

RTA Maximum Rent Increase Woefully Inadequate

Analysis of Rental Building Expenses vs. RTA Maximum Allowable Rent Increase 2017-2021

INTRODUCTION

The residential rental housing sector is on a negative financial trajectory. Some of the highest cost increases faced by our sector include property taxes, utilities, and insurance. LandlordBC has long expressed concern that operating expenses that are driven by local and provincial governments, and are thus out of our sector's control, significantly impeding our ability to deliver affordable rental housing for British Columbians. While we are very sensitive to the challenges many renters are experiencing finding safe and affordable rental housing across BC, the ability for rental housing providers to better cover cost inflation is critical for the continued viability of the rental housing ecosystem.

The purpose of this analysis is to demonstrate how much higher the actual operating expense increases of a typical purpose-built rental apartment building in Metro Vancouver have been over the last five years compared to the maximum annual allowable increase under the *Residential Tenancy Act* (RTA) rent control formula that was 2% + CPI Inflation until 2018. In 2019, in response to a recommendation by the Rental Housing Task Force, the BC NDP government reduced the maximum annual allowable increase formula to cap at the Consumer Price Index for BC (CPI). Then, as part of its response to the COVID-19 pandemic, the government froze rent increases entirely from April 2020 through to the end of 2021.

SAMPLE BUILDING

The sample purpose-built rental building is:

- Three storey wood frame - built in the late 1970s
- 41 units.
- Suburban Metro Vancouver location.
- Well-maintained by long-term owner-managers who have re-invested in the property with large capital expenditures over time.

MAXIMUM ALLOWED RENT INCREASE UNDER THE RTA FOR 2017-2021

From 2005 to 2016, the maximum allowable rent increases under the RTA's rent control formula have fluctuated (depending on CPI inflation for each year) ranging from as low as 2.20% in 2014 to a high of 4.3% in 2012.

As previously stated, rent increases were frozen by the provincial government from April 2020 through to the end of 2021. Therefore, the maximum annual allowable 2.6% rent increase for

LANDLORDBC

2020 was only applicable for those tenancies with anniversary dates from January 1, 2020 to March 1, 2020. In the sample building used in this analysis, only 5 tenants (approximately 12%) out of the 41 suites had anniversary dates between January and March 2020. Therefore, we have assumed 12% of the 2.6% maximum allowable rent increase for 2020, or an estimated effective overall maximum allowable rent increase of 0.31%.

For all past maximum allowable rent increases, please see the BC Residential Tenancies web page on [historical allowable rent increases](#).

As a result, over the five years from 2017-2021, the compound annual *maximum allowable rent increase has been only 1.7%*. It is important to note that the RTA rent control formula sets a *maximum* cap on rent increases and this is by no means a guaranteed increase.

THE DATA

The main cost driver line items that have increased the most during the sample period, many of which are set by, and paid to, government:

Government Administered Expenses: <ul style="list-style-type: none">▪ Property Taxes▪ Water & Sewer▪ Electricity	Other Expenses: <ul style="list-style-type: none">▪ Insurance▪ Repairs and Maintenance
---	--

As of 2021, these main cost drivers now account for 78% of total operating expenses. Some of the highest cost increases faced by rental housing providers have been expensive items levied by the government and/or government regulated.

