

Rent Controls and Affordable Housing: A Landlord's Report

(Prepared By: Valden Palm)

I am a landlord. I am also a proud Albertan and Edmontonian. I was born and raised here. Landlords and property owners have been getting a lot of negative press lately (daily even) and in the interest of fairness, the media and government (particularly the opposition parties) need to hear the landlord side with equal time.

This media led and opposition party “landlord witch-hunt” is a smoke and mirrors grandstanding attempt to mislead the public through some key economic realities. Their creativity to solution stalls with “legislated rent controls”. I have yet to hear a reasonable solution, or anything else come forward other than rent controls. The rest is just “shooting blanks” sensationalist rhetoric.

Penalizing those who PROVIDE the rental properties does not generate more rental properties, or even maintain the current levels of inventory. If anything, it compels a liquidation process on a large scale. RENT CONTROLS DO NOT WORK!! They will CREATE more problems, rather than finding solutions.

Recent rental increases being experienced by some tenants are totally a direct result of the governments meddling attempts to interfere in the rental market. One or two isolated cases of panicking landlords is certainly not the norm. Veteran landlords have been trying to introduce increases in a measured responsible manner easing changes into the marketplace, making the impact more manageable.

The recent rental market increases are being unfairly judged and inaccurately characterized as “gouging”. (although that notion sells newspapers and makes a good lead story on the evening news). The bottom line fact is simply and profoundly this:

Properties cost more today than yesterday.

They cost more to buy, they cost more to build, they cost more to maintain, they cost more! Whether to buy or rent, they cost more. Yes rents have been rising at record rates, just as real estate prices have been rising at record rates. (I wonder if it has occurred to anyone that there may be a DIRECT correlation?) Is it too difficult to understand and grasp that if real estate costs 42% more from one year to the next and are *continuing to rise*, that it may “cost more in mortgage payments to continue to provide rental housing”.

Yes, as real estate purchase prices rise, dear consumers and dear ministers, the amounts to pay for a mortgage to buy is also higher.

If you take away the ability to try to break even with the cash flow, then why should I, or any property owner bother to participate in providing rental housing? It is already rapidly becoming more difficult to make the numbers work at all. (Yes Virginia, it is a business.)

Let's review the costs of a simple 3 bedroom townhouse, in average neighborhood.

<u>Purchase Price:</u>	\$250,000
Downpayment:	\$ 62,500
1 st Mortgage:	\$187,500

Monthly Payments:

\$187,500 @ 6.5%	\$ 1,256
Avg Condo Fee	\$ 160
Property Tax (TIPS)	\$ 90
Insurance	\$ 25
Maintenance	\$ 50
Misc Costs Allownce	<u>\$ 25</u>

Total Mnthly Pymt \$ 1,606 per month.

This does not take into consideration special assessments from condo boards, unforeseen large repairs, renovations, skipping out tenants, legal costs, lost rent, tenant damages future utility hikes, future tax hikes, etc.

Let me ask you, does it make good sense for me to lay out my \$ 62,500 down payment, qualify for a new mortgage, and contribute monthly payments of hundreds of dollars per month above what I can collect in rent, to subsidize a renter in my property? I might as well keep my money and let the government worry about providing a place for someone to live. If I have other rental properties (and I do), and if my rights to do business are stifled by government income interference, why would or *should* I go through the hassle. It makes more business sense for me to sell my properties and take my money elsewhere.

I do, however, fear for the rental market “supply of units”, from a “cause and effect” stand point. Should a significant of property owners feel the same way, the current 2400 condo conversion units disappearing to sales would be dwarfed by existing rental units joining the fray and property owners sell rather than rent. Meddling by legislation would be the direct cause to this loss of rental units.

If rent controls are initiated, then you must control and eliminate increases, and put caps on the following costs:

construction material costs, construction labour costs and their salaries, income taxes, provincial and federal taxes, property taxes, real estate costs, mortgage rates, interest rates, all wages, eliminate and block immigration into Alberta (i.e. taxpayers), eliminate and block migration into Alberta from other provinces (i.e. more tax payers), etc.

The solutions do not lie in the socialist ideology of government intervention as some grandstanding opposition ministers have vocally supported, but by the ingenuity and entrepreneurship of Albertans and those we claim to hold in such high regard. Women of Vision, Entrepreneur of the Year, and the many innovation awards that acknowledge excellence. Do we now tell these pioneers of the future and champions of industry that they should *no longer bother?* That is not the Alberta way! It is certainly not the Alberta spirit that I am proud of, nor that our hard working business owners who choose to live and work here. It is those citizens who are the leaders in civic contribution and betterment of a city that they love.

We are the greatest province in Canada because we celebrate success and foster opportunity for all Albertans, if they have the will and desire to better themselves. There are countless stories of citizens who have started with nothing and worked hard and paid the price by sacrifices, to build successful businesses. This rental legislation, or any contemplated rental control legislation, flies in the face of, and is contrary to that spirit.

