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RENT CONTROL IN ONTARIO

The facts, the flaws, the fixes

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CANADIAN CENTRE
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ONTARIO OFFICE

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Introduction

Tenants and housing advocates who call for effective rent regulation face strong opposition. The real estate industry uses simplistic explanations and outdated research to spread myths about rent controls. For ideological reasons, and often without having ever studied the topic, many economists and housing policy analysts further promote these myths. The result is a system of disinformation that has considerable power to influence legislators.

Research findings, on the other hand, support rent regulation. Economic studies of present-day rent controls in Canada and abroad show that they are an effective way to stabilize rents without negative effects.

This report is a resource against anti-rent-control propaganda. It is written for tenants and housing advocates, though researchers and policy analysts may also find it useful. It examines rent data in Ontario, explains rent controls, and summarizes relevant research on the topic. The content is divided into ten sections that can be read independently and in any order.

1. Rent trends in Ontario

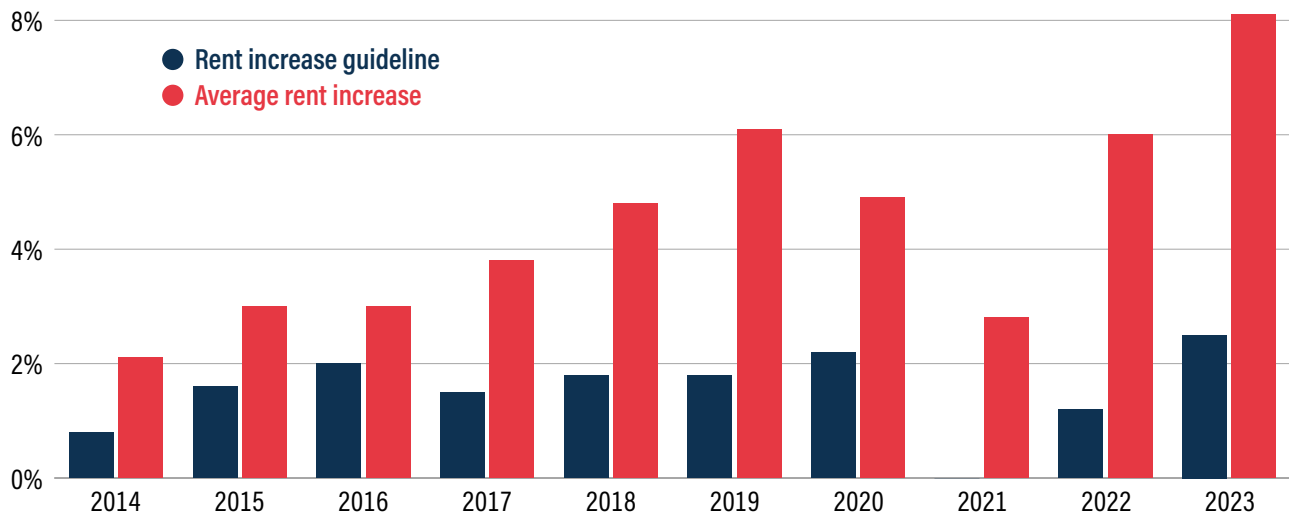
Every June, the Ontario government announces the *rent increase guideline* for the following year. In theory, most rents cannot go up by more than this guideline. In practice, Ontario's rent control rules have serious loopholes. As a result, in the past 10 years, average annual rent increases have outpaced approved guidelines—by a lot. Between 2014 and 2023, Ontario's annual rent increase guidelines officially allowed landlords to increase residential rents by 16.5 per cent. Yet over that period, average rents actually went up by 54.5 per cent, more than three times the guideline rate.¹ As Figure 1 shows, in every year of this 10-year period, average rent increases were higher than those allowed by the rent increase guidelines. In 2021, in response to the COVID-19 pandemic, the rent increase guideline was zero per cent. Nonetheless, average rents increased by 2.8 per cent that year. In 2022, the guideline increase was 1.2 per cent, but the average rent increase was 6.1 per cent—five times more. In 2023, average rents increased by 8.1 per cent despite a 2.5 per cent guideline.

Long gone are the days when skyrocketing rents were a Toronto problem. Figure 2 shows the accumulated average rent increases for 12 large cities in Ontario for which data are available. In all of them, the total average rent increase for the 2014-2023 period was more than double the total rent guideline increase for the same period. The Ontario average is three times more.

In the past 10 years, average rents in Ontario have increased by more than three times the rent increase guideline.

Figure 1 / Rent increase guideline versus average rent increases

Ontario, 2014-23

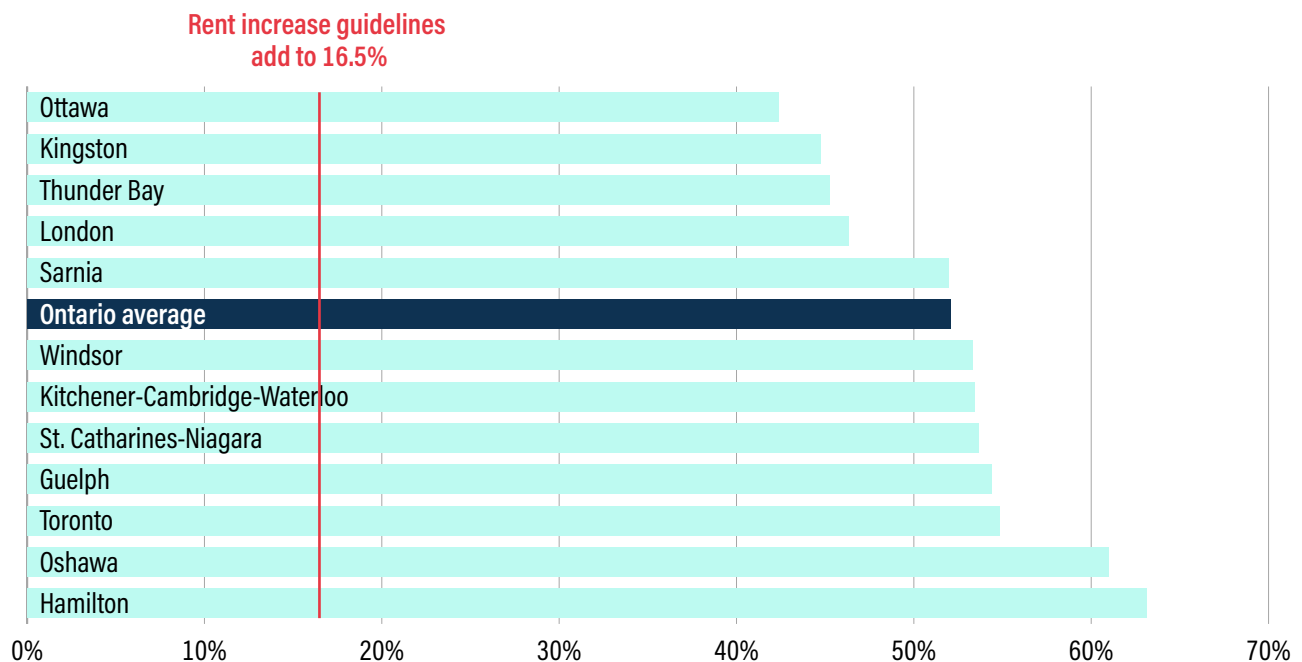


Note Data includes apartments and row housing, all bedroom counts.

