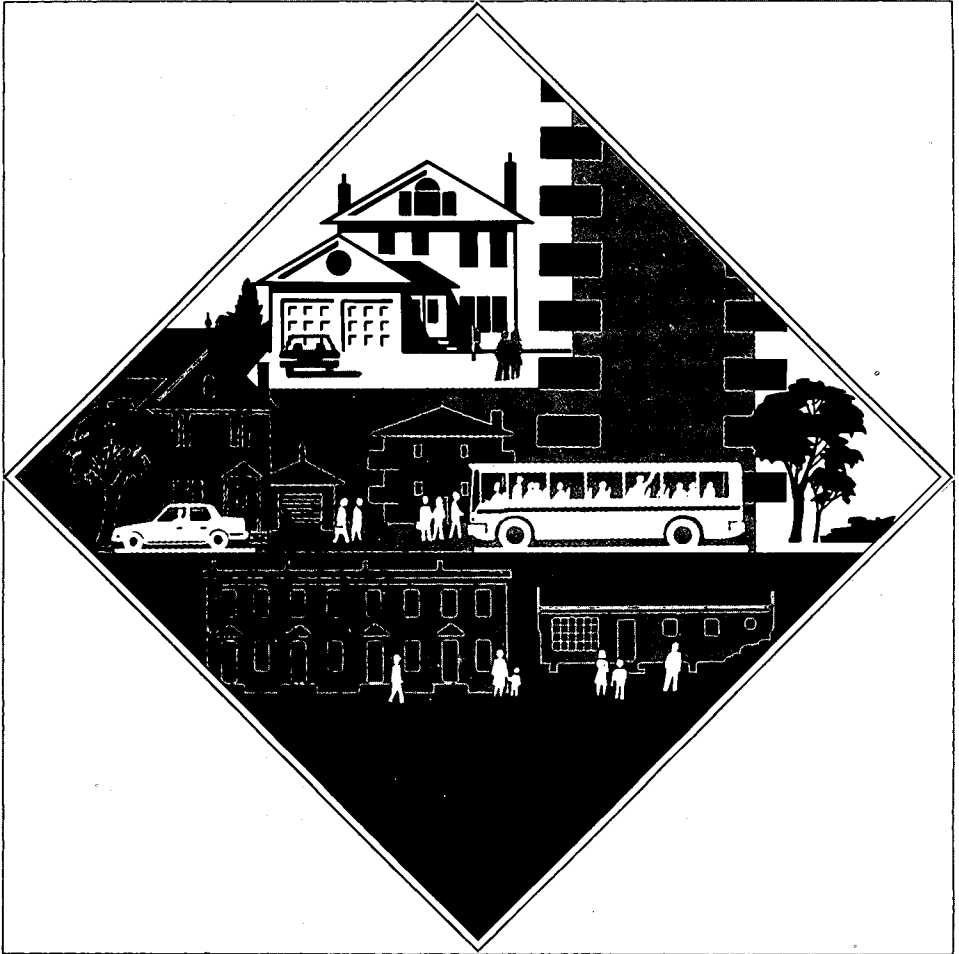
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In recent years, the media has singled out housing affordability as a fundamental problem affecting Canadian society. Newspapers and magazines, for example, regularly feature stories on crowds gathering to purchase moderately priced houses, the plight of the homeless or the difficulties of work force recruitment in cities with tight housing markets. To describe the situation, newspapers have featured titles such as "Hot, Hot Houses", "Very Scary Market", "Housing Crisis", and "Beyond Reach". Research literature is somewhat less colourful but devotes increasing space to topics such as spiralling housing costs, the incapacity of low-income individuals to afford basic needs once they have paid their rent, and obstacles confronting middle-income tenants planning to buy their first home. Yet home-owners and renters alike remain puzzled about the fundamental cause of the problem; its nature is clear, however — for many people housing is simply too expensive.

This study clarifies the issue by using 1986 Census data. It concentrates on who pays more for what. This study also examines where in the country affordability problems are most acute and investigates the causes of affordability problems.



## THE HOUSING AFFORDABILITY PROBLEM





## THE HOUSING AFFORDABILITY PROBLEM

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### Who Suffers the Most?

A household consists of one or more individuals residing in a given dwelling. Members of a household can be related to each other, as in the case of a family, or unrelated, as in the case of university students sharing an apartment. Households overspend on housing when their housing expenses are too high relative to income. This can be due to housing costs that are too high, to incomes that are too low, or to both. According to this definition, households may overspend as a result of a conscious choice to occupy expensive houses or apartments. For example, some households may substitute high mortgage payments for other forms of investment.

Canada Mortgage and Housing Corporation (CMHC) has developed the "core need" definition of housing stress in order to control for voluntary overconsumption. According to this definition a household suffers from affordability problems if it cannot have access to a housing unit (usually a house or apartment but including such housing alternatives as mobile homes) with adequate space and in reasonably good condition without spending an inordinate share of its income on shelter costs. CMHC and charitable organizations agree that when low-income households' shelter costs are 30% or more of their income, these households are compelled to cut back on other essential expenses such as food, clothing, day care and transportation.

The 30% figure also has significance within the financial sector of the real estate industry. In setting mortgage eligibility criteria, lending institutions consider 30% (or sometimes 35%) as the maximum households should pay for property taxes and mortgage principal and interest. They consider that if a household spends more than this on major shelter costs, there is an unacceptably high risk that other demands on the remaining income will oblige the mortgagee to default on the loan.

Housing affordability problems take different forms, depending on the social groups affected. Less affluent households suffer the most. They are often

forced to devote a large share of their income to shelter costs. Some households might pay such an inordinate amount of money for shelter that little is left over to put food on the table. The poor are also the ones who become homeless because of their inability to pay shelter costs. The homeless include individuals or families who rely on shelters, who reside with others on a temporary basis, or who must sleep on the streets.

But the very poor are by no means the only ones suffering from high housing costs. Middle-class households also face affordability problems, albeit problems of a different nature. For many young households, the dream of owning a home is being shattered by rising house values. When they do purchase a house it often entails high mortgage payments relative to income, extensive home repairs or long commuting distances. Unlike tenants, however, the plight of these home-owners improves over time as their careers progress and their wages rise, and as gradual mortgage repayment reduces the relative cost of home ownership. Meanwhile, the value of their real estate investment grows, often quite dramatically, as the value of their home appreciates.

Another consequence of high housing costs is the inhibiting effect on household formation. In areas where, and periods when, affordability problems are acute, many younger people cannot afford to leave their parents' home. High costs also prevent non-family households from breaking down into smaller units. For example, individuals who share accommodation with unrelated people, but prefer living on their own, may not be able to afford to do so. Finally, it is notable that employers also experience the side effects of high housing costs. In cities where housing is very expensive, firms find it difficult to recruit workers unless they raise wages. The problem is particularly severe for firms that transfer employees to high-cost centres. In these cases employees may require some form of supplementary housing bonus along with a substantial pay raise.

## Home-owners' Affordability Problems

### — Demographic Trends

Several factors contribute to housing affordability problems. First are those that drive the cost of a house far above that of the average wage. Such increases force home-owners to devote a larger proportion of their income to house payments. Foremost among these factors are demographic trends that are responsible for a heightened demand, and hence for an inflationary outbidding process for new and existing homes. For example, the housing crisis that followed World War II resulted from unprecedented rates of new household formation as the war ended. This was coupled with a large pent-up demand that had intensified during the depression, and then war — a period of some 15 years when the home construction industry was essentially dormant.

A current source of pressure on the home-ownership market is the maturing of the baby-boom generation. Overall, these individuals (those born between 1946 and 1963) have exerted a pressure on the home-ownership market which, though it began in the 1960s, is perhaps more intense now than ever. Looking at the distribution of the Canadian population according to age groups, it is noteworthy that the size of the 25-34 years cohort exceeds that of all other cohorts (see Chart 1). It is important to note that many households are formed within this age range. As their careers advance individuals belonging to this age

group enjoy increasing incomes. It is also a time of childbearing. According to the evolution of housing preferences and needs of young adults, this age group typically first settles into rental accommodation, then gravitates towards buying their own home. The strain this causes on the housing market is particularly acute since the 35-44 years cohort is significantly larger than the 45-54 years cohort, which explains the intensifying demand over the last 20 years.

Population growth tells only part of the story regarding the demand for housing units. Of even greater relevance is the rate of new households being formed, since by definition each household occupies one housing unit. As shown in Table 1, while the Canadian population grew by 38.8% over the 1961-1986 period, the number of households climbed by 97.4% and their size fell by 29.8%. The decrease in household size over the last 25 years can be attributed to several factors: higher incidence of divorce, fewer and later marriages, a greater number of elderly, a smaller number of children, less doubling up and earlier home leaving on the part of students and of new entrants to the work-force. Many housing units of different size were, and still are, required to accommodate increasingly numerous and smaller households.

