ESTIMATING THE EFFECTS OF THE REMOVAL OF RENT CONTROLS IN ALBERTA

Submitted To: Canada Mortgage and Housing

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I. EXECUTIVE SUMMARY

The purpose of this paper is to analyse the effects of rent decontrol in Alberta. Controls were implemented on January 1, 1976 and the decontrol scheme began June 1, 1977. By June 1, 1980 all units were decontrolled. The topics looked at specifically are impacts on new rental housing, transfers out of the rental market, demolitions, rental rates, maintenance, taxes, labour mobility and administrative costs. Because of the many interacting variables impacting on the residential rental housing market, it is difficult to separate out the effects that rent controls and decontrol have in each area.

A review of the current literature on rent control and decontrol effects is presented with regards to each topic mentioned above. The results of the studies and commentaries presented are not very conclusive because of the fact that rent controls and decontrol are just two of many, many different programs working on only one subsector of the housing market. After careful analysis of the literature, one observation can be made across all of it: when rent controls are in effect for a long period of time, the effects on the residential rental market are usually negative. The magnitude of these negative consequences increases over time. Alternatively, if the controls are put in place temporarily to protect tenants from rising rent costs and removed quickly, many of those negative consequences can be stopped or avoided altogether. Providing a 'cost-passing mechanism' for landlords to use can serve to extend the time period during which rent controls can be useful. Throughout the

analysis, it is clear that the period of time that controls are in place and the provision of a method for landlords to pass increased costs on to tenants are major determinants of the efficiency and usefulness of rent controls. The literature on the effects of decontrolling a controlled area is sparse, with few studies done. When considering what effect decontrolling rents will have, the stringency of the controls applied and the length of time they were in place must be considered. If the controls were not that stringent and were in place for only a short time, then the controlled rents would be close to free market rents and decontrol would not have much impact.

In Alberta, the rent controls were implemented for only a short period of time with an adequate 'cost passing on mechanism'. These two aspects of the program served to alleviate any negative impacts on the rental housing market. New housing starts do not appear to have slowed due to rent control by itself. This is because of the lag times involved between planning and starting a project. By the time less planning showed through in the form of decreased starts, decontrol began and more planning took place. Alberta's prohibition on conversion of rental units to condominiums during both the controls and decontrols made any transfers out of the rental market negligible. Rental rate increases, during the period, in Alberta, were less than those of the rest of the country but were not unreasonable. If a landlord could show the need to pass increased costs on to the tenants, he was able to do so. When the decontrol scheme came into effect, rent increases were kept down to eight percent per annum. This was also lower than the

national average but the decontrol scheme allowed landlords to pass increased costs on. Neither the rent control nor the decontrol programs proved to be too stringent as can be seen in the number of cases dealt with by the Rent Regulation Appeal Board and the Rent Decontrol Board. Because of the 'cost passing mechanism' maintenance levels were probably not affected very much although there is not sufficient data to support this. Also because of insufficient data, the effects on labour mobility cannot be determined. Due to methods of assessment and the short run nature of the controls, property tax revenues of the municipalities were not affected by the controls or decontrols. From the inception of the controls in 1975, within the provincial Department of Consumer and Corporate Affairs, to the end of decontrol in 1980, the administration costs of the programs totalled $3,197,721. Both programs were run on tight budgets and limited staff to promote efficiency.

When rents were finally decontrolled in Alberta in 1980, rental rate increases in Edmonton and Calgary were higher than the national average indicating the deferral of some rental increases but also reflecting other factors, such as, increasing incomes and population growth. The decontrol scheme did serve to soften and spread out the increases that would have taken place had the controls been lifted with no thought to the resultant increases that might occur.

II. INTRODUCTION

Rent controls have been implemented in this country, as well as in many others at various times, for the stated purpose of providing low income persons or families with an adequate level of quality in their housing or as part of a program of wage and price controls. In the absence of a wage and price control program, the motivating factor for the implementation of rent controls generally comes in the form of a real or perceived housing shortage. Studies that will be reviewed later on, in this section, show that this may not always be the case and that the rent controls may themselves aggravate any shortage or cause one if a shortage does not exist. Attached to the concept of rent controls are various side effects which, if they occur over a long enough period of time, have staggering implications for all areas of the housing sector. The effects on low income families, taxes, maintenance and many other areas will be reviewed and the empirical work done in those areas evaluated. In the literature on the advantages and disadvantages of rent controls, one underlying factor is always present: rent controls are a very popular political device even though their economic value is yet to be proven. To determine whether or not rent controls do have any economic value, the programs must be viewed in terms of a cost-benefit analysis. The costs incurred by landlords, taxpayers, and governments must not exceed the benefits received by tenants.

The controls implemented, in any program, may vary widely in stringency. The programs considered in this paper will be of

the medium variety where allowable rent increases are determined within some specified time period for landlords according to a fair return and, usually, a 'cost passing on mechanism' is provided for the landlord whose costs increase during the specified period of rent controls. Consideration as to whether or not landlords really get a "fair return" on their investment during rent controls must be given, i.e., do they receive a return equal to that gained on a similar risk investment elsewhere? Does the fact that the controls may lead investors to invest their money in other areas, cause serious resource misallocation? This is the question that is really being asked in any examination of the impact of a specific program on the economy. Whether or not a reallocation will result in advantages or disadvantages to that economy is not always known.

The housing sector is really a myriad of many interlocking interdependent subsectors of the market economy. What happens in one subsector is sure to cause a ripple, if not a tidal wave, in other subsectors. These ripples, of course, are not confined to the housing sector. For example, many housing programs impact indirectly on consumer spending on non-housing goods. Any in-depth cost benefit analysis would have to look at the direct and indirect impacts of rent control programs on the housing sector and other sectors.

Lawrence Smith provides a long list of variables that impact on the housing market. These consist of "demographic variables", "income and employment", "consumer asset holdings and liquidity", "price variables", "development cost variables",

"non-financial operating costs", "financial variables", "consumer tastes and preferences", "builder and developer organization, structure and expectations", "government public housing involvement", and various "housing stock variables". His entire list consists of twenty-seven variables most of which he considers to be of major consequence.(1) Therefore, rent controls must be viewed as one program impacting directly on only one housing market subsector, the residential rental housing market. The controls are, in effect, a tax on landlords in the residential rental housing market and a subsidy to its tenants. In light of interaction effects, direct and indirect, with the above named variables, it is very difficult to separate out the impacts of other changing variables, whether economic or governmentally instigated.

This paper examines current criticisms of the merits of these arguments. Rent controls are accused of causing a deterioration in the existing housing stock because the cost to the landlord exceeds the benefits of optimal maintenance. Also, as the housing stock deteriorates, the taxes that governments are able to collect become less and less, imposing another cost on the society. Because of a lack of incentives to maintain the investment, rental housing abandonment is said to rise as the length of the rent control span increases. As the vacancy rate among rent controlled structures decreases, labor mobility is assumed to be lessened because a willingness to move to higher rent accommodations with job changes is not present. It is also thought that a preservation of structures ready for demolition may occur due to the prolonged use of rent controls. Other

forces to be considered are the negative effects on the neighborhoods surrounding rent controlled areas and the sequential racial and economic segregation which occurs. Rent controls may also affect the price of owner occupied housing in the conversion of rental units to condominiums for private sale. One of the most damaging criticisms of rent control programs is that they serve to reduce the amount of new housing construction in the economy. Each of these topics will be treated individually and empirical evidence presented. Additionally, the impacts of rent control programs must be viewed either as short term or long term. It may just be that when controls are implemented as strictly a short term measure, landlords might disregard them in the hopes of higher future revenues.

III. LITERATURE REVIEW

Effects on Maintenance

The first topic to be considered in depth is that of maintenance practices under rent controls. Maintenance expenditures fall into the category of operating costs which are all relatively fixed in nature. Maintenance and repair is the only item of operating costs which can be manipulated directly by the landlord in the short run. That is why the impacts of rent control focus so heavily upon it. When rent controls begin to lower a landlord's property revenue, he looks for costs that he can control in the short run, i.e., maintenance expenditures is one of those.

Wade Wetherington tells us that decreased maintenance was experienced in the District of Columbia due to a lack of mechanism to pass increased costs on to the tenants in the District of Columbia Rental Housing Act of 1977. Without this mechanism, landlords try to cope with the increased costs by cutting back on maintenance expenditures. The District of Columbia tried to rectify this situation somewhat through the introduction of hardship hearings for landlords where they could attempt to have their costs passed on to the tenants, but, the regulations were so strict that, in some cases, no return on the investment would be allowed at all.(2) One only has to look at the cost-revenue relationship in economics to realize that this would cause a disinvestment in the housing market. Fortunately, other programs do have better cost passing mechanisms.

New York City is the home ground for rent controls and if any long term results are to be found, it will be there because the city has had rent controls since the first World War. Niebanck tells us that:

> Twenty three percent of the controlled stock is deteriorating as compared with fifteen percent of the decontrolled and only one percent of the newer never controlled stock. Thirty one percent of the buildings classified as dilapidated and lacking all facilities are under controls, while none of the other two sectors are represented at all.(3)

When reading the above statement, it must be remembered that rent controls are only one factor involved in decreased maintenance and subsequent deterioration. Since rent controls were implemented in New York City, building code standards have increased and numerous other factors, such as the natural structural deterioration of older housing stock have changed. Besides rent controls decreasing revenues, Sandra Conchado and William Nolan advocate the following reasons for decreased maintenance, deterioration and abandonment: landlords no longer residing on the premises, no professional housing management, decreased financing available, and lack of available insurance. All of these factors lead the landlord to maximize returns now rather than planning for future returns.(4)

John Moorhouse states that because of rent controls "real rents are increased by curtailing maintenance."(5) He feels that, in inflationary times, the cost increases would be met by a balance of deferred maintenance and rent increases to reach the optimal maintenance. With rents being unable to rise as much as they would have, the maintenance variable is the only one

controllable by the landlord. Therefore, Moorhouse concludes that with inflation present, rent controls serve to lower the equilibrium maintenance level.(6)

Ira Lowry, of the New York City Rand Institute, used a time series of inventory data to find a major disinvestment of the housing market in New York City. They discovered that 38,000 units were being taken out of the housing market in each year after 1965. The Rand Institute concluded that this disinvestment was due to a combination of rising costs and stagnant or decreasing revenues.(7) Edith Jacobson Nickel and Ian Gillies support this view and also state that the lending institutions, including insurance companies, stopped supporting rent controlled investments.(8)

Monica Lett analyzed increases in operating expenses for three areas: Boston, Fort Lee and New York City. In her analysis of the Greater Boston area, the sample chosen consisted of seventy rent-controlled buildings with 4,834 rental units and twenty non-rent-controlled buildings containing 3,898 rental units. Changes in operating expenses in each type were analyzed in 1971, 1972, and 1973. For the rent controlled sample, Lett found that building maintenance and services as a percentage of net rent received rose from 14.8 in 1971 to 15.5 in 1972 to 16.6 in 1973. This rise was one of the factors which caused the net contribution to debt, depreciation and profit as a percentage of net rent received to decline from 37.5 percent in 1971 to 34.7 percent in 1972 and 32.5 percent in 1973.(9) Other factors which increased were fuel, real estate taxes and other operating

expenses. In the face of similar expense increases, in the noncontrolled sector, the building maintenance and services as a percentage of net rent received declined from 14.0 percent in 1971 to 13.7 percent in 1972 and jumped to 15.0 percent in 1973. Meanwhile, the net contribution to debt, depreciation and profit as a percentage of net rent received declined from 49.8 percent in 1971 to 49.5 percent in 1972 and rose again in 1973 to 49.7 percent.(10) The relatively small change in the noncontrolled sector can be largely explained by the fact that net rent received was allowed to increase by 13.5 percent while it was only allowed to increase by 6.7 percent in the rent controlled sector. Looking at the data contained in the following table, Lett's hypothesis of declining maintenance in rent controlled buildings appears to be confirmed regardless of building type, size and number of units.(11)

TABLE 1

Average Annual Building Maintenance and Services Expenses(1) as a Percentage of Net Rent Received by Building Type, size and Number of Units

Greater Boston Area

	Type of Building		Number of Units			
	Highrise	Other	1-3	4-49	50-199	200+
	Rent Controlled		--2			
1971	15.2%	14.6%		16.5%	15.8%	11.2%
1972	13.7	16.3		16.3	15.7	12.4
1973	14.4	17.6		17.6	16.5	13.5
	Noncontrolled					
1971	11.7	14.1	--3	11.9	12.9	13.2
1972	11.8	14.9		12.2	13.9	13.2
1973	12.2	17.7		13.0	15.7	14.7

1. Includes payroll, contractor services, supplies and all routine maintenance expenses.

2. Sample size inadequate for computation.

3. No controlled unit in this size category.

Source: CUPR Analysis of Operating Statements.

