

REPORT



Modernizing core housing need

Why the key indicator in Canadian housing policy needs a refresh

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March 2023

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About Maytree

Maytree is committed to advancing systemic solutions to poverty and strengthening civic communities. We believe the most enduring way to fix the systems that create poverty is to ensure that economic and social rights are respected, protected, and fulfilled for all people living in Canada. Through our work, we support non-profit organizations, their leaders, and people they work with.

Acknowledgements

We would like to thank our Maytree colleague, Paloma Griffin, Policy Researcher, for her research and analysis. We would also like to thank Elizabeth McIsaac, Markus Stadelmann-Elder, Sarah Gledhill, and Yukon Damov for their advice and support.

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ISBN: 978-1-928003-49-6

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Introduction

There is broad consensus that the cost of today's housing is more than what people can afford.

When thinking about how much people can afford to pay for housing, we often think of the 30 per cent rule—that housing costs should not exceed roughly 30 per cent of a person's income. This rule comes from an old saying that a person should not be spending more than a week's worth of wages, or a quarter of their monthly income, on housing, though this notion was gradually raised to 30 per cent.

Researchers in Canada use the 30 per cent rule as part of a concept called **core housing need**. Core housing need is the main indicator used to determine whether Canadians have housing that meets basic standards of both cost and quality, including standards for:

- Affordability (it costs less than 30 per cent of their before-tax household income);
- Suitability (there are enough rooms per size and make-up of the household, per national standards); and
- Adequacy (the housing is not in need of major repairs).

The standards for core housing need are essentially the same for homeowners and renters, except for the types of things that count as housing costs. For renters, costs include utilities; while for homeowners, costs include property taxes as well.

But core housing need is not just a theoretical concept or rule of thumb: it has practical implications for people, too. Although initially used in the 1980s to direct federal dollars to the provinces and territories, today, core housing need is one of the main ways the federal government measures the reach of its \$80 billion+ housing initiatives under the National Housing Strategy (NHS). Importantly, initiatives under the NHS are supposed to work together to remove 530,000 families from core housing need over a 10-year period, ending in 2027-28.

Governments are also using core housing need, especially its standard of affordability, to determine eligibility for publicly funded housing supports, like the new one-time benefit of \$500 to lower-income renters.

In addition, in 2019, the federal government adopted the *National Housing Strategy Act* (NHSA). The Act not only formally recognizes the right to adequate housing as a fundamental human right, but enshrines this key goal of the NHS—to improve housing outcomes for those in greatest need—into law. As the main indicator of need, core housing need is being used to measure progress against the NHSA.

Since core housing need is increasingly being used across housing policy, one would assume that it is an accurate way to assess housing cost burden and quality. Yet, it seems that the measure is disconnected from reality.

In 2021, for example, despite countless reports of soaring rents, growing social housing waiting lists, and deteriorating affordable rental housing, there was a reported *decline* in the number of people experiencing core housing need compared to 2016. This means that our key indicator of housing need being used to shape government decisions does not actually reflect people's lived experiences, posing major problems for policymakers, even those with the best intentions.

In this report, we take a deep dive into Canada's concept of core housing need—what it means, what it measures, and how it stacks up against best practices in the measurement of housing and income security. We also examine how Canada has changed since core housing need was initially created, including higher costs for necessities, more renters, faster increases in housing costs compared to incomes, shifts in family composition that mean fewer nuclear families, and shifts in the way that we think about housing standards. In addition, we discuss how the involvement of provincial, territorial, and municipal governments in the design and delivery of housing programs further complicates how to target people in housing need.

Taken together, our analysis demonstrates that the current definition of core housing need does not adequately reflect the realities of people across Canada. To ensure that housing policies and programs address Canada's housing crisis—and the needs of those who are most impacted—we need to give core housing need a refresh.

Guided by a human rights approach and the principles of transparency, comparability, and simplicity, we recommend that the federal government:

- 1. Conduct a formal evaluation of the definition, measurement, and use of core housing need in public policy;**
- 2. Bring existing and new indicators to the forefront that measure the housing challenges of those most likely to experience housing and income insecurity; and**
- 3. Increase accountability by identifying one department to lead and coordinate housing policy efforts within and across government.**

We conclude by reiterating our call on the federal government to modernize the measurement and use of core housing need so that programs are designed to help people realize their right to adequate housing.

Background

Canada's housing landscape

In Canada, the different housing types and services available are often referred to as the housing continuum. This continuum ranges from homelessness services, where housing services are provided to people without stable, permanent housing, to privately owned and rented housing, where housing is priced based on market forces.¹

In this continuum, housing can be developed, owned, and provided by private, public, or non-profit actors. Currently, much of Canada's housing is made up of private housing: Estimates show that just over two-thirds (or 68 per cent) of housing is privately owned, whereas 27 per cent is privately rented. The remaining five per cent operates in the public or non-profit housing sector (referred to as non-market housing in Figure 1 below), where rents are not set by market forces, but administratively, and public funding can be used to support this type of housing.²

Figure 1: Canada's housing continuum



Source: Atkey et al. (2022). "The Municipal Role in Housing." *Institute on Municipal Finance and Governance*. Accessed at: https://imfg.munkschool.utoronto.ca/wp-content/uploads/2022/04/imfgwdw_no1_housing_april_5_2022.pdf

- 1 For more information on the definition of each housing situation, see the CMHC's glossary of common housing terms: <https://www.cmhc-schl.gc.ca/en/nhs/guidepage-strategy/glossary>
- 2 Pomeroy, Steve. (2022). "Background Primer on Canada's Housing System." *Canadian Housing Evidence Collaborative*. Accessed at: <https://chec-ccrl.ca/wp-content/uploads/2022/08/Background-Primer-on-Canadas-Housing-system-APRIL-20-2021.pdf>

Getting clear on the terminology

Policymakers and researchers tend to use two terms to describe efforts to reduce housing costs: housing affordability and affordable housing. Although they sound similar and are certainly related, the terms describe different types of policy actions aimed at supporting opposite ends of the housing continuum.

1. **Housing affordability** refers to policies aimed at improving conditions for market housing, particularly those that would encourage home ownership (i.e., the right-hand side of the continuum in Figure 1). Typically, these actions are “lighter-touch” government interventions that do not interfere with market forces but, rather, ease the costs of engaging in the market. Examples include the Ontario government’s recent decision to lower development fees for new housing and the federal government’s new Tax-Free First Home Savings Account. Both interventions, though different, will not directly reduce the cost of housing. Rather, they are intended to help people—particularly current and future homeowners—engage with the market as is.
2. **Affordable housing** is an umbrella term that often refers to a *type* of housing priced at or below average market rates. An example of a policy aimed at creating more affordable housing is the federal government’s Rapid Housing Initiative, which provides funding to create permanent affordable rental housing units for vulnerable and marginalized populations. Affordable housing can also refer to social housing, where housing units and supports are fully or partially subsidized by governments. Regardless of the program, policies aimed at creating more affordable housing generally use income to determine eligibility criteria and, therefore, tend to be targeted to people with lower incomes. However, since Canada’s housing stock is mainly privately owned, affordable housing policies are not exclusive to the left-hand side of the housing continuum.

In this report, we use the term affordable housing in a more general way: to describe the ability of households to pay for housing costs, regardless of the type of housing they live in. We sometimes use this term interchangeably with “the affordability of housing,” but it has the same meaning.

Since our focus is on understanding the concept and use of core housing need in policy, this report mainly examines the experiences of people more likely to face housing insecurity, such as renters, people with lower incomes, persons with disabilities, and Indigenous Peoples. These identities and experiences are often intersectional and not mutually exclusive.

Setting the context: What is core housing need, who experiences need, and why does it matter?

What is core housing need?

Core housing need is a Canada-specific indicator that indicates how many people need better housing. It does this by determining the number of households (i.e., people who live in the same dwelling) who live in housing that does not meet minimum standards of housing cost and quality.³ Those whose housing falls short of these standards are considered in core housing need, since they would presumably have insufficient money left over to pay for necessities and would also be subject to poor housing conditions.

Core housing need is calculated and publicly reported on by Statistics Canada and the Canada Mortgage and Housing Corporation (CMHC) using two surveys: the Census and the Canadian Housing Survey. The Census is used to gauge a fairly accurate picture of the housing situations of Canadians, since nearly all households complete it. But the Census is collected just once every five years, which means that core housing need can only be reported one time in each five-year cycle. To fill this gap, and to focus exclusively on collecting housing information, core housing need is also calculated from information in the Canadian Housing Survey, since this survey is completed every other year. However, it has a much smaller sample size and, therefore, its results can only be examined at the national level. Given these advantages and drawbacks, both surveys are used to understand core housing need.

