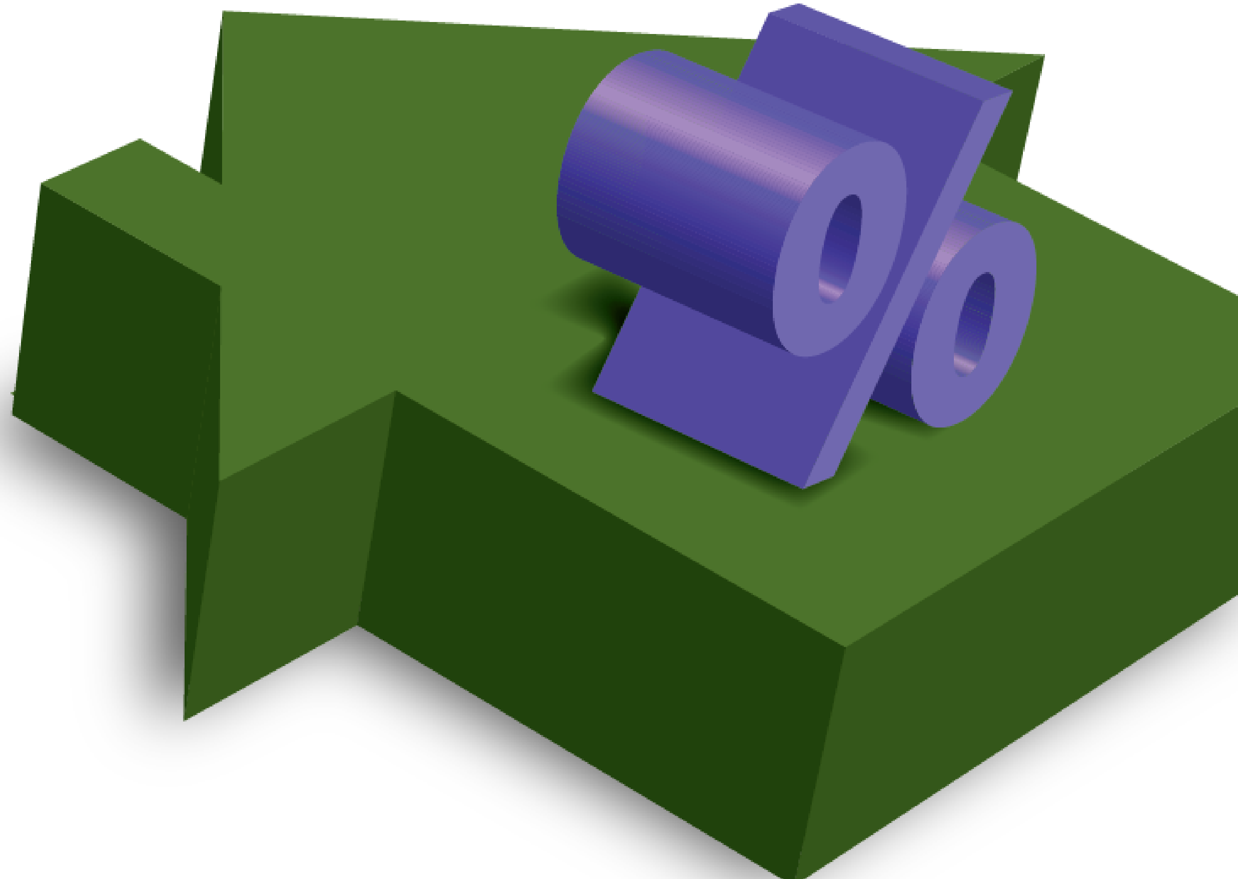


2012 Annual Portfolio Performance Review

REPORT TO CMHC — 2013

Prepared for the Agency's Website

The Agency for Co-operative Housing
L'Agence des coopératives d'habitation

Table of Contents

Overview

- 2012 marks the 7th year of the Agency's operations.
- This review reports on the collective performance of 534 clients who together own 32,615 units of housing.
- The Agency portfolio includes co-operatives operating under 6 programs in 4 provinces.

