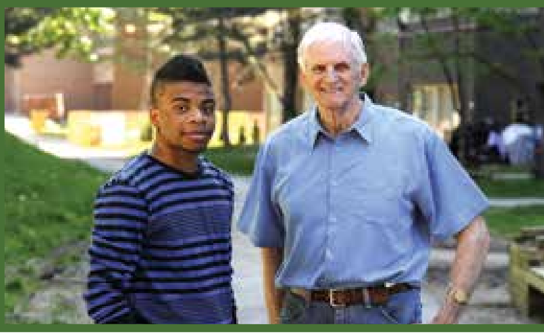

REVITALIZING AND REFINANCING SOCIAL HOUSING: HOW DO YOU GET THERE?

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REVITALIZING AND REFINANCING SOCIAL HOUSING:

HOW DO YOU GET THERE?

This Guide is intended as a general overview. The details of social housing finance and asset management can be complex and may change from time to time. Service Managers and housing providers are responsible for making their own decisions and for complying with any applicable legislation. We suggest early liaison with Ministry of Municipal Affairs and Housing staff as well as talking to other Service Managers and housing providers whenever possible.

We also strongly recommend consulting with your own legal advisors or other experts when appropriate. The Ministry does not specifically endorse the approach taken in any of the examples cited or content of the external links contained in this document.

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INTRODUCTION

The Purpose of the Guide

The purpose of this guide is to highlight the importance of strategic planning for revitalization of social housing. Revitalization of social housing does not start with putting a shovel in the ground – a housing provider should first determine where it is currently as an organization and then establish where it wants to be in the future.

This is a companion to the 2013 Ministry of Municipal Affairs and Housing (MMAH) guide, "Redeveloping Social Housing in Ontario: A Provincial Guide and Perspective", which focused on helping Service Managers and housing providers understand the operational and program considerations for redeveloping social housing projects.

To aid social housing providers in the decision-making process, we are providing a Strategic Asset Management Framework to help social housing providers who are contemplating revitalization and refinancing.

It is not our intent to provide detailed information about strategic asset management and financial planning; there are a number of other organizations that specialize in this matter. Instead, we are emphasizing the due diligence that needs to be done in advance of revitalization and refinancing initiatives. This due diligence work includes Service Manager engagement.

A Strategic Asset Management Framework incorporates a series of actions, plans and decisions that set the foundation for revitalization and refinancing initiatives. Furthermore, developing a solid business case for refinancing through a Strategic Asset Management Framework improves a housing provider's ability to work with lending institutions. Any due diligence done by the providers enhances their credibility in the eyes of lending institutions and strengthens the quality of loan applications.

The guide contains five main sections:

1. **Real Estate Portfolio Planning:** provides an overview of "big picture" portfolio planning and outlines the importance of matching portfolio assets with the housing provider's goals.
2. **Asset Management Planning:** discusses how to make the best possible decisions about individual assets contained in the portfolio.
3. **Multi-Year Capital Program:** shows how to integrate all the research, strategic insights and prioritizing done in earlier stages and establish a plan for going forward.

4. **Capital Financial Plan:** discusses different funding mechanisms that housing providers can use to pay for the Capital Program.
5. **Revitalizing and Refinancing Social Housing – Ontario Examples:** contains actual examples of what housing providers, Service Managers and sector organizations are doing to ensure that housing assets remain viable and sustainable over the long-term while meeting housing needs in communities.

The importance of performing due diligence before proceeding with revitalization and refinancing cannot be emphasized enough. A Strategic Asset Management Framework sets the stage for these initiatives by providing housing providers with relevant baseline information for making asset-related decisions.

What is Revitalization?

Revitalization refers to the process of renewing existing housing assets to create an improved living environment over the long-term.

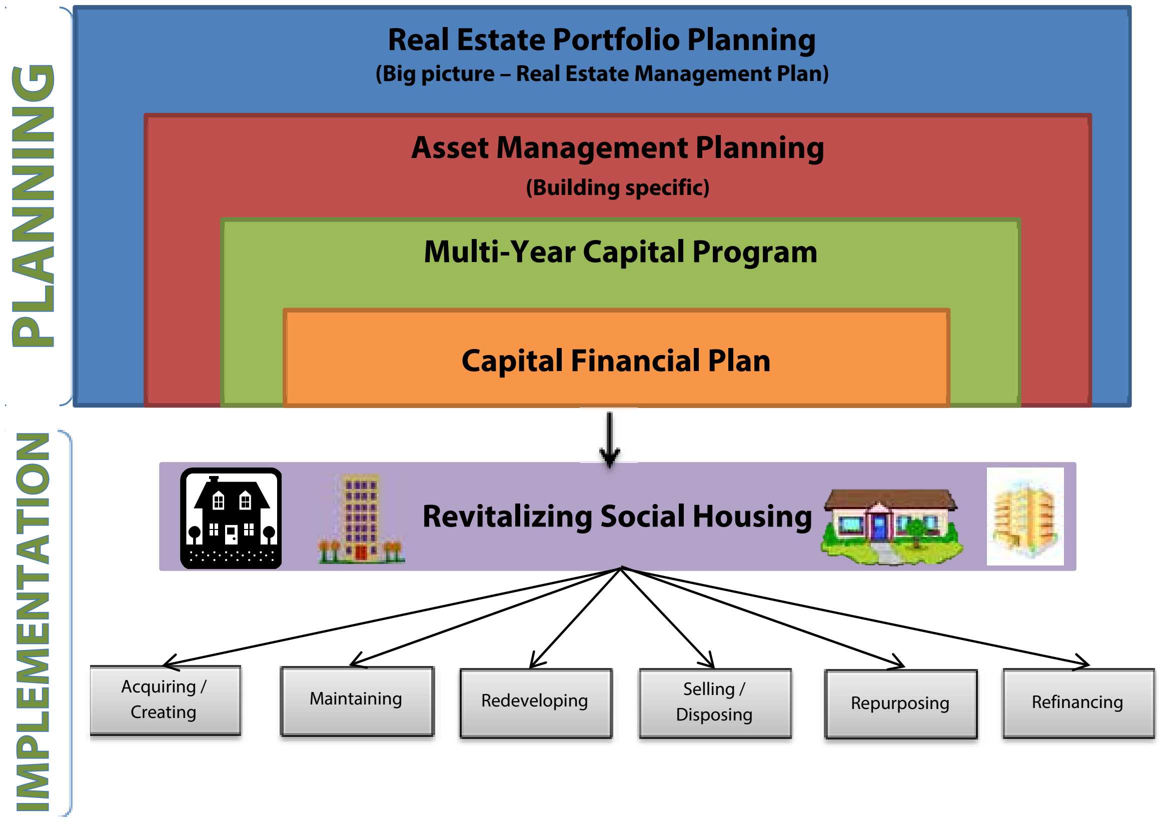
Social housing revitalization includes a range of changes in relation to land, buildings and associated infrastructure. Social housing revitalization initiatives can be large, such as demolishing existing properties and rebuilding them from scratch or they can be small, such as adding a new section to an existing building and giving a "face lift" to the building's units.