Using this information, core housing need is calculated by estimating the number and proportion of Canadian households who:

1. Live in housing that is **not acceptable**. Housing is not acceptable if it does not meet the CMHC's criteria of **adequacy, suitability, or affordability** (see Table 1 for more details on what each of these components mean); **AND**
2. **Cannot find an acceptable alternative dwelling within their means**. Those who cannot find an acceptable alternative dwelling are households who would have to spend 30 per cent or more of their before-tax household

3 A household means a person or a group of people who live in the same place and do not have another place in residence elsewhere.

income (i.e., the combined income of each member of the household before personal income taxes and government transfers) to access an acceptable alternative dwelling.⁴ An acceptable alternative dwelling is one where a household can access an alternative home in their area that meets the CMHC's standards of adequacy, suitability, and affordability.

Since core housing need combines different standards of housing cost and quality into one indicator, it is considered a composite measure of housing need. Although the ability of a household to meet each standard is also assessed separately, it is the overall number—combining the number of households that fall short of at least one indicator of adequate, suitable, or affordable housing—that makes its way into public discourse and policy debate. In this report, we refer to this figure as the overall core housing need rate.

4 The CMHC determines the cost of an acceptable alternative by using the median market rent for a unit with the number of bedrooms needed as reported in its annual Rental Market Report. When rents are not able to be estimated, CMHC estimates the monthly carrying cost of a newly constructed home with the number of bedrooms needed.

Table 1: Overview of core housing need standards

Standard	Definition
Acceptable housing	<p>Umbrella term for housing that meets the CMHC’s three standards of adequate, suitable, and affordable housing.</p> <p>That is, housing that is not in need of any major repairs, has enough rooms for the size and make-up of the household, and costs less than 30 per cent of before-tax household income.</p>
Adequate housing	<p>Housing that does not need any major repairs. Housing is considered in need of major repairs when it has defective plumbing or electrical wiring, or structural repairs are needed to walls, floors, or ceilings.</p>
Suitable housing	<p>Housing that has enough bedrooms for the size and make-up of the household based on the National Occupancy Standard (NOS) requirements.⁵ This means that a household must have one bedroom for each:</p> <ul style="list-style-type: none"> • Cohabiting adult couple; • Unattached person aged 18+; • Same-sex pair of children under age 18; and • Additional child in the family. <p>There are exceptions for two opposite sex children under age five who are permitted to share a bedroom, and households of one individual, who can live in a unit with no bedroom (i.e., a studio).</p>
Affordable housing	<p>Housing that costs less than 30 per cent of a household’s before-tax income. This type of method is called a shelter-cost-to-income ratio, or STIR, since it compares housing costs to income levels.</p> <p>For renters, housing costs include rent and utilities, such as electricity, fuel, water, and other municipal services, as applicable. For owners, housing costs include mortgage payments (principal and interest), property taxes, condo fees, and utilities. Affordable housing is the only element of core housing need that varies based on whether a household is an owner or renter.</p> <p>The terms “severe” or “deep” core housing need are also sometimes used to describe households that spend 50 per cent or more of their before-tax income on shelter costs.</p>

5 Canada Mortgage and Housing Corporation. (2022). “National Occupancy Standard.” Accessed at: <https://www.cmhc-schl.gc.ca/en/professionals/industry-innovation-and-leadership/industry-expertise/affordable-housing/provincial-territorial-agreements/investment-in-affordable-housing/national-occupancy-standard>.

Who experiences core housing need?

In examining Statistics Canada's recent housing analyses, five key findings emerge:

1. The overall core housing need rate decreased in 2021, but this drop is misleading

According to the Census, almost 1.5 million Canadian households lived in core housing need in 2021. This represents an overall rate of 10.1 per cent—a 2.6 percentage point decrease from 2016.⁶ This decrease is the largest decline in core housing need reported over the past twenty years. Unsurprisingly, the 2021 Canadian Housing Survey shows a similar trend, with just under ten per cent of Canadian households experiencing core housing need in 2021, down from just under 12 per cent in 2018.⁷

In both surveys, over three-quarters of people who experienced core housing need in 2021 did so because their housing was unaffordable. In other words, these households lived in housing that had enough rooms per person, did not need major repairs, yet shelter costs still exceeded 30 per cent or more of before-tax income. By contrast, both surveys show that the share of households who lived in unsuitable housing (just under five per cent) or inadequate housing (ranging from over five to seven per cent) was largely unchanged in 2021 compared to previous years. This indicates that changes in the quality of housing in terms of space and physical condition are not likely to drive changes in the overall core housing need rate. Furthermore, there could be instances where changes in these variables could be inversely related. For example, a more affordable home could also be one that is smaller and needing major repairs. However, this relationship is not reported in the surveys.

Since most people fall into core housing need because they are unable to find affordable housing, factors that increase or decrease incomes—particularly at the lower end of the income spectrum—tend to be the biggest driving forces behind changes in core housing need.

6 Statistics Canada. (2022). "To buy or to rent: The housing market continues to be reshaped by several factors as Canadians search for an affordable place to call home." *The Daily*. Accessed at: <https://www150.statcan.gc.ca/n1/en/daily-quotidien/220921/dq220921b-eng.pdf?st=xxqiPhSA>.

7 Statistics Canada. (2022). "Housing challenges remain for vulnerable populations in 2021." *The Daily*. Accessed at: <https://www150.statcan.gc.ca/n1/daily-quotidien/220721/dq220721b-eng.pdf>.

This is certainly the case for the decline seen in 2021, which coincided with the timing of temporary income support provided to help with the impacts of COVID-19, such as the Canada Emergency Response Benefit (CERB). Since total incomes among lower-income households were generally increased from these supports, the effect on core housing need was that fewer households as a whole spent 30 per cent or more of their incomes on shelter costs.

From 2016 to 2021, the total number of households experiencing core housing need declined by 242,745. Of the roughly 243,000 households who were lifted out of core housing need, approximately 73% were renters.⁸

Although shelter costs also increased during this time, the higher level of income support helped to offset these costs, particularly among the renter population. This effect was exacerbated by the fact that core housing need is calculated based on annualized incomes from the previous year, and annualized shelter costs from the year in which the surveys are collected. That is, the 2021 core housing need figures reflect incomes in 2020, when people received the highest level of pandemic-related income supports, compared to 2021 shelter costs, artificially making it seem like more people had higher incomes to pay for their shelter costs in 2021 than they really did.

In addition to higher income supports, governments across Canada temporarily froze rents in the beginning of the pandemic, further contributing to the appearance that rental housing became more affordable in 2021. For example, in 2021, the Ontario government passed legislation to freeze rents at 2020 levels for most units covered under the *Residential Tenancies Act*, 2006.

Taken together, these findings mean that the overall core housing need rate mainly reflects point-in-time changes in the ability to pay for rental housing, rather than longer-term changes to overall housing adequacy or suitability. As such, caution should be used in interpreting these results as a stand-alone figure representing the state of Canada's housing stock without also understanding the context in which these changes are taking place and, importantly, who and what type of housing they might be affecting.

8 Author calculations based on Statistics Canada Table 98-10-0248-01 and the CMHC's Characteristics of Households in core housing need, Canada, 2016. Accessed at: <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=9810024801> and <https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-data/data-tables/household-characteristics/characteristics-households-core-housing-need-canada-pt-cmas>.

These findings also show that income supports can greatly improve people's ability to pay for shelter costs in the more immediate term, especially those more likely to face housing and income insecurity, such as renters with lower incomes.

2. Renters are more likely to experience core housing need compared to homeowners

Although renters experienced a dramatic decline in core housing need in 2021 compared to 2016 (20 per cent compared to 26.8 per cent), renters are still more likely than homeowners to face housing challenges. For example, in 2021, Census data shows that renters were nearly four times more likely than homeowners to be in core housing need (26.8 per cent vs. 5.3 per cent).⁹

This is particularly the case in cities with large renter populations. Renter households living in Montreal were more than six times more likely to experience core housing need than homeowners in 2021, whereas renters in Toronto and Vancouver were twice as likely to experience this challenge compared to homeowners.¹⁰

This trend also holds over time. A recent study by researchers from the CMHC found that about one-third of renters remained in core housing need during census cycles (five years), whereas only one-sixth of homeowners remained in this category.¹¹

This shows that the renter population seems to be feeling the biggest pinch in terms of housing challenges even when provided with additional income support.

