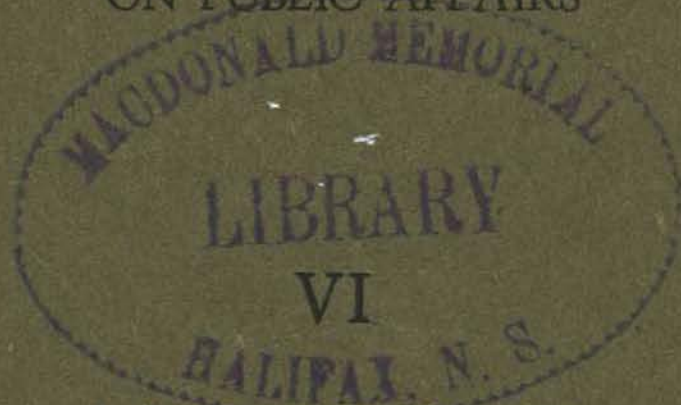


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HOUSING

By

W. C. CLARK,
DEPUTY MINISTER OF FINANCE, OTTAWA.



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HOUSING

W. C. CLARK, M.A., L.L.D., C.M.G.,
Deputy Minister of Finance, Ottawa.

It is not necessary for me to stress the importance of the housing problem. On the social side, the evils of bad or inadequate housing are revealed in the prevalence of disease and stunted physique, greater hazard of epidemic and fire, the encouragement to crime and delinquency, the degradation of human personality, the failure to capitalize the greatest of our national assets by providing "a fuller and more abundant life" for the human beings who make up our society, the encouragement of

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indigency, unemployment and social discontent, etc. Reports of welfare workers, official surveys of various areas, etc., have made us all too familiar with these social aspects of the problem. The *economic* consequences of a failure to solve the housing problem are perhaps not so clearly realized. And by economic consequences I do not mean merely the financial cost to municipal and other governments of increased police and fire protection, penal and corrective institutions, hospitals and other institutions for taking care of the sick and the indigent, etc. Nor even the economic loss to the community in productivity and purchasing power resulting from the fact that its human resources are not functioning at the maximum of health and efficiency. It is a narrower economic aspect to which I wish to draw attention, namely, the effect on unemployment and on general business conditions of subnormal activity in that important branch of the construction industry whose function in our economy is to provide the housing requirements of the people.

Construction is one of the greatest of our capital or durable goods industries and it is the drastic fluctuations in this group of industries that largely account for the wide differences in general economic activity as between good and bad times. Purchases of consumers' goods maintain a fairly steady volume but the durable goods industries expand to extraordinary proportions during the boom period and lapse into comparative stagnation during the depression phases of the business cycle. Perhaps in no industry is the range of fluctuation apt to be so wide as in construction, although residential construction is usually more stable than other branches of the industry. The bad effects of this extreme variability for the general welfare can scarcely be exaggerated. The reason will be obvious if we examine the magnitude of the industry itself and of the long series of industries which produce its raw and processed materials—lumber, iron and steel, cement, lime, brick, stone, glass, heating equipment, plumbing equipment, and a myriad of others; the very large number of skilled craftsmen and unskilled laborers to which it gives employment, both directly and indirectly; and the fact that its effects on business activity and employment ramify so widely through every town and hamlet throughout the country.

As everyone knows, the construction industry has been the most laggard of our major industries in recovering from the great depression. During the pre-depression period of eleven

years, from 1921 to 1931, the average annual value of all construction contracts awarded in Canada was slightly greater than \$370,000,000, and the annual totals ranged from a low of \$240,000,000 in 1921 to a high of \$580,000,000 in 1929. During the worst year of the depression—1933—the total dropped to less than \$100,000,000, a decline of 73 per cent from the 10 year average. Even for the year 1936 contracts awarded aggregated only \$163,000,000 and the annual average for the period 1932-36 was only \$135,800,000, despite a very large amount of government construction. Not less striking is the story of residential construction. For the 10 year period 1921-31, the average annual volume of contracts awarded for residential purposes amounted to \$104,000,000, the annual total varying from a low of \$76,700,000 in 1921 to a high of \$139,200,000 in 1928. In contrast with these figures we have an annual average of \$32,500,000 for the last 5 years, a low of \$23,900,000 during 1933 and a recovery to only \$42,900,000 during 1936.

It is little wonder that with building at so low a level, general business activity has been so depressed and unemployment has attained such proportions. Various inadequate surveys made in recent years have all indicated that a very large proportion of the total volume of unemployment was to be found in the construction trades and in the industries dependent upon them. An estimate of the "backlog" of residential construction which took account of changes in construction costs, the secular growth in population and the possible over-expansion of housing during the preceding prosperity period indicate a possible house-building requirement of as much as \$230,000,000 at the end of 1936. By a less refined statistical method, approximately the same result may be obtained. Roughly the Canadian people possess two million houses, and the average life of a house may be assumed as fifty years. The average expenditure of \$100,000,000 for houses at an average of \$3,300, might be considered as reasonably normal and adequate under present circumstances. Thus 50,000 houses per year would be a fair estimate for new building. For the last 5 years, the total reported has not been more than half of this amount. According to this somewhat crude approach there would be a deficit of about 75,000 houses which at \$3,300 each would amount to a total backlog of \$245,000,000.

Obviously this must not be taken to mean that there is an *effective* demand for this amount of new house-building at the

present time. Various difficulties must be overcome before this so-called "backlog" can be translated into effective demand. But even this theoretical calculation is sufficient to give some idea of the magnitude of the market to be exploited by an efficiently functioning construction industry and of the beneficial results to our economy which would result therefrom in increased employment and decreased relief expenditures, in expanding business activity, in a rising volume of traffic for our railroads, in improved governmental finances, in a lessened burden of real estate taxation, in decreasing social discontent, and in a general stimulation of our whole economic life. It was for this reason that Parliament has endeavoured through the Dominion Housing Act 1935, and the Home Improvement Loans Guarantee Act, 1937, to provide an effective stimulus to the house-building industry. Fortunately, partly as a result of this stimulus and partly as a result of rising incomes and improved confidence, the construction industry has at last begun to expand rapidly and during the last few months has shown the greatest proportionate increase of any major business. For the first seven months of 1937, total contracts awarded have increased 38 per cent over the corresponding period of last year, while the increase in residential contracts is over 56 per cent. While relatively to the boom years the current volume is still at a low level, this recent rate of increase is very reassuring.

