How Much Should You Spend on Rent?

Written by Aaron Broverman **Publish date** December 31, 2018

Rental housing has never been at more of a premium across Canada.

According to the Canada Mortgage Housing Corporation, Canada's rental housing vacancy rate has dropped for the second year in a row. Despite adding 37,000 new apartments, demand for rental housing continues to vastly outstrip supply, with 50,000 Canadians looking for a place to rent. If you thought a 3% vacancy rate in 2017 made it impossible to find a place to live, then 2.4% in 2018 puts that struggle in even sharper relief.

In Canada's largest cities, the rental vacancy rate is even lower, at 1.0% in Vancouver and 1.1% in Toronto. Landlords know demand for residency in their income properties has never been higher, so, barring provincial rent control laws, rental costs may spiral further out of control.

According to Padmapper, a one bedroom in Toronto goes for an average of $2,260 per month, which is a 14.70% increase year-over-year and the highest rental average in the country. Vancouver follows close behind at $2,100 for a one bedroom and the highest average rate for a two bedroom in Canada at $3,150. In fact, three cities in the top five highest rents in the country are in B.C.: Vancouver, Burnaby ($1,570) and Victoria ($1,390), but those cities aren't alone.

With rents skyrocketing in practically every major city and suburb in the country and incomes barely keeping up with the cost of living, should we reassess what portion of our income goes toward our rent?

			1 Bedroom			2 Bedrooms		
Pos.	+/-	City	Price	M/M %	Y/Y %	Price	M/M %	Y/Y %
1	0	Toronto	$2,260	1.8%	14.7%	$2,850	0.7%	15.9%
2	0	Vancouver	$2,100	-0.5%	5.5%	$3,150	-0.3%	1.6%
3	0	Burnaby	$1,570	-0.6%	15.4%	$2,260	0.4%	5.6%
4	0	Montreal	$1,450	1.4%	14.2%	$1,780	-2.2%	15.6%
5	1	Victoria	$1,390	5.3%	14.9%	$1,510	4.9%	1.3%
6	-1	Barrie	$1,310	-5.1%	3.1%	$1,440	-2.7%	-12.7%
7	0	Kelowna	$1,250	-2.3%	8.7%	$1,680	5.0%	4.3%
7	1	Ottawa	$1,250	3.3%	15.7%	$1,560	-1.3%	15.6%
9	0	Oshawa	$1,200	0.0%	15.4%	$1,390	2.2%	15.8%
10	2	Hamilton	$1,180	5.4%	15.7%	$1,450	2.1%	15.1%
11	3	St Catharines	$1,140	4.6%	15.2%	$1,410	4.4%	10.2%
12	-2	Calgary	$1,110	-3.5%	6.7%	$1,390	-1.4%	6.9%
13	0	Halifax	$1,100	0.0%	15.8%	$1,290	0.8%	14.2%
13	-3	Kitchener	$1,100	-4.3%	5.8%	$1,460	3.5%	13.2%
15	0	Kingston	$1,090	0.9%	16.0%	$1,400	1.4%	15.7%
16	0	London	$970	-1.0%	7.8%	$1,210	1.7%	15.2%
17	2	Edmonton	$960	5.5%	9.1%	$1,210	1.7%	5.2%
18	2	Abbotsford	$950	5.6%	13.1%	$1,080	1.9%	14.9%
18	-1	Winnipeg	$950	0.0%	6.7%	$1,200	1.7%	9.1%
20	0	Quebec	$910	1.1%	13.8%	$1,060	5.0%	1.0%
20	-3	Regina	$910	-4.2%	-4.2%	$1,110	1.8%	-8.3%
22	0	Saskatoon	$830	-1.2%	5.1%	$990	0.0%	-1.0%
23	0	St John's	$810	0.0%	1.3%	$890	4.7%	6.0%
24	0	Windsor	$740	4.2%	7.2%	$1,040	4.0%	15.6%

Image source: padmapper.com

The 30% Rule

An old axiom holds that we shouldn't spend more than 30% of our gross (pre-tax) income on rent, and that's still apparently true, even with the rising housing costs across the country.

"No more than 25 to 30% of your income should be going to rent, but while it's important to have a baseline like that, it's also about understanding the city you're in and whether you can get creative with sharing or reducing your costs, like with a roommate," says personal finance expert and author Kelley Keehn.

