

International Housing Association Brief: Definitions of “Housing Affordability” Currently Used in Canada

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Introduction:

In Canada today, there are various metrics measuring the “affordability” of housing. In general terms, this is the relationship between prices or rents plus operating costs of dwellings and the incomes and “capacity to pay” of their occupants. At present, CHBA is considering creating its own Housing Affordability Index, as there currently isn’t one that truly and suitably measures well the ability of first-time buyers to become homeowners across Canada. This brief offers a review of the current indicators in use in Canada.

Definitions of Affordability Currently Used in Canada:

Name of Definition:	Calculation Method and Data Sources:	For Reference:
<p>1. <i>Core Housing Need (Canada Mortgage and Housing Corporation)</i></p>	<p>A household is said to be “in core housing need” if its housing falls below at least one of the adequacy, affordability or suitability, standards <u>and</u> it would have to spend 30% or more of its total before-tax income to pay the median rent of alternative local housing that is acceptable (meets all three housing standards defined as follows).</p> <ul style="list-style-type: none"> • <u>Adequate</u> housing units are those reported by their residents as not requiring any major repairs. • <u>Affordable</u> dwellings cost less than 30% of total before-tax household income. • <u>Suitable</u> housing has enough bedrooms for the size and make-up of resident households, according to National Occupancy Standard (NOS) requirements. <p>Suitable housing has enough bedrooms for the size and make-up of resident households, according to National Occupancy Standard (NOS) requirements.</p>	<p>https://cmhc.beyond2020.com/HiCODefinitions_EN.html#Core_Housing_Need_Status</p>

Name of Definition:	Calculation Method and Data Sources:	For Reference:
<p>1. <i>Core Housing Need (Canada Mortgage and Housing Corporation), continued</i></p>	<p>Enough bedrooms based on NOS requirements means one bedroom for:</p> <ul style="list-style-type: none"> •each cohabiting adult couple; •unattached household member 18 years of age and over; •same-sex pair of children under age 18; •and additional boy or girl in the family, unless there are two opposite sex children under 5 years of age, in which case they are expected to share a bedroom. <p>A household of one individual can occupy a bachelor unit (i.e. a unit with no bedroom).</p> <p>A household is not in core housing need if its housing meets all of the adequacy, suitability and affordability standards OR, if its housing does not meet one or more of these standards, but it has sufficient income to obtain alternative local housing that is acceptable (meets all three standards).</p> <p>NOTE: Regardless of their circumstances, non-family households led by maintainers 15 to 29 years of age attending school full-time are considered to be in a transitional stage of life and therefore not in core housing need.</p>	
<p>2. <i>Housing Affordability Index (Bank of Canada)</i></p>	<p>The affordability index provides an estimate of the share of disposable income that a representative household would put toward housing-related expenses. The measure is a ratio, where the numerator, housing-related costs, is the sum of the average quarterly mortgage payment plus utility fees and the denominator is the average household disposable income (i.e., the higher the level, the more difficult it is to afford a home).</p>	<p>https://credit.bankofcanada.ca/financialindicators/hai</p>
<p>3. <i>Housing Affordability Indicator (Statistics Canada)</i></p>	<p>People in households that spend 30% or more of total household income on shelter expenses are defined as having a "housing affordability" problem. Shelter expenses include electricity, oil, gas, coal, wood or other fuels, water and other municipal services, monthly mortgage payments, property taxes, condominium fees, and rent. Band housing on Indian reserves was not included in the calculation of housing affordability.</p>	<p>https://www150.statcan.gc.ca/n1/pub/82-229-x/2009001/envir/hax-eng.htm</p>

