Affordable, Attainable, Available

Relatively affordable: on the market for approximately $4.4-million. Source: ViewPoint Realty

Affordable housing has been a hot topic in recent years, even more so now because rental vacancy rates are extremely tight and housing prices have experienced record rates of increase in Atlantic Canada (Newsletter Spring 2021). A recent news article caught your researcher's attention with its reference to "*attainable*", a price point she had not heard as much about. It inspired us to take a look at the difference between the two measures and how each lines up with Atlantic Canadian markets. Then, because alliterations sound better in threes, a third A was needed: the obvious choice in this context being "*available*".

Affordable

First, the definition of "*affordable*", a slipperier thing to pin down than one might imagine. Canada Mortgage and Housing Corporation (CMHC) defines affordable housing as "housing that costs less than 30% of a household's before-tax (gross) income, absent any requirement for the housing to be provided or made possible through a government program, and without restriction on tenure or type". With that definition, affordability is very relative: in theory, a $4.3-million home would be "affordable", provided your household income is $300,000… about 1.7% of Atlantic Canadian households. However, it seems likely that this is not the intention of the definition, or of any measures put in place to encourage the supply of affordable housing. And in fact, CMHC's Housing Continuum graphic (below) implies that affordable housing is separate from "market housing". Wikipedia offers a slightly more specific definition: *"*housing which is deemed affordable to those with a median household income or below, as rated by the national government or a local government by a recognized housing affordability index*"*.

Source: CMHC

Combining the two would indicate that affordable housing is housing which costs no more than 30% of the median household income… for practical purposes, let us assume that is in reference to local median incomes, and not for example, the national figure…more on that later.

Rental Accommodation

We conducted a very high-level analysis of the median incomes for the four Atlantic provinces and a selection of cities using average rental rates for 2-bedroom units because this is by far the dominant unit type for rental accommodation. The calculation is simple (very!): divide 30% of the median household income by 12 to get the monthly income, subtract off the average rental rate and an allocation for utilities of $150 per month (property tax and water are included in the rental rate; electricity/heating may or may not be included, so to play it safe, we assumed that it is not for most units) and see what is left over. Great news: positive balances all-round, averaging $620 per month surplus… hoorah, there is no affordability issue with rental housing anyway!

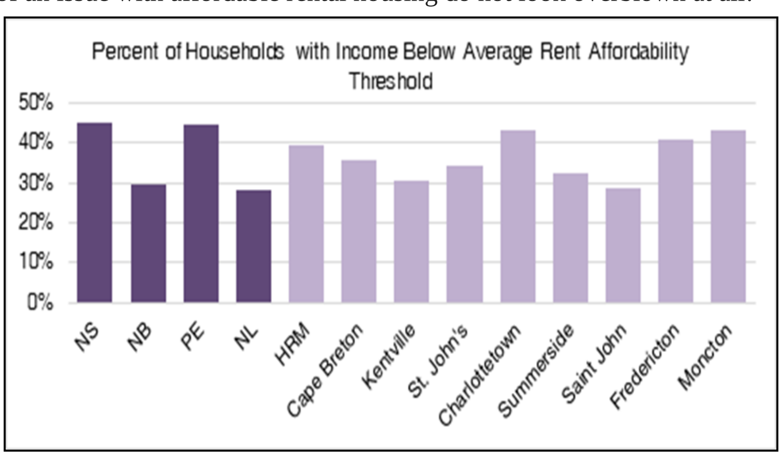
	NS	NB	PE	NL
Median income	$67,115	$65,329	$67,375	$73,783
30%	$20,135	$19,599	$20,213	$22,135
Monthly	$1,678	$1,633	$1,684	$1,845
Avg. 2-bed rent	$1,179	$895	$989	$890
Utilities	$150	$150	$150	$150
Balance	$349	$588	$545	$805

	HRM	Fredericton	Charlottetown	St. John's
Median income	$75,966	$73,489	$69,714	$89,482
30%	$22,790	$22,047	$20,914	$26,845
Monthly	$1,899	$1,837	$1,743	$2,237
Avg. 2-bed rent	$1,254	$986	$1,013	$971
Utilities	$150	$150	$150	$150
Balance	$495	$701	$580	$1,116

