

# Differentiating Housing Demand, Housing Needs, and Housing Requirements



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\*The opinions expressed in this research report are those of the author only and do not represent the opinions and views of either CUR or Toronto Metropolitan University.

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## The Problem and Proposed Definitions

There are no widely accepted definitions for *housing demand*, *housing needs*, or *housing requirements*. Consequently, the appellations are used interchangeably by planners, economists, and housing policy analysts, creating confusion. It would benefit all housing industry stakeholders if the terminology could be standardized so we all can immediately understand what someone else is discussing.

This paper examines how *housing demand*, *needs*, or *requirements* are defined in housing-related literature. It proposes standardized definitions for use in housing market and policy analyses. All the definitions explored refer to private households – persons living in the same dwelling unit - and we exclude collective households such as persons in rooming houses, long-term care homes, and homeless individuals.

Recommended definitions:

- **Housing demand** - The number of new and existing housing units purchased or rented in a specified period: A market-driven concept relating to the types, numbers, and locations of homes that households choose to occupy based on preferences and willingness to pay.
- **Housing needs** - Applying the core housing need definition. Households are said to be in “core housing need” if their housing falls below at least one of the adequacy, affordability, or suitability standards or if they spend 30% or more of their total before-tax income to pay the median rent of alternative local housing that is acceptable (meets all three housing standards). Many households in core housing need live in suitable, acceptable accommodation; they only need help paying the rent for their current units.
- **Housing requirements** - The number of housing units by type, tenure, and location to maintain housing affordability at the market level: defined as projected household growth + net demolitions and conversions + vacancy allowance + affordability adjustment = total requirements.

## Vague Usage of Housing Demand, Need, and Requirements

The following section provides examples of housing-related literature with a nebulous usage of *housing demand*, *need*, and *requirements*. We explore this issue in both a Canadian and international context.

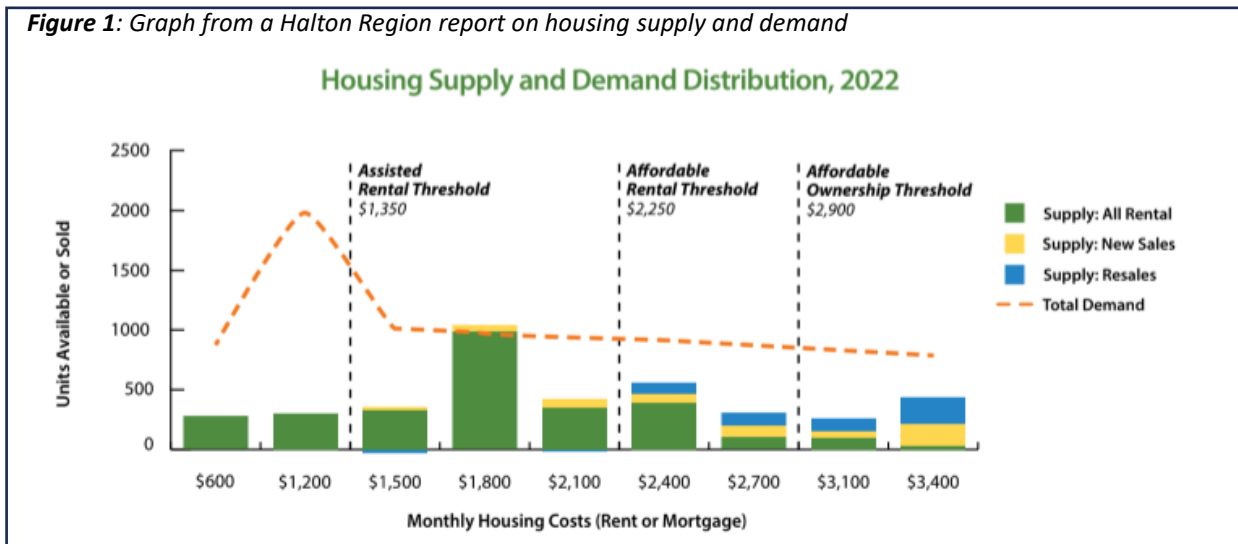
### **Halton Region's housing “demand”**

Paging through a recent housing report from Halton Region, I came across a housing supply and demand schema (see Figure 1), which I found odd, to say the least:<sup>1</sup>

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<sup>1</sup> Halton Region, “2022 State of Housing Report.” August 2023. Pp. 4-5.

