Centre for Urban Research and Education (CURE)

Discussion Paper: Envisioning a Modernized Social and Affordable Housing Sector in Canada

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Executive Summary

As part of the consultation and discussion around the National Housing Strategy (NHS) there is the beginning of a discourse about building capacity and the need to modernize, reinvent or transform the social-affordable housing sector.

However, it is not clear that there is any articulation or consensus on the reasons why the sector, as currently configured, is not – or can't be – sustainable (beyond the expiry of subsidy). Nor is there any consensus on the objectives and outcomes of modernization. This discussion paper seeks to frame these challenges and opportunities and to provide some suggestion of what sector modernization and renewal might entail. It also presents a vision of a possible more sustainable future.

The paper provides a brief historical overview as a way to help determine in what ways the current operating models may be stressed or unsustainable. The historical evolution of Canada's social housing sector is described in more detail in an appendix. A second appendix also provides an overview of how systems have transformed or evolved across a number of comparable countries – the UK, US, Australia and New Zealand. Some of the lessons from this international experience helped to inform the vision set out for Canada.

In developing and describing a possible future, the paper identifies potential steps and incentives needed to encourage or enable change (both among funders and providers) and the associated frameworks, tools and tactics that can address the specific challenges and opportunities facing the new and future stock of affordable housing in Canada.

What is the problem, why is the current system unsustainable?

What is now referred to as the "social housing" sector was never designed as a holistic system. It is, in essence, a mixture of public and community-based organizations that share a common mission to create and operate affordable housing to help low-income individuals and families. The providers reflect the outcome of a series of programs over four decades that has created over 3,000 organizations operating some 600,000 homes.

The resulting social housing sector now has the following characteristics:

- It is subsidy dependent and constrained by sub-optimal rent structures.
- Traditional rent-geared-to income (RGI) programs are effectively forms of income assistance: they were neither designed to, nor have they, enabled sound real estate asset building and management.
- The expertise and skill sets of staff tend more toward social service and resident supports, rather than the expertise needed to manage significant assets.
- There is an unequal fiscal burden, which, prior to the new announcements in the NHS, meant that provinces and territories were shouldering an increasing share of subsidy expenditure. In the face of constrained Provincial and Territorial (PT) fiscal capacity this was placing existing housing at risk.
- There is a weak and fragmented regulatory and governance framework and therefore weak risk management. There is no formal regulator and no single (or even province-

wide – except now Ontario) set of regulatory standards. Nor is there a formal regulatory review beyond compliance under the terms of operating agreements – mainly as part of a public accountability process rather than as risk management.

There are some positive evolving practices

The end of federal agreements brings opportunities to be creative and innovative. A few (mid-sized) non-profits have begun to exercise these flexibilities, investing previously restricted reserves to invest in new development, intensification and redevelopment of some sites. Some larger non-profits are becoming more entrepreneurial and organizing some of their core competencies and expertise as a saleable service offered to others (e.g. as development consultants, accounting and property management services). As a sector, the cooperatives have created a new financial intermediary to assist in asset renewal.

Drawing on international experience

Looking across the international experience it is possible to identify three major types of change:

1. Organizational change involving processes that have helped to expand and diversify with a strong reliance on community non-profits, rather that direct public delivery;
2. Examples wherein ownership and management remained with public sector providers, but with a reformed funding or operating regime that has engendered creativity and innovation, resulting in a shift in the culture of the provider organization;
3. Funding and financing reforms, which involved greater reliance on private finance (replacing or reducing public grant or public finance) together with reforms to subsidy models that have tended to shift away from project subsidies to person based subsidy, which supported better rent revenues, improved viability and enhanced investability.

Envisioning a different future

If appropriate measures are taken it is possible to envision a more modern and reformed sector, which can provide the following outcomes:

- The sector becomes vibrant, more resilient and investible with a greater diversity of products, revenue sources and reduced dependence on public subsidy.
- The sector balances its social mission within a more entrepreneurial operating culture that seeks to optimize leverage of its legacy resources, while more providers operate as social enterprises.
- New investment and renewal funding focuses on organizations with potential for capacity development and growth, and organizations generating community benefit.
- Sector modernization is facilitated via new institutional structures that emulate the benefits of scale through intermediary organizations and sector consolidation.
- Low-income renters are provided with increased assistance and choice (enabled in part through a new portable housing benefit).
- Concentrations of vulnerable tenants are minimized, but where pre-existing concentrated vulnerability already exists, partnerships with health-funded community agencies are enabled to provide support on-site with multi-year funding.

Getting from here to there

A sustainable future and modernized sector presents a number of changes. This includes reforming the way subsidy funding related to supporting affordability is delivered and interacts with project sustainability; a new array of institutional structures to strengthen the sector; stronger resident services; and a process of relatively aggressive provider/asset aggregation. Some degree of scale is necessary in order to deliver capacity building services, and to achieve capacity.

1. Restructuring rent and subsidy

The most substantial change is in the way existing legacy social housing is funded. This is fundamental to setting up property assets to be well managed while concurrently, but separately, addressing the raison d'être of social housing: to improve affordability.

It sets out a new funding mechanism which transitions from the traditional project based (object subsidy) to a person based (subject subsidy) approach. This is consistent with the principles of the new National Housing Strategy for a person centric approach (Canada Housing Benefit). It also reflects international practice.

2. Create a new national financing intermediary

To assist existing providers in asset renewal and expansion a newly incorporated national financial intermediary the Canadian Housing Finance Authority (CHFA) is created as a non-profit stand-alone financial intermediary. The CHFA acts as a technical advisor and intermediary in between capital sources (lenders, pension funds, and potentially CMHC direct lending) and providers. It is a specialized intermediary with in depth understanding of the business of social housing and helps to educate both borrowers and lenders. It would function both as a broker, and aggregator acting on behalf of providers. Potentially the CHFA would be the administrator of loan pools for third party investors in fixed asset social housing loans.

At a regional and local level, a network of asset renewal intermediaries (ARIs) are created, as a form of technical assistance. These can be created as branches or subsidiaries of the Canadian Housing Finance Authority (CHFA), or independently. The ARIs provide technical assistance (expertise in financing, building condition assessment, asset renewal, property management etc.) and mentoring to assist small providers that have minimal professional staff (e.g. only have maintenance staff and bookkeeper – no finance, property management, building science expertise). This covers perhaps up to one-third of social housing, and half of the stock that is not owned by provincial or municipal government) but its services are also available to mid-sized providers.

3. A new institutional framework to support modernization and restructuring – toward social entrepreneurship

The vision anticipates a fundamental shift in operating practice and culture. This embraces a move away from the concept of *no profit* (provider as service delivery agent of government) to one of *profit for purpose (*provider as a social enterprise*)*, a practice of generating revenues (in addition to subsidy) and of levering assets to optimize the social outcomes that underpin the mission of affordable housing providers.

The logic underpinning aggregation and consolidation is one of greater professionalism, with internal expertise in finance, asset renewal and leverage, property management and resident services. This requires a set of performance standards and outcome targets and a basis to monitor progress against targets – a performance management and risk management system. Standards must include financial management, asset management, quality of resident services and governance. By transparently measuring outcomes against standards relative performance can be readily seen. Projects at risk can be readily identified and remedies implemented. And the practices of well performing providers can be documented as best practice and used to help others in a system of continuous improvement.

Such a performance-based model is effectively a form of pro-active regulation. As such it requires providers to voluntarily subscribe to a sector performance management system, or it requires mandatory enrolment, as a condition of accessing new funding and financing programs related to asset renewal and new development.

4. Enabling better responsiveness to residents' needs

While strong asset management and financial sustainability are critical, it is equally important to ensure the fundamental mission to provide sound resident services, especially with high numbers of vulnerable clients. There are a number of measures that, taken together, would promote the stability, health and well-being of both individual tenants and the building community.

These include promoting on-site building services (versus call centre approaches); benchmarking tenant satisfaction alongside financial indicators; facilitating mobility among housing options (including via portable housing benefits); minimizing increased concentrations of vulnerable tenants, but where concentrated vulnerability already exists implement partnerships with health-funded community agencies to provide support on-site with multi-year funding. Again, this requires housing management attuned to the needs of individual buildings.

5. Enable and encourage sector consolidation

In order to build the professional specialized skills and capacity of the sector, it is necessary to have providers of a sufficient scale that they have staff to which capacity building can be directed. While this does not necessarily mean eliminating all small single project providers, it does imply some degree of aggregation. The vision anticipates consolidation to create at least 40 providers each managing over 1,000 units.

A process of project consolidation is implemented with two models for consolidation: formal mergers of assets and staff within a single corporation and associated group structures.

- Associated group structures are created wherein small providers (including co-ops) can remain autonomous but operate within in a shared service model, each buying into an independent body offering corporate services (strategic asset management and renewal, financing support and procurement and potentially some tenant support service coordination). Such group structures are organized on a geographic basis, and supported by a regional or province wide parent group (potentially affiliated with provincial sector association).

- Formal mergers will require legal restructuring and transfer of assets to a parent entity. Technical assistance and support, including mediation services will be required to enable and facilitate these organizational changes.

Aggregation is not a goal in itself, it is a means to a larger end – a stronger more disciplined business-like and investable sector. Ideally the social housing sector will transform from non-profit delivery agents into viable social enterprises – organizations that apply commercial strategies to maximize improvements in human and environmental well-being – including asset rationalization and maximizing social impact alongside profits for external shareholders (here a social return on investment to public funders).

The cooperative sector has for many decades operated on a federation model, and such a structure might be effective for the non-profit sector also. These would help to channel sector capacity building activities, with a coordinated national framework and regional delivery through PT associations.

6. Leading the renewal

Large-scale change requires strong leadership and close collaboration. A wide range of stakeholders are implicated in the vision set out above. Significant programmatic and institutional reform is also required.

In order to implement this array of reforms and new activities it is recommended that a high level sector renewal task force be created, with representation from the PTs, CMHC and sector organizations, but led (chaired) by an executive from outside the housing sector with strong expertise in change management.

This taskforce should assist in creating resource centres with expertise on change management, as well as the necessary legal expertise to advise on various options and pathways to support and enable merging, consolidating and aggregating assets and providers.

1. Introduction

In submissions to the Lets Talk Housing consultation on a national housing strategy, a number of organizations suggested opportunities for Canada's social housing sector to modernize or transform itself toward a more sustainable future. For example, the Wellesley Institute suggests a need to strengthen and increase capacity of the social housing sector; the National Housing Collaborative identifies a need to provide leadership and resources for social housing sector transformation to build a more efficient, self-sustaining and innovative system of social housing in Canada; and, CHRA has proposed a sector transformation initiative with funding to address barriers to diversifying and transforming operations.

At a provincial level, Ontario as part of its Long Term Affordable Housing Strategy Update (2016) announced a commitment to modernize Ontario's social housing programs into a more efficient, people-centered, outcomes-focused and sustainable approach to provide housing for Ontarians. Meanwhile, BC has embarked on a process to transfer provincially owned assets to the community non-profit sector as a way to build up scale and capacity of the community sector.

So, there is the beginning of a discourse about building capacity and the need to modernize, reinvent or transform the sector to pursue a path toward greater sustainability.

However, it is not clear that there is any articulation or consensus on the reasons why the sector, as currently configured, is not – or can't be – sustainable (beyond the expiry of subsidy). It would therefore be helpful to dissect and assess the sustainability or lack of in the existing "system". Nor is there any consensus on the objectives and outcomes of modernization.

Modernization and transformation will necessarily include provider-scale actions as well as broader system-wide changes (such as fundamentally new or different funding and financing models and new institutional structures). This will include changes at different levels, e.g., policy, funding, capacity development, legal/regulatory, etc., to facilitate uptake of measures to improve viability through mergers, acquisitions, revenue generation, shared services and purchasing.

1.1. Structure of the paper

This paper seeks to frame these challenges and opportunities and to provide some better understanding of what sector modernization and renewal might entail. This begins by briefly describing the current characteristics of the sector (and its subcomponents – public housing entities, private non-profits and co-operatives) and in what ways the current operating models may be stressed or unsustainable. For those less familiar with the evolution of Canada's social housing, greater detail on this history is provided in an appendix.

The paper then highlights some international examples of social housing transformation (again with details in an appendix) and draws out some potential insights for Canada. It also adds a brief review of prior research at HPC and CHRA on changing business practices and any related barriers and challenges.

The main element of the paper is the development of a vision for a sustainable future. In developing and describing this possible future, the paper identifies potential steps and incentives needed to encourage or enable change (both among funders and providers) and the associated frameworks, tools and tactics that can address the specific challenges and opportunities facing the new and future stock of affordable housing in Canada.

2. Background and current state of affairs

Canada's social housing sector was created over a period of some 50 years commencing in the late 1940s. It currently totals some 650,000 units representing just under 5% of all housing and almost one fifth of all rental housing.

It is owned and operated by a combination of public (provincial/territorial/municipal) and community based non-profit (including cooperative) providers, with portfolio sizes ranging widely from some very small providers with fewer than ten homes to one large public corporation with over 50,000 homes. Reflecting the range in scale, the organizations that own and operate this stock similarly vary from small voluntary boards to sophisticated professional corporations.

Canada's social housing stock has been built or acquired in a number of distinct phases, each having particular characteristics that underpin the current state of different parts of the total social stock. The structure and composition of the sector reflects the variety of larger-scale funding programs made available over the formative period from the late 1950s through to 1994. The subsequent post-1994 period did not see much expansion, but it did involve some organizational restructuring, most notably in the public provincial-municipal parts of the sector.

Key features of each phase are summarized in Table 1. This covers four key phases of activity:

- Phase 1 Public Housing (1950-1974).
- Phase 2: Community housing (1974-1994)
- Phase 3: Retrenchment and administrative restructuring (1994-2001)
- Phase 4: Re-engagement and "affordable" housing (2001-present)

For readers less familiar with these phases, the details and evolution of the sector are further described in Appendix A.

