

# Intelligence MEMOS



From: Jonathan Hall  
To: The Ontario Minister of Finance  
Date: April 28, 2017  
Re: **ON RENT CONTROL, THE DEVIL IS IN THE DETAILS**

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In response to quickly climbing rents in the Greater Toronto Area you have proposed imposing rent control to all rental units, rather than just those built before 1991, as legislation currently stands. However, extending rent control does nothing to help with the underlying problem, and even makes it worse.

Climbing rents, and housing prices, are the symptoms of something good: Toronto is becoming an increasingly desirable place to live. Unfortunately, now more people want to live in the GTA than there are available homes. This is the underlying problem, and potential solutions should be measured against how they solve this problem.

Extending rent control does nothing to help with the underlying problem of insufficient supply. Worse yet, it exacerbates the problem by reducing the return on building new housing. It was to restore the incentive to build new housing that the province limited rent control to pre-1991 construction.

Furthermore, rent control causes a misallocation of housing. The longer a tenant stays in their home, the greater the discount between market rates and what they actually pay in rent. This gives them a strong incentive to stay in their home, even after their housing needs have changed. After all, downsizing may require paying higher rents. This leads to retired couples living in large single-family homes, while young families cram into small apartments. Faced with market prices, many retired couples would decide to move to a smaller home, opening up additional housing for families, and leading to lower rents.

Rent control does solve the problem of “economic eviction,” where tenants must move year-after-year in response to quickly rising rents. This is the flip side of the misallocation problem.

Ideally we would balance the ability of individuals to stay in their homes with the need to provide proper incentives both for new construction and for families to choose housing appropriate to their needs. A compromise that does so would be to impose rent control for the first few years, say five to seven, of each tenancy.

However, there are other policy changes that will be more effective at addressing the root cause of quickly climbing rent than expanding rent control, some of which are included in the province’s proposal. Reducing barriers to new construction and allowing for smaller units, such as rooming houses, which are banned in half the city, and laneway housing and granny flats, directly leads to an increased supply of housing. Improving the transportation network is an oft-overlooked solution to climbing rents, after all, if I can get to work in 20 minutes, why should I care if my address is in Vaughn or Toronto. These improvements could take the form of smart investments in public transit as well as adding time-varying tolls to our highways to alleviate traffic congestion.

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