Overview

The review measures progress made toward three principal objectives:

- more effective management of the portfolio at a comparable or lower cost
- continued benefits of co-operative housing for Canadians
- improved client satisfaction within the portfolio

Overview

Positive results observed include

- more clients in full compliance with their operating agreement
- observable improvement in the portfolio's risk profile, despite a fluctuating economy
- co-operatives' collective assets better maintained
- substantial gains in client satisfaction.

Overview

- The dataset for 2012
  - draws from 534 AIRs filed by Agency clients for fiscal years ending in the period August 2011 to July 2012 and validated by 15 January 2013
  - includes information on 97% of the Agency's 549 clients at December 31.
- Datasets for prior years are for equivalent periods.
- Appendix A gives more information on the datasets.

Overview

- 2007 was the first full year of Agency operations and serves as the base year against which most current information is compared.
- Many tables and charts in the review present data for 2011 or earlier years to draw out trends.

Overview

The past 6 years have seen little change in the breakdown of the Agency's portfolio by program.

Table 1: Portfolio Distribution by Program			
	Clients 2012	% 2012	% 2007
S27/61	51	10%	11%
S95	330	62%	61%
FCHP (ILM)	132	25%	25%
Urban Native/PEI NP	5	1%	1%
Multiple	16	3%	3%
Note: Rounding may give results that do not equal 100%.			

Overview

Owing to new clients from B.C., the provincial distribution has changed.

Table 2: Portfolio Distribution by Province			
	Clients 2012	% 2012	% 2007
B.C.	201	38%	33%
Alberta	54	10%	10%
Ontario	268	50%	54%
PEI	11	2%	2%

Note: Rounding may give results that do not equal 100%.

Overview

A shift towards using the services of property management companies is notable.

Table 3: Portfolio Distribution by Management Model

	2012		2007	
Management Company	233	44%	176	35%
Paid Staff	196	37%	213	42%
Paid Bookkeeper Only	70	13%	74	15%
Volunteer Only	35	7%	42	8%

Note: Rounding may give results that do not equal 100%.

Portfolio Compliance Profile

- The Agency's compliance-management program seeks to ensure that public funds expended under the co-operative housing programs are used as intended and properly accounted for.
- The Agency's agreement with CMHC looks for improving levels of compliance with operating agreements across the portfolio, measured in various ways.

Portfolio Compliance Profile

- The data in this section reflect the compliance status of the entire Agency portfolio, not only of the dataset.
- As the Agency's classification of compliance variances was broadly reassessed in 2008, that year provides the baseline for this review.
- Operating-agreement variances are classified as a Breach or Material or Minor compliance variance, as defined in Appendix B.

Portfolio Compliance Profile

***Agreement objective:** Increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements*

- At 31 December 2012, 79% of Agency clients were fully compliant with their CMHC operating agreement, up from 70% 4 years earlier.
- Compliance failures declined for all degrees of severity.

Portfolio Compliance Profile

Clients out of compliance with more than one obligation may appear in more than one category below. Workout-agreement variances are not included.

Table 4: Co-operatives' Compliance Status

	31 December 2012		31 December 2008	
	Number of Clients	% of Portfolio	Number of Clients	% of Portfolio
Total Agency Portfolio	549	100%	515	100%
Clients in Full Compliance	434	79%	360	70%
Clients Not in Full Compliance	115	21%	155	30%
Co-operatives with Agreement Breaches	18	3%	48	9%
Co-operatives with Material Variances	55	10%	69	13%
Co-operatives with Minor Variances	69	13%	89	17%

Portfolio Compliance Profile

- At the end of 2012, failure to observe CMHC's Net Operating Revenue Policy represented 7% of all variances.
- As the policy is not an operating-agreement requirement, the degree of non-compliance in the portfolio is overstated.
- Compliance with the NOR Policy is rising (14 clients out of compliance in 2012; 27 in 2008).

