

Standing Committee on Alberta Heritage Savings Trust Fund Act

Friday, September 10, 1982

Chairman: Dr. Reid

2:05 p.m.

MR. CHAIRMAN: If the minister could introduce the people with him, and if he has any preliminary statement to make, to start off, just go straight ahead with it. We'll go into questions and answers subsequent to that.

MR. CHAMBERS: On my immediate right, Ken Poholko, president of the Alberta Housing Corporation; on his right, Margaret Bateman, vice president of the housing corporation, program services; on the far right, Darwin Earl, vice president, housing corporation development; on my left, the president of the Alberta Home Mortgage Corporation, Joe Engelman; on his left, Terry Fitkowsky, vice president of lending operations; and Trevor Edwards, vice president of technical services. Behind me are my deputy minister of Housing, Murray Rasmussen; Ric Beaupre, assistant deputy minister, financial assistance division; and my special assistant, Molly Basaraba.

Mr. Chairman, I wouldn't mind making a few brief opening remarks just to highlight the fiscal period we're looking at. In '81-82 the home mortgage corporation received approximately \$749 million in net new financing from the heritage fund, for a total investment in the corporation to the end of the fiscal year of over \$1.9 billion. In turn, the Alberta Housing Corporation received approximately \$200 million in net new financing, as compared to the previous fiscal year, for a total investment of \$726 million to the end of the '81-82 fiscal year. Mr. Chairman, I'm pleased to report that this financing represents a major thrust in helping those Albertans needing home-ownership and rental assistance, including special renter programs aimed at our senior citizens, low-income families, and handicapped people.

I think it's also worth noting that these investments provide substantial indirect benefits to our economy in terms of supplying jobs and a stimulus to builders, tradesmen, suppliers, and related service industries. This \$2.6 billion in assistance from the Heritage Savings Trust Fund through both Crown corporations financed housing for 85,300 Alberta households. I think it would be interesting to point out that 16.5 per cent of all renter households in Alberta and 7.5 per cent of all owner households were financed with heritage fund assistance in the 1981-82 fiscal year alone.

In order for you to have some idea of the Albertans who are being assisted and to what extent, perhaps I should quickly review some of our major programs. The Alberta family home purchase program represents the major initiative directed at home-owners in the province. That's prior to the announcement of the Alberta heritage fund mortgage interest reduction program. The program has loans outstanding on approximately 29,000 homes. On mortgage loans approved in the past year, the typical mortgager was married, earned \$24,000 per year, was between 25 and 35 years old, had one dependent child, and received an effective interest rate of 12.5 per cent. A closer look at the total home ownership loan portfolio indicates that 55 per cent of all mortgagers receive a monthly subsidy which reduces their average pre-subsidy rate of 14.5 per cent to an average effective rate of 9.56 per cent.

The remaining programs are all initiatives that assisted renters in our province. The Alberta Home Mortgage Corporation approved financing of 10,941 units of assisted rental housing from March 1, 1981, to July 31, 1982,

completing a portfolio under several programs of 25,218 assisted units. The core housing incentive program accounts for approximately 20,000 of these units, half of which have rents that, as you know, are subsidized to reflect the tenant's income.

I guess it's fair to ask, who are these assisted tenants? In checking it out, families account for 38 per cent of the total and senior citizens 24 per cent. Special programs for Alberta's most needy tenants are provided by the Alberta Housing Corporation. I think you're all well aware of the significant housing initiatives directed at our senior citizens by the senior citizens' self-contained program and the lodge program.

The corporation committed 2,436 units for the elderly during 1981-82. Many of these seniors are on fixed incomes. In fact the average income under the program is only \$8,000 and average rents are set at \$165 per month. The corporation's inventory of housing stock for seniors guarantees rents geared to income. It totalled 16,761 units as of March 31, 1982. In addition, the housing corporation committed 1,138 units of community housing to a portfolio of 5,280 units. This is to meet the needs of low-income families. Incomes under that program averaged \$11,500 per year. It's interesting that over 50 per cent of the families are led by single parents. These figures show the significant level of assistance directed at renters through the activities of both corporations in the last fiscal year.

