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Operating agreements for social housing: the beginning of the end?

Social housing plays an essential role in meeting housing needs for low-income households in Canada. One of the most pressing issues facing social housing providers is the imminent expiry of long-term operating agreements. These subsidies, established by the federal government from the 1950s to early 1990s, were meant to pay the debt on social housing mortgages and assist with operating deficits, covering the difference between rents paid by low-income households and operating expenses. These agreements were struck for periods between 25 and 50 years.

When the agreements were designed, it was presumed that once mortgages matured, cash flow requirements would fall and housing projects would be able to continue offering affordable rent levels without subsidies. However this has not been the case and in 1993 the federal government began their retrenchment from social housing by transferring financial responsibility for social housing to the Provinces.

As these agreements end they are not being renewed despite increasing costs. Social housing providers have begun to experience the loss of funding as their operating agreements expire, yet poverty continues to deepen and the number of homeless people in Canada is on the rise. Social housing providers find that in the context of rising costs, maintaining low rents is near impossible.

In 2011, Steve Pomeroy prepared a report about the impending end of federal social housing subsidies. The report examined 200 agreements, covering 9000 units of social housing. Since it was not a statistical analysis, it cannot be generalized to all social housing agreements. It nevertheless raises important questions and concerns about the viability of non-profit housing providers once the agreements expire.

Pomeroy found that after the subsidies ended more than half the units reviewed would have sufficient income to cover their operating cost, but 70 percent of units would have insufficient capital reserves. Pomeroy also found that 40 per cent of the agreements (or 31 per cent of the units) would be non-viable without subsidies, while 80 per cent of the agreements would be at risk at the end of their operating agreements. In other words, without enough income to cover operating costs and/or insufficient reserves to cover capital costs, the ability of these housing providers to maintain their properties would be severely at risk.

Pomeroy states that "massive loss of existing stock is unlikely, however there remains considerable uncertainty and a not insignificant degree of risk that some properties will absolutely

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be lost and in other cases the number of deeply targeted units may be reduced (as providers seek to improve revenues and viability by selecting less needy tenants)" (Pomeroy 2011, 11).

Housing providers whose units are 100 percent rent-geared-to-income (RGI) are especially vulnerable when their operating agreements expire, because the rental revenues they can realistically collect are insufficient to cover the operating costs of the housing projects. This is a particular challenge for urban Aboriginal housing providers, who serve households with very low income levels and that are in need of deep RGI subsidies. The assumption underlying the operating agreements, that once mortgages were paid off projects would become viable, does not account for this reality.

Urban Aboriginal housing providers also face an additional challenge. While public housing is owned by the provinces/territories (municipalities in Ontario), Aboriginal housing is not, and is more dependent on federal subsidies. Without the financial support offered by operating agreements, and with limited rental revenues, some Aboriginal – and other – housing providers are now being forced to look at options such as selling units or moving units to market rent to create more revenue. Although this may preserve many units, it reduces the overall numbers of social housing units available, particularly for the lowest-income households.

An earlier CHRA study (2006) calculated that once all the operating agreements expire, around 2040, federal and provincial/territorial governments would economize about $3.5 billion annually. This raises questions about what to do with the dollars saved through reduced expenditures. Housing activists are also raising questions about the CMHC surplus, which was collected through housing activities in Canada. The 2006 study called for a reinvestment into housing projects experiencing viability issues, or assisting with capital replacements, since these housing assets are paid for and it would be less expensive to reinvest in them than replace them.

Given the current homelessness crisis, another use of the CMHC surplus would be to expand the affordable housing stock, especially where the need is greatest. Sharon Chisholm, former Executive Director of the Canadian Housing and Renewal Association, suggested that "[I]f the federal government were to say that it will hold the line on the existing budget, if not increase it, 80% of that budget could be used to create new housing. By the time mortgages are paid off, that could add 21,000 units of housing a year. If the provinces keep their pedal to the metal and partner, that could double" (Standing Senate Committee, 2009, p.87).

In the current political landscape, housing activists will need to redouble efforts to convince politicians to develop housing policies that reflect the real affordable housing needs of all Canadians. From maintaining units in good condition to subsidizing rents, the subsidies provided through the operating agreements provide housing for thousands of households that cannot afford market housing. Social housing is, and will always be, an essential part of Canadian cities. We must protect it.

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