Source CMHC Rental Market Survey and Ontario Government, Residential rental increases

Figure 2 / Rent increase guidelines versus average rent increases

Total increase for the 2014-23 period, Census Metropolitan Areas for which data is available, Ontario



Note Data includes apartments and row housing, all bedroom counts

Source CMHC Rental Market Survey and Ontario Government, Residential rental increases

2. Key terms and context

The term *rent control* refers to regulations that limit rent increases. In Canada, it is officially the job of provincial governments to create and enforce these rules. That said, the federal government has intervened and pressured provinces to enact rent regulations in the past. Currently, Ontario, Quebec, British Columbia, Manitoba, and Prince Edward Island have rent controls; the other provinces do not.

Internationally, rent control is common. In some countries, like France and Spain, the national government imposes caps on rent increases; in parts of the United States, cities regulate rents. In response to skyrocketing rents, several places around the world have tightened regulations in recent years, including Berlin, Catalonia (Spain), and New York.

Rent control is an old idea, but today's rules are different than in the past. Most arguments against rent control only refer to old policies, a fact that opponents of rent control love to ignore. For this reason, it's important to know the difference between old and new types of rent control.

Rent freeze (old) versus rent control (new)

During and between the world wars, many countries enacted rent freezes. In the early 1940s, the Canadian government prohibited landlords from

raising rents. New tenants paid the same as the previous tenants. The government set the price landlords could charge for new units and rooms in boarding houses. Governments enacted rent freezes without notice, typically in reaction to economic turmoil and tenant protests.²

These regulations are called *first-generation rent control*. Except for partial and short-lived rent freezes at the onset of the COVID-19 pandemic, Canada hasn't had this type of regulation for more than 60 years.

In the mid-1970s, in response to high inflation and pressure from social movements, the federal government persuaded provinces to enact rent control. This time around, provincial governments enacted *rent stabilization policies* that limited rent increases but did not freeze them. These new regulations usually included a rule restricting increases to one per year and a maximum percentage increase for each year. There was no price ceiling on new units. These regulations are called *second-generation rent control*.

The various pieces of rent regulation

Rent regulation is not a single rule; it contains various pieces. Governments combine these pieces into rent control regimes, which are different from place to place. Even within Canada, the rules in one province are not the same as in other provinces. The main pieces of a rent regulation regime include:

- **Rent increase guideline:** This is the highest increase allowed in a year. The rate is announced once a year as a percentage. Guidelines are usually linked to inflation rates, as in Ontario. Some regimes have guideline limits. In Ontario, the limit is 2.5 per cent, even in years when inflation is higher. In the 12 years the limit has existed, inflation has exceeded it only twice.
- **Vacancy regulation:** In regimes with *vacancy control*, the rent for a unit follows the increase guideline even when tenants move out. The new tenant pays the same rent as the old tenant. In regimes with *vacancy decontrol*, landlords can increase rents by however much they want between tenants. In some places, like Manitoba, landlords can raise rents in vacant units by more than the annual guideline but up to a set limit.

- **Cost pass-through provision:** In some regimes, landlords can apply for the right to impose higher increases to cover expenses related to renovations, property taxes, and other costs. Rules vary from place to place, including eligible costs and the share of costs that can be passed on to tenants. Names also vary. In Ontario, such rent increases are called *above-guideline increases*, or AGIs.
- **New unit exemption:** In second-generation rent controls, new units come on to the market at whatever price landlords decide. In addition, some regimes may exempt newly built units from rent controls for a set number of years.
- **Date-based exemption:** This is when a government decides that units built or first occupied after a certain date are not covered by rent control. In practice, this is a stealthy way for governments to eliminate rent control over time.
- **Dispute settlement body:** Tribunals like Ontario's Landlord and Tenant Board (LTB) are part of rent control regimes as they enforce rules and settle disputes. The economic influence of landlords is felt in these spaces, as is the political power of organized tenants.

It's rare to see governments opting in or out of rent control altogether. More commonly, we see them moving these pieces around to strengthen or weaken rent controls. Political parties with strong ties to the real estate industry are likely to weaken rent control, whereas parties susceptible to pressure from social movements may, in some cases, feel compelled to strengthen them. In Ontario, since 1992, the trend has been toward weaker regulations.

While knowledge of rent control and its real-world impact is valuable, evidence is not the only or even the main factor informing policy. Rent regulations, and the way they change over time, reflect the balance of power between the contending social forces, the tenant class, and the landlord class. As one side grows in strength, the regulations tend to tip further to benefit them. Political parties charged with the interests of the real estate industry ignore evidence, dismantle controls and sit idly by as rents skyrocket. Ultimately, rent regulation is not a technical question but a political one.

3. A brief history of rent controls in Ontario

In the mid-1970s, provinces enacted rent controls in response to pressure from the federal government. Some provinces, like Alberta, abandoned controls in the 1980s and never looked back. Other provinces, like Quebec, created stable regulations. In Ontario, successive governments changed the rules back and forth. Over time, rent control in the province became much weaker.

The *Residential Premises Rent Review Act* (1975) and the *Residential Tenancies Act* (1979) enacted second-generation rent control in Ontario. They set a maximum allowable rent increase rate of eight per cent in 1975 (inflation was 11 per cent that year) and six per cent in 1979 (inflation was nine per cent that year). Landlords could apply for higher increases, claiming financial hardship or low rates of return on investment.³ The *Residential Rent Regulation Act* (1985) pegged rent increase guidelines to the Consumer Price Index (CPI) up to a maximum of four per cent.⁴ The Act also enacted vacancy control.

In 1985, Ontario had the strongest rent control policies in the province's history. It was a short-lived experiment. Starting in 1992, governments of all three major parties passed legislation that weakened rent control. As of 2024, Ontario has (i) vacancy decontrol; (ii) a date-based exemption; and (iii) AGI rules allowing landlords to pass on to

Table 1 / Timeline of modern rent controls in Ontario (simplified)

Year	Policy change
Before 1975	<ul style="list-style-type: none">• Periodic rent freezes
1975	<ul style="list-style-type: none">• Rent increases capped at rates that neared inflation• Date-based exemption (for units built after 1976)• Vacancy deregulation
1985	<ul style="list-style-type: none">• Rent increase guideline pegged to inflation, up to a four per cent limit• End of date-based exemption• Vacancy control enacted
1992	<ul style="list-style-type: none">• Rent increase guideline pegged to operating and capital expenses index• Introduction of AGIs; 50 per cent of capital expenses allowed to be passed on to tenants• New unit exemption (five years from the date unit is first occupied)
1998	<ul style="list-style-type: none">• Vacancy decontrol• AGI expansion: 100 per cent of capital expenses allowed to be passed on to tenants• Date-based exemption (units built after 1992)
2006	<ul style="list-style-type: none">• Rent increase guideline pegged to inflation
2017	<ul style="list-style-type: none">• End of date-based exemption
2018	<ul style="list-style-type: none">• New date-based exemption (units first occupied after 2018)

tenants the entire cost of renovations, new security measures, and property tax increases above a certain limit.

4. Loophole #1: Vacancy decontrol

The Ontario government, under Mike Harris's Progressive Conservative (PC) party, enacted vacancy decontrol in 1998. Since then, once a tenant vacates a unit, voluntarily or involuntarily, landlords can increase rents by however much they want—or “as much as the market will bear,” as some economists say. Since demand for housing is inelastic—people need housing regardless of how much it costs—landlords can increase rents by a lot, knowing people will sacrifice other needs and expenses to secure shelter. As a result, vacancy decontrol puts upward pressure on rents as a large share of all units sees high increases every year.

Table 2 shows that in Ontario, from November 2022 to November 2023, 10.8 per cent of all units saw a change of tenants. The average rent increase in these units was 35.6 per cent. In Toronto, the average rent increase in turnover units was 40.4 per cent. These large rent hikes on vacant units are one of the main factors pushing average rent increases above rent-increase guidelines.