Mr. Chairman, I think it's fair to say that the current vacancy rates reflect this government's supply side initiatives and will benefit consumers throughout the province of Alberta. It's also fair to say, though, that we are now starting to see a reduction in the previously high demand for programs directed at the private market. I think it's too early to predict that this would be a continuing trend, but the take-up is still strong for the programs directed at those with the greatest needs, those whose needs are not being met by the private sector.

Mr. Chairman, that's about all I want to say as an overview. Well, I'd add one more thing. Under the Alberta rental investment incentive program -- which of course is not funded from the heritage fund, but I think it's part of what we're doing in terms of rental housing -- a total so far of something over 26,000 rental housing units have been financed or assisted. With that, Mr. Chairman, I'd be happy to try to answer any questions members of the committee might have.

MR. MUSGREAVE: Mr. Minister, you and I are here at a very opportune time. In my mail today I had a letter from the Premier's office to a constituent of mine, with a copy to you. This brings up the problem that you and I have discussed many times. You can be a native-born Albertan and you can qualify for a home mortgage financially, yet if you're single -- whether you're female or male -- you can't qualify for a home mortgage. You've just given us a glowing report of what you've done, but those people who are single, native-born Albertans cannot qualify for a home under your present rules.

Earlier this week I was talking to the manager of the mortgage department of one of the largest banks in Canada. His secretary was complaining that she can't get a home mortgage through Alberta Housing and Public Works. Unfortunately people can come here from other parts of Canada, shack up together for a year or so, and qualify for a mortgage. We don't determine what their state of marital bliss is. We just acknowledge the fact that people don't always get married these days, and we give them a house to live in. You mentioned that 55 per cent of the people receive help through mortgages. You also mentioned help to senior citizens. In both cases, it's not restrictive.

I guess I'm beating a familiar drum, but you have nine people sitting over there. Two of them are women, and I think that tells me the difficulty we're

faced with in our society. The people suffering most because of our policy are women. They are going to be kept in rental accommodation and are going to suffer from the effects of inflation. I wonder if your agencies have looked at the demographics and determined the number of single people who, for various reasons -- they may be crippled, they may not want to get married. There are a lot of reasons why Albertans should be able to qualify for mortgages, in my opinion. I just wonder what your comments might be on that.

MR. CHAMBERS: Mr. Chairman, I think it's fair to say that Mr. Musgreave and I have had many discussions on this subject over the years, both during the sittings of the House and outside of that. I would like to make sure that we're clear on one thing. I certainly don't intend to get moralistic about this, but if two people are living together, if they're not married, one of them has to have a child.

MR. MUSGREAVE: That wasn't always the case, though. You just changed that rule back recently, I believe.

MR. CHAMBERS: But our thinking on that, in terms of the dollars utilized and the supply side aspect of the question, has been that the average family household size is about three persons. So we felt that by restricting it or prioritizing it to families, you hopefully then house at least the average of three versus one, as compared to a single.

We have never ruled out the possibility of extending the program to singles. I haven't had the same number of requests in recent months that I had before, because I think it's fair to say that part of the demand was because people viewed housing as a good growth investment. I think there has been a different consideration of that, at least in the past few months. We felt that in a tight supply situation it is easier for a single person to acquire accommodation than it is for perhaps a family. So it has been a question of prioritization.

I would point out, though, that the new program with a write-down to 12.5 per cent would apply to singles as well as anybody else. Maybe there is an opportunity for single people who have been lobbying Mr. Musgreave to take advantage of that program. It's fair to say that I've had a fair amount of lobbying on the same subject from members of corporations and on my staff, but we have managed to resist it so far.

MR. MUSGREAVE: I just want to make one point to the minister, Mr. Chairman. You mentioned that the new program brings it down to 12.5, but in your opening remarks I believe you said that the effective rate was about 19.25 overall because of the subsidy program.

MR. CHAMBERS: You're talking about the subsidized portion of the family home purchase program.

