

Rent Control and Rental Prices in Toronto

Several provinces in Canada such as BC, Ontario, and Quebec have adopted rent controls to limit rent increases as a means to address housing affordability issues. We evaluate some of the impacts of rent control on housing affordability¹ in Toronto over time using unit-level data from 1992 to 2016. We find that rent control reduced rental prices in Toronto from 1992 to 2016, but did not make low-end units more affordable during the price adjustment period from 1992 to 1997.

What are the research questions?

According to the Rent Control Act 1992 of Ontario, units built before November 1, 1991 are subject to rent control, while units built afterwards are not. Existing studies assessing the role of rent controls overlook some basic facts on rent controls, especially from a dynamic perspective. What are the rental prices of units not subject to rent control (i.e. uncontrolled rents) and rental prices of units under rent control (i.e. controlled rents) over time? Is there a gap between uncontrolled and controlled rents? Does the rent gap vary over time?

To what extent rent control accounts for the rent gap between uncontrolled and controlled rents? We leave other questions to future research, such as the impact of rent control on the construction of rental housing.

In this study, we document some stylized facts on rent control in Toronto and evaluate the impacts of rent control on rental prices using unit-level Rental Market Survey (RMS) data from 1992 to 2016. We acknowledge that further studies are required to understand the impact of rent control on rental supply as in Diamond et al. (2019) tracking conversions of rental properties in San Francisco². RMS is collected by CMHC every year in October and covers privately-owned rental buildings with more than three units or primary rental markets.

¹ Earlier research projects on the impacts of rent controls funded by CMHC include: (1) Fallis and Smith (1985): *Prices effects of rent control on controlled and uncontrolled rental housing in Toronto: a hedonic index approach*, in *Canadian Journal of Economics*; (2) Denton et al. (1993): *Testing Hypotheses about Rent Controls*; (3) CMHC (2020) *Study of the Impacts of Rent Control Policies*.

² Diamond, R., McQuade, T.J., and Qian, F., (2019), *The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco*, *American Economic Review*, 109(9), 3365-3394.

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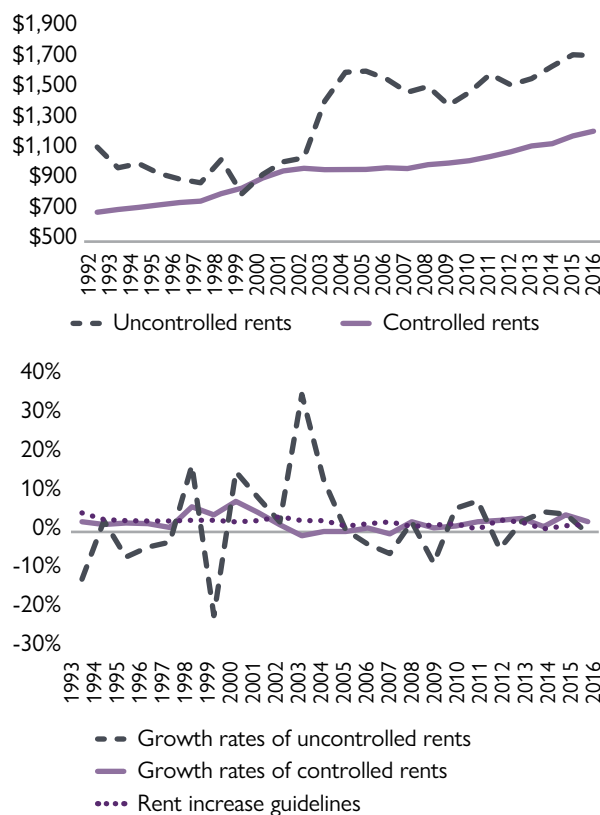


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What are the basic facts?