One limitation of the above data is that the sample sizes for each category are relatively small. Lett also stated her expenditure data annually and monthly per apartment unit. In 1971, landlords of rent controlled units paid $1.00 less for building and maintenance services per month than did landlords of noncontrolled units. By 1973, this gap had widened to $4.00 per month.(12)

In analysing the effects of rent control in Fort Lee, New Jersey, Lett used a sample of eleven buildings with 2969 units, all of which are rent controlled. It is noted that Fort Lee is a higher income community. Lett points out that when you are dealing with a luxury housing market, it is much harder to cut back on maintenance because of the means that the tenants have. The analysis shows that during the period of the study (1972 - 1974), operating expenses increased while rent increases did not match them. When comparing the Fort Lee study to the Greater Boston study, the fact that, in both cases maintenance declined is apparent. But, the Fort Lee area did not experience the same severity due to a shorter time period for the controls, a better cost passing mechanism and the fact that it was a luxury market.(13)

There are some problems with Lett's data, in that it is difficult to see how much of the drop in maintenance comes from the fact that rents have not been allowed to increase as much as they would have in a full market or from general expense increases in all areas.

John Gilderbloom presents evidence to the contrary of that

previously cited about the deterioration of maintenance standards in the presence of rent control. In a study conducted comparing rent controlled cities with non-rent-controlled cities in New Jersey, Gilderbloom took the number of demolitions in the years 1973 - 1975 as indicative of the effect rent control had on maintenance. Rent controls were instituted just prior to that period. Using a multiple regression analysis, he found that rent control and the number of demolitions were not significantly associated. Other variables positively associated were city populations and the number of previous demolitions.(14) However, the validity of the number of demolitions as an indication of the impact of rent control on maintenance services must be questioned when it is studied over so short a period of time. When looked at in the longer run, rent controls may speed up the deterioration process. The purpose that this study does serve is to show that when rent controls are instituted as a temporary measure, the effect on maintenance services may be only to decrease them slightly for the period of rent controls. This decrease may be made up for when the rent controls are lifted and the deterioration process stopped. If Gilderbloom had allowed a longer time period of consideration, given that the controls were still in place, he may have found an acceleration of the deterioration process.

The Ontario Ministry of Municipal Affairs and Housing has completed a study on the effects of Rent Review in that province. Ontario has experienced rent controls under The Residential Premises Rent Review Act and subsequently, The Residential Tenancies Act since December, 1975. Under this act,

new buildings are exempt from controls, hardship conditions are addressed, and a cutback in services by landlords results in rents being lowered.(15) To determine the effects that Rent Review has had on maintenance levels in Ontario, several types of surveys were carried out. These included personal interviews with landlords, mail surveys to tenants, and site visits on all of the buildings for which landlords were interviewed.(16) In the surveys, respondents were asked to rate the state of maintenance and then note any changes which had occurred over the past year. With regards to the present state of maintenance, it was concluded that "maintenance levels in Toronto buildings of 20 or more units are considered good or very good by a substantial majority of tenants, landlords and independent site visitors."(17) When surveyed about maintenance level changes over time, the majority of both landlords and tenants replied that there had been no change. A small minority expressed improvement or deterioration with landlords being more inclined to express improvement. These results held for landlords and tenants over a one year time period and for landlords over a five year period.(18) Apparently, maintenance levels in Ontario have not been affected by the imposition of controls there. In addition to the maintenance questions, landlords were also asked what factors they felt presented obstacles in maintaining present levels of service or increasing them. In response, 49.3 percent suggested a lack of funds while 23.6 percent suggested the rent review program. Another 31.9 percent said that there were no obstacles.(19) Some landlords made more than one response. The latter responses imply that the rent review

program just might have some impact on maintenance levels. These conclusions must be viewed in light of the fact that Ontario's program incorporates provisions to keep service levels constant and does permit landlords to apply for an increase up to 2 percent over their costs.(20) These conditions serve to offset any negative effects that a rent control program may have on maintenance levels.

Richard W. Ault points out that in areas where rent controls have been in place for a substantial period of time, deterioration of the housing stock appears to be greater in the controlled sector as opposed to the noncontrolled sector even when age differences are adjusted for. He tells us that in New York City, only eight percent of the noncontrolled residential rental housing market has suffered deterioration while 29 percent has experienced it in the controlled market.(21)

Advocates of rent control claim that most landlords will not cut back on maintenance services because most rent control programs (moderate) provide for increases according to some index of the increases in expenses, such as the consumer price index. In her study of the New York City housing market, Monica Lett utilized a 'price index of operating costs for rent-stabilized apartment houses', for New York City from 1967 - 1975. To this, she compared the consumer price index for that region. Her findings were exhibited in the following table.(22)

TABLE 2

Comparison of Consumer Price Index and New York City Price Index of Operating Costs for Rent-Stabilized Apartment Houses in New York City

Consumer Price Index for New York-Northeastern New Jersey, 1967 - 1975

	All Items Index	Percent Change
1967	100.0	-
1968	104.3	4.3
1969	110.8	6.2
1970	119.0	7.4
1971	125.9	5.8
1972	131.4	4.4
1973	139.7	6.3
1974	154.7	10.7
1975	166.6	7.7

Price Index of Operating Costs for Rent-Stabilized Apartment Houses, New York City, 1967 - 1975

	All Items Index	Percent Change
1967	100.0	-
1968	103.5	3.5
1969	107.6	4.0
1970	116.6	8.4
1971	132.2	13.4
1972	139.7	5.7
1973	150.8	7.9
1974	179.8	19.2
1975	191.3	6.5

From the table, it is clear that, during the years 1970 - 1974, the consumer price index did not rise nearly as much as did the price index of operating costs. This serves to contradict the argument that landlords do receive enough of an increase to maintain maintenance levels when the control program is geared to the consumer price index. In those years when the CPI exceeds the price index of operating costs a gain will be made by landlords and during the years that it is less, a loss will be incurred.(23) As has already been argued, when a landlord receives less revenue or costs increase, maintenance service is the easiest thing to cut back on.

Frank S. Kristoff provided a table (Table 3) that shows the severity of the differences in housing quality, in New York City, between the controlled and noncontrolled sectors.(24) It is obvious from the table that there exists a significant difference in the quality of housing experienced in the controlled and decontrolled units. Of course, other factors, such as age must be considered. But, as Richard Ault points out, even when this is true, the same relationship seems to hold between maintenance levels and rent controls.(25)

TABLE 3

Percentage of Renter-Occupied Households by Indicators of Quality of Housing Maintenance

NEW YORK CITY

Item	Controlled Units	Uncontrolled Units	Central Cities N.E. Region
Dilapidated or Lacking Plumbing Facilities	9	5	n.a.
Breakdown of Toilet	6	3	3
Breakdown in Heating System	34	13	20
Broken Plaster, Peeling Paint	23	10	18
Holes in Walls Ceiling	30	16	19
Holes in Floor	12	7	19
Rodent Infestation	28	31	n.a.

Note: n.a.: not available

Source: U.S. Bureau of Census: 1975 New York City Housing and Vacancy Survey; Annual Housing Survey, 1975, Part B, "U.S. and Regions, Indicators of Housing and Neighborhood Quality."

Abandonment

In the same manner that rent controls are accused of causing decreased maintenance, they are also accused of causing an increase in subsequent building abandonment and a decrease in the housing stock inventory. Joseph Duenas cites Neil Hardy, Assistant Administrator of the New York Housing and Development Administration, as saying about the District of Columbia: "1500 abandoned structures is evidence of its severity."(26) There is some evidence to show that building abandonment may partially result from the implementation of rent controls although there are other major factors present. Building abandonment may result from the urban migration to the suburbs, fewer immigrants coming into the city core, or changing social and economic characteristics of the neighborhood.

Looking at the extreme rent control case, New York City, Dr. Kristoff tells of a decrease of one hundred thousand units over a three year period.(27) This severity, of course, is the result of many factors interacting over a long period of time, one of those factors being rent control. Year after year, if landlords are caught in a cost-revenue squeeze, maintenance services will be curtailed to some level which may be none at all. As time passes, the landlord realizes that he has no choice but to let the building go until it is uninhabitable. He tries to keep collecting rents as long as possible without putting out for any services. The next step is building abandonment when it is no longer possible to collect those rents. The building is then just left to await demolition by the city.

Ira Lowry, with the Rand Institute, investigated the effects of rent control on the residential rental market in New York City. Using a time series method, they demonstrated the hidden extent of the housing loss and the accelerated rate it was occuring at. 38,000 units were lost per year after 1965. This figure does not include structures demolished to make way for new ones.(28) To examine why this acceleration of the rate of deterioration occured, such variables as the population change were evaluated. It was determined that the city's population itself was not increasing but that a move to less people occupying one household did exert some pressure.(29) But the most constraining factor was found to be the existence of rent controls. In a report to the Office of Rent Control, George Sternlieb pointed out the economic problems of landlords. They were faced with costs increasing at six to nine percent between 1966 and 1968 while rent increases did not match this figure.(30) It was this difference which caused many landlords to disinvest in the rental housing market in one way or another.

Presenting an opposite point of view, Marcuse investigated the causes of building abandonment in New York City during the years 1975 - 1978. He found that rent control did not cause building abandonment to be greater in controlled units.(31) This was taken to indicate that building abandonment was probably associated more with other variables. Dreier, Gilderbloom and Appelbaum suggest likely causes to be "reclining, vandalism, arson for insurance purposes, neighborhood decline, and the exhaustion of accelerated depreciation and other tax benefits."

He feels that when rent controls require landlords to maintain certain standards to receive any rent increases, they will do so.(32) But, he neglects to realize that the cost of maintaining those standards may outweigh the benefits that any rent increase will bring to the landlord. If this is the case, the standards will not be maintained. In economic theory, an expense should only be incurred until the benefit received from the last dollar spent equals the cost of spending that last dollar. This piece of microeconomic theory disputes Dreier's argument that rent control encourages a continued level of adequate maintenance and a prevention of the deterioration that leads to rental housing abandonment.

Howenstine points out the change in the rental residential sector that may take place if rent controls are left on in the long run. He takes the change in the breakup of the United Kingdom's rental housing market as an indication of the negative impact of rent controls on supply in that sector. Between 1914 and 1971, the percentage of rental housing declined from 90 to 20 percent. He claims that the existence of rent controls served to discourage new investment and took away any incentives to hold on to older investments. This shrinkage was due to a lack of new investment, a transfer to the private market, or a loss of older investments through abandonment.(33)

Edith Jacobson Nickel and Ian Gillies also hold that rent controls serve to cause rental housing inventory deterioration and subsequent abandonment. They cite the Swedish experience as a prime example of conditions in the rental housing market when

rent controls have been in place over the longer term.(34) Sven Rydenfelt has explored the Swedish rent control situation, one that began in 1942 when rent controls were implemented as an emergency response to temporarily deal with the housing shortage.

Rydenfelt produced the following table which shows the extent of housing losses during that time period.(35) From the table, it is clear that Sweden was experiencing a major loss of housing inventory. During the years 1961 - 1965, the loss of housing units was greater than the net gain. The noticeable decline in housing losses after 1965 coincided with the advent of decontrol in Sweden. This table provides a clear picture of how the implementation of rent controls can begin a rental housing inventory disinvestment and accelerate it over time. The most striking feature is the slowdown in losses which occured when decontrol began. In this case also, there are other factors that should be considered, but, the beginning and end of the increased losses coincides so closely with the beginning and end of rent controls, it becomes more likely that the increased regulation played the major role.