I applaud this government's strides and painstaking efforts to craft the safe use 'Secondary Suites' to assist in the relieving of pressure to the rental market. The process was a long one and done with input from municipal authorities and input from the public and business sectors. Wow, what a great model to follow. How unfortunate that this "good effort" is being lost in the shadow of the moment.

I strongly and emphatically urge the government to hold fast and not cave-in to the daily attack to the free market rental environment. This FLAWED Bill 43 must be rescinded to allow the marketplace to return to a more manageable position for both landlord and renter.

Leadership, as your previous premier showed, is doing the right thing, not following the "optically popular" media portrayed position. Rent controls will give birth to significantly larger problems other than needing to subsidize some rents for a while. (Provide access to the rental housing market through rental subsidy to lower income households and seniors or those on fixed incomes and in *genuine need of assistance* if necessary, even in the short term. Provide these subsidies until some low rental housing can be built for the marketplace.)

If low income housing is truly a concern for this government AND opposition parties, provide the necessary tools of commerce, by way of tax breaks, or other incentives to bring developers and builders to the table. They need a reason to participate.

What Else Can be Done?

In the spirit of innovation and entrepreneurial civic contribution, I feel it necessary to comment on a few other notable issues making the news and I offer them for consideration, as they are relevant to the fabric of this housing crisis.

Rising Property Taxes and Breaks For Seniors

To assist seniors on property taxes increases, I would propose a program of tax deferral. Seniors would be eligible to have 100% of their property taxes deferred to have their estate pay out the back owed property taxes when they die. The ever increasing equity in their home will be more than enough to pay for the back taxes when they have passed on. It eases the burden for them today, and does not significantly impact the tax base as the taxes would be deferred, not eliminated. It would be similar to the reverse mortgage system, or even the RRSP forced savings plans.

Proposed 1% Property Purchase Tax To Fund Infrastructure Improvements

I see it to be a discriminatory position to burden the cost of infrastructure to housing sales transactions. All citizens benefit from the infrastructure improvements, not just those participating in a housing sale transaction. A .25% or even .5% increase across the board in property tax or the mill rate would be marginally felt by taxpayers, and would accomplish the accumulation of the needed funds.

Completion of Capital Municipal Projects

If municipalities are having problems with contractors even bidding on road repairs etc., consider a program of hiring companies from neighboring provinces. Call it a sharing in the prosperity of Alberta. Any "incentives" that one may offer would more than offset runaway costs on projects that our busy contractors are too busy to even quote on. Pay for companies to bring their equipment here on trains if need be, on a temporary basis. Is this not what would be done if a state of emergency were to be declared? Would not other provinces pitch in? Well, why not ask them to come? Make it worth their while to mobilize here, even if it is only temporary. Surely

the costs we are currently faced with could be reduced by importing companies into Alberta on a seasonal part time basis, at least until our own companies could catch a breath. This could save millions of dollars to municipalities and do well to share our wealth with the rest of Canada. It is certainly more politically palatable than the large transfer payments that we make. At least they would participate in the making of the money generated in Alberta.

Government/Private Sector Joint Venture to Subsidized Housing

Why does the municipal and provincial government work with the private sector to put these projects together. Each could provide an offering of concession to make it happen. For example, a project could be built with the city contributing the land, the province funding the project with interest free loans or even a portion by way of grant, or the project could be exempt from tax. Or, tax could be on a yearly graduated scale. The amount of government contribution, lands and investment money, could be recaptured through a sale in a 10 year “co-operative partnership” period. If a number of these were to be built every year and staggered, there would be a recapturing of capital asset by the partners every year after year 11. Funds could be re-invested into the system so it becomes self-sustaining eventually. If necessary to maintain high standards, Capital Health could be the managerial advocate for these “Co-operative Projects”.

Again, it is important... no *critical* to the survival of the rental market, to work out solutions in a co-operative, innovative and positive spirit instead of legislating a misguided solution to the problem to be borne on the backs of **those who have been providing rental housing** for the municipalities of this province. Property owners, developers, and builders need a reason to participate. **Without their help and commerce, there IS no rental market.** Leave the rental market to find it's equilibrium, like it always does.

Sincerely,



Valden Palm
Landlord, Property Owner, Tax Payer

As a landlord and property owner in Edmonton, and the surrounding municipalities, Valden Palm has been providing superior property rental accommodation for over 10 years. To expand upon or hear more on the Rent Controls and Affordable Housing A Landlord's Side of this issue, he can be reached at 780-466-7784 or at email address vpalm@misterhomebuyer.com

Finally, I include below, comments from colleagues of mine, that also raise valid points of consideration.:

Let's take the emotion out of the argument and look at a couple of clear economic points. According to Statistics Canada, we are in the middle of the largest migration of Canadians ever witnessed. This migration from the East to the West does not have any precedent and therefore any amount of planning could not have anticipated this growth in Alberta's population or its economy. Economies are like pendulums and they will swing back and forth, some times in favor of one party (renters), then in other times in favor of another party (property owners). For the last many years, property owners have witnessed dramatically increasing operating and building costs with little or no increase in revenues (rents). There was no outcry during this time, even as some landlords went bankrupt or had to sell their properties to survive.