**Table 1. Evolution of Population, Households and Number of Persons Per Household, Canada, Census Years 1961-1986<sup>1</sup>**

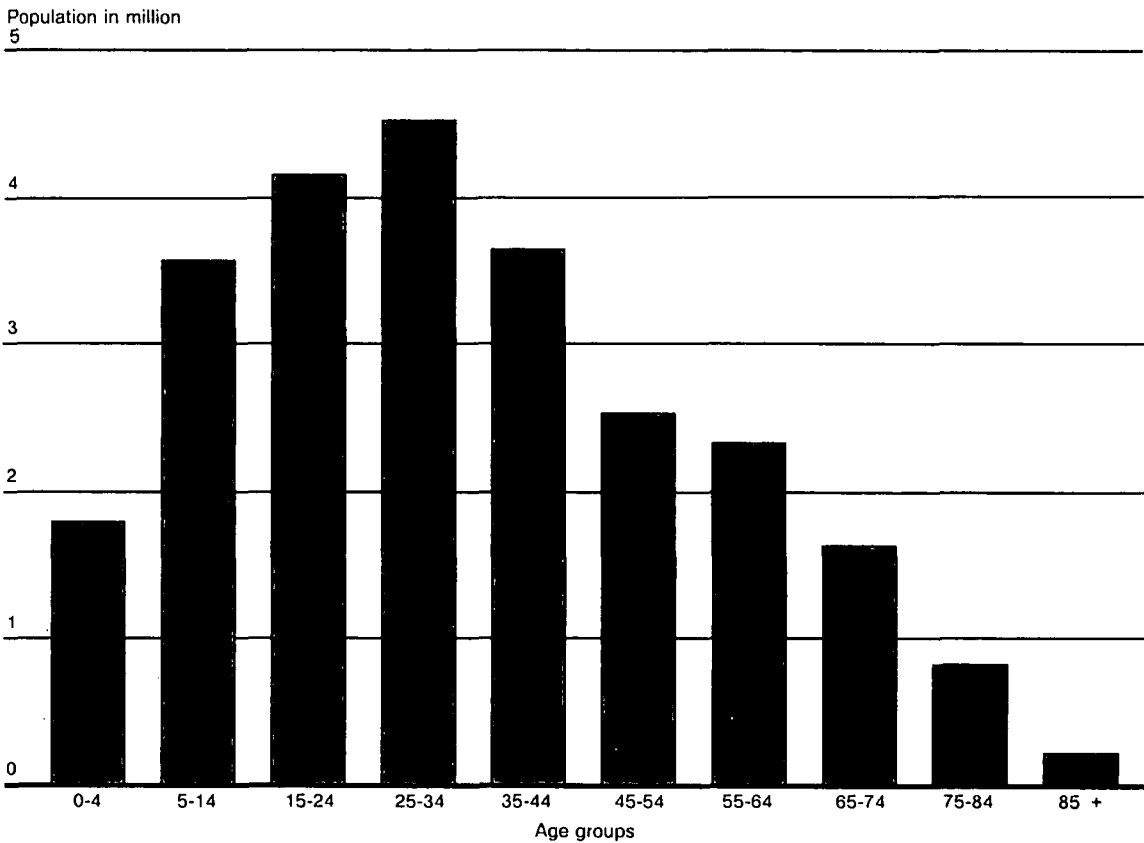
	Population	Households	Average number of persons per household
1961	18,238,247	4,554,736	4.00
1966	20,014,880	5,180,473	3.86
1971	21,568,310	6,034,505	3.57
1976	22,992,600	7,166,095	3.21
1981	24,343,180	8,281,530	2.94
1986	25,309,330	8,991,675	2.81
Percentage change 1961-1986	38.8	97.4	-29.8

<sup>1</sup> Excluding in 1971, dwellings occupied by households outside Canada and in 1986, incompletely enumerated Indian reserves and Indian settlements.

Source:  
Catalogue No. 92-903, Table 2.



**Chart 1.                    Distribution of Population by Age Groups, Canada, 1986**



**Source:**  
1986 Census, Catalogue No. 93-101.

Although the above figures point to Canada-wide demand trends, it is also relevant to examine how housing demand is felt in different regions and cities. A simple way of measuring regional demand is to examine population growth variation throughout the country. Table 2 reveals that between 1981 and 1986 three provinces (Ontario, Alberta and British Columbia) enjoyed a demographic expansion of over 5%. Several possible explanations for this trend include the Ontario manufacturing and service sector expansion in the latter part of the period, Alberta's prosperity relative to most provinces despite the oil bust (and concomitantly, the absence of prosperous destinations for its unemployed people in other provinces over the years when the country was in the grips of the recession) and the fact that this province's young population is a source of natural population growth. In British Columbia, Vancouver underwent high rates of expansion in its role as a major service centre. The province's natural settings and

snow-free winters in its southwest sector have also attracted new residents, in particular pensioners. Overall, on the basis of a robust demand for housing, one could expect that these three provinces will experience higher 1986 housing costs than the slower growth provinces.

But this paints an incomplete regional picture. Equally relevant are trends occurring internally within provinces. Table 2 shows that in every case except one (Saint John, N.B.) the largest metropolitan regions within each of the provinces experienced higher growth rates than the other provincial regions. This points to an ongoing migration towards larger urban areas. The highest levels of growth occurred in Saskatoon, Ottawa-Hull, Toronto and Vancouver. It follows that these are the areas where the highest housing demand pressures were felt. In many other metropolitan regions population growth exceeded 5%, and these communities also experienced intense housing demand.

**Table 2. Population Change 1981-1986, Canada, Provinces and Selected Census Metropolitan Areas**

	1981	1986	Percentage change
Canada	24,343,181	25,309,331	4.0
Newfoundland	567,681	568,349	0.1
St. John's	154,835A	161,901	4.6
Prince Edward Island	122,506	126,646	3.4
Charlottetown <sup>1</sup>	50,995A	53,868	5.6
Nova Scotia	847,442	873,176	3.0
Halifax	277,727	295,990	6.6
New Brunswick	696,403	709,442	1.9
Saint John	121,012A	121,265	0.2
Quebec	6,438,403	6,532,461	1.5
Montréal	2,862,286A	2,921,357	2.1
Québec	583,820A	603,267	3.3
Ontario	8,625,107	9,101,694	5.5
Toronto	3,130,392A	3,427,168	9.5
Ottawa-Hull	743,821A	819,263	10.1
Manitoba	1,026,241	1,063,016	3.6
Winnipeg	592,061A	625,304	5.6
Saskatchewan	968,313	1,009,613	4.3
Saskatoon	175,058A	200,665	14.6
Regina	173,226A	186,521	7.7
Alberta	2,237,724	2,365,825	5.7
Edmonton	740,882A	785,465	6.0
Calgary	625,966A	671,326	7.2
British Columbia	2,744,467	2,883,367	5.1
Vancouver	1,268,183	1,380,729	8.9
Victoria	241,450A	255,547	5.8

<sup>1</sup> Charlottetown is not a census metropolitan area.

A: 1981 figures adjusted due to boundary change.

Source:

1986 Census, Catalogue No. 92-104.

## — Interest Rates

The price of a house is only one component of an owner-occupant's total housing expenses. The other major element is interest rate. Since most home-owners rely on mortgages, interest rate fluctuations directly affect the size of their monthly payments. In the early 1980s, for example, the principal source of many home-owners' affordability problems was mounting mortgage rates.

Besides contributing to the cost of entering into home ownership, interest rates also regulate the market. For example, housing construction slowed down considerably in the first half of the 1980s (see Chart 2A) largely because of a dwindling demand associated with high interest rates (see Chart 2B). Moreover, such rates are often associated with downturns of the economy. Poor economic performance is another factor that affects the levels of housing construction; households with members who are unemployed or who are afraid of losing their job do not generally purchase homes.

In the early 1980s, a slow-down in housing construction coincided with a time when many individuals reached a stage in their life when they were considering home purchase. These provoked a pent-up demand for owner-occupied housing. After 1985, the high levels of demand unleashed by economic recovery resulted in considerably higher housing starts and escalating house values. By 1986, the cost of the house had replaced interest rates as the main area of concern for households entering the home-ownership market.

## — Rising Production Costs

To understand rising housing costs one cannot rely only on demand factors such as the ones previously mentioned. Production costs must also be considered. These two categories of factors are, however, closely interlinked. In periods of high demand, the costs of all housing components are rising. This is true for lots, particularly when the supply of serviced land falls behind demand. On such occasions, municipalities are often blamed for delays in making sufficient serviced land available to meet the demand, and hence for the fierce bidding process which drives up available lot values. Even in cities where servicing is the responsibility of developers, prolonged approval processes and an inadequate expansion of transportation and sewer infrastructures restrict the amount of land available for development. Construction costs also take on an ascending trend. When demand is robust, workers will take advantage of their bargaining power to press for higher wages. Likewise, builders and developers will seek higher profits.

Regulations are another group of supply-side factors associated with high housing costs. The argument is often made that sophisticated servicing and building standards, as well as zoning regulations that rule out modest houses, are major factors accounting for high housing costs. For example, in most large Canadian cities many low-cost houses, such as mobile, modular or very small units, are prohibited by zoning or subdivision bylaws. Development charges, whereby service costs brought about by new developments (e.g., sewers, roads, parks and in some cases, arenas, libraries, new aqueduct facilities) must be paid up front by developers, are also seen to be responsible for higher new housing prices.

