Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

LAW AMENDMENTS

Chairman
Mr. William Jenkins
Constituency of Logan

10:00 a.m., Monday, March 29, 1976.

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CHAIRMAN: Mr. William Jenkins

MR. CHAIRMAN: Order please. We are one member short. We are not to deal with any votes or proceedings, is it the will of the committee to proceed? (Agreed) Is Mr. Robert Cheyne here? Mr. R. Lazar? Mr. J. R. Gugin? Would you come forward to the mike, please? Mr. Lazar.

MR. R. LAZAR: My name is Ron Lazar, I'm with Inter-Struct Ltd. We are a development group that began in 1968 to design, construct and manage apartment buildings. The first building was completed in 1970, and since then we have constructed six buildings in Winnipeg, and one building in Dauphin. We have retained these buildings and we continue to manage them. The buildings have a total of 753 apartment units.

It is an unpleasant task to discuss in public the fact that all our buildings have shown an operating deficit this past year. This deficit was created without an allowance for a replacement fund, without any return on equity whatsoever, without any depreciation allowance, as the accompanying tables of income and expenses will illustrate. These items would increase the total deficit considerably. The deficits were covered by increasing our second mortgage borrowing against the buildings.

I would like, if you will, to just go back to look to the chart which I have included which is Page 5 and Page 6. Page 5 has buildings A,B,C and D which have been operating through '74 and '75, the two years I have our figures here for; on Page 6 we have buildings E and F which were completed in 1974 and did not have a complete year's operation and therefore I have listed only the figures for 1975. Now to get away from the confusion of percentages and so on, I have listed this both ways in dollars and in percentages both, so if you look, for example, at building A, that is what I would call a very typical high-rise in Winnipeg, our '74 income $197,000; in '75 it had increased to $217,000 - a total of twenty thousand plus dollars or 10.4 percent. At the same time our operating expenses went from $89,000 to $107,000, an increase of just under $18,000 or 19.9 percent. Our deficit for '75 was $3,500 on that particular building. With good business management we should be planning a replacement fund because we know the facts of life are any equipment, whether it's carpeting, fridges, stoves, washers, dryers, a roof, what-have-you has a life shorter than the life of the rest of the building and if we make an allowance or build up a fund in order to be able to replace these items - a reasonable allowance $150 per suite per year - that particular building should have had a fund established for that year, say '75 is the year I have computed this for, of $15,300. That was not done because the funds were not available.

In looking at our picture for 1976, we have - now the first item there, mortgage interest, is the increase in our mortgage interest required because of our continuing operation in the red; the second item is the increase in taxes, not the total tax by any means, the increase only; the insurance is the increase only; hydro increase only assuming that we are going to have the same kind of weather, the same kind of requirements, gas, water, repairs and maintenance at 10 percent which means that to cover these increases we will require an additional $40,000 of income on that particular building. Therefore in 1976, a sort of "break even" rent required is the 1975 income, the deficit regenerated in '75, the replacement fund that we should by all common sense be building up, plus the '76 increases. This means that our income required will have to increase to $277,000 for that particular building, that is an increase of 27.2 percent over '75.

If we look a little further to say what's in it for us in this particular building, we would assume 90 percent of our equity or building cost is mortgage, 10 percent is our own equity, and I have computed this on the basis that I would use the same rate of return as our mortgage - even though this is very unfair - our mortgage is NHA and guaranteed by the government so the mortgage company can never lose, we are at

(MR. LAZAR cont'd) . . . . .the extreme exposed end of this and we have not only our mortgage but a personal guaranty to go with it so by all common sense your rate of return should be much higher, but I have computed it on the basis of the same rates and a fair return for that building should be $12,665. To achieve that we would require a 33 percent increase in our rental structure from '75 to '76. Obviously that's certainly not obtainable. If we did try to increase that, if we got your approval to increase it by that amount we'd end up operating an empty building.

If you look at the other figures for building B, C and D, those are all very similar. E and F are the newer buildings and again the picture is not much brighter there.

It has been our experience that it takes approximately one year to accomplish the physical construction of an apartment building. This will be followed by approximately a five-year period to complete the economic construction of an economically health and viable project.

It is for this reason that we urge you to consider the first five years of any apartment building's life should be free of any rent control. To this date, we have never had sufficient rental income to enable us to set aside funds for a replacement fund although the principle of a replacement fund is recognized and accepted as good business practice.

Although a certain level of rent may be required to meet costs, we have not found it possible to implement the necessary rent increases in any single year. My opinion is there really isn't a shortage of rental accommodation in this city - I'm talking about Winnipeg now. If we look in the paper there is a page and a half of ads. I think if you went out this weekend we could all rent, probably with a concerted effort, we could rent 1,000 apartments for the 1st of April without too many problems, the price may be a little problem but I think most people can justify that.

If the government would fix increases in utilities and taxes for one year in advance it would be possible to plan ahead so that rents could be set realistically to meet costs, rather than having rent levels respond as much as a year late, and thus continuously building up losses. When a base rent is established, it requires 11 months to fully implement this rate. Also, if rent controls are imposed on nearly new buildings, we believe it would act as a serious discouragement to new construction of rental units. The rents being charged for the nearly-new apartments would be very much lower than rents required for newly constructed apartments. The construction industry for rental housing is a sick industry. Never before has there been such a wide spread between replacement costs and the economic value.

For example, in our Building A on the following table, our replacement costs we would estimate at about $2\frac{1}{2}$ million. If we compute its economic value on a base of 10 x return, it comes to $1,350,000, substantially lower than the replacement costs. If we compute it at a return of 20 x return, it still is only about $1\frac{1}{2}$ million. This is a sign of a very sick industry.

The continued production of more rental apartments, we believe, would be the quickest and most satisfactory method of rent stabilization. One of the major costs of construction is, we believe, mortgage interest rates. We consider rental housing to be an essential service. Like other essential services it is deserving of subsidies when necessary. The Government of Manitoba could deal more effectively with the problem of high costs of rental housing by making mortgage funds available at a lower interest rate. The Government of Manitoba enjoys a fine credit rating, or borrowing capacity, and is able to borrow money at a much more favourable rate than the private developer or builder.

If the Government of Manitoba would make mortgage funds available, as an example, at $2\frac{1}{2}$ percent lower than the current CMHC rate to private developers, the effect would be to lower the rent on a $24,000 apartment, which is a very average apartment today, by $600 per year or $50 per month. This would enable the citizens of Manitoba to benefit from their fine credit rating.

To immediately reduce rent levels, or to minimize increases in rent levels, the $175 minimum tax credit per suite should be credited directly to the real estate taxes and thus effect a savings in rent of approximately $15 per month. Landlords have

(MR. LAZAR cont'd) . . . . .unwillingly been made tax collectors. We don't like being tax collectors thank you, we've got enough problems with our own image as it is right now.

We ask you to look at the operation of the Limited Dividend Housing to see realistically what has been happening to the costs of operating an apartment building. Limited Dividend Housing, which in the present form of Bill 19 will not come under rent control, has a fixed rate of return, and increases in rent are made in consultation with CMHC and with their approval. Quoting from the Winnipeg Tribune of January 8, 1976, this is Don Grant's article, a one bedroom suite on the 14th floor of a limited dividend apartment building was allowed to increase the rent from $171.50 to $214.50 in October, 1975. This represents an increase of almost 25 percent. In a building of comparable age, construction and location, which we manage, we were issuing leases at the end of June '75 to take effect the 1st of October, 1975 on a base rent of $195 on the 3rd floor. On the 14th floor of the building, the rent base would have been $205.00. In addition to the lower rate, we were offering luxuries not available in the limited dividend apartment - for example, approximately 20 percent more floor area, completely carpeted, large balconies versus no balconies. Because we are compelled to set the rate for at least a minimum of three months before the lease is to take effect, we are subject to many increases, such as utilities that may be unpredictable so far in advance of setting rent rates, and we are locked in to a lease agreement for a full year. Under present form of Bill 19, we are permitted only one rent increase in a twelve month period, whereas the limited dividend apartment building is permitted to increase as frequently as they find necessary. This constitutes an inequity in our opinion. We feel that there is justification for increases to be requested more frequently under some circumstances, for example, when there is a change of tenancy prior to the end of the lease, and the new tenant could be offered a rate appropriate to the costs as they are seen at the time of the new lease.

Although rent controls are admittedly a popular idea with the general population, rents have not been a major contributing factor to the rate of inflation. Quoting Statistics Canada 1970, the consumer index was 129.7 while the rent index was 119.4. In May '75, the consumer index had risen to 181.3 while the rent index rose to 132.8 showing that the increase in the consumer index was 3.9 times as high as the increase in the rent index. Landlords, in general, have been subsidizing the rent levels in this five-year period, particularly in Winnipeg.

The suggestions we have are these. We urge you most seriously to legislate at the outset the date of termination of rent controls. We believe this will promote confidence and encourage developers to continue with this much needed construction.

We respectfully request that any rent rollback should be set at a date after October 14, 1975, the date of the Federal Prices and Wages Act. Retroactivity to an earlier date would create, we believe, an unfair and most difficult situation.

We urge you most seriously to permit any possible funds due a tenant through a disputed rent rollback to remain with the landlord until a binding ruling has been made, so as to avoid a most serious hardship incurred by the necessity to borrow funds at possibly exorbitant rates. As the figures on our accompanying table show, the rental income did not even cover costs, let alone provide a surplus or a profit.

We are pleased that a Rent Review Board is to be established immediately. However, we are very concerned that very specific and clear-cut guidelines for this board are established at the outset. We believe that it is essential that there is no room for personal interpretations or discretionary powers. We recognize that it may be very difficult to be objective and even-handed. Too often, and unjustly, the landlord is perceived to be the villain in a situation. Clear-cut detailed guidelines will make it easier, we believe, for an objective and even-handed administration of the legislation.

Please legislate in detail the rules for determining a permissible rate of return on investment. We suggest that a proper and justifiable rate of return should be at least equal to the 1st mortgage rate level. The mortgage company is guaranteed by CMHC against loss. The developer or private investor has no guarantees, and therefore takes a much more substantial risk.

We respectfully suggest that you legislate rules for determining the amount of money to be set aside for a replacement fund. We know we are faced with a date to

(MR. LAZAR cont'd) . . . . .replace this equipment. We must plan ahead and be able to save for that day.