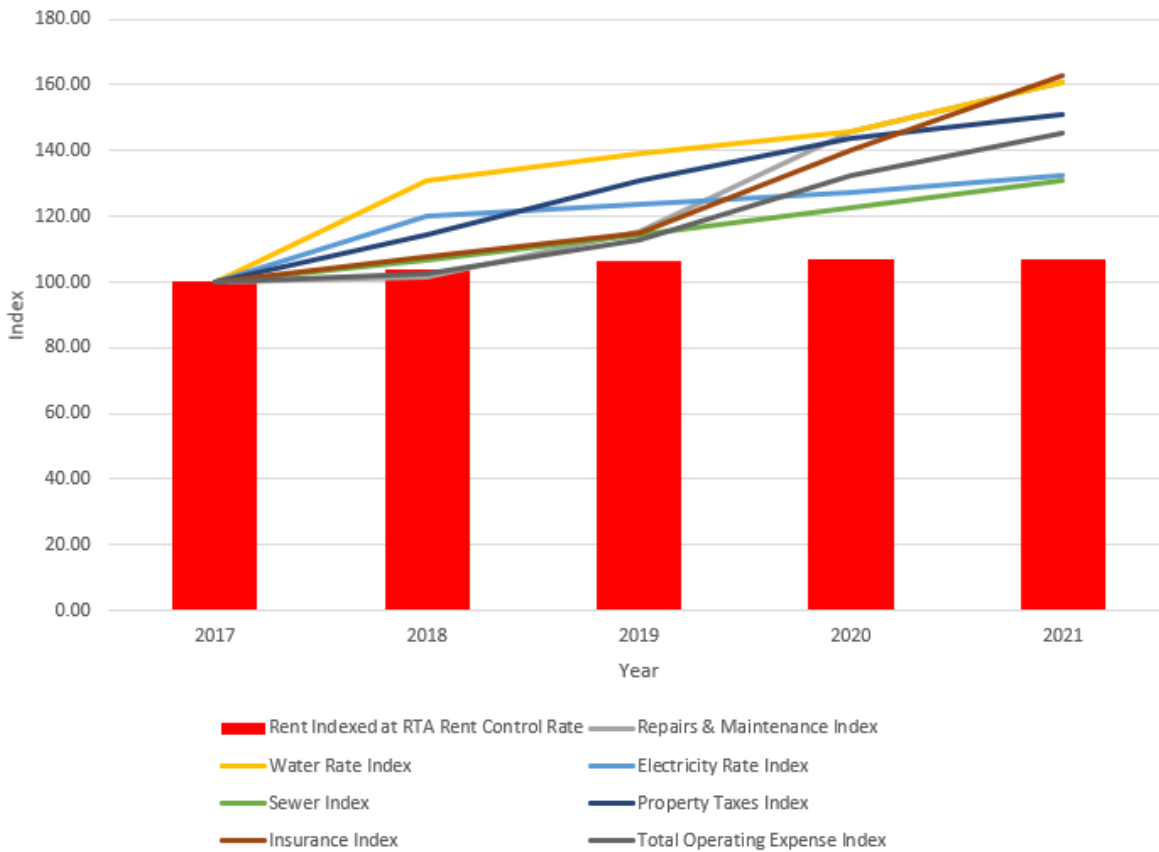
OPERATING EXPENSES FAR EXCEED RTA MAXIMUM ALLOWED RENT INCREASE

The chart below combines all the above main cost drivers as well as the total operating expenses over the period 2017-2021 and compares their increases with the rent of a typical suite increased at the maximum allowable rate under the RTA. The bright red columns highlight the rent index over time.

Rent growth under the RTA maximum allowable rent control rate is far lower than all the main cost drivers as well as far lower than the increase in total operating expenses.

LANDLORD BC

Major Operating Expenses
vs Rent Under Maximum RTA Rent Control Rate
2017-2021



The subsequent charts isolate each individual operating cost item versus the rent of a typical suite increased at the maximum allowable rent increase under the RTA’s rent control formula.

The final chart shows the increase in total operating expenses versus the rent of a typical suite increased at the maximum allowable rent control rate.

