is a disaster

below two per cent in most Canadian cities and still declining.

New apartment starts have fallen from 106,000 per year in 1971-73 to 52,000 in 1981, and are expected to drop to about 250,000 in 1982, states the report. Only one-fifth of these were government-assisted in 1971-73, compared to two-thirds in 1981 and "virtually all" expected to be built in 1982.

Even if interest rates decline sharply, labour and capital has already drifted out of the housing industry. This will boost construction costs still further, if and when the market becomes economically viable again.

The report estimates that, at 20 per cent interest rates, rent would have to increase by 39 per cent annually for the next five years for an investor to have the same profit rate as at a 13 per cent interest rate.

Winnipeg tenants will fare better than most, mainly because a steady movement of people out of the city is reducing demand. But even there a rental crunch is approaching.

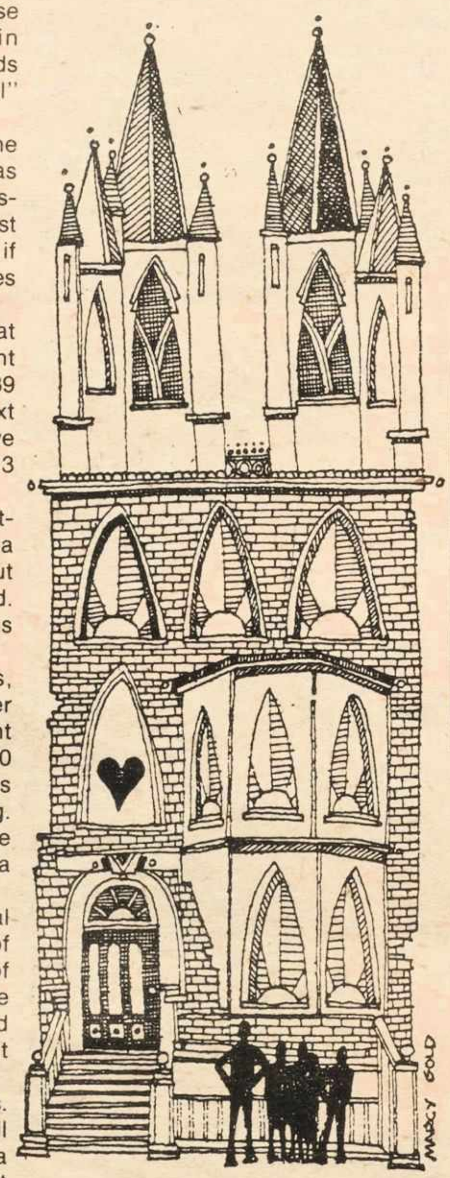
Apartment vacancy rates, which have been above 10 per cent in Winnipeg in recent years, fell to 4.3 per cent in 1980 and to about 3.4 per cent this fall. And they are still falling. Any market with a vacancy rate of less than three per cent is in a crisis, according to the CMHC.

Four variables will be crucial in determining the severity of the crisis. The first is the level of economic activity: cities like Vancouver, Calgary and Edmonton will be harder hit than Winnipeg or Montreal.

The second is rent controls. Without them, the market will make a major readjustment in a short time, rents will skyrocket and new construction begin again. This is already happening in Vancouver.

The social disruption has been immense, with the burden being borne disproportionately by poor and lower-middle income people. Rent controls would probably dry up the vacancy rate even faster, but would ease the pain of adjustment.

The third is government funding for public housing and assistance to builders, which might minimize the apartment shortage. But this would require subsidies on a scale Canadian governments would not now contemplate.



And, finally, interest rates. A drop in interest rates would help reduce the shock, but the crisis in rental accommodation was coming long before the interest rates reached 20 per cent.

It seems inevitable. The only question is how much it will hurt.