BCNPHA
BC Non-Profit Housing Association

BC Housing

Expiring Operating Agreements

A Planning Guide for BC's Non-Profit Housing Societies

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Our Workshop Today:

- Overview of the EOA Planning Guide: 6 Steps
- Application of the EOA Planning Guide
- Excerpts from the EOA Planning Guide

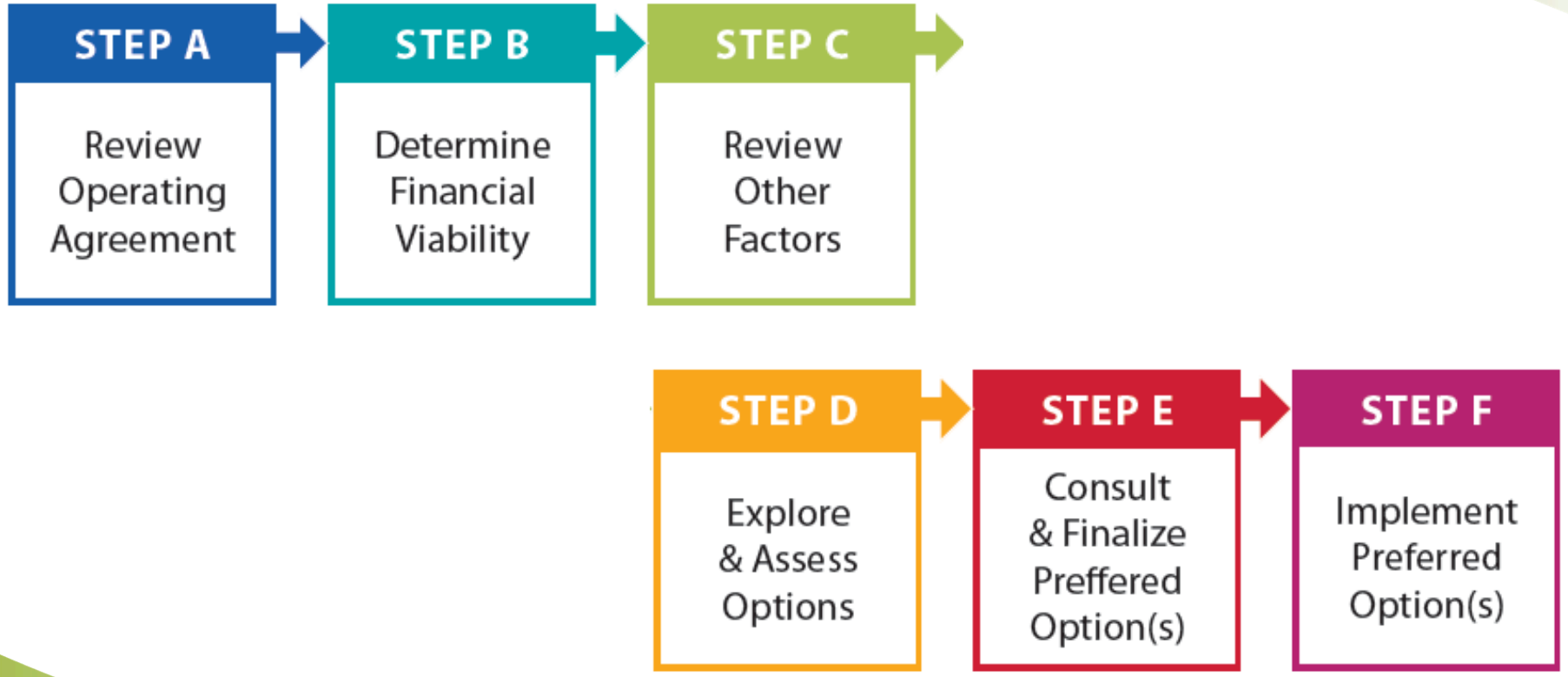
Why is this important?

"... 36% of societies are unprepared for expiry..."

What's in the Guide?

- Process, steps and options to guide you through this transition
- Options that you can think about, plan for, and implement both pre and post expiry

Where do I start? Step by Step



STEP A

Step A: Review Operating Agreement

- Review portfolio
- Identify date of expiry
- Share with Board and administrators

STEP B

Step B: Determine Project Viability

- Revenue Sources
- Operating Expenses
- Reserve Fund
- Renovation or Repair

Step B: Determine Project Viability

IS YOUR PROJECT VIABLE?

REVENUE	OPERATING EXPENSES + CAPITAL REPLACEMENT	ASSESSMENT
		✓ **VIABLE**
		✗ **NON-VIABLE**

Step B: Determine Project Viability

"... 50% of buildings with expiring agreements are in poor or critical physical condition..."

