

Housing: An income issue

by Sophie Lefebvre

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Housing is fundamental to quality of life — in addition to sufficient food and clothing, people expect to have a decent dwelling that is in good condition and large enough to accommodate the household members. But some households face problems affording good housing and find themselves forced to choose between appropriate shelter and other necessities. Living in poor housing can have permanent consequences, especially on children; accommodation that is crowded or in disrepair has been shown to have negative effects on children's health, behaviour and development.¹

This article examines how Canadians were housed in 2000. What percentage lived in owner-occupied homes? Were their homes in good condition? Was the size suitable for their needs? And what proportion of their income was spent on housing?

Ownership is tied to age and location

Home ownership is a long-term investment that can help maintain a person's standard of living over time. In 2000, two-thirds of Canadian households owned the dwellings they lived in, while the remainder were tenants (including 4% living in government-subsidized housing²). Ownership rates increased consistently with age until 65 years, when they fell off slightly. Half of all owners were mortgage-free, the proportion increasing with age; by age 55, most owners could "burn their mortgage contract." At 11%, owners living in mortgage-free homes carried a lower housing expenditure ratio (housing expenditures divided by household after-tax income) than did either owners with mortgages (25%) or tenants

(28%). If needed, some mortgage-free owners could generate additional funds by trading down to a less expensive home or, in the case of older owners, negotiating a reverse mortgage.³

1. Jackson, A. and P. Roberts. 2001. "Physical housing conditions and the well-being of children." Background paper on housing for *The Progress of Canada's Children 2001*. Ottawa: Canadian Council on Social Development.
2. Approximately 440,000 households (4%) reported that they paid reduced rent due to government-subsidized housing from federal, provincial or municipal programs. This may significantly underestimate the real number of households that benefited from reduced rent in 2000. For example, Canada Mortgage and Housing Corporation's *Canadian Housing Statistics (2000)*, reported that 639,000 households received assistance under existing federal agreements.
3. A reverse mortgage allows homeowners age 62 and over to convert between 10% and 40% of their home equity into an income stream. The amount is based on the assessed value of the home and the owner's age (that is, the older the owner, the larger the percentage that can be converted).

This article uses data from the 2000 Survey of Household Spending (SHS), an annual survey of household expenditures, income, dwelling characteristics, and household facilities conducted in approximately 15,000 private households in the 10 provinces. This study population was limited to households consisting of one economic family that rented or owned its dwelling throughout the entire year, reported positive housing costs and income, and had a housing expenditure ratio not exceeding 100%. These households represented 90% of the total SHS sample.

Adjusted household after-tax income/household income: the sum of the after-tax incomes of all members of the household aged 16 and over in 2000, then adjusted to account for household size, the presence of children, and the contributions of part-year household members in order to compare all households on a common income basis.

Adjusted after-tax income quintiles/income quintiles: households ranked in ascending order of adjusted household after-tax income and partitioned into five equal groups.

Housing expenditures/housing costs: yearly spending on principal accommodation. For *owners*, these

included regular mortgage payments, property taxes, utilities (water, fuel and electricity), and condominium charges. For *renters*, they included utilities (water, fuel and electricity), if not included in the rent.

Low-income household: the household has an adjusted after-tax income less than 50% of the median adjusted after-tax income in its area. Twenty different areas were defined. Each of the 10 provinces was divided into urban and rural to allow for the difference between urban and rural housing markets.

Adequate condition/needing major repairs: the respondent's self-reported assessment of the condition of their dwelling. A dwelling was considered inadequate if it needed major repairs. Examples of major repairs were provided to the respondent.

Suitable housing:¹ one bedroom for each of the following members of a household: cohabiting adult couples; unattached household members 18 years of age and over; same sex pairs of children under age 18; additional boy and/or girl in the family unless they are two opposite sex siblings under 5 years of age, in which case they are expected to share a bedroom.

1. Definition from Canada Mortgage and Housing Corporation's *Core Housing Need in Canada*, 1991, p. 4.

Ownership also varied by region and community size. Ownership was most common in the Atlantic and Prairie regions (above 75%) as was mortgage-free ownership (43%). By contrast, Quebec had the lowest rate of homeownership in the country (58%). In rural areas of Canada, 86% of households owned the dwelling they lived in, compared with 64% in urban centres. Over half of rural owners were without mortgages but this was true for 30% of urban dwellers. This may be because the lower real estate value in small towns enables households to pay off their mortgage faster, and because farms tend to be passed down from one generation to the next.

One in seven homes needed major repairs or was not a suitable size
In 2000, the vast majority (86%) of households lived in a home that did not need major repairs (in good condition) and had enough bedrooms to meet their needs (suitable in size). The remaining 14% lived below these condition and size norms — 8% in dwellings needing major repairs, 5% in dwellings unsuitable in size, and under 1% in dwellings that were both too small and in poor condition.

Renters were more likely than owners to live in dwellings that did not meet the norms, especially in terms of size — 11% of renters compared with 3% of owners. Also, lone mothers

were more likely to live in inappropriate accommodation — 10% in housing needing repairs and about 15% in housing without a suitable number of bedrooms.

