RENTS AND INCOMES IN CANADA

A brief review of the 30% affordability threshold

Many housing analysts and commentators approach the question of housing affordability by relying on the traditional 30% rent-geared-to-income **(RGI)** ratio. In other words, they settle the issue by asking if someone's shelter costs exceed 30% of their pre-tax income. If so, that person's housing is unaffordable. If not, they must be fine.

It's not that simple, of course. Relying on this arbitrary measure can lead to some unfortunate conclusions, especially when it is used the wrong way. This brief review may help you navigate some of the claims being made about what's affordable and what isn't.

Origins and evolution of the 30% RGI ratio

The question of the proportion of one's income that should be spent on shelter dates back at least to the 19th century. The first known voice on record is that of Ernst Engel, who in 1857 cited 20% as an unvarying proportion of income that should be spent on shelter. There were and still are contradictory theories on this subject of invariance, none of which need be explored here, but Engels' opinion has a legacy.

The 20% ratio is relevant to the modern era because it was a baseline ratio in Canada's first *National Housing Act* (1944). However, there is no statistical or sociological basis for such a fixed ratio, either from the 1940s or since. There is nothing conclusive that establishes any ratio as a reliable measure for assisting households out of housing-driven poverty.

Fast forward to the 1960s which saw the first large-scale interventions by the Canadian government in social housing, in the form of public housing partnerships with other levels of government. This housing was predominantly if not exclusively targeted to low-income RGI households.

To determine the RGI ratio, CMHC, presumably in consultation with the provinces, developed the graduated occupancy charge scale, which was retained in federal operating agreements through the end of the Section 95 programs in 1985. This scale was progressive. Rather than use a fixed percentage of income to set rents, it recognized that the lower a household's income was, the lower the proportion of its income the household could afford to pay in rent. Thus, the RGI ratio began at 16.7% for the lowest incomes and increased in relatively small increments to 25% as a maximum RGI rate.

RGI policy thinking had begun to change by the early 1980s. An interprovincial housing meeting in 1982 raised the question of the RGI ratio. A study initiated at that meeting[1] noted that provincial housing corporations were free to use either CMHC's graduated rent scale or a scale of their own, provided that the provincial scale collected at least as much revenue as CMHC's scale. Most of the provinces chose to use either CMHC's graduated scale or the flat rate at the top end of the scale (25%) for housing within their jurisdiction. The latter decision, where implemented, eliminated the concept of a graduated ratio from the scale.

BC (alone at this point) went further, and as of July 1983 began charging a flat 30% of income for new tenancies, with a gradual increase from 25% to 30% of income over a three-year period for existing tenants. So began the broader move to a 30% RGI ratio as a measure of housing affordability.

This was consolidated nationally in 1985. At a Federal/Provincial/Territorial housing meeting held that year, federal cost-sharing of what was about to become a lead provincial responsibility, housing, was on the table. CMHC took the position that it would cost-share RGI support to provincial programs only to a 30% level of income. If provinces wished to go further and keep to a 25% ratio, they were free to do so at their sole additional cost. Only Quebec continued to support the 25% ratio.

From this came the concept of **Core Housing Need,** which included measures of housing suitability as well as the 30% affordability ratio. The 30% ratio was and remains as arbitrary a measure of housing affordability as any other, without the safety net of a graduated scale to protect lower-income households. It was a cost-cutting measure, not a social policy decision, and has undoubtedly created hardship for low-income families in assisted housing. A return to a graduated scale, even if the upper end were to remain at 30%, would represent a progressive direction in housing policy.

Very recently, CMHC has recognized the challenges built into the 30% RGI ratio. While it attempts to measure housing affordability, it does not consider a household's ability to afford basic non-housing expenses like food, medication, and transportation once their housing is paid for. CMHC has proposed a **new measure** of housing hardship that takes into account significant factors like varying family sizes, regional disparities, and other variables. This new measure has not yet been adopted by provincial or municipal governments, but it should receive serious consideration.

City of Vancouver lease renewals and the 30% threshold

If 30% of income became the core-need income threshold in the mid 1980s and has remained the threshold to the present day, what does it imply for the City's approach to measuring affordability in the context of housing co-op lease renewals?

[1] *Canadian Social Housing Managed by Provinces and Territories,* authors Susana Cogan and Debra Darke, ~ 1983. The report was developed by BCHMC with the support of CMHC.

Recent discussions reflect a subtle but important shift in how the RGI ratio is applied – and not just in Vancouver. When the RGI ratio was first introduced, and for many years thereafter, it was used to estimate the cost of **reducing** someone's housing costs to a percentage of gross income thought to be affordable. More recently, however, it has been used to estimate how much additional revenue can be raised from moderate-income households before their housing security is threatened.

Once the 30% RGI ratio became an arbitrary standard driven principally by fiscal considerations, it became more a threshold of housing **risk** than a true measure of housing **affordability**. Used as a target, the 30% ratio pushes households to the very edge of core need, or housing risk. The impact is more pronounced on households with lower gross incomes given the absence of a graduated scale as originally designed by CMHC.

The City's original proposal that 30% of median Vancouver income be used as the benchmark for setting non-assisted housing charges in the lease renewal formula would have destabilized co-op households by pushing them to the edge of core housing need, or housing **risk**. This would have pushed moderate-income households out of some co-ops or dramatically reduced some co-ops' capacity to absorb unexpected cost increases by raising maximum or break-even housing charges.

A minor reduction in the chosen measure (e.g. from 30% to 25%) will mitigate the most acute impacts of this approach but it will not solve the underlying problem of using income-based formulas to calculate expenses like lease payments.

The next time you hear someone say "don't worry, no one will pay more than 30% of income on their housing" be sure to ask if they are advancing that as a rationale for reducing housing costs or increasing them.