The Unintended Consequences of Rent Control

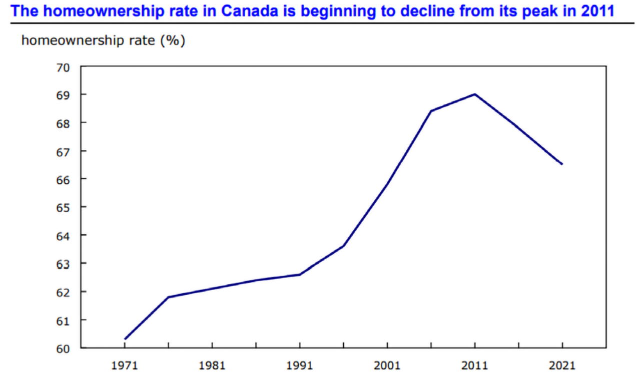
Canadians in virtually all housing markets continue to experience some level of uncertainty regarding affordability due to rising housing costs and limited supply. The fact remains that the most affordable and rent-friendly jurisdictions in Canada are in places where there are no price controls (Alberta and Saskatchewan)[1]. Creating affordable, strong, and inclusive communities ensures all Canadians have a broad range of housing options. While rent controls are often first cited as a means to reduce housing costs and may seem like a quick-fix, evidence suggests otherwise.

Canadian Housing At A Glance

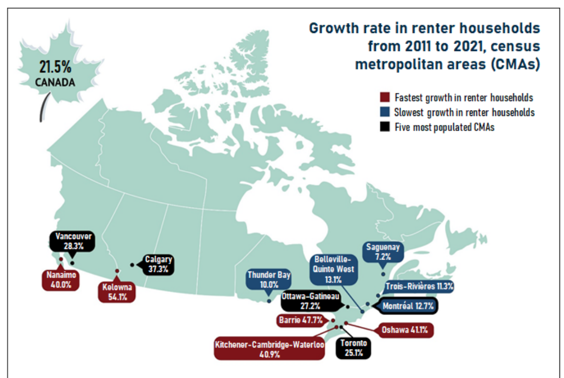
A monthly rental or mortgage payment is one of the biggest expenses for most Canadians. According to The Canadian Mortgage and Housing Corporation (CMHC), an affordable home is one that costs less than 30% of a household's before-tax income.[2]

With high housing prices, and more recently increasing interest rates, there has been a natural shift in most major centres towards renting. According to 2021 census data, 10 million Canadian households own their home, while five million rent. Statistics Canada revealed that the number of households who rent their homes grew by more than 21 percent between 2011 and 2021.

Chart 1
The homeownership rate in Canada is beginning to decline from its peak in 2011



Note(s): The homeownership rate is the proportion of all households that are owner occupied.
Source(s): Census of Population, 1971 to 2021 (3901), and National Household Survey, 2011 (5178).



Note(s): Montréal is among the five most populated CMAs and the slowest growth in renter households categories.
Source(s): National Household Survey, 2011 (5178), and Census of Population, 2021 (3901).

[1] Rentals.ca, National Rent Rankings, September 2022
[2] Source: https://bit.ly/3TnTamU

Understanding The History of Rent Control in Canada (Ontario - A Case Study)

Let’s start at the beginning.

Rent controls emerged for the first time in Canada, in Ontario, in 1944. Their entry was ushered in by the enactment of the National Housing Act; a direct response to a dramatic rise in demand for housing after the Second World War which in turn resulted in sharp increases in market rents.

Rent controls were eliminated a half decade later based on cumulative landlord feedback. However, in the 1970s, tax changes began to discourage developers from investing in new housing stock and rent controls were reintroduced. The impact was two-fold. A slowdown in construction reducing supply and continued demand for rental product led to a rapid increase in market rents for new entrants as in-place residents benefited from rent kept artificially low. This is an all too familiar story for renters in Toronto today.

As a result, the Ontario Government responded by reintroducing stringent rent regulations. This disincentivized new and existing rental contruction and resulted in developers halting operations which in turn dramatically reduced rental housing supply. By mid 1975, most mayors were inclined to support the proposal of rent control. The Residential Premises Rent Review Act (1975) was enacted after the demand for rental controls became a major issue in the period leading to the provincial election.