	Cape Breton	Kentville	Summerside	Moncton	Saint John
Median income	$57,209	$61,787	$59,612	$69,287	$68,835
30%	$17,163	$18,536	$17,884	$20,786	$20,651
Monthly	$1,430	$1,545	$1,490	$1,732	$1,721
Avg. 2-bed rent	$807	$810	$889	$949	$825
Utilities	$150	$150	$150	$150	$150
Balance	$473	$585	$451	$633	$746

Sources: Sitewise, CMHC, Dalhousie University

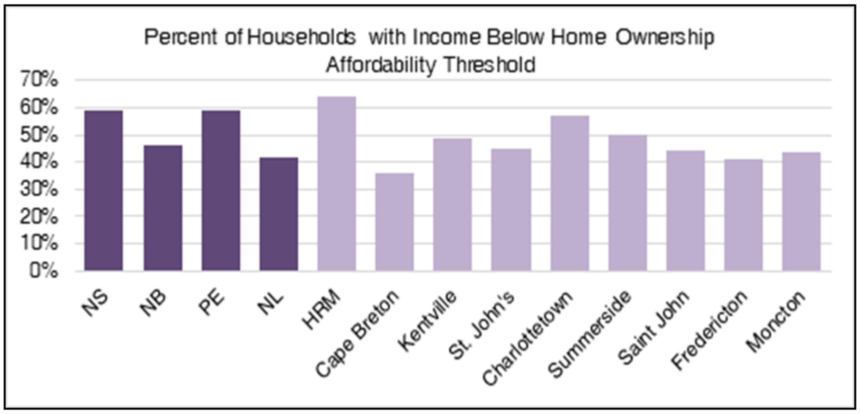
Here is the "but"…and it is not inconsequential by any stretch. Median household income is, by definition, the middle of the income spectrum. So, a household earning the median income being able to afford average costs for rental housing tells only half the story. Our next analysis worked the figures backwards: we took the average rent plus the same allocation for utilities, on an annual basis and figured out how much a household would need to earn in order for housing costs to equal 30% of their gross income. We then figured out approximately how many households fell below that income threshold, based on the number of households in various income brackets, and it appears that reports of an issue with affordable rental housing do not look overblown at all!



Sources: Sitewise; CMHC; Dalhousie University.

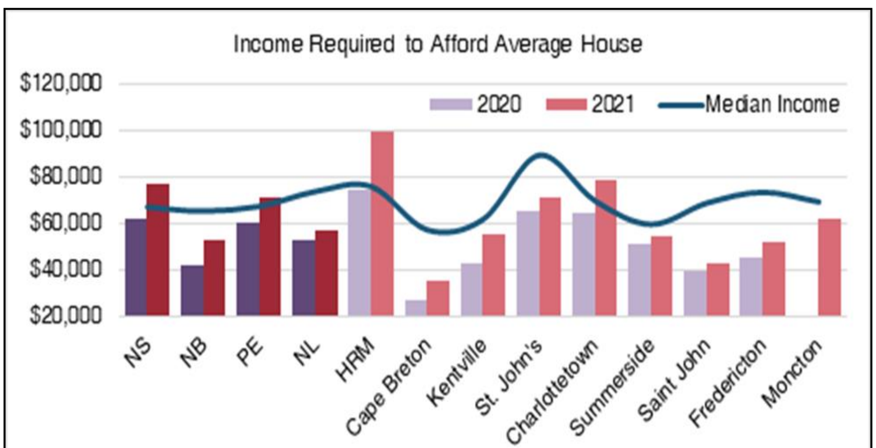
Home Ownership

Prices for owner-occupied housing have increased substantially over the course of the pandemic. We ran the same sort of analysis as above, for average/median sale prices in 2020 and 2021. The geographic availability of data is a bit inconsistent, but our aim is a general idea, so overall, the data is fit for purpose. Mortgage rates impact the cost of housing; we used discounted rates (rather than the posted rates) relevant at the relative times. To keep things simple, we assumed a 5% down payment, then based on a very unscientific poll around the office cross referenced against an online monthly expenses calculator, we allocated 40% of the mortgage cost to cover property tax, utilities, and insurance costs: rough and ready but fit for purpose.



Sources: Sitewise; CREA; ratehub.ca.