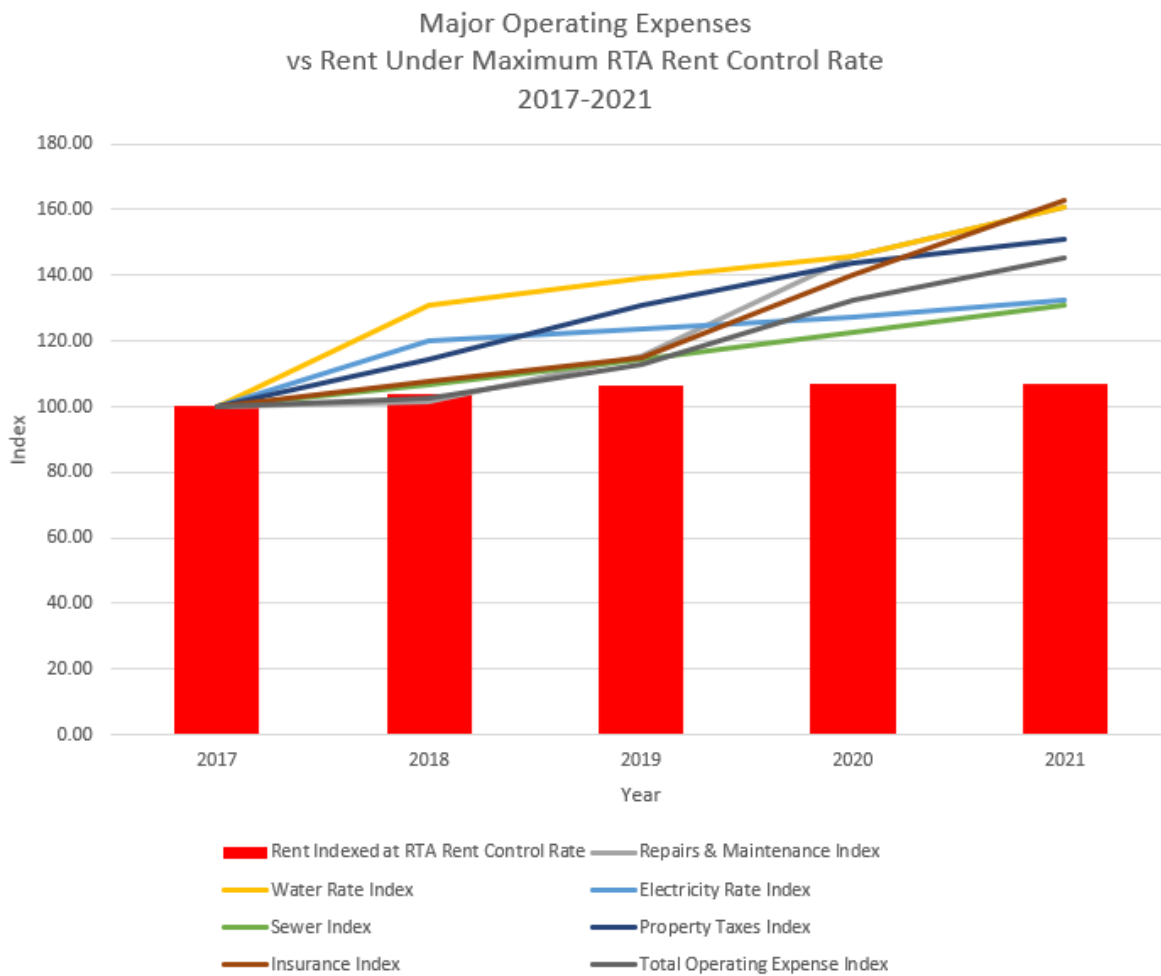
The data shows that while the rent only grew at a compound annual rate of 1.7% over the past five years, costs grew at far higher rates (CAGRs):

Government Administered Expenses (2017 – 2021)	
Property Taxes	+ 10.9%
Water Rates (\$/CuFt)	+ 12.6% per annum
Sewer	+ 7% per annum
Electricity	+ 7.2%

