2008 Pre-Budget Recommendations

A Submission to the
Ontario Minister of Finance

frpo.org
Federation of
Rental-housing
Providers of Ontario

January 28, 2008

FRPO 2008 Provincial Budget Submission

Executive Summary

The Federation of Rental-housing Providers of Ontario is the province's leading advocate for quality rental housing. Representing 800 owners, managers and investors, our members supply homes to over 250,000 households across Ontario.

Overly strict price-controls on private rents and over-taxation of tenants are the principal threats to a healthy rental housing market in Ontario. Housing affordability can also be improved by enhancing the design of the ROOF housing allowance program, while greater energy conservation potential in our sector can be achieved through new legislation that will facilitate the implementation of smart meters in rental housing buildings. For the 2008 Ontario budget, FRPO makes the following recommendations:

1) Restore the 2 percent base increase to the provincial rent guideline

FRPO is calling on the province of Ontario to repeal the unfair and punitive 2008 guideline, and restore fairness to the treatment of rental housing providers in Ontario. Ontario's rental housing industry has already suffered through five years of declining rents, and the punitive 2008 guideline is indefensible. A fairer guideline such as the formula used in British Columbia would be a step in the right direction and prevent the loss of future provincial government tax revenues that result from tight rent control.

2) Reduce multi-residential property tax inequity

Tenants have half the income of homeowners, yet pay two to four times the rate of property taxes of homeowners in Ontario. The provincial government can alleviate this problem by requiring all municipalities to reduce their multi-residential property tax rates so that they are equal to or less than residential tax rates.

3) Improve the design of the ROOF housing allowance program

FRPO commends the government for introducing Ontario's first portable housing allowance. The way the program is designed, however, will not allow for the most effective use of the $185 million in housing money that has been allocated to the program. Improvements should include: maintaining funding on a permanent basis rather than having a one-time application intake; raising the household asset limit; and, making funding sensitive to family size. We believe these changes will allow the ROOF program to provide effective assistance to as many households as possible.

4) Eliminate barriers to rental housing smart sub-metering and allow tenants to improve conservation by taking control of their own electricity costs

According to the Ministry of Energy, smart sub-meters are a key energy conservation tool, and the government has set a target for implementation in every home and business by 2010. Ontario's residential tenancies legislation, however, has created an unworkable framework for having smart sub-meters in place within the rental housing sector. Removing these barriers and facilitating implementation will help achieve the government's goal of reducing electricity consumption and its associated costs related to generating capacity and transmission.

Adopting and implementing these important policies can be accomplished at little additional direct cost to the provincial government. Most importantly, these policies must be implemented to foster a strong and balanced housing market for the over 1.3 million Ontario households who rent their accommodations.

Recommendation 1

Restore the 2 percent base increase to the provincial rent guideline

FRPO is calling on the province of Ontario to repeal the unfair and punitive 2008 guideline, and restore fairness to the treatment of rental housing providers in Ontario. The CPI-based guideline fails to enable rental housing providers to recover increasing costs related to energy, utility, property tax, wage and mortgage interest costs.

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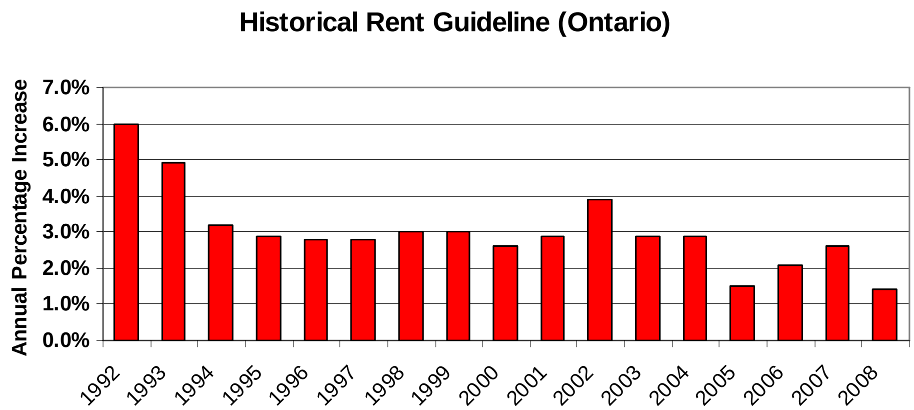
2008 Rent Guideline the lowest in the history of peacetime rent control
In the summer of 2007, the Ministry of Municipal and Housing announced the rent increase guideline for 2008 would be 1.4% - the lowest allowable rent increase in the history of rent control (see Chart 1). Few policy issues pose a greater threat to the health of Ontario's rental housing sector than this flawed method of rent regulation.

