

Rent Controls, Rental Prices and Rental Supply

Empirical Evidence from Canadian Metropolitan Centers

INTRODUCTION

Rent control laws, adopted in several Canadian provinces to limit rent increases, have different specificities and have evolved over time. Understanding these rent controls and their impacts provides a solid basis to address housing affordability issues. A better understanding of rent control impacts may also have implications for some of CMHC's initiatives such as the Rental Construction Financing Initiative (RCFI) and the National Housing Co-Investment (NHCIF).¹

KPMG conducted this study on behalf of CMHC as part of ongoing research efforts on issues related to rent controls.² This study traces regulatory changes to rent controls and analyzes the impacts of rent control policies on rental markets. In particular, this study focuses on rental prices and the supply of rental starts.

The study finds that rental prices are more responsive to market supply and demand changes in markets without rent controls. Contrary to expectations from the literature, the impacts of rent controls on rental supply are inconclusive in this study. While further investigation is required, the results imply that the above-mentioned housing initiatives of CMHC could be targeted to different markets. In particular, the RCFI could be targeted to rent control markets, while the NHCIF could focus on markets in which rental prices are relatively unaffordable.

OBJECTIVES

Rent control policies consist of a number of sub-policies, which are called "regimes" in this study. In addition to analyzing the impacts of rent control policies overall, the study dealt with the impacts of two of these regimes in detail: 1) tenancy deregulation, which allows landlords to raise rents between tenancies; 2) and new unit exemption, which exempts newly built units from rent control for a certain period of time.

The study includes three sets of analyses:

- 1) An introduction to rent controls in a number of jurisdictions and a review of the literature on the impacts of rent controls;
- 2) A comprehensive statistical analysis of rental market data, which included comparisons of rent control and no rent control markets, correlation analyses, and a high-level difference-in-difference analysis; and
- 3) Two regression analyses to evaluate the impacts of the two regimes defined above.

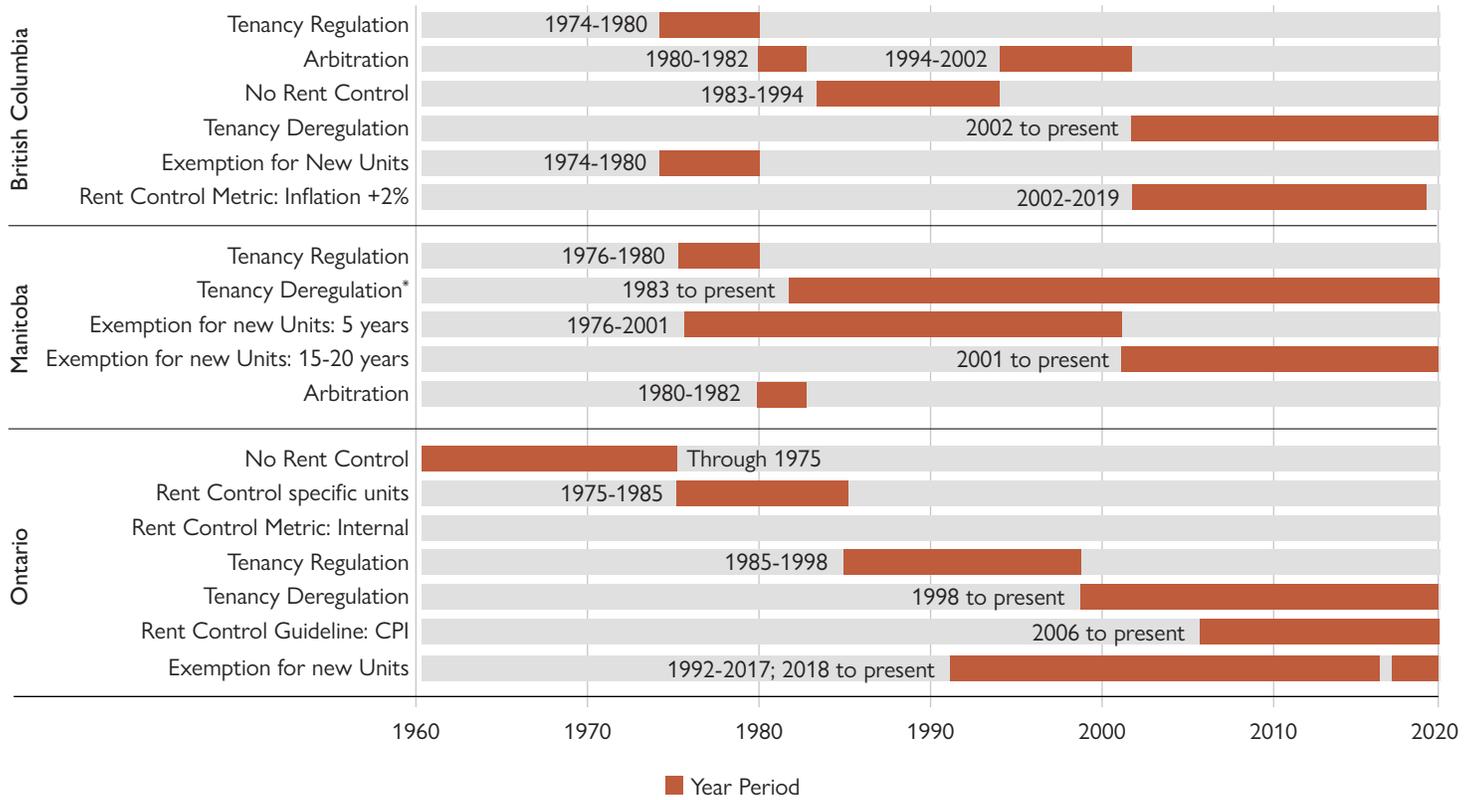
Rent control laws and literature review

The Canadian jurisdictions studied in most detail were British Columbia, Manitoba, and Ontario. As shown in Table 1, these jurisdictions have implemented many of the same rent control policies and regimes over time with some specificities.