Housing providers can revitalize their assets in a number of ways that include:

- redeveloping under-utilized parcels of land/sites
- creating new, modern and energy-efficient rental units
- retrofitting existing units to make them more energy and operationally efficient
- making accessibility improvements to better meet a shifting demand for housing (e.g., units for seniors, people with disabilities)
- making changes to the existing mix of rent-reared-to-income (RGI) units and market rent units among buildings to achieve better integration of residents and to improve existing cash flows
- refinancing existing assets to generate additional funding for new capital and building improvement activities.

In short, revitalization can help social housing providers to operate their portfolios more cost-effectively and improve the quality of the housing services provided to residents. It can also result in positive social changes that improve the communities and neighbourhoods where social housing buildings are located.

STRATEGIC ASSET MANAGEMENT FRAMEWORK: A BEST PRACTICE AND A PREREQUSITE TO REVITALIZING SOCIAL HOUSING



A Strategic Asset Management Framework incorporates different planning and implementation activities. Just as redevelopment does not start with putting a shovel in the ground, refinancing does not start with filling out the necessary paperwork for a lending institution. Before developing revitalization and refinancing plans, housing providers need to engage in strategic thinking and planning to establish goals, identify issues and available opportunities, and organize their finances. This due diligence work is fundamental to effective and efficient revitalization. Strategic thinking and planning is a best practice irrespective of whether a housing provider is considering revitalization.

A Strategic Asset Management Framework will allow for better planning and implementation of revitalization and refinancing initiatives. The framework is flexible; it allows social housing providers to step back and adjust their regeneration and refinancing plans if their circumstances change. The level of difficulty in undertaking the planning and implementation activities will be determined by the complexity and size of their portfolios.

1. REAL ESTATE PORTFOLIO PLANNING

What is it?

"Big Picture" review of all real estate assets and how well they support/do not support the delivery of housing services now and in the future.

Why is it important?

It establishes what housing providers have to work with in order to deliver housing services. It also shows opportunities and challenges associated with their portfolios.

Real Estate Portfolio Planning (REPP) is the first stage of a Strategic Asset Management Framework. It allows social housing providers to step back and look at the big picture of the organization, its values, assets, limitations, priorities and opportunities.

Importance of Real Estate Portfolio Planning

Every housing provider, no matter how big or small, should have a Real Estate Management Plan in place. The main purpose of the plan is to align management of the real estate assets with broader organizational objectives. The board of directors needs to be fully engaged in developing this strategic document. The stages to establishing the plan are as follows:

Establish Goals

A good plan starts with establishing what the organization's mission, vision and objectives are and how the organization's real estate assets can help to achieve them. For non-profit corporations, organizational goals will often be contained in corporate objects as set out in the letters patent. These goals may need to be updated based on the current board of directors objectives and vision for the organization. Beyond service goals, social housing providers may consider establishing financial sustainability goals, asset performance goals and tenant satisfaction goals.

Analyze the Social Housing Portfolio

Once "big picture" organizational goals have been established, a housing provider should prepare an inventory of all the assets within their portfolio and analyze the key baseline information. Collected information could include, for example:

- gross, rentable and usable square footage by property
- number of units and RGI/market unit distribution by property
- revenues and occupancy costs per unit by property
- energy and water efficiency (e.g., hydro and water cost per unit per year)

- locations, building profile and vacancy statistics
- property value information, outstanding liabilities and operational mandates (e.g., operating agreement)
- annual financial reports by property
- listings of all other controlled assets, such as vacant land, etc.

Develop a Real Estate Management Plan

Based on the analysis of the collected information, the housing provider is then in a position to develop a Real Estate Management Plan. In most cases, this plan should aim to cover a period of at least 10 years and identify plans for strategic and under-used buildings.

The housing provider may want to consult with residents during the plan development phase for ideas on how to optimize the use of the existing portfolio. For example, in an effort to improve space utilization in one of its properties, a housing provider in Hamilton rented basement space to a local university. The university used the space as a classroom to provide off-site training to nursing students. This generated additional revenues for the housing provider.

