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SOFTEN THE BLOW

Quebec's "soft rent cap" model as a policy tool to address Alberta's student housing crisis

ABSTRACT

Graduate students in Alberta are increasingly being priced out of the housing and rental markets as a result of Canada's ongoing housing crisis. The economics profession broadly agrees, though, that first-generation rent caps—i.e., legislated ceilings on rent increases—are a counterproductive policy tool. The province of Quebec, however, has put in place a much more flexible, tribunal-based "soft rent cap" that successfully balances the needs of tenants and landlords. We recommend that the Government of Alberta create and experimentalist unit—centered around the University of Calgary and including all its stakeholders—to design, adjust, and implement this tribunal-based "soft rent cap" model.

Prepared by:

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Executive Summary:

- Alberta’s major cities—Calgary and Edmonton—are seeing some of the fastest rent increases in all of Canada.
- Graduate students are a unique demographic: all have fixed costs (tuition, mandatory non-instructional fees) that other young adults do not face, while also being more likely to have dependents whom we care for than undergraduate students.
- The economics literature near-universally states that “first-generation rent control,” where rent is capped through legislation, is counterproductive.
 - The potential problems with first-generation rent controls remain even if we abandon the assumption that markets are perfectly competitive, especially since the barriers preventing markets from reaching efficient outcomes also limit the ability of governments to impose top-down affordability solutions.
- Quebec has a unique “soft rent cap” that utilizes a tribunal—the *Tribunal administratif du logement*—to adjudicate disputes between landlords and tenants over rent adjustments. The tribunal is embedded within a legal framework that:
 - Individualizes rent increase limits, typically on a building-by-building basis, based on publicly knowable factors, like building location, the cost of building materials, local property taxes, and more;
 - Requires a clear demonstration by landlords that rent increases are solely for capital improvements or building maintenance;
 - Allows tenants to reject a proposed rent increase, thus starting the tribunal process; and
 - Requires active participation of both landlords and tenants in the dispute process.
- This “soft rent cap” model encourages flexible, transparent, and context-sensitive decision-making around rental adjustments; empowers tenants to contest rent adjustments; fosters cooperative relations between landlords and tenants; and attempts to equally prioritize rent affordability and supply.
- Additionally, the model’s emphasis on transparency, predictability, and consistency aim to disincentivize conflict: landlords know that rent increases above what are required for capital improvements or maintenance are likely to be rejected, while tenants know that rent increases which are necessary for maintenance are likely to be upheld, so often times a dispute is ended before reaching the tribunal stage.
- Suggestive evidence comparing the rental markets and rent control policies of Ontario and Quebec indicates that the “soft rent cap” model succeeds in making rent more affordable, without the negative impacts of first-generation rent controls.
- The tribunal-based “soft rent cap” model thus may be an effective policy tool for the Alberta government to pursue, alongside other housing policies such as increasing the supply of affordable housing units.

Summary of Recommendations:

- A. Adopt a pilot program modeled on Quebec’s Tribunal Process, using the University of Calgary and its stakeholders, to test the implementation of this model while simultaneously supporting affordable rental access to (graduate) students;
- B. Expand and improve data collection on student housing needs by:
 - a. Collecting and publishing province-wide data on student housing within the Ministry of Advanced Education, in partnership with our Post-Secondary Institutions;
 - b. Supporting the recommendations within CASA’s Living in the Red paper when dealing with Statistics Canada;
 - i. Remove the mandatory assessment of those attending post-secondary schools as a “transitional phase”;
 - ii. Remove the mandatory assessment of student house holds earning low incomes as a “temporary condition”;
 - iii. Consider ‘Non-Family Households with at least one maintainer aged 15 to 29 attending school’ as qualifying for ‘Core Housing Need’.
- C. Launch a provincial Student Community of Discussion on student housing to ensure student voices are adequately represented in housing policy and program development.

Introduction

Canada is experiencing a housing crisis. According to the Organization for Economic Cooperation and Development (OECD), Canada has the third most unaffordable housing among the 38 most developed countries when housing prices are adjusted for average income.¹ Rent is also no more affordable an option than purchasing a house. Alberta, as a province, is not immune to high housing costs and rent levels; and indeed, the province's major cities are seeing an influx of homeless encampments as a result of high housing and rental prices.² Calgary, in particular, has seen rent increase far faster than anywhere else in the country,³ and the City's 2023 Housing Needs Assessment found that renters would need a before-tax annual income of \$84,000 to afford the average market level of rent, up from \$67,000 in 2022.⁴ Graduate students at the University of Calgary do not tend to be paid anywhere near this amount for their work as teacher's assistants, instructors, researchers, or inventors. Their need for shelter, however, is no lower than that of the average Calgarian.

Graduate students are a unique demographic, and thus are uniquely *vulnerable* to being priced out of the rental market. Graduate students tend to be older, on average, than undergraduate students.⁵ This means that graduate students are more likely to have dependents, particularly children, that must be cared for financially; indeed, among UCalgary graduate students, 22% have spouses, 12% have children, and 22% have parents whom they are responsible for.⁶ The needs of dependents will also factor into any housing decisions a student makes: for instance, forgoing living on campus in order to live closer to their child's school or to live closer to a parent in ill-health. At the same time, and unlike young professionals who do not remain in the postsecondary system, graduate students have additional costs in the form of tuition and mandatory non-instructional fees. These additional costs mean that graduate students face heavy financial pressure whenever average rent in Calgary increases; and while some graduate students will benefit from increased on-campus residence capacity, many others will continue to have to rely on the rental market.

Rent control measures have been proposed as a way of ensuring rental properties remain affordable, with rent caps being a frequently cited rent control policy.⁷ Multiple policy tools fall under the umbrella term of "rent control," and rent control policies can differ in how they are implemented, but the most common rent control policies place a ceiling, or "cap" on rent

¹ "Prices - Housing Prices - OECD Data," *OECD*, 2022., <https://data.oecd.org/price/housing-prices.htm>.

² <https://www.cbc.ca/news/canada/edmonton/edmonton-council-alberta-cabinet-homeless-housing-1.7085148>

³ Karina Zapata, "Calgary's Rental Prices Climbing Faster than Anywhere Else in the Country," *CBC*, August 30, 2023, <https://www.cbc.ca/news/canada/calgary/calgary-rent-increase-report-1.6951129>.

⁴ "Housing Needs Assessment," *City of Calgary*, 2023., <https://www.calgary.ca/communities/housing-in-calgary/housing-needs-assessment.html>.

⁵ Meghan Dale, "Trends in the Age Composition of College and University Students and Graduates," *Education Matters: Insights on Education, Learning and Training in Canada* (Statistics Canada, 2010), <https://www150.statcan.gc.ca/n1/en/pub/81-004-x/2010005/article/11386-eng.pdf?st=zCtsLtGH>, pg. 6.

⁶ Thao Nguyen, "GSA Annual Survey 2022 Results - Graduate Students' Association," *Graduate Students' Association of the University of Calgary* (blog), September 9, 2022, https://gsa.ucalgary.ca/gsa-annual-survey-2022-results/#_ftnref2.

⁷ Karina Zapata, "Calgary Tenant Advocacy Group Demands 2% Cap on Increases as Rents Soar," *CBC*, March 23, 2023, <https://www.cbc.ca/news/canada/calgary/acorn-two-per-cent-rent-increase-protest-1.6787783>.

increases year over year. “Rent caps,” also known as “first-generation” rent controls (in that rent caps were the first policies to be classified as “rent control”),⁸ are quite common in Canada, as five provinces and one territory have some form of statutory limit on rent increases.⁹ For instance, in Ontario, rent cannot increase by more than 2.5% for the year 2024 (for older units).¹⁰ Advocates of rent control say that a rent cap increases predictability for tenants and constrains landlord’s ability to exploit desperate individuals. If properly implemented, rent caps would increase the supply of affordable housing by preventing rent from increasing to the point where prospective buyers are priced out of the market.

There is a strong consensus amongst economists, however, that rent control—and rent caps in particular—are counterproductive at making rent more affordable. A 2012 poll of economists conducted by the Kent Clark Center’s Initiative on Global Markets (IGM) asked whether rent limits in major cities, such as New York or San Francisco, made rent more affordable: only 2% of economists agreed with the proposition, while 49% disagreed and a further 32% *strongly* disagreed (**Fig. 1**).¹¹ These numbers are broadly consistent with the results of a 1992 survey of 464 members of the American Economics Association, where 93% of respondents expressed opposition to statutory limitations on rent increases.¹² Commonly cited concerns with rent caps (which will be expanded upon later in this paper) are that they disincentivize the building of new rental units, reduce landlord’s ability to repair and improve existing units, distort labour markets, and can increase rents in markets lacking rent control. If rent control decreases the supply of affordable housing and incentivizes the creation of high-end, exclusive condos, then rent control has the potential to *increase* rents in the long run, undermining the stated goal of the policy. Any benefits to rent control tend to be limited to already existing tenants, with new or potential tenants being significantly worse off.

Not all rent control measures are identical or interchangeable, however. Inflexible rent caps, where legislation explicitly restricts the amount that rent can increase, are often called “first generation” rent controls; studies on this form of rent cap make up the bulk of the economics literature on rent control. Other rent control measures may have positive impacts, especially if they prioritize flexibility and fostering cooperation between landlords and tenants. A flexible and cooperative approach to maintaining rental flexibility is precisely the intention behind Quebec’s unique “soft rent cap” model,¹³ and the model’s potential role in keeping Quebec rent levels among the lowest in Canada makes it worthy of closer study.

