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McGuinty Government Dupes Media and Tenants on HST Tenants not protected from HST

Queen's Park – Today the McGuinty Liberal government misled the media and tenants and caused further harm to rental housing quality by announcing that landlords will not be able to pass on HST costs to tenants in above guideline rent increases (AGIs).

“This bizarre move by the Liberal government was designed to capture headlines and dupe the media into believing that tenants are somehow going to be protected from negative HST impacts” said Vince Brescia, President & CEO of FRPO.

The government gave deliberately misleading information in its press release designed to capture media attention, and also designed to attack landlords rather than help them deal with the huge negative consequences of the HST that are specific to the rental housing industry.

“It is unfortunate that the government has chosen not to help the industry deal with the massive negative impact of the HST on Ontario's rental stock and tenants” said Brescia. “They seem to be more interested in headlines than in helping tenants”.

The HST is expected to increase industry costs by about 5%, leading to a cost increase with inflation of about 7% next year. At the same time, the annual rent increase guideline is going to be 0.5% next year. “This impact is devastating for the rental housing industry” said Brescia. The only discretionary expense that owners have is maintenance and capital repairs. Tenants are going to be very negatively impacted.

“The industry asked for government assistance to help the industry transition to the HST, and reduce impacts on tenants, but the government has responded by saying they won't do anything to help the industry transition to the HST” said Brescia.

One of the fallacies in the government's press release is that there was a “loophole” in the current law. It has always been the case that all costs incurred by owners are allowed in AGIs. The GST has always been an allowable cost in AGI applications. This has never been a “loophole”. AGIs are designed to allow landlords to deal with extraordinary costs.

Another fallacy in the government's release is that this move somehow has a significant impact in protecting tenants from the HST impact. AGIs are a rarely used tool, affecting only a tiny portion of Ontario's rental stock. On average, there are only about 115 applications per year for AGI's on utility costs in Ontario, yet there are 1,312,290 rental households in the province. This government is using this rarely used mechanism in an attempt to dupe people into believing that rule changes in this area will protect tenants from negative HST impacts. It is an unfortunate deception.

Utility costs, however, are just one of many costs negative impacted by the HST. Many other rental housing costs, such as property management, waste disposal, repairs and maintenance, legal, accounting, landscaping, snow removal, to name a few, will see full 8% cost increases when the 13% HST takes effect on July 1, 2010. Ultimate, hundreds of dollars a year in new costs will be passed onto tenants through their rent.

“The government has done nothing to protect tenants from the HST”, said Vince Brescia, President and CEO of the Federation of Rental-housing Providers of Ontario (FRPO). “In future years tenants will see their rent increase by up to \$1000 a year while these costs get passed on”.

More importantly, in the short term landlords will be forced to slash repairs and maintenance by up to 45% to deal with the massive new HST costs the government is imposing.” This is unfortunate for Ontario’s rental stock, which is aging and badly in need of more capital investment, not less. The worst impact will be on tenants, who care greatly about repairs and maintenance.

Yet another fallacy in the government’s press release is that the industry can recover these costs through the annual guideline. The annual guideline for next year is currently forecast to be 0.5%. Yet the HST will increase costs by about 5% on its own, and lead to a cost increase next year of about 7% when inflation is included. “The Liberal government is kicking rental owners in the teeth when they are down” said Brescia. “How is a business supposed to survive if it can’t pass on its costs” asks Brescia.

The government’s announcement has no impact on 26% of Ontario tenants who already pay for their utilities separately from their rent, nor does it have any impact on hundreds of thousands of new tenants or tenants who will move this year.

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