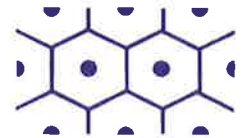


newsletter



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Update

To any unfortunate reader who may receive publications from the Appraisal Institute of Canada, Mike Turner would like to state that he is:

- 1981-1982 National Directory - not at the address shown; is still on the telephone; is still available for appraisal assignments.
- 1982 January Digest - hasn't changed his name (yet!).
- 1980-1981 Chapter Directory - is not at the telephone number shown; never has been; hopes he never will be.

(Perhaps they're trying to tell him something!)

Mike asked the Institute to print a correction - they did - incorrectly; so rather than risk an incorrect correction to the incorrect correction he thought we should tell you. Got that straight? Good! Now for something entirely different (really!).

Residential Appraisals

In February we reactivated our residential appraisal department after an 18 month period. The residential appraisal field is still very much a 'cottage' industry (with fees to match) and it is very difficult for a firm with our resources, and attendant overhead, to market this type of service profitably and yet maintain the high degree of professional service that our clients expect. In an attempt to reconcile the irreconcilable we've developed, over the last 3 years, a computerized system that does just that. So far as we know, it's unique in Canada. It allows us to offer the same professional approach to residential appraising that we currently supply to the commercial section. We are also able to offer a 48 hour turn-round time to the banks and mortgage lenders.

Halifax County
(including Metropolitan Halifax)
Single Family Dwellings
Smoothed Monthly
Price Index Graph

Appraisals for:
•Industrial •Commercial •Residential

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Rent Control - the Myth and Reality

Over the past two years we've received numerous telephone calls about rent controls: from university researchers (all renters?) intent on proving that tenants were being ripped off to landlord's associations intent on proving that it was really they that were the victims. Each party was after an objective opinion as long as it coincided with their own. Well; fools rush in where angels fear to tread

An Historical Review

Rent control came into effect in Nova Scotia with the passing of the Rent Review Act on the 13th December, 1975 (lucky 13!).

Henceforth any house, dwelling, apartment, flat, tenement, mobile home, mobile mobile home park, mobile home space, or other place occupied by an individual as a residence is subject to rent control as long as the building permit was issued before the 1st October, 1975. If a landlord wishes to increase the rent in excess of the per centum increase allowed under the Act, he/she must obtain the consent of the Rent Review Commission.

Lies, Damned Lies, and Statistics

The table below indicates the various factors affecting apartment construction. We have taken the Halifax/Dartmouth Metropolitan Area for illustrative purposes since the statistics were readily available:

Halifax-Dartmouth Metropolitan Area

Year	Apartments							
	Starts			Rent Increases Allowed		Average Conventional Mortgage Rate	Increased Cost of Financing New Apt.	Inflation Rate
	Number	% of Total	Vacancy Rate	By Statute	By Rent Review Commission			
1972	1,030	41%	1.7%			9.8%	6.2%	4.7%
1973	1,219	60%	2.3%			9.6%	7.2%	8.0%
1974	1,264	49%	2.3%			9.9%	17.2%	9.9%
1975	1,163	43%	1.8%			11.7%	25.4%	10.1%
1976	1,453	50%	1.4%	8%	±8.0%	11.9%	11.4%	8.4%
1977	1,133	63%	1.5%	6%	±6.0%	10.8%	0.3%	7.8%
1978	969	43%	2.2%	6%	±6.0%	10.7%	6.8%	7.7%
1979	702	39%	2.4%	4%	9.8%	12.6%	26.1%	8.9%
1980	428	46%	1.2%	4%	12.2%	14.5%	22.7%	10.7%
1981	759	35%	0.5%	4%	12.7%	18.3%	34.4%	11.8%

Notes

- Sources: C.M.H.C., Rent Review Commission, Statistics Canada, M.I.C.C.
- Increased Cost of Financing New Apartment is based on a 1981 building cost of \$30,000 per two bedroom walk-up apartment indexed back using Statscan Non-Residential Price Index; located in the north end of Halifax Peninsula, using a 1981 land cost of \$5,000 per apartment unit, indexed back at 8% per annum compound. It assumes conventional 75% financing with a 25 year amortization period.
- | Year | Comments |
|------|--|
| 1972 | Limited Dividend Program in effect. |
| 1974 | November - MURB program commences and ARP program commences. |
| 1975 | December - Rent Control starts. |
| 1976 | Limited Dividend Program finishes. |
| 1978 | September - Provincial election. |
| 1978 | December - ARP program finishes. |
| 1981 | October - Provincial election. |
| 1981 | December - MURB Program finishes. |

The Effect on Supply

Some landlords insist that rent control discourages investment in rental properties, some tenants dismiss this on the grounds that rent controls do not apply to new dwellings. In reality, however, rent controls do affect the rents developers are able to obtain for new accommodation. The inventory of existing rental stock is so large in comparison with the new units coming on stream each year that the prevailing rental levels also dictate the rental levels that can be achieved for the new units. Whilst it is true that a new apartment can command a higher rent, because of its 'newness', there is a limit to the incremental rent that renters will pay for it over and above an older rent controlled unit. As the level of the 'controlled' rents gradually fall behind 'economic' rents, investment in new accommodation will cease. There is therefore a time lag between the introduction of rent control and its impact on new construction.

