

Rent control a '100-year failure'

By Steve Lafleur, The Leader-Post October 22, 2011

The New Democrats defeated the scourge of rent control in Saskatchewan during the 1990s. Unfortunately, the same party is now promising to implement "second-generation rent control."

While not as disastrous as the former rent-control regime, the newly proposed plan would merely replace one type of rent volatility with another. Second-generation rent control is a failure.

Rent control has been one of the biggest public policy failures of the last hundred years. Swedish economist Assar Lindbeck wrote the famous line that "next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities."

Preventing landlords from charging market-rate rents leads them to skimp on repairs and maintenance. It also removes the incentive for construction of new units. It leads to an under-supply of rental units, which can only be corrected in the long run by rationing or with higher prices.

The evidence against the effectiveness of rent control is so strong that in a survey of 464 economists, over 93 per cent agreed that "a ceiling on rents reduces the quantity and quality of housing available."

Many policy analysts have struggled to find a way to marry the stability of rent control for existing tenants with the ability of the market to supply new units, leading to the creation of so-called second-generation rent controls. In the variant advocated by the NDP, the controls don't apply to new tenants, but allows for exceptions to ensure that landlords can recover some cost increases, such as the cost of maintenance and upgrades. Rather than trying to dictate the overall rental price level, the central aim is to eliminate "gouging."

To figure out why second generation rent control fails, it is key to understand the landlords' perspective. If there are limitations on annual rent increases on existing tenants, how will this affect rental rates?

Since landlords have no way of knowing how long tenants will stay, the answer is to set initial rental rates higher to make up for the fact that they cannot raise rents to match the market rate until the tenants leave. This effectively creates a subsidy from short-term to longterm renters.

Second-generation rent-control schemes, such as the program in Manitoba, allow landlords to raise rents in order to cover repairs and renovations. This provision aims at combating the landlords' tendency in rent-controlled cities to allow buildings to crumble. Ironically, it can lead

to the same types of dramatic swings occasionally seen in overheated rental markets, but the results are far less predictable.

While a hot real estate market will lead to upward pressure on rents (which can be alleviated with the construction of new units), the volatility can at least be predicted. But it is less predictable to figure when individual landlords will need to undertake expensive repairs or decide to renovate a building.

As the housing stock ages, renting can become akin to gambling. This has become a serious problem in Manitoba. In non-controlled markets, landlords can plan to finance renovations and repairs by gradually increasing rents. In controlled markets, rent increases are bottled up until capital expenses need to be undertaken. Second-generation rent control simply replaces market volatility with randomness.

In order to ensure rental affordability in Saskatchewan, the province should adopt some of the tax reforms the Chamber of Commerce has suggested such as eliminating the punitive 46.7-per-cent tax on rental income and tax rental companies as they tax other companies. Given that the small business tax rate is 13 per cent, the savings would be enormous.

Another reform would be to allow rental companies to write off capital gains that are reinvested in new residential developments. It would reduce the cost of building new units.

The municipalities should also cease to tax rental properties at a higher rate than owner-occupied housing. This is an implicit subsidy to homeowners. While "sticking" it to landlords and developers is appealing to many, these costs are simply passed on to renters.

In addition to cultivating a competitive rental market, the province should introduce rental vouchers for those who are unable to afford decent housing. It would allow people with temporary financial difficulties to continue paying their rent, and would also reduce the need for subsidized housing.

The cost would be a fraction of the \$320 million NDP housing platform. More importantly, it is an effective method of alleviating poverty.

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