

# **Shelter and Poverty Measurement**

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Working Papers provide a succinct discussion of specific issues that arise throughout the analytical process of poverty measurement. The Metcalf Foundation has funded the overall project.

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# The Definition and Measurement of Poverty in Ontario

## 1 Objectives

Shelter, or housing, is considered to be a basic need of all individuals. As such, it is one of the key components of the various poverty measures. This paper examines how housing costs are considered in the Low Income Cut-off (LICO), Basic Needs Measure (BNM) and Market Basket Measure (MBM).

This paper describes how shelter costs are calculated for the poverty indices and discusses the quality of housing to which individuals have access. It also provides an overview of the types of housing low-income people may have, including home ownership and subsidized housing programs, and the challenges these create for poverty measurement. Finally, the paper examines some of the drawbacks and some of the non-income benefits of social and subsidized housing.

## 2 Treatment of Shelter in Canadian Measures

As the low-income measure (LIM) is merely an income threshold, the measure does not include a calculation of shelter costs. Shelter costs are, however, considered in the other three poverty measures (i.e., LICO, BNM and MBM). While the three measures use varying methods and data sources to calculate shelter costs, all three do account for regional variations in shelter costs. The measures are therefore somewhat sensitive to the inflated shelter costs experienced by individuals in large urban areas, and the relatively lower shelter costs faced by those living in smaller municipalities or rural areas.

### 2.1 Shelter costs and the LICO

The LICO includes shelter as one component of the basic household costs. According to the 1992 Family Expenditures Survey, a basket of essential goods, which includes food, shelter and clothing, costs the average family 43% of their after-tax income. The LICO threshold estimates that low-income families spend at least 20 percentage points more of their incomes on these goods, or, at least 63% of their after-tax incomes. The shelter portion of basic expenses is not calculated separately from the rest of the basket. Of note, the LICO is adjusted for seven family sizes and five community sizes, representing a range of housing requirements in varying housing markets across the country.<sup>1</sup>

While the LICO includes shelter as part of the basic costs, the BNM and MBM calculate shelter as a distinct category.

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<sup>1</sup> Statistics Canada (2008): “Low Income Cut-offs for 2007 and Low Income Measures for 2006: 2006/2007” Catalogue no. 75F0002M no. 004; June 2008, P.7



## 2.2 How are shelter costs calculated in the BNM?

The Fraser Institute's Basic Needs Measure, which is based on physical sustainability, indicates that shelter costs should be calculated at 90% of average rent costs.<sup>2</sup> To determine the average rent, 1997 weighted average rents by type of apartment and by urban centre are calculated. The dwellings included in the calculations are privately-rented apartments in structures of three units and over. The calculations are made for all urban centres with population exceeding 10,000. The Ontario average rent for a two-bedroom apartment was calculated at \$8,752.08; a three-bedroom apartment was \$10,325.88<sup>3</sup>.

## 2.3 How are shelter costs calculated in the MBM in 2004?

The MBM also acknowledges that housing costs vary by region. Shelter costs are determined for each community size.<sup>4</sup> The costs are calculated by determining the median rents for a two-bedroom apartment and for a three-bedroom apartment<sup>5</sup>, and then calculating the average of these two amounts. This rent cost includes utilities and basic appliances (stove, refrigerator, access to a washer/dryer). The calculation includes subsidized rental units, but excludes units with zero rents and those in need of major repairs.

While the various low-income measures include basic considerations of shelter costs (i.e., rent and utilities), they do not address the quality or adequacy of the shelter for the inhabitants. The poverty measures also overlook other costs (e.g., repairs and/or maintenance) that are above and beyond basic rent and can affect affordability. To examine these aspects of shelter, one must consider housing quality.

## 3 What is "Good Housing"?

Through the Canada Mortgage and Housing Corporation (CMHC), the Canadian government has identified core requirements for "good housing," which have been adopted by many countries around the world. Three key criteria form the National Occupancy Standards (NOS). To be considered "good" housing, a dwelling must meet all of the following criteria:

- **Adequacy:** the dwelling does not need major repairs;
- **Suitability:** there are enough bedrooms for the occupants; and,

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<sup>2</sup> Sarlo, C. (2001): "Measuring Poverty in Canada" *2001 Fraser Institute Critical Issues Bulletin*, July 2001, P. 22.

<sup>3</sup> Figures are in 1997 dollars.

<sup>4</sup> Human Resources and Social Development Canada (2007): "Low Income in Canada: 2000-2004: Using the Market Basket Measure" Catalogue No. HS28-49/2004E-PDF, 2007, 57.