We also ask that you legislate rules for determining minimum services to be supplied, for example, the frequency of repainting a suite. We suggest that provision for rent increases be made with the additional provision of additional services, or new services. If tenants want a swimming pool built on a site, there should be provision to charge extra for that kind of facility and so on.

In closing, may we offer you our good wishes on the successful completion of your work, and assure you of our willingness to cooperate to bring stability to our economy. Thank you for the opportunity of presenting you with our concerns.

Now that is our brief and I have one extra little note which, if I may, will take about half a minute. I didn't include it with our regular brief because, in fact, it is an overlapping area, it goes back to the Tenants and Landlords Act, and there are two suggestions I would like you to consider in stabilizing rent which is where they do have an impact.

Now since the purpose of this gathering is to try to determine better methods of keeping rent levels down, may we suggest that there is an opportunity being missed or ignored to offer a reduction to the tenant who cares enough to put out effort on his own behalf. Present legislation under the Tenants and Landlords Act relating to leaving a clean apartment is presently interpreted to mean "ordinary" cleanliness. We have been instructed by the Rentalsman's Office that we are not permitted to make it a condition of the lease that the apartment must be left in the same state of cleanliness in which the tenant found it. I'm not talking about wear and tear, I'm talking about cleanliness, therefore since a new incoming tenant will not be willing to accept an apartment in such condition but requires that the carpets be freshly shampooed, that the drapes be freshly cleaned, we were advised by the Rentalsman's Office to include the cost of such services in the rent. A tenant willing to do this cleaning himself no longer has the option to do so, and the savings in rent, roughly about $4.00 per month for all the tenants, is not available to him. This is unfair to the tenant and also to the landlord who finds himself required to increase rents and thus make it more difficult to find tenants. A tenant who is willing to work a little to save himself some money should not be denied the opportunity to do so.

The second point in that area: The legislation in Manitoba regarding tenants rights and landlords responsibilities is heavily weighted for tenant rights and landlords responsibilities and does not take into account tenants responsibilities and landlords rights. When a tenant feels abused for any reason, a phone call to the Rentalsman's Office will activate an entire department, a department which will send out inspectors, direct controls and has enforcement and penalty powers. A landlord who has a grievance against a tenant has realistically no chance of redress. The security deposit of half a month's rent which is all that a landlord may ask from the tenant does not begin to cover the costs incurred by a tenant who skips out owing rent or who damages or dirties an apartment. A landlord calling the Rentalsman's Office for help in such a situation can perhaps find sympathy but nothing else. If the Tenant and Landlords Act provided for reimbursement to the landlord for these few bad tenants, the rents for all tenants could be reduced. The Rentalsman's Office has a much better chance of recovering damages and bad debts than any landlord and perhaps could initiate a tenant's credit rating registry. The establishment of a damage and rental loss insurance perhaps under your autopac scheme or whatever, taken out by the tenant with premiums set to favour the responsible tenant and penalize the bad tenant, similar to your car drivers, could reduce overall rents to all tenants and produce ultimately a savings to all tenants. That would be approximately $6.00 per month per tenant that could be saved. The two items alone could reduce your base rents by about $10 per month for all the tenants.

That is my brief.

MR. CHAIRMAN: Thank you, Mr. Lazar. There are some members who wish to ask you some questions. Mr. Green.

MR. GREEN: Mr. Lazar, I just want to go to your table, the second last page, and you show - I just want to find out what your figures are saying. For instance building A, 1974 income $197,289; expenses $89,583 and then an operating deficit. There

(MR. GREEN cont'd) . . . . .must be some items that you have paid out that you have not included in your operating expenses.

MR. LAZAR: I have not included operating expenses, I have the figures here if you like. The operating expenses are just strictly the taxes, insurance, hydro, gas, water and so on, they do not include any replacement funds, they do not include any interest payments made at all.

MR. GREEN: When you get to the operating deficit, do you include your mortgage payments in your offsetting deficit in order to get to the deficit?

MR. LAZAR: In order to get to this deficit this includes our interest payments.

MR. GREEN: It doesn't include the total mortgage payments?

MR. LAZAR: No, the interest only.

MR. GREEN: Just includes the interest payments. So why don't you include the interest as an operating expense?

MR. LAZAR: It normally is not done, it's under a separate heading.

MR. GREEN: If we then look at your statement, you have prepared this statement as if the block has been paid for in full then, you've ignored the mortgage?

MR. LAZAR: Not at all.

MR. GREEN: I'm not really wanting to argue with you, Mr. Lazar, I'm merely trying to find out. Your income is $197,289, your expenses $89,000. . .

MR. LAZAR: Operating expenses, sir.

MR. GREEN: Therefore you haven't included your interest. You haven't included what else? You haven't included depreciation?

MR. LAZAR: No depreciation, no replacement costs, no advertising, no management fee. These are operating expenses which are basically the utilities, the insurance, the things that are - and the taxes - the things that are required to keep the building ticking.

MR. GREEN: The way you have showed it, you're showing an income over expenses of $110,000, it's sort of unfair to your own statement. You show income over expenses of $110,000.

MR. LAZAR: That's just part expenses. I am quite prepared to give you a complete breakdown on that.

MR. GREEN: Mr. Lazar, I really am not interested, what you are indicating to me is that there are many expenses that you have not shown including depreciation, including interest on the mortgage, etc. This does not represent your full statement. If others wish it, fine, I'm really not concerned.

The other thing that I would like to ask, on Page 2 you say, "on the following table Building A would cost approximately $2,500,000." Can you tell me how much it cost you to build?

MR. LAZAR: Well that particular building, if I go back to my way of computing the costs, I put the bricks and locks in place in 1969; in 1970 we ran a loss, now we capitalized that loss because that is there were not enough tenants to fill the building and operate it, we capitalized that.

MR. GREEN: I'm not asking that, I want to know, I don't want you to take into account your losses on operations, I want. . .

MR. LAZAR: That's a fundamental difference because I'm saying that the cost of a building, it takes five years to develop that cost. We will have one year of expenditure to electricians and to plumbers and to masons and to carpenters and so on, then we will be following that up with actual costs which occurred during the rent up period, but those are the costs required and you compute that. When you start out to estimate what is the total cost . . .

MR. GREEN: Mr. Lazar, I really don't want to argue with you, if you are including those losses in your capital figures, then you can't also write them as a deficit. You can't have it both ways. You cannot say that these costs are then added to the cost of the building and then say it's a deficit because you've capitalized that. So which way do you want to do it? Do you want to capitalize it or do you want to call it a loss in operation?

MR. LAZAR: I have identified that as an operating deficit and not as a loss . . .

MR. GREEN: And you might as well add it to the capital costs of your building?

MR. LAZAR: Right, yes.

MR. GREEN: Well if it's a capital cost to the building, it cannot be an operating deficit. At least every accountant that I talk to, unless you can show me otherwise, if you are going to include that as part of the cost of the building then you cannot tell me it is a loss on operations. It's like saying that your plumbers, the cost of putting the bricks in was a cost in operation. If you are going to capitalize it you cannot do it both ways. I want to know how much this building would cost you to put up, let's ignore for a moment the losses which you have shown as deficit. How much would it cost you to put up that building, Building A?

MR. LAZAR: Today?

MR. GREEN: No. When you built it.

MR. LAZAR: In 1970?

MR. GREEN: When you built it, yes.

MR. LAZAR: I would estimate it approximately $1.2 million.

MR. GREEN: $1.2 million. So that means you are now the owner of a building which cost 1.2 million to put up which is worth $2.5 million. Do you include that in your losses or in your deficits?

MR. LAZAR: Not at all. First of all I said you cannot go out and sell it for 2.5, it isn't worth 2.5 on the market.

MR. GREEN: How much was it worth before October 14, 1975?

MR. LAZAR: It would have been worth a little more than today because prices, I believe, have been depressed further by this rent control discussion.

MR. GREEN: That's why I used the date October 14th.

MR. LAZAR: Yes. I think at the same time though, to answer the other part of the question is this, that the construction costs in October of 1975 were very very high, much higher than the economic value of that building.

MR. GREEN: But, Mr. Lazar, I really think that you're entitled to everything that you are asking, and I'm not really wanting to argue that point, I'm trying to ascertain the facts. One of your businesses, and I have no objection to this, is building buildings for resale.

MR. LAZAR: That's not so, we have never sold a building.

MR. GREEN: Well would you consider a resale of a building?

MR. LAZAR: Anytime.

MR. GREEN: All right. So if you consider that one of the things that you do is resell or would do is resell buildings - you see I haven't sold my shares in Royal Bank either and they get a very small rate of interest, probably 6 percent - but one of the things I am hoping for is that they will go up in value, and I include that in what I consider that I am earning but you don't.

MR. LAZAR: That's not true, I have included that, I have said that every year in the last five years we have added additional money into the original cost. We have added money, call it what you want and whichever pocket you want to put it, but we have had to subsidize those buildings every year.

MR. GREEN: But you haven't figured as part of your earnings, that you put up a building for the price of let's say a million five - if I want to add $300,000 to it - and it's worth two million five.

MR. LAZAR: We can't get that two million five, you can't go out and spend something that is not available. That's paper profit. If you would find some mad person to come out and buy it at that price - I have pointed out that the fair market price is perhaps 1.3, that's the fair market price, but I said the replacement cost if you wanted to go and replace that building today it would cost at least $2½ million. It isn't economic to do it and that's why you aren't getting anyone building today. The cost of building is higher than the amount of return you can generate by a very substantial margin today.

MR. GREEN: Thank you.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Mr. Lazar, I was interested in your comments and this was on the brief regarding the well known, the bad tenants, sort of the non-payers and those who do damages due to crime related incidents. Are you suggesting that the good tenants pay for the bad tenants? Are you suggesting that this is part and parcel of one of the reasons for rental increase?

MR. LAZAR: Well who else is paying for it. Somebody has to pay and if there is even one bad apple or two bad apples in a building they can create a great deal of problems and that is part of your operating expense. Now if you could eliminate that, you would have a lower operating cost.

MR. WILSON: Are you suggesting that most landlords are passing this particular problem on to the tenants?

