

Quantifying Lower and Moderate-Income Households in Housing Need in the Greater Toronto Area



February 27, 2023

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*The opinions expressed in this research report are those of the authors only and do not represent the opinions and views of either CUR or Toronto Metropolitan University.

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Executive Summary

CMHC uses the Core Housing Need (CHN) to measure households that do not live in acceptable accommodation and require government assistance. These are mostly lower- and moderate-income households. Acceptable housing is housing that is affordable, suitable and adequate.

This report provides an overview of households in the Greater Toronto Area (GTA) who cannot find acceptable housing in the marketplace. It uses data from the 2021 Census of Canada to update the CHN estimates published in a previous CUR report.¹ It also looks at historical CHN estimates from the Census of Canada going back to 1991.

The chief findings from this updated analysis are:

- An imbalance between shelter costs and incomes in the GTA exasperates the affordability situation of low-income households.
- While not all households paying 30% or more of their income for shelter are in CHN, over 70% of all GTA renters and 25% of owners spending 30% or more of their income on shelter are in CHN. Many owners not in CHN occupy accommodation exceeding the minimum standards established for adequacy and suitability. Moreover, owners often take on a high shelter cost/income ratio initially because they expect to own their home outright eventually.
- Growth in the number of GTA households in CHN, from 184,900 in 1991 to 348,500 in 2021, was mainly due to household growth. The percentage of all households in CHN

was only slightly higher in 2021 (15%) than in 1991 (13%).

- Surprisingly, the number of GTA households in CHN declined from 401,400 in 2016 to 348,500 in 2021, a period when rents and housing prices rose faster than incomes. This temporary improvement resulted from pandemic income support programs which inflated incomes.
- The majority of CHN households in the GTA are renters, nearly 60% in 2021.
- Proportionately, many more GTA renters are in CHN than homeowners - 27% of all renter households versus 8% of owners in 2021.
- CHN households in the GTA are concentrated in the city of Toronto. In 2021, Toronto had 59% of the GTA's total households in CHN compared to 47% of all households. The greater proportion of rental households and higher rents in the city accounted for Toronto's prominence.

The affordability crisis, which is exceedingly impacting lower-income households, is being mis-addressed by concerns and housing subsidies targeted at providing affordable housing for middle-income households. Therefore, there is a need to separate the affordability challenges faced by lower-income households from those of middle-income households, as the solutions are different.

For middle-income households, the thrust should be increasing the overall supply of housing to tip market conditions in favour of buyers and renters, which also helps lower-income households by reducing the competition for existing affordable housing.

Public housing subsidy dollars should be targeted at providing affordable housing for lower-income households, unlike the current situation where most subsidy dollars for new housing benefit middle-income groups by focusing on rents just below average market rents (e.g. the National Housing Strategy and Toronto's Housing Now initiative).

¹ Clayton, Frank and Daniel Bailey (2021). 'Who Is Being Left Behind in the GTA Housing Market: A Profile of Core Housing Need, 1991-2018.' Centre for Urban Research and Land Development. [Online] Available: https://www.torontomu.ca/content/dam/centre-urban-research-land-development/pdfs/CUR_Core_Housing_Need_Feb_25_2021.pdf

Purpose of the report

Acceptable housing is housing that is affordable, suitable and adequate. CMHC uses the Core Housing Need (CHN) metric to measure households that do not meet these criteria and need government assistance. These are mostly lower and moderate-income households.

This report provides an overview of households in the Greater Toronto Area (GTA) who cannot find acceptable housing in the marketplace. Data from the 2021 Census of Canada are utilized to update the CHN estimates published in a previous CUR report.² In addition, the report includes historical CHN estimates from the Census of Canada going back to 1991.

What is Core Housing Need (CHN)?

Core Housing Need (CHN) is a metric developed by the Canada Mortgage and Housing Corporation (CMHC) in the 1980s to identify households needing housing assistance.

