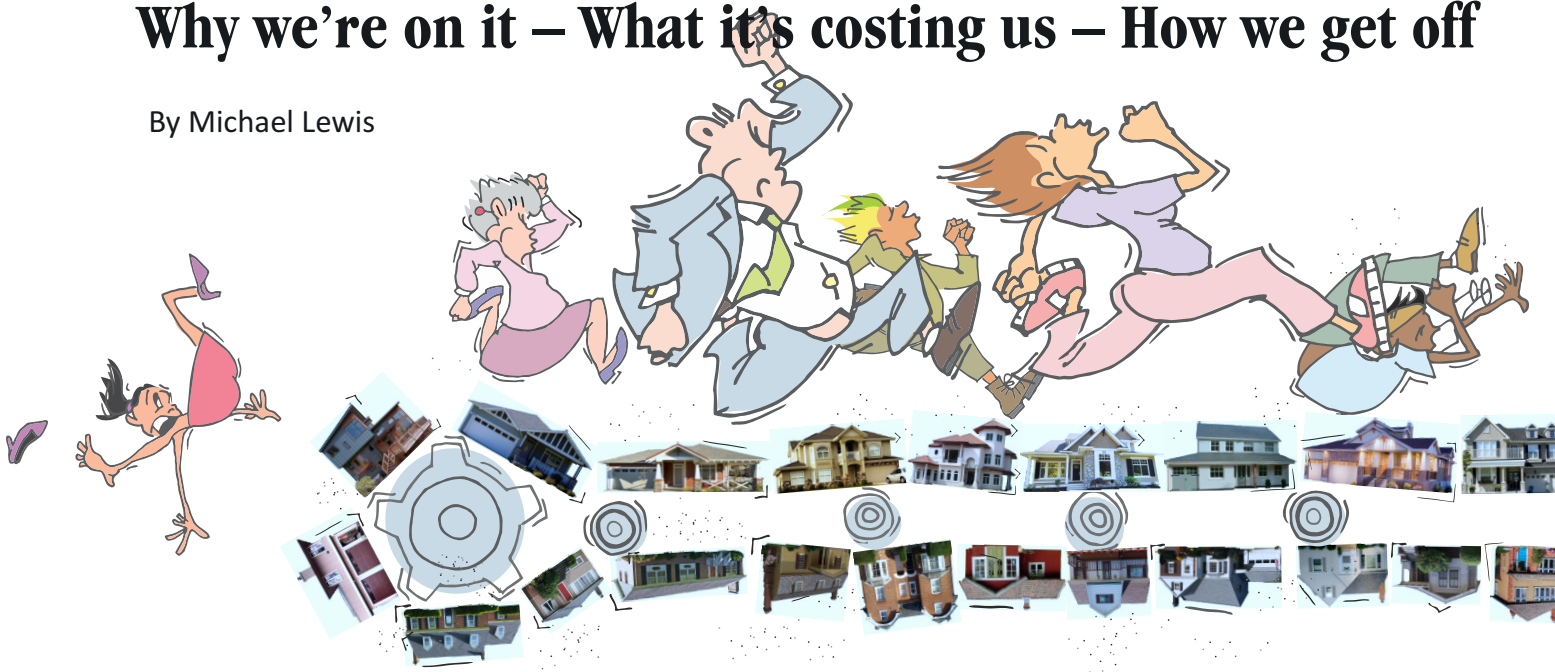


the Housing Treadmill

Why we're on it – What it's costing us – How we get off

By Michael Lewis



In the year I was born, 1952, a 3-bedroom, 2-storey bungalow not far from where I live in Vancouver, B.C. sold for \$14,700.¹ In the same neighbourhood, a similar house will sell today for \$1.6 million. If one pays the average realtor fee the seller will hand over to a realtor a cool \$52,000, almost four times the cost of an entire house in 1952. A carpenter building a house then made \$4,000 per year so it would have taken 3½ years of wages to buy that bungalow. A full time carpenter in 2012 is being offered \$24 per hour in Vancouver or approximately \$48,000 per year for a full time job. So it would take 33 years on a carpenter's wages to buy the same house sixty years later.

