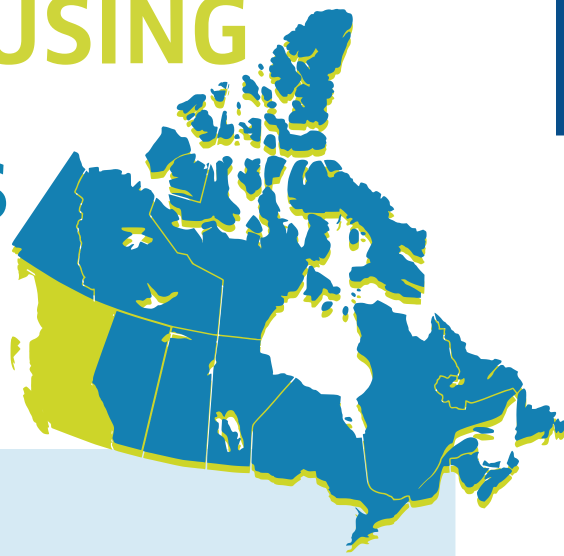
WHAT HAPPENS WHEN SOCIAL HOUSING OPERATING AGREEMENTS EXPIRE?



Social Housing 101

- Social housing is rental housing that is affordable to low and moderate-income households. It is provided by non-profit organizations, co-ops and public housing agencies. 544,000 households live in funded social housing, including 334,000 with very low income.
- Social housing has been funded by the federal government for over 40 years through long-term agreements currently worth $1.7 billion annually.
- These agreements are coming to an end. Some agreements have already ended and more will soon.
- The end of an agreement usually corresponds with the end of a social housing project's mortgage. This means the social housing provider **requires less funding** than before because their costs are lower. But they still need some support because rental revenues are by definition very low, and for most this won't account for ongoing operating costs and/or repair and maintenance costs.
- This means many social housing providers will have to increase rents or sell units just to maintain other affordable units. **This will reduce the number of low-income Canadians who have affordable housing.** Already long waiting lists will grow even longer.

The Canadian Housing and Renewal Association
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GREATER VICTORIA HOUSING SOCIETY
Since 1956

The **Greater Victoria Housing Society** (GVHS)The Greater Victoria Housing Society (GVHS) is a registered charity and non-profit housing organization providing affordable rental housing in the Greater Victoria area. Their housing portfolio includes 15 buildings: the newest opened in June 2014.

All of the Society's buildings have operating agreements of one kind or another with government agencies. Nine of the buildings currently receive funding through the operating agreements from the federal and/or provincial government to enable the Society to house low income tenants who pay rent based on their income. The funding bridges the gap between what the tenants can afford to pay (calculated as 1/3rd of their gross income) and what it costs to pay the mortgage and operate the building.

Operating agreements range from 35 to 50 years, depending on the government program under which the building was constructed. Two of the Society's buildings have operating agreements which end in the near future:

Colwood Lodge, a 50 unit apartment building for seniors has an operating agreement that ends in 2018.The building sits on land owned by the province and the land lease ends in 2043.

Sitkum Lodge is a 75 unit apartment building for seniors with an operating agreement that ends in 2019. It also is sited on provincial land with a land lease that ends in 2043.

What happens when funding ends?

The termination of the operating agreement means the end of funding, but it also coincides with the end of the mortgage for each building. So the question is whether the rent paid by the low-income tenants can alone carry the operating cost of the building, once the mortgage is paid off. Upon review of 2012 audited numbers, the answer appears to be "no".

Colwood Lodge's operating expenditures in 2012 were $346,136. The mortgage payments made up $95,479 of the expenses, leaving a balance of $250,657 for other expenses. In 2012, the rent paid by tenants contributed $222,977 to the operating budget of this building. The balance was made up by funding received through operating agreements. So, had the operating agreement ended in 2012, **GVHS would be short $27,680.**

It is anticipated that the costs to operate the building will continue to increase (property taxes and utilities, in particular) plus the building is aging and requires maintenance. The operating agreement stipulated that GVHS was allowed to save no more than $12,991 a year towards a capital reserve fund. The main expenditures in the next few years for Colwood Lodge will be to replace aging appliances, resurfacing the parking lot, exterior painting and new interior flooring. After these near-term expenses are undertaken, it is anticipated that all the capital reserves for this building will be spent by 2020, two years after the operating agreement ends.

Sitkum Lodge's operating expenditures in 2012 were $622,951. The mortgage payments made up $218,220, leaving a balance of $404,731 for other expenses. In 2012, rent paid by tenants contributed $348,046 in rent. If the operating agreement had ended in 2012 **GVHS would be short $56,685**.

It is anticipated that the costs to operate the building will continue to increase for Sitkum Lodge (property taxes and utilities, in particular) plus the building is aging and requires maintenance. The operating agreement stipulated that GVHS was allowed to contribute no more than $13,744 per year to the reserve fund. This fund is used to keep the units in good shape. New appliances and flooring are the anticipated needs in the near-term and after these are replaced, it is all the capital reserves for this building will be spent by 2021, two years after the operating agreement ends.

Kaye Mellisship, Executive Director of GVHS says: "We have a number of options we need to explore and some potentially very difficult decisions". Our mission is to support low income households and we are cautious about making decisions that will reduce the number of housing options for the poorest in our community – especially when we can see the demand for affordable rental housing far outstrips the supply".

"We intend to collaborate with other societies in BC to advocate for good outcomes and to work with our government to come up with some viable options" continues Mellisship.

Relative to smaller housing providers with one or two housing projects, GVHS is in a better situation because the diversity of their housing portfolio may allow for some cross subsidization between housing projects where buildings with revenue shortfalls can be offset by their buildings with moderate surpluses. But this is insufficient to account for the major capital investments they will need to make in order to maintain aging buildings.

While GVHS still has a few years before their operating agreements end, they will need to look at a number of options including remortgaging their properties, selling buildings or increasing rents (therefore displacing low income tenants) in order to pay for the costs of simply keeping their buildings habitable. Deferring major capital repairs is not a cost savings solution the Society relishes as it would not only threaten the health of the building and people who live there, but doing so will also make those repairs more expensive in the long-run and exacerbate the difficult situation GVHS faces as the rest of their buildings age and exit operating agreements.