TABLE 4

Gross and Net Housing Production

1941 - 1945 to 1971 - 1975

	Total New Dwellings Construcd. (a)	Net Increase in Stock of Dwellings in Stock of (Gain) (b)	Dwellings Removed From Housing Stock (Loss) (c)	"Loss Ratio" of (c) to (a) %
1941-45	180,000	142,000	38,000	20
1946-60	825,000	573,000	252,000	30
1961-65	415,000	200,000	215,000	52
1966-70	515,000	306,000	209,000	41
1971-75	469,000	350,000	119,000	25

Sources: Housing Construction (Swedish Official Statistics), and the housing censuses.

As many years ago as 1948, Bertrand de Jouvenel was writing on the implications that rent controls hold for the condition and continuation of the existing housing stock. To depict the Parisian situation at that time, he stated:(36)

> Even a very lenient officialdom estimates that there are about 16,000 buildings which are in such a state of disrepair that there is nothing that can be done but to pull them down. Nor are the remainder altogether satisfactory.

deJouvenel explains the situation as a result of the use of rent controls:(37)

> The miserable condition of owners is easily explained. While rents since 1914 have at the outside multiplied 6.8 times, taxes have grown 13.2 times and the cost of repairs has increased from 120 to 150 times the 1914 price!

These statements depict an extreme case where rents had been kept very far below the level that they would have been at had there been no controls. It gives valuable insight into the impact that rent controls of the medium variety will have if left in place long enough. It is proposed that the increased stringency of the regulations just serves to quicken the results and make them more visible.

Effects on Transfer of Housing out of the Rental Market

Another stated disadvantage of rent controls is conversion. The argument goes as folows: although many residential rental housing structures are abandoned after deterioration has set in, it is quite common for units to be converted to condominiums for private ownership or sold to be used for commercial purposes. The decision to transfer the housing stock out of the rental market is clearly an economic one, involving the weighing of costs against benefits. If a profit can be made or a loss minimized by the conversion, a landlord will do it. Another force that will prompt the conversion for private sale when rent controls are in place is that as rent controls lower the price of rental housing relative to other goods, the vacancy rate for rental units will decrease, causing the demand in other housing subsectors to decrease. This increased demand in other subsectors will push prices up in those areas and landlords of rental housing will be given further incentive to convert their stock. Indicating that there is a tendancy for landlords to convert their property to condominiums during periods of rent control is the fact that many rent control programs have legislation limiting the percentage of conversion which may take place.

Many of the same statistics presented to show the effect rent controls had on building abandonment can be used to show an increase in the conversion to condominiums. When the rental housing market shrinks it can be due to conversion or abandonment. The extent of the shift from rental apartments to

condominiums can be determined by an analysis of the price elasticities of demand for the various subsectors in the housing market.

A major effect of the shrinking housing market, due to conversion or abandonment, is that while the demand for rental housing is increasingly unsatisfied, the demand for public housing will rise. This increased pressure for more public low-cost housing places an added burden on government.(38)

Doing an extensive analysis of the rental housing market in his article, "Rent Control and Housing Reconstruction: The Postwar Experience of Prewar Premises in Hong Kong", Steven Cheung concluded that landlords quickly learned that, in the face of rent controls, it becomes more beneficial to convert their rental holdings to units for private ownership. Cheung points out that Hong Kong has developed an efficient and sophisticated system for the implementation of rent controls and that even with this superior system, investment in the rental market is discouraged.(39)

Effects on the Tax Base

An issue which is of the utmost importance to an analysis of the economic value of rent controls is their effect on the tax base of the area which they serve. Given that rent controls reduce the optimal maintenance level, lead to a deterioration and devaluation and, subsequently, cause abandonment, a community's property tax base will be decreased in size. If the imposition of rent controls serves to slow or even halt new construction in a given area, a loss of potential tax revenues is also realized.

Herbert Selesnick conducted a study of the effects of rent control in various cities in the state of Massachusetts for the Massachusetts Joint Legislative Committee on Local Affairs. Massachussets implemented rent controls in 1970 and Selesnick's study was done over a four year period. The five controlled cities studied, in detail, were Brookline, Somerville, Cambridge, Boston and Lynn. Included in the study were 17 noncontrolled cities and towns. Selesnick looked at the effects that rent controls had on the tax base in each of those areas. One point to remember is that the time period of the study is only four years and that relatively short term when considering the effects of rent control.(40)

When analyzing the effect of rent controls on the property valuations in the five cities, Selesnick concluded that their impact could not be ascertained clearly because of the presence of many other variables which can cause them to change. Selesnick found that the property valuations, in Cambridge,

showed a definite increase during the years 1968 to 1973. When looking at Lynn, he found a steady decrease from 1969 to 1973. This result, though, could be caused by the fact that Lynn's decline began before rent controls were enacted gives some evidence of those other variables.(41) Following are some statistics on property valuations which Selesnick collected:(42)

TABLE 5

Percentage of Real Estate Property by Valuation Which is Tax Exempt

City/Town	Percentage
Boston	59%
Brookline	19
Cambridge	49
Somerville	28
Lynn	27

Source: Figures based upon 1973 data filled by each municipality with the Massachusetts Department of Corporation and Taxation.

In cities or towns where there is a high percentage of tax exempt properties, it is necessary to tax those not exempt more heavily. To the extent that there are large differences in the tax exempt percentages between areas, there will also be large differences in tax rates applied to taxable properties. Many critics argue that rent controls cause an increase in property tax rates. The above exemptions represent just one sort of factor that can influence those rates and make it so hard to determine the effects of rent controls.

TABLE 6 (43)

Real Estate and Personal Property Valuations
1968 to 1973

	Personal	Real Estate
Boston		
1968	148,048,700	1,424,259,300
1969	152,268,200	1,446,731,800
1970	157,081,400	1,459,918,600
1971	179,190,000	1,502,310,000
1972	183,838,200	1,531,861,800
1973	207,493,300	1,534,706,700
Brookline		
1968	19,418,600	412,418,600
1969	20,011,200	419,744,500
1970	19,830,700	424,511,200
1971	21,504,400	425,082,800
1972	18,737,400	426,064,800
1973	19,288,800	428,563,700
Cambridge		
1968	33,186,700	270,304,500
1969	34,114,000	278,546,200
1970	36,284,500	279,799,900
1971	38,994,100	280,701,900
1972	43,679,500	281,758,900
1973	49,050,800	277,001,700
Somerville		
1968	12,110,400	124,371,000
1969	12,452,700	123,968,500
1970	13,467,000	124,430,100
1971	14,144,700	124,243,600
1972	14,716,300	123,433,450
1973	16,112,150	122,809,150
Lynn		
1968	16,099,216	132,819,275
1969	14,209,760	131,049,950
1970	13,649,760	129,795,125
1971	15,426,100	126,982,330
1972	15,593,850	134,916,270
1973	11,944,833	131,269,530

TABLE 7

City/Town	Estimated Full Value tax Rate (If Assessment Ratio = 100%) 1968 Est. Full Value	1969 Est. Full Value	1970 Est. Full Value	1971 Est. Full Value	1972 Est. Full Value	1973 Est. Full Value
Arlington	$ 36.80	$ 41.00	$ 47.40	$ 50.80	$ 52.30	$ 52.80
Boston	106.90	121.50	101.40 (a)	141.50	161.30	163.30
Brockton	58.50	62.50	75.90	87.70	96.20	95.40
Brookline	35.90	43.30	58.30	62.90	62.20	63.50
Cambridge	50.30	58.00	69.20	83.40	92.40	94.40
Chicopee	41.00	48.50	50.50	55.60	53.60	53.40
Fall River	62.40	66.20	69.10	78.10	85.40	86.40
Framingham	44.00	38.00	43.00	49.50	49.40	51.00
Lawrence	41.10	45.20	56.10	63.10	66.80	68.60
Lowell	56.90	63.00	72.40	74.60	75.50	73.70
Lynn	40.30	45.40	58.40	60.00	75.00	68.70
Malden	56.70	62.10	65.10	76.00	83.00	77.40
Medford	42.90	52.80	57.60	70.00	68.40	66.80
New Bedford	52.50	53.30	61.30	71.90	76.40	75.90
Newton	44.30	50.00	58.20	62.00	72.60	71.30
Pittsfield	47.70	49.50	49.40	49.70	51.90	57.90
Quincy	44.90	55.90	53.30	62.70	73.00	75.60
Somerville	59.00	64.30	75.30	78.00	76.40	72.10
Springfield	54.50	57.80	63.70	68.20	72.30	73.80
Waltham	36.00	40.30	44.40	42.50	41.50	39.40
Weymouth	28.00	34.10	43.00	45.60	52.00	52.80
Worcester	66.30	80.50	76.40	85.80	89.80	94.90

"(a) In Boston, the assessment ratio was 84 percent in 1969, 65 percent in 1970, and 81 percent in 1971. The ratio was lowered in 1970 for reasons independent of rent control. One can speculate that it was lowered because 1970 was an election year." Source: Massachusetts Taxpayers Foundation.

Next, Selesnick looked at the changes in the various property tax rates in the rent controlled areas versus the non-rent-controlled areas. All 22 municipalities together experienced an average increase in the tax rate (Selesnick assumed that each municipality used a 100 percent valuation) of 19.17 percent. The noncontrolled municipalities experienced an average increase in the rate of 17.78 percent. The controlled municipalities (Boston, Brookline, Cambridge, Somerville and Lynn) experienced an increase of 23.94 percent. At first sight, it looks as though the rent controlled municipalities experienced significantly greater increases but when Boston is removed from the sample, the figure drops to 11.74 percent. This is significantly lower than the noncontrolled municipalities.(44) The fact that Boston, out of all 22 municipalities, has the highest percentage of tax exempt real estate property may have caused the high increase in its tax rate (61 percent). The statistics that the above figures derive from follow.(45) Just as Selesnick concluded that one cannot determine the exact effect rent controls have on property valuations, he concludes that there is no evidence to show that rent controls cause the tax rates to rise more quickly in controlled communities.(46)

Another tax issue which Selesnick considered in his study was that of abatements made to rent controlled real estate. It is argued that these have a major disadvantageous effect on the community's property tax base. As abatements are granted to rent controlled properties, it is argued, rates must be increased for those noncontrolled properties. Selesnick specifically looked at two of the rent controlled cities, Brookline and Cambridge.

A study done on rent controls and abatements, in Brookline, by Joseph Eckert, was used by Selesnick to deny the claim that the impact of abatements on Brookline's tax rate was significant. Eckert claimed that abatements would not have a significant impact on rent controlled cities that allowed landlords to pass these tax costs on to the tenant.(47) The data obtained for Cambridge lead to a different conclusion but other factors enter into the Cambridge case which may have distorted the results.(48)

Peter Dreier surveyed the work that John Gilderbloom and Emily Achtenberg did on the impact of rent controls on the tax bases of rent controlled cities in New Jersey and Massachusetts, respectively. Gilderbloom found that for cities which employed moderate rent controls, the tax base was not significantly affected. Only seven out of 100 rent controlled municipalities showed a decrease in their tax base after the implementation of rent controls (1973 - 1976). Achtenberg found that three out of the five rent controlled cities in Massachusetts did suffer a decline in their tax base during the rent controlled period but that the declines had begun before the controls. The other two controlled cities had increases in their tax bases during the period. Both Achtenberg and Gilderbloom concluded that there were other variables which had a greater impact upon a municipality's tax base than rent controls.(49)

Richard Ault points out that New York City loses approximately $115 million per year due to an erosion of its tax base. This loss is due to a 1.5 billion dollar reduction in its tax base because of rent controls. He claims that areas that do

not show significant losses are those which have not had the long term experience with rent controls that New York City has had.(50) Frank Kristoff used the following table to show the dramatic increase in New York City's unpaid taxes and attributes the rise to the long term impact of rent controls:(51)

TABLE 8

Unpaid New York City Taxes

1975 - 1976 Unpaid Real Estate Taxes	$ 242,569,502
1974 - 1975 and Earlier	328,388,719
Unpaid Water and Sewer Taxes Through 1975 - 1976	119,281,669
Cancellations and Remissions 1971 - 1975	440,100,000
	$1,130,339,980

Monica Lett argues that the research does show a decline in tax bases and an increasing inability of landlords to pay their taxes in rent controlled municipalities.(52) Lett uses data she collected on annual operating expenses to show that there does exist a difference in the size of the tax burden that rent controlled structures bear in relation to noncontrolled structures:(53)

TABLE 9

Average Annual Operating Results
1971 - 1973 Rent Control Sample

	Net Rent Recd.	Real Estate Taxes	Taxes as % of Net Rent Recd.	Ave. % Change	Net Cont. to Debt, Depn & Profit as % of Net Rent Recd.
1971	189,543	52,313	27.6%	14.5%	37.5%
1972	201,034	59,908	29.8	0.0	34.7
1973	202,315	59,885	29.6	14.4	32.5

Average Annual Operating Results
1971 - 1973 Noncontrolled Sample

	Net Rent Recd.	Real Estate Taxes	Taxes as % of Net Rent Recd.	Ave. % Change	Ave % in Net Contr to Debt, Depn & Profit as % of Net Rent Recd.
1971	421,073	78,793	18.7%	11.2%	49.8%
1972	455,925	87,611	19.2	-0.2	49.5
1973	478,111	87,427	18.3	11.0	49.7

Obviously, the rent controlled sample experienced real estate taxes as a greater percentage of their net rent received and this was one of the factors which caused their net contribution to debt, depreciation and profit to be lower. Lett advocates that rent controls must include accurate mechanisms for rent adjustments with regard to all operating expenses so that an erosion of a city's tax base can be prevented.(54) If arbitrary, and many times artificially low, guidelines for increases are set, operating expenses will eat away at profits and cause a disincentive to invest in the residential rental housing market.