We also looked at the year-over-year change in house prices: in 2020, the median income was sufficient to afford a house in all Atlantic provinces and the selected cities (2020 house price data for Moncton is conspicuous by its absence), but in 2021 the income needed to afford a typical house climbed over the median level for Nova Scotia and PEI, and their capital cities.



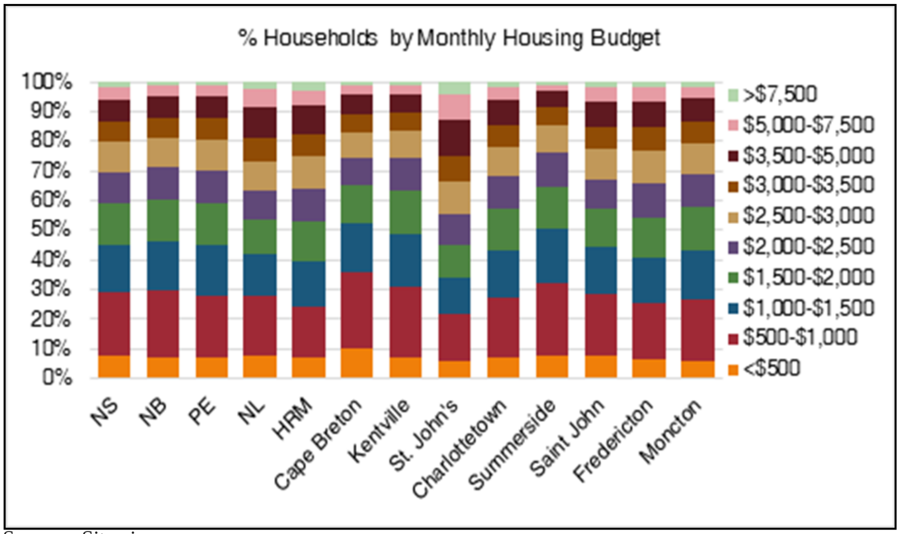
Sources: Sitewise; CREA; ratehub.ca.

Obviously, averages and medians are the central figures: there will be houses priced lower as well as houses priced higher, so the above analysis is not to say that in HRM, for example, you are precluded from finding a house priced within your means if your household income is less than $100,000 (though it is getting trickier, especially with our recent embrace of the "offers over" system of home buying). But this analysis does provide an indication of affordability, and leads us to the next A on the list: *attainability*.

Attainable

Again, the definition is slippery, and in some senses *attainability* is defined the same way as *affordability*, i.e., at no more than 30% of gross household income. It seems that the key difference is the removal of reference to median income: each income bracket will have its own price range of attainable housing and associated appropriate housing types, categorized by type, size, and tenure. Implicit in the idea of attainability is that suitable housing exists in the local market in a variety of forms and price points, sufficient to meet the needs of the population.

We used data on household income brackets to model the proportion of households in each province/city by maximum monthly housing budget. We then used the same $150 allocation for utilities for rental units to determine affordable rental ranges, and the same ratios for expenses-to-mortgage (i.e., 60% of budget is available to service the mortgage, with 40% allocated to property tax, utilities, and insurance) to determine affordable house prices, as were used in our earlier analyses. All figures are approximate at best and should not be relied upon for life decisions, but they give a sense of what is attainable to each income bracket from a price perspective:



Sources: Sitewise.

Income Bracket	Monthly Rent		House Price Range		% Atl. Canada House Hlds
	From	To	From	To	
Under $20,000		$ 350		$ 73,450	7.4%
$20,000 - $39,999	$ 350	$ 850	$ 73,450	$ 146,900	21.5%
$40,000 - $59,999	$ 850	$1,350	$ 146,900	$ 220,350	15.9%
$60,000 - $79,999	$1,350	$1,850	$ 220,350	$ 293,800	13.3%
$80,000 - $99,999	$1,850	$2,350	$ 293,800	$ 367,250	10.6%
$100,000 - $124,999	$2,350	$2,850	$ 367,250	$ 440,700	10.1%
$125,000 - $149,999	$2,850	$3,350	$ 440,700	$ 514,150	7.0%
$150,000- $199,999	$3,350	$4,850	$ 514,150	$ 734,500	8.1%
$200,000 - $299,999	$4,850	$7,350	$ 734,500	$1,101,750	4.3%
$300,000 and over	$7,350	and up	$1,101,750	and up	1.7%