⁸ Kenneth Gibb, Adriana Mihaela Soaita, and Alex Marsh, “Rent Control: A Review of the Evidence Base,” (UK Collaborative Centre for Housing Evidence, February 23, 2022): 13.

⁹ Jason Vermes, “How Rent Control Can Help Tenants — or Not,” *CBC*, July 19, 2023, <https://www.cbc.ca/radio/costofliving/rent-control-explainer-1.6909861#:~:text=What%20regions%20have%20rent%20control,at%20the%20end%20of%202025>.

¹⁰ “Ontario Caps 2024 Rent Increases at 2.5 per Cent; Does Not Apply to Newer Units,” *CBC*, June 30, 2023, <https://www.cbc.ca/news/canada/toronto/ontario-2024-rent-increase-cap-1.6894097>.

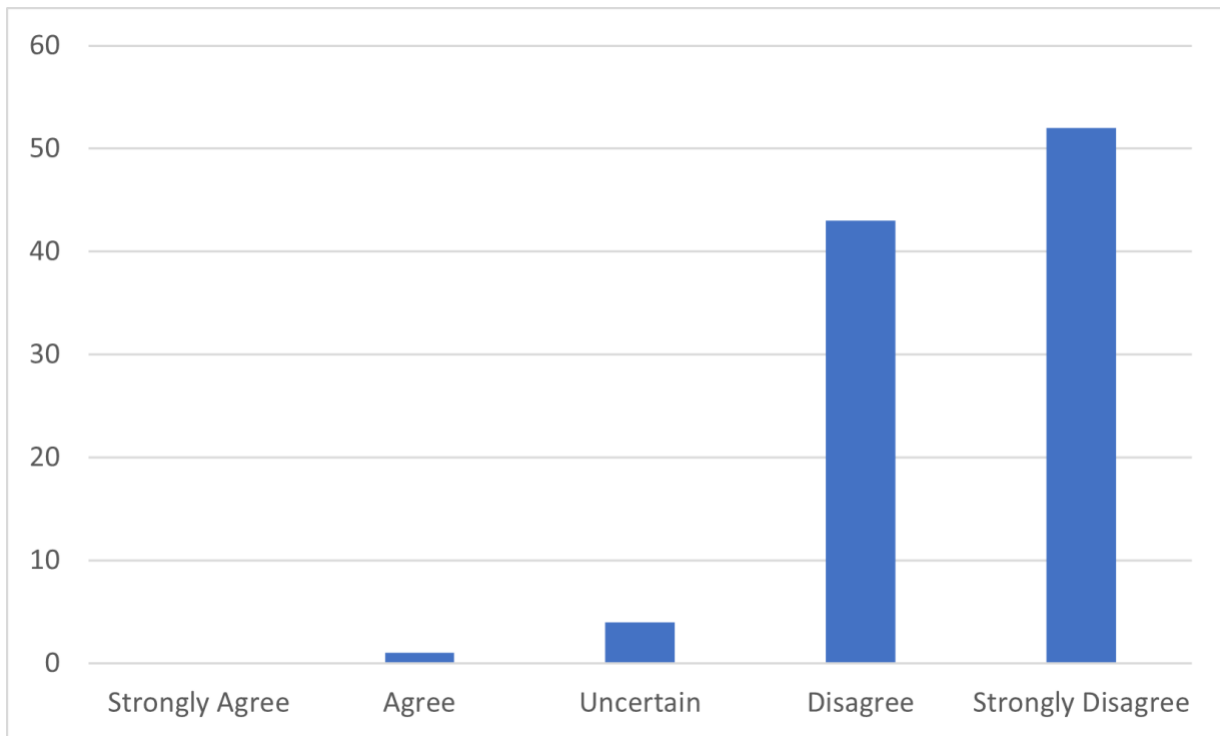
¹¹ Clark Center Forum, “Rent Control - Clark Center Forum,” December 2, 2020, <https://www.kentclarkcenter.org/surveys/rent-control/>.

¹² Richard M Alston, Kearnl, and Michael B Vaughan, “Is There a Consensus Among Economists in the 1990’s?,” *The American Economic Review* 82, no. 2 (May 1992): 204.

¹³ Mario Polèse, “Why Is Housing Cheaper in Quebec than in Ontario?,” *Policy Options*, November 19, 2023, <https://policyoptions.irpp.org/magazines/august-2023/affordable-housing-quebec-ontario/>

In Quebec, rental adjustments are adjudicated by a tribunal—the *Tribunal administratif du logement*. While all provinces have a tribunal to hear disputes between landlords and tenants, the *Tribunal administratif du logement* is unique in that it, rather than government legislation, decides upon “acceptable rental adjustments.” The tribunal’s decision-making process—including the factors by which the tribunal will weigh any proposed rental adjustment—are publicly viewable and easily accessible, negating the need for landlords or tenants to find costly legal representation (and where unequal access to legal expertise can prove to be an advantage for one party—typically the landlord—over the other). This entire process, and the tribunal’s mandate vis-à-vis resolving disputes over rent adjustments, are embedded within a legal framework that enshrines affordability and predictability as essential components of Quebec’s rental market. The flexible, context-sensitive, and collaborative nature of this model is in stark contrast to the inflexible, top-down model that economists near-universally criticize as inefficient and counterproductive.

Fig.1. Economists Answers to the question: “Rent control measures have had a positive impact on the amount and quality of affordable housing,” weighted by Expert Confidence (n=41)¹⁴



The purpose of this paper is to analyze the possibility of Alberta adopting a similar “soft rent cap” model to Quebec, as one part of a suite of policies designed to address the ongoing housing crisis. Part One surveys the economics literature on rent control. It argues that the drawbacks of “first generation” rent caps are a legitimate concern, even if we move away from the unrealistic assumptions of perfectly competitive markets. Moreover, it also argues that the very obstacles that prevent rental markets from being perfectly competitive will restrict a

¹⁴ Clark Center Forum, “Rent Control - Clark Center Forum.”

government’s ability to impose top-down affordability solutions, which highlights the need for flexibility and direct participation of landlords *and* tenants in ensuring rent increases remain affordable. Part Two analyzes Quebec’s “soft rent cap” model in more detail, highlighting the unique way in which the *Civil Code of Quebec* empowers the *Tribunal administratif du logement* to adjudicate disputes over rent adjustments as well as the transparent decision-making process that encourages cooperation between landlords and tenants, rather than conflict. Part Three analyzes a *Policy Options* article by economist Mario Polèse, which argues that the “soft rent cap” model is at least partially why rent is significantly cheaper in Quebec than in Ontario. Part Four considers how such a model could be implemented in Alberta and outlines how to best include graduate students in any conversations around rent control. In particular, it argues that following an “experimentalist governance” framework—especially one centred around the University of Calgary and its many stakeholders—would allow the Albertan government to test the impact of this model without waiting for a lengthy, and potentially inconclusive, blue-ribbon panel study of the model. Part Five concludes and summarizes the Graduate Students’ Association (GSA) of the University of Calgary’s recommendations on the matter.

Our hope is that a serious consideration of Quebec’s “soft rent cap” model—alongside other policy options to address the ongoing housing crisis—will make rent more affordable *not only* for graduate students, but also for every Albertan who struggles to afford a fundamental human need: shelter.

Part One: The Economics of Rent Control

1. Theory

Introductory economics starts with two assumptions: that economic agents are rationally self-interested and that markets are perfectly competitive. The former assumption states that economic agents seek to maximize their utility and make sophisticated cost/benefit decisions to reach their goal. This assumption is typically extended to include knowing all the potential outcomes and consequences of a decision in addition to knowing all possible alternative decisions an individual could make, something known as “perfect information.” The latter simply states that there exists a price level where the demand for a good equals the supply of a good. If these two assumptions are combined, economic agents will react to changing supply and demand levels in a way that maximizes their individual utility and the price level will freely move to account for these decisions, until an equilibrium price is reached. The mathematical expression of a perfectly competitive market—including the additional assumptions needed for this mathematical relationship to hold—is known as the Arrow-Debreu Model, named after the economists who formalized it: Kenneth Arrow and Gérard Debreu.¹⁵ Economists can thus create a simple model of the economy and estimate the effects of different policy interventions on general welfare, with an equilibrium price (i.e., the market clearing price) being the maximization of general welfare (also known as “Pareto Efficiency”).

In these simplified models, rent caps act as a ceiling on the price of rental properties. This restricts the utility maximizing decisions of suppliers (landlords) and prevents the price level from adjusting to changes in demand and/or supply. Because the supply curve slopes upwards—which simply means that producers will hypothetically produce more goods as the price level increases—a ceiling on rents means the supply of rental properties is lower than it would be at equilibrium, regardless of what the demand for rental properties might be. This creates what is known as a “deadweight loss” on the economy: the loss in welfare resulting from the legislated price being different from the equilibrium price (**Fig.2**). The negative effects of rent control are thus fairly easy to visualize.