Vacancy decontrol also creates a financial incentive for landlords to evict tenants, as landlords can increase rent revenues considerably at the turnover of units. The impact of this incentive was felt immediately after the 1998 change in legislation:

- Between 1997 and 2001, eviction applications jumped **28 per cent** in Ontario.⁵

Table 2 / Turnover rates and average rent increase in turnover units**Ontario CMAs, 2023**

Centre	Turnover rate (%)	Year-over-year average change in rent (%)
Ontario 10,000+	10.8	35.6
Barrie CMA	11.2	29.2
Guelph CMA	13.2	43.0
Hamilton CMA	11.1	41.8
Kitchener-Cambridge-Waterloo CMA	14.7	37.0
London CMA	14.4	35.7
Ottawa-Gatineau CMA (Ont. part)	16.5	19.7
Toronto CMA	8.3	40.4

Source CMHC Rental Market Survey Data Tables, 2023.

- Between 1999 and 2000, eviction applications resulting from failed settlements between landlords and tenants **jumped by 51 per cent**, showing landlords' diminished interest in keeping tenants.⁶

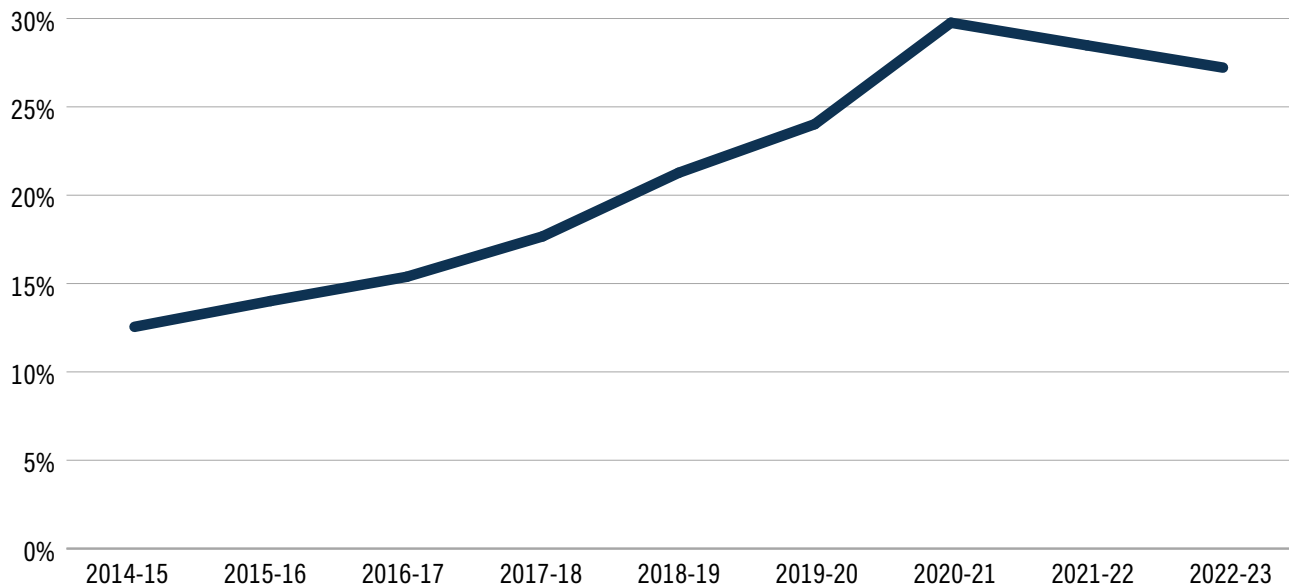
Between 1999 and 2000, there was also a 21 per cent increase in eviction applications based on reasons other than rent arrears.⁷ The "other reasons" category includes claims that tenants have damaged the property, regularly disturbed neighbours, done something illegal on the property, or had too many people living in a unit (overcrowding). It also includes "own use" applications, where landlords state that they, or a close family member, plan to move into the unit.

Since "other reasons" are less verifiable than rent in arrears, fraudulent evictions are usually filed in this category. As with most illicit activities, there is no good data on fraudulent evictions, but the 21 per cent jump following the enactment of vacancy decontrol could, at least in part, have been driven by landlords seeking to expel tenants to increase rents above the rent increase guidelines.

In recent years, there has been a noticeable upward trend in eviction applications for "other reasons." In the 2009-2010 fiscal year, applications based on "other reasons" made up 8.7 per cent of all eviction applications in Ontario, compared to 29.8 per cent in 2019-2020. Since then, the share has dropped slightly to 27.2 per cent—slightly lower but still three times the 2009-2010 level.

These figures tell only part of the story. Eviction data doesn't capture evictions that tenants didn't fight at the Landlord and Tenant Board or

Figure 3 / Applications for eviction based on “other reasons” as a share of all eviction applications



Source: Tribunals Ontario, Annual Reports; author's calculations

other tactics landlords use to displace tenants. The total number of legal and informal evictions is likely to be much higher.

Vacancy decontrol allows investors to capitalize on the gap between the amount current long-term tenants pay and the potential for higher rents. Investors and landlords use various tactics to displace sitting tenants so they can charge new tenants more.⁸ This is particularly common in gentrifying areas where fast-growing property values increase the incentive to displace low-income tenants.⁹ Financialized landlords describe large, aging buildings with rents that fall below market levels as ideal investments with the most “allowance for future growth.”¹⁰

While the justification for vacancy decontrol is that landlords need to catch up with market rents, there is no evidence that high rent increases in turnover units reflect the increased costs of maintaining properties. Instead, they reflect landlords’ expectations of ever-growing returns on real estate investment. It may well be that vacant decontrol sets market rents rather than allowing rents to catch up with the market. In the contentious dynamic between landlords seeking growing profits and tenants trying to stay housed, vacancy decontrol clearly supports profit-maximizing goals.



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5. Loophole #2: New unit and date- based exemptions

Some rent control regimes exempt new units for a set number of years. In Quebec, for example, new units are exempt for five years. This policy is usually defended as an incentive to boost supply. In practice, new units enter the market at the highest price point, as there is no price ceiling legislation anywhere in Canada. New unit exemptions allow landlords to try to stay at the highest price point for as long as possible, at once spurring and benefiting from gentrification processes. New unit exemptions create insecurity for tenants as rent increases are unpredictable and often become more aggressive towards the end of the exemption period as landlords attempt to lock in high rents.

In 1992, Bob Rae's NDP government approved a five-year exemption for newly built rental units. In 1998, Mike Harris's PC government turned the new unit exemption into a date-based exemption: rent regulation no longer applied to units first occupied after November 1991. The Liberal government under Dalton McGuinty chose to preserve this regulation. In 2017, Kathleen Wynne's Liberal government extended rent controls to all occupied units. A year later, the PC government under Doug Ford exempted all units first occupied after November 2018.

Adding to tenants' financial insecurity is the fact that landlords have no legal requirement to inform tenants or state in lease agreements when a building was built or first occupied.¹¹ This is important: once tenants

have moved to and lived in a place for a year or more, they will assess rent increases against the financial and emotional costs of relocating. The lack of information at the time of signing the lease puts tenants in a weaker negotiating position down the road. This is yet another example of how current rules entrench the power of landlords.

The impact of uncontrolled increases in rent-control-exempt units is strong enough to impact rent levels at the city level. A recent study by CMHC found that “New unit exemption regimes lead to an increase in rental prices... The most likely explanation is that new unit exemptions lead to an increase in the number of uncontrolled units in the rental price index, which would cause the average rental price in the index to increase since these units are not subject to rent controls.”¹² In other words, the more new units are exempted, the higher the rents.

