PREPARING FOR THE EXPIRY OF OPERATING AGREEMENTS

BCNPHA AND BC HOUSING WORKPLAN – NOVEMBER 2013 UPDATE

UPDATE ON WORKPLAN

BC Non-Profit Housing Association (BCNPHA) and BC Housing have partnered through a joint workplan to examine the issues around the expiry of operating agreements. The purpose of the workplan is to create a greater level of awareness on the expiry of operating agreements, examine the opportunities and challenges associated with expiry, and to develop strategies to sustain the affordable housing stock and the non-profit housing sector.

The joint workplan has three phases:

- Phase 1 focused on gathering data and context around the expiry of operating agreements;
- Phase 2 involved identifying the key issues, challenges and opportunities for non-profit housing societies; and
- Phase 3 will include the creation of tools to assist with planning for the expiry of operating agreements.

Phases 1 and 2 are complete and phase 3 is in progress. This newsletter will provide a brief summary of the findings from activities in phases 1 and 2, and set the context for this workshop.

CONTEXT

There are approximately 700 non-profit housing societies in B.C. operating roughly 60,000 units in 2,000 buildings. About two thirds of societies operate a single project. Between fiscal years 2012/13 and 2029/30 it is expected that:

- Operating agreements will expire for approximately 24,000 social housing units in B.C.
- About 5,400 units will expire between 2012/13 and 2017/18, and about 8,000 units will expire between 2018/19 and 2023/24.

- The bulk of units – approximately 11,000 – will expire in the following decade between 2024/25 and 2029/30.
- Social housing programs with the most units expiring are those established by CMHC in the 1970s and 1980s (some even earlier) and devolved to the province in 2007:
    1. Mixed-income non-profit projects for families and single persons with some units rented at the lower end of market levels and some rent-geared-to-income or RGI (5,000 units), and
    2. Rent-geared-to-income projects for seniors (5,000 units)
- Projects with expiring agreements are located province-wide. The majority will occur in the Vancouver Coastal region (15,100 units) and Fraser region (9,600 units).
- Over time, the expirations will affect projects across all housing programs and client groups.

Research Findings: What We Know So Far

- Expiry of operating agreements will impact non-profit housing providers as the long term mortgages are paid off and subsidies to projects end.
- A review of research carried out across Canada indicates that most projects should be viable, or should be able to achieve viability when the operating agreement expires if actions are taken.
- An evaluation of single project portfolios in B.C., however, indicated that a third of projects will not be viable without corrective action. Half of all single project portfolios have underfunded reserves.
- Viability depends on a positive cash flow for the society to cover both the operational and the maintenance & rehabilitation costs post-expiry.
- Research suggests the impacts should be manageable and will provide an opportunity to further strengthen the non-profit housing sector. Avoiding negative impacts will take a concerted and proactive effort among all housing partners.
- Projects are more likely to be viable in these general scenarios:
    1. Developed with a mix of RGI and market units which can support a stronger cash flow situation for the provider.
    2. Part of a large housing portfolio operated by the society. With a larger portfolio developed under a variety of programs over a number of decades, societies would generally have access to greater staff resources

to plan and manage the transition, as well as more options and greater economies of scale within their portfolio.

- Projects are more likely to face greater challenges in these general scenarios:
    - Projects developed under programs with a high proportion of RGI units. Research indicates that as a rule of thumb, projects with more than 65 percent RGI units are unlikely to be financially viable post-expiry.
    - Projects with subsidies that exceed their mortgages, typically linked to high percentage of RGI units.
    - Projects operated by non-profits with small portfolios. About two thirds of societies operate a single project.
- Out of a sample of 33 BC non-profit societies surveyed, 12 indicated that they were not prepared for expiry, and 11 were somewhat prepared.

KEY CONSIDERATIONS

The overarching considerations identified so far through the joint research plan are described below.

1. Project viability

The viability of projects post-expiry is the most significant consideration. The main message from the research is that projects can be made viable if they are assessed, options identified and action taken.

