

# Standing Committee on Justice Policy

## *Bill 19 - Residential Tenancies Amendment Act (Rent Increase Guideline), 2012*

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June 7, 2012



Federation of Rental Housing Providers of Ontario

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**Presentation to the Standing Committee on Justice Policy**

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**Introduction**

Good morning, Mr. Chair, thank you for allowing us the opportunity to speak to you today regarding Bill 19.

My name is Vince Brescia, President & CEO of FRPO, and with me today is Mike Chopowick, Manager of Policy with FRPO.

FRPO is the Federation of Rental-housing Providers of Ontario, and we represent over 2,300 residential landlords and property management companies across the province of Ontario. Together our members provide over 350,000 rental homes.

On behalf of all rental housing providers in Ontario, we want to express our disappointment in this amendment. Capping rent increases at a rate below inflation, which is what this Bill will ultimately do, will prevent owners from fully recovering the costs necessary to provide and maintain quality housing. We constantly hear from tenants and political leaders that they want to see rental housing properly maintained. This bill runs counter to those wishes. Setting an arbitrary price ceiling fails to recognize that housing industry costs, like repairs and maintenance, are not subject to any price caps.

There is a reason that nine Nobel laureates are against rent control caps. It is universally accepted among all credible public policy specialists that rent controls are bad public policy.

Our position is that a new rent cap is unnecessary for the following reasons:

- rents in Ontario are very reasonable;

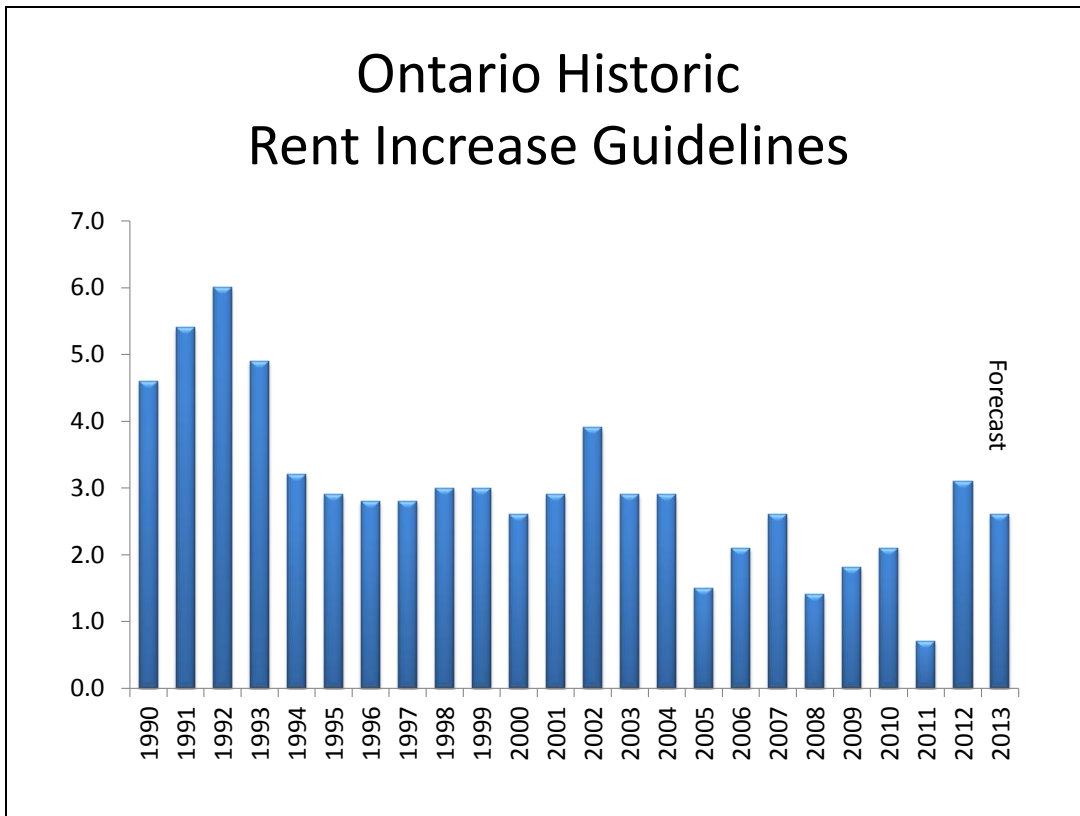
- rent increases have been very modest under the recent guideline formula;
- renting is becoming increasingly affordable compared to homeownership;
- there is no good policy rationale for preventing owners from being able to recover costs through an inflationary increase; and
- this policy will ultimately impact jobs and the economic benefits that go with expenditures on repairs and maintenance.

