

# EXPIRING AGREEMENT? PLANNING FOR A SUSTAINABLE FUTURE

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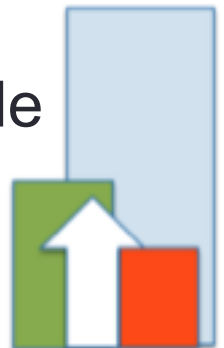
# Session Objectives

- To outline the meaning of Expiring Operating Agreements (EOA)
- Identify potential impacts
- Using some scenarios illustrate both the impact and options to address or respond



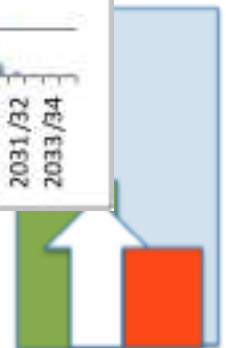
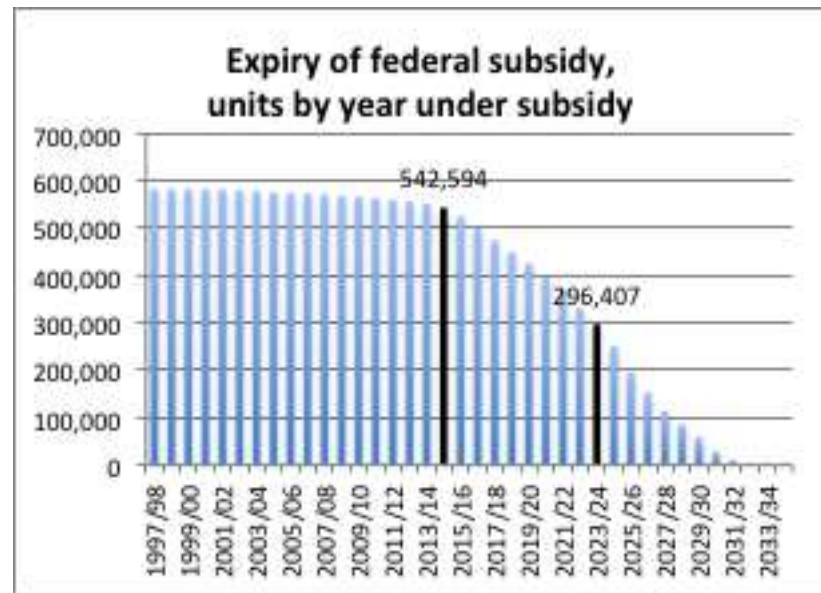
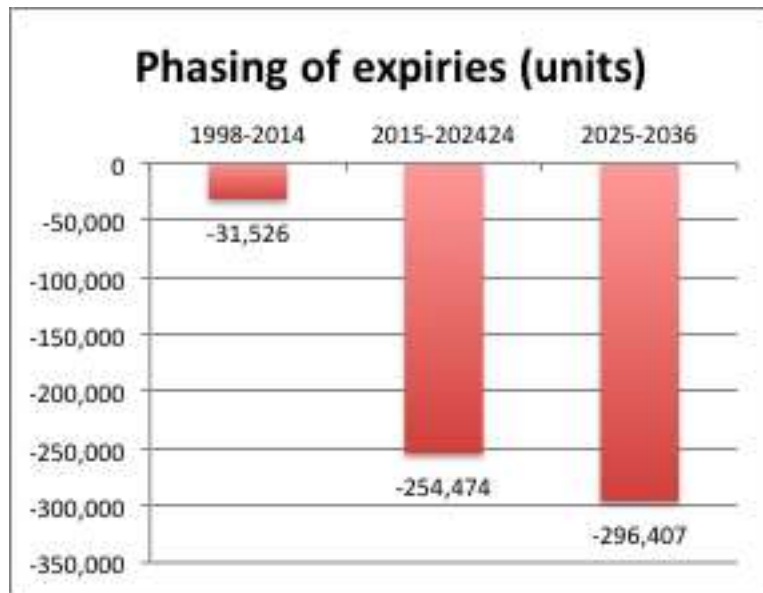
# End of Operating Agreements

- Social Housing Funded with long term operating subsidies, matching mortgage amortization period (50 yrs./35yrs)
- Mixed funding:
  - Federal/Prov/Terr cost shared;
  - Federal unilateral
  - Provincial unilateral
- Subsidies *usually* terminate in tandem with maturing mortgage
- Under F/P/T agreements Federal subsidy obligation terminates - P/T's then have to decide how to manage



# Future is Now

- Public Housing 1964+ 50 yrs; Non Profit 1978 +35 years
- Nationally federal funding declines by \$650 Mill in next decade



# Two types of concern

1. Without mortgage, does project collect sufficient rent to be viable (cover operating costs)?
2. Does project have sufficient capital reserves or capacity to refinance to maintain building in sound condition?
  - Implications for both funders (Ontario = Service Managers) and for Providers (NP and Co-ops)
  - Separate concern and advocacy over federal withdrawal – especially re fiscal capacity



# Project Financial Viability

## Operating Viability

- With no mortgage payment and reduced or no subsidy, will rents cover operating costs?