Service Manager Engagement

Social housing providers who contemplate revitalization initiatives may require their Service Manager's or the MMAH minister's consent prior to carrying out some of these initiatives (e.g., changes to project financing, sale of real estate assets). To receive such consent, housing providers should involve their Service Managers early in the planning process. Early engagement ensures that all relevant issues are discussed and the Service Managers can share their knowledge and expertise with the provider.

Service Manager Initiatives for Facilitating Revitalization

Local Policies

Service Managers are familiar with the evolving housing needs in their communities and can assist social housing providers to meet local needs.

To assist housing providers in their revitalization efforts, Service Managers may consider the following local initiatives:

- build capacity and share existing asset management planning expertise with housing providers
- provide land use planning advice and guidance to housing providers on potential redevelopment scenarios

- adopt Community Improvement Plans and associated programs of incentives to encourage housing providers to revitalize their existing stock
- encourage housing providers to think strategically about their assets
- review local by-laws to promote redevelopment initiatives (e.g., streamlined development approval process)
- promote ongoing contributions into capital reserve funds (e.g., allow housing providers to retain the Service Manager's share of surplus where possible, if the funds are transferred into capital reserves)

Financial Initiatives

Service Managers adopt financial and other programs to support social housing providers. These programs have included:

- service manager loan programs, which provide loan funding to non-profit corporations to support capital investments in social housing projects
- community improvement plans, which provide a means of planning and financing redevelopment activities that restore lands, buildings and infrastructure
- enhanced mortgage subsidies for non-profit corporations on a case-by-case basis, which makes it easier for them to borrow capital from lending institutions

2. ASSET MANAGEMENT PLANNING

What is it?

Asset Management Planning provides the means to make the best possible decisions about specific assets contained in a portfolio.

Why is it important?

It helps social housing providers to optimize the use of their assets, manage risks, and provide quality services to families and individuals in need of affordable housing.

Asset Management Planning (AMP) is the second component of a Strategic Asset Management Framework. It allows a housing provider to examine housing assets in greater detail, identify asset needs and opportunities and prioritize their capital and maintenance initiatives. The main differences between AMP and Real Estate Portfolio Planning (REPP) are focus and timing. While REPP takes a big-picture, long-term view of the portfolio and how it supports organizational goals, AMP takes a detailed, project-specific, medium-term view of assets contained in the portfolio.

In both the private rental housing sector and the non-profit social housing sector, smart and strategic capital investments underpin long-term sustainability and viability of the housing stock.

In the context of social housing, asset management planning consists of the following activities:

A. Reviewing Asset Condition Information

A Building Condition Audit (BCA) is a snapshot in time of a building's physical state. A BCA is usually completed by a qualified engineer. As part of the audit, engineers examine the following:

- structural systems - foundations and structural framing of walls, columns, intermediate floors and roofs
- building envelope - roofing systems, exterior finishes, stairs and steps, exterior doors and windows
- interior building components - interior finishes of common areas and resident areas
- mechanical systems - electrical, heating ventilation/air conditioning, plumbing and conveyance systems

The BCA also provides estimated costs for the repair or replacement of different building components and the years in which these repairs and replacements are likely to occur.

The BCA will assist social housing providers to determine what to do with the property. For example, if a property is beyond its useful life and repairs are cost-prohibitive, what could be done with the property going forward? What are the pros and cons of redeveloping the site? Should the site be sold and the proceeds used to acquire new units somewhere else? Alternatively, should the site be sold and the proceeds used to renovate vacant units on another site?

In addition to obtaining a BCA, a social housing provider may consider undertaking an Energy Audit. By collecting information on existing energy use, an Energy Audit will identify opportunities where energy efficiency may be gained through remedial work. Large energy bills and inefficient buildings can be a large drain on operating budgets, leaving less money available for other building needs.

A social housing provider may also consider utilizing a Facility Condition Index (FCI). The FCI is a numerical value that indicates the relative physical condition of a building. The calculation of FCI requires two main inputs.

- The first is the total cost for repairs and capital replacements for the asset. This figure is established through the BCA.
- The second input is the total cost to replace the asset at that same point in time.

$$\textbf{FCI=} \quad \frac{\text{Costs for Repair and Capital Replacement for Asset}}{\text{Cost to Replace Asset}} \quad \textbf{X 100}$$

In general, FCI scores fall into the following general categories:

- < 10% = good
- 10 to 20% = average
- 20% to 30% = below average
- >30% = very poor

Essentially the higher the ratio of repairs to replacement value, the less justification there is to continue making investments in the asset. By contrast, having a lower FCI ratio tends to support continued maintenance investment in the asset. More information about the FCI is available in the FRAME publication (see "Links to Other Resources" section).

B. Reviewing Asset-specific Financial Information

While some social housing providers who own multiple properties consolidate financial information, it is worthwhile to review financial information for each property separately. This will uncover limitations and opportunities associated with each property.

Having separate financial profiles of individual properties contained in the portfolio also makes it easier for lending institutions when the social housing provider needs to borrow funds. When lending institutions evaluate a loan application, they want to see financial information of a property identified as collateral for the loan (e.g., historic revenues and expenditures). Reviewing asset-specific financial information strengthens a housing provider's understanding of individual properties and allows the housing provider to identify properties that are suitable for refinancing.

Reviewing asset–specific financial information also makes it easier to compare properties in terms of their financial health and to identify areas where remedial action may be necessary. While reviewing financial information for the property, a housing provider may consider the following:

- How has the property performed financially in the past? If there were deficits associated with operating the property, what were the main reasons for these deficits?

