

Knowledge IS Power



The Big Bang Event of Ontario's Housing Shortage Crisis

July 24, 2023

The Big Bang attempts to explain how our universe began from just a single point called a singularity. The universe has been expanding ever since.

Ontario's housing crisis, more specifically the unaffordability and unavailability (shortage) crisis also had a Big Bang moment, the singularity from which the housing crisis has been worsening over the long term ever since.

I was looking for over three years off-and-on to find the statistics, consequences and the exact time period that vacancy control was in place in Ontario. Recently, a senior researcher at CMHC sent me a few links to documents authored by highly-accredited researchers hired by the Ontario government to analyze the issues of high housing costs, which finally gave me some of the answers I'd be looking for.

Our current, ever-worsening housing crisis can be tracked back to a single Big Bang moment in 1975.

But first, everything ... I mean literally everything that is being bandied (and bullied) about regarding rapidly increasing rents and housing purchase prices has been discussed *ad nauseum* for DECADES. The same uninformed but highly opinionated demands, one-dimensional solutions, types of outspoken players, rhetoric, bullying pressure tactics—it's all been literally said and done before.

Chapter 15 of a document titled, "Rent Control Myths and Realities" **published by The Fraser Institute (1981)**, should be required reading for every current government housing-related policy maker, politician, tenant advocate and socialist reformer. [The author] "... *addresses several widely held but fallacious arguments on behalf of rent control. Debunked myths include the claim that the rental housing market is monopolistic, earns "excessive" profits, "exploits" tenants, is marked by an absentee landlord "menace," and places profit above human needs. Holding no brief for*

the landlord, however, [the author] finds "a grain of truth" in the critic's castigation of unscrupulous practices on the part of some real estate managers.

Although there are no competent economists on any side of the political spectrum who have advocated rent controls, there are several pundits, journalists, and social critics enamored [sic] with this idea. Their arguments are hardly of the greatest intellectual moment; even though seemingly launched at the professional economists who make the anticontrol [sic] case, many of their diatribes are not even relevant to the topic."

Sound familiar?

This next extract could have been written in 2023 as well to describe the current plight of Ontario housing but it was written in July, 1988 in a CMHC report titled, "Assessment Report Evaluation of Federal Rental Housing Programs."

*"During much of the 1970's, factors such as **high and rising inflation and interest rates coupled with the introduction of provincial rent controls, created large gaps between the rents that landlords were able or permitted to charge and the rents that were necessary to make it feasible to invest in rental housing.** As a result, periods of **excess demand for rental accommodation persisted** in many areas across the country, which in turn resulted in increased efforts by the federal government to stimulate the construction of rental housing units."*

The above two documents and many others from the late 1970s to 1990s are filled with in-depth, real-world housing statistics and analyses, backed by citations from the original data sources. The following is a summary on consequences that I've extracted of those documents.

Vacancy Control was in effect from 1986 to 1997 via a rent registry that maintained a listing of the rent of over 650,000 rental units in Ontario, implemented to prevent excessive rent increases (rent gouging) when a rental unit was vacated and guaranteeing the next tenant the same rent rate.

Direct Costs

- Ontario's Rent Registry cost \$35 million to create and about \$10 million per year for 12 years (to 1997) = **\$155 million total** in 1997, the equivalent of about \$269.2 million—a quarter of a billion dollars in 2023 dollars.
 - A second source computed the total combined government lost revenue and expenditure costs of rent control in Ontario to be \$152.4 million (\$265 million 2023) in 1980
- Rent controls reduced gross rent rolls in Ontario [that is, **rent savings for tenants**] by about **\$136 million [\$236.2 billion 2023]**
- Therefore, the **Rent Registry program cost \$19 million (\$33.0 million 2023) more than the actual savings tenants received, BEFORE indirect costs**

Government introduced several expensive rental housing building construction incentives that temporarily lessened the number of rental housing losses, which losses undoubtedly would have been significantly worse without these programs. And then there were the tax revenue losses caused by the reduced rents, which reduced property values upon which government tax revenues are based,

Indirect Costs

- The cost of Ontario A.R.P. ("Assisted Rental Program") to finance over 40,000 was about \$36 million (\$63 million 2023)
- The cost of O.R.C.G.P. ("Ontario Rental Construction Grant Program"), which supplemented A.R.P., was \$4.7 million (\$8 million 2023)
- The tax loss from M.U.R.Bs ("Multiple Unit Residential Building) in 1979 estimated by the Federal Finance Dept. was about \$43 million (\$75 million 2023)
- Tax loss from reduced taxable net income (assuming average marginal 40% tax rate) was \$54.4 million (\$95 million 2023)
- Rent control reduced government capital gains tax by about \$26 million (\$45 million 2023)
- Municipal tax loss from reduced construction of about 40,000 units was about \$32 million (\$56 million 2023)
- **Indirect Cost = \$196 million (\$341 million 2023)**
- **Total Costs = \$155 million (direct) + \$196 million (indirect) = \$351 million. That's \$610 million spent in 2023 dollars or more than half a billion to "save" \$236 million**
- Not mentioned directly in the research documents is that the reduced gross rent rolls in Ontario of about \$136 million (\$236.2 million 2023) earlier above divided by a 5% capitalization rate means rent control obliterated \$2.7 billion of Ontario's property values, upon which much of government's tax revenue is based.
- I haven't yet found the costs of the Canada Rental Supply Plan (CRSP)
- I haven't found data yet on the number of rental property bankruptcies during the period. The Government of Canada charges a fee for each search.