Before you go apartment hunting, she recommends using a website like calculator.net. If you type in your annual income, the site will show you your optimum rent expenditure, your suggested minimum and your suggested maximum. The recommendations are based on the 30% rule and the site does caution you with a red warning if your rental budget strays too far from the recommended maximum.

But with rent so high in most Canadian cities, is 30% still even a realistic possibility?

Noel D'Souza, a Toronto-based, fee-only advisor for Money Coaches Canada says it can be with a few caveats.

"Before you figure out what you can afford to put aside for rent, you need to do a budget in general. And if 30% doesn't seem like it's enough to leave room for savings and investing, make sure to put those two quadrants in your budget as well," says D'Souza.

'Just budget' may seem like hollow advice parroted over and over and over again, but D'Souza says the part most people find overwhelming is tracking their spending, and that's how they drop off from keeping a budget.

"When I meet my clients and we do a budget, I don't get them to track their spending. Instead, I get them to allocate a certain amount of income to each part of that pie and once that money runs out, that money is gone for the next two weeks until pay day," says D'Souza.

"This relieves the pressure that comes with tracking and allows people to get really honest about their wants and needs. As they start to really see what they're spending their money on, they can suddenly see what spending can be eliminated and where that money can be re-allocated, like rent for example."

D'Souza says it comes down to priorities and what you really want out of life. To obtain nicer housing, you might be willing to sacrifice in other areas or get creative with how you can afford to live.

Getting Creative

Rising rents mean budgets are getting tighter for everyone, making creative budgeting a necessity.

For single Canadians, D'Souza's classic budgeting solution is to mimic the economic output of a couple: Get a roommate or two to split the rental cost.

"You might also want to look for buildings offering rent-controlled units or apply to co-op or other housing alternatives offering rent-geared-to-income," says D'Souza.

Since May 30, 2017, landlords of private rental units in Ontario cannot increase rent by more than the rate set each year by the Provincial Government's Rent Increase Guideline. In 2017, the rate was 1.5% and in 2018 and 2019 it increased to 1.8%. In B.C., rent can only be increased once a year according to provincial regulations and the maximum increase can't exceed the rate of inflation. In 2019, the maximum allowable rental increase in B.C. will be 2.5%. Always check applicable laws to see if rent control legislation exists in your province.

Some Canadians go in search of cheaper rent by moving further and further from the major cities where they work. While this may reduce one sector of the budget, Keehn cautions that commuters may live to regret this strategy.

Ask the Tough Questions

"You have to get realistic about what you're willing to give up. These are big decisions and you have to think about your quality of life. Some people don't mind commuting, while others, it would kill them," she says. "You've got to ask the tough questions of yourself and be honest about what your goals in life truly are."

If you're going to commute to work, Keehn recommends having a timeline in terms of how long you're willing to do it and a stated goal in mind for the money you save. Remember too, that ride-sharing might be an option to lessen the burden of driving all the time.

"Are you thinking about bringing down your rent now and commuting to work for a year, so you can save 10 percent each month to buy a house? These are questions you need to ask yourself. It's so personal and really takes a lot of introspection as to finding out where you're willing to sacrifice and what you're willing to do," she says.

Some Canadians (millennials in particular) have taken the step of moving back in with their parents in order to try and save money for a down payment on a home. But if that's your situation, D'Souza recommends setting some ground rules.

"It's so easy for parents to fall back into the same family dynamics that existed when their kids were younger, but it's important to set a timeline as to how long your family member can live with you. And I would recommend charging some rent," he says.

D'Souza says is up to the parents to determine if they want to give the rent money back to their children once they move out, but he agrees it's important to dissuade adult children from staying in their parents' home indefinitely, in order to sufficiently foster independence.

Nothing Without the Why

With rents being so high in Canada's major cities, it's easy to get discouraged and think you'll never be able to afford a home of any kind, but Keehn will tell you that's not true.

"People have shown us that it is possible. Maybe you can have a home somewhere else. As soon as you ask these questions of yourself and look for other examples, you'll realize that it is possible, but you have to really know your situation, know what you want and get real with the dollars." she says.

“It’s always possible to bring in more money and it’s always possible to save more money, but if you don’t have that ‘why’ and you don’t even know what the target is, what’s the likelihood of hitting it?”