

Rent control essay sample



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In Canada, citizens believe that it is the government's responsibility to decide what is right when distributing wealth among various citizens. The same individuals believe that government is responsible for intervening within the market to uphold fundamental values and ideals of individuals. The goal of most governments is to create a society with equal opportunities where all individuals are treated alike. In Ontario rent controls were enforced for the first time in 1944 because of rent gouging by landlords. However, half a decade later these rent controls were eliminated since they were only put in place temporarily.

Developers during those years were building many sky rise buildings in Ontario up until 1975. In 1975 the government decided to pass the Rent Control Act and this time they had no plans of only making it only a temporary policy. The reason to why so many apartment buildings were being built prior to 1975 is partially because rent controls did not exist, and largely because of government incentives developers received for developing sky rise buildings. The incentives included tax breaks on construction, and lump sum cash transfers from the government to the developer.

After 1975 the development of sky rise buildings and apartments quickly declined. Here is a chart of Ontario's apartment unit construction going back 5 years prior to the Rent Control Act; 1 The steep decline in sky rise buildings and apartments is a combination of the rent Control Act that government implemented in 1975, and because the government decided to eliminate most cash transfers builders received for the construction of sky rise buildings. In November of 1975 the Canadian government made it official

and enacted the Residential Tenancies Act, this was the same as the Rent Control Act only they decided to change the name.

This policy prevented landlords from price gouging which made it very difficult for individuals to afford adequate housing. Landlords were only allowed a rent increase of 6% per year. If they wanted to increase rent by more than 6%, they had to apply to the Residential Tenancies Commission. Many landlords did not bother to apply for an additional rent increase because the process was long and took many months before they received an answer stating whether they were granted the higher increase or not.

The 6% rent increase was in effect up until 1985, in 1986 and the years to come the government decided to lower the rate to 4.5%, and today landlords are only allowed a rent increase of 1.4% plus inflation. ² This is the lowest number since the Rent Control Act has come into effect and is a sign of government trying to provide adequate housing for all of society, especially for the low income individuals who can not afford high rent increases. The Rent Control Act has helped many low income individuals afford proper housing in Canada.

However, it has also created many problems for landlords such as forcing them to charge an amount that is not sufficient enough to cover maintenance costs, property tax etc. Many landlords believe that rent control is a poor way of correcting housing market imperfections and to achieving other housing market goals. The Rent Control Act has caused landlords to spend less money on maintenance of their buildings since there isn't much of a profit margin from the rent they are collecting. Typically landlords will

spend as much money needed to increase the value of the property and generate higher profits.

However, since each dollar spent on maintenance increases the value of the property by less than it would have if rent controls were not in place there is no incentive for the landlord to put money into the building. When a landlord has no economic incentive to improve their housing through maintenance, the quality of the house decreases and eventually becomes a substandard home even for the poor. The government decided to fix this problem and introduced strict maintenance controls that landlords need to conform to.

If by any chance they decide to ignore the procedures outlined by government they are fined. The fine increases with each time the landlord fails to follow the maintenance procedures. They also decided to toughen up building codes and raise property taxes on rental housing. The tenant's continue to pay a low monthly rent and the landlord has all these increases in costs to bear. This makes many buildings unprofitable and some landlords abandon them when they can no longer manage the building because of all the costs.

Many economists claim that rent control creates a price ceiling below the market-clearing price, causing excess demand which leads to reduced mobility. Merrill Lynch a Canadian economist who studies Canada's housing market says, " A tenant is discouraged from moving within the local rent-controlled housing market because the search costs of finding a preferable unit are high when there is excess demand.

And he or she is discouraged from a jurisdiction without rent control because he would have to pay more for comparable housing. ³ Therefore, the government's idea of attempting to provide affordable and decent housing for all of society through rent control is an inefficient way from the landlord's perspective. Merrill Lynch believes that, " the government should lower the rent the tenant pays without reducing the rent the landlord receives, through a system of rent subsidies. " ⁴ Such a policy would be costly for the government and society, but in this world there are no free lunches so to speak. However, the government also strongly believes that distributing wealth through rent control is an effective policy.

Although the government's attempt at distributing wealth equally is a great idea they should not confuse redistribution of wealth with transfers from the rich to the poor. Landlords are not necessarily richer than the tenants that occupy their rental property. In some cases the tenant may be better off than the landlord. Rent Controls produce many problems for the landlord, but they also decrease the volume of new housing construction. When rent controls are introduced, the government usually will allow any new buildings constructed after the rent control policy was implemented to be exempt.