The process for determining whether a household is in CHN is outlined in Figure 1.

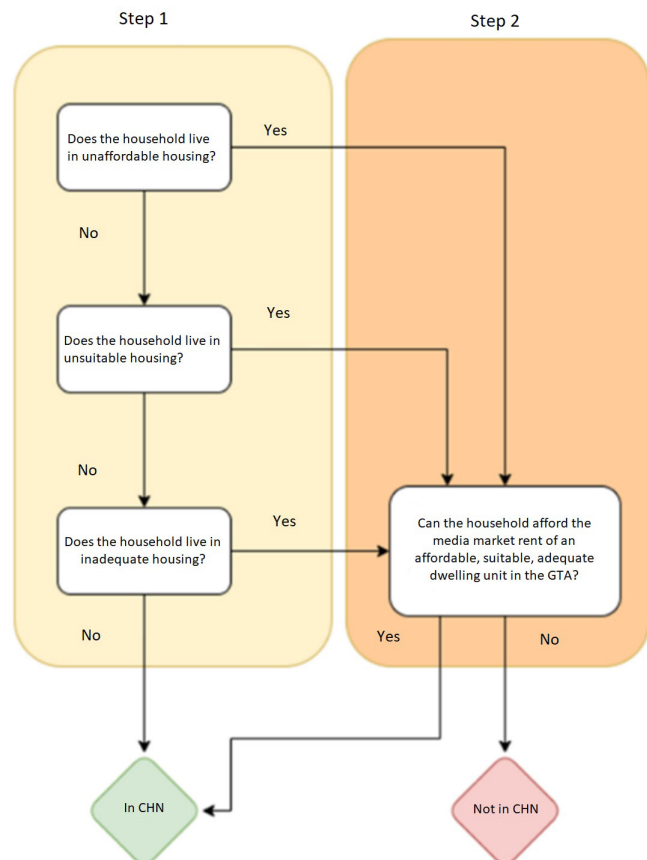
A household is considered to be in core housing need if it meets the following:

- A household is below the adequacy and/or suitability standards; and
- The household would have to spend 30% or more of its before-tax household income to access local housing that meets the adequacy and suitability standards.
- The household lives in unacceptable housing (falls below suitability and adequacy standards); and
- The household cannot afford to rent acceptable local housing.

A household is deemed to be in CHN if its housing falls below the following standards:

- **Unaffordable housing:** Shelter costs (gross rent, mortgage payments, utilities, and other municipal services) are equal to or greater than 30% of household income for acceptable housing;
- **Unsuitable Housing:** There are not enough bedrooms for households to meet the criteria laid out under the National Occupancy Standard (NOS), which recommends a maximum number of people per bedroom based on gender, age, and relationship. For example, a couple with two opposite-sex children over five needs a separate room for each child to meet the NOS;
- **Inadequate Housing:** Major repairs such as structural, electrical, or plumbing work are required (based on self-enumeration of major repairs needed).

Figure 1: Methodology for Determining Core Housing Need Status of Household



² Ibid.

The rents of acceptable housing units in the local market are determined by the CMHC Rental Market Survey (RMS). These rents are compared to household income to determine whether the household can afford an acceptable dwelling unit. The rent used for this calculation is the median cash rent of purpose-built rental dwelling units within the local area (the CMA, where applicable). It includes the current rents paid by tenants and the asking rents for vacant units.³

Understanding CHN as a housing needs metric

There are three characteristics readers should be mindful of when using CHN as a metric:

- The standards for minimum acceptable housing being used are based upon arbitrary social norms and context;
- The measurements of affordability reflect the overall market conditions in the year being considered; and
- There are mismatches in the time when rent and income data are collected.

The choice of minimum housing standards is arbitrary based on an interpretation of social norms and context. Therefore, according to Alain Bertaud, it should not be treated as a universal scientific rule.⁴ Nonetheless, the CHN minimum standards selected by CMHC seemed reasonable for the task at hand as they have been applied consistently over time.