MR. LAZAR: Every one of them must, who else is going to pay it. You can't catch these people.

MR. WILSON: Then this is what I wanted to ask you as a supplementary to that, what would you suggest or could you explain how you would collect a $500 skip who ducked out of your apartment? How would you go about collecting that or would you just simply have it in your operating thing and pass it on to the tenant?

MR. LAZAR: You would make every attempt but generally speaking the inequity of the situation, the way it sits today, is that we are very stuck in one spot and very obvious. Our building is rooted down in one location and the ownership of that building is established and if there's a complaint against the landlord the tenant can take any legal action to obtain this. He has no problems finding where that building is, it hasn't moved or anything else, but in our case if we were to try to take legal action we would spend the first four to six months trying to locate that person under the existing legislation if you could find him and if you were able to go through the whole procedure of garnisheeing his wages to collect your back rent, you would have to do that on every payday, you cannot get one order covering the next ten. You have to go back and forth and back and forth. By the time you add up the cost of doing that you usually say forget it and write it off.

MR. WILSON: Well this is my point. In other words are you not then by - I'm talking about the property management people - are you not by your lack of inaction against these bad tenants, isn't this causing a sort of a spread that the word is out - should there be some more government involvement?

MR. LAZAR: My feeling is that there could easily be a central registry that would say charge a certain amount, $5.00 for membership, and we would advertise a rent level for registered tenants so and so, and unregistered or unknown tenants that we are taking an extra risk on would have rents at a separate level and they would pay for their own credit rating to establish it, then after say five or ten years if they have a clean record give them a life membership in the thing, it wouldn't matter. You don't have to keep getting dollars from them every year.

MR. WILSON: So the Rentalsman's Department right at this time, would you explain how you see it from a landlord's point of view. Does there not seem to be any - what is your experience with the Rentalsman's Department, is it one-sided or is it level or what?

MR. LAZAR: From our position, our experience with the Rentalsman's Office has been extremely one-sided, I can give you a list of a dozen examples.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I'd like to go back to Mr. Lazar's figures on his buildings just to see if we can pinpoint something of the costs. On your figures, taking Building A, where you estimate that between '74 and '75 the percentage increase in operating expenses was about 20 percent, is that right?

MR. LAZAR: Yes.

MR. AXWORTHY: Your operating expenses though account for what? About 40 percent of the total cash flow that comes in, do I read the figures about right?

MR. LAZAR: Well if you want to use the HUDAC guide, you can use that. In our case approximately 40 percent let's say.

MR. AXWORTHY: About 40 percent, okay. So really you're saying it's a 20 percent inflation on 40 percent of the total cash flow. Now would the rest of that, the other 60 percent, your mortgage rates and so on be constant, they wouldn't inflate necessarily?

MR. LAZAR: No, they do.

MR. AXWORTHY: Why would those inflate? Do you change your mortgage rates along the way or what would be the inflationary factor there?

MR. LAZAR: As I pointed out, we are in a position where we had to refinance our buildings upwards to cover deficits that are being generated year after year after year and therefore the cost of that additional interest to sort of cover the deficit that has been happening is increasing.

MR. AXWORTHY: But you say if you were just taking your operating expenses it would only be about a 10 percent increase on the total cash flow.

MR. LAZAR: Well you can work that out. I've given you the actual dollar values, the actual increase in operating expenses was just under $18,000.00. That's for 100 suites by the way. If you want to know what that represents, the increase represents in monthly rental, the 18,000 over 100.

MR. AXWORTHY: Well let me just go back. You've said and I think other builders have said that they normally program an apartment block that in its first five years it's not going to be self-sufficient, that there are additional costs, there's a five-year breakout period, and that you have to program a deficit really, in effect, over that five years. Is that correct?

MR. LAZAR: Yes.

MR. AXWORTHY: When you were putting up these blocks which started operating - what did you say three or four years ago?

MR. LAZAR: Some were one year, some were two years, some were three years, some were four years, some were five years.

MR. AXWORTHY: What did you program as the required rate of rental increase per year in order to cover what you consider to be the cost at that time? What were you estimating? When you started putting your moneys together what did you think you were going to have to raise the rent each year to regain a rate of return but still absorb that five-year deficit what you said you programmed for?

MR. LAZAR: When you start out your first year of operation is generally speaking an artificial rent level.

MR. AXWORTHY: Artificially low or . . .?

MR. LAZAR: Artifically low because you have a problem of filling up the building as quickly as you can. You are sitting there with 100 vacant apartments which you want to fill up as quickly as you can so you set the rent level artifically low to do that. Now once your apartment gets filled up and you raise the rent you take a calculated risk on how many people are going to move because of increased rents. Are you going to have 20 percent or 30 percent or 80 percent of them move. Obviously I could make everybody move out of a building if I said I'm going to increase the rent from $200 to $2,000, everybody would leave. So the point is you have to sort of set off a happy medium where you say, I have to bring my costs up but how much can I bring them up without causing a serious outflow of tenants, and that is a step that you have to look at the general market. And in 1970 when we opened Building A, for example, between the time we started in that particular neighbourhood there was approximately another 2,000 apartments that started construction just after we did in that same area so the market was very bad. This is one area in 1970 where there were free trips to Mexico, a month's free rent, any number of inducements to sign a lease. The point I'm getting at is that when we opened up in that market, when we started construction, we were the first one in that area, we did not anticipate that kind of severe competition. Then in 1971, '72 and '73, the market still was saturated with suites to the point where we felt, maybe wrongly, but we felt at the time we could not raise the rent enough to cover the deficits that were being generated because the competition in the open market was too severe. Again we were concerned with if you raise it up that extra ten bucks, are you going to have an empty building and a lower cash flow than when you started out with your raises. At that particular time you have to make a decision and it's hard to predict in advance how many other buildings are going to start, what rent level are they willing to settle for, and you know everybody's rent level at the beginning is artificial.

MR. AXWORTHY: If I could just interrupt, Mr. Chairman, I think the thing I'm trying to ask though is that when you sit down to figure out your financing and your cash flow that you require to cover a building over that first five-year period, what would you estimate as being the normal increase under regular market conditions that you would have had to increase per year in order to have a stable balance?

MR. LAZAR: I should only say that the last five years have been anything but normal, the first three years of that period were symbolized by a very very heavy surplus of apartments in the city and the last two years were categorized by extremely heavy increases in taxes and utility rates and things like that, so it really wasn't a normal period. I think if I gave you a figure it would be totally out of a vacuum.

MR. AXWORTHY: But is a market situation ever normal, I mean is there ever a thing, and I know it is in the economics' textbooks, there's always a nice balance but is there ever in the real world? I have never seen it happen.

MR. LAZAR: I haven't seen it happen.

MR. AXWORTHY: But on that basis then when you have to figure out all the imperfections you still have to be figuring on a normal kind of increase that you would require to get your return, to cover off your mortgages and your management fees and your other costs, you must have had some base line that was only affected by it because there was an acceleration in that one-third or 40 percent cost factor that did escalate more than the normal. So what would that base line be?

MR. LAZAR: When we started we set our rent level approximately $40 per month lower than the economic break even point. The intent was to catch up in perhaps two or three years. By the time three years went by we not only did not catch up, we were further behind.

MR. AXWORTHY: So your problem now in your apartment blocks really is that this piece of legislation really comes in at a period when you would normally be catching up . . .

MR. LAZAR: It would be nice to catch up but this is catching us at a period where I would anticipate the additional rent increase required is in the order of 25, 26, 27 percent depending which building you're looking at just to keep at the point where we are now - which we aren't at now - which we would like to be. Without depreciation, without any profit or anything else we need 25 percent.

MR. AXWORTHY: Mr. Chairman, that's the point I want to come to. Like on the bottom of the page you've got percentage increases over '75, 27, 26, 27 percent but all those percentage figures are not upon the total cash flow, those are computed on the basis of just that one component of uncontrollable costs like taxes, hydro, gas and so on so that 27 percent is not on the total cash flow, it's just on that 40 percent, 30, 40 percent? Is that right?

MR. LAZAR: No, that is on the total. In other words we have to take our '75 income on Building A from $217,000 up to $277,000, that's where we have to be in order to break even with the points I've just itemized in that line.

MR. AXWORTHY: Okay. Mr. Chairman, I just have two other lines of questioning. You mention that under the L.D. program which is a subsidized interest rate program primarily, that you would be able to pass through your costs. Just let me ask this question as someone in the building trade, considering that you've got the availability of limited dividend funds still here plus the additional rent assistance program, as a builder why would you not just be going into the section 15 program and just building under that if you can pass all your costs through and still, you know, regain 5, 6, 7 percent on your money?

MR. LAZAR: Well I think the first part of your statement isn't quite accurate, there is not an unlimited source of funds in the L.D. program, you know, there just isn't very many, in fact there's very few. We have made proposals, we have never been successful in getting. . . We haven't pursued them very actively either as a matter of fact, we just feel that's not our area of operation and we would rather do it ourselves and, you know, be completely free in that respect.

MR. AXWORTHY: Take the risks, okay.

The other questions I have, you made a number of proposals in Section 6, 7 and 8 that legislative rules for replacement funds and rules for minimum services, doesn't that kind of complicate the whole thing again if we started adding more rules upon the market. I mean it seemed one of the emphasis that we've heard from delegations before is to keep the thing as simple as possible. Now we're talking about a whole new set of rules that have to be administered, managed, looked at, doesn't that start just putting more restrictions on?

MR. LAZAR: My feeling is that the better and the clearer we can spell things out

(MR. LAZAR cont'd) . . . . .right now the less arguments we're going to have with an administrator, some civil servant somewhere who is going to say, "Aw c'mon, we know it can't be this and it can't be that." And I don't want any of that, I don't want any arguments, I want a nice clean cut set of rules. If it's an extra page in your Act, it's going to save 10,000 hours of argument later.

MR. AXWORTHY: So what you are suggesting then really, Mr. Chairman, in Bill 19 you would like to see legislated a set of guidelines and rules governing all this question about services, maintenance, etc.

MR. LAZAR: Right. I feel that that will reduce the amount of work later on. The more things you specify and clear up right now, the less there is to argue about later.