- What share of revenues goes towards maintaining the property and keeping it in the state of good repair? How does it compare to other properties in the portfolio?
- How do the per-unit operating expenses in the property compare to other properties in the portfolio? If per-unit operating expenses are too high or too low, what are the possible reasons?
- If there are market rent units in the building, how do market rents compare to market rents for similar units in the community?
- How is the property performing in terms of non-rental revenues? Are there opportunities to generate more non-rental revenues?
- What is the value of existing capital reserve funds associated with the property?

C. Determining the Best Use of Each Property

After reviewing relevant asset information, a housing provider can determine best uses for each property contained in its portfolio. Such decisions are often made in conjunction with reviewing existing obligations associated with the property and the timing of these obligations (e.g., existing federal operating agreement).

It is important to consider organizational values while determining the best use of each property. While it may be financially appealing to sell a rental property with an expired operating agreement and a paid-off mortgage to a private sector developer for a one-time influx of capital, it may be inconsistent with the values of the social housing provider to do so.

Determining the best use of each property should be a balanced decision, a decision that considers residents' interests and the housing provider's financial interests, priorities and values.

D. Defining Operating Maintenance Standards

If a social housing provider makes a decision to keep the property and continue to invest in it, the provider should develop a maintenance schedule and program to keep the property in a state of good repair. This includes preventative maintenance, regular servicing of building components and promptly responding to residents' maintenance requests.

Housing providers should also establish protocols to comply with health, safety and accessibility requirements. Examples of such protocols could include:

- frequency of Building Elevators Inspections and Servicing
- frequency of Fire Safety Equipment Inspections (i.e., sprinklers, alarms, fire extinguishers, hose reels)

Defining these standards and developing a maintenance schedule can reduce instances of premature building failure and service disruption for residents. Regular building maintenance leads to lower life-cycle building operating costs because preventing potential building envelope issues is cheaper than fixing them.

E. Prioritizing Capital Initiatives

As part of asset management planning, social housing providers should prioritize their capital initiatives. The prioritization process often requires difficult decisions, however the condition and operational importance of individual buildings should help housing providers to decide which capital initiatives must be accomplished first and which capital initiatives can be implemented later.

A housing provider can rank all capital initiatives as Priority 1 (imperative, must do), Priority 2 (essential, should do), or Priority 3 (important, could do). Housing providers may develop their own criteria to prioritize their capital initiatives or may use the following criteria:

- advances the implementation of the organization's vision, mission and values
- addresses urgent health and safety needs
- prevents irreparable damage to a strategic asset
- reduces existing deferred maintenance costs
- rehabilitates and increases the value of an asset
- reduces future maintenance and operating costs
- leverages available government funding
- provides better housing services, improves tenant satisfaction
- offers a partnership opportunity with another housing provider
- helps to address a key housing need in a community

Prioritizing capital initiatives recognizes that all identified asset-related initiatives may not be possible due to the fact that financial and other resources available to social housing providers are limited.

Asset Management Planning looks at both capital and maintenance needs of individual assets and prioritizes them. Social housing providers may use software tools (e.g., Asset Planner) to help make decisions about capital initiatives. Asset Management Planning ultimately feeds the development of the Multi-Year Capital Program.

3. MULTI-YEAR CAPITAL PROGRAM

What is it?

A plan that clearly identifies capital initiatives that the housing provider has decided to do. This includes major capital projects and regular maintenance projects. The plan also includes the costs of all these planned initiatives.

Without a capital program, all the capital works initiated by the housing provider are largely demand-based and driven by inspections and resident requests. Having a capital program allows housing providers to be more proactive, make more effective decisions and better align resources with asset needs.

Why is it important?

It gives the social housing provider a "road map" and an "itinerary" to follow to optimize the use of the existing assets and to deliver housing services more efficiently.

The Multi-Year Capital Program is another element of a Strategic Asset Management Framework. At this stage, the housing provider takes all the research, strategic insights, asset information and prioritizing done earlier and creates a Capital Plan/Program for going forward.

The Multi-Year Capital Program outlines a range of initiatives that ensure the housing stock supports organizational goals and values. It generally contains capital plans in regard to regular maintenance, redevelopment, disposing of, and acquiring assets.

Program Elements and Timeframes

A carefully planned Multi-Year Capital Program optimizes the use of housing assets and reduces the overall life cycle costs. The length of the Capital Program is a local decision. Existing literature on capital planning usually recommends a period of anywhere from four to ten years. The development of the Capital Program is closely tied with the development of the Capital Financial Plan that provides ways to pay for the Capital Program.

The Multi-Year Capital Program generally consists of the following main elements:

- proposed capital initiatives (e.g., description of regeneration projects, maintenance initiatives, new unit development plans, major building repair projects etc.) by year
- capital and operating budget requirements associated with these initiatives by year

The scope and depth of the Multi-Year Capital Program will vary from one social housing provider to another. It should describe prioritized capital initiatives that support the achievement of organizational goals now and in the future.

4. CAPITAL FINANCIAL PLAN

What is it?

It is a plan that outlines how different initiatives identified in the Multi-Year Capital Program will be funded.

Why is it important?

The Capital Financial Plan ensures that sources of funding have been identified.

The Capital Financial Plan is the final element of a Strategic Asset Management Framework. It aligns prioritized capital initiatives with funding methods.

A Capital Financial Plan's role is to identify financial sources that will be used to pay for the initiatives contained in the Multi-Year Capital Program. The Multi-Year Capital Program and Capital Financial Plan go hand in hand and are generally developed at the same time.