Any assessment of CHN needs to assess how the median cost of acceptable local housing is measured. It is intended to exclude households that might be considered in CHN but are not, given they are making intentional trade-offs to pay more for higher quality accommodation.

For example, a single person living alone in a two-bedroom apartment may pay 30% or more of their income for shelter. However, as they make an intentional choice and would not be paying that proportion of their rent if they rented a one-bedroom apartment instead, they would not be classed as being in CHN.

The second step in determining CHN is whether the household can afford to find suitable, adequate housing. CMHC uses the average market rent from its Annual Market Report. This measures average cash rents on both occupied and vacant units. This rent measure is dominated by the rent on occupied units, with more than 97% of the rental stock occupied at any time (on average). Therefore, a tenant seeking accommodation would have to pay the rent reflective of vacant units, which in the GTA typically exceeds the rent on occupied units. For example, CMHC data shows that the 2019 gap in average monthly rents between occupied and vacant 1-bedroom apartments in the Toronto CMA was \$375, and the gap for the Oshawa CMA was \$437.⁵ The conclusion is that CMHC underestimates the ability of households to rent adequate and suitable housing at an affordable rent.

The third consideration when using CHN is an awareness of the inherent distortion in the base data from the Census of Canada. The Census of Canada collects income data for the previous year but annualizes the monthly shelter costs for the current year. Therefore, households formed for part of the previous year have a low income for that year but pay shelter costs at the time the Census of Canada was taken based upon a full year's income in that year. This combination of low income and high shelter costs may result in households being categorized as in CHN when they are not.

³ CMHC. Personal Communication. (2018)

⁴ Bertaud, Alain (2018). "Order Without Design: How Markets Shape Cities." (Cambridge: MIT Press), 222.

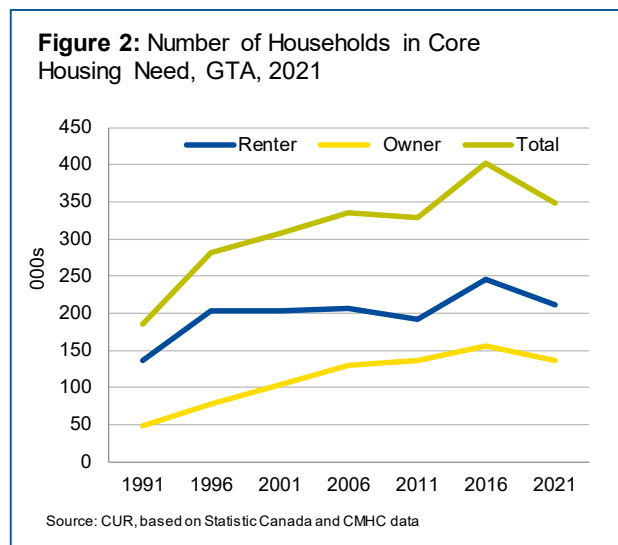
⁵ In this paper, the Greater Toronto Area (GTA) is approximated by the Toronto and Oshawa Census Metropolitan Areas (CMAs).

Number and proportion of GTA households in CHN by tenure

This section tracks the number and percentage of GTA households in CHN between 1991 and 2021 by total and tenure.

Sizable increase in the number of households in CHN over the past 25 years; however, a significant decrease in the latest period

The number of households in CHN by tenure in the GTA between 1991 and 2021 is shown in Figure 2.