Regarding housing type, the margins of profit returned to developers, builders and other agents of the housing industry are highest for the production of large expensive units. In some regions, builders and developers are blamed for producing mainly expensive housing catering exclusively to the tastes and means of the wealthy. From a business viewpoint this makes good sense, especially when insufficient land is available for development; yet builders and developers are criticized for the absence of new moderately priced homes.

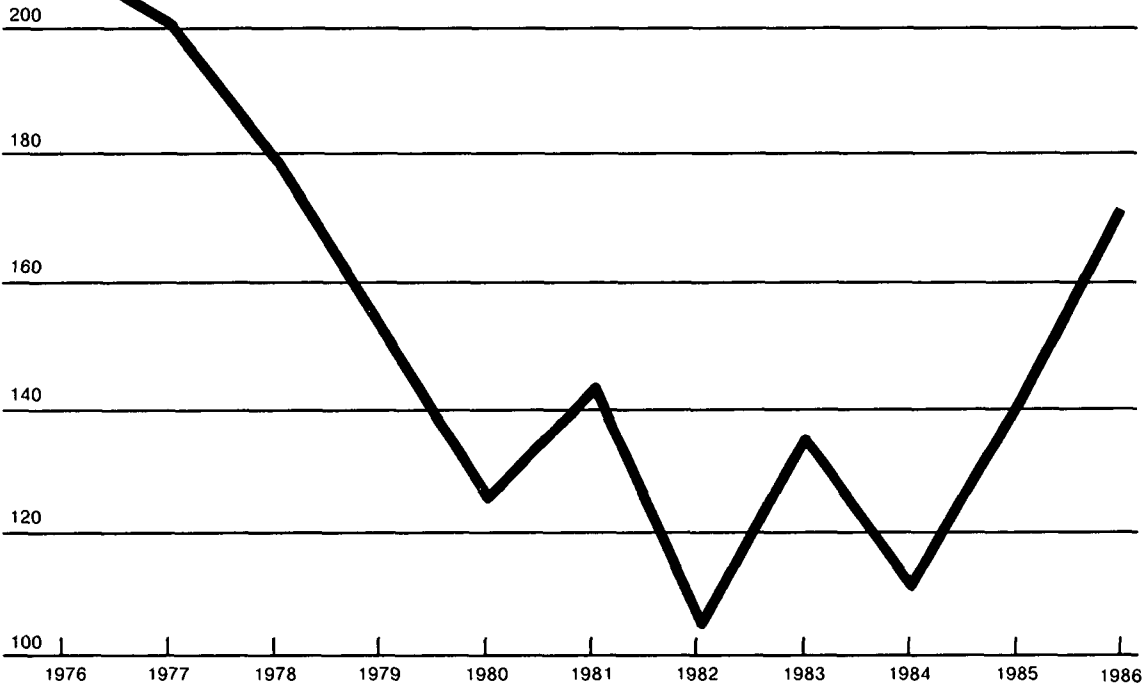
All these considerations pertain to the cost of new housing units. Some people would argue that since new housing accounts for only 3% or 4% of the total housing stock in any given year, the impact of higher production costs is limited. Others maintain, however, that variations in production costs are felt throughout the market. In their view, the value of an existing resale unit is at least partly set according to the cost of producing an equivalent dwelling. They maintain that new housing plays a regulatory role: if existing houses are overpriced relative to new units, purchasers will opt for the latter.

## Tenants' Affordability Problems

Much of the previous discussion is relevant to the rental housing market. High interest rates curtail rental housing construction and this sector is sensitive to inflation in production costs within the construction industry. In many areas the availability of serviced land for rental housing is scarce and some cities are reluctant to zone more than a few sectors for this purpose. Some consider that the high demand for municipal services generated by rental developments is not offset by proportional property tax revenues. Also, home-owners often object to the presence of rental dwellings in their neighbourhood. Meanwhile, demand pressures on the rental housing market resulting from demographic trends have been strong since the mid-1960s. But, despite these similarities, rent increases have been far slower than

**Chart 2A. Dwelling Starts, Canada, 1976-1986<sup>1</sup>**

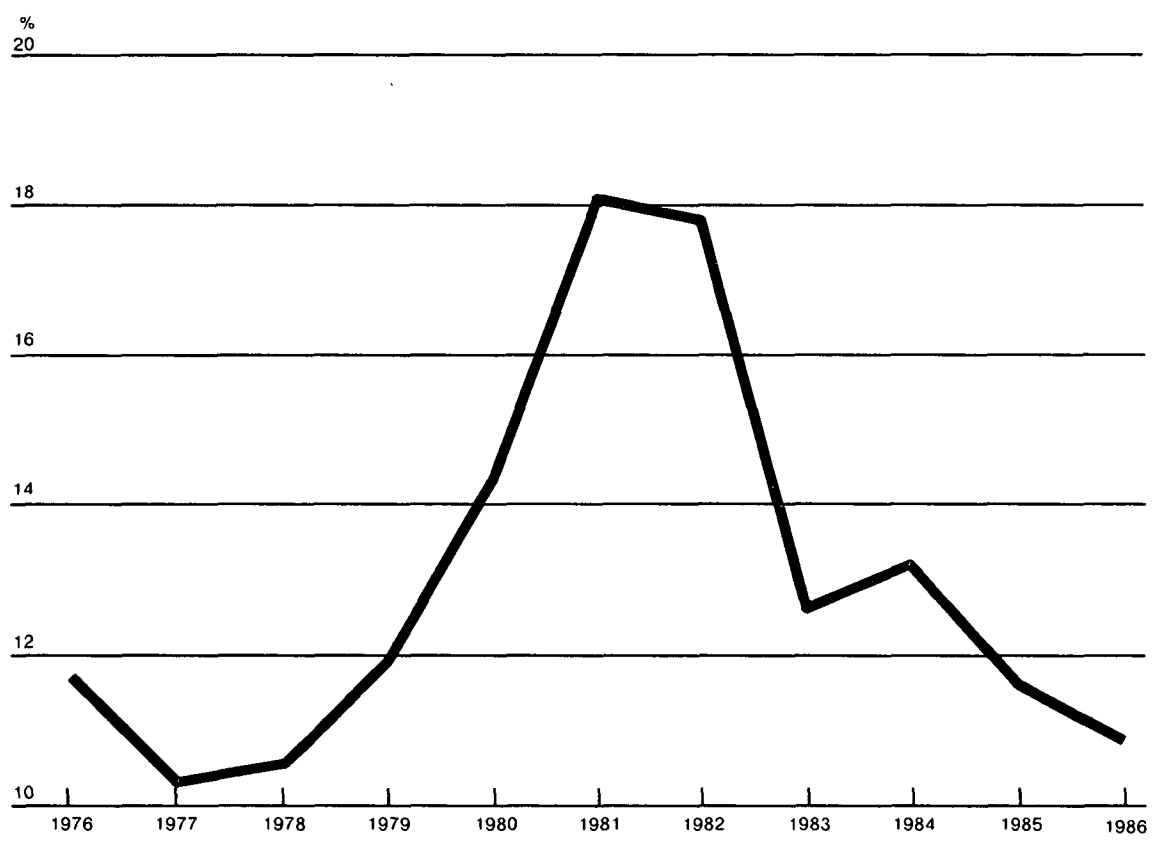
Thousands  
220



<sup>1</sup> In centres of 10,000 population and over.

**Source:**  
Canada Mortgage and Housing Corporation, "Canadian Housing Statistics, 1987", Ottawa, 1988, Table 11.

Chart 2B. Mortgage Rates, Canada, 1976-1986<sup>1</sup>



<sup>1</sup> Annual averages of monthly rates quoted by institutional lenders, rates based on 3-year terms.

**Source:**  
Canada Mortgage and Housing Corporation, "Canadian Housing Statistics", various years and tables.

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the increases in owner-occupied house prices. Three reasons account for this difference. First, in many provinces controls restrain rent increases. Second, tenants generally have significantly lower incomes than owner-occupiers; many can only afford low rents. And last, little change in the quality of new rental units has occurred over the last decades. In contrast, in many urban areas new owner-occupied units are more elaborate than those built some years ago.

Largely because of their low incomes, many tenants are forced to spend an inordinate share of their income on housing expenses. This is particularly true of welfare recipients, the elderly living on a fixed income, and the working poor. Overall, tenants suffering from affordability problems tend to be concentrated among lower income groups.

Cost is not the only problem tenants confront. Low rents are often maintained at the expense of upkeep, which forces many poorer tenants to live in relatively substandard dwellings. Also, some regions exhibit very low vacancy rates. Rent controls and the incapacity or unwillingness of many tenants to pay rents that would be commensurate with construction and maintenance costs for new units compress investors' profit margin. As a result, in cities like Toronto rental start-ups fail to match demand levels. The resulting scarcity makes it difficult for newcomers and households about to be formed to enter the rental market. Likewise, tightness in the housing market pretty much locks tenants in their present units.

