Was Chicken Little Right?

Case Studies on the Impact of Expiring Social Housing Operating Agreements

Prepared for

Canadian Housing and Renewal Association

by

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in association with

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Acknowledgments

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A separate companion report has been produced for the Social Housing Services Corporation (SHSC) that focuses on Ontario. Cases from the SHSC report were provided to augment the sample used here and SHSC contributed funding to this research study.

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Executive Summary

This research study was commissioned by CHRA to illustrate possible outcomes with the expiry of subsidy agreements for social housing. The study seeks to raise awareness among providers, funding agencies and governments of both the implications of expiry and some possible remedies to protect the long-term availability and viability of social housing assets. A cross-section of 20 individual projects across different programs and different regions is used to illustrate possible outcomes at expiry. These are augmented by three portfolio-level case studies.

The review of projects asks two key questions:

a) Will the project be viable when the operating agreement expires? That is, will it generate enough rental income from RGI and, where applicable, market units to cover operating costs?

b) Does the project have sufficient capital reserves combined with ongoing allocations to replacement reserves to meet the need for expenditures on capital replacement?

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 will very likely experience post-expiry difficulty.*** *With no corrective actions, such a project today will have negative Net Operating Income (NOI) at expiry.*

To determine whether capital reserves and contributions are sufficient, a benchmark measure has been created based on an ***ideal*** project, in which it is assumed that reserves of $450 have been funded annually from the first year of occupancy. A project should have sufficient capital (from its interest-earning reserve and from the annual contribution) to spend an average of $750 per unit on capital replacement each year for the remainder of the term.

Against this estimated benchmark of $750, it is possible to compare the average annual amount available based on the current (most recent fiscal year) actual reserve balance and the current ongoing annual contribution.

The report outlines a range of potential remedies for providers to rectify non-viability issues. Some of these can be implemented internally; others implicate government in renewal or extension of some level of subsidy.

Conclusions of the review

1. Viability

The sky is not falling for most non-profit housing providers. Most projects will be viable or have the potential to implement remedies (detailed in Section 3) that will give them positive Net Operating Incomes (NOI).

Generally, non-profit projects established before 1986 have a greater probability of operating viability because they have a higher level of income mixing and more units close to market rent. The market (or low end of market) rental revenues help to sustain their economic viability.

For non-profit providers with predominantly post-1985 agreements, there is a greater mix of outcomes. These portfolios tend to have fewer units at market rent and thus a greater proportion of RGI units with constrained revenues (incomes of low-income households tend to be fixed or stagnant). There is no specific RGI proportion that can be identified as a tipping point – viability varies by degree of RGI assistance as well as by market area. However, there is a much greater likelihood of problems as the RGI proportion exceeds 65 percent. This tends to be the case for most urban native and public housing projects.

Projects anticipated to be in difficulty –public housing, urban native and a portion of post-1985 non-profit, could account for as much as 50 percent of the total stock of social housing. This is not an insignificant problem.

2. Capital Replacement Reserves

In a number of cases, projects appear to be viable from a cash flow perspective (positive NOI), but they have insufficient capital reserves to keep up with capital replacement and thus ensure the property is in good condition and is marketable (especially important if retaining and attracting market rent tenants is a key to viability).

Projects with weak or unviable post-expiry operating positions also tend to be those with poorly funded reserves; again, this is the case for urban native and public housing. The latter are owned and operating by provinces and territories (except in Ontario, where they have been transferred to municipal ownership) and arguably have access to financial resources to help address these problems. Those owned by non-profit urban Aboriginal corporations do not have the resources to resolve the problems without public assistance.

Clearly, the provinces and territories need to carefully assess their portfolios and determine the magnitude of the problem. Public housing accounts for roughly one-third of all social housing in Canada and is an important part of a very limited pool of affordable housing for a continually growing population of lower-income households.

This study has not examined the corollary of the expiry issue – the reduced expenditures that will be realized by both the federal and provincial/territorial governments. In total, these governments will realize more than $3.5 billion annually in reduced expenditure by the time all the operating agreements expire. This should provide adequate financial resources both to reinvest in projects where viability is a problem and to fund capital replacement to ensure the projects are in sound condition. These assets have already been paid for. It is far less expensive to reinvest in them than it is to replace them with new housing. That is not to say that the ongoing expansion of the stock of affordable housing should not continue.

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1. Introduction

In the children's nursery tale, when Chicken Little is hit on the head by a falling acorn, she races to the king, exclaiming, "the sky is falling, the sky is falling." On further consideration, and in consultation with others, she finds that, in fact, the sky is not falling, that a falling acorn is a normal occurrence.

By the same token, in anticipation of operating agreements for social housing expiring, fear has developed in the social housing sector that a similar disaster is pending. Again, some analysis can raise awareness and help social housing providers understand implications for their project or portfolio when the long-term operating agreements expire. Will individual social housing projects or portfolios of projects be able to continue to provide affordable housing and to maintain these assets into the future?

This research study was commissioned by the Canadian Housing and Renewal Association (CHRA) in association with the Social Housing Service Corporation (SHSC) in Ontario to illustrate possible outcomes with the expiry of operating agreements.[1]

The study also seeks to raise awareness among providers, funding agencies and governments of both the implications of expiry and some possible remedies to protect the long-term availability and viability of social housing assets.

Most of the post-war public and social housing in Canada has been developed with long-term ongoing subsidy linked to the amortization period of the project mortgage. Debt repayment is, in most cases, the single largest expense and reason for subsidy.[2] The underlying presumption in program design is that once the mortgages mature, cash flow requirements will substantially decline and projects will be able to continue to operate at affordable rent levels and to serve low-income clients, without further subsidy from government. While this objective was never stated, it was implicit in the notion of a term-limited subsidy agreement. This presumption may prove to be true in many, but not all, cases.

Previous analysis of this issue showed that where the total present-day annual mortgage payments exceed the total present-day annual subsidy, after expiry, the debt-free project should be viable without ongoing subsidy. [3] The subsidy design of existing programs is known and thus it is possible to predict which projects are more likely to be viable without ongoing subsidy; and conversely, which will be unviable with their current level of RGI (rent-geared-to-income) tenancies:

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[1] A separate report with more extensive Ontario cases has been produced for SHSC.

[2]The exceptions are public housing and section 27 non-profits with 50-year mortgages. Both were built at historically low cost, with much of the mortgage now repaid. For these portfolios, utility and other operating costs are often the biggest expenses and the retirement of the mortgage does not have as big an impact on post-expiry cash flow – especially with 10 or more years to go with those other costs rising

[3] *Guaranteeing a Future: The Challenge to Social Housing as Operating Agreements Expire* by Connelly Consulting, Focus Consulting and Dowling Consulting, June 2003.

- In particular, in the pre-1986 section 56.1 (renumbered to section 95) program the subsidy calculation was based on the difference in mortgage payments calculated at the prevailing mortgage rate (original and at renewal) and the payments at a rate of two percent. Thus, by design, the subsidy will be less than the total mortgage amount and the project should be viable with the current RGI mix.

- In other programs, especially those with open-ended assistance (such as Public Housing, enriched Urban Native and Post-1985 Non-Profit (NP)/Co-op) where, outside of Ontario, subsidy matches the operating deficit (but budget is subject to funders approval), the relationship between the size of the mortgage payment and the total subsidy will depend largely on the proportion and characteristics of RGI tenancies. [4]

- In general, where there is a high proportion of RGI households and especially when these involve deep subsidy (i.e. very low-income households), as is the case in many public housing and urban native portfolios, projects are not expected to be viable at expiry.

- There may be special circumstances that defy these general expectations. These include properties on leased land with a scheduled capital lease installment due after expiry; projects that have experienced difficulties due to weak markets and a tendency to fill vacancies with RGI tenants even where income-tested subsidy funding is not available; and a nuance in the administration of subsidy recalculation on renewal in the pre-1986 (two percent) program (which erodes the amount of RGI assistance).[5]

As part of the 2003 research, an analysis template was created for CHRA and the Ontario Non-Profit Housing Association (ONPHA) to support analyses at both the project and portfolio levels.[6] To date, few providers have used the template and provided results to CHRA. This suggests that providers and funders [7] may not be giving this issue the attention it deserves – in part because they believe expiry is not yet a pressing issue and can be addressed in the future.

While many projects and providers may not have expiring operating agreements in the next five years, the 2003 research observed that remedies require time to implement (e.g., to shift the trajectory of project level revenues and incomes to remedy non-viability). Even if providers do not make changes (i.e., shift tenant and RGI mix as units turn over) and fall back on funders to solve the problem (or risk loss of valuable social housing stock), funders will need to plan ahead to accommodate these eventualities.

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[4] In Ontario, in the first operating year, subsidy matched the deficit, but after that it was adjusted according to a formula. After enactment of the Social Housing Reform Act (SHRA), it was recalibrated to set a new base-year budget, but subsidy again is controlled in the following years by a formula.

[5] In the pre-1985 section 95 program, subsidy is calculated based on the difference between the full mortgage at contracted mortgage rate and the theoretical payment at two percent. However, this determination has been incorrectly administered at mortgage renewal, resulting in a reduced amount of assistance for RGI subsidy.

[6] The EOA Financial Analysis Template and User Guide (available in single project or portfolio versions) can be downloaded from the CHRA Web-site at www.chra-achru.ca – look under "Policy and Research," then select "Future Of Social Housing Subsidies and Assets."

[7] The term "funder" refers to the particular order of government that provides subsidy. This varies across programs and in some cases, notably Ontario, includes municipalities as well as CMHC and the province/territory.

Raising the profile of the issue and communicating to key stakeholder audiences, including both providers and funders is an important step. The current study seeks to help achieve this objective by undertaking a cross-section of case studies.

2. Methodology and Format for Case Studies

As indicated above, this research comprises a qualitative exploration of possible outcomes at both the project and portfolio levels, where applicable (i.e., multiple projects owned and operated by a single non-profit corporation or society). It is not a quantitative analysis. That is, the outcomes illustrated here have not been developed with a rigorous statistical framework and thus are not statistically representative. But they are illustrative and are intended to help social housing providers learn from cases similar to their own.

Cross-Section of Cases

Based on our knowledge of program designs and regional housing markets, the consulting team chose a national cross-section of projects and portfolios to examine the implications of expiry.

Case Study Characteristics

Sub- Program	% RGI Units	Prov	City & Market type
Co-op Pre-1986 Sec. 95	26%	BC	Metro, tight market
Co-op Pre-1986 Sec. 95	47%	BC	Metro, tight market
NP Pre-1986 Sec. 95	11%	BC	City, tight market
NP Sec. 27+ rent supplement (RS)	0%	BC	Metro, tight market
Public Housing	100%	BC	Metro area, tight market
Public Housing	100%	BC	Metro, tight market
Public Housing	100%	BC	Metro, tight market
NP Pre-1986 Sec. 95	100%	Man	Metro, weak, improving market
NP Pre- 1986 Sec. 95	65%	Man	Metro, weak, improving market
Urban Native Sec. 27+ RS	100%	Man	Metro, weak, improving market
NP Post-1985 Sec. 95	100%	NB	Ex-urban, weak market
NP Pre-1986 Sec. 95	37%	NB	City, weak market
NP Sec. 27	0%	NB	Small town, soft market
Public Housing	100%	NB	City, weak market
Urban Native Post-1985 Sec. 95	100%	NB	City, weak market
Urban Native Pre-1986 Sec. 95	0%	NB	City, weak market
NP Post-1985 Sec. 95	50%	Ont	Northern, soft market
NP Pre-1986 Sec. 95	25%	Ont	Small North, soft market
Prov. Unilateral - NP	71%	Ont	GTA suburban, softening market
Co-op Pre-1986 Sec. 95	24%	Que	Metro, tight

While program design is a good predictor of post-expiry viability, it is not definitive. Viability is also influenced by project and portfolio characteristics. We hypothesized that projects with a high proportion of RGI units and consequent low rental revenues are less likely to be viable. However, we do not know what proportion of RGI units represents the tipping point. Moreover, it is important to consider not only the proportion of RGI to market units but also the nature of RGI assistance. Are tenants receiving deep RGI assistance versus shallow, and what is the mix of such tenancies? Although many providers started with a preconceived notion of how to mix market, shallow and deep subsidy, this blend may have changed over the years. In particular, this has occurred in soft markets, where social housing has been unable to compete for market rent tenants, and in markets where there is an overwhelming demand for subsidized units.

Accordingly, we sought a cross-section of cases that includes a number of regions with both strong and weak housing markets. We also ensured a good cross-section of programs.

Two types of case study have been completed: first, a range of individual projects (which may in some cases be part of a larger portfolio or may be single-project providers) and second, portfolio-level cases. In the second, we cite three small to mid-sized portfolios, which illustrate how, in some cases, portfolios can cross-subsidize internally to address issues; in other cases, however, entire portfolios may be in difficulty.

The case study characteristics are summarized in the table above, including a general indication of market conditions (weak or soft versus tight, meaning low vacancies and pressure on rents) and whether the project is in a metropolitan region, a separate non-metro city or a smaller community. In addition to these 20 individual cases, we examine three portfolios that cover a mix of pre- and post-1985 non-profit housing (in BC and in Ontario) and an urban native portfolio in BC.

2.1. Analysis template and data elements

In the 2003 research, an analysis template was created for CHRA to help providers self-assess their post-expiry viability. This template uses basic information about the project (and in case of portfolios, groups of projects), including revenues (RGI, market and other), operating expenses (administration, maintenance, utilities, taxes) and mortgage details. The data elements can be easily used to calculate and project the net operating income (NOI) generated by the project at expiry.

As discussed further below, ***NOI is the primary indicator of viability***. A NOI greater than zero means the project has enough cash revenue to cover all of its expenses; conversely, a negative NOI (below zero) means a project is not viable, since it is running a deficit.

In the CHRA Expiry of Operating Agreement (EOA) Analysis Template, both revenue and operating expenses are projected into the future using inflation factors that can be adjusted across different categories. For example, if RGI rents are expected to lag inflation, they can be projected at a lower rate of increase than market rents. Similarly, specific operating categories (such as utility costs) can be projected at a different rate from other categories. In the current analysis, the base-case projection uses an annual inflation factor of two percent for market and other revenues and a similar two percent for all operating expenses.

However, RGI rent revenues are projected to rise at only one percent annually. Thus, a project with a high proportion of RGI units and generally low revenues may see non-subsidy revenue lag behind growth in expenses over the remaining years of the operating agreement.

Understanding NOI

Net operating income (NOI) is a standard measure in rental real estate. It refers to net income ***before*** mortgage payments. NOI helps investors determine the income generated by the project so they can, in turn, determine the amount of mortgage they can afford.

NOI is not typically used in social housing because it is complicated by a unique source of income: the subsidy. In a post-expiry situation, there is no subsidy and also no mortgage, so NOI is the same as net cash flow.

In this study, the NOI measure is used during the period of the operating agreement to refer to the total revenue less expenses, **before** considering subsidy revenue or mortgage. Because the current NOI excludes subsidy amounts, a project with a negative NOI is not necessarily operating at a deficit.

A base case projection is first generated to identify NOI, both in the years immediately before and immediately after expiry, and thus to estimate post-expiry viability. The template then provides options to adjust some variables to explore possible ways to improve future viability. These options including changing the mix and revenue levels of both RGI and market units, as well as the level of contribution allocated to capital replacement reserves.

The EOA template does not use subsidy amount. This was excluded because of the numerous subsidy formulae across different programs and jurisdictions and the difficulty of projecting this many variations into the future. Also, our focus is on the circumstances that will exist immediately following expiry of operating agreement, so subsidy details are not required.

While subsidy revenue is not used in the EOA Financial Analysis template, providers in the current study were asked to provide subsidy amounts for the most recent fiscal year. When compared to the current annual mortgage costs (P&I), the current year's subsidy data provides a useful indicator, or rule of thumb, about post-expiry viability.

Quick Viability Test

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 a negative NOI at expiry.

2.2. Proxy Approach to Assess Capital Reserve Adequacy

A critical element for the remainder of the operating agreement, as well as beyond, is the level of capital replacement needed relative to the available funding in, and annual contribution to, replacement reserves.

If a project has insufficient funds to undertake necessary capital replacement (e.g., replace roof shingles, boiler, appliances, etc), the project may deteriorate and have difficulty either retaining existing or attracting new tenants, especially shallow-RGI and market tenants. Thus, there is a relationship between adequacy of reserves, the ongoing replacement plan and project viability.

Most properties are in their third decade or beyond, and many are in a phase of high need for capital replacement. While the template includes an option to adjust annual contributions to capital reserve, it does not assess adequacy of reserves or building condition. Instead, a separate building condition assessment is recommended. Many providers have been reluctant to undertake a detailed capital assessment because of the expense of such a study. In Ontario, where the municipalities (in their legislated role as service managers) are responsible for program administration and subsidy, many service managers have underwritten the cost of these studies – a justifiable expense since it helps the funder anticipate future impacts on subsidy need. Funders in some other jurisdictions have also taken this initiative, but further study is needed to adequately deal with this issue.

Reserve adequacy is of direct interest to the current research because building condition has an impact on marketability, and thus on viability. In addition, where reserves are seriously under-funded, this could endanger a project that would otherwise appear to be viable at expiry.

Developing a Simple Benchmark

The critical issues for capital replacement are whether a provider has set aside sufficient reserves and whether their current reserves are sufficient to meet capital replacements.

In 1997, a detailed engineering review of capital reserve adequacy in Ontario was undertaken (*Trow Report*). Based on current replacement costs and a schedule of replacement based on the typical life span of a wide range of capital items, the *Trow Report* recommended that annual allocations to capital reserves be in the order of $470 per unit per year. Over the past decade, costs have further increased and more recent assessments indicate that something in the order of $500-$550 is now required. This is the level of annual allocation, not of withdrawal to pay for new capital items.

A capital reserve fund is typically invested and generates compounding earnings. The reserve fund grows more rapidly in the early years, before the capital replacement cycle commences. Thereafter, annual contributions are offset to some degree by annual withdrawals.

A more recent assessment, also undertaken in Ontario by the Social Housing Services Corporation (SHSC), determined that current annual allocations in the order of $1,200 are needed to meet required replacement. This amount has been determined based on a number of considerations. First, in most non-profit programs, the annual reserve allocation was relatively small, far below the $470 recommended by Trow. This resulted in only small reserves, and often these were not invested to maximize earnings. In addition, in Ontario, as part of a constraint program in the mid-to-late 1990s, the province imposed a contributions holiday (i.e., no annual allocations to reserves). This further exacerbated the inadequacy of reserves. Accordingly, the more recent $1,200 estimate is to a large degree a “catch-up” level, seeking to compensate for the insufficient – and missing – earlier contributions.

In the current analysis, we have developed a proxy measure to create an ***indicator of capital reserve adequacy.*** This is a crude measure and ignores the actual history of replacement in the project (e.g., if the roof and half of the appliances have recently been replaced, it is likely that the reserve account will be relatively depleted, but it will also will have fewer demands on it in the coming years, compared to a building that has not replaced such major items).

To generate the proxy benchmark for this assessment, we have “created” an ***ideal*** project that allocated $450 per unit per year annually since the beginning of the operating agreement (in the real world, providers typically made much lower contributions in the early years). Based on the Trow estimates and recent increasing costs, this represents the minimum necessary level of contribution. We further assumed the fund earns an average annual return of three percent throughout the term of the operating agreement. Finally, we assumed there were no withdrawals for the first 10 years, and beginning in year 11, withdrawals commence at a rate that ultimately expends all the capital at the date of operating agreement expiry.

With this set of assumptions – an admittedly crude methodology – we estimate that such a project should have sufficient capital (from reserve and from the annual contribution) to spend an average of $750 per unit on capital replacement each year for the remainder of the term. ***This is the annual amount required*** to meet average capital expenditures and is likely a low estimate of necessary capital.

Against this estimated benchmark of $750, it is possible to compare the average annual amount available based on the current (most recent fiscal year) actual reserve balance and the current ongoing level of annual contribution. ***This is the average annual capital available***.

If the combination of the reserve balance and the ongoing contributions generates an average ***available*** amount that is less than the $750 benchmark, we deem the fund insufficient to meet ongoing capital spending need. If the funds available exceed the $750 level, we deem the reserve reasonable (keeping in mind that $750 is only a rough guide and may be at the low end of the optimum range). [8]

This is not a definitive test but merely an indicator. We strongly encourage providers and funders to undertake a detailed building condition and reserve adequacy assessment. [9]

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[8] Because this approach assumes that $450 has been allocated every year from beginning of the operating agreement, it overcomes the reality of low early contributions and the non-funding of allocations in Ontario. The resulting benchmark is a theoretical value of funds available and as such is not comparable to the $1200 annual (“catch-up”) contributions suggested by SHSC in Ontario.

[9] In our efforts to generate this benchmark, the consulting team has explored more sophisticated proxy approaches, including a simple spreadsheet model that can predict capital needs based on a typical set of replacement items. This suggests some potential as a more sophisticated tool than the crude benchmark yet it does not necessarily require a

2.3. Case Study Outputs

For each case study project or portfolio, the base year (usually 2005) data for total subsidy and total mortgage were used first to determine whether current subsidy exceeds current mortgage payments. This is a prime indicator of future viability. Second, revenue and operating data were entered into the CHRA EOA Financial Analysis template to generate a projection of the project's financial status in the year of expiry (as well as the years immediately prior to and following). Finally, both the current balance of the capital reserve fund and the ongoing level of contributions were amortized into an average annual amount available for capital replacement. These outputs are summarized in single-page profiles that provide the following details:

<table>
<tr><td>Case #:</td><td>Expiry year:</td><td>Program:</td></tr>
<tr><td>Current annual mortgage payment:</td><td colspan="2">Current annual subsidy:</td></tr>
<tr><td>Program/project details</td><td colspan="2">Program; single project vs. part of portfolio; building type (was it originally new or a rehab?)</td></tr>
<tr><td>Client type and RGI mix</td><td colspan="2">Family, senior, single etc; % units RGI; % rev from RGI</td></tr>
<tr><td>Any special circumstances?</td><td colspan="2">e.g., Has a project in difficulty had a work-out?; Separate stacked rent supplements, etc.?</td></tr>
<tr><td>Key market characteristics</td><td colspan="2">Inner city vs. suburban; tight vs. soft, recent trend in vacancy rates and rents</td></tr>
<tr><td>Is project viable at expiry?</td><td colspan="2">Current (base year) NOI; NOI at expiry</td></tr>
<tr><td></td><td colspan="2"></td></tr>
<tr><td>Current capital reserve balance:</td><td colspan="2">Annual reserve allocation:</td></tr>
<tr><td>Current building condition</td><td colspan="2">Well maintained and updated; satisfactory; poor condition – needs above average level of reinvestment</td></tr>
<tr><td>Commentary on adequacy of replacement reserve</td><td colspan="2"></td></tr>
<tr><td>Overall commentary</td><td colspan="2"></td></tr>
</table>

This information is supported by two graphs, one displaying the NOI, both current (base year for which data was provided, usually 2004 or 2005) and projected to the year of expiry; the other highlighting the annual capital available for replacement funding. The summaries and graphs present NOI and capital reserve data on a per-unit basis, as this is more useful for comparison across projects.

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detailed engineering study. It is beyond the scope of the current assignment, but this approach could be refined separately and might offer a complementary assessment tool.

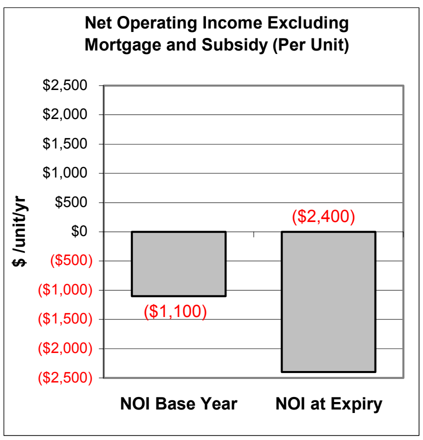
Note: as explained earlier, prior to expiry (current year data), NOI is not the same as operating surplus or deficit. Once the mortgage payment and current subsidy are included, a project with a negative NOI may have a current operating surplus. [10]

Each of the output graphs is described below using two scenarios, first displaying operating viability and second, displaying the adequacy state of capital reserves.

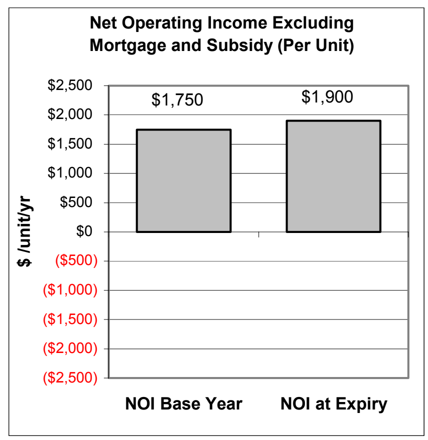
Viability Assessment (Net Operating Income)

Project viability is based on total revenues less total expenses, excluding subsidy or mortgage payment. It is shown for the most recent financial year for which data were provided, as well as at expiry. Note: the base year (usually 2005) NOI is the net of both mortgage payments and subsidy.

Case 1: Not Viable



Case 2: Viable



In case 1, the NOI is negative, with a deficit of roughly $1,100 (before subsidy). Over the remaining years to expiry, the deficit grows because operating expenses are increasing faster than revenues (which are mainly from RGI tenants).

Conversely, case 2 has a positive NOI of $1,700, increasing to $1,900 by expiry due to gains in market rents relative to operating costs. With a positive NOI at expiry, case 2 has the option of refinancing to raise funds for capital replacement in the event that reserves are insufficient.

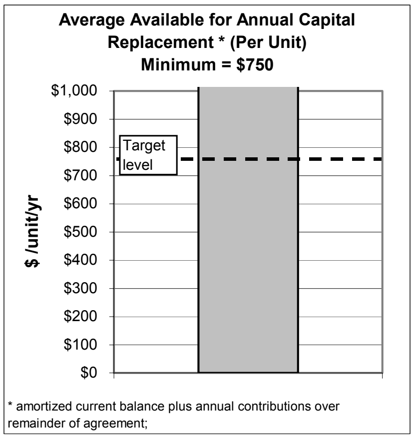
Capital Reserve Adequacy

The assessment of capital reserves is based on the proxy benchmark described above. The benchmark requires a project to have a combination of reserve balance and ongoing contributions sufficient to permit spending of $750 per unit in capital replacement annually, from the base year to expiry of subsidy. The graph shows the average annual cash available (bar) compared to this benchmark (dotted line).

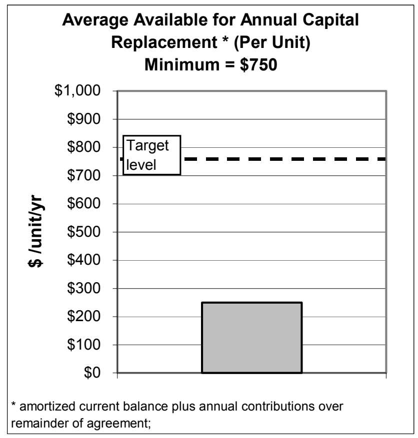
[10] Data was not collected on current operating surplus (deficit) nor was any accumulated surplus or deficit information used. Projects with an accumulated deficit may already be in financial difficulty and more detailed review and analysis will be required to address current issues, before considering expiry issues.

In case 1, the combination of reserves and contributions generates just over $1,000 in available capital funding annually. Assuming the property is in good state of repair and has been kept up to date, this should be sufficient. Case 2 has only $250 available on average and is likely to fall far short of the amount it needs to pay for all the necessary replacement items.

Case 1: Reserve & contributions sufficient



Case 2: Reserve & contributions insufficient



Potential Scenarios

Each project can be categorized into one of four possible situations, as outlined in the following matrix.

Possible Outcomes		
	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. May be possible to use surplus to leverage new financing for capital investment and necessary upgrades
Negative NOI	**(3)** The project is not viable and cannot sustain the current RGI/market mix. Some adjustment is necessary either to increase market rents or to shift profile and mix of RGI units so that RGI revenues are higher. Building is in good condition, which may help in attracting/improving market revenue.	**(4)** The project is not viable and is unable to undertake necessary capital replacement. Careful assessment of current revenues, relative to market, may provide some potential to increase viability. Project may have difficulty without some form of assistance and capital infusion. Project is at risk

3. Identifying Possible Remedies

The Financial Analysis tool helps providers predict whether they will be viable at expiry. The separate assessment of capital replacement requirements compared to available funding provides a further level of insight.

The critical question for providers is, now what? Is there anything they can do to remedy non-viability or under-funded replacement reserves?

The following possible remedies are referenced in the case studies in Section 4 of this report.

1. Addressing Post-Expiry Viability Problems

This set of options applies to projects predicted to have negative net operating incomes at expiry. Given the objective of providing affordable housing, social housing providers seek to maintain and optimize the number of assisted RGI units. Thus, remedies initially focus on this objective. However, it may not be possible to achieve this objective in all cases, especially where the proportion of RGI units has crept up from the original level, due to soft markets, excess need or changes in income of current tenants. Efforts should focus first on improving market revenues, then on raising RGI revenue by selecting on turn-over new tenants who require shallower subsidy, or by adjusting RGI rates.

a) Increase market revenue – where some proportion of units are market (or so-called "low-end-of-market" (LEM)), there is a possibility that rents may not be optimized. This is an obvious source of additional revenue that could enable the provider to maintain the current RGI mix and depth of subsidy. The provider should undertake a market assessment (compare rents in market units to median and comparable private market rents) to determine potential to improve market revenues.

b) Where a portfolio exists, there may be opportunities to transfer surplus from one project to another.

c) Increase RGI revenue – in cases where all units are RGI, and/or there is no potential to increase revenues on the market side, it may be possible to improve RGI revenue. This can be done as existing RGI tenants leave. New RGI tenants with a shallower need could be selected.[11] This would retain the overall proportion of RGI units but improve rent revenues from these tenants.

d) Increase rents for social assistance tenants. While the federal rent scale suggests that tenants in receipt of income (social) assistance be charged the maximum shelter component amount, in most cases the opposite occurs – the rents are set administratively at low levels, thus undermining rental income from this source. In most provinces, this is a requirement of the income assistance guidelines or regulations and refers specifically to tenants in social housing.

[11] In Ontario, this will not be possible for projects subject to the SHRA. These projects must choose their residents from a central waiting list, generally on a first-come, first-served basis, without regard for the level of subsidy required, or according to a local priority list, which usually means deep subsidy.

