

# Knowledge IS Power



## 2024 Rent Increase Guideline - Undue Credit, and Consequences

August 12, 2023

The Government of Ontario issued a press release written to tenants, taking credit for capping the annual rent increase guideline at 2.5% for the 2024 calendar year. This rent increase cap was put in place many years ago during the decade of incredibly low interest rates, and long before the current provincial administration.

Most everyone seems to be of the opinion that the low-interest-rate days are gone, probably for decades to come. From 1935 until about 10 years ago, interest rates averaged out to around a five percent norm, with some major exceptions. In 1981, for example, interest rates climbed to 21% under the watchful eye of the father of our current Prime Minister, who also spent like a drunken sailor in the years before catastrophic inflation devastated Canada's economy.

Back then as it is doing now, the Bank of Canada attempted to combat inflation by increasing interest rates to restrict the money supply, making it more costly to borrow money to discourage investment and consumer spending. This approach backfired to some extent as Canada's currency value versus other major currencies appreciated rapidly. Foreign investors trading in currencies took advantage of the spread in currency values to achieve higher returns, which further drove up Canada's currency value. To discourage these investors, the Bank of Canada raised interest rates further - another government-created vicious circle.

The press release stated that without the rent increase cap, the guideline increase would have been 5.9% -- a 58% income loss for housing providers.

What the government didn't tell tenants is that this savings means the cost of operating a rental property has increased, which leads to ... higher rent rates. And private sector investors (which built 98.5% of all housing in Canada) won't build housing that doesn't offer a fair return, and government can't afford to build housing, especially "affordable" housing.

What the government also didn't tell housing providers or tenants is that this short-term savings for tenants wipes out property value, on which many government taxes are based, resulting in significant government revenue loss. How will government make up the revenue loss? Increase taxes and/or more types of taxes, levies, fees and fines.

For every \$1 of annual lost net operating income (NOI), housing providers lose \$20 of property value (at a 5% cap rate). The 3.4% loss is a 100% loss of NOI. Therefore a property generating \$50,000 NOI, for example, has lost \$1,700 of cash flow and \$34,000 of property value.

Every single rental investment property in Ontario will pay for this tenant vote-pandering revenue loss.

The press release stated there are about 1.4 million rental households subject to rent control. Using a purely hypothetical "average" rent rate across Ontario of \$1,000/month x 12 months = \$16.8 billion rental income. Assume average NOI is arguably 60% of gross income (40% operating (but not capital) expenses) = \$10.1 billion NOI for rental properties in Ontario x 3.4% loss = \$343 million of lost NOI for all housing providers.

Divide that lost NOI by 5% cap rate = \$6.8 BILLION of lost property value instantly wiped out. That's the true cost of the province's efforts "*... to help protect tenants from rising interest rates that would result in higher rent.*"

Meanwhile, government is doubling LTB fines, LTB hearings take 6 to 12 months with no rental income or chance of recovery, government-owned electricity increases 10% every year, government carbon tax will increase 830% by 2030 ... vacancy tax, foreign investor tax, speculation tax, land transfer tax, municipal occupancy tax, municipal tourist tax, capital gains tax, recoverable capital cost allowance, CMHC (government) premium increase, aggressive rental property licensing (deemed legally a tax), HST, 50% corporate tax, 15% to 20% property tax ... where's Robin Hood when you need him (her)?

## **Why would any investor or developer want to build housing in Ontario?**

The government's press release:

<https://news.ontario.ca/en/release/1003223/ontario-capping-rent-increases-below-the-rate-of-inflation#>

Chris Seepe

[cseepe@aztechrealty.com](mailto:cseepe@aztechrealty.com)

416-525-1558

The 78 legal clauses I added to the Ontario Standard Tenancy Agreement, a compressed Word version of the standard lease agreement, separate guarantor and parking agreements, and the application form I use can be found here:

[www.standardlease.ca](http://www.standardlease.ca)

My 330-page book, *Landlording in Ontario*, is a superset of what I teach in the course: [www.landlordingbook.com](http://www.landlordingbook.com)

My second book, *The Dark Side of Residential Landlording*, is a no-nonsense, firsthand, in-the-trenches, occasionally irreverent, decade-long account and compendium of the perils, trials and abuses against residential landlords;

[www.darksidebook.com](http://www.darksidebook.com)

I teach a 6-Saturday course (total 36 hours), *Landlording in Ontario*, on *everything* from finding and properly assessing the value of an investment property to dealing with the "dark side" of being a landlord and adding value in uncommon

ways. Full details, including extensive testimonials from past attendees, are here: [www.landlordingcourse.ca](http://www.landlordingcourse.ca). A high-resolution video recording of a past course session is here: [www.landlordingvideo.com](http://www.landlordingvideo.com).

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