Highlights:

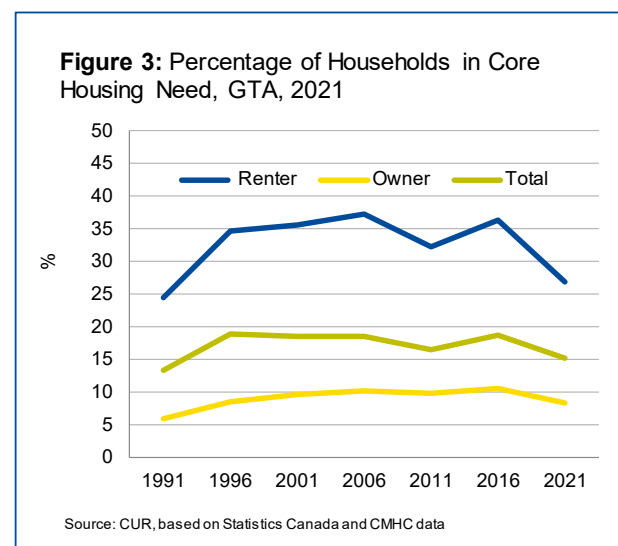
- CHN households in the GTA rose from 184,900 in 1991 to 401,400 in 2016; however, a significant drop occurred in the 2016-2021 Census of Canada period to 348,500; and
- The number of CHN owner and renter households grew between 1991 and 2016 before experiencing a decrease in the 2016-2021 Census of Canada period.
- Temporary pandemic income support programs accounted for the decline in numbers between 2016 and 2021.

The majority of CHN households are renters

The majority of CHN households have been renters throughout the 1991 to 2021 period. In 2021, nearly six of ten CHN households were renters (see Figure 2).

The proportion of GTA households in CHN was stable, about one in five during 1996-2016, with a dip in 2016-2021; a greater proportion of renters are in CHN

The absolute number of households in CHN indicates the scope of need in the GTA. However, the percentage of households in CHN is better able to show whether housing need is deteriorating or improving in a region like the GTA. Figure 3 shows the percentage of all households in CHN by tenure for the GTA between 1991 and 2021.



Highlights:

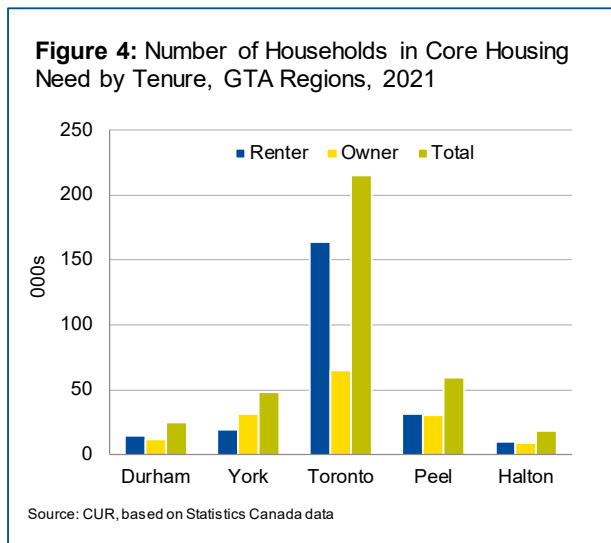
- The proportion of households in CHN remained slightly less than 20% from 1996-2016 before declining to 15% in 2021, almost the same as in 1991;
- The proportion of renters in CHN hovered around 35% from 1996-2016 before decreasing to the 1991 level in 2016-2021 (27%) and in 1991, it was 24%;
- The proportion of owners in CHN has been relatively flat at around 10% over the latest 25 years.

Number and proportion of households in CHN within the GTA

Figures 4 and 5 show the geographic distribution of households in CHN by tenure across the regions in the GTA.

The city of Toronto has the majority of GTA households in CHN

Figure 4 shows the geographic distribution of households in CHN by tenure in 2021 by the regions in the GTA, based on a custom cross-tabulation from Statistics Canada. (The GTA is 100% for the percentages.)