Some social housing providers house social assistance recipients in non-RGI units and then are able to charge the maximum shelter allowance. If that option is not available, once operating agreements expire, the units will no longer receive operating subsidy and on that basis would be free of the restrictions applying to providers receiving subsidy. Therefore, raising rents (shifting subsidy cost back to income assistance) is a legitimate option.[12]

e) A further option is to increase the RGI ratio charged to tenants, for example, to 32 or 35 percent of income. This reduces the degree of assistance but still offers relief from the much higher market rent alternatives.

f) Introduce/increase market units – as an alternative to shallow subsidy, some RGI units might be moved to market rent (reducing the need for RGI on those units, so it can be used on others), again at time of unit turn-over. This option depends on local market conditions as well as on the quality/condition of the units being offered. In some cases, there may be policy constraints on reducing the number of RGI units. [13]

g) Negotiate a new rent supplement agreement – where the provider is unable to resolve the viability problem without assistance, it can approach the funder for a new subsidy, potentially structured as a rent supplement agreement. As operating agreements expire, funders will benefit from lower expenditures. It makes sense to reinvest any such saving to preserve existing social housing units (assuming the units are in reasonable condition).[14]

h) In cases where a project is unviable *and* in a poor state of repair, it may be appropriate to assess whether it should be retained. This will depend on local market conditions, need, available capital programs for renewal and the objectives of the non-profit owner. If there is surplus land or the project is at low density, redevelopment may be possible. Urban public housing providers in particular may have intensification potential if they own extensive low-rise developments

In examining these options, providers can utilize the CHRA EOA Financial Analysis template, which allows users to adjust the mix and revenue levels of both market and RGI units.

Any attempt to shift the tenant and market/RGI unit mix must be gradual, especially since turn-over in RGI units tends to be slow. Thus, even projects that will not face expiry for 10 or more years should soon develop a long-term plan to implement this transition rather than waiting until they are close to expiry.

2. Addressing Insufficient Capital Reserves

As indicated in the matrix above, there are two general scenarios for providers with insufficient capital reserves. A project will either be viable on an operating basis, that is, it will have a

[12] Again in Ontario, this will not be possible for many providers. The provincial government is planning to keep the SHRA's RGI rules in force after expiry of the operating subsidy.
[13] In Ontario, the constraint is on the service manager (i.e. to maintain service levels) not on the provider (to maintain a targeting plan).
[14] In Ontario, the *Social Housing Reform Act* sets service-level standards for service managers, including the requirement to retain an absolute number of RGI units that doesn't decline even when mortgages expire. There may be some incentive for municipalities to enter into this negotiation.

positive net cash flow, or it will have a negative cash flow. Clearly, a provider in the first category has more options than one in the second. ***In all cases, a formal building condition assessment should be undertaken to quantify the level of expenditure required***.

A further situation to consider is one in which the capital reserve is under-funded and the project is deferring capital replacement spending. This may have negative consequences. Ideally, if the project has a cash flow capacity, it should borrow before expiry[15] to fund these needed replacements. Such capacity may exist in pre-1986 non-profit or co-op projects (both section 27 and section 95, two percent) since these programs allow providers to accrue surplus in a reserve (which is not the case in post-1985 subsidy programs[16]). In these earlier portfolios, which typically include market rent units, if the project is not operating with a surplus cash flow, the first priority should be to carefully examine project "market" rents compared to potential rents. A gradual increase in rents (especially on unit turn-over) can improve cash flow and create the capacity to borrow for capital replacement.

Again, beginning with approaches that give priority to retaining the social housing asset as a source of affordable housing, the following options are possible:

a) Some projects may already generate an operating surplus. In such cases, it may not be necessary to wait until expiry to address capital replacement need. The existing surplus should first be examined and perhaps enhanced by examining current market rents relative to the local market. Existing surplus cash flows could augment reserve contributions or immediately secure financing to fund capital improvements (which in turn may improve rental potential – e.g. new carpets, appliances, etc.). Note: there may be program policy restrictions on refinancing, and prior approval of the funding agency may be required.

b) Where a portfolio exists, there may be opportunities to transfer surplus from one project to another as a way to finance capital replacement, or even to transfer capital reserves. The ability to do so may be constrained by timing of expiry in the donor project. If still under an operating agreement, flexibility to reallocate reserves may be regulated and permission of funder required.

c) Where projects cannot increase revenues to generate a surplus and thus create opportunity to leverage financing, the most likely source of additional capital funding is a public one. A number of provinces (e.g. BC, NB) already provide a loan (potentially with earned forgiveness) as a way to help providers complete necessary capital replacement and maintain the asset. This might be structured either as a grant, a forgivable loan (linked to extension of an operating agreement to continue providing RGI units), or, in cases where a project is viable following expiry, as a deferred loan.

d) Again, where a project is both unviable and in poor repair, a careful decision is necessary on whether to preserve or redevelop it, or dispose of the property (with any proceeds reinvested in affordable housing (see option 'f' above).

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[15] Providing the operating agreement with the funder permits taking on any debt in addition to the mortgage.
[16] An exception is Ontario providers by the SHRA, which are permitted to accumulate a reserve. The permitted rate of accumulation is constrained, however: once the provider attains a reserve of $300 per unit, it must return 50 percent of any annual operating surplus to the service manager.

3.1. Special Circumstances

There may be some cases in which a unique set of circumstances needs to be taken into consideration. The EOA Financial Analysis template does not readily accommodate such cases.

However, in the case studies outlined here, some such cases have been encountered. These include mortgage renewal in pre-1986 non-profits and co-ops with the two percent mortgage write-down subsidy formula; and projects on leased land with additional payments required for the remainder of the operating agreement or subsequent to expiry.

In a number of cases, properties may be functionally obsolete and major regeneration and renewal may be required. Such options have not been assessed here. In BC, the unique issue of rain-screen penetration or "leaky condos" has created significant capital repair expenses for non-profit and co-op projects, with a separate assistance fund.

And as noted in a number of sections, special circumstances exist in Ontario where operating agreements have been replaced by legislation, which imposes responsibilities on municipalities (referred to as service managers) and on providers. This legislation constrains some options that may be available in other provinces and territories.

This study neither attempts to examine these issues in detail nor to develop appropriate remedies.

4. Case Studies

As outlined above, the primary objective of this report is to provide a cross-section of case studies to examine and illustrate the consequences of expiry of operating agreements. Accordingly, this section presents a series of examples, all drawn from actual projects across a range of programs and regions. We focus here on individual projects (either single-project providers or projects extracted from a portfolio). In the following section, we expand our assessment to consider three portfolio cases.

Before presenting the individual case studies, we provide a brief overview of the key findings.

4.1. Overview of findings

The case studies below include four public housing projects, three co-ops, four urban native projects and nine non-profits, each assisted under a range of programs, including stacked rent supplements.

The following table highlights three viability tests:

1. First, a quick rule of thumb (Test 1, NOI today). Based on the amount of mortgage and the amount of subsidy, if the operating agreement expired today, would the project be viable? In most cases, if a project fails this test, it will be unviable at expiry, unless remedial steps are implemented.

2. The second test examines the adequacy of capital reserves using the proxy measure developed above. This qualifies the pure NOI viability test. This is a warning for projects that appear viable at expiry but may have difficulty maintaining the asset during the remainder of the operating agreement.

3. The third test examines the situation at expiry. With no more mortgages and no more subsidy, NOI is the same as net cash flow. If this is negative, the project will not be viable. Estimated viability at expiry is often worse than today if a project has a high percentage of RGI clients. This is because it assumes that operating costs are inflated to double the rate (two percent) of RGI revenues (one percent).

In addition, the summary categorizes the projects based on the combined viability and capital adequacy matrix (Section 2.1) with four categories, *1* being best (viable with adequate capital reserves) and *4* being worst (not viable and with insufficient capital reserve). Category *2* (viable with insufficient capital reserves) and *3* (not viable but sufficient capital reserves) require close monitoring and may be candidates for internal remedies. It is likely that category *4* projects will require external assistance in the form of capital for replacement and, perhaps, extended subsidy assistance.

The cross-section of cases confirms our initial hypothesis.

- The proxy test using the difference between current subsidy and current mortgage predicts post-expiry viability in all but two cases (Ont6 and BC29). In these, the difference is small and the lagging rents result in operating costs rising faster than revenues over the remaining operating agreement period.

- In all but one case, public housing projects are not viable at expiry. It is not clear how physical condition and adequacy of reserves will affect this situation, as funding for capital improvements and updates is not retained at the project level. In general, provincial budgets for modernization and improvement (M&I) are insufficient to meet all needs, and funds are thus allocated on a priority basis. BC29 is an anomaly. It is a seniors' project in Vancouver, well located and quite large (223 units). It is likely that M&I investment has helped maintain quality while size provides economy of scale in administration and operations. All units are RGI, with an average monthly revenue of $274.

- In most cases, projects with 100 percent (or close to) RGI occupancy are not viable, because rental revenues are less than operating expenses. This tends to include public housing and most post-1985 programs.

Summary of Individual Project Case Studies											
Sub- Program	ID	% RGI Units	Test 1: NOI Today (1)	Viable Today	Annual Reserve Allocation per unit	Annual Reserves Available per unit (2)	Test 2: Reserves Adequate (3)	Expiry Year	Test 3: NOI at Expiry	Viable at Expiry (4)	Outcome Category (5)
NP Post-1985 Sec 95	NB3	100%	($305)	No	188	$311	No	2019	($919)	No	4
Prov Unilateral –NP	Ont6	71%	$119	Yes	454	$662	No	2030	($800)	No	4
Public Housing	NB4	100%	($1,825)	No	0	$0	No	2024	($3,619)	No	4
Public Housing	BC 28	100%	($569)	No	0	$0	No	2013	$0	No	4
Public Housing	BC 29	100%	$1,311	Yes	0	$0	No	2019	$1,170	Yes	2
Public Housing	BC 30	100%	($839)	No	0	$0	No	2021	$0	No	4
Urban Native Post-1985 Sec 95	NB8	100%	($2,316)	No	478	$611	No	2028	($4,998)	No	4
NP Post-1985 Sec 95	Ont7a	50%	($16)	No	757	$1,147	Yes	2023	($347)	No	3
NP Pre-1986 Sec 95	Man3	100%	($225)	No	500	$1,020	Yes	2021	($847)	No	3
Co-op Pre-1986 Sec 95	BC 26	26%	$5,598	Yes	700	$721	No	2020	$721	Yes	2
Co-op Pre-1986 Sec 95	Que1	24%	$3,327	Yes	120	$246	No	2022	$4,721	Yes	2
NP Pre-1986 Sec 95	BC 27	11%	$3,192	Yes	257	$257	No	2017	$257	Yes	2
NP Pre-1986 Sec 95	Ont5	25%	$1,690	Yes	448	$492	No	2016	$1,850	Yes	2
NP Pre-1986 Sec 95	Man1	65%	$744	Yes	242	$246	No	2018	$783	Yes	2
NP Sec 27	NB2	0%	$1,524	Yes	200	$278	No	2028	$2,572	Yes	2
Urban Native Pre-1986 Sec 95	NB7	0%	$1,792	Yes	404	$582	No	2014	$2,327	Yes	2
Co-op Pre-1986 Sec 95	BC 25	47%	$5,440	Yes	840	$880	Yes	2018	$880	Yes	1
NP Pre-1986 Sec 95	NB1	37%	$1,505	Yes	241	$866	Yes	2021	$2,140	Yes	1
NP Sec 27+ RS	BC 31	0%	$4,366	Yes	1120	$1,375	Yes	2026	$1,375	Yes	1
Urban Native Sec. 27+ RS	Man4	100%	$241	Yes	611	$866	Yes	2007	$160	Yes	1

Notes:

1. This test determines whether total revenues, excluding subsidy, are greater than total expenses excluding mortgage payment
2. Annual reserve available combines current balance of reserve amortized over remainder of operating agreement plus annual contributions.
3. Adequacy based on comparing amount available (previous column) against the benchmark of $750 that would be available if annual contributions of $450 had been made throughout the operating agreement and had earned three percent interest, compounded annually, with no withdrawals until year 11. It is assumed that withdrawals commence in year 11 at an amount that depletes the reserve at expiry.
4. Are projected revenues greater than projected expenses in the year immediately following expiry of subsidy and maturity of mortgage?
5. The outcome category is based on the four potential outcomes described in Section 2. 1 = viable with adequate capital reserves, 2 = viable with insufficient capital reserves; 3 = not viable but sufficient capital reserves; 4 = not viable, and insufficient capital reserve.

We further hypothesized that urban native projects would be high in RGI tenancy and thus similarly unviable. In this sample, this is not always true because one of the three urban native projects is a section 27 program, in which rents are set at low, break-even levels rather than on an RGI basis. The one pre-1986 (two percent) project (NB7) also remains viable (but only marginally) because it is operated in a way that emulates section 27, i.e., tenants are not income-tested, and all pay a fixed, low-end-of-market rent. On the other hand, the one-post-1985 project that is 100 percent RGI (NB8) does have a serious shortfall and does conform to the hypothesis. Since most urban native projects are not funded under section 27 or the pre-1986 two percent program, we expect their situation will more closely resemble NB8 than the other two examples. A later portfolio-level case study examines urban native viability in more detail.

Projects committed before 1986 tend to have operating agreements that permit the provider to generate and retain some operating surplus, and thus these projects have general reserves to help manage weak years and to augment specific capital replacement reserves. Even if the total subsidy is greater than the mortgage (e.g., Man4), such an operating surplus can offset what would otherwise be an unviable situation at expiry.

While 12 (of 20) sample cases are predicted to be viable at expiry, only four remain viable when capital replacement reserves are taken into account. As outlined earlier, the proxy test developed here is simply an indicator. However, it does highlight the need for more careful consideration of building condition to test adequacy of both replacement reserves and current contribution levels. Overall, 80 percent of the sample appears to face challenges meeting capital replacement. While some have post-expiry surpluses that can be reinvested, remedies need to be created for the others to address this problem before expiry.

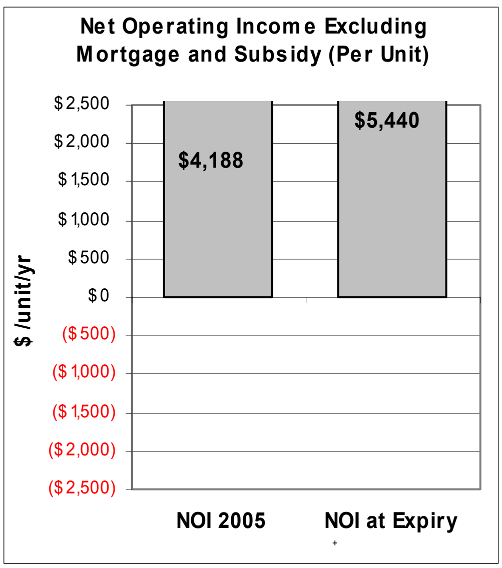
4.2. Case Study Profiles

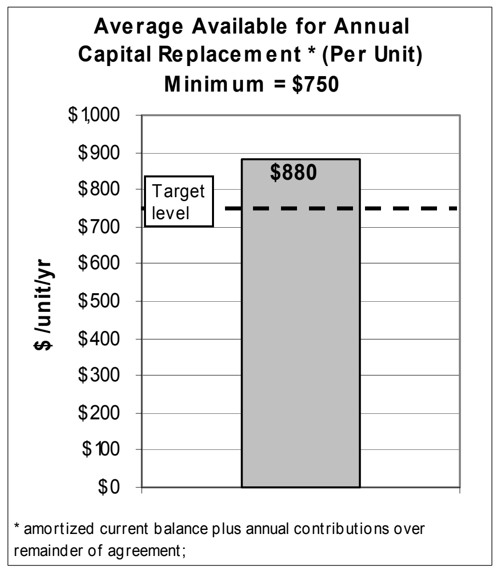
An overview of each case study follows, explaining the context and outcomes for both operating viability and capital adequacy. The projects are listed geographically, from west to east. Project identifiers are based on province and a numeric (e.g., BC25).

Case #: BC 25 **Expiry year**: 2018 **Program:** Pre-1986 Section 95 Co-op

Current Annual Mortgage pmt: $332,001 **Current annual subsidy** $81,267

Project details	This 60-unit townhouse project is a single property co-op.
Client type and rig mix	It serves family households. The RGI rental program accounts for 47% of the units and provides 23% of the revenue.
Any special circumstances?	Currently going through a "work out" process with CMHC
Key market characteristics	The Vancouver area rental market is tight, with vacancies under 1%. There would be some concern if vacancy rates increased. Although member housing charges (rents) are below market, a softer market could impact filling vacancies upon turn-over with the existing building problems.
Is project viable at expiry?	The project is viable at expiry. The current NOI is a positive $4,188/unit. It is projected to grow to $5,440/unit by expiry with RGI rents increasing by 1% a year and member housing charges and operating costs by 2% a year. The results of any "work out" agreement with CMHC may have a fairly significant impact on the post-expiry operations of the co-op.





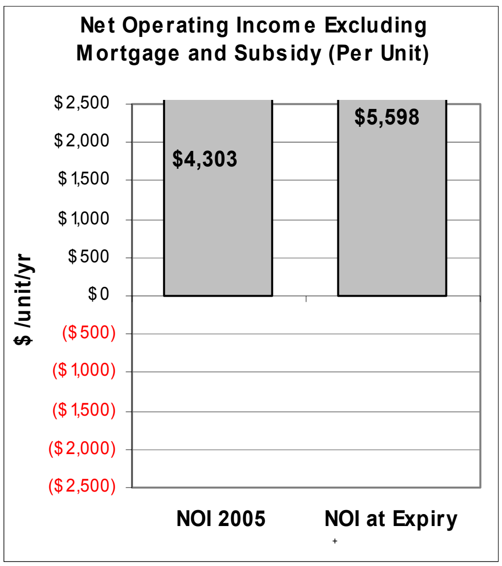
Current Capital Reserve Balance: $3,509/unit **Annual Reserve Allocation:** $840/unit

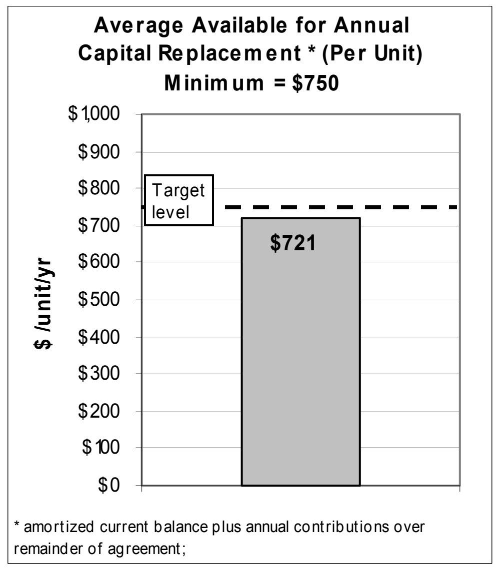
Current building condition	With "building envelope" issues and problems with the central piping system, the property is considered to be in bad shape. Until the major issues are appropriately addressed, the project's status will not change.
Commentary on adequacy of replacement reserve	There is $880 per unit available annually for capital replacements. While this is above the suggested minimum benchmark of $750 and would normally be considered adequate, that is not the case with this co-op. First, the majority of the available amount comes from the annual allocation of $840/unit. (Increased to this level a couple of years ago because of the project's problems.). The adequacy of the current fund and allocation level will depend upon the results of the "work out" with CMHC.
Overall commentary	With the expiry of the mortgage, the property will have an additional cash flow of $5,440/unit to add to the $840/unit reserve allocation. As well, the project is carrying a high RGI unit load for a pre-1986 project and the rental difference is substantial (average $373 RGI versus $1,098 LEM).

Case #: BC 26 **Expiry year**: 2020 **Program:** Pre-1986 Section 95: 56.1 Co-op

Current Annual Mortgage pmt: $646,868 **Current annual subsidy** $236,183

Project details	This 100-unit townhouse project is a single property co-op.
Client type and RGI mix	It serves a mixed client group. It provides RGI rentals to 26% of the units, which account for 31% of the rentals.
Any special circumstances?	The members have established an additional replacement reserve allocation of $12,300/year for property upgrades not covered under the regular reserve plan approved by CMHC.
Key market characteristics	The Vancouver market area is tight, with vacancies under 1%. Rents in the private market are high and have been increasing at the rate of inflation for the last few years.
Is project viable at expiry?	The project is viable at expiry. The current NOI is a positive $4,303/unit before mortgage and subsidy. The NOI at expiry would increase to $5,598/unit.





Current Capital Reserve Balance: $2,218/unit **Annual Reserve Allocation:** $700/unit

Current building condition	The property is in medium or average condition. There are no known major problems but at 20 years of age the project has reached the point in its life cycle where it needs some regular refurbishment and upgrading of capital items. Maintenance costs are low for the age of the property. The use of a resident maintenance person has helped keep costs and members' housing charges low.
Commentary on adequacy of replacement reserve	The reserve fund was depleted and was not sufficient to meet the property's needs. Several years ago, the annual allocation was increased to $70,000/year. Despite this increase, the reserve plan remains marginal. It now provides $721/unit for annual capital requirements, a little below the suggested minimum benchmark standard of $750.
Overall commentary	The use of in-house maintenance appears to have helped to keep costs under control and members' charges low. The co-op also appears to have had a stable residency – low turn-over of RGI units resulting in 31% of project income from that source. Turn-over vacancies should not become a problem as members' housing charges are well below market rents. The substantial surplus after expiry can be used to meet capital replacement shortfall.

Case #: BC 27 **Expiry year**: 2017 **Program:** Pre-1986 Section 95 Non-Profit

Current Annual Mortgage pmt: $473,134 **Current annual subsidy** $201,800

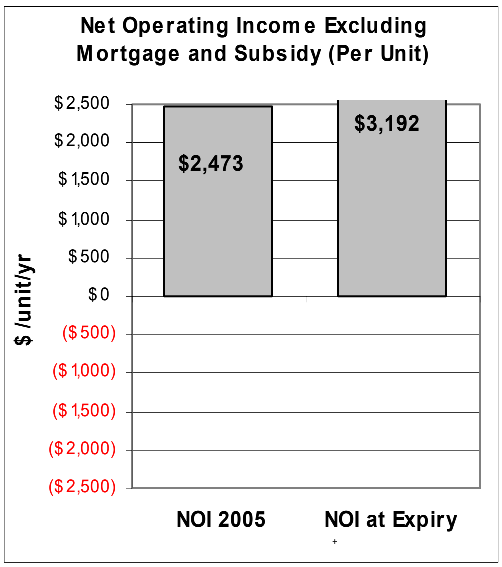
Project details Two apartment buildings with one- and two-bedroom units (107 units in total); part of a larger portfolio containing five Homes BC projects.

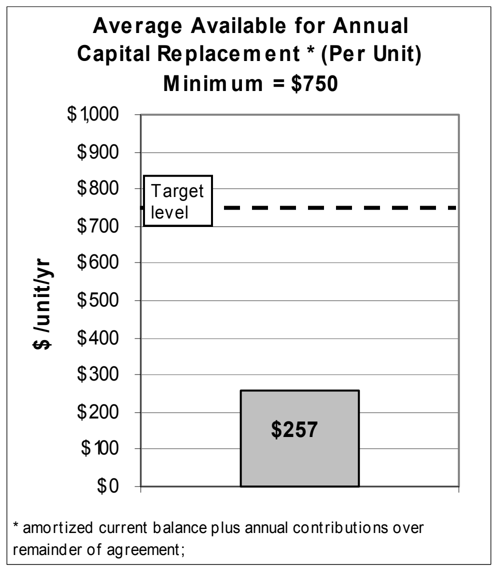
Client type and RGI mix Mixed use, although now mostly seniors. There are 12 RGI units (11%) that account for 9% of revenue.

Any special circumstances? This project was taken over in the early 1990s from an organization in serious financial difficulty. The LEM rent provisions had not been applied and the project was experiencing large losses. A "work out plan" for the property is in the works.

Key market characteristics The Kelowna market is tight (vacancies less than 1%) with rent increases of over 4% for the last several years exceeding the rate of inflation. Historically, the market has experienced short periods of rapid rent growth (early 1990s and now), followed by periods of low or no growth.

Is project viable at expiry? Yes, the project can be viable at expiry – the challenge is getting there. The current NOI before mortgage and subsidy is $2,473/unit, which is projected to grow to $3,192 after expiry in 2017.





Current Capital Reserve Balance: $0.00 **Annual Reserve Allocation:** $257/unit

Current building condition The base property, common areas and minor maintenance have all been kept up to date and the buildings are in good condition, but the apartments with 25-year-old appliances, fixtures, cabinets and counters, etc. are in serious need of refurbishment and upgrading.

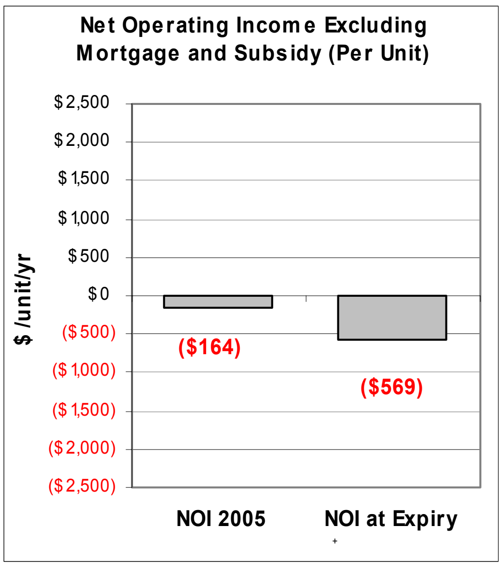
Commentary on adequacy of replacement reserve With a zero balance and annual contributions of just $257/unit, the capital replacement fund is clearly inadequate. The estimated cost to refurbish and upgrade the apartment units in the two buildings is $400,000. For the past couple of years, partial mortgage payments have been deferred to ensure that all maintenance and unit upgrades are carried out on turn-over.

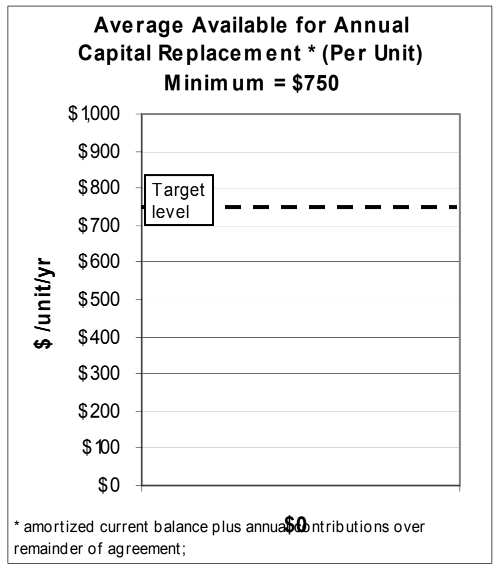
Overall commentary The declining mortgage subsidy feature has hampered efforts to return this project to solid footing. The number of RGI units have been reduced The projected NOI after expiry is about $350,000/year. A work out that retains the existing subsidy level to expiry; provides $400,000 for unit upgrades plus an additional annual allocation to increase reserves to ensure post-expiry capital replacement capacity should preserve a viable affordable housing project. A small rental supplement program could possibly be used to increase RGI units during the work out process.

Case #: BC 28 **Expiry year**: 2013 **Program:** Public Housing

Current Annual Mortgage pmt: $161,174 **Current annual subsidy:** $199,614

Project details	A large site with a mixture of low-rise apartments and townhouse units.
Client type and RGI mix	The project has 234 units of housing, all on RGI rents.
Any special circumstances?	
Key market characteristics	With vacancies of less than 1%, the Vancouver area rental market is tight. Rent increases have kept pace with inflation for the last few years. Rents are high, with bachelor, one- and two-bedroom units averaging $701, $837 and $1,192 respectively.
Is project viable at expiry?	The project is not viable at expiry. The current NOI is –$164/unit. By expiry in 2013 the NOI is projected to be –$569/unit.





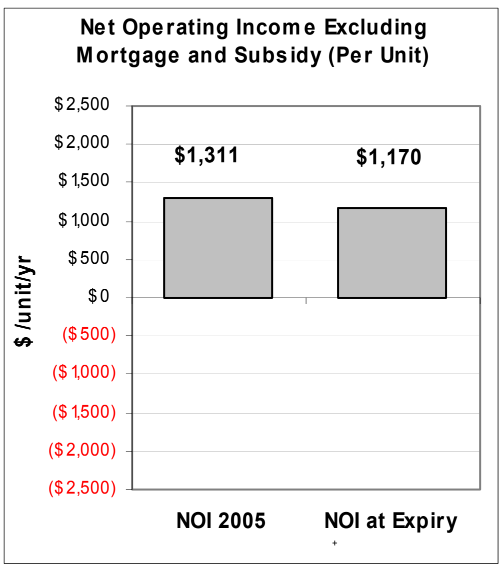
Current Capital Reserve Balance: 0.00 **Annual Reserve Allocation:** N/A

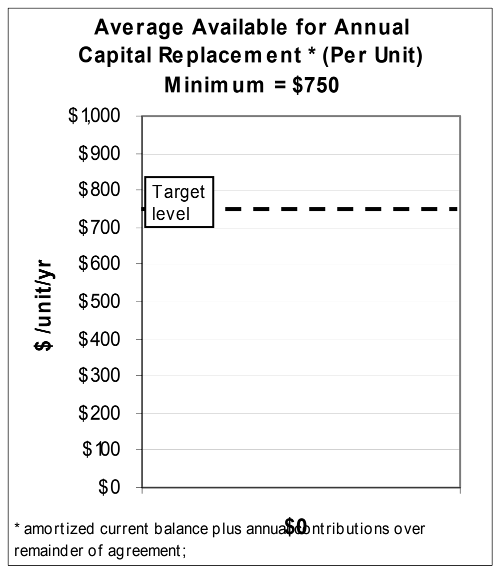
Current building condition	The property is in good condition, with no deferred maintenance.
Commentary on adequacy of replacement reserve	The public housing portfolio does not use replacement reserve funds. Modernization and improvement (M&I) funds are used for property upgrades or major repair requirements. When M&I funds are used, they are expensed in that year, significantly increasing the operating loss for that period.
Overall commentary	In the period immediately before expiry, the projected NOI is –$1,200/unit. With the end of the mortgage obligation- this drops by over 50% to $569, making the continued subsidization for RGI rentals more affordable. The projected NOI at expiry may be optimistic. BC Housing data for the last several years shows RGI rents increasing at less than 1% (0.75%) while average tax and maintenance increases were over 2%. Future years may see similar problems with utility charges. As an older property, the per-unit mortgage cost is under $700, a fraction of the cost of newer projects. This large site would have excellent potential for redevelopment to higher densities to maximize its value.