Even though rental construction continued to be depressed, rent control was a favoured populist policy supported by all provincial parties. The Ontario Liberal Government further tightened rent control with the Residential Rent Regulation Act (1985) and in 1992 the New Democratic Party passed the Rent Control Act.

In 2017, rental control only became applied to units that were first built or occupied prior to 1991. In 2018, the provincial Government of Ontario, revised the rent control regulations once again effectivley eliminating rent control on new units supplied after November 15, 2018 with unit supplied prior to this date under the restrictions of rent control. This move was made in an effort to encourage investors to build more properties and increase housing supply.

Today, each province and territory has different rent control rules, including frequency limits, increase limits, vacancy decontrol, and how much advance notice is needed ahead of a rent increase.

Lessons Learned: Supply & Demand

A key factor driving up rents in Canada is the shortage of housing supply which brings upon policies that make housing more expensive. Population and income growth have fueled the demand and further exacerbated this shortage to the point that Canadians are now struggling to find not just affordable housing options, but any options at all. According to the CMHC it will take an additional 3.5 million affordable housing units to restore affordability by 2030.

Price limiting mechanisms such as rent controls hinder the balancing effects of traditional supply and demand drivers. Rent controlled apartments and houses, the 'controlled' units, tend to fall below the market-determined growth rate. The longer the units are rent controlled, the further they will fall behind prevailing market rents. With capped revenue growth, the exposure to expense inflation increases the risk to owners and developers which, as evidenced in the 1980s in Ontario, dramatically reduced the delivery of new rental housing stock and negatively impacted affordability for new entrants.

Historical evidence clearly reflects that new supply and competition can create more options at lower, more affordable rents. Controlled returns not only negatively impact new construction, but also contribute to the deterioration of existing stock.

Furthermore, without the appropriate diversity of housing stock, movement through the housing spectrum for those in need of affordable housing, is undermined. In rent regulated markets, those who are already in rent controlled units, regardless of income, are disproportionately advantaged compared to those seeking new rental housing. These units remain under the prescription of rent control and fail to contribute necessary additional capital to build new supply.

The reality is that unregulated housing markets build more. In fact, the average annual completions as a percent of 2016 housing stock in regulated vs unregulated markets was 1.44% vs 2.08%, respectively, and equates to 44% more housing delivered in unregulated markets. Alberta is one of the few jurisdictions to have a balanced supply of affordable options in housing which have been driven by non-controlled investment. According to CIVIDA in 2021, 283,800 households in Canada reported waiting for affordable housing[4].One of Alberta's

[3] Source: https://www.cmhc-schl.gc.ca/en/blog/2022/canadas-housing-supply-shortage-restoring-affordability-2030#:~:text=To%20restore%20affordability%2C%20an%20additional,for%20everyone%20living%20in%20Canada.
[4] https://civida.ca/wp-content/uploads/2021/11/Exploring-Impacts-of-Affordable-Housing-on-Property-Values-Full-Report-FINAL-1.pdf

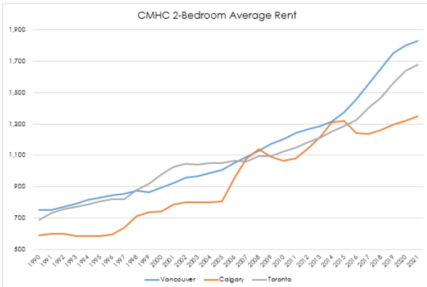
leading multi-housing rental providers, Boardwalk, has confirmed that 90+%[5] of their Calgary and Edmonton portfolio meets CMHC's 30% affordability threshold.