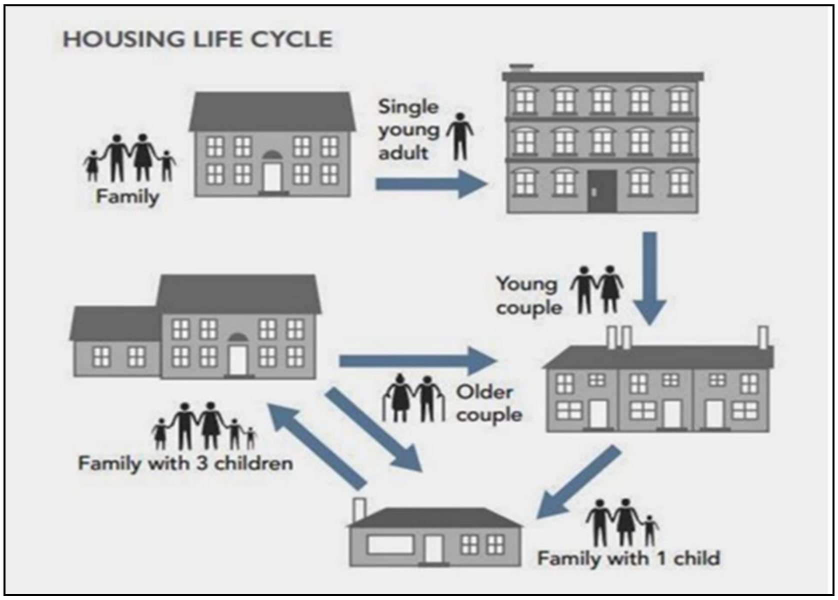
Source: Sitewise

Note: that the annual income from a minimum wage job, at 40 hours per week and 52 weeks per year varies by province but all four Atlantic Canadian provinces would fall towards the low end of the $20,000-$39,999 income bracket, averaging $26,000 overall.

Availability

And so we come to the final A: *availability*. It is an important one, because it is the supply side of the supply and demand equation, which is the driving force behind prices. For this portion of the discussion, we are abandoning price points in the interest of balancing the level of effort that can be allocated to an article such as this one.

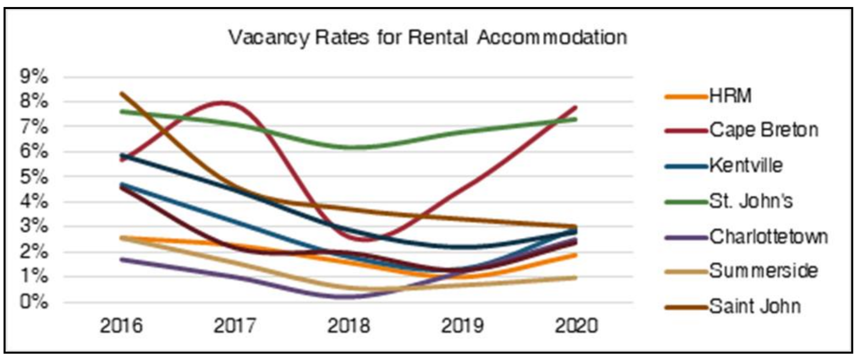
One of the components of the attainable definition was that a variety of housing formats would be available locally to serve the various budgets; the CMHC housing continuum graphic (Page 1) gives a rough sense of what this might look like, as does the Housing Life Cycle graphic (next page) borrowed from the City of Belleville, Ontario.