Case #: BC 29 **Expiry year**: 2019 **Program:** Public Housing

Current Annual Mortgage pmt: $137,153 **Current annual subsidy:** NONE

Project details	This is a large high-rise apartment building.
Client type and RGI mix	Seniors housing with 223 units, all RGI rents.
Any special circumstances?	The need for all affordable housing far exceeds supply, including RGI rentals for low-income households and individuals. The BC Housing central application waiting list has grown by about 50% in the last five years to nearly 15,000 households
Key market characteristics	With the vacancy rate at less than 1%, the Vancouver area rental market is tight. Rent increases have kept pace with inflation for the last few years. Rents are high, with bachelor, one- and two-bedroom units averaging $701, $837 and $1,192 respectively.
Is project viable at expiry?	This public housing project is viable at expiry. The current NOI is a positive $1,311/unit. The average RGI rent is $275/unit. With RGI revenues projected to increase by 1% annually and all operating costs by 2%, the NOI slides to $1,170 at expiry in 2019. Still a very positive result.





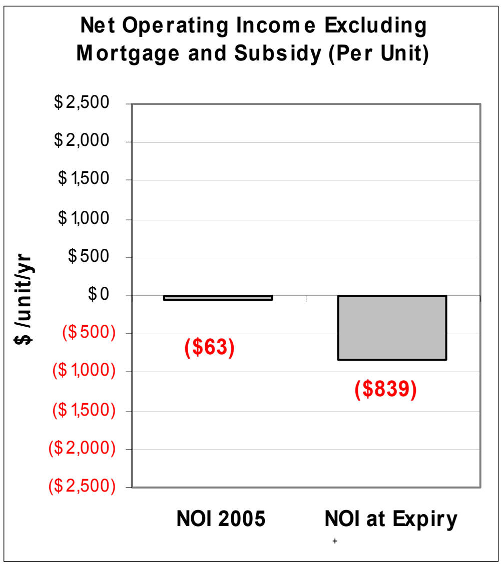
Current Capital Reserve Balance: 0.00 **Annual Reserve Allocation:** N/A

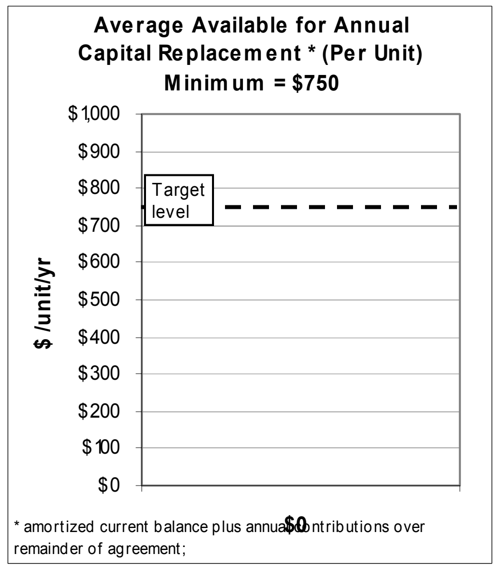
Current building condition	The building is in good condition, with no deferred maintenance.
Commentary on adequacy of replacement reserve	The public housing portfolio does not use replacement reserve funds. M&I funds are used for property upgrades or major repair requirements. When used, these funds are expensed in that year, significantly increasing the operating loss in that operational period.
Overall commentary	In the last year before expiry the projected NOI is still $568/unit. With the end of the mortgage obligation this rises by over 100% to $1,170, increasing the cash flow profit. The projected NOI at expiry may be optimistic. BC Housing data for the last several years shows RGI rents increasing at less than 1% (0.75%) while average tax and maintenance increases were over 2%. Future years may see similar problems with utility charges.

Case #: BC 30 **Expiry year**: 2021 **Program:** Public Housing

Current Annual Mortgage pmt: $49,912 **Current annual subsidy:** $52,538

Project details	This project has a low-rise apartment and townhouses.
Client type and RGI mix	Family housing; 100% RGI units.
Any special circumstances?	n/a
Key market characteristics	With a vacancy rate of less than 1%, the Vancouver area rental market is tight. Rent increases have kept pace with inflation for the last few years. Rents are high, with bachelor, one- and two-bedroom units averaging $701, $837 and $1,192 respectively.
Is project viable at expiry?	The project is not viable at expiry. The current NOI is –$63/unit. By expiry in 2021 the NOI is projected to be a –$839/unit. The RGI rents were projected to grow by 1% a year and all operating costs by 2%.





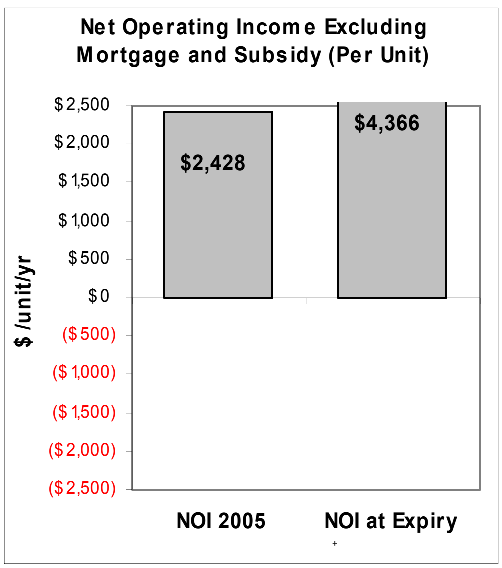
Current Capital Reserve Balance: N/A **Annual Reserve Allocation:** N/A

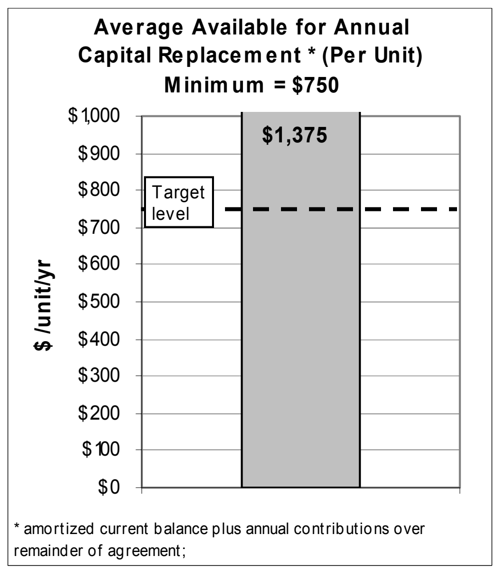
Current building condition	The project is in good condition with no deferred maintenance.
Commentary on adequacy of replacement reserve	The public housing portfolio does not use replacement reserve funds. M&I funds are used for property upgrades or major repair requirements. When M&I funds are used, they are expensed in that year, significantly increasing the operating loss in that operational period.
Overall commentary	In the current year, the subsidy cost is comprised almost entirely of the project's mortgage. With RGI rents lagging behind cost increases, in the year before expiry, the NOI grows to –$1,968/unit. With the end of the mortgage obligation, this drops by over 50% to –$839. This projected NOI at expiry may be optimistic. BC Housing data for the last several years shows RGI rents increasing at less than 1% (0.75%) while average tax and maintenance increases were over 2%. Future years may see similar problems with utility charges. Post-expiry, it would still represent a very affordable option for RGI family housing, if subsidies could be extended.

Case #: BC 31 **Expiry year**: 2026 **Program:** Section 27 with partial Rent Supplements

Current Annual Mortgage pmt: $308,895 **Current annual subsidy** $31,888 Rent Supp.

Project details	A 125-unit low-rise apartment and townhouse project
Client type and RGI mix	This is a non-profit project with no direct subsidies. Rents are set on a break-even basis. This project receives a separate rent supplement from BC Housing for 24 RGI special needs and senior clients.
Any special circumstances?	This project is on an old escalating land lease from the City of Vancouver. After an initial period, the lease is updated every 10 years using current land values. The original lease value of $65,957 is now $199,200/year and set to increase again. (The last increase was 60%.) The current lease cost represents almost 20% of rent revenues. The project was built with only 60 underground parking stalls. Another 68 stalls are rented out. The charge 10 years ago was $30/month – it is now $80. (Tenants are all charged $50.).
Key market characteristics	The project is located in the False Creek area of Vancouver, a sector with above-average rents. (bachelor - $776; one-bedroom - $867; two-bedroom - $1,227). The vacancy rate is low, below 1% in all areas of the city.
Is project viable at expiry?	The project is viable at expiry. The current NOI is $2,428/unit. It is projected to grow to $4,366/unit by expiry.





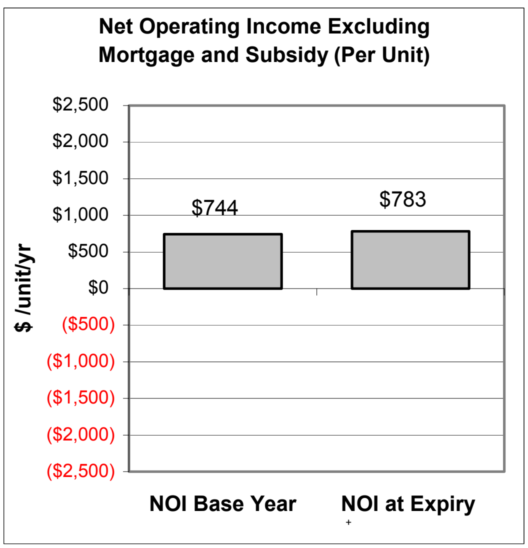
Current Capital Reserve Balance: $5,363 /unit **Annual Reserve Allocation:** $1,120/unit

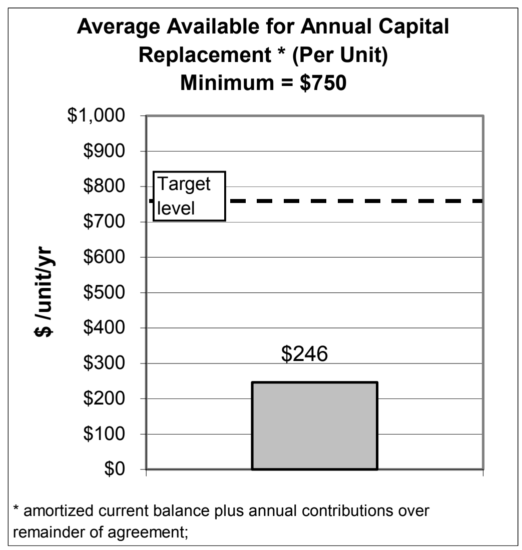
Current building condition	The building is in good condition, with units refurbished and upgraded on turn-over. With wood frame stucco construction, the project requires regular maintenance of exterior walls, roofing, etc.
Commentary on adequacy of replacement reserve	The annual allocation was increased several years ago to offset anticipated costs for roof replacements, exterior maintenance and increasing unit upgrade costs. The annual capital available at $1,350/unit is nearly double the minimum suggested benchmark of $750.
Overall commentary	With a 50-year mortgage, the project has time before expiry; including additional product life cycle, refurbishment costs – the increase in reserve allocations – should address those issues. The major challenge appears to be the potential impact of the next land lease renewal. With current rents at least 35- 40% below market for the area (one-bedroom - $646 vs $867; two-bedroom - $773 vs $1227), units are still relatively affordable. Any significant increase in rent levels to cover the land lease will be unaffordable for many long-term residents.

Case #: Man 1 **Expiry year**: 2018 **Program:** Pre-1986 Section 95 (2% assistance) program;

Current Annual Mortgage pmt: $32,928 **Current annual subsidy**: $15,570

Project details	This represents a sample case from a larger portfolio of projects, owned and operated by a municipal non-profit corporation. The project is a three-storey walk-up wood frame apartment
Client type and RGI mix	Low-income singles, many on income assistance; 65% of units are RGI and account for 42% of revenues.
Any special circumstances?	This project generates higher than normal "other revenue" due to rents from commercial space on main floor.
Key market characteristics	Inner-city Winnipeg. Winnipeg has experienced a soft rental market, especially in the downtown core and market tenants have been hard to find. The market has tightened, so there may be some potential in the short term to increase market revenues.
Is project viable at expiry?	In 2006, the NOI is a healthy $744/unit. With market revenues inflating at 2% annually and expenses matching this rate, the NOI increases slightly to $783 by expiry in 2018. (RGI revenues are assumed to lag inflation, rising at only 1% annually)





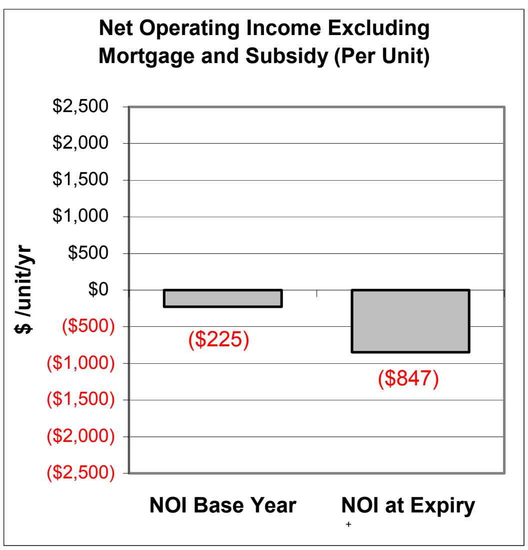
Current Capital Reserve Balance: $54/unit **Annual Reserve Allocation:** $242/unit

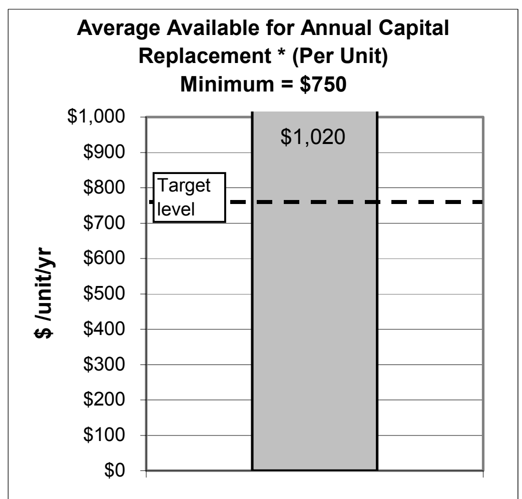
Current building condition	Building is in poor condition and needs extensive work, above the average level of reinvestment
Commentary on adequacy of replacement reserve	In combination, the current reserve balance and cumulative future contributions will provide an average amount of $246 annually, which is far short of the $750 typically required, especially given the current poor condition of the building. The surplus NOI of $783 will enable the project to refinance for some capital replacement at expiry, but this is unlikely to leverage sufficient financing to cover the current capital shortfall.
Overall commentary	This project is expected to remain viable at expiry. However, the capital reserves appear to be significantly under-funded and this will likely cause some challenges, possibly even before expiry. Under-maintenance of building may also make it less attractive and have a negative impact on vacancies and revenues. A detailed capital reserve assessment should be undertaken to quantify the degree of this problem.

Case #: Man 3 **Expiry year**: 2021 **Program:** Post-1985 Section 95 (Full Assistance)

Current Annual Mortgage pmt: $222,358 **Current annual subsidy**: $237,342

Project details	A sample case from a larger portfolio of projects. The project is a five-storey wood-frame building with brick veneer construction and an elevator.
Client type and RGI mix	Mixed family and singles; 100% of units are RGI and account for 86% of revenues (some other revenue generated from a Telus tower and a daycare)
Any special circumstances?	Originally under the 2% program, the property was experiencing high vacancy, so an increasing number of units are being moved from market rent to RGI using a stacked rent supplement. A new agreement was negotiated with the province in 2004 to transfer to a full subsidy and eliminate the added complexity of separate rent supplements.
Key market characteristics	Inner-city Winnipeg. Winnipeg has experienced a soft rental market, especially in the downtown core and market tenants have been hard to find. The market has tightened, so there may be some potential in the short term to increase market revenues.
Is project viable at expiry?	In 2006 (base year) the NOI is marginally negative (–225 per unit, before accounting for subsidy and mortgage). Because the project is 100% RGI, and RGI rents lag inflation, operating costs increase at a faster rate. This means at expiry the project will have an annual operating deficit in excess of $840 per unit.





* amortized current balance plus annual contributions over remainder of agreement;

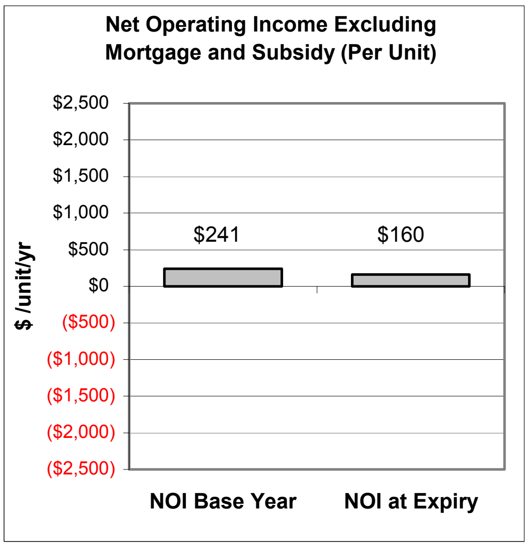
Current Capital Reserve Balance: $8,300/unit **Annual Reserve Allocation:** $500/unit

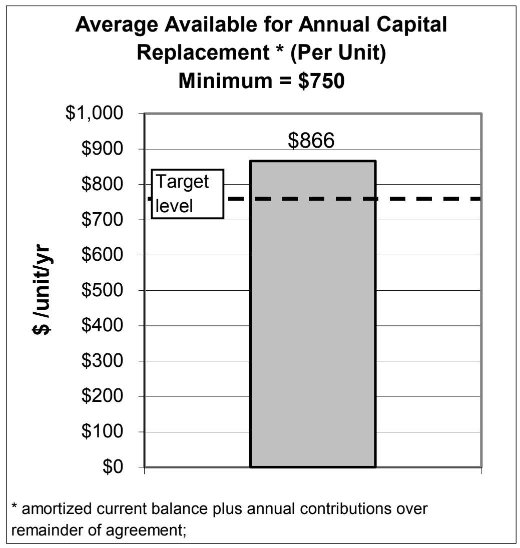
Current building condition	Well maintained property
Commentary on adequacy of replacement reserve	In combination, the current reserve balance and cumulative future contributions will provide an average amount of $1020 annually, well above the benchmark needed to maintain the asset in sound condition. Some of this reserve could potentially be used to cover deficits in other parts of the portfolio, such as in Man 1.
Overall commentary	This project is not viable at expiry, mainly due to the high proportion of RGI tenants (100%) and related low rental revenues. However, it is not in a serious deficit position and it should be possible to remedy this situation over the remaining 16 years. This could be done by shifting the RGI count and related revenue, ideally seeking to attract some market rent tenants or selecting shallow subsidy RGI. A gradual decrease of deep subsidy can be gradually phased in if market conditions remain tight in Winnipeg.

Case #: Man 4 **Expiry year:** 2007 **Program**: Section 27 Urban Native

Current Annual Mortgage pmt: $49,775 **Current annual subsidy**: $53,622

Project details	Scattered portfolio of 15 single detached homes and one semi-detached (total 17 units)
Client type and RGI mix	Family housing, 100% RGI
Any special circumstances?	Agreement expires in 2007
Key market characteristics	Winnipeg has for many years been a soft rental market, especially in the downtown core area. However, vacancy rates have tightened up, staying below 2% for the past 5 years. There is some firming up of rent potential as a result.
Is project viable at expiry?	Yes – the total subsidy exceeds the mortgage, but the portfolio is currently running a small operating surplus, which offsets the difference by roughly $3,000. Consequently, at expiry next year, the project will still be viable even with 100% RGI tenants



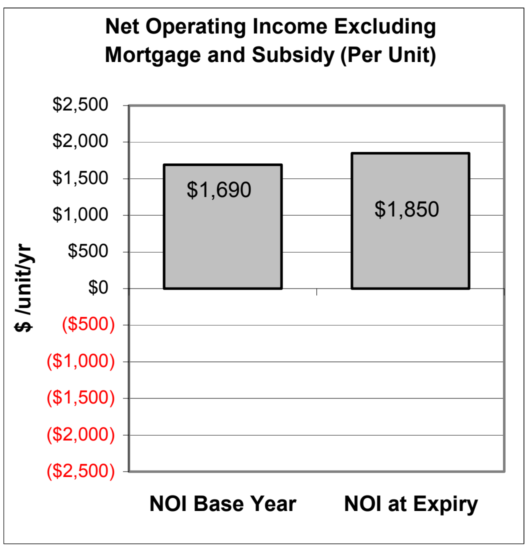


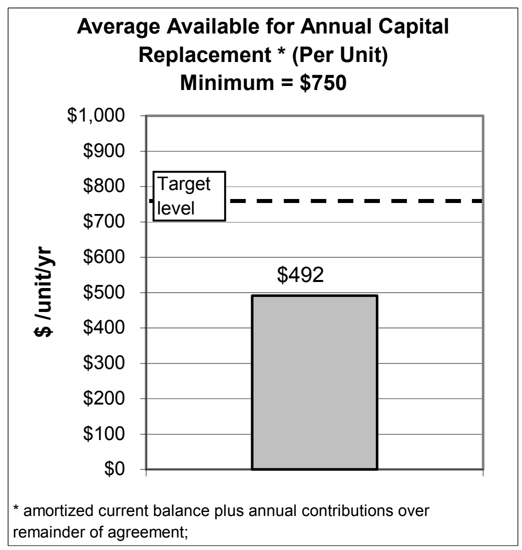
Current Capital Reserve Balance: $510/unit **Annual Reserve Allocation:** $611/unit

Current building condition	The portfolio consists of individual homes, all of which existed when it was originally acquired. Although conditions vary across the portfolio, all homes are aging and in need of maintenance and upgrading.
Commentary on adequacy of replacement reserve	The current balance is just over $500/unit and when combined with annual allocations for each of the last two years, will generate sufficient cash to expend $866/unit. This will, however, deplete the capital reserve.
Overall commentary	The portfolio is marginally viable after expiry. The small surplus after expiry (160/unit/yr) is insufficient to leverage financing for capital upgrades. Assuming RGI rent revenues lag inflation in operating costs, the small operating surplus will disappear within five years. Careful management is required with emphasis on improving revenues, potentially possible by selecting new tenants with better incomes (shallower RGI), or assisting tenants to improve their labour market skills and thus improve their rent-paying capacity. The provider should also seek capital funding from the province to upgrade. Note: at expiry in 2007, the province and CMHC together will "save" the annual subsidy of $53,600. Part of this saving should be reinvested in assisted projects such as this, that with a small amount of assistance (e.g., forgivable loan for capital improvements) will be able to continue to provide affordable RGI housing with no ongoing subsidy cost to government.

Case #: Ont 5	**Expiry year:** 2016	**Program:** Pre-1986 Section 95

Current Annual Mortgage pmt: $232,648	**Current annual subsidy:** $78,859
Project details	Single project provider, apartment building, built new but is now 25 years old.
Client type and RGI mix	Seniors project with 25% units at RGI; 18% revenue from RGI
Any special circumstances?	Chronic shortage of operating funds due to subsidy "glitch" in formula for Sec. 95 (2%) as result of renewal at lower mortgage rate
Key market characteristics	Inner-city (Toronto); tight rental market, rate of rental increases slowing slightly, vacancy rates increasing slightly
Is project viable at expiry?	The current NOI is roughly $1,700; by expiry in 2016 it is projected to rise a little due to inflation of market rents (75% of units). Thus, project is viable at expiry

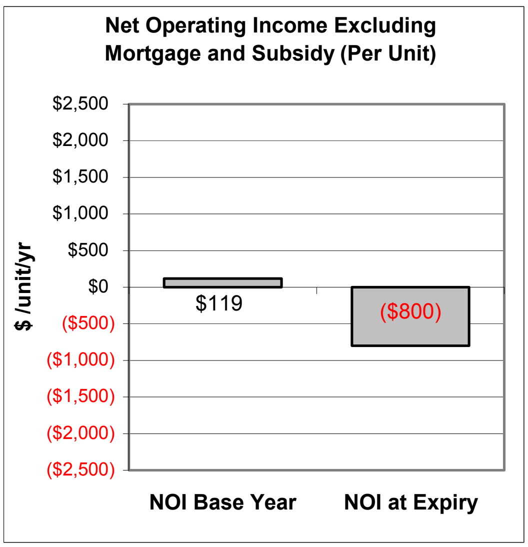


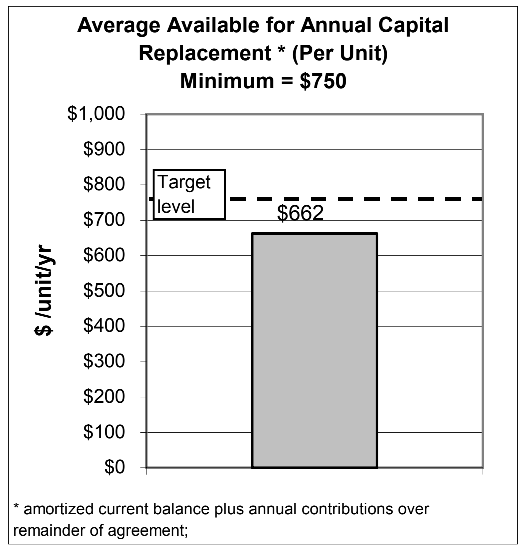


Current Capital Reserve Balance: $479/unit	**Annual Reserve Allocation:** $448/unit
Current building condition	Satisfactory level of maintenance, but it now needs high capital investment because of the age of the building.
Commentary on adequacy of replacement reserve	Capital reserve availability is well below benchmark ($492 vs. 750), in large part because current allocations are low ($448) and insufficient to make up for the backlog of lower earlier reserves.
Overall commentary	Based on operations alone, the project is viable at expiry. There is a relatively low level of RGI, so it may be possible to maintain some of this upon expiry without continued government support. However, the reserves are under-funded. Surplus NOI should be allocated to reserves, but prior to expiry, an increased contribution from operations to capital reserves will be needed.

Case #: Ont 6	**Expiry year**: 2030	**Program:** Provincial Unilateral

Current Annual Mortgage pmt: $1,185,459	**Current annual subsidy:** $1,169,735
Project details	Single project provider; Apartment building (new construction)
Client type and RGI mix	Families and singles with special needs 71% units RGI; 51% revenue from RGI
Any special circumstances?	None
Key market characteristics	Suburban Toronto; relatively tight rental market although a recent spike in vacancy rates has limited opportunity to increase rents in market units
Is project viable at expiry?	Current NOI shows slight surplus, however, this is being slowly eroded as rents lag inflation in the RGI units (a majority of the units) resulting in a negative NOI at expiry - thus it will not be viable at expiry.

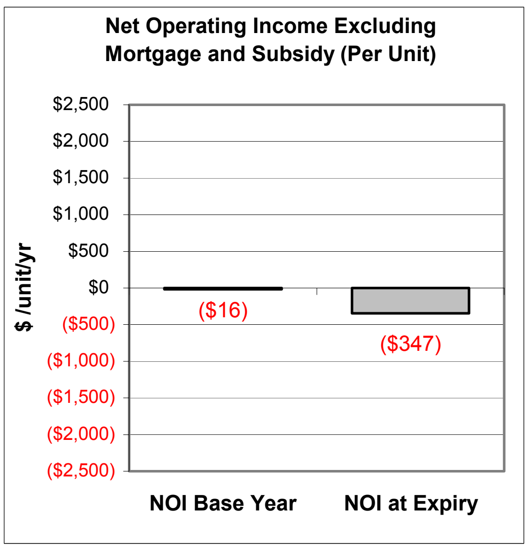


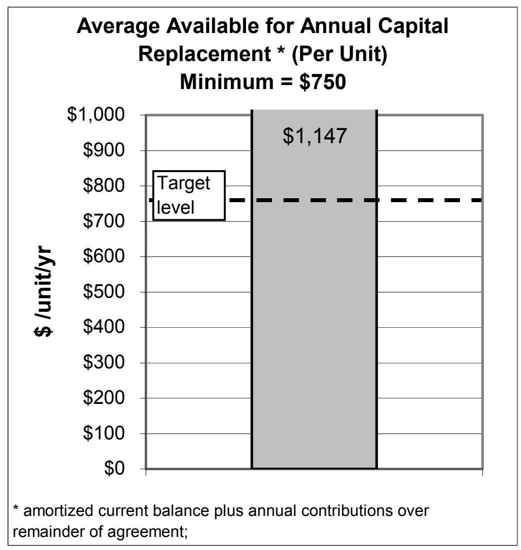


Current Capital Reserve Balance: $5,213/unit	**Annual Reserve Allocation:** $454/unit
Current building condition	Well maintained.
Commentary on adequacy of replacement reserve	The building is relatively new, so it has not entered an intensive stage of capital spending. Current reserve projection ($662) is below the suggested $750 minimum. The current allocation is also well below the SHSC recommendation of $1,200 necessary to overcome the backlog shortfall.
Overall commentary	The project will not be viable at expiry without some remedial action to increase revenues (shallower RGI, shift some units to market, or increase market rents in the existing market units). The need for an increased capital allocation will make this situation worse. May require ongoing RGI subsidy from service manager, if internal remedies cannot be implemented.

Case #:Ont 7	Expiry year: 2023	Program: Section 95 Post-1985 Non-Profit

Current Annual Mortgage pmt: $54,590	**Current annual subsidy:** $54,745
Project details	Part of portfolio; apartment building, new construction
Client type and RGI mix	Seniors: 50 % units RGI; 44 % revenue from RGI
Any special circumstances?	None
Key market characteristics	Rural, northern; soft rental market, difficult to raise rents.
Is project viable at expiry?	Current NOI is negative and although only 50% RGI, market rents (other 50% of units) are soft and low so revenue growth is limited. Meanwhile operating costs, especially utilities, are inflating faster. As a result, NOI at expiry will be marginally negative (and on a continued downward trend).