Portfolio Compliance Profile

Agreement objective: *Stable and, over time, improved levels of operating-agreement compliance within the portfolio, as evidenced by a decline in the number of operating agreement breaches and material compliance variances*

- Breaches and material compliance variances have fallen 27% since 2008.
- Compliance variances of all kinds are down to 189 from 254, despite a growth in the portfolio from 515 to 549 clients.

Portfolio Compliance Profile

Table 5: Compliance Variances by Degree of Severity		
	2012	2008
Agreement Breaches	30	59
Material Variances	67	74
Minor Variances	92	121
Total Variances and Breaches	189	254

Portfolio Compliance Profile

Table 6: Breaches by Agreement Obligation		
	2012	2008
Annual Reporting	10	21
Mortgage Payments	7	13
Eligible Occupants	7	6
Subsidy Surplus Fund	5	17
Income-Tested Housing Charges	1	0
Verification of Incomes	0	2
Total Breaches	30	59

Portfolio Compliance Profile

Table 7: Material Variances by Agreement Obligation		
	2012	2008
Capital Replacement Reserve	41	67
Adequate Regular Housing Charges*	18	0
Eligible Occupants	3	5
Income-Tested Housing Charges	2	0
Rent Supplement Assistance	1	0
Other	2	2
Total Material Variances	67	74

* Variance type added to system after 2008

Portfolio Compliance Profile

Table 8: Minor Variances by Agreement Obligation		
	2012	2008
Capital Replacement Reserve	34	11
Annual Reporting	24	46
Net Operating Revenue Policy	14	27
Subsidy Surplus Fund	8	14
Rent Supplement Assistance	5	0
Security of Tenure Fund	4	11
Income-Tested Housing Charges	2	8
Verification of Incomes	0	4
Other	1	0
Total Minor Variances	**92**	**121**

Portfolio Compliance Profile

***Agreement objective:** Fewer co-operatives in the portfolio in default of their financial obligations, as evidenced by fewer instances of mortgage or property-tax arrears*

The total number of co-ops having either mortgage arrears or tax arrears has fallen.

Table 9: Mortgage and Property-Tax Arrears

	2012		2007	
	Number of Co-ops	Percentage of Portfolio	Number of Co-ops	Percentage of Portfolio
Mortgage Arrears	7	1%	11	2%
Property-Tax Arrears*	4	1%	3	1%

* Excluding tax arrears remedied by the lender

Portfolio Risk Profile

- A comprehensive risk assessment of every client is performed annually.
- The composite risk rating assigned reflects the Agency's considered view of the co-operative's current health and future prospects.
- Strongly informed by the results of standardized tests performed for each client, the Agency's risk ratings are ultimately judgement-based.

Portfolio Risk Profile

- Our information system generates a rating based on separate evaluations of the client's financial strength, current financial performance and physical condition.
- Further risk factors can trigger system ratings of Above Average or High.
- Agency staff take other information into account, including local market conditions, before assigning a final rating.

Portfolio Risk Profile

- Ratings are adjusted during the year in response to external developments or significant co-op actions.
- See Appendix C for definitions of Low, Moderate, Above-Average and High risk ratings.