## WHO PAYS MORE?

### Household Income and Affordability

Shelter costs to income ratios decline as incomes increase, as seen in Table 3. For owner households, shelter costs defined as owners' major payments include payments for electricity, heating fuel, water and other municipal services, monthly mortgage payments, and property taxes — municipal and school. For renters, such costs are gross rent including electricity, heating fuel, water and other municipal services, and monthly cash rent. When looking at Table 3,

it becomes clear that low-income households are forced to allocate an excessive share of their income to housing. Among home-owner households, the two lower income categories show a high concentration of households facing affordability problems (respectively, 92.6% and 44.8%). For tenants, the proportion of households spending 30% or more of their income on gross rent exceeds 60% in the three lower-income categories (respectively, 96.7%, 76.3% and 64.0%).

**Table 3. Number and Percentage of Households Paying 30% or More of Household Income on Shelter Costs by Tenure and Household Income Groups, Canada, 1986<sup>1</sup>**

Household income group (1985)	Owners		Tenants	
	No.	%	No.	%
Under \$5,000	93,515	92.6	227,825	96.7
\$ 5,000 — \$ 9,999	132,640	44.8	431,725	76.3
10,000 — 14,999	101,440	27.2	287,890	64.0
15,000 — 19,999	90,330	21.7	132,010	32.9
20,000 — 24,999	82,050	19.9	54,475	15.1
25,000 — 29,999	68,385	15.5	23,655	7.5
30,000 — 34,999	54,765	11.3	10,995	4.1
35,000 — 39,999	35,185	7.4	5,005	2.5
40,000 — 49,999	36,385	4.4	4,380	1.7
50,000 and over	25,385	1.7	2,565	1.0
All households	720,090	13.4	1,180,520	35.6

<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing the number of households paying 30% or more of their income (excluding loss and zero income) on shelter costs, by household income, for Canada, 1986.

Source:  
1986 Census, special tabulations.

Table 3 also indicates that tenant households are far more affected by affordability problems than home-owner households. In fact for 35.6% of all tenant households the shelter costs to income ratio stands at or above the 30% affordability threshold. Meanwhile, only 13.4% of home-owner households pay more than 30% of their income on shelter costs. This difference does not appear to be primarily due to the respective size of their housing payments. On average, in 1986, home-owners spent \$479 a month while tenants spent \$431. Rather, the cause lies in tenants' lower income. Table 4 shows that tenants are significantly over-represented among lower income groups, while the opposite holds true for home-owners. This may be partly associated with the overall younger age of tenant households.<sup>1</sup> Approximately 45% of the tenant households, compared with 28% of the home-owner households, are under the age of 35.

### Household Type and Affordability

Chart 3 examines the affordability problems among different households. The type that suffers most from affordability problems is the tenant lone parent. As Chart 3 reveals, 55% of these households

(237,685) must apportion 30% or more of their income to shelter costs.

There are many reasons why lone-parent households face acute affordability problems. To begin with, these households are usually headed by women, and women earn less than men on the job market. Second, many single mothers will either work part time or not at all because of difficulties in combining work and child-rearing. Third, single parents are known to face discrimination in the rental-housing market and as a result may have to pay more for their dwelling. And finally, many lone-parent households rely on one income only, but require larger dwellings than childless singles.

The other household type that faces serious affordability problems — single persons renting a dwelling — is also characterized by dependence on a single income. Approximately 45% of these households suffer from affordability problems. This type is responsible for the largest contingent of households experiencing affordability difficulties. A total of 555,910 one-person households face such problems. Moreover, one-person households have also been the fastest growing household in Canada between 1976 and 1986.

**Table 4. Distribution (Number and Percentage) of Households by Tenure and Household Income Groups, Canada, 1986<sup>1</sup>**

Household income group (1985)	Home-owners		Tenants	
	No.	%	No.	%
Under \$5,000	100,980	1.9	235,630	7.1
\$ 5,000 — \$ 9,999	296,285	5.5	565,660	17.0
10,000 — 14,999	373,410	7.0	449,535	13.5
15,000 — 19,999	416,570	7.8	401,000	12.1
20,000 — 24,999	410,365	7.6	360,035	10.8
25,000 — 29,999	440,900	8.2	315,655	9.5
30,000 — 34,999	485,055	9.0	268,135	8.1
35,000 — 39,999	476,745	8.9	201,190	6.1
40,000 — 49,999	836,780	15.6	258,420	7.8
50,000 and over	1,532,105	28.5	263,440	7.9
Total	5,369,195	100.0	3,318,700	100.0

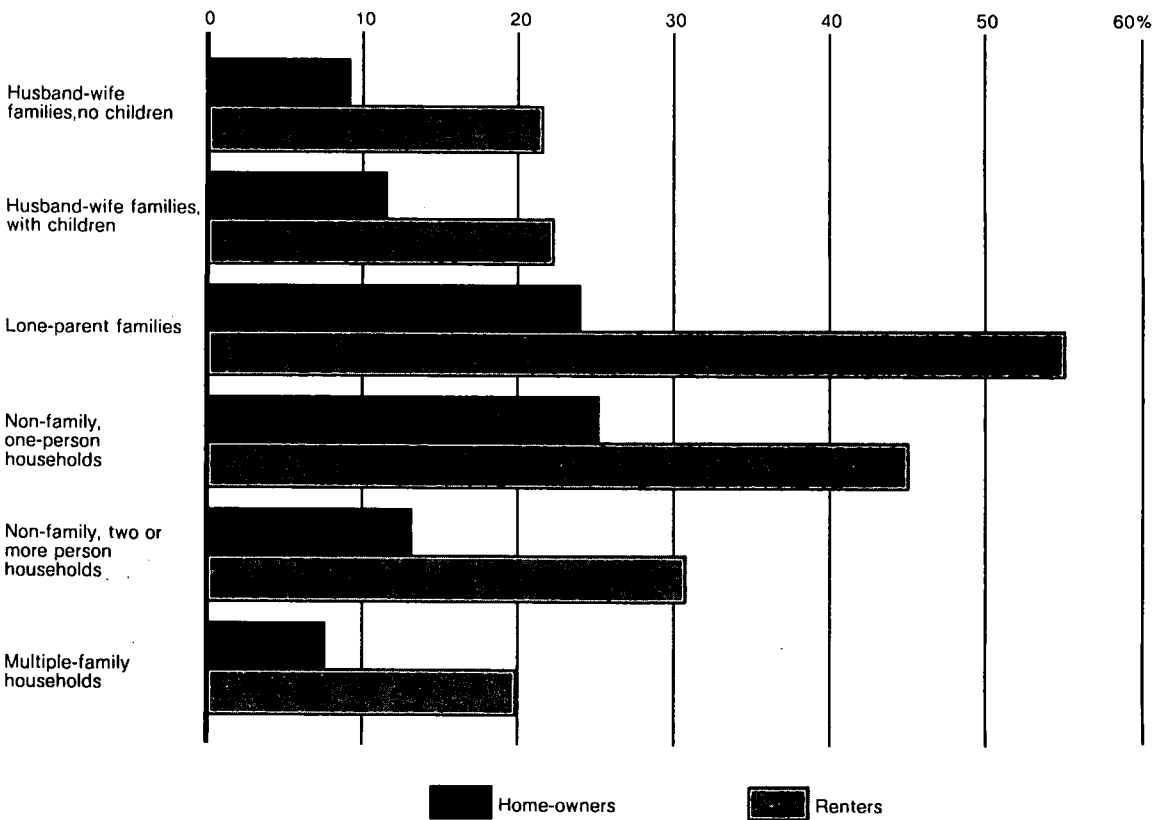
<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing household income (excluding loss and zero income) distribution according to tenure, for Canada, 1986.

Source:  
1986 Census, special tabulations.

<sup>1</sup> Household age refers to the age of the household maintainer. The maintainer is generally the person, or one of the persons in the household, who pays the rent, or the mortgage, or the taxes, or electricity, etc., for the dwelling.



**Chart 3.                    Percentage of Households Paying 30% or More of Household Income on Shelter Costs by Tenure and Household Type, Canada, 1986<sup>1</sup>**



<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing the number of households paying 30% or more of their income (excluding loss and zero income) on shelter costs, by household type, for Canada, 1986.

**Source:**  
1986 Census, special tabulations.

## Age and Affordability

Chart 4 shows that among tenants, the young and the old pay a higher proportion of their income on housing. This can be explained by the presence of students among young tenants as well as that of young workers at the beginning of their careers, who are often paid low wages and some of whom are subject to periods of unemployment. At the other end of the age spectrum are older households many of whom, depending on pension, savings and equity investment, face a significant drop in income when they retire. Tenants' rent to income ratios according to age adopts a U-shaped curve which reflects income variations as individuals proceed through life. They enter the housing market earning relatively low wages and spending much of their income on housing. As their income increases, this financial burden eases off. Later, from the time of retirement onwards, some households again are compelled to allocate a higher percentage of their income towards rent. Age specific income variations are compounded by the prevalence of one-person single-income households among younger and older age groups.