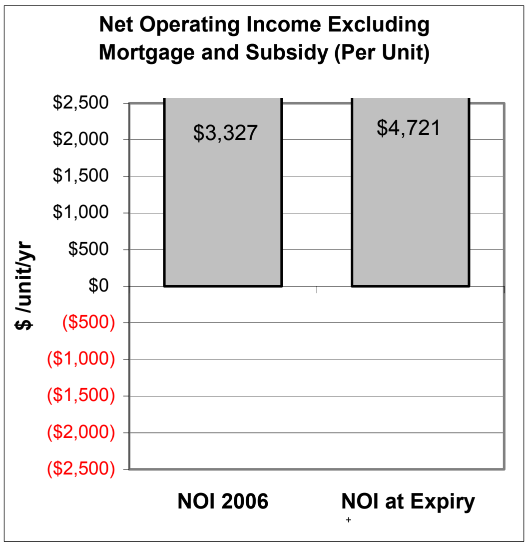


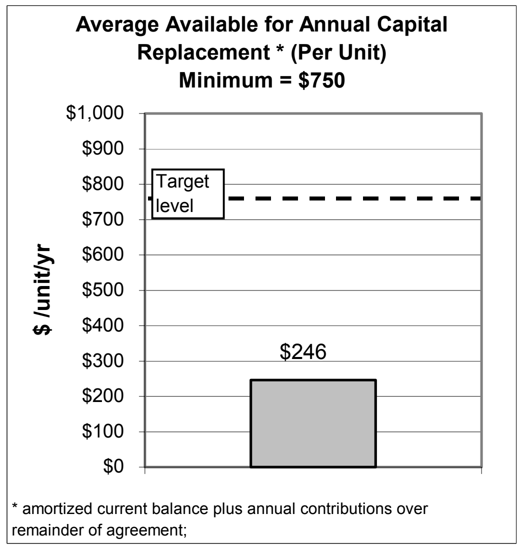


Current Capital Reserve Balance: $7,016/unit	**Annual Reserve Allocation:** $757/unit
Current building condition	Satisfactory
Commentary on adequacy of replacement reserve	Current allocation to replacement reserve is $757 on an already relatively healthy reserve balance, so the annual amount available for replacement funding is above the minimum benchmark of $750. The current allocation, however, is somewhat below the $1,200 estimate determined by the SHSC; so some careful monitoring (and ideally a building condition assessment) is warranted.
Overall commentary	It is difficult to raise rents in this market so the provider is unlikely to be able to implement an internal remedy. The service manager will likely be required to contribute additional post-expiry assistance to maintain service level standards.

Case #: Quebec #1	**Expiry year**: 2022	**Program:** Pre-1986 Section 95 (2% assistance)

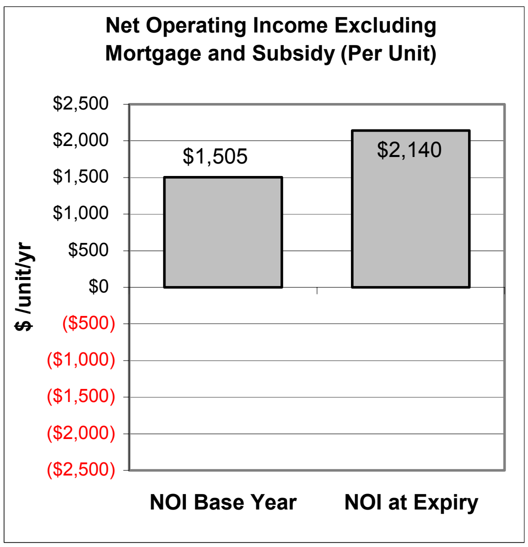
Current Annual Mortgage pmt: $65,594	**Current annual subsidy**: $12,132
Project details	Project purchased and renovated by housing co-op. Located in Montreal
Client type and RGI mix	Mixed income singles and families; 24% of units are RGI and RGI rent revenues account for 11% total revenue
Any special circumstances?	Typical renovation project with important replacement work planned before expiry.
Key market characteristics	Rents are currently at 68% of median rent, quite competitive considering the low vacancy rate and recent rent increases in Montreal. There is room for a potential revenue increase.
Is project viable at expiry?	In 2006 the NOI is $3,327/unit and increases to over $4,700 by expiry. This project is expected to remain viable at expiry and it will be able to maintain RGI to the eligible tenants.

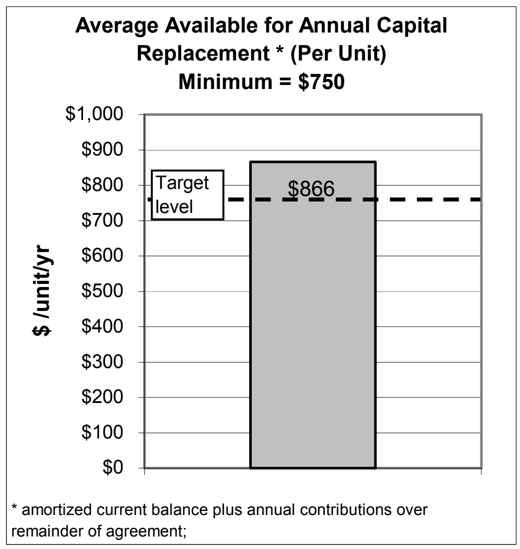




Current Capital Reserve Balance: $2,143/unit	**Annual Reserve Allocation:** $120/unit
Current building condition	The value of work needed is estimated at $267,000 in the next 10 years, an average of $12,714/unit, which includes replacement of roofs, doors and windows, and heating and ventilating appliances and kitchen counters in several units.
Commentary on adequacy of replacement reserve	The current level of reserve is very small, and when combined with ongoing allocations, it generates an average available amount of only $246, far short of the identified capital replacement cost ($1,271 annually for the next 10 years). The project has an additional general reserve of roughly $1,500/unit, which could increase the annual available to $347, still very low.
Overall commentary	The project has a low operating cost and low revenue compared to market conditions. The capital replacement plan has shown that important work is needed. But the co-op has some degree of budget flexibility and it will have a better borrowing capacity if rents are increased closer to market. Annual surpluses should be used to increase capital reserve allocation or to support refinancing to fund capital repair prior to expiry (second mortgage). Alternatively, at expiry, the solid NOI facilitates refinancing for capital replacement. Potentially $26,000/unit can be financed (10-year term at 6% based on .75 x NOI) at expiry.

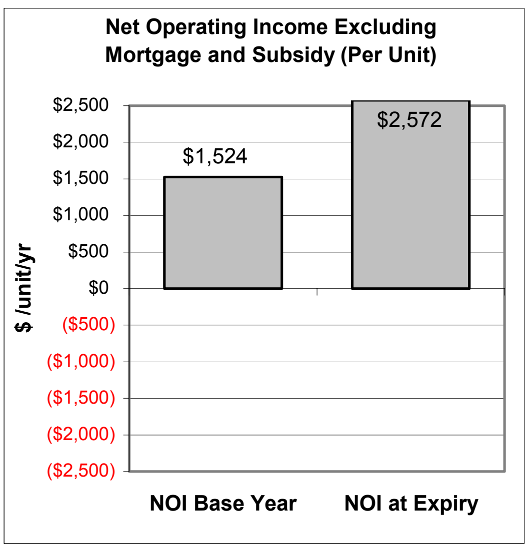
Case #: NB1	**Expiry year:** 2021	**Program:** Pre-1986 Section 95 (2% assistance)
Current Annual Mortgage pmt: $71,632		**Current annual subsidy**: $43,531 (incl. rent supp)
Project details	A 19-unit family project in Saint John. Part of a larger portfolio of some 300 units. The seven RGI units include four that have separate rent supplement agreements (which provide $12,385 in subsidy in addition to the program assistance of $31,146)	
Client type and RGI mix	Mix of two- and three-bedroom family units. Including rent supplement, 37% of units are RGI but the RGI revenue accounts for only 9% of total revenue.	
Any special circumstances?	Project benefits from additional subsidy contribution to offset impact of renewal at a lower mortgage rate. Expenses were recently reduced by a new provincial policy to exempt NPs from property taxes. This raises the operating surplus by roughly $7,000.	
Key market characteristics	Located in Saint John, a relatively soft market with vacancy rates above 5%	
Is project viable at expiry?	With benefit of lower taxes, the project generated a small operating surplus but has an accumulated deficit of some $4,400. However, it has a positive NOI, which reaches a level of $2,100 by expiry. So project remains viable.	

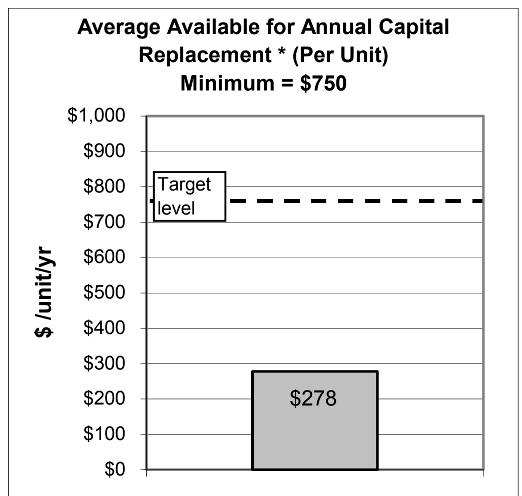




Current Capital Reserve Balance: $10,000/unit	**Annual Reserve Allocation:** $241/unit
Current building condition	Condition is satisfactory. There is exterior work required this year (windows, roof) that will be completed by year-end.
Commentary on adequacy of replacement reserve	Current reserves are sound. While annual allocations are low, the accumulated balance offsets this and provides an average of over $850 annually for replacement expenditures.
Overall commentary	The project is reasonably well maintained and viable at expiry – it will be able to maintain or exceed its current RGI mix. If lower property taxes continue to create an operating surplus, this should be used to increase an annual allocation to the replacement reserve.

Case #: NB2	**Expiry year:** 2028	**Program:** Section 27
Current Annual Mortgage pmt: $41,383		**Current annual subsidy**: $0
Project details	30-unit seniors residence in small town (single-project provider). As a Section 27, there is no ongoing subsidy other than the earned forgiveness on 10% of the original capital cost). The operating agreement is for 50 years. Rents are set at a modest, below-market level, and the project generates and retains an operating surplus.	
Client type and RGI mix	Seniors residence. No RGI subsidy but rents are set at affordable levels	
Any special circumstances?	The project was allocating very low contributions to reserves and is now almost 30 years old. With insufficient reserve to fund necessary capital replacements, the project accessed a provincial renovation fund in 2004 to provide a forgivable loan of $366,000 to support a major upgrade. The loan is forgivable as long as the provider remains in compliance with the operating agreement.	
Key market characteristics	Small town, limited market, but ongoing demand for affordable seniors housing	
Is project viable at expiry?	Since the project already operates with a small surplus (and an accumulated surplus of over $45,000) but receives no subsidy, once mortgage expires the operating surplus will increase significantly. At expiry the surplus will be roughly $77,000	

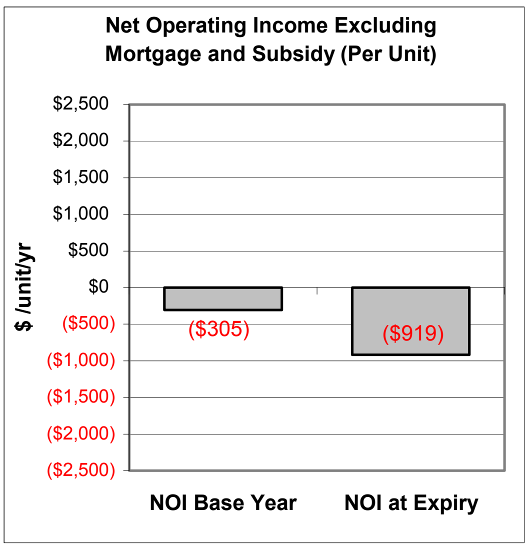


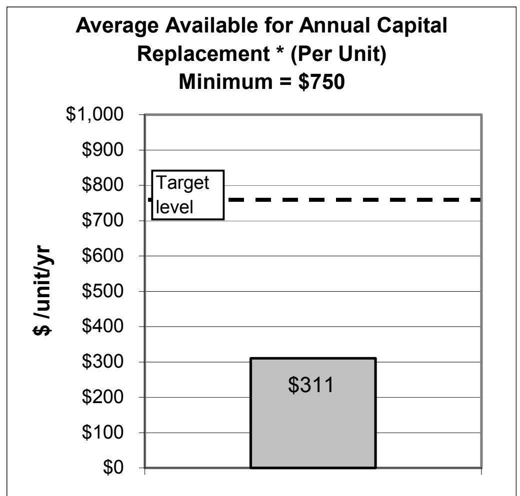


* amortized current balance plus annual contributions over remainder of agreement;

Current Capital Reserve Balance: $1,800/unit	**Annual Reserve Allocation:** $200/unit
Current building condition	Building recently upgraded with funding from the province; in excellent condition and well maintained.
Commentary on adequacy of replacement reserve	The current capital reserve is low and annual contributions minimal, especially with another 22 years before expiry. Despite recent improvements, the building's age and length of agreement mean the property is in the second cycle of replacements and current reserves and allocations are insufficient. Only $278 is available annually for annual replacements over each of the next 22 years. This is well below the target benchmark of $750.
Overall commentary	Since the project is generating a small surplus and already has a solid accumulated surplus, ongoing surpluses should be used to increase the annual contribution to the capital reserve fund. The operating reserve of $47,000 could be reallocated to augment the low replacement reserve.

Case #: NB3	**Expiry year:** 2019	**Program:** Post-1985 Non-Profit (Full Assistance)
Current Annual Mortgage pmt: $46,342		**Current annual subsidy**: $48,778
Project details	Small eight-unit seniors residence in an exurban community near large city. Single project provider.	
Client type and RGI mix	Seniors; all units are RGI and 97% of revenue is from RGI rents.	
Any special circumstances?	As in other NB projects, this one will benefit by a policy change to exempt NP projects from the provincial portion of the property tax bill, which will lower expenses by roughly $5,000 (but unlike pre-1986 projects, the subsidy will decline by the same amount, as it covers only the operating deficit)	
Key market characteristics	Small rural community but adjacent to major city.	
Is project viable at expiry?	The project currently has a negative NOI. Over the remaining 13 years of the agreement, it is expected that RGI rents will lag growth in operating expenses, although this may be offset by an 80% reduction in property taxes. With taxes reduced, the operating deficit at expiry will be negligible (roughly $100/unit versus $919/unit shown in graph).	



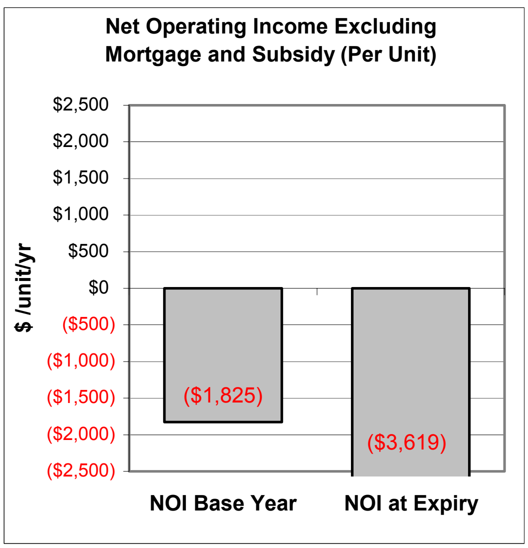


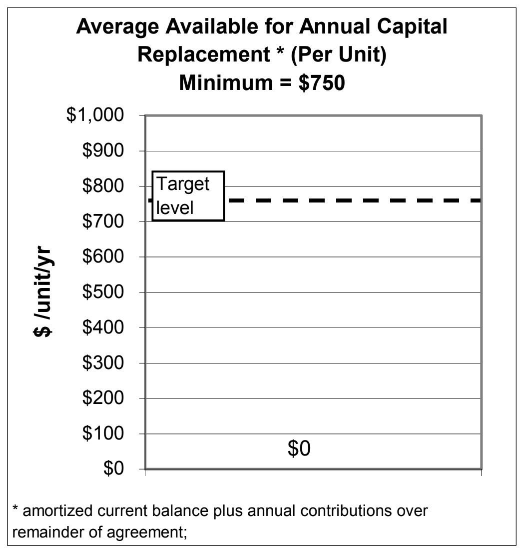
* amortized current balance plus annual contributions over remainder of agreement;

Current Capital Reserve Balance: $1,725/unit		**Annual Reserve Allocation:** $188/unit
Current building condition	The property is well maintained and in good condition (only 15 years old).	
Commentary on adequacy of replacement reserve	The reserve balance is low, as are annual contributions. The project lacks sufficient capital reserves and funding to maintain the asset. It is projected at current levels of contributions that only an average of $311/unit will be available annually, well below the minimum benchmark of $750.	
Overall commentary	Some remedial action is necessary to avert a viability problem at expiry. RGI rent revenue is low (an average of $265/unit). As units turn over, management should seek tenants requiring shallower subsidy. With a reduction in tax expenses being implemented this year, the project should negotiate with the province to increase the capital reserve allocation by the amount of the tax saving (effectively keeping the subsidy at the current level).	

Case #: NB4	**Expiry year:** 2024	**Program:** Public Housing (Family)

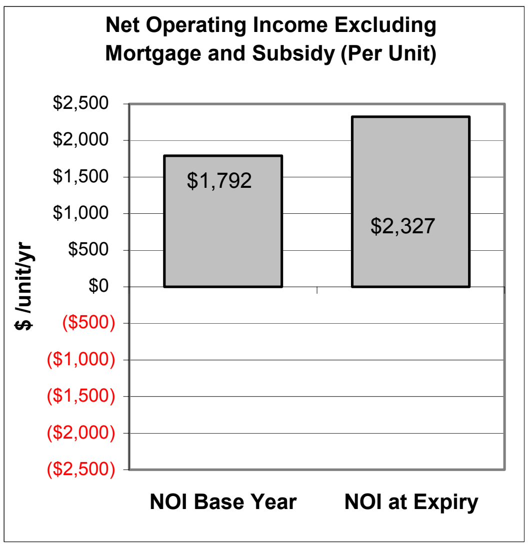
Current Annual Mortgage pmt: $48,220	**Current annual subsidy**: $102,978
Project details	30-unit row housing (mix of two- and three-bedroom). Project includes a community centre. All units and community centre are electrically heated.
Client type and RGI mix	Family; 100% RGI
Any special circumstances?	Nil
Key market characteristics	North Fredericton - market is soft, with vacancy rate of 4%
Is project viable at expiry?	The project is predicted to have a significant deficit at expiry with a negative NOI of -$3,600/unit. At present, with 18 years remaining in the agreement, the project has a negative NOI ($1,825). With 100% of units RGI and generally deep subsidy required, the revenues do not keep pace with rising costs. Some more selective tenant screening may help to shift tenant profile to a mix of deep and shallow subsidy, but this alone is unlikely to overcome the shortfall in revenues.

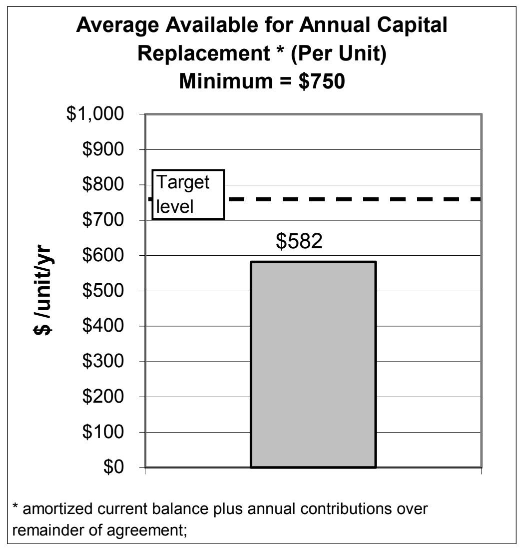




Current Capital Reserve Balance: n/a	**Annual Reserve Allocation:** n/a
Current building condition	Satisfactory conditions, some work required
Commentary on adequacy of replacement reserve	In public housing, capital reserves are not funded at the project level. The province manages an overall M&I fund and allocates funding on a priority basis. Generally speaking, the M&I funds provided each year by the province fall below the amounts requested.
Overall commentary	The project is gradually deteriorating. Funding for capital improvements is minimal (competes across the province for limited funds) and at 100% RGI is unsustainable without renewal of subsidy at expiry. At present, the project is a liability, not an asset.

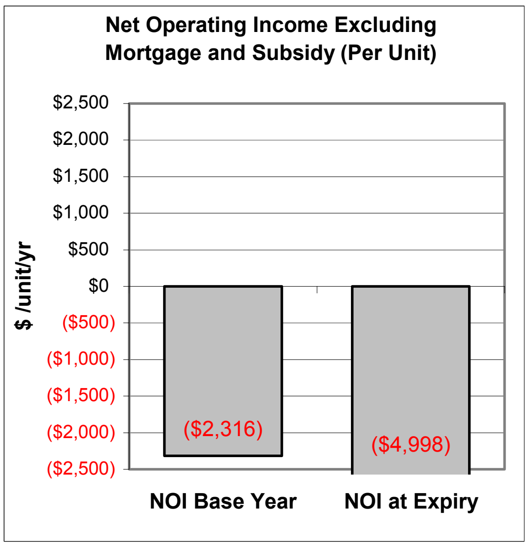
Case #: NB7	**Expiry year:** 2014	**Program:** Pre-1986 Sec 95 (2%) Urban Native
Current Annual Mortgage pmt: $32,826		**Current annual subsidy**: $20,796
Project details	Two-storey apartment, electric heat. Total 15 units. Located in Fredericton	
Client type and RGI mix	Family housing; all units at low end of market, no RGI; part of an urban native portfolio	
Any special circumstances?	The project was in difficulty and applied for a forgivable loan under a provincial assistance program to undertake capital improvements. This has improved condition and marketability	
Key market characteristics	Fredericton - market is soft, with vacancy rate of 4%	
Is project viable at expiry?	Yes: At expiry, the project is already generating a negligible operating surplus, which is enhanced when the mortgage expires, since it exceeds the subsidy by some $12,000 annually. NOI/unit is a healthy $2,300 at expiry.	

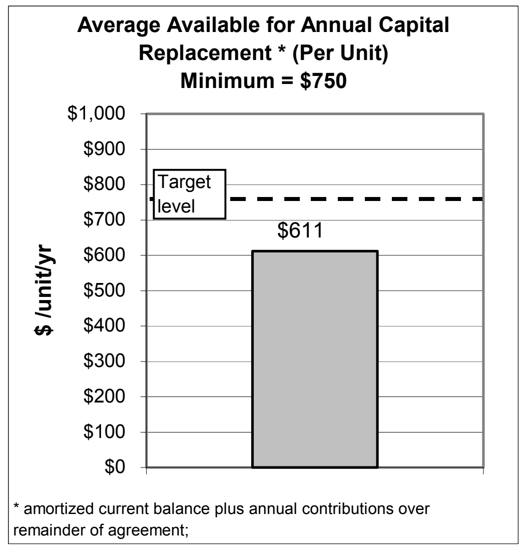




Current Capital Reserve Balance: $1,598/unit	**Annual Reserve Allocation:** $404/unit
Current building condition	Well maintained and updated, due to the fact that this project was provided with a significant renovation loan within the past three years
Commentary on adequacy of replacement reserve	A combination of reserve and annual contribution results in an average available expenditure of just below $600. This is slightly below the minimum benchmark of $750
Overall commentary	The property is viable and has a healthy surplus at expiry. There may be potential to increase the annual allocation to ensure replacements are completed on schedule; alternatively, at expiry, the project has the capacity to refinance to undertake a capital upgrade.

Case #: NB8	**Expiry year:** 2028	**Program:** Post-1985 Section 95 Urban Native
Current Annual Mortgage pmt: $9,108		**Current annual subsidy**: $14,934
Project details	Duplex property (part of a larger portfolio), providing two three-bedroom units	
Client type and RGI mix	Family 100% RGI (only two units)	
Any special circumstances?	nil	
Key market characteristics	Duplex property, located in Fredericton (soft rental market, with apartment vacancy rate of 4%)	
Is project viable at expiry?	NO – the subsidy significantly exceeds the mortgage amount. The project already has a negative NOI of $2,136/unit, which rises to a deficit of almost $5,000 by expiry	





Current Capital Reserve Balance: $3,068/unit **Annual Reserve Allocation:** $478/unit

Current building condition Well maintained and updated. The asset is fairly new (built 1993)

Commentary on adequacy of replacement reserve The combined balance of reserve and annual allocations generate an average of $611/unit available. To date, there have been limited withdrawals due to the building's age; this will increase over the next decade. Over the longer term, contributions may be a little low.

Overall commentary A small property with only two units, both RGI, it offers few opportunities to shift RGI revenue. It may be possible to cross-subsidize within the larger portfolio. As tenants vacate, effort should be made to replace them with tenants requiring shallower subsidy.

5. Portfolio Analysis

The individual cases presented in Section 4 provide useful illustrations of a range of possible outcomes at expiry. This section expands on this by examining three portfolios. It was hypothesized that it should be possible at the portfolio level to provide remedies to unviable projects through internal cross-subsidy (either of operating surpluses or capital reserves). While this appears to be true to a degree in both the Victoria and Nepean non-profit portfolios, both are fairly strong portfolios with only a small percentage of more challenging projects. The Vancouver urban native portfolio, however, exhibits a different characteristic – the entire portfolio is unviable without continued subsidies, and the problem simply worsens as each successive project expires.

5.1. Victoria Capital Region

The 12 properties used in this portfolio analysis are a cross-section from a single non-profit operation in the Victoria Capital Region on Vancouver Island. The total portfolio has a mix of 1,206 units of affordable housing under three different programs serving seniors, families and special needs households.

Projects	Program	Units
16	Pre-1986 Section 95	461
24	Post-1985 Section 95 NP	591
5	Homes BC Provincial	154

A cross-section of six projects from the pre-1986 section 95 program, totaling 215 units, and six projects from the post-1985 non-profit program, totaling 164 units, were used as case studies for the portfolio analysis. The Homes BC projects were not included in the case studies, as they are relatively new and the program operating agreements extend well beyond the discharge of the mortgage in the first 35 years.

The Market

The Victoria Capital Region has for a number of years had one of the lowest vacancy rates of any urban area in the country, currently well under one percent. Its tight rental market has maintained a steady upward pressure on market rents. While that creates both problems and challenges for those in the community needing affordable housing, over the long term it can create benefits and opportunities on the business side for non-profit providers with the right product mix. The pre-1986 Section 95, two percent mortgage write-down projects perform well financially in this type of housing market because they have a healthy mix of low-end-of-market (LEM) units.

Strong demand for the LEM units provides for increased revenue as their rents rise, covering growing maintenance and operating costs and offsetting the program's subsidy reduction feature. The LEMs also support the retention and delivery of Rent-Geared-to-Income (RGI) subsidies for a percentage of the units. Six of the case studies in this portfolio analysis demonstrate how well the projects in this program perform in a strong rental market.

Case Study Projects

The following table summarizes key data items from the individual project case studies. It focuses on three key issues or tests as predictors in determining whether a property will be viable at expiry or not – the project's current NOI; the status of its reserve funding for capital replacements; and the projected NOI or cash flow following expiry of the operating agreement. The individual project profiles, attached in the appendix, provide an overall commentary and contain more detailed information on the property, its condition, its clients, key market characteristics, and its maintenance and capital replacement program.

Summary of Victoria Portfolio Case Studies

Sub-Program	ID	% RGI Units	Test 1: NOI Today (1)	Viable Today	Annual Reserve Allocation per unit	Annual Reserves Available per unit (2)	Test 2: Reserves Adequate (3)	Expiry Year	Test 3: NOI at Expiry	Viable at Expiry (4)
Pre 86	BC 1	24%	$3,371	Yes	$1,647	$2,597	Yes	2018	$5,309	Yes
Pre 86	BC 2	47%	$2,681	Yes	$918	$1506	Yes	2019	$3,530	Yes
Pre 86	BC 3	23%	$3,039	Yes	$823	$1,376	Yes	2020	$4,326	Yes
Pre 86	BC4	28%	$4973	Yes	$1,183	$1,494	Yes	2021	$7,147	Yes
Pre 86	BC 5	29%	$4,583	Yes	$1,143	$1,834	Yes	2020	$6,372	Yes
Pre 86	BC 6	33%	$4,185	Yes	$1,125	$1,681	Yes	2021	$5,978	Yes
Post 85	BC 7	100%	$2,329	Yes	$717	$958	Yes	2025	$2,117	Yes
Post 85	BC 8	100%	$510	Yes	$266	$436	No	2026	($201)	No
Post 85	BC 9	100%	$485	Yes	$824	$1,245	Yes	2024	($77)	No
Post 85	BC 10	100%	$488	Yes	$478	$753	Yes	2025	($136)	No
Post 85	BC 11	100%	$1,659	Yes	$668	$1,009	Yes	2028	$1,296	Yes
Post 85	BC 12	100%	$250	Yes	$324	$590	No	2028	($562)	No

Notes:

1. This test determines whether total revenues, excluding subsidy, are greater than total expenses excluding mortgage payment.
2. Annual reserve available combines current balance of reserve amortized over remainder of operating agreement plus annual contributions.
3. Adequacy based on comparing amount available (previous column) against benchmark of $750 that would be available if annual contributions of $450 had been made throughout operating agreement and earned 3% interest, compounded annually with no withdrawals until year 11. It is assumed that withdrawals commence in year 11 at an amount that depletes the reserve at expiry.
4. Based on projected revenues and expense are revenues greater than total expenses in year immediately following expiry of subsidy and maturity of mortgage?

Pre-1986 Section 95 (Two Percent) Program

The impact of LEM rents in a tight market is clear in the projects' very strong NOI performance, both currently and at expiry. As well, the properties are supported by a very strong capital replacement program. Following a review of reserve funds in the mid-90s, approval was obtained from CMHC to increase the allocations. For BC 2, going from $355/unit to $918 is a key factor in its performance. Four of the other five also made substantial adjustments, and the revenue from increasing LEM rents made the change much easier. The strength of their capital program reduces current maintenance and operating costs and protects them from the need to re-capitalize for property upgrades post-expiry.

Even in a strong market, the LEM rental performance is not always even because the effect of location, property and market characteristics can influence performance. With average project LEM rents ranging from $665 to over $900, that is the case in this portfolio. In these circumstances, there can be safety in numbers. Projects BC 1 and 2 currently experience overall operating losses that are covered by surpluses from the other projects. The surpluses also support extra RGI units in BC 2 because its location close to services makes it ideal for many families.

Located in a strong rental market, all of these projects could successfully continue to operate independently and be entirely viable post-expiry. However, the opportunity to cross subsidize makes them stronger and more able to deliver on their social mandate.

Post-1985 Non-Profits

All of the six projects used as case studies (and 21 of the 24 projects in the total portfolio) have a major property issue –they have "leaky condo" conditions, a common problem for the post-1985 properties in many areas of British Columbia. The properties already have a serious wood-rot condition in their exterior structural walls or they have construction, material and/or design flaws that make them susceptible to the problem (i.e., a matter of when, not if). The cost of correcting the problems is substantial – ranging from $13,550/unit for BC 10 to over $72,000 for BC 11.