2. Affordability

Some of the options available to societies to make their projects viable may have an impact on affordability, e.g., as non-profits look for opportunities to increase revenue sources such as increasing rents or reducing percentage of RGI units. This suggests that the rent structure of projects should be examined so that loss of affordability, if any, can be better understood and forecast.

3. Other considerations

The research also identifies a range of other considerations, some longer-term in nature, for individual providers and the broader sector. These include:

Cultural shift. Post-expiry, housing projects will become non-profit rental housing no longer receiving a subsidy under an operating agreement. For providers, the approach to managing this housing will be very similar to for-profit rental housing in the challenges and opportunities the private owner faces. This new reality will enhance the entrepreneurial culture within the sector.

Society mandates. The constitutions of non-profit societies set out the mandates of the organization. Some societies may be focused on housing, while others may have broader mandates. Post-expiry, some societies may wish to expand their mandates to allow them to do a wider range of activities, e.g., provide other services, find other non-traditional revenue sources, or entrepreneurial initiatives, to help support their housing portfolio.

Legal issues. Post-expiry, the legal framework for non-profit housing may shift. This may have implications from the *Residential Tenancy Act* (RTA) and Canada Revenue Agency (CRA) on how to manage the project and what the society can legally do to ensure the viability and affordability for its tenants.

Transition from pre- to post-expiry. Work needs to be done to facilitate better transition planning from pre- to post-expiry so that challenges may be addressed prior to the agreement ending. Some of these challenges relate to provisions in operating agreements.

NON-PROFITS REQUIRING PRIORITY ATTENTION

Key Findings

Some non-profits will face greater challenges and require priority attention to help them deal with the impacts of expiring operating agreements. These include:

1. Non-profits with projects that have operating agreements expiring soon;
2. Non-profits with projects accommodating high percentages of RGI tenants or special needs; and
3. Non-profits with one project or smaller portfolios.

KEY FINDINGS AND OPPORTUNITIES

The following is a summary of opportunities arising from the research findings.

1. Seek opportunities to evaluate each project's situation and options. Each project is unique and can be assessed individually to forecast its viability. The society's mandate, a project's operating budget and rent structure, the clientele served by the project and the need in the community can be considered. Building condition assessments for each project can be reviewed and updated every few years. Capital plans for renewals and repairs projected over the years can be prepared, monitored and updated.

2. Seek opportunities to explore potential redevelopment or regeneration of non-profit rental housing. B.C.'s urban areas are continuing to grow, making densification a viable option for some projects. There may be opportunity for non-profits to explore market development partnerships to regenerate and create new subsidized affordable housing.

3. Seek opportunities to gather more information on possible mergers of non-profit rental portfolios. In some cases, merging small portfolios to create larger portfolios can improve viability for some projects. Increasing economies of scale can assist with leveraging opportunities.

4. Seek opportunities to retain advice on legal implications of expiring operating agreements. There may be a number of legal issues that arise from the expiry of operating agreements, e.g., related to the Canadian Revenue Agency and *Residential Tenancy Act*.

5. Seek opportunities to generate options for responding to impacts of expiry of operating agreements. The research suggest that a range of options could be explored, from extending operating agreements, restricting disposal of non-profit rental housing projects, or types of program responses could best support societies transition and succeed post-expiry.

6. Seek opportunities to have discussions with other stakeholders. There are a number of stakeholders with an interest in protecting the province's affordable housing stock. These include: municipal governments, co-operative housing stakeholders, the federal government and other provincial governments.

NEXT STEPS

Phase 3 involves developing strategies to assist non-profits with planning for the expiry of operating agreements. This includes:

- Analyzing and identifying the characteristics of particular segments of units set to expire in the next five years;
- Undertaking comprehensive capital planning with the sector to ensure that non-profits have information and capacity to manage their portfolios post-expiry;
- Examining regeneration projects in Canada to identify lessons learned for housing providers considering redevelopment as expiry approaches;
- Exploring the legal implications of expiring agreements;
- Examining the lessons learned from mergers of providers as an approach to creating scale;
- Developing a resource guide for non-profits housing providers;

- Enhancing existing partnerships with organizations that will also be affected by expiring operating agreements;
- Identifying and exploring options for responding to the impacts of expiring operating agreements; and
- Discussing impacts of expiring operating agreements and potential policy responses with the federal government and other provinces.