**Figure 1:** Graph from a Halton Region report on housing supply and demand



**Housing demand** is described as the income distribution of Halton-based households. I presume these households refer to the net growth in households in 2022, but this is unclear. Actually, the Region's definition of housing supply is **housing demand**: sales of new and resale homes and rental turnovers in 2022.<sup>2</sup> Strangely, the Region's **total demand** exceeds the total supply by a wide margin in all but one housing cost bracket. All of this is very strange!

Halton's use of "**demand**" reminded me of how land use and housing officials, economists, and consultants, including our analysts at CUR, interchange the usage of the expressions **housing demand**, **housing needs**, and **housing requirements** without adequately defining them.

### Provincial Planning Documents are Confusing<sup>3</sup>

The **Provincial Policy Statement, 2020** refers to the projected **market-based and affordable housing needs** of current and future residents, projected **requirements** of current and future residents and dynamic **market-based needs**.<sup>4</sup>

Similarly, the **Growth Plan for the Greater Golden Horseshoe** references **housing needs** and **market demand**. In one place, the terms **housing need** and **market demand** are included in the same sentence. Definitions are not provided in either document.

However, the Province's technical document **Land Needs Assessment Methodology for the Greater Golden Horseshoe (2020)** fleshes out the concept of housing need:

<sup>2</sup> Existing and newly completed rental housing, I presume.

<sup>3</sup> The observations in this section are from: Frank Clayton and David Amborski. "Proposed Provincial Planning Statement 2023: CUR Comments and Recommendations." June 29, 2023. Pp 7-8.

<sup>4</sup> The **Provincial Policy Statement** states that it is to address **housing needs** in accordance with policy statements like the **Policy Statement: Service Manager Housing and Homelessness Plans**. However, there is no definition of **housing needs** in this latter document.

- **Housing needs:** household growth adjusted for factors such as the replacement of units that will be lost from the existing stock (e.g., demolitions, conversions to non-residential uses), changes in the level of vacancies, and market contingency factors.<sup>5</sup>

Earlier this year, the CUR submission to the Province suggested that the **Proposed Provincial Policy Statement** adopt the land needs assessment methodology's definition of *housing needs*. I am now suggesting this definition be applied to *housing requirements* instead of *housing needs*.

### We plead guilty, too

In 1987, my former consulting firm, Clayton Research Associates Ltd., was the primary author of a comprehensive study of the postwar housing industry commissioned by CMHC. In that study, we included the following definitions:<sup>6</sup>

- **Demand for new housing:** household growth plus net replacement demand which related to the replacement of existing units lost from fire, demolition, conversion to non-residential use or less intensive residential uses and abandonment, less units created through the conversion of non-residential structures to residential use or the intensification of existing residential structures.
- **Effective demand:** new housing that households want and are willing to pay for.
- **Housing requirements:** households living in inadequate accommodation or paying too much for accommodation on the private market.

The study utilized two concepts of *housing demand* at the time, and what was called *housing requirements* is now what CMHC and Statistics Canada call *core housing need*. The study's *demand for new housing* is now often called *housing requirements*.

### Canada-B.C. Expert Panel references housing demand, needs and requirements

The final report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability offers this definition of *housing demand*:<sup>7</sup>

- **Housing demand:** The price of renting and owning housing is determined by the interaction of demand and supply. In other words, prices are influenced by the number of households seeking housing and the amounts they are willing to pay for housing (demand) and the number and variety of homes available to buy or rent. (p. 14)

The Expert Panel is critical of projections of *housing needs* based on household growth forecasts in B.C.'s Housing Needs Report methodology. It states that these projections typically answer the question: what should we expect to happen if past trends continue?

<sup>5</sup> Ontario Ministry of Municipal Affairs and Housing. "Land Needs Assessment Methodology for the Greater Golden Horseshoe (2020)." P. 8. Note this document uses *housing need* and *housing needs* interchangeably.

<sup>6</sup> Clayton Research Associates and Scanada Consultants. "The Housing Industry in the Future." Working Paper Five. CMHC. 1989. Pp. 5 and 42.

<sup>7</sup> Final Report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability. 2021.