Portfolio Risk Profile

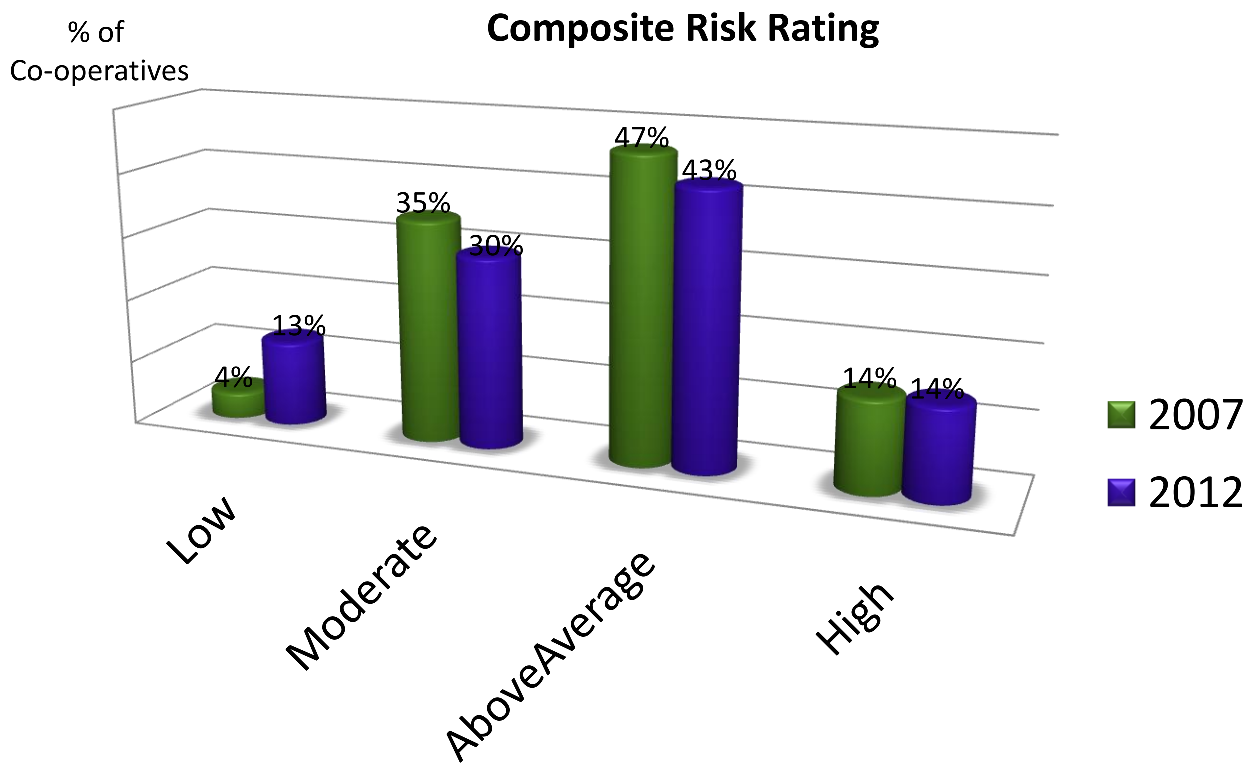
Indicators of Success

The Agency-CMHC agreement sets out **five indicators** of success in the area of risk management.

***Agreement objective:** Increased awareness by co-operatives of their own performance, as evidenced by an improvement in the overall risk profile of the portfolio*

- The portfolio's risk profile improved measurably between 2007 and 2012.
- More co-operatives now have a composite rating of Low and fewer are rated Above Average.

Portfolio Risk Profile



Portfolio Risk Profile

Clients Initially Held Back

- The portfolio's risk profile has improved despite an influx of clients initially held back at CMHC.
- The 5 years following 2007 saw a net portfolio increase of 10% (12 clients left; 61 arrived).
- 56 new arrivals had been assessed by the end of 2012.
- 89% (50) started with a rating of High or Above Average.

Portfolio Risk Profile

Clients Initially Held Back

- Falling risk levels are encouraging: more than 1/3 of new clients first rated High are now rated Above Average or Moderate.
- 1 first rated High is now rated Low.
- Of the departing clients, 9 were rated High or Above Average.

Portfolio Risk Profile

Risk Trend

- Our annual risk assessment now includes the assignment of a risk trend.
- 80% of clients with an assigned trend have a Stable or Strengthening outlook.
- The others were judged to be Weakening.

Portfolio Risk Profile

Risk Trend

- A Weakening outlook means the client has risk factors to attend to.
- The default risk may not have increased materially.
- Fewer clients with a High composite rating were identified as Weakening in 2012 than in 2011 (2012: 42%; 2011: 50%).