LANDLORDBC

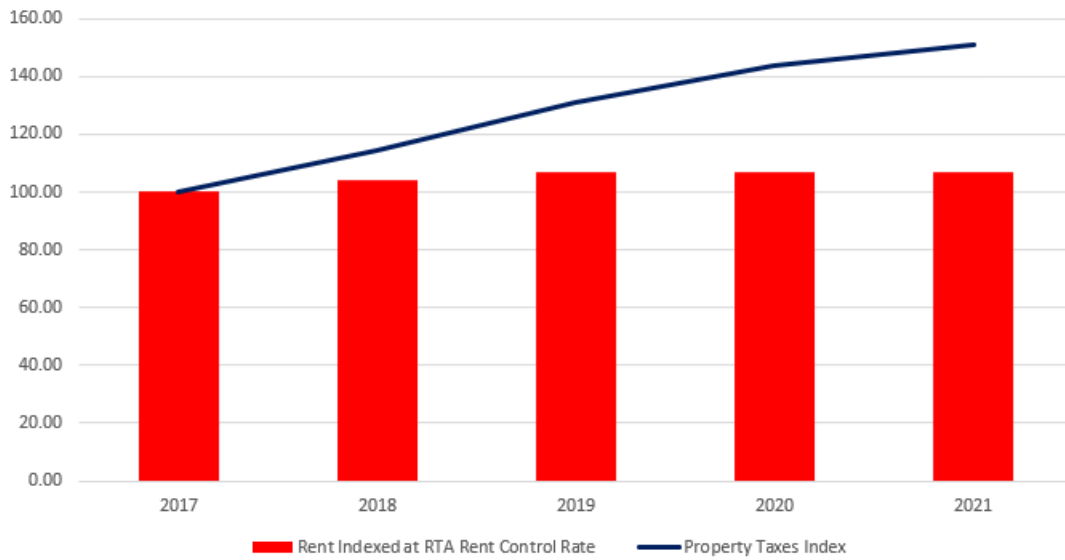
Other Expenses (2017 – 2021)	
Insurance	+ 13% per annum
Repairs & Maintenance	+ 12.6% per annum
Total Operating Expense (20217 – 2021)	
	+ 9.8% per annum

While residential rent increases have been frozen for most of 2020 and all of 2021, wages in BC increased 7.9% in 2020ⁱ. For 2021, BC annual wage increases are averaging +3.3% as of March 2021ⁱⁱ.