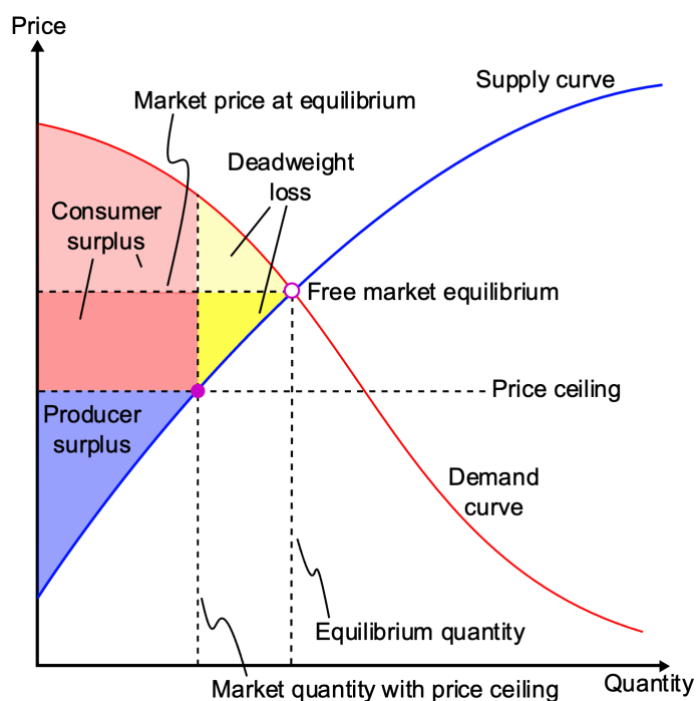
Perfectly competitive markets do not exist in reality, however, and so the situation around rent control is more complex than automatically assuming any government intervention in the housing market is distortionary. As an extreme example, the Arrow-Debreu Model does not account for space or time; if it did, the model would state that an infinite number of potential buyers can perform a perfect analysis of the costs and benefits of an infinite number of goods *simultaneously*.

Moving beyond those limitations, further work by Arrow showed that there are mathematical reasons for believing that perfect competition is impossible *in principle*. Arrow showed, in what became known as “Arrow’s Impossibility Theorem,” that no ranked preference method can aggregate individual preferences into *social* preferences (which are what supply and

¹⁵ Kenneth J. Arrow, *An Extension of the Basic Theorems of Classical Welfare Economics*, vol. 2, 1951, http://digitalassets.lib.berkeley.edu/math/ucb/text/math_s2_article-37.pdf; Gérard Debreu, “The Coefficient of Resource Utilization,” *Econometrica* 19, no. 3 (July 1, 1951): 273-292, <https://doi.org/10.2307/1906814>.

demand curves are) without violating a number of conditions, each of which being essential for a functioning and fair market (or electoral system).¹⁶

Fig.2. Effects of a Price Ceiling in a Perfectly Competitive Market



By SilverStar, CC BY 2.5, <https://commons.wikimedia.org/w/index.php?curid=5670362>

Arrow also applied the notion of *uncertainty* (and, thus, weakened the “perfect information” assumption) to provision of medical care and showed how a lack of perfect knowledge undermines the competitive model discussed above.¹⁷ This result was extended by economists Bruce Greenwald and Joseph Stiglitz to show that incomplete information will always undermine a competitive market’s ability to reach equilibrium.¹⁸ Unequal access to information—also known as “asymmetric information”—can lead to opportunistic and exploitative behaviour from whichever party holds an information advantage, an observation that lies at the core of what is called “transaction costs approach” to economics.¹⁹ This inequality is only amplified if a legal dispute is initiated and one party is significantly richer than the other: the richer party can frequently pay for better legal representation, and thus gains access to a more comprehensive understanding of relevant case-law.²⁰

¹⁶ Kenneth J. Arrow, *Social Choice and Individual Values*, Yale University Press eBooks, 2017, <https://doi.org/10.12987/9780300186987>.

¹⁷ Kenneth J. Arrow, “Uncertainty and the Welfare Economics of Medical Care,” *Journal of Health Politics Policy and Law* 26, no. 5 (October 1, 2001): 851–83, <https://doi.org/10.1215/03616878-26-5-851>.

¹⁸ Bruce C. Greenwald and Joseph E. Stiglitz, “Externalities in Economies with Imperfect Information and Incomplete Markets,” *The Quarterly Journal of Economics* 101, no. 2 (May 1, 1986): 229–264, <https://doi.org/10.2307/1891114>.

¹⁹ Oliver E. Williamson, “The Economics of Organization: The Transaction Cost Approach,” *American Journal of Sociology* 87, no. 3 (November 1, 1981): 548–77, <https://doi.org/10.1086/227496>.

²⁰ Andreea Musulan, “The Winners and Losers of Rental Tribunals,” *Social Science Research Network*, January 1, 2022, <https://doi.org/10.2139/ssrn.4029114>.

Additional work by Herbert Simon complicates several core tenets of perfect competition. Starting with his 1947 book *Administrative Behaviour*,²¹ expanded in his 1951 article “A Formal Theory of the Employment Relationship,”²² and extending throughout his economic research, Simon argued that the internal decision-making processes of firms did not correspond to the type of behaviour predicted by neoclassical economics (which the notion of a perfectly competitive market is a part of). Most economic actors are employees within a hierarchically organized firm, and thus the majority of economic decisions are made by individuals who face different incentives and constraints from that of a lone buyer or seller in a perfectly competitive market.²³ For instance, hierarchical firms struggle with the “principal-agent” problem, where one individual (a “principal”) entrusts another individual (an “agent”) to act on their behalf, such as a shareholder entrusting a firm’s profitability to senior management. The difficulty in perfectly aligning the incentives of principals and agents can prevent free market competition from disciplining firms that do not effectively serve their customers, such as when property managers misappropriate their clients’ funds.²⁴

More fundamentally, Simon argued that complexity significantly limits any information-processing entity (human brains, teams, firms, etc.) in their ability to discover, analyze, and compute the outcomes of major decisions.²⁵ While this work is credited with beginning the “behavioural economics” tradition, which argues that humans suffer from persistent and cognitive biases and thus make frequently “irrational” decisions,²⁶ Simon’s argument takes a different track, arguing that rationality should instead focus on *how* a decision was made rather than what the outcome of a decision is.²⁷ Consequently, decision-making processes that might not seem to conform to neoclassical economics’ model of a rational actor might, in fact, be perfectly rational given the complexities of the environment an economic agent is embedded in. Gerd Gigerenzer expanded on this notion to argue that humans frequently rely on an evolving set of heuristics to make decisions in complex environments, and that these heuristics, *if properly chosen*, outperform more detailed cost-benefit analyses in both accuracy and speed.²⁸ Regardless of how one interprets Simon’s arguments, economic actors do not behave the way that is expected by the simple model discussed above.

²¹ Herbert A. Simon, *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organizations*, Free Press eBooks, 1997, <https://ci.nii.ac.jp/ncid/BA29707109>.

²² Herbert A. Simon, “A Formal Theory of the Employment Relationship,” *Econometrica* 19, no. 3 (July 1, 1951): 293, <https://doi.org/10.2307/1906815>.

²³ Herbert A. Simon, “Organizations and Markets,” *Journal of Economic Perspectives* 5, no. 2 (May 1, 1991): 25–44, <https://doi.org/10.1257/jep.5.2.25>.

²⁴ Diana Zlomislic and Raveena Aulakh, “Property Manager Bilked \$20M in Condo Fraud, Victims Claim,” *Toronto Star*, September 15, 2011, https://www.thestar.com/news/gta/property-manager-bilked-20m-in-condo-fraud-victims-claim/article_cf3e8854-746c-59b1-9786-b41b6022c7bc.html.

²⁵ <https://www.sup.org/books/title/?id=3085>

²⁶ Amos Tversky and Daniel Kahneman, “Judgement under Uncertainty: Heuristics and Biases,” *Science* 185, no. 4157 (Sept 27, 1974): 1124–1131, <https://doi.org/10.1126/science.185.4157.1124>.

²⁷ Gustavo Barros, “Herbert A. Simon and the Concept of Rationality: Boundaries and Procedures,” *Brazilian Journal of Political Economy* 30, no. 3 (September 1, 2010): 455–72, <https://doi.org/10.1590/s0101-31572010000300006>.

²⁸ Gerd Gigerenzer and Henry Brighton, “*Homo Heuristicus*: Why Biased Minds Make Better Inferences,” in *Heuristics: The Foundations of Adaptive Behavior*, 2011, 2–26, <https://doi.org/10.1093/acprof:oso/9780199744282.003.0001>.

There are additional concerns with perfect competition that are relevant to the housing and rental markets. The economics of contracts generally assume the existence of “complete contracts,” which simply means that economic agents can state their rights and liabilities for all possible future states of the world. If this is not possible, then the incompleteness of contracts creates an inequality of power between economic agents, preventing competition from punishing exploiters and eventually returning the market to equilibrium absent an equalization mechanism.²⁹ Complexity limiting the information-processing capabilities of economic agents is also not the only information-related limitation on markets reaching a competitive equilibrium. As Samuel Bowles, Alan Kirman, and Rajiv Sethi—in their retrospective on the impacts of Friedrich Hayek’s thought on economics—note, information has to be extracted from price signals in order for economic agents to understand what is happening in the wider economy.³⁰ When this is the case, destabilizing feedback loops can be (and frequently *are*) created which negatively impacts other market participants, again preventing the market from reaching equilibrium.³¹ Exploitative behaviour and destabilizing feedback loops means that a market may be locked at a suboptimal price level even absent any government-mandated price ceilings.

In summary, advances in economic theory indicate that a combination of the impossibility of aggregating individual preferences through a ranked-choice method, the presence of uncertainty and imperfect/asymmetrical information, complexity, incentive structures within hierarchical firms, limits to information processing, incomplete contracts, and destabilizing feedback loops can all prevent a market from reaching a perfectly competitive equilibrium. In the context of rental markets, this means we cannot automatically assume that the market for rent is efficient absent any government intervention, and thus a price ceiling for rent is automatically distortionary.