(buildings in BC)

Step B: Determine Project Viability

- Building Condition Assessment
- Capital Planning

STEP C

Step C: Review Other Factors - Legal

- Legal Implications – varies by Province
- Canada Revenue Agency and Income Tax Act
- Residential Tenancy Act (BC)
- Employment Standards Act (BC)
- Non-profit vs. Charity

Step C: Review Other Factors

"Rule of Thumb:
Get Legal Advice..."

Step C: Review Other Factors - Mandate

- Review Purpose
- Revisit Target Population
- Review Services

Step C: Review Other Factors - Social Sustainability

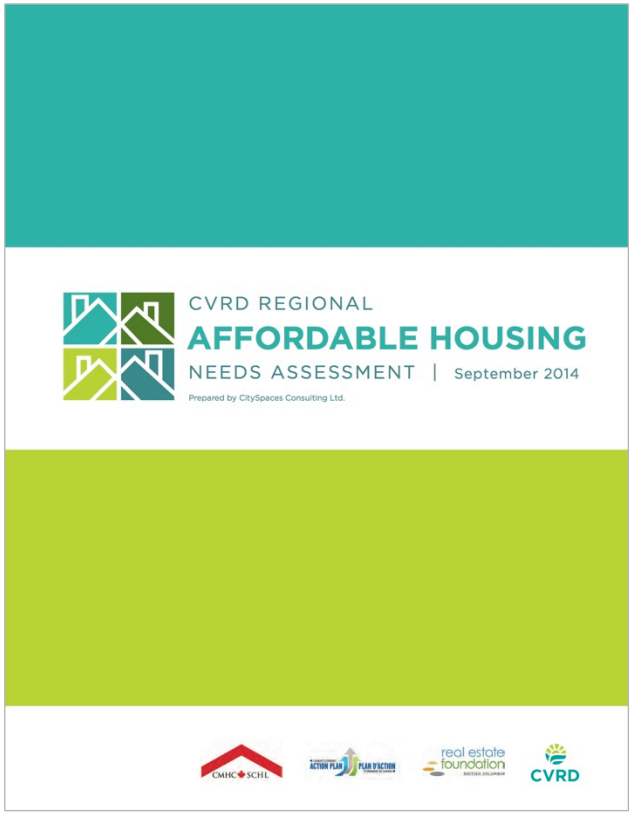
- Revaluate social needs to inform options
  - Does the housing fulfill original intention?
  - Is it meeting the social needs of tenants?

Step C: Review Other Factors - Social Sustainability

- Revaluate social needs to inform options
  - Are needs changing?

Step C: Review Other Factors – Social Sustainability

- Need and Demand Assessment
- Does your housing meet the need and demand?
- How does your project fit with the overall housing delivery in your community?



Step C: Review Other Factors – Leased Land

- Lease Expiry
- Refinancing
- Renovation
- Development

Step C: Review Other Factors - Development Potential

- Site Assessment
- Community Vision
  - Alignment
- Regulatory Parameters
  - Zoning / Land Use
  - Covenants

Step C: Review Other Factors - Tenant Concerns

- Uncertainty
- Communications
- Evaluate vulnerability
- Identify response

Step C: Review Other Factors – Capacity

- Staffing levels
- Skills
- Time / Resources
- Fundraising

Step C: Review Other Factors

- Change Management
- Potential changes to operations, service deliver
- Critical factor of success: managing change to adapt to new processes, systems, technologies, culture

STEP D

Step D: Explore + Assess Options

- Improve Revenue
- Raise Capital
- Find Efficiencies
- Transfer Assets

Step D: Explore + Assess Options

Improve Revenue Option: Adjust Rents or Rent Mix

- Select Higher Income RGI Tenants on Turnover
- Shift RGI Units to Market-Rate Units
- Funding for Tenants

ADJUST RENTS OR RENT MIX

Options considered by a society to increase rents or adjust the rental mix may result in decreased affordability for current tenants and, indirectly, for the community at-large. Several rent increase options may be pursued pre-EOA to assist with Net Operating Income, ensuring sufficient revenue at EOA, while other options can only be pursued post-EOA. Some societies have not yet increased rents to 30% of tenants' income, so this could be encouraged as a first step.

INCREASE MARKET-RATE RENTS

Rent increases are governed by the Residential Tenancy Act, which outlines the annual maximum rent increase for existing tenants. In 2014, the allowable rent increase is 2.2%. Upon turnover, rent level increases are not restricted by the legislation.

- Pre-EOA, annual rent increases may be implemented and will likely impact all tenants. Consideration should therefore be given whether a rent increase will cause significant financial hardship on existing tenants. For example, in cases where low-income tenants occupy a market unit but are awaiting access to a RGI unit, raising rents may not be feasible or desirable. However, many existing market tenants may have capacity to accept a modest increase on an annual basis.
- By implementing rent increases well before an EOA, revenues can gradually be increased, ideally to a point that the project will be viable at EOA. Post-EOA, annual rent increases can also be implemented to tenants paying market rents. The physical condition of a building will affect the rent level that existing and future market-rate tenants are willing to pay. This should be taken into account when a society considers this option.

