Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

LAW AMENDMENTS

Chairman
Mr. William Jenkins, M.L.A.
Constituency of Logan

10:00 a.m., Monday, April 5, 1976.

Printed by R. S. Evans — Queen's Printer for Province of Manitoba

THE LEGISLATIVE ASSEMBLY OF MANITOBA
STANDING COMMITTEE ON LAW AMENDMENTS
10 a.m., Monday, April 5, 1976

Chairman: Mr. William Jenkins

MR. CHAIRMAN: I wish to bring to the attention of the committee we are four members short. Is it the will of the committee that we start the hearing? Agreed? (Agreed)

Mr. Poapst.

MR. ALAN POAPST: Mr. Chairman, gentlemen, my name is Alan Poapst, I am the current president of The Winnipeg Real Estate Board. In my commercial efforts, I am an investment commercial industrial real estate broker, appraiser and consultant in the employ of S. S. Stevenson and Co. I mentioned at the last hearing that I had investigated some areas that might be of some interest to the committee or enlighten them perhaps in some of these areas. For instance, I have some information on the Federal Government's Limited Dividend Program and on their Assisted Rental Program which was intended to replace that. I also have prepared some material on an analysis of financial statements on buildings to illustrate the most recent effects of operating expense increases and so on; and I've also prepared some material which may illustrate, at least to some degree, the effects of mortgage financing on investments and investment yields.

You were provided with a copy of the Real Estate Board's brief on Thursday, I believe, and while many of the points which are in the brief have been made, I believe, by others I think, with your permission, I will read through my brief and then I'd be happy to attempt to answer any questions you have have as a result of the information in this brief or perhaps of previous briefs.

As President of The Winnipeg Real Estate Board, I very much appreciate this opportunity of presenting to you our views on Bill 19, the Rent Stabilization Act.

The Winnipeg Real Estate Board, established as the first Real Estate Board in Canada in 1903 is made up of some 1700 registered real estate brokers and salesmen in the City of Winnipeg. Among its objects are the following:

To encourage an atmosphere which will attract investment in real estate;

To protect real estate against the undermining of values;

To assist in the development of Metropolitan Winnipeg and its environs in a manner designed to promote the prosperity and well-being of the metropolitan area and its inhabitants;

To advocate and promote the enactment of just, desirable and uniform legislation affecting real estate throughout the province. (And these objects are set forth in the objects of The Manitoba Real Estate Association to which all our members belong and who have endorsed the brief I am presenting to you at this time.)

We, like all other concerned Canadians, are very much aware of the implications of continuing uncontrolled inflation, and whereas we do not necessarily agree with the philosophy of government-imposed regulatory measures, we, as an Association, are prepared to go along with and to support the Federal Government's Anti-Inflation Guidelines in the hope that the present inflation spiral can be stopped.

Having espoused this policy, we strongly believe that any form of government regulation to control prices should be consistent and have equal force and effect on all segments of the society. We do not believe that Bill 19, as presently written, meets this criteria. As a matter of fact, we believe it is unfair, unjust and discriminatory against the residential rental property owner as well as the tenants.

The Federal Anti-Inflation Guidelines provide for restrictions on earnings and profits but have allowed that increased costs must be considered when determining allowable increased earnings, and provisions have been made for governmental review of special circumstance. No such provisions are currently contained in Bill 19 for the first fifteen months of control under the Rent Stabilization Act.

Before dealing specifically with the provisions of Bill 19, we would like to briefly outline our position on the entire philosophy of rent controls. There is much historical

(MR. POAPST cont'd) . . . . .data available on the effect that rent controls have had on the economy in general and the housing market in particular in European and North American cities. We have no reason to believe that the resulting effects would be any different in Manitoba than they have been in other areas of the world.

On October 9th, the Appraisal Institute of Canada sent every member of the Legislative Assembly a copy of this book, "Landlords and Tenants in Danger, Rent Control in Canada." It was prepared and written by two professors, S. W. Hamilton and Dave Baxter, members of the Faculty of Commerce and Business Administration at the University of British Columbia. I hope all of you gentlemen, in view of the subject matter of this meeting and this legislation, have taken the opportunity to review that material and to absorb it. And in referring to the publication, a Professor Pennance from the University of Aberdeen, a professor of Land Economy, a graduate of the London School of Economics and the author of a number of works on theory and practice of urban land economics had this to say: "Rent control is the confidence trick of the century and no effort should be made to publicize that fact. Hamilton and Baxter" - the authors of this publication - "deserve the congratulations of all Canadians for their timely and devastating critique and their constructive suggestions for excising the cancer."

Whether or not you agree with Professor Pennance conclusions, gentlemen, I think you owe it to the citizens of Manitoba in considering this type of legislation to at least have taken the opportunity to read that material and to understand it. It is totally objective, it is written by academics who have no particular axe to grind, as far as I know, and it is, I believe, a very intelligent and well-informed analysis of rent control in practice.

It has been universally agreed that rent controls distort normal market conditions. When rents are controlled rental increases will tend to be less than increases in operative costs, such as utilities, taxes, maintenance, mortgage interest and so on. The quality of maintenance will deteriorate because of its increased costs in relation to available income, and more and more rental units will be abandoned because they are no longer economically viable. New rental accommodation does not keep up with the demand because other forms of investment are more attractive to the investor.

Rent controls discriminate against selected groups. Unless controls apply to all forms of residential rental accommodation, either the landlord or the tenant is put in a prejudicial position. For instance, where controls do not apply to, say, new construction the landlord owning older or rent controlled premises is caught in the costs-expense-rent-squeeze where he cannot adequately recover his costs by controlled rents. On the other hand, tenants who presently occupy rent controlled units are reluctant to leave them, even though they may well be able to afford more expensive accommodation, thus requuring new tenants in the market to seek the only facilities available namely, newly constructed, non-controlled, high rental space.

Rent control without controls over operating expenses encourages postponement of repairs and housing maintenance. Unless taxes, utility costs and other operating expenses are controlled, it is completely unrealistic to limit the gross income. It should be obvious that unless sufficient gross income is generated, there is no practical way that a landlord will be able to provide adequate repairs and maintenance to his property. This can result in continued decay in the structure and its eventual abandonment. The controls, in effect, have a built-in mechanism, gentlemen, to lower the standard of accommodation for those it is intended to protect or to serve.

Rent controls tend to decrease the supply of available housing. Under reasonably competitive positions, the price system largely determines the amount of new housing construction. If rent controls lower net yields on rental housing relative to other forms of investment, new rental housing is rejected for more favourable alternatives, and I think it's incumbent upon us always to realize the fact that the choice lies totally with the investor.

Rent controls seriously limit the availability of mortgage credit. Institutional lenders historically avoid rental units under rent control. With preferred sources of investment available, they prefer not to lend on projects with relatively fixed rents in the face of rising costs. Without sufficient mortgage money available at prevailing rates, new rental construction and the re-sale of existing facilities is drastically curtailed. And to suggest, (MR. POAPST cont'd) . . . . . as has been suggested at these hearings, that the cost and availability of financing is as it were the personal problem of the owner or the investor rather than an integral part of the development, is a ridiculous and complete misunderstanding or distortion of the facts and such irresponsible and such inaccurate statements like Mr. Green has said, offend my sense of perspective.

In general, then, rent controls lead to further housing shortgages and a lower quality of housing, and work to the disadvantage of both tenants and property owners. In the final analysis, rent controls appear to add to the problem rather that they purport to solve.

Dealing specifically now with Bill 19 we would like to make the following observations:

1. Our Board is sincerely concerned about the effect that the passing of Bill 19 will have on the tenant and homeowner. There is no question in our view that this bill will put additional pressure on single family dwelling ownership. We have already indicated that rent controls have had a dilatory effect on the construction of new rental accommodation. This natural slowdown will create a greater demand for single family construction with a predictable increase in cost, which, of course, will be borne by the purchaser. Similarly, with an almost zero vacancy rate that exists at the present time and with new construction to be exempt from the Act, existing tenants will stay where they are and those seeking accommodation, meaning very often newly-weds, transferees, will be forced into the higher, uncontrolled rental market, in effect, a form of two-price system not endorsed by the government but in fact imposed by government. The total absorption of the controlled premises or the existing housing primarily forces the new tenant into the new construction, into the high-priced section of the market, and it almost invariably forces young people into this position, the people as a rule who may well be the least able to afford the cost of this higher level of housing, this new construction.

Among other exemptions, the Act does not apply to "tenancies of residential premises that are administered by or for the Government of Canada or of Manitoba or a municipality, or agency thereof." This, we understand, includes limited dividend projects where the landlord is guaranteed a certain rate of return on his investment and rents are based on operating costs. It is our view that tenants living in government-controlled housing projects will be put in a disadvantageous position because in these units, increased operating costs are passed through subject to CMHC approval. It is conceivable, therefore, that rentals in limited dividend units could rise at a substantially higher rate than in other controlled accommodation. If actual costs of limited dividend housing are considered in establishing their rental structure, why should actual costs of other rental accommodation not be considered? Perhaps the most significant aspect of LD housing is this capacity or ability to pass through costs and also for the government, in effect, to introduce programs which are intended to fix the rate of return or the yield and in effect to support it. The provision to allow for the total pass through of operating costs give these programs a form of absolute net lease where all of the costs associated with the operation and maintenance of the property are passed through to the tenant.

If the Government of Canada deems it advisable to establish an Anti-Inflation Board to consider all current income and profit situations beyond its guidelines, why should property owners in Manitoba be faced with a fixed increase in rents for fifteen months without an opportunity to justify increases beyond the controls? I understand, of course, that since this brief was prepared and written there have been amendments that are suggested that may provide for this.

Section 11 of Bill 19 says that: 'Every notice of increase of rent for residential purposes given by a landlord to a tenant shall be given in accordance with subsection 116(1) of The Landlord and Tenant Act and shall contain such information and be in such form as may be prescribed by the regulations."

Section 116(1) of The Landlord and Tenant Act reads as follows: "A landlord shall not increase the rent payable under a tenancy agreement or any renewal, extension, revision or assignment thereof, or be entitled to recover any additional rent resulting from notice of the increase in rent at least three months prior to the date on which the increase is to be effective."

A survey by our Board indicates that approximately half of all tenancy agreements in Winnipeg expire on September 30th. This means that any property manager who

(MR. POAPST cont'd) . . . . .anticipates increasing his rents on the expiry of his lease agreements on September 30, 1976, must know what increases will be allowed after October 1st, 1976 in ample time to give notice to his tenants prior to July 1st. In the event that he wishes to apply to the Rent Stabilization Board for an adjustment to future rents, this must surely be done long before the July 1st deadline, which may in fact be impossible because of the lack of available government administration, or inability on the part of the owner to accurately assess his future costs that far in advance of his lease renewals. And it is this inability today to forecast costs for the coming 12-month period which has been so, I think, amply demonstrated by many of the investors who have appeared before you in the last few days. This matter of stability of costs or the ability to accurately forecast costs, I think, is very largely evaporated.

The Winnipeg Real Estate Board does not believe that rent controls of any kind are in the public interest because they tend to undermine values, reduce the quality and quantity of rental accommodation, and place an unfair financial burden on a small, select group of citizens. We strongly urge that the Government of Manitoba reconsider their intention to impose rent controls.

If, however, Bill 19 is to be proceeded with, we believe that the legislation would be infinitely more equitable and palatable if the roll-back of rental increases was effective from October 14, 1975, the date of the federal legislation, rather than the July 1, 1975 date which is currently in the Act.

The Honourable Mr. Ian Turnbull was reported in the March 5th edition of the Winnipeg Free Press has having said that, "the choice of ten percent as a ceiling was a 'judgment call' by the government, as there was no way to determine exactly how much costs have increased for all landlords." Rent increases of 20 percent for hydro and 50 percent for water and so on should be a fair indication that the 10 percent rental increase is unrealistic.

Mortgages currently expiring after a 5-year term were written at $8\frac{1}{2}$ or 9 percent and current rates are 11 3/4 to 12 percent, or roughly a 30 percent or 35 percent increase. Since a 10 percent allowable rental increase has never been rationalized and apparently bears no relationship to reality, an opportunity should be provided for application to be made immediately to a Rent Stabilization Board for rentals in excess of the 10 percent guidelines effective October 14, 1975. And again, I say, I understand consideration is being given to this.

In view of the further implications of statements of the Minister of Consumer Affairs to the effect that Bill 19 is a result of the imposition of Federal Anti-Inflation Guidelines, we would hope that when the guidelines have been lifted, the Rent Stabilization Act will be rescinded.

