Innovative Uses of Co-operative Housing Assets

A BALTA Research Project

by

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Introduction

Between 1969 and 1993, approximately 82,000 affordable housing units were created across Canada through federal and provincial support of housing cooperatives[1]. Today, this generation of housing cooperatives is beginning to pay off their mortgages—meaning that each cooperative will own its valuable property outright. At the same time, due to an unprecedented boom in the value of real estate, Canadian cities are experiencing an acute housing affordability crisis, and there are no new government programs on the horizon to provide capital for new affordable cooperative housing development.

Affordable housing has become a critical component of the social economy across Canada due to escalating housing prices and diminished supply. This is particularly so in Alberta, where the influx of labour, cheap mortgages and a buoyant oil-based economy have created housing shortages due to a demand/supply crunch. Housing prices soared in 2006, although have subsequently stabilized. Apartment rentals also have experienced shortages and high rental costs. These scenarios are also the case in large urban centres such as Vancouver and Victoria, which historically have experienced cyclical housing booms. Despite the particularity of these examples and their temporal specificity, the housing crisis has now become pandemic - across all geographic regions and without much relief.

High land and construction costs and the end of the federal co-op housing program (1992) have all impacted the co-op sector's ability to respond to the crisis in affordable housing. Federal programs, administered through CMHC, provided capital support at the onset of some co-op housing projects plus differing levels of support for housing charge ("rent") subsidy on an ongoing basis through the duration of the Operating Agreement between the co-op and CMHC. This subsidy, in addition to lower construction and land costs from the outset of the project and some operational cost savings, allows co-ops to provide housing at below market rates, some considerably lower. Although some savings can still be realized through reduced operating costs for new projects, without the government subsidy support, new co-op development cannot provide deep offsets in costs enjoyed by co-op housing from 1977-1992.

The original objective of this study was to investigate the potential for leveraging (or re-mortgaging) these fully amortized (and highly valuable) housing cooperative assets to provide capital for the creation of new cooperative housing, strengthening the existing sector,and/or other social economy purposes.[2] Most housing co-ops have a land base or building assets worth millions of dollars. Once the mortgage has been paid off, co-ops will have the latitude to apply what would have formerly been mortgage expenditure to discretionary items and projects. Potential exists for co-ops, either individually or through national or regional pooling, to use

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[1] http://www.chfcanada.coop/eng/pages2007/about_1_4.asp

[2] Our thanks to John Restakis, Bob McKeon and Jenny Kain for their invaluable input at the formative stages of this project.

these funds to augment the affordable housing stock or to fund a social enterprise as an offshoot of the co-operative housing project.

Upon investigation, however, we found that there are significant barriers to developing new affordable cooperative housing via re-mortgaging fully-amortized assets. In discussions with cooperative housing sector experts, it became evident that the main barrier to building new affordable cooperative housing is not *access* to financing, but the actual *costs* of building new housing. Specifically, even if re-mortgaging fully amortized housing cooperative assets would make a certain amount of money available to lend at market interest rates, this would do nothing to decrease the costs of land, labour and building materials, the main cost drivers of new housing construction. Therefore, the newly constructed housing would be very expensive to build and, without significant subsidy, the resulting housing charges would be unaffordable.

Additionally, co-ops will face other challenges: the end of their mortgage also spells the end of their operating agreement with Canada Mortgage and Housing Corporation (which has served as a sort of housing co-op "constitution" thus far) and the end of the associated government subsidy for low-income members. Many co-ops are also dealing with deferred maintenance issues, and/or required repairs related to the leaky co-op crisis in BC. As a result of these factors, re-mortgaging may be necessary for subsidy and/or maintenance purposes, leaving little or no room for additional leveraging.

While re-mortgaging assets may not be a panacea for the affordable housing crisis, these and other assets might be utilized in new ways to sustain or enhance the affordability of existing co-op housing or to address some of the main cost drivers of new co-op housing construction:

- Redirect, upon the retirement of the mortgage, that portion of the monthly member housing charge that goes toward paying down the mortgage, to fund a subsidy pool and/or maintenance needs would maintain the affordability of the co-op as no new moneys would have to be found for these purposes, while strengthening the co-op for the future.

- Fill in or replace low-density housing with high-density housing that leverages land that is already owned by a housing cooperative.

- Transition single members to new smaller units customized to meet their needs (e.g., seniors, adapted units), while making existing larger units available to families – effectively "building" new 2-3 bedroom units for the price of studio and one-bedroom units.

- Use redirected housing charge funds or re-mortgage the property to invest in cost-effective "green" infrastructure for individual co-ops, which would increase comfort and health while decreasing ongoing energy costs for years to come.

- Establish a "1% Fund" of voluntary contributions (e.g., 1% of mortgage assets), administered nationally but with local input, to help offset the high costs of new co-op housing projects

This report provides a current state analysis of cooperative housing in Western Canada, and explores the issues and challenges that housing co-ops now face. It provides a background on cooperative housing and its history in Canada as well as a review of the findings from our primary research, including interviews with sector experts, data analysis and focus groups with individual housing co-ops, to draw out some of the common characteristics and complexities of the cooperative housing sector and its members. Finally, the report uses these findings to review the practical feasibility of the opportunities listed above and provides an assessment of which opportunities seem to be the most viable and significant, given the reality of the Canadian cooperative housing sector today.

What Is Co-operative Housing?