We observe several basic facts with the 1992-2016 sample. Of more than 5.4 million units, only 1% of units are not subject to rent controls. As shown in Fig. 1, the average uncontrolled rent is Can \$357.5 or 37.7% higher than the average rent of units subject to rent control. Interestingly, despite the gap in level, the average growth rate of controlled and uncontrolled rents is 2.4%, close to the average increase guidelines (i.e. maximum rent increase predefined by the government) of 2.5%. However, uncontrolled rents are more than five times more volatile than controlled rents that are twice as volatile as rent increase guidelines. Moreover, the rent gap between controlled and uncontrolled rents varies with market conditions. During the period of house-price/rent adjustments or 1992-1997, uncontrolled rents trend down and converge to controlled rents, while during the booming 2010-2016 period, the rent gap persists.

Figure 1: Uncontrolled rents are higher than controlled ones and growth rates of uncontrolled units are 5.5 times more volatile than controlled ones



Data source: Rental Market Survey, CMHC

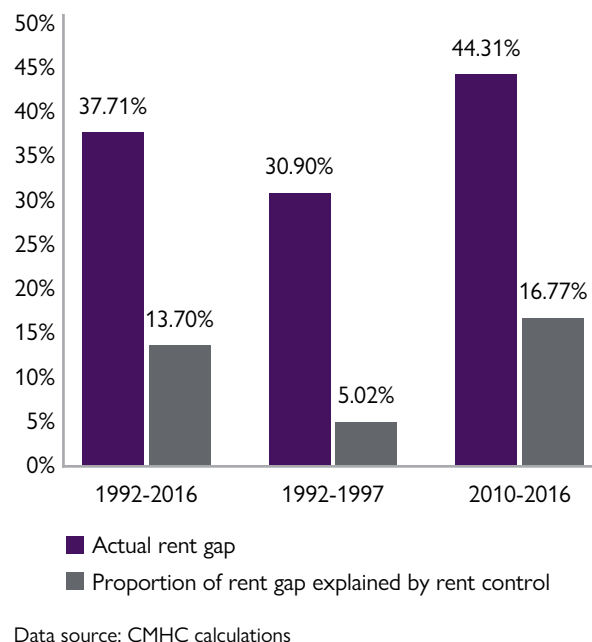
What are the heterogeneous effects of rent control?

As the observed gap between uncontrolled and controlled rental prices—which we call the “rent gap”—is not completely due to rent control, we formally evaluate the effects of rent control on rental prices. Rent control with exemptions creates a control group for units under rent control. However, the standard program evaluation method difference-in-differences is not suitable in our case because we do not observe rental rates prior to 1992 of units built after 1992. Instead, we incorporate a group dummy indicating whether units are built before or after 1992 into a hedonic models. We validate the causality between rent control and rental prices using regression discontinuity design (RDD). We construct treated and untreated units using rental units completed two years before and after the cut-off year of 1992, respectively.

As the rent gap varies with market conditions, we study the effects of rent control during the adjustment period from 1992 to 1997 and the booming period from 2010 to 2016, respectively.³ As the effects of rent control on rental prices of low-end units could be different from those of high-end units, we also evaluate the effects of rent control on rental prices by rent range using quantile regressions. We do not undertake a complete evaluation as we do not fully examine impacts on supply and hence on the long-term trends in rents.

As shown in Fig. 2, from 1992 to 2016, uncontrolled rents are 38% higher than controlled ones. However, the rent gap can be explained by other factors rather than rent control such as unit characteristics, locations, and year effects. We have to take into account or control for these factors for a fair comparison. After controlling for these factors, the rent gap becomes 14% and thereby rent control accounts for just over a third (36%) of the rent gap. Across quartiles, rent control had no significant effect on rental prices of low-end units, but it increasingly reduced rental prices of median and high-end units.