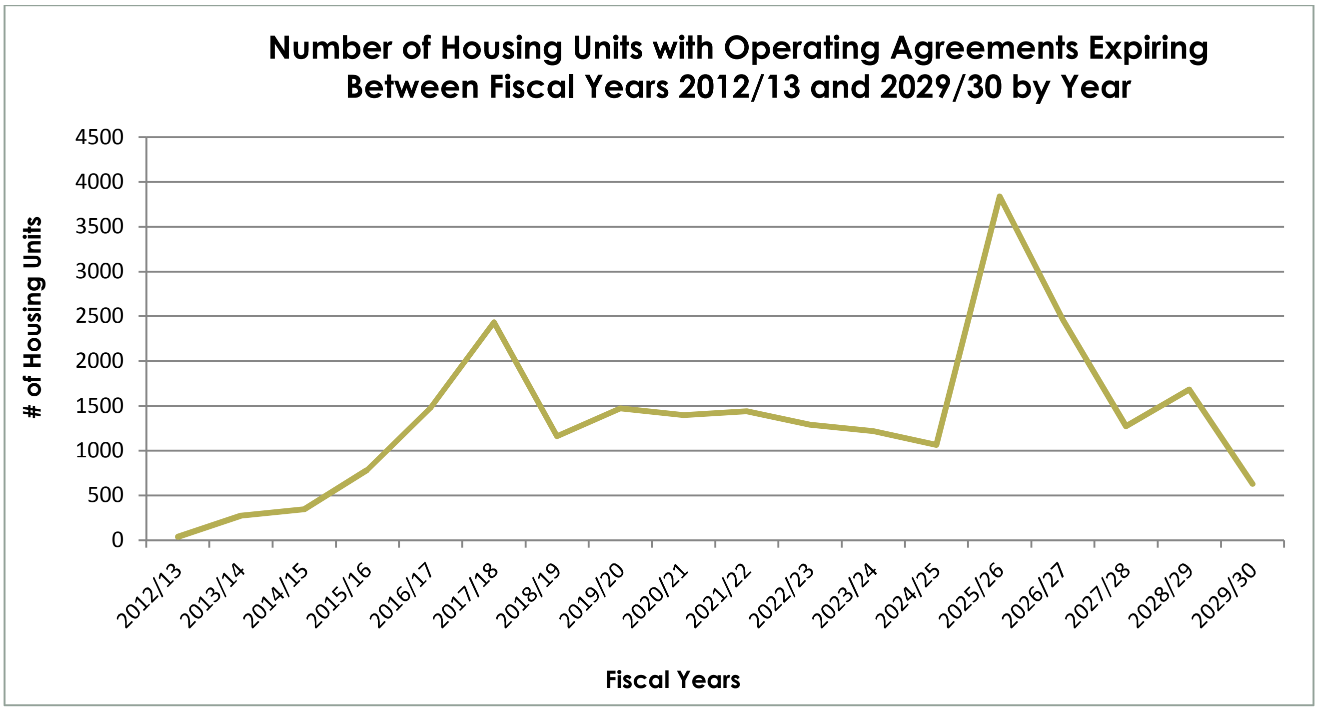
APPENDIX

Units Expiring by Year, Program and Geographic Region

To better understand the distinct issues and needs related to the expiry of operating agreements, data was collected by year, program and geographic region.

Units Expiring by Year

Between fiscal[1] years 2012/13 and 2029/30, approximately 24,000 units with operating agreements will expire in BC. This represents approximately two-thirds of all units with operating agreements. In the fiscal years 2030/32 and later (data not shown), approximately 10,500 units with operating agreements will expire.