Variations in shelter costs to income ratios according to age take a very different form for home-owners. Here ratios start at a high level but subside and then level off for age groups over 45 years. What transpires is that once the mortgage is paid, home-owners' shelter costs decline markedly. As a result, retired home-owners are not forced to apportion a growing share of their reduced income to housing. While non-mortgage costs, such as municipal taxes and repairs may increase, the mortgage-free home-owner's housing payments are, on average, 65% less than those of the mortgaged owner. Still, for some

older home-owners acceptable shelter costs to income ratios are maintained at the expense of repair and maintenance requirements.

## Voluntary Overconsumption and Affordability

In the current climate of rapid real estate price appreciation, some home-owners would see their house above all as an investment opportunity. Instead of depositing their savings in banks, or investing in the stock market, government bonds or investment certificates, these households would channel their financial resources towards their home. This would be an attractive investment proposition since capital gains on the main residence are not taxable in Canada. For these households, it would stand to reason to build equity by allocating large income shares to homes the size of which far exceeds their needs. Obviously, in this context one could no longer associate high shelter cost to income ratios with affordability problems.

Though overconsumption undoubtedly exists on a small scale, the evidence fails to support this hypothesis. Table 5 shows that in owner-occupied homes with 0.5 person or less per room, only 13.6% of households devoted 30% or more of their income to shelter costs. (A room is defined as an enclosed area within a dwelling which is finished and suitable for year-round living.) This figure is consistent with percentages for other levels of persons per room. Therefore, voluntary overconsumption does not appear to be a major factor explaining the occurrence of high shelter costs to income ratios among home-owners.

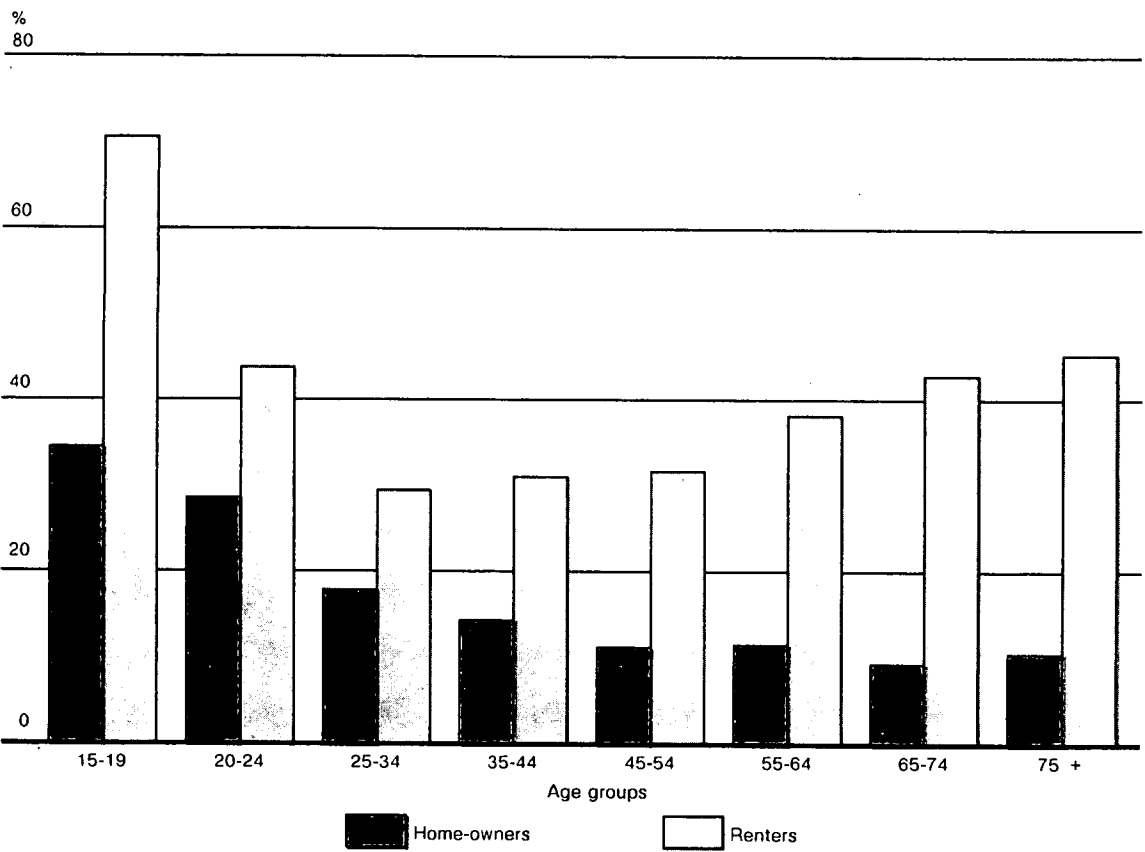
**Table 5. Percentage of Households Paying 30% or More of Household Income on Shelter Costs by Tenure and Persons Per Room, Canada, 1986<sup>1</sup>**

No. of persons per room	Owners paying 30% or more		Tenants paying 30% or more	
	No.	%	No.	%
< 0.5	486,200	13.6	808,885	37.7
0.6 — 1.0	223,295	13.0	346,960	31.7
1.1 — 1.5	8,815	15.4	16,490	29.8
1.6 — 2.0	1,455	16.3	6,745	33.5
2.1 +	330	13.5	1,450	30.1

<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing the number of households paying 30% or more of their income (excluding loss and zero income) on shelter costs, by number of persons per room, for Canada, 1986.

Source:  
1986 Census, special tabulations.

**Chart 4. Percentage of Households Paying 30% or More of Household Income on Shelter Costs by Tenure and Age of Household Maintainer, Canada, 1986<sup>1</sup>**



<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing the number of households paying 30% or more of their income (excluding loss and zero income) on shelter costs, by age of maintainer, for Canada, 1986.

**Source:**  
1986 Census, special tabulations.

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One must be aware that overconsumption can also be explained otherwise. Some home-owners may elect to make larger mortgage payments over a shorter period of time although this results in higher housing expenditures. In addition, one can elect to live in a fashionable neighbourhood (location premiums of 20% are not unusual) or in a modestly sized dwelling equipped with an abundance of amenities and expensive material. The 1986 Census data do not lend themselves easily to the measurement of these forms of overconsumption, however.

The situation is very different for renters. Tenants living in dwellings with 0.5 persons or less per room are those who allocate on average the highest proportion of their income to rent payments. This is due to the tendency for one-person single-income households to occupy dwellings with two or more rooms. Considering the data in Table 3 concerning the overwhelming concentration of less affluent households among those paying 30% or more of their income on shelter, it is unlikely that investment and a taste for luxury are major reasons for overspending by either owner-occupant or tenant households.

## WHERE DO HOUSEHOLDS PAY MORE?

### Owner-occupied House Values

Looking at owner-occupied single-detached house values<sup>2</sup> in Canadian census metropolitan areas as presented on Table 6, one can see a strong link between rapid growth regions and high real estate values. A census metropolitan area (CMA) is an urbanized core of at least 100,000 population (based on the previous census), together with its main labour market area. The 1986 Census recognized 25 CMAs.

In Table 6, the three CMAs with the highest owner-occupied single-detached house values (Toronto, Vancouver and Ottawa-Hull) are among the four fastest growing metropolitan areas identified in Table 2. High values in CMAs located close to Toronto are also evident. Oshawa, Hamilton, and Kitchener all show averages over or close to \$100,000. In contrast, the CMAs exhibiting the lowest values (Trois-Rivières, Saint John and Sudbury) all experienced either slow or negative growth. Also, in otherwise prosperous and expanding southern Ontario, the two CMAs where owner-occupied single-detached house values trailed behind \$80,000 (St. Catharines-Niagara and Windsor) have registered slow rates of growth. Between 1981 and 1986, population increased by a modest 0.2% in St. Catharines-Niagara and 1.2% in Windsor.

These observations support the view that owner-occupied house values are propelled by a combination of population and economic expansion. Table 6 also shows a wide range of owner-occupied single-detached house values between CMAs. In Toronto, the CMA that registered the highest value, such a dwelling's expected value reached on average \$156,433; this is about 2.8 times the lowest CMA value, that of Trois-Rivières, which stood at \$56,470.

### Owner-occupants' Income and Payments

Table 6 shows a distinct absence of correlation between average owner-occupied single-detached house values and the average percentage of owner-occupant household's income devoted to housing.<sup>3</sup> None of the four CMAs where the highest income percentages are spent on housing (Calgary, Halifax, Edmonton and Victoria) are among the top four with respect to house values. While Calgary and Victoria (where home-owner households pay respectively 15.9% and 15.0% of their income on major housing expenses) do post values in excess of \$100,000, the situation is different for Halifax and Edmonton. Owner-occupied single-detached house values are well under the \$100,000 mark in these two CMAs, where home-owners allocate respectively 15.3% and 15.2% of their income on housing. Equally noticeable is the relatively low percentage of their income paid by home-owners in Toronto, the CMA with the highest average value. Also interesting is the relatively small difference between the highest and lowest income percentage devoted to major housing payments. The ratio between Calgary's 15.9%, the highest proportion, and Thunder Bay's 12.4%, the lowest, is only 1.3.

