
HOME TRUTHS:

Why the Housing System MATTERS TO ALL CANADIANS

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CHRA  ACHRU

 C C P A
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INTRODUCTION

The purpose of this book is not to develop a set of detailed housing policies, but to spell out some of the links from housing to the well-being of all Canadians. We lack an overarching policy framework which gives a properly important place to housing. This is particularly true of policy approaches to big cities, which face a convergence of challenges to social inclusion and economic well-being flowing from immigration and greater diversity, polarized labour markets, growing income inequality, and deepening poverty. In big cities, these issues play themselves out in a disturbing trend to ever greater housing affordability problems, and increased polarization of affluent and low-income neighborhoods driven by housing markets.

Canada's housing system is much more market-driven than the norm in many other advanced industrial countries. Two-thirds of Canadian households are home-owners; the vast majority of rental housing is privately owned, and social housing is just 5% of the total stock. Widespread home ownership means that housing is a key source of financial security and of asset accumulation for the broad middle-class. But exclusion from home ownership and dependence on private rental housing markets has greatly increased wealth and income gaps between owners and renters.

Housing markets largely determine where households are located in relation to other socioeconomic groups, social networks and community resources, and this "spatial sorting" by income is greatest when the housing system is most market-driven, and when the distribution of income and wealth is most unequal. It is potentially a key influence upon social inclusion and exclusion and upon the operation of labour markets. However, spatial segregation of classes and racial groups is still more of a disturbing trend than an established fact.

Many Canadians, particularly lower-income households, single-earner households, and younger families, face serious and growing housing affordability problems.

Rents play a central role in the incidence and depth of low income, particularly in big cities. More than one in five tenants spent more than 40% of their income on housing in 2001. A major part of the problem has been the growing chasm between the incomes of the welfare poor and the working poor on the one hand, and market rents on the other. As recently documented by the National Council of Welfare (2004), even families holding \$10-per-hour jobs in large cities are barely above the new Market Basket Measure poverty line which explicitly takes big city rents into account. Given the structural trend to increased inequality of earnings, rental housing affordability is likely to become an even more serious problem.

There has been a lot of debate as to whether growing rental affordability problems are mainly an poverty problem – the result of stagnant and even falling real incomes for many tenants – or a housing problem – the result of a shortage of affordable units. The truth is that both demand and supply matter, and are connected by growing income inequality. Deepening low income at one end of the spectrum and rising affluence at the other impacts housing markets through gentrification of low-income neighbourhoods, conversion of once affordable rental housing, and concentration of the housing industry on the high end of the market.

Home ownership may be moving out of reach of many younger families due to changes in the labour market and in patterns of family formation. At age 37, the current rate of home-ownership is 60%, down a full 10 percentage points from 70% in 1981. Debt levels of young families are soaring, and their share of all assets is falling.

The current housing system contributes significantly to wealth inequality within and between generations, excludes many people from an important source of asset accumulation, and unequally rewards even those who own their own homes. There is a striking division of wealth between home owners and renters. In 1999, the median wealth of renters was just \$8,000 (\$11,700 for families and \$5,500 for unat-

tached persons). Home equity is somewhat more equally distributed than other forms of wealth (particularly financial assets), but is nonetheless very unequally distributed. In 1999, total net equity in principal residences (market value minus mortgage debt) stood at \$800 billion, of which the richest 20% of family units held fully \$469 billion, or 59%. Housing markets can generate unpredictable windfall redistributions of wealth among owners, between generations, and to current owners from new buyers, including younger families, new immigrants, and people moving into larger cities.

Housing is a vital platform for individual health and well-being, for an inclusive society, and for healthy communities.

The housing system is linked to health and well-being through the direct impacts of poor physical housing on individual health, and through the stress that arises from lack of adequate or suitable housing. Poor housing has been linked to physical health and developmental problems for children, while stress arising from lack of access to outside space and crowded housing is a factor in poor mental health.

The housing system shapes individual well-being and a broad range of social outcomes because it is closely tied to the qualities of community and social space. There is a marked tendency to the segmentation of urban housing markets and urban neighborhoods by income, socio-economic status and ethnicity. The routine operation of housing markets driven by strong neighborhood influences on prices results in the spatial clustering of different income and racial groups. In urban Canada, there tends to be spatial distance between home owners of different income groups, and, even more so, between owners and renters. Affordable rental housing tends to be spatially concentrated rather than widely distributed in cities.