Recognizing that this far exceeds the intent of any reserve program, and to protect the long-term asset, BC Housing has assumed responsibility for planning, arranging and paying for the remediation work. Five of the six case study projects now have the work scheduled, but delays are still possible because of the difficulty in getting experienced contractors in BC's hot construction market. To date, the case study properties are not experiencing extra maintenance costs as a result of the problem. Until the problem is corrected, the projects receive a property tax reduction from the local governments.

With these post-1985 projects units having 100 percent RGI tenants, they do not see any current benefit from the strong local market (we assume that RGI rents lag inflation). However, with maintenance and operating costs under control, all six projects had a positive NOI in 2005. Two of the properties with higher-than-average RGI rentals, BC 7 and 11, retain their positive NOI and are viable at the end of their program operating agreements. Their projected viability at expiry is supported by capital replacement programs that exceed the benchmark standard of $750/unit. (Note: the rain screen/building envelope issues are not part of the analysis.).

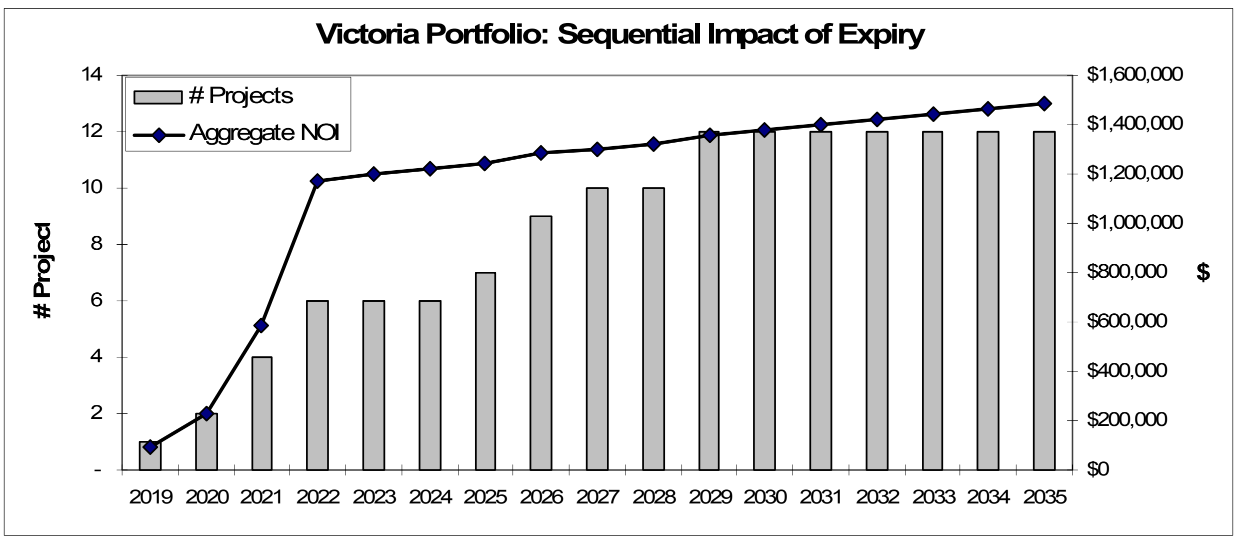
The four remaining post-1985 properties slide to a negative NOI at expiry and will not be viable without ongoing financial support. Two of the projects, BC 9 and 10, are only in a marginally negative position and have adequate capital replacement programs in place. Their monthly cash flow losses are less than $15/unit and could be made up by shifting some units to lower subsidy levels and/or LEM rents. In considering this option, it should be noted that ongoing adjustments would be needed, as RGI revenue growth will continue to lag behind cost increases. For BC 8 and 12, this factor as well as their inadequate capital reserve programs and their particular project characteristics make them more unsuitable candidates for this approach.

For the post-1985 non-profit properties, there is one final capital issue – all of the projects are built on leased land. At the end of the 60-year lease period they will likely face either annual leasing costs or a very large capital cost for the land purchase.

Portfolio Summary

With the expiry of their operating agreements, all the pre-1986 properties will generate a large positive cash flow. The capital replacement programs currently reduce operating costs and that will continue after expiry. Only two of the post-1985 properties are under-funded.

Two of the post-1985 properties are also viable after expiry, and adjustments could potentially be made to several others to make them viable. However, with the opportunity for cross-subsidization between programs and projects, that won't be necessary. The graph below illustrates the impact of the sequential expiry of the operating agreements.



Starting in 2019 with the expiry of the first pre-1986 operating agreements, the surplus grows rapidly, reaching $1,250,000 annually after the first five years. It continues to grow even after it begins to cover the post-1985 projects with losses. For this portfolio, the tough choices at expiry will all be positive ones – to invest in more affordable housing, to provide more RGI rental support or to do some of each. Another option, with broader sector impacts, could be to merge with or acquire single- or small-provider properties that do not have similar positive outlooks and could be lost as affordable housing.

5.2. An Urban Native Portfolio – Vancouver

This portfolio, with nearly 450 units of housing, has a total of 12 projects developed under four different housing programs in its operation. In addition, they operate a couple of other properties for other organizations. A Homes BC project in the portfolio is not included as part of the case study analysis.

Projects	Program	Units
4	Pre-1986; Section 95 (2%) Urban Native(UN)	117
6	Post-1985 Section 95 Urban Native Additional Assistance (UNAA)	194
1	Post-1985 NP	35
1	Homes BC Provincial	98

The portfolio projects are located in the northeastern part of Vancouver. The city has a tight rental market with vacancies of under one percent in all areas. Although this area is considered one of the city's most affordable, rents are relatively high in comparison to many other urban areas (one-, two- and three-bedroom apartments average $672, $877 and $1,033). While the case study projects with a high proportion of RGI rental are not concerned with market rents, they create a context for the importance of this housing to households with lower incomes. The following table provides the key data elements for the individual project case studies.

Program Adaptation

The first four case study projects, BC 13 to 16, are funded under the pre-1986 section 95 two percent mortgage write down program, which is not usually associated with 100 percent RGI properties. To achieve the 100 percent rental subsidies, the property receives a second/separate Urban Native Assistance (UNA) subsidy. Most of the remaining projects were under the revised pre-1985 Urban Native program, which adopted deep assistance (100 percent of deficit) to meet the particular needs of low-income urban Aboriginal households. (This program design was then adopted for all federal-provincial/territorial non-profit programs in the 1986 revisions and the Global Agreements.)

Case Study Net Operating Income Tests

None of the 11 projects is considered viable today, as their current NOIs are negative (i.e., before considering subsidy and mortgage). The majority of the projects have RGI rents averaging under $375/month and there are only a couple of projects with average rents over $400. With 100 percent of the units providing RGI rentals, the strong local housing market has no impact on project revenue. With the growth in RGI rents (inflated at one percent) lagging well behind the growth in operating costs (inflated at two percent), the NOI at expiry declines substantially, and the deficit more than doubles from the current level for three projects.

Capital Reserves

For the first five case studies, BC 13 through BC 17, the replacement reserves are in fairly significant deficit positions. As a result, as the following table shows, the "amount available" annually for withdrawal is less than the current year's allocation (since they first have to make up the deficit).

The next four case studies, BC18 to 21, all have current balances (ranging from $200 to $4,000 per unit) but insufficient annual allocations. Consequently, their annual amount available for capital replacements is well below the suggested minimum benchmark of $750. The remaining two projects, BC 22 and 23, have sufficient reserves and current allocations to meet the minimum benchmark of $750 for capital funds available annually.

Urban Native – Summary of Case Studies - Vancouver

Sub-Program	ID	% RGI Units	Test 1: NOI Today (1)	Viable Today	Annual Reserve Allocation per unit	Annual Reserves Available per unit (2)	Test 2: Reserves Adequate (3)	Expiry Year	Test 3: NOI at Expiry	Viable at Expiry (4)
Pre86	BC 13	100%	($1,844)	No	$408	$367	No	2019	($3,113)	No
Pre 86	BC 14	100%	($2,489)	No	$432	$389	No	2020	($4,149)	No
Pre 86	BC 15	100%	($1,461)	No	$311	$$280	No	2021	($3,011)	No
Pre 86	BC16	100%	($3,332)	No	$372	$343	No	2021	($3,903)	No
Post85	BC 17	100%	($2,466)	No	$357	$268	No	2021	($4,445)	No
Post85	BC 18	100%	($3,987)	No	$328	$341	No	2022	($6,552)	No
Post85	BC 19	100%	($5,372)	No	$374	$441	No	2023	($8,761)	No
Post85	BC 20	100%	($2,687)	No	$382	$553	No	2023	($4,937)	No
Post85	BC 21	100%	($2,422)	No	$381	$398	No	2024	($4,672)	No
Post85	BC 22	100%	($3,294)	No	$671	$834	Yes	2030	($6,760)	No
Post 85	BC 23	100%	($1,531)	No	$1,090	$1,142	Yes	2022	($3,980)	No

Notes:
1. This test determines whether total revenues, excluding subsidy, are greater than total expenses excluding mortgage payment.
2. Annual reserve available combines current balance of reserve amortized over remainder of operating agreement plus annual contributions.
3. Adequacy based on comparing amount available (previous column) against the benchmark of $750 that would be available if annual contributions of $450 had been made throughout operating agreement and earned 3% interest, compounded annually with no withdrawals until year 11. It is assumed that withdrawals commence in year 11 at an amount that depletes the reserve at expiry.
4. Based on projected revenues and expense, are revenues greater than total expenses in the year immediately following expiry of subsidy and maturity of the mortgage?

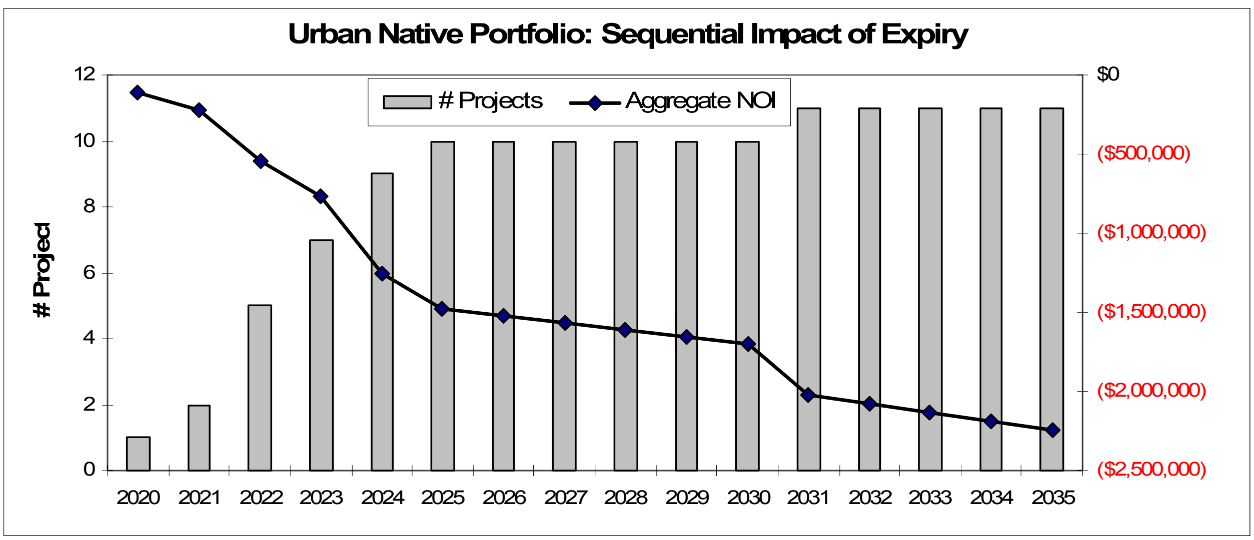
Although an active maintenance program keeps the properties in good condition, over the years the inadequate capital replacement situation will have caused delays in correcting problems or replacing items, thus adding to the operating and maintenance costs of the properties. Over the last six years, approvals have been obtained for large M& I budgets to address property problems. This analysis was based on 2005 data. Subsequently, in recognition of the serious reserve deficits and low funding levels, CMHC recently approved a large capital fund of several million dollars to replenish the reserves for 10 projects, BC 13 through 22. The following table provides the new data on the annual per-unit amount currently available for capital replacements:

BC 13	BC14	BC 15	BC 16	BC 17	BC 18	BC 19	BC 20	BC 21	BC 22
$1,132	$1,082	$1,003	$1,039	$883	$906	$1,046	$914	$858	$1,170

The revised reserve fund position for each project exceeds the recommended benchmark of $750/unit annually and should be adequate to meet normal needs until expiry. The availability of capital replacement funds may help to reduce maintenance and operating costs. However, there could still be problems with major capital. Five properties to date have needed extensive building envelope/rain-screen remediation and only four of the 10 apartment buildings have been re-piped (a not uncommon problem in apartments with longer hot-water circulating systems).

Portfolio Summary

None of the projects in this portfolio is projected to be viable when their operating agreement ends. With the first agreement expiring in 2020, the portfolio immediately falls into a deficit of more than $100,000. This deficit spirals, reaching annual losses of more than $1 million by 2024 and at least $2.4 million annually by 2035.



While the adjustment to the reserve fund will improve the timeliness of the basic capital replacements and help to avoid extra costs, the portfolio will require ongoing subsidies to support its RGI rental program. The retirement of the mortgage debt will reduce subsidy costs by an average of $5,165/unit. (For the majority of the projects, this means a saving of between 45 and 55 percent of the projected subsidy level just before expiry.) The reduced subsidy amount would then begin to grow slowly in subsequent years as RGI rent increases lag costs.

If ongoing subsidy assistance is not provided, there will be a significant level of disruption. In the strong Vancouver market, these properties could be made financially viable but only by changing the income and rental mix. For half the properties, about 30 to 40 percent of the units would need to become LEM rentals, leaving the balance with RGI rents and some shallow subsidy rents. The remainder of the portfolio would need to move 50 to 70 percent of the units to LEM rental, and one building would likely require 100 percent LEM rents. In this scenario, the buildings might be financially viable but they would no longer serve their intended market and many low-income urban Aboriginal households would be displaced (and potentially made homeless).

While a public housing portfolio has not been included in this analysis, a similar outcome would likely arise. Like the Urban Native portfolio, public housing tends to accommodate a very high (often 100 percent) deep RGI population and does not have replacement reserves.

5.3. Ontario Suburban Portfolio

The third portfolio is located in suburban Ottawa. It reflects a small, younger portfolio, predominantly post-1986. This provider has also undertaken new development outside of the traditional federal and provincial programs; and operates them without subsidy, except for a rent supplement contract on a portion of the units (excluded from table below).

Projects	Program	Units
3	Post-1985 Section 95	206
2	Provincial Unilateral	181

The Market

The portfolio is located in one of the older, but still expanding, suburbs of Ottawa in an area where there is a good mix of private rental and ownership housing. The vacancy rate in Ottawa was very low through the 1997-2002 period, but it

edged back up to 3.9 percent in 2004. This created some challenges for social housing providers to find and retain market tenants – especially given the attraction of relatively affordable ownership opportunities in the area.

Post-Expiry Viability Assessment

Summary of Case Studies - Nepean										
Sub-Program	ID	% RGI Units	Test 1: NOI Today (1)	Viable Today	Annual Reserve Allocation per unit	Annual Reserves Available per unit (2)	Test 2: Reserves Adequate (3)	Expiry Year	Test 3: NOI at Expiry	Viable at Expiry (4)
Post 85	Ont9a	57%	$1,407	Yes	613	$1,391	Yes	2022	$1,581	Yes
Post 85	Ont9b	67%	$987	Yes	586	$966	Yes	2024	$863	Yes
Prov Unilateral	Ont9c	62%	$632	Yes	498	$764	Yes	2024	$410	Yes
Prov Unilateral	Ont9d	69%	$443	Yes	524	$783	Yes	2028	$7	Yes
Post 85P	Ont9e	65%	$988	Yes	615	$723	No	2028	$876	Yes

Notes:

1. This test determines whether total revenues, excluding subsidy, are greater than total expenses excluding mortgage payment.
2. Annual reserve available combines current balance of reserve amortized over remainder of operating agreement plus annual contributions.
3. Adequacy based on comparing amount available (previous column) against the benchmark of $750 that would be available if annual contributions of $450 had been made throughout operating agreement and earned 3% interest, compounded annually with no withdrawals until year 11. It is assumed that withdrawals commence in year 11 at an amount that depletes the reserve at expiry.
4. Based on projected revenues and expense, are revenues greater than total expenses in the year immediately following expiry of subsidy and maturity of the mortgage?

This portfolio does not have the benefit of earlier (pre-1986) programs that provide stronger revenue potential due to greater income mixing. An examination of the current NOI indicates these five properties are viable but only marginally. In four of the five projects, NOI declines between the current situation and expiry. Each of these projects has a high proportion of RGI units and it is assumed RGI rents will lag increases in operating costs. While all are viable at expiry, one (9d) is only barely so, and slips into deficit one year later. All projects require close monitoring and some adjustment in the RGI/market mix or depth of RGI assistance to ensure they remain viable. Alternatively, since the service manager will have to meet ongoing service level standards (under the Ontario *Social Housing Reform Act*), even after the provider's mortgages have been paid off, there may be an opportunity to negotiate a rent-supplement agreement with the service manager.

Capital Reserves

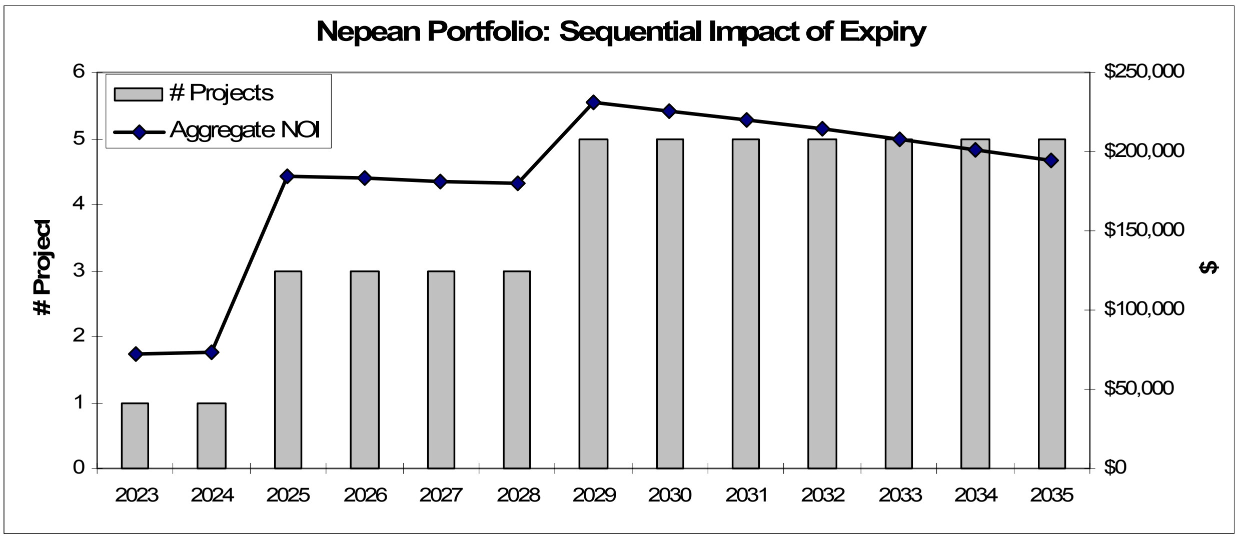
All but one project can meet the derived minimum benchmark of $750 available for annual capital reinvestment, although two are only just above this threshold. In an analysis of reserve adequacy, the Social Housing Services Corporation (SHSC) has determined that annual contribution levels in the order of $1,200 are necessary (largely to offset insufficient reserves in the early years as well as non-funding of reserves for a period of constraint in the late 1990s).

The projects in this portfolio are somewhat younger than average and have fewer years of low (or zero) contributions, so $1,200 may be an over-estimate of requirements. However, a building condition assessment would be prudent to determine whether the current allocations (roughly $500 to $600) are sufficient.

Portfolio Summary

Because all projects are viable at expiry, as individual projects reach this event, the aggregate portfolio has an increasingly positive cash flow, at least until the final two expire in 2028. At that point, the tenuous viability of project 9D, together with the overall weighting of RGI units with the low or stagnant revenue trajectory, begins to have a noticeable effect, and the annual surplus begins a gradual downward trend. This is not a catastrophic trend, but it is an early warning and something that, together with capital replacement adequacy, should be carefully monitored.

Overall, this is a healthy portfolio and should be viable, with some minor internal refinements, without ongoing subsidy, while continuing to serve a low-income clientele.



6. Conclusions

This analysis has covered a wide range of projects and portfolios across programs and regions to help providers understand the implications of the expiry of operating agreements.

Overall, for most non-profit providers, the sky is not falling. The majority of projects will be viable, or have the potential to implement remedies (detailed in Section 3) that will shift their trajectory to one with positive NOI and viable operations.

Generally, pre-1986 non-profit projects have a greater probability of operating viability, because they have a higher level of income mixing and more units close to market rent. The market or LEM rental revenues help to sustain economic viability. For non-profit providers with predominantly post-1985 projects, there is a greater mix of anticipated outcomes. These portfolios tend to have fewer units at market rent and thus a greater proportion of RGI units with constrained revenues (low-income households tend to have fixed or stagnant incomes).

There is no specific RGI proportion that can be identified as a tipping point – viability varies by degree of RGI assistance as well as by market area.

However, there is a much higher probability of problems as the RGI proportion exceeds 65 percent. This tends to be the case for most Urban Native and public housing projects.

In combination, projects anticipated to be in difficulty –public housing, urban native and some portion of post-1985 non-profit – could account for as much as 50 percent of the total stock of social housing. So this is not an insignificant problem. [17]

A second issue is the adequacy of capital replacement reserves. In a number of cases, projects appear to be viable from a cash flow perspective (positive NOI), but they have insufficient capital reserves to keep up with capital replacement and thus ensure the property is in good condition and is marketable. (This is especially important if retaining and attracting market rent tenants is a key to viability.)

Those projects in weak or unviable post-expiry operating positions also tend to be those with poorly funded reserves – again Urban Native and public housing. The latter are owned and operated by provinces and territories and arguably have access to financial resources to help address these problems[18]. Those owned by non-profit urban Aboriginal corporations do not have the resources to resolve this problem without public assistance.

Clearly, there is a need for the provinces and territories to carefully assess their portfolios and determine the magnitude of the problem. Public housing accounts for roughly one-third of all social housing in Canada and is an important part of a very limited pool of affordable housing for a growing population of lower-income households.

This study has not examined the corollary of the expiry issue – the reduced expenditures that will be realized by both the federal and provincial/territorial governments. In total, these governments will realize more than $3.5 billion annually in reduced expenditures by the time all of the operating agreements expire. This should provide adequate financial resources both to reinvest in projects where viability is a problem (e.g., provide ongoing rent supplements) and to fund necessary capital replacement to ensure the projects are in sound condition. These assets have already been paid for. It is far less expensive to invest in sustaining them than it is to replace them with new housing. That is not to say that the stock of affordable housing should also not continue to be expanded.

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[17] The original targeting plan for most post-1985 non-profits and co-ops in Ontario was 75 percent RGI; While varying and not always so specific, it was similarly high, suggesting a large number with potential viability problems.

[18] In Ontario, public housing is now owned by the municipalities, which arguably don't have the financial resources to address these problems on their own, thus the campaign by Toronto Community Housing Company to obtain assistance from the federal and provincial government to address its capital shortfall, which is approximately $240 million.

Appendix A: Detailed Project Profiles for the Three Portfolio Studies

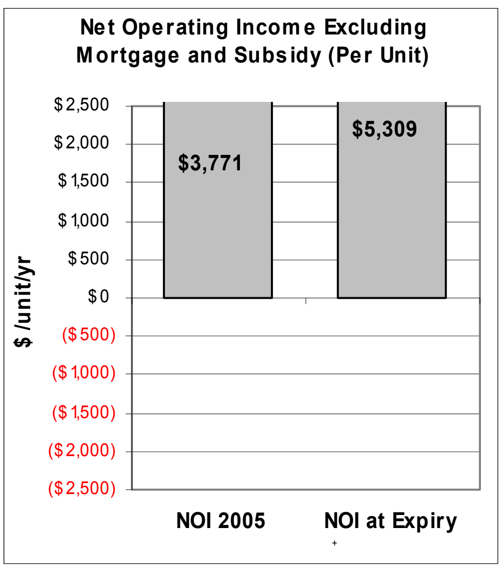
Victoria Non Profit Portfolio

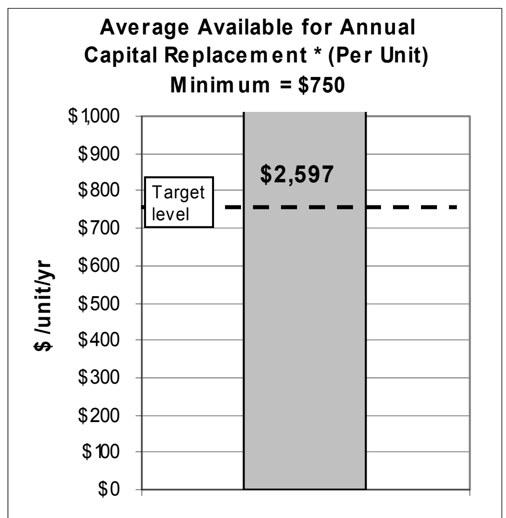
Individual Cases

Case #: BC 1 **Expiry year:** 2018: **Program:** Pre-1986 Sec 95; 56.1 (2% mortgage assistance)

Current Annual Mortgage pmt: $88,164 **Current annual subsidy** $21,723**.**

Project details	A 17-unit townhouse project that is part of a large portfolio.
Client type and RGI mix	Low- and moderate-income families; four of the 17 units (24%) are RGI and account for 13% of revenues; the balance have LEM rents – 90% of market rates for comparable housing in the area.
Any special circumstances?	After a portfolio analysis of the adequacy of the replacement reserves for pre-1986 projects, the annual reserve contributions were increased in 1999.
Key market characteristics	The project is in a suburban community in the Victoria Capital Region. The region has a tight rental market, with very low vacancies (less than 1%) and strong upward pressure on market rents.
Is project viable at expiry?	The project is viable at expiry. With base case assumptions, the current NOI of $3,717/unit is expected to grow by over 40% to $5,309 by expiry in 2018.





* amortized current balance plus annual contributions over remainder of agreement;

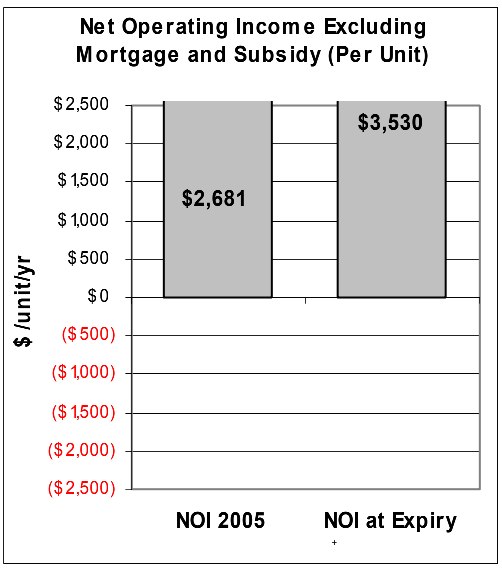
Current Capital Reserve Balance: $12,348/unit **Annual Reserve Allocation:** $1,647/unit

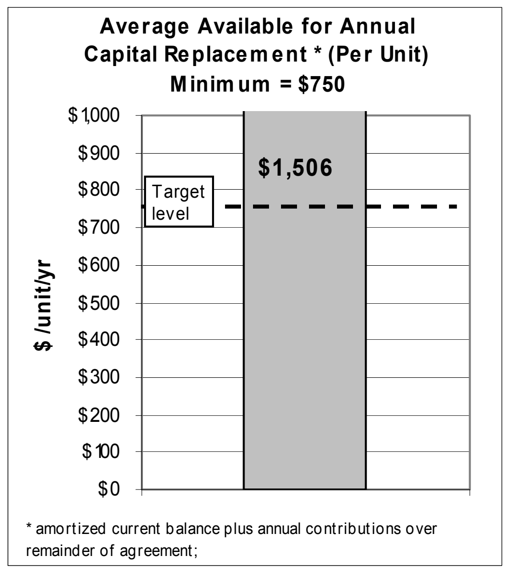
Current building condition	Although maintenance costs are very low for a 22-year-old property at $434/unit, the property is in good condition, well maintained, with no deferred maintenance.
Commentary on adequacy of replacement reserve	The property has an exceptionally strong reserve fund. Since 1999 the annual allocation has been $1,647/unit. When combined with the current reserve balance, there is $2,597/unit available annually, substantially above the suggested minimum of $750 to cover the basic replacement costs for the average project. The reserves are more than adequate to handle planned capital expenditures over the next five years (a new roofing system and some kitchen upgrades).
Overall commentary	At expiry in 2018, this project will generate a substantial positive cash flow for reinvestment in other projects, new housing development and/or some additional RGI allocation. There should also be a large replacement reserve balance, part of which could be reallocated. The low maintenance costs and the strong regional market enhance this project's current and future financial position.

Case #: BC 2 **Expiry year**: 2019 **Program:** Pre-1986 Sec 95; 56.1 (2% mortgage assistance)

Current Annual Mortgage pmt: $201,625. **Current annual subsidy**: $45,816.

Project details	A 38-unit townhouse project. It is part of a large portfolio.
Client type and RGI mix	Low- and moderate-income families; 18 of the 38 units (47%) are RGI and account for 31% of the revenues; the balance have LEM rents – 90% of rents for comparable market units in the area.
Any special circumstances?	A mid-90s review of the adequacy of the reserve fund for pre-1986 projects resulted in increased annual allocations after 1998 and 1999.
Key market characteristics	The project is located in the inner city, close to services. The rental market in the Victoria Capital Regions is tight, with less than 1% vacancies and pressure on rents. Market rents increased by over 4% in 2005, after several years with increases in the 2 to 3% range.
Is project viable at expiry?	The project is viable at expiry, with a current NOI of $2,681/ unit. Under base case projections, the NOI at expiry in 14 years grows to $3,530.