Patrick Laverty's study of the Rent Review program in Ontario concludes that there has not been a direct shift of the tax burden from rental to ownership property for three reasons. First, the rental housing market is not taxed on full market value in most of Ontario. Second, there has not been a serious enough deterioration in any of the stock to warrant a decrease in assessment values. Third, rental property is assessed at higher values than ownership property. Any decrease in tax revenues collected from the rental sector will serve to increase the equity between the two. Effects on taxes due to decreased construction from fear of the extension of controls or the increase in other taxes necessary to cover the costs of administering such a program are probably quite significant.(55)

Generally, a control program can be set up so as to avoid a reduction in a community's tax base. However, indirect changes in the tax base through decreased construction, etc. cannot be avoided. There are too many interlocking variables that will

cause any tax effects to spread.

Decreased Labour Mobility

Another damaging criticism of rent controls is that they serve to reduce the mobility of the labour force. As the vacancy rates in rent controlled buildings are usually low and waiting lines long, when people already in rent controlled apartments are offered jobs elsewhere, they are hesitant to give up their current bargain in case they cannot get into a new one. If it is true that the imposition of rent controls reduces the construction of new housing, the mobility of labour in the rent controlled and noncontrolled sectors will be affected in that vacancy rates will be lower in both types of rental housing. These factors reduce the mobility of the labour force and increases expenditures on transportation by commuters.

Howenstine points out that:(56)

> . . . in Vienna, one authority attributed the doubling of the volume of public transportation between 1913 and 1928 at a time of diminishing population mainly to inhibited mobility caused by rent control; another investigator estimated--admittedly with some exaggeration--that additional fares squeezed out of the Viennese public by rent controls amounted to two-thirds of the annual outlay on new building in the city.

To show the opposing view on this matter, J.B. Cullingworth

> . . . noted that statistical evidence in the United Kingdom indicated that mobility was the same among families living in private rental units, owner-occupied dwellings, and subsidized public housing.(57)

W. Clark and Allan Heskin conducted a study on the effect of rent controls on residential mobility in the City of Los Angeles. The time period chosen for the study was June 1978 to April 1980. Los Angeles implemented rent controls in 1978 and followed with a Rent Stabilization Ordinance in May 1979. The study used a random

sample of 4,094 tenants in various locations throughout Los Angeles.(58) Clark and Heskin began their investigation by looking into the tenure discounts that renters of controlled housing received during this period. Finding that these discounts were significant in size, they hypothesized that there would be a corresponding reduction in labour mobility during the period of controls. This they found to be true. The following table summarizes their findings:(59)

TABLE 10

Mobility Rates in Los Angeles

	1977 (before controls)	1979 - 1980 (during rent stabilization)
Overall renters	.38	.24
Whites	-	.30
Blacks	.36	.21
Spanish surname	.38	.23

(Source: U.S. Department of Commerce, Annual Housing Survey 1979)

In a more detailed analysis, Clark and Heskin found(60) that older renters tend to remain longer in their rent controlled apartments even if they have too much housing space while younger renters attempt to find controlled housing and as their families grow larger, stay longer. This study shows that labour force mobility is impacted upon by the existence of rent controls even when they are in place for a relatively short period of time. Clark and Heskin do point out that there are other factors which may influence the labour mobility of an area but that these

factors would not impact as much as the imposition of rent controls and the subsequent reduction in vacancy rates for all renters.(61) Also, contrary to some popular accounts of the effects of rent controls, Clark and Heskin concluded that low income renters do receive larger discounts than middle or high income renters, on one and two bedroom units.(62)

The study done by Clark and Heskin is indicative of the effects that rent controls might have on labour mobility in many other cities today because of the moderate nature of the controls that were adopted by the city of Los Angeles. The program included provisions for exemptions of some rental housing and vacancy decontrol.

TABLE 11

Proportion of the Renter Population Moving into Their Unit During The Past Year by Respondent's Age, Household Income and Race

	Mobility Rate	n
Respondent's Age		
18 - 25 years	.46(a)	633
26 - 35	.30(a)	847
36 - 45	.20(a)	342
46 - 64	.13(a)	465
65+	.09(b)	316
Household Income		
<$ 5,000	.30(c)	468
$ 5,000 - 10,000	.24	712
$10,000 - 15,000	.24	437
$15,000 - 25,000	.27	404
$25,000>	.31(c)	230
Race		
White	.30(d)	1332
Black	.21(e)	505
Hispanic	.23(e)	638
Other (Asian)	.37(d)	149

(a) Rates are significantly different from all other rates at the 0.5 level

(b) Rate is significantly different from all groups but ages 46 - 64

(c) Rate is significantly different from $5000 - 15,000 groups

(d) Rate is significantly different from all other groups

(e) Rate is significantly different from all other groups but Hispanic and Black

Rent Control's Impacts on Housing Starts

In arguing against rent controls the critics say that the artificially low prices (i.e., rents) placed on apartments cause investors to revise their calculations of return on investment to a new, lower figure. This supposedly provides a disincentive to potential investors in the residential rental housing market. As they compare the risk taken and the return received in this market to those in other markets, a reallocation of resources may take place to a market with a more favourable combination of risk and return. The literature on this subject exemplifies the point that this effect is one of major concern in the implementation of rent controls.

Patrick Laverty, in his study of Rent Review in Ontario, states that:

> In considering both the supply of rental units and the maintenance of buildings, profit performance appears to play a role in the process of providing an adequate quantity and quality of rental housing. Thus, it is important to tenants, as well as landlords, that adequate returns exist.(63)

A survey was conducted of landlords in Toronto and London to determine their actual rates of return. These rates were tested for equity by asking the landlords' opinions, comparison to the inflation rate and other investment, and by looking at managerial methods employed by landlords. It was found that, generally, landlords are feeling a cost-revenue squeeze and are attempting to combat this by reducing expenditures on building services and new investment. It is clear that, in time, Ontario's residential rental housing market will experience a reduction in both the quality of service provided and the quantity of new investment

undertaken.(64)

Contrary to what was just said, Emily Achtenberg concluded that housing starts are not affected as much by rent controls as they are by other variables in the economy. She cited "the availability of land, government housing programs, zoning laws, and the general health of the economy"(65) as having a more significant impact on the rate of new construction than rent controls did. Achtenberg studied the effects of rent controls on construction in Massachussets. The results of her study indicated that the rate of construction in the controlled cities was greater than that in the noncontrolled cities.(66)

In his study of the effects of rent control, in Massachusetts, Herbert Selesnick drew similar conclusions. Selesnick used the following table to analyse the situation in Massachusetts.(67)

TABLE 12

Dwelling Units Authorized by Building Permits
Structures with Three or More Units
(From Local Records)

City/Town	1968 S	1968 US	1969 S	1969 US	1970 S	1970 US	1968-1970 S	1968-1970 US
Boston	1201	1156	715	371	394	26	2310	1553
Brookline	0	35	100	0	71	207	171	242
Cambridge	573	95	0	51	634	90	1207	236
Somerville	0	44	0	101	110	58	110	203
Lynn	94	24	0	103	0	42	94	169
TOTAL	1868	1354	815	626	1029	423	3892	2403
							6295	

City/Town	1971 S	1971 US	1972 S	1972 US	1973 S	1973 US	1971-1973 S	1971-1973 US
Boston	985	81	1583	1014	732	139	3300	1234
Brookline	0	58	130	793	0	31	130	882
Cambridge	427	190	747	332	354	392	1528	914
Somerville	0	173	0	144	80	86	80	403
Lynn	346	126	0	48	327	443	673	617
TOTAL	1758	628	2460	2331	1493	1091	5711	4050
							9761	

S=Public Housing, FHA 221 (d) 3 and 236.

US=Unsubsidized, including FHA insured housing.

Source: Urban Planning Aid.

(Rent controls began in the five cities in 1970). From the table it is clear that the construction of privately initiated multi-family housing was on the rise during rent controls in all of the controlled cities except Boston. But the data does show that dwelling permits issued in Boston was on the decrease before the implementation of rent controls. This would indicate that there were other, strong factors at play. Selesnick's use of building permits lends more credibility to the study than housing starts or completions would have. Building permits present a more accurate picture of the willingness to invest than the other indicators. The problem with using housing starts and completions as indicators of the effect that rent controls have on housing construction lies in the fact that there are numerous time lags. The fact that housing is started or completed during unit controls is misleading because it does not inform us as to whether or not investors were aware of the upcoming controls during the planning stages.

When evaluating the results of Selesnick's study, one must keep in mind the short time period for rent controls. When the controls were implemented in Massachussets, they were enacted as a temporary measure with a four year mandate. At the time of implementation and during the life of the controls, investors may have chosen to consider the controls as a temporary nuisance which should not hinder their long range plans. If this were the case, other economic factors present at the time, may have caused the resulting increase in the willingness to invest in multiple family rental housing. If a comprehensive study on the effects that rent controls have on new multi-family construction were

done in an area where controls had been in place over the long term, the results might be quite different.

The Costs of Administration of Rent Control

One of the side-effects of rent controls is that their very existence imposes a charge upon society. They are a policy of government which requires staff for administration and enforcement just as any other policy implementation scheme does. Using econometrics to do a cost-benefit analysis of rent controls, Edgar Olsen concluded that "the cost of rent control to landlords was twice its benefit to their tenants." Olsen conducted his study in New York City in 1968. He found that the benefits received by tenants of rent controlled housing, in that year, was approximately $270 million. In addition, he estimated that the added costs to landlords, as a result of rent control, was approximately $514 million. Then, using Dreyfuss and Hendrickson's estimated cost of $7 million to administer rent control, he calculated the excess of costs over benefits according to the preceeding figures. This turned out to be an excess of $514 million + $7 million - $270 million = $251 million, in costs over benefits.(68) The inequality of the cost/benefit equation implies an imbalance in the allocation of resources. Of course, when looking at the above equation, it must be remembered that no intangible benefits or costs have been taken into account. Although, if intangible benefits did exist, they would have to be quite large in order to overcome the size of the monetary costs.