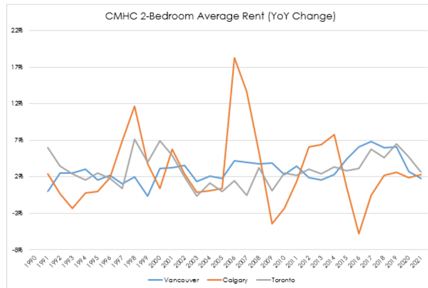
City	Rent Control	2016 Housing Supply	Completions 2015	2016	2017	2018	2019	2020	2021	Average	% of Housing Supply
Fredericton	Yes	42,775	293	501	337	449	418	466	515	426	0.99%
Halifax	Yes	173,460	1,674	2,028	2,380	2,246	2,668	2,776	2,950	2,389	1.38%
Moncton	Yes	61,775	546	1,002	465	948	767	1,055	1,034	831	1.35%
Saint John	Yes	52,875	158	312	172	239	247	478	310	274	0.52%
Abbotsford - Mission	Yes	62,635	613	864	901	1,574	1,303	1,041	1,568	1,123	1.79%
Barrie	Yes	72,535	1,007	957	1,297	1,719	1,015	844	806	1,092	1.51%
Belleville	Yes	43,000	281	434	553	562	656	595	524	515	1.20%
Brantford	Yes	52,530	594	402	430	558	511	828	1,098	632	1.20%
Cape Breton	Yes	43,080	175	180	136	194	157	252	164	180	0.42%
Chatham-Kent	Yes	43,175	126	113	152	159	162	248	432	199	0.46%
Chilliwack	Yes	39,700	573	731	729	983	952	1,064	873	844	2.12%
Greater Sudbury / Grand Sudbury	Yes	70,445	227	359	325	177	205	274	297	266	0.38%
Guelph	Yes	59,280	1,129	916	1,266	1,202	897	786	899	1,014	1.71%
Hamilton	Yes	293,345	2,722	2,075	2,508	2,504	2,541	2,971	3,003	2,618	0.89%
Kamloops	Yes	42,855	528	472	457	605	1,199	725	720	672	1.57%
Kelowna	Yes	81,385	1,118	1,783	1,498	2,351	3,422	2,223	2,140	2,076	2.55%
Kingston	Yes	67,915	644	629	433	641	941	859	575	675	0.99%
Kitchener - Cambridge - Waterloo	Yes	200,495	3,301	4,605	3,531	3,882	2,609	3,634	4,507	3,724	1.86%
London	Yes	206,450	1,937	2,912	2,357	3,713	2,631	3,140	3,815	2,929	1.42%
Montreal	Yes	1,727,310	-	-	20,558	21,650	23,024	24,376	23,222	22,566	1.31%
Nanaimo	Yes	44,960	665	841	766	999	623	1,032	850	825	1.84%
Oshawa	Yes	138,960	1,362	1,903	2,479	2,233	2,149	2,465	2,489	2,154	1.55%
Ottawa	Yes	373,755	-	-	5,394	6,845	5,936	7,787	8,635	6,919	1.85%
Peterborough	Yes	50,535	331	330	492	315	551	347	495	409	0.81%
Quebec	Yes	361,890	4,354	4,915	5,017	5,709	5,750	5,605	7,017	5,481	1.51%
Saguenay	Yes	72,480	552	438	411	439	375	478	610	472	0.65%
Sarnia	Yes	41,990	176	206	246	195	214	184	274	214	0.51%
Sherbrooke	Yes	95,580	1,524	955	1,589	1,214	1,194	1,950	2,194	1,517	1.59%
St. Catharines - Niagara	Yes	168,485	1,378	1,677	2,067	2,023	1,413	2,666	2,314	1,934	1.15%
Thunder Bay	Yes	52,545	329	248	167	205	226	180	151	215	0.41%
Toronto	Yes	2,135,910	46,384	34,613	37,132	37,750	27,410	30,841	36,723	35,836	1.68%
Trois-Rivieres	Yes	72,505	760	555	583	781	737	734	406	651	0.90%
Vancouver	Yes	960,895	17,346	18,148	21,806	24,555	22,603	24,039	25,229	21,961	2.29%
Victoria	Yes	162,735	1,765	1,787	2,526	2,668	3,626	4,044	3,907	2,903	1.78%
Windsor	Yes	132,920	829	1,074	1,314	1,029	858	1,391	1,069	1,081	0.81%
Winnipeg	Yes	306,550	4,182	4,594	4,337	4,945	4,345	4,653	4,833	4,556	1.49%
Calgary		519,695	14,543	13,239	11,014	9,732	11,134	10,705	10,774	11,592	2.23%
Edmonton		502,140	16,530	15,123	10,753	10,091	10,384	11,363	11,277	12,217	2.43%
Lethbridge		45,695	624	907	672	712	671	498	592	668	1.46%
Red Deer		39,980	762	419	320	221	448	111	193	353	0.88%
Regina		94,955	2,343	1,796	1,580	2,050	941	618	871	1,457	1.53%
Saskatoon		115,280	2,663	2,954	2,053	1,568	1,563	1,461	2,190	2,065	1.79%
St. John's		85,015	1,311	1,087	751	759	532	466	484	770	0.91%
Rent Control		**8,609,715**	**99,583**	**93,559**	**126,811**	**138,261**	**124,335**	**137,031**	**146,648**	**123,747**	**1.44%**
No Rent Control		**1,402,760**	**38,776**	**35,525**	**27,143**	**25,133**	**25,673**	**25,222**	**26,381**	**29,122**	**2.08%**