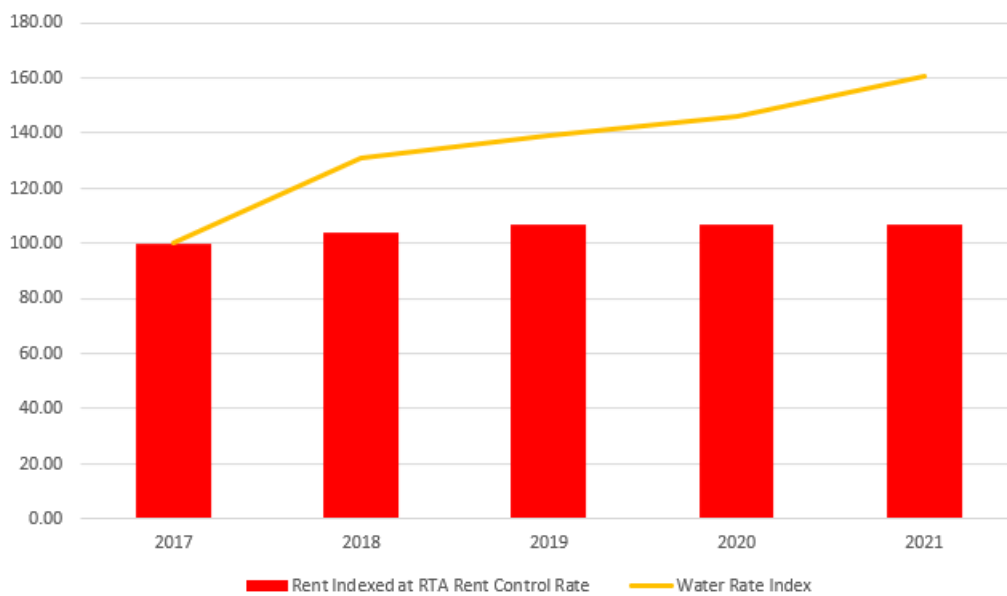


LANDLORDBC

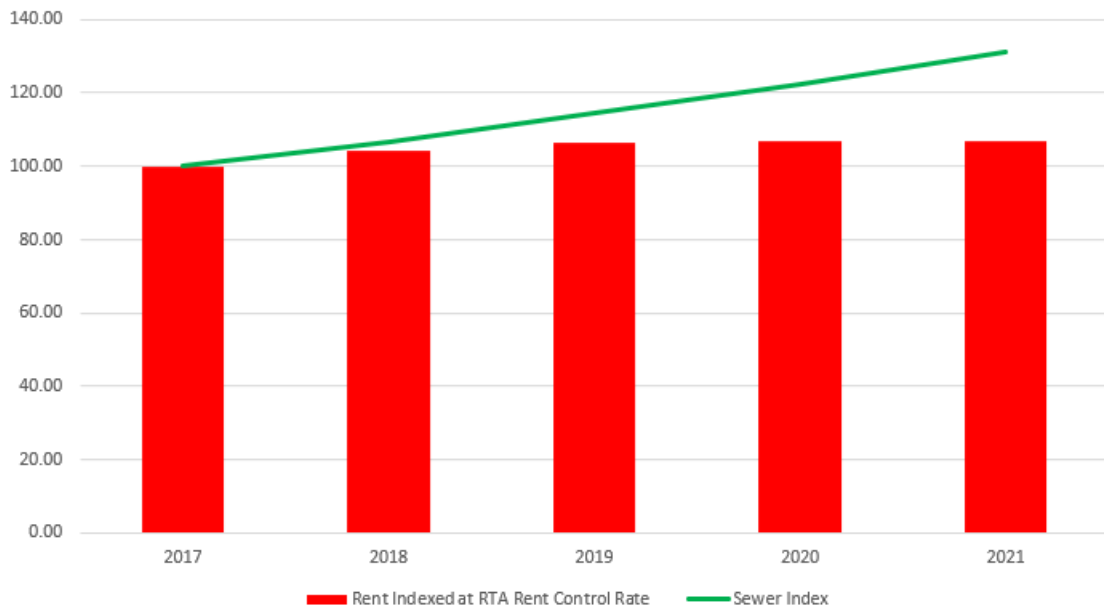
Property Taxes
vs Rent Under Maximum RTA Rent Control Rate
2017-2021



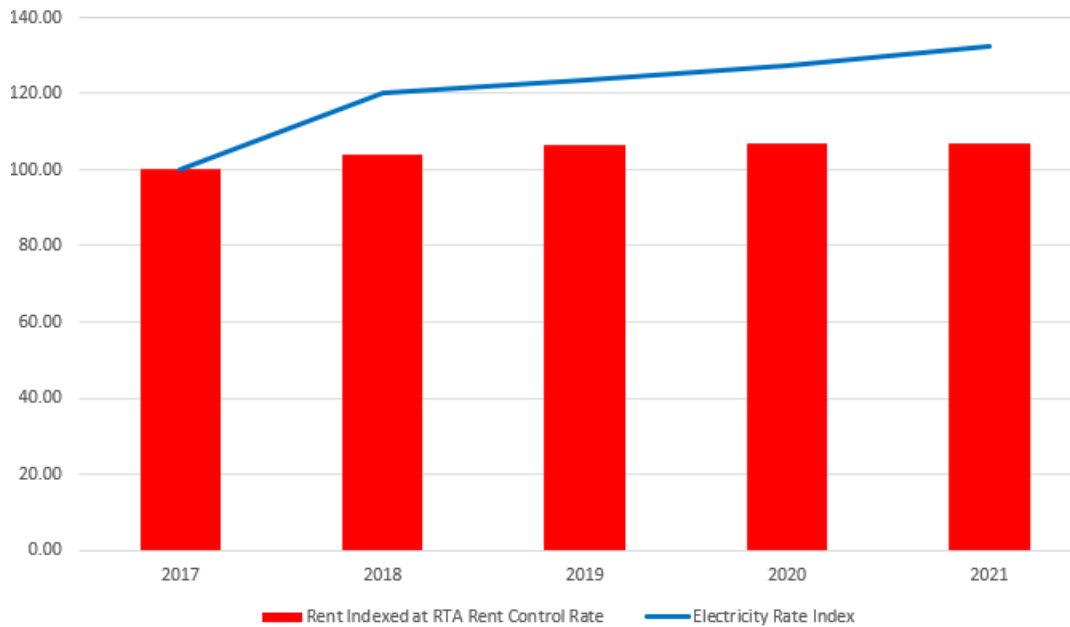
Water Rate (\$/CuFt)
vs Rent Under Maximum RTA Rent Control Rate
2017-2021