Our table on the previous page gives some indication that rent control is now affecting the supply of new accommodation, even though the water is clouded somewhat by Federal Government subsidy programs (Limited Dividend, ARP, MURB). The latter stimulated demand by way of direct subsidy (Limited Dividend, ARP), or by transferrable tax shelters (MURBS) and, to some degree, were a counterweight to rent control. In effect, they have resulted in the owner occupier subsidizing the renter; *the homeowner paying for the apartment dweller.*

For the first two years following the introduction of rent control there was no impact on apartment starts. The rent control ceilings were not too far divorced from the inflation rate so the rents of existing apartments were allowed to rise at something approaching a realistic rate. The shortfall was overcome, in many instances, by deferring building maintenance. Mortgage rates were fairly stable too, so the existing rental levels reflected the prevailing cost of money for financing. By 1978, however, the gap between controlled and economic rents had widened and, significantly, the first condominium conversions of existing apartment buildings occurred. 146 Apartment units were converted that year as landlords found that it was more profitable to sell existing apartments than rent them. The first visible tear in the fabric of the rental market has appeared.

In 1979 the Provincial Government reduced the rent increase to 4%. This further exacerbated the problem, since the cost of running apartment buildings, as measured by the Halifax Consumer Price Index, chose to rise to 8.9% per annum from 7.7% the year earlier. To be sure, the average rent increases awarded by the Rent Review Commission also rose and have actually run ahead of the inflation rate for the last three years. However, the mortgage rates leaped upwards by almost 2% in 1979, over the same year earlier, and have continued to soar ever since. The cost of financing a new two bedroomed apartment unit in the north end of Halifax Peninsula has increased dramatically over the past decade. Increased building and land costs, and particularly the cost of finance, have resulted in increased costs of 26.1%, 22.7%, and 34.4% for the years 1979, 1980, and 1981 over the year earlier. Since rent control dampens down the operations of the market, particularly since the existing apartment units only experience the effect of the increased financing costs as the mortgages (usually 5 year terms) fall due, rents are slow to respond to rapidly increasing costs.

It is apparent that rent control is restricting the supply of new apartments and will continue to have an increasing 'throttling' effect. Of even more significance perhaps is the loss of investor confidence in rental apartments. The larger property companies are leaving, or have already left, the field. Trizec Equities disposed of at least three of its large apartment buildings in Halifax during 1980/81. More buildings are being converted to condominium units and this trend will continue. Less rental apartments will be built and, unless there is Government action, construction will probably cease altogether within the next five to ten years.

Rent Control - Who Benefits?

In the short run there is a benefit to existing tenants, since their rents are protected, to some degree, from rapidly increasing cost stimulated increases (eg: fuel, financing, etc.). However, this is only a short run protection, since there is a limited amount of time during which these increased costs can be borne by the landlord. Initially, the building owner will respond by deferring expenses such as maintenance. However, that is a short term solution which will result in heavier costs in the future.

The rent review procedure itself is an increased cost of operation which will ultimately be passed back to the tenant. In the long run neither the tenant nor building owner will benefit. The housing stock will, and is, deteriorating. Supply of new apartments will, and is, being reduced and will ultimately cease altogether, thus putting pressure on the rents of the existing stock and reducing the choice of apartment units. The Federal or Provincial Governments will be forced to bring back subsidization schemes, Municipalities will be required to increase their supply of subsidized housing. Landlord and tenants organizations will, and are, being formed and the matter will, and is, polarizing into 'them and us' confrontations.

Perhaps the greatest tragedy of all, however, *is the plight of those who have no say in the matter* since they do not yet have a vote. Newly weds over the next five or ten years, looking for rental housing, will find there is none. The writer was in the same position some thirteen years ago in a country where rent control is endemic. The rage and frustration that these unfortunates will experience is all the more tragic since, with a little foresight and some political courage, it could be avoided.

The Last Straw

With an uncanny sense of timing the Federal Government announced that the MURB program would not be continued beyond December 1981, thereby dealing a final blow to the already decimated apartment construction. It is ironic that they, through incompetence, have finally finished a process started and maintained by a self-serving Provincial Government (of two political colours). A rare but unfortunate example of Federal/Provincial co-operation.

(The author of this article is now vacationing in the Falkland Islands - Ed.)