According to the Expert Panel, a shortcoming of this concept of **housing needs** is that affordability challenges can restrict household formation:

*Relying on demographic estimates to set housing supply targets that are based on observed demographics from past trends, especially during periods of persistent price increases and perpetually low rental vacancy rates, runs the risk of "baking in" pre-existing housing scarcity if those estimates are the sole determinant of housing targets set by local policy makers. (p. 67)*

It recommends that an affordability adjustment should be made to household projections to account for past undersupply. It also recommends that adjustments for demolitions and conversions and a vacancy allowance should be added to household projections.

The Expert Panel calculates adjusted annual housing needs in the Vancouver Census Metropolitan Area (CMA) between 2021 and 2026 at an average of 27,438 dwelling units or 57% higher than household growth:<sup>8</sup>

- Household growth 17,440 units
- Affordability adjustment 6,374 units
- Replacement demand (demolitions, conversions) and vacancy allowance 3,624 units
- Total needs 27,438 units

There is ambiguity in the Expert Panel's report between **housing needs** and **housing requirements**. When discussing **housing needs** reports, it switches terminology to **housing requirements**. (p. 65).

**Housing unit requirements** include the following components:

- Household growth projection + demolitions and conversions + vacancy allowance + affordability adjustment = total requirements (p. 66)

In our opinion, this is a cogent definition of **housing requirements**.

### Not just a Canadian issue – Confusing definitions from across the pond

A 2011 forecast of **housing demand** to 2025 in the United Kingdom provides the following definitions:<sup>9</sup>

- **Housing demand:** an estimate of the number of households in future years. Households could reside in the private sector, through owner occupation or private renting from a landlord, or in the social sector, through subsidized housing.

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<sup>8</sup> David Amborski and Frank Clayton. "Accelerating Housing Supply and Affordability by Improving the Land-use Planning System." CUR. November 1, 2021. P. 9.

<sup>9</sup> Katir Schmuecker. "The Good, the Bad and the Ugly: Housing Demand 2025." Institute for Public Policy Research. March 2011. P. 3.

It notes this contrasts with some other reports where:

- **Housing demand:** refers to the demand for market-sector housing
- **Housing need:** refers to the demand for social housing.

Schmuecker combines these into one overall measure of demand. The report also introduces a concept of demand not found elsewhere in the documents we reviewed:

- **Hidden demand:** a person or family living within another household that seeks its own accommodation to form a separate household (including, for example, young adults living with their parents or sharing rented accommodation).

**Hidden demand** arises when housing becomes less affordable because home purchase costs or renting uncontrolled suites on the market rise faster than incomes. The recommendation of the B.C. Expert Panel addresses the **hidden demand** issue when it recommends an affordability adjustment be made to household projections to account for past undersupply.

## Moving Towards More Robust Definitions

The following section explores examples from the literature that provide more robust definitions of **housing demand**, **needs**, and **requirements** that can be used as a basis for standardized definitions. Similar to the previous section, examples from Canada and the United Kingdom are provided.

### **The U.K. House of Commons Library provides clarification**

In a 2014 note, the U.K. House of Commons Library distinguishes between **housing demand**, **need**, and **requirement**.<sup>10</sup>

- **Housing demand:** a market-driven concept relating to the type and number of houses that households will choose to occupy based on preference and ability to pay.
- **Housing need:** an indicator of the existing deficit of the number of households that do not have access to accommodation that meets certain normative standards. This measure mainly refers to the level of need for more or improved social housing.
- **Housing requirement:** sometimes combine these two measures to generate an overall housing market picture.

The definitions of **housing demand** and **housing need** are straightforward. The definition of **housing need** is consistent with Canada's **core housing need**.

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<sup>10</sup> Sara Heath. "Housing Demand and Need (England)". U.K. House of Commons Library. June 23, 2014. P. 1.

## Canada-B.C. Panel influenced by U.K. housing and economic needs assessment<sup>11</sup>

The U.K. Government provides a standard method to councils (municipalities) to calculate their minimum annual local housing need figure. This minimum need figure incorporates two components:

- **Minimum local housing need:** the combination of projected household growth (average annual growth projections for ten years prepared by the national government) and
- The Office for National Statistics published an adjustment based on the area's affordability.

The U.K.'s *local housing need* and the B.C. Expert Panel's *housing requirements* differ. The Expert Panel includes an allowance for net losses resulting from demolitions and conversions and a vacancy allowance, whereas the U.K.'s measure does not.