This discussion of the sub-normal level of building in recent years brings me, by a devious route, to a definition of the problem under discussion in this address. The housing problem means different things to different people. To some it is the problem of increasing the purchasing power of all the people to the point where they can afford adequate housing. That is perhaps the most fundamental of our economic problems but it is not the conception of the housing problem which I am interested in today. More incomes for all the people would raise the standard of living all round—would mean more and better food and clothing, more automobiles and radios, better educational facilities, more travel and recreation and undoubtedly better housing. But it would still leave unsolved the housing problem as I conceive it—would still leave probably the majority of people with a quality of housing far below the standard which they would be demanding and getting in clothing, automobiles and practically all other phases of living. In othe,

words, the housing problem to which I wish to direct special attention is the problem of bringing the business of providing housing for all the people up to a level of efficiency, in quantity and quality, comparable with the level already attained by the business of providing most of the other necessities, comforts and luxuries of life.

The moral of this definition will be immediately apparent to you. It is simply this, that, relatively to other commodities and services, housing costs too much. In the words of a competent observer (from whom I shall draw heavily in this section of my remarks), "Whether you build or buy, or whether you pay rent, the cost (of housing) is out of all proportion to what you get for your money in comparison with what you get when you spend it for almost anything else you can think of. This is the central fact of the housing problem. It is a fact, moreover, which would remain central and insurmountable under any conceivable political or economic system so long as the causes for its existence were not removed; and those causes are such that no change in our political and economic organization could in itself be counted upon to remove them. Whether private enterprise or the government built the houses; whether they were built under unrestrained capitalism or the most extreme form of socialism, or under any imaginable compromise between the two, the cause of the housing problem would be the same."

This is a strong statement but it states a truth which has impressed me for a long time, a truth in regard to housing not only in Canada but also in the United States, Great Britain and all other countries. It involves a reflection upon the state of practically all branches of the house-building industry as well as upon public bodies and the public generally. I know that criticism is both unwelcome and dangerous, but I trust that those who hear or read these remarks will not regard them as directed against individuals or as anything but sincere and constructive.

I have a tremendous admiration for some branches of the construction industry and for many of the industry's achievements. To my mind, there is no more complex or more difficult type of production than, say, the planning and building of a modern skyscraper or the erection of that great bridge across the Golden Gate in San Francisco Bay. These products of the construction industry represent to me "the tipmost top of the

topmost" peak in the utilization of modern technology and the display of modern entrepreneurial genius. Compared with them the repetitive processes of the large-scale manufacturing plant are mere child's play. Nothing, moreover, can be a more exquisite expression of the craftsman's art than a completed house which is truly beautiful and truly adapted to the function of providing a home for the human family. But beautiful houses are relatively rare and few of them show the results of the application of business genius and advanced technology. Making due qualification for the fine contribution of many small builders working under great handicaps, the truth of the matter is that the ablest and most responsible elements in the construction industry have not devoted their attention to the building of houses. They have spurned a business which appeared to be turning out a handmade product catering to the particular idiosyncracies of a few individuals in the higher-income groups. They have overlooked the possibilities inherent in applying organizing and promotive ability, large-scale methods, adequate financial resources and modern science, to the task of providing decent and economical shelter for families in the lower and middle income groups. This task has been left to the smaller and sometimes to the less responsible elements in the industry who are confronted with difficulties which, as we shall see, are almost insurmountable and the results are—what we see around us on every hand. Even for the best brains in the industry the difficulties will, I know, be enormously great but the colossal possibilities of the market should make the rewards commensurate with the effort expended. Few needs of the human being are more vital than housing and yet the mass of the people are inadequately housed, provided with shelter accommodation far below the standard, in quantity and quality, which capitalistic industry is supplying them in every other important field.

Surely this constitutes a powerful and immediate challenge to the construction industry. It is a challenge to make the house-building business as efficient as that rugged young interloper, the automobile industry, which is taking an ever-increasing share of the consumer's dollar for a social purpose much less important than is housing. In effect, the public is saying to the house-building industry: either you must re-orient the whole business of building houses, introduce a greater measure of organization, efficiency, standardization and constructive salesmanship, improve the quality of your product, restore the buyer's

confidence in that product, and generally endeavour to give 100 cents worth of value for a dollar price of housing, or you must be content to see your industry securing a steadily decreasing share of the consumer's dollar and suffering as a consequence from continuing stagnation, chaotic conditions, public illwill and possibly increasing interference from public bodies. I for one believe that the industry will gradually and increasingly respond to that challenge. But, as we shall see, the success of their effort will depend to a very considerable extent upon the cooperation given by the general public, and, to a degree, by public authorities.

I wish I had time for more detailed consideration of the underlying causes of the high cost of housing, but I shall have to confine myself to a brief comment on four of the major factors, namely, the cost of construction, the cost of land, the cost of financing, and the costs which are due to public attitudes and public regulations. These causes, as we shall see, are inter-related and inter-dependent; they act and react upon each other in a vicious circle of cause and effect.

Perhaps the most important, certainly the most obvious, of these causes is the *high cost of construction* which reflects an industry relatively little unchanged in form of organization and in technical processes from that which catered to our forefathers prior to the Industrial Revolution. During a period when machine production, standardization, and technological advance have been revolutionizing every other important manufacturing process, the building of houses has remained a localized, hand-craft process. Its adherence to tradition and its chaotic wasteful organization are thus described by one writer:

"Long after the days were past when the neighboring woods could be depended upon for lumber and the native hills for brick-clay and stone—even after the time had come when the house contained almost as much machinery as a ship—the construction industry remained, and still remains, as it was before the first steam engine, an industry turning out a hand-made product. It is a product assembled by a group, now an ever-increasing group, of specialists—electricians and plumbers, metal workers and wood workers, plasterers and paperhangers, all acting with jealous independence of one another. This crew is feebly coordinated by one of its number acting in the capacity of a "general contractor". And all of them must deal on a retail basis with a horde of material and equipment dealers standing between them and the producers of the material and equipment which they must buy."