These phases have to a large degree established the characteristics of the legacy system that exists today including the funding partners (provincial, territorial and municipal), a diverse range of providers with differing levels of expertise, the clients served together with the level and form of assistance.

These past programs have created a stock of over 600,000 homes, many targeted to helping low-moderate income households and they have created a stock of housing that is now aging and in varying states of repair.

Table 1: Phases and characteristics of sector development

Phase	Time period *	Characteristics of provider	Funding mechanism	Target client populations	Rent structure	Number of units **
Public Housing	1949-74	Provincially owned housing corporations Strong expertise and professionalism, but rigid and risk adverse operating structure	Joint federal-provincial capital funding or alternatively federal loan and shared-cost subsidy to cover operating deficit from low RGI rents. No capital reserve or sinking funds.	Families and seniors of low-moderate income; overtime became 100% targeted	Predominantly close to 100% RGI	205,000
Early community housing	1964-78	Small non-profit and coops, some municipal corporations, charitable organizations and faith groups. Many small, with limited expertise and capacity.	Below market rate loan, and partial forgiveness; no ongoing subsidy but some rent supplement stacking after 1970	Family and senior, moderate income (rents set on a break-even (cost rent) basis	Cost-based rents at breakeven (moderate, but not RGI, except where separate Rent supplement), and some internal cross-subsidy	80,000
Expansion of community housing	1978-94	Mix of municipal housing corps, alongside small independent non-profit and cooperatives. Mixture of expertise and capacity as above for each sub-segment	1978-85, insured loan plus operating subsidy (finite); 1985-94 revised subsidy to cover full operating deficit with higher targeting to RGI. Annual funding to support capital reserves (sinking fund)	Senior, Family, singles and special purpose (& subprogram targeting urban Aboriginal)	1978-85 Mixed income, Min 25% RGI, rest at low end of market; Post 1985 targeted to core need, higher proportion RGI	Pre 1986 = 140,000; post 85 =80,000 plus 40,000 provincial unilateral
Retrenchment and restructuring	1994-2001	Few new non-profits (limited mainly to BC, Que), Minimal number "non-program based" developments/ organizations.	No new funding; transfer of admin responsibilities to PT, attempt to freeze federal subsidy at 95/96 level	Dependent on provider policies and market circumstances	BC/Que mixed with some RGI, rest breakeven rent.	Minimal
Reengagement and affordable housing	2001-present	Expansion of some existing plus some new independent NPs; commencement of EOA places projects outside of a governance structure	New funding in form of one-time capital grant, no ongoing subsidy (except where implemented at PT level). PT cost matching plus some additional municipal contributions	Same mix as community housing	Rents 80%-100% AMR, with some separate rent supplement for RGI in some PTs	50,000

* These phases generally coincide with significant amendment as to the National Housing Act, especially 1449, 1964, 1978, or to federal budgets (1993, 1996 and 2001.

**Rounded and total 600,000 is approximate; excludes additional 50,000 rent supplements, some stacked with NP and other in private market.
It also excluded housing on reserve, which totals some 27,000 units on reserve (16,000 built prior to 1994).

Most importantly the funding structure that has supported the growth of this sector is in the midst of a major change associated with maturing subsidy agreements. This is closely correlated with certain provider characteristics.

1.1. Legacy effect: current state of affairs

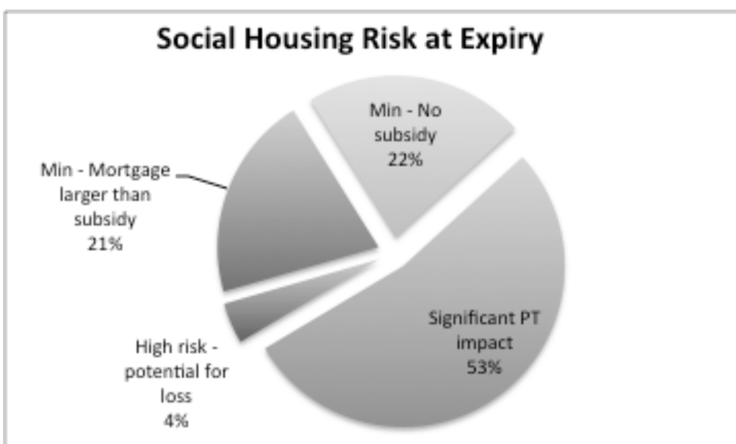
The characteristics and conditions associated with the funding programs of the 1960-94 eras have largely created the sector that exists today. These influence both the residual subsidy regime as well as the characteristics of providers.

Subsidy regimes

The historical programs created two types of subsidy regime and related portfolios, each accounting for roughly half of all social housing:

- ***Deeply targeted-subsidy dependent*** – this includes primarily Public Housing and Indigenous programs (totaling some 250,000 units), and potentially a small portion of post 85 NP/Co-op (when RGI levels are above 70% and deeply targeted).
- ***Mixed income and breakeven*** – this includes most of community housing including pre 1978 sec 26/27 which had no subsidy directly, but may have stacked rent supplement, section 95 (1978-85) Post 85 NP/Co-op (with above exceptions) and some unilateral NP/Coop (mainly BC, Ontario, Quebec). All together this totals close to 400,000 units.

The legacy programs largely determine which properties will be impacted as federal subsidy agreements come to an end. Programs that provided loans only and no-ongoing subsidy will fare better than those with ongoing and deep subsidy (debt costs end with no change in revenues).

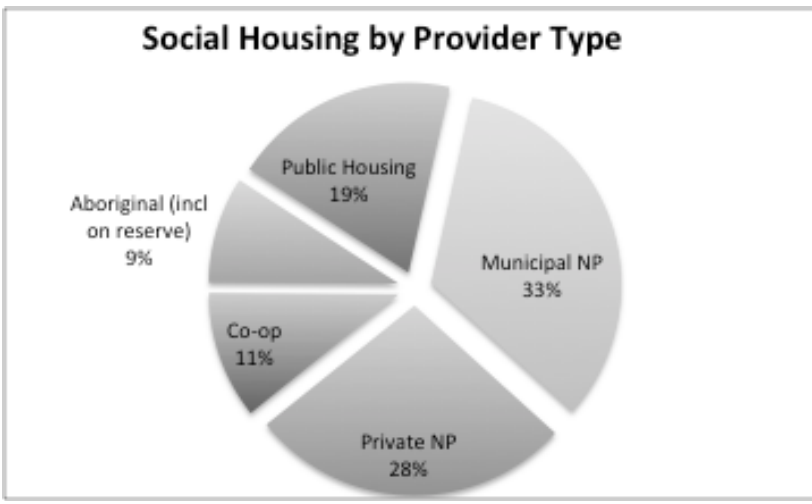


The first group (deep targeting mainly PT) will be unviable at expiry of federal subsidies (i.e. operating costs exceed revenues). However, because provincial governments own the majority it is anticipated that Provinces will sustain subsidies, although this will place a fiscal challenge on Provinces.

This first group includes portfolios in the three Territories (roughly 5,000 units). In the north, the community sector is very small, most housing is owned and operated by Territorial housing departments, and much of it is deeply targeted to very low-income households and generates minimal rental revenue. Severe climatic conditions, including permafrost in much of NWT and Nunavut create challenging operating conditions, with very high-energy costs and difficulty maintaining properties in sound condition.

Much of the housing in the Territories was developed under programs that provided a 75% federal share of subsidy. As such, when federal operating subsidies expire this stock is at risk. Territorial governments may not have sufficient fiscal resources to extend ongoing subsidy necessary to sustain these properties and the low rents they provide.

Public Housing properties are approaching 50 years of age and many have significant requirements for capital replacement in order to remain in sound condition. This will add to the fiscal burden of PTs.



The second group, which includes most of the community-housing sector (PNP, Coop and some MNP), is expected to be in more viable operational situation due to the lower degree of targeting and higher rent revenues. Some of these projects had only favourable loans but no ongoing subsidy and will be quite viable after debt is retired. The mixed rent model (generally pre 1986) generates higher rental income such that in most cases at expiry of federal subsidy properties will have sufficient rent revenue to be viable, even when retaining current RGI levels. However many have insufficient capital replacement reserves and will face challenges in financing necessary capital renewal as these project are also aging (many reaching 35 years).

In some cases, (mainly where RGI levels are higher) it may not be possible to sustain current RGI levels, without some additional subsidy. For a small portion of projects with agreements remaining under federal administration (some coops and pre 86 federal projects in Quebec and PEI) the 2016 and 2017 federal budget has allocated temporary funding to alleviate any impact due to expiry on current RGI households (reinforced by stated directions in recently released NHS). However a longer-term remedy remains to be developed for the much larger group that had been transferred to PT administration through the Social Housing Agreements.

Overall, if these portfolios are to continue to provide affordable housing at low rents to low-moderate households in need, some form of subsidy will be required

While the 2017 federal budget has revisited this issue and committed to retain its funding at historic level, and this is confirmed in the release of the National Housing Strategy the mechanism to sustain RGI remains to be designed. The way subsidy is extended and structured can have a significant impact: it can either perpetuate the current system or be part of a transformative change.

1.2. What is the problem, why is the current system unsustainable?

What is now referred to as the "social housing" sector was never designed as a holistic system. It is in essence a mixture of public and community-based organizations that share a common mission to create and operate affordable housing to help low-income individuals and families. These providers are not a product of a conscious purposeful attempt to create a sustainable system. They simply reflect the outcome of a series of programs over four decades that has created over 3,000 organizations operating some 600,000 homes – and now call themselves a sector.

Only ten provider organizations own and manage more than 5,000 homes. The vast majority of the providers are very small. In Ontario over 500 separate non-profit corporations each manages less than 100 units; in BC the comparable number is almost 600 providers. Meanwhile combined in both provinces there are fewer than 20 providers managing over 1,000 units[1].

Size and scale, as well as the type of product developed (deeply targeted vs. mix with market) relate to capacity to diversify revenue and distribute risk, and contribute to greater resiliency.

So while a critical issue is the financial resourcing of the sector, and how this impacts the viability of individual projects, there are concurrent structural-organizational aspects that impact on how limited funding is used, and more importantly how existing property assets can be part of a solution. In many cases, the expertise and professionalism required is absent because small providers can't afford to have staff and potential to lever assets is hindered because the property assets are held in small fragmented parcels.

These issues, and related aspects of financial sustainability are elaborated below. This assessment is based on the historical review and legacy outcomes. These identified issues were validated and augmented through a survey of informed opinion leaders (providers, funders/administrators and knowledgeable observers).

Subsidy dependency and sub-optimal rent structures

- Many properties are highly dependent on ongoing public subsidy in order to be viable. The sponsoring organizations are also highly subsidy dependent.
- Governments at all three levels have financed and invested through both capital and operating funding for over 50 years. As loans are retired and linked federal subsidies end, many providers are raising concerns that they cannot continue to operate and provide low

[1] Data on provider size provided by ONPHA and BCNPHA.

rent affordable opportunities to assist low-income households (without renewed subsidies).

- Expiring federal subsidy agreements now reveal the inherent unsustainability of the traditional social housing model (reflected in advocacy to extend or replace assistance to protect RGI units).
- Subsidies were intended both to enable rent to be set low and to cover debt costs. There is less evidence of any objective to build assets, which could then be used to sustain and expand the sector. In retrospect, the capacity to lever these accumulated assets is constrained by a combination of lack of revenue, culture, capability and regulation.
- They are operated on the basis of creating low rent affordable opportunities and as such collect insufficient rental revenue to operate effectively. Traditional RGI programs are effectively forms of income assistance, they were neither designed to, nor have they, enabled sound real estate asset building and management.
- The assets are as much as 50 years old and in need of substantial rehabilitation and modernization. Major building systems have reached the end of their useful life and require replacement. And these structures were built to earlier standards and generally lack energy efficiency.

Uneven fiscal burden

- Social Housing Agreements (in all but Quebec and PEI) sustained federal funding for pre 1994 social housing at the 1995/96 budget level, leaving PTs to absorb any subsequent increase in subsidies.
- While initially federal financial support was at a much higher share of the total than that of PTs, over time this has shifted. This is related to the requirements of the PTs to absorb all increasing expenses in the portfolios that they now administer – including roughly 205,000 units owned by PT housing corporations, as well as subsidies to third party community providers.
- The Social Housing Agreements (SHAs) concurrently permitted PTs to retain any savings created through reduced expenditures. With mortgages rolling over at increasing lower interest rates since 1996, this created a windfall subsidy saving that enabled PTs (and municipalities in Ontario) to fund and cost share new initiatives with no or minimal impact on their own treasuries (i.e. they used some of the fixed federal transfer to cover part of their cost for these initiatives). When the federal transfers end this will remove this source of funding and for projects where total subsidy was larger than total mortgage payments this will impose a challenge on PTs (municipalities in Ontario) to sustain current funding as well as fund any new initiatives.
- CMHC has maintained the position that the PTs are solely responsible for any ongoing subsidy and capital renewal expenses in the self-owned and operated public housing portfolios (roughly one-third of stock, but well over half of subsidy cost). If baseline funding excludes funding PT deficits on their own stock PT expenditures will increase dramatically. Faced with fiscal challenges, the PTs may lack fiscal capacity to extend any ongoing subsidy to third party community providers, and these will consequently be at risk. It is noted that the National Housing Strategy has now committed the federal

government to cost share ongoing subsidy and renewal costs for the Public Housing properties, so this risk and challenge is removed.

- Analysis for the PT Ministers working group in 2013 determined that by 2025 the aggregate PT expenditure of existing social housing would amount to $6 for each $1 of federal spending (reflecting expiring federal commitments). The recent NHS Canada Community Initiative will reinvest federal expiring funds, so this distortion should be reduced.