In practice, date-based exemptions are a way for governments to abolish rent controls. It would be legally complicated to end rent controls suddenly, as hundreds of thousands of active leases include them. Ending rent controls for all new leases would be less complicated but likely lead to tenants digging in their heels in rent-controlled units. Instead, governments exempt some units for some time, then extend exceptions, then extend them again. The five-year exemption approved in 1992 became a 25-year exemption. In Manitoba, successive governments have extended the five-year exemption on new units to 15 years, then to 20 years. Over time, the share of regulated units shrinks, leading to a gradual but certain quiet death to rent controls.

6. Loophole #3: Above-guideline rent increases

Above-guideline increases, or AGIs, allow any landlord to apply for an exemption to provincial rent increase guidelines.

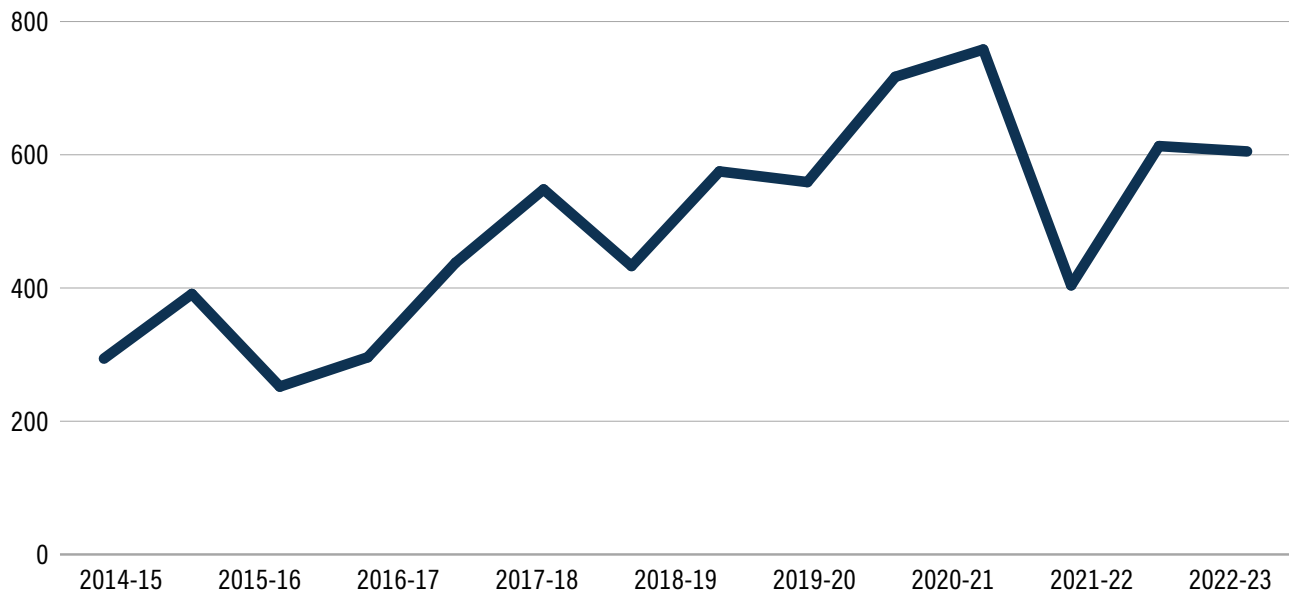
AGIs came to Ontario in 1992, when the Ontario government under Bob Rae's New Democratic Party introduced rules allowing landlords to apply for additional rent increases to recover 50 per cent of new capital expenses. In 2006, the Liberal government under Dalton McGuinty changed the rule to allow landlords to transfer the entire cost of capital expenses to tenants, to a maximum of nine per cent over three years.

As the name suggests, AGIs are applied *on top of* the guideline increases. Eligible costs are wide-ranging and inclusive of most capital projects, including renovations (but not maintenance), new security measures, and high property tax increases. AGIs should be removed at the end of the useful life of a renovation, but there are no documented cases of this actually happening.¹³ As Figure 4 shows, AGI applications have become more common in recent years.

Most AGI applications are for purpose-built apartment buildings and can cover hundreds of units in one application. This means that the number of units impacted is much larger than the number of applications. One study estimated that in Toronto, between 2012 and 2019, AGI

Figure 4 / Number of AGI applications per fiscal year

Ontario, 2009-10 to 2022-23



Source: Tribunals Ontario Annual Reports

applications included 210,000 purpose-built rental units—an estimated 80 per cent of all the purpose-built units in the city.¹⁴

The flawed rationale behind AGIs

According to archival research presented in a RenovictionsTO report, Ontario lawmakers have defended AGIs on the basis that landlords need incentives to keep units in good repair, “either because they will not be bothered to (the ‘lazy landlord’) or cannot afford to (the ‘cash-strapped landlord’).” The authors of the report argue that the lazy landlord rationale is indefensible. If landlords willingly fail to live up to their obligations, the cost of their neglect should not be passed on to tenants. Other measures, like inspections and fines, would be more appropriate.¹⁵

For its part, the cash-strapped-landlord rationale would require proof that landlords cannot afford to pay for capital projects out of rent revenues. The AGI application doesn’t require such proof. Data on the finances of large landlords show very large profit margins. Smaller

Practical example

The landlord spends \$200,000 in renovations that impact 20 units. Each unit is expected to pay \$10,000. The useful life of the renovation is 15 years. The interest rate applied is 5.2 per cent; \$10,000 amortized over 15 years at 5.2 per cent annual interest rates equals \$80 a month. Rent in one of the impacted units is \$2,000; \$80 represents a four per cent rent increase. The AGI Regulation allows a maximum of three per cent a year for three consecutive years. The landlords will ask for a three per cent increase in the first year and one per cent in the second year. If, for both years, the rent increase guideline is 2.5 per cent, as in 2023 and 2024, rent increases will add to nine per cent over two years.

landlords rarely apply for AGIs, suggesting that they are not desperate for that additional increase. The cash-strapped-landlord rationale is, thus, a very weak rationale.¹⁶

Another argument against AGIs is that renovations increase the value of capital assets that landlords own and from which they derive regular revenue, and that this capital gain should be enough incentive to renovate without imposing rent increases. In addition, landlords have an obligation under the *Residential Tenancies Act* to maintain the building as part of the lease. Through AGIs, landlords pass the cost of their side of the contract on to tenants.

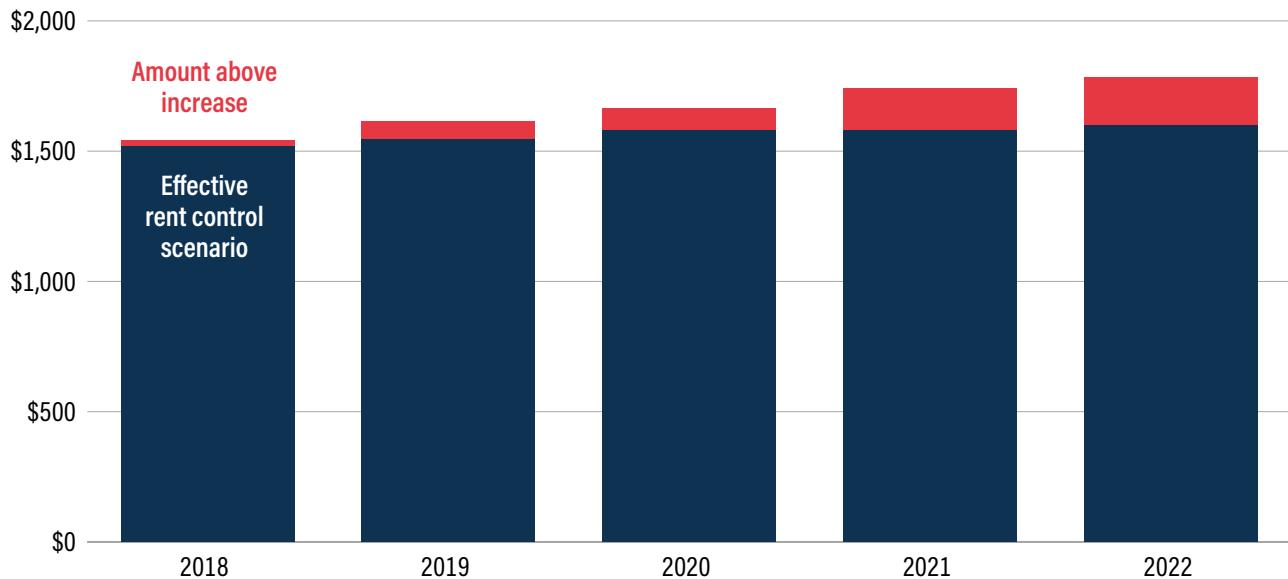
A tenant union member referred to AGIs as *eviction by a thousand cuts* as they push out tenants who are priced out, tired of fighting abusive increases, or both.¹⁷