Sewer Expense
vs Rent Under Maximum RTA Rent Control Rate
2017-2021

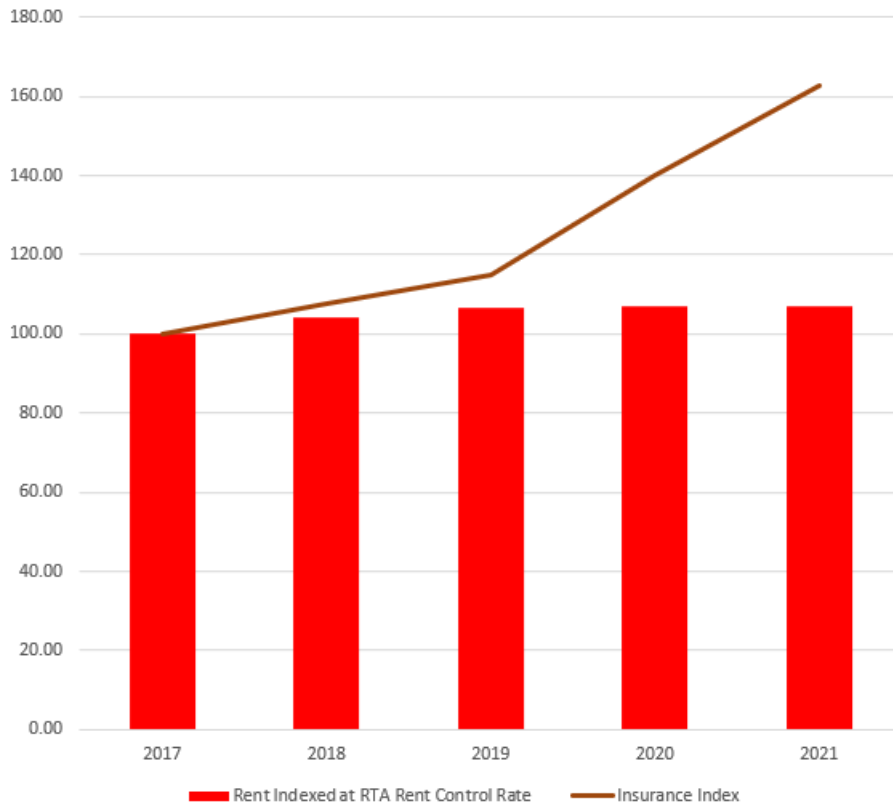


Electricity Rate
vs Rent Under Maximum RTA Rent Control Rate
