SOCIAL
POLICY TRENDS

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MEASURING THE AFFORDABILITY OF SHELTER

Safe and secure shelter is a fundamental need. By what metric do we determine when satisfying that need is affordable?

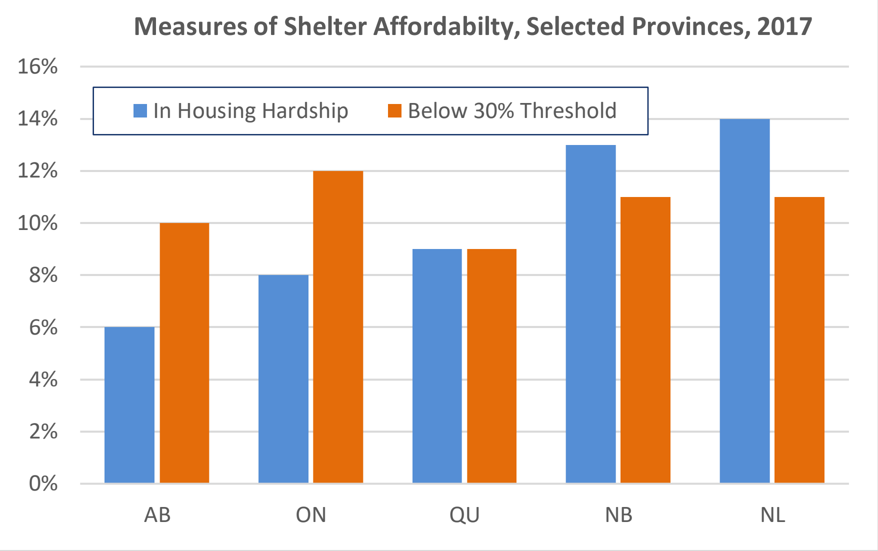
Having safe and secure shelter is a basic need. Without shelter one's health quickly deteriorates and prospects for employment quickly fade. Ensuring people without sufficient income have access to shelter is therefore an important matter of public policy. At the heart of such policies is a judgement of the amount of income required to secure and retain housing. Given its importance, it is strange that the current rule policymakers use for identifying the affordability of shelter is wholly arbitrary.

A frequently cited measure of shelter affordability is the **30% rule**. By this rule, shelter is deemed to be affordable if no more than 30% of income is devoted to it. Discussions of the history of this rule describe it as an arbitrary rule of thumb that originated with a 19th-century expression suggesting "one week's pay for one month's rent" as an appropriate standard of affordability. A 20% rule of thumb was applied in Canada until the 1950s when it was increased to 25% and then increased again to 30% in the 1980s. The arbitrariness of the 30% rule is worrisome as key policies such as the design of rent-geared-to-income programs, eligibility for accessing public housing, and determinations of appropriate levels of income support, are based on it. A key policy stakeholder has recognized these issues.

The 30% rule for defining the affordability of shelter is an arbitrary relic from the past. CMHC is considering a new concept based on more rigorous analysis.

The Canada Housing and Mortgage Corporation (CMHC) is researching the feasibility of a new measure of shelter affordability it is calling the Housing Hardship Concept. The new measure is based on what is known as the *residual income approach*.

Shelter is unique among basic needs in that it absorbs a very large part of an individual's or family's income, and it is hard to adjust the amount of it one consumes. In a personal financial crisis, meals can be skipped, lights turned off, or thermostats turned down, but there is relatively little that can be done to save on shelter. The residual income approach stresses that for shelter to be affordable it cannot absorb so much of a family's budget that other necessities cannot be afforded.



Source: "Introducing the Housing Hardship Concept", CMHC, January 2020.

Relying on calculations using the Market Basket Measure of the poverty line, the CMHC has calculated the percentage of households in housing hardship, that is, the percentage unable to meet other basic needs after paying for shelter. In the chart, the blue bars show the results of these calculations for five provinces in 2017, the latest year for which data are available. The orange bars show the percentage of households spending more on housing than the arbitrary 30% rule suggests is appropriate.

In Quebec, the two measures provide the same result, namely, that 9% of households have difficulty affording shelter. Relative to the 30% rule, the new measure suggests shelter is affordable to many more people in Alberta and Ontario than in New Brunswick and in Newfoundland & Labrador. More work is being done to refine this new measure. If adopted, it would have important implications for public policies aimed at addressing the shelter needs of individuals and families with low income.

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