Part of the reason for this low ratio lies in the correlation that prevails between CMAs' average single-detached owner-occupied house values and owner-occupant household incomes. Generally, CMAs that display high house values also register high household income levels. Likewise, low CMA house values are associated with low household income levels. But there are exceptions to this income-house value relationship. For example, Victoria shows a combination of high owner-occupied single-detached house values (\$107,120) and low average owner-

<sup>2</sup> "Owner-occupied single-detached house value" refers to the amount of money expected by the owner if his or her single-detached house were to be sold.

<sup>3</sup> The owner-occupied single-detached house category does not cover all forms of owner-occupied dwellings. It does, however, represent the majority of such dwellings (81.9%) and constitutes a reliable measure of overall owner-occupied dwellings' price variations across Canada's CMAs.

**Table 6. Average Household Income and Average Value of Owner-occupied Single-detached Houses (and Percentage of Income Allocated to Major Housing Payments), Census Metropolitan Areas, 1986<sup>1</sup>**

Census metropolitan area	Average household income (1985)	Average house values single-detached	% income to housing
	\$	\$	
St. John's	41,470	78,942	14.8
Halifax	44,740	93,976	15.3
Saint John	36,926	59,732	14.2
Chicoutimi-Jonquière	39,127	60,997	14.1
Québec	42,423	66,623	13.7
Sherbrooke	38,728	61,034	13.9
Trois-Rivières	37,079	56,470	13.2
Montréal	45,333	83,817	14.5
Ottawa-Hull	52,238	123,947	14.2
Oshawa	46,288	109,828	14.7
Toronto	53,106	156,433	13.8
Hamilton	44,296	98,618	13.8
St. Catharines-Niagara	38,518	78,285	13.4
Kitchener	43,093	100,154	13.8
London	43,695	87,748	13.2
Windsor	42,681	76,272	12.8
Sudbury	39,996	59,560	13.8
Thunder Bay	42,174	80,271	12.4
Winnipeg	41,555	79,591	13.7
Regina	44,258	73,552	14.6
Saskatoon	42,108	78,602	14.9
Calgary	51,452	105,759	15.9
Edmonton	46,772	91,159	15.2
Vancouver	45,203	132,061	14.7
Victoria	38,899	107,120	15.0
Average, all CMAs	46,561	106,746	14.2

<sup>1</sup> Total owner-occupied non-farm non-reserve dwellings showing average owner-occupier household income (including loss and zero income), expected single detached dwelling value and percentage of household income allocated to major housing payments, for census metropolitan areas, 1986.

**Source:**

1986 Census, special tabulations.

occupier household incomes (\$38,899). This is partly due to an important proportion of elderly among Victoria's home-owners. But more important is the observation that the average owner-occupant household income varies far less than house values across CMAs. Average household income in Toronto (\$53,106), which is the highest, is only 1.4 times higher than that of Saint John (\$36,926), the lowest. This contrasts with an owner-occupied single-detached house value of \$156,433 in Toronto and \$59,732 in Saint John.

This discrepancy between wide CMA variations in house values and a much narrower range in both average incomes and the proportion of income that is devoted to major housing payments rules out a direct relationship at the CMA level between house values and household income. If the relationship were direct, one would see variations in house values that are proportional to that of CMA average household income. Alternatively, in the presence of steep differences in house values, one would expect important variations in the proportion of household income allocated to major housing payments.

There are a number of reasons for the observed discrepancy between house value variations on the one hand, and household income as well as its proportion spent on housing, on the other. First, recent price escalations, which have pulled growing cities farther away from average values, affect only people who have moved since approximately 1985. Home-owners who have purchased their home more than five years ago are untouched by these price hikes. This is a major factor in explaining lower housing payments than expected in the light of current house values. Also, mortgage qualification requirements prevent potential home-owners who would encounter affordability problems from entering the owner-occupant market. Accordingly, high house prices in overheated markets result more in the incapacity of a large proportion of households from becoming home-owners than in widespread overspending on housing.

A final explanation concerns the role of equity in moderating the impact of high house values in expensive CMAs. Within a given metropolitan housing market much of the money realized through the sale of a house is reinvested in the purchase of another one (either by the same household or by the next generation). Within that metropolitan market, the revenue from the sale will cover purchase costs for a similar home. House purchasers relying on equity from a previous home will face similar circumstances whether they are in metropolitan markets where average values are \$60,000 or \$150,000. Their shelter cost to income ratio will remain constant whatever the metropolitan market. In that sense, as long as they remain within their own CMA, purchasers who rely on equity from a previous home are left unaffected by steep house value disparities between CMAs.

## Rent Values

As in the case of owner-occupied single-detached house value, a link can also be identified between economic prosperity, population growth and rent levels. The CMAs with high rent levels, as seen in Table 7, are also growing rapidly. This is true of Toronto, Vancouver, Ottawa and Calgary. But the range between the highest and lowest average rent level is much tighter than for owner-occupied single-detached house values. Toronto's average rent level, the highest in Canada, is 38.8% above that of Trois-Rivières, the lowest rent level (\$500 versus \$361). This is because rents cannot escalate above a certain threshold even in provinces without rent control legislation. This is because tenants who can afford it will then opt for owner-occupancy. Other tenants (Table 3 shows that tenants are over-represented in lower income groups) will simply be unable to pay these high rents and will be forced to double up, share with relatives, move to less expensive areas or, in the extreme, become homeless.

## Income and Rent

In light of their greater affordability problem, renters pay a far higher proportion of their income on shelter costs than home-owners, as indicated by Table 7. This table also provides a clear illustration of the effect that gross rent and income levels have on the proportion of tenant households' income spent on shelter costs. For example, Trois-Rivières, which enjoys the lowest average gross rent level in the country, shows a fairly high average gross rent to income ratio. This is no doubt because this CMA's tenant household average income level is also the lowest in the country. Low tenant household incomes are due not only to low overall incomes in Trois-Rivières but also to middle-income tenants' easy access to the owner-occupied housing market. (Trois-Rivières registers the lowest average owner-occupied single-detached house value in the country.) This leaves a concentration of poor tenants within the rental stock — hence the high income percentage spent on rental payments.

In contrast, Toronto, with the highest average gross rent in the country, boasts the second lowest gross rent to income percentage (just above Kitchener). Again, this observation can be explained by Toronto's overall average income level, the highest in the country, and by the dynamics of the owner-occupied housing market. The high house prices that characterize this CMA can cause relatively high income households to rent rather than own. Also, high rents and low vacancy rates may force low income tenants to double up, which would reverse the trend towards smaller households and ease such tenants' affordability difficulties.

**Table 7. Average Household Income and Average Gross Rent of Tenant-occupied Dwellings (and Percentage of Income Allocated to Gross Rent Payments), Census Metropolitan Areas, 1986<sup>1</sup>**

Census metropolitan area	Average household income (1985)	Average gross rent	% income to rent
	\$	\$	
St. John's	23,597	461	23.4
Halifax	25,059	481	23.0
Saint John	19,927	367	22.1
Chicoutimi-Jonquière	20,691	396	23.0
Québec	22,124	419	22.7
Sherbrooke	18,953	383	24.2
Trois-Rivières	18,258	361	23.7
Montréal	23,129	420	21.8
Ottawa-Hull	27,662	491	21.3
Oshawa	27,090	472	20.9
Toronto	28,952	500	20.7
Hamilton	22,839	413	21.7
St. Catharines-Niagara	20,645	387	22.5
Kitchener	23,832	409	20.6
London	22,934	411	21.5
Windsor	22,798	397	20.9
Sudbury	20,192	372	22.1
Thunder Bay	23,440	413	21.1
Winnipeg	21,026	410	23.4
Regina	22,008	443	24.1
Saskatoon	21,180	421	23.8
Calgary	26,224	488	22.3
Edmonton	24,783	464	24.5
Vancouver	24,273	493	24.4
Victoria	21,119	459	26.1
Average, all CMAs	24,606	452	22.0

<sup>1</sup> Total tenant-occupied non-farm non-reserve dwellings showing average tenant household income (including loss and zero income), average monthly rental and average percentage of household income allocated to gross rent payments, for census metropolitan areas, 1986.

**Source:**  
1986 Census, special tabulations.



## Tenants' Difficult Access to the Home-ownership Market

As already discussed, one of the major consequences of higher housing costs is the difficulty of entering the home-ownership market. Many individuals who would prefer to purchase a home are forced to remain tenants. In order to measure national variations in the difficulty for renters to purchase a house, Table 8 shows each CMA's average owner-occupied single-detached house value divided by the average tenant household annual income. The resulting ratio indicates how many times the average tenant household must spend its annual income to purchase the average owner-occupied single-detached house. This provides a measure of the household's capacity to enter the home-ownership

market.<sup>4</sup> Tenants forced to pay three times or more their annual income to purchase a home would encounter serious affordability difficulties. This is where the affordability impact of high owner-occupied housing values is most visible. All CMAs with 1986 owner-occupied single-detached house values above \$100,000 also show house values to tenant household income ratio of four or more. In Toronto and Vancouver, where the prices of such houses are the highest in Canada, the ratio reaches a staggering 5.4 value. In these circumstances average tenant households have little chance of becoming home-owners, unless they can draw on substantial savings.