Cooperative housing in Canada provides secure, affordable housing to over 250,000 Canadians. There are over 2,100 housing co-ops in Canada with combined assets of nearly $5.6 billion.[3]

Housing cooperatives exist for their members' common benefit. They are in many ways similar to other rental housing, except members are their own “landlords.” Within the cooperative framework, housing co-ops can be thought of as service or consumer co-ops, where the members are residents and therefore "consumers" of the service -- housing -- that the co-op provides. The cooperative owns the property, and then rents it to its members. Each member must purchase a share and sign a legal occupancy agreement that outlines membership expectations and member rights. The cooperative is democratically controlled, with each member having one vote. The membership is responsible for managing their own building and property. They may delegate this responsibility partially to a board of directors, they may form different committees to focus on different areas of management (membership, maintenance, finance, etc.), and they may choose to hire professionals to take care of part or all of their management responsibilities. The members' housing charges cover the mortgage, maintenance, replacement reserves, and all other costs. Over time, these housing charges pay down the mortgage so that the cooperative eventually owns the building.

[3] Co-operatives in Canada, 1999 Data, Published by the Co-operatives Secretariat, Government of Canada, July 2001, and CHF Canada, http://www.chfcanada.coop/eng/pages2007/about_1_2.asp

Housing co-ops offer several advantages to members:

Affordability	Housing co-ops are member-owned and controlled organizations. The monthly housing charges are set by the members to cover the costs of running the co-op, meaning the units are provided essentially "at cost." Members attain many of the benefits of ownership without having to "buy in" to the speculative for-profit real estate market.
Democratic Governance	Governance is about the overall direction of the co-op and is the job of directors and members of the co-op. Co-ops are democratically run and each member has a vote. Members elect the board of directors, approve the annual budget and set policy.
Security of tenure	A member's right to live in the co-op is protected. A member can live in a co-op for as long as he or she wishes as long as he or she follows the rules (by-laws) of the co-op and pays his or her housing charge (rent) on time.
Community	Housing co-ops can also be strong communities, where members actively participate in the business of the co-op. In addition to standard tasks, such as approving the annual budget, members often volunteer with maintenance tasks (e.g. lawn care) and are involved in other community-based projects such as producing a co-op newsletter. There is also a strong social component to housing co-ops, where members socialize and provide social support to other members on an informal basis.

Adapted from Canada Mortgage and Housing Corporation's "Guide to Co-operative Housing" http://www.cmhc.ca/en/co/buho/gucoho/index.cfm

History of Cooperative Housing in Canada

Cooperative housing has a rich history in Canada, with its roots dating back over 70 years. [4] The very first housing co-ops began in Nova Scotia around 1935, through the St. Francis Xavier Extension Department. These first co-ops helped economically disadvantaged members get

[4] The history is a synthesis of work done by Sol Kinnis at the B.C. Institute for Cooperative Studies (BCICS) http://www.bcics.org/node/79, the Galleria Project at BCICS http://bcics.uvic.ca/galleria/bc.php?group=32&tourtype=3, and CHF Canada http://www.chfcanada.coop/eng/pages2007/about_1_4.asp.

started in building their own housing. The members contributed sweat equity, and through cooperating with others were able to obtain the financing they needed and build their own homes. The cooperative structure, however, was not permanent as it is today. Generally, the cooperative agreement would end upon occupancy or upon amortization of the mortgage, and then each member would own their own home. While this provided a significant benefit in helping economically disadvantaged people to own their own homes, the flow of benefits to the individual made the Canada Mortgage and Housing Corporation (CMHC) hesitant to give them preferential lending terms.

The first permanent or "continuing" housing co-ops, where the cooperative structure was permanent and individual members did not obtain equity shares, were student co-ops. The first student co-op was the Campus Cooperative Residence, established at the University of Toronto in 1936. Pioneering student housing co-ops like the Campus Cooperative Residence paved the way for a wave of student housing funded by CMHC's student housing program from 1964 to 1973.

The continuing housing cooperative structure was seen as a way to provide stable, affordable housing not just to students, but to Canadian families. The Willow Park housing cooperative in Winnipeg, established in 1966, is seen as the first significant effort to provide family housing in a continuing cooperative structure. A number of continuing cooperatives for families followed, including several in British Columbia. A key innovation in B.C. was the introduction of voluntary internal subsidies, allowing a mixed income community of residents. Subsidy for a certain percentage of housing cooperative residents (funded by the federal government) became a requirement in the federally funded programs to come.

In 1969, the newly established Cooperative Housing Federation of Canada negotiated a $30 million fund from the federal government (through CMHC) for several pilot co-op housing projects. In 1973, the federal government launched its first national funding program for Cooperative housing, including start-up grants, 100% mortgages at below market rates, and provincial-federal rent supplements for low-income members. Several iterative phases of this funding program spurred the development of over 60,000 homes in housing cooperatives across Canada.

In 1992, the federal government decided to end its funding programs for cooperative housing, and by 1996 it announced that CMHC would phase out its role in social housing. Some cooperative housing development continued through funding by the provinces, especially in Québec, Ontario and British Columbia, but the major development phase of cooperative housing in Canada was over.

Cooperative Housing Today

Today, this generation of Canadian Cooperative housing has matured, and most co-ops are nearing the end of their CMHC mortgages and operating agreements. Some co-ops have done extremely well and become leaders in their communities. Others have had the bad luck of encountering serious maintenance issues, such as building envelope failure (otherwise known as "leaky co-ops"), or have experienced a crisis of leadership within the co-op. Most co-ops find themselves somewhere in the middle, having successfully provided stable and affordable housing for thousands of families, but facing some significant challenges, including an aging population, deferred maintenance, and/or conflicting visions of the future.

