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ONTARIO'S ANNUAL RENT INCREASE GUIDELINE

How is it determined...and is it fair?

by Chris Seepe

Most residential landlords would say without hesitation that the annual rent increase guideline does not fairly reflect the true cost of operating a residential rental property in Ontario — but is that really true? Very few people, it turns out, know how the guideline is actually 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 twelve-month period that ends at the end of May of the previous calendar year.

Statistics Canada (StatsCan) created the 'Canadian CPI Basket of Goods and Services' used to generate the Consumer Price Index (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 Quick Canadian Basket Overview is shown on the following page. The detailed basket comprises more than 260 items. (Note: a total difference from 100% is due to fractional rounding errors.)

According to these numbers, both "Shelter" and "Food" dropped between 1992 and 2015 – although 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.

StatsCan's Shelter numbers didn't add up to 26.8%. 'Rented Housing' added up but the 'Owned Housing' category didn't, nor did adding together the two housing subcategories. I was unable to reconcile the Shelter weightings versus affordable housing crisis statements made by Canada Mortgage and Housing (CMHC), StatsCan and various levels of government and the media. How can the 'Rent' subcategory be 5.7% of an average consumer's annual expense spending? No matter what assumption you use, this number makes 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% of the total money spent on expenses, then the 'average' Canadian is spending \$11,868 a year ($5.7\% = \$208,210$) annually on expenses.

StatsCan's webpage on Shelter Costs reports that about 3.3 million households (25.2%) spent 30% or more of their total income on shelter. That means that 25.2% of households have an average income of \$39,560 ($\$11,868/\text{year} / 30\%$), which seems believable.

BASIC BASKET OVERVIEW

CATEGORY	1992	2015
Food	18.0	16.4
Shelter	27.6	26.8
Household Operations, Furnishings and Equipment	10.4	13.1
Clothing and Footwear	6.8	6.1
Transportation	17.2	19.1
Health and Personal Care	4.4	4.7
Recreation, Education and Reading	10.2	10.9
Alcoholic Beverages and Tobacco Products	5.5	2.9
	100.1	100.0

DETAILED CANADIAN CPI BASKET OVERVIEW: SHELTER 2015

Category 2: Shelter	26.8
Rented housing	5.9
Rent	5.7
Renter's insurance premiums	0.1
Renter's maintenance and other expenses	0.1
Owned housing	16.4
Mortgage interest cost	4.1
Homeowners' replacement cost	4.6
Property taxes	3.5
Homeowners' home and mortgage insurance	1.4
Homeowners' maintenance and repairs	1.3
Other owned accommodation expenses	1.6
Water, fuel and electricity	4.6
Electricity	2.5
Water	0.7
Natural gas	1.1
Fuel oil and other fuels	0.3

I couldn't find any statistics on what percentage of residential tenants pay their own electricity, but we can assume 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% 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 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 not accurate 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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