That said, market failures being the norm rather than an exception does not entail that government intervention will *automatically* lead to better outcomes. Nor does it mean that the concerns with rent control mentioned in the introduction—that it disincentivizes the construction of rental units and predominantly benefits existing tenants at the expense of *future* tenants—are automatically wrong.

In the first case, the same constraints on market efficiency can lead to *government* failure, in which public policy (even well-intentioned ones) lead to worse outcomes than had no political intervention been tried.³² In the second case, one only needs to assume that a price ceiling for rent makes the construction of non-rental properties (such as high-end condos) more profitable—and that rental suppliers are *predominantly* interested in maximizing profits—to arrive at the conclusion that a price cap on rent leads to a decrease in affordable rental properties. The welfare losses from a rent cap may not be as stark as the perfectly competitive model might predict, but they may still exist regardless. Alternatively, a rent cap may have a neutral or negligible impact on rental supply, but alternative affordability policies may have a more positive impact for

²⁹ Samuel Bowles and Herbert Gintis, “Walrasian Economics in Retrospect,” *The Quarterly Journal of Economics* 115, no. 4 (2000): 1411–39, <https://doi.org/10.1162/003355300555006>.

³⁰ Samuel Bowles, Alan Kirman, and Rajiv Sethi, “Retrospectives: Friedrich Hayek and the Market Algorithm,” *Journal of Economic Perspectives* 31, no. 3 (August 1, 2017): 217, <https://doi.org/10.1257/jep.31.3.215>.

³¹ *Ibid.*

³² Bowles and Gintis, “Walrasian Economics in Retrospect”: 1425.

tenants. The later possibility—that rent caps are less effective than alternative policies—should not be ignored given the magnitude of the housing crisis Albertans find themselves in.

Fig.3. Perfectly Competitive Markets vs Imperfectly Competitive Markets

	Perfect Competition	Imperfect Competition
Features	<ul style="list-style-type: none"> • Perfect information • Complete Contracts • Perfect equality of power • Modeled by simple supply and demand curves 	<ul style="list-style-type: none"> • Impossibility of aggregating preferences • Uncertainty • Incomplete contracts and asymmetric information leading to opportunistic and exploitive behaviour • Presence of irrational or heuristic decision-making • Complexity and information distribution
Theoretical Impacts of Rent Cap	<ul style="list-style-type: none"> • Price ceilings always distortionary • Welfare loss in the form of “deadweight loss” 	<ul style="list-style-type: none"> • May still disincentivize construction of rental units • Policy may be imperfectly constructed, leading to unintended negative consequences

2. Evidence

Data does not speak for itself. The scientific method requires a researcher to construct an internally consistent theory; derive concepts, indicators, and hypotheses from this theory; and then develop a rigorous testing framework that adequately controls for confounding variables and identifies causal mechanisms. In short, what the evidence says about rent control depends on the theory economists start with. Unsurprisingly, studies of rent control that begin with the assumption that markets are perfectly competitive overwhelmingly find that rent control—especially rent caps—have a negative impact on the economy and general welfare.³³

Empirical tests that focus on first-generation rent controls (rent caps) and do not assume perfectly competitive markets are far scarcer in number. Most focus on the United States, and in particular large cities such as New York. A comprehensive review of the evidence by the UK Collaborative Centre for Housing Evidence finds that across a number of measures—misallocation, economic welfare, rental supply, and population segregation—rent caps seem to produce negative effects, at least in the majority of studies.³⁴ Studies that examine “second-generation” rent control policies, which cover only a portion of the rental market and allow other

³³ Alex Marsh, Kenneth Gibb, and Adriana Mihaela Soaita, “Rent Regulation: Unpacking the Debates,” *International Journal of Housing Policy* 23, no. 4 (August 1, 2022): 742, <https://doi.org/10.1080/19491247.2022.2089079>.

³⁴ Gibb, Soaita, and Marsh, “Rent Control”: 39.

units to have their rents set by supply and demand, also find that rent control increases rents in the uncontrolled market.³⁵ A study included in their review even found that a significant portion of rent controlled properties were occupied by already affluent individuals, who were better at gaming the system than poorer individuals who would benefit the most from low rent.³⁶ The authors of the review caution, though, that the impacts of rent control noted in the empirical literature are hard to generalize and that a number of assumptions still need to be empirically grounded before we can say anything conclusively.³⁷ Of note is that, in their review of the literature, few studies directly identify a *positive* impact of rent caps on rent levels and affordability: if the impact of rent control is not negative, it is usually non-significant rather than positive. An exception to the negative or non-significant findings of the impact of rent control, however, is a long-run study of rent control in New Jersey that focused on later-generation rent control measures (i.e., rent control that used different policy tools than a hard, legislated cap on rent): the authors found that these measures did not exert a significant influence on the housing market, which would suggest that they helped lower rent increases without negatively impacting the supply of affordable rental properties.³⁸

One of the most cited studies of rent control is a 2019 quasi-experimental study conducted by Rebecca Diamond, Tim McQuade, and Franklin Quian in San Francisco.³⁹ Prior to 1994, rent control in San Francisco—which consisted of a rent cap of 7% annually—applied only to buildings with five or more apartments; a ballot-initiative that year removed this restriction. Comparing tenant mobility, average rents, and the number of tenants in neighborhoods with nicer amenities in periods before and after the expansion of rent control, the authors found that landlords reduced rental supply by 15% by selling or redeveloping buildings into higher-end, non-rental properties.⁴⁰ The long-term effect was an increase in rents in San Francisco, with the authors arguing the reduction in supply as a result of this ballot initiative being the cause of this increase.⁴¹ Consistent with a model that assumes the incentives of landlords to restrict supply outweigh the impacts of a rent cap in an inefficient market, the expansion of the San Francisco rent cap appears to have had the opposite effect of what was intended.

3. *The Graduate Student Perspective*

The empirical results may be tentative and preliminary, but they should nonetheless be cause for concern for graduate students. If rent caps reduce the supply of rental properties by incentivizing the creation of—or conversion of existing buildings into—high-end non-rental

³⁵ *Ibid.*: 34–35.

³⁶ David Sims, “Rent Control Rationing and Community Composition: Evidence from Massachusetts,” *B.E. Journal of Economic Analysis & Policy* 11, no. 1 (May 16, 2011), <https://doi.org/10.2202/1935-1682.2613>.

³⁷ Gibb, Soaita, and Marsh, “Rent Control”: 39.

³⁸ Joshua D. Ambrosius et al., “Forty Years of Rent Control: Reexamining New Jersey’s Moderate Local Policies after the Great Recession,” *Cities* 49 (December 1, 2015): 121–33, <https://doi.org/10.1016/j.cities.2015.08.001>.

³⁹ Rebecca Diamond, Timothy McQuade, and Franklin Qian, “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco,” *The American Economic Review* 109, no. 9 (September 1, 2019): 3365–94, <https://doi.org/10.1257/aer.20181289>.

⁴⁰ Diamond, McQuade, and Qian, “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”: 3368.

⁴¹ *Ibid.*

properties, then rent caps will only exacerbate the rental crises faced by graduate students. Given the magnitude of the current crisis, the possibility that rent caps only have a *null* impact on the affordability of rental properties is concerning in of itself. We need a policy that significantly reduces the likelihood of graduate students being priced out of the rental market *at the very least*, let alone addresses issues of sustainability and predictability around rent.

At the same time, there is little reason to assume that the rental market is efficient, even absent government-created distortions. Indeed, there are many theory-based reasons to assume that significant frictions are *innately* built into the rental market, and thus rental prices will not reach automatically reach equilibrium in the way neoclassical economics predicts. The innate frictions, as noted in the theory section above, involve:

- inequality of power between landlords and renters;
- asymmetric and imperfect information (both for tenants, which can lead to further exploitation by landlords, and by developers, who may not possess enough information to build enough units to satisfy demand);
- incentives for the building of properties (rental or otherwise) being determined more by the internal workings of development firms than free market competition; and
- incomplete contracts, where the full rights and liabilities of both parties (particularly tenants) cannot account for all possible future states of the world.

Additionally, there are psychological factors—such as a desire of tenants to stay within a chosen rental property, the stress-based effects of the threat of eviction, and the social capital gained from maintaining neighborhood networks and contacts—that are not considered in welfare analyses that assume perfect competition, but which are more reflective of the real world.⁴² Rent increases which force or threaten to force tenants to vacate their property will have a corrosive impact on the welfare of tenants, even if traditional macroeconomic analysis suggests such “mobility increases” are economically efficient.

If strict, legislated caps on rent increases create too many negative effects on the housing supply and tenants, and not enough, or potentially *no*, positive impacts, but rental markets are too imperfect to self-correct in the way models of perfect competition assume, we therefore need a policy that addresses affordability concerns in a more flexible manner. We also need to be cognizant that the same limitations on perfect competition impact a government’s ability to create effective policy. One of the benefits of distributing goods through markets rather than command-and-control systems is that the decentralization afforded by markets allows individuals to quickly adapt to changing conditions, whereas centralized systems are often too rigid and slow.

As such, we now turn to Quebec’s “soft rent cap” model, which may have struck a balance between harnessing decentralization and flexibility with a concern for protecting tenants from eviction and exploitation.

⁴² Gibb, Soaita, and Marsh, “Rent Control”: 24.