The end of the CMHC mortgages means a significant reduction in operating expenses, as there are no more mortgage payments to make. It also means that these co-ops will each own their buildings outright, providing each co-op with a multimillion dollar asset base. On the other hand, the co-ops will also lose their CMHC operating agreements, which until now have governed their operations and ensured a certain level of security and certainty. Additionally, these operating agreements were linked to subsidy funding for low income residents. Without these operating agreements in place, co-ops gain the freedom to self-manage, but they also face many questions: how will we continue to subsidize our low income members? How can we ensure that our co-op is managed according to best practices? How should we allocate the additional money that we save from having paid off our mortgage? What will our co-op's priorities be in the future?

Methodology of the Study

The question of the future of cooperative housing was explored through four main avenues: data analysis, case studies, interviews with cooperative housing sector experts and focus groups with individual housing co-ops in Edmonton, Vancouver and Victoria.

Interviews with cooperative housing sector experts were conducted at the beginning of this research project in order to gain real-world feedback and ideas on the direction of our research. Interviews were 30 to 60 minutes long, conducted over the phone or in person. The question guide for sector expert interviews is found in Appendix 3.

Raw data such as mortgage balances, maintenance spending, physical condition, etc. were obtained from The Agency for Cooperative Housing and analyzed for trends. Relevant case studies of housing co-ops leveraging their assets in innovative ways were identified through expert interviews and housing co-op focus groups, and will be presented as "on the ground" examples of ideas and concepts presented throughout this report.

Focus groups with individual housing co-ops were conducted toward the end of the research project, to get an idea of co-op members' potential responses to the various ideas suggested by sector experts and the writers of this report. In Edmonton, groups were selected with the assistance of NACHA (Northern Alberta Cooperative Housing Association), with the goal of achieving a spectrum of co-op types and capacities. In Vancouver and Victoria, CHF-BC posted an advertisement for participation in the focus groups in their province-wide newsletter, and all respondents who were able to arrange a meeting were included. While we received a wide range of valuable insights from these groups, clearly the selection was not random, and therefore results may be skewed one way or another. The question set used for focus group sessions is found in Appendix 4.

Findings

In general, our findings were much less optimistic than originally expected. The response from our sector experts, in fact, was resoundingly pessimistic in terms of co-ops' ability to leverage their newfound assets to benefit the sector at large, citing severe deferred maintenance, capacity and governance issues, and escalating costs to build new housing. Our analysis of the raw data from the Agency for Cooperative Housing ("the Agency"), along with the findings from the focus groups confirmed some of the limitations identified by the sector experts, but also revealed a more heterogeneous picture of the sector. Yes, there are many barriers, and yes, a certain proportion of housing co-ops in B.C. and Alberta are facing crisis due to severe deferred maintenance and/or "leaky" co-op issues. However, there are many more functioning co-ops with moderate maintenance issues, and some that are in excellent condition in terms of both human and financial capacity.

Sector Experts

The response from our sector experts was resoundingly pessimistic in terms of co-ops' ability to leverage their newfound assets to benefit the sector at large. They cited a number of barriers, summarized here. They maintained that the main barrier to building new affordable cooperative housing is not *access* to financing, but the actual *costs* of building new housing. A statement that we heard again and again was that there is no way, with current market conditions, to build truly affordable housing without significant subsidy.

Sector experts felt that there was a pervasive misconception that, because co-ops will pay off their mortgages and that their land is much more valuable today, the cooperative housing sector is "rich." It is true that the co-op sector will own billions of dollars of assets. However, as any longtime homeowner in Vancouver knows, owning millions of dollars of real estate does not necessarily make you a millionaire unless you are willing to sell your home and move somewhere significantly cheaper. Given that this is not the case for the vast majority of housing co-ops, sector experts explained that owning the assets does not necessarily change much for individual housing co-ops or the broader cooperative housing sector. Specifically, the basic concept of "re-leveraging" co-op housing sector assets means, in practical terms, co-ops taking out new mortgages on their properties in order to free up cash. However, even if re-mortgaging fully amortized housing cooperative assets would make a certain amount of money available, it would have to be borrowed at market interest rates, and the debt would have to be serviced each month -- it is *not* free money. This would do nothing to decrease the costs of land, labour, building materials, or even financing—the main cost drivers of new housing construction. Therefore, the newly constructed housing would be very expensive to build and, without significant subsidy, the resulting housing charges would be unaffordable.

Paying off the mortgage does free up a certain amount of cash flow, if housing charges to members are kept at the same level. These funds could be used as the co-op chooses, and could represent a significant sum. For example, one co-op we spoke to stated that the co-op makes approximately $396,000 of mortgage payments annually. However, sector experts felt that the most likely uses for these funds would be major maintenance, replacing lost government subsidy funds for low income members, and lowering member housing charges.

There was a general impression that many, if not most, housing co-ops' buildings were nearing the end of their lives, due to age and deferred maintenance. This is especially the case in B.C., where at least 69 co-ops are still dealing with catastrophic building envelope failure (also known as "leaky" co-ops). Some of these leaky co-ops are so far gone that repairing them is too expensive, and they will have to be torn down. Experts thought that severe maintenance issues would require re-mortgaging, leaving little or no room for additional re-leveraging of co-op assets.

Experts also pointed to several cultural barriers that would make innovative or large-scale projects difficult. Housing co-ops are built around the idea of cooperation and voluntary labour. It is therefore very difficult for the board of directors of a co-op to take the necessary time and effort to think strategically and entrepreneurially. Additionally, co-op boards are extremely risk-averse for various reasons, including having dealt with CMHC for decades under a very restrictive operating agreement, and understanding the scarcity of affordable housing and their members' need for affordability, which creates a fear-based "protect what we’ve got" attitude. They noted that re-mortgaging a co-op's assets puts members' very homes at risk, so they surmised that members would be very unlikely to agree to this unless they were forced to by circumstance, or they saw a clear benefit to themselves.