Income Redistribution

The premise for rent control boils down to an apparent need to have income redistributed to tenants from other groups in society. The other group most directly affected by this attempt is landlords. In his study of Rent Review in Ontario, Patrick Laverty found results that are consistent with the above statement. Additionally, he found that "over one-half of the total benefits go to the top 60 percent of households by income" and "the estimated rental savings of tenants with children is less than the savings of non-elderly childless individuals and couples."(69) These results indicate that the rent review program is redirecting income into the hands of those groups in society who need it the least while, at the same time, landlords must bear the burden. Laverty supplied the following table to illustrate exactly where the costs and benefits occured:

TABLE 13 (70)

Summary of Benefits and Costs of Rent Reduction to all Ontario Households, 1978, by Income Groups

	Under $4000	$4000-7,999	$8000-11,999	$12,000-14,999	$15,000-24,999	$25,000 or more	All Income Groups
Households (000)	235.3	292.9	280.4	271.0	909.7	772.4	2,761.7
Average Income ($)	2,440	6,050	10,010	13,560	19,650	35,240	19,526
Total Benefits ($million)	13.7	19.1	21.7	21.2	55.9	27.5	159.1
Total Cost ($million)	2.9	11.8	14.1	11.7	35.1	83.4	159.1
Total Net ($million)	10.8	7.3	7.6	9.4	20.8	-55.9	0
Average Benefits ($)	58.17	65.14	77.53	78.08	61.51	35.60	57.61
Average Cost ($)	12.45	40.25	50.22	43.29	38.62	108.05	57.61
Average Net ($)	45.72	24.89	27.31	34.79	22.89	-72.45	0.00
Benefit/ Income (%)	2.4	1.1	0.8	0.6	0.3	0.1	0.3
Cost/ Income	0.5	0.7	0.5	0.3	0.2	0.3	0.3
Net/Income	1.9	0.4	0.3	0.3	0.1	-0.2	0.0

Note: Categories may not equal due to rounding.

Source: J. Miron, "The Redistributive Impacts of Rent Review: Empirical Findings" based on unpublished data from Statistics Canada, 1978. Household Income Facilities and Equipment Survey (HIFE).

Table 13 portrays the fact that rent controls do not always redistribute income to the lower income tenants but may, in fact, benefit the higher income tenants more.

In addition to income redistribution, Laverty studied tenant's affordability. He argued that because incomes have been increasing over time, problems of affordability have probably lessened. However, the efficiency with which the program combats these problems must be criticized because of the low percentage of benefits that go to those with a problem. Laverty hypothesizes that because 70 percent of the tenants do not have an affordability problem, only approximately one out of four dollars of the decreased rent goes to the estimated 30 percent that do have a problem.(71) This should be a signal that rent review is not specifically serving the market that needs it.

Decontrol

The problem of decontrolling rents, once the resrictions have been put in place and accepted by the general populace, presents an imposing problem for any government to deal with. Generally, a great deal of uncertainty is involved in that no one is positive about what the effects will be in their own area. Each area has its own market conditions and attitudes held by the public influence to what extent a government is willing to decontrol.(72)

There is some variety in the methods that can be chosen to be used in decontrol situations. One possible alternative is vacancy decontrol. As apartments become vacant, their rents are allowed to rise to the market rate. Some stated disadvantages of this method include the fact that rents are allowed to rise as rapidly as landlords wish, impacting negatively on those persons who cannot afford the increase. Also, it is maintained that this rapid form of decontrol will have negative consequence on those people who must move into the area because they will be forced to pay higher rents than many of their neighbors.(73) Another alternative discussed by John Clapp is that of 'maximum base rent'. Under this alternative, a maximum rent is chosen for each apartment, according to some criteria, and the rate is allowed to rise according to a schedule to reach this level. Obviously, the costs involved in administering such a program would be very high even though it would avoid spiralling rents in the face of excess demand.(74)

When discussing decontrol, it is usually assumed that the

rental housing market is facing a situation of excess demand. If it were not, the main concern over decontrol, rapidly increasing rents, would be eliminated due to the fact that if the market were in equilibrium or facing a surplus, rents would not be inclined to rise.(75)

Edith Jacobson Nickel and Ian Gillies state that:(76)

> A sudden lifting of controls would cause market confusion and heavy demand pressures on smaller units because of tenants being forced to economize on space. In this confusion rents might be pushed up to grotesque levels. These kinds of effects would be more serious the longer rent controls have been in operation.

M.A. Walker discusses the possible impacts of decontrol on the residential rental housing market in Vancouver. Using L.B. Smith's estimate of the elasticity of demand for housing units to rent changes (0.4) and a procedure incorporating the natural vacancy rate, "population growth, income growth and construction in progress", Walker concludes that a rent increase of 12.8 percent would be necessary to achieve the natural vacancy rate of four percent.(77) When this was achieved, Walker believes that the market would be in equilibrium and no further increases would be required. Walker cautions that vacancy rates may even be negative if demand during rent controls is great enough. Walker also points out that:(78)

> The principal variables that will determine the rate of rent increase in each area: the vacancy rate gap, the rate of population growth, the rate of growth in real family income and the rate of growth in the housing stock implied by projects currently underway.

Clearly, each of these variables would have to be looked at in any analysis of decontrolling rents.

Walker cites the example of a U.S. Department of Labor survey of decontrolled cities in 1949. The results of this study indicated that the rise in rents were not as outrageous as might have been expected. In fact, "the average percentage increase in rents amounted to only 11.6 percent."(79) The important thing to remember with respect to decontrol is that each situation will have a different context and should be treated accordingly.

Summary

In this section of the paper, evidence has been presented with regards to the effects that rent controls have on conditions in the residential housing market. The conclusions presented are both in favour and against the implementation of rent controls. Whether or not rent controls are deemed favourable seems to depend on the length of time that they have been in effect. Temporary rent regulations may be ignored by investors as a temporary setback. If expectations are that the controls are long term or temporary, investors will have to recalculate their entire revenue stream and some of the disadvantageous effects discussed in this paper may set in. One of the reasons that the literature on rent controls presents so many different conclusions is the number of variables impacting on the rental sector. It is difficult, if not impossible, to separate out the impacts of each one. The literature on the impact of decontrols is scanty with conclusions ranging from moderate to outrageous increases in rent. Clearly, further research needs to be done to more accurately determine the implications of rent controls and decontrol.

IV. REVIEW OF THE ALBERTA RENT CONTROL AND DECONTROL ACTS

Like the rest of the country during World War II, Alberta's rental housing market fell under the scope of the Wartime Measures Act which set out to control prices and the allocation of commodities in Canada. When World War II ended, the price restrictions on most goods were lifted but those on rental housing remained intact because of the shortage of housing that developed during the War. At the end of the 1940's, the federal government gave each of the provinces the right to continue the rent controls or they would cease. This is one prime example of the tendancy that rent controls have to remain in place long after the period they were intended for. In 1950, like all other nine provinces, Alberta made provisions to have the rent controls continued.(80)

The Rent Control Act, in Alberta, remained in effect from 1950 to 1955. Its implementation was through a Rent Control Board that was given the power to mediate landlord and tenant disputes by setting a rent that they felt reasonable.(81) After 1955, Alberta was not rent controlled until the Anti-Inflation Board came into effect in 1975.

Again, the government wished to curb inflation through the implementation of wage and price controls. Under the Anti-Inflation Board and its programs, the provinces were asked to implement some form of rent control but were not required to do so. Alberta responded by implementing The Temporary Rent Regulation Measures Act.(82) The Act was assented to on December 15, 1975, took effect on January 1, 1976 and expired on June 30,

1977.

The Act provided controls for any rental housing (except that which included a rental agreement for a business and living quarters simultaneously) rented during 1975. The Minister responsible was given complete administrative powers of enforcement of the Act and rent regulation officers were appointed. The increases in rent permitted by the Act were ten percent in 1976 and nine percent between January 1, 1977 and June 30, 1977 when the Act expired. Where he felt it necessary, a landlord was permitted to apply for an increase greater than the Act permitted. The application had to be made to a rent regulation officer 90 days before imposing the increase, a history of increases since January 1, 1976 had to be provided and the reasons for the proposed increase stated. The number of increases in rent were limited to two and one in 1976 and 1977, respectively. Once an application for a greater increase in rent was made by the landlord, the tenant had 15 days, after notification, within which to file a statement of interest with the rent regulation officer. When this was done, the landlord was given another 15 days within which to change his mind. This measure served to cut down on the number of unjustified cases followed through. If the landlord did not change his mind, the rent regulation officer was given 60 days in which to make a decision regarding the application. To curb the potential situation where a landlord might try to reduce services provided to the tenant, a provision was made for the tenant to apply for an investigation into such matters. In cases where a rent regulation officer could not decide the application, he was to

refer it to the Rent Regulation Appeal Board.(83)

The Rent Regulation Appeal Board was established in the provincial Department of Consumer and Corporate Affairs. This Board had the power to summon witnesses, administer oaths and accept any evidence it felt relevant. Any violations would be dealt with by the Supreme Court. The Board and rent regulation officers had the power to hold or not to hold inquiries and investigations and to keep the identities of applicants and witnesses confidential.(84)

To ensure the uninterrupted proceedings of rent regulation officers and the Board, fines (in lieu of imprisonment) from $2000 to $5000 could be imposed on anyone who committed a violation against the Act. The acceptance of any payments other than rent by the landlord (except security deposits) from the tenant was also legislated as an offence. In addition, a prohibition on converting rental housing to condominiums was imposed.(85)

Just prior to the expiration of The Temporary Rent Regulation Measures Act, the Rent Decontrol Act (86) was assented to (May 18, 1977). The Act took effect on June 30, 1977, applied only to those units which were rented during 1975, and expired on the later of January 1, 1978 or six months after the limits imposed by the decontrol were attained. For example, if the decontrol limit of $275 per month for a one bedroom unit had been achieved at any time before six months prior to January 1, 1978, the unit would have to wait until January 1, 1978 to be decontrolled. The earliest possible date that a unit could be

decontrolled under the scheme was January 1, 1978. If a unit reached the limit any later than six months before January 1, 1978, it would have to wait until six months after the decontrol limit was reached to be decontrolled.

The Rent Decontrol Act also fell under the Department of Consumer and Corporate Affairs and made provisions for rent regulation officers and a Rent Decontrol Appeal Board. This Act provided for a total of a nine percent increase in 1977 and eight percent of $20 per month (whichever was greater) in the years 1978 and 1979. If a unit was not vacant, the permitted increase could be made automatically without notification to a rent regulation officer. If a landlord wished to impose an increase greater than the regulations allowed, he had to follow the same procedure as under the Temporary Rent Control Measures Act with a 90 day waiting period before implementation and provision of reasons. The Act also placed the limitations of two increases between July 1, 1977 and December 31, 1977, two increases during 1978 and 1979 and one increase between January 1, 1980 and June 30, 1980. If a tenant wished to file a statement of interest regarding a proposed increase, he also followed the same procedure outlined in The Temporary Rent Control Measures Act. The rent regulation officer, again, was given 60 days to decide the application or to refer it to the Rent Decontrol Appeal Board. If his decision was not made within 60 days, only the permitted increase was assumed to be granted. Investigations were also held where a tenant applied to a rent regulation officer in regards to a reduction in service.(87)

The Rent Decontrol Appeal Board was given the same powers as the Rent Regulations Appeal Board with regards to enforcing their decision, calling witnesses, administering oaths and admitting evidence. This Board also had the same recourse to the Supreme Court and fines (in lieu of imprisonment) also ranged from $2,000 - $5,000. Any fees other than a security deposit were strictly prohibited and prohibitions were placed on the conversion of rental units to condominiums for sale.(88) The prohibitions on conversion were also contained in the Temporary Rent Regulation Measures Act.

Both The Temporary Rent Regulation Measures Act and The Rent Decontrol Act provided regulations for residential rental housing and mobile home pads. If vacant in 1975, the regulations did not apply. The limits for removing controls were $375, $325 and $275 for units of three +, two and one bedrooms, respectively.(89)

The Annual Report of Alberta Consumer and Corporate Affairs (1978) points out that revision to the legislation:

> provides for consideration for revising base rent in cases where:
>
> 1. A part of the rent was paid in kind and the value of the goods or services cannot be defined;
>
> 2. The rental rate was considerably below the market because of the relationship, status or income of the tenant; and
>
> 3. The landlord has not increased the rental rate by the permitted increases provided for in each calendar year.(90)

V. SUMMARY OF THE CONSUMER AND CORPORATE AFFAIRS ANNUAL REPORTS ON PERFORMANCE OF RENT CONTROL AND DECONTROL BOARDS IN ALBERTA.

