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Canada's Rental Housing Shortage

A Perspective on What Underlies Affordable Housing Need

By Chris Seepe

In June, 2015, the Federation of Rental-housing Providers of Ontario (FRPO) published a report titled, "Removing Barriers to New Rental Housing in Ontario." The report outlines, quite accurately, the dire state of our current affordable housing stock and the action steps government could take to address the growing need.

The report states, "It's been hard to find affordable housing in the past; it is hard to find it now; and it looks to be even harder in the future. There is little new affordable housing being built; current stock is in need of major renovation; and finances are of heightened concern for all parties."

All these factors are true for most of Canada.

In the report, seven action steps aimed at government are outlined. They include: introducing housing agreements to create new homes; reducing costly development charges; preserving the 1991 rent-increase exemption; eliminating expensive municipal licensing schemes; and creating a portable housing allowance initiative.

All these action steps are valid, however, what the report failed to do, is address the critical issues—all government-driven—that led to the housing crisis in the first place.

The Recoverable Capital Cost Allowance (RCCA) and Capital Gains tax are huge disincentives for aging owners to sell their rental properties to new operators who statistically spend the most on upgrades and repairs. While a great vote-winning tactic among the large tenant electorate, the 2.5 percent annual rent increase cap exacerbates existing property neglect, lowers tenants' quality of life, and discourages industry investment.

What other industry or business in Canada (or the world) prevents operators from passing on true operating costs to their customers? Electricity costs alone increased about 65 percent in the past

five years and are forecasted to do so again in the next five.

Tenants can have their disputes addressed within 24 hours using free government services but landlords must undergo Landlord-Tenant Board processes for four-to-twelve months, with little recourse to recover their often substantial lost rental income after a hard-won judgement. 67 percent of all LTB applications are to evict tenants for non-payment of rent.

The Ontario Residential Tenancies Act comprises 34 of 43 provisions that uniquely benefit tenants. No provisions uniquely benefit landlords—not even the right to collect rent.

Rental housing typically has disproportionately higher property taxes, which tenants ultimately pay when the unit becomes vacant. Rent control is the government's answer to preventing the real world 'market forces' from correcting the housing shortage that the government created.

The trouble with rent control

The Concise Encyclopedia of Economics states, "Economists are virtually unanimous ... that rent controls are destructive." It also cites a 1990 American Economic Review poll of 464 economists, in which 93 percent of U.S. respondents agreed that, "A ceiling on rents reduces the quantity and quality of housing available." Another study reported that over 95 percent of Canadian economists polled also agreed.

Nobel laureate Gunnar Myrdal, an architect of the Swedish Labor Party's welfare state, said, "Rent control...may be the worst example of poor planning by governments lacking courage and vision."

Swedish economist Assar Lindbeck asserted, "...Rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."

Few other industries in Canada are more constrained by short-sighted government interference than rental housing. Every other type of real property has been built in abundance—condominiums, office towers, hotels, warehouses, retail—many with notable vacancy rates.

Until these huge disincentives are re-evaluated and new incentives are developed, government will continue to resort to building a massive bureaucratic subsidized housing organization to inefficiently undertake with a large chunk of the public purse what thousands of available private sector experts could accomplish for a fraction of the cost, in a fraction of the time.

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