Key Considerations

- ☑ Conditionally implementable pre-EOA; implementable post-EOA
- ☑ Confirm the society's mandate
- ☑ Check the OA for restrictions and limitations relating to rent adjustments pre-EOA

Key Considerations

- ☑ Conditionally implementable pre-EOA; implementable post-EOA
- ☑ Adjust rents gradually
- ☑ Building condition will influence desirability for market-rate tenants

EASE OF IMPLEMENTATION:

Step D: Explore + Assess Options

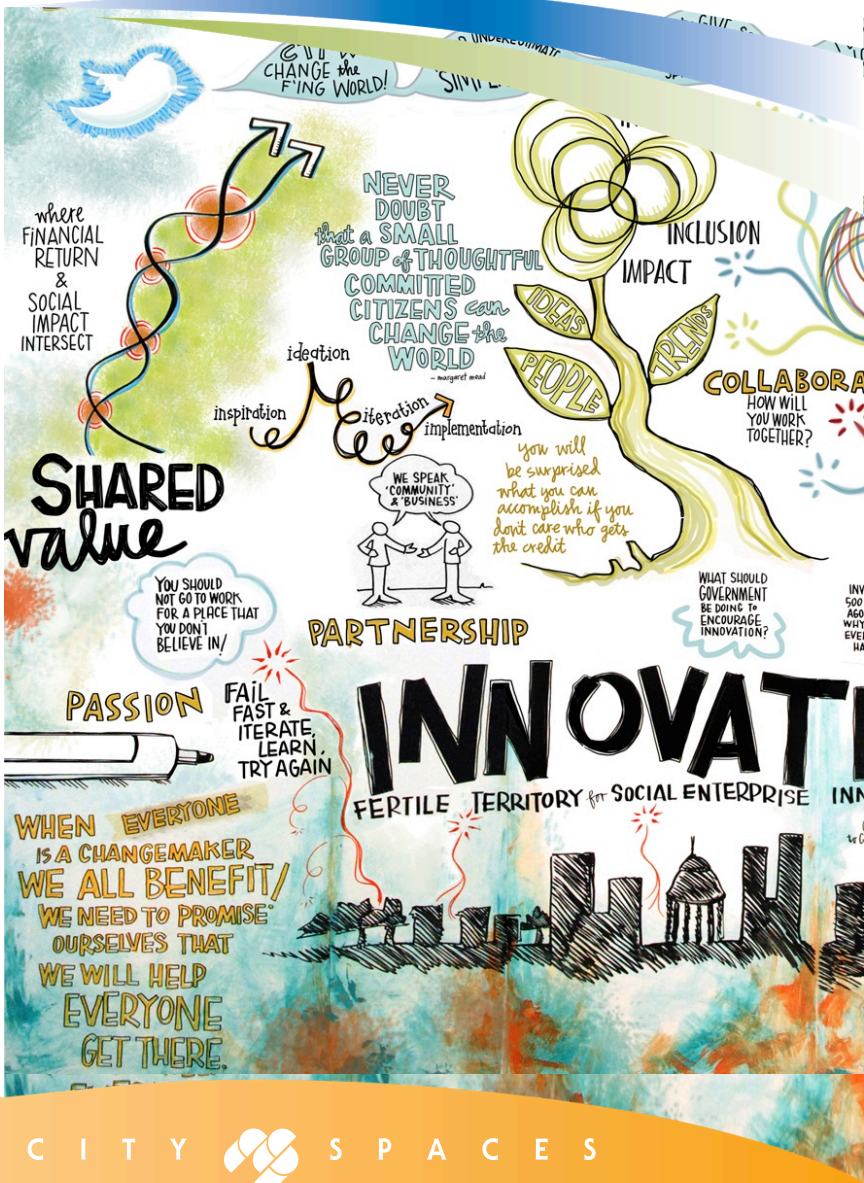
Improve Revenue Option: New or Extended OA

- Circumstantial
- Extending buys time
- Consolidate Operating Agreements = cross-subsidize projects

Step D: Explore + Assess Options

Improve Revenue Option: Diversify Portfolio

- Housing or services
- Different funding streams
- Upfront costs for long-term gains



Step D: Explore + Assess Options

Improve Revenue Option: Intensify Building(s), or Land, or Both

- Increase rent revenue
- Building modification
- Infill development

Step D: Explore + Assess Options

Raise Capital Option: Land or Asset Sale

- Development Potential
- Subdivide = Revenue
- Community Alignment

Step D: Explore + Assess Options

Improve Revenue Option: Redevelop Site

- Building condition
- Underutilized density
- Requires significant capital
- Community alignment