After considering the following facts and data about rents and housing affordability in Ontario, you will all see that there is no need to ensure the passage of Bill 19. It is an unnecessary measure that provides will ultimately harm the supply and quality of rental housing in the long term.

### **Ontario's Rent Guideline: Long-Term Trend is Down**

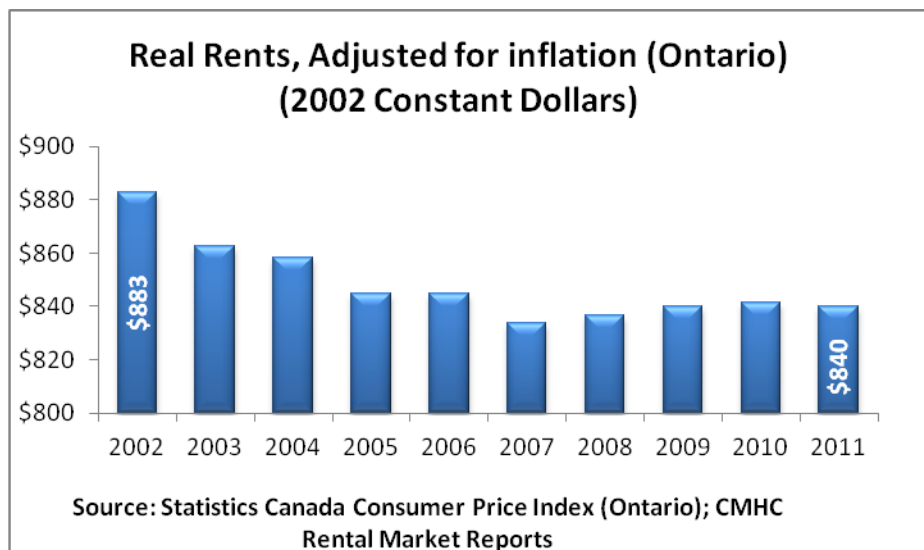
Looking at recent guidelines in a historical perspective shows that additional legislative reforms are not necessary at this time. In the chart included with this deputation, you will see a list of annual rent increase guidelines since 1990.

In 2011 the industry experienced the lowest rent control cap in Ontario's history, at 0.7%. This limit was very extreme compared to cost increases of 6% to 7% being experienced by the housing industry that year. This year's guideline has come nowhere near to allowing the industry to cover the cost increases experienced over the past two years.



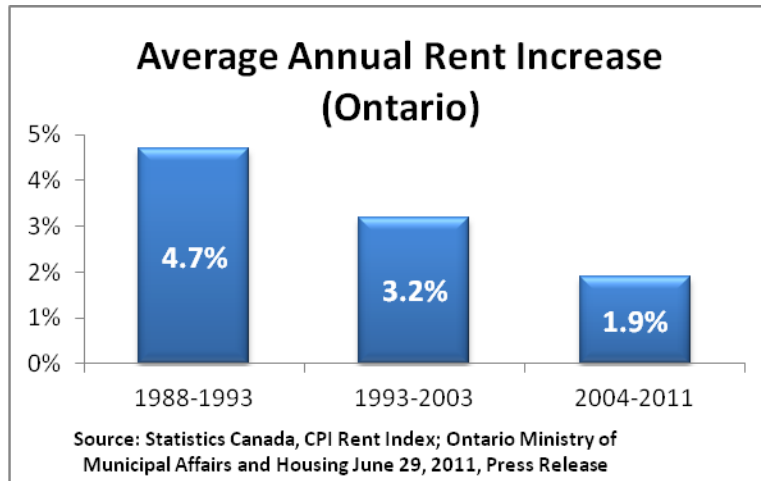
### Rents are Falling Compared to Inflation

Over the past decade, rents have fallen in real terms when adjusted for inflation. As shown in the chart below, using 2002 Constant Dollars, average 2-bedroom rents in Ontario have fallen from \$883 in 2002 to \$840 in 2011. Compared to the prices of other goods and services, rents are not increasing – they are falling. Meanwhile, the costs landlords must pay to manage and maintain rental housing continue to escalate.