Part Two: Quebec’s “Soft Rent Cap” Model

1. The Structure of the Model

The origins of Quebec’s “soft rent cap” lie in the creation of the *Régie du logement* (the “Housing Authority of Quebec”) on October 1st, 1980.⁴³ The *Régie du logement* was intended by its creator and first President, Claude Chapdelanie, to “protect renters and also ensure investment in building and improving housing remained profitable,” a dual-mandate that intended to both affordability *and* a steady, high-quality supply of rental homes.⁴⁴ To that end, the agency—renamed the *Tribunal administratif du logement* (TAL) in 2020⁴⁵—and the rules that it is embedded in are intended to provide flexible resolutions to disputes between landlords and tenants, including what the appropriate level or rent ought to be.

The structure of this “soft rent cap” model has two main components. The first is a set of general rules, provisions, and procedures that govern the rental market and the activities of the TAL. The second is the TAL itself, which—as per the aforementioned rules, provisions, and procedures—is intended to be a conciliatory space where landlords and tenants resolve conflicts in the best interests of both parties. The TAL hears disputes between landlords and tenants over the duties and obligations of both parties, but they also hear proposals for *rent adjustments*, which is where the Tribunal acts as the main *rent control mechanism* for the province of Quebec. This contrasts with other jurisdictions in Canada: many provinces have housing tribunals, but these tribunals handle cases of eviction and damages, rather than mediating disputes over appropriate rent levels. Indeed, if rent is discussed at all in other province’s tribunals, it is usually because tenants are withholding rent payments—a sign of a deeply adversarial relationship between landlords and tenants.⁴⁶

More specifically, the rules, provisions, and procedures governing Quebec’s “soft rent cap” are outlined as follows:

- The *Civil Code of Quebec*,⁴⁷ specifically *Chapter IV, Division II*, “Rights and Obligations Resulting From Lease,” outlines the obligations that landlords and tenants have towards one another.⁴⁸ The obligations do not tend to be specific. Instead, they guarantee that a rental property should be maintained sufficiently enough that it remains enjoyable to live

⁴³ “Tribunal Administratif Du Logement,” Tribunal Administratif Du Logement, n.d., <https://www.tal.gouv.qc.ca/en/about-us/>.

⁴⁴ Polèse, “Why Is Housing Cheaper in Quebec than in Ontario?”

⁴⁵ “Tribunal Administratif Du Logement.”

⁴⁶ Musulan, “The Winners and Losers of Rental Tribunals.”

⁴⁷ Quebec is unique in that it is both a civil and common law jurisdiction. Common law—which is predominantly found in former British Commonwealth countries, as well as the rest of Canada—refers to areas where the body of law is created by *judicial precedent*: i.e., decisions by judges in individual cases that establish a general legal rule for subsequent *similar* cases. Civil law—which is frequently found in Continental Europe, South America, and Africa—refers to areas where core legal principles are codified, in written format, and arranged by subject matter. In Quebec, all private law matters (i.e., disputes between individuals) use civil law, while all public law matters (disputes involving the government) use common law.

⁴⁸ *Civil Code of Quebec*, CCQ-1991, <https://www.legisquebec.gouv.qc.ca/en/document/cs/CCQ-1991>

there, and that sufficient notice must be given by both parties if one wishes to change the property in some fashion.

- The *Act Respecting the Administrative Housing Tribunal*, which is the enabling legislation for the TAL, sets the structure of the tribunal, its scope, and the obligations that the Tribunal has towards landlords and tenants.⁴⁹ These obligations, as outlined in *Chapter II, Article 5*, are:⁵⁰
 - Informing lessors and lessees on their rights and obligations resulting from the lease of a dwelling and on any matter contemplated in this Act;
 - Promoting conciliation between lessors and lessees;
 - Conducting studies and compiling statistics on the housing situation;
 - Publishing, from time to time, a compendium of the decisions rendered by the Tribunal members.
- The *Act* has two additional regulations:
 - Regulation 5, the *Rules of procedure of the Administrative Housing Tribunal*, which sets out additional procedures governing any proceedings before the Tribunal, the hearing, and review of Tribunal decisions;⁵¹
 - Regulation 2, *Regulation respecting the criteria for the fixing of rent*, which is the *process* by which the Tribunal decides what an appropriate rent adjustment will be for individual cases.⁵²
 - The process involves dividing the capital costs of maintaining a rental property into *eight* different components. The Tribunal utilizes data from the Consumer Price Index to calculate the relative weightings of each component—i.e., which component contributes the most to the overall expenses of maintaining a rental property. Once these weightings are calculated, the Tribunal publishes the percentage on their website.⁵³
 - The regulation also outlines that Tribunal decisions are only applicable to dwellings over five years old, similar to some forms of second-generation rent controls. This means that for newer dwellings, rent is set entirely by the market.
 - The regulation also outlines that both landlords and tenants have a right to refuse a proposed rental adjustment from the other party. The right of refusal is what triggers the dispute resolution phase, where the rental adjustment proposal is sent to the TAL for a binding decision.
 - The components, and their percentages for 2023, are show in **Fig. 4** below.

These documents then guide the Tribunal’s decisions once a case is brought before them. As the above documents are all publicly available, the intention is to ensure that any individual

⁴⁹ *Act Respecting the Administrative Housing Tribunal, Statutes of Quebec* 1979, c. T-15.01
<https://www.legisquebec.gouv.qc.ca/en/document/cs/T-15.01%20/>

⁵⁰ *Ibid.*

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ “Tribunal Administratif Du Logement,” Tribunal Administratif Du Logement, 2023.,
<https://www.tal.gouv.qc.ca/en/news/detail?code=calculations-of-the-2023-rent-adjustment>.

can follow the Tribunal’s decision-making process or anticipate what factors will influence the Tribunal should they be called upon to hear a case. This includes, as per the *Regulation respecting the criteria for the fixing of rent*, the factors that will determine if a rent adjustment needs to be made in an individual case and, if so, what will determine the direction of any rent adjustment.

Fig.4. Applicable Percentages for Calculating Rent Adjustments, 2023⁵⁴

Rent Component	Applicable %
Electricity	2.3%
Gas	26.2%
Heating oil and other sources of energy	40.1%
Maintenance costs	5.7%
Service costs	4.6%
Management costs	3.5%
Net income	1.8%
Capital expenditures	3.8%

The TAL, in its explicit responsibility to (a) create a conciliatory environment between landlords and tenants and (b) in its authority to treat rent increases as part of a *dispute* between landlords and tenants, is ultimately what gives Quebec’s approach to rent control its unique character.

In the first instance, both landlords and tenants are able to perform their own calculations on what an acceptable rent adjustment would be, based on these weightings, by using the TAL’s online Calculation Tool.⁵⁵ A printable PDF is also available so that landlords and tenants can perform the calculation by hand. By making the weightings public and easy to compute for both landlords and tenants, the hope is that each side in a rental dispute can negotiate in good faith and come to a consensus decision, *before* any conflict arises. If that process fails, the TAL will hear the case and utilize these weightings to determine a binding rental adjustment on both parties.

Treating rent increases as a dispute then allows the TAL to apply rent increases flexibly, keeping in mind both the housing stock and affordability concerns. As stated above, while most jurisdictions have an administrative authority empowered to settle disputes between landlords and tenants, rent control measures are not a part of that authority’s purview. Instead, any ceilings on rent increases are imposed unilaterally via legislation, meaning they apply to all rental properties and are enforced the same way speeding tickets or parking violations are enforced. The TAL, however, treats predictability and affordability as part of the package of obligations landlords have towards tenants. And instead of limits to rent increases being proscribed by legislation and applied universally, the TAL utilizes the weights shown above to determine what an appropriate, yet affordable, rent increase would be *given the characteristics of the building in*

⁵⁴ *Ibid.*

⁵⁵ “Tribunal Administratif Du Logement,” Tribunal Administratif Du Logement, n.d., <https://www.tal.gouv.qc.ca/en/calculation-for-the-fixing-of-rent/>.

question. The presenting and hearing of evidence in front of a Tribunal of experts determines the rate of rent increases, not government legislation; and the increases only apply to the parties’ seeking adjustments from the Tribunal, not the province as a whole.

To better illustrate the unique nature of Quebec’s “soft rent cap” model, the next section will outline the rent-adjustment process.

2. *The Rent-Adjustment Process in Quebec*

Quebec’s legislation allows for rent to be adjusted upwards or downwards, depending on the circumstances, if an agreement cannot be reached between landlords and tenants.

In almost all situations, a petition to adjust rent upwards will be initiated by the landlord. As outlined by the various documents listed in the previous section, the procedure for seeking an upwards rent adjustment from the TAL is as follows:

1. You must propose a rental adjustment to the tenants of your rental property, who are free to refuse the rent increase.
2. If the tenants refuse a proposed rent increase, you may submit an application to the TAL to modify the rental agreement no later than one month after the date of the tenants’ negative reply.
3. The Tribunal will take into account the specifics of your property—as well as variations in municipal and school taxes around your property—and, based on the weightings shown in **Fig. 4** above, determine an appropriate rent increase *for your building*.
4. This result is binding on both parties and will come into affect at the expiration of the current rental agreement.

From 2014 to 2022, the Tribunal granted an average rent adjustment of 3.1%. As shown in **Fig. 5**, in some years this increase was above the rate of inflation, while in other years (particular the post-COVID era) the average rate increase was lower than inflation.

The Tribunal can also *decrease* rent, depending on the circumstances of the building. *Division III* of the *Regulation respecting the criteria of the fixing of rent* states that rent will be reduced if, for instance, the landlord has failed to maintain quality services for their tenants.⁵⁶

In summary, Quebec’s “soft rent cap” model:

- Enshrines tenant’s right to affordability and predictability in the rental market in the *Civil Code of Quebec*;
- Creates an administrative tribunal to oversee disputes over rent levels on a case-by-case, personalized basis;
- Transparently outlines both the decision-making process of the tribunal *and* the factors the tribunal will consider when deciding on an appropriate rent adjustment;

⁵⁶ Tribunal Administratif Du Logement,” Tribunal Administratif Du Logement, 2023., <https://www.tal.gouv.qc.ca/en/news/detail?code=calculation-of-the-2023-rent-adjustment>.

