

As housing costs soar, some financial analysts advise to scrap the 30% rule

'The benchmark doesn't apply anymore,' says financial adviser Bruce Sellery



[Maryse Zeidler](#) · CBC News · Posted: Jul 02, 2023 9:00 AM EDT | Last Updated: July 2



With the rising costs of housing, some financial analysts say keeping rent or mortgage payments to 30 per cent of your budget is unattainable. (Gian Paolo Mendoza/CBC)

If you have ever applied for social housing or a mortgage, or even tried to figure out your budget, you have probably come across this figure: 30 per cent.

That's the often-touted maximum percentage of your income that you should spend on a home. But in an age where the average one-bedroom apartment in Vancouver [rents for \\$2,787 a month](#), is that number still realistic?

It depends on who you're asking. But generally, the answer is: sort of.

"The benchmark doesn't apply anymore," said Credit Canada CEO Bruce Selley by email.

"Housing costs have increased dramatically, everywhere. And so individuals need to look at their own specific situation and determine how to best allocate limited resources."



Financial analysts say households with different needs would have to spend more or less money on different budget items. (Ben Nelms/CBC)

'A useful benchmark'

The Canadian Mortgage and Housing Corporation began adopting the rule in 1986.

"The 30 per cent threshold continues to be a useful benchmark to consistently measure housing affordability in Canada and other parts of the world, including in the United States and Australia," CMHC said in an email.

However, the corporation says it introduced the "[housing hardship concept](#)" in 2020 to acknowledge that, for some households, keeping housing costs to 30 per cent of their budget still isn't enough to cover all their essential needs.

- [Interest hikes making home ownership more difficult for 1st-time buyers](#)

Crunching of the numbers

Let's take a minute to look at some numbers.

If you were single and living on your own in Vancouver, you would need a salary of \$9,000 a month, or \$108,000 a year, to pay for an average one-bedroom and keep it to 30 per cent of your income before taxes.

Meanwhile, the average income for those 15 and older, according to Statistics Canada, is \$62,250. That number is a bit irrelevant, because not everyone needs or wants to rent a one-bedroom apartment, but it gives a sense of the discrepancy.

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Ravi Kahlon speaks about the need to address unmet housing needs in the province, saying he worries residents will be forced from neighbourhoods over affordability.

So what should people in middle- and lower-income brackets do to help prevent spending too much on housing?

Not always attainable

The answer, according to finance specialists like Anne Arbour, director of strategic partnerships and education at the Credit Counselling Society, is to ditch the 30 per cent rule.

"It is a really difficult number and has been for quite some time, to be honest," Arbour said.

- [Analysis](#)
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"In today's age of inflation and ... very high housing costs, it isn't always attainable."

Arbour says the 30 per cent rule used to be the 25 per cent rule when she first studied economics "a thousand years ago." And she wouldn't be surprised if it continued to creep higher.

'We all have different needs'

Instead, Arbour suggests people look at their budget as a whole and determine what their needs and obligations are — a task that would likely not look the same for all households.

"It's easy to focus on just one number. But you've got to take a look at everything in balance," she said.

"We all have different needs. We all have different priorities and different obligations."



Inflation has also driven up costs for other key items like food, as well as housing. (Patrick Doyle/Reuters)

For some families, that might mean spending more on groceries. For others, a higher percentage of the household budget might go towards student loans.

And if anyone is really struggling to put the pieces together, Arbour suggests reaching out to organizations like the Credit Counselling Society to get some fresh eyes on their budget.

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Students are being faced with higher rents and a shortage of supply and some experts say post-secondary institutions need to co-ordinate enrolment levels with the availability of housing.

'A good aspirational rule'

Steve Bridge, a Vancouver-based financial planner with Money Coaches Canada, agrees, but says the 30 per cent rule is a good benchmark to start from.

"It may not be an applicable rule for a lot of people, but I think it's still a good aspirational rule," Bridge said. "It allows us to afford everything else in our lives."

- [More B.C. renters are spending 'crisis-level' amounts on housing, rental housing index finds](#)

Like Arbour, Bridge suggests looking at the big picture when setting a budget, and determining priorities.

For those struggling to keep their budget in order, he recommends they examine their spending. Usually, the first things to go will be discretionary items like eating out.

Expenses like rent aren't as pliable, Bridge says, although it is possible to cut costs by getting a roommate or to make more money by getting a second job.

- [Surrey used to be a destination for newcomers. Some settlement experts say rising costs are changing that](#)