## Effective housing demand vs. need addressed in a 2022 CMHC report

A recent CMHC study of Canada's housing supply shortage attempts to explain the difference between the demand for housing based on economics and the conventional household projections approach to housing need often adopted by planners.<sup>12</sup>

- **Housing need:** projections of household growth. These projections usually take past trends and project them forward. CMHC states that in urban areas with expensive housing, the household projections understate the need for more affordable housing. (p. 15)

The study also references the *effective demand for housing*:

- **Effective demand for housing:** Combining projections of economic variables, mainly households' disposable income and interest rates, with projections of the number of households tells what effective demand for housing will be in the future.

It seems this is the same as the *demand for housing*, though this is not explicitly stated. An update of the 2022 report talks only of *housing demand*:

- **Demand for housing** is influenced by growth in the number of households, by income per household, and by interest rates.<sup>13</sup>

## The 2022 CMHC study introduced a novel concept of housing need

The focus of the CMHC study is on:

- The additional housing supply that is *required* beyond current trends to accommodate household growth and restore affordability (p.5)

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<sup>11</sup> Government of the United Kingdom. "Guidance: Housing and Economic Needs Assessment." December 2020.

<sup>12</sup> CMHC. "Canada's Housing Supply Shortages: Estimating What is Needed to Solve Canada's Housing Affordability Crisis by 2030." June 2022.

<sup>13</sup> CMHC. "Housing shortages in Canada: Updating how much housing we need by 2030." September 13, 2023. P. 7.



The study predicts the growth in the number of households between 2021 and 2030, plus the number of additional units needed to return affordability to what it was back in 2003-2004.

**Housing need** is directed at producing enough housing to create an overall surplus of housing units. An oversupply is expected to improve homebuyers' and renters' shelter cost/income ratios. While middle-income households are the primary targeted group, this will indirectly aid lower-income households in *core housing need*. While many lower-income households struggle to secure affordable, suitable and adequate housing, their troubles are compounded in high-cost areas such as the GTA, where middle-income households compete with them for a declining supply of affordable accommodation.

## Conclusion and Recommendations

As examined in this report, there are significant variations in the definitions of *housing demand*, *needs*, and *requirements*. The literature referenced here is only a sampling of what is out there.

Here are the standardized definitions we recommend based on the literature and my experience:

***Housing demand:*** a market-driven concept relating to the types, numbers, and locations of homes that households will choose to occupy based on preferences and willingness to pay.

The economist's definition of demand is applicable here. In addition to preferences by housing type and willingness to pay, the spatial dimension is added. Location is sometimes referred to as "drive until you qualify". This definition is consistent with that of B.C.'s Expert Panel, CMHC, the U.K. House of Commons Library, and Clayton Research (though called effective demand). Halton Region's delineation of demand is off base, as is the U.K.'s Institute for Public Policy Research.

***Housing needs:*** apply the *core housing need* definition. Households are said to be in *core housing need* if their housing falls below at least one of the adequacy, affordability, or suitability standards, and they would have to spend 30% or more of their total before-tax income to pay the median rent of alternative local housing that is acceptable (meets all three housing standards). The focus is on households with low- or moderate incomes.

Core housing need is a metric developed by the Canada Mortgage and Housing Corporation (CMHC) in the 1980s to identify households needing housing assistance. It is a normative concept applying minimum housing standards based on arbitrary social norms and context. Statistics Canada publishes detailed estimates of *core housing need* by municipality after each five-year Census of Canada. This definition of *housing need* is consistent with that of the U.K. House of Commons Library.

Many households in *core housing need* do not need a change in the housing unit they occupy. They are paying "too much" for adequate and suitable housing. They need financial assistance, not a new unit. The remaining households require a dwelling unit which is larger, not in need of major repairs, and is affordable.

***Housing requirements:*** Household growth projection + net demolitions and conversions + vacancy allowance + affordability adjustment = total requirements.

This definition of ***housing requirements*** is from the B.C.'s Expert Panel's report. It is comparable to CMHC's measure of Canada's housing supply shortages, except CMHC excludes allowances for net conversions (conversions less demolitions) and vacancies. The definition includes what the U.K.'s Institute for Public Policy Research calls ***hidden demand*** when housing becomes less affordable because home purchase costs or renting uncontrolled suites on the market rise faster than incomes.

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