2017-2021

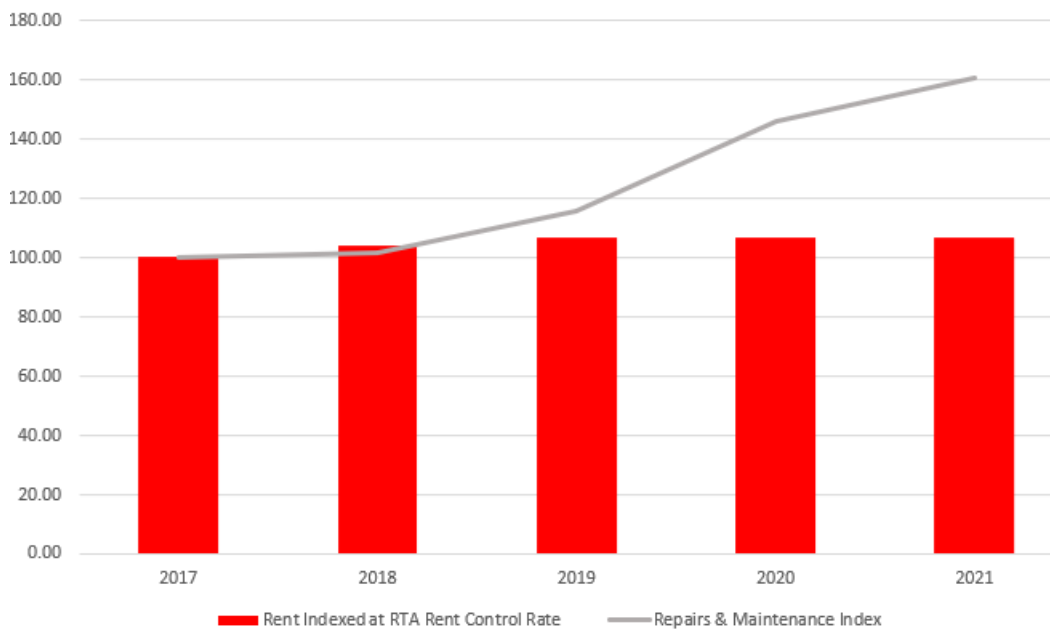


LANDLORDBC

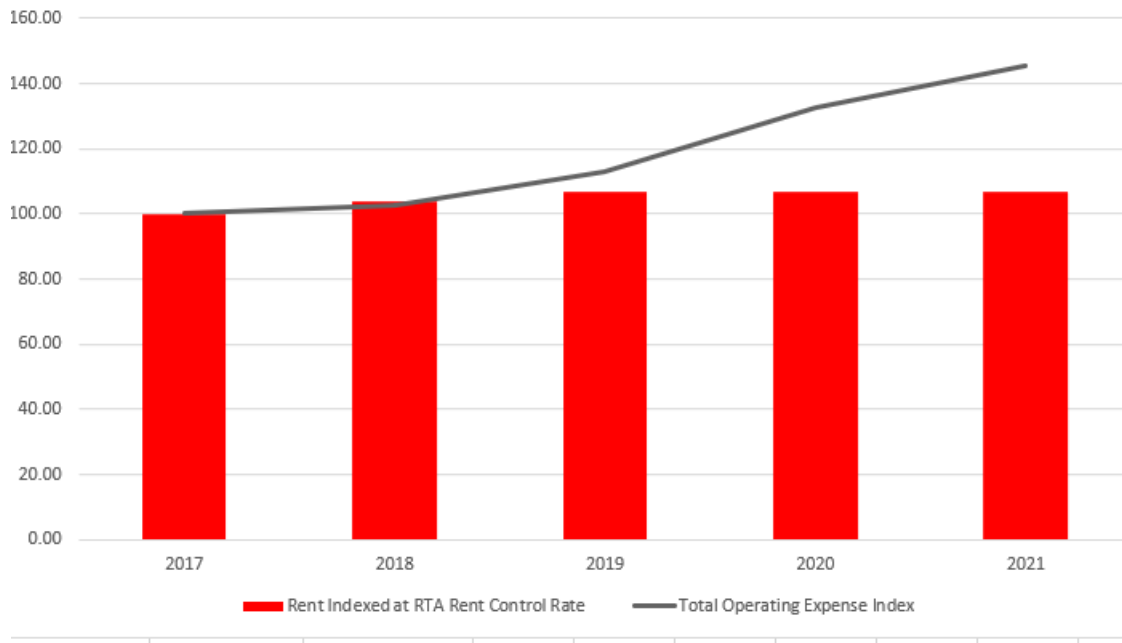
Insurance Expense
vs Rent Under Maximum RTA Rent Control Rate
2017-2021