The authors of Bill 19 have obviously recognized the considerable length of time it takes before a new apartment building rents up and that it takes several stages before an economic rent level can be obtained. We would therefore recommend that in addition to exemptions for new construction premises built or occupied after January 1, 1976, that a four-year exemption be granted for premises built or occupied after January 1, 1975; three years for 1974 construction, two years for 1973 and a one-year exemption for 1972 constructed properties. In other words, gentlemen, we are suggesting a retroactive provision within this five-year period. The investors whether they start in 1976 or have started in the past five years because of extremely high construction costs and because of extremely limited income have found themselves in the position of very often it takes up to the first five years of operating for the market value or the economic value of their investment to reach its actual cost. We believe that it would not be unreasonable to suggest that the committee recognize this lease up time and recognize the period of time involved from the date of construction until the building actually reaches a level where the investor is in a position to actually recover his investment.

Rent controls in Manitoba, as in other provinces, have been or are being introduced at the request of the Federal Government as an extension of the Federal Price and Income Controls Program introduced October 14, 1975. To that degree that real estate investors, as well as other segments of society, are being asked to show restraint in order to reduce the current crippling rate of inflation, I have no doubt that investors, with reasonable provision to offset uncontrolled operating cost increases, are prepared to support the government's basic objectives.

(MR. POAPST cont'd)

Having said this, I believe it is essential that the government keep in mind the original justification for the imposition of these controls, and continue to recognize their objective as being an immediate and hopefully short-term solution to a national problem - a program initiated on October 14, 1975, and intended to be lifted as and when inflation has been reduced to an acceptable level.

Within its purpose as a necessary component of an overall anti-inflation program, the rent control legislation in principle enjoys the support of all political parties.

The greatest risk, not only to the investor, but to all citizens of Manitoba, is that the government may lose sight of its original purpose and assume that rent control offers the solution to a number of social and housing problems. And referring again to the Free Press article on May 5th in which they were quoting the Honourable Minister Mr. Turnbull, Mr. Turnbull describes rent control legislation as another outgrowth of the government's social conscience in its efforts to shield Manitobans against inflation. Mr. Turnbull goes on to say according to this article at any rate, is that he hopes the legislation would be accepted as similar to such steps as the elimination of medicare premiums, pharmacare coverage and tax rebates. The rent control measures he said, have much the same tenor as other legislation designed to meet social needs.

I suggest to you, gentlemen, that any similarity between rent control and these programs is extremely remote and aside from any other considerations in comparing the two programs I think the basic question is who is expected to pay for rent control as opposed to who is expected to pay for those other very worthwhile social programs; and I wonder if any real consideration was given to the ability of this particular segment of society to pay for - meaning in this case, the investor. The illustration of the financial statement and the experience that's been going on not only from the very large investor but perhaps more critically from the very small investor, suggests to me that he does not have that ability to pay.

Controls are intended to provide protection for some group from "unfair" rent increases, and traditionally in periods of a general housing shortage.

Housing construction in Winnipeg in 1975 was the lowest since 1970. Single-family housing prices within the period have doubled, and interest rates have risen from $8\frac{1}{2}$ percent or 9 percent to as high as $12\frac{1}{2}$ percent. Land and servicing costs have increased tremendously and the rezoning and subdivision processes continue to seriously restrict the supply of serviced land.

The artificial restriction on the supply of land as a result of municipal regulations has had a tremendous inflationary effect on the cost and availability of all housing, and particularly single-family housing. Home ownership is beyond the reach of a growing number of Winnipeg citizens. Quite logically then, the high cost of housing shifts demand from ownership to rental.

And yet in 1972, 6,209 multiple-family dwellings were built in Manitoba and only 2,900 in 1975, and I suppose also quite logically vacancy rates within that period have declined steadily.

The scarcity of multiple family housing and construction can be attributed to the change in the federal income tax regulations effective December 31, 1971, a scarcity of land zoned for this use, and rapidly increasing land and construction costs which could not be offset by a corresponding increase in rental values, and increases undoubtedly, gentlemen, which were very largely influenced by inflation. Within the period from 1970 to 1975, the consumer price index rose from 119.7 to 181.3, while average rents rose from 119.4 to 132.8. In other words, the consumer price increase index rose 51.5 percent during the same period which rentals rose 11.2 percent. Statistics Canada in its report on the costs of rental accommodations states that rental accommodation between the period 1970 to 1974 rose 8.14 percent. Hardly, I'm sure, an illustration of the unreasonable demands of property investors or landlords if you prefer.

The changes in the federal tax regulations had the net effect of reducing the investor's yield from his existing real estate investment; and the high cost of new construction, in the face of a competitive rental market, had the effect of reducing the yield and therefore the desirability of multiple-family housing as an investment vehicle.

The inevitable effect was a reduction in new construction, a declining vacancy rate, (MR. POAPST cont'd). . . . .and an escalation of rental values as demand for the available space increased, with a corresponding increase in net income or investment yield. Perhaps the most important aspect of the tax legislation which resulted in the changes which became effective December 31, 1971 and their effect on the housing market, most curious aspect of inconsistent or possibly consistent, was of course, the results were all forecast before the government introduced the legislation and they must have been, certainly they should have been aware of what they were doing. The Carter Report in 1966 which was the source document for the Benson White Paper on tax reform warned that if the proposed measures were adopted, to quote from the report, construction activity would be reduced for a period until rents rose sufficiently in response to a growing demand to restore the relative attractiveness of real estate investment. It went on to say that the government would probably have to take action to offset any reduction in apartment construction during the transitional period. Of course the required increase in rents did not materialize, the required government construction did not occur, and in 1975 the Finance Minister was forced to temporarily suspend parts of the tax measure that had been so single-mindedly installed in 1971. The importance I think simply of that reference, gentlemen, is that the effects of that legislation were forecast, the scarcity should have been obvious to the men that were drafting the legislation and yet it would appear that they completely ignored the warning, if you call it that. Rental values were, in fact, rising to a market level, more in line with the relative cost of other goods and services and approaching the point where rates of return were sufficiently high as to attract new investment and new housing into the multiple-family market.

With a significant increase in the supply of new multiple-family housing, the market would have been restored to a reasonable balance, and the tenant returned to a competitive position at every level of rental accommodation. And I think it's very important for us to keep in mind the fact that the individual's position perhaps more than anything that has been jeopardized as a result of this type of proposed legislation is the tenant. Everyone acknowledges, of course, that the problem is one of shortage. What is totally inconsistent, however, is the belief that the problem can be solved during a period of rent control. Relatively low rent levels, and correspondingly low yields, created the shortage in the first place and any policy which, in fact, maintains this condition, maintains the problem.

To say that the solution to a shortage of rent control or whatever is more housing is like saying that the solution to starvation is more food - everybody understands the problem but nobody seems to understand the solution. The government's apparent solution to the shortage is to restrain the producer. Any policy which directly taxes suppliers and give proceeds to consumers which is a fairly accurate description of rent control inevitably leads to a widening gap between the amount demanded and the total amount supplied, or in other words, a shortage. And I suggest to you that that is a totally irrational solution to the problem. Rent control or in other words, low rent levels either artificially controlled or market induced is a cause rather than a solution to a housing shortage. The provision for the freeing of new construction during the first five years is meaningless unless the controls are obviously intended to be of a short-term program, and the investor may reasonably expect this withdrawal during the five-year period.

Everyone has a right to housing, but enforcing a right for one infringes upon the right of someone else. To impose artificial controls on the rental value of housing is to interpret the right to housing as the right to obtain housing below its market price or value. To impose the cost of this right on the owners of rental housing is a demand that one small segment of our population, and one specific group of the investment community, be required to subsidize another group; in effect, to pass the social problem of insufficient housing, and the financial problem of the need for housing subsidies, along to the investor. Government appears to view rent control as an inexpensive way of appearing to do something about poverty and housing without imposing additional taxation in the process. And also I might add as a result of the information that's been presented to this hearing so far in the sense of the financial, the profitability if you will of rental accommodation for both the top investor, meaning the large projects or the very small one, I suggest that the effect is to attempt to pass this right, as it were, to a subsidy on the people who were totally unable to pay for it. I suggest that that is not only an impractical solution to the problem but it's an absolutely impossible solution.

(MR. POAPST cont'd)

If some tenants are considered to be unable to pay for accommodation which members of the government believe they should occupy, then any subsidies paid should be a charge on public funds in order that the cost of the subsidy is distributed across taxpayers and so the cost of the subsidy can be properly treated as a general charge shown in the public accounts. Similarly, the mere fact that a person owns a rented house or apartment building rather than some other kind of investment should not make that person liable for the payment of a particular kind of subsidy.

The basic flaw in the rent control legislation, as I see it at least, is that it seeks to solve or at least purports to solve the problems of people with controls on buildings. In effect, it's an attempt to reduce human problems, human wants and human needs to so many dollars per square foot - a ridiculous over-simplification of a very very complex problem, and it's an over-simplification which has possibly led this government to respond to what may very well have been relatively few complaints with a typical knee-jerk reaction, I guess, but at least a government or an attractive or publicly or vote-getting attractiveness, I believe it represents a massive misdirection of action and a massive overkill on the part of government.

Perhaps it's significant, gentlemen, that those who have caused the problem or have perhaps initiated the legislation are not here today. The innocent people are here who have been defending their innocence, if that's the proper word, the way they defend it has been to prove that they are not making massive or exorbitant profits. They are trying and maybe making under-profits for all I know. But in any event, the people who may well have caused the problem in the first place, those gougers as it were, are not here to speak to you. I suppose on the other hand, it's logical to expect that scoundrels don't very often voluntarily visit court rooms. The net result of this act is the government will end up imposing legislation which will in fact subsidize the penthouses and parking slots of Wellington Crescent when they should be concerned with the problems and the people of Higgins Avenue.

The immediate and short-term victim of rent control appears to be the investor. The real victims in the long run are the citizens of Winnipeg and Manitoba, those tenants of the future who seek in vain for apartments that have never been built, and the homeowners of the future who find themselves forced into the ownership market through the absence of rental accommodation. With a home ownership market that is presently under tremendous inflationary pressures through largely government induced shortages, any further government action or inaction which further disrupts the supply and demand equation, can only be contrary to the long-term interests of all Manitobans.

Housing is an essential commodity and is basically without a substitute. Any type of legislation which will influence the present and future quality, quantity, and cost of this very basic human need must only be formulated with a total awareness of the direct and indirect consequences of this action.

I'd like to refer you to another publication that has been produced very recently, it's called Rent Control, A Popular Paradox. It's produced by the Fraser Institute in British Columbia and it's an accumulation of essays on the economics of housing in Canada and on the effects of rent control in the United States, the United Kingdom, Austria, France, and Sweden and with your indulgence, I'd like to read you one or two sections of the report. This is a section prepared by a Dr. Rydenfelt who is a lecturer in economics at the University of London, Sweden. The only reason I refer to Sweden is because they have had a fairly interesting experience and they have only recently got out of the rent control business. The report itself is extremely well documented. It contains a great deal of data and charts and so on which have investigated every part of the rent control experience or history in Sweden. It shows, interestingly enough, that the average time required for a family wishing to get into rental accommodation from 1958 pretty well on was 40 months.

To quote from the book: "It was only in the post-war rent control area that the housing shortage assumed such proportions that it became Sweden's most serious social problem." It was not a war year induced problem, it occurred after the war period. In the discussion dealing with the effect of artifically restricting price, the book refers to a quotation from a Professor Frank H. Knight, who was the grand old man of the Chicago

(MR. POAPST cont'd) . . . . .School of Economics. Let me quote it for you: "If educated people can't or won't see that fixing a price below the market level inevitably creates a shortage, it is hard to believe in the usefulness of telling them anything whatever in this field of discourse." The effect of rent control on the deterioration of housing stock, and I'd like to read from the book again. "It is well-known and documented that rent control results in poor maintenance, fewer renovations and modernizations and therefore in the long run, to a serious deterioration in the quality of dwellings. Because some requests for rent increases have been granted, the defenders of rent control have persistently contended that deterioration and slum development have not occurred."

The argument is fallacious and again they have produced data now on record which shows, interestingly enough, that in the period 1961 to 1965 they built 200,000 dwellings and the dwellings were moved from the housing stock through deterioration, obsolescence, lack of proper support and review, 200,000 new dwellings, gentlemen, 215,000 dwellings lost from the housing stock. In the most recent period from 1971 to 1975, they built 465,000 new dwellings and had demolished or torn down or removed from the housing stock 167,000. One of the effects, the inevitable effect of an investor who cannot recover his costs quite logically is to reduce his costs from whatever method he can. The way you do it is logically by reducing the level of maintenance.