Anyone who has followed through the various procedures in the production of a new house knows that this description is no caricature. He is familiar with the laborious assembly of the multitude of individual items that go into the making of a house, all purchased in expensive retail lots; with the slow succession of the long series of sub-contractors and skilled artisans of different trades whose co-operation is only loosely organized, resulting in loss of time, confusion, frequent jurisdictional disputes and excessive cost; with the waste and delays due to vagaries of the weather and the loss involved in the disposal of excess material and of the temporary manufacturing plant located on the building site. Not the least important source of waste and excessive cost is the elaborate system of small-scale jobbers and middlemen who must keep on hand stocks of material and equipment for contractors and sub-contractors with limited financial resources. The small scale of such operations, the difficulty of gauging an uncertain and fluctuating market, and the long tie-up of capital in a myriad of necessary raw materials result in an inevitable marking up of such materials by from 10 to 100 per cent over manufacturers' cost, all of which cost has to be borne by the completed house.

Is it any wonder that the writer quoted above concludes as follows: "No more expensive or extravagant conglomeration of unsystematic procedures could be consciously devised than that which, in the effort to preserve a mediaeval organization amid modern conditions, results from our present construction methods. The mere weight of it, one might think, would bring it to destruction."

But the excessive cost which results from the organization of the industry is still further increased by certain public attitudes and public regulations. Our intense individualism leads us to insist on a home that is individual—at least *different* from, if not *better* than, our neighbour's. This makes almost inevitable the small-scale, handicraft organization of the industry referred to above. But it also demands individualistic expression in the form of gadgets and luxuries rather than in the essentials of sound living. Speculative builders add these extras in order to create selling points for their high priced product. They splash garish adornments on exterior walls to catch the eye of potential buyers. In the interiors of jerry-built structures, they are shrewd enough

to install colored tile bathrooms, chromium-plated fixtures, cabinet type radiators, inlaid linoleum and a whole series of selling devices which add to cost without commensurate increase in real value. How many times do two or three of such gadgets "sell" a house to a buyer who has not taken the trouble to ascertain that the cellar is waterproof or that the heating equipment is not second hand and inadequate? If we are to solve the housing problem as I have defined it, we must change our public attitudes, we must take steps to see that new house purchasers know as much about the specifications of a good house as they do today about the specifications of an automobile.

Again our public attitudes are frequently at fault in the way in which they find expression in public regulations and ordinances. Here I would like to discuss in some detail the question of building codes, and zoning restrictions but time permits only the briefest comment. In these respects Canada, I fear, lags far behind the best practice, which nowhere approaches the ideal. Many municipalities have no codes whatsoever and many others have codes which are inadequate or inflexible or out-of-date. Developed first to protect the public against irresponsible elements in the building industry, these codes have in some cases been used to entrench powerful interests in special privileges. In most cases, as now drawn, they act as a bulwark of protection to existing practices and as a formidable obstacle to the adoption of innovations in materials and processes. It is hoped that with the co-operation of the National Research Council we may be able to devise a model building code which will prove at least a guide to municipal governments throughout the country.

The question of zoning brings us to the third of the major causes of our problem, namely, *the high cost of land*. Here again we find a highly chaotic, wasteful, retail system of production which in turn is both an effect and a cause of the system of house production which has been described. For the most part, as we must all admit, our cities and towns have, like Topsy, "just growed". Practically nowhere has there been that preliminary planning for sound utilization of available urban land and that control of development which are essential to the growth of an integrated, economical, smoothly functioning community rather than a mere conglomeration of competing individuals. The

selection and layout of residential areas and of building plots have been left to the speculator and the unorganized play of individual choice. Land subdivision has taken place in advance of demand and without knowledge of the precise character of the demand, resulting in extravagance in land layout and waste in the cost of streets and sewers, water lines, gas pipes and other utilities. Speculative land development in numerous instances has caused the subdivision and sale of tracts remote from the city's centre, rendering unusable large areas of nearby land and increasing the cost of services both to the buyer and the municipal government. The building lot which is the basic essential for home development has become the prey of irresponsible speculation; it is sold and re-sold on a speculative basis and loaded not only with high selling costs and speculative profits, but also with the cost of thoughtlessly planned improvements and of taxes and interest during the period prior to its ultimate improvement.

All this haphazard system, or lack of system, increases the cost of municipal government and inevitably aggravates the burden of real estate taxes. Even the individual who has been shrewdest in the selection and purchase of his lot must pay for pavements, sewers, and water in areas where they are not needed, must pay for extending these services past vacant land to areas of sporadic development, must pay for fire and police protection and for public lighting in sparsely settled areas where speculation has halted development, or where speculative or nuisance development has destroyed values, must pay for the measures required for sanitation and health in such areas. Perhaps you sensible people in Nova Scotia have ordered your municipal development more wisely but in those parts of the country with which I am more familiar I know that urban land, and therefore the urban home, must bear a considerable burden of cost because of these unwise and wasteful procedures in regard to land utilization.

Finally we come to the cost of financing which to the minds of some critics is the only cost factor that needs to be reduced in order to solve the housing problem. In my opinion that is a mistaken view, as must be evident to anyone who has grasped the significance of the factors I have discussed above. There is far more room for legitimate saving in the modernization of construction methods, the improvement of public attitudes and

regulations, and the correction of wasteful methods of land utilization than there is in the cost of financing. Moreover, much of the alleged excessive cost of financing is merely the natural and inevitable result of unsound and wasteful procedures in house construction, land utilization and public regulations.

Capital gravitates to the safest and most orderly channel of investment, and interest rates in various industries reflect varying degrees of risk and of cost in making and recovering the investment. On these scores the house-building industry does not stand high. The risk factor in urban mortgage financing is high, because of the uncertain quality of construction which results in rapid depreciation and may leave the house almost valueless before a long-term mortgage can be paid off. It is high because of our speculative and wasteful land utilization procedures with their threat of deterioration in property values due to decadent neighborhoods or adjoining nuisances. It is high, because of the emphasis on gadgets and style appeal, which make the house subject to rapid obsolescence. It is high, because of high pressure selling methods which frequently load the homeowner with a burden beyond his capacity to pay. It is high, because of the chaotic and burdensome real estate tax situation in many communities. In general the risk factor is high because of all the unnecessary or extravagant costs which enter into the production of a completed home and which burden the homeowner or the tenant with charges which appear to be out of relation to the value which he receives. While hazards such as these remain to torment the lender, there is a limit beyond which interest rates cannot arbitrarily be forced down.