3. Core housing need rates are higher for certain groups

Renter status and region are not the only factors that increase the likelihood of experiencing housing challenges. So does family type, gender, disability status, race, and income level.

Analyses show that households who are not in couple families (i.e., lone-parent and lone-person households), are led by women, include people with disabilities, are racialized, or are Indigenous, tend to experience higher rates of core housing

9 Statistics Canada. (2022). "Table 6: Percent of households in core housing need by tenure, 2016 and 2021." *The Daily*. Accessed at: <https://www150.statcan.gc.ca/n1/daily-quotidien/220921/t006b-eng.htm>.

10 Statistics Canada. (2022). "To buy or to rent: The housing market continues to be reshaped by several factors as Canadians search for an affordable place to call home." *The Daily*. Accessed at: <https://www150.statcan.gc.ca/n1/en/daily-quotidien/220921/dq220921b-eng.pdf?st=xxqiPhSA>.

11 Canada Mortgage and Housing Corporation. (2021). "Transitions Into and Out of Core Housing Need." *Research Insights*. Accessed at: https://publications.gc.ca/collections/collection_2021/schl-cmhc/nh18-33/NH18-33-37-2021-eng.pdf.

need compared to the broader Canadian population.¹² With respect to family type, analyses of census data have not yet shown why lone-parent and lone-person households are more likely to experience core housing need than other family types. Theoretically, it is likely that lone-parent households would have more difficulty finding affordable and adequate housing, since they would have similar needs to couple families with or without children in terms of size, but lower incomes. Lone-person households may appear to have adequate housing even if there is only one room in their unit, but would have lower incomes and so may also be living in unaffordable housing.

To highlight how core housing need rates are higher for some, Statistics Canada has started releasing stand-alone reports on the housing experiences of people who experience poverty, persons with disabilities, and Indigenous Peoples. The reports found that, compared to the Canadian population:

- **People in poverty** were more than three times more likely to live in unaffordable housing, twice as likely to live in unsuitable housing, and nearly 1.5 times more likely to live in inadequate housing;¹³
- **Persons with disabilities** were more likely to live in unaffordable or inadequate housing, despite having similar or lower median shelter costs;¹⁴ and
- **Indigenous Peoples** were almost twice as likely to live in unsuitable housing and almost three times more likely to live in inadequate housing, with First Nations Peoples living on reserve experiencing particularly high rates of crowded housing or housing in need of repairs.¹⁵

These findings indicate that while understanding the overall core housing need rate can be a good starting point, it is also important to look beyond aggregate figures

12 Blueprint. (2022). “Analysis of Affordable Housing Supply Created by Unilateral National Housing Strategy Programs.” *Prepared for the National Housing Working Group on Improving the National Housing Strategy*. Accessed at: <https://assets.cmhc-schl.gc.ca/sites/place-to-call-home/pdfs/analysis-affordable-housing-supply-created-unilateral-nhs-programs-en.pdf>.

13 Randle et al. (2022). “Housing Experiences in Canada: People in Poverty.” *Statistics Canada: Housing Statistics in Canada*. Accessed at: <https://www150.statcan.gc.ca/n1/pub/46-28-0001/2021001/article/00017-eng.htm>

14 Randle, Jeff and Thurston, Zachary. (2022). “Housing Experiences in Canada: Persons with Disabilities.” *Statistics Canada: Housing Statistics in Canada*. Accessed at: <https://www150.statcan.gc.ca/n1/pub/46-28-0001/2021001/article/00011-eng.htm>.

15 Statistics Canada. (2022). “Housing conditions among First Nations people, Métis, and Inuit in Canada from the 2021 Census.” *Census in Brief*. Accessed at: <https://www12.statcan.gc.ca/census-recensement/2021/as-sa/98-200-x/2021007/98-200-x2021007-eng.pdf>.

to understand who is facing the biggest housing challenges when targeting policy. Moreover, the intersection of these factors—e.g., renter status, region, family type, and income—are the most likely to impact someone’s chances of falling into core housing need. Take, for instance, a 2022 report from the Wellesley Institute that examines trends in rental housing in Toronto. The report found that renters in Toronto who earned the minimum wage or less, were older adults on fixed incomes, received Ontario Disability Support Program or Ontario Works benefits, or were students, were the most impacted by unaffordable housing in 2021.¹⁶

4. The overall core housing need rate need is likely an underestimate

The calculation of core housing need is currently only done for people who live in private households. A private household is a specific Statistics Canada term that refers to a person or a group of people who live in the same dwelling.

Although most people would fall into this category, private households exclude many who are likely facing housing challenges. For example, people experiencing homelessness are not considered a private household because they do not live in a dwelling, and people who live in a rooming house are not considered a private household because they share services. Yet this seems counterintuitive, since homelessness can result from being unable to find an affordable, suitable, or adequate home, and people living in multi-tenant dwellings often report having safety concerns related to the physical condition of their housing.¹⁷

On-reserve communities and households whose housing costs are paid through band housing arrangements are also not counted in the overall core housing need rate, since their shelter costs cannot be determined through survey questions. Taken together, these design flaws limit our understanding of core housing need.

In addition to technical design exclusions, the CMHC by choice removes households with younger students (i.e., one or more people under age 29 attending school), since their housing challenges are considered temporary. However, this assumption ignores the fact that many younger students are unable to find affordable on-campus accommodations and, as a result, seek housing in the private rental market, increasing demand and contributing to higher prices for all renters.

These exclusions mean that the number of people who are actually in core housing need is likely greater than what is currently being reported.

16 Sheppard et al. (2022). “Erosion of Affordable Rental Housing in Toronto: Findings from the 2021 Census.” *Wellesley Institute*. Accessed at: <https://www.wellesleyinstitute.com/housing/erosion-of-affordable-rental-housing-in-toronto-findings-from-the-2021-census/>.

17 Maytree. (2020). “A Human Rights Review of Toronto’s Multi-Tenant Homes Policies.” Accessed at” https://maytree.com/wp-content/uploads/Human_Rights_Review_Toronto_MTH_Policies.pdf.

5. An acceptable alternative is highly subjective and may have a bigger impact on core housing need than we think

Removing people from core housing need who have access to an “acceptable alternative” assumes that the CMHC’s definitions of affordable, suitable, and adequate housing are complete and the most important factors a household considers when making decisions about where to live. Yet this may not be the case if the acceptable alternative is not located near transit, does not meet accessibility needs, or is in a basement with little access to light.

This exclusion may also have a bigger impact on the overall core housing need rate than anticipated. This is because it assumes that people are spending more on their housing as a matter of preference only, not as a matter of necessity.

Take, for example, a single person who lives alone in Ottawa, Ontario. Let’s call them Casey.

Casey earns \$55,000 per year before taxes—the median income in this area—and decides to sign a new lease on a one-bedroom unit.

Casey’s rent is \$1,500 per month (or \$18,000 per year)—already below the average annual rent for a one-bedroom unit in the city.¹⁸ Since they make \$55,000 per year, they spend over 30 per cent of their before-tax income on rent, causing them to have unaffordable housing and therefore experience core housing need.

But according to the CMHC, Casey might not actually be captured in core housing need, despite living in unaffordable housing. This is because the CMHC might think that Casey has access to an acceptable alternative in their area (i.e., a one-bedroom unit in their area that costs less than 30 per cent of their before-tax income and is not in need of major repairs). However, while a more affordable option may be available, it could be far from Casey’s work, and they would need to factor in the cost of commuting and time spent travelling into their decision.

The CMHC would also fail to recognize that the province where Casey lives does not have a policy to control annual rent increases between tenancies. This means that, when someone is a prospective tenant looking for a new place to live, they would only have access to units offered at current market rates. Long-term tenants, on the other hand, may live in units where rent increases are limited by legislation.

The CMHC does not account for this difference in rent price based on time of initial tenancy. They compare a person’s rent to the total, median market rent for units in their area, which includes rent both subject to and excluded from

18 Rentals.ca. (2022). “December 2022 Rent Report.” Accessed at: <https://rentals.ca/national-rent-report>.

regulatory controls. In this way, the CMHC may assume that a person has access to an alternative unit priced at a lower rent, when they only have access to vacant units with rents charged at higher market rates.

