



The
CO-OPERATIVE
HOUSING
FEDERATION
of Canada



The Effects of Recession on Canadian Housing Co-operatives

November 2009

Features of the 2008/2009 recession in Canada

Economic downturn as in other G8 countries

Loss of jobs in the manufacturing, energy and commodities sectors – largely due to reduced US export market and auto industry crisis

Temporary/indefinite lay-offs and permanent redundancies

Features of the 2008/2009 recession in Canada

Interest rates at historically low levels:

Central Bank overnight target rate 0.25%

Credit tightened for all but the lowest lending risks
widening of lending spreads in many markets

Features of the 2008/2009 recession in Canada

Crisis in US auto industry a big factor in Canada – many assembly lines and parts companies based in Ontario

Canada has participated in the industry bailout

Canada has flirted with quantitative easing to increase liquidity

Features of the 2008/2009 recession in Canada

Some exposure to toxic assets for Canadian investors, financial institutions

But no banking sector meltdown or large-scale mortgage defaults:

- Better regulated banking sector
- Very little sub-prime lending

Features of the 2008/2009 recession in Canada

Short term softening of the real estate market offset by availability of low interest mortgages

Generally a softer landing, but pockets of high unemployment and underemployment persist

As with all downturns, jobs recovery will lag GDP recovery.

Some structural upheaval will take place if auto industry does not recover

Features of the 2008/2009 recession in Canada

Canadian dollar appreciating against US dollar in Q3/Q4 of 2009 – slowing recovery

Stimulus budget adopted by federal government: measures include funding for social housing renovation and energy retrofit

Profile of Canadian housing co-ops

In Canada almost all housing co-ops are rental co-ops. They:

- Operate under government programs
- House mixed income communities

Subsidy available on a limited basis for low-income households

Profile of Canadian housing co-ops

Typically 30% - 50% of households receive assistance with their occupancy charges

Other households pay the break-even occupancy charge for the unit (equals the economic rent net of government operating subsidy)

Break-even rents occupancy charges can be less than, equal to or even greater than local market rents

Profile of Canadian housing co-ops

Canadian housing co-ops are in competition with the local market – sometimes in stiff competition

Canadian co-ops must manage their own risk:

- market risk
- asset risk
- management and governance risk

Impact of recession for housing co-ops

Impact on co-op members

- more demand for rent subsidy in some regions
- difficulty with utility bills
- some increase in arrears, rent payment plans
- greater difficulty maintaining unit condition

Impact of recession for housing co-ops

Impact on applicants for co-op housing

- co-ops in some regions experiencing much higher volume of inquiries
- families offering to share accommodation
- prepared to pay a high ratio of household income in occupancy charges
- more applicants with poorer credit ratings

Impact of recession for housing co-ops

Impact on applicants for co-op housing

- In other regions, co-op inquiries have declined as the local rental market has cooled landlords offering incentives.
- Demonstrates two different potential effects of a downturn on housing co-ops:
 - softening of real estate markets can create more competition for tenants job loss and job insecurity increases demand for affordable co-op housing

Impact of recession for housing co-ops

Impact on co-ops' business affairs

- Co-ops with renewable government mortgages benefiting from very low lending rates but subsidy for low-income households tied to interest rates, and declining
- Co-ops must be careful not to offer reduced occupancy charges to low income families without matching subsidy capacity – internal or external

Impact of recession for housing co-ops

Impact on co-ops' business affairs

Varying business impacts arising from:

- changing demand patterns (can decrease or increase vacancy risk)
- increasing arrears
- income uncertainty among the members

Impact of recession for housing co-ops

Impact on co-ops' business affairs

Good financial climate for co-ops to refinance

Very low returns on traditional savings choices
(bank/credit union deposits, guaranteed
government securities)

Impact of recession for housing co-ops

Impact on co-ops' business affairs

Successful CHF Canada lobby made stimulus funding available to housing co-ops and other affordable housing providers for renovation and retrofit

Program generated an overwhelming number of applications

Overall outlook for Canadian co-ops in the recession?

Cloudy with sunny periods, gusting winds and a threat of precipitation