The sector experts did see some potential to utilize the financial and other assets of housing co-ops to address /go-round certain cost drivers of building new affordable housing - other than leveraging the mortgage assets specifically for new co-op development. For example, a co-op could use the value of its own land as a "self subsidy" to build more housing on site through in-filling where possible (e.g., turning a parking lot into an apartment building), or through wholesale redevelopment of the lot, using density to create more value on the same land. Secondly, the cost of financing could be addressed through seeking low-cost or no-cost capital, such as grants, patient capital or community bonds. And finally, developer fees, which can be as much as 20% of the total project budget, could be reduced by the co-op acting as its own developer, or working with a nonprofit developer. These opportunities, however, were seen as limited to particular projects, rather than an ovearall panacea for the cost drivers of affordable housing.

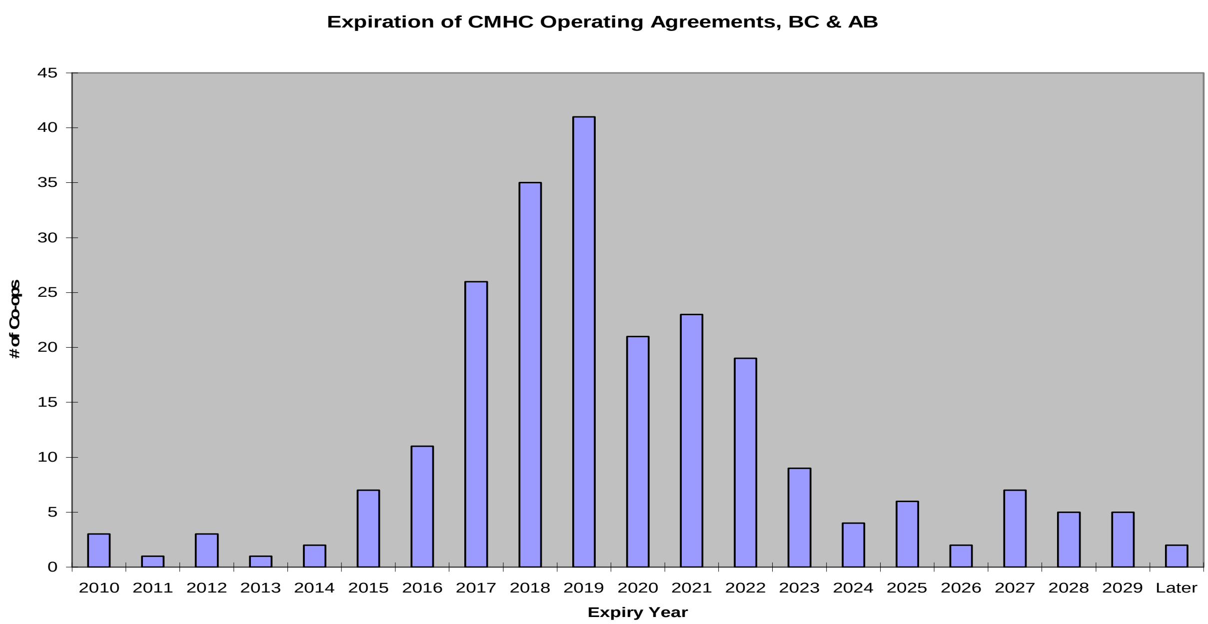
There is also an issue of “over-housing” in the coops, meaning that there are many single members who occupy units that are much larger than they need. In particular, members are growing older and will need senior-friendly features, such as handrails, wheelchair accessibility, stair lifts, etc. to live comfortably in their units. There could be an opportunity to achieve two objectives at once by building new, smaller units for seniors. Aging members would get new, accessible housing that fits their needs, while freeing up larger units for members who really need them. Essentially, co-ops could “build” 2-3 bedroom units for the price of 1-bedroom senior units.

In the end, however, experts felt that even by using all of these techniques, new housing would not be affordable without subsidy. The general conclusion was that co-ops paying off their mortgages presents some opportunities to strengthen existing cooperative housing, but that its potential to help create new affordable housing was very, very limited.

Data Analysis

There are approximately 258 housing co-ops in British Columbia, and 59 housing co-ops in Alberta, each housing as few as 5 households to more than 90 households, for a total of more than 16,000 households.

Of the 233[5] co-ops under Agency management in BC and Alberta, 202 co-ops will end their operating agreements with CMHC by 2023. The graph below depicts the final year of each co-ops’ mortgage and operating agreement and clearly shows the generational cluster around the year 2020. There is indeed an urgency for co-ops to understand the opportunities and pitfalls surrounding this transition from operating agreements to relative independence and to plan for a smooth transition. Cooperative decision-making is not easy, and it can take years to come to consensus on such complex issues as subsidy and major maintenance.



5 There is a discrepancy in the number of co-ops listed in each data set – some list 233, some list 186. This number is NOT the total number of co-ops in BC & AB—not all co-ops are managed by the Agency.

The following are summary statistics from our analysis of the Agency's data:

Number of BC & AB co-ops included in data set	233
Median mortgage balance PER UNIT	$50,738
Median annual spending on maintenance PER UNIT	$852
Number of co-ops with multiple mortgages	30
Number of co-ops in “workout”[6]	13
Number of “leaky” co-ops in BC[7]	69

From this data, we can see that co-ops with severe maintenance issues (indicated by multiple mortgages, "workout" scenarios with CMHC, and unaddressed "leaky" co-ops) are in the minority, yet up to one-third of the total. This group of co-ops, in general, will not be in a position to leverage their assets for any benefit other than maintaining their existing housing stock, if they are able to achieve any benefit at all. Because of the extreme challenges they face, they are also much more likely to have experienced a severe breakdown in cooperative governance to the point where many are managed by external agencies, voluntarily or by order of CMHC. This makes it difficult to come to consensus on basic issues, let alone innovative programs to leverage assets. On the other hand, these co-ops, in some situations, could still benefit from the fact that they have paid down a significant portion of their mortgage while their land values have increased. There is potential to refinance their mortgage to obtain capital for major maintenance and pay it off over another 25 years at a reasonably affordable rate. Or in the case of tear-down situations, there is potential to redevelop the site into a mix of market and co-op units, using the excess land value to subsidize the cost of reconstruction of the co-op units.