Our own additional argument is that AGIs are even less justifiable in the context of vacancy decontrol. With Ontario's annual turnover rate at nearly 11 per cent and average rent increase in turnover units at 35.6 per cent, owners of multi-residential properties see revenues grow above inflation every year—without AGIs. The creation of a *cost pass-through* mechanism (which is what economists call above-guideline rent increases) assumes new costs are not routinely passed onto consumers, or that a hard cap exists, like a price freeze. That's not the case in Ontario. In practice, AGIs allow landlords to double-dip on vacancy decontrol.

Figure 5 illustrates the impact of that double-dipping on average rent increases in Toronto. To isolate the impact of these two loopholes, we looked at rent increases between 2018 and 2022 in two-bedroom units built between 1980 and 1999. By focusing on these buildings, we

Figure 5 / The impact of AGI and vacancy decontrol on rent increases in two-bedroom units built between 1980 and 1999

Toronto, 2018-22



Source CMHC. Housing Market Information Portal. Toronto-Historical Average Rent by Year of Construction.

exclude new units that come into the market at high prices. By focusing on this period, we exclude date-based exemptions that ended in 2017. By selecting two-bedroom units, we exclude the effects of changes in the make-up of the rental stock. In other words, in these units, in this period, landlords could raise rent above the rent increase guideline for only two reasons: turnovers and AGIs.

The blue bars present a hypothetical scenario where, starting in 2017, average rent increases abide by the rent increase guideline. The orange bars show the difference, beginning in 2018, between average rents and what they would have been if Ontario had effective rent control. Over the course of five years, the difference grows to \$185 per unit per month or \$2,219 per unit per year.

For comparison, in 2022, a minimum wage worker in Ontario had to work 143 hours at \$15.50 per hour to earn \$2,219. That amount is the equivalent of a month of full-time work.

Real Estate Investment Trusts (REITs) are not shy about describing AGIs and vacancy decontrol as investment strategies. Their financial statements regularly mention it. One recent statement listed “filing

Practical example

Imagine a three per cent AGI on a \$2,000 rent. In the first year, the tenant pays an extra \$60 a month to cover the AGI amount. The following year, the rent increase guideline is 2.5 per cent; it applies to the rent and to the AGI amount. The AGI amount grows to \$61.50. The following year, with another 2.5 per cent rent increase, the AGI amount grows to \$63. The following year, the rent increase guideline drops to 1.5 per cent, yet the AGI amount grows to \$64. In only three years, each unit will have paid a total of \$102 more in AGI payments than what the LTB formula assumes. The common duration of AGIs is 10 to 25 years, and most applications include dozens or even hundreds of units. Over time, compounding rent increases generated substantial additional profits for landlords.

above guideline rent increases wherever possible" under "Revenue Opportunities."¹⁸ Another statement read, "In Ontario, the mark-to-market opportunity on turnover contributed to same property [net operating income] growth of 3.8% in the fourth quarter of 2022."¹⁹ There are many other examples of REITs bragging about circumventing rent control. It's not a secret.

AGI's flawed calculation formula

The other problem with AGIs is that the numbers don't add up. The calculation formula—set in Ontario Regulation 516/06 of the *Residential Tenancies Act* (2006), hereafter "the Regulation" is extremely rudimentary. Major flaws include:

1. The AGI calculation formula ignores the impact of compound rent increases, which generate substantive additional profits for landlords. The calculation of an AGI consists of dividing the total cost of renovations by the total number of units in a building and adjusting for cases where renovations don't affect all units equally. The amount each unit is expected to pay is divided by the useful life of the renovation, usually 10 to 25 years. The amortization cost is added to that amount; in other words, interest is charged on it. The final amount each unit is expected to pay is then converted into a percentage rent increase based on the unit's current rent.

Practical example

According to the Bank of Canada, for most of 2019, chartered banks charged a 5.2 per cent interest rate on conventional five-year mortgages.²⁰ In the financial statement for that year, one of the largest REITs in the country disclosed that it could refinance its mortgages at a 2.3 per cent interest rate.²¹ That's a huge difference. The total interest cost for a \$1 million renovation amortized over 15 years at a 5.2 per cent interest rate is \$440,000. With a rate of 2.3 per cent, the cost drops to \$183,000. Landlords can charge tenants interest rates which are higher than what they themselves pay—and pocket the difference.

Remarkably, the AGI formula ignores the compound impact of annual guideline increases. The formula assumes a fixed payment over time, but rents can increase every year, and when they do, so does the AGI amount. Year after year, increases are applied on top of increases, adding up to much more than the amount tenants were ordered to pay for the renovation.

2. Interest costs are assumed, not verified, allowing landlords to profit from the financing of AGIs. The Regulation dictates that the interest rate to be used in the amortization calculation is the rate charged for a conventional five-year mortgage at chartered banks. The Regulation doesn't require landlords to disclose their actual financing costs. Since landlords borrow at much lower rates than what chartered banks offer to regular families—and this is particularly true for REITs—it is very likely that landlords make additional profit from tenants through the financing of the AGIs.

3. Landlords can claim the total instead of the additional renovation cost. Dale Whitmore, Director of Policy and Law Reform at the Canadian Centre for Housing Rights (CCHR), called our attention to an important error in the formula used to calculate AGIs. The economic theory behind cost-pass-through exemptions stipulates that *additional* costs brought about by an improvement should be passed onto tenants. The Ontario legislation allows landlords to charge tenants the *total* cost of an improvement. The two are not the same.

Practical example

Whitmore uses the example of roof replacements. Roof costs are amortized over many years, and that cost is built into the operational costs of units. At the time of the replacement, if an AGI is submitted to cover this improvement, it should cover the additional cost of a new roof. If \$15 for the old roof is already included in the rent, and the amortized per unit cost of the new roof is \$18, the AGI should cover the additional \$3. In practice, AGI applications include the entire cost of the new roof.

A real-life example of flawed AGI calculations

Here we use a real-world AGI to illustrate the impact of interest rates and compounded rent increases. In 2019, in Toronto, the landlord of an apartment building spent approximately \$1.5 million on five renovation projects. The AGI application listed 192 affected units. The useful life of the renovation was 19 years. The landlord applied for an AGI of 4.23 per cent. The AGI formula assumes that tenants will make fixed payments, which, by the end of the 19 years, will total \$2,150,000.