Anxious to safeguard against these hazards, mortgage lenders on urban homes have in the past developed various devices which still further increase cost and in some cases accentuate risk. They have, for instance, developed the practice—and the practice has long since been sanctified by legislation—of limiting their loans to 50 or 60 per cent of appraised value, although during boom periods intense competition between lenders has often led to excessive, speculative appraisals and consequent later attempts in depression times to preserve fictitious levels of value. With investments based in many instances on extravagant costs, the natural tendency of the lender is to be fearful of any technical improvements, or indeed, in times of depression,

of any new building activity, which might adversely affect the property values upon which old loans have been made. The lenders' insistence on, and the legal requirement of, low-percentage mortgages have made it necessary for the home-owner, particularly the small home-owner, to resort to second and even third mortgages to provide a portion of the funds required above the first mortgage. Everyone is familiar with the excessive cost, 15 to 20 per cent or more, of this type of junior financing and the ever-present hazards which it carries for the mortgagor. The mortgage lender has also insisted on short-term mortgages, usually 5 years, and this has involved for the mortgagor not only the cost of frequent renewals, but also the danger that renewal cannot be effected in trying times or that it can only be effected at a considerably lower figure, thus requiring a payment in cash which may be difficult or impossible to make. It is both interesting and instructive to note that this practice of mortgage lenders is due not only to their desire to protect themselves against depreciation, obsolescence and interest rate changes, but also in part to legislation passed in 1881 designed to help the hard-pressed debtor by making it possible for a mortgagor to pay off a long-term mortgage at any time after it has run for 5 years, subject to payment of a bonus of three months' interest in lieu of notice. As is so frequently the case, this type of legislation tends to defeat its own object. Finally, the objection to the costs and responsibilities involved and the fact that Canadians prefer to buy a completed house from a speculative builder rather than order a responsible builder to build a house from blueprints and specifications have led to mortgage lenders paying too little attention to the contribution which they are in a position to make by insisting upon efficiency in design and lay-out of new houses, on adequate specifications, and on inspection during the construction process to safeguard against unsound or shoddy construction.

Now that I have completed this diagnosis of the major ills of the housing situation, I imagine I will be expected to give you a complete prescription of the remedies that may be applied to relieve, if not to cure, the patient. While I must deal in some detail with the financing problem, I have already trespassed far too long upon your time and patience to do anything more than hint at some of the major lines of treatment for the other pathological conditions.

In regard to the business of house construction, is it too much to hope that it will be possible to introduce an increasing measure of order and efficiency, of larger-scale methods and recent technical knowledge? Can we expect the large, responsible building firms to be attracted to residential construction by the knowledge that an enormous market in the field of low-cost housing remains to be exploited, if only efficient business methods, adequate financial resources, adequate knowledge of sound planning and layout, and a measure of promotive and selling ingenuity are brought to bear on the problem of providing shelter accommodation for the mass of people of a quality as sound, and at a price as reasonable, as is obtainable, for instance, in the case of the average automobile? Can we expect the public to respond to constructive effort of this type, in order that such firms may be enabled to carry out their planning, purchasing and building operations on such a scale as to achieve the maximum practicable economies of large scale operations? Will they respond in such a way as to assure a more regular and fuller employment of labour, thus making it possible for the employer to keep together his staff of specialist craftsmen and for the latter to consider their earnings on something like a yearly basis instead of in the light of wages per day for a short and uncertain season? To achieve these objectives, is it necessary for such firms to operate on a regional or national basis, in order to secure the advantages of larger scale and greater stability than are possible in localized operations?

Again to what extent may substantial economies be achieved by substituting factory production for handicraft production on the building site? By this I do not mean to imply that I am a believer in the pre-fabricated house—in my opinion the completely pre-fabricated, mass-produced house will be slow to achieve popular acceptance and will probably not be practical for a long time to come. But I do raise the question whether a large part of the total house is not represented by component elements which can be standardized and which can therefore be pre-fabricated at a substantial saving in cost. All houses today contain certain elements that are pre-fabricated and their number is increasing. If the pre-fabricator's claim that only by factory manufacture of complete houses can we attain the goal of "twice as good a house at half the price", represents too remote an ideal, is it not practical to introduce a much greater measure of factory

manufacture of standardized elements—doors, windows, stairways, closets, plumbing skeletons, heating systems, laundry equipment, bathroom units—and to limit the contractor's job more to one of assembling standard units? In this connection, it is an error to believe that such a system necessarily entails stock designs and uniform houses, that it cannot produce a house of any size and any style. Some building supply houses are already making a distinct contribution by supplying all or most of the materials for a completed house, all cut to size by factory processes, thus eliminating unnecessary labour and wastage on the site. But will such advances meet with sufficient public response to give the volume required for the economies of mass production? Can we reasonably expect that the necessary reorientation of public attitudes will be forthcoming?

Again, can we look for any improvement in our haphazard system of land utilization? Are we likely as individual citizens of our respective communities and as represented through our municipal government to plan the growth of municipalities more wisely, to evolve sound programs for city and regional development, to impose zoning restrictions, to exercise some measure of control over speculative subdividing and layout of adjacent land, to devise and enforce reasonable and flexible building codes that will protect the citizen without retarding technological advance,—all in order that the home-building site may not be burdened with any unnecessary costs, that carrying costs may be kept to the minimum and that the home-owner's investment may not be subject to undue depreciation or obsolescence as a result of the greed or mistakes of his neighbors? Is there sufficient public spirit, sufficient pride in "the old home town", to give intelligent, courageous municipal officials striving to achieve these ends the public support they need if their efforts are to be successful? Finally, is it possible that further study given to the problem of real estate taxes may disclose desirable changes in the basis of imposing and collecting such taxes which, if adopted, might serve to lessen the tax burden which is now a retarding factor in the normal functioning of our house-building industry?

If we can answer all or most of these questions with even a feeble "yes", we will have reason to believe that there is some hope for the patient. And you will note that the questions must be answered by you and me as well as by the building industry itself.

