COMMENT

Rent Control: A Tale of Two Canadian Cities

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The rental housing experiences of Vancouver and Toronto serve almost as a laboratory test of the effects of rent control legislation.

Consider their histories. British Columbia enacted province-wide rent controls in 1972, under the N.D.P. government of then Premier Dave Barrett; the phasing out process began on July 1, 1983, and ended on July 1, 1984 at the behest of then Premier Bill Bennett and the Social Credit Party. Ontario began its experiment with government central housing planning in 1975 under the supposedly Progressive Conservatives of Bill Davis, and still retains them to this day with David Peterson and the Liberals at the helm.

What occurred in the two rental housing markets as a result? There are many possible ways to trace the effects: rent levels, units of new construction, housing maintenance or deterioration, homelessness, etc. But the easiest and best variable is that of vacancy rates. These are objective, easily calculated, and interact with all the others. E.g., the lower the vacancy rate, other things equal, the higher the rents, the greater the homelessness, etc. They are published twice annually, in April and October (in June and December up until 1974), so reasonable coverage for each year is provided.

Let us first consider the vacancy experience of the two cities from October 1984 to October 1988, the time during which Vancouver no longer had rent controls, but Toronto did. As the accompanying chart makes clear, for each and every one of the nine observations during this
epoch, Toronto had a lower vacancy rate than Vancouver. This indicates a
tighter market in Ontario, with higher rent levels, more difficulty in
finding an apartment suite to rent, less new rental construction, etc.

Nor are the differences only marginal. Over this short ‘84 to ‘88 time
period as a whole, the average Toronto vacancy rate was a minuscule
0.34%. The comparable figure for Vancouver was a relatively healthy
1.53%, fully 350% higher.

Nor can it be objected that Vancouver “traditionally” has a higher va­
cancy rate than Toronto, or has always had one. A perusal of the earlier
years shows a mixed record, with the vacancy rate sometimes higher in
one city, and sometimes in the other. Over all, for the period June 1972
to April 1984, Toronto actually had a slightly higher vacancy rate at 1.18%,
than Vancouver at 0.90%:

A wealth of evidence showing the dismal effect of controls on rental
housing was presented in the Fraser Institute’s best-selling 1983 book,
Rent Control: Myths and Realities. But as this study makes abundantly
clear, rent controls are a subtle and invidious piece of legislation. For
not only will the law itself lead to rental housing disarray, even the threat
of it will tend to do the same, as would-be landlords seek greener, freer,
less controlled options for their investment dollar. It is no accident, for
example, that Vancouver’s vacancy rate for October 1988, at 0.4%, was
the lowest it had ever reached since controls were repealed. Given the
inevitable time lags in such matters, this coincided with the fall from
grace in the public opinion polls of Premier Bill Vander Zalm and his
Social Credit government.

Why should this matter? Because those with money to invest in rental
housing reasoned that if the Socred government falls in the next election,
the overwhelming probability is that Mike Harcourt and the N.D.P. will
sweep in, bringing rent controls in their wake as they did in 1972. And
who wants to put his hard-earned money up for ransom under such
conditions?

This somewhat convoluted scenario may appear to some people as un­
likely in the extreme. But consider the fact that we have just witnessed
an ominous parallel on the federal scene. During the last federal elec­
tion, every time John Turner and the Liberals rose in popularity, the
Canadian dollar plunged. And when the Mulroney forces improved in
the public opinion polls, the value of our dollar increased. This was at­
tributable not to some sort of disembodied Capitalist System speaking
out in favour of free trade, but rather to the trust, or lack of it, placed
in the Canadian economy on the part of millions of investors from all
around the world.

Investors in Canadian rental housing can also read the lips of the vari­
ous political leaders.