A new CMHC report on the purpose-built rental market highlights the impacts of weak rent controls on rents. Across Canada, the average rent for two-bedroom units that were taken over by new tenants increased by 18.3 per cent between October 2021 and 2022, compared to 2.9 per cent for similar units occupied by existing tenants. The situation is even worse in Toronto, with the average rent for a two-bedroom unit taken over by a new tenant increasing by a startling 29.1 per cent between October 2021 and 2022, compared to 2.3 per cent for similar units with existing tenants.¹⁹

By excluding these households from core housing need, we do not have an accurate picture of how many renters face challenges in finding an affordable place to live.

How is core housing need used in public policy and what are the implications?

Core housing need is not just a research tool. It is increasingly being used by governments for different purposes that have important implications for who receives support from major housing programs.

Core housing need as a policy goal

Core housing need is being used as a target for policy action in the federal government's \$80 billion+ National Housing Strategy (NHS). That is, the government has stated that it intends to use its NHS initiatives to remove 530,000 families from core housing need.

However, the measure seems misaligned with many of the goals of NHS programs, since it mostly reflects a household's willingness or ability to pay for housing, rather than the condition of Canada's housing stock. This is because most of the NHS programs are intended to create more affordable housing supply, with only

19 Canada Mortgage and Housing Corporation. (2023). "Rental Market Report: January 2023 Edition." Accessed at: <https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/market-reports/rental-market-report/rental-market-report-2022-en.pdf?rev=fc1865db-acac-4be3-979a-e3074b4eb521>.

one program—the Canada Housing Benefit—intended to improve a household’s ability to pay through direct financial assistance.

Rather than using core housing need as a composite measure to assess progress against the NHS, it may be more appropriate to measure progress against each core housing standard separately. For example, this could mean assessing whether programs that increase the supply of affordable housing create units that:

- Offer rents which meet core housing need’s affordability standard;
- Have enough rooms per person in the household; and
- Meet physical safety and accessibility standards.

And, although core housing need is being used as a policy goal, there is no defined threshold in which it is considered high or unacceptable. That is, there is no percentage of households in core housing need that is, at least publicly, considered too high, warranting more, or a specific type of, policy action.

Since 2001, based on the CMHC’s analysis of census data, it seems that no more than roughly 14 per cent of the Canadian population has experienced core housing need at a particular point in time. But this fact appears to be a fact only, and not a reflection of a conscious policy decision to keep the overall core housing need rate below a certain level. As core housing need is further embedded in national housing policy goals, consideration should be given to whether the government should develop a threshold for when the core housing need rate indicates a particular policy response.

Core housing need as a program eligibility tool

The affordability component of core housing need is also being used to determine eligibility for programs that provide financial housing assistance. Take, for instance, the recently launched one-time federal benefit of \$500 to assist lower-income renters. In addition to having income criteria, the benefit application requires applicants attest that they pay at least 30 per cent or more of their annual income on rent.²⁰

In practice, this leads to a double eligibility test in which applicants must show that they have both low incomes and spend a specific proportion of that income on housing. We consider these criteria to be a double test, since people who have

20 Annual income for the one-rental assistance payment is defined as adjusted family net income (AFNI). AFNI refers to before-tax income from employment and other sources reported on your prior year’s tax form, excluding certain deductions (RRSP contributions) and benefit repayments. It is also the definition of income used to calculate most federal and provincial/territorial tax credits and benefits.

low incomes are more likely to experience financial hardship when paying for housing, regardless of the proportion of their income that is spent. In this way, the affordability component is not helpful in further targeting housing programs, but rather leads to redundancies in implementation and more hardship for applicants.

In addition, the affordability component of core housing need is being used to determine the level of financial support provided to renters. In Ontario, for example, the rent charged for social housing units for tenants who do not receive social assistance is equal to 30 per cent of a household's income (up to a maximum).²¹ Similarly, for those who are eligible to receive the Canada-Ontario Housing Benefit, the benefit pays the difference between 30 per cent of the household's before-tax income and the average market rent in the area. In contrast with the other uses of core housing need in policy, this is generally positive because it results in the benefit being more equitably delivered. That is, lower-income households would receive a higher level of benefit compared to those paying just slightly more than 30 per cent of their income on rent.

Together, these examples illustrate the importance of clarifying the intention of core housing when used in policy. While core housing need may be a convenient indicator at an aggregate level, it is not always appropriate as a policy goal, eligibility threshold, or determinant of financial need. As such, the inappropriate application of core housing need may end up undermining, rather than supporting, efforts to advance housing security in Canada, which is certainly not the intention of its use.

Why do we need to modernize core housing need?

Social and economic shifts

The concept of core housing need was originally developed in the mid-1980s. While it reflected the housing policy landscape at the time, economic and social shifts have since taken place that are not reflected in what we currently consider to be affordable, suitable, or adequate housing.

21 Income refers to AFNI as reported on the previous year's tax return. See the explanation in the previous footnote for more details.

Consider the following:

- **The cost of necessities is much higher than was the case in previous decades.** In August 2022, for example, food prices increased by 9.8 per cent compared to August of the previous year. The prices of food sold in grocery stores have particularly skyrocketed, with recent growth representing the fastest increase since 1981.²² This means that even if people spend less than 30 per cent of their income on housing, the money they have left over might not take them as far as it once did. As such, our concept of what people can reasonably spend on housing and live a life with dignity should be updated.
- **Renting has become a more prominent feature of Canada's housing landscape.** From 2011 to 2021, the Census shows that the number of Canadian renter households grew by just over 21 per cent—over twice the pace of owner households (8.4 per cent) over the same period. Importantly, renting is particularly common among younger adults aged 25 to 40.²³ These trends indicate that policymakers need to have better information on the specific challenges related to the cost and quality of rental housing as more people look to these types of accommodations.
- **Macroeconomic factors are adding more pressure on rents than wages.** In October 2022, the average rent across all property types in Canada was estimated to be \$1,976 per month. Compared to 2021, this represents average annual rent growth of 11.9 per cent, which is almost double that of historically high inflation.²⁴ With rents continuing to grow and no slowdown in sight, it is no longer feasible to assume that a fixed percentage of incomes that grow at a much slower rate can support untenable rent increases.
- **The composition of families, and how they live, has shifted away from the typical nuclear family.** In 2021, 4.4 million people in Canada lived alone compared to 1.7 million people in 1981, representing the highest number on

22 Ricci, Talia. (2022). "GTA food banks say they're facing the highest demand in their history." *CBC News*. Accessed at: <https://www.cbc.ca/news/canada/toronto/gta-food-banks-say-theyre-facing-largest-demand-in-history-1.6585801>.

23 Statistics Canada. (2022). "To buy or to rent: The housing market continues to be reshaped by several factors as Canadians search for an affordable place to call home." *The Daily*. Accessed at: <https://www150.statcan.gc.ca/n1/en/daily-quotidien/220921/dq220921b-eng.pdf?st=xxqiPhSA>.

24 Evans, Pete. (2022). "Think house prices are too high? The rental market is even worse — with no relief in sight." *CBC News*. Accessed at: <https://www.cbc.ca/news/business/rent-inflation-november-1.6650777>.

record.²⁵ Moreover, between 1981 and 2021, while the overall population grew by about 54 per cent, the population of people living alone increased by over 158 per cent. Although shelter costs may seem lower when living alone, it is important to note that when people live alone, they are not able to benefit from the economies of scale in both housing and other related costs that can happen when living with another person, meaning that they may have financial constraints that were not previously accounted for. Adding to this changing landscape is the prevalence of roommates, who have become the fastest growing household type over the last decade.²⁶ Taken together, these trends mean that policymakers need to change the way they think of housing costs and space when assessing how well people are able to meet their needs.

- **Expectations around adequate housing have changed.** Prior to the 1970s, plumbing facilities were lacking in much of Canada’s housing stock, and so basic plumbing facilities and repairs were the main indicators of adequate housing.²⁷ Although the definition of adequacy has evolved to include other physical housing conditions like electrical wiring, adequate housing means more than housing in need of major repairs. It also means housing with proper lighting, heating, and cooling, or housing that allows for close access to other basic needs, such as transit, support networks, and the internet.

Unclear accountability, leading to competing priorities and programs

Adding to this complexity are more actors—within and across government—who are involved in the development and delivery of housing programs. While, in theory, this should mean more interest, funding, and support for housing services, reality tells a different story. Rather, it means that **no single government, department, or agency has leadership over housing policy**, leading to a lack of accountability in achieving housing policy goals, different eligibility criteria for housing programs, and competing interests.

25 Statistics Canada. (2022). “More Persons Living Solo Than Ever Before, But Roomies the Fastest Growing Household Type.” Accessed at: <https://www150.statcan.gc.ca/n1/daily-quotidien/220713/dq220713a-eng.htm>.