MR. MUSGREAVE: I again point out that unfortunately in our province women still don't earn as much money as men, and that's one of the dilemmas we're faced with.

MR. NOTLEY: Mr. Minister, with respect to the program announced on Tuesday night, you have already indicated that it will apply to mortgages through the Home Mortgage Corporation. That will be an automatic application right across the board. I wonder if you would explain exactly how that is going to work, because some of these mortgages are already subsidized through the subsidy program to less than 12.5 per cent. How is that in fact going to be handled? How would a family that is now getting the maximum subsidy which would bring

down their effective interest rate to 10 per cent or thereabouts -- I take it they would not qualify if they are under the 12.5 per cent.

MR. CHAMBERS: Mr. Chairman, for example, the average of all mortgages under the corporation is about 12.5 per cent. The average of those receiving subsidies is 9.56 per cent, yet the average of those with mortgages at the low end of the scale is somewhere less than 5 per cent. So being under 12.5, of course they wouldn't get any additional subsidy.

For those people who have obtained housing under the program but do not qualify for a subsidy -- in other words, their effective interest rate is, say, 16 per cent -- the way it will work is that the Home Mortgage Corporation will send everyone a statement as to what their effective interest rate is. If their effective interest rate, given the subsidy, works out to 16 per cent, then they would take that statement from the Home Mortgage Corporation, send it to the department with their application, and be entitled to a further subsidy from that 16 per cent down to 12.5 per cent. They will automatically get a statement from the Home Mortgage Corporation as to their actual interest rate, given the subsidy.

MR. NOTLEY: Just one further question in terms of factual matters. The figure of 225,000 homes has been given; 225,000 families will come under this program. Mr. Chairman, I wonder if some time in the next few days we could have the information on how that is broken down, how much of it is now assumed by the Alberta Home Mortgage Corporation under the different plans, each of the plans identified by numbers, the total numbers of people, and how much of it would be in the private market. Do you have those figures in any ballpark sense at this time, Mr. Minister?

MR. CHAMBERS: Perhaps I would ask the deputy.

MR. RASMUSSEN: Thank you, Mr. Minister. I can outline to you how the 225,000 was arrived at. Mr. Engelman could give an estimation of how many of the family home purchase loans would qualify. We estimate that 102,000 existing mortgages over 12.5 per cent will qualify under the new program. There will be about 71,000 existing mortgages that come up for renewal during the two-year period. We estimate new home mortgages plus inventory that's out in the field at about 50,000. So roughly, 100,000, 70,000, and 50,000 adds up to 224,000. That's where the 225,000 came from.

Joe, can you give an estimate of how many family home purchase mortgages there are?

MR. ENGELMAN: At the present time there are about 29,000 ownership units financed by Alberta Home Mortgage Corporation. We don't have figures yet as to how many will qualify for the subsidy. We do have an estimate that between 10,000 and 11,000 will qualify for further subsidy.

MR. NOTLEY: Just a further question to the minister then. Is any consideration now being given to further kinds of assistance to people in self-contained units who, because they are renting, obviously are not going to qualify for any mortgage assistance because they don't own their home and aren't buying it but are renting a self-contained unit? Is any consideration being given to perhaps adjusting the percentage of income required for senior citizens in the self-contained units? I know that was done several years ago, but with inflation eating away at senior citizens' incomes, has any consideration been given to further adjustments in the percentage?

MR. CHAMBERS: Mr. Notley is correct, Mr. Chairman. A few years ago it was 30 per cent, and then we reduced it to 25 per cent of income. It has generally been felt that that was a fair percentage that people could pay for accommodation. I have never heard any representation that it should be other than that. Of course they are entitled to a renter's assistance grant as well. So no, I think it's fair to retain that at 25 per cent of income. In lodges it's something in the order of 50 per cent, but of course that's a total hotel type of accommodation where they get meals, linen, room service, and so forth.

MR. NOTLEY: Has the government given any consideration at this stage to some form of additional shielding beyond the core program so we can bring down rental rates on units in the province?

MR. CHAMBERS: In general?

