

The Affordable Housing Issue: Time for a Reality Check

Barry Mayhew

Hardly a week goes by without some politician or advocacy group lamenting the need for more affordable housing. In a perfect world, one would assume that all members of a society would be entitled to a roof over their heads. But we live in a far from perfect world.

Defining the word “affordable” in this context is no easy task. There have been many attempts to quantify what affordable housing means but these attempts are by their very nature arbitrary. One of the criteria currently in vogue suggests that housing costs, to be affordable, should not exceed 35 percent of a family’s gross income. Other estimates I have encountered range from a low of 25 percent to a high of 40 percent. But let’s accept 35 percent as being reasonable.

First, however, there is a more philosophical issue that needs to be addressed. In a free market economy the cost of housing, like almost anything else, depends upon the relationship between supply and demand. Everyone would agree, I think, that certain cities are perceived to be more desirable than others. The reasons are legion. It might be climate, cultural amenities, cost of living, proximity to family members, or a combination of several factors. This being the case, if someone with a low income chooses to locate in a city (or region) known for its high cost of living, including housing, is it the responsibility of those already established there to in some way subsidize those who are unable to afford housing in that market area? Let us look more closely at some specific major urban centres in Canada. Toronto, Vancouver, Calgary and Victoria are, for example, known to be cit-

ies with very high housing costs. Montreal is included for contrast. These shelter costs are high whether one is a prospective home purchaser or a renter. So if someone with a minimal income, or no job, decides they would like to take up residence in Calgary, do established residents in Calgary have a responsibility to somehow provide “affordable” housing for this newcomer? I think the answer is definitely no. I must make it clear at this point, however, that I am not talking about people who are established residents of a particular community and who fall upon hard times, but rather those who believe they can choose to reside anywhere they wish and that the residents of that city have an obligation to ensure that “affordable” housing is available for newcomers.

I suspect my previous comments will evoke many negative reactions from left-leaning politicians and many will accuse me of being hard-hearted. I do, however, have compassion for those who are established residents of a community and who encounter financial difficulty. If their financial situation reaches the point where ownership of their home is in jeopardy, then the city might defer their property taxes for a year or even provide a short term, low-interest loan. This, however, is a separate issue that is worthy of a separate analysis.

Now let’s apply a little simple arithmetic and examine shelter costs in the cities referred to above and including Montreal, where housing costs are well below the norm for a major metropolis.

Recognizing that most lower-income families are more likely to be renters than purchasers,

Column A in the table below shows the average cost per month of rental accommodation for a two-bedroom apartment in each of the cities referred to above for September, 2017 (Source: Padmapper Analytics). Column B shows the monthly gross family income required to meet the 35 percent criterion for affordability.

City	Column A Average Monthly Rental Cost	Column B Average Minimum Monthly Income Required
Vancouver	\$3,160	\$9,006
Toronto	\$2,440	\$6,954
Calgary	\$1,300	\$3,705
Montreal	\$1,520	\$4,332
Victoria	\$1,490	\$4,246

Upon examining these data it becomes apparent that if one's monthly income is not at least close to the values in column B, that person or family would be ill-advised to move to a city where housing is clearly beyond their financial means.

If rental housing costs should not exceed 35 percent of gross income as suggested above, then it is equally reasonable to apply this criterion to home ownership. It is the same whether one is living in a particular urban community and wishes to remain there or contemplating relocating to a different region.

Affordable housing has also become a hot button issue, particularly with so-called "millennials" who complain that they are being denied the opportunity of home ownership. Many in this category harbour a mindset that owning a residence is an inalienable and fundamental right. I'm sorry, but in a free market economy

this is simply not the case. Is it the responsibility of our governments to ensure that home ownership is available to everyone? Certainly not if you believe in and/or support a free market economy.

Statistical data on housing costs are changing with alarming alacrity and different sources often provide very different values. The table below presents average costs for a single family detached residence in five major Canadian cities. Other variables used in calculating the gross income required to become a homeowner include a down payment of 20 percent of the selling price and a mortgage interest rate of 3.5 percent amortized over a 25-year period. (Average selling prices, based upon data provided by the Canadian Real Estate Association for December, 2017, are as follows):

Vancouver	\$1,050,300
Toronto	\$743,500
Calgary	\$427,400
Montreal	\$330,900
Victoria	\$625,800

City	Amount of Mortgage	Monthly Income Required	Gross Annual Income Required
Vancouver	\$840,240	\$11,955	\$143,460
Toronto	\$594,800	\$8,465	\$101,580
Calgary	\$341,920	\$4,865	\$58,380
Montreal	\$264,720	\$3,767	\$45,204
Victoria	\$500,640	\$7,130	\$85,560

In addition to monthly mortgage payments, prospective homeowners must also take into

**These so-called
investors see
Canada as a safe
haven...**

account such expenses as property taxes and utility costs.

Clearly, one of the factors responsible for the escalating cost of housing in many Canadian cities is the inflow of investment capital from residents of other areas, notably Asia. These so-called investors see Canada as a safe haven with strong demand for housing and a government that places virtually no restrictions on non-residents acquiring real estate or other assets in Canada. The very powerful real estate lobby also uses its influence to restrict any controls over foreign ownership of residential property. Foreign ownership of real estate is a thorny issue and many people on both sides of this question have strong feelings.

If you think the affordable housing issue can, or will, be resolved by the private sector, you are delusional. The primary objective of the private sector is and always will be the maximization of profit.

If you believe every adult Canadian should be able to own his/her own residence and further that it is the responsibility of government to make this a reality, then what options (policies) might be applicable? Perhaps the following could be considered.

1. Subsidize the mortgage payments for first-time home buyers whose income is below a certain threshold. (The former BC Liberal Government introduced a similar program.)
2. Have government assume the role of developer and build residential units on Crown land and then sell these units at cost to qualified citizens.
3. Restrict or disallow ownership of residential property by non-citizens of Canada.
4. Adopt Vancouver Mayor Robertson's proposal to introduce a "speculation" tax on those "parasites" who repeatedly "flip" houses for a quick profit.
5. Adopt the American policy of allowing homeowners to deduct their mortgage interest payments from their taxable income.

This could perhaps be modified to allow 50 percent of the interest to be deductible. Currently, US Citizens are also allowed to claim property taxes as a deduction.

6. Re-introduce the MURB program (Multiple Unit Residential Building) which was in effect in Canada between 1974 and 1979. Without going into detail, the program provided substantial tax benefits for people prepared to invest in rental housing. The program had its critics but did result in thousands of new rental units that otherwise would not have been built.

Can we identify a single, fundamental cause to explain why, in modern, industrialized nations such as Canada and the United States, we have chronic homelessness? As far back as 1906 the eminent Italian scholar Vilfredo Pareto discovered that 80 percent of the privately held land in Italy was owned by 20 per cent of the population. This led to what is often referred to as the 80/20 rule. In fact it is a "tendency" rather than a rule. It is now estimated there are approximately 450 billionaires in the US while several million Americans sleep under bridges, viaducts, in public parks and other equally unsavoury conditions. There is something very wrong with that scenario.

The brilliant French economist Thomas Piketty in his best selling treatise *Capital in the 21st Century* tells us that Pareto's findings are applicable in today's world where at least 80 percent of the world's wealth is in the hands of 20 percent of the population.

Clearly, the unequal distribution of wealth is one of the root causes of the affordable housing dilemma. •

Barry Mayhew, PhD, is an urban geographer by academic training but spent most of his professional life as a corporate executive and latterly as a management consultant. He has more than 20 publications in an eclectic array of magazines and professional journals. He is retired and lives in Victoria, British Columbia.