In the field of home financing we are now in a position to report that very definite progress has already been made. This progress is largely due to the Dominion Housing Act which was passed in 1935 with a two-fold purpose in mind. The first of these purposes was to provide a stimulus to the laggard construction industry in order to relieve unemployment and foster recovery in general business activity. The second was to make a contribution to the solution of the housing problem particularly for persons in the middle and lower income groups.

Operations under the Act got off to a slow start for a number of reasons. The normal building season for the year 1935 was nearly completed before the Act was passed and the necessary agreements were entered into with approved lending institutions. It took time for the public to become acquainted with the facilities provided by the Act and to regain after five or six years of depression the confidence necessary to embark upon long-term fixed investments. Naturally also it took some time for the private lending institutions to adjust their ideas and their organizations to the new methods of financing and to give the Government the effective co-operation which it desired. But particularly during the past year the volume of loans made under the Act has been steadily increasing and as at August 14, there had been approved loans aggregating \$10,248,051 and providing housing accommodation for 2,358 families. During the month of July alone, 247 family units were financed by loans aggregating \$1,036,493, a hundred per cent increase over July, 1936. In the twelve months ending July 31, the loans made approximated \$7,000,000.

The steady rates of increase in lending activity is shown by the following table:

	Volume of Loans	No. of Family Units provided	Average loan per Family unit
Oct.—Dec. 1935.....	\$ 525,075	99	\$5,304
Jan.—Mar. 1936.....	285,750	64	4,465
April—June 1936.....	1,392,222	288	4,834
July—Sept. 1936.....	1,645,413	351	4,688
Oct.—Dec. 1936.....	1,119,368	221	5,065
Jan.—Mar. 1937.....	1,231,677	294	4,189
April—June 1937.....	2,599,766	683	3,806
July—Aug. 14, 1937.....	1,448,785	338	4,286
	<hr/> \$10,248,051	<hr/> 2,338	<hr/> \$4,383

The total of loans so far made may not have met the expectations of some of the sponsors of the legislation, but it cannot be doubted

that the Act, both directly, and indirectly by the stimulation which it has given to straight mortgage lending, has already made significant progress in accomplishing the two purposes for which it was passed. Moreover, the fact that loans are now running at the rate of over \$1,000,000 per month indicates that the outlook for future progress is very bright.

By provinces, the total loans approved as at August 14, were as follows:—

Provinces	Volume of Loans	No. of Family Units provided
Nova Scotia.....	\$ 914,121	214
Prince Edward Island.....	50,034	9
New Brunswick.....	180,909	43
Quebec.....	3,672,437	788
Ontario.....	4,585,123	1,053
Manitoba.....	213,164	30
Saskatchewan.....	8,200	2
Alberta.....
British Columbia.....	394,063	199
	\$10,248,051	2,338

You may be interested to note that Nova Scotia with only about 5 per cent of the Dominion's population has about 9 per cent of the total volume of loans so far made. Loans have been made in eleven communities in your province (Annapolis Royal, Bedford, Dartmouth, Halifax city, Halifax county, Kentville, Liverpool, Sydney, Truro, Wolfville and Yarmouth) and in 147 different communities, small and large, throughout the country.

An important point to note is the increasing extent to which the Act is being made use of to finance the erection of low-cost homes. The average loan per family unit has decreased from \$5,304 in the last quarter of 1935 to \$3,806 in the second quarter of 1937. As at August 14, the average per family unit of all loans outstanding was \$4,700. We have made several loans for amounts as low as \$1,700. Loans per family unit may be classified by amounts as follows:—

50 family units financed by loans of \$2,000 and under.						
547	"	"	"	"	"	2,001 to \$3,000.
732	"	"	"	"	"	3,001 to 4,000.
378	"	"	"	"	"	4,001 to 5,000.
631	"	"	"	"	"	5,001 and over.

As over 50 per cent of the total number of family units provided have been financed by loans of \$4,000 or under, it is apparent that Housing Act operations are not overlooking one of the

objectives which Parliament had in mind, namely, the encouraging of home-building by persons of the middle or lower income groups. Many projects now in the planning stage give us reason to believe that this low-cost housing field is one in which we may expect the Act to make a more and more important contribution.

I assume that you are all generally familiar with the methods of operation under the Act and I shall only give such explanation of these as may be necessary to demonstrate what I deem to be the major advantages of Housing Act Loans.

The first of these advantages is that the Act makes possible an 80 per cent loan, leaving the prospective home-owner to provide an equity of only 20 per cent, which may take the form of cash or a lot or both. This lending ratio is 80 per cent of the cost *or* the appraised value of the completed property, whichever is the lesser amount, as determined by actual tenders or estimates of cost and by appraisals of land and building value made by the approved lending institutions and checked by the Department of Finance. The individual who has paid an excessive price for his land or who has incorporated in his house special features which may appeal to him but not to a prospective typical buyer will be loaned only 80 per cent of appraised value not of his excessive cost, while the individual who has been fortunate in building a house with a fair market value higher than cost will receive only 80 per cent of his cost. In other words, the aim is to ensure that the borrower has a sound equity of 20 per cent.

I do not wish to leave the impression that all Housing Act loans are 80 per cent loans. Some borrowers are able and willing to put in a larger equity while on some properties, either because of poor location or the credit risk or other special features, the private lending institution is not willing to make a loan as high as 80 per cent. Consequently provision has been made by regulation for 75 and 70 per cent loans in addition to the typical 80 per cent loan. As you are probably aware, the Dominion's share of Housing Act loans is always limited to 20 per cent. The lending institution puts up the remaining 60, 55, or 50 per cent as the case may be, and the whole loan is secured by a single first mortgage running jointly to His Majesty the King and to the lending institution. A special clause in the Act makes it possible for companies incorporated under Dominion charter to join in

these high percentage loans, despite the fact that by previous legislation they might have been limited to 50 or 60 per cent loans.

The advantage of these high percentage loans contemplated by the Act is that they allow borrowers with small cash resources to build their own homes without resort to financing by means of second, or second and third mortgages. Apart from its evils of prohibitive cost and intolerable carrying charges and risks, to which reference has already been made, such junior financing had practically disappeared during the depression. For some years past, few lenders could be found willing to take the risks involved in placing second mortgages on urban homes. Much of the building financed under the Housing Act would therefore not have been possible, let alone probable, without the Act.