Absence of a coordinating system

- Social housing has evolved incrementally on a project-by-project basis. Typically when funding was available proposals were solicited and selections were made on a value-for-money (subsidy) basis. And related to this, housing development was project funded (and top down) rather than consumer-client focused.
- Over time existing social housing has become more residualized in its operations – that is by replacing vacating tenants with those in greater need and disadvantage (in Ontario since 2001 this has become a statutory obligation, although concentration of vulnerable tenants commenced in the 1970's via points based prioritization). These newer tenants often have a range of support needs beyond the financial capability of the social housing funding framework, and this creates an unfunded mandate and challenge for providers.
- Unlike the homeless system in which comprehensive community plans are developed as a condition of HPS funding, system planning and collaboration was not traditionally part of social-affordable housing development (although at the local level many communities have more recently developed comprehensive affordable housing strategies).

Social services versus sound business operations

- The traditional subsidy models and associated regulatory framework also tends to stifle creativity and innovation across providers (e.g. any surplus from operations results in reduction or repayment of excess subsidy, so providers have no incentive to pursue efficiencies);
- Traditional funding models enabled inexperienced non-housing organizations to incorporate and receive funding to build and operate housing projects. There were minimal requirements for sponsoring organizations to have any accreditation or expertise in owning and managing these assets – many were created and incorporated in order to take advantage of the development funding programs.
- Frequently the motivation of provider organizations was to help poor households, and as such they tended to operate more on a charitable, social service, basis than as an asset owner or business.
- Outside of the public sector, many of the properties are owned and operated by small community based voluntary organizations. These small, often single project, providers lack the capacity to have a payroll and professional staff (beyond part-time property manager/bookkeeper). This means many lack any expertise needed to develop longer term sustainability plans, undertake necessary renewal or access financing mechanisms;

- The community-owned assets are in fragmented ownership so it is difficult to lever the aggregate asset base and any associated accumulated equity;
- In the absence of professional operating bodies (i.e. accredited or meeting some formal service standard) and with subsidy-dependent operating models there is limited attraction to private capital in helping to renew or expand the social housing supply. Consequently the sector is mostly unattractive for private sector investment, except in relation to strategic centrally-located sites that can be redeveloped for privately-owned units. This is also impacted by absence of a coherent public regulatory or performance-based framework, as described below.
- The traditional subsidy models, premised on (very low) rent geared to income models reinforce unsustainable funding, and in collaboration with income assistance benefits (where rents are set at extremely low and unrealistic levels) act as disincentives to work for those tenants on income assistance benefits (by creating very high effective marginal tax rates).

Organizational culture

- As noted, much of the community-based NP part of the sector is single project small operators. They have a helping ethos, and often make decisions based on helping, even when this undermined financial viability (too many very low rent units).
- Within the public part of the sector (provincial-territorial and municipal owned and operated stock) there is a public service culture with varying degrees of political oversight. As public agencies they are impacted when governments seek to control or reduce spending, and have historically been under funded (relative to need to sustain assets in sound condition – see for example Eggleton report (2016) on TCHC. These public organizations also tend to operate in more rules based and risk adverse environments (often with active political oversight further reinforcing this).
- Public agencies are often positioned to avoid direct competition with the market and to spend public funds only on those in need. As a result it is difficult for such agencies to breakout of an unviable model with 100% (or close to) levels of deep RGI targeting.
- With constrained rent revenue and constrained subsidy, it becomes an increasing challenge for such public sector providers to be viable and to maintain assets in sound condition. And this situation will be significantly worsened as federal subsidies end (unless replaced).

Weak and fragmented regulatory and governance framework

- Canada's social housing sector evolved on a project-by-project basis. While Public Housing was funded and managed on a portfolio basis under global FPT agreements, the community sector was funded by project-level operating agreements.
- Canada benefitted from the public mortgage insurance program, administered by CMHC. This provided assurance to lenders and reduced lenders risk when providing financing to non-profit and co-op providers. This is distinctly different from most other countries, where systems have evolved and providers now must operate in a more disciplined business-like basis in order to access financing.

- Also unlike other countries, there is no formal regulator and no single (or even province-wide – except now Ontario) set of regulatory standards.[2] Nor is there a formal regulatory review beyond compliance under the terms of operating agreements – mainly as part of a public accountability process rather than as risk management.
- Each incorporated non-profit has a board, responsible for oversight and governance. Governance capacity and competence is varied. In many cases of small providers organizations have had very long serving (now aging) directors, and often have difficulty recruiting new directors. In the face of increasing complex challenges, and constraints on funding boards are often frustrated and become less active. These issues are exacerbated by having so many very small providers.
- Coops also have board structures, but the resident members themselves sit on the board, so there are concerns about the quality of governance as well as issues of moral hazard (resident members vote on adjustment to their own rent levels).
- A similar conflict of interest can exist in municipal-owned housing, when the municipal shareholder undermines the viability of its own corporation through the process to keep property taxes low.
- Without a regulatory and review process, there is no overall risk management system to identify and remedy projects in financial difficulty – at least not in a pro-active way (typically action is initiated only after a project is deemed to be in financial difficulty). This means there is no form of credit enhancement to assure lenders considering financing to providers. The exception is the reporting and risk management system implemented for coops by the Agency for Cooperative housing, and the related CHF refinancing initiative).
- And as federal operating agreements are expiring, projects that had been funded under one of these agreements become completely unregulated. This may create flexibilities for those providers with capacity and expertise, but for the numerous small organizations that do not have specialized staff, beyond maintenance and bookkeeping, it places the assets at risk. Where there is weak governance and no professional staffing, such projects may not be soundly managed. And at worst, the units could be sold off or moved to market rents.

1.3. Some new opportunities

While the preceding list enumerates many elements of traditional social housing that contribute to an unsustainable state, it is not all bad news.

Some providers, especially multi-service agencies, have successfully integrated their housing portfolio with a wide range of services.” I.e. it’s not size that matters, it's the mandate of the organization. These enable delivery of valuable support services to assist and stabilize tenancies. Resident services, and related expertise, while often an unfunded mandate, are a strength of the sector (and could be strengthen further with appropriate funding).

[2] While Ontario legislated a regulatory framework for social housing (Social Housing Reform Act, 2000, and now Housing Services Act 2011) this is administered through 47 separate municipal “service managers’, so remains inconsistent, fragmented and opaque to lender/investors.

Within the community-based private non-profit and cooperative parts of the system, the funding framework promoted and enabled a greater degree of income mix (fewer deep RGI households). As a result at expiry of federal agreements, many of these projects remain viable. Some face a challenge in asset renewal and have only limited reserves, but with surplus cash flows there is capacity to finance renewal. The income mixed approach has proven to be a better approach, both to create a more financially sustainable foundation, and to avoid excessive concentration of poverty and disadvantage.

Within the cooperative part of the sector the national federation has designed and implemented a financing program to assist member coops in securing such financing. And in NB, and BC the cooperative sector is implementing land trust models as a way to aggregate smaller individual assets and through a stronger balance sheet use these as security to lever financing for asset renewal or new development.

A current initiative to create an affordable housing finance authority is seeking to expand the coop-financing model across the non-profit sector. This could potentially be a useful institutional addition, effectively creating an intermediary between unsophisticated borrowers (providers) and lenders.

The end of federal agreements brings opportunities to be creative and innovative, and a few (mid-sized) non-profits have begun to exercise these flexibilities, investing previously restricted reserves to invest in new development, intensification and redevelopment of some sites. Some larger non-profits are becoming more entrepreneurial and organizing some of their core competencies and expertise as a saleable service offered to others (e.g. as development consultants, accounting and property management services). [3]

Another benefit of the post-operating agreement environment, for those committed to their mission, is the opportunity to undertake strategic asset rationalization. Some assets are in poor condition, but located on valuable land, and providers have been able to sell off weak properties to reinvest in remaining assets or new development (although with some reduction in the number of targeted RGI units).

Others have the flexibility to adjust their RGI mix toward more sustainable levels, less dependent on subsidy. One consequence is a reduction in the number of RGI units, although as organizations become stronger and pursue new development options (e.g. under IAH now rebranded enhanced PT partnerships) they will potentially be able to gradually replace these losses.

[3] These various activities will be enumerated and summarized in a forthcoming report from HPC, expected to be released in December).

2. Evolving adaptation and new practices in Canada

Recent research in Canada has begun to explore opportunities and examples of how social housing providers are adapting, and to some degree transforming their business practices. This has been strongly influenced by the recognition that the expiry of federal subsidy agreements is fundamentally changing the operating environment.

In the context of expiring federal subsidy there are effectively two sets of projects – those that have reached expiry and those that remain under agreements and temporarily continue to receive subsidy.

Providers with projects that have reached the end of these agreements face a mix of challenges and opportunities. As noted in the historical review (Appendix A), those with large proportions of deep targeting (primarily provincial or territorial public housing, as well as Urban Aboriginal non-profits) face serious financial challenges. [4]

For the other half of the sector, which involves both non-profit and co-operative providers, the situation is more mixed. Many will be financial viable but face challenges in funding capital renewal. The expired projects will exist outside of any regulatory framework and consequently providers are free to change the way they operate these projects – including selling assets (using proceeds to fund renewal of remaining stock), adjusting rents to higher or to market levels in some units (again as a way to cross subsidize their mission), redeveloping or intensifying existing properties with mixed income, mixed tenure models, and leveraging assets to finance other activities (new development, renewal of existing stock or some non-housing activity).

Many organizations remain mission committed, but there is also a risk that some may abandon their social purpose mission (there have been some limited attempts of cooperatives selling assets and members receiving personal gain).

For providers with projects still under agreement, their options to pro-actively restructure their business models are constrained by the operating agreements (and in Ontario by an even more constraining legislated framework that replaced agreements).

In many cases it may be desirable to alter operational practice prior to expiry, for example change how new vacancies are filled as a way to reduce the minimal rent effect of deep targeting, or secure additional financing to undertake major capital renewal now, rather than waiting until free of agreements. However many are constrained to pursue such sensible restructuring by interpretations of the residual rules of their operating agreement, So many believe that they cannot adequately or pro-actively prepare for the post expiry period.

A recent exploration by CHRA of barriers in existing operating agreements identified the cumbersome (and often risk adverse) approval process as an impediment to doing things differently (ways not anticipated or permitted by agreements). In particular CHRA identified constraints on a housing provider’s ability to refinance or leverage assets with existing

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[4] There may be new options to tackle these challenges, once details of new programs under the NHS are fully developed.

mortgages in place, or to prepay the current balance and refinance. Many housing providers are not aware of the recent CMHC refinancing program to offset prepayment penalties. This again reflects a general weakness and disconnected nature of small providers. There are gaps in effective institutional support in the sector and difficulty reaching small providers who may not be connected to existing sector organizations (especially in those provinces where these do not exist).

To the extent that operating agreements are contracts between two parties, these could be renegotiated. However there appears to be some reluctance to explore that option – as surfaced in the review of international experience, public bureaucracies tend to be less flexible and rule abiding, rather than willing to reinterpret and rewrite rules. To some degree the authority to revise (for provinces and in Ontario the municipalities) are opaque such that many administrators perceive that they do not in fact have authority to renegotiate on an agreement-by-agreement basis.

A 2015 research report for Housing Partnerships Canada (HPC) sought to determine the degree to which providers are being creative and innovative. While framed as an exploration to profile cases where providers exhibit transformative practices, the research found that activities were more evolutionary and marginal, rather than transformative.

The HPC case studies did identify a range of new more entrepreneurial activities, including contracting out core services in property management or development to others. Some had taken on new commercial activities (including developing ownership units for sale, commercial property and a boutique hotel), and others sought to strengthen their capacity by expanding through acquisition and merging with small providers. So there is a trend to improving resilience in the face of the EOA challenge, but few were undergoing significant transformation.

Two of the case studies examined how funder organizations (provincial housing corporations) were reforming some of their practices and this has broader implications as it starts to get at the core of transformation – changing the system and system rules within which providers operate. This including transfer of assets into the community as a way the add scale and capacity for some community providers. The other completed a detailed review of internal administrative practices through a continuous improvement program with the goals of improving the delivery of organizational processes/services and increasing the level of employee engagement.

One of the important findings was the relative minimal level of innovation and change being undertaken within municipal NP corporations. On the one hand these tend to have skilled professional staff (including recruitment of new skill sets in real estate development and asset management) but there was only limited evidence of these organization leading transformative change. In responding to survey questions on innovative or new activities such organizations generally responded “yes but only minor activity”.

It seems that in the municipal sector, the politicized context and oversight by municipal councils has acted as an inhibitor, despite the desires of some executive teams to expand and pursue new ventures. There was, and is, a culture that remains quite risk adverse and requires a painstaking and lengthy process to secure approval to pursue new roles as well as resistance to such proposal within the overseeing bureaucracies (i.e. the city staff that represent the municipality).

The 2015 HPC report also noted the large number of small providers and fragmented nature of the non-profit and co-op part of the sector. Scale was identified as a critical constraint – small providers do not have professional staff and expertise to take on new activities or to transform, except when merged into new larger organizations (and many fear mergers and takeovers (these tend to occur mainly as a result of a project falling into financial difficulty, rather than being instigated in advance of such problems).

3. Gaining insight from international experience

The process of modernization and transformation of the social housing sector is not unique to Canada. Nor is it a recent phenomenon. Literature from the EU, and especially UK, describes an ongoing process of transformation commencing in the UK in 1980's (Stephens 2004, Parson 2006, Parson 2009, Hickman and Robinson 2007, MacLennan and Miao, 2017).

Many countries followed a similar pattern with early investment via public housing models, which subsequently morphed into various forms of community based non-profit development (Whitehead and Scanlon 2012, MacLennan 2012, Chisholm and MacLennan 2014).

In the US there has been a parallel process, one via partnership with private sector investors under tax based investment vehicles (Pomeroy and Lampert 1998, Cummings 1999, Schwartz 2015). In the 1980's the HOPE VI program targeted the most disadvantaged public housing communities and funded large-scale renewal, redeveloping these sites into new mixed income, mixed tenure communities, with active community development programming. And a more recent program of modernization in US Public Housing commenced in the late 1990s under the Moving to Work (MTW) demonstration (Abt Associates 2015, Kleit and Page 2015).