Put aside the craziness of a city which is the second most unaffordable housing market in the world, and the situation is still not rosy for most Canadians. When I was in my late twenties (1980) the average price of a house in Canada was around \$69,000.² This amounted to about 3½ times the annual wage (\$20,000) of the average Joe. Today, the average Canadian house price is around \$371,000, or eight times the average Canadian wage of \$46,550.

House prices have skyrocketed while wages for the average working stiff have declined. Adjusted for inflation, the average wage in 1980 would have been \$51,000, over 10% higher than the average Canadian gets in 2012. To bring affordability on par with what it was 30 years ago you would have to earn about \$107,000, or 2.3 times the current average income (and in Vancouver, \$457,000 or over ten times the average).

Might not this wacky cost/wage squeeze be part of why so many people are wheezing and out of breath as they struggle to make ends meet? Is it any wonder that housing activists and local authorities are expanding the “affordability” discussion to include a new catch phrase – “labour market housing”? It describes a growing reality in Vancouver and other places where police, nurses, teachers, college professors, and other professionals cannot afford to live in the city they serve.

So what is going on? Back in the 1970s, futurists had us enjoying increased leisure. Instead, ordinary people are having to work harder and harder just to pay the mortgage.

Bigger Houses - Less People

Just 65 years ago the size of the average house in Canada was 800 square feet. In 1975 it was 1075.³ By 2003 it had reached 1800 in Canada and 2,330 in the U.S. More carpets, more granite counters, more flooring, and more energy to produce it all and to heat the new spaciousness. And what is the result? Yep, you are right – more cost.

Now, all the while houses have been getting larger, the number of people living in them has been getting smaller. It shrank from 3.9 persons per household in 1961 to 2.6 by 2011. Smaller numbers in bigger houses translates into more energy being used by every Canadian. Indeed, total residential energy use increased 14% between 1990 and 2007, despite significant gains in energy efficiency. (In fact, 21% less energy is required today to heat a square meter of living space than in 1990.⁴) But bigger houses and more of them have simply outstripped increased efficiency. The end result: higher-cost energy heating bigger houses yields higher costs and more carbon emissions. (See diagram at right.)

Financing Mortgages: The Banker's Take

The meaning of the word mortgage in French legal parlance is “death contract.” The original Latin is even more blunt: the “grip of death.” Are these apt definitions, or merely unfortunate etymology? I wonder.

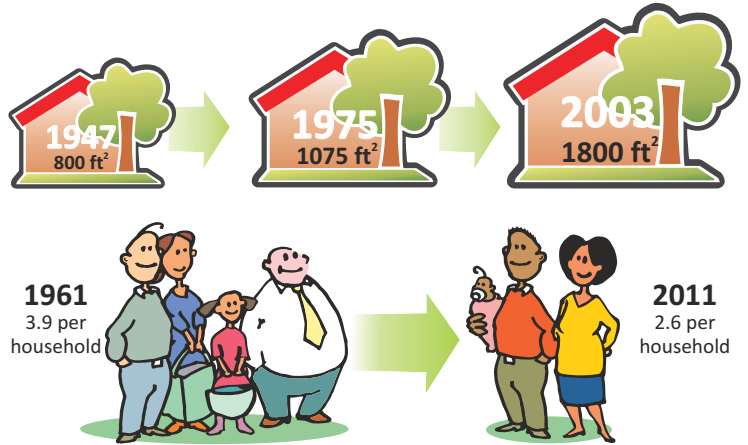
In the last 30 years the average mortgage interest rate has been around 8%. In the early '80s mortgages reached as high as 20%. In the first decade of the new century they dropped to their lowest level ever. What is clear is that the volatility of interest rates has grown significantly since deregulation of the financial system began in the 1970s.