Quick viability test: As a basic rule of thumb, ***if the current annual subsidy is greater than the total annual mortgage (P&I), the project is very likely to experience post-expiry difficulty.*** With no corrective actions, a project in this situation today will have negative Net Operating Income (NOI) at expiry.

## Capital Adequacy

- What capital renewal is required and are current reserves or ongoing surpluses (if any) sufficient to support capital renewal



# Project Potential Outcomes (at Expiry)

Projects will fall into one of four categories, Multi project providers may have a mix of outcomes across their portfolio

	Fully Funded Capital Reserve	Under-funded Capital Reserve
Positive NOI *	(1) Project is viable, can maintain current RGI market mix and is in sound physical condition	(2) Project generates a cash flow surplus, but asset is under-maintained.
Negative NOI *	(3) The project is not viable but the building is in good condition	(4) The project is not viable, and is unable to undertake necessary capital replacement. Project is at risk

\* NOI = Net Operating Income



# Using Scenarios

- Provide a cross section of situations
  - 4 single project
  - Three multi-project portfolio
- Try to find one that is similar to your own case
- For each we highlight the key issues and challenges, and reasons why it may be in category 2,3,4
- Then look at possible options to improve or rectify the outcomes
- Draw on BCNPHA Planning Guide
  - Step B explains Simplified Assessment Tool (used here)
  - Step D provides a range of options to help respond to challenges





# Examining potential future with Scenarios

- Developed seven scenarios with four single project cases (each cell in matrix); and three multi project portfolios

Overall Assessment Matrix		
	Capital reserves	
	Sufficient	Insufficient
Positive NOI	(1) Project is viable, can maintain current RGI market mix and has sufficient capital reserve <b>Category 1: S1, M1 (part)</b>	(2) Project generates a cash flow surplus, but asset is under-maintained <b>Category 2: S2, M2</b>
Negative NOI	(3) The project is not viable but has good reserves <b>Category 3: S3, M1 (part), M3</b>	(4) The project is not viable and replacement reserve is insufficient. Project is at risk <b>Category 4: S4</b>



# Scenario S3 Single Project Provider

## Scenario Highlights:

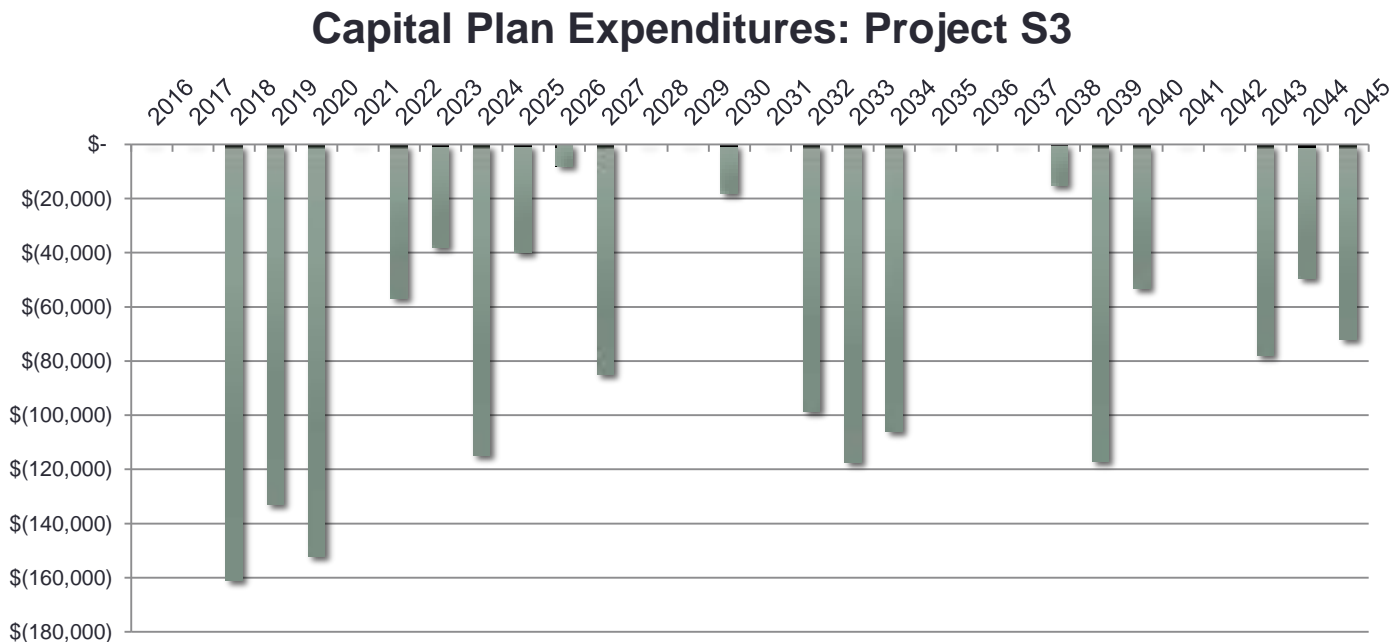
- Project has negative cash flow, well funded replacement reserves but significant capital replacement in near future
- Rents are low and operating costs above average
- Agreement expires 2018