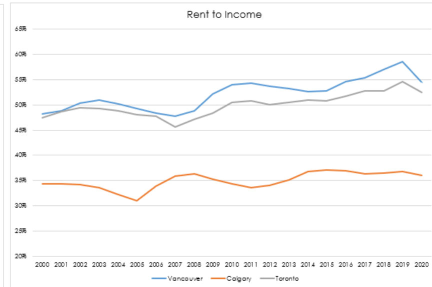
Fact vs. Fiction: The Truth About Affordability in Unregulated Markets

Rent controls have failed to prevent rents from increasing and have failed to provide more affordable rental housing. Based on the charts below we see the proportionality between rent growth and income. Proponents of rent control may be quick to argue that unregulated markets experience periods of high rent increases with big increases to nominal rents. However, upon closer examination, the data reveals that the cumulative effects of market rents in unregulated markets over time make them truly affordable. In addition, unregulated markets tend to have more affordable rents relative to incomes.

[5] Taken from Boardwalk's LinkedIn post: https://www.linkedin.com/company/boardwalk-reit/posts/?feedView=all







Alternatives to Rent Control

Alberta in particular has had its fair share of historical affordability challenges: namely, a cyclical resource-based economy, strong population growth, and rising construction costs, to name but a few. Government's role is clear--by diversifying our economy, keeping taxes low, and supporting open market development and enterprise, the multi-family residential market will continue to flourish and best respond to these affordability challenges, providing the necessary housing to build strong communities for all Canadians.

In the end, there are better ways to protect renters. A quicker resolve, without stifling new construction, would be by way of rent supplements/subsidies given to those vetted for proven need. Furthermore, government could assist by directing the flow of immigration to markets that have a better balance of housing supply. When new supply is brought online, prices would decrease and supplements would cease. This leads to another alternative, incentivizing new housing construction by prioritizing approvals, reducing upfront permitting costs and tax surcharges in exchange for a commitment to maintain affordable rental rates. Lastly, to create supportive financing and funding to make building and preserving affordable housing more attractive. A reduction in the cost of capital will help to create the much needed new supply of affordable housing communities.

Conclusion

The economic and social factors highlight that short-term rent abatement does not result in affordable rents nor provides long-term solutions for Canadians looking for housing. We need to work together, with an all hands on deck approach, to create sustainable housing opportunities for all of our communities in Canada.

Alberta has not seen rent control in over forty years yet continues to boasts a very high level of investment in new supply, resulting in competition that has lead to the some of the most affordable pricing in our country. Free markets remain the best providers of affordable housing. Government policies and regulations that reduce taxes and capital costs, and provide targeted rent supports for those who need it are all tried, tested, and proven ways to help increase affordable housing for all Canadians.

The economic contribution of our industry is noteworthy: $70B in GDP, $26B in tax revenue, and 450K related jobs[6]. These are the direct benefits of a free market that, if interrupted without careful consideration, can impact our economy and all those who wish to have an affordable, safe, and well-managed, place to call home.

[6] Deloitte Report (2016), *Potential Implications of Bill 202 policies to the Residential Market in Alberta*