MR. AXWORTHY: Thank you.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Thank you, Mr. Chairman, I think a lot of the questions I was going to ask have already been asked, but I wonder if Mr. Lazar maybe could give us a little more information on the L.D. housing, what the returns are normally in that application?

MR. LAZAR: We have never done any L.D. housing. Now I read from the application and I believe the last one we attempted was about two years ago and it was 5 percent, I believe at that time. I think it's 7 percent now. This is a guaranteed return after all other expenses including a replacement fund, depreciation allowance, all these factors are taken into account and then you have a clear return on the equity position of 5 or 7 percent or whatever it is.

MR. CRAIK: Well basically the difference in operating an L.D. building and one like you're operating is just on the control that has existed on you historically even up to this date. You go to them for approvals on your rent structure?

MR. LAZAR: Yes, the example I used for instance was Bestlands Plaza by the riverside, and it was a subject by an article by Don Grant, I believe, and at that time the article stated that the increase Bestlands was prepared to justify was $5 a month even higher than the increase that was permitted. It was only rolled back in this discussion with CMHC that that $5 a month was reduced. I don't know what they took out or what was modified but I do know that any change in rent there is based on a position where you come in and say, here is what my expenses have been and this is what we're anticipating them to be and we need this many dollars and you get that many dollars.

MR. CRAIK: So from your comments that you made in your brief it would appear to be in L.D. housing rather than what you're in now, you would be better off if you were.

MR. LAZAR: That's hindsight.

MR. CRAIK: No, I know. I'm not suggesting that . . . but it's obvious, you know, looking at it from the outside and listening to the representation here, a person would be better off right now if you were under a limited dividend program than under private ownership.

MR. LAZAR: Yes, you would be infinitely better off because under that program you would not have to be subjected to this type of review, I wouldn't have to spend any time here at all and you wouldn't have to justify some of the things that we are discussing, in other words, are we really going to be allowed our costs or are we being told, "to hell with you, your costs are too damn bad, that's all you can increase." Whereas, on the other hand, you have a clearly established set of rules. You are permitted to pass through all your costs, <u>all</u> your costs, and you are permitted to get a fixed return and there is no question in looking back at it now that you are just much better off under a L.D. program had you gone that route than, in fact, going through and doing it yourself the way we've done it.

MR. CRAIK: Who gets the capital gain under the L.D. program if a person sells their building at some point?

MR. LAZAR: I'm not sure.

MR. CRAIK: Is it that you're locked in for 15 years from start. I'm not familiar with this.

MR. LAZAR: As I say I haven't really done that program.

MR. CRAIK: To get back to Mr. Green's argument, it would appear there that

(MR. CRAIK cont'd) . . . . .the main point of the argument was that at some point in time you were going to make a windfall, a gain on capital gain. Is this why you're in the business primarily?

MR. LAZAR: We started out being in the business as a pension fund, and I was doing other activities and the construction of apartments was to be a nice, reasonable way of building my own pension plan, that's where it initiated from, and I think that had things more or less been left alone it would have accomplished that kind of deal. It is not a way to make a quick killing, it is not in the same area or the same ballpark, let's say, as land speculation where the price of land may have gone from $1,000 an acre to $60,000 an acre. This is just not that kind of ball game. Normally, if everything had been left alone to the marketplace it would have been a very normal, very slow increase in capital, a return, as you've heard, much lower than Dominion of Canada bonds - much lower. And if it wasn't for an incentive that maybe some day we hope, if we live that long and so on, that we will be able to have some additional dollars available to us. But right now it's totally academic what is the value of any building because you can't sell it for that, you can't realize, these are profits that you can't go down to Safeway and buy any groceries with.

MR. CRAIK: Your risk isn't quite as bad as that had you bought the Marlborough Hotel instead.

MR. LAZAR: The risk is just as bad for me, at least as bad. The risk is much smaller to the mortgage company because the mortgage company has a Government of Canada guarantee that if I drop the ball they will be paid 100 cents for each dollar they have in. Okay! I will get zero and if I get zero in both cases the risk is equal.

MR. CRAIK: What do you use for your heating in these buildings? Are you on electric now or are you on gas?

MR. LAZAR: A, B and C are gas, D, E and F are electric.

MR. CRAIK: Does that imply that the later buildings, the newer buildings are going with electric?

MR. LAZAR: Yes, well you can't get gas to begin with and there's a sawoff between the increased energy costs for electric heating versus a reduced maintenance factor, and again, all of these decisions carry a calculated risk with them and we have been guessing that our overall maintenance will be lower with electric heat and therefore we will be right in spending the little extra dollars in going for that kind of heat over gas fired hot water or what have you.

MR. CRAIK: And as far as the costs of these are concerned you indicate here in the table you've given us, your operating expenses that you've listed here, are operating expenses that are primarily your taxes and your utilities?

MR. LAZAR: Yes.

MR. CRAIK: Are these all passed on to you by government one way or the other?

MR. LAZAR: Yes.

MR. CRAIK: They don't include costs other than that - variable costs that you have to inherit whether you like it or not?

MR. LAZAR: That's correct, yes. Our typical breakdown, if you like in 10 seconds I can run through that. We have our Building A, taxes - this is for 1975 - $55,552; insurance was 904; advertising $183; hydro $10,663; gas $11,316; water $3,364; cablevision $3,721; repairs $3,385; maintenance $7,173; equipment replacement $595; 3 percent management fee $6,536,for a total of whatever that's listed at.

MR. CRAIK: You have a 3 percent management fee then in as an operating expense?

MR. LAZAR: Yes. That is to cover the salaries of the people that operate the building.

MR. CRAIK: But your taxes, your hydro, your gas, your water and whatever else, what should be most of it, would comprise the bulk of your $107,000 say on Building A?

MR. LAZAR: Yes.

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

MR. CHAIRMAN: Mr. Henderson.

MR. HENDERSON: Mr. Lazar, when you were talking about the rentalsman's security deposit, you said that it wasn't sufficient - a half a month's rent. What do you think should be sufficient in cases like this?

MR. LAZAR: Really the best thing is to have a certified bonafide tenant. I would be happy if we had a system of guaranteeing the tenant or certifying the tenant, you might say. I would rather have no down payment, or no deposit, because if he is going to leave without paying his rent there's a minimum of one month, minimum, more likely it's two months rent that is lost, because by the time you take the normal action that he is behind and so on and so on, two months easily have passed. Then you are left with a cleaning cost, especially if somebody is just abandoning his apartment, they don't clean anything, so you're running at about $60 to $80 for cleaning, you're running into a very good possibility of that kind of person leaving his fist pushed through a door, or any number of other problems. So that in today's replacement costs, you know, the care costs where you call in a painter at $8 or $9 an hour and so on, the half a month's rent just doesn't really do anything.

MR. HENDERSON: Well I certainly believe you, because if they could guarantee a good tenant - you wouldn't even care if you had a deposit if you knew you were getting a good tenant.

MR. LAZAR: No. That's right.

MR. HENDERSON: So you believe maybe in a way of rating tenants at a centralized . . .

MR. LAZAR: I think the Consumers Department should easily be able to do that sort of thing, and they're the ones that are dealing with these people if they flit out of our building and into someone else's, they would have a better chance of knowing where he is and what he is doing and so on than anyone else.

MR. HENDERSON: Have you ever had welfare people in your apartments?

MR. LAZAR: I have no idea.

MR. HENDERSON: You don't know?

MR. LAZAR: No. We certainly have had people that have been on, again this would be through just conversation with the people rather than our probing, but I know we've had people on unemployment insurance, whether they had been on welfare for one period or another, I just don't know.

MR. HENDERSON: The comment I want to make there is, welfare people when they do damage you can't get any money out of them when you do sue them, and even though they're getting assistance from the government, the government don't do anything to help the landlord in that case either.

Another thing is, you can see private funds drying up for private housing when there's rent controls as there's been proposed.

MR. LAZAR: Yes, I would think so.

MR. HENDERSON: In fact you can hardly see any being built with private money in the next while.

MR. LAZAR: There are very few if any projects that are starting without one sort of assistance program or another right now. I don't think there are any, there is one that is under construction that I'm aware of, that's it.

MR. HENDERSON: Well since we haven't got private money going into it or private corporations going into it, the only alternative then is for the government to put large sums of money into it.

MR. LAZAR: My suggestion was that perhaps you set up a Manitoba Trust, let's say, which would raise funds in the same way on the open market the same way as you raise funds for Manitoba Hydro or Manitoba Telephones or what have you, and then these funds could be disbursed through CMHC to do the control and the construction supervision and so on. There would be very little actual work required in the government acting as a basic lender into this area, there would be very little problem. In that way the real difference of two and a half points that I mentioned would be covered by the fact that the government is guaranteeing and lending at a level of credit whereas the extra would be taxed on to us for this extra element of risk.

MR. HENDERSON: Such a program in total really doesn't give cheaper housing.

MR. LAZAR: It wouldn't reduce a construction cost in terms of nails and boards

(MR. LAZAR cont'd) . . . . . and bricks and mortar, it would reduce a construction cost in terms of the financing components.

MR. HENDERSON: Yes, that's the only thing. But the financing component is again made out of the general tax dollars, out of general revenue, so it's really no cheaper.

MR. LAZAR: The way I'm suggesting it, it may not have to come out of the tax dollars, because if you are going out into the market and borrowing at a better rate -- for example, Hydro is borrowing at say 10 percent, and we would be paying 12 right now, $12\frac{1}{4}$.

MR. HENDERSON: Do you believe that really in the overall approach to this thing, that if it was left alone and there was competition built up that this would solve itself far quicker?

MR. LAZAR: Very definitely. Yes.

MR. HENDERSON: I imagine you've made some studies of this. Do you believe that a wage earner today, the wages they draw, that a smaller percentage of these dollars that he earns, his hourly pay, is spent on housing than it was before?

MR. LAZAR: Well that's what the Statistics Canada figures seem to indicate, is that they are spending a considerably less, a smaller proportion of what they're earning in rental accommodation.

MR. HENDERSON: This is what I've read too. When a labourer's dollar is giving him his accommodation at a cheaper rate than it ever was before, why do we have all of this complaint about high rates?

MR. LAZAR: I don't know. On one hand if you look at the increases, the construction industry settlement last summer talks about roughly a 44, 48 percent increase over the next two years which is about two percent a month; and if you look at that and compare that with rental accommodation, there's just no comparison, it hasn't gone up anywhere near that percentage.