In Australia much recent research has focused on transforming Australia's public housing system, following the UK model that embraces transfer of assets (and human resources) to the community-housing sector (Milligan et al 2009, Pawson et al 2015, Rowley et al 2017). And their neighbor, NZ, has substantially reformed their organizational structure and approach to funding and managing social housing.

It was noted in the previous discussion that the existing social housing sector in Canada is not an outcome of a purposeful design, but a result of a variety of program and funding initiatives that have created an array of providers that emerged to be called a sector. But what if we were starting from a clean slate? How would a thoughtful process design a sustainable sector? South Africa offers a valuable approach and model. It has only a relatively recent and quite small stock with fewer than 30,000 homes, which it now seeks to expand.

In a strategic vision the social housing sector in South Africa sets out a plan to grow to 200,000 homes by 2030 (NASHO 2013). Their approach is first to establish and gradually grow a limited network of accredited social housing providers. Only such accredited providers are eligible to apply for program funding/financing to build projects. This approach invests in building organization capacity and in an accredited and regulated sector, which will gradually build toward to overall target scale of providers and units. And most significantly this is framed around a goal to have 40 providers each with around 5,000 homes, as an optimal size for economies of scale professionalism. While 200,000 homes via 40 providers is an aspirational target, the vision is explicit and specific in how the sector should structure itself. Canada is not in a position to start with a clean slate, but the concept of building the sector first through a process of capacity building and accreditation standards is something Canada could seek to emulate, as it seeks to restructure and modernize the sector.

Looking across the international experience it is possible to identify three major types of change:

1. Organizational change involving processes that have helped to expand and diversify with a strong reliance on community non-profits, rather that direct public delivery;
2. Examples wherein ownership and management remained with public sector providers, but with a reformed funding or operating regime that has engendered creativity and innovation, resulting in a shift in the culture of the provider organization.
3. Funding and financing reforms, which involved greater reliance on private finance (replacing of reducing public grant or public finance) together with reforms to subsidy models that have tended to shift away from project subsidies to person based subsidy, which supported better rent revenues and enhanced viability and investability

These transformations can best be described through some brief illustrative case studies:

- UK stock transfer
- Australia stock transfer
- US MTW
- NZ organizational realignment

These examples are each discussed in Appendix B, with key insights highlighted below.

3.1. Insights **from** *the international experience*

These international examples reveal a number of characteristics that are different from the Canadian experience, and inspiring. All separate the asset from rental support and as a result, are able to operate assets on a sound viable basis, fund necessary reserves and generate surpluses that both fund reserves and create (re) financing capacity.

It is important to note that these examples continue to receive public subsidy. It is the way that such subsidies are structured (or reformed) alongside regulatory and program reform that have created the flexibilities and incentive structures to enable providers to become more creative and entrepreneurial. This has then had the effect of stretching limited public funding and augmenting these through asset leverage to achieve better (and larger) outcomes.

The international experience also reveals different approaches to secure financing, beyond the basis of the project based mortgage model typically used in Canada. A number of providers (in UK, Netherlands and South Africa) use their asset base and corporate balance sheet to lever financing for expansion. They partner with government, but lever their accumulated assets (i.e., they are not wholly dependent on public funding) to stretch limited public funding further.

Such approaches enable financing to be secured at a larger scale, which can be attractive in engaging non-traditional sources of funding, such as pension funds, which to date in Canada have been absent, but are active investors in other jurisdictions. A well-regulated sector is a critical element and a form of credit enhancement that provides assurance to private lenders.

Many provider organizations in each country are characterized by being entrepreneurial, creative, opportunistic and pro-active in asset management and development. As framed by one

UK housing leader, they pursue a “profit for purpose” approach versus the Canadian model of being not for profit (that tried not to generate a surplus).[5]

In this vein, Western Australia has adopted a business model that involved developing market units as part of the development plan and these generate development surpluses to cross subsidize the more affordable portion of the overall program. Many UK Housing Associations have similarly engaged in market rate ownership or intermediate market rental ventures to diversify and add revenues.

This differs from Canada where we have typically sought to develop 100% affordable. Even mixed income models of the 1980’s did not generate development or operating surpluses – and funding regimes acted to disincent such practice by confiscating any surplus via subsidy reduction.

System reform

In the briefly profiled cases in Appendix B, each involved significant change to the operating environment and system within which each organization functioned.

System change was more critical and had a more profound impact than simply adding skill sets or increasing the capacity of existing providers. In conversation with the current and former CEOs of San Diego Housing Commission (SDHC) and Homes Forward (Portland) both leaders expressed a view that they would not have taken their jobs in the absence of the flexibilities made available under the Moving to Work mechanism (see appendix B).

While both, like other MTW CEOs, had strong leadership skills, they felt that leadership and strong personnel are insufficient if the system within which they work is rigid and unaccepting to experimentation and change. The CEO of San Diego likened the situation to that of a sports team – *you can strengthen the team by better conditioning and recruiting new players (i.e. capacity building), but its still the same game; if you want to change the game the rules of the game must change.* [6]

This suggests that in Canada, any rebuilding, modernization or transformation must commence with a critical review and reform of the funding and regulatory system within which social housing providers have been created and have evolved. As in any ecosystem, social housing providers were created by and have adapted to the ecosystem within which they exist. As Maclennan (2017) has noted, the system that exists today is path dependent (choices today are constrained by past decisions and the structure of the system).

Simply creating innovation funds or funding sector agencies to lead a transformational process without fundamentally changing the system within which they operate is unlikely to engineer anything more than marginal change. Funds can and should be strategically invested in meaningful change that creates different outcomes from those of the past. To achieve different outcomes requires fundamental reengineering of the system. It also requires a collected re-envisioning of what the sector/system could and should look like.

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[5] Speech by Paul Tennant, former President CIH, speaking at CIH Canada Founders Program, 2014

[6] Personal conversation with Rick Gentry, CEO SDHC

4. Envisioning a sustainable future and a modernized sector

The earlier review and assessment has spelled out the key issues that have contributed to a sector that is unsustainable. The key to a more sustainable sector is a combination of an improved revenue/funding model and restructuring in the sector as required to optimize leverage of accumulated real property assets. Organizational restructuring should be a key focus of technical assistance and capacity building efforts and will require the creation of a new supporting institutional framework.

4.1. A renewed and modernized sector

Outcomes of a renewed sector

- The non-profit and cooperative community-housing sector becomes vibrant, more resilient and investible with a greater diversity of products, revenue sources and reduced dependence on public subsidy.
- The sector balances its social mission within a more entrepreneurial operating culture that seeks to optimize leverage of its legacy resources
- New investment and renewal funding focuses on organizations with potential for capacity development and growth, and organizations generating community benefit.
- Sector modernization is facilitated via new institutional structures that emulate the benefits of scale through intermediary organizations and sector consolidation.
- Low income renters are provided with increased assistance and choice (enabled in part through a new portable housing benefit).
- Concentrations of vulnerable tenants are minimized, but where pre-existing concentrated vulnerability already exists, partnerships with health-funded community agencies are enabled to provide support on-site with multi-year funding.

***Since details of proposed NHS programs were not available at the time of writing, the vision is not premised on any specific details of that strategy*.** [7]

[7] The NHS, released November 22nd, did point to some funding activities that clearly overlap with this vision (e.g. creating two new funds related to reinvesting in the existing stock), however details were not sufficient to fully reflect in this modernization vision. As a consequence, no attempt is made to second-guess how NHS programming will evolve; rather the focus here is on what could be effective (and elements of the NHS may indeed support those directions).

Financial viability

A reformed rental assistance structure is created as a more realistic rent mechanism, critical to financial sustainability. This establishes a fair rent, representative of the market potential.

To reflect the long term investment of public subsidy (helping to retire debt) a benchmark operating rent is set *below* full potential market rent, but at a sufficient level to cover operating expenses and to fund reserves for capital replacement. This also provides sufficient cash flow to leverage financing for large-scale capital renewal.

Project operational viability is enabled by setting rents at a set percentage of local AMRs by household/unit size, (assume a ratio of 0.75-0.80 times AMR)[8].

A portable housing benefit (PHB) is introduced, paid to tenants with a specific funding stream to replace an interim RGI subsidy/rent supplement model and thereby protect affordability for low income tenants, without undermining rent revenue and project viability.

Administration of the housing benefit is simplified (and associated administration cost reduced) by using the tax system as basis for gross income verification, together with a simplified benefit calculation. Benefits cover the difference between the benchmarked operational rents and a percentage of gross income.

The housing benefit program is administered by PT income assistance ministries to coordinate with other welfare benefit payments (also reform and simplification in the welfare system may also be necessary for effective use of this delivery conduit. As resources become available the PHB is expanded beyond existing RGI units, and used to assist individuals exiting homelessness under housing first initiatives and households on social housing wait lists, or otherwise eligible for housing assistance as a way to accelerate the reduction of extreme core need.

With a reformed and more realistic rent revenue structure. Providers are able to generate sound cash flows, build reserves and strengthen their balance sheet. This in turn improves their ability to seek financing as a way to fund capital renewal and replacement of aging capital items (roofs, mechanical systems, etc.), undertake energy retrofits and where appropriate undertake redevelopment or intensification.

New development activity

With increased leverage capacity (enabled via a new rent structure) mid-large providers (over 200 units) are positioned to access and reinvest accumulated equity and retained earnings. These become the primary conduit for new development and expansion. Some providers create development subsidiaries and provider development consulting services to others without (or too small to sustain) such internal expertise.

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[8] It is expected that something around 80% will be sufficient to support viability and capital renewal via leveraged financing. Special arrangements may be required for very large providers like TCHC with larger backlog of replacement. And once set, future adjustment or indexation will be required.

Small single project providers are ineligible for funding under IAH and other new development programs (as created under the NHS), except where pursuing aggregation (via merger of group structures, as discussed in section 6 below).

Proposal development funding (PDF) programs are refocused to support consolidation activities and accordingly no longer fund new organizations that would add to the number of small providers.

Existing providers with proven management capabilities are encouraged and supported in developing new mixed income market based projects as a way to augment and diversity their rental revenues and strengthen their financial position. A separate funding stream is created under the Rental Construction Finance Initiative (RCFI) specifically to support such mixed market endeavours by non-profit providers.

Access to RCFI financing enables mid-size providers to create and sustain a consistent pipeline of development activities, and thereby build capacity and expertise. When funding can be accessed under more directed affordable streams planned projects can be fully or partially diverted into these (e.g., IAH, *Enhanced PT Partnership in new NHS)* or other affordable programs to add to affordable supply.

Sector restructuring

A new funding and financing regime can be a catalyst for change, but transforming into a more modern sector also requires capable providers and a willingness to change and consolidate among small providers.

Many small single project providers have minimal staff (some operated only by volunteer board members). It is difficult to add skills and build capacity if there is no paid staff to whom to direct technical assistance and capacity building. In order to build capacity there is a need to create repositories for that capacity. This requires some degree of consolidation and aggregation of the many small independent providers. This is facilitated by a combination of incentives and disincentives (carrots and sticks) linked to new funding and financing mechanisms that will become available under the NHS.

Some providers (especially those with aging boards and weak governance may be willing to explore opportunities to merge or consolidate to strengthen and preserve their affordable housing mission.

It is recognized that some small providers are comfortable and viable on a stand-alone basis, and may not be interested in any form of consolidation. To the extent that they are viable, without assistance, their right to remain independent is accepted. However, if providers wish to avail themselves of any form of funding or financial support, they would be required to accept certain terms and conditions, potentially including requirements to participate in some form of consolidation or aggregation process (as described in Sec 6 below).

Concurrently, many mid-large providers (including PNP and MNP) have sufficient scale to undertake professional development internally. But their roles can be reinforced and further enabled through access to finance and technical support, where needed, to grow and expand through new development activities and in some cases by absorbing smaller providers where existing boards wish to ensure a strong future for assets they have created to continue to serve a low-income affordable mission.

Aggregation is not a goal in itself, it is a means to a larger end – a stronger more disciplined business-like and investable sector. Ideally the social housing sector will evolve from non-profit delivery agents into viable social enterprises - organizations that apply commercial strategies to maximize improvements in human and environmental well-being—including asset rationalization and maximizing social impact alongside profits for external shareholders (here a social return on investment to public funders).

It is anticipated that through a range of incentives, supporting/facilitating activities and funding, some consolidation is achieved. Within five years the number of community (PNP) providers owning and managing more than 1,000 units is increased from fewer than 10 to more than 40.[9]

The actions and supports required to achieve this outcome are described in the next section (6)

Level and form of government support

With the objective to assist low-moderate income households obtain affordable housing, there continues to be a critical need for public funding. However the form and structure of funding is reformed (as above) to enabling greater financial sustainability and sector resilience.

As noted, the key to financial sustainability is a person (household) focused funding model that directs financial support specifically on affordability challenges of the household. The rent supplement/housing allowance mechanism achieves this objective. Such a funding mechanism avoids project based funding and thus the administrative oversight and accountability reporting and costs associated with project based subsidy. [10]

In this scenario the baseline federal savings that are made available as existing agreements expire are reinvested into a Sector Sustainability Initiative (SSI).[11] This becomes the source of the rental assistance (paid initially as rent supplements and subsequently transitioning into a portable housing benefit housing allowances) to RGI paying tenant.

A federal financing program drawing on the Crown borrowing facility established to support the construction of new rental housing RCFI implemented in spring 2017 is expanded and extended. While RCFI primarily directed to development of market rent new supply, and is available to both for profit and non-profit proponents, a separate envelope is reserved for use by co-op and non-profit providers seeking to add market rent units as a way to diversify their revenues away from RGI, or to dilute the proportion of RGI units in their portfolios.

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[9] This excludes Municipal MNP organizations, which currently account for most of the organizations over 1,000 units.
[10] Provider and project oversight is also avoided under rent supplement funding mechanisms, under which it is necessary only to regulate the benchmark against which the supplement amount is calculated, independent of any underlying project level operating expenses.
[11] The recently released NHS establishes two funds – the Canada Community Housing Initiative and the Federal Community Housing Initiative. In this paper the term SSI is used.