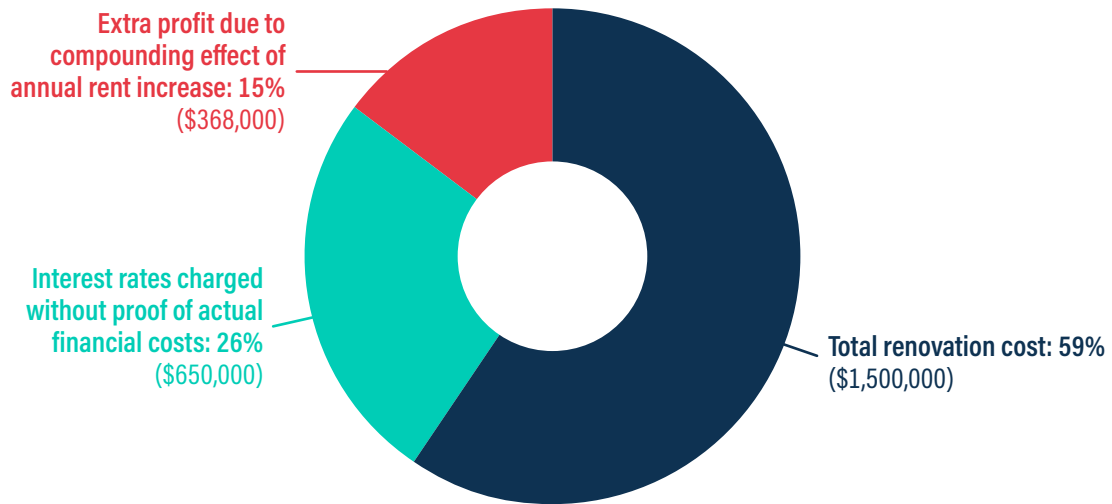
This \$650,000 difference between the renovation cost (\$1,500,000) and the amount collected after 19 years (\$2,150,000) is the amortization cost, i.e., interest. This amount may or may not correspond to what the landlords have actually paid in interest. No one knows the interest rate landlords are paying, as they are not required to disclose their financing costs. More likely than not, landlords pay less than the amount charged as they have access to cheaper credit. As a result, a portion of the \$650,000 is additional profit extracted through the financing of the AGI.

Then there is the impact of compounding rent increases. AGI payments are not actually fixed. Rents increase every year, and the rent increase inflates the AGI amount.

We calculated that annual rent increases on the AGI amount make the total bill grow to \$2,518,000, which is \$368,000 more than the AGI formula assumes. (Up to 2024, we use the known rent guideline increases; after that, we use the 20-year average of guidelines from 2005 to 2024). In sum, the landlord will collect \$2.5 million to cover a \$1.5 million renovation.

The obvious flaw in the formula and the lack of transparency about interest rates clearly show that in addition to weak rent regulation, Ontario's murky AGI procedures can provide a direct benefit to landlords.

Figure 6 / Real-life example of estimated total revenue generated through the life of an AGI



Source 2019 AGI application; calculations by the authors

The special treatment landlords receive in Ontario is remarkable—especially compared to the treatment of industries that generate more jobs and economic activity. It can only be explained by the enormous influence the real estate industry exerts over the parties that govern the province.

NO

MORE

A.G.I.s

7. Claims against rent control

High rents are a common topic in Canadian media, with hardly a week going by without news stories about fast-rising rents and financially struggling tenants. There is also continued media coverage of government announcements and political promises related to housing affordability. Most of these stories fail to discuss the obvious response to high rents: effective rent control.

In recent years, high inflation has become another much-debated topic. In the mid-1970s, the federal government's anti-inflation measures included pressuring provinces to enact rent controls to slow the escalating cost of living.²² Yet today, there's little to no discussion about rent controls.

That we talk so much about skyrocketing rents and so little about rent control should be cause for surprise. But this problem is not unique to Canada. The rent-control debate is largely absent in countries where rent increases are outpacing inflation, like the United States, Australia, and the United Kingdom.²³ This consistent disregard is so puzzling that academic research is now looking at the deliberate production of ignorance about rent controls. Urban geographer Tom Slater of Columbia University stated, "The hegemonic view—that rent controls anywhere are always harmful, even to those they are introduced to protect—offers a fascinating yet disturbing example of the triumph of ideology and propaganda over evidence."²⁴

The most common claims against rent control can be grouped into three categories: (1) abstract economic arguments; (2) claims based on

out-of-date research; and (3) fearmongering from the real estate industry. We explain each in turn and provide direct responses to them.

1. Abstract economic argument: Rent controls distort markets, and that's always bad

Many of today's economists were trained to believe price controls of any kind are always bad because they "distort" markets. To these economists, markets are always good—they are a powerful force that balances the good and the bad and achieves equilibrium. Even without having ever studied rent control, many economists will argue that rent control suppresses supply as investors have fewer incentives to build rental units, and fewer units in the market will hurt tenants—the very people rent control aims to protect.

Response: The problem with this argument is that it grossly simplifies the many economic factors that influence investment decisions. It is likely that even with rent control, real estate investments remain very profitable, as demand for housing is constantly growing. Governments often sweeten the deal for developers with financial and tax incentives. In many cases, land speculation makes real estate investments immensely profitable, even before a shovel touches the ground. Interest rate policies also have a direct impact on the decision to invest in housing or anything else. Finally, it's important to note that second-generation rent controls don't limit initial rents; landlords can set whatever price they deem necessary to make a profit.

2. Claims based on old research: In the past, rent control made the situation worse

Some claims against rent control are based on the analysis of rent freezes. It is true that studies of rent freezes implemented during and between the world wars found negative impacts on the quantity and quality of housing available for rent. Some studies found a negative correlation between rent freezes and rental construction. In some cases, small landlords decided to take their units off the market.²⁵

Response: This is comparing apples and oranges. Today's rent controls are not rent freezes, and the current economic context is very

different. Back then, governments enacted rent freezes as emergency measures; nobody knew how long freezes would be in place or whether they would be enacted again after being lifted. Uncertainty has a negative impact on investment. Back then, governments were focused on the war, and housing received little attention until the war ended. Nowadays, developers count on many financial and tax incentives to build housing. Today's rent controls allow rents to keep pace with inflation, and in some provinces, rent control rules rarely change, creating predictability in the rental sector. Rent freezes, if implemented, would likely be for a set time period and in an economic context where governments were providing incentives for new construction. Using findings about a different regulatory regime implemented in extraordinary times to criticize today's rent control is disingenuous.

3. Fearmongering from the real estate industry: "Rent control kills housing supply"

The real estate industry wants the sky to be the limit when it comes to profit. If an opportunity to hike up rents presents itself, landlords want to be able to take it. Rent regulation prevents price gouging, and for that reason, the real estate industry will always hate rent control.

The most common charge the industry makes against rent control is that it will kill supply. This is not an argument so much as a threat.

In today's housing debate, the dominant explanation for fast-raising rents and house prices is that we lack housing. If we build more housing, the argument goes, our problems will go away. This view is flawed in several ways but is by far the dominant view in Canada.²⁶ In this context, the industry's threat that it may not build as much housing if rent control is strengthened is powerful. It also makes it harder for politicians to defend controls as they will be accused of standing in the way of the construction of housing.

Response: In any space where rent control is being debated, real estate industry reps have one job to do: kill the conversation. They are paid to defend the interests of developers and landlords, and they will say whatever it takes to make the conversation go away. They will cite simplistic economic explanations and outdated research, sound confident, and even mock people for not understanding the basics of economics. It's all hot air. Anyone debating these folks should (i) name their obvious conflict of interest, and (ii) point to the actual evidence.