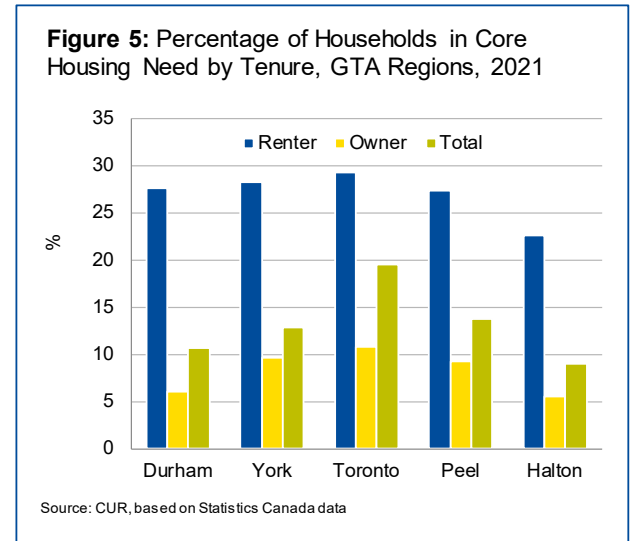


Highlights:

- The city of Toronto has the majority (59%) of CHN households in the GTA, though its share of all households is 47%;
- The city of Toronto is the only region with many more renter households in CHN than owner households; and
- The region of Peel has similar proportions of owners and renters in CHN.

York, Toronto, and Peel have similar rates of CHN among both renter and owner households

Figure 5 shows the geographic distribution of households in CHN during 2021 by region in the GTA.



Highlights:

- All regions experience higher levels of renters in CHN when compared to owner households – 23%-30% of all renter households versus 5%-11% of owner households;
- Rates of renter households in CHN are consistent between regions except for in Halton region, which has a much lower rate of CHN among renters; and
- Owner households in CHN are highest in the city of Toronto, and the regions of York and Peel.

Households by affordability and CHN status

While CHN includes metrics on the state of repair and the number of bedrooms per household member to measure acceptable housing standards, affordability is the most widespread issue for households in CHN.⁶

However, not all households that spend 30% or more of their income on shelter costs are in CHN, as their household incomes are high enough to afford a unit that meets all three CHN metrics. For instance, let's assume a couple occupying a four-bedroom house is paying 35% of its income for shelter. Under the CHN suitability standard, the couple requires only a one-bedroom home. This household is not in CHN. It has the option of moving to a smaller home to bring its shelter cost/income ratio to below 30%.

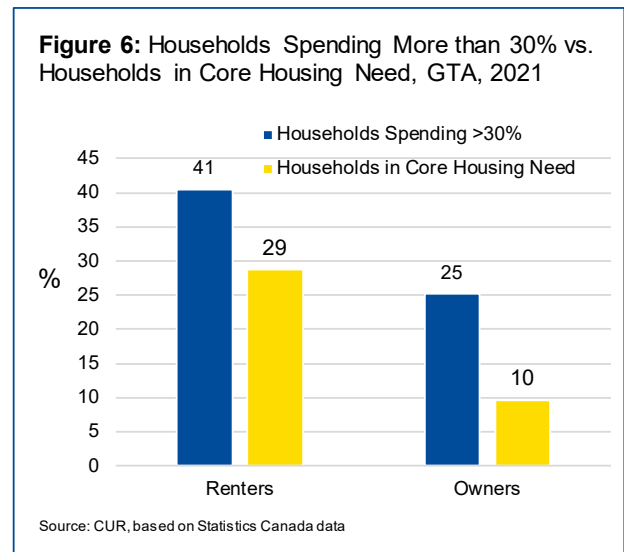
Over 70% of all GTA renters and 25% of owners spending 30% or more of their income on shelter are in CHN

This section examines the overlap between households in CHN and those spending 30% or more of their income on shelter.

⁶ In 2021, CUR completed an analysis examining owner and renter households in the GTA while measuring the overlap between households in CHN and those spending 30% or more of their income on shelter. Though similar projections can be made in the GTA for the most recent Census, data to update this analysis is not yet available. Clayton and Bailey (2021). 'Who Is Being Left Behind in the GTA Housing Market: A Profile of Core Housing Need, 1991-2018.'