Additional programming is delivered under other elements of the national housing strategy, including extension of the IAH funding framework to support PT initiatives as well as a series of direct federal initiatives (as defined under the NHS).

Creating new sector institutions

A modernized sector requires modern forms of institutional support. These should be established as independent entities separate from direct government agencies or roles. Three new elements are required to restructure and realign the sector. These relate to financing the sector providers, supporting performance outcome based professional practice and facilitating aggregation and consolidation.

Section 6 describes these three new institutions based on their functions; the precise structure (single national, regional/local subsidies) and relationship to existing sector organizations remain to be determined.

Comprehensive local housing and homeless service plans

Many communities have prepared community level housing and homeless plans or affordable housing strategies. Such comprehensive planning or updating is supported and encouraged as a way to coordinate delivery of support services as required to stabilize and strengthen tenancies and to assist tenants with non-housing support needs.

By coordinating activities with community based service providers these plans will help to optimize use of third-party supports, and minimize pressures of an unfunded mandate for housing providers, while ensuring availability and access to supports for households that require this level of service to remain in housing stability.

Outcomes for existing tenants and housing need

All existing RGI tenancies are grandfathered and protected, initially via rent supplement agreements. As tenancies turn over, new tenants are eligible for assistance under a new Portable Housing Benefit (PHB).

Through education and assistance from sector organizations, providers are encouraged to cap the number of tenancies within each project/portfolio using PHB at 70% to avoid high concentration, to balance assisted and market rent revenues and to secure long term financial viability.

Some exceptions to this cap may be required, such as projects that have difficulty attracting market rent tenants or projects serving indigenous populations. Where properties are unattractive to market tenants, to the extent possible reinvestment should seek to increase marketability and to transition high percent RGI properties to be attractive to market tenants.

Additional affordable housing opportunities are created through new development activity drawing on funding from IAH and other NHS funding streams. In such new program based development, capital funds are used to reduce affordable rents to 80-100% AMR, with PHB then used for eligible households to assist in addressing affordability challenges that remain with

AMR level rents. This retains longer-term sustainability and the practice of separating supply assistance from ongoing affordability issues for tenant households.

Special initiatives for indigenous and homelessness

In addition to these reforms to strengthen the existing legacy social housing sector, new initiatives are implemented to add culturally appropriate housing options for indigenous households that have relocated from reserves and to address homelessness. These initiatives are outside of the scope of this discussion paper.

5. Getting from here to there

The sustainable future described above presents a number of changes. This includes reforming the way subsidy funding related to supporting affordability is delivered and interacts with project sustainability; a new array of institutional structures to strengthen the sector; stronger resident services; and a process of relatively aggressive provider/asset aggregation. Some degree of scale is necessary in order to deliver capacity building services, and to achieve capacity.

1. Restructuring rent and subsidy

The most substantial change is in the way existing legacy social housing is funded. This is fundamental to setting up property assets to be well managed while concurrently, but separately, addressing the raison d'être of social housing: to improve affordability.

It sets out a new funding mechanism which transitions from the traditional project based (object subsidy) to a person based (subject subsidy) approach. This is consistent with the principles of the new National Housing Strategy for a person centric approach (Canada Housing Benefit).

It is also suggested that such a subsidy be delivered via provincial-territorial welfare or income assistance departments/ministries. As such it requires extensive negotiation and design in collaboration with PT authorities. There is extensive overlap between households in core need, households living in social housing and households receiving income assistance. By separating out affordability assistance into a Housing Benefit, it is logical to consolidate administration within income assistance functions at the PT level.

As an interim measure, while negotiating and designing details of a HB, expiring federal subsidy that negatively impacts existing RGI households can be temporarily replaced with project based rent supplement agreements. These can specify a specific number of units eligible for such rent supplement or tie these supplements to existing households on a grandfathering basis. It is critical that these extensions be temporary and an interim phase. To extend as long-term subsidy agreements will simply perpetuate the existing unsustainable subsidy system.

2. Create a new national financing intermediary

A newly incorporated national financial intermediary the Canadian Housing Finance Authority (CHFA) is created as a non-profit stand-alone financial intermediary. The CHFA acts as a technical advisor and intermediary in between capital sources (lenders, pension funds, and potentially CMHC direct lending) and providers. It is a specialized intermediary with in depth understanding of the business of social housing and helps educate both borrowers and lenders. It would function both as a broker, and aggregator acting on behalf of providers. Potentially the CHFA would be the administrator of loan pools for third party investors in fixed asset social housing loans.

Asset renewal is supported through the creation of asset renewal intermediaries (ARIs), as a form of technical assistance and support akin to the resource group/development consultants that originally helped build new non-profit and coop housing in the 1970s/80s. These can be created as branches or subsidiaries of the Canadian Housing Finance Authority (CHFA). The ARIs provide technical assistance and mentoring to assist small providers that have minimal professional staff (covers perhaps up to one-third of social housing, and half of the stock that is not owned by provincial or municipal government) but its services are also available to mid-sized providers.

Technical assistance is provided to assist providers (especially small and single project providers) to assess their replacement needs (e.g. fund a process to undertake building condition assessments, BCA) and to develop capital investment plans, work with boards to secure financing and to procure retrofit contractors. These ARIs would be seed funded under the NHS Sector Transformation Fund. They would deliver technical assistance on a fee for service basis and over time become financially self-sufficient.

In addition to establishing CHFA it is desirable to further broaden the array of funding and financing sources with a view to building a more diverse and robust financing system. Specialized niche lenders, like the new markets fund and other philanthropic sources (purpose based, impact investment) can play a small but important role in expanding both sources of capital, and in broadening a constituency of support (e.g. investors in the US low income housing tax credit has become strong advocates and have been effective in the expansion of the LIHTC since inception in 1986).

3. A new institutional framework to support modernization and restructuring – toward social entrepreneurship

The vision anticipates a fundamental shift in operating practice and culture. This embraces a move away from the concept of *no profit* (provider as service delivery agent of government) to one of *profit for purpose (*provider as a social business*)*, a practice of generating revenues (in addition to subsidy) and of levering assets to optimize the social outcomes that underpin the mission of affordable housing providers.[12]

The logic underpinning aggregation and consolidation is one of greater professionalism and accountability. This requires a set of performance standards and outcome targets and a basis to monitor progress against targets – a performance management and risk management system. Standards must include financial management, asset management, quality of resident services and governance. By transparently measuring outcomes against standards relative performance can be readily seen. Projects at risk can be readily identified and remedies implemented. And the practices of well performing providers can be documented as best practice and used to help others in a system of continuous improvement.

Such a performance-based model is effectively a form of pro-active regulation. As such it requires providers to voluntarily subscribe to a sector performance management system, or it requires mandatory enrollment, as a condition of accessing new funding and financing programs related to asset renewal and new development.

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[12] Organizations would still be incorporated as non-profits, or registered as charities, but would have a more entrepreneurial culture and discipline.

Given the new funding for both asset renewal and new development it appears that there sufficient new funding opportunities under the National Housing Strategy (NHS) to establish funding based incentive structure to support creation of a system-wide accreditation and performance management system. One option may be to build on the already established and well-tested performance and risk management system delivered by the Agency for Cooperative Housing. At minimum a new institutional structure is required to create and administer a performance-based system, and ideally this should be a nation-wide institution.

Given the fragmented nature of funding delivery split between (emerging new) federal programs, provincial-territorial administration under existing Social Housing Agreements, and the devolved administration in Ontario, a new sector wide performance and risk management entity can create a single, consistent administrative system. It can replace existing PT and municipal administrative activities, providing services on a fee for service basis to the PTs and municipalities (effectively in the way that the Agency for Coop Housing currently administers subsidy and manages risk for the federal co-ops).

4. Enabling better responsiveness to residents' needs

While strong asset management and financial sustainability are critical, it is equally important to ensure the fundamental mission to provide sound resident services, especially when high numbers of vulnerable clients. There are a number of measures that, taken together, would promote the stability, health and well-being of both individual tenants and the building community.

- Promote models that retain on-site building services (versus call centre approaches). It is at the building level where community is formed, and tenants engage with each other and management. No call system can do that. A large (over 10,000 units) and small organization (e.g. 200 units) might have similar staff: tenant ratio. But outcomes for residents will differ when staff are onsite versus in head office or driving from building to building.
- Benchmark tenant satisfaction as well as financial indicators with standardized bi-annual tenant satisfaction surveys. Other tenancy success measures (eviction rates, reduced # of units with excessive clutter & pests, ratio of eviction notices/evictions, calls to emergency services, etc.) could also be available.
- Facilitate mobility among housing options. Portable housing benefits are one approach; so is the elimination of transfer waiting lists in favour of a UK-style Housing Exchange – and for vacant units
- Work to minimize increased concentrations of vulnerable tenants; but where concentrated vulnerability already exists, the most effective approach has been partnerships with health-funded community agencies to provide support on-site with multi-year funding. Again, this requires housing management attuned to the needs of individual buildings.

5. Enable and encourage sector consolidation

In order to build the specialized professional expertise and capacity of the sector, it is necessary to have providers of a sufficient scale that they have staff to which capacity building can be directed. While this does not necessarily mean eliminating all small single project providers, it does imply some degree of aggregation. The vision anticipates some degree of consolidation, ideally to create a critical mass of at least 40 providers each managing over 1,000 units.

A process of project consolidation can be implemented with two models for consolidation: formal mergers of assets and staff within a single corporation; and associated group structures.

- Associated group structures are created wherein small providers (including co-ops) can remain autonomous but operate within in a shared service model, each buying into an independent body offering corporate services (strategic asset management and renewal, financing support and procurement and potentially some tenant support service coordination). Such group structures are organized on a geographic basis, and supported by a regional or province wide parent group (potentially affiliated with provincial sector association).
- Formal mergers will require legal restructuring and transfer of assets to a parent entity. Technical assistance and support, including mediation services will be required to enable and facilitate these organizational changes.

It is recognized and accepted that some stand-alone single project providers may not wish to aggregate and in some cases such as geographically isolated providers, there may be no others to aggregate with (although distance based group structures are possible – as illustrated by the M'akola group in Victoria BC, which providers corporate services to distant subsidiary providers in northern BC).

The process of aggregation and consolidation will require strong support, including both expertise in organizational change, mediation and legal services. Technical advisory entities (consolidation facilitators) delivering these types of facilitation and support will need to be created. These could be activities subsumed within the CHFA, or the performance regulator. Alternatively a network of advisory services could be established in collaboration with national or provincial sector associations.

So while aggregation may not include all, it should strive to be as extensive as possible. To do so requires strong incentives and advocacy. The strongest form of incentive will be access to funding for asset renewal, but advocacy about strengthening resident services and preserving stock under its original mission may be equally compelling to some providers.

Sector associations at both the provincial and national level can play a strong role in promoting the sector-wide benefits of consolidation. Funders both nationally and at the PT/M scale can also pro-actively support and encourage consolidation, potentially linking access to project renewal funds to participation in aggregation processes (associated and formal).

And CMHC can actively support these processes by redirecting Project Development Funding (PDF) to finance aggregation/consolidation processes and facilitating entities.

It may also be advantageous to consider consolidation and integration of the array of sector organizations that have evolved – at the national scale CHRA, is now accompanied by new organizations Housing Partnerships Canada and the Chartered Institute of Housing. Separate provincial associations also exist and differing levels of maturity across seven provinces, and there are emerging efforts to establish similar associations in the Territories, Saskatchewan, Prince Edward Island, and Newfoundland and Labrador.

The cooperative sector has for many decades operated on a federation model, and such a structure might be effective for the non-profit sector also. These would help to channel sector capacity building activities, with a coordinated national framework and regional delivery through PT associations.

6. Leading the renewal

Large-scale change required strong leadership and close collaboration. A wide range of stakeholders are implicated in the vision set out above. Significant programmatic and institutional reform is also required.

In order to implement this array of reforms and new activities it is recommended that a high level sector renewal task force be created, with representation from the PTs, CMHC and sector organizations, but led (chaired) by an executive from outside the housing sector with strong expertise in change management.

This taskforce should assist in creating resource centres with expertise on change management, as well as the necessary legal expertise to advise on various options and pathways to support and enable merging, consolidating and aggregating assets and providers.

Appendix A: Background and current state of affairs

Canada's social housing sector has been created over a period of some 50 years commencing in the early post war period post war period. It totals some 650,000 units representing just under 5% of all housing and almost one fifth of all rental housing. It is owned and operated by a combination of public (Provincial/municipal) and community based non-profit (including cooperative) providers, with portfolio sizes ranging widely from some very small providers with fewer than ten homes to one large public corporation with over 50,000 homes. Reflecting the range in scale, the organizations that own and operate this stock similarly range from very small voluntary boards to sophisticated professional corporations.

Canada's social housing stock has been created over a number of phases, each with particular characteristics that underpin the current state of different parts of the total social stock. The structure and composition of the sector reflect the variety of funding programs available over the formative period from the late 1950's through to 1994. The subsequent post 1994 period did not see much expansion, but it did involve some organizational restructuring, most notably in the public provincial-municipal parts of the sector. The key phases are briefly described below.

Key features of each phase are summarized in Table A-1.

Phase 1 Public housing (1950-1974).

This era created one-third of the stock (206,000 homes), a small number constructed between 1950-64 but most in the 1964-74 decade. It was produced by provincial and territorial housing corporations constructing, owning and managing housing for low-income seniors and families. While this included small portfolios in smaller cities, Public Housing in larger cities was often built in fairly large developments, and consequently become stigmatized concentrations of poverty (e.g. Regent Park in Toronto, prior to its redevelopment). [Dennis and Fish, 1972; Rose 1980; CMHC 1984].

Public Housing was financed with direct loans from CMHC together with ongoing F/PT cost sharing to enable projects with low rent revenue to cover ongoing operating and debt costs. The subsidies were contracted on a project-by-project basis typically for a 50-year duration, coinciding with the amortization period of the mortgage.