To quote further from this report: "Earlier we showed that the share of unmarried adults with their own dwellings has increased from 23 to 55 percent. Heavily squeezed between the demands of tenants for repairs on the one hand and reduced rental income due to rent control on the other, it is understandable that landlords in many cases showed a preference for single persons; wear and tear and less repair costs will usually be lower with single tenants, an inevitable result of rent control." Another reference: "The aim of our housing policy is to favour the many poor and weak people, not the few rich. Never before," again now referring to the history, "never before have people with low incomes found themselves in so weak and inferior positions as in the Swedish housing market. He, who could only afford to rent a small dwelling, could wait for years and years. The shortage was acute and the queues were long; even families with children had to wait for years for dwellings of their own. The rich man could solve his housing problem practically instanteously. The rich man, of course, has a number of alternatives, he can always buy his own house."

In the back of the book, gentlemen, I would like to read you a few quotations again. This is from a Professor Affar Lindbeck, author of The Politican Economy of the New Left. To quote Professor Lindbeck: "In many cases rent control appears to be the most deficient technique presently known to destroy a city - except bombing."

To quote Professor Gunnar Myrdal, Nobel Laureate and an important architect of the Swedish welfare state: "Rent control has in certain western countries constituted maybe the worst example of poor planning by governments lacking courage and vision."

A final one, if you'll let me, Professor F. A. Hayek, another Nobel Laureate: "If this account seems to boil down to a catalogue of inequities to be laid at the door of rent control, that is no mere coincidence, it is inevitable."

I have another piece I just want to read to you for a moment if you'll bear with me. Page 2201 of that book The Rent Control, a Popular Paradox, says: "The conclusion is that rent control makes matters considerably worse and should therefore be avoided. It was observed that this low opinion of rent control is shared by all economists regardless of their ideological bent. There appears to be a unique unanimity of opinion among economists about the effects of rent control." I should say that I rarely agree with academics or ivory-towered economists but in this case I most certainly do; and again, like Mr. Green, I'm always impressed with the intelligence of people who agree with me.

In Mr. Turnbull's press statement of March 5th, he indicated and I quote: "He wanted to assure landlords that the Act is as fair to them as it is to tenants." With respect, Mr. Minister, I suggest to you that the Act in its present form is fair to neither landlords nor tenants, nor to the long-term interests of all Manitobans. Thank you very much.

MR. CHAIRMAN: Thank you, Mr. Poapst. Order please. I have stated before that I don't want applause; we're not here having a popularity contest. I would ask the people who are here to please bear with this, I am trying to be as fair as possible but

(MR. CHAIRMAN cont'd) . . . . . we're not here to have applause from the gallery or anywhere else. We don't allow it in the House and we operate under the same rules.

Mr. Green.

MR. GREEN: Mr. Poapst, most of the comments that you had to make were relative to the philosophical effectiveness of controls in undoing what are alleged to be problems in any economy. Wouldn't that apply to your remarks generally, that controls. . .

MR. POAPST: Yes, Mr. Green.

MR. GREEN: . . . that would apply to wage controls as well?

MR. POAPST: Yes, sir.

MR. GREEN: And you are aware that the workingman in this country has been told that he cannot increase his wages beyond 10 percent without the permission of a Control Board?

MR. POAPST: Yes.

MR. GREEN: And that in fact certain people have been out on strike for months, have made an agreement with their employer, have gone back to work and the Anti-Inflation Board has told them that they can't get the benefits of that agreement?

MR. POAPST: Yes.

MR. GREEN: And you are also aware that the wage earner is told that he cannot claim increased rents or increased foods or increased cost of anything else to justify an increase of more than 10 percent?

MR. POAPST: Yes.

MR. GREEN: But he is being subjected to these controls?

MR. POAPST: Yes.

MR. GREEN: So you would admit that he has a problem?

MR. POAPST: I would admit he has, yes, if living costs exceed his ability to increase his income, yes.

MR. GREEN: So you could not envisage that there would be controls directed against one sector of the economy, that is the wage earner, and that all of the things that he paid for were not controlled?

MR. POAPST: No, I think that would be reasonable.

MR. GREEN: And therefore you would agree that some control of the things that he buys also has to be implemented despite yours and mine, philosophical problem with with regard to economic controls.

MR. POAPST: Yes.

MR. GREEN: We happen to agree on that point which speaks well for your intelligence.

Now, Mr. Poapst, you also indicated that any controls that apply to the private investing market should apply to the public sector housing.

MR. POAPST: Yes.

MR. GREEN: I assume that you are aware that with regard to public sector housing that the rents are not adjusted to meet present market values?

MR. POAPST: Yes.

MR. GREEN: And that private sector housing, as we have been told by your investors and which I again would think is perfectly normal, are adjusted to meet present market value?

MR. POAPST: They attempt to adjust them, that is right.

MR. GREEN: Well if the market is holding, an apartment block that was, let's say, purchased for $200,000 ten years ago and was worth $400,000 today. . .

MR. POAPST: Which is probably a totally unrealistic assumption, Mr. Green.

MR. GREEN: Are you suggesting that no market - well let's take it before October 14, 1975 - that there are no apartment blocks that doubled in value over the period of ten years?

MR. POAPST: No, in the sense you say no apartment block, in other words is there one, I can't answer your question. If within a market has that been the general practice or the general experience, the answer is no.

MR. GREEN: All right, if they have not doubled, Mr. Poapst, have they gone up in value?

MR. POAPST: Real estate as you know as traditionally presented as a hedge

(MR. POAPST cont'd) . . . . . against inflation is presumed to arrive at an increase at the inflation rate, that degree I assume they have increased in value.

MR. GREEN: Well then I won't quibble with you as to the amount. If the market has held, then don't you advise your investor - and I assume that you being an investment counsellor would so advise him - that he should base his rents on existing market value rather than the purchase price?

MR. POAPST: Exactly, yes. He bases his rental values on market rental and from that he derives market value.

MR. GREEN: But you are aware that the public sector housing does not do that?

MR. POAPST: No, that's correct, Mr. Green.

MR. GREEN: So therefore the public sector housing is different than the private sector housing, that what was built for ten years ago, and you have indicated whether you have indicated with apartment blocks that private dwellings have doubled in the past - not even ten years, we can take that as seven years . . .

MR. POAPST: Or less.

MR. GREEN: Or less. They have doubled, whereas where the public has rented out private dwellings they have rented them out on the basis of their costs ten years ago or seven years ago, plus the cost push throughs, whereas private sector housing, if it is business housing, are basing their rentals on the double value in accordance with your advice.

MR. POAPST: What do you mean by double value, Mr. Green?

MR. GREEN: If the market has doubled for a private house in the past seven years and somebody is renting it out, then he should rent it out for its present market value, not what he paid for it?

MR. POAPST: Yes, except that you've got it backwards, Mr. Green. You don't arrive at rental value by the market value of the building, you arrive at the market value of the building by the market rental value?

MR. GREEN: Well, of course, Mr. Poapst and we are both talking about the same thing from different directions. The value of a product determines what somebody will pay for it and if somebody will pay double the price for it, then likely the rental value will also increase.

MR. POAPST: Well I think you've got it backwards, Mr. Green . . .

MR. GREEN: Well I'm willing to have it either way. But as we say, we can do it this way or we can do it that way but it comes out to the same thing.

MR. POAPST: Yes, but the point is, if we are talking about the market, Mr. Green, we should take it the market's way, not your way or my way.

MR. GREEN: Well, Mr. Poapst, I believe that my statement as to the market is just as accurate as yours but because I don't wish to argue with you, because I prefer to agree with you, which will then raise my intelligence in your mind, I'm willing to do it your way. It still comes out the same that the rent has increased in accordance with the market value or the market value has increased in accordance with the demand of rental that would be paid.

MR. POAPST: But remember now I said that according to Statistics Canada, during the period 1970 to 1974 rental values increased 8.14 percent.

MR. GREEN: Well, Mr. Poapst, but you have indicated that on a private dwelling, you know, and I do not wish to deal with your particular statistics, I think that I can take many rental values in the Province of Manitoba and show you the differences between the two periods and come out with different statistics, but I do want us to at least agree that in the private sector that the rental value will increase with the market value or, have it your way, the market value will increase with the rental value.

MR. POAPST: Exactly.

MR. GREEN: Okay. In the public sector the rents are fixed in accordance with original costs plus increased expenses as and when they come forward?

MR. POAPST: Yes.

MR. GREEN: So that is of considerable difference between public sector rentals and private sector rentals?

MR. POAPST: Correct.

MR. GREEN: And therefore I'm merely asking you to acknowledge that, whether or not you agree?

MR. POAPST: Oh, I acknowledge that, Mr. Green.

MR. GREEN: But you still say despite that acknowledgement that whatever rent controls apply in the private sector should apply in the public sector even though they are different?

MR. POAPST: Well all right. Yes, Mr. Green.

MR. GREEN: Now the other thing, Mr. Poapst, is that you have a position vis-a-vis the health of the industry, and I really don't want to engage in a big debate with regard to it. I knowthat I was in the private law business and clients of mine bought apartment buildings, and when members of your association sold those apartment buildings to clients of mine, they did not tell the same story as you are telling today. For instance they said, at that time, you were borrowing at 7 percent and you were aiming for your return at 10 percent, so in addition to making money on your equity you were making 3 percent on the mortgage money.

MR. POAPST: You've been a long time out of the law business then, Mr. Green, because there hasn't been 7 percent money around for some time.

MR. GREEN: I'm talking about the early sixties.

MR. POAPST: Oh, well.

MR. GREEN: I've been in the law business . . . but the fact is that I am suggesting to you that the real estate agent was selling the position that you will not only make 10 percent on your equity, that you will make 3 percent on everything that you have borrowed.

MR. POAPST: That's the way it used to be.

MR. GREEN: That's the way it used to be, times have changed . . .

MR. POAPST: Very much so.

MR. GREEN: But at that time you were making money on the borrowed money, today you are losing money on the borrowed money.

MR. POAPST: Exactly.

MR. GREEN: Isn't that the risks of the game where sometimes you earn, sometimes you lose? Isn't that the good old free enterprise system?

MR. POAPST: Exactly, and prior to the introduction of rent control, I don't frankly recall hearing any beefs from the private investment market in the real estate business.

MR. GREEN: But you are then aware - I am aware that there were no beefs and I think that there was good reason why there were no beefs.

The other thing that the agents used to tell my clients is that you will try to get a return of 10 percent and you will depreciate your building and you will keep the government's money, or the public's money, all the time that you are depreciating; you won't have to pay the taxes until you recapture and when you recapture you will then pay the taxes and you will hope to make a capital gain. Now that's what the real estate agents used to tell my clients. Were they lying to my clients?

MR. POAPST: Not at all, no.

MR. GREEN: Well then that was one of the features of the industry.

MR. POAPST: It was one of the advantages of that type of investment, Mr. Green, without doubt.

MR. GREEN: What this control business, which both you and I have terrible misgivings about, what it has really done is taken away that advantage.

MR. POAPST: No, I would suggest to you, Mr. Green, that the initial shock as it were, the initial removal of an advantage was the December 31st legislation where right enough there was a capital gains tax imposed on the increased in values and where the recapture of depreciation, or the reserves rather for depreciation could not be shifted from property to property to delay the payment of income tax.

MR. GREEN: Well it could not be shifted neither from property to property nor could it be shifted from a profit in one case and a loss in another, but there was still depreciation on the building.

MR. POAPST: That's right.

MR. GREEN: If the building was sold for a capital gain you would still, if you depreciated it, if you wanted to depreciate it, in other words if you had some profit against which to depreciate it, you still had the postponement of taxes.

MR. POAPST: Exactly.

MR. GREEN: And, you know, that was one of the selling points of the industry.

MR. POAPST: Very much so.

MR. GREEN: All right. That's all.

MR. POAPST: But the point really is now to give you the opposite side of the coin, if you will, because everything that you have said is accurate. The implication of course is that the benefits flowed solely to the investor. . .

MR. GREEN: No.

MR. POAPST: Well, but, Mr. Green . . .

MR. GREEN: Mr. Chairman, on a point of privilege. I made no implication, the facts are as I put them. What you are saying is that encouraged a lot of building, that provided good rental accommodation for a period in lower income groups, etc. That's your position. I say that that could be done in a much better way.

MR. POAPST: Well then perhaps I should state my position then, Mr. Chairman.

MR. GREEN: You have stated your position.

MR. POAPST: Well I would like to restate it then, perhaps to make it clearer to the committee. There was no doubt that the tax legislation prior to December 31,1971 offered an advantage to the investor, a subsidy if you will. He was able to shelter income from other sources and from the building, and it was in effect to reach that individual that the government legislation, I believe, was largely introduced. What the government completely overlooked at the time was that the major beneficiaries of that tax policy and that investment attitude were tenants. Keep in mind if you assume that the average investor has 100 suites - and I'm making that assumption - but then for every ten investors you nail to the cross you are placing perhaps 1,000 tenants into the position of where they will either have to pay substantially higher rents, logically, to attract the investor into the market or the investor will turn off the tap as it were and create the problem which is very largely here today, and which the Federal Government at that time, within the contents of the Carter Report were warned would happen, and it did happen. So I'm not defending the fact that the investor enjoyed a tax advantage prior to that legislation, Mr. Green, I'm saying to him that he was not the only beneficiary, and as a matter of fact may well have been the very smallest beneficiary.

