

Rent Control and Other Lunacies

Want to fix the “rental crisis?” Target assistance to the most vulnerable, and let the market do the rest

BY BOB DHILLON
ILLUSTRATION BY DAVID VOGIN

To say that Alberta has a “rental crisis” is misleading. There is no rental housing crisis. Rather, the rental market is changing to be in proportion with the rest of Alberta’s economy, and we are in a period of adjustment. The disparity between supply and demand will normalize within a short time and the natural ceiling on rents will emerge. That is, if the free market can work itself out without government interference.

A few highly publicized cases of rent increases have led the public to believe that lack of rent control in this province results in exorbitant rent increases and huge profits for landlords. This is completely false. Rent increases of \$1,000 a month are the exception, not the norm, and making laws based on the exception leads to very bad policy. Canada Mortgage and Housing Corporation, for example, states that rents in Edmonton increased by 10% last year and projects that they will increase by 20% in 2007. But after five years with no growth in rents, and enormous growth in other industries, these prices are just catching up. Too-low rents keep apartment owners from properly renovating, maintaining and building new apartments.

Implementing rent controls in Alberta, and even limiting rent increases to one per year as the government recently did, is poor policy from which nobody benefits. Some well-intentioned politicians and poverty activists believe that these controls will help create more affordable housing, but the truth is that they would only hurt tenants, landlords and the 100,000 people who are moving to this province each year.

Economics courses often use rent control laws as a textbook example of the problems that arise in trying to artificially reduce prices. The natural consequence is a reduction in supply, followed by shortages.

The opposition parties in Alberta have been arguing that rent controls they advocate would be only temporary. The fact is all rent-control regimes in North America have



been put in place as temporary measures. But once in place, they are almost impossible to de-control. The first controls were implemented during the Second World War in New York City. That was 65 years ago, and they are still in place today. Manitoba implemented temporary rent controls in the late 1970s and the province still has complete rent control.

The last time the Alberta government moved to obstruct the market’s natural course, in the late 1970s and the early 1980s, it created a tax subsidy program that caused an overbuilding of apartments just as baby boomers were moving from renting to owning. A whole industry was almost completely destroyed because of a knee-jerk reaction to a period of adjustment in the rental market.

This doesn’t mean that the government has no role to play in housing. If it truly wants to help Albertans, the government needs to set up more assisted living for seniors and allocate emergency housing funds to those who are most in need.

My family and I were renters when we first moved to Alberta. I, and countless others, have flourished in this province. My company, Mainstreet Equity Corporation, has

transformed over 5,000 homes from poorly managed, poorly maintained properties to modern, renovated, energy-efficient homes. We install hardwood floors, ceramic tiles, new appliances and fixtures, and update the bathrooms of the apartments we purchase. During the past five years, Mainstreet has spent millions on renovations and put 100% of our cash flow back into the economy through wages to our employees, contractors, and suppliers. And how can we afford to do this? Because we can adjust our prices according to the market.

All of these achievements would not have occurred with rent controls in place. The largest residential landlord in Canada, Boardwalk REIT, was created out of Alberta, because this province encouraged flexibility and freedom of pricing. When an investment banker from Ontario lamented to me that all the innovation in the multi-family industry comes from Alberta, and none from Ontario, I had a simple answer for him: There are no price controls in Alberta — it is the land of opportunity. **AV**

Between the Lines is a column on current affairs topics that touch on business in the province. Bob Dhillon is the president and CEO of Mainstreet Equity Corporation in Calgary.