

# Penticton Kiwanis Housing Society

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## *Expiry of an Operating Agreement*

Penticton Kiwanis Housing Society is a small society serving independent seniors in B.C.'s interior. The society operates three buildings for seniors, including a new building that began operations in 2011. The Society experienced the expiry of an operating agreement on Kiwanis Village, a 40-unit apartment building located in Penticton, B.C.

### **Operating agreement details**

Kiwanis Village was constructed in 1982 under an 11-year Provincial Rental Assistance Program (PRAP Seniors). This is a provincially administered program with both federal and provincial funding sources. The agreement consisted of a capital grant and rent subsidies designated to bridge the gap between economic rent (including mortgage expenses) and tenant rental income. Under this program, all tenants are charged Rents Geared to Income (RGI) and capped at market rents.

<b><i>Project details</i></b>
<b>Name:</b> Kiwanis Village
<b>Location:</b> Penticton, BC
<b>Building Type:</b> Apartment
<b>Landowner:</b> Penticton Kiwanis Housing Society
<b>Housing Program:</b> Provincial Rental Assistance Program (Seniors)
<b>Operating Agreement Start:</b> 1982
<b>Operating Agreement End:</b> 1993

The agreement started when the construction of the building was completed in 1982. Typically, PRAP agreements run for the term of the mortgage – 35 years. The timing of this agreement is shorter than usual due to incorrect dates in the initial mortgage set-up with CMHC and BC Housing. Both the mortgage and the agreement (and the associated subsidies) were set to expire 11 years after construction was completed. Thus the operating agreement expired the same year the mortgage was paid off, in 1993.

### **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 tenant type has generally stayed the same for Kiwanis Village. After expiry rents were increased very gradually over a number of years in step with expenses. The entire building now rents at a flat rate of \$500 per unit. This is still below market and tenants have not moved out as a result of rent increases, according to the interviewee.

Table 1: Tenant considerations pre- and post-expiry

Tenant Considerations	Before Expiry	After Expiry
Tenant type	Independent seniors and people on a disability income	
Rent calculation	100% RGI	Flat rate of \$500 per unit

The building continues to operate with a surplus after expiry. Replacement reserves were at a healthy level at the time of expiry since the building was only 10 years old and in fairly good condition. The Society continues to invest both their surplus and their replacement reserve and uses the interest from those accounts to make up for various cost increases related to the loss of subsidies.

Table 2: Financial status pre- and post-expiry

Financial Status of Building	Before Expiry	After Expiry
Financial viability	Operating surplus	
Annual replacement reserve allocation per unit	\$434	\$650
Replacement reserve balance	\$315,480	\$289,800
Capital plan in place?	Yes	
Capital reserve investment strategy	Long-term	
Mortgage expenses	Higher than subsidies	None

Since expiry in 1993 the Society has developed a new 58-unit building. They also operate Kiwanis Court, a 30-unit building with a mix of life lease and rental units. None of their buildings currently receive subsidies; however, in their new building they manage 22 units which are owned (and subsidized) by BC Housing.

Table 3: Portfolio details pre- and post-expiry

Portfolio Details	Before Expiry	After Expiry
Number of properties	2	3
Number of units	70	128
Type of units	Subsidized rental units	Mix of rents (market and LEM) and tenure (life lease and rental), but no subsidized units
Properties owned outright	0	1

## Planning for expiry

Penticton Kiwanis Housing Society knew that the operating agreement was going to expire within eleven years of its start date. They knew that the mortgage would expire at the same time, leaving them with fewer expenses, so they simply adjusted their budget to reflect this.

### *Ensuring financial viability*

Despite the elimination of mortgage payments, the loss of subsidy left the Society with expenses to cover. According to the Financial Officer, the Society was already operating on a very tight budget and there were no opportunities to further reduce expenses. As a result, the society has increased rents gradually over several years to cover these remaining costs. The rents are currently set at affordable rent levels. The operating surpluses are now put in an operating surplus fund which augments and is invested with the replacement reserve. The revenue drawn from these investments is put towards any increases in costs.

### *Planning for renovation or capital replacement*

Since the building was relatively new at the time of expiry, there have been few major repairs or replacement required aside from the water tanks which have been replaced twice. During the period shortly after expiry and before rent increases the Society decreased the allocation to the reserve in order to fund regular maintenance. They have increased their reserve allocations more recently and now put away more each month than they did under the operating agreement. The Society now plans for renovation and capital replacement by carrying them out as required.

### *Involving staff and tenants*

Penticton Kiwanis Housing Society employs 2.5 full-time equivalent staff but other than the Financial Officer, none were very involved in expiry. Tenants were informed that the building was no longer subsidized, and that rents would be increasing very gradually over a period of years in consequence. The respondent reports that no tenants have had to leave the building due to rent increases.

## Challenges, opportunities and lessons

### *Challenges*

Despite the loss of subsidies which covered more than the mortgage payments, Penticton Kiwanis Housing Society has experienced little impact from the expiry of the operating agreement. This is likely due to the shorter-than-average agreement and mortgage period, which left the building in good condition at the time of expiry, and the Society's practice of gradual rent increases that reduced the impact on tenants.

### *Opportunities*

Expiry of the operating agreement has had a generally positive outcome for the financial state of the Society. It continues to generate an operating surplus and has a healthy replacement reserve to undertake capital repairs and replacements as required. This positive financial state has enabled the Society to develop new units without ongoing government subsidy.

### *Lessons learned*

The respondent noted that expiry for Penticton Kiwanis was quite simple – the Society knew that the operating agreement would expire, that the mortgage would expire at the same time, and that the building would still be in fairly good condition at the time of expiry. For them, it was simply a matter of adjusting the budget. However, the respondent acknowledged that a society’s ability to weather expiry without outside assistance is entirely dependent on their management, their building’s condition, and their financial state. If the mortgage had run for the full 35 years, Penticton Kiwanis may have faced other impacts due to more pressing capital replacement needs.

The impact of expiry on a society will also depend on their ability to plan. Societies need to understand their agreement and know what the difference in expenses will be after the agreement expires. Societies who receive subsidies in excess of their mortgage payments will need to find ways of covering their expenses once the subsidies end. In the case of Penticton Kiwanis, a tight operating budget left little option for reducing expenses, meaning that they had to increase their revenues through rents. While rent increases may be inevitable for some societies, Penticton Kiwanis’ experience highlights the benefit of incremental increases over a long period to reduce the negative impact on tenants.

### **Future considerations**

The society’s priority is to ensure that its new 58-unit site that opened in March 2011 is running smoothly. This new development is an innovative example of how societies are working with BC Housing to develop new affordable housing without ongoing subsidies. BC Housing provided financing for the development and purchased 22 of the units, allowing for a reduced mortgage amount. The 22 BC Housing units are subsidized through funding received from the federal government. The Society receives rental income for all units and is therefore able to offer its 38 units at low-end of market rents.