

Imposed limits would not help create more affordable housing. They would only hurt tenants, landlords and property owners

The perversity of rent controls

BOB DHILLON

Implementing rent controls in Alberta, and even limiting rent increases to one per year, is poor policy from which nobody benefits. Some well-intentioned politicians, poverty activists, and homeless activists believe these controls will help create more affordable housing for Albertans, but the truth is that they won't. Such policies 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. In fact, 93% of economists think controlling the price of rents "reduces the quality and quantity of housing."

This idea isn't limited to right-wing thinkers. Economists from all points of the political spectrum, from Milton Friedman on the right to Swedish economist Assar Lindbeck on the left, agree that regulations that limit rent increases create housing shortages. Even Communist countries conclude that rent controls don't work. In 1989, Vietnamese Foreign Minister Nguyen Co Thach said, "The Americans couldn't destroy Hanoi, but we have destroyed our city by the very low rents."

In Alberta, we have more homeowners than we do than renters. Implementing rent controls would restrict the private property rights of these owners — a very dangerous thing. The value of the homes of every person who owns a condo or a house, the silent majority, would be affected. The Progressive Conservative Party of Alberta needs to remember this before setting up such poor policies.

The opposition parties in Alberta have been arguing that these controls are only temporary. They also argue that they do not want to interfere in the marketplace and would revert to free-market policies after the "rental crisis" is over. But they are not being honest. All rent-control regimes in the North America have been put in place as temporary measures. But once these price controls are put in place, they are almost impossible to decontrol. The first controls were implemented during the Second World War in New York City in 1942. That was 65 years ago, and they are still in place today. Manitoba implemented temporary rent controls in the late 1970s, and it still has complete rent control.

To say Alberta has a "rental crisis" is misleading. There is no rental crisis. Rather, the rental market is changing along with the rest of Alberta's economy, and we are in a period of adjustment. The disparity between supply and demand will normalize, and the natural ceiling on rents will emerge. This ceiling is the free-market price



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Dhillon: "I came to Alberta because I saw it as a province of opportunity."

that creates a modest return that can be used for new construction. In other words, if given a short period of time to adjust, the market will work itself out without government interference.

For the government to obstruct the market's natural course will lead to the massive destruction of property values and overall wealth in Alberta. For example, in the late 1970s and the early 1980s, Alberta, spurned by Ottawa, had a last-minute reaction to a shortage of apartments for the many Baby Boomers at the time. Alberta 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 gov-

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ernment interference and knee-jerk reactions to a period of adjustment in the rental market. The amount of wealth destroyed dwarfed the amount money that it would have taken to support the people who needed it most.

All this doesn't mean the government has no role to play in the housing industry. 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, in case of extreme conditions.

If the government implemented rent controls, it would not be creating better or more apartments for the average Albertan to rent. It would be doing just the opposite. Rent controls lead to housing deterioration, fewer repairs, and less maintenance. They also retard investment in residential rental units, limit the supply of apartments for rent and reduce property tax revenues, putting a greater tax bur-

den on homeowners. Perversely, they act to prevent new renters from getting housing while helping well-to-do renters in rent-controlled apartments enjoy substantial benefits. Meanwhile, many low-income renters receive little or no benefits.

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

I came to Alberta because I saw it as a province of freedom and opportunity, not as a province of controls. I achieved a lot from a very modest background. In fact, my family and I were renters when we first moved here. I, and countless others, have flourished in this province. My publicly traded 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. Mainstreet could not have invested so much in Alberta, created so many jobs and provided so many people with renovated, well-maintained homes if we were legislated to charge artificially low rents.

Alberta's previous legislation on rent allowed for innovation in the apartment industry. The largest landlord in Canada, Boardwalk, 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.

Financial Post

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