Chart 1: 2008's 1.4% was the lowest rent guideline ever
Source: Ontario Ministry of Municipal Affairs and Housing, 2007

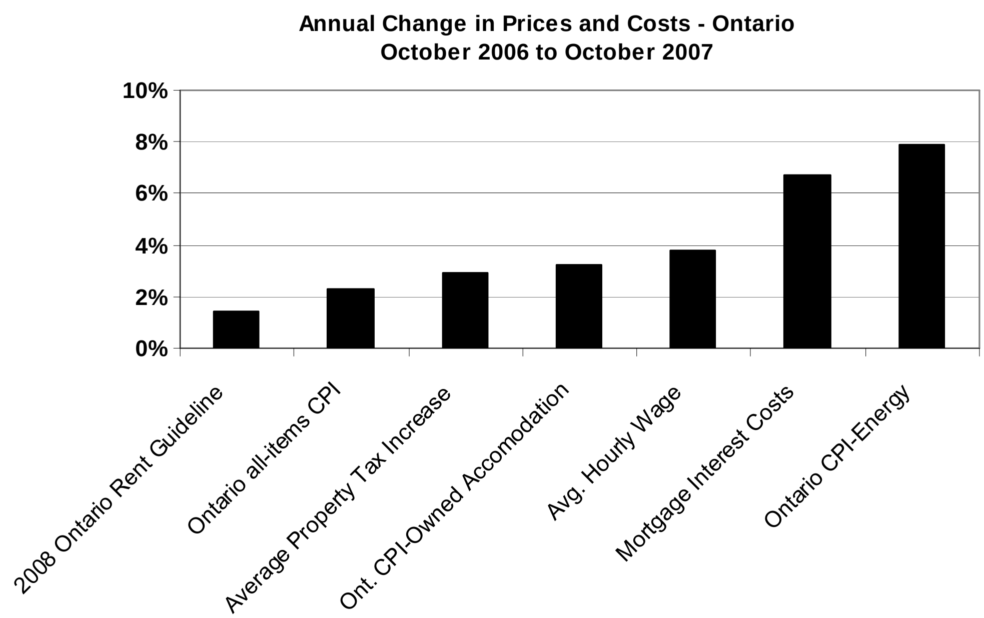


In 2004, the Ontario government removed the 2% base from the guideline calculation. As a result, the rent increase guideline reduced the ability of landlords to recover true operating costs, which invariably includes additional administration, management and staffing costs. This resulted in the 2005 rent guideline being reduced to an inadequate

1.5%, far below the 2005 Ontario CPI inflation increase of 2.2%. Since then, rents have failed to keep pace with industry costs.

Guideline Fails Miserably Against Relevant Price Benchmarks
As shown below, the 2008 rent guideline falls far below the increase in costs landlords are facing in many key areas (see Chart 2). At 1.4%, it does not come close to keeping up with property tax increases (+3%), wages (+3.8%), mortgage costs (+6.7%) and energy (+7.9%). In some cities such as Toronto, water rates are increasing over 10% per year. These costs, among others, are real and tangible expenses in the operation of rental housing in Ontario. Any rent guideline must allow for full recovery of these price increases.

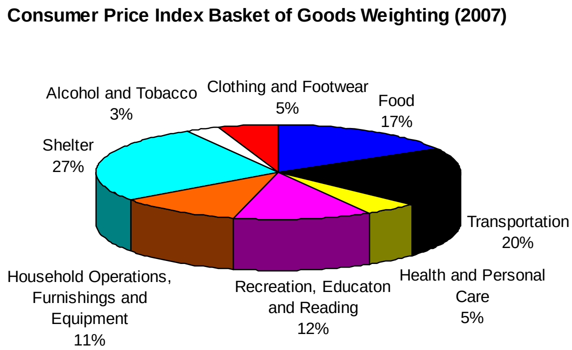
Chart 2: Ontario's rent guideline falls behind relevant price benchmarks
Source: Statistics Canada, Consumer Price Index, October 2007



Source: Statistics Canada, Consumer Price Index, October 2007

Rent Guideline is inappropriately based on consumer price index (CPI)
Under recent changes, Ontario's guideline for rent increases is based on the CPI change. While this results in a more predictable and transparent rent guideline, it also means rents are now being restricted based on a basket of goods that have nothing to do with rental housing costs. The pie chart below (Chart 3) indicates the weighting of the 2007 CPI basket of goods.