For the rest of the co-ops that do not face severe maintenance issues, the question remains as to the level of deferred maintenance they are facing. The Agency collects data on the physical condition of co-ops across Canada that they manage. If we can assume that there are not major regional differences in levels of deferred maintenance, this data (graphed below) indicates that there is indeed a large proportion of co-ops with significant, but not severe, deferred maintenance. Therefore there will likely be pressure to re-mortgage these co-ops' assets to fund major critical maintenance, before other, more innovative uses can be considered. On the other hand, these maintenance needs are not severe, so they will not necessarily preclude other uses of funding or assets. It is also heartening to note that more than one quarter of co-ops are considered to be in “good” or “excellent” condition.

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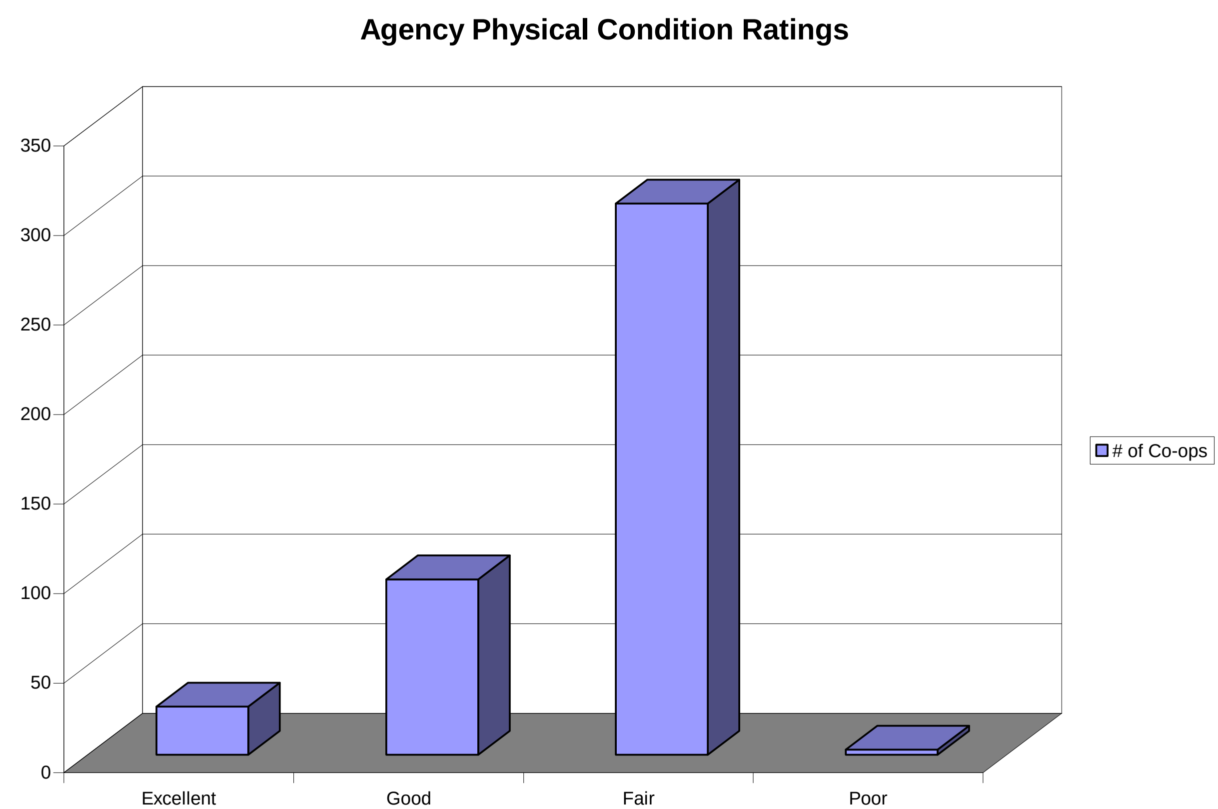
6 “Workout” means that the co-op has encountered severe financial difficulty, usually due to deferred maintenance issues, and has had an intervention from CMHC to extend additional financing. This CMHC loan often comes with stringent restrictions on the co-op's operations.

7 Source: http://www.chf.bc.ca/pages/leakyco-ops.asp (as of March 2007). "Leaky" co-ops refers to the crisis of premature building envelope failure caused by poor building practices that allowed water to infiltrate the building envelope resulting in rot and mould. Thousands of stratas and co-ops in the Lower Mainland of BC were affected in the 1980s and 1990s, and are still repairing the damage today.

Overall, our data analysis confirmed some of the limitations identified by the sector experts, but also revealed a more heterogeneous picture of the sector. Deferred maintenance will impose a significant financial burden on approximately one-third of B.C. and Alberta co-ops that are currently facing severe problems such as "leaky" co-op issues - a significant burden that mortgage assets may not cover or would leave nothing for other uses. Most co-ops will face some pressure to use a larger portion of their housing charges or to refinance in order to capitalize necessary repairs and investments in building infrastructure. However, these co-ops, and those whose properties are in "good" or "excellent" condition (approximately one quarter of co-ops), should have the ability to consider other uses of their assets as well.



