Socio-Economic Inequalities in Housing Issues: Measurement and Beyond

Housing Inequalities – Non-Technical Summary

Based on the 2016 Census, almost one fourth of Canadian households lived in dwellings with shelter costs that were not considered affordable, that is the households spent 30% or more of their average income on shelter costs. Housing affordability problems are not evenly distributed among the population. In fact, considerable evidence indicates the existence of inequalities in housing outcomes between groups of differing socio-economic status, where problems are concentrated among renters, seniors living alone, residents in urban areas, women and immigrants.

The traditional method of measuring affordability in Canada is to apply the 30% shelter-cost-to-income ratio (STIR); however, the STIR approach fails to acknowledge differences in income level that constitute the actual dollar amount of the 30%. Furthermore, it is unclear how the ratio approach should be adapted for households of different sizes and compositions and for different geographical regions.

This study proposes a different view for measuring housing affordability, specifically adopting the residual income approach (Stone, 2006) to express poverty-related housing problems— we call these indicators the housing hardship indicator and the housing-induced poverty indicator.

Under the residual income approach, a household is considered to have affordability problems if it is unable to purchase a minimally acceptable basket of non-shelter goods after having paid all the housing expenditures. We use the non-shelter portion of the Market Basket Measure (MBM), Canada's official poverty line, which measures the cost of a specified basket of goods and services representing a modest, basic standard of living as the proxy for a minimally acceptable basket of non-shelter goods. This residual income approach is the foundation of our housing hardship indicator, which captures the impact of shelter expenses on a household's ability to attain a basic living standard. In addition, the housing-induced poverty indicator speaks to whether the housing hardship is due to a general lack of income or because of shelter expenses.

Together with the 30% STIR affordability indicator, we identify these two new indicators in terms of the prevalence (if the household has affordability problems), the depth (the magnitude of the affordability problems) and the severity (the graveness of the magnitude of the affordability problems). To formulate measures for housing inequalities, we apply the three indicators (30% STIR, housing hardship and housing-induced poverty) to the most widely used measures in the socio-economic inequality literature— the concentration index and the shortfall index.[1] This study documents the theoretical background and methodology involved in the derivation and analysis of the aforementioned indicators and indices. It also illustrates the empirical application of these indices by applying a Blinder-Oaxaca type decomposition to discuss key factors that drive housing inequalities among immigrants, households in urban areas, seniors, singles, lone parents, and renters.

We have many compelling findings. In comparison to the non-immigrant population, immigrants on average face more severe housing issues—this finding is true when we consider the prevalence, depth and severity of the hardship and affordability issue indicators. In terms of housing-induced poverty, immigrants suffer a larger poverty gap and greater severity than non-immigrants. We also find evidence that points to a potentially higher cost of borrowing faced by immigrants. In addition, the socio-economic inequalities in the incidence of hardship and affordability issues are unfavourable for the immigrant population, though the inequalities are reversed when we consider the depth and severity of the said indicators. This finding implies that there is a higher prevalence of hardship at the lower end of the income distribution for the immigrant population but that the problems related to the depth and severity of the hardship (and the housing-induced poverty) are more pronounced at the lower end of the income distribution for the non-immigrant population.

For all measures considered, we find that households in urban areas experience more affordability-related problems relative to households in rural areas. In terms of socio-economic inequalities, although households in urban areas tend to have a higher incidence of hardship, affordability issues and housing-induced poverty, they face lower levels of socio-economic disparities when we consider the depth of the hardship. These higher levels of socio-economic disparities between urban and rural areas are explained largely by immigrant status and home tenure.

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[1] The concentration index takes values between -1 and 1. If it is negative, it indicates that the housing issue is more concentrated among poorer households. The more negative it is, the more socio-economic disparities (or inequalities) there are in the housing issue of interest. The shortfall index measures the socio-economic disparities in a housing issue of interest but also takes into account housing status. It rises with an increase in the average housing issue, an increase in socio-economic disparities or an increase in both.

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Next, the situation of seniors age 65 and above depends on each individual indicator. For instance, we find that seniors have a lower incidence of hardship but a higher incidence of affordability problems and housing-induced poverty. This implies that seniors are more likely to spend over 30% of their income on shelter but that they would still have income remaining after paying shelter costs to cover their basic non-shelter needs. When seniors experience hardship, however, it tends to be due to the shelter expenses rather than a general lack of income. Seniors also have lower average depth and severity in all the hardship and affordability issue indicators. This finding speaks to the fact that seniors are much more likely to be concentrated near the (affordability) threshold than the rest of the population, that is, they are less prone to facing a paramount depth of affordability problems. The decomposition results demonstrate that the differences between seniors and the rest of the population can be explained mainly by observed characteristics such as education and home tenure. The results for socio-economic inequalities show that the only inequalities unfavourable to the senior population are in the incidence of housing-induced poverty.

On average, non-couples appear to face substantially higher incidence, depth and severity of all the indicators than couples. The gaps between the two populations are explained largely by the difference in age and by the difference in renter status (non-couples are relatively younger and are more likely to rent). The socio-economic inequalities in the incidence of housing issues are more pronounced for non-couples; however, the situation is reversed when we contemplate the depth and severity of the housing issues. When accounting for both the average and socio-economic inequalities, we find that non-couple households face higher levels of incidence, depth and severity of all indicators.

A more narrow lens is placed on the lone-parent population. We uncover that single mothers are generally worse off than single fathers in terms of the average incidence, depth and severity of housing issues and that the gaps are explained largely by differences in the age and home tenure distributions between single mothers and single fathers. In terms of socio-economic disparities, except for the incidence of hardship and affordability issues, single fathers face higher levels of disparities in all other indicators, implying that the onus of these housing issues are more unequally distributed along socio-economic classes.

On average, we find that homeowners fare better than renters in terms of average incidence, depth and severity of non-shelter hardship, affordability issues and housing-induced poverty. The difference in age and marital status are the two most important factors in explaining the gaps in the inequalities between homeowners and renters. Moreover, renters have higher levels of socio-economic inequalities in the incidence of all the indicators, but the socio-economic inequalities in the depth and severity of these indicators are more pronounced among homeowners.

The methodology, empirical application and findings proposed in this study provide a natural guide to future research. First, the indicators and indices introduced in this study can be directly applied in defining target rules and identifying subpopulations of interest. Thus, policy makers can choose to focus on reducing one or more of the indices illustrated. Second, the structural difference in returns to homeownership (which, in part, explains the relatively high level of housing problems among immigrants) between immigrants and non-immigrants uncovered in this study warrants its own investigation. When it comes to mortgages, immigrants face a tougher battle than their Canadian counterparts, ranging from learning about the new country's market, to establishing credit, to meeting more stringent borrowing requirements. More research will be necessary to refine and further elaborate on the reasons behind our findings. Lastly, given recent changes in Canadian housing policy, such as a mortgage rate stress test now applied to all insured mortgages, new mortgage rules and new taxes, another interesting avenue for future research will be to investigate if these changes resulted in a causal impact on our proposed indices.

FURTHER READING

Full report – *Socio-Economic Inequalities in Housing Issues: Measurement and Beyond* – Housing Inequalities – Non-Technical Summary (https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/ sf/project/archive/research_3/socio-economic_inequalities_in_ housing_issues.pdf)

Authors:

Duangsuda Sopchokchai, PhD
Senior Specialist, Housing Research
CMHC

Paul Makdissi, PhD
Professor of Economics
University of Ottawa