MR. HENDERSON: Well that's what I believe, too, and that's why I wonder sometimes why we are jumping in on it, because I know there is a group that's on a fixed income, which probably are just tied in with the cost of living index, which may have a difficult time, but I think the cost of living index could take care of this for those people. It seems to me that we're going to make a worse problem in the long run by having rent controls, and I'm wondering, do you feel the same way?

MR. LAZAR: One of the problems that I could see happening, is unless somebody is willing to move he can always rent accommodation in a new building, during construction particularly; if he moves in on the second floor as soon as it's ready, he would get a tremendous rate all the time, it would be a depressed rate, he'd get a construction allowance for putting up with the noise and dust and so on during the day when additional work is being done. When that building was completed and the next year they try to get their rates closer to a realistic figure, he just moves to another new building in the same condition when he moved here, he'd again have a real good value for his rental dollar. But if he doesn't want to move, those are the people that come back, that you would be here and say, well there's a substantial increase, fine, the option, he was being in fact subsidized by the landlord during that initial period.

MR. HENDERSON: What do you believe is the percentage of rooms available, or suites available in the city?

MR. LAZAR: Well the other day, we heard from Mr. Bergen with-I think the figure he mentioned was 212 out of 224 which is about 8 or 9 percent. I can give you the figures instead of speculating, I'm guessing, I would have to guess that it would have to be somewhere in the order of 5, 6 percent, maybe 7 percent. Our newest building that we have completed on, it's not on the list, it would be G, for example, still has about 20 vacancies right now that have never been filled. This building was completed in January and they haven't been filled, there just has been no demand for any, a very very very low demand for even people looking for apartments in January, February and March of this year. Not at all comparable with the same period last year, or the year before for that matter.

MR. HENDERSON: So you say there really isn't a shortage of houses in Winnipeg when there's 4 or 5 percent of the suites that are vacant.

MR. LAZAR: No. I was not being facetious when I said, I think you could find a thousand suites available for the 1st of April right now.

MR. HENDERSON: I think you are right. Thank you.

MR. CHAIRMAN: Mr. Bilton.

MR. BILTON: Mr. Chairman, several of my questions I had in mind have been asked recently, but I would like to come back to this item of delinquent tenants, if I may.

Mr. Lazar, you're obviously heavily involved in the rental business and possibly have many associates that are the same way. Could you tell the committee how serious this problem is, that is people skipping rent or damaging apartments. I can see it doesn't take very much to run up a $1,000 expense bill. Could you give the committee any idea as to how serious this problem is?

MR. LAZAR: Well if I was to put a dollar tag on it, somebody said to us, we guarantee there is no rental loss going to be occurring for you in this coming year, and if at the same time they would say, we guarantee there is not going to be any willful damage - now I'm not talking about normal wear and tear, I'm talking about willful damage, destructive type of things where you have light fixtures ripped off the ceiling or walls, where you would have doors kicked in, where you will have any number of factors like that, that kind of thing - I think that the dollar value I've put on it, that I think we could rent our suite, all of them, for about $6 a month less per year if we were going to be given this kind of guarantee or had this kind of insurance available.

MR. BILTON: Would you suggest that that would prevail throughout the industry in Manitoba?

MR. LAZAR: Absolutely. It's the only way it could work. It should be right across the board, as part of perhaps the Consumers Department, and somebody wouldn't have to, must, but they would have the option of either saying I'll establish my credit rating or else I will pay additional funds.

MR. BILTON: In other words you're telling the committee that those that own property for rent are carrying a tremendous expense in this direction at this time?

MR. LAZAR: Very definitely. We're not unique in that respect, I am sure.

MR. BILTON: There's just one other question, Mr. Chairman. You did in your remarks explain that if a tenant has a complaint, the entire department is right after the landlord. On the other side of the coin, when the landlord has a complaint, particularly a damaged apartment that's seriously damaged and he brings it to the attention of the Rentalsman, do you get the same attention?

MR. LAZAR: What you get is a tsk tsk tsk tsk.

MR. BILTON: Thank you very much.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I just wanted to follow up a statement made by Mr. Lazar in answer to some previous questioning. You are recommending that in effect government borrowing power, building to raise capital they used on behalf of helping apartment owners invest in an apartment building, and as well recommending several other measures to provide for a better protection really of the landlord, if you take those remarks to a somewhat logical conclusion you're really suggesting that housing in the apartment industry almost become a public utility. In fact I think you said that it should be similarly the way we treat with Hydro and everything else. So I'm really asking you, is that what you're saying that we should really be - other than that part of the housing market which is luxury apartments which can get what they want - are you suggesting that we really say, okay, let's make housing almost similar to a utility that would come before a board, justify its costs and rates of return in return for receiving projections the same way the milk producers do, or anyone else who is regulated under a public utility concept?

MR. LAZAR: That's not at all what I said, it's not even close. What I was was, if I may explain it, what I said was that if you utilized your credit borrowing capacity to borrow money and put it out into the construction community in the same way as to whether you are ABC Trust Company or the DEF Trust Company or the Manitoba Trust Company, all your function would be is to make available lower than the general market level funding, and that would be the end of it. It would make no difference to me if I walked into this trust company or that trust company, the difference should be about 2 - 2½ percent of mortgage rate. Therefore the tenants, the people in the city, or the people in Manitoba would be able to benefit from that credit worthiness in that way, because let's face it the costs of the financing are being passed along through the rents. And

(MR. LAZAR cont'd) . . . . .therefore all they have to do, there is no involvement at all in a similar way, all we're saying is, go out and borrow the money in Europe or New York or "Abidabi," or wherever you're borrowing money, bring it in here, and put it out into the community at the more favourable rate and your reward will be housing at $50 a month less in today's market.

MR. AXWORTHY: Well, I am going back to the position that the L.D. program is in effect a regulated part of the industry. If you take federal money under the L.D. program which they give you at a favourable rate of interest, you are regulated in terms of costs and rate of return and also the lockout period before you can achieve the capital gains. So in a sense you are saying, if the province was to use its borrowing power to give you in effect a subsidized interest rate compared to market rates, lower interest rates, are you prepared to accept some accountability in return in relation to the rents that are charged and the way the money is used and the gains that are returned back to the public if in fact it is sold?

MR. LAZAR: We're getting back right now anyway without any advantage, we're getting all the disadvantages without any advantages right now. This is what it's all about.

MR. AXWORTHY: Okay. That's the point that I am coming to the, and rather than having kind of a confused system, would it make more sense or be more logical then to clarify what in fact is going on and saying what it is, which in effect we are saying that housing is a service, should be treated as such, and that we are asking private people to undertake certain aspects of it, but in return for getting certain subsidies or benefits from the government they're prepared to accept certain obligations in relation to rates of rent, etc.

MR. LAZAR: I think that is happening, and it has been in the past, outside of this last year or two which was a very unusual time. I think that the private housing industry in Manitoba has responded very well, in fact over responded, certainly it has from our point of view, to the housing market, and I think that all that would happen is if you made additional funding available at a lower rate, you would find, first of all, there would be more housing being built and the rent level would be lower without any other strings attached, you wouldn't have to.

MR. AXWORTHY: I might pursue this later in other questioning, Mr. Chairman.

MR. CHAIRMAN: Any further questions? Mr. McKenzie.

MR. McKENZIE: Mr. Chairman, I have one or two questions for Mr. Lazar. You own an apartment in rural Manitoba according to your brief, in the Dauphin area.

MR. LAZAR: Yes.

MR. McKENZIE: Is there any significant difference between operating, like your operating deficit, in that apartment compared to those that you own in the Greater Winnipeg area?

MR. LAZAR: Dauphin is Building E on the last page.

MR. McKENZIE: So it hasn't been in operation long enough to basically . . .

MR. LAZAR: It's been in operation one year, fully operational. It was formally completed on the 1st of January 1974, and I didn't include '74 because they just looked terrible. The winter of '74 it was mostly empty. You know, the fill-up time for a building in a small rural community has been much longer than in the urbancity here, it has been our experience anyway.

MR. McKENZIE: One more question, Mr. Chairman. In the records of bad tenants, did you not share that with other apartment owners, or have you not got any facility like the group that Mr. Kushner represented here, do you not share that information with that group?

MR. LAZAR: Not completely because you never know. When you phone someone else for information about a tenant, which we always do you never know whether they are just very anxious to get rid of that guy and they'll say anything, you know, "Oh, yes, he's wonderful, take him, take him." You just don't know.

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

MR. CHAIRMAN: Any further questions? Hearing none, thank you, Mr. Lazar. Mr. J. R. Gugin.

MR. J. R. GUGIN: You all have copies of the brief?

MR. CHAIRMAN: They are being distributed. You can proceed if you like.

MR. GUGIN: Generally speaking, I realize that controls are imposed on rentals in order to protect some segment of society, presumably the low income families, from rapid increases in rental.

While it may be the opinion of the Manitoba Government that unscrupulous landlords are reaping unearned gains and excess profits, I submit that the majority of Winnipeg landlords do not earn excess profits. A large number of residential rental property owners in Winnipeg are people who were not able to acquire a pension plan with the firm or companies they worked with over the years, Consequently, they used their savings to purchase their properties in order to have a small income and security during the years of their retirement.

The result of Bill 19 as it now stands will be a substantial reduction in the income that these retired people are receiving from their buildings. Mr. Turnbull's office has suggested that Bill 19 will be amended to provide for an immediate review process for those owners who can show that the allowable 10 percent increase for the first control period is insufficient to keep up with rising operating costs. This provision is an important and imperative improvement to Bill 19.

There are investment residential properties which we manage that are making no return whatsoever to the owners and have not done so for several years. For example, two properties in the northeast sector of Winnipeg were unable to pay their realty taxes in 1974 and 1975 because of reduced cash flow. Consequently, the owners were forced to acquire a bank loan to pay these tax arrears and now presently have a bank debt of over $50,000 which must be retired from cash flow from the buildings. This will not be accomplished even at the present rentroll until well into next year.

We have a similar situation in a property located downtown. With a little luck and good management, the tax arrears will be retired shortly after the first of next year at the present rent level. If the rents are rolled back, the arrears will take several years to retire. In each of these cases the return on investment to the owners is nil.