MR. NOTLEY: Yes. Is that being considered as an addendum or addition to the program announced on Tuesday?

MR. CHAMBERS: Again, Mr. Chairman, we have been addressing this question in recent years on the supply side through the extensive programs we have, whether it be the core housing incentive program, the modest apartment program, or the Alberta rental incentive investment program. I think it's fair to say I can't think of any rental housing built in the province in the last several years that hasn't been built with the assistance of subsidy. Of course that is being reflected in the high vacancy rates today, which puts renters in a very competitive situation and also has improved the affordability of landlords so they're able to keep their rents lower. I think it's fair to say that rents today are appreciably lower than economic market rents, substantially below economic rent. There's a good spread or variety of units available for people. We have vacancy rates in Calgary and Edmonton at something between 6 and 7 per cent now, which is a very healthy, competitive situation for renters.

MR. KNAAK: Mr. Chairman, this question relates to the new program announced. I'm wondering if the minister could advise whether the subsidy would apply to those mortgages where the person borrowing the money has bought down the rate or, in other words, prepaid some interest and bought down the rate on his own, say, from 18.5 to 12.5. Will the subsidy relate to the effective rate or the nominal rate on the mortgage document?

MR. CHAMBERS: Mr. Chairman, I think in fairness and from a practical standpoint, the write-down will have to be from the nominal rate. In other words, whatever is written in the mortgage agreement would have to be the number we're writing down from.

MR. KNAAK: If I'm permitted, Mr. Chairman, I would like to make a representation to the minister, if it's not too late, for the same point, in point of fairness for those people who could not anticipate such a program and in fact are paying an effective rate. The effective rate is not a disguise. It's easy enough to see if a person paid \$7,000 when he purchased the house as prepaid interest to get a lower rate. We all know about the purpose of the lower rate. That's so he qualifies under an income test. My view on the matter would be that it would be unfair if those people, who in fact prepaid interest but have an effective interest rate over 12.5 per cent, are ineligible simply because they arranged their affairs in a different way. I

would ask the minister to reconsider and change the regulation so these people qualify.

MR. CHAMBERS: I'll certainly take that under consideration, Mr. Chairman. But I would point out in fairness that in any program an element of rough justice has to apply, whether one has paid off his mortgage or has had a different type of mortgage contract.

MRS. FYFE: Just to follow up on the rental rates across the province, I didn't catch the number. Secondly, that would be an average across the province. Is the rental vacancy rate really similar in the various centres across the community? The minister will recall that in other years and other conversations I have been particularly concerned that in the Edmonton region all communities have been lumped together. Once again I make that representation, that in years when we're under pressure for rental units there be more fine-tuning on the different needs between communities. Specifically, from the information you have, I'm wondering whether these rates are similar across the province.

MR. CHAMBERS: Mr. Chairman, they do vary. Calgary and Edmonton are quite similar. Our current information is that it's running somewhere between 6 and 7 per cent. For example, Red Deer would be significantly higher today, as would Grande Prairie. The average across the province is about 9 per cent, according to our most recent information. And that's an excellent point, Mr. Chairman. We do try to fine-tune approvals, as the member puts it. We sure don't want anybody to be building a bunch of apartments in an area where he's going to have difficulty renting them. For that reason, we try to adjust them that way.

MRS. FYFE: Thank you. A further question, Mr. Chairman. During the budget period within the House, the minister brought forward estimates for the rental incentive programs. There was a great rush, as there was last year. Of course conditions have changed so dramatically over that short number of months that I'm wondering what the take-up in the rental incentive programs has been, or are funds still available? This is a little bit off the topic, but still part of the debenture moneys.

MR. CHAMBERS: Mr. Chairman, yes, substantial funds are available. As the Member for St. Albert has indicated, the take-up is slower, as we would expect with the market reacting to increased vacancy rates. The program take-up has been very high though. Since introduction, over 26,000 units have been assisted under that particular program. Perhaps it's too early in this fiscal year -- we're not quite halfway through it -- to forecast what the total final take-up will be in our various programs. Indications are that it would probably be less than we had anticipated earlier. However, I could point out that the vacancy rate in Calgary was less than 1 per cent last October, and something like 1.5 per cent in Edmonton. Situations can change rather quickly.