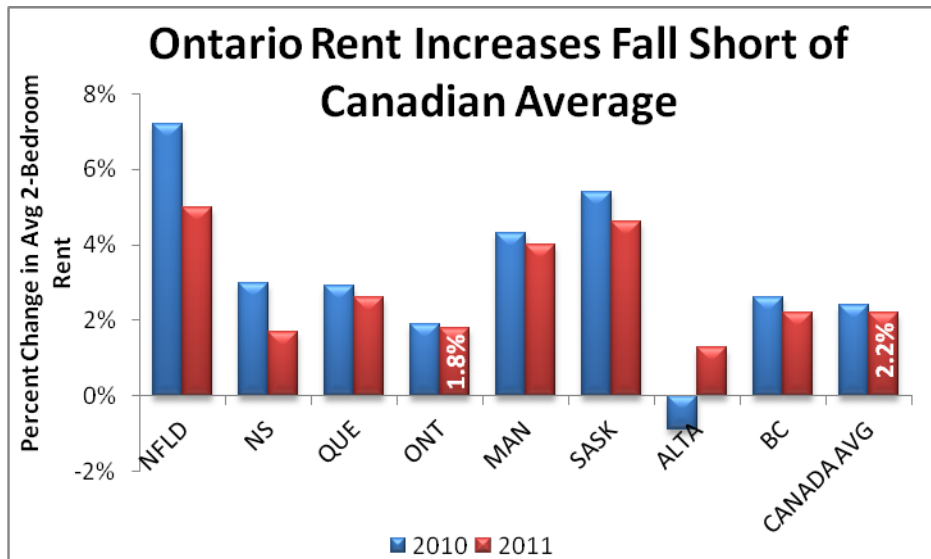
## Tenants are seeing the lowest rate of rent increases in over a generation

Ontario's rent control policies already cap rent increases at very low levels - for example the record low rent control guideline of 0.7% in 2011. According to the Ministry of Municipal Affairs and Housing, the average annual increase from 2004-2011 was only 1.89%. Clearly, Ontario tenants have not experienced unreasonable rent increases. There is no evidence from the recent history of rent increases that an arbitrary cap of 2.5% is necessary.



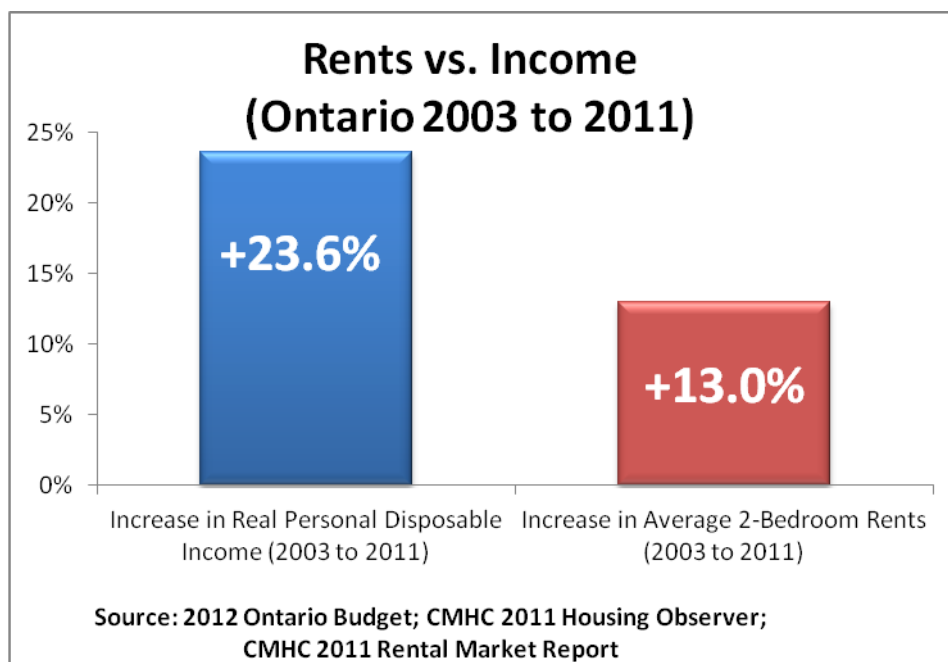
## Ontario Rent Increases Fall Short of Canadian Average

Ontario rent increases in 2011 fell short of the national average. According to CMHC, average 2-bedroom rents in Ontario increased only 1.8 per cent in 2011, less than in many other provinces, and less than the national average of 2.2 per cent. Despite higher rent increases all across Canada, no other province is moving to more tightly regulate rent controls on rents at this time.



**Incomes are increasing faster than rents**

As noted in the government’s 2012 Ontario Budget, real personal disposable income in Ontario has increased a cumulative 23.6 per cent from 2003 to 2011. In contrast, the average 2-bedroom rent in Ontario grew by only 13.0 per cent over the same time period. This information is included in a chart in this deputation. Given this, there is no reason to prevent owners from getting the increases that are necessary to properly maintain Ontario’s ageing rental stock.