<[http://www.hrsdc.gc.ca/eng/publications\\_resources/research/categories/inclusion/2007/sp\\_682\\_10\\_07\\_e/sp\\_682\\_10\\_07e.pdf](http://www.hrsdc.gc.ca/eng/publications_resources/research/categories/inclusion/2007/sp_682_10_07_e/sp_682_10_07e.pdf)> Accessed 19 Nov 2008.

<sup>5</sup> According to CMHC's National Occupancy Standards, the MBM reference family (i.e., two adults, one boy aged 13 and one girl aged 9) would require a minimum of three bedrooms and would not be suitably housed in a two-bedroom apartment, From: CMHC (2009): "2006 Census Housing Series: Issue 2 – The Geography of Core Housing Need, 2001-2006", *Research Highlight*, Socio-economic Series, 09-005, Feb 2009, P. 1.

<<http://www.cmhc-schl.gc.ca/odpub/pdf/66360.pdf>> Accessed 19 Feb 2009.

- **Affordability:** shelter costs represent less than 30% of before-tax household income.<sup>6</sup>

An “adequate” house is one in which the occupants report that no major repair is needed.<sup>7</sup> While repairs and maintenance are generally covered for tenants, owners must directly pay for these costs. For individuals with low incomes who own their own homes, poverty measures do not acknowledge the ongoing repair and maintenance costs of shelter. While a family may be able to afford its annual property tax and utility costs, paying for ongoing repairs could inflate the cost of housing, making it unaffordable. Similarly, the housing could become inappropriate if regular repairs and maintenance are not completed, resulting in problems requiring major repairs.

The second component of a “good house” is its “suitability.” This is determined by matching the number of bedrooms in the house to the family structure in terms of the number of adults and the sex-age of children.<sup>8</sup> Note that the demographic makeup of the family needs to match the availability of bedrooms in the house, according to a government “standard” in order for the housing to be suitable. Over time, the same family occupying the same space might move from “suitable” to “not suitable” as their children age. The housing may again become “suitable” if a child leaves for school or to set up his/her own household. A specific house may or may not be suitable, depending on the needs of the family occupying it.

The third component, “affordability,” depends on a test of the shelter costs for the house relative to one’s income, but with a twist. If the house is adequate, suitable, and the dwelling costs are less than 30% of the household’s before-tax income, then the house is “affordable.” In general, the role of income seems to be the most important determinant.<sup>9</sup>

As housing must meet the three criteria of the National Occupancy Standards to be considered appropriate, many low-income families and individuals have limited access to appropriate shelter. In recognition of this gap, non-income subsidies and social housing programs are used to address shortfalls in shelter.

#### 4 Poverty and Home Ownership

Poverty indices determine who is or is not poor based on an individual or family’s annual income. The indices do not utilize the value of assets owned by the members of the household. This represents a challenge for poverty indices, as people with low incomes may own major assets, including their own homes. This is especially a concern with measuring poverty among

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<sup>6</sup> Spurr, P. (2002): “Special Studies on 1996 Housing Data: Seniors’ Housing Conditions”, *CMHC Research Highlights*, Issue 55-8, 1. <<http://www.cmhc-schl.gc.ca/odpub/pdf/62841.pdf>> Accessed 19 Feb 2009.

<sup>7</sup> Ibid.

<sup>8</sup> The NOS indicate the following allocations for bedrooms to make housing “suitable”: “parents are eligible for a bedroom separate from their children; household members aged 18 or more are eligible for a separate bedroom unless married or otherwise cohabiting as spouses; dependants aged 5 or more of opposite sex do not share a bedroom; and a bachelor dwelling units in adequate condition are considered suitable accommodation for one-person households.” From CMHC (2009): “2006 Census Housing Series”, P. 1.

<sup>9</sup> Feldman, R. (2002): “The Affordable Housing Shortage: Considering the Problem, Causes and Solutions”, Federal Reserve Bank of Minneapolis, Banking and Policy Working Paper 02-2, August 2002, P. 14. <<http://www.minneapolisfed.org/pubs/region/02-09/housing.pdf>> Accessed 19 Feb 2009.



seniors, who may have very low incomes, but are more likely than younger low-income people to own their own homes.<sup>10</sup> Although their incomes may be low, they may have significant equity in the property that they own. Someone who owns their own home and has the benefit of the home's equity – which could potentially be liquidated – could be considered wealthier than an individual who lacks such an asset, and instead rents an apartment.