The development of the Capital Financial Plan is closely tied with the housing provider's overall financial planning. Once the cost of the Multi-Year Capital Program is known, it is helpful to consider the following questions:

- Can the housing provider use a portion of its capital reserve funds to help fund the Capital Program?
- What will the housing provider's cash flows be over the term of the Capital Program?
  - Will there be any operating savings associated with implementing a certain project?
  - Are there any outstanding mortgages nearing maturation, reducing mortgage servicing costs and freeing up funds?
  - If asset disposal is part of the Capital Plan, are the proceeds being used to fund some of the program costs?
- Can the housing provider afford to take on additional financing costs? If yes, when and how much?
- How can assets in the portfolio and the accumulated equity be leveraged to generate additional funds?

Once the Capital Financial Plan is established, decisions affecting the annual operating budget (including additional debt service costs, if any) must be incorporated into the housing provider's budgets. The Capital Financial Plan may incorporate different funding mechanisms. The funding methods include:

A. Capital Reserve Funds

Capital Reserve Funds are established to fund repair and replacement costs for capital assets. Generally, when the building is first constructed, the required capital investments are minimal as all of the building components are still new. As the building ages, individual components reach the end of their useful life and require repairs or replacement. These repairs and replacement needs get factored into a housing provider's Multi-Year Capital Program.

B. Pay as you go – Cash Flow Management

A social housing provider may choose to pay for a portion of its Capital Program from existing revenues. This approach assumes that the social housing provider has positive cash flows and therefore has fiscal room available to pay for capital initiatives.

A housing provider may improve its cash flows in two ways. The first is to strengthen revenues. The second is to implement a tighter control over costs. Social housing providers could use both methods to improve their cash flows and use the freed up funds to help pay for the capital initiatives.

For example, to strengthen rental revenues, social housing providers could take measures to reduce the length of time vacated units sit empty and to increase market rents annually to better reflect market conditions.

To expand non-rental revenues, social housing providers may explore converting unused space into office/meeting rooms and renting the space out, leasing outdoor space for cell phone towers, leasing rooftop space for billboards, installing vending machines and renting storage lockers. Confirming with the Canada Revenue Agency about potential tax implications arising from generating non-rental income would be prudent.

To better manage costs, social housing providers could examine where the funds are currently spent and explore if funds could be spent more efficiently. For example, are there savings associated with sharing property management costs with another housing provider? Are there opportunities to acquire the services of volunteers to do reception, minor maintenance and clean up? Are there opportunities to develop partnerships with local community colleges to procure the services of supervised trades apprentices at a lower cost?

Social housing providers who own multiple properties may also explore if shifting their RGI units to buildings with lower costs and conversely moving their market rent units to buildings with higher costs would result in cost savings and improved cash flows. Social housing providers should engage their Service Managers to obtain approval to change RGI/market rent unit mix in buildings.

Social housing providers may also use one-time revenues, such as sale of the major assets and equipment, to help pay for capital initiatives identified in the Multi-Year Capital Plan.

C. Commercial Financing

Social housing mortgages are not the same as residential home mortgages; lending institutions consider social housing mortgages to be commercial mortgages. Therefore, social housing providers, when they apply for financing, are being evaluated against lending criteria for commercial organizations. Housing providers who contemplate commercial/multi-residential financing should consult with their Service Managers first.

Social housing projects receive financial support from Service Managers in accordance with the *Housing Services Act, 2011* – however, obtaining loans from lending institutions is not a simple task. Lenders examine risk associated with each loan very carefully. If the risk of default is high, it is very likely that a loan application would be declined.

Having equity in an asset is important, but demonstrating the ability to repay the loan is of utmost importance. For example, a project with a consistent history of $1,000,000 in revenues and $950,000 in expenses annually has $50,000 "extra" that could be used for new expenses or debt payments. For instance, if a social housing provider applies for a $700,000 loan to be repaid over 10 years, the lending institution may consider the loan risky because the "extra" money left over annually does not cover the debt payments of $70,000 plus interest.

Cash flow analysis is the most important factor influencing a lender's decision on whether to approve a loan application. Lenders will often ask that housing corporations provide historical and projected cash flow statements. A cash flow analysis shows how major cash sources relate to major cash expenditures. The cash flow statements give lenders an insight into a housing provider's operations, management competence, and trends over time. They show whether the social housing provider has the ability to make full and regular loan repayments.

When reviewing loan applications, lending institutions also rely on a number of specific calculations to help in their decision making. These calculations include: debt service coverage ratio, loan to value ratio and capitalization rate.

As a good practice, social housing providers should review their own financials before approaching a lending institution and determine for themselves that they indeed have the capacity to borrow. Also, before approaching a lending institution, housing providers should engage their Service Manager. This review and Service Manager engagement is part of the housing provider's due diligence efforts that are part of a Strategic Asset Management Framework. All the due diligence done by the provider enhances the credibility of the provider in the eyes of the lending institution and strengthens the quality of the loan application.

The lender will very likely need collateral to secure the loan. A social housing provider with a multi-project portfolio may consider identifying one of their strongest properties as collateral for the loan. That is a building with a history of positive cash flows, available funds for new expenses/debt repayments and with a useful life that exceeds the term of the loan. Good collateral further enhances the quality of the loan application because it shows that the loan will be supported by a financially sustainable asset.

Borrowing can take the form of refinancing an existing mortgage or acquiring secondary financing. Secondary financing can be used when the social housing provider doesn't want to or cannot refinance an existing first mortgage. One example of secondary financing is a non-performing second mortgage, a mortgage where payments commence once the first mortgage is paid in full. Social housing providers with mortgages included in the Ontario Competitive Financing Renewal Process are only permitted to acquire non-performing secondary financing.

The first mortgage has a priority over a second mortgage and a lender of the first mortgage has to agree to secondary financing. A second mortgage forms a second encumbrance against the property.

5. REVITALIZING AND REFINANCING SOCIAL HOUSING – ONTARIO EXAMPLES

The examples below are the result of social housing providers, Service Managers and housing associations being innovative and strategic about social housing assets and thinking long term.