The Rent Regulation Appeal Board was set up as a temporary provincial agency within the Department of Consumer and Corporate Affairs. It was staffed with personnel who were well aware of the fact that their jobs were very temporary and that as the amount of work coming in decreased, the number of staff would also decrease. This eliminated any responsibility of the government to provide them with job security.(91) Often, when temporary agencies or departments are staffed with permanent personnel, there is a vested interest on the part of the employees to have a permanent agency created. Because regional offices were staffed with temporary personnel, both the Rent Control and Decontrol programs were able to accomplish their immediate objectives and phase out regional offices and staff. Table 14 shows that during the Rent Control Program the Rent Regulation Appeal Board only came into contact with 14 percent of the landlords in the province. At that time there were approximately 16,000 landlords in Alberta.(92) (I.e., the Board was in contact with about 2240 landlords.) Of the 14 percent that the Board came into contact with, Mr. Bill Barry, Executive Director of the Rent Control Program and Secretary Manager of Rent Control and Decontrol Appeal Boards, estimates that one-half of those landlords were consistently correct in their claims or defenses while the other one-half were not. This implies that during the rental programs, 93 percent of landlords in the province were in compliance with the law and did not give their tenants any legitimate cause to

TABLE 14

PERFORMANCE OF THE RENT REGULATION APPEAL BOARD(93)

Act	# Of Landlord Applications	# Of Orders Issued	Ave. % By Which Increase Exceeded Permitted	% Of Landlords in Contact With	Total Fines
The Temporary Rent Control Measures Act	1976: 393 1977: 1039	16 1237	3.2	14	$13,000
	Total: 1432	1253	3.2	14	$13,000

# Provincial Staff	# Of Tenant Requests & Complaints	%	Board Decisions Appealed #	% Affirmed	% Varied	% Rescinded	Persons Charged #	Convic-tions	Dis-missals
Decreased from 52 to 48 as the work-load decreased.	1976: 1760 1977: 4817	25%	235	59%	18%	22%	168	61	13
	Total: 6577	25%	235	59%	18%	22%	183	153	30

complain about their behavior.(94) In the 1976/1977 fiscal year, of the increases that were granted over the permitted increases, the average percent by which they exceeded the permitted increase was only 3.2. Because of the fact that the Board would willingly grant greater increases if it could be shown that the landlord was experiencing increased operating costs in such areas as utilities, taxes and increased financing costs, the 3.2 percent implies that for most landlords, the ten and nine percent increases in 1976 and 1977, respectively, were sufficient. The Rent Regulation Appeal Board had an 84 percent conviction rate for those persons charged with criminal offences (eg. the interruption of a Rent Regulation Officer's duties) during its life and a total of $13,000 in fines were levied. Of the Board decisions which were appealed through the provincial courts, 59 percent were held up in their entirety, 18 percent were varied and 22 percent were rescinded.(95) From the statistics presented in the Consumer and Corporate Affairs Annual Reports and the information relayed about relations with the press and the public, it is clear that the Rent Control program accomplished what it was mandated to to by the time its term had ended. The performance of the Rent Regulation Appeal Board in enforcing The Temporary Rent Control Measures Act can be summarized in table form, as was done in Table 15. Of the 6,577 tenant complaints and requests only 1,237 orders had to be issued during the life of the Rent Control program. This shows that the mediation powers of the rent regulation officers and the Board must have been substantial.

The Rent Decontrol Act replaced The Temporary Rent

Regulation Measures Act and a corresponding Rent Decontrol Appeal Board was set up in June of 1977. Bill Barry mentioned that the birth of the Rent Decontrol Act was due to the fact that the Rent Regulation officers had received more than 15,000 notifications of increases in rent in the 24 to 48 percent range from landlords. In Alberta, 90 days notice had to be given for an increase in rent. Due to this, the landlords themselves unknowingly created the demand for a decontrol program.(96) The 1978 Consumer and Corporate Affairs Annual Report reported a significant decrease in landlord applications and tenant complaints. In a comparison to the 1977 figures, the averages per month were significantly lower:

TABLE 15

	Ave. # of Landlord Applications/ Month	Ave. # of Tenant Complaints/ Month	# Of Convictions Over # Of Cases Heard
1977:	50	245	17/17
1978: (first 3 months of 1978)	23	96	

Source: Alberta Consumer and Corporate Affairs Annual Report, 1978.

Because of the obvious decrease in the amount of work with the implementation of The Rent Decontrol Act, staff and advertising were reduced. The number of landlord applications and tenant complaints continued to decrease during 1979 and 1980 and the controls were discontinued on schedule, June 31, 1980.

The nature of the decontrol scheme allowed those tenants in the lowest rent units to remain under the influence of controls the longest and they, therefore, benefited the most from the control programs. This occured because the lowest rent units, granted their permitted increases, took longer than the higher rent units to reach the decontrol limits. The assumption is that when rent controls were imposed, the lower income tenants were residing in the lower rent units. Thus, the higher rent units reached decontrol first.

VI. SUMMARY OF INTERVIEWS WITH VARIOUS PERSONS INVOLVED IN THE RENTAL HOUSING MARKET IN ALBERTA

Interviews, on an informal basis, were conducted with various persons involved in Alberta's rental housing market. People with different relationships to the situation were chosen so as to allow for the expression of a diversity of opinions. One common denominator that ran through all of the interviews conducted was that those interviewed, whether or not they advocated the use of rent controls, felt that the short time period that the controls were in effect for in Alberta was a good characteristic. The general feeling was the short time horizon served to eliminate many of the problems associated with their implementation over a longer term.

Mr. Dave O'Neil, the Director of Housing and Research for the City of Edmonton, felt that landlords were caught in an inflationary squeeze but that most were satisfied with their yearly automatic increases provided for in the rent control and decontrol periods. During the controls, he did not notice any unusual increase in the demand for public housing. Mr. O'Neil felt that the method of decontrol chosen prevented a rapid escalation in rental prices as the market was given time to adjust to the added freedom.(97)

Mr. Michael Mooney, the Director of Development at the Triple Five Corporation and the Vice-President of the Urban Development Institute, was interviewed for his perceptions of the Rent Control and Decontrol programs. Mr. Mooney, who has been heavily involved in residential construction, pointed out that

during a time of low vacancy rates, responsible landlords will use their extra cash flows to improve on their capital investment. In this manner, these landlords can prepare themselves for a time of high vacancy rates. Using these improvements, they are able to attract tenants in other ways than a low rental rate. Mr. Mooney pointed out that during the controls (a time of low vacancies), the landlords were not able to achieve a higher than permitted rate of return (unless they could prove they had already experienced increased operating costs) and these capital improvements had to be deferred until the controls were lifted. He felt that the method of decontrol chosen was appropriate for the Albertan experience. It gave renters a head start because of the fact that wages rose during the period.(98)

Mr. Terry Cavanagh, the Chairman of the Rent Decontrol Board in Alberta, was interviewed for his ideas from the point of view of an administrator of the Rent Decontrol Act. He pointed out the fact that Rent Control and Decontrol should not have affected the maintenance practices of landlords due to the fact that if greater than permitted increases were applied for and were justifiable, they would have been granted. Increases for repairs would have been approved although the onus was on the landlord to apply for such an increase.(99)

Mr. Bill Barry, Secretary Manager of the Rent Control and Decontrol Appeal Boards and the Executive Director of the Rent Control Program, felt that the need for a short term control program existed but, at the same time, also recognized the

dangers involved if this program were left in place for too long. He pointed out that one of the reasons for the success of the programs was their "tight budgets and staff."(100) As mentioned earlier, Mr. Barry believes that the use of temporary rather than permanent staff in a temporary government agency serves to ensure the conclusion of the programs on time. Mr. Barry felt that many administration problems were avoided because each rent regulation officer was granted a certain degree of autonomy when making decisions. This cut down on the number of cases which had to be presented to the Board.(101) With regards to the maintenance issue, Mr. Barry experienced two types of reactions from landlords. Some felt that the implementation of controls made it possible for them to do maintenance that they had previously been deferring because of the resulting rent increase on the basis of a justified increase in costs. Also, when these increases were passed on to the tenant, the landlord appeared in a favourable light. Others felt that they would have to make up for any missed increases entirely after the controls were lifted. In Mr. Barry's view, the rental housing starts in Alberta were affected only minimally because of the lag time involved in residential construction projects. By the time developers would have been able to curtail their investment, the Rent Decontrol Act had been implemented and they would have wanted to reenter the market.(102)

VII. REVIEW OF THE ALBERTA EXPERIENCE WITH RENT CONTROLS AND DECONTROLS

A. New Rental Housing

TABLE 16

Apartment (and Other) Starts in Canada, and Alberta, 1970 - 1981, Per Capita

Year	Alberta	% Change Alberta	Canada	% Change Canada
1970	.0040		.0043	
1971	.0069	+ 72.5	.0049	+13.9
1972	.0043	- 37.7	.0048	- 2.0
1973	.0030	- 30.2	.0048	0
1974	.0018	- 40.0	.0033	-31.3
1975	.0027	+ 50.0	.0031	- 6.1
1976	.0057	+111.1	.0039	+25.8
1977	.0071	+ 24.6	.0040	+ 2.6
1978	.0089	+ 25.3	.0033	-17.5
1979	.0061	- 31.5	.0025	-24.2
1980	.0042	- 31.19	.0020	-20.0
1981	.0062	47.60	.0026	+30.0

Source: Canada Mortgage and Housing. Canadian Housing Statistics, Ottawa, 1981, Table 10, p. 10, 1973, Table 10, p. 10, 1981, p. 83, 1977, p. 94.

From the above data (Table 16), we can see that Alberta was experiencing an increase in apartment starts when rent controls were introduced in 1976. The growth continued to increase until 1978. In 1979, there was a marked reduction in growth. This could have been due to the fact that there is a time lag involved between the time an investment is committed to and its start and to the fact that population did decline between 1979 and 1980. From 1979 to 1980, the rate of apartment starts fell, but, by 1981 a marked change again appeared. This increase may have

reflected the fact that developers and landlords realized that the controls were going to end. If they began investing again in 1979 or 1980, the results may not have been evident until 1981.

TABLE 17

Dwelling Starts, Apartment and Other
1971 - 1981, Edmonton and Calgary

Year	Calgary	Edmonton
1971	3494	6524
1972	2069	3663
1973	1723	1713
1974	656	675
1975	1225	1410
1976	2914	3656
1977	5047	5239
1978	5298	6981
1979	3557	4504
1980	2503	3333
1981	5433	4467

Sources: Central Mortgage and Housing, Canadian Housing Statistics, Supplements, 1973-1974, December, p. 9, Annual, 1973, p. 13.
Canada Mortgage and Housing, Canadian Housing Statistics, 1981, p. 6, 1979, p. 13.

Data on the number of apartment starts was also obtained for the cities of Edmonton and Calgary (see Tables 17 and 18).

TABLE 18

Dwelling Starts, Apartment and Other,
1971 - 1981, Edmonton and Calgary Per Capita

Year	Calgary	% Change Calgary	Edmonton	% Change Edmonton
1971	.0088		.0150	
1972	.0050	- 43.2	.0083	- 44.7
1973	.0041	- 18.0	.0039	- 53.0
1974	.0015	- 63.4	.0015	- 61.5
1975	.0027	+ 80.0	.0031	+106.7
1976	.0062	+129.6	.0079	+154.8
1977	.0104	+ 67.7	.0111	+ 40.5
1978	.0105	+ 1.0	.0146	+ 31.5
1979	.0067	- 36.2	.0092	- 37.0
1980	.0045	- 32.8	.0066	- 28.3
1981	.0092	+104.4	.0086	+ 30.3

Source: Canada Mortgage and Housing. Canadian Housing Statistics, Ottawa, 1981, Table 10, p. 10. 1973, Table 10, p. 10.
The City of Calgary. Municipal Handbook of Interesting Information and Authoritative Statistics, November 1981, p. 10.
The City of Edmonton, The City Clerk, City Hall, Civic Census, 1982.

Calgary and Edmonton make up a very large portion of the provincial population and as a result much of the dwelling start data for the province contains starts for these two cities.

In comparing the rates of change in apartment starts for Alberta and Canada, we see that, during the control period, Canadian apartment starts experienced a decline one year before Alberta did. This could be due to the fact that rent controls in Alberta were less stringent than those in Canada or that more landlords and developers, in Alberta, believed that the rent controls were only a temporary measure.

