

Rent controls! Is anybody listening?

Rent controls have been a fixture in the Winnipeg real estate market since the 70s and so is the lack of no new apartment construction in the last 15 years. Is there any correlation? You bet there is!

The apartment vacancy rate today is hovering at just over 1% and as a CMHC housing analyst in Calgary stated in reflecting on this unusually low vacancy level, looking for an apartment in this kind of market is like “trying to find a needle in a haystack.” In some apartment types and areas of the city there is nothing available other than a waiting list and you better hope you have great credentials because apartment owners and property managers can be very choosy these days.

In fact, the people most likely to lose out from the extremely tight rental market are the ones rent controls were put in place to protect. Low income renters will be hard pressed to compete with higher income applicants that are viewed as being far more likely to maintain regularly monthly rents and not default due to more secure employment and job skills. If the least fortunate wannabe renter is able to find an apartment unit, it may well be one that is substandard and needs upgrading. Unfortunately, capital improvements have not been made because the artificially suppressed value of the real estate due to a prolonged period of rent controls has meant owners are less able to borrow against the asset to make necessary upgrades. They also do not have the incentive since there is no means of recouping all their costs.

Another group that may well be on the losing end with Winnipeg's current situation are all those newcomers, especially new immigrants that the provincial government is touting as part of its economic development strategy. Any serious ramping up of immigration to Winnipeg will fall flat if we do not have the proper supply of housing to accommodate their needs. As WREB president Lorne Weiss said in an article in last week's issue, “Where are the people going to live when they get here? How can you invite people to a party and then tell them there's no place for them to sit?” You are certainly not going to ask them to wait outside.

Over and above the fact there has been limited new construction of apartments in Winnipeg, a number of existing units have been lost because they are no longer inhabitable while other rental units that still have potential have been converted to condominiums where the investor feels they have a better chance of making a profit or reducing their losses. Interestingly enough, there is a coalition of real estate organizations in the United States that is challenging rent stabilization laws as they refer to them there on the basis that they will have a negative impact on affordable housing. National affordable housing organizations are behind this effort. This makes sense since fewer units are available due to the private sector's inability to reap financial benefits.

The Canadian Real Estate Association (CREA) in its 2003 pre-budget submission to the federal government this fall had an entire section on affordable housing and included one page in it on ending rent controls. They argue vociferously in this regard that it is very hard to justify continued subsidies for middle and upper income groups that are receiving subsidized rent through rent controls. They go further to say that although rent controls are provincial in jurisdiction, they cannot be ignored as part of a federal-provincial new deal for affordable housing. CREA puts forward the distortions rent control creates as high-earners stay in rent control units thus limiting the supply of affordable units for low-income groups. As they state, “rent controls do not distinguish between those who need assistance and those who do not.” CREA’s recommendation to the Standing Committee on Finance is that the federal government should take a leadership role in encouraging provincial governments to phase out rent controls in favour of shelter allowances and other measures that address the intended goal without the negative economic side effects of rent control.

In October prior to the municipal election, the Frontier Center for Public Policy invited Milwaukee Mayor John Norquist to Winnipeg to impress upon us what policy things we can do if we wish to unleash our potential. One of the highlights of Milwaukee’s resurgence under this mayor who is noted for being a policy innovator is that during the last three years, 3,500 non-subsidized housing units have been added to the downtown. The converted downtown buildings have over 17,000 people as residents. When Mayor Norquist toured our Exchange District he was suitably impressed and gushed about its attractiveness for housing. However, he was just as adamant in unequivocally stating that rent controls need to be removed or at least modified if you want to see what is happening in Milwaukee.

In an interview with CBC radio, he elaborated on why he feels rent controls are a stupid idea. In his mind, it has nothing to do with the sense of doing the right thing from possibly a social point of view. It comes down to basic economics that they do not work since all you do is decapitalize housing. You simply will not get your money out of your investment. Furthermore, John Norquist says rent controls undermine the civic tax base since apartment assessment values decrease. “Why, he asks, should city employees cap their own wages and benefits by imposing a regulated ceiling on the tax base?” The Board here would argue that homeowners are bearing the brunt of rent controls since they are paying for an increasingly higher portion of the city’s declining tax base since apartments make up a smaller percentage of the total assessment value. The tight supply of housing due to a lack of options like more available apartment units is also forcing the price of existing homes up.

Groups like the Professional Property Managers Association (PPMA) and the Winnipeg Real Estate Board are on record calling for changes in rent control legislation that will allow suites that are voluntarily vacated to be exempt from

rent control until they are re-rented as is the case now in Ontario. The PPMA says the changes in Ontario's rent control legislation five years ago has resulted in over \$100 million spent in refurbishing existing stock and the construction of over 1,000 new units.

In a press release issued by the Toronto Real Estate Board on December 2, 2002, it indicated the city's vacancy rate has tripled from 0.9 per cent last year to 2.5 per cent. While some of this increase has to do with renters moving into home ownership, much credit is also given to the change in policies and initiatives to ensure an adequate supply of rental housing. CMHC says the last time the vacancy rate was at 2.5 per cent was in 1972. They also note the rental market is so competitive in Toronto that landlords are offering incentives and rent discounts. Besides a few months free rent, one company is providing a Kyoto – friendly free one-year TTC pass for new tenants.

This positive development in Ontario to free up more rental units should really not come as a surprise since the same thing happened in Saskatchewan when they removed rent controls in the early 90s.

Maybe another area to look at besides allowing vacated apartment units to be exempt is to consider lowering the guideline (anything under \$970 is regulated) on apartments that determines what rental rate level is regulated. Do renters that can afford an \$800 a month apartment need to be protected from normal market forces that may precipitate an increase? This monthly payment is far higher than many homeowner monthly mortgage payments.

In a very thorough United States rent control study done in 1988 and updated in 1996 by the Urban Land Institute (nonprofit education and research institute), it found that New York City is the only major U.S. municipality that still has stringent residential rent controls. The others if they still have them are in the form of temperate controls (i.e. full vacancy decontrol). This study confirms stringent control ordinances over the long run aggravate the very condition that prompts bringing them in – a short supply of housing, especially for low-income households. Essentially, the stringent controls “inhibit the construction of additional rental units and cause owners to reduce the quality and quantity of the existing inventory.” Temperate rent controls are viewed as being much less harmful. The final conclusion of the study is ...” that the social and economic costs and disadvantages of rent controls – especially over the long run - almost always outweigh any perceived short-term benefits they provide.”

In conclusion, there is certainly enough evidence to deduce that Winnipeg's housing market has been negatively impacted by long term stringent rent controls and that the time is overdue to reexamine the current rent control regime. The message of rent controls' negative side effects has certainly been heard across the United States and by most provincial jurisdictions in Canada. It

may well be heard in Manitoba when the housing shortage becomes so acute that it will be akin to Manitoba's ongoing issue of hallway medicine.