8. The actual evidence

While abstract arguments and rants against rent control are easily found on the internet, serious studies based on rigorous empirical analysis are less common and harder to find. Here are the most recent and relevant analyses of real-world data:

National-scale analyses

In 2020, the Canada Mortgage and Housing Corporation (CMHC)—the government body with the best housing data—carefully analyzed the impact of rental controls on construction, which researchers call “rent starts.” The study compared cities with and without rent controls. Since the CMHC has a wealth of data, it used a time series going all the way back to 1971—almost 50 years of data. The key finding of this study: **“There was no significant evidence that rental starts were lower in rent control markets than in no rent control markets.”²⁷**

This analysis corroborated the findings of a national-level study the CMHC commissioned in 1994. The authors of the study—five economics professors—described it as “the first attempt to apply econometric techniques...to test hypotheses dealing with the effects of rent controls” in Canada. One of seven tested hypotheses looked at whether rent controls make rent starts less responsive to market conditions. The study found this was not the case: **“The responsiveness of rental-unit**

housing starts to levels of vacancy rates and rents is unaffected by [rent] regulations.”²⁸

Against the second most common charge against rent control—that it leads to disrepair—the study found that, “There is no evidence that rent controls increase the proportion of occupied rental dwellings that are in need of major repairs.”²⁹

Provincially focused analyses

In 2011, the Government of Manitoba commissioned economics professor Hugh Grant to examine the province’s rent regulation. In his report, Grant explained that “Well-worn myths about rent regulations—that they reduce the quantity and quality of rental accommodation—derive from a simple textbook model of ‘rent controls’ applied to first-generation programs that existed in the 1950s.” Instead, Grant argued for empirical analysis of present-day policies. His own empirical work found that, **“There is no evidence that Manitoba’s rent regulation program has a negative impact on the supply of rental accommodation.”**³⁰

In 2001, the *Société d’habitation du Québec* published a study comparing Quebec’s rent regulations to those of other provinces between 1950 and 2000. The study concluded that Quebec managed to achieve its goal of providing quality rental housing at fair prices while minimizing potential negative effects. Despite having relatively stronger and more stable rent control than Ontario and British Columbia, **“Quebec’s rental housing stock has been better at keeping pace with potential market growth than in the other two provinces.”**³¹ In the examined period, the vacancy rate in Montreal was consistently higher than in Toronto and Vancouver and often above three per cent, which housing analysts consider a healthy rate.

In 1982, another CMHC-commissioned study looked at Alberta’s short-lived rent control (1977-1980). The study presented one conclusion and one abstract argument. The data showed, **“New housing starts do not appear to have slowed due to rent control by itself.”**³² The abstract argument was that “when rent controls are in effect for a long period of time, the effects on the residential rental market are usually negative.”³³ The evidence gathered since this study was published supports the data-based conclusion—not the abstract argument.

In 2018, the Federation of Metro Tenants' Associations (FMTA) produced a report on rent control in Ontario, which opens with a clever observation:

During the 1969-1974 pre-rent control period for which we have data, there were on average 32,704 unassisted rental starts per year, or about 30 per cent of total [housing] production. From 2009 to 2016, a period without any rent controls [on new units], Ontario averaged 5,147 new rental unit starts, or a mere 10 per cent of total supply. If rent controls were the primary factor inhibiting new construction today, then surely we'd expect to see the opposite.³⁴

To explain this puzzle, the author of the study, independent researcher Phillip Mendonça-Vieira, looked into the rise of condominiums and the end of real estate tax shelters. First authorized in 1969, condominiums became the preferred option for developers because most units are sold before construction begins, allowing investors to cash in quickly. In comparison, rental buildings don't generate revenue until the building is finished and units are rented; the financing costs are higher as a result.

Mendonça-Vieira also explains that changes in the taxation of capital gains in 1972 made rental buildings a less attractive investment, whereas the increase of sale taxes on construction in 1991 made rental less attractive than condos as developers can pass the tax on to buyers but not renters. The study effectively debunked an early, hasty analysis of rent control in Ontario that used little data and many abstract arguments to blame rent control for all the province's housing woes.³⁵ Mendonça-Vieira demonstrated that other factors impacted rental starts in the province and noted that it is misleading to claim rent control kills supply without considering the effect of these other important policies.

Recent international studies

In 2023, in the United States, 32 economics professors signed a letter to the country's housing authority requesting that it pay more attention to rent controls. In the letter, the authors compare charges against rent control with debunked arguments against minimum wages. "Similarly to the minimum wage debate, the economics 101 model that predicts rent regulations will have negative effects on the housing sector is being proven wrong by empirical studies that better analyze real world dynamics." The authors zoom in on the claim about negative impacts on

rental starts, clarifying that **“There is substantial empirical evidence that rent regulation policies do not limit new construction, nor the overall supply of housing.”**³⁶

In 2023, the *International Journal of Housing Policy* published a historical analysis that confirmed the crucial distinction between rent freezes and present-day rent controls. Reviewers described the study as “a high-quality econometric analysis” based on a “remarkable data set covering sixteen developed countries over a period of more than a hundred years.”³⁷ It found that **security of tenancy and rent price regulation have a negative impact on new construction only “in their strict form of rent freezes.”** It also found that “shifting from zero to full control, decreases new construction by six per 100,000 inhabitants, which is a sizeable magnitude when accumulated over several years, but also not a complete construction stopper.”³⁸ **The study found no significant correlation between present-day rent controls and new construction.**

Recent rigorous research has examined second-generation rent controls in Canada and abroad and has not found the negative effects that opponents of rent control so confidently claim. Unfortunately, data alone will not silence cheap shots and self-interested arguments against rent controls.



9. Technical and political fixes

It's very clear to all honest observers that the rental market in Ontario is brutal for tenants. And despite what landlords and developers—and their pundits—might say, it's not actually some deeply complex and unsolvable conundrum. Policy-makers could have a large and immediate impact by fixing the various problems with Ontario's rent control system.

Rent control will not solve structural inequalities brought about by land speculation, profit-seeking in housing markets, and the financialization of rental housing. But strong rent controls can slow rent increases and improve security of tenure—which would be concrete if limited gains for the tenant class. From a technical perspective, fixing rent control is straightforward. From a political perspective, it's an uphill battle. We'll look at each in turn.

Policy solutions

The four measures listed below would make Ontario's rent control regime more effective. The first two have been done before; the other two would be new to Ontario but exist elsewhere. Each of these measures could be implemented independently, but a government truly concerned with skyrocketing rents and tenant rights would implement all four measures.

1. End the 2018 exemption

In 1976, the PC government included a date-based exemption in the new rent control regulation. In 1985, the new Liberal government ended the exemption. In 1998, the PC government brought it back. Between 2003 and 2016, Liberal governments chose not to touch the exemption, finally ending it in 2017. The PC government of Doug Ford brought it back in 2018, within only six months of being in power. This is clearly a political choice.

2. Re-enact vacancy control

Ontario had vacancy control from 1985 to 1998. Two CMHC studies covering this period didn't find negative effects associated with this policy. However, Toronto City Council did see the negative effect of decontrol on affordability. In 2008, Council urged the provincial government to re-enact vacancy control to slow down the pace of rent increases. The motion quoted Liberal leader Dalton McGuinty promising to "get rid of vacancy decontrol."³⁹ That never happened. Another clear political choice.

3. Replace AGIs with conditional government support

Poorly managed buildings fall into disrepair; it is in the public interest to repair these buildings and prevent acquisitions by financialized landlords. But tenants should not pay the price. The burden should be on landlords to apply for conditional subsidized loans from the federal and provincial governments.

