

Intelligence MEMOS



From: Jeremy Kronick
To: The Ontario Minister of Housing
Date: May 1, 2017
Re: **WHY RENT CONTROL IS DOOMED TO FAIL**

One of the pillars of your recently announced plan aimed at making housing more affordable is to extend rent controls to all recently built rental units. This measure can be assessed through a number of different lenses, but viewed through an economic lens, it is a bad idea – an assessment that achieves a rare quasi-unanimity among economists. I suggest here that it is helpful to examine afresh the issue through the basic economics lens – starting with why so many non-economists think it is a good idea.

When housing markets are booming and people who wish to own have trouble buying homes, they naturally look to the rental market. As housing markets continue to froth, more people are forced to switch to renting, pushing up demand, driving up rental prices. With more demand than supply can support, landlords are in a position to charge prices well-above normal. In turn, the spread of high-priced rental units puts additional pressures on households, particularly on those that are of lower-income. Therefore, implementing rent control and restricting the prices landlords can charge will temporarily restore some of the pre-existing balance between existing renters and landlords.

Why only temporarily? Because the proposed solution does not address the real problem, which is the available supply of rental housing. Indeed, it is likely to make that problem worse, and therefore make those most negatively affected by a booming housing market worse off.

The solution to excess demand for rental units is an increase in supply that curbs price increases – in other words, a world in which price (rent) controls would be redundant. While there was some welcome mention of supply measures, including tax incentives and reductions in development charges, the belief must have been that these were insufficient if rent control continued to be necessary. Furthermore, rent control would actually run counter to these measures supporting supply: would someone invest in something that had a limited increase in value? If there is a better alternative, as in this case, the answer is no. Developers who are debating whether to build condos or purpose-built rentals will choose the former where there is no cap on the degree to which they can gain from their investment. Or they will not build at all.

The real issue, therefore, for Ontarians is that rent control, while providing immediate relief to some, actually ends up reducing supply. This reduced availability on the whole will result in even more strained circumstances for an increasing number of Ontarians over time, the exact opposite of the hoped for result.

Perhaps the thought was that supply is too slow to respond to an acute demand problem and rent control was the only option. But rent control as a policy says nothing about removing these controls down the line, and all empirical evidence suggests this policy will be ineffectual (see [here](#) for the example of New York). If the goal is to help those in lower income quintiles, rent control will eventually fail.

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