Creating New Units - Centretown Citizens Ottawa Corporation

Centretown Citizens Ottawa Corporation (CCOC) is a private non-profit organization that operates 1,595 units of mixed-income affordable housing at 53 different properties in Ottawa's downtown neighbourhoods. The organization was created in 1974 as a volunteer- and tenant-directed corporation. From 1975 to 1979 Centretown Citizens Ottawa Corporation developed 11 properties totalling 152 units under Section 27 of the *National Housing Act*.

The program, as originally designed, did not anticipate operating surpluses for Section 27 projects. However, subsequent adaptations by CCOC, such as the early introduction of market rents, led to modest annual surpluses among these projects. Over time, the Section 27 projects accumulated reserves above and beyond their project needs.

Creating new affordable housing is an important part of Centretown Citizens Ottawa Corporation's mission. The housing provider developed an internal financing policy that allowed it to use accumulated operating reserves from its Section 27 projects to facilitate the development of new projects outside the portfolio.

Centretown Citizens Ottawa Corporation approached Canada Mortgage and Housing Corporation to advise them of its plan to lend internally accumulated operating reserves in Section 27 housing projects to newly-developed affordable housing projects. CMHC considered each case on its own merit and gave its decision on a case-by-case basis.

The housing provider also consulted the City of Ottawa (i.e., Service Manager), about the proposal. The Service Manager sought confirmation from the housing provider that its internal loans policy preserved the original funds and did not lead to cross-subsidization of projects.

Each property that receives an internal loan is responsible for paying principal and interest back via annual payments. The internal loan typically has an amortization period matched to any external debt, up to a maximum of 40 years. The rate for internal loans is equal to the Government of Canada long-term benchmark bond yield, which is comparable to returns that reserve funds might otherwise earn if left untouched.

As of 2013, Centretown Citizens Ottawa Corporation's internal lending policy has resulted in ten individual internal loans. The two original internal loans that were issued in 1982 have been fully repaid. To date, the housing provider has leveraged its Section 27 operating reserves to develop or repair over 459 units of new affordable housing.

Maintaining Existing Units – Ottawa Community Housing Corporation

Ottawa Community Housing Corporation operates approximately 15,000 units distributed among townhouses, apartments, rooming houses, seniors-only apartments, family high-rise buildings, and row-house communities. Units are available on a RGI basis or near market rent. Ottawa Community Housing Corporation is solely owned by the City of Ottawa.

After completing a BCA of its entire portfolio in 2008, the housing provider identified $211 million in capital repairs that were overdue and a further $121 million in repairs that would be required over the subsequent years. The levels of existing financial resources were insufficient to undertake all this work.

The Ottawa Community Housing Corporation decided to leverage equity in its existing assets in order to raise some of the required capital.

The housing provider had eight mortgages coming up for renewal at different times in 2012. These mortgages had remaining amortization periods ranging from 2.75 years to 15 years.

At renewal in 2012, the housing provider refinanced these eight properties and obtained a new 30-year $35 million loan from Infrastructure Ontario (IO). $18.4 million of the $35 million loan was used to pay out the existing mortgages and the remaining funds were designated for capital repairs in the portfolio.

There were no prepayment penalties for paying off the mortgages because the discharge took place on renewal dates. The new 30-year Infrastructure Ontario loan is fixed at approximately four percent.

As one of the conditions for the loan, Infrastructure Ontario required a commitment from the City of Ottawa that subsidies sufficient to cover the new loan payments would continue for the entire duration of the IO loan, until 2042. The City of Ottawa agreed to the condition.

Ottawa City Council approved maintaining the payments on the refinanced mortgages at the pre-2012 levels, in the amount of $2.09 million. The re-financing loan has debt repayments that equal $2.09 million annually.

In 2012, the housing provider generated about $18 million in new capital to help pay for social housing repairs. The housing provider repeated the refinancing arrangement again in 2013 and in 2014 with different properties coming up for mortgage renewal to raise additional capital for building repair and upgrades.

Regenerating Existing Properties – Victoria Park Community Homes

Victoria Park Community Homes is a private non-profit housing corporation with a portfolio of more than 2,000 units.

The corporation operates in four Service Manager areas and owns properties that were developed under Section 27, Section 95, Provincial Non-Profit Program, and the Affordable Housing Program.

The property at Queen Street North in Hamilton (Section 95 – rental apartment building) needed extensive parking garage rehabilitation and window replacements. The property's existing mortgage and operating agreement mature in 2016.

The housing provider obtained one time Social Housing Renovation and Retrofit Program (SHRRP) funding to help pay for some of the costs but it was not sufficient.

To raise the balance of needed funding, Victoria Park Community Homes turned to refinancing. One of the properties in the housing provider's portfolio in Hamilton (Section 95 – townhouses) was owned by the housing provider outright - the federal operating agreement and the mortgage matured in 2010. Upon maturity of the mortgage and the operating agreement, the Board of Directors made a decision to turn the property to 100 per cent market rent upon unit turnover. This was done to enhance the property's cash flows to be invested into the remaining portfolio.

To pay for parking garage overhaul costs and window replacements at the Queen Street North apartment building, the housing provider refinanced its mortgage-free townhouses site and obtained a $2,500,000 loan.

The townhouses operate with annual operating surpluses and a portion of these surpluses will be devoted towards repaying the $2,500,000 loan.

Regenerating Older Housing Stock and Growing the Supply of Affordable Housing - Kawartha Lakes - Haliburton Housing Corporation

Kawartha Lakes - Haliburton Housing Corporation (KLHHC) is a local housing corporation. The KLHHC currently owns and operates 701 units across the County of Haliburton and the City of Kawartha Lakes (467 units of public housing, 210 non-profit units and 24 affordable housing units).