**Table 8. Average Owner-occupied Single-detached House Value to Average Tenant Household Income Ratio, Census Metropolitan Areas, 1986<sup>1</sup>**

St. John's	3.4
Halifax	3.8
Saint John	3.0
Chicoutimi-Jonquière	3.0
Québec	3.0
Sherbrooke	3.2
Trois-Rivières	3.1
Montréal	3.6
Ottawa	4.5
Oshawa	4.1
Toronto	5.4
Hamilton	4.3
St. Catharines-Niagara	3.8
Kitchener	4.2
London	3.8
Windsor	3.4
Sudbury	3.0
Thunder Bay	3.4
Winnipeg	3.8
Regina	3.3
Saskatoon	3.7
Calgary	4.0
Edmonton	3.7
Vancouver	5.4
Victoria	5.1
Average, all CMAs	4.3

<sup>1</sup> Total owner-occupied non-farm non-reserve dwellings showing average expected single-detached dwelling value divided by total tenant-occupied non-farm non-reserve dwellings showing average tenant household income (including loss and zero income), for census metropolitan areas, 1986.

**Source:**

1986 Census, special tabulations.

<sup>4</sup> The focus on single-detached houses somewhat exaggerates the difficulty of entering the owner-occupied market across Canada. To be sure, tenant households have an easier access to other less costly forms of owner-occupied dwellings, such as condominium apartment units, town houses and semi-detached houses.

## Where Are Affordability Problems Felt?

While frustrated home-ownership aspiration is one aspect of affordability problems, another far more severe aspect is the payment of an inordinate proportion of income towards shelter costs. Chart 5 focuses on provincial affordability rates in urban and rural regions. As borne out by previous tables, home-owners' affordability problems are most acute in the West, where development pressures are strong and housing more recent, hence more expensive. By and large, however, percentages of home-owners paying 30% or more of their income remain low and show relatively little variation between either rural and urban regions or provinces.

One apparent inconsistency shown in Chart 5 is the very low incidence of affordability problems among home-owners in rural Newfoundland, one of Canada's poorest provinces. The explanation undoubtedly lies in the province's low housing standards. Some of the lowest quality housing in Canada is known to be concentrated in rural pockets of the Atlantic provinces, particularly in Newfoundland. The prevalence of self-building is another explanation for low house costs. Also, Newfoundland rural houses are often mortgage-free since they remain in the family from generation to generation. Instead of building or purchasing new homes in this province's rural areas, much of the excess population made up of offspring who do not inherit the family house or who decide to live elsewhere migrate to the province's cities or other parts of the country.

Regarding renters in rural and urban regions affordability problems are shown to be essentially urban. This pattern is explained by the geographic supply and demand variations as discussed at the outset of the study. Affordability problems are most severely felt among British Columbia urban renters, 45.2% of whom devote 30% or more of their income to gross rent payments. Several factors account for the intensity of this problem in British Columbia. One factor is the expansion of this province's urban areas — in particular Vancouver — in an environment of low vacancy rates and an absence of rent controls.

Another is the presence of unemployed and low-income workers in a province that is otherwise largely affluent. In June 1986, Vancouver's unemployment rate stood at 10.9%, which was above the national average and the highest rate for CMAs with populations exceeding 500,000. Low-income households must compete with wealthier residents in a tight rental market and are thus forced to allocate much of their meagre income to shelter costs.

Table 9 shows the percentage of households in various CMAs paying 30% or more of their income on housing. This table deals with geographic variation at the level of CMAs across the country. Generally, the patterns reinforce the trends outlined in the previous paragraph. Except for Toronto, home-owning households in Ontario CMAs tend to do best. Winnipeg, too, posts a low proportion of home-owner households experiencing affordability problems. To the extent that affordability poses a problem for home-owners, the problem is concentrated in Alberta and British Columbia. A similar pattern prevails for tenant households, though Toronto fares better than most CMAs. In fact Toronto has a lower proportion of tenant households apportioning 30% or more of their income to shelter costs than anywhere else in Canada, except for Kitchener. This is probably a reflection of the high average incomes and very low unemployment rate in Canada's largest metropolitan region.

In five CMAs, 40% or more of tenant households allocate at least 30% of their income to shelter costs. Victoria and Vancouver are most affected by tenants' affordability problems for reasons already discussed. Saskatoon ranks third, probably because of this CMA's phenomenal growth between 1981 and 1986, as seen in Table 2. Two smaller Quebec CMAs, Sherbrooke and Trois-Rivières, register rates of 40.9% and 40.2% respectively. As shown earlier for Trois-Rivières, low owner-occupied housing costs in these two CMAs represent an incentive for middle-income tenants to enter the home-ownership market, thereby leaving a concentration of poorer households within the rental market.

**Table 9. Percentage of Households Paying 30% or More of Their Income on Shelter Costs by Tenure, Census Metropolitan Areas, 1986<sup>1</sup>**

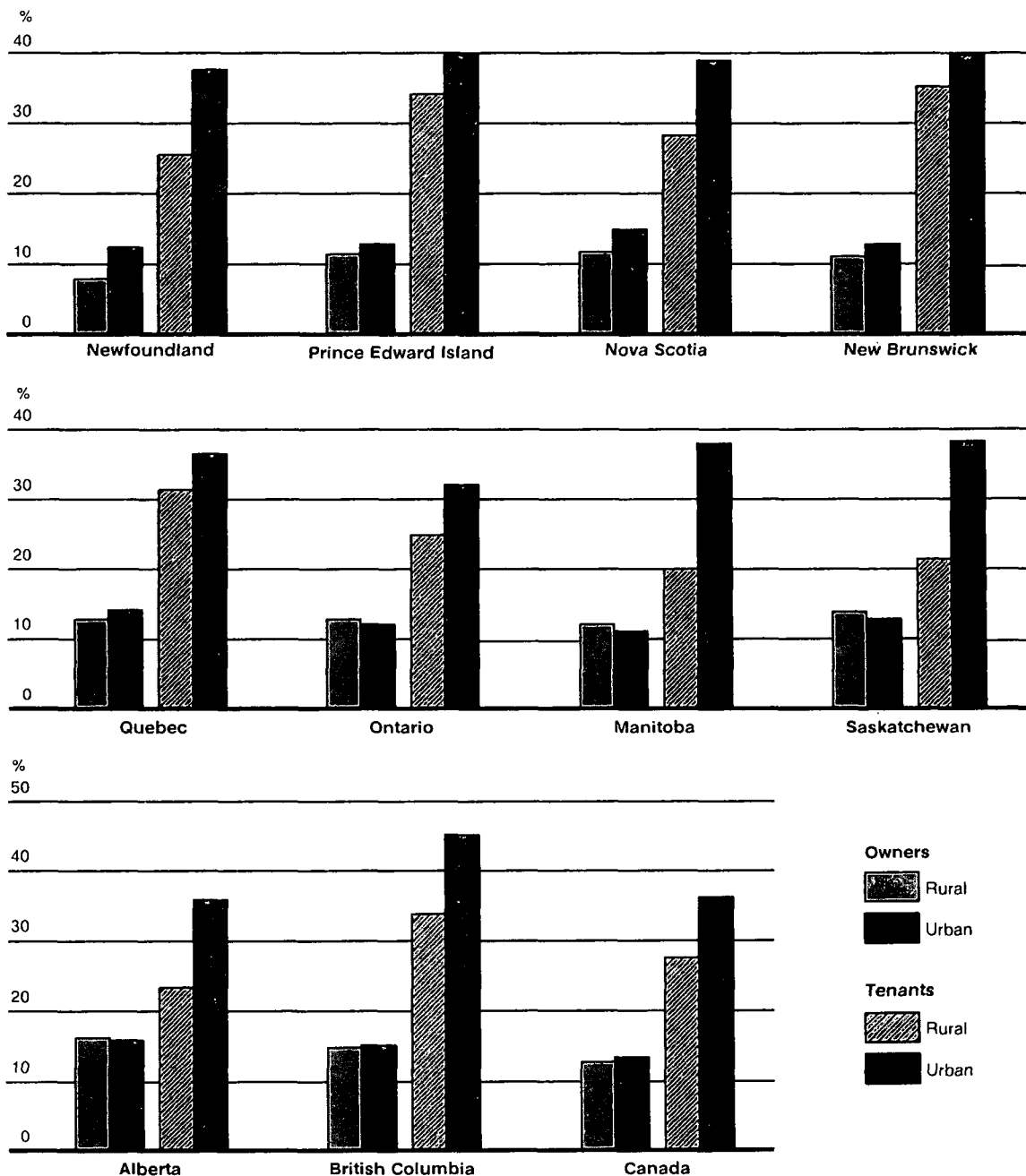
Census metropolitan area	Owners paying 30% or more	Renters paying 30% or more
	%	%
St. John's	14.1	37.6
Halifax	14.9	36.8
Saint John	13.1	39.2
Chicoutimi-Jonquière	13.3	37.7
Québec	12.4	36.8
Sherbrooke	13.5	40.9
Trois-Rivières	12.5	40.2
Montréal	15.4	36.2
Ottawa-Hull	12.2	31.2
Oshawa	11.5	32.1
Toronto	14.1	30.6
Hamilton	11.7	33.6
St. Catharines-Niagara	11.3	38.3
Kitchener	10.9	29.8
London	11.1	34.5
Windsor	11.3	35.6
Sudbury	11.7	35.2
Thunder Bay	9.7	32.4
Winnipeg	11.3	38.6
Regina	13.7	39.8
Saskatoon	13.8	42.2
Calgary	17.5	35.9
Edmonton	16.1	36.8
Vancouver	16.2	44.7
Victoria	16.2	47.6
Average, all CMAs	14.0	35.9

<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing the number of households paying 30% or more of their income (excluding loss and zero income) on shelter costs, for CMAs, 1986.