In another case, we are managers of a property which was refinanced last summer. Because of the increased cost of financing and the increased operating costs, the owner was required to increase his rental substantially more than 10 percent. In the final analysis the investor is yet receiving less than 5 percent return on his invested capital.

Early last fall ten apartment buildings were sold to an absentee investor. This investor made an offer to purchase these buildings and had it accepted prior to October 14, 1975, when the price and wage program was outlined by the Federal Government. He based the purchase on the rental figures which were established at that time. The possession date for the property was February 1st, 1976. The vendor had increased the rentals nominally, but not sufficiently to cover increased operating costs. Accordingly when the new owner took possession it was necessary for him to notify the tenants of a further increase in rentals to take effect May 1st next in order to keep up with these escalating costs. In doing so he gave no consideration to the secondary financing required to complete the deal and was prepared to take a $28,000 loss to December 31st, 1976, even after the further increase in rentals. If the rentals were rolled back, without the immediate review process, this project would stand an excellent chance of going bankrupt.

There are other properties which we manage that bear similar and other problem characteristics which would suffer tremendously if legislation of Bill 19 were passed as it now stands.

Certainly rents have increased rapidly, but not faster than the income of tenants, and the costs of maintaining properties. Statistics Canada show that rent increases have been slower than other increases and a great deal slower than the cost of capital. For example, using the cost of living index set in 1971 at 100 as a basis, the comparison figures are as follows:

1. Food - as at January 1976 - 166.8
2. House Construction - as at January 1976 - 152.0
3. Wages - as at September 1975 - 138.9
4. Interest - as at January 1976 - 168.1
5. Dwelling Insurance - as at January 1976 - 241.7
6. New House Prices - as at January 1976 - 156.7
7. Rental Accommodation - as at January 1976 - 115.7

(MR. GUGIN cont'd)

There have been rapid cost increases directly affecting landlords in the past two years as well. A typical building which we manage has experienced increases as follows:

(a) Heating fuel - up over 60 percent

(b) Insurance - up over 65 percent

(c) Materials - up from 60 percent to over 100 percent

(d) Caretakers Salaries - up over 25 percent

(e) Real Estate Taxes - up over 35 percent

(f) Electricity - up over 28 percent and further increases of 28 percent are now pending for this year

(g) Water - up over 50 percent

Economically private enterprise cannot accept large increases in costs without attempting to pass these cost increases onto the ultimate consumers, the tenants; nor will private enterprise provide a service without earning what it considers an adequate return on capital invested. Currently almost no construction of rental units is taking place, and to my knowledge with the exception of projects eligible for government subsidies under ARP or luxury buildings, none are being contemplated because the return on investment is not sufficient to attract funds, vis-a-vis other investments.

Furthermore, from the real estate taxes that landlord's are paying on their investment properties, tenants are already receiving a tax credit of a minimum of $175 on their income tax returns each year. This effectively reduces their monthly rental by a minimum of $14.58. The proposed legislation does not even consider this fact.

Prior to January 1st, 1972, tenants were the beneficiaries of rents that were lower than economically sound in many buildings in Winnipeg. The reason for this was that although the supply exceeded the demand resulting in a higher than normal vacancy factor, developers and investors were not discouraged from investing because there existed a generous capital cost allowance schedule in the Income Tax Act, which encouraged investors to purchase an investment with the view of getting a tax loss on their investment to offset it against other income, and profit from the building was not necessarily a major consideration, as the loss was shared with the government. The investment was not economically sound by itself in such cases; but such a deal might be financially sound overall. Elimination of this provision meant that the rents would have to rise quite substantially in order to reach a level at which an adequate return on investment could be achieved.

The elimination of this tax provision would not deter investments in rental residential accommodations if the rise in rent is sufficient to compensate for the withdrawn tax benefits. This was partially what the market was attempting to do, as well as recovering rapidly rising costs of operating property.

Unfortunately the government sees this not as a market adjustment but as a segment of society, the landlords, taking advantage of a situation of short supply and exploiting it.

Anyone is free to go to the market and purchase a piece of property with a low down payment and get in on the so-called exorbitant rents and profits made. The reason that this is not being done is that people see that rents received, while very substantial, will not cover the interest and necessary expenses, and should they purchase the entire amount for cash in order to avoid the interest burden, they see that the return on investment is no more and in many cases less than what they could earn by putting their money into a bank or credit union savings account.

The increased future value of an investment due to inflation or the incremental gains from external factors such as community growth or a change in zoning are generally not earned at the expense of the tenant and are reduced by capital gains taxes.

Any effective growth that the investment capital actually realizes is certainly offset by the constant headaches and problems with some tenants.

The government is exempting new construction from the rent control in the hope of not affecting the rate of new construction. In reality, it is bound to be affected both by the uncertainty in regards to future shifts of government policy and because the new buildings with rising costs will have to compete against the existing buildings with their fixed rents. In other words, a developer would have a difficult time in obtaining rental

(MR. GUGIN cont'd) . . . . .rates that are economically sensible when other accommodation is at an artificially low rate.

The government may intend that the controls will only be temporary and will be lifted when inflation subsides or when the supply of housing catches up with the demand; or the government may intend that rent controls be permanent from the outset.

Certainly politicians advocating abolition of rent control would be accused of selling out to faceless corporate landlords or wealthy landlords at the expense of the little man. I believe that politicians will not jeopardize their political careers by voting to abolish or modify rent restrictions. Therefore we may find rent control a permanent feature of our housing market.

With this possibility in mind, more equitable legislation must be considered than is presently considered in Bill 19. One important change which Mr. Turnbull has already announced is the immediate review process in the first control period. Secondly, it is important that the date of the rollback of rental control be set at October 14th, 1975, which is the date the Federal Government introduced their price and wage control program. That is the date from which costs are supposed to be controlled - whether they are or not remains to be seen - and it would seem to make sense that if rents are to be controlled, a similar date should be adopted.

Thirdly, it is most important that owners not be required to refund the rentals collected in excess of the allowable 10 percent until after the review process has taken place.

If the refunds are made to the tenants prior to the review process perhaps through necessity some of the tenants may immediately spend the money. If the review board then determines that the increases in excess of 10 percent were justified some of these tenants may not have the means to give the money back and the landlord will have little chance of recovering his money.

Finally, because I am against any form of rent control whasoever, not for the ideological reasons, but because those for whom it was set up will only suffer in the end, hopefully rent control will be a temporary program. I would like to see the self-destruction date of this legislation be tied to the termination date of the Federal Anti-Inflation Program. By setting an expiry date on this legislation from the outset, two things will be accomplished: 1. The market will eventually be able to naturally adjust itself and

2. A future government will not have the political problem of attempting to eliminate such controls.

Thank you for your time allowing me to present my opinions on Bill 19.

MR. CHAIRMAN: Thank you, Mr. Gugin. Mr. Craik has a question.

MR. CRAIK: Mr. Gugin, what sort of range of properties do you manage - are they large buildings or are they duplexes or what?

MR. GUGIN: We don't manage duplexes but we have quite a broad spectrum of other types of apartment buildings right from small walk-ups to highrise apartments.

MR. CRAIK: How many buildings would you manage?

MR. GUGIN: Approximately 20.

MR. CRAIK: With a total number of units of . . .

MR. GUGIN: Somewhere just under 1,000.

MR. CRAIK: Are your buildings - do they tend to be new or old or what spread is there there?

MR. GUGIN: Well as I say there is quite a spread. We manage buildings that are 40 and 50 years old and we manage buildings that have been built as recently as 1972.

MR. CRAIK: In the application of rent controls, say, at a fixed level such as was proposed by the government at 10 percent, is there any general pattern in the way it affects the operation of the buildings? Will the older buildings suffer more or less or vice versa? Is there any general pattern?

MR. GUGIN: Well the buildings themselves, if you consider them as a pure investment without financing, probably would suffer fairly equally. However there are buildings that can better afford a rollback of this nature because perhaps they've been owned for a sufficient period of time that the financing has been retired, and consequently there's a larger cash flow available so that they're not actually running at a deficit. Some of the newer buildings that have high ratio financing at higher rates of interest will suffer quite badly.

MR. CRAIK: Do you have cases where your older building would by and large tend to rent at a lower value?

MR. GUGIN: Yes, they would.

MR. CRAIK: This doesn't necessarily mean they are smaller units or are less costly to maintain in the way of your utilities.

MR. GUGIN: No.

MR. CRAIK: The service of them.

MR. GUGIN: That's true.

MR. CRAIK: So that by giving a percentage increase, you may have your utilities increasing in cost in two different buildings that rent at drastically different rates or substantially different rates, but your utility costs will go up equally in each.

MR. GUGIN: That's true, although the basic difference is the amount of return on the equity that is required by the different owners. Your cost of operating an older building as far as utilities and taxes are concerned are not that different, but your return on equity is different because of the amount of cash that was originally put into an investment of that sort.

MR. CRAIK: We've had in previous presentations here, and in the last one by Mr. Lazar indicated that in his buildings which range in age over a period of about six years or so, that the way he has upped his rents in the last year at roughly ten percent indicates that this year he was looking at somewhere around 25. And Smith Agencies on the other hand upped theirs last year 20 percent, the year before that 8 percent, and this year would find that having done it last year that their increase this year may not be as high. Now is there any pattern to yours?

MR. GUGIN: Well, we've experienced quite a wide variation in the buildings that we manage. We've had rent increases in the last year of anywhere from ten percent as high as 30 percent and it's just been because certain buildings have different problems. Some of the older buildings have experienced maintenance problems that require immediate attention and therefore in order to recover part of these costs the rent must go up a little bit more than what it would normally go up just to cover the increase in utilities.

MR. CRAIK: Does your year end normally on these buildings, does it fall like others, tend to be the end of September or the first of October?

MR. GUGIN: The majority of the buildings the year end does fall in September, although we manage a number of buildings where the leases are staggered and in some cases we manage buildings where they're on a month to month tenancy.

MR. CRAIK: Your increases, as you mentioned, of 10 to 30 percent now, was that for 1975, would that have been in the rents up until October of 1975?

MR. GUGIN: That's right.

MR. CRAIK: During 1975. Have you any indication this year what rent increases you would generally be looking at apart from the federal rent control . . . ?