Let's go back again to that average house price – \$371,000. Once a 10% down payment is paid, the mortgage is \$333,000. Now the average mortgage rate has been about 8% over the last 35 years or so. At 8% over a 25-year term, the interest payments alone will be \$433,000. Add the principal back in and the cost of this house is a cool \$766,790, well over twice the size of the original mortgage. For the average Canadian today that represents 20 years of all his wages before paying to heat the place, eat, pay taxes, or save for retirement.

Does “death contract” seem so far off the mark? No wonder people have parties to “burn the mortgage” when it is finally paid off. They have reason to celebrate – they are still alive!

The impact on our lives of this cost of borrowing is self-evident. What is its impact on society? For example, where does all this cash in the form of interest payments go? I have not been able to dig up Canadian data, but German data is likely indicative. Margrit Kennedy calculates that \$600 million Euros in interest payments flow daily out of the pockets of 80% of the population and into the pockets of the richest 10%. A significant portion of these interest payments are for household mortgages.

A less obvious impact, but still more insidious, is how interest payments feed our collective need to grow our economy. After all, if we do not achieve economic growth at rate higher than the interest charges we



While houses have grown bigger, households have got smaller. Bigger, more elaborate homes have cancelled the gains made in energy efficiency.

A less obvious impact is how interest payments feed our collective need to grow our economy. If we do not achieve economic growth at rate higher than the interest charges we have to pay, how are we going to pay off our household, business, or government debt?

have to pay, how are we going to pay off our household, business, or government debt? Grow or go bankrupt: such is the logic of our system.

Alas, economic growth has become our ecological noose. The biosphere upon which all living creatures depend is being smothered in emissions, among them carbon which accumulates for 100 years in the atmosphere. It is our behaviour, unwitting as it may be, that is the “grip of death” in the 21st century. We are mortgaging our future, and the futures of our descendants.

The Commodification of Shelter

It is safe to say that for many people today a house has become an investment first and a home second.

Let's face facts. For a couple of generations after the Second World War, if you had enough money to buy a house, you had a way to make money over your whole lifetime. In the 1950s, '60s, and '70s, a burgeoning population, low housing prices, and rapidly rising wages fed a real estate boom which enabled two generations to ride a durable crest of increasing property values. Every house they bought and sold was virtually guaranteed to yield an upswing in value, even when they did little or nothing to improve it. The market worked its “magic.”

My mother bought and sold property her whole life and made a handy profit on every transaction. Obviously, this unearned profit, the general upswing in interest rates once deregulation started in the '70s and the transaction costs involved in selling and buying a house all contributed to the incremental embedded costs of housing available on the market.

Given an increasingly bloated cost structure, flat wages, and the general insecurity created by increased indebtedness, it is little wonder people look at housing as an investment. Get what you can, buy and sell strategically, and build your personal wealth by catching the uplift in the market. This speculative but common attitude is not foreign to most homeowners and wanna-be homeowners. How else are average people caught in the cost-price squeeze to imagine securing their retirement?

Another article in this series, "Affordability Locked In," shows what happens to affordable housing over time when homeowners profit from a rising housing market. At the outset, a \$50,000 government subsidy makes a \$250,000 home affordable to a low- to moderate-income family. If the house is bought and sold four times over the next 30 years, its market price rises dramatically as well as the government subsidy required to keep it affordable to households in that income segment. Even though the government gets repaid its subsidy with each sale, at the

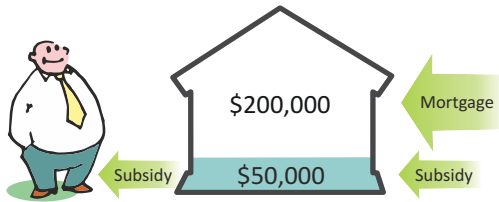
close of the fifth sale, a total of \$820,000 in government funds will have been expended to keep the home affordable. (See diagram below, left.)