- Encourage cooperation between landlords and tenants in settling disputes before they reach the tribunal.

Fig.5. Average Rent Increases Granted by the Tribunal Relative to Inflation, 2014-22.⁵⁷

Year	Average increase in cases without capital expenditures	Average increase in cases with capital expenditures	Inflation rate
2014	1.9%	2.9%	1.4%
2015	2.2%	3.5%	1.1%
2016	1.5%	2.6%	0.7%
2017	1.2%	2.3%	1.1%
2018	1.4%	2.9%	1.7%
2019	1.2%	2.9%	2.1%
2020	2.2%	4.2%	0.8%
2021	1.4%	3.0%	3.8%
2022	3.1%	4.0%	6.7%

3. Advantages over First-Generation Rent Caps

Recall that first-generation rent caps—which fix a price ceiling to rent—are imposed top-down by governments and apply universally to all rental properties under a government’s jurisdiction. The risk is that this can disincentivize the construction of new rental properties *even absent* an efficient market. Recall, too, that in a realistic market, frictions exist which allow for opportunistic and exploitative behaviour during transactions and also prevent markets from reaching a Pareto efficient equilibrium point. Many of these same problems also limit the ability of governments to effectively counter market failures through public policy. For the “soft rent cap” to be a viable alternative to first-generation rent caps or imperfectly competitive rental markets, they will have to account for the obstacles to the market reaching an efficient price for rent *without* assuming that governments are uniquely capable problem-solving machines.

The advantages of Quebec’s “soft rent cap” model does, indeed, address a number of these issues. The model is designed—and continues to evolve—with the following conditions in mind:

- *Increased flexibility:*
 - Rent adjustments are decided on a case-by-case basis (for all properties over five years old), rather than being unilaterally imposed from above.
 - Mechanisms exist for quick reviews and adjustments of rent levels, with care being taken to maintain a sufficient stock of rental properties.

⁵⁷ Tribunal Administratif Du Logement,” Tribunal Administratif Du Logement, n.d., <https://www.tal.gouv.qc.ca/en/calculations-for-the-fixing-of-rent/>.

- Tenants have the right to initiate a review by refusing to agree to a proposed rent adjustment by their landlords, rather than waiting for the government to draft and pass legislation.
- *The use of local knowledge:*
 - Rent adjustments are decided based on the characteristics of individual buildings.
 - An essential component of the tribunal process is the use and gathering of evidence from tenants and landlords.
 - No assumption that governments can aggregate rental preferences more effectively than the market.
- *Maximum transparency:*
 - Decision-making process of tribunal is publicly available and clearly outlined.
 - Landlords and tenants participate in the process by filling out information packages for the tribunal to review, by-passing the need for lawyers.
 - Weightings of rental adjustments are published online every year.
 - Rights and obligations of both parties are outlined in the relevant legislation.
- *Collaboration:*
 - The process is intended to encourage landlords and tenants to reach an agreement before involving the tribunal.
 - Issues that first-generation rent control tries to address through legislation—rent levels, rental supply, and rental maintenance/upgrades—are solved through arbitration and person-to-person interactions.
 - Process is initiated by landlords and tenants rather than bureaucrats.
 - Differences in ability to hire legal representation are largely moot, because the process functions without the need for lawyers to interpret complex case law on behalf of their clients.

Factoring in the model’s mandate to protect tenants and the enshrining of affordability and predictability into Quebec’s civil code, the “soft rent cap” model facilitated by TAL should be a superior method of addressing the current housing crisis—for graduate students *and* all other sectors of society (*Fig. 6.*). Before we can officially declare this to be the case, however, we require a robust empirical test: one that compares rent control regimes and accounts for confounding variables.

The next part of this paper will analyze a case study comparing the rental markets of Ontario and Quebec. While the case study is not as comprehensive or rigorous as other studies of rent control, it nonetheless provides suggestive evidence that Quebec’s “soft rent cap” model has a positive, and tangible, impact on rental affordability.

Fig.6. Comparisons of First-Gen, Quebec’s “soft cap,” and imperfectly competitive rental markets

	Affordability	Flexibility	Knowledge	Transparency	Landlord/tenant interactions
First-Gen Rent control	<p>Lowers rent for current tenants.</p> <p>Increases rent for prospective tenants by restricting supply.</p>	<p>Top-down legislation.</p> <p>Adjusts only when legislation is amended.</p>	<p>Relies on governments to discover preferences/price levels.</p>	<p>Subject to government willingness to explain decisions.</p>	<p>None—focus is on government policy.</p>
Quebec’s “soft rent cap”	<p>Makes rent increases subject of arbitration.</p> <p>Gives tenants right to reject proposed rent increases from landlord.</p> <p>Automatically lowers rent if landlords neglect maintenance.</p>	<p>Adjustments are initiated by landlord or tenant.</p> <p>Adjusted on case-by-case basis.</p> <p>Stock of rental properties taken into consideration during arbitration.</p>	<p>Information from tenants and landlords incorporated through information forms and face-to-face interactions.</p> <p>Arbitration gathers parties together under clearly-defined rules.</p>	<p>Decision-making process of tribunal clearly outlined and publicly available.</p> <p>Landlords and tenants fill out information sheets during initial stage of process.</p> <p>Rights and obligations of parties clearly outlined in legislation.</p>	<p>Collaborative, with both parties being brought to the table.</p> <p>Person-to-person interactions and discussions under oversight of tribunal.</p> <p>Landlords or tenants initiate process.</p>
Imperfectly competitive market	<p>Market frictions prevent Pareto-efficient outcomes.</p> <p>Opportunities for landlords to exploit tenants.</p>	<p>Adjusts rapidly—but unpredictably—according to what market can bear.</p> <p>Imperfect information prevents adjustments from reaching Pareto-efficient outcome.</p>	<p>Use price signals to adjust buying and selling behaviour.</p> <p>Incentives to extract information can lead to negative feedback loops in market.</p>	<p>Subject to landlord’s willingness to explain rent increases or policies around rental property.</p>	<p>Frequently adversarial.</p>

Part Three: Ontario versus Quebec

1. Lack of Studies

Most studies of rent control focus on first, second, and third generation rent control measures. Quebec’s rent control policy does not easily fit into any of those three generations; thus, it has not been subject to the same battery of econometrics tests as other forms of rent control. Studies on rental market tribunals also tend to focus on disputes over evictions and damages,⁵⁸ and thus do not focus on Quebec’s TAL as a “soft” form of rent control.

An article in *Policy Options* by urban economist Mario Polèse does analyze rent levels in Ontario and Quebec, however; and he frames his analysis as (partly) being a comparison between rent control regimes in the two provinces. While it is not as systematic a study as we might find with regards to other rent control topics or analyses, it nonetheless provides suggestive evidence that the TAL has managed to make rent *more* affordable in Quebec than Ontario’s existing rent control regime.

2. Polèse: Why is housing cheaper in Quebec than in Ontario?

Polèse begins his article by noting that, from 2016 to 2021, rent was significantly cheaper in Quebec than Ontario.⁵⁹ He paired together cities in both provinces of comparable population densities, locations, and socioeconomic attributes and—using data from Statistics Canada—compared the percentage of tenant households who spent 30% or more on rent. The results (*Fig.7.*) are striking, with some Quebec cities seeing over 20% fewer tenants passing that threshold compared to tenants in Ontario.⁶⁰

Fig.7. Percentage of tenants paying over 30% in rent, paired Quebec and Ontario Cities

Paired Cities (ONT/QC)	Ontario %	Quebec %	Difference
Toronto/Montreal	40.5%	28.0%	-12.5%
Sudbury/Saguenay	31.5%	20.2%	-11.3%
Peterborough/Drummondville	43.0%	21.2%	-21.9%
Brantford/Trois-Rivières	38.6%	20.4%	-18.2%
Barrie/Sherbrooke	42.0%	24.4%	-17.6%

Polèse notes that social housing supply cannot explain this dramatic difference, as social housing is in fact less common in Quebec than in Ontario (13.3% of tenants are in social housing in Ontario versus 7.8%).⁶¹ The difference also cannot be explained by differences in income between Quebecers and Ontarians; the median income level in Quebec is now near that of Ontario.⁶² Polèse suggests two explanations that best explain the systematically lower rent levels

⁵⁸ Musulan, “The Winners and Losers of Rental Tribunals”

⁵⁹ Polèse, “Why Is Housing Cheaper in Quebec than in Ontario?”

⁶⁰ *Ibid.*

⁶¹ *Ibid.*

⁶² *Ibid.*

in Quebec versus Ontario, one of which is the “soft rent cap” model discussed in the previous part of the study.

Polèse characterizes the role Quebec’s “soft” rent control measures may play in maintaining affordable rent as follows:

The TAL’s oversight is limited to dwellings over five years old. Initial rents are set by the market, but the tribunal’s mandate ensures subsequent rent increases remain within an established range. The tribunal also builds on a culture of accommodation, a legacy of the “plex”, where renters and landlords often lived side by side. Rent agreements are generally freely determined, with only a fraction needing arbitration. Because guidelines are public, landlords know they face disputes if they raise rents above published limits. Renters, on their part, know that contesting allowed increases is useless.