While homeowners do not face ongoing rent costs, they may experience other challenges. These individuals still incur ongoing shelter costs: they must pay property taxes, utilities, and costs for repairing and maintaining their homes. Importantly, major home repairs, such as replacing a roof, are occasionally necessary to ensure the adequacy of the home. These costs, however, can put significant strains on homeowners due to the major costs involved, and may be beyond a low-income owner's financial means.

While data on home ownership do exist, this information is not considered in the poverty indices. If the measures included some reference to the value of home equity, the number of poor people and the demographics of this group could change substantially. The Canadian Council on Social Development, however, examined the role of wealth and existing assets in measuring poverty in the 1980s. While the CCSD found that some low-income individuals do indeed own substantial assets, these assets are normally less valuable than those owned by higher income individuals. Furthermore, the CCSD notes that liquidating these assets would represent an extreme hardship for most low-income individuals.<sup>11</sup>

## 5 The Role of Subsidized and Social Housing

For people with low incomes, accessing good, affordable housing in their communities is often impossible. Social assistance programs provide a basic allowance for housing, which does not reflect market rental costs. As such, access to affordable shelter for low-income individuals and families is enhanced through several subsidized housing options, including rent supplements and social housing. These programs are operated through local municipalities and housing corporations and are overseen by the Ontario Ministry of Municipal Affairs and Housing (MMAH).

**Rent supplements**, or rent geared to income, can provide a partial subsidy of the shelter cost. When an individual has a rent supplement, he or she generally pays either 30% of his/her income in rent, or the shelter portion of his/her social assistance cheque. The municipal and federal governments then provide a subsidy to the housing provider that makes up the difference between this amount and the market rent of the unit. Supplements can be applied to new construction, private market units, units in non-profit and cooperative housing projects, or through arrangements in the individual's current rental dwelling.<sup>12</sup>

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<sup>10</sup> Canadian Council on Social Development (CCSD) (1984): *Not Enough: The meaning and measurement of poverty in Canada* (Toronto: James Lorimer & Company Ltd). P. 47

<sup>11</sup> Ibid, P. 49.

<sup>12</sup> Ontario Ministry of Municipal Affairs and Housing (MMAH). (2004): *Strong Communities: Rent Supplement Program*, Toronto: MMAH Social Housing Branch. P. 2. < <http://www.mah.gov.on.ca/Asset952.aspx>> Accessed 19 Feb 2009.



The MMAH indicates that the housing provided through subsidies should meet basic requirements, similar to those set out by the CMHC. Of note, however, the standards do not mention suitability requirements:<sup>13</sup>

The units for which subsidy is being provided are to be modest, self-contained accommodation. Units are to be clean, fit for habitation, in a satisfactory state of repair, and must be in compliance with applicable Building Code and Fire Code requirements.

In Ontario, **social housing** is operated by 47 regional service managers. These are regional housing authorities and municipalities. The majority of funding for social housing comes from the municipal and federal governments. Just as with rent supplements, social housing costs are geared to an individual's income.

While housing subsidy programs exist across the province, accessing subsidized or social housing is not a simple matter. As these programs are managed by municipalities within Ontario, supply and demand for units varies throughout the province, although demand always exceeds supply, as evidenced by the long waiting lists for subsidized housing. Waiting times range from several months to several years, depending on: local housing conditions (i.e., social housing vacancies); individual shelter requirements (e.g., a single adult versus a large family); and an individual's current housing situation (e.g., fleeing abuse, homeless). In Ottawa, for example, 9,500 individuals and families in February 2009 are on the waiting list for social housing and can expect to wait up to five years for accommodations.<sup>14</sup> In 2006, 67,083 Toronto households were on the social housing waiting list, facing wait times ranging from two to twelve years.<sup>15</sup>

## 6 Benefits and Drawbacks of Social Housing

While the necessity of social housing and housing subsidies are rarely disputed, the benefits associated with the shelter provided are often questioned. Social and public housing programs are often criticized for: providing poor quality housing which is in need of major repairs; creating ghettos by concentrating poverty and deprivation; limiting the life chances of residents; and fostering crime and social disorder.<sup>16</sup> Sometimes, however, these programs are considered beneficial as they enable a family to spend less on shelter, freeing up money for other needs, such as nutritious food, clothing, education, and health expenses. Several researchers have examined the utility of social housing and how it affects an individual's health, education and life chances.

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<sup>13</sup> Ibid.

<sup>14</sup> Ottawa (2008): *City of Ottawa – Social Housing in Ottawa*, City of Ottawa

<[http://www.ottawa.ca/residents/housing/social\\_housing/index\\_en.html](http://www.ottawa.ca/residents/housing/social_housing/index_en.html)> Accessed 19 Feb 2009.