While not initially deeply targeted it has evolved into almost 100% targeted housing serving very low income households paying rent on a rent-geared-to income (RGI) basis. These very low rents generate minimal revenues and thereby increase dependence on ongoing subsidy.

Subsidies did not contribute to capital reserves, so any capital replacement was funded as an annual expense, cost shared by the F/PT partners.

Since the bulk of construction started in 1960's, these earliest subsidy agreements have recently begun to terminate. While mortgage payments have also matured, the low RGI rent revenues are typically insufficient to cover ongoing operating costs; so removing ongoing federal subsidy is impacting ongoing viability (Pomeroy, 2011).

Table 1: Phases and characteristics of sector development

Phase	Time period *	Characteristics of provider	Funding mechanism	Target client populations	Rent structure	Number of units **
Public Housing	1949-74	Provincially owned housing corporations Strong expertise and professionalism, but rigid and risk adverse operating structure	Joint federal-provincial capital funding or alternatively federal loan and shared-cost subsidy to cover operating deficit from low RGI rents. No capital reserve or sinking funds.	Families and seniors of low-moderate income; overtime became 100% targeted	Predominantly close to 100% RGI	205,000
Early community housing	1964-78	Small non-profit and coops, some municipal corporations, charitable organizations and faith groups. Many small, with limited expertise and capacity.	Below market rate loan, and partial forgiveness; no ongoing subsidy but some rent supplement stacking after 1970	Family and senior, moderate income (rents set on a break-even (cost rent) basis	Cost-based rents at breakeven (moderate, but not RGI, except where separate Rent supplement), and some internal cross-subsidy	80,000
Expansion of community housing	1978-94	Mix of municipal housing corps, alongside small independent non-profit and cooperatives. Mixture of expertise and capacity as above for each sub-segment	1978-85, insured loan plus operating subsidy (finite); 1985-94 revised subsidy to cover full operating deficit with higher targeting to RGI. Annual funding to support capital reserves (sinking fund)	Senior, Family, singles and special purpose (& subprogram targeting urban Aboriginal)	1978-85 Mixed income, Min 25% RGI, rest at low end of market; Post 1985 targeted to core need, higher proportion RGI	Pre 1986 = 140,000; post 85 =80,000 plus 40,000 provincial unilateral
Retrenchment and restructuring	1994-2001	Few new non-profits (limited mainly to BC, Que), Minimal number "non-program based" developments/ organizations.	No new funding; transfer of admin responsibilities to PT, attempt to freeze federal subsidy at 95/96 level	Dependent on provider policies and market circumstances	BC/Que mixed with some RGI, rest breakeven rent.	Minimal
Reengagement and affordable housing	2001-present	Expansion of some existing plus some new independent NPs; commencement of EOA places projects outside of a governance structure	New funding in form of one-time capital grant, no ongoing subsidy (except where implemented at PT level). PT cost matching plus some additional municipal contributions	Same mix as community housing	Rents 80%-100% AMR, with some separate rent supplement for RGI in some PTs	50,000

* These phases generally coincide with significant amendment as to the National Housing Act, especially 1449, 1964, 1978, or to federal budgets (1993, 1996 and 2001.

**Rounded and total 600,000 is approximate; excludes additional 50,000 rent supplements, some stacked with NP and other in private market. It also excluded housing on reserve, which totals some 27,000 units on reserve (16,000 built prior to 1994).

With now ongoing the expiries of federal share of subsidy, the PTs, who own the properties, are unilaterally responsible for any expenditure to sustain or renew these assets. Insufficient funding over a prolonged period, now exacerbated by termination of the federal share of subsidies has contributed to inadequate state of repair and increasing dissatisfaction among residents. As clearly illustrated with TCHC, dissatisfied tenants have raised concerns and this has politicized these issues (Eggleton et al 2016).

Provincial housing corporations own the properties and portfolios at the local level are managed either by a provincially appointed board (local housing authority) or under contract with municipality (This is typical approach in Quebec as well as other cities including Calgary, where the municipal housing corporation manages provincial stock on behalf of the province, who retains ownership). In Ontario public housing assets and responsibility for ongoing expenditures was fully downloaded to local government in 2001, so fiscal impacts of expiring federal subsidy are felt at the local level.

While projects were funded individually, Public Housing did not involve individual operating agreements. All were developed and operated by provincial corporations and there was an overall master agreement with each province/territory, with a schedule of assisted projects (CMHC 1990)

The key legacy features of public housing are: Aging assets, constructed 40-60 years ago; deeply targeted properties (most at 100% RGI) in which rents are insufficient to cover operating expenses and capital renewal; most have negative income and no capacity to leverage financing for capital renewal. Ownership remains primarily with provincial housing corporations, except in Ontario, where properties have been transferred to municipal ownership. Portfolios range from less than 100 units in smaller communities to over 50,000 units in Toronto (although this includes units developed under later programs, and subsequently merged with public housing).

Phase 2: Community housing (1974-1994)

Community housing is used here to refer to the not for profit (NP) sector, including co-operative housing. It includes a mix of programs with some subtle design differences. Over the two decades of active development, these organizations created around 400,000 homes (including some unilateral provincial) and therefore accounts for two-thirds of the total social housing stock.

Although the NHA included provisions to finance non-profit and co-operative corporations from 1949 (and a number of projects were completed between 1964-73), the growth of a community based social housing sector gained more momentum after 1973. Nurturing a community sector was articulated as an explicit policy direction in 1973, heavily influenced by identified failure of public housing, as articulated in the 1969 federal Task Force of Housing and Urban Development (Dennis and Fish 1972; Rose 1980, Suttor 2016).

While Public Housing was seen as too large, often creating concentrations (ghettos) of poverty, and run by provincial bureaucracies; the vision for the community sector was small scale, integrated into communities, run by community sector boards, and with a mix of incomes to avoid concentrated poverty. This was intended both to help offset opposition to developments, and to create efficiencies (reduced subsidy) by having professionals (e.g. accountants, lawyers, real estate business professionals etc.) on boards, or in the case of cooperatives via self-management (CMHC 1984).

Under the community housing programs, each project was developed with a project specific operating agreement – essentially a funding contract between the funder (initially CMHC, and subsequently the P/T) and the provider. As programs changed from time to time, so did the operating agreements. A large provider owning and managing a portfolio of 10-20 projects might have 3-6 different types of operating agreement, each with subtle variations and separate reporting requirements. This created an administrative burden (and cost).

The community-focused programs initially (up until 1978) provided direct financing, amortized over 50 years at below market rates (sec 26/27), with projects operated on a cost rent (break-even basis), with no ongoing subsidy (although there was implicit subsidy in the form of forgiveness of 10% of the loan, earned over time – so repayment was premised on 90% of loan). Subsequently, as costs drove rents to higher less affordable levels, separate rental assistance was stacked to ensure affordability to low-income residents (CMHC 1992).

In 1978 programs were redesigned. Direct finance was replaced with private sector insured loans (covering up to 100% of cost), amortized over 35 years. This was combined with an ongoing subsidy to ensure that a proportion of rents (minimum 25%) could be set at an RGI level. Remaining rents were set at the low end of market. As in Public Housing, the subsidy period was established to coincide with the mortgage amortization. And coincidentally, the 35-year anniversary for these programs is also 2014, so federal subsidies have similarly recently commenced expiry.

When the community programs were reconfigured under sec 95 in 1978 a technical assistance program was also implemented (Community Resource Organization Program - CROP) to assist emerging non-profits and co-ops to take on the activities of project development (CMHC 1984). This created a network of non-profit development "resource groups" or consultants. The program was seed funding and after three years these resource groups were sustained on a fee for service basis (capitalized into project costs). This expanded capacity to undertake new development.

The subsidy mechanism (1978-85), while providing ongoing subsidy, established this as a finite amount (which acted to limited higher proportions of RGI as projects were not viable). It also included subsidy to create a sinking fund for future capital renewal (although in retrospect the annual amount to be set aside was established at an insufficient level).

A significant policy change in the mid 1980's shifted some of the characteristics. The main change was that in 1985 the federal government sought to more fully engage the Provinces and Territories in both the funding and delivery of social housing and introduce cost shared subsidy. The mixed income model was revised in response to criticisms that limited subsidy should be directed only to those in need - so all eligible households at initial entry were required to have incomes below income thresholds set based on income required to afford an average market rent at 30% of income. This resulted in a middle ground between the deep 100% targeting of public housing and the mixed income models of the 1974-85 period. The subsidy formula also reverted in 1985 to a deficit subsidy (as in public housing), which created the financial space to increase targeting levels (which, as noted below MNP's took advantage of).

The non-profit program included two streams of funding, one to the so called private non-profits (PNP) just described; the other labeled municipal non-profit (MNP) directed to subsidiary corporations of municipalities, established to develop and manage social housing. Within the PNP sector, a sub-stream of funding was also available to groups providing supportive or transitional housing to special needs populations, which generated small group homes, typically owned and operated by community support corporations (CMHC 1984).

A variety of community organizations including faith based, ethnic immigrant settlement groups, and poverty reduction groups, as well as service clubs like Lions, Rotary, Kiwanis created non-profit corporations and sought funding. In many cases these small organizations may have built only one project, as was also the case with co-operatives. In other cases specialized non-profit housing corporations were established and gradually grew as they added each new project. Some of these portfolio providers grew to be as large as 1,500-2000 homes (with additional units added post 2001, as discussed below).

Across the 1974-94 period just over half of units were developed by PNPs, the remaining 45% by MNP's.

In many respects the MNP stream was a variant of public housing, in its public ownership. While individual projects remained modest in size and like the PNP and coops had mixed incomes, MNPs tended to grow larger than their PNP counterparts – there are many MNPs with portfolios exceeding more than 2,000 homes (compared to fewer than a half dozen PNPs). This was further augmented in Ontario by the transfer of formerly provincial public housing properties to municipalities, such that they then owned both a public housing portfolio and an MNP portfolio. Most (but not all) in Ontario were subsequently (post 2002) merged into singles corporations (Suttor 2016). In Quebec, the public housing portfolios owned by SHQ were also operated by municipal entities, many of who also expanded after 1978 under the MNP program.

Many MNPs experienced political pressure from their shareholder councils to target more needy households, and as noted below, when the subsidy model was revised in 1985 to allow larger and deeper subsidy, the MNPs tended to pursue a higher proportion of RGI tenancies than was the case among PNP's. As a consequence, like Provincial-Territorial Public Housing, these portfolios are now more deeply targeted and more dependent on deep ongoing subsidy.

So the key characteristics of the community housing sector were: generally smaller projects and often small sponsoring organizations, usually managed with a minimal staff and a hands-on voluntary board (in coop case a residents board); each project was regulated under a project level operating agreement linking subsidy to performance obligations (although these were loosely enforced); projects were only partially targeted with initially a minority of deep targeted RGI mixed with moderate low end of market rents and post 1985 a greater degree of targeting; subsidy was provided on an ongoing basis, but for limited duration, linked to the mortgage amortization, and these subsidies are now ending. Rent revenue per unit is higher than public housing, but varies across projects based on the degree of RGI targeting. Subsidy payments *enabled providers to establish and fund modest replacement reserves (although at insufficient level to fully fund necessary capital renewal).*

The legacy of these community programs is a significant stock of over 400,000 homes but with highly fragmented ownership and uneven levels of governance and housing-related expertise. Depending on targeting levels there is also a diversity of financial viability, especially as federal agreements and subsidies expire, a process that is now accelerating.13 Many assets may have high value, some redevelopment or leverage potential – but again there is no alignment between this potential and the skill sets and capabilities of the organizations that own and manage these properties.

Phase 3: Retrenchment and administrative restructuring (1994-2001)

The 1993 federal budget terminated all new funding for social housing, effective December 31 1993 (Federal Budget 1993). Some unilateral provincial activity continued, mainly in BC and Quebec, but at much lower production levels. So the scale and structure of the sector was essentially frozen in time.

In addition to curtailing new funding the federal government sought to disentangle the dual administrative regime that had evolved with some projects (mainly pre 1986) under federal unilateral agreements and others (mainly post 1985) under joint FPT cost shared arrangements with PT administration.

In 1996, CMHC commenced negotiations to transfer all administrative roles to the PT level (enabling some administrative efficiency and consolidation at PT scale) and cap expenditures at the 1995/96-budget level. Negotiations were protracted, with four provinces remaining outside consolidated agreements as of 2000 (BC subsequently entered an agreement in 2006 and Alberta finally in 2016; Quebec and PEI have not executed an agreement).

With new delivery and related program administration reallocated to provincial departments and ministries in the mid 1980's (PTs took on new delivery role under 1986 Global Operating Agreements) and reinforced in the late 1990's under the administrative transfer agreements, subtle variations in delivery and administration began to emerge across PTs and there was no longer a single federally based administrative system. This also involves PT responsibility to enforce CMHC operating agreements, which as discussed later can create confusion in responsibilities and approvals when a provider seeks to undertake certain activities (such as refinancing or redevelopment). This has been further fragmented in Ontario where both funding and administration have been delegated to the local level.

The key legacy of this period of administrative realignment was a shift in responsibility to the PTs, who have steadily expanded capacity and competence. At the same time CMHC continued to downsize its role and staffing. Meanwhile, except CMHC awareness and administrative insight has been significantly reduced (except in few instances where projects remain under CMHC administration – unilateral projects in Quebec and PEI, Indigenous housing on reserve

[13] While scheduled expiry of federal agreements and subsidy is accelerating the 2017 Federal Budget indicated that these expiring federal subsidies would be retained and available for reinvestment, potentially as a way to address unviable projects.

and cooperative housing in BC, Alberta Ontario and NB, although for coops administration is via a third party agency). Ontario again is a special case with administrative and funding responsibility (for former provincial share of subsidy) devolved to the local level, creating a highly fragmented administrative regime.

Phase 4: Re-engagement and affordable housing (2001-present)

The federal government re-engaged in 2001, announcing a new Affordable Housing Framework, in collaboration with the PTs. This reintroduced a new funding system, with PTs required to cost share on a 50/50 basis. The funding level compared to pre-1994 was quite modest in scope.