Now compare this to what happens if the same \$50,000 subsidy were to be invested in a property owned by a Community Land Trust or CLT. (See diagram below, right). First, the \$50,000 goes not to the homebuyer, but to the CLT. The homebuyer is buying just that – a home – whereas the CLT retains title to the land which the house occupies. The house price is thus reduced to \$200,000. Second, the homebuyer signs a ground lease with the CLT. The lease includes a resale formula which keeps the house affordable in perpetuity. The fifth time the house changes hands 30 years later, the total government subsidy is still the original \$50,000.

In short, why look to taxpayers to keep housing affordable, when the job can be left to a CLT? It stops the flow of unearned profits from housing into private pockets and instead explicitly safeguards the community benefit.

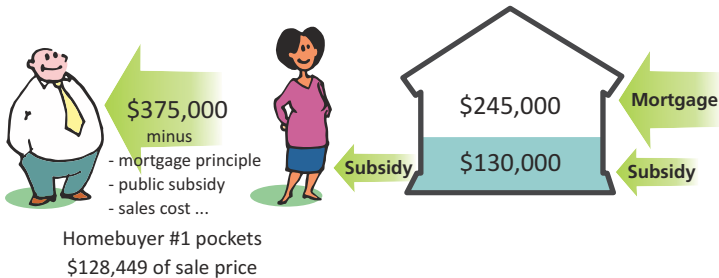
WITHOUT a Community Land Trust

Sale #1 Price \$250,000. Homebuyer #1 can afford \$200,000.



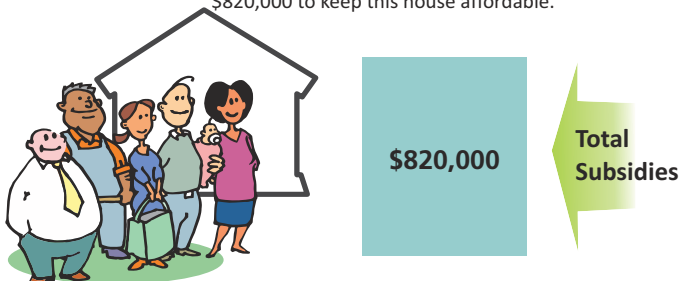
Sale #2: 7 Years later

Price \$375,000. Homebuyer #2 can afford \$245,000.



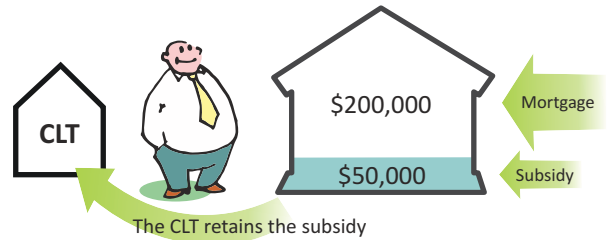
21 years & 3 sales later ...

Government has subsidized homebuyers a total of \$820,000 to keep this house affordable.



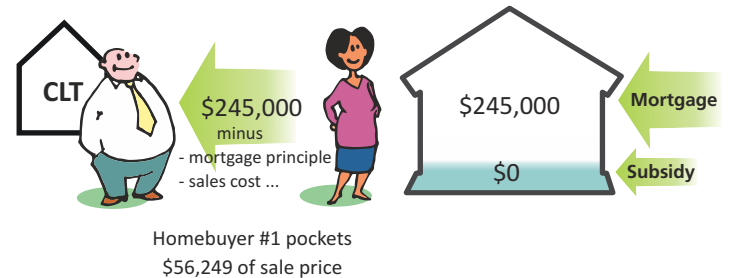
WITH a Community Land Trust (CLT)

Sale #1 Price \$250,000. Homebuyer #1 can afford \$200,000.