MRS. FYFE: I make just one final comment. I've had a very favorable reaction to the program announced. I know a tremendous amount of work went into developing the program, and I compliment the minister and his staff who participated in it.

MR. CHAMBERS: Thank you.

MR. KNAAK: Mr. Chairman, I wouldn't want the minister to interpret this as a criticism, because the future is not easily foreseeable, but now the vacancy is at 5 and 6 per cent in the city of Edmonton, partly because of the government subsidized funding to builders. It has stimulated the housing industry and created employment, but for some of my constituents in Edmonton Whitemud it also means that the building they own has substantially devalued, because the value of their building is a result of cash flow. When they now have a 6 and 7 per cent vacancy rate, their building is worth less. In addition to that, they have serious cash flow problems with respect to that building, and I think it's well known that most apartment owners, if they're new owners, cannot in fact make mortgage payments with respect to the revenue. They subsidize their rates. Is the minister considering or in any way monitoring the vacancy rate for the purpose of maintaining a balance; in other words, not creating excessive supply in Edmonton, Calgary, or some of the smaller centres around the province, given that it's not an easy task to foresee the future, and I understand that?

MR. CHAMBERS: Mr. Chairman, that's a good question and certainly one that concerns us. Obviously we want a healthy vacancy rate. That's the supply side. We've maintained for years that the answer is never rent controls. In any country you look at in the world, that's been a total demotivator of the construction and provision of rental housing. The answer is the supply side. Get the supply up and that will take care of it, and it has. We have living proof of that right now. Rents are very, very low.

On the point the Member for Edmonton Whitemud raises, we certainly don't want to be in the position of jeopardizing the health of landlords either. We want them to continue to remain in the business and produce more rental housing as required in the years ahead. The member correctly pointed out that the situation does change very rapidly, as it has from last fall. CMHC surveys Edmonton and Calgary every April and October. Then we have extrapolations in between. That's why we're fairly confident that the range now is in the 6 or 7 per cent vacancy rate in each area. In terms of the smaller centres, the department, using summer students, does a survey of all the smaller communities in Alberta every summer. Again, we try to interpolate for the balance of the year, so we think we can maintain a pretty good handle on vacancies in each community in Alberta, not just Edmonton and Calgary. The decisions the Home Mortgage Corporation will make, for example, with regard to approval of CHIP or MAP units would also depend on how the corporation sees the take-up. We don't want to be in the position -- and I'm sure the builder doesn't either, if he knows the numbers and sits down with the corporation and talks it over -- where we can't fill those units. So we have that sort of consultative process. For example, we're holding back now on approval of further core housing incentive program units, CHIP units, in Edmonton and Calgary as a result of our analysis of vacancy rates.

MR. PAHL: Mr. Chairman, I have two questions. On the last point, I wonder if I could get an indication as to what the criterion is, if you will. You indicated you were holding back on units. How is the supply by area and by builder rationed? On what basis does the corporation make those decisions?

MR. CHAMBERS: The corporation has a lending committee which meets in an ongoing way, and a lot of analysis goes into it. Certainly the corporation takes into account the peculiar circumstances of a community. For example, last year 3,100 rental units were approved in Edmonton and 3,500 in Calgary. The attempt is to achieve the right sort of supply/demand situation, a balance. While we're holding back for a while on any further approvals in

Calgary and Edmonton, that doesn't mean we wouldn't be granting approvals in other areas outside Calgary and Edmonton, and we are looking at some of those.

MR. PAHL: My second question to the minister is somewhat related, Mr. Chairman. In terms of holding back, and obviously there's been a sharp economic downturn, what has that done to the estimated requirement for funds from the Heritage Savings Trust Fund in this current year? Has it changed priorities? Has it freed up moneys to not draw on the fund? Has it increased flexibility in other ways that you might comment on?