MR. GREEN: Well the implication of your remarks, if I may be permitted to give implication, is that the only way to provide decent, fair price accommodation is to bribe the investor, and I'm suggesting that the public can do that very well by themselves without bribing the investor.

MR. POAPST: Well you draw your own conclusions, Mr. Green, that's obviously not mine.

MR. CHAIRMAN: Mr. Turnbull.

MR. TURNBULL: Mr. Poapst, your brief raises a number of questions, and the first of these, and the most general to my mind, relates to what you think of the governments in other provinces and the rent control programs introduced there. I gather that your feeling about what the government here is doing with regard to rent control would, it follows, be applied to the governments of Ontario, Alberta, B.C., Saskatchewan, right across the board. I mean you're opposed to rent controls and anyone who introduces them . . .

MR. POAPST: Yes, sir.

MR. TURNBULL: . . . and the effect of rent controls, and you've quoted some rather dramatic examples, or rather dramatic quotes; you would think that the impact would be the same in Vancouver and Toronto and Hamilton and Calgary and Edmonton as here.

MR. POAPST: Yes, I would.

MR. TURNBULL: So that you don't single out the situation here.

MR. POAPST: No, Mr. Minister, that's right. My opposition as it were is to rent controls.

MR. TURNBULL: Yes. You did indicate that costs have gone up substantially - now you are an expert - and when you talk about water rates going up 50 percent, how much would an increase in rent have to go up in percentage terms to recover a 50 percent increase in water rates?

MR. POAPST: Well I can't be specific, but a very nominal amount.

MR. TURNBULL: Half a percent?

MR. POAPST: Well one half a percent or one percent, two percent, in any event, not a significant amount.

MR. TURNBULL: Yes. There seems to be some contradiction, too, some contradiction in your brief as compared to the briefs that we've heard previously. The most notable of these is your insistence through your paper that there is a low vacancy rate. I mean you do. . .

MR. POAPST: Yes, sir.

MR. TURNBULL: You go along with the idea that there's a normal zero vacancy rate, that's a Winnipeg - Manitoba situation. These figures are based on what, on the board's or your own assessment of the market?

MR. POAPST: Our own assessment of the market, the figures produced by CMHC, and in fact the evidence given at the hearing, Mr. Minister. As I recall it, somebody stated that there's probably 1,000 units vacant today, and I don't doubt that at all. The point of course is that the 1,000 units in isolation doesn't tell you or I anything really, it's a question of what the total supply within the market is. In Winnipeg, I believe there is something, other than government housing, there's something in excess of 53,000 rental units in Winnipeg. A thousand unit vacancy is 1.88 percent vacancy rate . . .

MR. TURNBULL: Right.

MR. POAPST: . . . which in effect is very likely the inevitable effect of either start-up on new buildings or the roll-over of tenants in existing buildings.

MR. TURNBULL: So we agree on the vacancy rate?

MR. POAPST: Yes, sir.

MR. TURNBULL: Well that's good to know that you and I agree from what you said about people who agree with you.

Now you indicated on Page 4 that there should be control on costs as I recall, yes, "Unless taxes and utility costs are controlled, it is completely unrealistic to limit income." I gather your brief from other remarks made in it was prepared before I announced that there would be an amendment allowing an application, so that this problem of controlling these other costs is not as pressing obviously if those costs can in fact be passed through efficiently.

MR. POAPST: That is correct.

MR. TURNBULL: The question about limitation of mortgage funds that you raised. The situation here in terms of limits on mortgage moneys would be the same as presumably will develop, in your terms, in Ontario, B.C., Alberta, Saskatchewan,etc.

MR. POAPST: Yes. My basic criticism, Mr. Minister, was the suggestion that was made very early in the hearings that mortgage financing in effect had nothing to do with the building, that it was the developer's private problem. I can't accept that.

MR. TURNBULL: The points you make on Page 6 about limited dividend and cost pass through there, and the administration of limited dividend housing, and the administration of controls on the private sector through this bill, seems to stop short of what I would think would be the logical conclusion, which would be one of two kinds, either that there should be no rent controls at all or that if there are going to be provincial rent controls, that those controls should apply equally to limited dividend accommodations.

MR. POAPST: What we had said, Mr. Minister, now, and I would refer you to the statement on Page 10, "to the degree that the real estate investors, as well as other segments of society, are being asked to show restraint in order to reduce the current crippling rate of inflation, I have no doubt that investors with reasonable provision to offset uncontrolled operating cost increases are prepared to support the government's basic objectives."

MR. TURNBULL: Right. Right.

MR. POAPST: I suggest to you that it isn't necessarily the Anti-Inflation Program that the investor objects to seriously, it's the rent control legislation in its present form.

MR. TURNBULL: But I was looking at Page 6 where you went through your

(MR. TURNBULL cont'd) . . . . . arguments about - top of Page 6 where you went through your arguments about limited dividend housing and, I mean, does it follow, I mean if there is going to be provincial rent control, does it follow from the citation of really two standards of control on Page 6 that if there is going to be provincial rent control it should apply to limited dividend housing?

MR. POAPST: Yes. It should, except that I don't understand whether or not the government can control what in fact is a federal program; but to be consistent I would suggest that it should.

MR. TURNBULL: So for the sake of consistency, it should apply to limited dividend housing.

MR. POAPST: Yes, sir.

MR. TURNBULL: That's all I have at the moment, Mr. Chairman.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman. Mr. Poapst, you mentioned the other day that, I think you said that you had information the other day regarding the different aspects of the LD program of the Federal Government.

MR. POAPST: Yes, I have, Mr. Craik. I got the information because the committee seemed to be short on just exactly what the Limited Dividend Program, CMHC's program was. I suppose the most important fact about the Limited Dividend Program is that it was terminated on December 22, 1975. But in any case, the operation of the program was that it allowed the total pass through of all expenses, plus the provision for the recapture of the chattels over a ten-year period. In other words, it did allow the setting up of a reserve for depreciation on the chattels, the stoves, the fridges, and so on. In effect, what it did is in allowing total pass through was to produce a form of absolute net lease where all of the costs really were borne by the tenant.

Most recently the limited dividend housing was financed, and always was for that matter, by direct CMHC funds. The most recent interest rate was 8 percent and what was particularly interesting is that the developer on his equity was allowed the same rate of return as was paid on the interest. After the payment of his --(Interjection) -- to equity after the payment of his mortgage requirements. In other words, he was allowed a cash flow rate equal to the mortgage rate. The program was terminated because recently in almost every single case in limited dividend projects the rental values they had to receive were higher than the market was. So it became, while it was intended to be some form of a support program, it in fact became exactly the opposite. The Federal Government replaced the LD program with an assisted rental program, one they refer to as ARP. The major difference is in this case, or at least a significant difference, is that the financing was generated in the open market. CMHC no longer did direct financing. The developer went out into the open market and sought financing at prevailing rates on a 35-year amortization. The investor was allowed to receive what is referred to as full recovery rent. It means he recovers the operating expenses of the property, the replacement of the chattels over a ten-year period, the debt service, including principal and interest, at an equity rate similar presumably to the current bond market.

The maximum subsidy available to the developer is $100 per month per unit, per housing unit, and the current average range is from $80 to $90 a month. The assistance or the subsidy is reduced by ten percent per year over a ten-year period, or by a greater amount if rents rise faster than the ten percent decline, and the purpose is to maintain the equity rate, but the program assumes that the market rentals will rise at such a rate that they can keep illogically reducing the subsidy within a ten-year period. The assistance that is paid to the developer is treated as a loan with a zero interest rate for the ten-year period and could be repaid either in cash at the end of the ten years or amortized over a period at the current mortgage interest rate, and the developer is required to submit financial statements within 120 days of the end of the year to support the subsidies that he's going to claim for the coming year. The equity rate cannot increase during the assistance period and no provision now is made for capital cost allowance on the building. The only capital cost provision is for the replacement of chattels.

Now I think what should be the most striking aspects of these two programs, the rent control program which you gentlemen are proposing and the ARP program, which the Federal Government in fact provides, is that the two programs are directly opposite. The

(MR. POAPST cont'd) . . . . . rent control forces the owner to restrain rental rates below the normal market. In other words, to subsidize rents. You say to the owner, you must not charge what you could otherwise get. The Federal Government program, if you listen to it there or understood it which I have trouble doing sometimes, the program in fact offers the subsidy to the landlord to bring rents above a market. Now where is the consistency in that, gentlemen? I think the inevitable result of the two programs, particularly since they conflict, one of them restrains the market, one of them in fact subsidizes the market, is somebody who is going to come out of the program looking like a scoundrel and one of them is going to come out looking like a hero, and I leave it to you to decide which is which really.

Another interesting aspect of the federal program is that the property may be sold at any time during the program or after it and the proceeds from the sale, the priorities of proceeds is interesting. The first priority logically is the first mortgage financing; the second priority from the proceeds is selling costs; the third priority is the original equity invested; the fourth is the refund of the money owed to Central Mortgage; and the fifth is whatever excess, which goes to the owner. That's the LD and the current . . .

MR. CRAIK: Is anything happening under this ARP program, is it attractive to builders, or what . . .?

MR. POAPST: I don't think there's been a particularly good response to it yet; it may well be because it always takes a period of time it seems to me for the development field or the development industry to begin to understand the implications or the significance of these programs, but I don't believe there has been a substantial response to date.

MR. CRAIK: Is this not allowing a capital cost allowance a big feature, a big deterrent for investors?

MR. POAPST: I don't think so. All it says really is that you can't take the capital cost allowances into the computations to derive your equity rates. It doesn't still prevent you from using it in your income tax application to shelter whatever income there is.

MR. CRAIK: But neither one of these programs, the LD program or the ARP program as it stands, are under the rent control legislation as we have it here.

MR. POAPST: Not as far as I know.

MR. CRAIK: Because they're both controlled by federal regulations.

MR. POAPST: Yes.

MR. CRAIK: So there would be . . .

MR. POAPST: As far as I know they're not, but I can't be that sure, Mr. Craik.

MR. CRAIK: But you made the point here that those buildings under the LD program, one of the reasons for the difficulties you ran into is the fact that they were not able to provide rental accommodation at lower than competitive private buildings.

MR. POAPST: Right. And in effect, the effect of this total pass through was to push them above the market really, in maintaining the yield to equity or the rate that was established at the time. The net effect of total pass through of the operating expenses, right, was to push the rental value of LD housing above the market and therefore, of course, it became unworkable.

MR. CRAIK: This classification of building, does it fall under what you and Mr. Green were debating on public sector rentals? Is this considered a public sector rental?

MR. POAPST: This is what we were thinking of in the sense of programs which were supported by the public in some way or another.

MR. CRAIK: But surely these buildings aren't restricted in what the person makes in the way of a capital gain on it.

MR. POAPST: Oh, no. They're not concerned with the capital gain aspect of it, only the yield or the rate of return, the operating rate of return as it were.

MR. CRAIK: So the argument about the building never goes up in value and therefore its rents don't go up in value based on a resale value or a market value really doesn't apply to those buildings that have been built under LP or ARP . . .

MR. POAPST: I thought perhaps Mr. Green was speaking about MHRC housing.

MR. CRAIK: Oh, not including this. But this housing like the MHRC housing is not under the Rent Control Program.

MR. POAPST: As far as I know it is not.

MR. CRAIK: Well that's our understanding, too, that it's not under the Rent Control Program. So that if as it stands, even without rent controls under the LD program, your rental rate would probably accelerate at a greater rate than it would under private anyway.

MR. POAPST: I would expect it would.

MR. CRAIK: And with rent control applied to private and not to LD, this means the LD's going to go up at a larger rate still.

MR. POAPST: The existing LD right enough in the sense that there will be no further LD programs.

MR. CRAIK: Can you tell at this point from your involvement in the industry, is there at this point a major slow-down in private construction in the rental market?

MR. POAPST: In the sense of new construction yes. I would say that there is.

MR. CRAIK: This isn't entirely because of rent control though, is it, it's because of high interest rates and other things, is it not?

MR. POAPST: Yes. That's right. I don't think that the automatic reaction was rent control; I think that rent control may well have been the straw on the camel's back that finally stopped them cold, but it wasn't that great a field even without rent control.