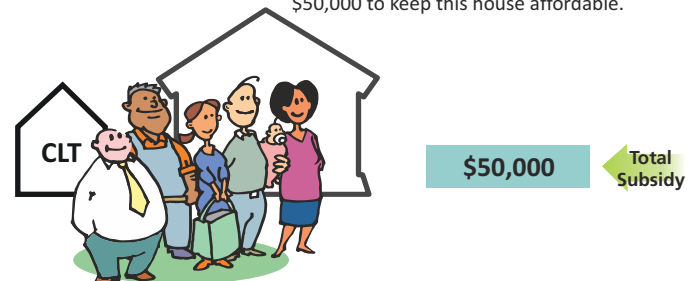
Sale #2: 7 Years later

Price \$245,000. Homebuyer #2 can afford \$245,000.



21 years & 3 sales later ...

Government still has subsidized homebuyers just \$50,000 to keep this house affordable.



Résumé : Le tapis roulant du logement

Pour les Canadiens et plusieurs autres nations, le logement n'est plus une « aventure ». C'est plutôt un tapis roulant sur lequel les gens embarquent et consacrent par la suite une énorme partie de leurs vies, souvent afin de réaliser des bénéfices exceptionnels plus tard.

Mais le marché du logement a maintenant dépassé la structure salariale à tel point que même les professionnels de la classe moyenne ne peuvent se permettre de vivre dans les villes qu'ils desservent. Les taux d'intérêt composés sur les hypothèques contribuent à une dette par ménage astronomique tout en transférant des montants énormes de richesse à tous les jours à une partie infime de la population. Au niveau national et international, le taux d'endettement a transformé la croissance économique en une obsession : nous devons dépasser nos dettes ou risquer la faillite financière. Ironiquement, la croissance économique elle-même nous plonge encore plus creux dans la faillite environnementale. (La tendance vers de plus petites familles et de plus grandes maisons a même effacé les gains récents en efficacité énergétique.)

En résumé, nous sacrifions beaucoup pour ce que nous entendons par « logement ».

Il y a des façons de débarquer du tapis roulant. Trois sont décrites dans d'autres articles de cette [série spéciale d'i4 sur le logement abordable](#) : la fiducie immobilière au bénéfice de la communauté, prêts à la commission et les stratégies régionales d'efficacité énergétique qui impliquent une participation publique de masse. Ensemble, ils pourraient baisser le coût de la vie d'un ménage moyen par 350 000 \$ ou plus sur 25 ans. C'est 12 000 heures de la vie de travail d'une personne. Imaginez les bénéfices, personnels et sociaux, auxquels nous pourrions accéder en libérant ces ressources du tapis roulant du logement! Afin de débarquer encore plus facilement, combinez votre ménage avec un autre et regardez vos coûts et votre empreinte carbonique rétrécir.

L'élément essentiel à comprendre est que nous sommes tous impliqués. Nous devons penser et agir avec beaucoup plus de coopération et beaucoup moins d'individualisme, pour nous et pour notre planète. Après tout, nous n'avons aucun autre endroit où aller. ■

For Canadians and a lot of other nations housing is no longer an adventure or an opportunity. It is a treadmill. We get on it and trudge along after comfort and security, only to find the pursuit goes on and on, faster and faster, and consumes more and more of our time and treasure.

Adding up the Benefits

The CLT is an innovation which, by radically shifting the way we think, has been proven to reduce household costs, increase household resilience, and generate benefits for the communities and societies to which we belong. Two other innovations with similar implications for everyday living are fee-based lending (see "Sweden's JAK Bank," *Making Waves*, autumn 2009-10, pp. 51-57) and area-based energy efficiency programming (see "Kirklees, UK," *i4*, May 20, 2011)

The book *The Resilience Imperative: Co-operative Transitions to a Steady-State Economy* (p. X) calculates what all three of these innovations would mean to an average Canadian household of six. (See table, below.) The results for each innovation are estimated in terms of savings in income and "life energy," that is, the amount of work time represented by the cost reductions.

- Based on the \$371,000 average cost of housing and a mortgage of \$333,500, a huge saving is achieved by applying fee-based lending after the model of the JAK Cooperative Bank (line 1).
- The introduction of a community land trust reduces capital expenditures significantly. Land can represent 30-50% of the cost of the housing. For illustration purposes I use 40% (line 3). This would reduce the cost of capital over time (line 2) as well.
- Improve energy efficiency after the example of Kirklees and realize additional, if modest savings in costs (line 4).
- Net savings total \$362,844 over 25 years.