S3 Key Baseline Data (per unit)						
Per unit/month				Annual (per unit)		
Ave rent	Average Operating costs (excl. RR)	Replacement Reserve (RR) Allocation	Net Operating Income after RR	RR alloc per unit	NOI after RR	RR Balance per unit today
\$366	\$487	\$80	-\$200	\$954	-\$2,400	\$3,699



# Scenario S2 Single Project Provider

**BCA shows quite large capital needs in immediate future:**



# Scenario S2 Single Project Provider

## Options:

### Before expiry

#### **Option 1: transition some units to market rent**

Market is closer to \$550-600

#### **Options 2: Review current RGI rents.**

Currently very low (\$290) vs potential with OAS/GIS/CPP seniors incomes

#### **Option 3: Manage increases in operating costs.**

And consider retrofit for energy efficiency to lower utility cost

### After expiry

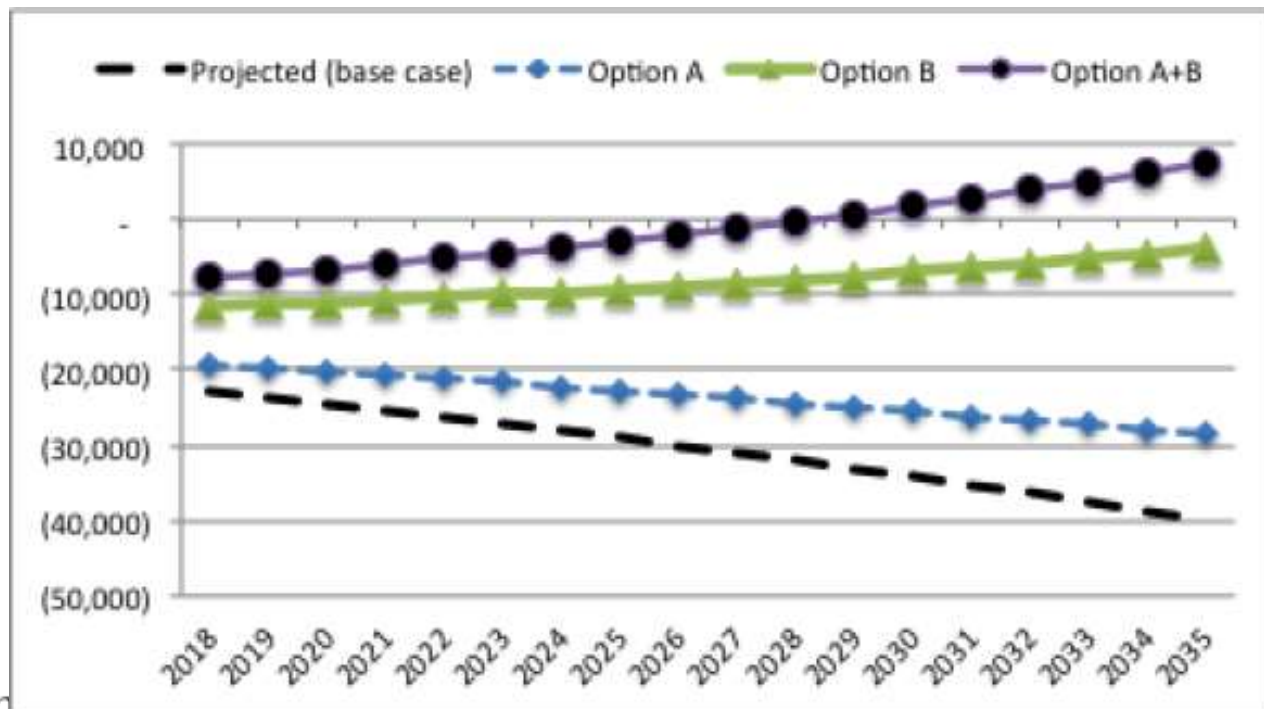
#### **Option 4: Seek new subsidy via rent supplements.**