MR. CRAIK: I've read the books that you've referred to, the Fraser Institute work where they've done a survey of the European countries, the U.S. and Canada, and they're pretty convincing arguments against rent control. We still seem to have it in Canada, and it seems that once a government gets into it that it's exceedingly difficult for them to get out of it because of what governments feel are the political implications of getting out of rent control.

Apart from that, have you reviewed what's happened in Canada alone? There's some indication in their study that was done here in Manitoba aloneby the Natural Resource Institute at the university, it says that the review system used in Quebec in fact appears to be the best system in Canada and there's only been, by their statistics, only a four percent referral to the Review Board in Quebec, therefore reducing the amount of bureaucracy required. Have you had any opportunity to look at that?

MR. POAPST: Not in any depth really, but right enough the major difference as I understand it is that the complaint as it were is initiated by the tenant. Rather than putting the landlord in every position to support his intended rental values, they place, I believe, the onus on the tenant to complain if they feel the rent increase is excessive. I understand, right, that it has been working fairly effectively for some time.

MR. CRAIK: But your group, in particular, I suppose hasn't . . . the Real Estate Board itself is not necessarily representative or expert in the matter of rentals, you're in the business of selling the rental units or brokering them, or . . .

MR. POAPST: . . . or leasing them or managing them, and so on. That's right, not owning them and operating them in the sense of ownership.

MR. CRAIK: There's been some indication from the government here that a rent review system will be brought in in addition to this bill and the bill will be altered to bring in rent review. Have you looked at the actual procedure that this might imply in this suggestion of bringing it in?

MR. POAPST: No, Mr. Craik. Frankly, we dealt solely with the subject matter, I suppose, of rent control on specific suggestions on how the existing legislation in our opinion might be amended to be more equitable to everybody involved, that we frankly didn't attempt to go through a very detailed study of the other alternatives, I suppose, to the present legislation. I have some thoughts that I would like to leave with you with respect to some changes which might be made, or some thoughts that might influence the government to change its thought with respect to rent control, but I would propose to suggest them to you once we've had an opportunity to answer some of the questions that may arise as a result of previous remarks.

MR. CRAIK: One final question, Mr. Chairman, going back to this LD and ARP type of operation, would you have any figures on what proportion of rental accommodation this might represent in the urban area? I know it's probably a difficult question.

MR. POAPST: No, I'm sorry I haven't, Mr. Craik. I didn't take the time

(MR. POAPST cont'd) . . . . .frankly to get statistical information from CMHC on the units that were built, and so on. I just took the time to try to understand the two programs in the general terms and conditions that were set out.

MR. CRAIK: That's all I have, Mr. Chairman.

MR. CHAIRMAN: Mr. Henderson.

MR. HENDERSON: Mr. Chairman, most of my questions have been covered now, I think, but I was just wondering what Mr. Poapst's opinion is of, where do we end if we don't get rid of rent controls in a number of years ? What type of housing do you see, and how do you see it provided?

MR. POAPST: Well I see basically the repetition of the Swedish experience where it became a case of where young people, or people with small families, two children, it took them as long as 40 months, I believe, to find living accommodations. I think we head to the point of where the bulk of the housing because of the restrictive costs, the ability of the landlord as it were to recover these costs, the bulk of the housing will be occupied by single people because they are presumed to be the least abusive.

MR. HENDERSON: And the government sponsored housing?

MR. POAPST: Well in their case, well yes, while that was part of the Swedish experience is that the government became the major landowner or the landlord in the country, that the problems that were presumed to be only the problems of the private investor in fact became the problems of government, and it was very much like the experience of the Federal Government with its LD program in Canada where there was presumed to be at any rate a form of restraint on rental values or rental costs, when in fact it became the opposite because of rapid escalation of other costs.

The other problem that I would foresee very frankly is that the housing stock will not increase but will in fact start to reduce, and that also was the basic experience. When the landlord is put into the position where he is incapable of recovering his investments in improvements to his buildings, logically he stops improving them, and any old building that is allowed to deteriorate for any period of time becomes uninhabitable, and it's a process that will start at the very bottom of the level of the market and will rise as the period of control lasts. In other words, there are some buildings that if you stop maintaining them today, will become uninhabitable virtually tomorrow. That is the bottom level of the rental market, and I'm sure we all read the newspaper article on the weekend that showed that little building that was to be boarded up. Now, however critical you and I may be of that level of accommodation, at least it provided relatively low cost housing for people in Winnipeg. How desirable or undesirable it was is not my point; my point is that in boarding it up there are now 42 less units, or will be, on the market today than there were yesterday. I believe that if rent control is presumed to reduce maintenance levels in buildings, that experience will be repeated constantly, and the unfortunate part of it in my opinion at least is that it hit the little fellow first. If you happen to live in a new apartment building, gentlemen, and they didn't do a thing to it for the next ten years in the sense of structural maintenance, or the next 20 years, that building will be there and as sound then as it is now. If you happen to live in a 60-year-old little building and allow it to deteriorate structurally for a year possibly, it may become uninhabitable. I see that as one of the results.

MR. HENDERSON: So in other words, you say people have to have housing and since private capital will dry up that it will have to be government housing, which in reality will cost more, which will hurt the man who has his private owned apartments and which eventually will cost the government more to pay for the government housing.

MR. POAPST: Well I would expect so.

MR. HENDERSON: Well since it's something that we apparently are going to have to live with because it's on the books, what do you think about the time of roll-back?

MR. POAPST: Well I believe that if the rent control legislation is introduced and presented as a part of an overall federal program, I would suggest really that the introductory date and the withdrawal date should coincide with the federal program, if that in fact is its purpose. If it is not intended and is a component as it were of the Anti-Inflation Program, then it should be stated as such.

MR. HENDERSON: Yes. You're saying that since it's coming in with the Anti-Inflation Program, it should go out with it?

MR. POAPST: Right.

MR. HENDERSON: And if that part would be in there, it would be more or less somewhat satisfactory. I mean, you could live with it.

MR. POAPST: We could live with it. I think we have stated again . . . Now I made reference earlier that if this program is envisoned as a part of an overall program, I have no doubt in my mind that the industry is as responsible a segment of Canadian society as any other organization or group is, and they are certainly prepared to support the government's basic objective, which is to control inflation.

MR. HENDERSON: Thank you.

MR. CHAIRMAN: Mr. Turnbull.

MR. TURNBULL: Yes, Mr. Poapst, I did have a couple of other questions. In reference to your exemption period for relatively new buildings, are you indicating in here that the exemption period be retroactive - that's pretty clear - but did you also mean that it should continue, the exemption period should continue, as now drawn, to extend to new buildings for five years?

MR. POAPST: Yes.

MR. TURNBULL: I see so the retroactive period would be additional?

MR. POAPST: Yes.

MR. TURNBULL: In responding to Mr. Craik's questions you indicated that rents by this program will not be charged at the market rate.

MR. POAPST: Under the Rent Control Program.

MR. TURNBULL: Yes. And rents at market rates would be fully recoverable rents, based on the market, and in your argument it followed that if rents were below the market value, that is below the value, that there would be a subsidy, that in fact the landlord would be subsidizing. So, you know, it seems to me that when you use the term "subsidy" you're talking about the landlord or the owner of the property not realizing in rents what the market value of the property would bear.

MR. POAPST: Yes.

MR. TURNBULL: That is what you mean by subsidy because it seems to me that the cost pass through of course would not result in the landlord subsidizing the rental accommodation; but of course if you're using the term subsidy in the sense that you use it, then of course it's a different kind of situation altogether. So in operating, there would be no subsidy with the application procedure brought forward to July 1, 1975. That's the way it's drawn now, or will be when it's amended.

MR. POAPST: What I think essentially is that total pass through is in effect a way of creating an absolute net rent, and in that case I think it's probably possible that if you attempted to fix the yield over a period with total pass through, the rent control would not be nearly as critical as it is right in its present form.

MR. CHAIRMAN: No further questions? Thank you, Mr. Poapst.

MR. POAPST: I have one or two suggestions, Mr. Chairman, with your permission.

MR. CHAIRMAN: Well, I'm sorry, if you had suggestions you should have made them in your brief.

MR. POAPST: All right, thank you.

MR. CHAIRMAN: Order please. Order. -- (Interjection) -- Mr. Poapst has made his presentation. I'm sorry. If Mr. Poapst had recommendations to the bill, he should have made them in his presentation. This is something that we've never done before. Mr. Minaker.

MR. MINAKER: Yes. Mr. Chairman, I know Mr. Poapst was commenting on some questions that Mr. Craik raised earlier, and at that time I think Mr. Poapst, you suggested that you had some suggestions but you'd like to make them at the close. I wonder if I could hear those suggestions please. I would like to know, those suggestions are that you did not elaborate on.

MR. POAPST: The suggestions that I had, Mr. Chairman, and my intention right enough, if I may say so, Mr. Chairman, was not to upset the rules, it was to make a suggestion on possible solution to this Rent Control Program once I'd had an opportunity to ensure that the members of this committee had understood whatever else I may have said previously. So it was not my intention, if I may say so, to upset the procedures in

(MR. POAPST cont'd) . . . . .this thing or to seek a particular advantage to myself that would not be allowed to anybody else.

MR. CHAIRMAN: Proceed.

MR. POAPST: If I may, I have one or two suggestions that I think may be of some interest to the committee. I would suggest that the program as a form of a rent restraint program be proceeded with as a part of and in general agreement with the federal program, and by that I mean the Anti-Inflation Program, incorporating the same general terms and the same effective dates and the same provisions for review, and so on. It's important to realize I believe that the industry has really never been opposed to an attempt to restrain the inflation that's been running through the country.

I would like to suggest that the Provincial Government in introducing this type of legislation guarantee withdrawal in conjunction with the federal program. In other words, I suggest that it be instituted, that its effective date coincide with the federal program and that it be withdrawn at the same time.

I think it is fair to say that business and labour will lobby very strongly for withdrawal of the federal legislation, the federal restraint, and I think if it follows that this type of restraint is not good for labour or not good for other business, it's reasonable to assume it's not good for the real estate investment business.

I believe if the industry could understand that withdrawal of the overall program will be tied into the provincial program, that construction may well continue. I think that without this type of self-destruct provision as it were, that it will take considerably more political courage than most parties have to withdraw this program voluntarily. I think that Manitoba may well find itself involved or similar to the Swedish experience. You may know that rent controls were introduced in 1942, by 1965 the 650,000 member Tenant's Association of Sweden started to lobby for the withdrawal of rent controls and it took them ten years to get them out. I suggest to you, gentlemen, that getting rid of this legislation is incredibly more difficult than installing the legislation. I would suggest that during the term of the period of the federal Anti-Inflation Program that the government devote its energies and resources and influence to developing programs to increase the supply of housing and increase the supply of land, and possibly through programs similar to CMHC, and that during this period, they consider alternatives to rent control. There is no doubt, of course, that society must assist the low income person. The goal, I believe, is not debatable, our problem of course is developing or devising the mechanism that can bring this about. Shelter allowances or housing income supplements deal with people and not with buildings, and they deal with all people, not just tenants; they deal with people in the same age income bracket, and they see that those people who are similar in their income level receive the same treatment.

I suggest to you, gentlemen, that you imagine that the only people having trouble today are people of low income or the fixed income tenants, and I suggest to you they are not the only people having trouble. Lower fixed income homeowners are heading for exactly the same crisis you are attempting to deal with for the tenant, and I ask you, how are you going to deal with these people ? Are you going to deal with the man and the woman or their house ? I think that any program which attempts to deal with or reduce basic human needs or human problems to so many dollars per square foot is doomed to failure and cannot realistically be interpreted by any level of society as an intelligent and compassionate answer. Thank you very much.

MR. MINAKER: Mr. Chairman, through you, I'd like to thank Mr. Poapst for answering . . .

MR. CHAIRMAN: Order please. Order please. Mr. Minaker, you will not speak until you are recognized by the Chair. Mr. Minaker.

MR. MINAKER: I think Mr. Poapst got my thank you.

MR. CHAIRMAN: Mr. Turnbull.

MR. TURNBULL: Mr. Poapst, one of the reasons we follow rules here is because legislators and witnesses get into a kind of round robin because you've made some remarks now and I have another question. You seem to indicate that there should be a great deal of parallel development in the rent control legislation as compared to the Federal ARD program and, you know, I am certainly sympathetic to that kind of suggestion because you know this rent control measure is supposed to be primarily anti-inflation legislation. Let me ask you this, in the ARD program there is provision that

(MR. TURNBULL cont'd) . . . . . companies where they cannot allocate their costs clearly should then seek a level of 95 percent of the return over the previous five years, and I was wondering if that kind of average level should be applied to the real estate industry in Manitoba.

MR. POAPST: I'm sorry, Mr. Minister, I missed the question, or rather I misunderstood . . .