Focus Groups

In general, our focus group sessions with individual co-ops confirmed our findings from sector experts. Maintenance and subsidy were top-of-mind when members were asked how they would spend their additional money, and the challenge of cooperative governance was mentioned explicitly by the members. There was also a lot of fear: fear of governing themselves, fear of conflicting member interests and fear of the loss of affordability.

It was somewhat surprising that many members (including board members) did not know about the upcoming end of the mortgage and end of the operating agreement, or if they did they hadn’t thought much about it. A few of the co-ops we spoke with had very recently struck committees to look into the topic, but had not gotten very far. There were many questions on the rules and limits once the CMHC operating agreement was gone. As opposed to feeling freed from harsh restrictions, most members seemed afraid that allowing the co-ops to self-govern could spell trouble. In some instances, we even received calls and emails after the conclusion of the focus group sessions from concerned members wanting to know more about what restrictions were in place, if any, to protect the co-op from mismanagement. At least two co-ops wondered whether they could refinance with CMHC in order to maintain the operating agreement. There were several calls requesting that CHF Canada or another institution help guide the transition and help co-ops learn from each other and just share best practices (CHF Canada is currently running "Compass" workshops as part of their "Vision 2020" program to assist member co-ops with long-term visioning and planning.)

One of the more common fears was of allowing member self-interest to take over once the mortgage has been paid off. In some co-ops, there is tension between individual members' interests (e.g., lower the housing charges as much as possible so that I can keep more money in my pocket), and broader co-op and sector interests (e.g. continue to provide subsidy to low-income families, assist in the development of new co-op housing, "pay forward" the benefit that the previous generation received). Members were concerned that co-ops could be sold off for private benefit (they cannot, by law), or that subsidy would end and low-income members would be kicked out. This fear of loss of subsidy is warranted, as it is possible for a co-op to change its rules of operation substantially once it is no longer bound by CMHC's operating agreement. The most significant difference is that there will be no more government subsidy for low income co-op members, and maintaining a replacement internal subsidy is entirely voluntary. However, we heard nearly unanimous agreement among members of all co-ops that we interviewed that they wished to use some of the extra funds from the retired mortgage to continue to subsidize their low income members.

We heard many members envisioning creative, innovative, and expansive future plans for their co-ops, including investing in "green" retrofits (such as solar hot water heating or energy efficient windows and appliances), major unit renovations -- including splitting larger units in two-- to make units more senior friendly, and starting small businesses such as a daycare centre on-site. On the other hand, lack of time and difficulty in reaching consensus came up again and again as a barrier to implementing these plans. Members complained that serving on the board was a heavy burden ("like a second job"), while at the same time only a small portion of members outside of the board met their commitment for time contribution to co-op management. A member who had successfully completed a large project within the co-op said, "Projects like this are a very real drain on energy and finances, and should not be taken lightly." Reaching consensus on large projects often took months or years of member meetings.

Several of the co-ops that considered themselves to be better-governed mentioned that building a common vision for the future takes time, not just in official meetings, but in fireside chats, block parties and other casual social events. One of the more positive outcomes of the focus groups was that many of the co-ops left the focus group feeling reinvigorated to explore these new possibilities and strengthen the feeling of community at their co-op.

An Exploration of Opportunities

Having surveyed cooperative housing sector experts, analyzed raw data and listened to the experience of housing co-op members themselves, we now return to the original question: are there real, viable opportunities to leverage cooperative housing sector assets in innovative ways to strengthen the existing sector, provide capital for the creation of new cooperative housing, and/or support other social economy purposes? While the feedback we received was less enthusiastic than we might have expected originally, we still feel that there are some important opportunities to consider and lessons to be learned. This section reviews the opportunities that our data indicate are the most viable.

Opportunity 1: Upon the retirement of the mortgage, redirect excess revenue from monthly member housing charges to fund a subsidy pool and maintenance needs.

This is the strongest opportunity and the most likely outcome for most co-ops. We heard nearly unanimous support for redirecting funds to support both subsidy and major maintenance. From our informal polling of the focus groups about their co-op budget, the amount of subsidy that they currently receive -- which they would need to replace once the operating agreement ends -- is quite a small portion (less than 20%) of the funds that would be freed up once the mortgage is retired. The co-op budget already includes some maintenance and replacement reserve funding as required by the CMHC operating agreement; however, most co-ops have found that the required amount was not enough to avoid deferring at least some major maintenance.With the new monies from the retired mortgage, co-ops should be able to fund their deferred maintenance programs over the following 5-10 years. At that point, after having strengthened the existing co-op, there could be an even stronger opportunity to invest in these funds in innovative ways.

Opportunity 2: Fill in or replace low-density housing with high-density housing to leverage land that is already owned by a housing cooperative.

Upon first glance, this seems like an excellent opportunity for many co-ops who find themselves located in very popular -- and therefore valuable -- locations. Co-ops that are currently lowrise townhouses could redevelop their lot with an apartment building instead, using market rate condos to subsidize the affordability of the reconstruction of the co-op units. Redevelopment is an extremely time-consuming and risky proposition, however. There is always a chance that the project could fail and members could lose their homes. In most cases, members would have to find other housing while the building was being constructed, and that housing would need to be affordable for most members. Additionally, our discussions with real estate development experts have shown that the amount of market rate housing that would need to be built in order to successfully subsidize the co-op units is quite large: a ratio of at least 3:1 (in terms of buildable square feet) is required. This means quadrupling the existing density of the co-op's site. While not impossible, it is never easy to push such a change in density through the permitting and planning process at the municipality. This opportunity would make the most sense for those "leaky" co-ops who have no choice but to redevelop. For others, it is likely too risky to consider. On the other hand, it may be possible to add a higher density structure alongside existing units on a co-op's site, which would reduce many of the risks. Fundamentally, however, affordability is still a problem. Land generally represents less than 25% of construction costs for new development. Affordability, according to our sector experts, requires a 50% subsidy, or more. Therefore, leveraging land generally only provides part of the solution.

