

Aqanttanam Housing Society

Expiry of an Operating Agreement

Aqanttanam Housing Society is a small housing provider that offers housing for low- to moderate-income families and individuals of Aboriginal descent in Cranbrook, BC. It operates approximately 59 scattered units and single family dwellings. This profile outlines the Society's experience with the expiry of their operating agreement in 2005.

Operating agreement details

The typical agreement under Pre-1986 Section 95 of the *National Housing Act* is associated with a mortgage of 35 years. The subsidies are aimed to write down the mortgage interest rate to 2%. Projects under this operating agreement generally incorporate income mixing, with some rents calculated at 25% of the tenants' incomes (RGI) and others at the low-end-of-market (LEM). Under this particular agreement the Society received ongoing subsidies to cover the mortgage payment, building maintenance and other shelter-related costs. The rent for all units was set according to tenant income.

Project details

Name: Not applicable
Location: Cranbrook, BC
Building Type: 3 single-detached houses
Landowner: Aqanttanam Housing Society
Housing Program: Pre-1986 Section 95
Operating Agreement Start: 1986
Operating Agreement End: 2005

The agreement began in 1986 and covered a total of 29 single family dwellings. The agreement expired in 2005 for three of these houses, concurrent with the mortgage being paid off on these buildings. It was in effect for 19 years instead of the common 35-year period.

Comparison of pre-expiry and post-expiry situations

Examining the pre- and post-expiry tenants, financial status and portfolio considerations reveals several important similarities and differences.

The mix of rents for these units has shifted. Prior to expiry, rents were set at 25% of the household's income, per the agreement requirements. The Society was not able to maintain this level of subsidy after the agreement expired given the low rents and the ongoing costs of insurance and maintenance. After expiry, two of the units were converted to market rents, allowing the third to remain subsidized on a break-even level.

Table 1: Tenant considerations pre- and post-expiry

Tenant Considerations	Before Expiry	After Expiry
Tenant type	Aboriginal families	
Rent calculation	100% RGI	67% market rent, 33% break-even

The three buildings continued to operate with a surplus after expiry. The new replacement reserve balance reflects funds that were put towards building maintenance and repairs in anticipation of expiry. There is currently no capital plan in place for the buildings, and the Society has not yet developed a capital reserve investment strategy.

Table 2: Financial status pre- and post-expiry

Financial Status of Buildings	Before Expiry	After Expiry
Financial viability	Operating surplus	
Annual replacement reserve allocation per unit	N/A	
Replacement reserve balance	\$23,000	\$20,000
Capital plan in place?	Yes ¹	No
Capital reserve investment strategy	No strategy	
Mortgage expenses	Covered by subsidies	None

After expiry, Aqanttanam received the title to the three expired properties. The Society has since sold two of these properties and has invested this revenue into purchasing commercial properties.

Table 3: Portfolio details pre- and post-expiry

Portfolio Details	Before Expiry	After Expiry
Number of properties	59	
Number of units	59	
Type of units	Subsidized single-detached houses	Single-detached houses
Properties owned outright	0	3

Planning for expiry

The Society did not prepare a specific strategy or plan in anticipation of expiry. Rather, they ensured that their business plan reflected the fact that they would no longer be receiving subsidies, undertook the necessary repairs, and considered opportunities for increasing rents in order to cover expenses.

Ensuring financial viability

Prior to expiry, rents were set at 25% of the tenant incomes. While the three units were generating income, low rents meant that the revenues would be insufficient to cover the ongoing costs of operating the units once the subsidy gone. The Society made a decision to raise the rents on two of the units to

¹ This may have applied to the units which have now been sold.

reflect the market at the time, allowing them to keep one unit subsidized. They later sold these two units, generating further revenues for their portfolio.

Planning for renovation or capital replacement

The Society had a healthy replacement reserve fund prior to expiry. Anticipating the possible cash flow issues that a loss of subsidy might bring, the Society undertook all necessary repairs on the three houses before the agreement expired. The respondent estimated that this action extended the life of the units by another 20 - 25 years. Having the buildings in good condition may have also contributed to their ability to attract and retain tenants paying low-end-of-market rents, as well as their ability to sell two of the houses.

Involving staff and tenants

Planning for expiry was a team effort involving many of the Society's staff, but did not require any special training. Tenants were given a year's notice of the rent increases, and were given the option of staying or moving to other subsidized units as they became available.

Challenges, opportunities and lessons

Challenges

The respondent considered the expiry of their operating agreement to be a simple matter not requiring a considerable amount of preparation. Rather than being challenged by the loss of subsidy, the Society has viewed expiry as a process with potential opportunities.

Opportunities

The respondent had a positive view of operating agreement expiry, because it gave them independence and flexibility. Ownership of the three houses allowed the Society to sell two of them and to buy a commercial building. The Society hopes to double what they received from the sale of the houses and intends to purchase properties that raise more revenue, enabling them to buy additional buildings in the future.

Future considerations

Aqanttanam has sold two of their buildings and their goal is to partner with other like-minded organizations to purchase commercial properties. These properties will serve as revenue generators, allowing the Society to purchase additional housing buildings in the future. They have already begun to realize this goal and recently secured a commercial space and were seeking partners to develop it into a mixed-use building with a number housing units.