Chart 3: CPI price weighting has little to do with rental housing costs
Source: Statistics Canada, Weighting of the Consumer Price Index



Based on this weighting, rental housing costs are influenced by price changes in completely unrelated goods and services, for example fresh fruit, vegetables and footwear, which during 2007 dropped in price, thereby unduly weighing down the rent guideline. Unbelievably, even cigarettes constitute over a one percent weighting in Ontario's rent guideline calculations.

What the rent guideline should do is to allow for complete cost recovery of both industry costs and the professional expenses associated with running a well maintained building with high quality service. Does it make sense to base a rent guideline on the price of vegetables and shoes? Of course not, which is why the Ontario government has little choice now but to substantially revise its guideline formula.

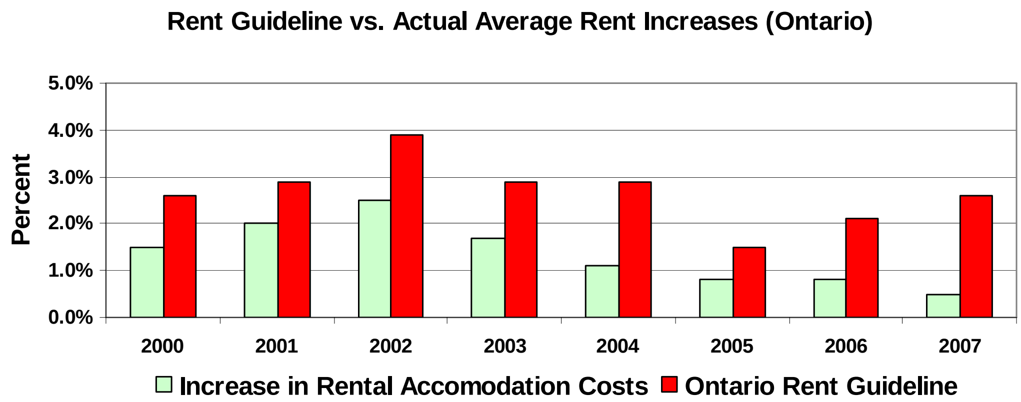
Reinstating the pre-2004 formula (industry costs plus 2%) would be a good start. Removing the guideline altogether and allowing rents to be adjusted to market levels once per year would be a longer term solution to rent regulation.

Actual Rent Data Proves the Guideline is Unnecessary

One supposed justification for maintaining a strict rent guideline is the fear that landlords will jack up rents to very high levels and cause rental housing costs to skyrocket. If this was true, then landlords would be expected to, at the very least, raise rents to the maximum guideline rate. Rental market data compiled by the Canada Mortgage and Housing Corporation shows this not to be the case however. Landlords in Ontario, on average, consistently keep rent increases below the guideline maximum (see Chart 4).

Even with the availability of rent setting policies through vacancy decontrol and applications for above guideline rent increases, average Ontario rent increases are far below the allowable limit under the guideline. This brings into question the necessity of a rent guideline, and justifies a review of the guideline to allow for additional increases that some landlords may incur due to escalating industry costs (as shown again in Chart 2). Rent data confirms that increasing the rent guideline will not result in widespread excessive or unwarranted rent increases by landlords.

Chart 4: Average Ontario rent increases are already far below the allowable limit under the guideline



Source: Canada Housing Observer 2007, Housing Market Indicators. Rent Guideline Data: Ministry of Municipal Affairs and Housing

Ontario has the Lowest Rent Guideline in Canada

Across Canada, most provinces do not control residential rents. Rental markets are very competitive because there are many providers of rental housing, and it is relatively easy for new providers to enter the market. Usually governments do not attempt to fix prices in competitive markets – Ontario is an oddity in this regard. Provinces with free rental markets are Alberta, Saskatchewan, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

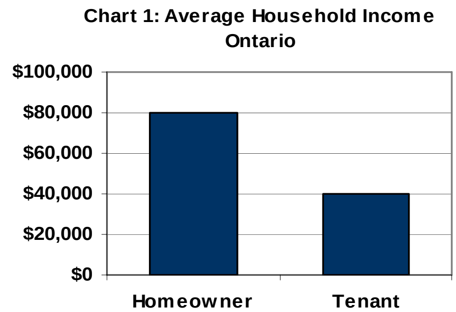
Of the English speaking provinces that do restrict rents, Manitoba and BC allow greater rent increases for major repairs than Ontario. The rules seek to allow landlords to recover the cost of the major repairs, together with interest on the investment, over the expected useful life of the repairs.