But now that the pendulum has started to swing a little bit the other way, suddenly it is politically expedient to turn against the property owners who have been providing quality housing for the growing population of our province. Let's look at what this will do when considered from two vantage points a. Cause & Effect. b. Basic Supply & Demand economics:

1. **Imagine a province, growing by 50,000+ people per year**, (which Alberta is doing) with nowhere for these new residents to live. They can't qualify for a mortgage, as they haven't had enough time in their new job and their new province, so they must rent to establish new credit. We are already at next to record low vacancies, which means that basic supply and demand dictates that when we have a fixed supply but increasing demand – values go up. We see it in labour costs, gasoline prices, concrete prices, salaries, Natural Gas prices, rents, property values, in other words everywhere in the economy.
2. **Now, imagine a province growing by 50,000+ people per year**, with record low vacancy rates where no one can afford to build rental properties even if they wanted to. There are many developers out there who would be happy to build rental accommodations to help solve the current housing shortage in our province. However, with the skyrocketing costs of building and operating rental properties, current rents could not even come close to paying for these costs, therefore no new rental units are getting built. According to CMHC, only 250 rental units were built in Edmonton in 2006 and this pattern is the same across the province. No new supply, but continued increasing demand inevitably leads to increased rents. The only way to keep rents at an affordable level is to have more supply of rental properties. So this leads inevitably to government intervention in the marketplace, meaning financial incentives will have to eventually be given to developers to build rental properties. This of course will also be considered a 'bad' thing by the general populous. In other words, Bill 34 legislation, even though it has good "optics", is opening a Pandora's Box of future government intervention and subsidies. Which is taking us farther from the Alberta economic model and leading us more closely to Ontario's obviously flawed government model.

Other key points to consider:

3. Politically, this Bill hands political opposition more fuel to their fire for years to come. They can claim victory when the current government passes a bill that has many of the key recommendations they have been asking for during the last 4 years, PLUS it hands them further fuel down the road when the inevitable building incentives are

brought into effect a few years down the line. The rental housing market is not going to sort itself out before the next election, so why add strength to a weak argument?

4. If we feel that government intervention into our economy is what is needed, where is the legislation that caps property owners' and developers' costs? Over the last few years we have seen dramatic increases in operating expenses due to Alberta's hot economy. These include but are not limited to: natural gas prices (heat for renters), labour to fix buildings (keeping properties safe and clean for renters), concrete & lumber (to build or renovate properties), insurance costs. Even if rental increases are limited to once per year, a property owner will have to consider giving a massive rental increase (instead of two smaller ones that would be easier to digest for renters) trying to anticipate (guess) what their costs will be a year from now. This legislation will lead to higher rents, with these increases being handed out more quickly and with a larger negative impact on renters' budgets. For instance, if a property owner was planning on increasing their rents by \$150 this year, (two \$75 increases), they will now be issuing \$150 notices once, meaning that the renters will be paying the extra \$75/month for an extra six months – costing the renter an additional \$450 per year. When a market can adjust more often, as it has in the Alberta market for decades, the pendulum swings are not nearly as dramatic and both parties eventually win on compromise.
5. If the vacancy rates go up substantially in future years and rents have to be decreased (once again based on free market economics) or incentives have to be given by property owners to renters, as local landlords were doing just a couple of years ago, what will the government legislate? That tenants must pay higher rents than market because there is a 'Landlord Crisis' I think we all know the answer to this question, that legislation will never even be considered.

Let's have a reasoned and non-knee-jerk reaction to the market. It is an unprecedented economy that we are currently experiencing, and using old-world ideas and legislation will just lead us to even more difficult problems in the future.

If the government feels pressured (politically or economically) into taking action, then let's address the underlying problem. We have a large migration of people moving to our province because we have the jobs and the strong diverse economy that is not being enjoyed anywhere else in North America. We also have the fastest growing average incomes and fastest growing retail sales ever witnessed. If either of these numbers weren't at such high levels, then maybe an all encompassing legislation would need to be considered, however *these numbers prove that money is out there in people's pockets.*

Those who need our help are those who are on fixed or low incomes, these are the people that the government can help directly. A major all-encompassing legislation, like Bill-34, could actually hurt low or fixed income Albertans (see #4 above) while giving high-income renters a disincentive to become home-owners.

The answer, if the government wants to intervene, is to provide those who truly do need our help (low income Albertans who are renters) with a direct monthly rent supplement that will allow them to find a safe and clean place to live, pay market value rents to the

property owners while not negatively affecting the province's potential for new rental housing.

This will keep the market performing, it will help those who need assistance in this booming market, it will also make it more economically feasible for developers to build rental properties, without giving them a government hand-out as the market will dictate the rents (revenues) they can receive. Those who really need the assistance will receive it (the lower-income renters), the market will continue on, and the pendulum will continue to swing back and forth, as it has done in free markets around the world for centuries. The government will have taken a reasoned, non-knee-jerk reaction – thus making it both a political as well as an optics win. And then we can all continue on enjoying one of the world's best economies.