MR. TURNBULL: The point is do you think the ARD level of 95 percent of the average return in the previous five years is a level of return that should be applied to the real estate industry?

MR. POAPST: Well, you know, in the sense of the investment community in rental housing, is that the question, relating to that area, Mr. Minister? Well, I believe, as I have said before that whatever restrictions as it were are imposed upon other segments of Canada, Canadian society and industry and business can realistically be applied to the real estate industry, yes.

MR. TURNBULL: So you accept the federal guideline of 95 percent over the last five years as applicable to the industry?

MR. POAPST: Yes, if that is one of the conditions.

MR. TURNBULL: Thank you.

MR. CHAIRMAN: Any further questions? There being none, thank you, Mr. Poapst. Mr. John Slobodian.

MR. JOHN SLOBODIAN: Mr. Chairman, members of the committee, honourable Ministers, ladies and gentlemen: I happen to be just a small landlord, a pensioner, married and decidely a worried person. In the early part of January 1976, I purchased a home, investing my whole life's savings into it, besides this I have a mortgage, a $7,000 mortgage to take care of. This home that I've purchased has a 4-room suite on the second floor with a private entrance. It includes a good sized bedroom, living room, kitchen and a 3-piece bathroom. We have a tenant occupying the suite who had been renting it from the former landlady, paying only $85.00 per month. Prior to my knowledge of the ten percent ceiling on rents, according to Bill 19, I gave the tenant the required three-month notice that her rent would be increased to $125.00, to become effective as of May 1, 1976, to which increase this tenant apparently at that time did not seem to object. Besides having to make payments on the mortgage - I guess I don't have to go over the increases in utilities and, etc., but lately, or recently, the current increases have been considerably high, not mentioning the high cost of home improvements and maintenance these days, so it is quite possible that you people might say, or that I might say, I should have known better than to have placed myself in this predicament, but I find that it's too late now.

In conclusion I would like to ask this committee if I'm not being justified in applying this rental increase because of my situation. If not, what can I do in my case. That's all I have to say.

MR. CHAIRMAN: Thank you, Mr. Slobodian. Mr. Turnbull.

MR. TURNBULL: Mr. Chairman, if I may. Mr. Slobodian, you bought the home in January of 1976?

MR. SLOBODIAN: Yes.

MR. TURNBULL: Yes. 1976. This year you bought it . . .

MR. SLOBODIAN: 1976.

MR. TURNBULL: . . . even though the program was announced last October. Your increase in rent is to cover costs that you have to incur or have incurred?

MR. SLOBODIAN: Well, I haven't had a chance to figure out exactly because I've only recently occupied the home. I don't know exactly how much the increase in taxes would be, and I know that the gas service or heating service has practically doubled, because where I paid $26.50 for the severest and the coldest month in '74, the winter of '74 - in fact part of the winter of, I mean '75, and part of the winter of '76 - I paid only $26.50 previously and as of January 1st it had almost doubled.

MR. TURNBULL: Mr. Slobodian, you know that there will be a review mechanism written into the bill which will enable people in the position such as you to go to the Stabilization Board and show them your cost and get it passed through as a rent increase.

MR. SLOBODIAN: Yes. Well, in my case I have all intentions of doing this, (MR. SLOBODIAN cont'd) . . . . .and at the same time I would be very willing to see that any officer of the Review Board could come and take a look at this suite and see if I'm justified in applying this increase.

MR. TURNBULL: Well, I have a problem in saying that that can happen because I have to get the bill made into law before anyone can look at your situation. That's the problem that I have right now. The longer it's in committee, the longer you'll have to wait.

MR. SLOBODIAN: Well, I'd say I should have, you know, an expense statement prepared before I go to the Review Board, and I'm sure that . . . Well I just wonder if there's any possible consideration being given in a case such as mine.

MR. TURNBULL: Yes, certainly, but before it can be final, before this consideration can be final, the bill has to become law and the board established. That's what I'm saying, but certainly there will be consideration by the board of your case, yes.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Just to clarify Mr. Slobodian's case, it might help, Mr. Chairman, I think the announcement from the government was that until the bill was passed that it was business as usual and that you should proceed on the basis of how you would proceed without the legislation until such time as it's passed. And I would assume that if the bill's not passed before your new rent applies, you collect that rent and if the board passes something different, well, you may have to ask for rebate. Now I raise this, Mr. Chairman, because I think there's quite a number of people that are in the same boat where their new rents become applicable this month, or last month or next month, and they're in a quandary as to what to do. Now if I'm incorrect, the Minister can correct that, but I understand that that was announced by the government and it might be worth reiterating to Mr. Slobodian.

MR. TURNBULL: Remember, Mr. Slobodian, though that if the rent increase is not justified by the costs incurred that you will be required to make a refund to your tenant of the excess.

MR. SLOBODIAN: I understand that but . . .

MR. TURNBULL: Certainly consideration of your case there will be; once the Board can be established legally, we can certainly give your case every consideration.

MR. SLOBODIAN: Mr. Chairman, at the present time the tenant is only paying $85.00 per month. The increase that I'm asking for is to be effective as of May 1st, so in this case how can there be a rollback.

MR. TURNBULL: Well, it depends on your costs. -- (Interjection) -- Oh, I see. Well I would prefer not getting into a too detailed interpretation of this bill because it's not yet the law, but the point is if you raise your rent in May and the bill is then law, you will have to get an application from the board and an approval of the board to raise the rent this much. Okay? In other words, if you're going to go for an increase in May you can go ten percent, if you need more to cover your costs, you can go to the board and say I need more to cover my costs and they will, you know, take your case into consideration and make a decision on its merits.

MR. SLOBODIAN: Very well then. Thank you very much.

MR. CHAIRMAN: Mr. McKenzie.

MR. McKENZIE: I'd like to ask Mr. Slobodian a couple of brief questions. Are you satisfied now that $125.00 will cover your increased cost.

MR. SLOBODIAN: Well, I figured that pretty well should take care of that. I don't intend to be making a profit on my rent, in my case I feel that $125.00 would be all right.

MR. McKENZIE: The other question, Mr. Chairman, you haven't received your tax notice yet, eh?

MR. SLOBODIAN: No, I have not.

MR. McKENZIE: So you're basically not sure that, but you're reasonably satisfied that that type of an increase would cover you for the ensuing 12 month lease?

MR. SLOBODIAN: Yes.

MR. McKENZIE: Fine, thank you.

MR. CHAIRMAN: No further questions. Thank you, Mr. Slobodian. Anne Shapkin.

MR. SHAPKIN: Mrs. Shapkin is not here, can I take her place. I'm Mr. Shapkin.

MR. CHAIRMAN: Agreed? (Agreed) Mr. Shapkin.

MR. SHAPKIN: Mr. Chairman, Honourable Minister, ladies and gentlemen. My name is Alex Shapkin. I own a small apartment block. I'd like to present a short brief expressing my view on Bill 19.

First, I'd like you to know or understand that I am not against rent control, but the way in which Bill 19 is set up.

Mr. Blair, a tenant who spoke previously pointed out in his statement that he once worked for 90 cents per hour. I also started to work for 15 cents per hour when I started. Surely, Mr. Blair does not expect landlords to run a housing premise at that rate. I can assure you that I worked hard for my money and over the years I have attempted to invest some for my old age. Now it appears that Bill 19 will destroy my investment. Mr. Blair appears convinced that landlords are in a position to absorb all the increases in operating expenses. I couldn't see that. Yet, many tenants are very reluctant to accept the responsibilities of owning a home. Not that a lot of them couldn't afford it; but it is much cheaper for them to rent a suite and avoid all the increased expenses of hydro, gas, water and maintenance; yet these are the people who, because of their low housing cost can afford to rent a summer cottage, own a ski-doo or a boat. They're not complaining about the daily rate of $20.00 to $40.00 a day for a cottage. Why then do they complain about city rental units which are a greater necessity and are more expensive to build and maintain.

I agree that some owners increased their rents from 25 percent to 45 percent. But they didn't do it because they wanted more return on their money but to save their properties from the mortgage companies or city taxes. We have been hearing on the news from senior citizens who are on a fixed income being forced to sell their homes because they cannot pay the increased costs. I can understand their problem as I am in the same position with my block.

My own block on St. Mary's Road is just a small 6 suite block. The block was built in 1950 and of the 6 suites, two are still occupied by the original tenants. I have tried to be as fair with my tenants as I could as most of them are retired pensioners. I have been charging them as if they were occupying a one-bedroom suite. It was my intention that when my present tenants left I would raise the rent to a more acceptable level, but the way Bill 19 is set up, I will be punished for my kindness to our senior citizens.

I would like to take some of my allotted time to comment on the unfair practices of the rentalsman. I believe that there are both bad landlords and bad tenants. The rentalsman was supposed to deal fairly with both tenants and landlords; but speaking from personal experience the rentalsman gives his support to even the worst tenant. This is just another example of how the landlord is expected to carry out all the responsibilities.

I now would like to give you a financial statement on the block.

In 1967 the the taxes were $870.00. In 1970 the taxes went up to $1,193.04. In 1973 it was $1,440.26. In '74 it was $1,723.89. In '75 it was $2,110.43. Compare the taxes only. The Hydro was in '67, $75.86. In '74 it came up to $104.05. And '75 what happened there, it went down a few cents. Maybe it wasn't used as much, I couldn't tell you on that.

In '67, I had an oil burner, it was costing me money. In '70, I replaced the new unit with gas. I paid for the oil $525.65. Now in 1974, the gas started coming up, it came to $672.26. In '75, $768.13. Same with water, in '67 the water cost me only $80.20 - and more people were using water than now. Now the water in '74 was $159.70; in '75, $170.76.

My supplies and maintenance: Now in '67 I had a caretaker here, and I used to hire a plumber and electrician more. Now I do most of the work myself. I have no caretaker there. It cost me $410.87, the supplies and maintenance. That means painting was all done except I had to buy the paint. In '74, it's $894.46. In '75, already, the work is all done by me, it came up to $607.40. Well I didn't have the interest, I don't know if you want the interest, that's out of the question. The insurance is $72.00 in '74, but the insurance is changing here in June, and I'm sure it's going to hit me not only double but it will triple.

Now the total expenses in 1967 was $1,962.58. In 1974 it came to $4,699.66. In 1975, $4,795.57.

(MR. SHAPKIN cont'd)

My income in '67 was $6,600.00. In '73 my income was $7,661.50. In 1974 increased by a little, but not a gouger, $8,286.50. In '75, $8,979.00. Compare the expenses and compare the income. As I've been good, I figured out I could raise the rent once I get the working class of people in there.

To sum up my brief, I would like to suggest a method of rent control which would be fair to both tenant and landlord. Base the allowable monthly rent on a fixed percentage of the total tax assessment. This fixed percentage would apply to all city rental units. I hope you will give this suggestion some consideration as it could possibly prevent some landlords from bankruptcy. Because I don't care which building, if it's a new building, it's assessed at a higher price, he's allowed to get more rent on it. An older building will be assessed at a lower assessment. Fix it at four, five, six percent, we'll all be getting the same rate whether it's 100 suites or 5 suites. This way, the way it is, the ones that went up 45 percent, they're up to $220 a suite, where I know my suites should be renting at least at $160, $170. Right now they're standing, my suites, two-bedroom suites - and I told one chap already when I used to have leases, I said do you want to break the lease and maybe look for a one bedroom? He says, no I couldn't find anything cheaper. And I'll give you the exact price what my suites are renting at. Two bedroom, a man is working, a young couple, changed last year, I don't mind, I'm charging $150 with the garage. Mr. James is only paying $102.00. He's owning two-bedroom suite. Why? Because he was the one that moved into that block in 1950 when it was built. His wife passed away. He doesn't want to leave. I didn't want to be a gouger. He's paying $132.00. Mrs. Aikins, she's holding two garages; I agree it's a little different with her because she's got a son with her that does a little bit of work - $152.00. Mr. McDonald, also, he came into there a year or two after, he's paying $133.50. I can't have a young couple move into that suite and rent that suite at the same amount. Nor Mrs. Norquist, she's also on a fixed pension - $104.00, I agree she's renting one-bedroom suite. Mrs. Sibbald, her husband just passed away, not very long, she's paying $145.00 with one garage. So this is where I think it's not fair to the people that try to be fair to their tenants and they're really punished. I sure would like a different setup with this Bill 19.

MR. CHAIRMAN: Thank you, Mr. Shapkin. There may be some questions. Mr. Craik.

MR. CRAIK: Mr. Shapkin, if you were to have sold your building or were going to sell your building, what would you be asking for it, what do you think would be a reasonable . . .

MR. SHAPKIN: I am selling it. I am asking for it, with the commission right now, they're asking $79,500. For four or five months, I haven't had an offer on it. That's how they're selling.