The government does this to encourage builders to develop new apartments and homes so supply stays above demand. However, there have been many cases where government goes back on their word which makes many landlords and developers doubtful of what they promise. In that case builders who are confronted by controls often adopt a wait-and-see attitude, which delays new construction and in many cases causes a shortage of low cost apartment buildings and homes. Canada Mortgage and Housing Corporation

conducted a study to determine whether rent controls have contributed to society in a positive way.

Their findings determined that, “ there appears to be no convincing evidence that rent regulations, as they existed in various provinces in Canada from the early 1970s through to the early 1990s, had significant effects on rents, on the construction of rental units, or on vacancy rates. This is why many provinces have decided to decontrol rent and allow for a market without any government intervention. “ 5 The Housing and Mortgage Company aren’t the only ones who have noticed that rent controls have had little or no impact in providing low rent to individuals.

In my opinion I think that rent controls have only maintained a constant rate in rent, meaning that rent controls have prevented rent to increase when the economy is in a boom and decrease when the economy is in a recession. The government in Ontario has also noticed this that the current policy is not as effective as they had originally planned and have made some changes. Until recently, the Rent Control Act was replaced by the Residential Tenancies Act on January 31, 2007. This new act gives landlords some freedom by lifting controls off vacant homes.

With no controls on vacant homes landlords will have the ability to charge what they believe is a sufficient amount to cover their costs. This new act has pleased many landlords; however, it has many tenants worried. Tenants believe that this new law is a violation of their rights to affordable housing and limits their mobility right which tends to increase the gap between the rich and the poor. The higher rent on vacant homes will force low income

individuals not to move as much, since they know that they will have to pay higher rent.

In a report by the Canadian government, it says, “ an individual housing is unaffordable when he or she is spending more than a quarter of their income. “ 6 In a second Canadian report the government states; “ low income tenants are currently spending 70-80% of their income on housing”. 7 The government publishes these statistics to make society aware how low income individuals are struggling to afford adequate housing. However, they decide to ignore their own statistical information and change the rent control act in favour of the landlords.

The government attempts to justify their action by arguing that there is a shortage of apartment buildings in Ontario particularly in Toronto. So there idea in my opinion is to increase rent so individuals with low incomes are forced to move out on the streets so individuals with money in demand of a home have a place to live in. The government argue to that is that current apartment buildings are being offered below market value, which is causing them to be occupied by tenants quicker than new ones can be built.

The government believes that if controls are lifted contractors will be pursued to build more buildings and the shortage of apartment buildings will be resolved. However, the government does not realize that contractors instead of building moderately priced apartment buildings choose to build modern condominium style buildings which are targeted towards the wealthy individuals. These types of buildings allow for greater profits which are preferred over the low income buildings. The contractors have also

repeatedly stated that it is not profitable for them to engage in the development of low cost housing unless building taxes are lowered or eliminated. “ 8 NDP leader Howard Hampton says, “ Dalton McGuinty broke another promise by bringing in a rent bill that allows landlords to raise rents through the roof when a tenant moves out. The premier promised real rent control. Instead, he is giving landlords a blank cheque to raise rents as high as they want when a tenant moves out.

That broken promise will mean higher rents for tenants who are already paying too much for a place to call home. “ 9 The government seems to believe that since decontrol has only been placed on vacant buildings, low income individuals have nothing to worry about as long as they continue to live in the buildings they are in. However, vacancy decontrol encourages the landlord to harass their tenants to get them to vacate, or they will simply ignore maintenance issues that need to be dealt with in order to force the tenant out.

In a Canadian article, “ a tenant explains how the landlord procrastinated to fix any of the maintenance issues he was having in his building in an effort to have him move out. “ 10 The landlord can simply make it very unpleasant for the tenant until he or she has just had enough and are forced to move out because of all the headaches trying to have the deficiencies in their building repaired. Overall, I think that the evidence against rent controls is much stronger. Although the Rent Control Act portrays the right idea of allowing low income individuals the right to adequate housing at an affordable price.

There is little information to show that without rent controls price of rent would jump to a much higher level where individuals could not afford to bear the extra costs. Without government intervention the market tends to be competitive one when there is more than one firm present. In the case of low income apartment and housing units there are many owners, which usually is an indicator that the market will become competitive. In a competitive market the firms eventually end up at a perfect equilibrium, where prices generally are at an acceptable level.

The new Residential Tenancies Act, allows firms to operate freely and competitively. In the next few years it will become more evident whether prices decrease or dramatically increase because of decontrol. In addition many other provinces in Canada have decided to decontrol rent and have not made any moves back towards policies where they are in control of rent again. The Residential Tenancies Act may be the first move towards complete decontrol in Ontario, but once again only time will tell.