A variety of initiatives are permitted, at the discretion of the PTs who each administer funded programs, designed at each PT level. These include new affordable rental development, assisted ownership, rehabilitation and rental allowances. Much of the funding has been used to assist new affordable rental, though with lower volumes compared to pre-1994 levels – ranging from 4,000-6,000 units annually and a total of only 50,000 units since 2002 (Suttor 2016).

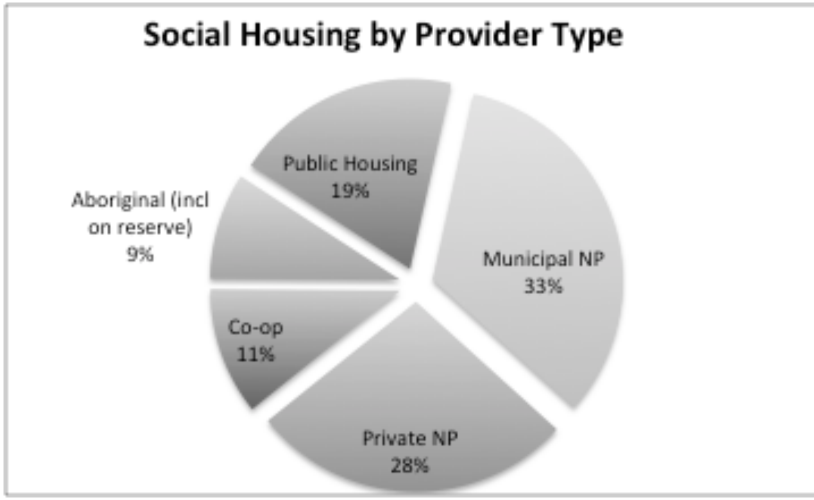
Notably the housing produced is funded with one time capital grants, which buy down break-even rents to an "affordable" level, at or below the average market rent. But except where additional PT ongoing subsidy is provided (increasing the PT share of subsidy, as in BC and Quebec), or providers employ a mix of rents and an internal cross subsidy there is no RGI assistance to very low-income households. Larger organizations have been able to cross subsidize from other parts of their portfolio to achieve some RGI penetration, and others have simply accepted a different layer of clients (those in shallow versus deep core need).

Provider characteristics

It is not a homogenous sector; rather it is composed of a diversity of provider types with significantly different levels of expertise, capacities, challenges and opportunities. There are also very significant regional variations between large and small provinces, while the territories also stand out (as noted earlier).

As outlined above, across the country the stock now owned and operated by principal corporations or municipal housing subsidiaries account for almost half of all social housing. This includes public housing (originally 205,000 units), with some 97,000 of which now transferred to municipalities in Ontario. With these Ontario transfers as well as units developed and managed by MNPs the municipal sector now accounts for one-third of the existing social housing stock. Nationally, only 10 providers own and manage more than 5,000 each. Five of these are in Ontario and are all MNP. Together these ten providers own one-quarter of all social housing in Canada.

Provincial housing corporations have been actively involved in development and administration of social housing since 1985 (and some earlier) and have substantial understanding capacity and expertise in both development, asset renewal and subsidy administration. They also have access to provincial and territorial fiscal resources, although the scale of necessary expenditure will challenge many.



MNP corporations are typically arms length subsidiaries of municipal governments and remain under some degree of oversight by municipal councils. They also vary from very large, very capable professionalized organizations, to quite small (200 units or less). To illustrate, in Ontario, where there are over 800 non-profit providers, only ten have portfolios of over 1,000 units and eight of these are MNPs. In BC five providers exceed 1,000 units, with two of these MNP and three PNP.

The small MNPs/ or municipal departments have some access to resources of their stakeholder municipality but may not have a full suite of expertise, especially in the area of asset management and renewal.

Another aspect of MNPs is the fact that they are owned by (and in the case of Ontario funded by) municipal councils so there is a degree of political oversight and in some cases active political interference (e.g. see TCHC task force report, 2016). Often there is also a degree of aversion to risk, which may in some cases suppress creativity and innovation (even though staff may be highly skilled and capable of innovative creative approaches). This was illustrated in the limited new activities of MNPs in the 2015 report of HPC.

In many cases, social housing has been delivered through social service departments (at both provincial and municipal level) and as such tends to have expertise in social programming (income assistance and RGI rent setting) as well as to varying degrees in resident service and tenant engagement. Many organizations however have more limited expertise in building science (to undertake building condition assessment) and asset management (including asset rationalization, redevelopment or renewal).

The public/municipal part of the sector covers a diverse range in scale and expertise. The small MNPs/ or municipal departments have some access to resources of their stakeholder municipality but may not have a full suite of expertise, especially in the area of asset management and renewal. Another aspect of MNPs is the fact that they are owned by (and in the case of Ontario funded by) municipal councils so there is a degree of political oversight and in some cases active political interference (e.g. see TCHC task force report, 2016). Often there is also a degree of aversion to risk, which may in some cases suppress creativity and innovation *(even though staff may be highly skilled and capable of innovative creative approaches). This was illustrated in the limited new activities of MNPs in the 2015 report of HPC, briefly reviewed in section 3.*

The true community non-profit sector of private non-profit (i.e. not a subsidy corporation of a public stakeholder province or municipality) represents just over half of all social housing. There is perhaps a greater diversity in terms of scale, expertise and competencies in this sector.

There are very few medium to large private non-profits, and even when larger these are typically only 2000-3,000 units. Again using Ontario where one third of Canada's social housing is found, only two PNPs exist with more than 1,000 units. The vast majority are very small. Many are single project providers with a project ranging from as small as 10 units up to around 100. As small providers they lack economies of scale and have limited capacity to retain professional staff (may have a property manager and part-time book-keeper) or may in some cases be managed by a voluntary board (a form of mom and pop type operation).

For many single providers the excitement was in initially developing the project to help specific constituencies (e.g. service clubs often built for seniors, faith groups and ethnic groups built to their congregation or to settle new immigrants or refugees). Many have had the same board members for decades, and directors are aging and less interested in the more mundane activities of property management. And often, sponsoring organizations have difficultly recruiting new board members. In the case of co-operatives the residents serve on their board and again there are lifelong directors and in many cases issues of self-interest (e.g. members vote to establish or change their rent level or housing charges). So there is a spectrum of strong to weak governance across this part of the sector.

And similar to the public and municipal sector, many provider organizations were motivated by a sense of social responsibility to help households in need. They approached the development of social housing as a social service – providing modest sound accommodation with low affordable rents. Many struggle to balance their operating budget and tend to favour helping another poor household over sustaining operating viability. Few see themselves as being in the property management or asset management business. This will exacerbate viability issues post EOA.

Many of these projects developed with technical assistance from specialized non-profit resource groups and development consultants. Following the termination of funding for new social housing in 1993, many of these technical resource groups disappeared (some remain in BC and Quebec when minimal levels of activity under unilateral provincial programs sustained some capacity). And because the focus of resource groups was almost singularly on development that have not been parallel resource supports on operational matters, although in a number of provinces sector organizations have been created and do provide some training and educational support in this area.

So overall, with some notable exceptions, the community sector is characterized by a large number of quite small organizations with quite limited expertise and capabilities, especially in relation to asset renewal or development. They have a big heart and are dedicated to helping poor tenants, and this often trumps disciplined sound business practice.

As noted above, many also have a mixed income model and might be quite viable at expiry of federal subsidy, but lack the expertise to fully assess the impact or to identify how to leverage the asset value of the property. In aggregate these fragmented assets have considerable value, but as currently configured and without sufficient expertise there is limited potential to realize on this asset base as a way to strengthen the sector and enhance sustainability, either at the project, organizational or sector scale.

Weak regulatory framework

A notable characteristic of Canada's social housing system is the historical absence of a regulatory framework, such as exists in many EU countries where social housing is larger and a more mainstream activity.

The system and sector has evolved on a project-by-project basis, governed under a series of operating agreements that function as funding contracts. In the case of public housing this took the form of a master agreement between CMHC and provincial housing corporations. In the cases of non-profit and cooperative housing it was on a project-by-project basis with terms and conditions set of in a project level operating agreement.

The terms and conditions in the O/A relate mainly to public accountability for subsidy – meeting the operating terms as the basis for ongoing subsidy. Accountability was at the agreement level and compliance was premised on filing an annual financial statement and project level data report. Cursory reviews ticked the boxes for compliance and followed up only when there were clear breaches of conditions, or more often when projects fell into financial difficulty.

While initially compliance monitoring was undertaken by CMHC (and was minimal in enforcing conditions), this evolved to devolved administration at the PT level and subsequently in Ontario to the municipal level. Thus there is no single regulatory framework with a consistent set of metrics and practice. Like the provider network, the regulatory framework is fragmented and opaque.

As such the provider was not in any way regulated and Canada has never had a system of provider accreditation and minimal standards associated with the sponsoring provider organization.

This is in contrast to the practice used in other countries to build a strong professional sector, with minimal standards and criteria for expertise and professionalism through an accreditation process, prior to receiving a funding award; and subsequent ongoing monitoring and organization reviews to ensure ongoing capacity and expertise to manage well as a pre-condition to subsequent funding for additional development.

Other countries have established a regulatory regime that closely monitors and evaluates the performance of provider organizations, develops risk assessment frameworks to catch providers that may be weak or failing and implements remedies (including strengthening governance). Underperforming and new groups are precluded from access to new development funding. In other countries, having such a strong regulatory framework has been instrumental in encouraging and promoting strong business practice and effective asset management. It has also been a critical factor in enabling access to private finance – the lenders look to the regulatory system as a backstop and effectively a form of credit enhancement. This is not possible in Canada.

In many respects the existing large number of small-understaffed organizations in a fragmented system is the legacy of Canada's community housing policy to enable and encourage new sponsor groups (via Proposal Development Funding, PDF). CMHC provided seed funding, which enabled motivated, but typically amateur, sponsor groups (service clubs, faith groups etc.) to create and incorporate a not for profit corporation for the purpose of owning and managing housing for low and moderate income households.[14] Once incorporated they competed for project funding commitment and learned how to develop on the fly (some with help from technical resource groups). While attempting to support growth, the policy of providing PDF to new small groups, rather than focusing on growing existing organizations to achieve a move effective scale (with capacity to hire appropriate expertise in finance, property and asset management, and resident services) had the unintended result of perpetuating the model of very small unprofessional organizations and the a fragmented sector.

Unique but perverse case of Ontario

In Ontario, after executing the federal-provincial transfer of administrative responsibility (Social Housing Agreement) in 1999 the province went on to further devolve this administrative responsibility as well as the funding obligation for the provincial share of ongoing subsidies to the municipal level. This was implemented through a legislated process that cancelled all existing Provincial operating agreements and replaced these with a detailed statutory framework. Ongoing administration of federal agreements was also delegated to the municipal level. This shifted the expenditure burden and risk to the municipal level. As the second or third largest expenditure of local government, social housing has often been a victim of local government efforts to contain budget increases. This has imposed constraints and barriers, for example as individual providers have sought to be creative in addressing capital replacement via refinancing or in intensifying and redeveloping assets.

Role of sector organizations

Over the past 40 years sector organizations have been created to advocate for and support social housing providers. Initially at the national level with CHRA created in 1968 and provincial associations starting with ONPHA in the early 1980's and BCNPHA in the early 1990's. Associations have more recently been created in Quebec, NB Manitoba and most recently Alberta.

The provincial organizations have, to varying degrees implemented education and training programs in an effort to strengthen the sector in those provinces. CHRA's role has historically been mainly in the form of advocacy, although it has helped build a network through its annual congress, which draws many key stakeholders and facilitates active exchange of ideas and practice.

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[14] These new sponsoring organizations may have had professional on their boards – accountants, lenders, realtors, developers, that help to build the projects, but subsequently these professionals moved off the board, or were less involved,

In the co-operative housing part of the system, CHF has also played an extensive role in member support and education, most recently creating a financing facility to assist coops seeking finance to undertake capital renewal.

More recently (2013) a UK organization, the Chartered Institute of Housing (CIH) has expanded into Canada and is seeking to implement a system of professional accreditation for individuals working in the sector.

Appendix B: Illustrative International Case Studies of Sector Transformation

UK Stock Transfer

While famous for the Thatcher policy of right to buy, a more substantial process in the UK (especially England) has been the large-scale transfer of Local Authority housing to the non-profit Housing Association (HA) sector. Stretching over three decades, these transfers have involved more than 1.5 million homes and 149 public authorities (Maclennan and Miao, 2017).

Sector restructuring via stock transfers has been well documented (Malpass & Mullins, 2002; Pawson & Mullins, 2010, Maclennan and Miao, 2017). In part this was driven by political ideology (favouring a less direct government role) but was also a consequence of a government focus on controlling and refocusing public expenditure, deregulation and most notably the impact of public sector accounting regulations (the Public Sector Borrowing Requirement) under which the debt of local government is included in the national government consolidated debt (Stephens 2004). This severely constrained the capacity of Local Authorities to finance necessary repair and modernization of the aging public housing stock and consequently drove exploration of alternative ways to fund stock renewal.

Although the Large Scale Voluntary Transfer (LSVT) was initiated under Thatcher, it was notably expanded under Blair and New Labour after 1989 (Pawson, 2006). Housing Associations while not-for profit in standing, were considered private corporations and thus outside the PSBR and thus were able to borrow on the private market, subject to debt servicing capacity. This was enabled by the expansion of a funding mechanism that provides financial assistance to low income tenants, Housing Benefit which effectively provided a revenue guarantee to support debt.

The shift from publicly financed provision to private finance also added the influence of private sector lenders, which in turn required HAs to operate in a more commercial environment. Together the combination of policy drivers and an increasingly market orientation has dramatically altered the economic and financial environment within which HAs operate and thus the culture of these organizations.