MR. CRAIK: So you've been trying to sell it at $80,000. Your return on that, even if you add your interest charges here of $900 on to your difference between gross income and total cost about 4,000, total of . . . you're making about $5,000 on that, not counting anything for your work. You're doing your own . . .

MR. SHAPKIN: All my work.

MR. CRAIK: All your caretaking and maintenance.

MR. SHAPKIN: Caretaking, there's five garages, I shingled them myself last summer, just paid for the material.

MR. CRAIK: So that if you subtract nothing for your work and nothing for your caretaking you . . .

MR. SHAPKIN: Exactly nothing. This, I gave you the statement, exactly what's the money left over.

MR. CRAIK: You're making about a 7 percent return, including your labour.

MR. SHAPKIN: That's right. Free labour. Right. I agree with that. There's no caretaker, I had to go there on Saturday at 11 o'clock, Mrs. Norquist phoned, what happened with the taps, they start leaking, she couldn't close them, I had to go out there. All my work is done myself and that's what's left me $4,000. So figure, there's no depreciation taken, nothing paid out. Painting, I've done the block inside and outside myself. Just the expenses of paint.

(MR. SHAPKIN cont'd)

Now as I said, I was thinking this way. When those pensioners go, I am renting the suite to well, say, a couple that moved in like even upstairs, I didn't want to go up on them too high to compare with the people downstairs, but little by little you'd come up when you got the young couple in, because there's more upkeep to it than one person. I'd come up, but the way Bill 19 is set up, you can come up ten percent. What is ten percent? And right now the water and everything's going up.

MR. CRAIK: You must have individual meters on your hydro.

MR. SHAPKIN: Yes. I agree with that. I'm only paying for the hallway and the laundry room and things like that. They've got their own . . .

MR. CRAIK: What about parking? Do you have parking there?

MR. SHAPKIN: They've got the garages. They pay for their own hydro because we've got meters in the garages. In every garage there is a meter, they're paying for it themselves.

MR. CHAIRMAN: Mr. Turnbull.

MR. TURNBULL: Mr. Chairman, just one point I want to make certain, Mr. Shapkin, that your brief is correct. That there's no typo error in them. From 1974 to '75 your costs went up $95.00.

MR. SHAPKIN: On what . . .

MR. TURNBULL: From 1974 to '75, your gross income went up $692.00. Is that correct?

MR. SHAPKIN: Well there is, in '74, I guess you would know why in '74 there hasn't been too much gone up, because when we had that trouble and I'd lost more than a month's rent by the time I got that suite cleaned up.

MR. TURNBULL: But those figures are correct?

MR. SHAPKIN: Those figures are exact amount, I'll open you the books any time you want to come, exact what I took in. And why '74 there's very little difference there, because I lost more than a month's rent when I got those people out - we had to get them out, when you have cops coming in about every second week. And then when I got them out, Mr. Turnbull, you knew about the trouble I had with the Rentalsman, you were well aware of it.

MR. TURNBULL: Well, I've had that case pulled, looked at it here.

MR. SHAPKIN: Why I mentioned that it's unfair on that Rentalsman, I'll explain. I had to move them out end of February, whether it was Mr. or Mrs., went to the Rentalsman, all they did is just put the claim that I held $28.00, I put $28.00, I wasn't feeling too good that time, I got a lady, she cleaned up the suite, I paid it out, held $28.00. She went and made to the Rentalsman, all she had to do is only put one claim in, they sent me a letter, a very strict letter, if I don't come in with that $28.00 I'll either be in prison or fined so much. I had to take the $28.00. I was informed . . .

MR. TURNBULL: Didn't you have the opportunity of going to court and didn't you refuse that?

MR. SHAPKIN: Wait, wait, listen, Mr. Turnbull. I was told that there's no sides taken. The way I explained to him, that I've got witnesses to the suite, what was done, if that's the way it is, you'll get your money without any trouble - okay, here you are, I wrote the cheque, left the money in there. On June 1st, phoned up to the office - oh, we got the letter out in mail. Okay, I received a letter, I believe, I've got the whole statement here, I just don't want to mix it up but I believe it said that . . .

MR. TURNBULL: Mr. Chairman, I really have a point of order, I appreciate Mr. Shapkin . . .

MR. SHAPKIN: No, wait, Mr. Turnbull . . .

MR. CHAIRMAN: Order please.

MR. SHAPKIN: We would like to . . .

MR. CHAIRMAN: Order please.

MR. TURNBULL: I have a point of order and it's simply this. We have before us a bill which is called the Rent Stabilization Bill, and Mr. Shapkin wishes to relate his particular problems with regard to the administration under the Landlord and Tenant Act. Now that's my point of order. We're not really on the Landlord and Tenant Act and if Mr. Shapkin is going to regurgitate the case then of course that puts me in the

(MR. TURNBULL cont'd) . . . . .position of wanting to do much the same by bringing out my side of the story on this case, and I would prefer to avoid that kind of thing and stick to the Bill 19.

MR. CHAIRMAN: Order please. I think the point is well taken. We're not here on the Rentalsman's bill, I'm sorry.

MR. McKENZIE: Mr. Chairman, on the same point of order, there have been other witnesses here that have discussed the Landlord and Tenant Act, the Rentalsman and I see no objection to this gentleman expressing concerns on this subject matter.

MR. CHAIRMAN: Order please. The people that presented views on the Rentalsman's Act were dealing with the Act in general, not in specific cases. I don't think it's the responsibility of this committee to hear individual cases that have appeared before the Rentalsman's Board.

MR. TURNBULL: On the same point of order, Mr. Chairman, if the landlords want to do that, fine, but then of course . . . you know, I have a particular point of view about the administration of the landlord and tenants office, the office of the Rentalsman, and if Mr. Shapkin wants to put his case here now again then I think that I should be afforded the same opportunity to put on the record what the situation is from the point of view of the office of the Rentalsman. So that I would prefer to avoid that kind of a situation and stick to Bill 19.

MR. SHAPKIN: Well there's only one thing, Mr. Chairman, I would like to say to this. If we are going to be treated the same way with this rent control as with the Rentalsman then it's going to be very tough for us.

MR. CHAIRMAN: Any further questions? Hearing none . . . Mr. Henderson.

MR. HENDERSON: I don't want to bring out this trouble you had with the Rentalsman too much because it may have been a personal affair but do you believe it was with the Rentalsman or with the Act itself that you had the problem.

MR. SHAPKIN: Well, where I was getting to the point, the way I had to collect my money back from the Rentalsman. I got my money I agree 100 percent, but I had to go to a court, where they haven't even showed once after or answered his letter and he pushed me to go to the court.

MR. HENDERSON: When you went to court did you have to pay a lawyer or were you just . . .

MR. SHAPKIN: I went myself. I had to pay the fees for Small Debt Court and had to send them a registered letter. He never even showed up.

MR. TURNBULL: And you got your money. You did say you got your money.

MR. SHAPKIN: Yes. I did get my money but after the court I still had to wait, I guess ten or twenty days, because they kind of figured maybe he'll come and appeal the case and win the case yet.

MR. HENDERSON: Did that take considerable time from the time you started going to the Rentalsman till the time you went to the court case?

MR. SHAPKIN: From May 1st till, I believe, it was . . .

MR. CHAIRMAN: Order please. Order please. Mr. Henderson. You are just going around and trying to circumvent the rules.

MR. TURNBULL: Okay. He apologizes. He is apologizing.

MR. CHAIRMAN: Order please. Mr. Adam.

MR. ADAM: I just have one question, Mr. Chairman. You have six suites in the block, you mentioned that you had six suites. Are they all rented?

MR. SHAPKIN: They're all rented.

MR. ADAM: They're all rented, so . . .

MR. SHAPKIN: At that rate I have no trouble renting them. Only one suite changed last year, but those four tenants have been there 12, 17 - I believe Mr. McDonald is there 23 years and Mr. James there since the block has been up, since 1950.

MR. ADAM: The only reason I ask that, I was wondering whether you had accommodations there yourself.

MR. SHAPKIN: No.

MR. ADAM: You don't live there, so that's fine. On your figures for the total income, I was trying to average monthly rents and I don't know if I . . . I just did a quick calculation and I'm not that good with figures but I come up to about $149.50 or somewhere around, average. If . . .

MR. SHAPKIN: Well, no, it wouldn't be that. You see what happened there. . .

MR. ADAM: Well just a moment. The gross $8,979 dividing that up with the six suites come to $149.00 -- (Interjection) -- $125.00? Average? Is that what you have, George? I figured out $110 in 1967, and you could take a look at the figures there.

MR. SHAPKIN: In 1967 it was $6,600.00.

MR. ADAM: Yes. -- (Interjection) -- I'm right? It's $149.00. So I'm right, these engineers are wrong. -- (Interjection) -- You said $125.00. Here's an engineer right here and he said $125.00. Okay, thank you, Mr. Chairman.

MR. SHAPKIN: Really to say why I didn't have the exact figures for all '70 and '73 . . . when I gave this figure I figured that was for the block alone and in '67 it could have been that there was a couple of suites at the house that were tied in and that's where it came. Maybe it was below that then. But when income tax start coming different, in '74 and '75 - now I'm keeping the books separate, like the suites at the house and suites at the block, and there was in '74, $8,286.50. That's income from the block alone.

MR. ADAM: Well the only thing, Mr. Chairman, is that you did mention that there was a variation between the amount you charged. Some were $132.00, some were $102.00 or whatever it was, and they average out to $149.00, so there must be some that are considerably higher.

MR. SHAPKIN: I should have got this all typed.

MR. ADAM: These figures must be wrong then.

MR. CHAIRMAN: What is the point that Mr. Adam is trying to establish?

MR. SHAPKIN: In this monthly income of $150 a suite, you see, I increased my rent on the 1st of October of 1975, where you might turn me back because it's a little lower, ten percent, I went up $16.00 the next suite. That's on the 1st of October of 1975, so that kind of threw the suites off a little bit there, but if you go through the whole year they didn't bring that the whole year.

MR. ADAM: Well, Mr. Chairman, the point that you raised, I'm not trying to argue the rates that the man is charging, I think they're reasonable, but I just wanted to verify the figures that he was . . .

MR. SHAPKIN: That could have thrown them because the 1st of October I raised the rents on two bedrooms $16.00.

MR. ADAM: Of this year?

MR. SHAPKIN: No, in '75, October 1, 1975. And if we have to go back to July, that will have to be turned back here.

MR. CHAIRMAN: Further questions? Mr. Henderson.

MR. HENDERSON: On your chart here where you have your interest, you have in 1974 that your interest cost was $1,072, and yet in 1967 you haven't any interest charged up against the place. Now if this is a personal thing that enters into it and you put a mortgage on the house . . .we'll know what's happened. I just can't understand. . .

MR. SHAPKIN: I didn't think it was that more important, because I have paid a certain amount out. My interest is $8\frac{1}{4}$.

MR. CHAIRMAN: Mr. Desjardins.

MR. DESJARDINS: Mr. Chairman.

MR. HENDERSON: No, but how come it wouldn't be listed in 1967 and the other preceding years, it was only listed one year?

MR. SHAPKIN: Well I'm sorry, because there were some things tied up with the two suites up at the house, and I wasn't going to start breaking all that up. You see, I had to break up - in '74 I was told by my accountant to keep accounts separate. This is why I had here . . . and I wasn't going to break every little thing apart.

MR. CHAIRMAN: Mr. Desjardins.

MR. DESJARDINS: Mr. Chairman, I think that there was a point that was brought out by Mr. Adam which makes this practically obsolete if we don't get more information. In 1975, the revenue was $8,979, but now we're told that late in the year there was an increase in suites. I think we would need another column providing that you did not increase the rent at all, we would like to know what this would be, what revenue you would have in a complete year.

MR. SHAPKIN: Well I should have years, I've got all the figures, I haven't got the . . .

MR. DESJARDINS: Could you give us what that figure would be with a complete year, because you increased some of the rental money in September and so on, so that . . .

MR. SHAPKIN: Well would it be hard if you take this down, this is exactly what I am getting now. Suite 5, $150.00 with one garage. Suite 6, $132.00 without the garage. Suite 3, two bedroom $152.00 with two garages. Suite 4, $133.50. He doesn't own a car, he doesn't rent a garage. There isn't any available anyway. Suite 2, one bedroom, Mrs. Norquist, she's paying $104.00. Mrs. Sibbald, Suite 1, two bedroom, $145.00, one garage.

MR. DESJARDINS: That's your complete . . .

MR. SHAPKIN: Yes, that's the complete six suites. Exactly the rent.

MR. CHAIRMAN: Further questions? Hearing none, thank you. Mr. F. W. J. Davis or Mrs. Joan M. Davis. Either one here? Mr. Minaker.