**Source:**

1986 Census, special tabulations.

**Chart 5. Percentage of Households Paying 30% or More of Income on Shelter Costs by Tenure and by Urban and Rural Dwellings, Canada and Provinces, 1986<sup>1</sup>**



<sup>1</sup> Total owner- and tenant-occupied non-farm non-reserve dwellings showing the percentage of households paying 30% or more of their income (excluding loss and zero income) on shelter costs for Canada and provinces, urban and rural, 1986.

**Source:**  
1986 Census, special tabulations.

## HIGHER HOUSING COSTS: WHO BENEFITS? WHO HURTS?

Increasing housing costs widen the gap between households along tenure lines. A case in point is the advantage home-owners enjoy due to spiralling house values. Such values magnify the traditional benefits of home-ownership. As they age, home-owners build equity while their housing costs decrease. The greater the increase in house values, the higher the equity. Since the appreciation in home values is not subject to capital gains taxation, the home represents an exceptionally advantageous form of investment.

Tenants face an entirely different situation. In many metropolitan regions they are forced to stay in their current unit in a near zero vacancy rate rental market. In 1986, nine CMAs posted vacancy rates under 1%: Oshawa, Toronto, Hamilton, St. Catharines-Niagara, Kitchener, London, Sudbury, Vancouver and Victoria.<sup>5</sup> Another difficulty tenants confront is that as income decreases in post-retirement years they must allocate a growing proportion of their income to rent payments. But for renters, the most adverse consequence of rising housing costs is their confinement to the rental-housing market. In areas such as Toronto and Vancouver, which are characterized by high home values, it becomes extremely difficult for renters to become home-owners since home values move ever further beyond their reach. Clearly, rising housing costs seriously restrain the fluidity traditionally existing between the rental and home-ownership market.

Furthermore, escalating housing costs set incumbents apart from those who move into tight rental markets or overheated home-ownership markets. In several provinces incumbent renters are given a degree of protection from steep rent increases by rent control legislation. But these controls are far less effective in preventing rent increases in units where a succession of tenants takes place. This partly explains the sharp rent disparity between occupied units and those that are on the market. For example, an October 1988 Canada Mortgage and Housing Corporation (CMHC) survey lists the average rent for the very

few two-bedroom apartments that were then available in Metro Toronto at \$1,053. In contrast, the same survey listed the average rent for all two-bedroom apartments in Metro Toronto at \$596.

In areas where home prices are rapidly rising, the gap between current and new home-owners is even more glaring. While current home-owners sit on an ever larger equity, those who enter the home market must pay inflated prices. This causes problems for young households. Older households who wish to enter the home-ownership market also suffer — they must pay off their mortgage over their remaining working years, which are less than the standard 25-year mortgage amortization period. This can result in substantial monthly payments. Those who move from less to more prosperous regions (for example, from Sudbury where an average owner-occupied single-detached house value was \$59,560 in 1986 to Toronto where a comparable unit's value reached \$156,433) are also confronted with such difficulties. If they were owner-occupants, the sum their former home fetched is only a fraction of their destination's house values.

These observations highlight the fact that higher housing costs do not represent a problem for everyone. To the contrary, such trends are advantageous to many people — home-owners, speculators, developers, builders, land owners all benefit. Those who are located in overheated markets are particularly privileged. The severely disadvantaged groups are renters, individuals who intend to form households, the homeless and households attempting to enter the home-ownership market. Households with several characteristics associated with affordability difficulties suffer the most. This is particularly true of low-income lone-parent families who are tenants and reside in a metropolitan region like Vancouver, which is characterized by low vacancy rates and high rent levels. Young as well as old tenants living on their own in an expensive region also encounter these problems.

<sup>5</sup> These percentages originate from CMHC, *Canadian Housing Statistics*, Ottawa: CMHC, 1987, and reflect vacancy rates in a private apartment structure of six units and more.



## THE CHANGING FACE OF HOUSING AFFORDABILITY

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Demographic indicators would seem to point to an easing off of housing demand in the future and therefore, according to the laws of supply and demand, a stabilization of housing costs. Looking back at Chart 1, it is apparent that both the 15-24 years and the 5-14 years cohorts are substantially smaller than the 25-34 years cohort. This would suggest a moderate increase in the demand for housing in comparison to the 1970s and 1980s. But before finding too much solace in this reversal one should keep two considerations in mind. First, when looking at the size of older age groups, the number of persons leaving the housing market (by moving to retirement homes or passing away) remains much smaller than the size of the 15-24 age group. Accordingly, the arrival of this latter age group on the market will create a tension and force the construction of new units. Second, a persistent trend towards smaller households may cancel out the effect the reduced size of the 15-24 years cohort could have on the housing market. On these grounds we can anticipate that the current robust housing demand and associated rising prices will persist over the next decade.

This study suggests the existence of an economic polarization within the country which translates into two different forms of affordability problems. The large discrepancy between house values in different cities reflects uneven economic performance throughout Canada. The economic recovery of the

mid-1980s has been concentrated in a limited number of cities, those posting high house values. Meanwhile, such values remain far lower in regions that still endure high unemployment rates. In the first group of cities, affordability problems take the form of difficulties in entering an overheated owner-occupied market. High rents and low vacancy rates also make life very hard for the poor. On the other hand, in cities still plagued with severe unemployment, a large tenant population experiences affordability problems in spite of lower rents. In this case, affordability problems are attributable mostly to low income while in the former, high shelter costs seem to be the main difficulty.

If these tendencies persist, the 1980s may mark a turning point in post-World War II housing trends in Canada. Overall, housing improvements, measured in terms of rising home-ownership rates, less crowding, high household formation rates, and improving housing conditions, may either be slowed down or reversed because of current affordability problems. For example, we have seen how difficult it is for tenants to enter the owner-occupied market in those cities that experience high house prices. Additionally, according to a recent study, the proportion of young adults who are not currently married and are living with their parents rose between 1981 and 1986, thus reversing a trend towards earlier household formation.<sup>6</sup>

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<sup>6</sup> These findings were reported in a paper by Monica Boyd and Edward T. Pryor entitled "The Cluttered Nest: The Living Arrangements of Young Canadian Adults" delivered at the 1988 annual meeting of the Canadian Population Society and Canadian Sociological and Anthropological Association, Windsor, Ontario.





## CONCLUSION

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**T**his study indicates affordability problems are socially and geographically concentrated, and these problems affect a minority of households. Affordability problems take two different forms. First, there are lower-income tenant households that must allocate 30% or more of their income to housing expenses. Many of these qualify as "core need" households and they most require public sector assistance.

The second form of affordability problem affects middle-income households who aspire to home-ownership in overinflated housing markets. Escalating housing costs prevent their entry into the owner-occupied market. While census data are not suited to measure this frustrated demand, the data do identify the urban areas where access to home-ownership is most difficult. Unlike the tenant overpayment problem that is prevalent across the country, middle-income households' access to home-ownership is hampered mostly in a few expensive housing markets.<sup>7</sup>

It appears the social consequences of increasing housing costs deepen disparities between social groups. This occurs because housing inflation confers advantages to some while adding to the plight of others. On the one hand, home-owners' equity grows as the value of their house escalates. Speculators, land owners, developers and builders also benefit. On the other hand, in tight rental markets tenants find it difficult to move and in many instances are forced to allocate more of their income to housing. In addition, high owner-occupied house values raise barriers that stop tenants from moving to the home-ownership market. In this perspective, not only are the advantages of ownership and the disadvantages of renting sharpened, but the possibility of moving from the rental to the home-ownership market is severely restrained.

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<sup>7</sup> A note of caution is in order here, however. In many regions, housing costs have shot up since the 1986 Census and have in all likelihood increased affordability problems. CMHC's new housing price index for Canada has increased by 14.1% between 1986 and 1987. In Toronto, this figure reached a staggering 26.1%.



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