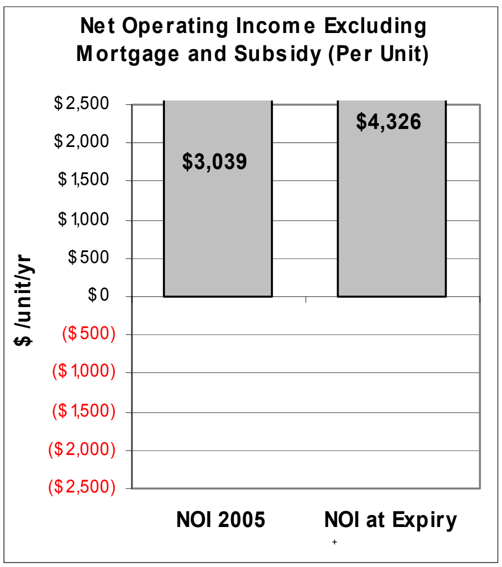
Current Capital Reserve Balance: $8,224/ unit **Annual Reserve Allocation:** $918/unit

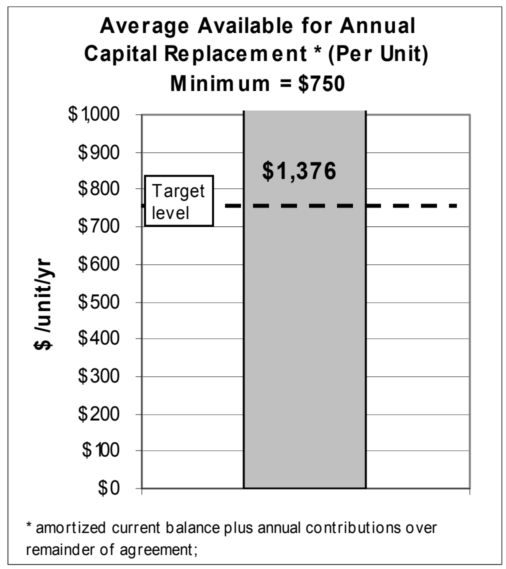
Current building condition	The project is in good condition, with no deferred maintenance. The annual maintenance costs at $514/unit contribute to the project's NOI performance.
Commentary on adequacy of replacement reserve	In the late 1990s, the annual allocation to reserves was increased from $355/unit to its current level of $918. The combined contribution and reserve balance generates $1,506/unit annually for capital replacements, double the minimum benchmark level of $750. The fund can now handle major capital expenditures (for a new roof system, etc.) that are in the project's plans for the next five years.
Overall commentary	This project will continue to generate a positive cash flow, creating options for investment in other projects, new housing, additional RGI allocations or a combination of these. At expiry the property should be in good condition and the replacement reserve fund should have a positive balance for property refurbishment or other capital investments.

Case #: BC 3 **Expiry year**: 2020 **Program:** Pre-1986 Sec 95; 56.1 (2% mortgage assistance)

Current Annual Mortgage pmt: $308,910 **Current annual subsidy:** $119,577

Project details	A 62-unit complex with underground parking. It is primarily apartments with nine stacked townhomes and four row-houses. It is part of a large portfolio.
Client type and RGI mix	Primarily low- and moderate-income families with nine one-bedroom units for singles or couples. There are 14 RGI units (23%), accounting for 11% of revenues. The balance is rented at LEM rates – about 90% of area market.
Any special circumstances?	A portfolio analysis of the reserve status of the pre-1986 projects resulted in two cash infusions of about $70,000 in 1997 and 1998; and the annual level of the contributions was increased in 1999.
Key market characteristics	The project is located in the inner city, close to services. The region has a tight rental market with vacancies well under 1% and upward pressure on market rents, most recently rising at over 4% for the year.
Is project viable at expiry?	The project is viable at expiry. The current NOI is at $3,039/unit. This is projected to increase by about 42% to $4,326 by expiry in 2020.





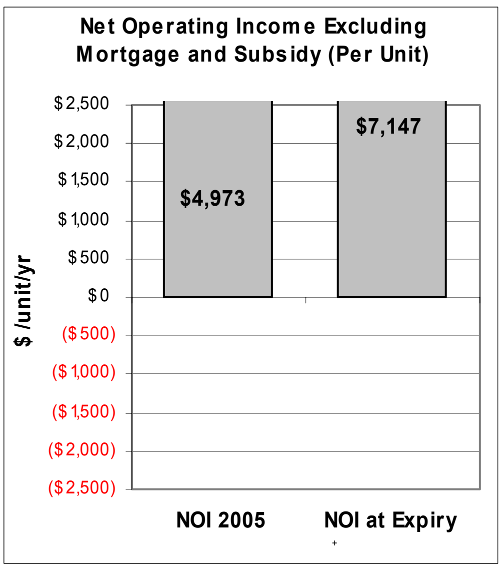
Current Capital Reserve Balance: $8,294/unit **Annual Reserve Allocation:** $823/unit

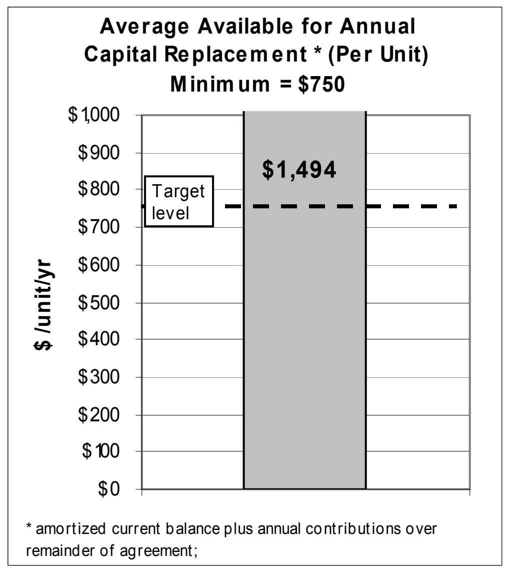
Current building condition	The project is in good condition, with no outstanding maintenance.
Commentary on adequacy of replacement reserve	When the annual allocation of $823/unit is combined with the current reserve balance, it provides an average of $1,376/unit annually for capital replacements, almost double the suggested benchmark of $750. The current capital plan calls for refurbishment of the major building systems over the next nine years; sending the reserve fund into deficit. It should recover to a small surplus by expiry in 2020.
Overall commentary	Post-expiry the project will continue to generate a strong positive cash flow, generating revenue for reinvestment in other projects, new housing and/or additional RGI allocations. The maintenance and utility costs ($441 and $302/unit respectively) contribute to the project's current and future financial performance. With the planned capital investments over the next nine years, the project should reach expiry in very good condition.

Case #: BC 4 **Expiry year**: 2021 **Program:** Pre-1986 Sec 95; 56.1 (2% mortgage assistance)

Current Annual Mortgage pmt: $311,967 **Current annual subsidy:** $116,039**.**

Project details	A 60-unit townhouse project that is part of a large portfolio.
Client type and RGI mix	Low and moderate-income families, 17 of the 60 units (28%) are RGI and account for 15% of revenue; the balance has LEM rents – 90% of market.
Any special circumstances?	After a portfolio analysis of the adequacy of replacement reserves for pre-1986 projects, the annual reserve contributions were increased in 1998 and 1999.
Key market characteristics	Developed as part of the first "planned community" in the Victoria Capital Region, this suburban property in general has higher rents and incomes, especially for the LEM units. Overall, the regional housing market is tight, with low vacancies and strong upward pressure on all market rents.
Is project viable at expiry?	The project is viable now with a very strong current NOI of $4,973/unit. This grows by 44% to $7,147 by expiry in 2021.





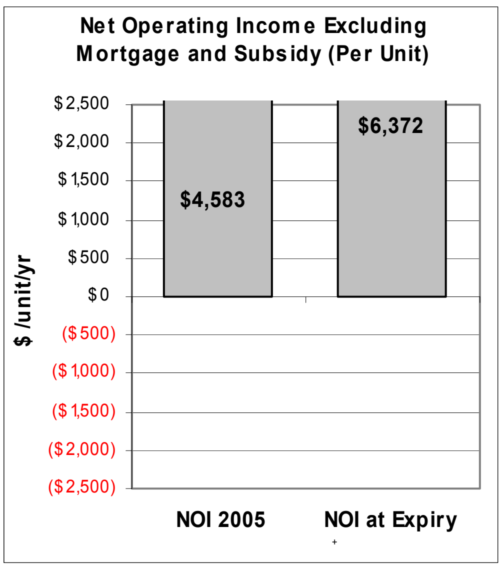
Current Capital Reserve Balance: $4,963/ unit **Annual Reserve Allocation:** $1,183/unit

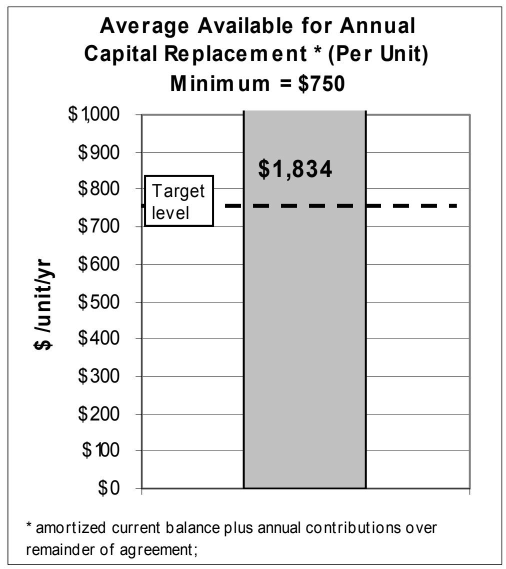
Current building condition	The project is in good condition and well maintained. Over $430,000 in capital upgrades were completed in 2005. Annual maintenance costs are a low $251/unit
Commentary on adequacy of replacement reserve	The project has a strong reserve fund. Since 1999 the allocation has been $1,183/unit. When combined with the current reserve fund, the project has an average of $1,494/unit available until expiry for capital replacements, double the $750 benchmark. The fund is more than adequate to handle its five-year planned expenditures.
Overall commentary	Located in a good niche in a strong market, the LEM rents on this project will continue to generate a large positive cash flow, projected at over $400,000/year post-expiry. It will create options for investments in other projects, new housing, additional RGI allocations or combinations. The replacement reserve fund should have a positive balance for property refurbishment or other capital investments.

Case #: BC 5 **Expiry year:** 2020 **Program:** Pre-1986 Sec 95; 56.1 (2% mortgage assistance)

Current Annual Mortgage pmt: $75,432 **Current annual subsidy:** $29,623

Project details	A 14-unit townhouse project that is part of a larger portfolio.
Client type and RGI mix	Low- and moderate-income families; four of the 14 units (29%) are RGI and account for 15% of revenues; the balance has LEM rents – 90% of market.
Any special circumstances?	After a portfolio analysis of the adequacy of replacement reserves for pre-1986 projects, the annual reserve contributions were increased in 1998 and 1999.
Key market characteristics	Located in an established semi suburban community, this small project provides very stable housing with few units turning over. This stability is reflected in higher-than-average rents ($504) for the RGI units. The housing market is tight.
Is project viable at expiry?	This project is viable. The current NOI of $4,583/unit is strong and it is anticipated to grow to $6,372 at expiry in 2020.





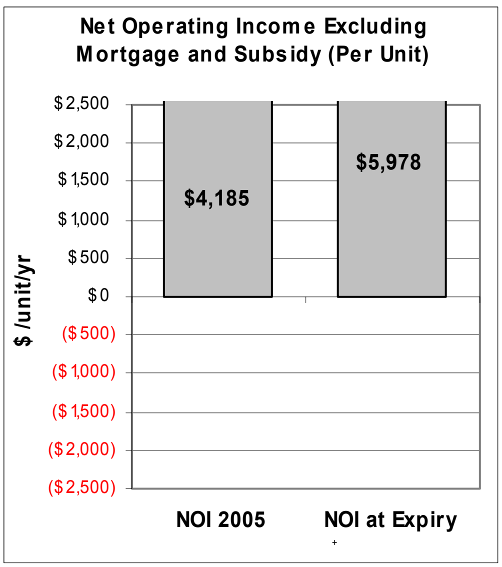
Capital Reserve Balance: $10,372/unit **Annual Reserve Allocation:** $1,143/unit

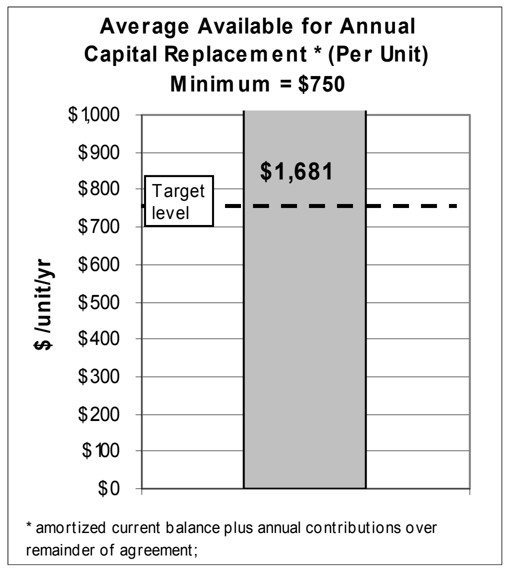
Current building condition	The project is in good condition, with no deferred maintenance. Capital work for a roof replacement was recently completed. At $538/unit, maintenance costs appear to be well under control.
Commentary on adequacy of replacement reserve	The annual allocation to the reserve fund is $1,143/unit. When combined with the current surplus, the project has $1,834/unit available annually for capital replacements or almost 2.5 times the minimum suggested $750. There are no other major capital expenditures planned over the next five years and the reserve fund will continue to grow.
Overall commentary	This property will continue to generate a substantial cash flow profit at expiry of over $6,000/unit. Smaller projects in good locations often contribute to stability and reduced unit turn-over, lowering operating and capital costs. The surplus can be used to reinvest in other projects, develop new housing, support additional RGI, etc. The project should have a large reserve fund surplus that can be used to refurbish the property at expiry and for other capital investments.

Case # BC 6 **Expiry year**: 2021 **Program:** Pre-1986 Sec 95; 56.1 (2% mortgage assistance**)**

Current Annual Mortgage pmt: $123,967 **Current annual subsidy:** $43,461

Project details	This is a 24-unit townhouse property that is part of a large portfolio.
Client type and RGI mix	Low- and moderate-income families; eight of the 24 units (33%) are RGI and account for 18% of revenues; the balance has LEM rents – 90% of market.
Any special circumstances?	During an analysis of the adequacy of replacement reserve funds, an additional $20,000 contribution was made in the late 1990s.
Key market characteristics	The project is located in a semi-suburban community. Like other similarly located projects in this portfolio, the LEM rental units (average $878/unit) are contributing to its strong financial performance. The Victoria Capital region's vacancy rate is below 1% and market rents increased over 4% in the year.
Is project viable at expiry?	With a current NOI of $4,185/unit that is expected to grow by over 40% to $5,978, this project is viable.





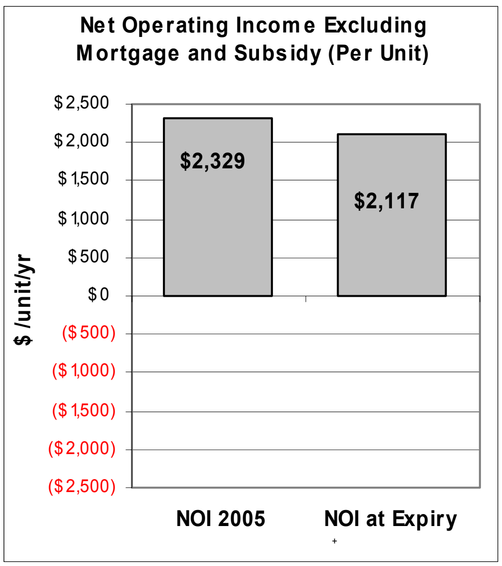
Current Capital Reserve Balance: $8,895/ unit **Annual Reserve Allocation:** $1,125/unit

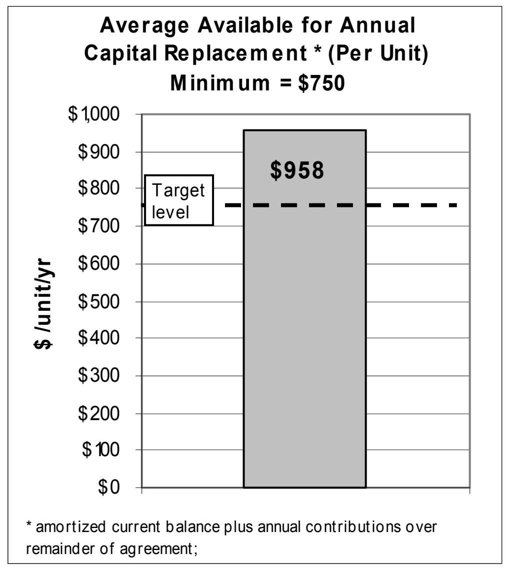
Current building condition	The property is in good condition, well maintained and with its costs appearing to be well under control.
Commentary on adequacy of replacement reserve	The project currently has an average of $1,681/unit each year for capital replacements; over double the $750 estimated as needed for basic replacements. The fund can handle the capital expenditures like roof replacement that are planned over the next five years and still retain a positive balance.
Overall commentary	The strong LEM rental performance for suburban/semi-suburban projects can be expected to continue, contributing to post-expiry cash flows. This project should generate well over $100,000/year in operating surpluses post-expiry, which can be used for reinvestment in other projects, new housing development, support for additional RGI subsidies or a combination of these. The replacement reserve fund should also have a positive balance to refurbish the property or for other capital investments.

Case #: BC 7 **Expiry year**: 2025 **Program:** Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $70,635 **Current annual subsidy:** $53,987.

Project details	Built on land leased from the local government (60 years; 75%), this 10-unit town house project is part of a larger portfolio.
Client type and RGI mix	It provides housing for family households – all receive RGI assistance.
Any special circumstances?	The project has undergone a Phase 3 Rain Screen Study. Scheduled remediation is for 2009 at an estimated cost of over $57,000/unit (covered by BC Housing). The property tax assessment has been reduced.
Key market characteristics	Built as an infill project, it is located in a transitional community between the inner city and the suburbs. Its location in an established community, small size and RGI status in a tight rental market may all contribute to stability and very low turn-over. This leads to the relatively high average RGI rent of $524/month.
Is project viable at expiry?	The project is viable. The current NOI is $2,329/unit. With 100% RGI rents lagging inflation, NOI declines over time but estimated cash flow in 2025 is still a healthy $2,117/unit.





Current Capital Reserve Balance: $4,814/ unit **Annual Reserve Allocation:** $717/unit

Current building condition	To date, no interim work has been required as a result of the project's "rain screen" issues. The property is otherwise in good condition. Maintenance costs are a very low $320/unit annually; however, rapid escalation of rain screen problems may increase maintenance expenditures over the next several years.
Commentary on adequacy of replacement reserve	The annual reserve allocation of $717/unit combined with the current reserve surplus provides an annual average of $958/unit for capital expenditures. Although BC Housing covers costs for rain screen work, the project is now over 15 years old and entering a phase where larger capital expenditures will be required. A roof in the five-year capital plan will deplete the reserves and potentially create a deficit.
Overall commentary	The positive current and projected NOIs are products of the high average RGI rents and low maintenance costs. Maintaining a positive cash flow will require proactive management of tenant subsidy levels and control over operating costs. If the reserve fund remains depleted and maintenance is deferred, it may be challenging to ensure the property is in good condition post-expiry, with 25 years left on the land lease.

Case #: BC 8 **Expiry year**: 2026 **Program:** Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $189,763 **Current annual subsidy:** $166,371

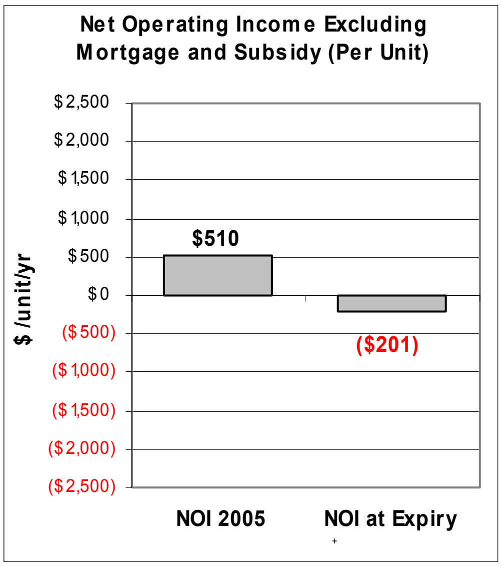
Project details This 36-unit apartment building was built on land leased from the local government (60 years; 75%) and is part of a larger portfolio.

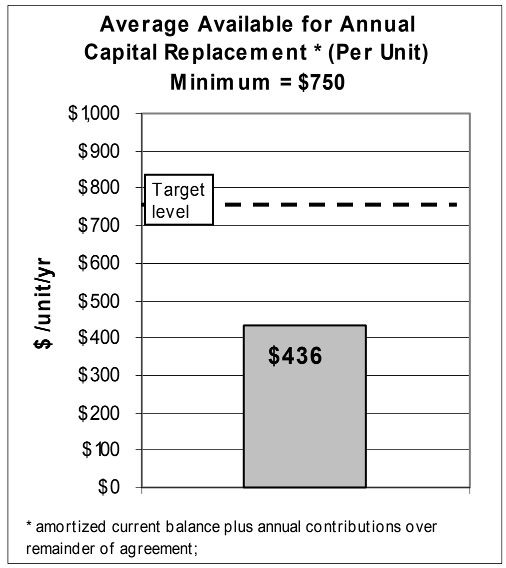
Client type and RGI mix It houses seniors and all units receive RGI assistance. Unit turn-over is low, typically as a result of health problems.

Any special circumstances? The project has undergone a Phase 3 Rain Screen Study, indicating the potential for serious problems. However, no remediation work is currently scheduled

Key market characteristics The project is located in a suburban community. In the Victoria Capital Region, vacancies are under 1%, creating upward pressure on market rents.

Is project viable at expiry? This project is not viable post-expiry. The current positive NOI of $510/unit becomes a small negative cash flow of $201 as the RGI growth at 1%/year trails operating cost increases projected at 2%.





Current Capital Reserve Balance: $3,561/ unit **Annual Reserve Allocation:** $266/unit

Current building condition The building faces potential rain screen issues, although to date no interim additional maintenance has been required with maintenance costs well under control at $428/unit. However, the potential for increased costs represents an on going problem. There are no other maintenance issues.

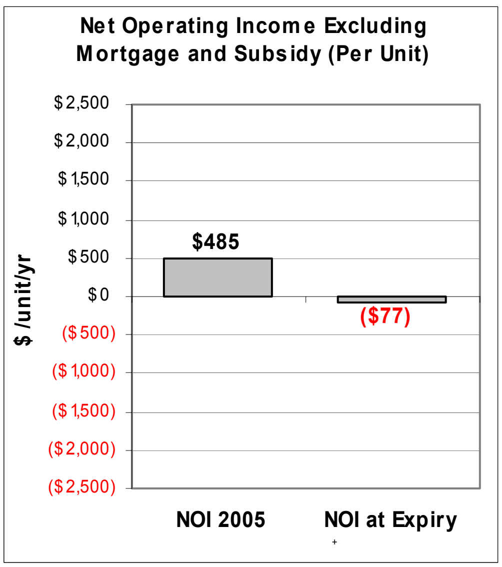
Commentary on adequacy of replacement reserve The annual reserve allocation is a low $266/unit. Combined with the existing reserve funds, this provides an average of only $436/unit annually for the next 20 years; an amount well below the $750 benchmark. The five-year capital plan shows needed repairs for rain screen-sensitive items (resurfacing sun decks, exterior painting and re-roofing) that total over $250,000, leaving the reserve fund with a large deficit.

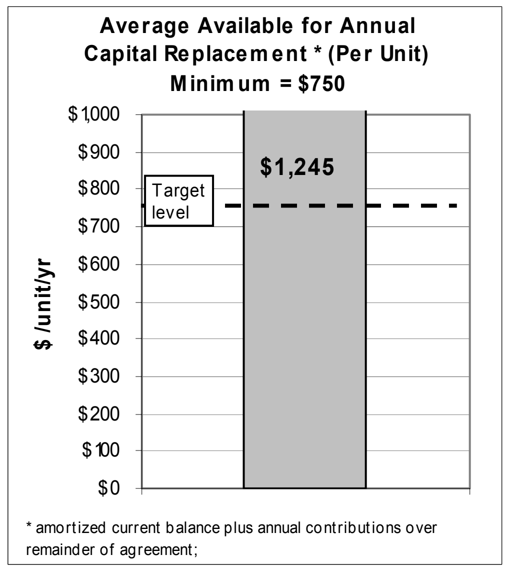
Overall commentary In a strong regional housing market, the relatively small projected cash flow loss of $200/unit ($20/month) could be offset by integrating tenants requiring a lower subsidy and/or converting some units to LEM rents. However, the reserves are inadequate and it can be anticipated that this project will be in a deteriorated condition when it reaches expiry. Cross-subsidy from another part of the portfolio may be an option.

Case #: BC 9 **Expiry year**: 2024 **Program:** Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $131,915. **Current annual subsidy:** $129,666

Project details	This 26-unit townhouse development is part of a larger portfolio. It is built on a land lease (60 years; 75%) with the provincial housing corporation.
Client type and RGI mix	It provides housing for families, all of whom receive RGI assistance.
Any special circumstances?	The project has undergone a Phase 3 Rain Screen study. Remediation work is scheduled for 2009 at an estimated cost of over $19,000/unit. The property tax assessment has been reduced.
Key market characteristics	The project is located in a suburban neighbourhood in the Victoria Capital Region, a tight rental market, with upward pressure on rents.
Is project viable at expiry?	The project is marginally unviable at expiry. With RGI rent revenues at 1% growth lagging behind operating costs (2%), the current NOI of $485/unit slides to a small minus of just $77.





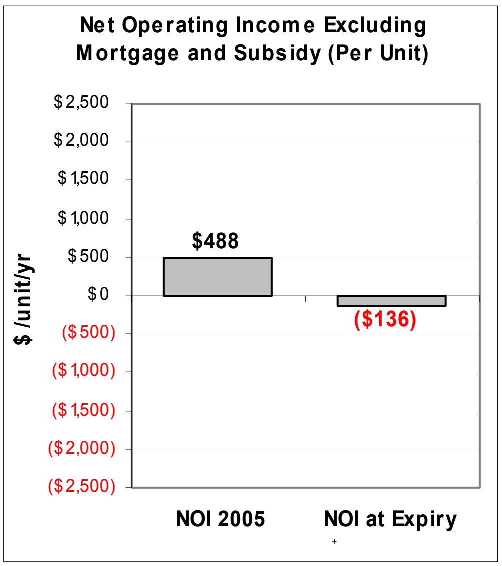
Current Capital Reserve Balance: $8,010/ unit **Annual Reserve Allocation:** $824

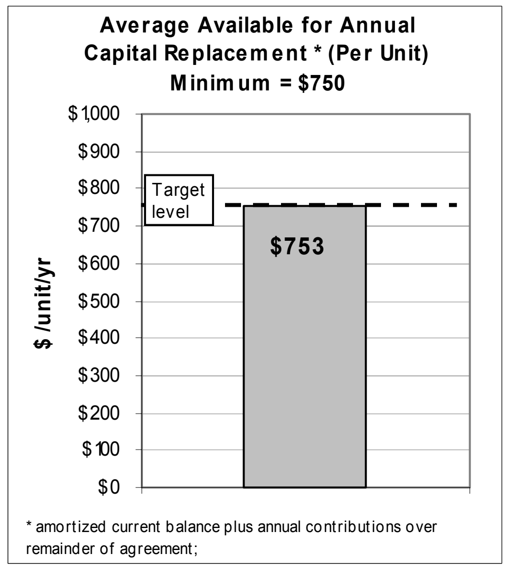
Current building condition	To date no interim work has been needed in advance of the rain screen remediation planned for 2009. Average annual maintenance costs are just $426/unit. Any rapid escalation of the rain screen problems may result in some increased maintenance costs.
Commentary on adequacy of replacement reserve	The current reserve balance plus the annual allocations up until expiry generate an average of $1,245/unit for capital replacements. Once BC Housing has addressed the rain screen issue, the reserve program is able to meet the project's anticipated needs, including major costs for re-roofing and other upgrades scheduled over the next five years.
Overall commentary	The projected loss of just $77/unit could be readily made up. Average RGI rent at $375 for this project are substantially below current market rates (two-bedroom townhouse - $850; three - $1,180). By shifting some units to shallower subsidy and some to LEM, losses could be converted to gains. This would require careful monitoring as RGI rents will continue to lag behind costs.

Case #: BC 10 **Expiry year**: 2025 **Program:** Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $206,354 **Current annual subsidy:** $178,881

Project details	This 48-unit apartment building is part of a larger portfolio, Constructed on leased land (60 years; 75%) held by the provincial housing corporation.
Client type and RGI mix	Housing for seniors with all units receiving RGI assistance.
Any special circumstances?	The project has undergone a Phase 3 Rain Screen study. Budgeted at over $13,500/unit, the remediation work is scheduled for 2007. The project's property tax assessment has been reduced.
Key market characteristics	It is in a semi-suburban area that is being shifted from light industrial to residential. The property is in a good location, close to city services The turn-over rate is low and mostly health related. The regional market is tight, with vacancies under 1%, causing upward pressure on market rents.
Is project viable at expiry?	The project could be marginally viable. The current NOI is positive ($488/unit), but it falls to a $136/unit loss at expiry as the RGI rents at 1% growth lag behind the increase in operating costs, projected at 2%/year.





Current Capital Reserve Balance: $5,501/ unit **Annual Reserve Allocation:** $478/unit

Current building condition	No major interim maintenance has been required prior to the rain screen work planned for 2007. The building is in otherwise good condition.
Commentary on adequacy of replacement reserve	With BC Housing covering the cost of the rain screen remediation, the reserve fund should be adequate to meet the property's basic replacement needs. When combined with the current reserve surplus, the annual allocation of $478/unit provides an average of $753/unit annually for capital expenditures, an amount equal to the suggested target.
Overall commentary	At expiry the projected cash flow of minus $136/ unit amounts to less than $15/month in additional rent, but the property may need some additional funds for ongoing capital replacements or other maintenance Additional cash flow could be generated by moving some of the units to shallower subsidies, but the property's marginal position would persist as RGI revenues continue to lag behind the operating cost increases.