26 Ibid.

27 Canada Mortgage and Housing Corporation. (1991). “Core housing need in Canada.” Accessed at: https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research/ca1_mh_91c53_e.pdf.

Take, for instance, the federal government's NHS, which includes several different programs intended to create more affordable housing. While having an overall, national housing policy is a good idea, no single department or agency is responsible for its design or delivery. Rather, responsibility for the strategy seems to be dispersed: the CMHC—an arms-length agency—appears to be tasked with implementing the strategy, Infrastructure Canada has new teams dedicated to housing and homelessness policy, and there is a Minister of Housing responsible for delivering on the NHS without a specific housing department.

As such, it is clear that there is no single or specific place where accountability for housing policy design and implementation lies. Given the critical importance of being housed, not having a specific housing department is the equivalent of not having an official health department, but expecting to meet federal health policy goals.

This lack of accountability has led to several policy challenges, including inconsistent definitions of what constitutes affordable housing in government programs. For example, in the summer of 2022, the CMHC's housing market information team released a report estimating the level of housing supply that would be needed to restore affordability by 2030.²⁸ Although affordability is still calculated based on housing costs and income levels, the report calculates it differently than core housing need. That is, in the report, the CMHC considers housing to be affordable when it costs less than 40 per cent of after-tax household income, rather than less than 30 per cent of before-tax household income. Consequently, it is unclear how the NHS programs will meet their goals if the same agency responsible for delivering on them uses a different housing affordability target altogether.

On top of this, the affordability criteria within the programs tend to be tied to average or median market rents rather than incomes. Often measures of average or median market rents yield “affordable” rental amounts that are not actually affordable for most renters in core housing need, and are also higher than if incomes were used to calculate how much a household can afford for rent. Although income alone may not adequately assess affordability, attaching the concept of affordability to market rates without also considering income levels is unlikely to dampen rent growth or be truly reflective of one's ability to pay.

For example, the National Housing Co-Investment Fund and the Rental Construction Financing Initiative are two of the main programs in the NHS that

28 Canada Mortgage and Housing Corporation. (2022). “Canada's Housing Supply Shortages: Estimating what is needed to solve Canada's housing affordability crisis by 2030.” Housing Market Information. Accessed at: <https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/housing-research/research-reports/2022/housing-shortages-canada-solving-affordability-crisis-en.pdf?rev=88308aef-f14a-4d8b-b692-6ebddcd79a0>.

are intended to increase the supply of affordable housing by providing funding to developers. However, what is considered affordable housing differs by program and is based on market rates only.

When examining program effectiveness in reducing core housing need, Blueprint found that only about half of the new units created through the National Housing Co-Investment Fund could lift the median household out of core housing need.²⁹ The Rental

Construction Financing Initiative fared much worse—Blueprint estimates that only three per cent of units created would be suitable or affordable for households with low incomes.³⁰ Although the Rental Construction Financing Initiative has since improved its affordability criteria to create units with rents that are lower than the average market rate, its new definition may not end up impacting outcomes given that anything tied to the market alone will be a moving target.

The inclusion of more subnational governments into the housing policy mix has also led to the creation of conflicting policies, legislation, and regulations that can undermine efforts to advance affordable housing. For example, as mentioned earlier, some provincial governments have weak rent control policies, which allows for greater year-over-year increases in rental rates. Over time, the federal government's failure to account for regional differences in the regulatory environments faced by tenants could lead to underestimates of core housing need within this group.

Subnational governments also tend to use their own definitions of affordability both within and across governments. For example, in the *More Homes Built Faster*

Affordability for the National Housing Co-Investment Fund is defined as units with rents equal to less than 80 per cent of the local median market rent, whereas affordability for the Rental Construction Financing Initiative is defined as units with rents equal to less than 80 per cent of the local average market rent.^{31,32}

29 Blueprint. (2022). "Analysis of Affordable Housing Supply Created by Unilateral National Housing Strategy Programs." *Prepared for the National Housing Working Group on Improving the National Housing Strategy*. Accessed at: <https://assets.cmhc-schl.gc.ca/sites/place-to-call-home/pdfs/analysis-affordable-housing-supply-created-unilateral-nhs-programs-en.pdf>.

30 Ibid.

31 Canada Mortgage and Housing Corporation. "National Housing Co-Investment Fund." See Mandatory Minimum Requirements, p. 3. Accessed at: <https://assets.cmhc-schl.gc.ca/sites/cmhc/nhs/co-investment-fund/nhs-co-invest-fund-highlight-sheet-en.pdf?rev=333e4f36-9045-4fa7-a279-edff091c16e8>.

32 Department of Finance Canada. (2022). "Budget 2022, Chapter 1: Making Housing More Affordable." Accessed at: <https://www.budget.canada.ca/2022/report-rapport/chap1-en.html#wb-cont>.

Act, 2022, the Ontario government introduced its own definition of affordable housing, where units are considered affordable if they cost 80 per cent or less of the average market rent or average purchase price. Ontario's new legislation means that its definition of affordability will supersede those developed by municipalities, even if the provincial definition is less robust. This includes the City of Toronto's definition of affordable housing, which is based on income—it considers shelter costs relative to average market rates or income levels by unit size, depending on which is less.³³

These changes, taken together, have further confused the picture of who is in housing need and how best to support them.

What can be learned from other jurisdictions?

Most OECD countries use similar approaches to Canada in assessing the affordability, suitability, and/or adequacy of their housing. Canada, however, appears to be the only country with a composite measure that combines assessments of the condition and affordability of its housing into one overall indicator that is embedded in the goals of its national housing policy.

Comparison of housing affordability measures

Most other countries use a similar approach to Canada in measuring affordable housing by assessing housing costs relative to income levels. In housing research, this approach is called the shelter-cost-to-income ratio or “STIR” method.

To develop a STIR method, researchers must ask the following questions:

- Whose incomes and housing costs should be counted? For example, should researchers examine everyone who lives in the household, the heads of the household, or all members age 18+?
- What type of income should be compared to housing costs? Is it income before or after taxes, or a certain definition that includes some sources of income (e.g., employment income) and excludes others (e.g., government support)?

33 See the City of Toronto's update to its affordable housing definition for more information: <https://www.toronto.ca/city-government/planning-development/planning-studies-initiatives/definitions-of-affordable-housing/>.

- What counts as housing costs? Should housing costs refer to rent or mortgage payments only, or does it include other housing-related expenses, such as utilities and property taxes? How do these costs differ depending on homeowner or renter status?
- What proportion of income should be spent on housing costs without it being a financial burden?

The answers to these questions are what cause STIR methods to differ across studies, governments, and countries.

Example of the STIR method in the United States

In the United States, most governments and researchers appear to use the same approach as that used in Canada to answer these questions: that less than 30 per cent of before-tax household income can be spent on housing costs for it to be considered affordable. People experiencing homelessness are also excluded, since, by definition, they do not live in a housing unit and are excluded in national housing surveys.³⁴ Based on public reporting, however, it is not clear whether governments also exclude households who have access to an “acceptable alternative.”

Yet there are some important differences in the U.S. government’s approach to examining the cost challenges of renter households:

- The Department of Housing and Urban Development (HUD) does not report a national, overall number of people experiencing challenges paying for their housing. Rather, it reports separate figures for renter households, homeowner households who have mortgages, and homeowner households without mortgages. These figures are also reported by each state and county.
- In addition to using the 30 per cent rule to understand housing cost burdens, HUD reports the median housing cost-to-income ratio in each state and county. That is, the mid-point percentage of household income that people are spending on housing, by renter and homeowner status.
- Lastly, and importantly, HUD examines the specific challenges of renters in deepest housing need, called those in “worst case housing needs,” and

34 U.S. Department of Housing and Urban Development. (2021). “Worse Case Needs Housing Report: 2021 Report to Congress.” Accessed at: <https://www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs-2021.pdf>.

provides Congress with an official report on trends and figures affecting this group. Worst case housing needs considers income level, the proportion spent on rent, and adequate housing conditions. That is, those considered to experience worst case housing needs are renters with very low incomes—before-tax incomes at or below 50 per cent of the area median income, adjusted for household size—who do not receive housing assistance and pay more than one-half of their income towards rent, live in inadequate housing conditions, or both.³⁵ According to the 2021 Worst Case Housing Needs Report to Congress, there were nearly eight million renter households experiencing worst case housing needs in 2019.³⁶ Further, the highest incidence of worst case housing needs was experienced by non-family households, mostly consisting of single adults.³⁷

These differences lead to better reporting of the specific challenges faced by lower-income renters, including the characteristics of who experiences the greatest challenges affording rent and where they live. This reporting is also more likely to indicate when a household is on the verge of experiencing housing affordability challenges, rather than only those who experience them. For example, by reporting the mid-point proportion of income spent on housing by county, the American government would be able to see which areas have housing cost burdens that are close to falling into worst case needs. Ultimately, this type of reporting could support proactive, rather than solely reactive, policy measures.