Many more owners than renters with household incomes of \$100,000 or more in 2021

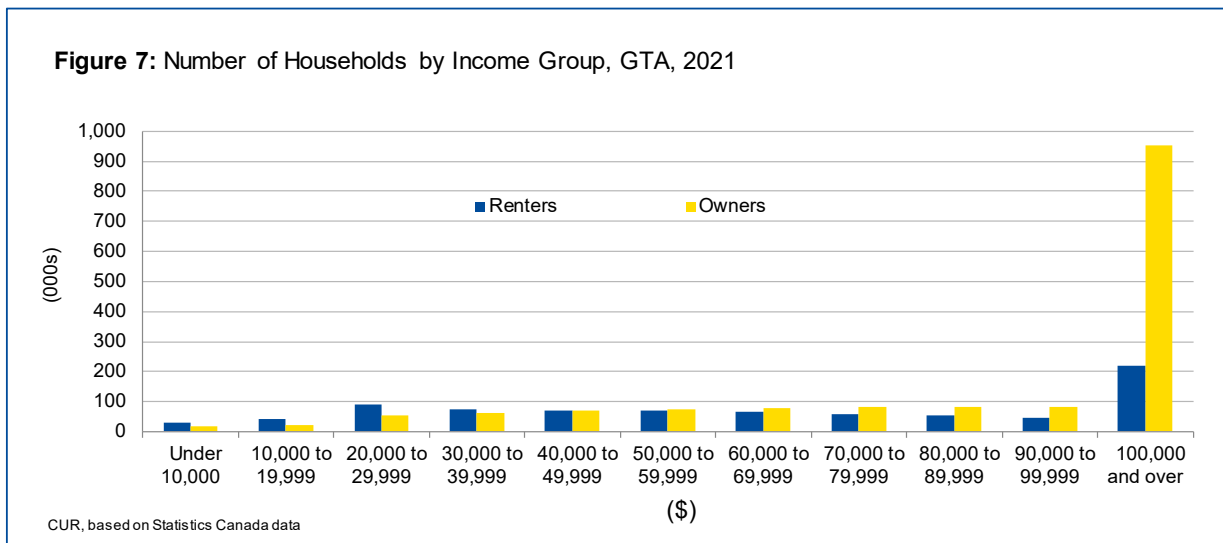
Figure 6 shows renter and owner households in the GTA in 2021 by affordability and CHN status.



Highlights:

- Some 40% of renter households had an affordability problem in the sense they devoted more than 30% of their income to rent payments in 2021;
- Comparably less than 30% of all renter households are in CHN, or 71% of renter households spend more than 30 percent of their income; and
- 25% of GTA owner households pay more than 30% of their income on shelter costs, significantly lower than the percentage of renter households, and about 10% of owner households in this category are in CHN.

Figure 7 shows GTA renter households typically earn much lower incomes than owner households, according to the 2021 Census of Canada (incomes are for the calendar year 2020).