Table: Combined Impact of 3 Innovations on a Household's Quality of Life

	Household Expenses and Savings	Bank interest charges (8.05%)	JAK fee-based system for loan	Savings (\$)	Savings in Life Energy (hours)
1	25-year mortgage of \$333,500	\$433,290	\$125,546	\$307,744	
2	Impact of CLT on financing costs*	\$289,206	\$83,872	\$205,344	6,845
3	Actual capital cost saving of land to the householder under CLT model			\$148,400	4,947
4	Conservation savings over 25 years under Kirklees model			\$9,100	303
5	Net Savings from combining 3 Models – JAK, CLT, Kirklees			\$362,844	12,095

*40% of \$371,000 = \$148,400; mortgage becomes \$222,600

Imagine, savings of \$14,500 per year (the equivalent of over 12,000 hours life energy) for households with a net after tax income of \$225 per day.

These household benefits have a real potential for generating broader community and societal benefits as well. Let's just imagine for a moment a community of 50,000 people, with about 19,000 households and 2.6 persons per household. What might be the total impact, were just 3,800 (one in five) of the households to realize these benefits?

Over 25 years, financial savings would reach \$1.378 billion. It is an amazing number – \$55.1 million per year. Now translate that to the country as a whole. The savings which 20% of Canadian households would realize over 25 years are even more amazing – over \$2.5 trillion. The money available for local expenditures goes up along with the prospects of local economic stability.

- The interest payments draining out of the community decrease significantly.
- Savings for education and retirement are enhanced.
- The possibility of reducing work time and instead growing more of one's own food improves, as does participation in cultural and recreation pursuits and in child and elder care.
- There is greater potential for organizing local capital pools to finance enterprising initiatives which reduce carbon and strengthen resilience.

Here are some other possible impacts.

The financial industry would make less money.

- Speculators would get less opportunity.
- The gap between rich and poor would start to close.
- Poverty would diminish.
- Our economy would depend less on exponential economic growth.
- Resilience – our capacity to adapt to external stresses without losing our ability to function – would increase at the household, community, and societal levels.

The “I” and the “We”

For Canadians and a lot of other nations housing is no longer an adventure or an opportunity. It is a treadmill. We get on it and trudge along after comfort and security, only to find the pursuit goes on and on, faster and faster, and consumes more and more of our time and treasure.

Clearly, these three innovations offer a way off. They are practical means by which we can escape the treadmill and realize significant benefits for the vast majority of Canadians. Will we? It is possible, but is it probable?

There is fourth, even simpler way off. It is available to each of us, unless we are already out on the street. While radical in the eyes of many, especially North Americans, this approach is a real opportunity for many of us to improve our household economics and reduce carbon at the same time.

When my children moved out, the energy and carbon efficiency of the family home declined. Instead of five individuals, the woodstove and backup electricity provided warmth for two. The per capita carbon footprint went up; efficiency went down.


However, when the empty-nesters, the oldest daughter, her husband, and three grandchildren decided to move in together, the process reversed. The per capita carbon footprint fell, energy efficiency rose, and child care became less challenging and expensive. Managing household resources for the benefit of all may have become a bit more complex. Nevertheless, the shared space reduced costs for both sets of parents.

It had its deceptive side. I congratulated myself on how deftly I had reduced my carbon footprint and my share of household expenses in one fell swoop. Flying around the country was easier to justify now that my share of household emissions had declined from 50% to only 14%. Or so I joked.

We have many more alternatives to the housing treadmill than we imagine. Each of them requires changing the way we think. Our cultural assumptions, particularly about growth and our individual rights and entitlements are some of our biggest restraints. However, there are also choices to make as members of communities, nations, and the human species.