Source: City of Belleville, Ontario

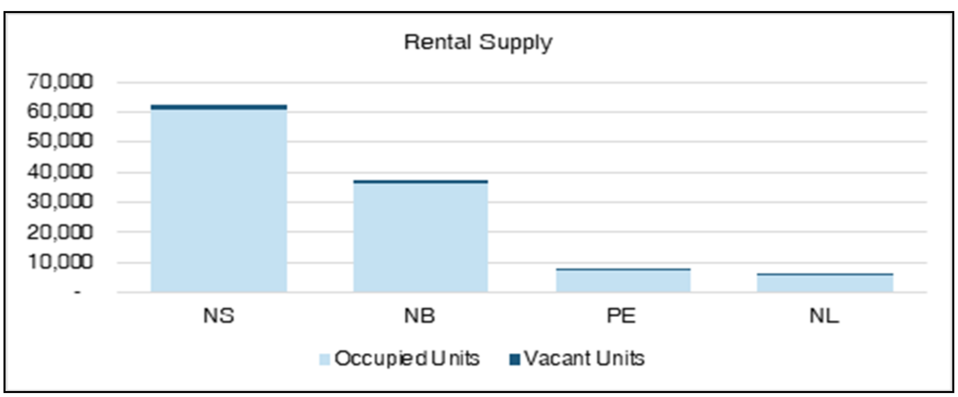
Rental Accommodation

From an availability perspective, we start with rental tenure. With the exception of Cape Breton and St. John's, vacancy rates are low across most of the selected cities (a healthy vacancy rate is 5%):



Source: CMHC (annually in October)

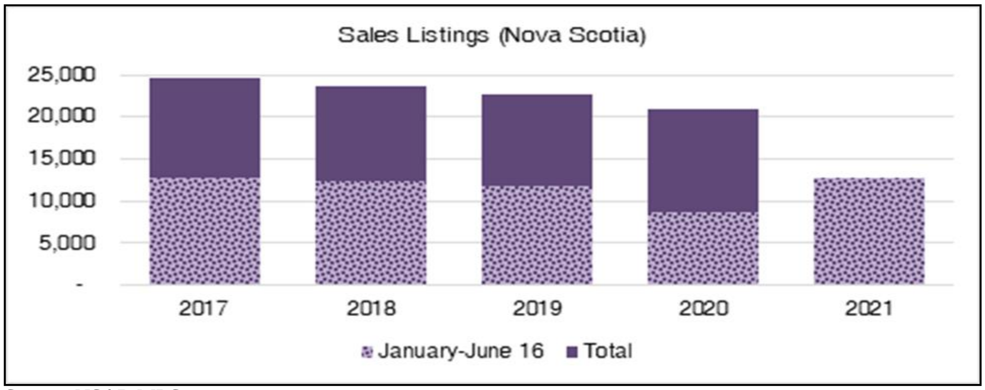
At a provincial level, in October 2020 there were just over 3,000 vacant rental units in Atlantic Canada out of a total rental universe of about 114,000 units. Once those 3,000 units are sliced and diced by price, style, and location, availability is probably problematic.



Source: CMHC (October 2020)

Home Ownership

For residential sales listings we have to rely on data for Nova Scotia only, due to availability, but we suspect that a similar pattern will be evident in the Maritime provinces at least. Prices continue to climb in 2021, but it appears that the supply-side driving force behind that trajectory may no longer be in play: the number of listings for the period 1st January to 16th June in 2021 was *greater than* any other year in the past five years, versus 2020, which had the fewest listings of the five years.



Source: NSAR MLS.®

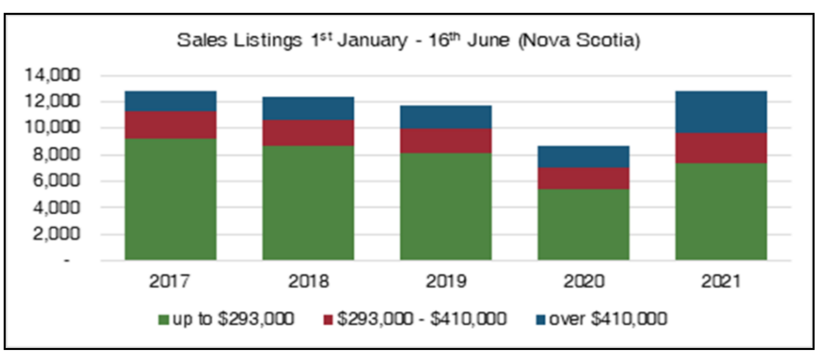
But what about *affordability* of these available houses? That is a question that could have many answers since it can be answered in a myriad of ways. We have opted for a very simple one, using price points of affordability for the median household income under two interest rate scenarios: the current posted rate and a current available discounted rate. We have ignored down payments because we are more concerned with monthly costs in this analysis. For illustrative purposes we have also ignored time and changes to mortgage rates and income levels:

Median Household Income	$67,115
30%	$20,135
Monthly	$1,678
Mortgage amount @ 1.68% (discount rate)	$410,793
Mortgage amount @ 4.79% (posted rate)	$293,120

Mortgage rates from ratehub.ca

Let us just pause on the **one-hundred-and-seventeen-thousand-dollar** difference in what is "affordable" because of the "discount" from the posted rate. If inflation continues to increase (it now stands at 4.1% per annum versus the past twenty-year average rate of 1.84%) so will interest rates. It is hard to imagine mortgagees continuing to offer discounts below the inflation rate and there are rumblings from economists that as interest rates rise, the "affordability" of houses will contract and what some fear is a housing bubble, may burst.