Another useful indicator for investor willingness would be

the value of building permits issued in Alberta, Calgary and Edmonton with respect to rental units. Unfortunately, the available building permit statistics are not disaggregated sufficiently to provide this information.

A time series analysis was carried out be regressing dwelling starts on factors such as income, population, rent and vacancy rates. Even when done in rate of change terms, the results were not significant. Problems encountered were a small number of observations which limited the degrees of freedom and high positive correlation among the residuals. No useful results could be drawn from the analysis.

B. Transfers Out of the Rental Market

With the inception of both The Temporary Rent Regulation Measures Act and The Rent Decontrol Act, a strict prohibition was placed on converting residential rental housing to condominiums and certain other disposal means. Both acts contained the following section:

> 37(1) No landlord of residential premises shall cease to rent premises as residential premises unless
>
> (a) the landlord intends to use the premises for himself or his immediate family, or
>
> (b) the landlord intends to demolish the premises, or
>
> (c) the landlord intends to renovate the premises and
>
> (i) the renovations cannot be made with a tenant in possession thereof, and
>
> (ii) after the renovations are complete the premises will continue to be used as residential premises, or
>
> (d) the landlord is permitted to do so in accordance with the regulations.
>
> (2) Notwithstanding any other Act, where any residential premises are not, at the time this subsection comes into force, included as part of a condominium plan approved by a local authority, the local authority shall not thereafter direct the issue of a certificate of approval of a condominium plan pursuant to The Condominium Property act where the plan includes those residential premises.(103)

The Rent Decontrol Act also prohibited the conversion of mobile home pads.(104)

Therefore, in Alberta, conversion was prohibited unless permission was obtained from The Rent Regulation Appeal Board or The Rent Decontrol Board. It seems unlikely that the rental market lost many units to conversion during this period.

To develop detailed data on conversions to condominiums, statistics would have to be compiled on the number of applications received by each municipality or town for conversion rights. Then, the applications would have to be verified to determine how many of the successful applicants actually did convert their property.

C. Demolitions

Another problem associated with the advent and life of rent controls is that of increased numbers of demolitions. As the controls remain in place over a longer period of time, landlords receive an incentive to demolish their older rental investments in favour of constructing new, more profitable structures or just to abandon the rental property. This would result after controls had been in place long enough (assuming an inefficient or nonexistent 'cost passing on' mechanism) to result in severe deterioration of the building and an inability on the part of landlords to collect sufficient revenue.

In Alberta, the housing stock (especially in the rental market) is relatively new compared with that of older cities, such as, Toronto and Montreal. This characteristic makes it doubtful that a substantial, if any, increase took place in demolitions. In this area also, the statistical records are not readily available and would have to be compiled from applications received for permits to demolish.

D. Rental Rates

A review of the rental price indexes for Edmonton, Calgary and Canada shows that, beginning in 1974, Calgary and Edmonton began to experience consistently higher increases in rent that did the rest of Canada, on average (see Table 19). Real rental price increases were kept below inflation for the country as shown in Table 19 by the values less than one. During the control period, Canada's real rental price rose less than did Edmonton's and Calgary's. In 1975, the ratio for Canada becomes consistently lower than that for Edmonton and Calgary. This might be a factor in the reduced impact that rent controls had on the Alberta rental housing market during the control and decontrol period.

TABLE 19

Consumer Price Indexes, Percent Change, Annually, (Rent) (1971=100)

Year	Canada	Edmonton	Calgary
1971			
	1.8	3.1	0.4
1972			
	1.4	1.4	0.7
1973			
	3.0	1.6	1.1
1974			
	5.8	7.5	6.6
1975			
	8.0	14.8	13.7
1976			
	7.6	12.0	10.6
1977			
	6.8	11.3	10.0
1978			
	6.2	10.0	8.0
1979			
	7.0	11.7	11.3
1980			
	9.9	16.2	19.6
1981			

Sources: Canada Mortgage and Housing. Canadian Housing Statistics, Ottawa, 1981, p. 76.
CANSIM: Consumer Prices and Price Indexes, Cat. 62-010, Quarterly, Cansim Series Identifier 007026.1.2.1.1.1.

TABLE 20

Rental Component of Consumer Price Index
Divided by the All Items Consumer Price Index
(1971 = 100)

Year	Canada	Edmonton	Calgary
1971	1.00	1.00	1.00
1972	.97	.99	.96
1973	.92	.93	.91
1974	.83	.86	.83
1975	.81	.83	.80
1976	.81	.86	.83
1977	.79	.87	.83
1978	.77	.86	.82
1979	.74	.84	.80
1980	.70	.82	.78
1981	.66	.80	.77

Source: CANSIM: Consumer Prices and Price Indexes, Cat. 62-010, Quarterly, Cansim Series Identifiers: 007000.1, 007000.1.2.1.1, 007026.1, 007026.1.2.1.1.1, 0070.28.1, 007028.1.2.1.1.1

During the rent control period, increases for Edmonton and Calgary remained relatively stable in the ten to 12 percent range. This clearly shows that rent controls did have some stringency when applied to these areas because rents had been increasing at higher rates before their implementation. When the controls were lifted, as more and more units reached the decontrol limits, the rate of increase grew. The increases between 1978 and 1979 (ten and eight percent for Edmonton and Calgary, respectively) showed that most units were still under the decontrol regulations. Between 1979 and 1980, the rate of increase grew to 11.7 and 11.3 percent of Edmonton and Calgary, respectively. By the 1980 to 1982 period, the rates of increase reached 16.2 and 19.6 for Edmonton and Calgary, respectively. These increases reflected the fact that all units were

decontrolled. From these figures, we can conclude that the implementation of the decontrol system did serve to delay and soften the impact that freeing the market would have. Looking at the ratios of rent indexes to consumer price indexes (Table 20), the reduced stringency of the Alberta controls contributed to reduced increases in rent when the controls were lifted.

The fact that the Rent Decontrol Appeal Board had received so many notices of exorbitant rent increases warned officials as to what might happen if the controls were lifted abruptly.(105) The Rent Decontrol Act and accompanying regulation appears to have served a useful purpose. Experience in 1980, with increases of 16.2 percent in Edmonton and 19.6 percent in Calgary indicate that many of the increases deferred during the control and decontrol periods were finally implemented at the termination of the program.

E. Maintenance

As was pointed out in the literature, one of the consequences of prolonged usage of rent controls is a negative effect on maintenance levels in the area experiencing rent controls. The empirical evidence reviewed indicated that as time wore on, the negative effects became more pronounced until the low level of maintenance posed a serious threat to the housing stock.

With respect to the Albertan experience, there was a 'cost-passing on mechanism' put in place for the landlords to use. Every landlord automatically received their ten, nine and eight percent increases and if they could show that their operating costs had or were about to increase, they would receive even more than that. This was one factor that served to dampen the controls' effects on maintenance levels. Another factor which helped to keep the maintenance levels up was the short time horizon of the controls. By the time landlords were feeling any inflationary squeeze, the controls became decontrols and the end was in sight.

The part of the situation that frustrated landlords was that at the time rent controls were implemented in Alberta, the vacancy rate had declined implying an increased demand for rental units (See Tables 21 and 22). The law of supply and demand dictates that when demand increases, prices should increase. Consequently, landlords felt cheated of the gains that they could have made during the period of high demand. Because the controls were implemented as part of the government's anti-inflation

program, there may have been areas in Canada where high vacancy rates did prevail and landlords might not have felt this frustration. This is subject to the same type of program being implemented, of course.

TABLE 21

Vacancy Rates in Privately Initiated Rental Apartment Structures of Six Units and Over (%)

Year	Calgary	Edmonton	Average of the Metro Areas in Canada
1970	5.8	5.7	5.0
1971	10.7	6.3	5.0
1972	8.9	7.6	3.4
1973	7.9	5.3	2.2
1974	1.1	0.8	1.2
1975	0.4	0.3	1.2
1976	0.1	0.0	1.3
1977	0.1	0.1	2.3
1978	1.2	0.8	3.2
1979	0.4	1.9	2.9
1980	0.4	1.1	2.2
(October) 1981	0.2	1.1	1.2

Source: Canada Mortgage and Housing: Canadian Housing Statistics, Ottawa, 1981, Table 18, p. 17.

TABLE 22

Average Vacancy Rates in Cities and Towns in Alberta Excluding Edmonton and Calgary (%)

Year	Cities(a)	Towns(a)
1972	3.5	5.1
1973	3.5	5.9
1974	0.9	3.2
1975	0.4	1.6
1976	1.2	1.9
1977	5.9	3.7
1978	8.3	8.7
1979	8.2	9.9
1980	4.3	5.5
1981	3.3	8.7

(a): calculated by adding up the rates in the cities or towns and dividing by the number surveyed.

Source: Alberta Housing and Public Works: Alberta Apartment Vacancy and Rental Cost Survey, 1981.

As was discussed in the interview section, various people involved in the market did not feel that the rent controls did much damage to maintenance levels in Alberta. To look into this topic statistically, the only readily available data are aggregate Canadian construction expenditures on repair and maintenance (see Table 23).

TABLE 23

Construction Expenditures, 1970 - 1981
Constant 1971 $, 1971 = 100

	Repair and Maintenance	
	Residential	Non-Residential
1970	925.61	687.04
1971	951.00	658.00
1972	981.33	712.80
1973	959.61	732.93
1974	981.07	755.84
1975	939.21	706.56
1976	968.03	775.80
1977	989.91	803.19
1978	1021.94	808.70
1979	1036.79	859.42
1980	1005.69	864.48
1981	1122.00	840.85

Source: Canada Mortgage and Housing: Canadian Housing Statistics, Ottawa, March 1982, 1981, p. 20.
Cansim: National Income and Expenditure Accounts, Cat. 13-531, Statistics Canada, Cansim Series Identifiers 000529.1.3.1.1 and 000529.1.3.2.1

This data (Table 23) verifies the fact that repair and maintenance expenditures on residential housing were increasing throughout the period in question. But, they do not show us how landlords in Alberta coped with the controls and whether or not they cut back on their most controllable expense, maintenance. There is no formal mechanism in Alberta which provides for the systematic collection of data that would reveal what maintenance levels are or how they change.

F. Taxes

It is alleged that as rent controls reduce maintenance levels and discourage optimal maintenance, a property will be assessed at a lower value than it would have had the rental market been operating under free market conditions. Because of the short time that rent controls were in place in Alberta and the fact that properties are only required by law to be assessed every seven years (most municipalities have an automatic yearly update for inflation, etc.), the rent control program in Alberta was not likely to affect assessment values of residential rental properties. In any event, if maintenance and capital improvements were not significantly affected, the property value would not have declined. Given that property values did not decline, no loss due to rent controls would be realized in a municipality's tax revenues.

Property taxes are one of the largest expense items that landlords have to deal with in their operation of residential rental properties. Because of the way that Alberta's rent control and decontrol programs were set up, any increase in tax expenditures could be passed on to the tenant by the landlord making an application for an increase greater than the one legislated.

Data on tax assessments and property tax levies are available at the municipal level but such data would appear to be of little relevance.

G. Labour Mobility

Rent controls also impact on the mobility of labour. During the rent control period, tenants prefer to remain in controlled units rather than move to a higher priced decontrolled unit.

Demonstrating the magnitude of the impact on labour mobility would require mobility data from tenant surveys conducted during the rent control and decontrol periods. Since no such surveys were conducted, estimation of the magnitude of the impact of rent controls on labour mobility is not possible.

H. The Administrative Costs of Control and Decontrol

TABLE 24

Rent Regulation and Decontrol Expenditures

Fiscal Years:	1976/77	1977/78	1978/79	1979/80
	$1,030,631	$1,090,831	$721,336	$354,923

Total Expenditures for Both Programs: $3,197,721

Source: Alberta Consumer and Corporate Affairs. Annual Reports. 1980, p. 59. 1978, p. 55.

The cost of both the control and decontrol programs, in Alberta, totalled $3,197,721. Looking at the above figures, there is a significant decrease in expenditure during each year after the Rent Controls ended. This reflected the decreased workload and the reduced staff during the Rent Decontrol period. These cost figures include only the administrative costs of rent control and decontrol and not any allowance for compliance costs of those subject to the program.