Joking aside, imagine the impact on carbon, household economics, community, and culture if we began to increase the number of people living in the average North American house. If we could just adjust our attitudes and calibrate our values a bit, we could increase the current average of 2.6 per household to the 3.9 average of our grandparents' time – and still have much more living space per person than our parents knew (houses nowadays being that much bigger). As well, we would cut personal carbon emissions, decrease affordability problems, and potentially lead a much more connected and convivial life.

We have many more alternatives to the housing treadmill than we imagine. However, each of them requires changing the way we think. Our cultural assumptions, particularly about growth and about our individual rights and entitlements are some of our biggest restraints. We do have choices to make as individuals, without doubt. However, there are also choices to make as members of something much greater – communities, nations, and the human species. To realize the systemic change which could release untold energy, income, and capital for addressing the challenges we face in this century – shelter, food, energy, finance, sustaining basic livelihoods – we must organize in ways which reunite the culturally-bound “I” with the co-operative “We.”

Neither “I” nor “We” will succeed, barring the acceptance of a basic premise: we are all connected to the earth and to each other. There is nowhere else to go. We are the living in whose hands our future rests, whether we like it or not. 

References

¹ John Mackie, "Vancouver Home Prices Over a Century," *Vancouver Sun*, March 30, 2012, accessed 10 May 2012 from <http://www.vancouver.sun.com/health/empowered-health/years+Vancouver+real+estate/6389191/story.html>

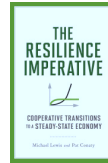
² For a more detailed look at housing prices between 1984 and 2005 in various Canadian cities, see Allen Gregory et al, "Canadian City Market Prices and Urban Market Segmentation," January 16, 2007 (a research paper completed for the Bank of Canada), accessed 10 May 2012 from http://qed.econ.queensu.ca/pub/faculty/gregory/ABBG_final.pdf.

³ "What is the Average Size of a House in Canada?" *darrenbarefoot.com*, January 11, 2006, accessed 10 May 2012 from <http://www.darrenbarefoot.com/archives/2006/01/what-is-the-average-size-of-a-house-in-canada.html>

⁴ "Energy Efficiency Trends in Canada, 1990 to 2007 – Chapter 3. Residential Sector," *Natural Resources Canada*, accessed 10 May 2012 at <http://oee.nrcan.gc.ca/publications/statistics/trends09/chapter3.cfm?attr=0>

MICHAEL LEWIS is editor of *i4*, Executive Director of the [Canadian Centre for Community Renewal](#) (CCCR), a founding member of the Canadian CED Network (CCEDNet), and lead investigator for the BC-Alberta Social Economy Research Alliance (BALTA). Contact him at celewis@xplornet.com.

i4 is an ejournal about Inspiring, Innovating, Inciting, and Inventing ways of life and work that permit humanity and the planet to thrive in this century of unprecedented challenges. *i4* is a publication of the Canadian Centre for Community Renewal.



The Resilience Imperative: Co-operative Transitions to a Steady-State Economy, by Michael Lewis and Pat Conaty (New Society Books, 2012), 400 pp. \$26.95. With reference to dramatic, practical innovations from around the world, as well as insights from the early years of industrialism, this book explains how it is possible to power down our economies to a more local and sustainable level and thereby meet the challenges of climate change and rising energy prices. [Click here to order!](#)

The Housing Treadmill" is produced in partnership with the [BC-Alberta Social Economy Research Alliance](#) (BALTA), as part of the *i4* special series "Housing We Can Afford," concerning the role of the social economy in resolving the growing shortage of affordable housing. BALTA is a research collaboration of community-based organizations, universities, and colleges in Alberta and British Columbia with an interest in the social economy. <http://www.socialeconomy-bcalberta.ca/>, balta@xplornet.com, tel 1-250-723-2296. BALTA gratefully acknowledges the financial support of the [Social Sciences and Humanities Research Council of Canada](#) (SSHRC) for this research program.



B.C.-Alberta Social Economy Research Alliance



Social Sciences and Humanities
Research Council of Canada

Conseil de recherches en
sciences humaines du Canada