Opportunity 3: Address the issue of "over-housing" and the need for senior-friendly housing through building new, smaller, senior units.

Due to the demographics of the co-op community (not to mention the demographics of the population at large), there will be a fast-growing need for units that meet seniors' needs. At the same time, there is an issue of "over-housing" (e.g., older members whose children have moved out now occupy larger units than they need), which means fewer larger units are available to families who really need them. This could represent an opportunity to achieve two objectives at once by transitioning older members to newly constructed or renovated smaller units customized to meet seniors' needs, while making existing larger units available to families - effectively "building" new 2-3 bedroom units for the price of studio and one-bedroom units. Members could see a real benefit to investing some of their freed up revenues into new co-op unit development because the new units would be for themselves. As an additional spinoff benefit, they would be freeing up larger units for new members. There are, of course, some challenges. First, there is the effort and risk of new construction, as described above. There is also the issue of affordability; but at least in this case there is the potential to subsidize through both land (if they are intensifying their own site) and a development fund from their own revenues. Even so, housing charges are likely to be higher than they were before, so who pays more? The seniors or the entire co-op? Even with these challenges, this seems to be one of the strongest opportunities because it benefits existing and new members. Many of the co-op members and sector experts that we spoke with expressed support for this idea.

Opportunity 4: Invest in money-saving green infrastructure.

Using redirected housing charge funds or re-mortgaging the property could provide an ideal opportunity to invest in cost-effective "green" infrastructure for individual co-ops. The co-ops need to do major maintenance in any case, and now they have the funds and the motivation to invest wisely. They could invest in high quality energy efficient windows and appliances, high efficiency boilers and renewable energy systems such as hot water heating. These investments, when compared to conventional choices, can cost 3-25% more upfront, but they increase comfort and health while decreasing ongoing energy costs for years to come, making them an excellent investment over time. Again, co-op members expressed enthusiasm for this idea.

Opportunity 5: Create a 1% for New Co-op Development Fund

While the government's investment in cooperative housing created a generation of affordable housing, it did not successfully plan for the sector's self-sufficiency and growth. Without startup grants for new cooperative housing development, co-op development essentially stops with the housing stock that exists today. The onus is now on the sector to augment this stock.

Due to the tension of perspectives of housing co-op members around this issue, i.e., the choice to support the individual member, individual co-ops or the sector at large, it may be difficult to convince members to voluntarily fund new co-op development to the extent required to leverage assests for new co-op housing.. One member, for example, stated that "it's not my job to support affordable housing - it's the government's." There may, however, be an opportunity to reach consensus around contributing a smaller portion (1%, for example) of member housing charges to a general new co-op development fund once their mortgages are paid off. Most of the co-op members that we spoke with would consider such a fund, but several were concerned with who would administer the fund and expressed an interest in investing locally, "where we can see the impact." This may indicate regional funds would have more success.

Conclusion

While the sector-wide amortization of co-op mortgages may not make housing co-ops rich, it does offer the potential to strengthen, and even expand, the cooperative housing sector. These ideas should be promoted to sector members, and best practices should be shared to make it easy for co-ops to take advantage of this unique opportunity.

At the same time, co-ops may face a difficult transition to independent governance, without precedent to guide them. They will need support from institutions like CHF Canada, and other co-ops who are going through the same transition.

Lastly, there is an important policy lesson to be learned here. While the government's investment in cooperative housing created a generation of affordable housing, neither the government nor the sector itself successfully planned for cooperative housing’s self-sufficiency and growth. Going forward, we must learn how to maintain the public benefit of public investment in perpetuity-- this is especially relevant as municipalities consider affordable housing covenants and other investments today. This could include subsidies that must be “paid forward” to new co-ops once the existing co-op is able, as well as better planning for investing in maintenance and improved continuity of governance.

If this transition is well-managed, Canada can leverage its past investment in affordable, cooperative housing to maintain and expand its affordable housing stock, while building stronger communities for the future.

Appendix 1 - Federal Cooperative Housing Programs

Section 61 Program (formerly 34.18)
The first non-profit and co-op housing program began in 1973 and ended in 1978. Section 61 featured a 50-year mortgage at a fixed rate (8%) and a federal government loan, of which 10% was forgivable. The program was originally called the 34.18 program referring to the relevant section of the National Housing Act (which later changed to 61).

Section 95 Program (formerly 56.1)
Co-op homes developed between 1979 and 1985 were created under a program known as Section 95 (the section number refers to the National Housing Act). These co-ops administer a subsidy received from Canada Mortgage and Housing Corporation (CMHC). The number and size of subsidies available varies in each co-op.

Federal Co-operative Housing Program
(also known as ILM)
The federal government funded the development of these co-ops between 1986 and 1992. Rent supplement is cost shared with the province. Its best known feature was the index-linked mortgage. This feature had two effects:

- the co-ops' monthly mortgage payments rise with inflation (less 2 per cent) even though costs were lower in the first few years.
- the government's subsidy costs per unit were lower than under the 56.1 (section 95) program.
- Other features are:
- a minimum of 30% of the units must receive rent supplement. There can be up to 50% subsidized units.
- the remaining units must have market housing charges. Each year there are indexed contributions if they are needed to bridge the gap between economic and market charges in the first years of a project. Federal assistance can be reduced after the fifteenth year of operation.