There are disturbing signs that housing markets are leading to increased residential and neighborhood segregation of rich and poor and racial groups in Canada. In all of our largest cities there has been an increase in spatial segregation or social sorting above and beyond what would have been expected even from the underlying rise in family income inequality. However, this has to be immediately qualified by saying that we are moving in the wrong direction, rather than that we

have arrived at the wrong destination. Low income still remains quite widely dispersed in Canadian cities.

There is strong evidence from the United States and some evidence from Canada that living in relatively and absolutely deprived urban neighbourhoods has a significant negative influence on important social outcomes, over and above the negative impacts of low income as such. There is a risk of a “double impact” arising from concentrated low income which compounds the disadvantage of low income *per se*. These negative neighbourhood effects on low-income persons and minorities may arise less from the creation of communities of disadvantage as such than from discrimination, stigmatization, and exclusion from compensating levels of investment in social and public services.

There is some Canadian evidence of adverse neighbourhood effects on children and youth. Research in Vancouver by Clyde Hertzman and colleagues has shown that children of low-income and of lone-parent families who live in low-income neighbourhoods do significantly worse than similar children who live in other neighbourhoods with respect to key developmental outcomes. However, in two Vancouver neighbourhoods where middle-class and non-market housing have been carefully mixed together, developmental outcomes are better for all children.

Housing is a major element in the well-being of new immigrant households. But many new immigrants face major difficulties finding affordable housing, and most low-income neighbourhoods in Toronto and Vancouver have a high proportion of recent visible minority immigrants. The housing problems faced by these new immigrants are troubling, giving rise to the potential creation of long-term communities of combined poverty and racial disadvantage.

Housing is a major part of the economy. The residential construction share of total output or GDP generally fluctuates around 5%. Housing is a more labour-intensive industry than the business sector average, and an important source of good jobs. Relatively high labour content in the housing sector and linkages to domestic manu-

facturing make housing investment an attractive candidate for governments wishing to stimulate output and employment.

The housing sector has an impact on the cyclical pattern of economic and employment growth, for good and for bad. Housing markets can be a source of instability, with negative effects for both housing supply and the economy. The fact that housing supply is fixed in the short term; that lenders, left to their own devices, will greatly expand credit when house prices are rising; and that some persons will buy housing for capital gains rather than as a residence when prices are rising are all factors which often create disruptive speculative bubbles. Housing booms and busts are economically destabilizing and also have perverse distributional impacts. Some home-owners obviously gain, but booms and busts reward or punish capriciously. House price inflation redistributes wealth, perhaps most significantly between generations and between residents of expanding and declining areas, but does not create wealth.

In a broader sense, the housing system influences long-term growth and the spatial distribution of that growth through its impacts on business investment decisions and on the location decisions of workers. This influence on where economic growth and job creation takes place is believed to be growing in the “new, knowledge-based, global economy.” Economic geographers Simmons and Bourne argue that the future of the urban system will shift towards places where people want to live, instead of where they *have* to live. “High amenity” cities have grown faster because they are more attractive places to live for many “knowledge-workers,” particularly younger people, singles, and couples without children who increasingly want to live in dense and culturally interesting urban neighbourhoods. The qualities of place which help drive economic development are highly influenced by the housing system.

Finally, the housing system is a critical intervening factor between the matching of workers and jobs, and the efficient and equitable functioning of the labour market. Housing is in a fixed location, and it is often difficult for workers to switch to housing in a different location because of the costs of moving, differences in rents or house

prices, or difficulties in selling. Thus housing markets can block access to jobs within cities and household mobility between regions to take advantage of new job opportunities. This is both an economic efficiency issue and a social inclusion or equity issue. Problems in Canada do not loom very large. However, looking forward, the very marked shift of population and economic activity to a few large urban areas may pose some serious issues for labour mobility.

The housing system could and should provide affordable and adequate housing; help promote an equitable distribution of assets; support the development of socially inclusive and supportive communities; help bring about successful immigrant settlement; and help secure stable economic growth and efficient and equitable labour markets. While far from a failure, our housing system is falling short on too many fronts. Housing assets are very unequally distributed, and contribute to a disturbingly high level of overall wealth inequality. We face serious and growing affordability problems in an increasingly unequal society, and potentially serious generational and racial divides in terms of access to housing. These problems are relatively concentrated in big cities, where almost all population growth is now taking place, where new immigration is concentrated, where housing costs are highest, and where labour markets are most polarized.

While the market system – regulated by governments – has made Canada one of the best-housed countries in the world, the housing system is too important to social and economic well-being, and is potentially failing on too many fronts, to be left to the market to the extent that has been the case. We need public policy interventions by all levels of government to keep affordable home ownership a continuing option for most Canadians; to support affordable rental housing; to deal with special housing needs; and to create diverse, supportive, mixed-income communities.