2008 Guideline or Rent Control Status	
Newfoundland	No rent control
Nova Scotia	No rent control
Prince Edward Island	No rent control
New Brunswick	No rent control
Quebec	Not set as of date of writing*
Ontario	**1.4%**
Manitoba	2.0%
Saskatchewan	No rent control
Alberta	No rent control
British Columbia	3.7%

Recommendation 2

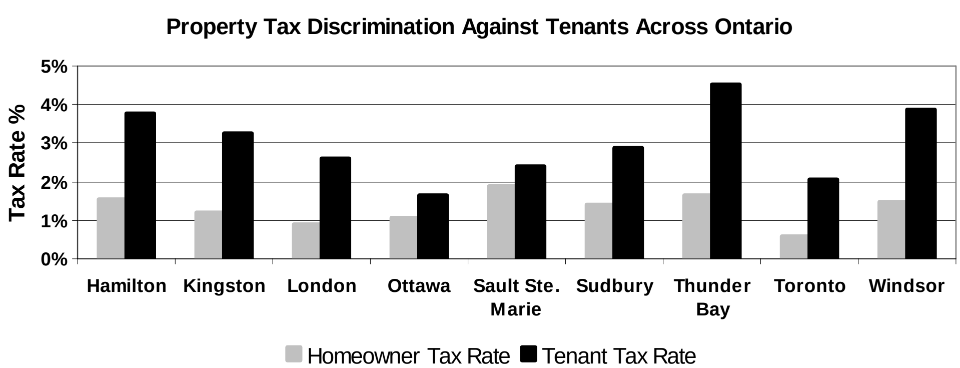
Require municipalities to phase-in 1:1 multi-residential to residential property tax ratio.

There is no justification for tenants to pay higher taxes than homeowners, yet in some Ontario municipalities the multi-residential property tax rate is almost four times as high as the residential tax rate. In Toronto, for example, the municipality with the largest population of renters, the typical tenant household pays over $100 per month more in rent than they would if they were taxed at the homeowner rate. Toronto City Council, while claiming publicly to champion tenant rights, approved 2007 multi-residential tax rates that were 3.6 times higher than homeowner tax rates (see Chart 2).



The average tenant household income is half that of the average homeowner household income (see Chart 1). Although housing affordability is improving, there are still many households in Ontario who have affordability problems. They have these problems because the lowest income people in our society in many cases pay property tax rates from two to four times the tax rates paid by higher income homeowners. This gross inequity is indefensible.

Chart 2:



Source: FRPO Survey of Municipalities, 2007

We can think of few other things that are as harmful to the Ontario economy as imposing the highest tax rates on those with the lowest incomes. Inequitable multi-residential tax rates:

- Discourage the construction of new rental housing
- Create inconsistent tax burdens across different jurisdictions
- Contribute heavily to Ontario having the highest property tax burden of any OECD country - 3.7% of GDP (2004).

In many Ontario cities, tenants discriminated against by revenue-hungry municipal councils. Ottawa charges tenants a 55% tax premium compared to homeowners (see Chart 2), while Kingston, Thunder Bay and Hamilton tax multi-residential properties two-and-a-half times - or more - the homeowner rate. Existing measures such as levy restrictions and municipal programs to lower tax ratios have proven to be, at best, meager efforts at treating tenants fairly. The inability of municipalities to deliver taxation equity to renters necessitates provincial government intervention.

FRPO recommends the Ontario government require all municipalities to reduce their multi-residential property tax rates so that they are equal or less than residential tax rates.

<u>Recommendation 3</u>

Improve the design of the ROOF housing allowance program

FRPO commends the government for introducing Ontario's first portable housing allowance. The way the program is designed, however, will not allow for the most effective use of the $185 million in housing money that has been allocated to the program. Our biggest concern remains that the that 27,000 family households that should be eligible for the program may be excluded from receiving assistance due to the one-time application deadline and an unreasonably low asset limit.

Asset Limits

FRPO would encourage higher asset limits for participating households. Low income households, including those on social assistance or receiving other housing supports, should be encouraged to build up assets. Low asset limits can be a significant barrier to low-income households making that leap into employment and off of government subsidies.

More recent programs are moving away from asset limits. For example, the new child benefit and federal child benefits, as well as GST tax credit are only income-tested, not asset-tested. EI has no liquid asset constraint either.

For these reasons, we would encourage the Ministry to allow for higher asset limits. A liquid asset limit of $20,000 (double the current $10,000 limit) would not be unreasonable.

