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Ontario’s rent increase guideline – Is it fair?

Columnists Dr. Landlord

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Most residential landlords would say without hesitation that Ontario’s annual rent increase guideline does not fairly reflect the true cost of operating a residential rental property in Ontario. Is that really true?

I couldn’t find anyone – landlords, government representatives, even the Landlord and Tenant Board – who knew how the annual rent increase guideline was determined.

Section 120 (2) of Ontario’s Residential Tenancies Act, 2006 (RTA) states that the annual rent increase guideline is determined by averaging the monthly Ontario Consumer Price Index (CPI) over a 12-month period that ends at the end of May of the previous calendar year.

Statistics Canada created the Canadian CPI Basket of Goods and Services, which is used to generate the CPI and inflation rates. It selected basic items that every consumer typically buys annually. Each category is assigned a weighting out of 100 that reflects an average Canadian’s “percentage of wallet”. The basket’s categories are updated every four years while the weightings are updated every two years. The detailed basket comprises more than 260 items.

Shelter and food dropped between 1992 and 2015 although one might think the public’s perception is that food and shelter have risen substantially. Meanwhile, transportation has the largest increase in percentage of wallet costs. Recall that these numbers don't reflect the cost of something but rather what percentage of a consumer's total budget is expended on the category.

Presumably then, even though food prices may have increased, StatsCan is reporting that the average Canadian is spending less on food and shelter relative to transportation and recreation. That seems counterintuitive, although perhaps fluctuating oil prices or public transit costs might have more impact than one might realize.

The "shelter" subcategories are most relevant to determining the annual rent increases.

StatsCan's shelter numbers didn't add up to 26.8 per cent. Rented Housing added up but the Owned Housing category didn't, nor did adding together the two housing subcategories.

I couldn't reconcile the shelter weightings versus affordable housing crisis statements made by Canada Mortgage and Housing Corp. (CMHC), StatsCan and various levels of government and the media. How can the Rent' subcategory be 5.7 per cent of an average consumer's annual expense spending? No matter what assumption you use, this number makes absolutely no sense.

CMHC's national average rent for a two-bedroom unit in a purpose-built rental building is $989/month ($11,868/year). If this represents 5.7 per cent of the total money spent on expenses, then the "average" Canadian is spending $11,868/year / 5.7 per cent = $208,210 annually on expenses.

StatsCan's webpage on Shelter Costs (search for: 99-014-x2011002-eng.cfm) reports that about 3.3 million households (25.2 per cent) spent 30 per cent or more of their total income on shelter. That means that 25.2 per cent of households have an average income of $39,560 ($11,868/year / 30 per cent), which seems believable.

I couldn't find any statistics on what percentage of residential tenants pay their own electricity but that the percentage is likely very high. Arguably, all rented condo units and most single family homes would require the tenant to pay for all their utilities. This significant cost is not reflected in the Rented Housing subcategory. However, the basket does account for renter's (or content) insurance but according to StatsCan only 41.8 per cent of renters have content insurance. How can this amount be an average of all consumers?

These are just a few examples of how the CPI basket of basic expenses bears no correlation whatsoever to the reality and true costs of tenant rent and shelter expenses, and landlord residential rental property operating expenses.

How can such an economic mechanism then be employed to determine the fair annual rent increase?

The CPI basket as it is structured and used today is worthless as an economic device to determine fair annual rent increases. Rent increases are necessary and no different than increases in any other product or service. Profit is needed to re-invest in properly maintaining rental property health and safety standards, to incentivize builders to create additional residential rental housing and to encourage investors to purchase and operate private sector residential rental properties. Financially strangling residential landlords serves no one's purpose.

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