MR. GUGIN: For the year 1976-77 period?

MR. CRAIK: Yes.

MR. GUGIN: We haven't estimated those increases as yet largely because we're waiting to see the outcome of this bill. We generally start to project our 1976-77 costs about the end of May, 1st of June when we get an indication of what taxes are going to be and other fixed costs.

MR. CRAIK: But with three months notice that's your deadline pretty well, isn't it, in advising your tenants?

MR. GUGIN: That's correct.

MR. CRAIK: Isn't there a pattern generally and it's been mentioned by other people making representation here that in this business you tend to base your rents on your previous year's experience rather than projecting. . . you appear to be a year behind in . . .

MR. GUGIN: Well, this has been true perhaps up until 1975. I can't speak for a lot of the other managers and investors, but we try to project a year at a time ahead rather than dealing with historical costs. We naturally use our historical costs in projecting our upcoming costs, but it's becoming more and more important now to try and stay on top of these things, otherwise the buildings just get so far behind in their rents that higher and higher increases become necessary.

MR. CRAIK: Do you have any buildings where 10 percent would be higher than what you would be . . . ?

MR. GUGIN: No. You mean that we would raise it less than 10 percent?

MR. CRAIK: Where you would raise it normally, under normal conditions less than 10 percent.

MR. GUGIN: I don't know what you mean by normal conditions.

MR. CRAIK: Well, without rent control.

MR. GUGIN: Simply without rent controls, no. I mean in the inflation spiral that we're experiencing right now 10 percent on any building that we manage has got to be an absolute minimum.

MR. CRAIK: It was in 1975 and is likely still to be in 1976?

MR. GUGIN: Yes, if costs continue to rise the way they appear to be . . .

MR. CRAIK: The factors that caused your rent rise last year are still there this year?

MR. GUGIN: Yes, they are.

MR. CRAIK: Could I ask you, are you in any way involved in the limited dividend housing?

MR. GUGIN: No, I'm not. Our company doesn't . . .

MR. CRAIK: From what you know of it, what has been stated here, and we haven't had that much discussion of it, would your clients be better off under an L.D. housing type program; or have you looked at it that closely?

MR. GUGIN: I can't really answer that because we're not really in the development business. The investors that we manage for invest for their own reasons, we simply handle their portfolios once they have gotten into an investment of one sort or another.

MR. CRAIK: But if, for instance, if they're guaranteed a return on their equity of 7 percent under limited dividend housing...

MR. GUGIN: Well, certainly anyone that would now be offered a guaranteed return on their investment is going to be better off than they would - I'm not relating that to the L.D. program, but I'm saying that if someone is going to be guaranteed a return they'd be much happier, certainly.

MR. CRAIK: From your experience in managing a wide spectrum of types of buildings, age and so on, size, can you indicate what sort of spread in rental increases would be practical?

MR. GUGIN: Not really. We've had old buildings that were comparable in size and number of units and age that we had very different increases in. We had buildings that were 15 years old that experienced a 10 percent increase and we had a similar type of property that experienced an increase, I think, of 24 percent.

MR. CRAIK: So you have a spread of over 100 percent variation there anyway?

MR. GUGIN: That's correct. I should point out that we took this project over from another manager and perhaps there should have been different amounts of increases in the past on these buildings that we experienced such a wide variation of increases on.

MR. CRAIK: Well would it be safe to say that regardless of what the level is fixed at, whether it's 10 percent or some other number, but that a fixed amount, percentage increase, really isn't practical?

MR. GUGIN: No, it's not.

MR. CRAIK: Because there's just too much variation from building to building.

MR. GUGIN: That's correct.

MR. CRAIK: Regardless of whether it's less than five years old or not. Like if it's in the run-in period - we've had it explained to us in the run-in period of up to five years where the building is still getting down to a steady state operation where there are things that come in, don't normally, but even in buildings, say, that are more than five years old, you can still run into variations that make it impractical to have a fixed level of increase regardless of what that is.

MR. GUGIN: That's right.

MR. CRAIK: In the ones you've indicated here there may be a two to one ratio in the amount of increase that you've brought in in the last year alone?

MR. GUGIN: That's right.

MR. CRAIK: One final question, Mr. Chairman. I wonder if we could get some indication of your vacancy rates that you now have in yours.

MR. GUGIN: The vacancy rate that we are experiencing right now in the properties we manage, averages about 4.4 percent. We have some buildings where there are no vacancies whatsoever and we have a couple of buildings where we're experiencing between eight and ten percent vacancy over the last four, five months.

MR. CRAIK: Is your vacancy a higher vacancy in some buildings due to location or to price?

MR. GUGIN: In the one case where the vacancy is higher I would say that it probably is location.

MR. CRAIK: Do you have any idea where CMHC comes up with this figure of $1\frac{1}{2}$ percent vacancy and nearly every person that's in the business indicates that theirs is running around five?

MR. GUGIN: Quite frankly I don't know where their figure comes from. To my knowledge they have not checked with our management department at any time to obtain these figures.

MR. CRAIK: Still everbody's been judging their actions, in government, on the CMHC figures for God knows how long and everybody that's in the business that's been here before us or that we've talked to says they've never been approached by CMHC to ask them what their vacancy is. And you're in the same boat?

MR. GUGIN: That's right. We do report vacancy figures to the Winnipeg Real Estate Board, but I don't know whether they're related back to CMHC or not.

MR. CRAIK: With the tightening up now of construction that's happening for many reasons, including I suppose the threat of rent control, do you see the vacancy rates going down from what it is presently?

MR. GUGIN: Yes. With the lack of construction that's going on right now it's bound to go down with - there's just no units coming on the market. There's a few projects that are being considered for development now under the ARP program, but other than that I don't know of anything else that's coming onstream.

MR. CRAIK: Any idea how long - if you had no new construction - how long it would take to eat up four and a half percent If that does happen to be the industry average, if it's five percent, how long would it take to eat in - how much time, in other words, is there for a suitable building program to be mounted by one means or another to make sure that we don't get into a real shortage such as indicated by a one percent vacancy?

MR. GUGIN: Well I would have to think about a year before the market would start to . . .

MR. CRAIK: . . . lose any competitive element that it might have now?

MR. GUGIN: That's right.

MR. CHAIRMAN: Mr. Minaker.

MR. MINAKER: Thank you, Mr. Chairman. Mr. Gugin, I notice in your brief that you mention a large number of the residential property owners are retired people who have put their lifetime earnings into, I would presume, duplexes or four-plexes to try and get a pension return that would be liveable on. And I'm wondering, this happened I know to a particular constituent of mine, that he has invested all of his lifetime earnings in a duplex and I think is looking for a very nominal return on his capital investment, and that is somewhere in the order of $7\frac{1}{2}$ to 8 percent which is less than a savings bond return. I'm wondering, in your particular experience could you advise us what type of return that these type of people are receiving that you manage?

MR. GUGIN: Well, in our own office, the properties that we manage are experiencing anywhere from no return to approximately six percent on their cash equity.

MR. MINAKER: Would you be at liberty to state how many or what percent do you think of the duplex homes or this type of housing is in a situation that's owned by a retired person that's dependent upon it for their pension?

MR. GUGIN: I don't have any figures to back up my feelings on this except that we have done a number of surveys over the past year and I would estimate approximately 50 percent of the owners of residential rental accommodation in Winnipeg are in this position. The only figures that I do have are that there's approximately 62 percent of all

(MR. GUGIN cont'd) . . . . .the apartment buildings in Winnipeg are owned by individuals or families.

MR. MINAKER: In the particular instance of the retired pensioner or the investor, would you say the majority would own what - many units or just a few units? Would you have any idea on classification of that type?

MR. GUGIN: Well, when we were doing our surveys we were talking to people that owned buildings of less than 20 suites. I don't know the total number of units that might be involved.

MR. MINAKER: Would there be many in a situation that maybe owned a couple of duplexes or was there a majority looking at 20-suite owners or . . .

MR. GUGIN: Well, I really can't say. We weren't interested in our survey in duplexes and single family homes, four-plexes and things of this nature. We were looking at apartment buildings in the range of 10 to 20 units.

MR. MINAKER: And in the past year or two that they've averaged anywhere from zero to about 6 percent return on their capital?

MR. GUGIN: I'm just talking about our own experience in our office. I can't say what these other people are earning.

MR. MINAKER: Thank you, Mr. Chairman.

MR. CHAIRMAN: Any further questions? Mr. McKenzie.

MR. McKENZIE: I just have one question, Mr. Gugin. You mention there's properties in the northeast sector of the Winnipeg area that's having a very serious problem. Would those be properties that are owned by old age pensioners who invested in . . .

MR. GUGIN: Well, as a matter of fact the properties are owned by an investment company, but the investors, at least half of them are retired as a matter of fact.

MR. McKENZIE: That's the only question I have, sir.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: I'd just like to get clarified. When you said that there was a six percent return you're taking that on the investment income that has been put in?

And when the property increases by way of inflation and there is a profit made you indicated that there's a capital gains tax paid on that and the headaches are what that pays for. But that isn't included in the 6 percent.

MR. GUGIN: No, I'm not including capital gains in their return.

MR. GREEN: You say that's to pay for headaches, the capital gains.

MR. GUGIN: Yes.

MR. GREEN: The 6 percent, what does that pay for? Does that not include headaches?

MR. GUGIN: Well, yes, it does.

MR. GREEN: Now when you calculate that 6 percent, if a block was worth $100,000 when your clients bought it and you ascertained from the inflationary increases in value that it was worth $200,000, would you then charge rent on the basis of the present value - resale value, I want that to have realistic value - value which you think it could be sold for, or the value which was paid for?

MR. GUGIN: Our goal would be the return on the present market value.

MR. GREEN: The present value. And therefore you would then charge rents, if a block did go up from $100,000 to $200,000, you would charge rents on the basis of an investment of $200,000?

MR. GUGIN: That's right.

MR. GREEN: I think that that's exactly what you should do. I am not arguing with you, I'm trying to ascertain whether that is in fact what you do do.

MR. GUGIN: That would be our goal.

MR. GREEN: Yes. Thank you very much.

MR. CHAIRMAN: Any further questions? Hearing none, thank you, Mr. Gugin. Mr. John Prall. You can proceed now if you like, Mr. Prall.

