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26% of Ontario homeowners struggle to afford their houses

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This house on Shuter Street was for sale with an asking price of $750,000. Owner George (white shirt on left) is in front with his real estate broker, Frank Leo in the doorway.

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An analysis of housing affordability — the first to factor in such things as daycare and transportation — estimates that some 26 per cent of Ontario homeowners are under "significant pressure" to cover their shelter costs.

About 480,000 of the estimated 840,000 homeowners being seriously squeezed by monthly mortgage and other costs are middle-class workers under the age of 45 — those who've had the hardest time breaking into the house market because of skyrocketing real estate prices and their disproportionate dependence on part-time and contract jobs.

According to groundbreaking research to be released Wednesday by the Canadian Centre for Economic Analysis (CANCEA), housing affordability pressures have grown an average of 13.5 per cent across Ontario since 2006.

The number is likely to be much higher across the GTA and surrounding Greater Golden Horseshoe communities like Hamilton where house-price growth has been unrelenting, says Paul Smetanin, president and CEO of CANCEA.

But exactly how "pressing" worsening affordability has been in the Toronto area will be part of a second phase of the study, commissioned by the Residential Construction Council of Ontario and to be discussed at a seminar Wednesday titled "The Vanishing Dream of Home Ownership."

The Ontario housing market has become one where "the needs of some are being crowded out by the wants of others," says Smetanin, pointing to the growth of foreign investment and low-interest rates that have enabled even mom-and-pop investors, or single professionals, to buy up far more housing than they need, squeezing out those who actually need it.

In fact, real estate tax breaks have actually encouraged investors to buy up more housing or park offshore money in the real estate market, says Smetanin, which has, in turn, seen developers skewing more and more of their building to condos meant for renting rather than living.

"The running assumption in economics is that you'll eventually be forced out of the market as prices go up. The problem is that housing is a need — just like food or water — and if you need it, there becomes greater and greater pressure on you to get it (regardless of the cost), and that's what we're seeing.

"We don't have a political agenda," stressed Smetanin, of the four economists, analysts and mathematicians who've been studying housing affordability the last six months. "All our research, at the end of the day, is about sustainability.

"What's occurring at the moment is not sustainable."

RESCON commissioned the study over growing fears that "we have a housing problem," said Richard Lyall, president of the association which is a voice for the residential construction industry.

"It used to be we had a social housing problem — people who didn't have a lot of money couldn't find housing. But now, that line has moved and we have families, two-income earners, who can't find affordable housing within striking distance of work."

Not just homeowners are impacted: Some 380,000 renting houses are also facing cost challenges, according to the study.

The centre's analysis stands in stark contrast to measures of housing affordability done regularly by Ottawa and some of the big banks.

Many have reported that housing affordability remains close to historic norms, despite house prices that have more than doubled in Toronto and Vancouver over the last decade, far outstripping annual wage increases.

That’s because those indexes, which date back decades, don’t recognize modern realities — like the staggering costs of daycare, transportation, food and clothing which are all essentials needed to just get out the door to work, says Smetanin.

The centre looked at 14 affordability indexes — about six of them focused just on the Canadian housing market — and found “they are just picking up part of the problem around affordability. This is really about trying to bring them into the 21st century.”

By creating a modelling program called “prosperity at risk,” using sophisticated computer technology, rich census data and complex analytics designed initially by CANCEA to study health care, infrastructure, dementia rates and other major issues, Smetanin’s group has done about “three human years of work” drawing up a new housing affordability index.

They’ve called it the Shelter Consumption Affordability Ratio, or SCAR. It factors in more than the traditional basics — mortgage payments, property taxes and utilities.

“The problem with a lot of affordability indexes is that they are driven by stakeholders (like the big banks, the Bank of Canada or the Canada Mortgage and Housing Corporation) and they are really investment risk barometers that measure their own exposure.

“They don’t really look at human behaviour,” says Smetanin.

RBC issues a quarterly report looking at housing affordability across Canada. Its latest, in August, found that Toronto and Vancouver were edging closer to “risky levels” in the second quarter of this year because of double-digit house price increases that show no signs of slowing.

RBC’s affordability index is focused solely on “housing-related costs” — mortgage payments, property taxes and utilities — rather than “living expenses,” said a spokesperson.