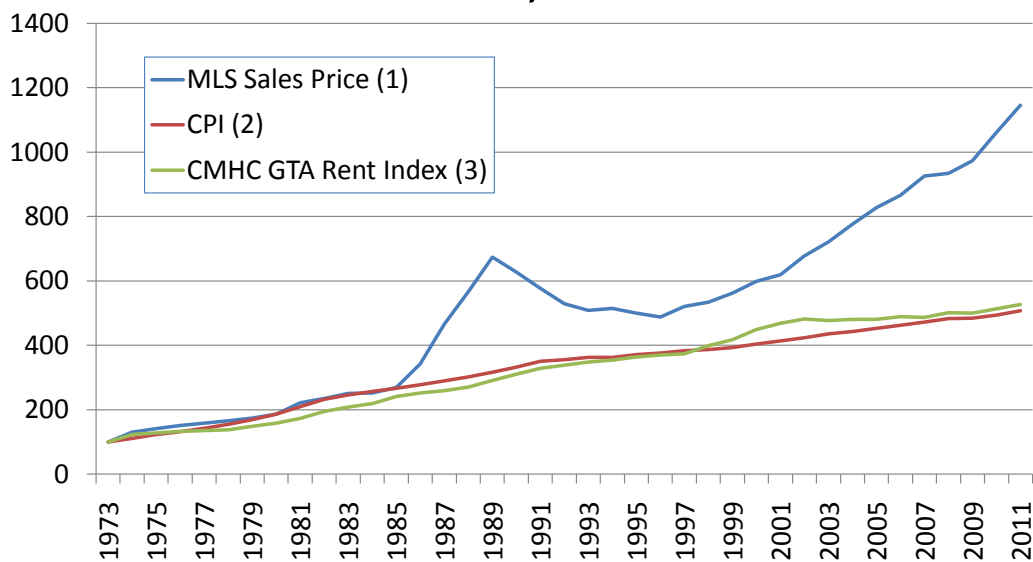


### Rents remain affordable compared to ownership

For some time now in Ontario, rents have remained very stable while other real estate costs have escalated significantly. The private rental housing sector has continued to provide stable low cost housing options for Ontario citizens even as homeownership and other real estate costs have grown significantly.

The next chart included with this presentation demonstrates how rents in Ontario have remained relatively stable in the GTA market since the 1970s, while homeownership costs have risen dramatically. Once again, we have no evidence that preventing inflationary cost increases is necessary.

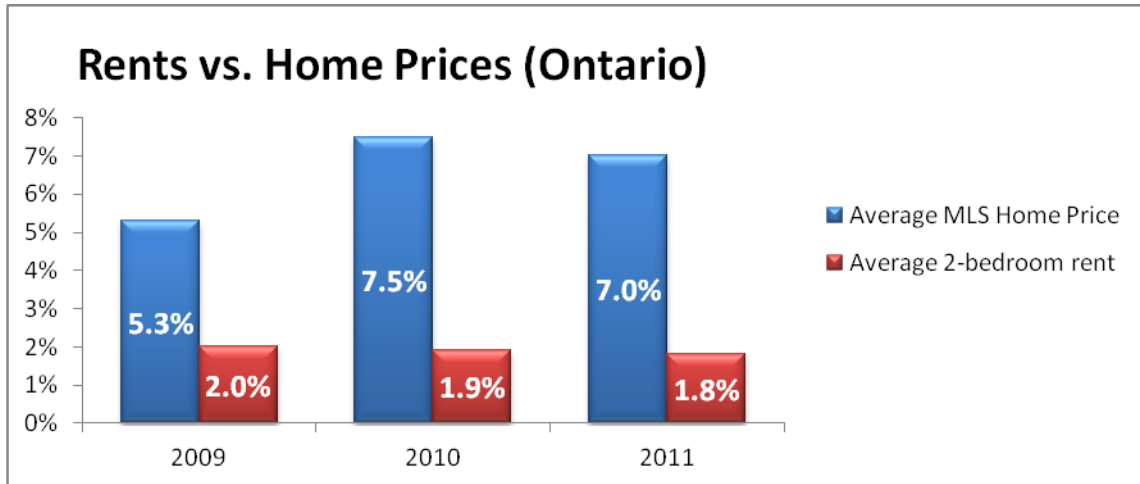
## Home Ownership Prices Versus Rents Toronto Area, 1973 = 100



Sources: FRPO created the 1973=100 index with data from:

- (1) TREB
- (2) Statistics Canada
- (3) CMHC

The same holds true for home ownership price increases across Ontario for the past three years compared to rental price increases.