MR. JOHN PRALL: May I introduce myself, Mr. Chairman, I'm John Prall, I'm the owner of Rotunda Towers and I represent Dakota Agency. As you will see, I have prepared a summary, my brief is going to be short, perhaps some of the items are going to come out due to the shortness of my submission right down to the point.

(MR. PRALL cont'd)

Okay. My summary of submission.

1. We subscribe to the Anti-Inflation legislation pronounced by the Federal Government.

2. We subscribe to the rollback date of October 14th, if price increases exceed 10 percent.

3. We subscribe to such increases not to exceed 10 percent when operating costs, such as property taxes, utilities, interest rates, and insurance do not exceed 10 percent.

4. We further believe that if the government does not permit a reasonable rate of return to the apartment block owners, it is incumbent upon the government to nationalize the industry by offering to purchase such apartments at professionally appraised values.

At the outset we would like to compliment the intent of both the Federal Government, respecting its anti-inflation legislation and the Provincial Government for introducing control measures to help fight inflation.

We believe, as you do, that everyone should show restraint and that their actions should be less for personal gain and more for the economic health of the entire province and country. In this regard, the government should monitor excessive increases in prices and wages, and should have the legislation to rectify any abuses. In this vein, we respectfully submit that the government is not recognizing all the facts when Bill 19 was introduced in the House.

Comparing 1975 over 1974 you are all well aware that in between taxes, hydro, gas, water, direct services, wages, etc., there was an increase in 1975 of 22 percent which could not be passed on to the consumer (tenant) in account of having a solid contract for a set amount during the lease period. There is evidence that the increase in costs in 1976 will be similar to 1975.

In reference to the recent announcements on electricity, sewage, water, and the gas will follow the previous mentioned. Taking this into consideration there is an increase over the period mentioned 75-76 of approximately 45 percent.

I personally would like to see some clarification on where the suggested 10 percent increase will be applicable. It is a fact, known to everyone, on the 45 percent over the two (2) year period. Therefore, I would appreciate to see Bill 19 drawn up by taking all the previous mentioned facts into consideration, in order to eliminate as much work as possible for the administration of Bill 19 through several boards in order to come up with justification to the owner and the individual tenant.

Furthermore some positive clarification should be stated in Bill 19 of who is going to hold the funds in case of unjust rents until such time that one of the boards reaches a decision or a verdict for refunds to the tenant if so found by any of the boards set up now.

I would suggest if the previous procedures are not followed there will be within a short period, and I'm suggesting 1 year, many bankruptcies, tax sales, mortgage company takeovers, due to the fact that the owners will not be able to pay the taxes or mortgage payments.

I would further suggest that unless this Bill 19 is clarified and a just profit, or at least a break even point, on investment is taken into consideration it is very ridiculous that the Provincial and Federal Governments are promoting new construction at anywhere from $22,000 to $25,000 per suite constructed in 1975 and 1976 over a cost on the original buildings which were constructed prior to 1974.

If the Manitoba Government does not take those things into consideration I, for one, would suggest that the Manitoba Government should go ahead and purchase the many apartment blocks which are/or have been on the market for some time and save the taxpayer dollars or money which consist out of the tenants and all the taxpayers in Canada.

I would further like to bring to your attention that many mortgage renewals will come up in the very near future where interest rates will be increased perhaps from 8 percent to 12 percent.

To analyze my brief into facts the way I see it as an individual and a citizen the following must be done: To make this anti-inflation work you must bear in mind that the suggested 10 percent should apply throughout - taxes, hydro, gas, sewage, water, repair services and replacement costs.

(MR. PRALL cont'd) . . . . .I cannot see where you gentlemen are trying to tie a landlord down to a contract with a 10 percent for two years.

Under the present Act a landlord has to give notice to a tenant three months prior to the expiry date of the lease. Will you please clarify the suggested increase for the up-coming leases. If there is no clarification it in turn means stating figures or dollars and I'm stating a $200 figure, just for an example, with no increase being allowed in the renewal lease, which in turn means that you tie down a landlord under contract legislation to a period of 28 months.

Trusting that you will give the contents of this brief your serious consideration. Stop building federal and provincial supported buildings and purchase the existing buildings in order to save the Canadian taxpayers a lot of tax dollars. According to the survey taken throughout approximately 50 percent of the existing buildings there is a vacancy factor anywhere from 5 to 6 percent. Therefore, there is no shortage in housing in Winnipeg and/or Manitoba.

Thank you gentlemen.

MR. CHAIRMAN: Thank you, Mr. Prall. Is there any . . . Mr. Craik.

MR. CRAIK: Mr. Prall, did you say you represent Rotunda Towers, is that your one building, you're the owner of it?

MR. PRALL: That's right.

MR. CRAIK: And you indicate your increase in '75 was 22 percent?

MR. PRALL: That's right.

MR. CRAIK: Are your leases all September, October leases?

MR. PRALL: No, my leases are expiring monthly.

MR. CRAIK: So they are rotated over the period of the year?

MR. PRALL: That's correct.

MR. CRAIK: From this, you're indicating also that as it appears now you would increase by about the same amount in '76, another 22 percent, you've indicated 45 percent over the total of the two years?

MR. PRALL: Correct.

MR. CRAIK: You mention here a number of times taxes, water, hydro, gas, do you know if you added your costs up there, which are all either given to you by government or sanctioned by government through their Public Utilities Board to guarantee say the gas company a return - if you add those things up that are passed on to you, what percentage of your total cost they come to.

MR. PRALL: Fifty percent.

MR. CRAIK: Now if they're 50 percent, do you know what increase. . . if you are asking for a 22 percent, do you know what the percentage increase was on the average of that half of your costs? Is it in excess of the 22 percent or less than or. . . In other words your taxes went up by a percentage which is around 20, your hydro is up around 20, your gas has been in excess of 20, your water is now - in '75 wasn't but is apparently going up in '76 by 50; now if they were all of equal value you could average them out but you can't, so what I'm asking is: If you took those utilities alone and added them up, what percentage increase would it mean you had to get just to pay for what government has handed on to you?

MR. PRALL: Mr. Craik, you're asking me a very delicate question and it was brought up here by the previous people several times. A landlord is always at least a half year or a year behind. We don't know what the increases are. We don't know, or at least we didn't know until about a month ago of the increases from the hydro, and as I mentioned in my brief, naturally the gas is going to follow suit or more. We didn't know that the water is going to go up as much as it did and/or the sewage.

MR. CRAIK: Well I guess the basic . . .

MR. PRALL: By the same token, we are tied down to a one-year contract. We cannot pass any of those costs on to the tenant whom we have a solid contract with.

MR. CRAIK: Well let me ask it another way. If you got a ten percent increase would it pay for your increased costs, those costs that are handed to you by government, namely taxes, hydro, gas and water? That's the guts of it because if you've nothing . . .

MR. PRALL: Right.

MR. CRAIK: . . . left over it means that your caretaker gets the same as he

(MR. CRAIK cont'd) . . . . . got the year before and your other costs have to be the same as they were the year before.

MR. PRALL: Okay. While you mention the caretaker, Mr. Craik - we are all aware that the wage increases went up as high as 50 percent over a two-year period. My caretaker's butter and bread costs just as much as the plumbers, who got 50 percent increase over a two-year period. The butter and the bread hasn't confined itself to the 10 percent. There are daily increases, and I suppose your good wife lets you know that when she's shopping. Those are the things what we are facing. I cannot answer you whether this 10 percent will be sufficient or not because we don't know at our day and age what's going to happen tomorrow or what's going to happen in a month. We don't know what the taxes are going to be. Are they going to be 15 percent, are they going to be 20 percent, are they going to be 22? Therefore we cannot say, or at least I can't say whether this 10 percent is sufficient.

MR. CRAIK: One final question, Mr. Chairman, to Mr. Prall. You indicated, made some comment on vacancy rate - what would your vacancy rate be? I realize this is delicate because you've only got one building and everybody knows then what your vacancy rate is in that building but what is your . . .

MR. PRALL: Well, as a matter of fact, I'm not hesitant to give it to the public here. My vacancy rate is 10 percent.

MR. CRAIK: Ten percent.

MR. PRALL: Right.

MR. CRAIK: Has anybody ever asked you what it was, from the government, say CMHC, have they ever phoned you and asked you what your vacancy is?

MR. PRALL: Yes.

MR. CRAIK: So they do know what . . .

MR. PRALL: Yes. And we have passed it on correctly, so many ones, so many twos and so many threes.

MR. CRAIK: Would you have some difficulty believing CMHC's figures that there is a $1\frac{1}{2}$ vacancy rate in Winnipeg?

MR. PRALL: Yes, I do.

MR. CRAIK: Any idea why they persist in sticking with that figure?

MR. PRALL: Well, Mr. Chairman, to answer Mr. Craik's question, I have no knowledge of what my competitors give CMHC. I can only speak for myself. We give the true figures. However, as I'm mentioning in my last page, that I have taken upon myself and checked about 50 percent of the industry, with people whom I know that they tell me the truth, and the vacancy factor is anywhere from five to six percent, with some people it's as high as ten.

MR. CRAIK: I wonder, Mr. Prall, just to wind this up, if you could advise the committee or let me know, if you add up all of those costs that you have indicated as being. . . or which are basically government controlled costs, taxes, hydro, gas and water, could you figure out, let me know what percentage increase in rent would be caused by those alone last year and this coming year?

MR. PRALL: Mr. Chairman, to answer Mr. Craik, all what I'm stating in my brief, I can't submit or back up in writing. If you'd give me a day or two I'll be glad to . . .

MR. CRAIK: No hurry, as long as it's some time during the sitting of this committee.

MR. PRALL: Be glad to.

MR. CRAIK: Thanks very much.

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

MR. PRALL: Thank you, Mr. Chairman.

MR. CHAIRMAN: The hour being roughly 12:25, the committee rises at 12:30, I really think it would be unfair for the next delegation to . . .

Before we rise, I think the Minister has an announcement to make.

MR. TURNBULL: Mr. Chairman, it's my understanding that the House Leader has reached agreement that the committee would meet on Thursday morning at 10, this Thursday.

MR. CHAIRMAN: Committee rise.