Case #: BC 11 **Expiry year**: 2028 **Program:** Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $108,082 **Current annual subsidy:** $82,313

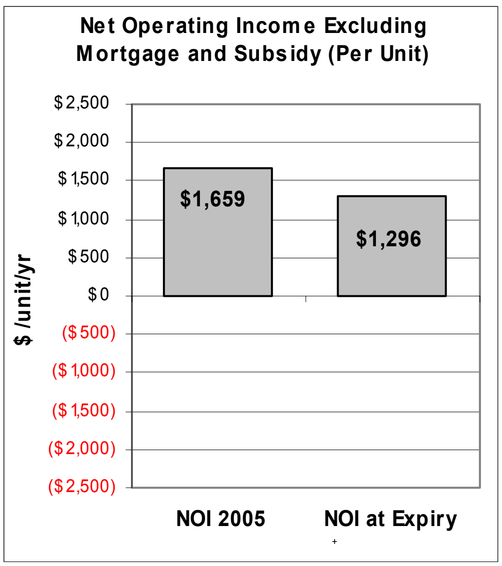
Project details Built on land leased from a local school district (60 years; 75%), this 18-unit tow house project is part of a larger portfolio.

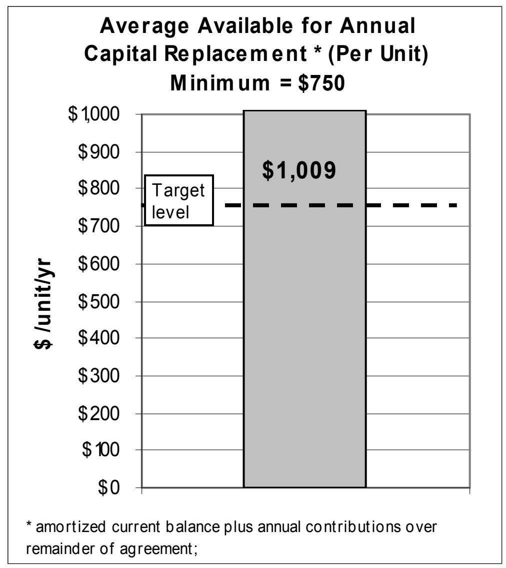
Client type and RGI mix Housing for families, all receiving RGI assistance.

Any special circumstances? The project has undergone a Phase 3 Rain screen study. Budgeted at over $72,000/unit, the remediation work is scheduled for 2009. The property tax assessment has been reduced for the project.

Key market characteristics The project is built on property adjacent to a school in an established older neighbourhood. The housing market in the region is tight, with low vacancies and strong upward pressure on market rents.

Is project viable at expiry? The project is viable after expiry. As shown in the graph below, the current NOI of $1,659/unit drops but remains positive at $1,296/unit at expiry in 2028. (RGI rents projected at 1%; all operating costs at 2%).





Current Capital Reserve Balance: $7,827/ unit **Annual Reserve Allocation:** $668/unit

Current building condition Although the rain screen work required is extensive, no major interim maintenance has been needed Maintenance costs remain low at $306/unit. An escalation in the rain screen problem could result in increased costs over the next several years. The project has no other significant maintenance problems or issues.

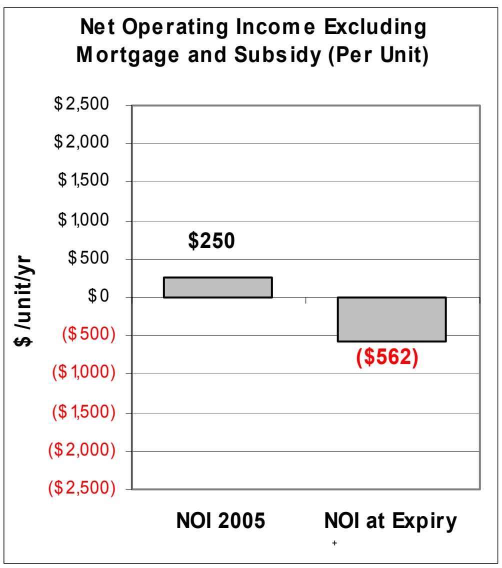
Commentary on adequacy of replacement reserve Once BC Housing provides the rain screen remediation, the reserve program can continue to meet the project's replacement requirements. The annual allocation and the current reserve balance will provide an average of $1,009/unit until expiry, well above the suggested minimum of $750.

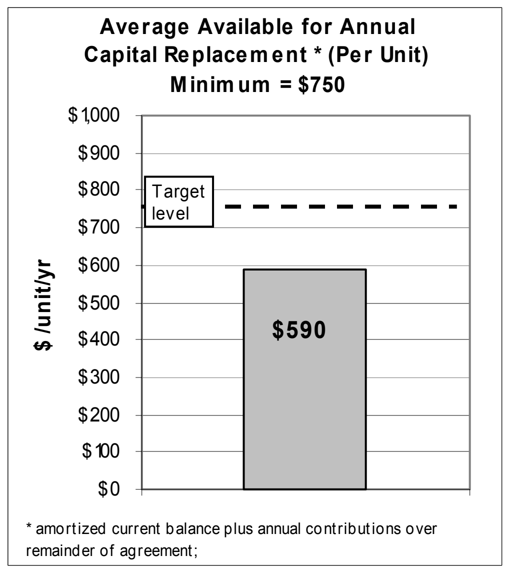
Overall commentary Post-expiry the RGI revenue growth will continue to lag behind operating costs. While this will erode the projected $1,296 cash flow profit over a number of years, the surplus is large enough to sustain the property for a long time. As well, the rain screen work will upgrade building systems and help reduce maintenance costs with the use of more durable products.

Case #: BC 12 **Expiry year**: 2028 **Program:** Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $138,361 **Current annual subsidy:** $130,938

Project details	A 26-unit apartment building that is part of a larger portfolio. It is built on a land lease (60 years; 75 %) held by the provincial housing corporation.
Client type and RGI mix	The project serves a mixed clientele with two floors for families, one unit wheelchair-accessible; one floor for "group home" apartments with a caregiver's suite; and one floor for seniors. All units are 100% RGI.
Any special circumstances?	The project has undergone a Phase 3 Rain Screen study. Remediation work is scheduled for 2009 at an estimated cost of over $33,000/unit. The project's property tax assessment has been reduced.
Key market characteristics	The apartment is in an urban area adjacent to older residential homes. The region has a tight rental market with low vacancies and strong market rents
Is project viable at expiry?	The project is not viable at expiry in 2028. The current NOI is $250/unit, but it declines to a $562 loss at the end of the operating agreement as the RGI rent growth trails operating cost increases. (RGI 1%; costs 2%).





Current Capital Reserve Balance: $6,112/ unit **Annual Reserve Allocation:** $324/unit

Current building condition	To date, there have been no additional costs as a result of the project's rain screen issues. The project is in otherwise good condition.
Commentary on adequacy of replacement reserve	The current reserve balance is a fairly healthy $6,112/unit. However, with the low annual allocation of $324/unit, the average amount available is only $590/unit, below the estimated target of $750. At 12 years of age, the building will soon need to make more capital replacement expenditures.
Overall commentary	This project has a very low average RGI rent at $286/month. The designed uses and mixed markets served by this project, such as group homes, will impose limits that reduce alternatives. The annual reserve allocation needs to be increased to accommodate a higher usage rate over the next 20 years to minimize post-expiry financial impacts. The project will continue to need some additional financial assistance from subsidy sources to maintain its operations.

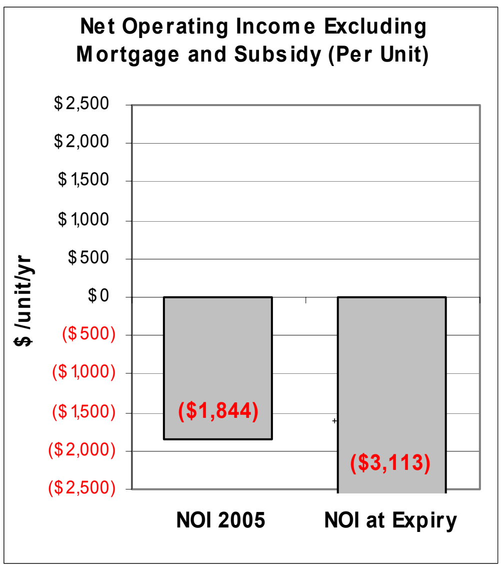
Vancouver Urban Native Portfolio

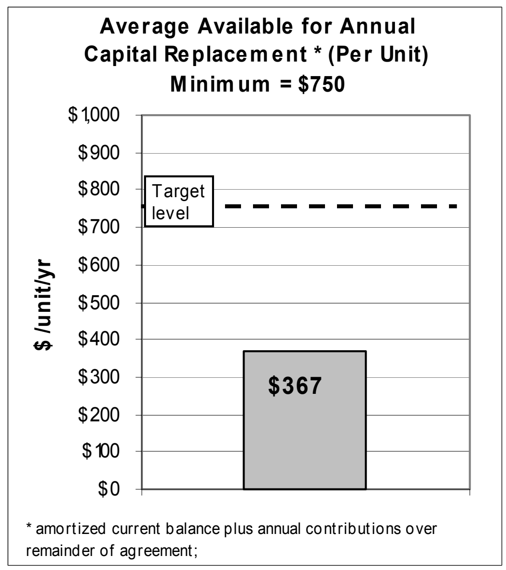
Individual Cases

Case #: BC 13 **Expiry year**: 2019 **Program:** Pre-1986 Section 95 (2%) Urban Native

Current Annual Mortgage pmt: $213,342 **Current annual subsidy:** $294,265

Project details	Part of a larger portfolio, the project has 14 apartments and 22 townhomes.
Client type and RGI mix	Family households. All units are RGI, accounting for 93% of revenues.
Any special circumstances?	The project receives two separate subsidies; a section 95 2% mortgage write down for $86,257 and a UNAA (Urban Native Additional Assistance) subsidy of $208,008. Over the last eight years M & I funds have been used to carry out required capital improvement works on the property.
Key market characteristics	Located in the northeastern part of Vancouver. The Vancouver market is tight, with vacancies of less than 1% in all areas. The northeast area is one of the most affordable in Vancouver, with average rents of over $875 and $1,000 for two- and three-bedroom apartments.
Is project viable at expiry?	The project is not viable at expiry. The current NOI is negative (–$1,844/ unit), and with lagging RGI rents, at expiry in 2019 the deficit will grow to –$3,113/unit.





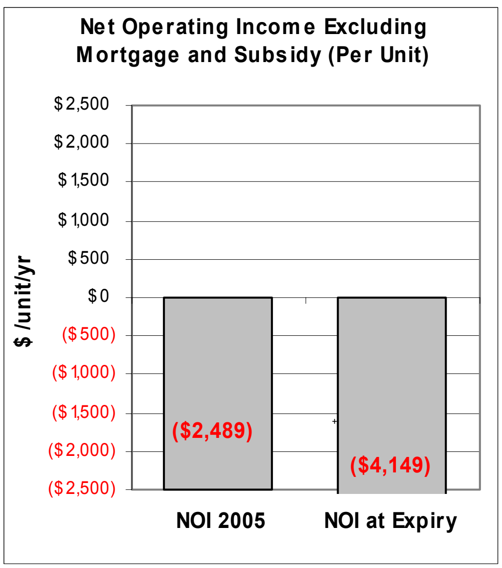
Current Capital Reserve Balance: ($573)/unit **Annual Reserve Allocation:** $408 /unit

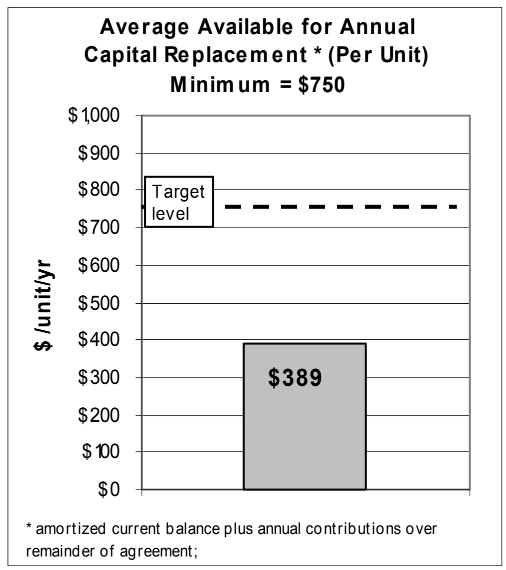
Current building condition	In good condition and well maintained. M&I funding covered for major capital upgrade projects; re-roofing, fencing and grounds, exterior siding (envelope) and windows and most recently, re-piping.
Commentary on adequacy of replacement reserve	The current reserve fund is running a deficit of $573/ unit. With the deficit, the annual contribution of $408/unit only provides an average of $367/unit until expiry, well below the recommended $750 and inadequate for the property's ongoing needs, despite the earlier M&I projects.
Overall commentary	The reserve fund deficit severely hampers the operation of the property. An active maintenance program can keep it in good condition, but delays in replacements typically add to a property's overall operating and maintenance costs. Unlikely to be viable at expiry without significant adjustments and will therefore need renewed assistance.

Case #: BC 14 **Expiry year**: 2020 **Program:** Pre-1986 Section 95 (2%) Urban Native

Current Annual Mortgage pmt: $141,528 **Current annual subsidy:** $202,088

Project details	Part of a portfolio, the project has 12 apartments and 13 townhomes.
Client type and RGI mix	Family housing with 100% RGI rents, accounting for 92% of revenues.
Any special circumstances?	The project receives two separate subsidies. A section 95 - 2% mortgage write down of $54,583 and a UNAA of $147,505. Since 1997 there have been a number of M&I projects approved for larger capital replacement upgrades to the property.
Key market characteristics	Located in the northeastern part of Vancouver While this is one of the lower-rent areas, current average rents are over $875 and $1,000 for two-and three-bedroom apartments. Vacancies are less than 1%.
Is project viable at expiry?	The project will not be viable at expiry. The current NOI is –$2,489/unit and this will worsen as RGI rents lag rising costs





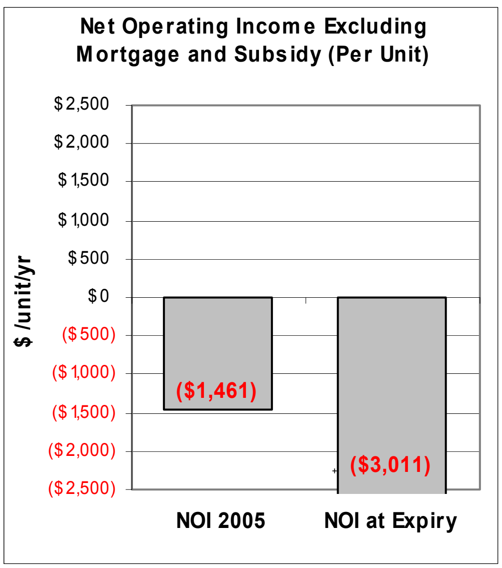
Current Capital Reserve Balance: ($642/ unit) **Annual Reserve Allocation:** $432/unit

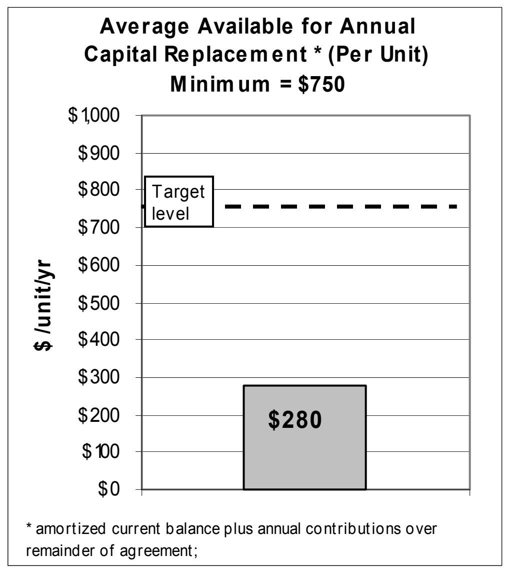
Current building condition	The building is in good condition. There have been M&I projects to re-roof and upgrade balconies, etc. In 2005, a major M&I project upgraded the windows and building envelope to meet current rain screen standards.
Commentary on adequacy of replacement reserve	The reserve fund is inadequate, with a current deficit of $642/unit. With its annual per-unit contribution of $432, the project will only have $389/unit available for capital replacements over each of the next 15 years, well below the suggested minimum of $750.
Overall commentary	The negative capital reserve position will have a serious detrimental impact on the operation of the property and will increase its long-term operating and maintenance costs. A significant increase in annual reserve allocations is needed, although this would require increased subsidy. Without post-expiry subsidies, this project would have to shift about 40% of its units to LEM rents.

Case #: BC 15 **Expiry year**: 2021 **Program:** Pre-1986 Section 95 (2%) Urban Native

Current Annual Mortgage pmt: $137,638 **Current annual subsidy** $221,787

Project details	This is a 27-unit apartment project that is part of a larger portfolio.
Client type and RGI mix	Family housing with 100% RGI rents, accounting for 94% of revenues.
Any special circumstances?	The project receives two separate subsidies, a section 95 – 2% mortgage write down of $47, 836 and a UNAA subsidy of $173,951. Since 1998 the property has received several approvals for M&I funding to carry out larger capital replacement/upgrade projects.
Key market characteristics	Located in the northeastern part of Vancouver While this is one of the lower-rent areas, current average rents are over $875 and $1,000 for two-and three-bedroom apartments. Vacancies are less than 1%.
Is project viable at expiry?	The project will not be viable at the end of the operating agreement. The current annual subsidy amount is 60% higher than the mortgage payment, creating a– $1,461/unit which slides further by expiry.





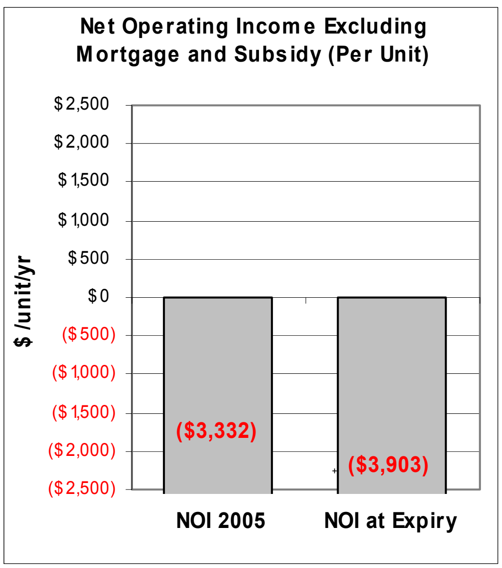
Current Capital Reserve Balance: ($496)/ unit **Annual Reserve Allocation:** $311/unit

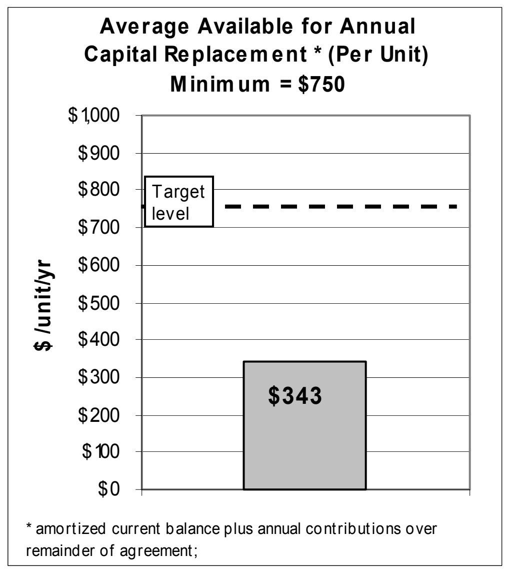
Current building condition	The building is in good condition. M&I funding has been utilized to re-roof, fence and upgrade the site, etc. A major project in 2000 upgraded the building exterior (envelope/siding) balconies and windows. Currently an M&I re-piping project for the building has been approved.
Commentary on adequacy of replacement reserve	The reserve fund is inadequate with a current negative balance of $496/unit. With annual allocations of just $311/unit, the project will only have an average of $280/unit available annually for capital replacements.
Overall commentary	The annual allocation to capital reserves needs a substantial increase. This project is not viable without subsidy and while a shift to a mix of market and RGI units could address financial viability, implementing such a mix will be challenging.

Case #: BC 16 **Expiry year**: 2021 **Program:** Pre-1986 Section 95 (2%) Urban Native

Current Annual Mortgage pmt: $147,992 **Current annual subsidy** $241,215

Project details	Part of a larger portfolio, the project has 13 apartments and 16 townhomes.
Client type and RGI mix	Family housing with 100% RGI rentals, accounting for 94% of revenues.
Any special circumstances?	The project receives both a section 95, 2% mortgage write down of $45,084 and a UNAA subsidy of $196,131. Since 1996 the property has received a number of M&I budget allocations for larger capital replacement projects and major repairs.
Key market characteristics	Located in the northeastern area of Vancouver, the project is in one of the cities most affordable rental markets, with rents for two-and three-bedroom apartments at just over $875 and $1,000 respectively. Vacancies are low at less than 1% and rent increases have been keeping pace with inflation.
Is project viable at expiry?	The project will not be viable when the operating agreement expires in 2021. The current NOI is –$3,332/unit, increasing further at expiry due to RGI revenues lagging behind operating costs projected at 2%.





Current Capital Reserve Balance: ($467/unit) **Annual Reserve Allocation:** $372/unit

Current building condition	The building is in good condition. M&I funding has been used for site upgrades, balcony repairs, re-roofing and major repairs.
Commentary on adequacy of replacement reserve	The reserve fund is inadequate. The average amount available for capital replacements at $343/unit is lower than the annual allocation of $372 because of the reserve fund's current negative balance. The available funds are well below the suggested minimum of $750/unit.
Overall commentary	If the capital replacement issue is not addressed, the projected NOI ($3,903) at expiry will potentially be much higher and the property will likely require a significant investment for overdue upgrades and refurbishment. New subsidy beyond expiry will be required to continue service to very low-income urban Aboriginal households.

Case #: BC 17 **Expiry year**: 2021 **Program:** Section 95 Urban Native

Current Annual Mortgage pmt $139,039 **Current annual subsidy** $213,832

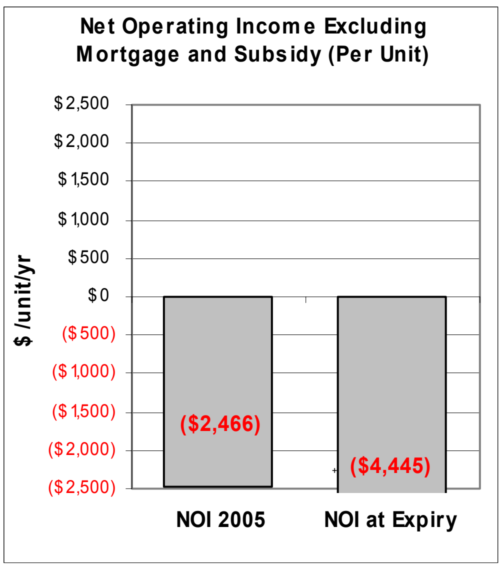
Project details A 27-unit apartment project that is part of a larger portfolio.

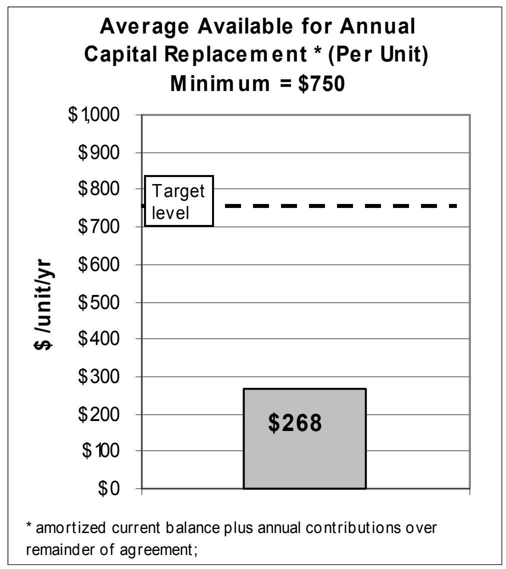
Client type and RGI mix A family housing project with 100% of the units receiving RGI assistance, and accounting for 93% of the revenue.

Any special circumstances? Since 1996 the property has received several M&I allocations for larger capital upgrades and repairs.

Key market characteristics The northeastern section of Vancouver is one of the most affordable in the city, with market rents of just over $875 and $1,000 for two- and three-bedroom apartment units. The market is tight, with vacancy rates under 1% and market rent increases keeping pace with inflation.

Is project viable at expiry? The property is not viable at expiry. The current NOI is –$2,466/unit. With the RGI rents projected to increase by 1%/year and operating costs by 2%, the NOI at expiry increases by over 80% to a negative cash flow of $4,445/unit.





Capital Reserve Balance: ($1,424/unit) **Annual Reserve Allocation:** $357/unit

Current building condition The building is currently in good condition. M&I funding has been used for exterior upgrades, balconies and in 2003, to re-pipe the building after less than 20 years

Commentary on adequacy of replacement reserve The annual replacement reserve allocation is inadequate at $357/unit The fund has a current deficit of over $1,400/unit. The average annual amount available over the remaining 16 years is just $268/unit or only about one-third of the suggested minimum amount for capital replacements

Overall commentary Even with additional funding to eliminate the current reserve fund deficit, this project would still need a large adjustment to its annual allocations to the reserve fund. The property is 20 years old and will need to replenish its capital fund if it is to cope with the next phase of capital replacements, which will begin over the next few years and prior to expiry. The project has large negative NOI at expiry.

Case #: BC 18 **Expiry year**: 2022 **Program:** Section 95 Urban Native

Current Annual Mortgage pmt: $78,592 **Current annual subsidy:** $141,341

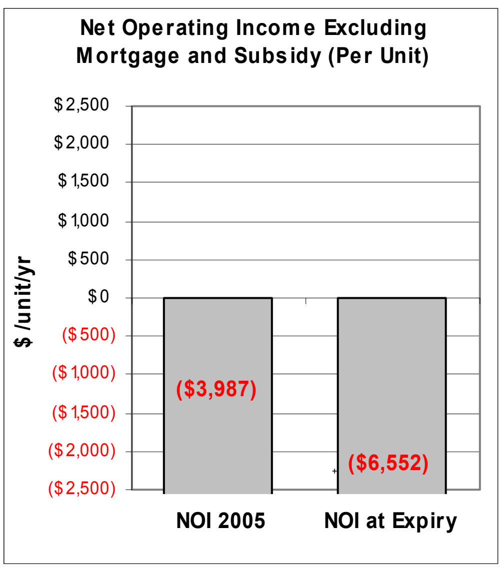
Project details An 18-unit apartment building that is part of a larger portfolio.

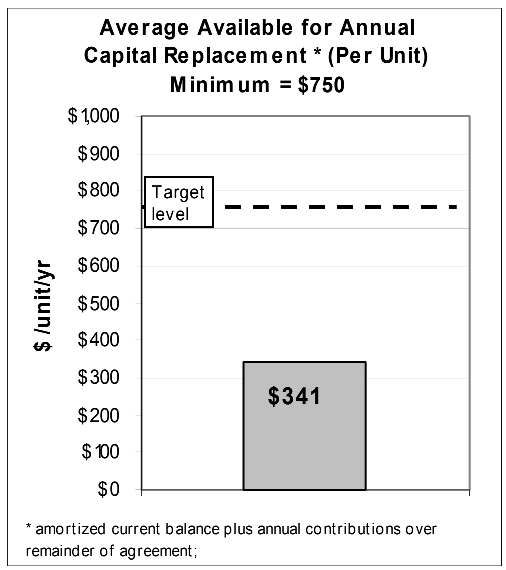
Client type and RGI mix A family housing project with 100% of the units receiving RGI assistance, accounting for 92% of revenues.

Any special circumstances? Since 1998 the property has received several M&I budgets for major capital upgrades and repairs.

Key market characteristics Vacancies are low at less than 1% and market rents have increased at the rate of inflation over the last few years. Although the northeast area of Vancouver is one of the most affordable rental areas in the city, rents for two- and three-bedrooms are over $875 and $1,000 respectively.

Is project viable at expiry? This project is not viable at expiry. The current NOI of –$3,987/unit is projected to slide by a further 64% to –$6,552 at expiry, with RGI rental increases of 1% a year and operating cost increases of 2% a year.





Current Capital Reserve Balance: $233 /unit **Annual Reserve Allocation:** $328/unit

Current building condition The building is in good condition. M&I funds have been used for site upgrading, re-roofing and a major project on the exterior building envelope, windows and balconies.

Commentary on adequacy of replacement reserve The annual reserve allocation of $328/unit is inadequate. When combined with the current reserve balance, there is only $341/unit available for capital work over each of the 17 years until expiry. This is less than half of the suggested minimum of $750/unit annually.

Overall commentary The reserve fund is virtually non-existent, with a current balance of only $233/unit. To achieve the suggested minimum of $750/unit annually in capital replacements, the reserve allocation needs to be increased by another $400/unit. Low revenue from 100% RGI tenants results in a significant deficit at expiry.

Case #: BC 19 **Expiry year**: 2023 **Program:** Post-1985 Section 95 Urban Native

Current Annual Mortgage pmt: $176,255 **Current annual subsidy** $289,971

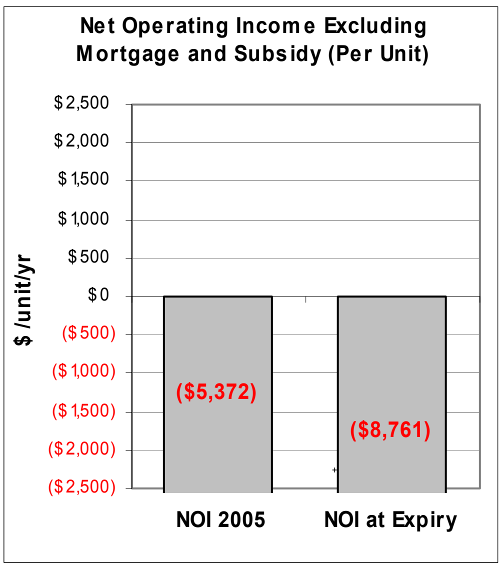
Project details Part of a larger portfolio, the project has 27 apartments and nine townhomes.