Step D: Explore + Assess Options

Improve Revenue Option: Grants, Donations and Refinancing

- Demonstrate need
- Building Condition Assessment
- Business Case

Step D: Explore + Assess Options

Find Operational Efficiencies: Shared Services, Space or Both

- Shared Management Organization (SMO)
- Management Contract Model
- Service Exchange Model
- Sharing Space

Step D: Explore + Assess Options

Find Operational Efficiencies: Energy Efficiency Upgrades

- Decrease operating expenses
- Cost saving opportunities

Step D: Explore + Assess Options

Asset Transfers

- Letting Go of Assets
- Acquiring Assets
- Compatibility required
- Transition of organizational culture

STEP E

Step E: Consult + Finalize Option(s)

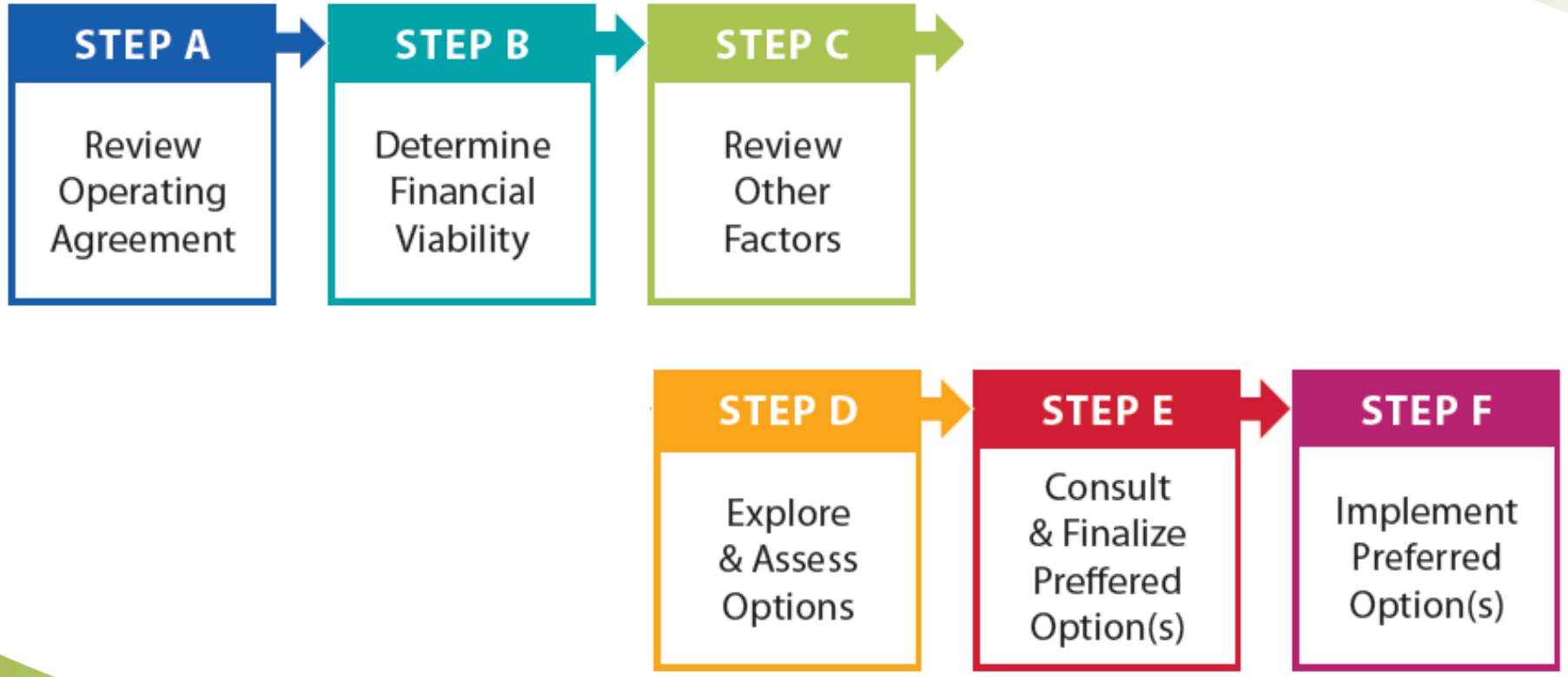
- Communications
- Consultation

STEP F

Step F: Implement Option(s)

- Implementation Plan
- Key Performance Indicators
- Seek Help + Advice

Process Navigation



Summary

- Challenging times ahead
- EOA Planning Guide - a tool to help
- It's an evolving guide for an evolving sector
- Acknowledgements:
  - BCNPHA, BC Housing, Steve Pomeroy, Margaret Mason, CitySpaces team

Thank you!

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