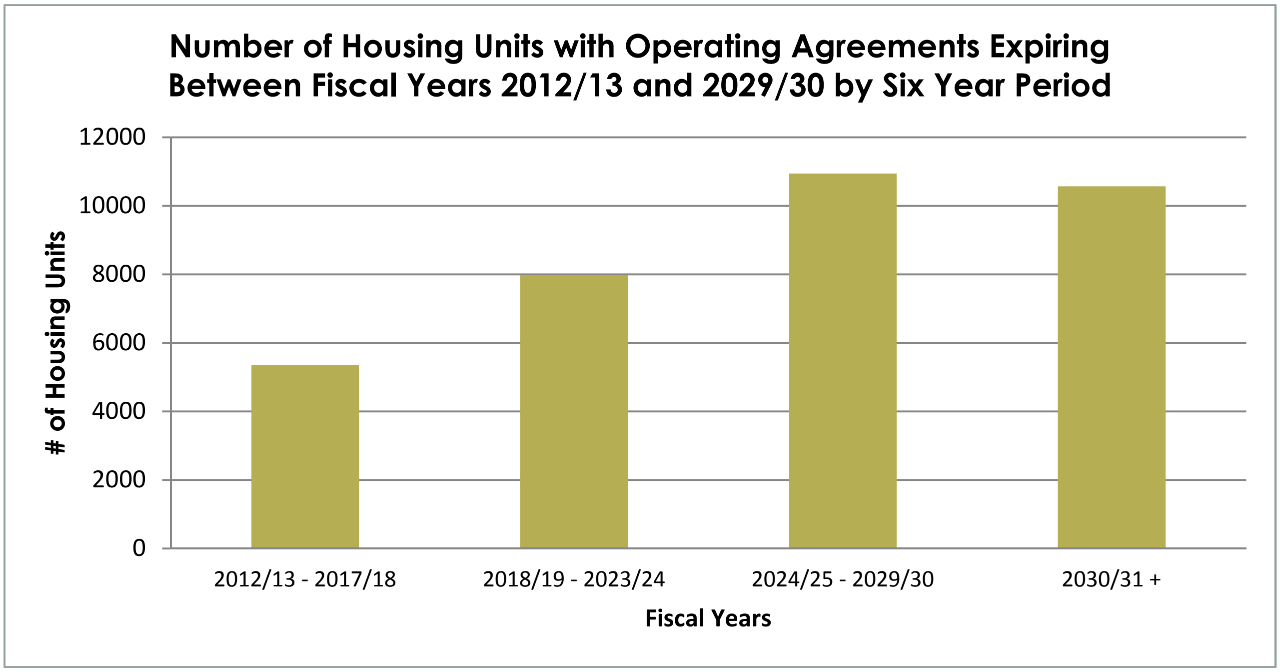


Source: BC Housing, September 30, 2012

[1] Fiscal year refers to April 1 of any given year to March 31 of the following year.

Units Expiring by Six Year Period

- The period with the most operating agreements and housing units expiring is the six years between 2024/25 and 2029/30 with approximately 11,000 units.