The proportion of couples with children who lived in dwellings needing major repairs (10%) was only slightly higher than that of couples without children (8%). But couples with children were much more likely to live in housing that was not a suitable size (6% versus 1%). In rural areas, 13% of households lived in dwellings in poor repair, compared with 8% in urban areas, but urban households were more likely to be crowded (6% versus 2%). Some 8% of

| | Households | | | % living in housing which was | | |
|--|---------------|-----------|-----------|-------------------------------|-----------------|------------------|
| | Total | Owners | Tenants | Total | Needing repair* | Unsuitable size* |
| | '000 | | | | % | |
| Total | 10,501 | 67 | 33 | 14 | 9 | 6 |
| Community | | | | | | |
| Urban | 8,733 | 64 | 36 | 14 | 8 | 6 |
| Rural | 1,768 | 86 | 14 | 14 | 13 | 2 |
| Household type | | | | | | |
| One-person | 2,635 | 42 | 58 | 12 | 8 | 4 |
| Couples with and without children | 6,039 | 80 | 20 | 12 | 9 | 4 |
| Lone parents | 561 | 36 | 64 | 22 | 9 | 14 |
| Other | 1,265 | 71 | 29 | 23 | 10 | 14 |
| Adjusted after-tax income quintiles | | | | | | |
| Lowest | 2,101 | 40 | 60 | 21 | 12 | 11 |
| Second | 2,102 | 61 | 39 | 15 | 9 | 6 |
| Middle | 2,099 | 73 | 27 | 14 | 10 | 5 |
| Fourth | 2,099 | 78 | 22 | 12 | 8 | 5 |
| Highest | 2,100 | 85 | 15 | 8 | 6 | F |

* Components will not add to total because responses are not mutually exclusive.

F Too unreliable to be published.

Source: Statistics Canada, Survey of Household Spending, 2000.

owners with a mortgage lived in housing that needed major repairs.⁴

Condition and size problems often tied to affordability

Household income⁵ played an important role in determining the level of ownership. For example, only 40% of households in the lowest income quintile owned their homes, compared with 85% in the highest. Ownership rates for one-person households and lone parents were significantly lower than rates for couples and other households. Thus, only 28% of single-adult households in the lowest income quintile owned their homes compared with 55% of couples and other households. Even in the highest quintile, ownership

rates for single-adult households (66%) were much lower than for couples and other households (90%).

Overall, households spent roughly one-fifth (21%) of their after-tax income on housing. Households in accommodation below the condition or size norms tended to spend a higher-than-average percentage of their income on their homes, and were over two-and-a-half times more likely to be in the lowest income group (21%) than in the highest (8%).

Renters spent an average 28% of their income on shelter, and yet 19% of them lived in housing in need of major repairs or of unsuitable size. The same is true of female lone-parent families and of households in the lowest

income quintile; roughly one in four of these households lived in sub-standard housing, despite spending about one-third of their income on accommodation. This suggests that they were not in a position to improve their situation. However, not all households with high housing expenditure ratios lived in poor-quality housing. For example, women living alone also spent almost one-third of their after-tax income on housing, but only one in ten lived in sub-standard dwellings.

Higher costs and sub-standard conditions more common to lower-income households⁶

On average, tenants spent a greater proportion of their income on housing costs than owners, as the majority were in the two lowest income groups. When renters and owners in the same income group are compared, owners with a mortgage spent a slightly higher proportion of their income on shelter.⁷ The burden of housing cost for households in all quintiles was considerably reduced if the dwelling was mortgage-free.

Assuming that low-income households have fewer housing choices, one might expect to find this group more vulnerable to substandard or overcrowded housing. In 2000, 11% of households lived in a low-income

4. These data do not separate the households that could improve their housing conditions from those that cannot.

5. Household income was adjusted to account for household size, the presence of children, and the contributions of part-year household members in order to compare all households on a common income basis.

6. The definition of "low-income household" used here was developed specifically for this paper.

7. But even within the same income quintile, owners with a mortgage had a slightly higher median adjusted after-tax income than tenants, except for the highest quintile.

% of households



Source: Statistics Canada, Survey of Household Spending, 2000.

situation,⁸ of which one in four lived in a dwelling needing major repairs or that was unsuitable in size; the rate was approximately one in eight for other households. Separated out by the reason the housing was inadequate, low-income households were three times more likely than others to have an insufficient number of bedrooms, and one-and-a-half times more likely to live in a dwelling in poor repair.

Low-income households that owned their homes mortgage-free spent 28% of their after-tax income on housing. However, almost three-quarters of low-income households were renters (compared with just over one-quarter of other households). Low-income tenants who were not occupying government-subsidized housing spent 48% of their after-tax income on shelter, while those who were subsidized spent 31%.

Factoring in choice

Some households spend a high proportion of their income on housing because they prefer to have a larger house or to live in a particular neighbourhood; others wish to pay off the mortgage as quickly as possible. In contrast, other households may want to reduce their housing expenditures but simply cannot — their choices are limited by the availability of affordable housing suited to their needs. The housing market has in fact changed during the last two decades. Investments in social housing diminished dramatically between 1985 and 1997,⁹ and construction of private rental dwellings fell, all contributing to fewer available rental units. According to the Canada Mortgage and Housing Corporation, the average rental vacancy rate in metropolitan centres fell from just over 4% in 1996 to little more than 1% in 2001.

Summary

The majority of Canadian households owned the dwelling they lived in, but ownership rates varied depending on their income. Most households lived in housing that was in good condition and suitable in size, and spent, on average, one-fifth of their after-tax income on shelter costs. Dwellings that were in poor condition or too small for the resident family were often tied to inadequate household income. The majority of low-income households rented their homes, and those with government subsidies had a significantly smaller housing cost burden. Owning a house mortgage-free reduced the housing costs of low-income households and older households. Generally, one-person households and lone-parent families were more likely to have high housing costs relative to their income; they were also more likely to experience housing condition or size problems stemming from their high proportion in the lowest income group.

8. Of these low-income households, almost one-half were one-person households and one-sixth lone-mother households.

9. Cooper, M. 2001. "Housing affordability: A children's issue." Canadian Policy Research Networks (CPRN) discussion paper, no. F/11. Ottawa: CPRN.