Name of Definition:	Calculation Method and Data Sources:	For Reference:
<p>4. <i>Housing Affordability Measure (Royal Bank of Canada – Private mortgage lender)</i></p>	<p>Compiled since 1985, the RBC Housing Affordability Measure is based on the costs of owning a detached bungalow (a reasonable property benchmark for the housing market in Canada) at market value. Alternative housing types are also presented, including a standard two-storey home and a standard condominium apartment. The higher the reading, the less affordable is a home to a particular family. For example, a reading of 32 per cent means that homeownership costs, including mortgage payments, utilities and property taxes, would take up 32 per cent of a typical household’s monthly pre-tax income.</p>	<p>http://www.rbc.com/newsroom/reports/rbc-housing-affordability.html</p>
<p>5. <i>Housing Affordability Monitor (National Bank of Canada – Private mortgage lender)</i></p>	<p>We measure two hurdles for the purchase of a home. First, a household must save the down-payment amount. We measure this requirement as the number of months a median-income household will require to save for the minimum cash down payment (CMHC insured mortgage) of the representative home at a savings rate of 10% of its pre-tax income. We evaluate the representative home using the Teranet–National Bank House Price Index for the market in question to calculate the home price for months before and after the median home price measured by the 2016 Census. For median household income in each CMA, we take the Statistics Canada annual data up to 2013. For subsequent months, we extend the series using average weekly earnings growth as a proxy.</p> <p>The second hurdle for the purchase of a home is the monthly mortgage payment. We measure this as the monthly payment on a median-priced home assuming a 25-year amortization period and a 5-year term. The resulting amount is presented as a percentage of income calculated as described above (sometimes referred as MPPI). Note that we do not take the down payment into account in this calculation because there is an opportunity cost in a household’s use of these funds for that purpose. Also, we do not wish policy changes in this regard to affect our indicator over time. We also calculate the income needed to purchase the median property assuming that household devote 32% of its pre-tax income for mortgage payment (defined as qualifying income). For the condo market, we also compare the monthly mortgage payment to the average rent for a two-bedroom condo in the same market. We calculate that rent from annual CMHC data, updated to the current month by the rent component of the Consumer Price Index. Note that data in the report was seasonally adjusted when necessary.</p>	<p>https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/housing-affordability.pdf</p>

Name of Definition:	Calculation Method and Data Sources:	For Reference:
6. <i>Shelter Consumption Affordability Ratio (SCAR) – Canadian Centre for Economic Analysis (CANCEA)</i>	The Shelter Consumption Affordability Ratio reports how realistically and sustainably Canadians can afford housing based on shelter consumption costs and discretionary income after paying for other necessities. Shelter consumption costs include: rent, maintenance/repair, insurance, utilities, and transportation. Discretionary income after other necessities is determined by subtracting the cost of financial necessities (taxes, food, clothing, health care costs) from total income. A higher ratio indicates lower levels of affordability.	https://www.cancea.ca/housing

Assessment of the Different Definitions:

There are five main points of comparison among the above and other definitions of housing affordability:

- What, if any, are their *action implications* for both public sector decision-makers and the industry?
- *How feasible* are these action implications to pursue within the resources available?
- *Which groups* in society do they explicitly or implicitly favour?
- How challenging are they to keep up to date in data collection terms?
- How fine a grain of results is available and therefore potential to guide priority action?

A preliminary version of an assessment grid for consideration with responses for the six different definitions described above is set out on Page 5.

Grid Comparing Different Canadian Definitions and Metrics of Housing Affordability

Definition:	Action Implications:	Feasibility within Resources:	Favoured Groups:	Keeping Up to Date:	Fine-grained Analysis:
1. Core Housing Need	Multiple tools to be applied to each type of need	Only limited progress each year because of huge numbers generated (over 1 million in Canada)	Renters, because in deeper core need than owners; however, owners in need are included	Every five years based on Census	Currently done down to metropolitan area level; could be even finer-grained
2. Bank of Canada Housing Affordability Index	No specific implications; problem indicator only	Uncertain because of generality of results	Uncertain because of generality of results; no tenure breakdown	Can be updated at least annually based on consumer expenditure surveys	Not feasible because of survey data limitations
3. Statistics Canada Housing Affordability Indicator	No specific implications; problem indicator only	Uncertain because of generality of results; can be used for geographic targeting of measures, however	Renters because of generally lower incomes than owners; both are included	Every five years based on Census	Feasible down to Census Tract (neighbourhood) levels
4. RBC Housing Affordability Measure	No specific implications; problem indicator only	Offers rationale for generic actions to improve ownership affordability	Home buyers explicitly	Produced monthly based on housing price data, etc.	Done down to large market areas and for whole provinces
5. NBC Housing Affordability Monitor	No specific implications; problem indicator only	Offers rationale for actions on both down payments and ownership affordability measures	Home buyers explicitly	Produced monthly based on housing price data, etc.	Done down to large market areas and for whole provinces
6. Shelter Consumption Affordability Ratio (SCAR)	Offers a range of solutions and tools rated according to feasibility from model perspective	Can potentially be used for geographic targeting of measures; uncertain political feasibility	Both ownership and rental initiatives proposed	Model requires “big data” which are typically produced at varying intervals	Done for Greater Toronto and Hamilton Area and whole province of Ontario to date