# Scenario S2 Single Project Provider

**Option A: Transition 4 units to rent at \$500/month**

**Option B: Manage increase in operating costs**  
**BCA shows quite large capital needs in immediate future:**



# Scenario S4: Single Project Category 4

## Scenario Highlights:

- Project has negative cash flow and underfunded capital replacement reserves. It is in a poor state of repair
- Rents (Towns) are low and operating costs above average
- Project faces a large post expiry operating deficit
- *Expires 2024*

Key Baseline Data (per unit)						
Per unit/month				Annual (per unit)		
Ave rent	Average Operating costs (excl RR)	Replacement Reserve (RR) Allocation	Net Operating Income after RR	RR alloc per unit	NOI after RR	RR Balance per unit today
\$475	\$757	\$36	-\$319	\$437	-\$3,831	\$776



# Scenario S4: Single Project Category 4

## Options

- Option 1: Examine and adjust rents
  - now \$475 vs. BC Benefits \$675)
- Option 2: Reduce operating expenses – minimal options
- Possibly merge with other to achieve some economies of scale
- Option 3: Undertake careful asset analysis should the property be retained?
  - Land value, potential to access new affordable program?



# Scenario M1: Mixed Portfolio Cat 1/3

## Scenario Highlights:

- Four separate projects, one portfolio (society)
- Two are viable; two small deficits
- Two good RR but two underfunded
- Expires between 2021 and 2025

Key Baseline Data (per unit)							
	Per unit/month				Annual (per unit)		
	Ave rent	Average Operating costs (excl RR)	Replacement Reserve (RR) Allocation	Net Operating Income after RR	RR alloc per unit	NOI after RR	RR Balance per unit today
M1-A	\$1,095	\$742	\$98	\$255	\$1,175	\$3,058	-\$945
M1-B	\$866	\$547	\$95	\$225	\$1,140	\$2,696	\$3,450
M1-C	\$403	\$349	\$129	-\$75	\$1,551	-\$903	\$4,457
M1-D	\$539	\$339	\$229	-\$29	\$2,744	-\$346	\$5,396

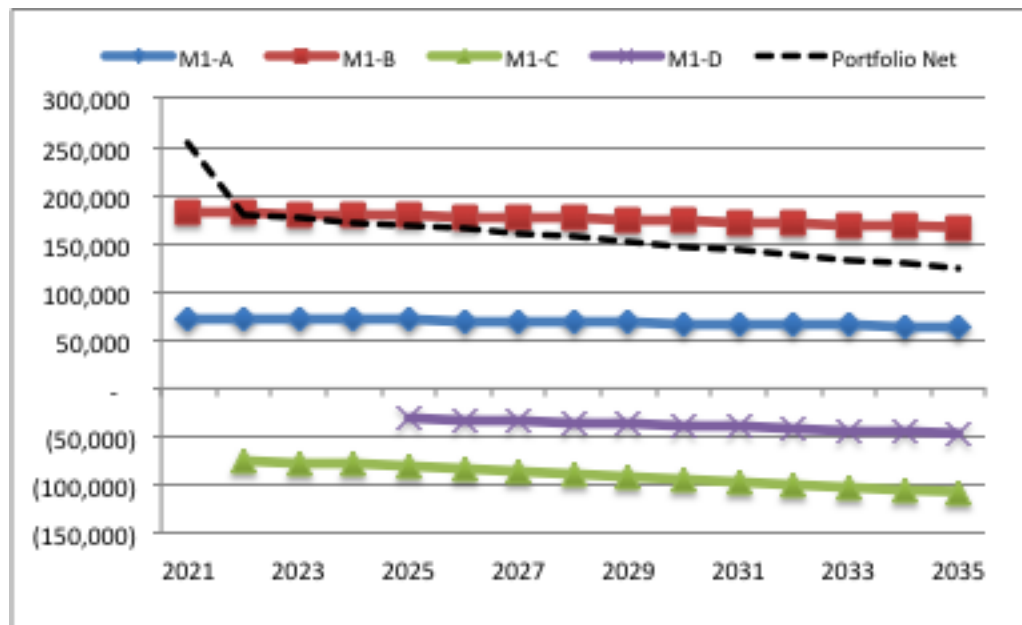




# Scenario M1: Mixed Portfolio Cat 1/3

## Options

- Operating at a portfolio level, aggregate NOI and aggregate capital reserve can be shared across portfolio.
- After expiry, no restriction on transfers between projects



- Questions, discussion



# Thank you!



Additional background reports available at  
[www.focus-consult.com](http://www.focus-consult.com)