A second advantage is to be found in the longer term of Housing Act loans. In contrast with the traditional three to five year term, our loans are made for a period of 10 years and are renewable for a second period of 10 years, subject to revaluation of the security and conditions satisfactory to all three parties concerned. Not only are renewal costs saved, but the risk of having to pay off or reduce the mortgage at inconvenient times is largely eliminated.

In the third place, the rate of interest on the mortgage must not exceed an effective rate of 5 per cent. This is made possible by the fact that the Dominion Government is willing to advance its portion of the funds required on the low interest basis of 3 per cent. As the borrower pays 5 per cent on the total amount of his loan, it will be noted that the lending institution receives slightly over $5\frac{1}{2}$ per cent on its advance. This does not appear to be an unreasonable return, having in mind the substantial costs which the companies incur in the initial work of making the loan—appraisal of land and building, checking of plans and specifications, obtaining credit reports, making inspections of building during construction, etc.—and, perhaps more important, the special annual costs involved in collecting and accounting for the tripartite monthly instalments. Certainly the rate of 5 per cent which the Canadian borrower has to pay for an 80 per cent loan compares very favourably with the 6 per cent rate (5 per cent interest plus $\frac{1}{2}$ of 1 per cent service charge plus $\frac{1}{2}$ of 1

per cent insurance premium) which United States borrowers pay under the Federal Housing Act and even with the typical $4\frac{1}{2}$ per cent rate charged by the Building Societies in Great Britain.

In my opinion, one of the most important advantages of Housing Act loans is the monthly instalment plan. Under the Act the borrower is required to make monthly instalments in respect to interest, principal and taxes. Principal retirement is provided for in accordance with a standard amortization table at a rate sufficient to retire the full amount of the loan in 20 years; if the borrower so desires, this amortization rate may be accelerated. The monthly payment for interest is one-twelfth of the total annual interest, and for taxes one-twelfth of the estimated annual taxes. Taxes will vary in different municipalities depending on local tax rates and assessment practice and, consequently, the table which we supply in our descriptive literature shows only the monthly payment for interest and principal retirement. Perhaps one or two illustrations drawn from this table may be of interest to you. On a completed property costing \$5,000, an 80 per cent loan would be \$4,000. After putting in an equity of \$1,000, the borrower would make monthly payments of \$26.15, (excluding taxes) and by the end of 20 years he should own his property free and clear. At the end of 10 years, his loan would have been paid down to \$2,575.44, and at the end of 15 years to \$1,510.85. On a \$2,500 property, his 80 per cent loan would be \$2,000 and his monthly payment for interest and principal retirement would be only \$13.08. If you desire to determine the corresponding monthly payment for any other size of loan, all you need to do is to calculate it on the basis of \$6.54 per thousand dollars. To the average citizen of an ordinary community in Canada the significance of such figures is that if he can make monthly payments somewhat comparable to rent, (in many cases actually lower than the rent he would pay for similar accommodation), he should be able to own a home entirely free and clear of all encumbrances at the end of 20 years.

I think the compelling advantages of this plan will be immediately apparent to you. In particular, it provides a discipline for the borrower which is not present in any straight mortgage plan. It requires him to budget his income and to set aside each month a fixed amount to protect his most precious investment, his home—and the amount is so small that it should not be

beyond his capacity to pay with comfort. How many homes have been lost in the past because money was not put aside regularly to pay the semi-annual interest or reduce the principal and, therefore, when the heavy payments were demanded, they could not be met. The plan, moreover, is cheaper, even apart from renewal fees. Regular monthly amortization on a Housing Act loan means that you are investing the required amounts at 5 per cent compounded monthly; if you put aside an equivalent amount of cash in your bank account or in any other reasonably safe investment you are not likely to secure anything like so favourable a return on your money. Other advantages to the borrower might be mentioned. To the lender the plan involves more accounting cost but in my opinion this additional cost is far more than outweighed by the increased safety of his investment.

I must mention on one final advantage of Housing Act loans. In accordance with a provision of the Act, the Minister of Finance, after consultation with practical builders, architects, engineers and experienced representatives of lending institutions, formulated and promulgated a set of "minimum standards of construction" with which houses to be financed under the Act are required to comply. At the same time he issued a detailed "memorandum of specifications" to assist architects and owners to comply with the minimum standards. No one pretends that these standards and specifications represent "the ideal", but I wish every prospective home-builder and home-buyer would study them with great care and compare them with what the architect or builder is proposing to give him in the house in which he is interested. If they were as familiar to the public as are the specifications of automobiles, I think there would be an end to shoddy or jerry-built construction and an enormous improvement in the efficiency and ethics of the house-building industry. Not only are minimum standards required by the Act, but the Regulations which have been drawn under the Act require the Lending institutions to make four inspections of the building during the progress of its construction in order to make sure that the builder is living up to the minimum standards and the specifications which have been agreed upon. The first of these inspections is to take place at the time the footings are laid to determine the condition of the soil for bearing, drainage and frost protection; the second involves the inspection of concrete masonry

and rough carpentry work at or about the time the roof is completed; the third requires a check of all structural members and rough concealed equipment such as plumbing and heating piping and ducts prior to or during the process of lathing; and the fourth involves an inspection and final check-up on the house at completion. Other inspections are to be made if special or extraordinary conditions suggest that they are necessary. As the proceeds of the loans are usually paid out in three or four instalments as various portions of the construction work are completed, it is possible for the lender to withhold any unpaid balance of the loan proceeds until the builder has remedied any defects or omissions in his work.

It must be noted that the Government imposes these standards and requires these inspections to protect the security behind the mortgage and the lenders do not and cannot accept any liability to the home-owner. It is the latter's own responsibility to protect himself against unsound workmanship on the part of a builder to whom he has given a contract and he will usually find that it will pay him to employ the services of a supervising architect. But it is obvious that the safeguards referred to protect not only the lender's interest, but the borrower's interest as well. Testimony to this effect has been received on numerous occasions.