Figure 2: Rent control reduced rental prices, but to a larger extent during the booming period than the adjustment period



The effects of rent control vary across adjustment and booming periods. During the adjustment period from 1992 to 1997, the actual rent gap is 31%, while the rent gap is reduced to 5% after controlling for other factors, indicating that rent control explains only 16% of the rent gap. Across quartiles, controlled rents are higher than uncontrolled ones on the 25th percentile. Therefore, during the adjustment period, rent control did not make low-end rental units more affordable. During the booming period from 2010 to 2016, rent control reduced rent by 17%, accounting for 38% of the rent difference. Across quartiles, the effect of rent control is larger at the higher quartile, indicating that in the adjustment period rent control made rental units more affordable, in particular median and high-end units.

³ Here, we define the booming period as the years from 2010 to 2016 when the average growth rate of house prices is 9%, and the adjustment period as the years from 1992 to 1997 when the average growth rate of house prices is only 0.3%.

Conclusion

To conclude, we use more than 25 years of unit-level data to provide some basic facts about controlled and uncontrolled rents in Toronto and to study the effects of rent control on rental prices. We find that rent control reduced rental prices, but to a larger extent in the booming period than in the adjustment period. During the adjustment period, rent control did not make low-end rental units more affordable. While our study sheds light on the impacts of rent controls on rental prices, our further research efforts will be on the impacts of rent controls on the supply of rental units and on the role of tenancy deregulations.

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Full Report

Rent Control and Rental Prices: A Dynamic Hedonic Analysis of Toronto

https://eppdscrmssa01.blob.core.windows.net/cmhc-prodcontainer/sf/project/archive/research_6/20210422-006_69767-rr-rent-control-and-prices-in-to.pdf

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Alternative text and data for figures

Figure 1: Uncontrolled rents are higher than controlled ones and growth rates of uncontrolled units are 5.5 times more volatile than controlled ones

Year	Uncontrolled rents (\$)	Controlled rents (\$)
1992	1,121	693
1993	985	711
1994	1,013	725
1995	948	741
1996	911	757
1997	887	766
1998	1,039	815
1999	815	851
2000	941	918
2001	1,025	964
2002	1,051	982
2003	1,423	972
2004	1,613	974
2005	1,620	975
2006	1,569	985
2007	1,481	980
2008	1,519	1,006
2009	1,397	1,016
2010	1,482	1,032
2011	1,600	1,059
2012	1,530	1,090
2013	1,571	1,128
2014	1,652	1,144
2015	1,728	1,194
2016	1,722	1,226

Year	Growth rates of uncontrolled rents	Growth rates of controlled rents	Rent increase guidelines
1993	-12.16%	2.62%	4.90%
1994	2.89%	1.90%	3.20%
1995	-6.48%	2.31%	2.90%
1996	-3.92%	2.13%	2.80%
1997	-2.62%	1.15%	2.80%
1998	17.16%	6.47%	3.00%
1999	-21.57%	4.39%	3.00%
2000	15.52%	7.87%	2.60%
2001	8.88%	5.02%	2.90%
2002	2.56%	1.86%	3.90%
2003	35.42%	-0.99%	2.90%
2004	13.30%	0.12%	2.90%
2005	0.47%	0.11%	1.50%
2006	-3.16%	1.03%	2.10%
2007	-5.59%	-0.49%	2.60%
2008	2.56%	2.62%	1.40%
2009	-8.07%	1.05%	1.80%
2010	6.10%	1.52%	2.10%
2011	7.96%	2.63%	0.70%
2012	-4.37%	2.99%	3.10%
2013	2.69%	3.48%	2.50%
2014	5.17%	1.37%	0.80%
2015	4.58%	4.41%	1.60%
2016	-0.36%	2.64%	2.00%

Data source: Rental Market Survey, CMHC

Figure 2: Rent control reduced rental prices, but to a larger extent during the booming period than the adjustment period

Year	Actual rent gap	Proportion of rent gap explained by rent control
1992-2016	37.71%	13.70%
1992-1997	30.90%	5.02%
2010-2016	44.31%	16.77%

Data source: CMHC calculations