Repairs & Maintenance
vs Rent Under Maximum RTA Rent Control Rate
2017-2021



Total Operating Expense
vs Rent Under Maximum RTA Rent Control Rate
2017-2021



LANDLORD BC

SUMMARY TRENDS										
	CONSUMER PRICE INDEX		AVERAGE WEEKLY WAGE RATE				EMPLOYMENT GROWTH		UNEMPLOYMENT RATE	
			CURRENT DOLLARS		CONSTANT DOLLARS		SEASONALLY ADJUSTED		SEASONALLY ADJUSTED	
	B.C.	CANADA	B.C.	CANADA	B.C.	CANADA	B.C.	CANADA	B.C.	CANADA
	% Change		% Change		% Change		% Change		% Change	
2011	2.4	2.9	2.0	2.4	-0.4	-0.5	0.2	1.5	7.5	7.5
2012	1.1	1.5	1.8	3.2	0.7	1.7	1.6	1.3	6.8	7.3
2013	-0.1	0.9	3.5	2.2	3.6	1.3	0.1	1.5	6.6	7.1
2014	1.0	2.0	0.3	1.7	-0.8	-0.2	0.6	0.6	6.1	6.9
2015	1.1	1.1	3.6	2.7	2.5	1.6	1.2	0.8	6.2	6.9
2016	1.8	1.4	1.0	1.9	-0.8	0.4	3.2	0.7	6.0	7.0
2017	2.1	1.6	1.3	1.5	-0.8	-0.1	3.7	1.9	5.1	6.3
2018	2.7	2.3	3.9	2.9	1.1	0.6	1.1	1.3	4.7	5.8
2019	2.3	1.9	2.7	3.3	0.3	1.3	2.6	2.1	4.7	5.7
2020	0.8	0.7	7.9	6.8	7.1	6.0	-6.2	-5.2	8.8	9.5
2020 Jan	2.3	2.4	6.6	4.8	4.2	2.3	-0.2	1.5	4.6	5.6
2020 Feb	2.4	2.2	7.7	4.3	5.2	2.1	-0.7	1.4	5.1	5.7
2020 Mar	1.2	0.9	11.9	7.8	10.5	6.9	-6.0	-3.9	7.2	7.9
2020 Apr	0.0	-0.2	16.9	12.4	16.9	12.7	-16.6	-14.9	11.5	13.1
2020 May	-0.2	-0.4	13.6	11.8	13.9	12.2	-15.4	-13.4	13.4	13.7
2020 Jun	0.5	0.7	9.3	7.9	8.8	7.2	-10.7	-8.4	13.3	12.5
2020 Jul	0.2	0.1	4.1	6.1	4.0	6.0	-8.0	-6.1	11.2	10.9
2020 Aug	0.2	0.1	7.4	6.4	7.2	6.3	-7.3	-5.4	10.7	10.2
2020 Sep	0.4	0.5	5.3	5.6	4.9	5.0	-4.7	-3.6	8.6	9.2
2020 Oct	0.5	0.7	4.8	5.5	4.2	4.8	-3.8	-3.1	8.0	9.0
2020 Nov	1.1	1.0	4.9	4.9	3.7	3.9	-2.1	-2.5	7.3	8.6
2020 Dec	0.8	0.7	5.2	5.7	4.4	4.9	-1.9	-3.1	7.2	8.8
2021 Jan	1.1	1.0	5.9	7.1	4.7	6.0	-1.7	-4.4	8.0	9.4
2021 Feb	0.9	1.1	4.1	5.0	3.2	3.8	-0.6	-3.1	6.9	8.2
2021 Mar	-	-	-0.1	0.9	-	-	6.2	3.9	6.9	7.5
2021 Apr										
2021 May										
2021 Jun										
2021 Jul										
2021 Aug										
2021 Sep										
2021 Oct										
2021 Nov										
2021 Dec										

Monthly percent changes are calculated as month over same month previous year

Prepared by: BC Stats

Source: Statistics Canada Labour Force Survey

CONCLUSION

As illustrated, as of 2021 the main cost drivers outlined in this brief now account for 78% of total operating expenses. Some of the highest cost increases faced by rental housing providers have been expensive items levied by the government and/or government regulated. The current trends are not sustainable and place the entire rental housing ecosystem at risk. Over 55% of British Columbia's rely on privately owned rental housing to meet the housing needs of them and their families. In order to meet the ever-growing demand for rental housing, property owners must have a reasonable expectation of some profit to justify the risk and to make continued investments into their properties. The impacts are real and can be seen today in the form of a growing cohort of landlords being forced to exit the sector after years, often decades, of providing safe, secure, long-term rental housing in our communities.

LANDLORDBC

LandlordBC continues to serve as the leading voice of the rental housing industry advocating on behalf of our members and the broader sector. We are very concerned that inflationary costs are outstripping the maximum annual allowable increases to which we are limited both annually and cumulatively, thereby impeding our ability to deliver affordable rental housing for British Columbians.

© 2021 LandlordBC

All rights reserved. The material may not be reproduced or distributed, in whole or in part, without the prior written permission of LandlordBC.

ⁱ “Wage Rate Information – Province of British Columbia”. Statistics Canada.

<https://www2.gov.bc.ca/gov/content/data/statistics/people-population-community/income/wage-rate-info>

ⁱⁱ “Earning & Employment Trends – April 2021”. Statistics Canada. May 7, 2021.

https://www2.gov.bc.ca/assets/gov/data/statistics/people-population-community/income/earnings_and_employment_trends_data_tables.pdf