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Here’s the income you need to afford rent in major Canadian cities

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In Burnaby, B.C., Adrian Powell says the main allure of renting for his family lies in how much cheaper it is compared with buying.

“Each year we keep doing the math and each year it keeps looking like renting is the way to go,” the 47-year-old software developer says.

Mr. Powell is currently renting a two-bedroom ground-level unit with his wife and six-year-old child for $2,400 a month. Buying a similar home today would likely cost around $4,000 in mortgage payment alone, he reckons.

With the average home price in Canada hitting a record $748,450 in January, Canadians in many parts of the country may find the math of buying versus renting makes for a compelling argument in favour of renting. But another part of the renting equation is likely stumping a growing share of tenants: the comparison between market rents and their own incomes.

In many major cities and even some smaller centres across the country, Canadians would need to make at least $70,000 to afford the average asking rent on a one-bedroom apartment without spending more than 30 per cent or more of their before-tax income on shelter costs, a Globe and Mail analysis found.

Minimum income required to afford average rent

According to one commonly used metric, rent plus utilities should amount to less than 30 per cent of a tenant’s before-tax income for housing to be deemed affordable. Another general rule suggests renters should ensure their fixed costs – including but not limited to rent and utilities – are no more than 55 per cent of their after-tax income.

CITY	AVG. RENT - 1 BRDM	AVG. RENT - 2 BDRM	GROSS ANNUAL INCOME REQUIRED - 1 BDRM	GROSS ANNUAL INCOME REQUIRED - 2 BDRM	GROSS ANNUAL INCOME REQUIRED - 1 BDRM
			RENT + UTILITIES < 30% OF GROSS INCOME		**FIXED EXPENSES = 55% OF AFTER-TAX INCOME**
Vancouver	$2,176	$2,983	$95,000	$128,000	$68,000
Victoria	$1,566	$2,453	$71,000	$107,000	$50,000
Calgary	$1,221	$1,516	$59,000	$71,000	$42,000
Regina	$939	$1,140	$47,000	$55,000	$35,000
Winnipeg	$1,165	$1,454	$54,000	$65,000	$40,000
Toronto	$2,013	$2,715	$90,000	$118,000	$64,000
Hamilton	$1,540	$1,841	$70,000	$82,000	$49,000
Ottawa	$1,618	$2,023	$73,000	$90,000	$51,000
Montreal	$1,507	$1,982	$70,000	$89,000	$52,000
Halifax	$1,602	$1,937	$78,000	$92,000	$60,000
St. John's	$959	$1,133	$50,000	$57,000	$36,000

Source: Rentals.ca and Globe and Mail calculations based on data from Energyhub.org, Hydro-Quebec, Crown Investments Corp. of Sask., Ernst & Young tax calculator

Methodology: Utilities include electricity and heating, we assumed the landlord pays for water and other municipal services. Fixed expenses include utilities as well as tenant insurance, cellphone, broadband Internet and a $10-a-month streaming service. Income figures have been rounded up.

To afford the average two-bedroom apartment in Vancouver, Toronto and Victoria, tenants would need to be making more than $100,000 a year.

The 30-per-cent shelter-costs-to-income ratio is the metric the Canada Mortgage and Housing Corp. uses to assess housing affordability. Rent plus utilities must amount to less than 30 per cent of tenants’ before-tax income for housing to be deemed affordable. The Globe used average rental rates from a January report prepared by Bullpen Research & Consulting for Rentals.ca, a rental listings site whose data include both purpose-built and condos.

With the average one-bedroom listing for $2,176 in Vancouver, a prospective renter would need an annual income of $95,000 or more to meet that threshold. For a two-bedroom in the city, the required income nears $130,000.

It’s a similar story in Toronto, where landlords are asking for around $2,000, on average, for a one-bedroom apartment and more than $2,700 a month for a two-bedroom unit.

Families are roadkill on the road to investor profits in the housing market, and this needs to be fixed

Government doesn’t want to harm ‘mom and pop’ real estate investors, housing minister says

But expensive renting isn’t an issue only in Vancouver and Toronto, two of Canada’s priciest housing markets. In Victoria, tenants would need an income of $71,000 to afford a one-bedroom and $107,000 for an apartment with two bedrooms.

In Montreal, the typical one-bedroom requires income of at least $70,000, with a slightly higher threshold in Ottawa. For a two-bedroom in both cities, tenants need incomes in the high $80,000s.

High rents mean long-term renters in expensive markets often face a stark choice, financial planner Shannon Lee Simmons said. They must find a way to increase their income or lower their housing costs, possibly by taking on roommates or moving to a lower-cost community.

Still, to help Canadians gauge what kind of rent they can afford, Ms. Simmons suggests focusing on the ratio between fixed expenses and after-tax income rather than allocating a percentage of housing costs to gross income. Specifically, she recommends renters ensure their fixed expenses make up no more than 55 per cent of their net income, a rule that applies to homeowners as well.

All else being equal, someone whose monthly bills only encompass utilities and a cellphone plan can afford a higher rent than someone who has student debt or income support payments coming out of their monthly earnings, Ms. Simmons adds. Child-care costs also significantly affect the math of renting, she added.

The Globe’s analysis shows Ms. Simmons’s general rule significantly lowers the income threshold for affordability when one assumes tenants’ only fixed expenses beyond heating and electricity are tenant insurance, cellphone and internet bills as well as a modest $10-a-month streaming subscription.

In Vancouver, for example, a very frugal renter with no debt payments and an income of around $68,000 a year may be able to rent a one-bedroom for the average asking rate of $2,176 and keep fixed costs at 55 per cent of their after-tax income.

Keeping housing costs below 30 per cent of before-tax income may not be an accurate gauge of affordability for retirees either, financial planner Rona Birenbaum said.

That’s because gross income is less relevant in cash-flow calculations for retirees, who may be drawing from income sources that aren’t fully taxable, she said.

That would be the case, for example, for Canadians who are using the proceeds of the sale of their primary home, which is exempt from tax, to help finance their retirement.

Still, working-age and retired tenants alike should also budget for future rent increases, both Ms. Birenbaum and Ms. Simmons said.

For his part, Mr. Powell, who calls himself a “happy renter,” said being able to pay the landlord hasn’t been an issue for his family even after his rent jumped from $1,100 a month to $1,600 and then to $2,400, after two evictions two and nine years ago, respectively.

Even if his landlord wanted to jack up the rent by the maximum allowed each year – which so far hasn’t been the case – “we’d be fine,” he said.

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