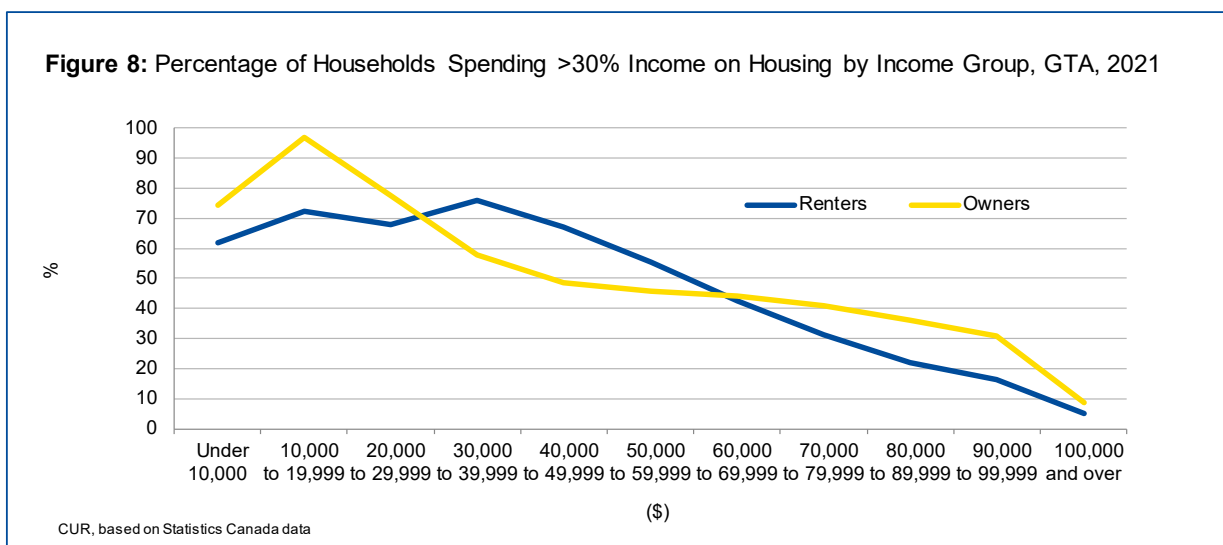


Highlights:

- Renter households typically have incomes less than \$60,000, while owner households are concentrated in the higher income groups; and
- Lower-income owner households often are seniors who can be categorized as income-poor and asset-rich. These seniors have lower incomes in retirement but own and occupy a house larger than their current needs.

Lowest and modest income households most likely to spend 30% or more of income on shelter but higher income households do so too

Figure 8 shows the proportion of renter and owner households by income group in the GTA paying 30% or more of their income for shelter in 2021.



Highlights:

- Both renter and owner households spending 30% or more of their income for shelter are concentrated in the lower income groups, while the percentage falls sharply among higher income groups;
- For most higher-income groups, renter households are less likely to pay 30% or more of income on shelter than owner households in the same income group; and
- Some owner households with affordability challenges in the lower-income groups once had higher incomes (e.g., seniors on fixed incomes) and, unlike renter households, have an asset (equity in their home). Their equity increased as they make principal repayments as part of their mortgage payments.

Summing up: CHN and affordability

An imbalance between shelter costs and incomes in the GTA exasperates the affordability situation of low-income households.

Not all households paying 30% or more of their income for shelter are in CHN. Over 70% of all GTA renters and 25% of owners spending 30% or more of their income on shelter are in CHN. Many owners not in CHN occupy accommodation exceeding the minimum standards established for adequacy and suitability. However, owners often take on a high shelter cost/income ratio initially because they expect to own their home outright eventually.

Conclusions

The affordability crisis, which is exceedingly impacting lower-income households, is being mis-addressed by concerns and housing subsidies targeted at providing affordable housing for middle-income households. Therefore, there is a need to separate the affordability challenges faced by lower-income households from those of middle-income households, as the solutions are different.

For middle-income households, the thrust should be increasing the overall supply of housing to tip market conditions in favour of buyers and renters, which also helps lower-income households by reducing the competition for existing affordable housing. Social housing subsidy dollars should be targeted at providing affordable housing for lower-income households, unlike the current situation where most subsidy dollars for new housing benefit middle-income groups. For example, the federal government's National Housing Strategy and Toronto's Housing Now Initiative have been criticized for providing market housing for middle-income groups and failing to benefit CHN households.⁷

7 Gahagan, Jacquie and Thomas, Ren (2022). 'Canada's National Housing Strategy: Is It Really Addressing Homelessness and Affordability?' The Conversation. [Online] Available: <https://theconversation.com/canadas-national-housing-strategy-is-it-really-addressing-homelessness-and-affordability-193261#:~:text=Its%20goals%20include%20increasing%20housing,not%20benefiting%20from%20NHS%20programs>.

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CMHC. Personal Communication. (2018)

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