For this to happen, landlords would have to provide hard proof that rent income is not sufficient to cover the cost of renovations. Then, conditions for loans might include strictly following rent increase guidelines (including in vacant units), disclosing financial statements, involving tenant unions in management decisions, and giving the right of first refusal to municipal governments and non-market housing providers in case of bankruptcy.

Governments already provide subsidized loans and costly tax breaks to the real estate industry, with few conditions attached. Renovation loans would likely have a more direct impact on rent levels, keeping buildings in good repair and increasing accountability.

4. Extend collective bargaining rights to organized tenants

Rent regulation sets the minimum protections that apply to all tenants, just as the minimum wage and health and safety laws set standards that apply to all workers. However, minimum standards only create a floor,

not optimal outcomes. Organized tenants ought to be able to collectively bargain for better rents and living conditions, just as labour unions bargain for better wages and working conditions.

Tenancy regulation should recognize tenant unions as legal representatives of tenants and require landlords to engage in good-faith negotiations with them, subject to arbitration and legal recourse. In Sweden, most of the rental stock is part of a collective bargaining system.⁴⁰

Political responses

Studies and ideas will not change minds when so much wealth is at stake. It takes a political fight. It always has. Across the country, for more than a century, tenants have organized to push back against exploitation. When governments approved laws that benefited tenants, it was in response to political pressure, not brilliant ideas.

Researchers should continue to compile data on real-world rent control scenarios. Today, the claim that minimum wage increases kill jobs is hardly taken seriously because of the piles of empirical evidence showing they don't. We're not there yet with rent control.

Housing policy analysts should stand up to bullies who try to shut down rent regulation debates. This hardly happens in professional public policy spaces, where self-preservation comes first. But for folks willing to give it a try, the evidence presented here should be helpful.

But the most important work is building political power. Organized tenants are the ones doing this work, creating the political conditions for change at the local and other levels.

As of March 2024, more than 600 tenants are on rent strike in Toronto. The strike on Thorncliffe Park Drive started in May 2023. The strike in York South-Weston started a month later, with more buildings joining over the following months. In most of the buildings on strike, the issue at stake is AGIs.⁴¹

There are other documented examples of tenants successfully fighting AGIs by filing official challenges through the LTB but also focusing their efforts on organizing outside of the LTB process and directly pressuring landlords.⁴² Evictions must not go unchallenged, either. "Through self-organization, non-reliance on legal strategy, and directly confronting their landlords, tenants have successfully pressured their landlords to withdraw evictions before they ended up at hearings in front of the LTB."⁴³

10. Suggested resources

Various tenant groups in Ontario organize to fight rent hikes and evictions, sometimes with help from tenancy advocacy organizations. Below, we have compiled a list of some of the active groups and organizations. Additionally, we have included a second list of reports and analyses that can be useful for tenants who are resisting predatory landlordism. Please note that these lists are not exhaustive but simply the best of our knowledge as of the time of writing.

- The Federation of Metro Tenants' Association (torontotenants.org) offers various tenant services, including support for tenants who want to organize to dispute AGIs. It also keeps a list of existing tenant groups and associations, torontotenants.org/associations
- RenovictionsTO (renovictionsto.ca) is a volunteer-run source of information and reports about landlord predatory practices and tenant-organized responses.
- The Advocacy Centre for Tenants Ontario (acto.ca/for-tenants/) provides free legal advice to tenants and organizes advocacy campaigns around tenant rights.
- Over the years, ACORN (acorncanada.org) has organized several campaigns for stronger rent controls in Ontario.

Other active tenant groups fighting rent increases, AGIs, and demovictions in Ontario include:

- 312 Cumberland Tenants Circle (Ottawa): facebook.com/cumberlandtenants/
- 71, 75, and 79 Thorncliffe Park Tenants (Toronto): [X: @tparktenants](https://twitter.com/tparktenants)
- East Scarborough Tenants Union (Toronto): [X: @eastscarbtu](https://twitter.com/eastscarbtu)
- East York Tenants Group (Toronto): eastyorktenantsgroup.com
- Herongate Tenant Coalition (Ottawa): herongatetenants.ca
- High Park Tenants' Association (Toronto): HPTA.ca/
- Katarokwi (Kingston) Union of Tenants: katarokwitenants.wordpress.com
- London Tenants: facebook.com/ldnonttenants/
- Niagara Tenants Union: facebook.com/niagaratenantsunion
- No Demovictions (Ontario-wide): nodemovictions.ca/
- Parkdale Organize (Toronto): parkdaleorganize.ca
- People's Defence Toronto: [X: @Peoples_Defence](https://twitter.com/Peoples_Defence)
- Tenant Association of Cornwall and Area: sdccornwall.ca/tacaalcr/
- Tenants of 146-170 Osgoode St (Ottawa): facebook.com/OsgoodeStRenovictions
- Trudelle St. Tenants Association (Toronto) [X: @StTenant](https://twitter.com/StTenant)
- York South-Weston Tenant Union (Toronto): tenantunion.ca

Useful and recent studies and analysis

- ACORN, 2024. *Ontario Renoviction Report 2024*. <https://acorncanada.org/wp-content/uploads/2024/02/Ontario-Renoviction-report-2024-2.pdf>
- Cole Webber & Phillip Zigman, 2023, "Renovictions: Displacement and Resistance in Toronto," *RenovictionsTO*, renovictionsto.com/reports

- BCGEU, 2023, "Evaluating Prospects for Vacancy Control Policy in B.C.'s Housing Affordability Crisis," *AffordableBC*, affordablebc.ca/vacancycontrolreport.
- Scott Leon, 2021, "Hiking the rent when doing repairs: Above Guideline Increases in Toronto," Wellesley Institute, wellesleyinstitute.com/publications/hiking-the-rent-when-doing-repairs-above-guideline-increases-agis-in-toronto/.
- Anton Ösgård, 2021, "Sweden's Collective Bargaining for Rents Must Be Defended," *Jacobin*, jacobin.com/2021/07/sweden-left-party-social-democrats-housing-crisis
- Phillip Zigman and Martine August, 2021, "Above Guideline Rent Increases in the Age of Financialization," RenovictionsTO, renovictionsto.com/reports
- Cole Webber and Ashley Doherty, 2021, "Staking out territory: District-based organizing in Toronto, Canada," *Radical Housing Journal* 3 (1), radicalhousingjournal.org/2021/staking-out-territory/
- CMHC, 2020, "The Impact of Rent Control on Housing Affordability," cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-research/research-reports/housing-needs/research-insight-impact-rent-control-housing-affordability.
- Emily Power & Bjarke Skærlund Risager, 2019, "Rent-Striking the REIT," *Radical Housing Journal* 1 (2), radicalhousingjournal.org/2019/rent-striking-the-reit/
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Notes

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- 6 Elinor Mahoney, 2001, "The Ontario Tenant Protection Act: A Trust Betrayed," *Journal of Law and Social Policy*, 16, p.274.
- 7 Mahoney, 2001, "The Ontario Tenant Protection Act," p.274.
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- 9 Martine August & Alan Walks, 2018, "Gentrification, suburban decline, and the financialization of multi-family rental housing: The case of Toronto," *Geoforum*, 89, 124-136.
- 10 Michael Shapcott, 2002, "Profiting from a manufactured housing crisis," Canadian Centre for Policy Alternatives.
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- 13 For more on expiring AGIs, see this press conference organized by the Federation of Metro Tenants' Association (FMTA), torontotenants.org/press_conference_expiring_agis_2019
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- 42 Zigman & August, "Above Guideline Rent Increases," p.14; ee also, Cole Webber and Ashley Doherty, 2021, Staking out territory: District-based organizing in Toronto, Canada. *Radical Housing Journal* 3 (1).
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