I. Income and Population

Two important variables that must be considered when doing an analysis of governmental program effects are income and population movements and trends. During the rent control period, the population of Alberta was growing and exerting more demand pressure on the existing rental housing stock (see Table 25). The sharp increases in rent experienced by Edmonton and Calgary, when decontrol ended (Table 19) are probably due, in large measure, to the sharp increase in population experienced by Alberta in 1981.

TABLE 25

Population, Percent Change Annually and Absolute Change Annually

Year	Absolute Change Alberta	% Change Alberta	Absolute Change Canada	% Change Canada
1970				
1971	28,000	+ 1.75	191,000	+0.89
1972	27,000	+ 1.66	262,000	+1.21
1973	28,000	+ 1.69	265,000	+1.21
1974	31,000	+ 1.84	351,000	+1.59
1975	54,000	+ 3.15	354,000	+1.58
1976	70,000	+ 3.96	193,000	+0.85
1977	57,000	+ 3.10	238,000	+1.04
1978	57,000	+ 3.01	241,000	+1.04
1979	57,000	+ 2.92	243,000	+1.04
1980	57,000	+ 2.84	244,000	+1.03
1981	202,000	+10.07	146,000	+0.61

Source: Canada Mortgage and Housing. Canadian Housing Statistics, Ottawa, 1981, p. 83, 1977, p. 94.

Population growth was a major factor in the low vacancy rates. If a free market had been operating, existing rental units would have had their prices increased and investors would have experienced higher rate of return and invested more in the residential rental housing market.

The next factor to be considered is income (see Table 26).

TABLE 26

Income, Canada and Alberta
1970 - 1980

Year	Personal Income Canada (000,000)	Real PDI/capita Canada	Personal Income Alberta (000,000)	Real PDI/capita Alberta
1970	$ 66,633	$2599	$ 4953	$2598
1971	74,092	2779	5534	2767
1972	83,767	2978	6267	2963
1973	97,832	3200	7471	3250
1974	116,867	3362	9019	3366
1975	136,205	3515	10991	3697
1976	155,343	3666	12783	3770
1977	170,986	3699	14575	3838
1978	188,552	3743	16787	3959
1979	210,728	3804	19850	4198
1980	236,093	3811	23030	4426

Source: Canada Mortgage and Housing. Canadian Housing Statistics, Ottawa, 1981, Table 22, p. 19.
Cansim: Nat. Income and Expenditure Accts. DBS, 13531 E & F, 13201. Cansim Series Identifier 000557.1.9, 007000.1, 007026.1, and 007028.1

Personal disposable income in Alberta began to exceed the national average in 1973. This gives credence to the argument that tenants were receiving a benefit from the rent control and decontrol programs because their incomes were rising faster than their rental rates. This prepared the tenants for the increases in rental rates when decontrols were brought in and taken off.(106)

VIII. RESEARCH METHODOLOGY PROPOSAL

When looking for a research methodology for a particular study, one must be aware of what recourses are available and feasible. With respect to the Alberta situation on rent controls and decontrols, there is a very short time period of interest. Estimating the various effects of these programs is complicated by this and by the fact that there is such a wide set of relevant economic variables.

The most promising approach to the measurement of the effects of rent controls and decontrols on the landlords in Alberta, requires obtaining the operating expense and revenue statements of a random sample of the controlled landlords in the province. Using this data, as Monica Lett did in Boston and Fort Lee,(107) indicators of expenditure patterns could be obtained. Compiling estimates of net rent received, building maintenance and services, fuel, real estate taxes, other expenses and net contribution to debt, depreciation and profit would provide the necessary tools to determine what means, if any, landlords had to cope with the program. Using the data gathered, one could determine the "minimal net rent requirement to maintain prior level of contribution to debt, depreciation and profit."(108) Variations in expenditure patterns on maintenance, real estate taxes, fuel and other expenses could be determined according to building type and size. To be sure of valid expenditure patterns by landlords, Lett collected private data, nonprofit data and data pertaining to limited dividend projects.(109)

Given the sort of data that Lett collected, the effects of a

decontrol program on landlords' behavior and expenditure patterns could be obtained quite easily because of the fact that it would reveal how constrained landlords had been by the rent control program. Knowing how stringent the controls had been on the landlords budget would be a good predictor of how badly they would wish to catch up when the controls were lifted. This same data could also be used to determine the programs' effects on maintenance levels. Because maintenance is a controllable cost to the landlord, knowing how much his revenues are restricted and how much his other operating costs are increasing would indicate how much the level of maintenance will be affected. From this, the long term effects of rent control on abandonment, transfers out of the rental housing market, on a municipality's tax base and on new rental housing investment could be determined.

It would have been desirable to measure the effect that rent controls have on labour mobility, but this requires investigation of the length of tenant tenure during controls and any tenure discounts that might have been received if a tenant stayed in a controlled unit rather than accepting alternative employment where he would have been forced to live in a decontrolled unit. This type of study would, however, have to have been done during the time period of the controls and decontrols.

To determine tenant benefits received during a rent control or decontrol program, Joseph S. DeSalvo has advanced "A Methodology For Evaluating Housing Program."(110) This methodology involves the estimation of net tenant benefits, gross tenant benefits, market rent, project rent, tenant income, tenant

rent-income ratio, tenant subsidy and resource cost to finally estimate the minimum required nontenant benefits. There are many relationships involved and they can evaluate many different types of housing programs.

DeSalvo has formulated the following equations to deal with the problems:

$$Bn = y - yo$$

$$Bg = Bn + R$$

$$S = Rm - Rp$$

$$C = Rm$$

$$Bnmin = C - B$$

$$Y = (Rm/B)(yo-Rp/1-B)$$

y = income the tenant would need to achieve the same level of utility that the housing program provides while still paying the market rent.
yo = the individual's actual income
Rp = project rent
Rm = market rent
Bn = net tenant benefits
Bg = gross tenant benefits
S = tenant subsidy
C = resource cost
Bnmin = minimum required non-tenant benefits
B = tenant rent - income ratio

Clearly, an analysis of this sort would be difficult to do in the Alberta situation because of a lack of knowledge about tenants' income levels and exact rents paid by each during the control and decontrol periods.

M.A. Walker has also advanced a method for predicting the amount of rent increases to be expected when a program is decontrolled.(111) Using the actual vacancy rate and the natural vacancy rate, Walker calculates the rise in rent necessary to bridge the gap and then adds a factor for inflation (see Table 27). There are some problems associated with this approach, namely, the interference of other economic variables and the fact that the period of time that the controls have been in effect for

may distort the rates.

TABLE 27

Calculation of Rent Increases
That Would Occur After Decontrol
(Using Vancouver Illustration)

Total rise in rents assuming no supply response.....A
Equals
Growth in population.....B
Plus
One-third the growth in real disposable family income.....C
Minus
Growth in rental housing stock already in progress.....D
Plus
The difference between the natural vacancy rate and the actual vacancy rate.....E

All ((B + C)-D + E) divided by the rate of demand response.....4
Plus
The actual rate of general inflation (percentage increase in the CPI).....F
A = ((B + C)-D + E)/.4 + F
12.8% = ((2% + 1.5%)-3.8% + 3%)/.4 + 6%
Total rise in rents assuming that supply response accounts for 10 percent of the adjustment.....R
Equals
Ninety percent of the total rise in rents assuming no supply response
R = A x .9
11.5% = 12.8% x .9

1. Rents will rise until the "natural" vacancy rate is attained. The "natural" rate is assumed to be four percent.
2. A 10 percent rise in rents is assumed to reduce the demand for housing units by about four percent.
3. Population and real disposable income growth are assumed to affect the demand for housing units. A one percent increase in real income is assumed to generate a .3 percent increase in the demand for housing units. Growth in population is assumed to affect housing demand on a "one to one" basis.
4. Housing units in process are deducted from the net increase in demand.
5. Increases in supply are assumed to account for 10 percent of the total adjustment.

Source: M.A. Walker, "Decontrol", in Rent Control, Myths and Realities, ed., Walter Block and Edgar Olsen (Vancouver, 1981), p. 256.

The clearest methodology for determining the stringency of the rent controls and, therefore, the magnitude of the behavior of landlords when they are lifted is that advocated by Monica Lett, in her book, "Rent Control-Concepts, Realities and Mechanisms."(112)

IX. SUMMARY

The nature and scope of rent control, decontrol and their effects have very broad economic consequences in any given economy. Review of the rent control literature shows that if rent controls are left in place long enough, they will impact negatively on maintenance levels, abandonment, rental housing stock and investment, and labour mobility.

Alberta legislated both controls and decontrols in the late 1970s. Investigating the programs' effects on various aspects of the residential rental housing market leads to an overall conclusion about their impact in Alberta. Due to the short time period involved, no impact upon the property tax base occurred except to the extent that planning for new rental housing starts may have declined somewhat. Even so, because of the swiftness with which decontrol came into effect, the impact was not great in that area either. Impacts on labour mobility of the decontrol scheme could not be determined because of a lack of relevant data during the time period. Although, statistics on maintenance level changes during the control and decontrol schemes are unavailable, it is unlikely that there were negative effects in this area because of the 'cost passing on mechanism' available to landlords. From this it follows that the rate of demolitions would not have risen due to rent controls. Conversion of rental units to condominiums was prohibited during both forms of controls so this was not a problem. Rental rates did rise when the controls were finally lifted but the basis for the increases can be found in the rise in both income and population in the

province. Both of these variables created increased demand pressure for rental housing.

The evidence reviewed above indicates that the control program had only limited impact and that the decontrol program accordingly had relatively minor consequences. The critical factor appears to have been believable commitment to a short control period.

FOOTNOTES

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4. Conchado, p. 812.

5. John C. Moorhouse, "Optimal Housing Maintenance Under Rent Control", Southern Economic Journal, (1972-1973), 39, No. 2, p. 93.

6. Moorhouse, p. 96-104.

7. Ira S. Lowry, "Reforming Rent Control in New York City: The Role of Research in Policymaking", Policy Sciences, (1972), 3, p. 47-48.

8. Edith Jacobson Nickel and Ian Gillies, Problems and Issues of Rent Controls (Winnipeg, 1976), p. 11-12.

9. Monica R. Lett, Rent Control: Concepts, Realities and Mechanisms, (New Brunswick, 1976), p. 126.

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13. Lett, p. 136-144.

14. Peter Dreier, John Gilderbloom, and Richard Appelbaum, "Rising Rents and Rent Control: Issues in Urban Reform", in Urban and Regional Planning in an Age of Austerity, ed. P. Clavel, et al. (New York, 1980), p. 157.

15. Patrick T. Laverty, The Impact of Rent Review on Rental Housing in Ontario: A Staff Research Report, Ministry of Municipal Affairs and Housing, Ontario, July, 1982, p. 1-2.

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24. Frank S. Kristoff, "The Effects of Rent Control and Rent Stabilization in New York City", in Rent Control, Myths and Realities, ed. Walter Block and Edgar Olsen (Vancouver, 1981), p. 136.

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26. Joseph P. Duenas, "From Urban Decay to New Construction and Rehabilitation: Housing in the District of Columbia", Catholic University Law Review, (1978), 27, p. 580.

27. Conchado, p. 800-801.

28. Lowry, p. 53.

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32. Dreier, p. 158.

33. E. Jay Howenstine, "European Experience With Rent Controls", Monthly Labour Review, June 1977, p. 23.

34. Jacobson Nickel, p. 12.

35. Sven Rydenfelt, "The Rise, Fall and Revival of Swedish Rent Control", in Rent Control, Myths and Realities, ed. Walter Block and Edgar Olsen (Vancouver, 1981), p. 215.

36. Bertrand deJouvenel, "No Vacancies", in Rent Control, Myths and Realities, ed. Walter Block and Edgar Olsen (Vancouver, 1981), p. 191-192.

37. deJouvenel, p. 108.

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39. Steven N.S. Cheung, "Rent Control and Housing Reconstruction: The Postwar Experience of Prewar Premises in Hong Kong", Journal of Law and Economics, (1979), 22, No. 1, p. 27-53.

40. Herbert L. Selesnick, Rent Control: A Case for (Lexington, 1976), p. 2.

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51. Kristoff, p. 140.

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100. Barry, October 15, 1982.

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