Portfolio Risk Profile

Risk Trend

Table 10: Composite Risk Ratings and Trends				
2012 Composite Risk Rating	Trend			
	Strengthening	Stable	Weakening	Total
Low	29%	68%	3%	70
Moderate	8%	85%	7%	156
Above Average	8%	64%	27%	215
High	20%	38%	42%	71
Total	64	346	102	512
	12%	68%	20%	100%

*Rounding may give results that do not equal 100%. Not all clients have been assigned a trend.

Portfolio Risk Profile

Agreement objective: *Improvement in the overall risk profile of the portfolio, as evidenced by a declining number of co-operatives rated High and a stable or growing number of co-operatives rated Low or Moderate*

Table 11: Composite Risk Rating as Percentage of Dataset

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
High	14%	16%	17%	14%
Low or Moderate	43%	43%	44%	39%

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Portfolio Risk Profile

Agreement objective: *Increasing percentage of under-performing co-operatives, as determined through the risk-rating system, that are not under a workout arrangement returned to financial health without a cash injection from CMHC Insurance or Enhanced Assistance ("under-performing" and "financial health" defined, respectively, as scoring Poor on either of the liquidity or net-income indicators or Fair on both and as scoring at least Fair on both the liquidity and net-income indicators, with no scheduled mortgage or property- tax payments overdue).*

Of the underperformers that returned to financial health by the end of 2012, 97% got there without receiving Enhanced Assistance or a cash injection from CMHC Insurance.

Portfolio Risk Profile

Underperformers

As the next table shows,

- 128 co-operatives were first identified as underperforming in 2007, 2008 or 2009.
- 82 (52%) have now returned to health.
- Only 2 of those received either a cash injection from CMHC Insurance or Enhanced Assistance.

Portfolio Risk Profile

Table 12: Underperforming Co-operatives Returned to Financial Health						
Report Year	Number of Co-ops	Returned to Financial Health		Not Yet Returned to Financial Health		No Longer Client
		No CMHC Assistance	CMHC Assistance	No CMHC Assistance	CMHC Assistance	
2007	70	38	2	21	6	3
	100%	54%	3%	30%	9%	4%
2008*	32	20	0	11	0	1
	100%	63%	0%	34%	0%	3%
2009*	26	22	0	3	0	1
	100%	85%	0%	12%	0%	4%
Total	128	80	2	35	6	5
	100%	50%	2%	37%	8%	4%

* Note: co-operatives newly indentified in 2008 or 2009 as underperforming

Portfolio Risk Profile

Underperformers

- The 2007 cohort is gradually progressing toward financial health.
- A majority (57%) have taken 4 years to recover from their financial difficulties.
- Comparing the 2010 and 2012 data shows an increase from 36 to 40 in the number of clients with improving health.

Portfolio Risk Profile

Underperformers

- 63% of the 2008 cohort have returned to financial health.
- The trend toward improvement should continue throughout 2013.

Portfolio Risk Profile

Underperformers

- We expect that clients will continue to strengthen their financial position by increasing
  - their revenues
  - their capital replacement-reserve contributions.
- Both tactics are needed to improve longer-term performance against this indicator.

Portfolio Risk Profile

Agreement objective: *Improved financial health of the portfolio, as evidenced by an increasing percentage of co-operatives with a Good or Excellent liquidity ratio, and an increasing percentage of co-operatives with a Good or Excellent net-income ratio*

Table 13: Distribution of Liquidity and Net-Income Ratios

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Good or Excellent Liquidity Ratio	79%	77%	76%	79%
Good or Excellent Net-Income Ratio	56%	54%	49%	55%
Both Indicators Good or Excellent	50%	48%	43%	50%

Portfolio Risk Profile

- The portfolio's performance against both the liquidity and net-income indicators declined between 2007 and 2009 but has improved steadily since.
- On the surface, 2012 and 2007 liquidity and net-income ratings are comparable, but a closer look shows a strengthening trend for both ratios.