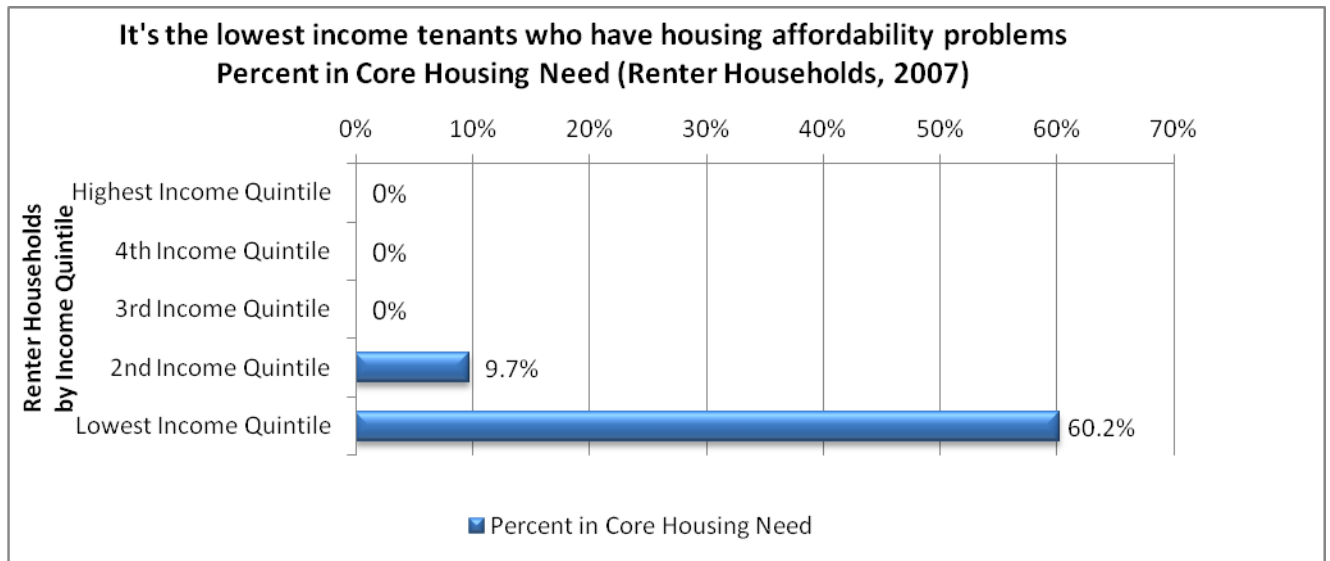
### **Ontario’s Rental Stock is Ageing**

Ontario’s rental stock is growing old. The typical rental building in Ontario is now 50 years old. If you know anything about a 50 year old rental building, you know that these buildings require more and more maintenance and repairs, not less. If you do not let us invest in these ageing buildings through cost recovery, Ontario will begin to lose them.

### **Housing Affordability: There are better solutions**

Applying an arbitrary rent control cap to all occupied rent units does little to assist the lowest income households who have insufficient incomes to afford almost any type of housing without an additional financial assistance. As noted by CMHC in 2010, it is households in the lowest-income quintile that account for about 81 per cent of all households in core housing need (2007 data). As shown by the chart below, there were no middle-, upper- or highest-income households in core housing need in 2007.





*Source: CMHC Housing Observer, 2010*

It is for this reason that FRPO and other housing and poverty stakeholders have advocated for a monthly housing benefit to help low-income renters with high shelter-to-income burdens in communities across Ontario, particularly in the Ottawa and Greater Toronto Areas where rents are higher than average. Not only is this a superior way to improve housing affordability for those who need it, it will also help lower income households better afford other necessities such as food and transportation.

In summary, based on all the evidence available, there is no problem in Ontario currently that requires the unfortunate Bill 19. Rent increases are less than inflation, and are actually falling in real terms. Incomes, home prices, and many other prices are increasing faster than rents. Rent increases in Ontario are modest compared to other provinces, none of whom are contemplating the rent increase cap that is being proposed here in Bill 19. Our ageing rental stock will require inflationary increases in order to keep it in a good state of repair. Finally, our collective goal should be to assist the lowest income renters with their affordability problems with actual financial assistance, not a rent control cap that hurts the rental stock and provides no real benefit to those with insufficient incomes.

Thank you very much for being attentive to our concerns. We are pleased to respond to any questions.