Source: BC Housing, September 30, 2012

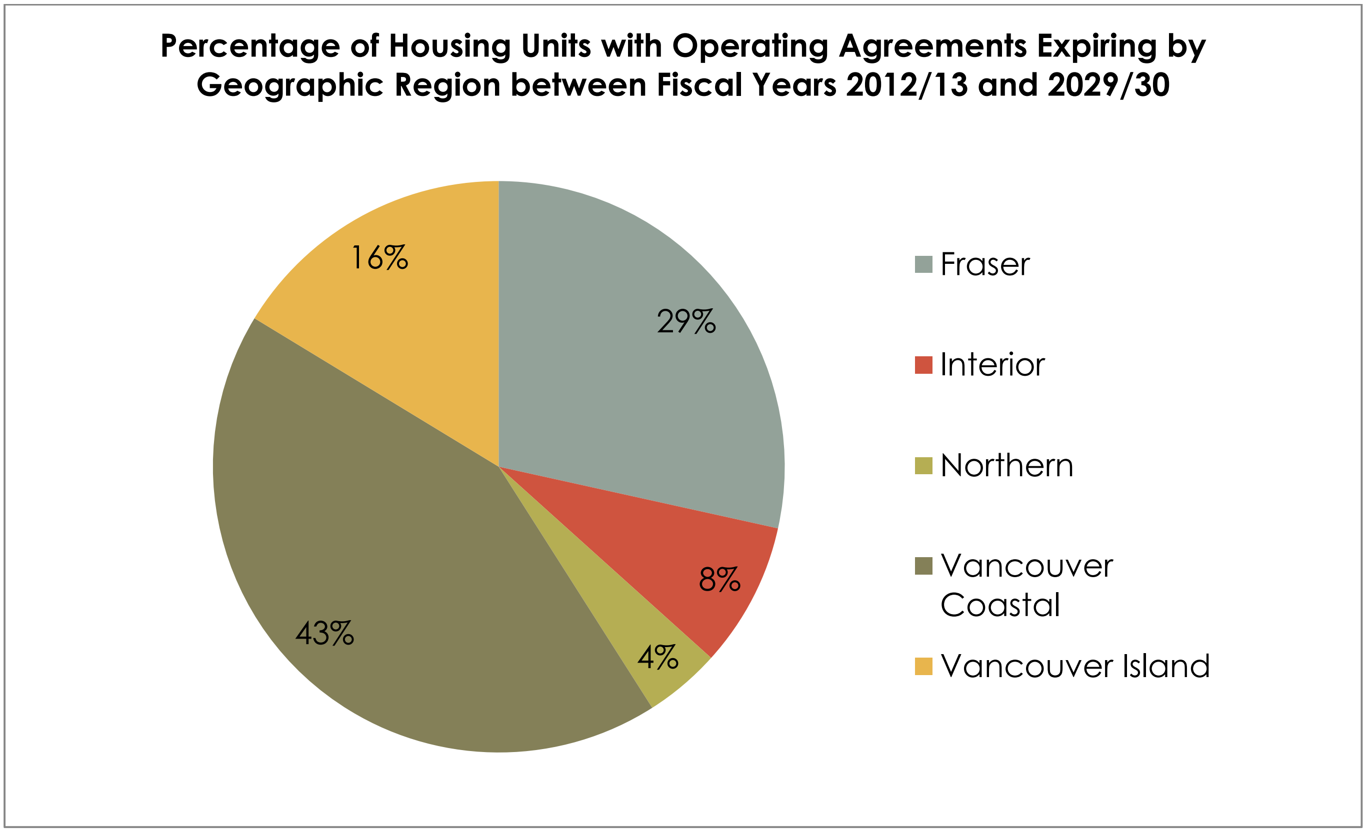
Units Expiring by Program

- The five funding programs with the most operating agreements and housing units to expire between 2012/13 and 2029/30 are:
  1. Mixed-income non-profit projects for families and single persons with some units rented at the lower end of market levels and some rent-geared-to-income or RGI – 5,000 units
  2. Rent-geared-to-income projects for seniors – 5,000 units
  3. Low-income non-profit projects for families, seniors and people with disabilities with all units rented at rent-geared-to-income or RGI – 3,000 units
  4. Mixed-income projects for families and single persons with some units rented at the lower-end of market levels and some rent-geared-to-income or RGI and managed by municipal housing corporations – 2,500 units
  5. Low-income non-profit projects for seniors, families and people with disabilities with units rented at below market levels – 1,500 units

Source: BC Housing, September 30, 2012

Units Expiring by Geographic Region

- The housing units with operating agreements expiring by geographic region by most number of units to the least number of units are:
  - Vancouver Coastal region – 10,400 units
  - Fraser region – 7,000 units
  - Vancouver Island region – 4,000 units
  - Interior region – 2,000 units
  - Northern region – 1,100 units



Source: BC Housing, September 30, 2012