The allowable rent increases are continually adjusted. The evidence suggests that the tribunal has largely succeeded in its dual mission of keeping rent increases in check while also encouraging upkeep of the existing stock and new construction: new rental construction in Greater Montreal (units completed) grew at a healthy rate over the last twenty years – until the current housing crunch.⁶³

To be sure, Quebec’s more affordable housing market (relatively to Ontario) is not *completely* explained by their “soft rent cap” model. Polèse notes that another strong explanation is the fact that, in 1989, Ontario brought in the *Development Charges Act*, while Quebec only recently (2017) passed comparable legislation, which few municipalities have utilized thus far.⁶⁴ The *Development Charges Act* allows governments to levy “development charges” on developers to partially cover the construction of new public infrastructure. An example would be levying a development charge on a new apartment to help pay for upgrades to the sewer system in whatever region of the city the apartment complex is located in. The intention was to pass some of these costs onto developers in order to avoid having to raise property taxes. Then number of infrastructure costs that development costs must cover have expanded to include libraries and fire stations, however, and the actual impact of this legislation has been overwhelmingly negative:

First, the direct cost was predictably passed on to consumers, renters or owners. Second, since this was an upfront charge, often also entailing drawn-out negotiations with local government, only developers with sufficient resources entered the field. This curbed supply, producing an oligopolistic housing market. Finally, since charges are levied per unit, irrespective of income generated, it created an incentive to build more expensive (often high-rise) units, which explains in part Toronto’s “missing middle.”⁶⁵

Quebec, by contrast, financed its public services

via general property and provincial taxes. The result was a more open market, that facilitated the entry of small developers and the building of the two- and three-story

⁶³ *Ibid.*

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*

“plexes” that are less costly to build and typical of Quebec cities. Lifestyle preferences were undoubtedly also a contributing factor.⁶⁶

The likely possibility that levying development has significantly reduced the supply of affordable housing in Ontario, relative to Quebec, underscores the importance of open markets for any affordable housing initiative. But given that markets are not perfectly competitive, the relative openness of Quebec’s housing market cannot be the sole explanation for why significantly fewer Quebecers pay over thirty percent of their income in rent compared to Ontarians.

As an additional point of contrast, we can look Alberta, who has a form of development charges but no rent control policies. In Alberta, development costs are called off-site levies; since 2020, however, they have been less comprehensive than Ontario’s, as they can only be levied for water treatment, sewage, and roads.⁶⁷ Despite less comprehensive development charges and no rent control policies, rent in Alberta is still more expensive, on average, than in Quebec. Indeed, the list of most affordable Canadian cities to rent are overwhelmingly in Quebec.⁶⁸

The “soft-rent cap” model is not a perfect model. There are criticisms from some tenant organizations that it has insufficiently kept costs down.⁶⁹ An additional point of contention is the addition of new leases are treated under this scheme—currently, this area operates in something of a “grey zone.”⁷⁰ And there are not enough rigorous studies to definitely measure its impact on affordability.

There is nonetheless suggestive evidence that a “soft rent cap” model, along the lines of Quebec’s TAL, could be a useful tool in Alberta’s fight against skyrocketing rents, alongside other policies designed to address the ongoing housing crisis. Importantly, it is a tool that is *compatible* with other policy suites; thus a soft rent cap can be pursued without negatively impacting policies designed to increase the supply of affordable units.

⁶⁶ *Ibid.*

⁶⁷ *Municipal Government Act, Statutes of Alberta 2000 c. M-26*, <https://kings-printer.alberta.ca/documents/Acts/m26.pdf>

⁶⁸ Isabelle Docto, “15 Cheapest and Most Expensive Canadian Cities to Rent or Own a Home,” *Daily Hive Canada*, January 12, 2023, <https://dailyhive.com/canada/rent-own-home-cheapest-canadian-cities>.

⁶⁹ Sabrina Jonas, “Soaring Rents in Quebec Significantly Underestimated by Official Data, Study Finds,” *CBC*, July 1, 2022, <https://www.cbc.ca/news/canada/montreal/quebec-kijiji-study-report-reclalq-1.6501934>.

⁷⁰ I would like to thank Mario Polèse for his explanation of this issue.

Part Four: Calls to Action

1. Implementing A Soft Rent Cap in Alberta

The Albertan political landscape has not been overly welcoming to rent control measures. The Lougheed government introduced a rent cap during the height of the stagflation crisis, but the policy was designed from the onset to be temporary and surviving government ministers have stated that they would personally oppose any similar policies if they were enacted today.⁷¹ Alberta’s current Minister of Seniors, Community, and Social Services—Jeremy Nixon—has ruled out the use of rent caps to tackle the province’s affordability concerns, citing concerns over long-term consequences and instead promising to focus on supply as a means of making rent more affordable.⁷² During the 2023 provincial election, the New Democratic Party was more open to the use of rent controls as an affordability measure, but ultimately they *also* focused on increasing the supply of affordable housing as the primary means of addressing affordability concerns.⁷³ Politically speaking, there appears to be far more opposition than support for a rent cap.

A tribunal-based “soft rent cap” model, however, addresses many of the concerns that opponents of rent control have; it is also intended to be a conciliatory space, a mechanism for deescalating tensions between landlords and tenants, rather than enflaming them. By necessity, a tribunal for rent adjustments would require the close cooperation of both landlords and tenants. It is also a decentralized model where nearly all of decision-making occurs away from the government: the State’s role is limited to funding the tribunal, setting the rules, and ensuring that all parties follow these rules in a transparent and fair manner.

Alberta, like most provinces, already has a tribunal in place to settle disputes between landlords and tenants, the *Residential Tenancy Dispute Resolution Service (RTDRS)*,⁷⁴ governed by the *Residential Tenancies Act (RTA)*.⁷⁵ If Alberta wanted to create a model similar to the TAL in Quebec, it would have to:

- Amend Part 2 of the RTA to expand the obligations of landlords and tenants to enshrine affordability and predictability into the legal framework of the Alberta rental market, including the ability for tenants to refuse a proposed rent increase;

⁷¹ Robson Fletcher, “Amid Inflation, a Housing Crisis and Conflict with Trudeau, Alberta Adopted Rent Control — 48 Years Ago,” *CBC*, October 19, 2023, <https://www.cbc.ca/news/canada/calgary/rent-control-history-alberta-1975-lougheed-ghitter-1.6992836>.

⁷² Paula Tran, “No Rent Cap in the near Future for Albertans: Nixon,” *Global News Calgary*, March 22, 2023, <https://globalnews.ca/news/9570422/no-rent-cap-alberta/#:~:text=Alberta%20is%20one%20of%20a,of%20rent%20control%20for%20tenants>.

⁷³ Karina Zapata, “Rent Cap vs. Rent Subsidy — Alberta Party Leaders Debate Best Approach While Costs Increase,” *CBC*, May 10, 2023, <https://www.cbc.ca/news/canada/calgary/rent-cap-versus-subsidy-alberta-election-1.6837768>.

⁷⁴ “Residential Tenancy Dispute Resolution Service (RTDRS),” Alberta.ca, n.d., <https://www.alberta.ca/residential-tenancy-dispute-resolution-service>.

⁷⁵ *Residential Tenancies Act, Statutes of Alberta, 2004 c R-17.1* <https://kings-printer.alberta.ca/documents/Acts/R17P1.pdf>

- Enshrine a transparent and publicly viewable mechanism (likely in Part 2 of the RTA) where-by landlords and tenants calculate rent adjustments;
- Amend Part 5.1 of the RTA to add disputes over rental adjustments to the list of disputes the RTDRS may hear;
- Enshrine transparency in RTDRS decision-making within the RTA, covering the factors the RTDRS will take into account when deciding on rent adjustments;
- Create an easily accessible website where all this information is viewable.

The cost of the model would not likely be substantially greater than what it costs to run the RTDRS in its current form. Indeed, if Polèse is correct that, “[b]ecause guidelines are public,” Quebec landlords and tenants rarely need arbitration,⁷⁶ it is possible that running the RTDRS with a “soft rent cap” model may be a net cost-saver for the government.

An outstanding problem is the lack of rigorous research comparing a tribunal-based “soft rent cap” with other rent control measures or supply-focused policies. At this point, we do not know for certain what the best combination of rules and mechanisms are for a “soft rent cap” model, nor do we know how to transition the Albertan rental market to a state where rental adjustments can be adjudicated by a tribunal. This does not mean we believe the policy lacks viability—as the above sections have endeavoured to show, there are both theoretical and empirical reasons to believe Quebec’s model can help make the rental market in Alberta more affordable—but we cannot conclusively state that one only has to copy Quebec’s model to achieve a marketed decrease in rent. Thus, there is a need for a thorough investigation of the model before it can be implemented province-wide.

2. Investigating the Model

Calling for further investigation of the tribunal-based “soft rent cap” model may seem rather timid, given the magnitude of the crisis we find ourselves in. It is also exceedingly difficult to predict the effects of a public policy initiative *ex ante*. Nonetheless, a government could act quickly to address the ongoing housing crisis *and* facilitate an in-depth investigation of the “soft rent cap” model if it adopts an *experimentalist governance* framework.

According to Charles Sabel and Jonathan Zeitlin, experimentalist governance is a “recursive process of provisional goal-setting and revision based on learning” and involving a “multi-level architecture, whose four elements are linked in an iterative cycle.”⁷⁷ Those four elements are:

- Broad framework goals and metrics for gauging achievement are set by a mixture of “central” and “local” units, along with civil society actors;
- Local units can pursue these goals with a great deal of flexibility;

⁷⁶ Polèse, “Why Is Housing Cheaper in Quebec than in Ontario?”