¹ For more details, please consult <https://www.cmhc-schl.gc.ca/en/nhs/rental-construction-financing-initiative> and <https://www.cmhc-schl.gc.ca/en/nhs/co-investment-fund---new-construction-stream>.

² Earlier research projects funded by CMHC include: (1) Fallis and Smith (1985): Prices effects of rent control on controlled and uncontrolled rental housing in Toronto: a hedonic index approach, in Canadian Journal of Economics; (2) Denton et al. (1993): Testing Hypotheses about Rent Controls, among others.

Table 1: Rent control laws in British Columbia, Manitoba, and Ontario



* This applies to units of 3 units or less, 4 or greater units are subject to only rises to the average rent in a comparable unit in the same complex.

In general, rent controls with exemptions and tenancy deregulation are more flexible with less negative consequences on rental markets than rent controls without exemptions and tenancy deregulation. The study identified the strengths and weaknesses of the current rent control policies in these jurisdictions as follows:

Table 2: Strengths and weaknesses of rent controls policies reviewed

	Strengths	Weaknesses
British Columbia	<ul style="list-style-type: none"> • Tenancy deregulation 	<ul style="list-style-type: none"> • Inefficient administration of filings for rent increases
Manitoba	<ul style="list-style-type: none"> • Tenancy deregulation • Ability to exceed rental guidelines 	<ul style="list-style-type: none"> • Limitation on tenancy deregulation
Ontario	<ul style="list-style-type: none"> • Tenancy deregulation • Long-term exemptions 	<ul style="list-style-type: none"> • Frequency of Policy Changes

This study also conducted a literature review on rent controls. The overall findings from the literature review were:

- Rent control has generally been found to have reduced rental supply as a result of the limits on rent prices, as well as the resulting effects on rental property valuations, and
- Rent control can be successful at lowering prices for controlled units. (“Controlled units” are units to which the rent control policy applies.)

MAIN FINDINGS

The study conducted analyses on Toronto, Vancouver, Montreal, and Winnipeg using Calgary and Halifax as the control group or placebos from 1971 to 2019.³ From statistical analyses, the main findings were:

- 1) Contrary to expectations based on the literature, the analysis did not find evidence that rental starts were lower in rent control markets than in no rent control markets.
- 2) Rental prices appear to be better able to respond to market supply and demand changes in markets without rent control.
- 3) Rental prices appear to be more likely to vary in rent control policies that are less strict, specifically those that include tenancy deregulation.

From regression analyses, the main findings were:

- 1) New unit exemption regimes lead to an increase in rental prices.
The new unit exemption indicator had a significant positive coefficient. The most likely explanation is that new unit exemptions lead to an increase in the number of uncontrolled units in the rental price index, which would cause the average rental price in the index to increase, since these units are not subject to rent controls.
- 2) Tenancy deregulation regimes may lead to a decrease in rental supply. However, this result may not apply exclusively to tenancy deregulation but rather to the presence of rent controls more broadly.

The tenancy deregulation indicator had a significant negative coefficient. This is consistent with the theory that rent control policies tend to dissuade supply since the investment return is limited by the policy. It is important to note that, as a result of limited supply data, the regression considered years that were predominately under tenancy deregulation; therefore, this coefficient may have captured how rent controls, in general, may have a negative influence on supply. In other words, this may not be a specific effect of tenancy deregulation.

IMPLICATIONS

The study included the consideration of the implications of the findings for two major CMHC housing initiatives:

- 1) The Rental Construction Financing Initiative (RCFI), designed to increase the supply of rental housing units.
- 2) The National Housing Co-Investment Fund (NHCIF), designed to reduce the prices of available rental housing units (effectively increasing the supply of “affordable” housing units).

While the findings of this study were not sufficiently robust to draw major implications with regards to these initiatives, it was possible to identify appropriate target market types for these initiatives. In general, the RCFI would be more appropriately targeted to rent control markets, since previous literature indicates rent control constrains supply. On the other hand, the NHCIF would be more appropriately targeted to markets in which rental prices are relatively less affordable.

FURTHER READING

Full report – *Study of the Impacts of Rent Control Policies* (https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_5/study-of-the-impacts-of-rent-control-policies.pdf)

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³ The study used time series at CMA level such as rental starts, rental price indexes, vacancy rates, immigration, and population from CMHC and Statistics Canada.



ALTERNATIVE TEXT AND DATA FOR FIGURES

Table 1: Rent control laws in British Columbia, Manitoba, and Ontario

Region	Rent Control Laws	Year Period
British Columbia	Tenancy Regulation	1974-1980
	Arbitration	1980-1982; 1994-2002
	No Rent Control	1983-1994
	Tenancy Deregulation	2002 to present
	Exemption for New Units	1974-1980
	Rent Control Metric: Inflation +2%	2002-2019
Manitoba	Tenancy Regulation	1976-1980
	Tenancy Deregulation*	1983 to present
	Exemption for new Units: 5 years	1976-2001
	Exemption for new Units: 15-20 years	2001 to present
	Arbitration	1980-1982
Ontario	No Rent Control	Through 1975
	Rent Control specific units	1975-1985
	Rent Control Metric: Internal	-
	Tenancy Regulation	1985-1998
	Tenancy Deregulation	1998 to present
	Rent Control Guideline: CPI	2006 to present
	Exemption for new Units	1992-2017; 2018 to present

*This applies to units of 3 units or less, 4 or greater units are subject to only rises to the average rent in a comparable unit in the same complex.