Perhaps I have said enough to indicate that in the Dominion Housing Act is to be found a vehicle by means of which distinct progress may be made on the way to a solution of one of the major causes of the housing problem. No one will deny that the Act has its limitations or that it has been subject to criticism. Some of these criticisms (such, for example, as the initial criticism by builders and even in some cases by lending institutions that the standards of construction were harmful, too strict, likely to retard building operations, etc.) we may overlook as ill-advised or unfounded, but brief reference may be made to three or four others.

The Act has been criticized, for instance, because it requires the co-operation of private lending institutions, which institutions, it is alleged have not and will not co-operate effectively with the Dominion Government. The purpose of this provision was not only to limit to more reasonable proportions the funds which would otherwise have to be found for housing by an already heavily-burdened exchequer, but also to utilize the experience and

the trained personnel which had been developed over a long period of years by existing mortgage lending institutions, thus avoiding the necessity of building up a huge governmental staff throughout the country untrained and inexperienced in the highly difficult task of making sound mortgage loans. As already indicated, it took time for the private companies to adjust their methods to the new lending program and to expand their staffs sufficiently to give reasonably adequate coverage for the country as a whole. But, as is evidenced by the rapid rate of increase in the volume of loans and the indications in prospect, there is every reason to believe that most, if not all, of the companies which signed the agreement with the Minister of Finance, are making a sincere effort to give the maximum co-operation to the Government. In certain cases, too much praise cannot be given for the whole-hearted endeavour which has been made and which has involved expenditures for regional investigations and initial preparations probably out of proportion to the returns to be expected in the early future. It is only fair that this acknowledgment should be made at this time.

A second criticism which has been made in certain quarters is that the Act can make only a slight contribution to house-building activity because so few persons can put up the necessary 20 per cent equity. The statistics to date and as they will emerge with each passing month should be sufficient to refute this contention. Moreover, is it not highly doubtful whether under the dynamic conditions of our society and in view of current conditions in the house-building industry, a higher percentage loan can ever be justified from the lender's standpoint and whether on the other hand the borrower who cannot provide an equity of at least 20 per cent is ever justified in accepting the responsibilities of home ownership? Parliament apparently believed that the lender with the safeguards contemplated by the Act could make an 80 per cent loan without undue risk in a great many cases at least, and that it would be a kindness to the borrower to make him postpone the liabilities of home-ownership until he had increased his savings to at least 20 per cent of the cost of the home.

A third criticism arises out of the problem of location. It is contended that the private lending companies will not make loans in certain sections of a given town or city, nor in certain small and remote municipalities at all, and it must be admitted

that there is truth in this contention. A careful analysis of the situation, however, will lead the reasonable-minded observer to sympathize, at least, to a very considerable extent with the attitude of the lending companies. It must be remembered that the officers of these companies are investing trust or quasi-trust funds,—the funds of their policyholders, depositors, debenture holders and stockholders,—and it is therefore incumbent upon them to seek investments which can be justified on grounds of soundness and safety. If, then, they are asked to make loans in a section of a city which is unprotected by zoning or building restrictions or which is decadent and subject to rapid depreciation in property values, or if on the other hand they are asked to make loans in a community which is subject to special economic hazards or which is so small that the property which is security for a mortgage loan would almost certainly be unsalable or salable only at a substantial sacrifice of value if the mortgagor defaulted on his loan, who can with reason denounce their rejection of the loan applications? The Department has taken the position that it has neither the power nor the inclination to force a lending institution to make loans which it thinks unsafe from its own investment point of view. With that position I suspect you will agree.

Is it then possible to do anything about such cases? First let me say that the Department itself has not named any communities from which it will be unwilling to consider applications for loans, that it has made every possible effort to reduce to the irreducible minimum the areas in which the companies are reluctant to lend, that the number of such districts is rapidly decreasing, and that there is every reason to expect a substantial further decrease.

To reduce to the minimum the number of such communities the Governor-in-Council has approved a Regulation under which the Dominion agrees to accept a greater share of the risk of loss and the special expenses incident to the making of small loans in these areas. Under the usual formula the risk of loss on a Housing Act loan is shared between the Government and the lending institution on a one-third two-thirds basis. Thus, if at the time of foreclosure, the amount owing on the mortgage is more than the company's share of the original loan, the Government bears two-thirds of the loss and the company one-third;

if on the other hand the amount owing is less than the company's original loan, the Government bears only one-third of the loss and the company two-thirds. The reasons for this formula will doubtless be apparent to you. But in order to induce the companies to lend in small or remote areas, the Government under the Regulation approved last September agrees to bear 80 per cent of the loss in the case of an 80 per cent loan for an amount of \$3,000 or under, 75 per cent of the loss where such a loan is for an amount higher than \$3,000 but not in excess of \$3,500, and 70 per cent of the loss where such a loan is in excess of \$3,500 but not in excess of \$4,000. I think you will agree that this provides a powerful incentive to the lending companies and that the Dominion could scarcely go farther within the limits of soundness.

Secondly, the municipalities have it in their own power to decrease the number of ineligible lending areas by giving to the prospective owners of homes in such areas reasonable protection by zoning and building restrictions against unnecessary depreciation in values. In the third place, the lending institutions may be induced to loan in otherwise unsuitable districts if their risk is minimized by a suitable guarantee from a local industrial corporation interested in providing suitable housing for its own employees, or by the municipality, or by the municipality and the province. For instance, a substantial number of new houses are being financed in the new industrial town of Comeau Bay on the lower St. Lawrence because the Ontario Paper Company which is developing a large paper manufacturing industry at that point has been willing to work out a suitable guarantee with an approved lending institution. It is understood that one or two additional arrangements of a similar type are now under negotiation. Finally, in those cases in which it is hopeless to expect the co-operation of private lending companies, there is still one way left by which the Dominion may assist the municipality. The Act makes it possible for the Minister of Finance to enter into agreements for making Housing Act loans not only with approved lending institutions but also with a "local authority", which is defined as "any province, municipality, society, association or corporation having authority to undertake a housing scheme." Consequently, any municipality which finds it impossible to persuade a lending institution to make loans within its limits may either directly, or indirectly through a quasi-public authority set up for the purpose, approach

the Minister of Finance for a contract under which it may take the place ordinarily occupied by a private lending institution in the Housing Act scheme. Needless to say, such a municipality should have a sound plan carefully worked out and it would have itself to provide the 60 per cent otherwise advanced by the lending institutions.