Taken together, it seems that the STIR method is being used more robustly in the United States to assess the challenges of lower-income renters.

Example of the STIR method in the European Union

Eurostat, the statistical office of the European Union, also uses a STIR method when measuring whether housing is affordable for private households.³⁸ However, they consider housing unaffordable when 40 per cent of disposable income (i.e., income after taxes and government transfers, including housing allowances)

35 Ibid.

36 Ibid.

37 Ibid.

38 Similar to Canada's concept of core housing need, Eurostat only examines the housing circumstances of private households. By definition, this would exclude people living in collective dwellings and those experiencing homelessness. See Eurostat's glossary for EU statistics on income and living conditions for more information: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:EU_statistics_on_income_and_living_conditions_\(EU-SILC\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:EU_statistics_on_income_and_living_conditions_(EU-SILC)).

is spent on housing.³⁹ This approach is similar to that used in the previously discussed CMHC report about how much housing supply is needed to restore affordability in Canada by 2030.

Like the United States, it is unclear if Eurostat excludes people who have access to an acceptable alternative. That is, they do not appear to report whether they exclude those who have access to housing at a lower cost but spend more of their income on housing, based on comparable market rents. In this way, Canada's method may underestimate how many people experience financial hardship from housing costs compared to methods used in other countries.

Moving beyond the STIR method

Clearly, the STIR method of housing affordability has some important advantages: researchers can easily collect the information needed to calculate it, it considers how income affects spending choices, and it can be measured on an aggregate level. However, it also has some limitations that undermine its use in public policy.

First, housing measures that use the STIR method compare housing costs to income levels only. This assumes that one's ability to pay for housing is related to income only, and that the pace at which incomes grow would be the same as housing, without understanding how these things can differ or the external environment that influences them.

Second, the specific proportion of income spent on housing considered to be affordable is usually chosen arbitrarily. There is no specific evidence that spending less than this amount would be more affordable.

Moreover, the STIR method assumes that every household, regardless of their income level, could spend the same proportion of their income on housing without it being a burden, as long as that level is below a particular percentage of their total income. Yet there is a big difference between someone living in poverty spending, say, 27 per cent of their income on housing and someone with a higher income spending the same proportion on housing. That is, when a person has such low income, housing costs can cause them to be financially strained even if they spend less than 30 per cent of their overall income on such costs, yet this might not be the case for someone with a higher income.

Lastly, when applied in public policy, programs that use the STIR method only often do not account for important differences in housing costs among household

39 OECD Directorate of Employment, Labour and Social Affairs. (2021). "Overview of Affordable Housing Indicators." *Affordable Housing Database*. Accessed at: <https://www.oecd.org/els/family/HC1-5%20Overview%20of%20affordable%20housing%20indicators.pdf>.

sizes. For example, rent for a one-bedroom unit would typically cost less than rent for a three-bedroom unit. However, in determining an affordable level of rent, some housing programs may not make this distinction. That is, they might consider the average of all rents, regardless of the unit size, when determining rent levels, leading to a rent price that is overall higher than could be paid by a single person. For example, Blueprint's recent analysis of NHS supply programs found that the Rental Construction Financing Initiative created rental units that would not be affordable for single-person households.⁴⁰

Given its shortcomings, some researchers are exploring the potential for another affordable housing concept—the shelter poverty or residual income approach. Under this method, the focus is not on shelter costs relative to income levels, but rather, how much income a household has left (i.e., the residual) after paying housing costs. This level of income is then assessed in terms of whether it is enough to pay for basic, non-housing expenses.

The rationale behind this measure is that “the rent eats first.” That is, housing costs tend to be the single largest spending item in a household's budget and will take precedence over all other expenses, since people are less able to adjust these costs up or down depending on their preferences.⁴¹ As well, it takes into consideration that people tend to care about how much income they will have to pay for other needs after housing costs, and that the cost of these basic necessities are unlikely to change even as income grows.⁴² In this way, at least theoretically, the residual income approach can be a more promising measure of the income constraints that people in need face when finding a place to live.

In line with this approach, the CMHC is studying the potential use of a new measure called the **Housing Hardship Concept**.⁴³ The Housing Hardship Concept examines how much income a household has to pay for basic goods and services

40 Blueprint. (2022). “Analysis of Affordable Housing Supply Created by Unilateral National Housing Strategy Programs.” *Prepared for the National Housing Working Group on Improving the National Housing Strategy*. Accessed at: <https://assets.cmhc-schl.gc.ca/sites/place-to-call-home/pdfs/analysis-affordable-housing-supply-created-unilateral-nhs-programs-en.pdf>.

41 Herbert, Christopher et al. (2018). “Measuring Housing Affordability: Assessing the 30 Percent Income Standard.” *Joint Center for Housing Studies*. Accessed at: https://www.jchs.harvard.edu/sites/default/files/media/imp/Harvard_JCHS_Herbert_Hermann_McCue_measuring_housing_affordability.pdf.

42 OECD Directorate of Employment, Labour and Social Affairs (2021). “Overview of Affordable Housing Indicators.” *Affordable Housing Database*. Accessed at: <https://www.oecd.org/els/family/HC1-5%20Overview%20of%20affordable%20housing%20indicators.pdf>.

43 Canada Mortgage and Housing Corporation. (2020). “Introducing the Housing Hardship Concept.” Accessed at: <https://assets.cmhc-schl.gc.ca/sites/cmhc/data-research/publications-reports/research-insight/2020/research-insight-introducing-housing-hardship-concept-69619-en.pdf?rev=8b8423cd-92e2-4651-a0fe-174843221e94>.

after paying for housing. Income is compared to the Market Basket Measure, which considers the cost of food, clothing, shelter, and other items that would be required to meet a basic standard of living.⁴⁴ Using this approach, households that do not have sufficient income after paying for housing would be considered to be in housing-induced hardship.⁴⁵ So far, it appears that this concept is only being used for research purposes and has not been embedded in government policy.

In theory, residual income approaches like the CMHC's Housing Hardship Concept have advantages over the STIR method. For example, they show how housing costs vary by income level, size, and region. They are also less arbitrary than STIR methods since they do not assume that all households should spend the same proportion of their income on housing. And, most importantly, they focus on the actual ability of households to live an adequate standard living after they pay for housing.

However, like the STIR method, residual income approaches have their limitations. Since they require information on the costs of necessities, calculating such an approach is much more difficult and onerous compared to the STIR method. For example, the price, and what is included as a necessity, can differ by income level, region, and family size, and would therefore require manual calculations and more variances than would a STIR method. Such a concept, and its findings, may also be harder to explain publicly or in application. On top of this, residual income approaches can yield similar rates of housing need compared to the STIR method, indicating that replacing the 30 per cent rule entirely may not be necessary.⁴⁶

Still, some have found that residual income approaches can be used to better understand the housing experiences of specific segments of the population, including those with lower incomes. For example, researchers from the Harvard Joint Center for Housing Studies found that while at an aggregate level, a residual income measure may produce similar rates of housing unaffordability compared to the STIR method, the residual-income approach produces higher housing cost burden rates for the lowest-income renters compared with higher-income renters.⁴⁷ They also found that the residual income approach shows significantly higher housing unaffordability rates for families with children of all incomes and for the

44 Ibid.

45 Ibid.

46 Ibid.

47 Herbert, Christopher et al. (2018). "Measuring Housing Affordability: Assessing the 30 Percent Income Standard." *Joint Center for Housing Studies*. Accessed at: https://www.jchs.harvard.edu/sites/default/files/media/imp/Harvard_JCHS_Herbert_Hermann_McCue_measuring_housing_affordability.pdf.

lowest-income single persons.⁴⁸ These findings indicate that residual income approaches like the CMHC's Housing Hardship Measure can play a useful role in complementing the STIR method to better focus on understanding the housing cost burdens faced by those in greatest need.