The second half of 2021 is yet to be, so here are the Nova Scotia listing counts to 16th June. A few things jump out: (1) there were more listings in the first half of 2021 than in the same period of any other year in the past five; (2) other than at the outset of the pandemic, when home was the safest place to take refuge and few wanted to let potential purchasers walk through, 2021 had the fewest listings below the posted interest rate affordability threshold; and (3) 2021 had the fewest listings below the discounted interest rate affordability threshold, as well.

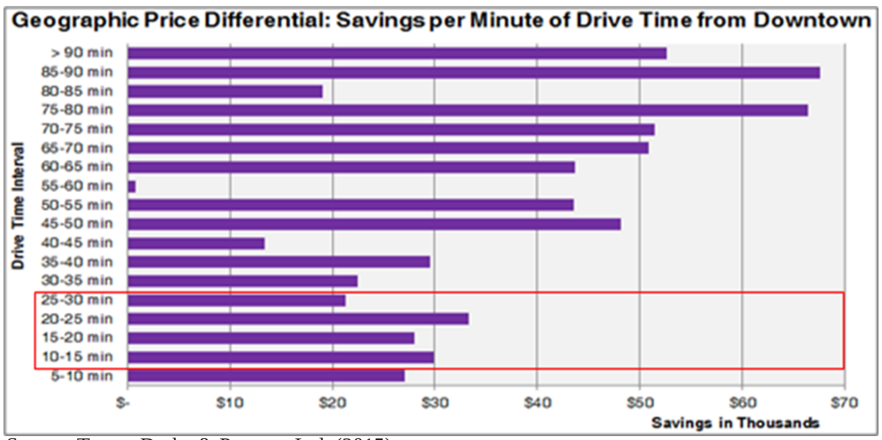


Sources: NSAR MLS®, Sitewise; ratehub.ca.

Back to that mention of localized median household incomes! In the absence of sufficient NOAH (Naturally Occurring Affordable Housing: see my colleague Neil Lovitt's excellent article "What In The Housing" in our Spring Newsletter earlier this year) in the region, programs that encourage affordable units in new developments are an important part of the solution moving forward.

There is a knife edge which balances the *costs of development* with what is *affordable* to those who need non-market housing. It is highlighted by reaction to a recent announcement of a sizable federal loan on a new apartment building that will be approximately one-quarter designated affordable units. They will be priced in relation to the median income for the area and this has generated a fair bit of blow back. The issue raised is that the local (Halifax) median income referenced is close to $90,000, so the affordable units could be priced as high as $2,238/month (though most are actually going to be less than that since the agreement includes provision for a further discount to the 30%-of-median-income standard). The underlying question is whether the median income is really a reasonable metric on which to base affordability measures. And what median should be used? And how do you reconcile an "affordable unit" with unit size?

There is also a geographic driver of housing prices; the lower the cost of commute from the Central Business District, the higher the price. Maclean's magazine published an analysis in 2014 that showed that a minute of driving time could save you thousands in housing costs. Inspired, we devoted a TDP Trends to the topic; in general the price of a home declines as travel time to and from the downtown core increases.



Source: Turner Drake & Partners Ltd. (2015)

This is relevant to a discussion of housing that is affordable, attainable, and available because cars are expensive to own and operate. Pushing affordable housing to the far reaches of the city, where transit options are limited or non-existent and commute times are longer, is short-sighted at best, and counter-productive at worst.

Is there a conclusion? Not in terms of a solution. But an acknowledgement of the complexity of the issue, and the fact that a broad stroke approach to the metrics such as using "median income", a crude and at times misleading benchmark, may provide little in the way of assisting those who need support to find and keep suitable housing that fits both their budget and family structure. That, and the fact that "affordable housing" as defined, is only of use if it is also attainable and available.