The other important feature of the transfer process, as suggested in its name was the requirement that tenants democratically voted to approve the transfer (hence the “voluntary transfer”). This was seen as a critically important aspect in shifting the culture of the provider with a strong ethos of customer service (consumer focus) distinct from the more rules based hierarchical culture of public Local Authority providers. Transfer is seen as an attempt to put the 'consumer' interest of tenants ahead of the 'producer' interest of the 'state' and its employees (Maclennan and Miao (2017).

While initially a reaction to constrained access to funding and financing, the process of stock transfer has had a profound effect on the characteristics or social housing provision and more importantly the characteristics and culture of the provider organizations. Because their ability to deliver better services and better quality housing to the tenants, voting for the transfer was dependent on access to private financing. Accordingly HA's had to strengthen their skills and the association's balance sheet in order to secure private finance, bringing a new degree of discipline to the operations. There was an increasing focus on asset management and staffing to facilitate this role. But at the same time there was a focus on resident services placing the tenant-consumer at the heart of their service model.

Maclennan and Miao (2017) observed that through the associated building of industry capacity, stock transfers have contributed significantly to a housing sector that has been innovative and creative in meeting new housing policy goals despite government grant cuts. The capacities created through past stock transfers have enhanced the capability of the UK housing system to respond flexibly and creatively to shocks and changes. Smith (2005) suggests a broader impact, commenting that the shift of ownership from local authorities to housing associations, might have been beneficial, not only in generating the investment needed to improve the quality of housing and environments, but also in terms of creating wider regeneration benefits. And Gruis et al. (2004) identify the strategic objectives of a market-orientated organization as based on a proactive search for commercial opportunities, including diversification into non-core activities as a way to generate cash flows. This has involved UK Housing Associations expanding their activities to build affordable ownership schemes and to actively play in the more profitable intermediate rental market as a way to capture greater revenues.

The research into UK stock transfer highlights many positive outcomes, and tends to imply that community based non-profit ownership and management may lead to better outcomes than those achieved by public sector organizations (i.e. Local Authority housing departments). Indeed analysts of public sector organizations have been critical of their ability to adapt, trapped by an orientation towards a hierarchical culture because of their emphasis on rules, procedures and stability (Parker and Bradley 2000). And as noted below, this view is a central element in advocacy for transfers in Australia.

Maclennan and Miao (2017) counter with a more nuanced view and suggests that transfers are not a necessary pre-condition to transformation, but it is necessary to reform the system in which providers operate.

The characteristics and quality of organizational leadership (visionary leaders) is also an important factor (Maclennan and Maio 2017, Rowley et al 2017), and this is also highlighted in the US cases discussed below. It is notable that in the UK transfers involved not only assets, but often staff that had worked in the LA were part of the transfer. More significantly once released from constraints of public bureaucracy many of these same individuals demonstrated a strong inclination to a more entrepreneurial and creative culture. So it was not the individuals that perpetuated a bureaucratic risk adverse culture, it was a function of their operating environment (although in some cases staff were not able to adapt. Leading one English chief executive to coin the phrase "if you can't change the people, you have to change the people"). The US examples below reinforce this view, through initiatives to reengineer public sector provision.

The expanding role of stock transfer in Australia

Australia is very comparable to Canada in its' history and geography – an Anglo colony, a resource based economy with Westminster parliamentary system, and a federal system of government. Its tenure mix is also remarkable similar to Canada (70% ownership, 25% private rental and 5% social housing). The key difference in the social housing sector has been the historical dominance of state level housing agencies that build own and operate public housing (although much of this is in low density form in estates of semi-detached homes) and the small and only recent emergence and growth of the community housing sector. As in the UK (and US, Canada) cumulative budgetary constraint has taken its toll on the public housing sector and like other countries Australia has sought to nurture its community sector. Also like other countries, there has been a shift away from public finance to private finance and a need to qualify for financing. Australia has a national system of means tested housing allowances, Commonwealth Rental Assistance, CRA) which helps low income households (usually also on income assistance) to afford rents. Notably tenants of public housing are ineligible, while those of community housing associations can receive this financial assistance. As in the UK Housing Benefit, it creates a form of rent revenue guarantee to strengthen the HA's capacity to secure private finance.

Unlike Canada, with close proximity to the US, Australia has retained stronger ties to the UK and tends to closely follow and emulate public policy approaches. And in this light, Australia has sought to follow the UK model of transferring housing assets from State Public Housing Departments to the community sector. Numerous research reports and articles have heralded the positive benefits of such a transfer approach (Milligan et al 2009, Pawson et al 2015, Rowley et al 2017).

Between 1995 and 2012 just over 20,000 homes (from a total of around 300,000 public housing dwellings) were part of transfers (most in NSW), although the approach here is somewhat more tentative than in the UK. Often the "transfer" has been only an outsourcing of management, while the assets remains held by the State. There is also necessarily a process of building new capacity in the community housing provider (CHP) sector, as there are few existing organizations to transfer into. Accordingly to Pawson et al (2015), The aims of stock transfer are to: build the capacity of CHPs; help increase social housing revenues through Rent Assistance (RA); the leveraging of private investment; improve services for tenants; empower tenants; and renew neighbourhoods.

While noting that the policy objectives supporting transfers in Australia have not always been well articulated, Pawson et al (2015) highlight their findings with the title of a research bulletin "Public stock transfers to community housing the best option for a sustainable and financially supportable housing system". They add that the experience to date has generally positive, would be strengthened by title transfer (vs. merely management outsourcing) and note that there is an expectation that this activity will expand into the future.

Another perspective from Australia is provided by Rowley et al (2017) who documented several government led innovations in affordable housing delivery. This included the role of the Western Australia Housing Authority as a catalyst for the implementation of an ambitious state housing strategy. The innovation came largely from the strategy itself; drawing together existing programs and developing the housing continuum as a way of communicating the need for affordable housing supply right across this continuum. In 2010 Western Australia adopted a housing strategy to create 20,000 affordable homes by 2010. They achieved this in half that time and have now revised that target to 30,000.

To implement the strategy, the Western Australia Housing Authority took on the role of developer, in some cases using public land, in others purchasing private land and overseeing the development process. They work in partnership with private builders and share profits, reinvesting their profit to acquire more land. They generate surpluses from market ownership units, which are also reinvested back to grow their portfolio. They achieved this affordable housing target through a mixed-tenure approach, including 10,000 entry-level affordable ownership homes. But it also added 5,400 low rent RGI homes and another 2,700 affordable rental units at 80% of market rent. In part their accelerated success was facilitated by fortunate timing, a market downturn following the global financial crisis in 2009 suppressed land prices in WA and the WAHA was able to acquire properties for development at favourable rates.

The Western Australia approach is very much an asset-based property development strategy. In Australia, a nationally funded housing allowance, Commonwealth Rental Assistance (CRA) provides housing assistance to low-income renters living in the private rental sector and in community-based housing. This allows the provider to charge a market-based rent, while still supporting affordability via CRA. The Western Australia Housing Authority owns and manages 36,000 public housing homes and is also the largest land developer in Western Australia.

Transforming Public Housing in the US

As in many other countries, the earliest form of assisted housing was public housing – federal assisted development undertaken by locally established Public Housing Authorities (or in some later cases Housing and Redevelopment agencies), commencing in 1937. New development of public housing was effectively terminated by the Nixon Administration in 1974 and policies shifted to favour both private development (with below market interest rates to incent private developers, together with the creation of housing allowances (Section 8). The housing allowance certificates and vouchers were tied to specific (usually private sector) projects as well as provided as portable allowances, but administered by the PHA. Unlike the UK and Australian housing allowance programs, this was not a universal entitlement – it was a rationed program (and in recent years the number of available vouchers has been contracting).

On an ongoing basis since the 1970's HUD operating subsidies for public housing have been continually constrained, making it very difficult for many public housing authorities (PHA) to remain viable. Many also faced challenges due to concentrations of highly disadvantaged households, and particular to the US, issues of racial discrimination, such that many public housing developments became negative stereotypes. Challenges in managing these portfolios were exacerbated by seriously constrained operating and renewal budgets.

One program that sought to address these issues was the HOPE VI program which targeted the most disadvantaged public housing communities and funded large scale renewal, redeveloping these sites into new mixed income, mixed tenure communities.

A second approach was the Moving the Work Demonstration program, enacted by Congress in 1996, under which a limited number of public housing authorities were authorized to test ways to increase the cost effectiveness of federal housing programs, to increase housing choices for low-income families, and to encourage greater economic self-sufficiency of assisted housing residents. MTW agencies are able to obtain exemptions from many of the regulations and statutory provisions that apply to the public housing and Housing Choice Voucher (HCV) programs. MTW agencies have also been authorized to combine the federal funding streams for these programs into a single block grant that can be used flexibly (Abt Associates 2014).

The San Diego experience provides a useful example of how MTW facilitated a new approach to managing and developing social housing – it also underpinned a change in the culture of the organization, abetted by strategic recruitment of real estate and asset management skill sets. Like all US cities, San Diego has a municipal housing agency – San Diego Housing Commission (SDHC) – which initially developed and operated public housing in partnership with the federal Department of Housing and Urban Development (HUD). However, San Diego was a latecomer to public housing and has only a relatively small and generally younger stock than many other cities, where public housing started prior to WWII. Much of the SDHC stock was smaller properties of scattered units.

Under MTW SDHC became one of the leading PHAs in utilizing the flexibilities provided under that designation. Among the various flexibilities that this created was the option to ask HUD to terminate ongoing public housing subsidy and substitute housing allowance (Section 8 Housing Choice Vouchers).[15] This provided a higher level of subsidy per unit (depending on local markets often 2 to 3 times larger than PH operating subsidy), but it flowed to the household, rather than to the PHA. Thus there was a risk that, if a PHA were not a good landlord, tenants would leave and use their voucher in the private sector. The PHA could charge a fair market rent (FMR) pegged at the 40th percentile of the local rent distribution, and the voucher enabled the tenant to pay that rent. If a tenant left, the PHA could lease the unit on a market basis (although these generally approximated the FMR rent) and thus sustained their rent revenue.

SDHC was able to draw on the increased revenue stream from its "market rent" conversion to secure new financing. On a portfolio of just over 1,300 public units, which were debt free, and which HUD agreed to transfer title to SDHC, they were able to raise $95 million in new financing. They then used this capital to invest in both acquisition and new development (the latter also utilizing tax credit subsidy, which is a major supply program in the US) and created an additional 800 affordable housing units for their portfolio.

Another MTW agency approved in 2001, the Housing Authority of Portland (Oregon) drew on the flexibilities available under MTW, as well as its existing broader remit to deliver a number of state and city programs. After implementing a number of initiatives to streamline activities and create operating efficiencies, in 2012 the Authority undertook a organization transformation and rebranding exercise designed to make it operate more like a large non-profit housing provider and not a HUD-centric housing authority focused solely on following the rules of federal

[15] The Housing Choice Voucher is a form of housing allowance that provides eligible tenants with a predetermined fixed payment to help them cover their rent. They qualify based on income and the amount of the voucher is set in the local market, based on a maximum of the 40th percentile rent.

programs. Through rebranding the name of the organization was changed to Home Forward to reflect this broader conception of what the organization does as a public non-profit; to get away from the paternalistic connotation of "housing authority;" and to better reflect the broader geography served by the organization (including the all of Multnomah County and the City of Gresham).

In an evaluation study of five MTW organizations (including San Diego and Portland), Abt Associations (2014) identified an important change in in the culture of these erstwhile public agencies. All five case study PHAs reported that participating in MTW had led to a "culture of innovation" at the agency, enabling agency staff to think more freely about potential changes to policies and procedures because they were no longer in a top-down regulatory environment. Reflecting findings in UK transfers, these organizations became more consumer focused and expanded their customer services, enabled by reduced workloads from cost efficiencies in administration (reduced compilation and reporting to HUD). And all had purposefully recruited new senior staff from outside the traditional public housing industry with new perspectives and broader skill sets, which helped to reinforce changes in agency culture.

Transforming structure of Social Housing in New Zealand

Another relevant example of transformative practice comes from recent changes in New Zealand The early pattern in NZ was similar to that in Australia, with the state directly involved in building rental homes for the working poor. Policies sought to enable a community non-profit sector in the 1990's and since, but this remains very small. NZ has also had a long-standing rental allowance program, the Accommodation Supplement (AS). By 1991 the publicly owned stock totaled almost 70,000 units accounting for 7.1% of all housing and 23% of the country's rental stock. Additional households living in private rental housing were assisted with a housing allowance (accommodation supplement, AS). (Pomeroy 2016)

NZ underwent a process of institutional reform in the structure of its public housing agency and subsidy system in the early 1990's, but this was reversed following poor implementation, politicization and a change in government. In 2014 the funding and subsidy model was again reformed and expanded – previously income related rent subsidy (IRRS) was used only for social housing tenants; in 2014 eligibility was extended from Housing New Zealand only to new (not existing) tenants of registered social housing providers. Community housing providers currently receive the IRRS for fewer than 300 tenancies – a tiny amount compared with the total of 62,000 IRRS remaining tenancies. AS remains available to private rental tenants.

Additional reforms in 2014 cover a wide range of initiatives including reallocation of responsibilities between agencies with responsibility for assessing and delivering housing subsidy shifted to the Ministry of Social Development or order to integrate housing subsidy with other supports. This leaves Housing NZ as a landlord and asset manager, no longer involved in administering household level subsidy.

This new asset management strategy (for HNZ) enables strategic asset dispossession and acquisition, large scale redevelopment of existing assets with a mix of new social and market units and continuation of ongoing programmed of maintenance and modernization in the state owned stock. Separately funds for new development are being directed to grow the small community housing (non-profit) part of this sector.

Most critically, the revised Income Related Rent Subsidy covers the difference between tenant contributions at 25% of income and full market based rents. This generates a sufficient revenue stream to enable HNZ (and expanding community providers) to operate as an asset manager, and to maintain assets in sound condition, including capital replacement, while the affordability issues of tenants are addressed separately via the housing subsidy, paid directly to tenants.

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