Every Ontario taxpayer, including all the tenants who received lower rent, paid for these massive losses as well as all the descendants of all those taxpayers who inherited the debt.

Ontario's \$400 billion debt in 2023 is the largest sub-national debt in the world and greater than 168 countries, including Russia. Ontario will pay \$14.5 billion in interest costs alone in 2023-24.

Rent control tenants then may have thought then, as they obviously still think today, that they were getting a great bargain but they paid for these losses in other ways.

The losses don't end there.

- From 1970 to 1973—**before rent control**—average annual rental starts were **36,846** (147,384 total during four years)
- Reacting in 1974 to pending rent control legislation, total rental starts dropped 40% to 22,260 in one year

- **After one year of rent control in 1975, total rental (not housing) starts dropped 72% to 10,394**
- 1975 – 7,786 originally designated rental starts were shifted to condominium status
- 1974 - 10,306 rental units were under construction at the end of 1974. Approximately 50% were converted to condominiums by 1975
- 1976-1980 average 14,509 starts annually (58,036 during four years) = 61% drop vs 1970-1973
- The declines in the real value of rental dwellings compelled many single family (condos, townhomes, etc.) to exit the rental market and sell their rental properties to high-demand, live-in home buyers (the same as today), further diminishing the rental housing stock
- 10,882 (23%) owner-tenant-occupied rental dwellings disappeared between 1976-79. Tenant-owner-occupied dwellings (now called “second suites”) were converted back into single living spaces for the homeowner.
 - Second source states: [second suites] were combined into larger non-rental units used by owner-tenant rental stock was reduced by 3,261 units (12.3%) of the year 1976 stock
- Ontario population growth:
 - 1970 – 7,488,000
 - 1975 – 8,260,161 (772,161 = 155,000/year)
 - 1980 – 8,693,157 (432,996 = 86,600/year)
 - 1985 – 9,230,294 (537,137 = 107,500/year)
 - 1990 – 10,189,985 (959,691 = 192,000/year)
 - 2000 - 11,576,994
 - 2020 - 14,718,133
 - 2022 - 15,262,660 (544,527 = 272,300/year)

Ontario’s annual population growth has increased from an average 135,000/year from 1970 to 1990 to over 270,000/year in 2022, with federal immigration quotas to increase for the next two years.

Not once in any mainstream media housing article, online forum, podcast, webinar, “housing expert” presentation/webinar, affordable housing and homelessness advocate white papers, municipal and provincial political speeches, CMHC housing reports, government budgets and plans, rent control supporter articles, and all the other forms of communication and interaction, have I seen any statistics or a discussion about what actually happened previously to housing availability and affordability under rent control in general and the 12 years of vacancy control in particular, or how can we could learn from those failed and costly experiences and policies to do better.

Instead, we have vacancy tax, foreign ownership ban, municipal licensing programs, 50% corporate tax, 15% to 20% municipal property tax, rampant anti-landlord municipalities, rental property licensing schemes, recoverable capital cost allowance (depreciation deductions clawed back by government), demonizing and vilifying of housing providers by media, tenants and populist politicians, forced inclusionary zoning (affordable rent rates in a building paid by remaining market-rent-paying tenants), one-year eviction delays for non-payment of rent, consequent non-recoverable rent losses, four-year Above Guideline Increase (AGI) scheduling, “tougher” tenant protections, 2.5% cap during 6 to 7%

inflation rate, housing as a right, housing financialization debasement, doubling interest rates, and another loud (and uninformed) call to "sympathetic" politicians and policy makers for vacancy control. **What possible incentive is there for any investor or developer to construct rental housing, or for any homeowner to rent part of their home to a stranger, in Ontario?** 98.5% of all housing was built by the private sector.

Government never could, and still can't, afford to build affordable housing, and it has a fundamental conflict of interest in doing so.

The Big Bang or Singularity of Ontario's housing shortage crisis was the adoption of supposedly temporary rent controls in 1975.

Winston Churchill said, "*Those that fail to learn from history are doomed to repeat it.*" I'd humbly add, "*... and the rest of us suffer for it.*"

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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

My 330-page book, *Landlording in Ontario*, is a superset of what I teach in the course: 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

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. A high-resolution video recording of a past course session is here: www.landlordingvideo.com.

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