



Questions and Answers

Housing Charge Increases



THE AGENCY
FOR CO-OPERATIVE
HOUSING

L'AGENCE
DES COOPÉRATIVES
D'HABITATION

Can't our co-op cut expenses instead of upping the housing charges every year?

The short answer is no. There is little fat in co-op budgets. Your co-op has no control over its major expenses, like mortgage payments and taxes, and little control over other large costs, like insurance and utilities.

Your co-op's financial success depends on properly estimating expenses and bringing in enough money to cover them. A budget that works begins with the expense side. By adding up what you'll need to spend in the coming year, you can tell how much you'll need to earn.

What about cutting back maintenance spending?

Putting off maintenance will make your co-op a less pleasant place to live, bringing move-outs, vacancies and more financial problems down the road. Like people, buildings need more upkeep as they age. When a property is not well cared for, its parts fail sooner. (For information on preventive maintenance, visit the CHF Canada Resource Centre or talk to your Agency relationship manager.)

Can we put less aside in our capital-replacement reserve?

As we've pointed out, major building parts wear out, even when well looked after. Take your roof. A new roof is costly, and your co-op will need to save up to pay for it. If you don't save the money along the way, borrowing will be your only choice when a new roof is needed. Your co-op will have to raise housing charges even more to pay back the loan PLUS interest.

If, instead, you add to your reserve year after year, when the time comes to replace the roof, you'll have both the money you set aside and the interest it earned. (For information on how much to put in your capital-replacement reserve each year, talk to your federation or relationship manager.)

What if our co-op ends the year with a surplus? Can we use it to balance the next budget and avoid raising our housing charges?

It's never a good idea to use one year's surplus to balance the next year's budget. Your co-op may have a deficit from previous years. If so, any surplus would go there first. If your co-op has no losses to offset, the next best thing is to invest in the property or add the surplus to your reserves. Capital improvements mean a more

pleasant life for your members and can save on maintenance costs. Higher reserves will also stand you in good stead in the future.

But isn't the co-op supposed to be affordable housing?

Co-op boards often struggle to balance the long-term needs of the property with the members' need to balance their own budgets. Some think that raising housing charges goes against the co-op's mission. Others fear that increases may bring economic evictions.

But co-ops provide very affordable housing for members paying according to their income, and they aren't affected by housing charge increases. For those who pay the full charge, the co-op offers good housing at a fair price with secure tenure.

Co-op living is about more than money. It's also about quality of life. Co-op members should not be asked to live or raise their families in run-down, shabby dwellings, however cheap.

It's vital to look to the longer term when drawing up your budget. Ask whether your co-op will be able to keep on offering good housing on a non-profit basis. Co-op members need to see themselves as caretakers of an asset that lasts for a long time. If the board doesn't take the steps needed to protect the co-op's finances, it isn't looking out for the members' interests, now and in the future. Remember that if the business fails, you will not be able to offer housing to anyone.

Aren't co-op housing charges supposed to be lower than market rents?

No. What makes your co-op a co-op is how the housing is run, not how much the members pay.

Housing charges vary widely from one co-op to another, according to their starting conditions (cost of land and buildings) and how well they've been

managed over time. How they compare to market also depends on how the marketplace around them has moved. (Rents rise fast in some places and more slowly in others.)

Many co-ops with higher charges have satisfied members because the location and quality of the housing are good, and the community is pleasant. Price isn't all people care about.

Our co-op made bad financial and maintenance decisions in the past. Why should today's members pay for those mistakes?

You can't turn the clock back, and you can't ask members who have moved out to pay more. The only way to work off a past loss is by earning a future surplus.

If you want your co-op to continue, you'll need to take responsibility today for your co-op's past misfortunes or mistakes. This means setting your housing charges high enough to return to good financial health and stay there.

Our co-op looks like a dump. We can't charge more.

With a bit of cosmetic work and good marketing, you can. Better to earn more and invest the money in fixing up your property—including your members' units—than let the building run down further.

What if our budget shows that we need a very large increase?

One option is to phase in a big increase. For example, you could introduce half the increase at the start of the year and then have a second one six months later. This gives members more time to adjust their household spending and absorb the added cost. If you do decide to phase in an increase, be sure to set the budget carefully



so that there will be enough money by year-end to cover all costs.

A look at how your current charges compare to market may show that some units are closer than others. It may make sense to apply smaller or larger increases to different unit types and sizes, depending on which ones turn over more often or are easier to fill.

If we charge more for some units, are we creating a two-tier system?

A co-op can reasonably set different charges for units of different quality or with different features. Members expect housing charges to be higher for larger units. So why not charge more for a unit in a prime location or with a renovated kitchen?

Won't vacancy losses offset the housing-charge increase?

In our experience, vacancy losses aren't usually tied to rising housing charges. You need to consider whether members could find similar housing for less money. Moving to less expensive housing often means sacrificing space or quality. And moving out to buy a home has to do with wanting—and being able to afford—home ownership, not about the housing charge going up.

Even if your vacancy loss does rise in the short term, higher housing-charge revenue should more than make up for it. Let's suppose your co-op has 100 units. A \$25 increase will bring the co-op \$2,500 more each month, or \$30,000 over the year. If three members, each paying \$1,200 per month, leave after the increase, and those units stay vacant for two months, your vacancy loss will go up \$7,200. Even so, the co-op has earned an extra \$22,800!

Vacancies may not become a problem, but won't a housing-charge increase lead to higher turnover in the membership?

Whether or not the co-op's housing charges go up, some households will move on for work or personal reasons. Some membership turnover is normal and can even be good for your co-op. Move-outs allow you to refresh the vacated units and welcome new members with different skills and fresh energy.

We're non-profit. Doesn't that mean we shouldn't have surpluses?

A non-profit organization that provides a service to its members is still a business. The first rule of business is not to lose money, and you really can't expect your co-op to end every year at zero, with nothing left over.

A well-run not-for-profit co-operative can generate a surplus to use for the benefit of the whole membership by reducing debt, improving the property or saving for the future.

Doesn't provincial law limit rent increases?

Some provinces have laws limiting rent increases but rent-control legislation does not apply to housing co-ops.



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