KLHHC is currently working on its first phase to regenerate and grow its portfolio through selling 18 existing public housing units which are RGI in order to build 18 new RGI units and 11 new affordable (80 percent AMR) rental units.

KLHHC has partnered with Habitat for Humanity, an organization that has considerable experience in developing affordable ownership housing. Habitat for Humanity, on the same site, will be building 5 new affordable housing ownership units.

All of the new rental and ownership units will be constructed on surplus municipal land in the community of Lindsay. The 34-unit modern and energy-efficient development will consist of 13 townhouses, 8 stacked townhouses, 3 single detached residences and 1 semi-detached residence.

The total cost of the KLHHC initiative is $5.1M. KLHHC plans to raise a portion of the needed investment through selling the 18 scattered public RGI units (all detached or semi-detached residences) for approximately $150,000 per unit, generating $2.7M towards the cost of the initiative. In addition to $2.7M from the sale of existing units, KLHHC will also obtain seed funding and Proposal Development Funding (PDF) from CMHC for the initiative. The City of Kawartha Lakes plans necessary steps for granting waivers from development charges, building permit fees, parkland levies, site plan fees and rezoning fees. Since KLHHC is a local housing corporation, municipal financial assistance to KLHHC was not subject to the municipal bonusing restrictions that apply in connection with commercial organizations.

Some existing tenants residing in KLHHC properties earmarked for sale who are willing and financially able to become homeowners will be given an opportunity to purchase their existing homes or one of the constructed Habitat for Humanity homes. They will also be given priority if they want to move into the newly constructed rental units.

One of the main benefits of the initiative is that it is expected to reduce KLHHC's operating and capital requirements from the City of Kawartha Lakes (i.e., Service Manager). The initiative would replace 18 older units with 29 affordable units that are self-sustaining (i.e., no ongoing operating subsidy, only rent supplement expenditures funded by the Service Manager). Both the KLHHC rental units and the Habitat for Humanity ownership units will also increase the City's property tax revenues.

KLHHC has sought and obtained Ministerial consent to sell the units, with a number of conditions such as reinvesting the proceeds of the sale into housing and maintaining service level standards. KLHHC also had to seek City council's approvals for re-zoning, site plan approvals and building permit approvals.

One of the lessons that KLHHC learned by going through the planning process is that co-ordinating activities with another partner can be time consuming and that planning and regulatory approvals can take longer than originally anticipated. Despite these issues, KLHHC has noted that the benefits of proceeding with the initiative far exceeded the costs of maintaining the status quo.

KLHHC will commence construction in late 2014 with occupancy anticipated as early as July 2015. The first two Habitat for Humanity builds are planned for the spring of 2015.

Co-operative Housing Federation Refinancing Program

The Co-operative Housing Federation of Canada (CHF Canada) is the nation-wide umbrella organization for the co op housing sector in Canada. The organization aims to unite, represent and serve the co op housing community across the country.

In 2013, CHF Canada launched a new program for housing co-operatives called "Co-operative Housing Refinancing Program". The program's objective is to provide members of CHF Canada access to mortgage financing / refinancing through brokered partnerships with credit unions to allow members of CHF Canada to revitalize their assets. The program is available through CHF Canada and credit unions across Canada with the exception of BC and Quebec, where regional co-op housing federations have developed similar lending programs.

Three parties are involved in the program: CHF Canada, a credit union and a co-operative housing provider. To create the program, CHF Canada has worked with a large representative credit union in Ontario on developing a mortgage product that meets Section 95 housing co-operative's need to refinance its CMHC-held mortgage and raises additional funds for capital repairs and upgrades.

Participating co-operative housing providers discharge their CMHC-held mortgages and refinance (outstanding principal plus new capital) with participating credit unions. The providers use generated capital to undertake building repairs and upgrades.

Generally, existing operating agreements and associated subsidies for federally-administered projects are automatically terminated upon the maturity or prepayment of their CMHC-held mortgages. CHF Canada worked closely with the federal government to obtain CMHC's agreement to continue the operating agreement and the federal subsidy, with the subsidy calculated as if the CMHC-held mortgage was still in place.

The program has an application process that provides a credit union lender with a standard loan application. Interested co-operatives are required to submit financial statements, rent rolls, and forward-looking forecasts. They are also required to provide a building condition report, a recent property appraisal, and a capital reserve forecast for the entire amortization period of the new loan. Like any borrower, co-operatives have to provide a detailed plan on how they plan to use the funds. Every application is given careful consideration by CHF Canada and a credit union.

If the co-operative housing provider is successful in qualifying to participate in the Co-operative Housing Refinancing Partnership program, CHF Canada enters into a tripartite agreement with the credit union and the co-op. This agreement commits the housing provider to certain standards and provides CHF Canada with a monitoring role and the ability to intervene in the co-operative's affairs at the request of the lender.

CHF Canada receives monitoring reports from the co-operative every year and provides information to the credit union as needed. CHF charges a fee to housing co-operatives for its services, including helping them during the application process and monitoring compliance with mortgage conditions until the new loan is fully paid.

The new loans are secured by the co-operative's real property, which includes assignment of rents. Default remedies include the right of the credit union to foreclose. The new program allows co-operative housing providers to unlock some of the portfolio's value and use this unlocked capital to revitalize their properties.

In the first 18 months of the program, nearly $30 million in loans was provided to co-operatives.

Social Housing Provider Building Repair Loan Programs

Some Service Managers in Ontario lend funds to non-profit housing providers for the purposes of undertaking capital repairs and renovations.