One-Time Intake

FRPO believes that a five year program with a one-time intake is a mistake. Rather than address concerns about horizontal equity, a one-time window will result in a number of households who need help being excluded from the program. We also believe it will lead to significant negative reactions from those who missed the November 15, 2007 deadline.

FRPO expects that perhaps this design element has been included to keep the costs of the program within funding limits. However, we do not think that this design is necessary to keep program costs within the available funding envelope.

Based on the information in the consultation and the 2007 Ontario Budget, FRPO has done the following rough analysis of available funding.

ROOF Funding Assumptions	
Funding Available	$185,000,000
Target Population	27,350
Available Funding per hh	$6,764
Available Funding per hh per year	$1,353
Monthly amount per hh	$113

A couple of assumptions appear to have been made which are highly improbable.

The first assumption that appears to have been made is that there will be 100% participation in the program. First of all, the asset assumption currently being made (see above) will most certainly exclude a number of households, preventing the possibility of 100% take-up. Secondly, experience in other jurisdictions shows that participation rates can be very low for these programs. Programs which are not targeted at social assistance households, as this one, have participation rates of 50% in other Canadian jurisdictions. A more reasonable assumption of 70% would be a conservative planning assumption.

Finally, the assumption has been made that all households remain in the program for five years. This is unlikely, as household circumstances change. So a number of households will drop off.

Taking all the above together, there is definitely room within available funding to make that funding available on a permanent basis, rather than through a one time window. Keeping the window open would make the program much more successful and well received, and help many households who need assistance over the next few years.

FRPO believes that with the current program design, the province is running a serious risk of not using a large portion of the available funding for the program, which would be unfortunate, because it means fewer households will receive assistance.

Subsidy should be sensitive to family size

Delivering a modest subsidy through the ROOF program will allow it to help an entire category of households in an equitable fashion, rather than having to ration available help. To improve fairness, the subsidy amount should vary by family size. For example, the amount of the subsidy could be lowered slightly for two person households, then gradually increases for each person increment.

Recommendation 4

Facilitate Implementation of Smart Meters in Rental Housing

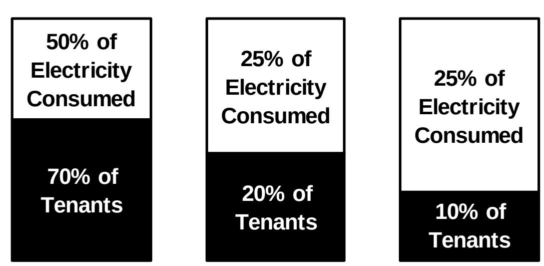
Installing smart sub-meters in multi-unit rental buildings is widely recognized as an effective energy conservation measure. Conservative estimates put the potential for energy savings in Ontario's rental housing stock at 10% to 30% of current electricity consumption, or a saving of 95 MW to 285 MW in average monthly demand. By giving tenants more control over their electricity costs and knowledge about their usage, smart sub-meters can make a meaningful impact on provincial conservation efforts and reduce electricity generation and transmission costs.

In order to facilitate smart meter implementation in rental housing, the Ontario government must take the following actions:

- **Repeal or leave un-proclaimed sections 137 and 138 of the *Residential Tenancies Act*.** These sections contain strict requirements landlords would have to meet before implementing smart meters, and as written would discourage smart meters due to increased costs, financial risk and administrative burden. In addition, these sections penalize tenants who conserve energy by rewarding high energy users with larger rent reductions.
- **Introduce new energy conservation legislation for rental housing.** Landlords should be provided with the unilateral ability to transfer responsibility for the supply of electricity to all tenants when smart meters are installed. This legislation should protect the privacy of previous tenants' electricity consumption information and eliminate the risk of rent abatements and repair orders when a smart meter is installed.

Once these measures are adopted, the government should also: establish clear guidelines for rent reductions based on consumption prior to smart metering; provide a rate based subsidy or incentive to offset the installation costs of sub-metering; mandate installation of smart meters throughout the rental housing sector within three years; and, prevent monopolistic and anticompetitive behaviour by public local utilities in the provision of metering installation and related services.

Most tenants are currently overpaying for electricity
The vast majority of tenants actually consume around or less than their building's average annual consumption – but in bulk-metered buildings all tenants pay for electricity costs in their rent, regardless of how much they use.



Reducing electricity consumption in a sector that houses almost one-third of Ontarians should be an important priority. By providing tenants with more control over their electricity costs and a real incentive to conserve, implementation of smart sub-metering through the above recommendations is a key solution for Ontario's energy challenges.