48 Ibid.

Table 2: Summary of affordable housing measures

Type of measure	Name of measure	Jurisdiction/organization	Definition	Differences with core housing need—affordability standard
STIR	Core housing need—affordability standard	Canada	Percentage of households that spend 30% or more of their before-tax income on housing costs. Housing costs vary by renter and homeowner status. Deep housing need, unofficially defined as percentage of households that spend 50% or more of their before-tax income on housing costs. Housing costs vary by renter and homeowner status.	Not applicable
	Housing cost burden and worst case housing needs	United States	Housing cost burden: Percentage of households that spend 30% or more of their before-tax income on housing costs. Housing costs vary by renter and homeowner status.	None. However, may not exclude people with access to an acceptable housing alternative.
			Worst case needs: Percentage of renter households with before-tax incomes at or below 50% of the area median income, adjusted for household size, who do not receive housing assistance and pay more than one-half of their income towards rent, live in inadequate housing conditions, or both.	Focuses on renter households with the lowest household incomes, adjusting for household size and median income in the region where the household lives. Isolates the costs and conditions of rental housing for those with the lowest incomes.

Table 2: Summary of affordable housing measures (continued)

Type of measure	Name of measure	Jurisdiction/organization	Definition	Differences with core housing need—affordability standard
STIR	Housing cost overburden rate	Eurostat	Percentage of the population living in households where housing costs represent more than 40% of disposable household income. Housing costs vary by renter and homeowner status.	<p>Uses 40% as the level at which households are cost burdened.</p> <p>Compares disposable income (i.e., after taxes and transfers), rather than before-tax income, to housing costs.</p> <p>May not exclude people with access to an acceptable housing alternative.</p>
Residual Income	Housing hardship measure	Canada/CMHC	Percentage of households experiencing financial hardship if income after housing costs is below the Market Basket Measure.	<p>May be used to focus on the housing cost challenges faced by people with lower incomes.</p> <p>Makes more explicit the relationship between housing expenses and other costs, considering housing expenses as one part of a person's overall budget.</p> <p>Can be adjusted by region and household size.</p>

Comparison of suitability and adequacy measures

Some European countries and organizations go further than Canada in assessing housing overcrowding and adequacy by also examining housing deprivation.

Although there is no single definition of housing deprivation, the European Union considers a dwelling to be “deprived” if it meets one of the following categories:⁴⁹

- The dwelling has a leaking roof, damp walls, floors or foundation, or rot in window frames or floors;
- The dwelling has neither a bath nor a shower;
- The dwelling has no flushing toilet;
- The dwelling is considered too dark; or
- The dwelling does not have a bath, shower, or flushing toilet (i.e., the combination of the different requirements).

Severe housing deprivation occurs when housing meets one of these categories and is also overcrowded. Across the European Union, a household is considered overcrowded if it does not have:

- One room for the household;
- One room per adult couple in the household;
- One room for each single person aged 18 and over;
- One room per pair of single persons of the same sex between 12 and 17 years of age;
- One room for each single person between 12 and 17 years of age and not included in the previous category; and
- One room per pair of children under 12 years of age.⁵⁰

Core housing need uses a similar approach to the EU’s assessment of housing deprivation by examining how many households live in dwellings that are both overcrowded and in need of repairs. However, unlike the EU standard, core housing need only looks at the intersection between rooms per person and one measure of adequacy (i.e., whether major repairs are needed), rather than exploring multiple inadequacies based on physical housing condition.

In addition, Eurostat’s definition of overcrowding slightly differs from that used in Canada by creating a different category of requirements for children aged 12

49 OECD Directorate of Employment, Labour and Social Affairs. (2022). “HC2.3. Severe Housing Deprivation.” *OECD Affordable Housing Database*. Accessed at: <https://www.oecd.org/els/family/HC2-3-Severe-housing-deprivation.pdf>.

50 OECD Directorate of Employment, Labour and Social Affairs. (2022). “HC1.1. Living Space.” *OECD Affordable Housing Database*. Accessed at: <https://www.oecd.org/els/family/HC2-1-Living-space.pdf>.

and up, in recognition that it may not be appropriate for all children under age 18 to share the same room. However, neither account for square footage-per-person, which quantifies the amount of personal space that is available for each person in a household. This particular measure for overcrowding is important to limit airborne illnesses, but there is limited data to allow for the measurement of unit size on a national level.⁵¹

Comparison to indicators of the right to adequate housing

Through the NHSA, Canada legislated the human right to adequate housing in accordance with international law.

In particular, the NHSA declares that the official housing policy of the Government of Canada:

- A. Recognize that the right to adequate housing is a fundamental human right affirmed in international law;**
- B. Recognize that housing is essential to the inherent dignity and well-being of the person and to building sustainable and inclusive communities;**
- C. Support improved housing outcomes for the people of Canada; and**
- D. Further the progressive realization of the right to adequate housing as recognized in the International Covenant on Economic, Social and Cultural Rights.**

Further, the NHSA states that the Minister of Housing and Diversity and Inclusion must develop and maintain a national housing strategy that focuses on improving outcomes for persons in greatest need.

As both the main indicator for monitoring the progressive realization of housing as a human right and to understand the challenges faced by persons in greatest need, core housing need should also be assessed against the UN's standards for adequate housing.

51 U.S. Department of Housing and Urban Development. (2007). "Measuring Overcrowding in Housing." Accessed at: https://www.huduser.gov/publications/pdf/measuring_overcrowding_in_hsg.pdf

According to the United Nations Committee on Economic, Social and Cultural Rights, there are seven characteristics of adequate housing.⁵² These characteristics are security of tenure, safety, affordability, habitability, accessibility, location, and cultural adequacy. As Table 3 shows, core housing need's standards for adequate, suitable, and affordable housing fall short of the requirements of many of these characteristics.

Table 3: Comparison of core housing need with the UN characteristics of adequate housing

Characteristic	Definition	Considered as part of core housing need?
Security of tenure	Housing is not adequate if its occupants do not have a degree of tenure security against forced evictions, harassment, and other threats.	No
Availability of services, materials, facilities, and infrastructure	Housing is not adequate if its occupants do not have safe drinking water, adequate sanitation, energy for cooking, heating, lighting, food storage, or refuse disposal.	Somewhat—examines whether housing needs repairs (i.e., defective plumbing or electrical wiring, structural damage). Does not assess access to safe drinking water, heating, lighting, or questions related to food preparation specifically.
Affordability	Housing is not adequate if its cost threatens or compromises the occupants' enjoyment of other human rights.	Somewhat—examines whether housing costs are less than 30% of income. Unclear if this amount is sufficient to enjoy other human rights.

52 Office of the United Nations High Commissioner for Human Rights. (2014). "The Right to Adequate Housing: Fact Sheet No. 1." Accessed at: https://www.ohchr.org/sites/default/files/Documents/Publications/FS21_rev_1_Housing_en.pdf.

Characteristic	Definition	Considered as part of core housing need?
Habitability	Housing is not adequate if it does not guarantee physical safety or provide adequate space, as well as protection against the cold, damp, heat, rain, wind, other threats to health, and structural hazards.	Somewhat—examines whether housing has enough space for the size and make-up of the household, but does not examine whether it is structural sound enough to protect against hazards.
Accessibility	Housing is not adequate if the specific needs of disadvantaged and marginalized groups are not considered.	No
Location	Housing is not adequate if it is cut off from employment opportunities, health-care services, schools, childcare centres, and other social facilities, or if located in polluted or dangerous areas.	No
Cultural adequacy	Housing is not adequate if it does not respect the expression of cultural identity.	No

What lessons can be learned from Canada's poverty measures?

Governments use poverty measures to better understand whether people have enough income to cover the costs of their basic needs. Generally, if a household's income falls below a certain level, then it is experiencing poverty.

In Canada, governments of all levels use poverty measures to assess whether people have enough income to meet their needs. At the federal level, for example, Canada has a National Poverty Reduction Strategy that names both an official poverty line and identifies specific poverty reduction targets. Canada's Official Poverty Line is the Market Basket Measure (MBM), and it represents the cost of a basket of goods

and services needed to achieve a basic standard of living. Since the MBM looks at a household's ability to meet its basic needs, it is sometimes considered an *absolute* measure of poverty.

The cost of goods and services in the MBM is based on what might be needed by a family of two adults and two children. This cost is adjusted to account for differences in family size and region, and the items and cost of these goods are periodically updated to represent changing needs (e.g., to include the cost of Internet access or public transit passes).⁵³ To supplement the MBM, the government also examines the extent to which people experience deep poverty. That is, the proportion of the populations whose incomes fall below 75 per cent of the MBM.