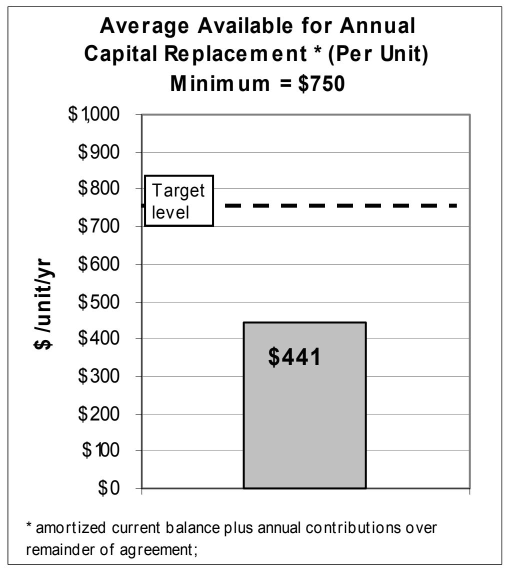
Client type and RGI mix Family housing with 100% RGI rents accounting for 93% of revenues.

Any special circumstances? Over the last five years, the project has received two M&I budgets for major site upgrades and repairs.

Key market characteristics Same as previous

Is project viable at expiry? At expiry the project will not be viable. The current NOI loss of $5,372/unit is equivalent to $450/month. This is projected to increase by over 60% by expiry to a loss of about $730/month for every unit.





Current Capital Reserve Balance: $1,222/unit **Annual Reserve Allocation:** $374/unit

Current building condition The building is in good condition. M&I budgets have been used to carry out larger exterior site upgrading projects.

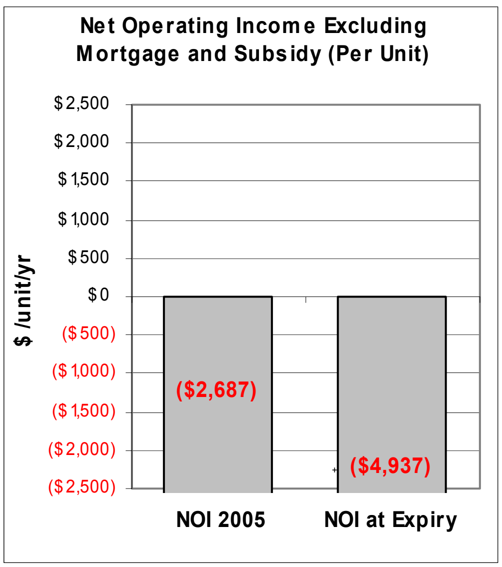
Commentary on adequacy of replacement reserve The reserve program is not adequate. The annual allocations combined with the current reserve balance will provide an average of $441/unit over the next 18 years for annual capital replacements; an amount that is several hundred dollars below the suggested $750/unit.

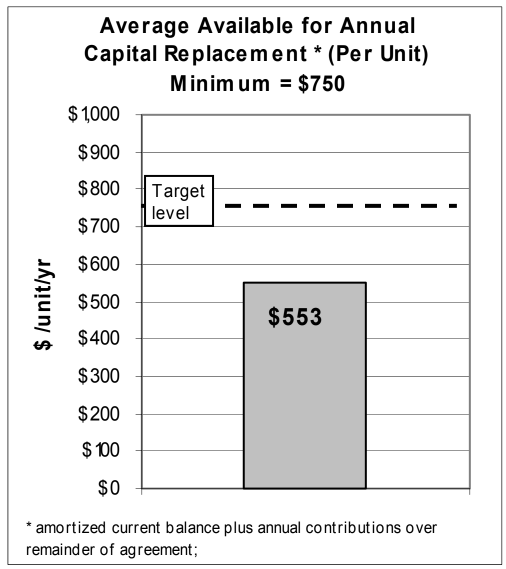
Overall commentary The project will have a substantial operating deficit at expiry as well as significantly under-funded reserves. Opportunities to remedy this situation without further assistance are seriously constrained.

Case #: BC 20 **Expiry year**: 2023 **Program:** Post-1986 Section 95 Urban Native

Current Annual Mortgage pmt: $139,833 **Current annual subsidy:** $218,571

Project details	Part of a larger portfolio, the project has 22 apartments and nine townhomes.
Client type and RGI mix	Family housing with 100% RGI rents, accounting for 95% of revenues.
Any special circumstances?	In 2005 a large M&I budget was obtained to carry out major building improvements, including; re-roofing, balconies, windows and the building exterior, upgrading it to current rain screen standards.
Key market characteristics	The project is located in the northeast part of Vancouver. Vacancies are under 1% and annual market rent increases keep pace with inflation.
Is project viable at expiry?	The project will not be viable at expiry. The current NOI of ($2,687/unit) increases by 80% to ($4,937/unit) over the 18 years to expiry. (RGI rents projected at 1%; all costs at 2%.)





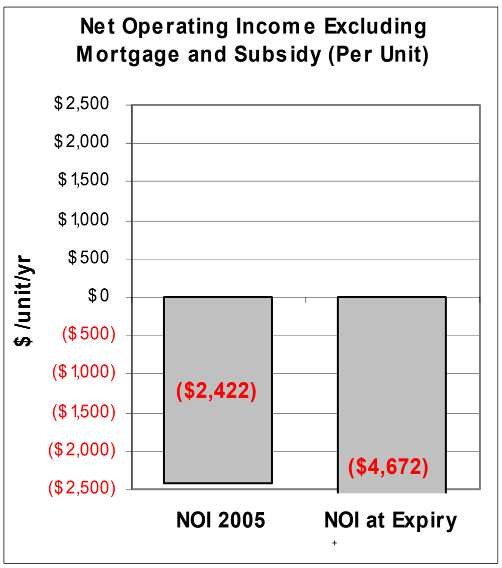
Current Capital Reserve Balance: $3,086/ unit **Annual Reserve Allocation:** $382/unit

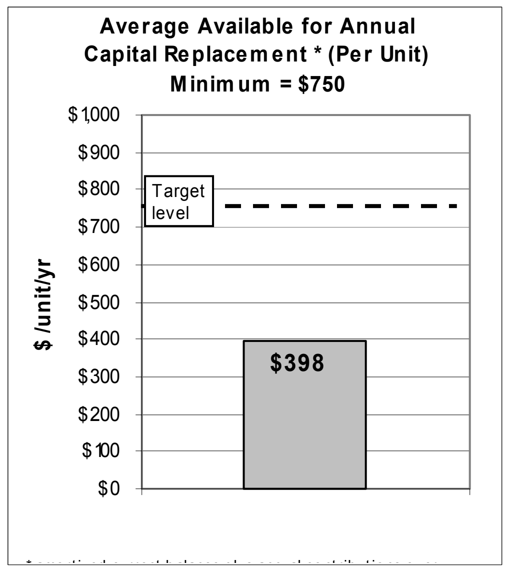
Current building condition	The building is in good condition. The exterior has just had a major M&I upgrade. Another major M&I plumbing upgrade to re-pipe the building is just being started.
Commentary on adequacy of replacement reserve	The current reserve balance combined with the annual allocations over the next 18 years will generate an annual average of $553/unit for capital replacements. This is only two-thirds of the suggested minimum of $750. This is not adequate to meet the project's needs.
Overall commentary	The annual reserve allocation needs to be increased by $200/unit to reach the recommended minimum benchmark of $750/unit for annual capital replacement costs. While an active maintenance program keeps the property in good condition, an adequate capital replacement fund will help control those costs, protect the property's future condition and reduce the need for extensive upgrades at expiry.

Case #: BC 21 **Expiry year**: 2024 **Program:** Section 95 Post-1985 Urban Native

Current Annual Mortgage pmt: $251,514 **Current annual subsidy:** $376,221

Project details	A 42-unit apartment building that is part of a larger portfolio.
Client type and RGI mix	Family housing with 100% RGI rents, accounting for 91% of revenues.
Any special circumstances?	Since 2000, several M&I budgets have been obtained to carry out larger project upgrades.
Key market characteristics	Same as previous
Is project viable at expiry?	The project is not viable at expiry. Its current NOI of ($2,422/unit) grows by 93% to ($4,672/unit) over the next 19 years to expiry. (RGI rents are projected at 1%; all costs at 2%.)





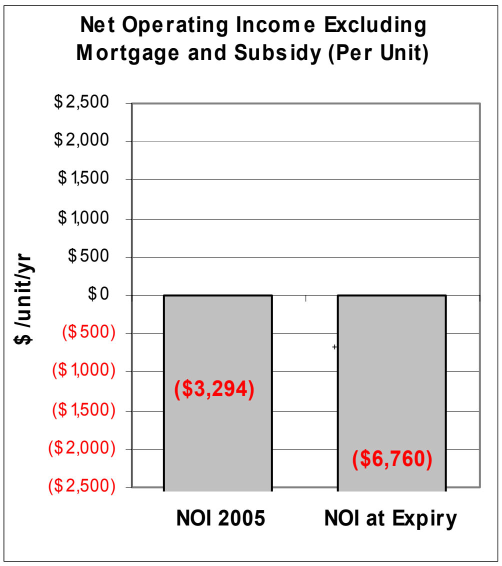
Current Capital Reserve Balance: $323/unit **Annual Reserve Allocation:** $381/unit

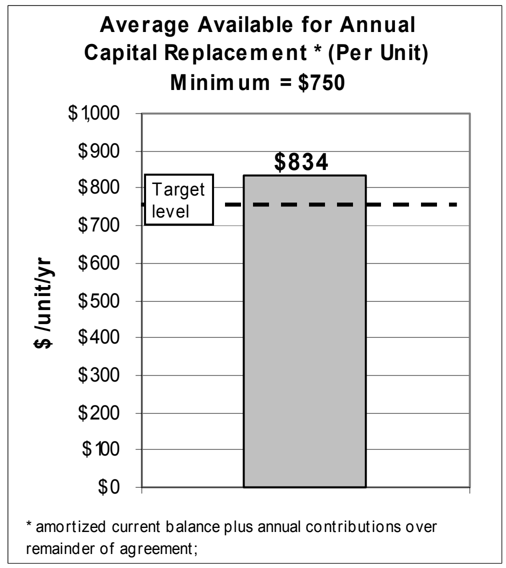
Current building condition	The building is in good condition. M&I funding has been used over the last five years to carry out some needed site work, to repair balconies and to re-roof.
Commentary on adequacy of replacement reserve	The current reserve balance combined with the annual allocations over the next 19 years will generate an average of just $398/unit each year for capital replacements. This is well below the recommended minimum of $750 for a project's capital replacement needs.
Overall commentary	If post-expiry subsidies are not provided, deferred costs or the need for capital upgrades will severely limit the project's options and value.

Case #: BC 22 **Expiry year**: 2030 **Program:** Section 95 Post-1985 Urban Native

Current Annual Mortgage pmt: $275,851 **Current annual subsidy:** $530,649

Project details	A 40-unit apartment building that is part of a larger portfolio.
Client type and RGI mix	Family housing with 100% RGI rents, accounting for 94% of revenues.
Any special circumstances?	The property has received a M&I budget for a unit reconstruction project.
Key market characteristics	Same as previous
Is project viable at expiry?	Not viable at expiry. The current NOI is –$3,294/unit. With the RGI rents projected to increase by 1%/year and operating costs by 2%, the NOI at expiry increases by over 100% to a negative cash flow of $6,760/unit.





Current Capital Reserve Balance: $4,073/unit **Annual Reserve Allocation:** $671/unit

Current building condition

The building is in good condition, with an active maintenance program.

Commentary on adequacy of replacement reserve

The current reserve balance combined with the annual allocations over the next 25 years will generate an average of $834/unit each year for capital replacements. This is just above the recommended minimum of $750 for a capital replacement needs. With 25 years remaining, the reserve may not be adequate to handle a major capital requirement such as re-piping, which is not an uncommon problem in Vancouver apartment properties.

Overall commentary

This project's replacement reserve fund should be able to meet its basic capital replacement needs. Although this project is newer, it shares some of the same traits as the other projects in the portfolio. As relatively small apartment buildings providing family housing, they will carry higher per-unit average common area and operating costs as a result of a higher on-site level of supervision and management.

Case #: BC 23 **Expiry year**: 2022 **Program:** Post-1985 Non-Profit

Current Annual Mortgage pmt: $85,716 **Current annual subsidy:** $139,405

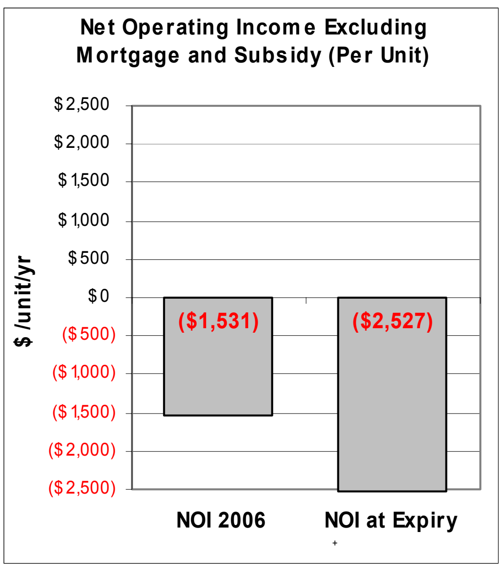
Project details A 35-unit apartment building, all one-bedrooms; part of a larger portfolio.

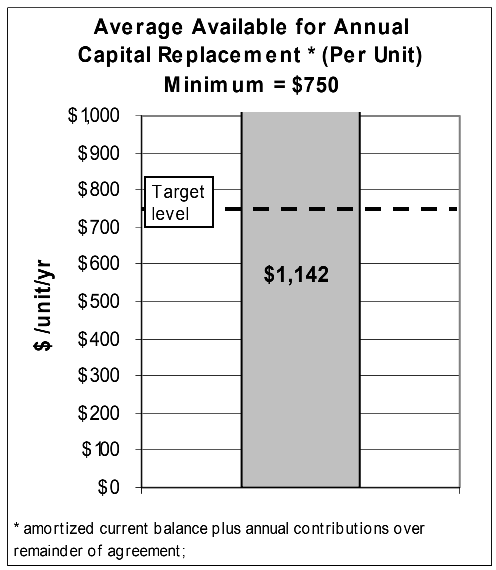
Client type and RGI mix Senior households. All units are RGI, accounting for 96% of revenues. The current RGI rentals average $290/month.

Any special circumstances? The project is built on leased land. Operating costs include an annual lease payment of $25,800. The building has received extra M&I funds for essential rain screen building envelope upgrades.

Key market characteristics The project is located in the northeastern part of Vancouver. The market is tight, with vacancies of less than 1% in all areas. The average market rent for one-bedroom apartments in the area is $670.

Is project viable at expiry? The project is not viable at expiry with 100% RGI rentals. The current NOI is –$1,531/unit. With RGI projected at 1% growth and operating cost at 2%, the NOI increases to a cash flow loss of $2,527/unit at expiry.





Current Capital Reserve Balance: $885/unit **Annual Reserve Allocation:** $1,090

Current building condition The building is in good condition. Extensive work has been carried out over the last five years, including re-roofing, window and balcony repairs, building envelope and some grounds and site work.

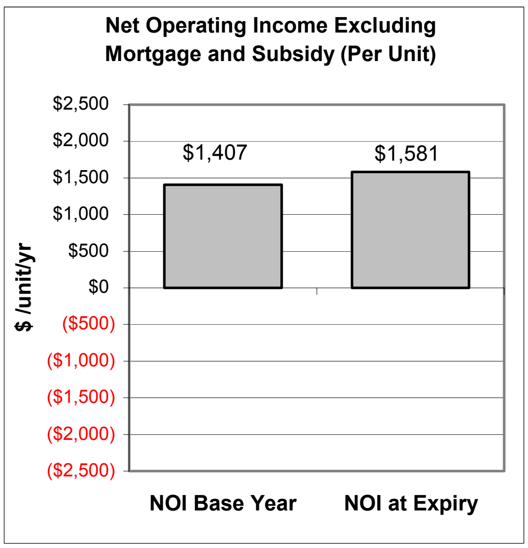
Commentary on adequacy of replacement reserve The annual allocation was just increased to $1,090/unit as the reserve fund was depleted. The current balance is $885/unit. BC Housing increased the subsidy allocation to support the replenishment of the capital fund. If the new reserve contribution remains in place until expiry, the average amount available annually per unit will be $1,142; well above the suggested minimum of $750 /unit.

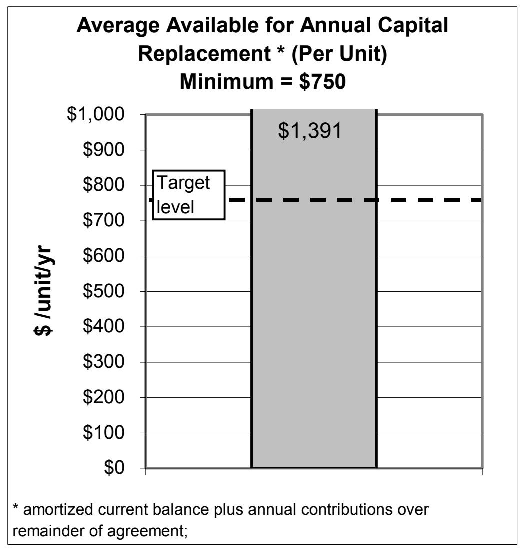
Overall commentary The projected operating loss for this building at expiry amounts to about $210/month for each housing unit. Serving a low-income seniors housing market, this building will not be able to operate without an ongoing subsidy or rent supplement. With the recent change in the annual reserve allocation, the fund should meet the building's capital replacement needs.

Nepean Non-Profit Portfolio

Individual Cases

Case #: Ont 9a	**Expiry year**: 2023	**Program:** Post-1985 Section 95 NON-PROFIT
Current Annual Mortgage pmt: $54,590		**Current annual subsidy:** $54,745
Project details	Part of a portfolio; townhouses, new construction	
Client type and RGI mix	Families, 57 % of units are RGI; accounting for 30 % of revenue.	
Any special circumstances?	None	
Key market characteristics	Large urban, Eastern Ontario, low vacancy rates but rising somewhat, some competition from ownership market, slow increase in rents.	
Is project viable at expiry?	Current NOI and NOI at expiry expected to be positive	

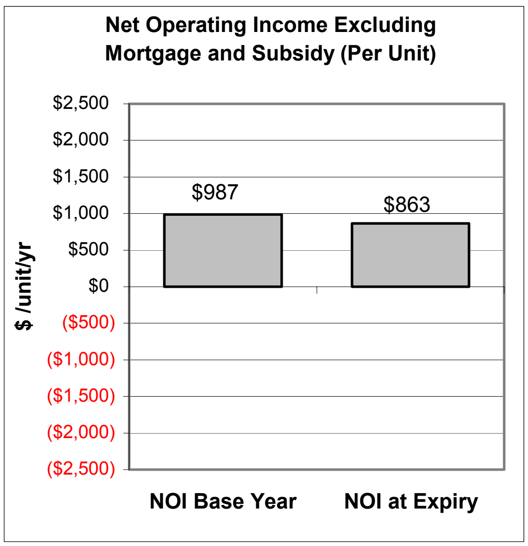


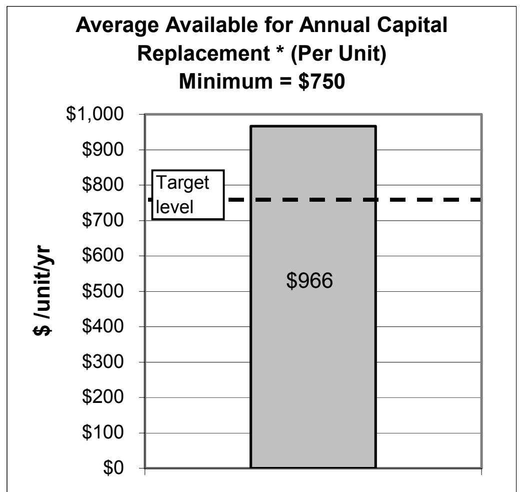


Current Capital Reserve Balance: $13,215/unit	**Annual Reserve Allocation:** $613/unit
Current building condition	Satisfactory
Commentary on adequacy of replacement reserve	Building is of an age where capital replacements have begun to be significant. Funds available are above the suggested $750 minimum, mainly due to a solid current reserve, but the annual contribution of $613 is lower than the ($1,200) recommended by SHSC.
Overall commentary	The project generates a healthy NOI at expiry and accordingly is viable. May have to increase allocation to capital reserves. Updating the Building Condition Assessment (BCA) and reserve allocation plan will help determine if such allocation is necessary.

Case #: Ont 9b	Expiry year: 2024	Program: Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $413,823	**Current annual subsidy:** $315,147
Project details	Part of portfolio; townhouses, new construction
Client type and RGI mix	67% of units are RGI, accounting for 40 % of revenue.
Any special circumstances?	None
Key market characteristics	Large urban, Eastern Ontario, low vacancy rates but rising somewhat, some competition from ownership market, slow increase in rents.
Is project viable at expiry?	Current NOI is positive; NOI at expiry is also expected to be positive. Reduction in NOI probably due to high percentage of RGI units.





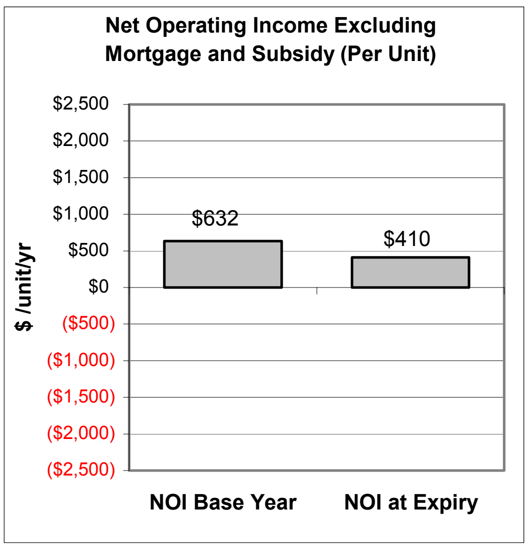
* amortized current balance plus annual contributions over remainder of agreement;

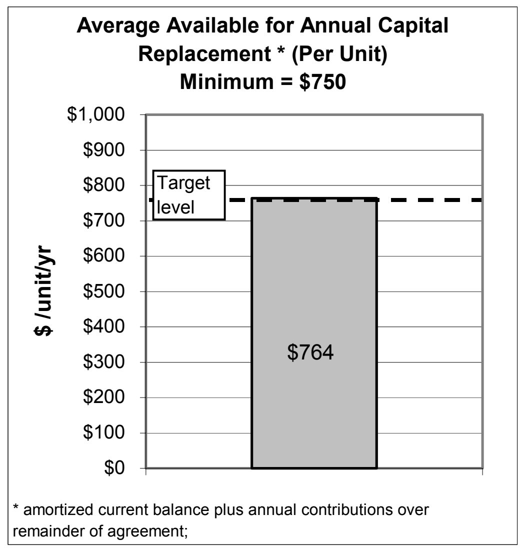
Capital Reserve Balance: $7,230/unit	**Annual Reserve Allocation:** $586/unit
Current building condition	Satisfactory
Commentary on adequacy of replacement reserve	Building is of an age that capital replacements have begun to be significant. Funds available suggest that reserves and current allocation may be appropriate, although allocation is below the separate minimum suggested by the recent SHSC study ($1,200/unit).
Overall commentary	Apparently viable, since NOI both at present and at expiry are positive. May have to increase allocation to capital reserves. Updating the BCA and reserve allocation plan will help determine if such allocation is necessary.

Case #: Ont 9c	**Expiry year**: 2024	**Program:** Provincial Non-Profit

Current Annual Mortgage pmt: $381,803	**Current annual subsidy:** $343,252

Project details	Part of portfolio; apartments and townhouses, new construction
Client type and RGI mix	62% of units are RGI, accounting for 33 % of revenue
Any special circumstances?	None
Key market characteristics	Large urban, Eastern Ontario, low vacancy rates but rising somewhat, some competition from ownership market, slow increase in rents.
Is project viable at expiry?	Current NOI is positive, NOI at expiry also expected to be positive. Reduction in NOI is probably due to high percentage of RGI units.



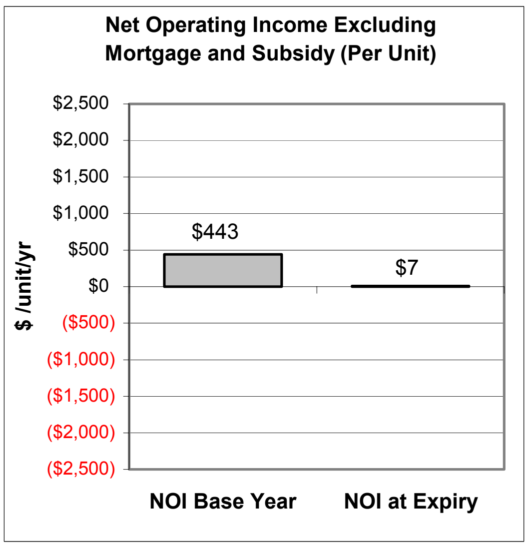


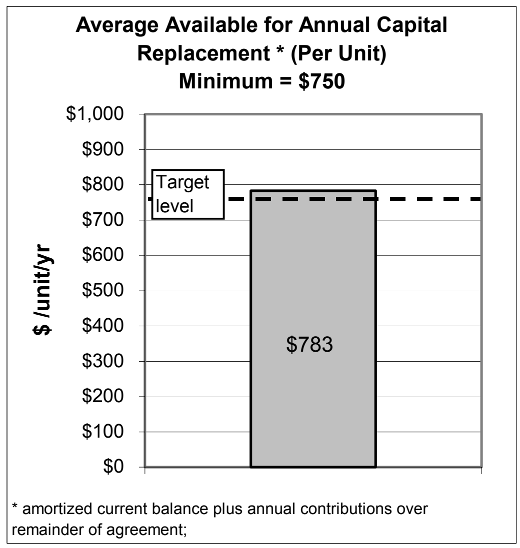
Current Capital Reserve Balance: $5,045/unit	**Annual Reserve Allocation:** $498/unit

Current building condition	Satisfactory
Commentary on adequacy of replacement reserve	Building is of an age that capital replacements have begun to be significant. Funds available are at the recommended level for this discussion, but annual contribution is lower than recommended by SHSC.
Overall commentary	Apparently viable, since NOIs both at present and at expiry are positive. May have to increase allocation to capital reserves. Updating the BCA and reserve allocation plan will help determine if such allocation is necessary.

Case #: Ont 9d	**Expiry year**: 2028	**Program:** Provincial Non-Profit

Current Annual Mortgage pmt: $856,512	**Current annual subsidy:** $803,375
Project details	Part of portfolio; apartments and townhouses, new construction
Client type and RGI mix	69% of units are RGI, accounting for 39% of revenue
Any special circumstances?	None
Key market characteristics	Large urban, Eastern Ontario, low vacancy rates but rising somewhat, some competition from ownership market, slow increase in rents.
Is project viable at expiry?	Current NOI is positive; NOI at expiry is also expected to be positive. Reduction in NOI is probably due to high percentage of RGI units.

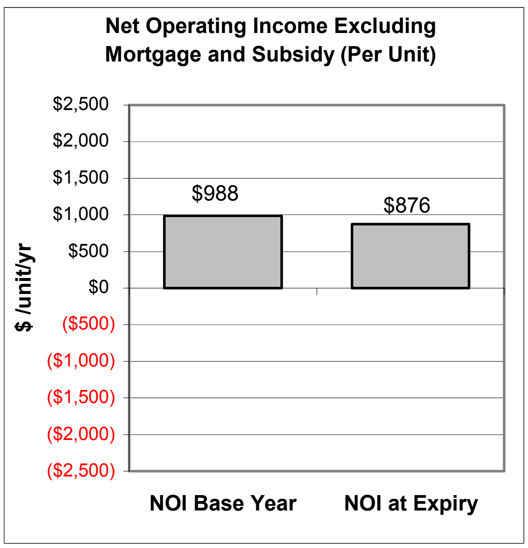


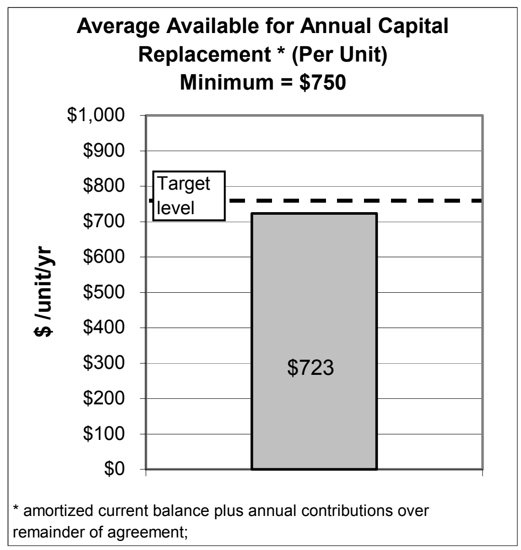


Current Capital Reserve Balance: $5,943/unit	**Annual Reserve Allocation:** $524/unit
Current building condition	Satisfactory
Commentary on adequacy of replacement reserve	Still relatively new, just beginning its first round of major spending on capital reserves. Funds available are just at the benchmark for this discussion, but annual contribution is lower than recommended by SHSC.
Overall commentary	NOI at present is positive, but at expiry is only slightly over zero. This is due to the high proportion of RGI units and aging rents. Without some adjustment, the project runs the risk of being unviable at expiry. Updating the BCA and reserve allocation plan will help determine whether a larger reserve allocation is necessary. Will probably need cross-subsidy from other properties in the portfolio if any additional funds need to be transferred from operating to capital or if refinancing upon expiry is needed to do major capital upgrades.

Case #: Ont 9e	Expiry year: 2028	Program: Post-1985 Section 95 Non-Profit

Current Annual Mortgage pmt: $309,399	**Current annual subsidy:** $250,099
Project details	Part of a portfolio; townhouses, new construction
Client type and RGI mix	Families, 65% of units are RGI, accounting for 37% of revenue.
Any special circumstances?	None
Key market characteristics	Large urban, Eastern Ontario, low vacancy rates but rising somewhat, some competition from ownership market, slow increase in rents.
Is project viable at expiry?	Current NOI and NOI at expiry expected to be positive





Current Capital Reserve Balance: $2,493/unit	**Annual Reserve Allocation:** $615/unit
Current building condition	Satisfactory
Commentary on adequacy of replacement reserve	Still relatively new, just beginning its first round of major spending on capital reserves. Funds available are just below the $750 benchmark but annual contribution is considerably lower than recommended by SHSC.
Overall commentary	Project is viable at expiry, although NOI is on a declining trend, based on the projection used here (RGI rents lagging inflation). RGI mix and revenues should be monitored to ensure a positive revenue trajectory relative to operating costs. May have to increase allocation to capital reserves. Updating the BCA and reserve allocation plan will help determine if such allocation is necessary.