These programs are funded from existing municipal reserves. They aim to support the following values:

- providing loan funding to help housing providers to make necessary capital repairs and upgrades
- protecting the ability of first mortgages to be eligible for participation in the Ontario Competitive Financing Renewal Process and for inclusion in the NHA Mortgage-Backed Securities Program

Individual loans are approved by Service Managers on a case-by-case basis. Housing providers who want to participate in these loan programs submit an application/business case to the Service Manager that is endorsed by their Board of Directors. Housing providers also provide supporting documentation; this documentation helps the Service Manager to determine whether or not to approve the loans and in what amounts.

The Service Manager is responsible for the loan decisions and any due diligence that is appropriate. Typically, the Service Manager works closely with housing providers to establish capital needs and funding requirements. All housing providers participating in the loan program are required to submit annual capital plans for Service Manager approval and may only spend their capital reserve funds on Service Manager-approved projects until the loans and the associated interest are repaid in full.

When the Service Manager approves a loan, it enters into a loan agreement with the housing provider. Then, for the duration of the loan, housing providers must submit annual financial reports to the Service Manager. The Service Manager closely monitors housing providers' compliance with loan agreement provisions until the loans are repaid. The Service Manager also monitors housing providers' progress in completing agreed-upon capital projects. Housing providers must continue to operate their projects as social housing until the loans are repaid. Loan agreements also prescribe remedies, in case a housing provider becomes insolvent or unable to complete agreed-upon capital projects.

The loans are registered on title as non-performing second mortgages meaning that housing providers commence repayments after their original mortgages mature. A lender of the first mortgage as well as CMHC (MBS department and NHA department) must provide their consent to secondary financing.

The non-performing second mortgages registration allows housing providers to continue to participate in the Ontario Competitive Financing Renewal Process to maintain low-cost financing on their original mortgages. Furthermore, the Service Manager loans are registered as "collateral charge" on properties' titles, allowing the Service Manager to lend additional funds to housing providers.

Transferring and Refinancing Existing Social Housing Properties – Region of Waterloo Community Housing Inc.

Region of Waterloo Community Housing Inc. is a housing corporation that is wholly owned by the Region of Waterloo.

In 2011, the organization's Board of Directors approved the transfer of three non-profit projects to the Region of Waterloo. The transferred properties, which were created under various Provincial Reformed housing programs contained 132 units. Tenants were not affected by the transfer. The properties were transferred to Waterloo Region Housing in January 2012.

The rationale for the transfer was to streamline housing operations and to take advantage of the Region's ability to replace the outstanding mortgages associated with the properties with the municipality's debenture financing at a lower cost.

Because the three mortgages were replaced at renewal by debenture financing, there were no prepayment penalties. Minister's Consent to re-finance properties with debentures was requested and received in 2011.

The Region of Waterloo replaced these mortgages through its 2011 fall 10-year debenture issue. The principal balances of the three social housing properties ($6,664,000) were refinanced over ten years at an all-in cost of 2.85 percent.

The transfer and refinancing resulted in savings of $927,000.

- $800,000 of that can be attributed to savings through the low interest rates realized in the 2011 debenture issue and the fact that outstanding principal debt will be paid off much faster.
- $127,000 can be attributed to various efficiencies such as elimination of corporate costs (e.g., Directors and Officers Insurance, independent audit fees, maintenance contracts) and streamlining functions at Waterloo Regional Housing.

CONCLUSION

Safe and appropriate affordable housing benefits the entire community – socially and economically. It allows lower income families and individuals to obtain affordable housing. Ontario's Service Managers and social housing providers have key roles in managing and operating vital housing assets which are cornerstones for meeting affordable housing needs.

The demand for affordable housing is growing and evolving, resulting in a need to improve housing assets through revitalization and refinancing. The social housing stock in Ontario is a multi-billion dollar strategic asset that can be leveraged to provide housing opportunities now and in the future.

This guide highlights the importance of a Strategic Asset Management Framework as a precursor for considering revitalizing and refinancing social housing. The framework allows housing providers to be more proactive with respect to their assets, make more effective decisions and better align limited resources with asset needs.

FOR MORE INFORMATION

Ministry of Municipal Affairs and Housing staff are here to help. Please don't hesitate to contact us if you feel we can be of assistance. As a first step, please contact:

Director, Housing Funding and Risk Management Branch
Housing Division, Ministry of Municipal Affairs and Housing

777 Bay Street, 14th Floor
Toronto ON M5G 2E5
Keith.Extance@ontario.ca

We are committed to working with our Service Manager partners to ensure that the social housing stock remains viable over the long-term and continues to meet housing needs for Ontarians now and in the future.

LINKS TO OTHER RESOURCES

If you require additional information about social housing, asset management or refinancing, please refer to these resources.

FRAME: Fundamental Resources for Asset Management Excellence. Asset Management Centre

Available at http://www.hscorp.ca/wp-content/uploads/2012/01/amc-frame.pdf

Sustainable Housing Asset Resource Exchange (SHARE). Housing Services Corporation

Available at http://share.seeonesystems.ca/

Infrastructure Ontario Loan Program. Infrastructure Ontario

Available at http://www.infrastructureontario.ca/Templates/Loan.aspx?id=50&langtype=1033

CHF Canada's Refinancing Program. Co-operative Housing Federation of Canada

Available at http://www.chfcanada.coop/eng/pages2007/refinancing.asp

Redeveloping Social Housing in Ontario: A Provincial Guide and Perspective. Ontario Ministry of Municipal Affairs and Housing

Available at http://www.mah.gov.on.ca/AssetFactory.aspx?did=10150

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