⁷⁷ Charles F. Sabel and Jonathan Zeitlin, *Experimentalist Governance*, ed. David Levi-Faur, *The Oxford Handbook of Governance* (Oxford, United Kingdom of Great Britain and Northern Ireland: Oxford University Press, 2012), <https://doi.org/10.1093/oxfordhb/9780199560530.013.0012>, pg. 169-170.

- Local units must continuously report on their progress, as a condition of their autonomy; and
- All goals, metrics, and decision-making processes are revised by a “widening circle of actors in response to the problems and possibilities revealed by the review process.”⁷⁸

Put differently, experimentalist governance empowers local actors—firms, communities, educational institutions, and many more—to make public policy decisions that would otherwise be made unilaterally by the government. They make use of experience and local knowledge to respond to the emerging, impossible-to-predict challenges that any public policy initiative will inevitably face. And they constantly communicate with other units in the governance structure—including the government or other local entities that are tasked with carrying out a public policy objective—so that all units can learn from each other’s discoveries and mistakes. The end result, according to Sabel and Zeitlin, is a governance structure that is better able to adapt to, and potentially take advantage of, uncertainty—in the political, economic, and social sphere.⁷⁹

Adopting an experimentalist governance structure offers us a way to investigate the potential impacts of a tribunal-based, “soft rent cap” model without waiting for a blue-ribbon commission to conclude a lengthy, and possible inconclusive, study. A coalition of tenant advocates, landlords, local officials, community leaders, and tenants themselves could form experimentalist units which set up small-scale tribunals, each tasked with making decisions that the RTDRS would make if a tribunal-based “soft rent cap” was implemented across Alberta. Data pertaining to average rent increases, landlord and tenant disputes, evictions, capital improvements, and other indicators of affordability and building quality could be compared to a “control” group—i.e., the rest of the province. The experimentalist nature of these units would also be allowed to evolve how their small-scale tribunal conducts its business, adapting to local conditions far faster than they would be if directed by the government. At the same time, these experimenting units would be able to report on their experiences to the government, who could then either incorporate this experience and knowledge into an improved implementation plan.

One potentially fruitful community-level partnership is the University of Calgary itself. UCalgary has numerous faculty—from various departments—interested in rental affordability and housing policy. UCalgary also has two student organizations—the GSA and the undergraduate Students’ Association (SU)—with the tools and capacity to survey their members, offer advice on their behalf, and represent the student perspective in any experimentalist unit. UCalgary is also connected to the broader community through its Senate,⁸⁰ and thus could act as a conduit for “widening the circle of actors,” as Sabel and Zeitlin put it.⁸¹

As representatives of graduate students at UCalgary, though, we must stress that any discussion about rental affordable has to include graduate students. Otherwise, a vulnerable group of people will be left—quite literally—in the cold.

⁷⁸ *Ibid.*

⁷⁹ *Ibid.*, pg. 182.

⁸⁰ “Senate,” University of Calgary, February 16, 2023, <https://www.ucalgary.ca/chancellorandsenate/senate>.

⁸¹ Sabel and Zeitlin, *Experimentalist Governance*, pg. 170.

3. Including Graduate Students

As stated previously, graduate students face a unique housing situation. Graduate students are oftentimes starting a family during their studies and must take the needs of their spouses, partners, and dependents into account. On-campus housing may not meet the needs of a graduate students' family, and thus many graduate students must look to the rental market for lodging. At the same time, graduate students face fixed costs—tuition and mandatory non-instructional fees—that do not impact other young adults. The average graduate student is thus more likely to search for lodgings in the rental market and more likely to be priced out of said market, especially during times of rapid tuition increases or funding cuts to post-secondary education.

Consequently, any consultation over the rules that would govern a “soft rent cap” model must include graduate students. Relatedly, graduate students must be explicitly included in any comparative study, dataset, or survey that aims to tackle the ongoing housing crisis more generally and the effects of a tribunal-based “soft rent cap” more specifically. Policymakers should not assume that post-secondary students are a monolithic entity and that information gleaned from one sliver of the population can be extrapolated to the whole.

A preliminary action that is necessary in ensuring graduate students are properly measured in any study of a “soft rent cap” model is to address the lack of housing-related data on students. The Canadian Alliance of Student Associations (CASA) has noted that Statistics Canada does not code for students in any of their housing variables, instead assuming that students are in a “transitional phase” of their lives.⁸² This assumption not only excludes students from federal housing supports but also prevents any meaningful measurements of progress made on housing affordability for the student demographic. The Alberta government could attempt to collect this data themselves, in collaboration with Albertan post-secondary institutions, or it could partner with advocacy organizations (like CASA) to push for students to be properly coded in Statistics Canada's housing variables. Consultation could then be data-driven, improving accuracy and clarity around what graduate students need for an effective, and efficacious, soft rent cap. Graduate students would also finally be included in broader statistical study of the rental market, or, more specifically, any studies on the impact of the “soft rent cap” on rent affordability. This would prevent vulnerable Albertans from being passed over as the Albertan government attempts to make rent more affordable across the province.

3. Recommendations

The housing crisis continues to rage on, and solutions are needed as soon as possible. One of these solutions is a tribunal-based “soft rent cap,” as is currently used in Quebec. Given that we do not fully know the impact of this model on rental affordability—though there are a number of theoretical and empirical reasons for suspecting that it has succeeded in its goal of

⁸² Cameron et al., “Living in the Red: Housing and Food Affordability for Canadian Students” (Canadian Alliance of Student Associations, 2023).
<https://assets.nationbuilder.com/casaacae/pages/3587/attachments/original/1692213033/LivingInTheRed.pdf?1692213033>

lowering rental prices relative to the rest of Canada—we need a mechanism for testing this model without delaying its deployment by too long.

Consequently, the Graduate Students' Association of the University of Calgary thus calls upon the Provincial Government to...

- A. Adopt a pilot program modeled on Quebec's Tribunal Process, using the University of Calgary and its stakeholders, to test the implementation of this model while simultaneously supporting affordable rental access to (graduate) students;
- B. Expand and improve data collection on student housing needs by:
 - a. Collecting and publishing province-wide data on student housing within the Ministry of Advanced Education, in partnership with our Post-Secondary Institutions;
 - b. Supporting the recommendations within CASA's Living in the Red paper when dealing with Statistics Canada;
 - i. Remove the mandatory assessment of those attending post-secondary schools as a "transitional phase";
 - ii. Remove the mandatory assessment of student house holds earning low incomes as a "temporary condition";
 - iii. Consider 'Non-Family Households with at least one maintainer aged 15 to 29 attending school' as qualifying for 'Core Housing Need'.
- C. Launch a provincial Student Community of Discussion on student housing to ensure student voices are adequately represented in housing policy and program development.

Part Five: Conclusion

While no one doubts that Canada is currently experiencing a housing crisis, there are widely differing opinions on what suite of policies will best address this issue. For rental properties, the economics profession overwhelmingly believes that first-generation rent caps—which fix, via legislation, a maximum level of rent to all rental units—are, at best, ineffective and, at worst, create more affordability problems than they solve. First-generation rent caps are not the only form of rent control a government can utilize, however, and Quebec’s tribunal-based “soft rent cap” model represents a far more flexible alternative that nonetheless prioritizes protecting tenants from extreme rent increases.

There is a dearth of rigorous data on the extent of the effect Quebec’s model has on rental affordability. Suggestive evidence exists to support the notion that the model has helped keep Quebec’s rental market more affordable than other jurisdictions in Canada, however. An additional benefit of Quebec’s soft rent cap model is that it requires little additional spending from the government: all that should be required to successfully replicate the *Tribunal administratif du logement* in Alberta are a few changes to the mission statement of the *Residential Tenancy Dispute Resolution Service*. Indeed, evidence from Quebec indicates that their tribunal-based model may *save* money in the long run, but disincentivizing costly fights between landlords and tenants.

The Graduate Students’ Association of the University of Calgary believes that this model is worth investigating further. We also believe that any investigation into housing affordability must include graduate student voices in order to fully capture the housing needs of all Albertans. Thus, we call upon the government to aid in the development of rigorous academic research on Quebec’s soft rent cap model, as well as committing to including the voices of *all* students across the province in any proposed housing policies.

Given the scope and depth of the housing crisis, we should not expect a silver bullet solution. The corollary of this statement is that all solutions ought to be considered, so long as they are sufficiently flexible enough to work in concert with many other policies. Quebec’s soft rent cap model is intended to be as flexible as possible; for the sake of all Albertans struggling to pay rent, then, it deserves serious attention from policymakers of all stripes.

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Who we are:

The Graduate Students' Association (GSA) of the University of Calgary was established in 1967, and has approximately 8,500 members, including full and part-time Master's and PhD students. A not-for-profit organization governed by UofC graduate students, the GSA is charged with the social, academic and practical well-being and growth of graduate students on campus. The GSA oversees and promotes workshops, special events, the provision of financial aid and support as well as the facilitation of career-based growth and development for graduate students as they progress through their university programs.

The GSA is governed by a five-person Executive board of full-time graduate students - who are then, in turn, responsible to the Graduate Representative Council (GRC) as a governing and policy-developing body. Over time, the GSA has worked to become a key member of the University of Calgary community via ongoing communication and dialogue with university administrators on pertinent issues.

The GSA represents the collective interests, but not individual opinions, of graduate students to governing bodies of the university, all levels of government and the surrounding community of Calgary.

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