<sup>15</sup> Toronto (Staff Report) (2007): *Tied in Knots: Unlocking the Potential of Social Housing Communities in Toronto*, Toronto: City of Toronto, P. 22. <<http://www.toronto.ca/legdocs/mmis/2007/cd/bgrd/backgroundfile-8980.pdf>> Accessed 19 Feb 2009.

<sup>16</sup> Newman, S. J., & Harkness, J. M. (2002): "The long-term effects of public housing on self-sufficiency", *Journal of Policy Analysis and Management*, 21(1), 21-43, p. 22-24.



Depending on the location and condition of social housing, residents may receive some extra benefits from the housing. Other community and social services that are sometimes offered in conjunction with social housing can provide non-financial benefits to residents. Some social housing programs connect residents with community and social services to which they might not otherwise have access.<sup>17</sup> Specialized programs often exist for new immigrants, seniors and other groups with special needs. In addition to these service benefits, some longitudinal American research has shown that youth who lived in social housing may be less likely to use welfare in the future, and may experience increased earnings and employment.<sup>18</sup>

Despite assertions that public housing can provide intangible benefits and enable families to spend more on other basic needs, researchers found no significant connection between public housing and improved health outcomes. They did, however, find some evidence that public housing increased obesity and worsened mothers' overall health.<sup>19</sup> Another study of low income Americans who were provided with subsidized housing vouchers instead of social housing found that women and female children's mental health improved significantly after leaving social housing developments.<sup>20</sup> Howell et al. examined the health status of Americans living in rundown social housing, finding that these individuals have significantly poorer health than similarly disadvantaged individuals with better housing. These findings demonstrate the necessity of "good housing," highlighting a potential pitfall of substandard social housing, which has been identified as an infrastructure problem in Ontario.<sup>21</sup>

While research on the value of public housing is mixed, it is important to note that even substandard social housing may be an improvement over what low income families and individuals would otherwise be able to afford if they were forced to pay market rents.<sup>22</sup>

## 7 Measurement Challenges

Subsidized housing presents a challenge for measuring poverty. The monetary values of housing subsidies are not included in a person's income; therefore, the benefits gleaned from subsidized housing are not reflected in the low-income measures, masking the benefit of the program. For example, assume that a family has an annual income of \$25,000, and is forced to pay market rent of \$850 monthly (\$10,200 annually) for an apartment. If another family has an identical income and rents an identical apartment, but has a housing subsidy and pays only 30% of their household

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<sup>17</sup> Bullen, C., Kearns, R. A., Clinton, J., Laing, P., Mahoney, F., & McDuff, I. (2008): "Bringing health home: Householder and provider perspectives on the healthy housing programme in Auckland, New Zealand", *Social Science and Medicine*, 66(5): 1185-1196, p. 1193.

<sup>18</sup> Newman and Harkness (2002), p.33.

<sup>19</sup> Fertig, A. R., & Reingold, D. A. (2007): "Public housing, health, and health behaviors: Is there a connection?" *Journal of Policy Analysis and Management*, 26(4), 831-860, p. 851.

<sup>20</sup> Kling, J.R., Liebman, J.B., & Katz, L.F. (2007): "Experimental analysis of neighborhood effects" *ECONOMETRICA*, 75(1): 83-119, p. 101, 103.

<sup>21</sup> As noted in: Howell, E. M., Harris, L. E., & Popkin, S. J. (2005): "The health status of HOPE VI public housing residents", *Journal of Health Care for the Poor and Underserved*, 16(2), 273-285, p.273, 274; and Premier of Ontario (2008): *New Measures to Tackle Poverty, Build Opportunity*, News Release, Office of the Premier, 17 March 2008 <<http://www.premier.gov.on.ca/news/Product.asp?ProductID=2033&Lang=EN>> Accessed 19 Feb 2009.

<sup>22</sup> Newman and Harkness (2002), p.22.



income as rent, they would only spend \$625 monthly, or \$7,500 annually, for their shelter costs. In effect, the family who benefits from subsidized housing in this scenario receives income in kind of \$2,700. While this amount is not reflected in the family's income, and therefore absent from the poverty measure, it represents a substantial difference in income between the two families that would certainly affect quality of life. One would not judge these families to be facing the same level of poverty. Adding the value of subsidized housing to an individual or family's income would affect who is considered poor, as well as the depth of poverty that each person experiences.

While home ownership data are available, statistical data on who uses subsidized housing, including demographic and statistical profiles, is not as readily available. As such, the value of these programs to individual incomes and their effects on the overall poverty rate has not been calculated.

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