In addition to the MBM, the Low Income Measure (LIM) has been used by researchers to measure the extent of poverty in Canada, and continues to be used as a comparative measure of poverty in countries around the world. Under the LIM method, households are considered in low income, and therefore poverty, if their income falls below 50 per cent of the median national household income. In contrast with the MBM, the LIM is sometimes considered a *relative* poverty measure since it compares household incomes relative to a specific level of income.

The LIM can be fixed, in that it is tied to income in a particular year, or nominal, in that the LIM level moves based on the year being measured. And although the LIM can be calculated before or after taxes (including government cash transfers), it is common practice to focus on income after taxes.

There are some helpful lessons that policymakers can take from the design and use of these poverty measures:

- **Incomes after taxes are often used to gauge one's ability to pay.** Both the MBM and LIM can be calculated based on before- or after-tax income, but focus is often given to the latter. This helps to isolate the effect of government transfers on income levels and determine what people can spend after taxes are paid.
- **Both absolute and relative measures of need can help to target support.** Although one single measure can be useful for consistency and comparison, having different types of measures to understand need (e.g., relative to an average income level, or a measure that provides more depth and nuance to a particular circumstance) can help policymakers target support. These

53 Heisz, Andrew. (2019). "An Update on the Market Basket Measure: Comprehensive Review." *Statistics Canada, Income Research Paper Series*. Accessed at: <https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2019009-eng.htm>.

measures also tend to complement each other, rather than contrast or undermine individual assessments.

- **Understanding how incomes vary by circumstance, such as region and family type, are increasingly important.** One of the strengths of the MBM is that it can vary by region. This variation is increasingly important, given that a household's cost of living can differ substantially depending on the area in which they live. Although imperfect, equivalency scales like those used in poverty measures can also help policymakers better understand how costs can vary depending on the number of people in the household.

The way forward

An overall measure of housing need can be useful from both a research and policy perspective, and core housing need as it stands has some important advantages: it considers how income affects one's ability to pay, it is simple to collect data for and calculate, it can be compared across time and jurisdiction, and, as a composite measure, it examines how housing cost and quality can be related.

The measurement of core housing need should be guided by a human rights-based approach to adequate housing. This means aligning the elements of core housing need with the seven characteristics of adequate housing set by the United Nations Committee on Economic, Social and Cultural Rights.

However, since core housing need was developed almost four decades ago, its design is no longer reflective of the real housing challenges faced by Canadians, and is likely an underestimate. In particular, it does not reflect social and economic factors that have changed the way in which people live, how much money they need to live, and their housing expectations. It also is being used inconsistently across governments and is not being regularly assessed against best practices in housing measurement.

Taken together, these shortcomings limit the government's ability to design policies that help those with the greatest housing challenges realize their human right to adequate housing. They also limit the capacity to monitor progress on the realization of this right.

To this end, and through the lens of a human rights-based approach, we recommend that the federal government modernize the measurement and use of core housing need with the principles of transparency, comparability, and simplicity in mind.

Principle	What this means from a public policy perspective
Transparency	The measurement of housing need, including data sources, assumptions, and limitations, should be publicly available. The use of housing need in determining eligibility for, and measuring the outcomes of, housing programs should also be regularly reviewed and clearly communicated.
Comparability	The measurement of housing need should be able to be compared across time, jurisdictions, income level, and household size. However, given that people may experience different housing challenges and circumstances, consideration should be given to housing need measures that can reflect the diversity of challenges and circumstances that different groups may experience.
Simplicity	The calculation of housing need should be as simple as possible, using existing data and resources.

Considerations

Governments face tradeoffs in affordable housing policy. They must consider, for example, how funding, policies, and regulations can be used to increase the supply of affordable housing units, the depth of support to make housing more affordable, or some balance of both. Currently, governments try to do both, without being explicit about the relationship between their fiscal capacity and their ability to achieve these goals.

Governments will only be able to assess tradeoffs between housing policies and expenditures if they measure core housing need appropriately. That is why, in this report, we focus on how governments can develop measures of housing need that would help determine:

- What levels of investment might be required to improve the depth (the level of support provided), the breadth (how many units are required), or both, to meet their housing goals; and
- Progress made against these goals.

Recommendations

Guided by human rights-based principles, and with the above considerations in mind, we recommend that the federal government:

1. Conduct a formal evaluation of the definition, measurement, and use of core housing need in policy.

This evaluation should include:

- Understanding how well survey questions in the Census and Canadian Housing Survey compare to best practices in measuring housing affordability, suitability, and adequacy, including international human rights standards.
- Examining the different definitions and uses of core housing need, particularly the affordability component, across departments and agencies, with a goal of working towards one common definition.
- Exploring whether the components of core housing need should be reported separately, rather than mainly as a composite measure, to help isolate the effect of government actions on different aspects of core housing need.
- Expanding the definitions of suitability and adequacy to include a spectrum of other factors that affect people's housing security, such as the physical safety of the space and its location to employment or transit, similar to the definition of housing deprivation used by Eurostat.
- Reexamining whether Canada's concept of overcrowding can be updated to reflect the increasing need for personal space within a dwelling.
- Considering whether thresholds can be developed that indicate when overall core housing need rates are considered low, moderate, or high. This would help to determine when, and what, policy actions may be warranted to make the use of core housing need more practical and active rather than theoretical and reactive.

2. Bring existing and new indicators to the forefront that measure the housing challenges of those most likely to experience housing and income insecurity.

This means:

- Further developing the CMHC's Housing Hardship Concept to complement, and not replace, the measure of affordability in core housing need.
- Reporting only separate core housing need rates based on renter and homeowner status to isolate the specific housing-cost challenges of these populations, similar to the approach used by the U.S. Department of Housing and Urban Development.
- Formalizing a measure of deep housing need focused on lower-income renters. This measure should have a different name than core housing need, and could be defined as renters who spend 50 per cent or more of their income on housing, with consideration to other variables used in the U.S. approach to assessing worst case housing needs.
- Developing specific housing need measures to capture the unique experiences of persons with disabilities, Indigenous Peoples, and those who are unhoused.
- Considering what other existing housing and income considerations should be elevated into the policy discourse to better understand changes in core housing need, including income support policies, programs, and beneficiaries; rent control policies; and eviction rates.
- Reviewing what lessons can be applied from the measurement of poverty in core housing need, such as frequently updating the assumptions underpinning the measure, how figures change when comparing costs to both before- and after-tax incomes, and how differences in region and family size could be better taken into account.

3. Increase accountability by identifying one department to lead and coordinate housing policy efforts both within and across government.

This means that:

- The federal government should identify one department to be responsible for defining, collecting data on, and evaluating core housing need. This

department should also be responsible for formally reporting these results to the Minister of Housing and Diversity and Inclusion, similar to the process in the United States. Options for this central department include Infrastructure Canada, which currently has teams dedicated to housing policy and homelessness, or Employment and Social Development Canada, given their expertise in poverty measurement and income support design.

- This central government department should establish a working group across other federal departments and agencies that are involved in housing, such as Infrastructure Canada, the CMHC, Statistics Canada, and the newly appointed Office of the Federal Housing Advocate.
- This central government department should also establish an intergovernmental working group that includes key housing officials from federal, provincial, territorial, and municipal governments to understand how they measure and apply core housing need in public policy.
- Lastly, in line with a human rights-based approach to adequate housing, the government should engage with people with lived and operational expertise of housing and income insecurity, such as people with lived experience, civil society organizations, and the private sector (e.g., financial institutions, non-profit housing developers). This means going beyond an open-ended, online consultation, and having a meaningful, continued engagement with people who are most affected by the government's housing decisions.

Conclusion

In this report, we reviewed what core housing need is, what it measures, why it is important for public policy, and how it can be modernized to reflect today's society.

More specifically, we called on the federal government to:

- 1. Conduct a formal evaluation of the definition, measurement, and use of core housing need in policy;**
- 2. Bring existing and new indicators to the forefront that measure the housing challenges of those most likely to experience housing and income insecurity; and**
- 3. Increase accountability by identifying one department to lead and coordinate housing policy efforts both within and across government.**

Guided by a human rights-based approach and the principles of transparency, comparability, and simplicity, we believe there is an opportunity to improve core housing need so that it is more reflective of the real housing and income security challenges that people face. Going forward, we encourage the government to take these considerations into account as they work towards improving housing security in Canada.

In a future paper, we will explore how the affordability component of core housing need could be better designed and applied to improve the National Housing Strategy's only program that provides direct financial assistance for housing—the Canada Housing Benefit.



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