Portfolio Risk Profile

Liquidity Ratio

- The median Liquidity Ratio for the portfolio rose over the five-year period (2012: 11.0; 2007: 9.3).
- Both median scores are in the Excellent range (above 8.0).
- While the percentage of clients with a liquidity rating of Good has fallen, the proportion with an Excellent rating has gone up (2012: 63%; 2007: 59%).

Portfolio Risk Profile

Net-Income Ratio

- The median Net-Income Ratio has remained constant at 0.8 in 2012 and 2007.
- The ratio falls in the Good range (above 0.75).
- A sharp rise in insured replacement values—used in calculating the ratio—probably explains the drop in Net-Income Ratios several years ago.
- Ratios have now recovered.

Portfolio Risk Profile

Net-Income Ratio

- 44% of Agency clients had only Fair or Poor net income in 2012, just below the 2007 rate of 45%.
- But the share of clients rated Fair has risen (2012: 32%; 2007: 26%), while the share of clients rated Poor has gone down (2012: 13%; 2007: 19%).

Portfolio Risk Profile

Agreement objective: *Improved physical condition of the stock, as evidenced by a stable or growing number of co-operatives with a physical-condition rating of Good or Excellent and a declining number of co-operatives with a physical-condition rating of Poor.*

Table 14: Distribution of Physical-Condition Results

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Good or Excellent Physical Condition	81%	82%	81%	77%
Poor Physical Condition	1%	1%	1%	1%

Portfolio Risk Profile

Physical Condition

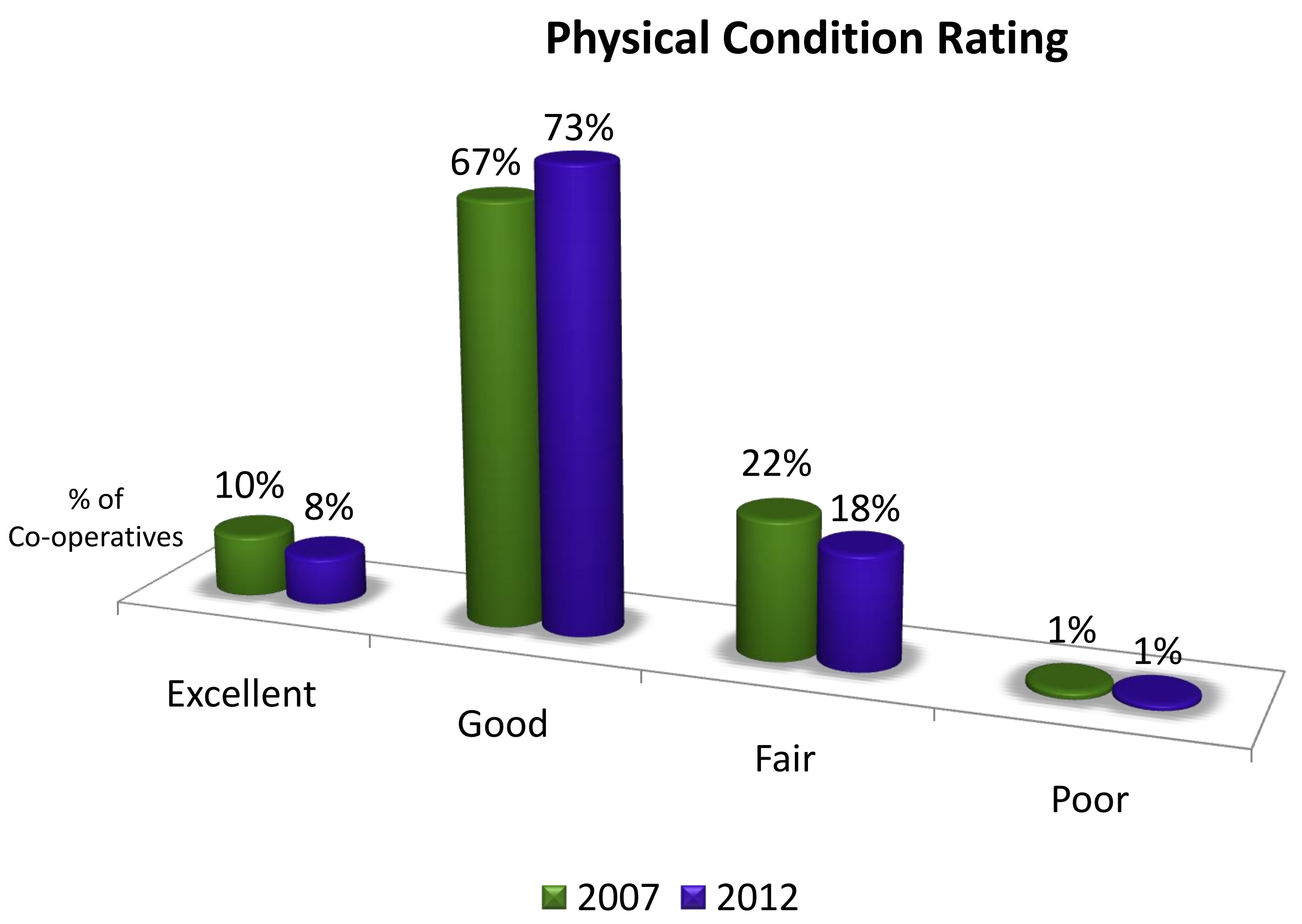
- Physical-condition ratings for the portfolio are stable, despite aging buildings.
- After dropping to 2% in 2009, the number of clients with an Excellent physical-condition rating rose in 2012 to 8%.
- The gain after 2009 came mainly from a fall in co-ops with property rated in Good condition.