MR. CHAMBERS: Mr. Chairman, it's certainly fair to say that it has deferred demand on a substantial portion of the funds. Again, because we're not quite half way through the fiscal year, I think it would be premature to try to define what the final commitment would be. I think though, as a guideline, that I'm quite sure we will not be using the budget up for either corporation. But as to trying to put an exact number on it, I think that would be premature. You know, things can change rather rapidly, and we have more than half the year to go yet.

MR. PAHL: A final question, Mr. Chairman. Would it be possible to give the committee the present estimate of total shelter starts in the province for the balance of the year, and what percentage would be Alberta Heritage Savings Trust funded?

MR. CHAMBERS: We could provide numbers as to the take-up to this point in time. I don't think I'd care to forecast what the take-up demand will be for the rest of the year. You know, we have a budget, and I don't mind saying that from current indicators I don't think we will use all that budget at this point. But I don't want to estimate at this time as to what we will require for the balance of the year. I'd be happy to provide information as to the current status of the take-up in all the programs.

MR. CHAIRMAN: Perhaps the Chair could ask a supplementary about the details of how closely the department monitors one community against another. I think you said that Edmonton and Calgary are completely shut off now under the CHIP program because of the vacancy rate. Do you monitor individual communities outside those two cities? I have a couple in the constituency that may have quite a demand for rental accommodation because of new coal mines, if they go ahead. Now is it done community by community or area by area, because those two communities are 50 miles apart?

MR. CHAMBERS: It would be done community by community. If a case can be made that the rental situation is tight, that the product would be filled, then it will be approved, and we are in the process of doing that. An active resource community such as the one you refer to, Mr. Chairman, given that it meets the criteria, certainly would be given very serious consideration.

MR. CHAIRMAN: Thanks.

MR. D. ANDERSON: Mr. Chairman, just a couple of quick questions to the minister, if I might. I notice that the preliminary pamphlet indicates there's only one benefit per household even if the spouse owns a separate house. If their living and their principal residences are separate -- a separated couple, for example -- does that also apply?

MR. CHAMBERS: If they're separated and each has a house and is resident in that house, then each one could qualify. Or similarly, living in a house that could qualify jointly in the one house.

MR. D. ANDERSON: Thank you. The second question, with respect to specifically my constituency and a couple of others, is with regard to the co-op housing programs. Is there any assistance in these programs, or any anticipated, that would help that collective ownership situation?

MR. CHAMBERS: Mr. Chairman, I think it's fair to say that I don't know of any case where a co-op would have an interest rate of over 12.5 per cent to begin with. They've generally all benefited from very low cost municipal land and have had extensive assistance such as mortgage write-downs to 2 per cent and so forth. So they've already benefited substantially from government at whatever level. I doubt that there would be any out there who would be in that category.

Furthermore, the continuing co-op, which I think the member is referring to, is a different sort of structure in that it's more of a business than an individual ownership situation. So it wasn't intended that the program apply. But again, I doubt that any out there would be in that position regardless.

MR. D. ANDERSON: I'd check again. I guess I'd disagree with the minister with respect to it being a business rather than an ownership situation. It's certainly a different style of ownership, but I know the many residents in my constituency who are part of that program consider themselves owners, not part of a business operation. I believe they are also renewing at this point at more than the 12.5 per cent level, but I'll check into that further and perhaps make those representations to the minister in person.

Just one other comment. I would support the contention of my colleague from Edmonton Whitemud that the minister should perhaps take a second look at the situation of buy-down mortgages. There may be rough justice in places, but wherever we can smooth out those edges, more citizens are satisfied.

MR. CHAIRMAN: Are there any more questions for the minister or the people from the two corporations?

Thanks very much, Mr. Minister. The conversation didn't completely stay with the annual report or the programs of the two corporations, but there was some clarification of points and some valid concerns were expressed. I think that will complete the appearance of the Minister of Housing and Public Works.

As far as the rest of the committee is concerned, we're now adjourned until we meet with the Provincial Treasurer at 2 p.m. on Monday, September 13. Thank you.

The meeting adjourned at 2:43 p.m.