The fourth and final criticism to which I wish to refer is the contention that the present Housing Act does not provide for slum clearance and low-cost housing projects, particularly low-rental projects. It is true that the Act is probably not a suitable vehicle for ambitious slum clearing projects and it was not intended to serve such a purpose. If it is considered desirable that such projects should be undertaken in this country and that the Dominion Government should participate in them, new legislation will probably have to be passed. Whether or not such legislation is desirable and, if so, what form it should take, it is not appropriate for me to discuss. I may, however, quote from a public statement recently made by the Hon. Mr. Rogers, Minister of Labour, with reference to a proposal for low-rental housing made by the National Employment Commission:

"The proposals for low-rental housing were received in the midst of the recent short session. In view of the fact that the provision of low-rental housing is primarily a municipal and provincial responsibility, the Dominion Government did not feel justified in proceeding with this recommendation without a further examination of municipal and provincial plans for low-rental housing and slum clearances.

In taking this position it had in mind the support already given by Dominion legislation to employment in the building trades through the Dominion Housing Act and the Home Improvement Plan."

So far as the present legislation is concerned, we may refer back to the data already given regarding the extent to which the Housing Act has already been used for the financing of homes for persons in the low-income groups. As stated, several loans for an amount as low as \$1,700 have already been made. On an 80 per cent basis, this would finance a home with a cost or value of \$2,125. The borrower's required equity would be \$425. and the monthly payment for interest and principal would be only \$11.12. Adding estimated taxes at, say, 2 per cent of the cost or value of the house (annual taxes \$42.50 or \$3.54 per month) would give a total monthly requirement of \$14.66. On the basis of the generally accepted criteria (i.e. (1) cost of a home should

not exceed an amount equal to 2 or $2\frac{1}{4}$ times the annual income, especially in the lower brackets of income and (2) monthly rent should be less than the weekly income), it is clear that such a home might comfortably be owned by a family whose total income was in the range of say, \$800 to \$1,000, a very low figure indeed. It must be admitted, however, that in many communities, certainly in most of the larger towns and cities, it will probably be impossible to provide a home complete for the typical family at a figure as low as \$2,125. In the evidence presented to the Housing Committee of the House of Commons in 1935, the view was expressed that the probable minimum cost of a home for a 5 person family would approximate \$2,700 in Toronto and \$3,500 in Montreal (on expensive central land). However a later investigation by a competent private group in Montreal has led to the belief that it is possible to provide fireproof apartment house accommodation in that city at a cost of \$2,352 per family unit (5-6 adult persons). This estimate was arrived at only after the most elaborate study and the utmost ingenuity had been devoted to the possibilities of cost reduction. (It is only recently that architects, real estate experts, and financial men have devoted themselves seriously to the problem of low-cost housing. There is real need for a great many investigations of the type which has been made in Montreal.)

Even if we succeed in solving the problem of getting the cost of the family dwelling unit down to a point where the carrying charges under a Housing Act loan would be within the capacity to pay of the low-income groups, there may still be the difficulty of getting a private lending institution to finance the project without some additional protection. This is particularly true if the accommodation is to be rented instead of being sold. One promising line of solution is the establishment of a limited dividend company with capital stock equal to, say, 25 or 30 per cent of the cost of the project contemplated, such capital stock to be subscribed by public spirited citizens, seriously interested in solving the housing problem in their own community. Such a company would be able to provide sound business management, free from political interference, and its obligations, therefore, would probably be better calculated to interest a private lending company than the similar obligation of a municipally owned and managed corporation. Part of the capital funds of the company would provide the 20 per cent equity required for a Housing

Act loan and the balance would be available for working capital. In some cases, the private lending institution might require the guarantee of the municipality or of the municipality and the province. On a scheme soundly set up and with the guarantee of a municipality and/or province in sound financial position, it is conceivable that the average rate of interest on a Housing Act loan could be reduced to, say, 4 per cent, particularly if the Dominion were willing to make its 20 per cent contribution on a 2 per cent rather than a 3 per cent interest basis. If we assume as practicable the costs of construction and operation used by the Montreal group, such a financial set-up should make it possible to provide housing accommodation at rentals within the range of \$15 to \$20 a month. It is understood that the city of Winnipeg is at present attempting to work out a variation of the above scheme, although the houses are to be built as individual units and are to be sold, not leased. In principle, the scheme is not unlike the program which I understand the Nova Scotia Housing Commission has in contemplation.

In conclusion, it should be apparent that the Housing Act is a very flexible instrument and can be adapted to many different types of arrangement. We cannot, of course, increase the Dominion contribution of 20 per cent or decrease the minimum equity of 20 per cent or eliminate the monthly payment plan, but most of the other important features of the financial contract are subject to determination at the discretion of the Governor-in-Council. The Act is already making what is believed to be a significant contribution to the amelioration of the housing problem and it has many important possibilities still to be explored. Needless to say, the Department of Finance is ready at all times to sit down with the officials of any municipality or with any group of private citizens and to discuss whether any particular program they have in mind can be brought within the four corners of the Act. The only request which the Department makes is that before such a conference is requested the interested parties shall have given serious study to their problem and shall have secured all the necessary information to enable the working out of a constructive program upon a sound basis.

I trust that I have at least made clear my conception of the housing problem and the steps which have already been taken to solve its financial aspects. A solution of its other phases

presents a far more difficult task. As to these, I have no simple or magical formula to offer you. But at the risk of offending certain interested parties, I have tried to present a candid, realistic analysis of what I conceive to be the elements of the problem, in the belief that any problem clearly stated is already half solved. Perhaps some of the lines of solution at which I have hinted may prove impracticable when they run up against the refractory material of human nature. But, if so, we must discover and pursue other methods, for we cannot long brook delay in improving the adequacy and quality of Canadian homes. Furthermore I believe that if we succeed in finding a way by which the building industry is able to provide decent homes for the mass of our people, we shall also have found one of the most important avenues to renewed and continuing prosperity, not only for all those now in the house-building industry, but also for our whole economy. I plead the importance of these objectives in extenuation of any foolhardiness which I may have shown today.