Appendix 2 - B.C. Co-ops by Program (Alberta data not available)

Source: http://www.chf.bc.ca/pages/about4.asp

Program	No. of Co-ops	Occupied Units
Homes BC	14	1095
ILM	59	2862
Provincial/federal	4	120
Section 15	1	17
Section 61 (34.18)	13	711
Section 95 (56.1)	165	9497
Student Co-op	1	2
Unknown	1	110
Total	**258**	**14414**

Appendix 3 - Interview Questions for Sector Experts

A. Warm up Questions

1. Name and organizational affiliation.

2. How long have you been involved or working in the co-op housing sector? In what capacities?

B. Future of Co-op Housing

1. Tell me what you see ahead for the co-op housing sector in B.C. and Alberta as the individual co-ops come to the end of their mortgages and operating agreements with CMHC?

2. If there were an opportunity to leverage co-op housing assets, what do you think individual co-ops would want to do first?

3. What are the most pressing needs for the co-op housing sector in B.C. and Alberta?

4. Do you think there are any significant changes needed in the co-op housing model going forward? (E.g. ability to build individual equity, etc.)

C. Development Finance

1. How is co-op housing development financed? Are there any trends developing?

2. What are the major barriers to new co-op housing development? Is financing a significant barrier?

3. In your opinion, would the ability of the housing co-op to leverage its equity in its building(s) be a significant contribution/solution to the development of new co-op housing or other needs in the social economy?

4. Do you know of any housing co-ops that have used their assets in innovative ways in order to support new housing development or other social economy purposes?

5. Do you see a role for the co-op housing sector in financing other areas of the social economy?

D. Planning, Advocacy & Research

1. What planning has already been done or is in process around the future of the co-op housing sector?

2. Could you point to any people who specifically charged with responsibility for strategic and long term planning for the sector?
3. Is there any research being conducted to support and inform the sector? Can you tell me more about this?

E. **Data Collection**

1. I am looking for the following data. Could your organization help me, or do you know another organization that could?
2. List of all co-ops in B.C. and Alberta
3. Contact information for each
4. Each co-op's operating agreement and when that agreement and mortgage will expire (amount of mortgage if possible)
5. Assessed value of each co-op
6. Number of existing members who are "overhoused" (living in units larger than 1 room per person)
7. Number of housing co-ops that have low density and/or available land on their existing sites

F. Policy & Governance

1. What role do you see for the municipal, provincial, and/or federal government in supporting the co-op housing sector in B.C. and Alberta? How likely is this to occur?

2. What do you think are the intentions of the members of housing co-ops once the mortgages are fully amortized?

3. What organizations or individuals would be most effective in leading the co-op housing sector in strategic planning around these upcoming events?

G. Wrap Up & Additional Information

1. Do you yourself have a specific vision for the future of the co-op housing sector in B.C. and/or Alberta?

2. Is there anything else you would like to add or that you think is important in terms of understanding the co-op housing sector in B.C. and/or Alberta?

3. Is there anyone else whom you would particularly recommend that I contact?

Appendix 4 - Question Set for Focus Groups

A. Future of Co-op Housing

1. What do you feel are the most pressing needs for the co-op housing sector in B.C.?
2. Tell me what you see ahead for your co-op as you come to the end of your mortgage and operating agreement with CMHC?
3. Have you discussed this issue within your membership?
4. Has your co-op considered any major projects over the next 10 years?

B. Subsidy

1. How does subsidy work at your co-op?
2. What is the level of subsidy do you currently have?
3. What will you do/did you do when the government subsidy runs out?

C. Maintenance Issues

1. What are your current maintenance issues/concerns?
2. What do you see as your maintenance issues in the future?
3. What is your current annual allocation to your replacement reserve?
4. Is your replacement reserve adequate to address these issues?
5. How does your co-op plan to ensure that the reserve is adequate?

D. Leadership Capacity

1. Tell me about any significant projects (major maintenance, etc.) that your co-op has completed. How long did the decision-making and actions take? What were the challenges you experienced in carrying out the project? Were you satisfied with the results?
2. Would you feel comfortable taking on a large project today or in the future? Why or why not?

3. Is there any kind of capacity building or assistance that has been or would be particularly helpful in enabling your co-op to do more of these kinds of projects??

E. Innovative Uses of Assets

1. If there were an opportunity to leverage co-op housing assets, what do you think your co-op would want to do first?

2. The following ideas have been suggested by co-op members and leaders in the cooperative housing sector as *possibilities* for utilizing co-op assets creatively to achieve certain goals. What do you think of the following ideas?:

3. Redirecting, upon the retirement of the mortgage, that portion of the housing charge that goes toward paying down the mortgage, to fund a subsidy pool, maintenance needs, and/or other projects

4. Filling in or replacing low-density housing with high-density housing to leverage land that is already owned by a housing cooperative.

5. Cash reserves from cooperative shares and housing charges might be pooled with that from other housing co-ops and utilized for various financial objectives, such as self-insurance, grant-making, and certain types of self-financing.

6. The issue of "over-housing" or "over-utilizing" a unit (i.e., members whose children, other adult members or boarders have moved out now occupying larger units than they need) could be an opportunity to transition these members to new smaller units in order to make their larger units available to families – effectively "building" new larger units for the price of -smaller units.

F. **Data Collection (sent to the board ahead of time)**

1. Could your co-op provide me with the following data? All data will be kept confidential.

2. Your co-op's operating agreement and when that agreement and mortgage will expire (amount of mortgage if possible)

3. Assessed value of your co-op?

4. Number of existing members who are "overhoused" (living in units larger than 1 room per person)

5. Does your co-op have low density buildings and/or a potential building site on your existing land?

G. Wrap Up & Additional Information

1. Is there anything else you would like to add or that you think is important in terms of understanding the co-op housing sector in B.C.?