MR. MINAKER: If you might permit, there was just one question that I would like to ask Mr. Shapkin and maybe he can acknowledge from the chair. Mr. Shapkin, the figures that were listed in your table for 1975 would be authentic, or would be the actual case, if the rent is rolled back and kept to July 1st then these figures in your last column would be correct, is that right - based on present legislation before us? (Mr. Shapkin indicated yes). Thank you.

MR. DESJARDINS: Mr. Chairman, just one more question, I think that it should show, for a complete year, without any further increase, that the gross income would be $9,798.00.

MR. MINAKER: If the Rent Control Act isn't passed?

MR. CHAIRMAN: Order please. Order please. Would you proceed please, Mr. Davis.

MR. F. W. J. DAVIS: Yes, Mr. Chairman, members of the committee, I'm afraid our operation is a very small one and a relatively new one. We bought some side by sides over a period of about three years and our intent in buying them was to try to accumulate a little property and to perhaps make it possible to retire at a reasonable age. As I say -- (Interjection) -- I beg your pardon?

MR. CHAIRMAN: Mr. Henderson.

MR. HENDERSON: Mr. Chairman, we have quite a lengthy brief here and if we just have him read it now we won't have any time even maybe to have him finish reading it. I was wondering if we couldn't maybe adjourn.

MR. TURNBULL: Mr. Chairman, if I may on that point. The written brief is two pages and I don't think Mr. Davis is going to take very long to read two pages.

MR. CHAIRMAN: Would you proceed please, Mr. Davis.

MR. DAVIS: It looks long because my data is good.

We are small landlords who are convinced that the proposed rent control measures will make it very difficult, if not impossible, for us to continue to offer our properties for rent. To support this statement I present the data on the following pages, setting out the actual record of rental income and expenses for the year 1975 which is the only complete year for which we have owned all properties, and estimated figures for the year 1976, assuming that rents remain as they were on January 1 of this year.

As you can see from Table I on Page 3, two of our properties showed a small operating surplus in 1975 and two showed considerable operating deficits. Should rents be rolled back to July 1, 1975 our present total deficit will be increased by the enormous sum of $68.00 in 1975 and by $1,028 in 1976. Rent rollback will have quite a serious effect on our small business.

The rents that we charge are listed in Table I and I think that they are reasonable. In looking at rents quoted in the paper nowadays, this is about the figure quoted for three bedroom side by sides, sometimes a little higher, sometimes a little lower, depending upon area and the condition of the house. It is also evident that these rents are not large enough to provide any cushion against emergencies. Any thought of deriving a disposable income from the properties has long been abandoned

We wish to point out that despite the long hours of work to manage these buildings and to provide a service to our tenants, we have made no charge whatsoever for management or labour - perhaps I should correct that a little bit. I did, last summer, completely

(MR. DAVIS cont'd) . . . . .repaint three houses and and my son assisted me and I paid him $25.00 for three days work. Nor have we been able to set aside any reserve whatsoever against vacancy.

Should we be forced to sell more of our properties the tenants may be forced to purchase homes of their own. For those who do not have the necessary down payment, other rental accommodation would have to be found and we believe that they will have difficulty in finding as good accommodation elsewhere at as low a cost. They will also have to bear the cost of moving. Should a tenant purchase a house he will have much higher monthly payments - interest and tax payments for comparable accommodation will greatly exceed the rent that he is presently paying.

For example, anticipating rent controls some months ago, we sold one of our properties on 1049 Cavalier Drive as of May 1. It was the property we had to subsidize most and we did not feel we could keep it if the controls were instituted. Had we kept it, the present tenants could continue to live there at $275 per month. The purchaser, however, paid $32,500 for the house with $5,000 down. His principal, interest and taxes will be $359 per month - even though the house carried a first mortgage of $15,000 at 9 percent and he has been lucky enough to get a second mortgage for the balance at 13 percent. In this case - and there must be many like it - it is evident that the effect of possible rent controls has been to increase the cost of occupying those premises from $279 per month to $359 per month. Now it is true that of the $359 some small amount is equity, but by no means is all the difference between $275 and $359 a month equity. If it was, I'd never sell the place. Should the new owner wish to rent the premises he will be under far greater pressure than we are to raise the rent because he must try to cover $359 a month cost, we have to cover a considerably less cost. The effect of rent controls has been to make both the landlord and tenant poorer in this case and we therefore petition you to do everything in your power to prevent the rent rollbacks and the passage of Bill 19 in its present form.

We are in complete agreement with the principle of rent control, and we feel that a freeze of all rent (except for put-through of increased costs) as of March 1, 1976 and for a reasonable period, but subject to appeal, would be a wise and a just measure. Rolling back the rents to July 1, 1975, however, is unjustifiable, and I think completely arbitrary and will cause much suffering for landlord and tenant alike.

The table on Page 3 is simply a summary of data taken from the following pages, and on the following pages I have shown what has happened for each property in the year 1975 and what I guess will happen for the year 1976, assuming that the rents remain what they were on January 1st. At the bottom of the page I have calculated what would happen if there is a rent rollback to July 1st.

On the first building it will cost me $68.00 for 1975 and the property has been sold in 1976, as of May, so that what's going to happen in that year is not very much. But it means that I will have an overall deficit of $631.00. Now the deficit figure is a funny figure there. Part of it . . .it includes the equity portion of the first and second mortgages, which is not a lot that's really a profit to me, but it's not money that I have at hand to work with. I have to find that amount every month and pay it to the mortgagor, I'll only get it back some time. So that while the equity might perhaps be called profit, it is nevertheless an operating expense. I have to pay it out every month.

The other houses that have not been sold, Costello Drive makes a small profit and it makes this profit because the rent has been upped. The rent for Costello Drive, which is a two-bedroom side by side, it's the only two bedroom one I have is $250 a month, that includes stove, fridge, the expenses are laid out. There is, of course, no charge for management, no charge for painting it, no charge for decorating it.

Evenwood Crescent, on Page 6, shows a net operating surplus of $11.12 in 1975 and will be a loss of $160.50 in 1976. This is the house that we bought first, we've had it since November '73. We completely redecorated it when we bought it at that time, it hasn't been redecorated since, it is due for redecorating any day, this year, next year. It's mortgage is presently 8 3/4 percent. That mortgage has to be renewed in December of this year; when it does I'll pay whatever the going rate is then but more likely in excess of 12 percent. In that case the payments on the mortgage will increase by approximately 50 percent; the payments on that mortgage are about $140.00 a month now, they'll

(MR. DAVIS cont'd) . . . .go up by about $70 in round numbers, and when that happens, I'll be making a big deficit instead of a small surplus.

Renfrew Bay, on Page 7, is two side by sides, side by side. Last summer I completely redecorated both of those in May; one of them I completely redecorated again in July because the tenant wrecked it. That tenant left, thanks be to you know who, and a new tenant moved in. I have to redecorate it again now. My operating surplus which was really a deficit in '75 was $1,500, it will probably be close to that size this year. This place is not paying for itself in any way.

It takes time to bring a small business like this from a deficit position to a position where it can carry itself and perhaps give a small return for the effort put in. We haven't got there yet. If rent controls come in in the present form, we'll never get there.

MR. CHAIRMAN: Thank you, Mr. Davis. There may be some questions some of the members of the committee may have. Mr. Craik.

MR. CRAIK: On this statement, Mr. Davis, you mentioned here Standard Life loan interest. Does that mean you have the loan from that life insurance company?

MR. DAVIS: That's correct. I borrowed money on the equity in my life insurance policies in order to pay for these houses.

MR. CRAIK: That's chargeable as an expense from . . .

MR. DAVIS: The money was borrowed to buy the houses.

MR. CRAIK: Do you have to take out life insurance - the reason I raised the question, is there a case, do you have to take out life insurance yourself to provide guarantees to the people you're borrowing money from that in the event something happens to you that you'll be able to carry on your obligation to them?

MR. DAVIS: No, I have no had to do that. That loan from the Standard Life is fully covered by equity in my own private life insurance policies. Another loan at the bank is covered by bonds, and the first and second mortgages are covered by the properties themselves.

MR. CRAIK: Just looking at your case and Mr. Shapkin's case here, and perhaps more his than yours, it would appear that the rate of return is probably on the low side compared to what a Review Board would in fact have to ratify on your behalf. The question that arises, like in these last two cases, yours and his, the Review Board may in fact be the instrument that actually raises rents above what they would be normally if that's the case.

MR. DAVIS: It's possible, but I wonder if it would ever really happen.

MR. CRAIK: I guess the other question is, you know, it doesn't appear to add up that you would do this to get a normal investment return. Is it because you're trying to build equity?

MR. DAVIS: Yes, I don't expect a normal investment return on it at the moment. What I'm trying to do is to acquire the properties, manage them properly while I have an income from my job and can perhaps afford to take a small loss, in the hopes that later, when I have less of an income from my job or when I retire, these properties will then be in a position to return me something worthwhile.

MR. CRAIK: There's a basic contradiction here, and what's happening though is if we can, you know, accept at face value the statement that 60 or 70 percent of the rental accommodation in the city is by people like yourself who have small holdings, and if you're typical, it means that you're willing to, and have been probably foregoing returns that are immediate returns, with the design that you're going to end up with something at an older age that provides you with an equity you've built up that you can sell and build an estate with. But there's a direct conflict here. Rent control and rent review is to control rents as of today with no particular concern about later down the line, whereas what's coming forth now, as your case is, is that that is already happening because your basic aim is not to make a major income out of your property at the present time but to probably capitalize on the fact that your property is going to go up in value at some future date because of inflation, you're going to sell it at that point and get your return as a capital gain.

MR. DAVIS: My objective in managing a little business from day to day is to get it so that it supports itself, so that I don't have to subsidize it.

MR. CRAIK: Supports itself but doesn't necessarily even give you a return on your equity that provides you with an immediate income?

MR. DAVIS: Oh, no, I don't anticipate that it will do that. It's too small.

MR. CRAIK: Well then, do you think that your case . . . you own six buildings, or . . .

MR. DAVIS: Five.

MR. CRAIK: Five buildings. Do you think from your experience that your case is typical of people that are in this sort of a business?

MR. DAVIS: I only know a few people who are, I don't know a great number, and it is typical of them. Most small landlords, if they've got into the business recently at any rate, are in a hard way. If I'd bought these buildings five years ago, six years ago, then it might be different.

MR. CRAIK: You're not in it for making a dollar today, you're in it for the purposes of building yourself an estate, really?

MR. DAVIS: That's true, but if somebody wants to let me make a dollar today, I will.

MR. CRAIK: Right. But your evidence here doesn't indicate that you are in fact making that.

MR. DAVIS: No, I'm not. I would like to get it so that it carries itself and making enough of it of an operating surplus so that I can have some insurance against vacancy. If these houses were all vacant for three months I'd be wiped out.

MR. CRAIK: Well, supposing a rent review process says to you, you can pass through costs on your utilities and your taxes and so on so forth, and in addition to that you can get a return on your equity that matches what you're paying for for your first mortgage, I'm saying typically, what would this do to your present rent? Would it put them above where they are now.

MR. DAVIS: Oh, yes.

MR. CRAIK: That's the question. This rent review process that's coming in may in fact have the effect in cases like yours of raising the rents rather than holding them down?

MR. DAVIS: It might.

MR. CRAIK: You wouldn't have to raise them, presumably, but you'd be a fool not to raise them if you have the government sanctioning what you're doing.

MR. DAVIS: That's correct. I'd be a fool not to raise them if I'm making a loss, but my objective is to get it to the point where I'm not losing anything. My objective is not to make a fortune out of it because I can't and won't.

MR. CRAIK: But if you could go back to your tenant and say, my rates have to go up 15 percent because the government says that's what I'm entitled to, your tenant would have a hard time not accepting it. Whereas if you went to your tenant now and said, my rates are going up 15 percent because my costs are up 15 percent, your tenants would probably be of the mind to say well you're ripping me off. But if you come in with something sanctioned by the government you're probably going to take full advantage of it.

MR. DAVIS: Oh, yes. If this business was making a profit right now, and if the government says I can only raise the rents 10 percent, then I'd go out tomorrow and I'd raise them ten percent, the heck with it, the government says I can have it, so I'll go and take it. Sure I would. I'd be an idiot not to.

MR. CHAIRMAN: Mr. Turnbull.

MR. TURNBULL: But you realize, Mr. Davis, the legislation allows you to do that once every 12 months.

MR. DAVIS: So I'll do it immediately and in 366 days, again.

MR. CHAIRMAN: Any further questions? Hearing none, thank you, Mr. Davis.

Before the committee rises, I might, for the information of the delegations here, the committee will be sitting this evening at 8 p.m. in this room and tomorrow evening at 8 p.m. also. Committee rise.