Portfolio Risk Profile

Physical Condition

- Nonetheless, more co-operatives are in Good condition than 5 years ago.
- The proportion of those in Fair condition has fallen since 2007, while those in Poor condition continue to make up only 1% of the portfolio.
- The recent trend is improving (2012: 8%; 2009: 2%).

Portfolio Risk Profile



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Portfolio Risk Profile

Physical Condition

- We expected to see an improvement in the overall physical condition of our clients following the federal Social Housing Renovation and Retrofit Initiative.
- Surprisingly, only 22% of recipients inspected before and after completion of the work saw their physical-condition rating improve (62 out of 277 clients):
  - 3 co-ops moved from Poor to either Fair or Good
  - 46 co-ops moved from Fair to either Good or Excellent
  - 13 co-ops moved from Good to Excellent.

Portfolio Risk Profile

Physical Condition

- 71% retained their previous physical-condition rating, with the median score for this group rising from 3.50 to 3.56.
- The condition of the remaining 7% worsened, presumably by less than would have been seen without the new federal funds.

Portfolio Risk Profile

Net Income Ratios and Liquidity Ratios

- Eventually, Net-Income and Liquidity Ratios will have an effect on a client's physical condition.
- Clients with a Net-Income Ratio of Excellent made a median annual reserve contribution of $2,242 per unit in 2012 (1.3% of their insured replacement value).
- Clients with a Poor ratio contributed only $429 per unit (0.3% of their insured replacement value).

Portfolio Risk Profile

Outstanding Debt

- CMHC's risk declines as housing co-operatives repay their mortgage loans.
- The overall mortgage debt for the portfolio fell significantly between 2007 and 2012, despite many new clients joining the portfolio.

Portfolio Risk Profile

Outstanding Debt

Table 15: Total Mortgage Debt for All Co-operatives in the Dataset		
	2012	2007
Mortgage Debt	$1,201 M	$1,444 M
Total Units	32,181	30,655
Mortgage Debt per Unit	$37,290	$47,077

Note: 2007 dollar amounts have not been indexed.

Portfolio Risk Profile

Outstanding Debt

The table indicates reduced indebtedness across the portfolio.

Table 16: Total Mortgage Debt for Co-operatives in B.C. with Premature Building-Envelope Failure

	2012	2007
Mortgage Debt	$157 M	$42 M
Total Units	1,710	515
Mortgage Debt per Unit	$91,991	$81,728

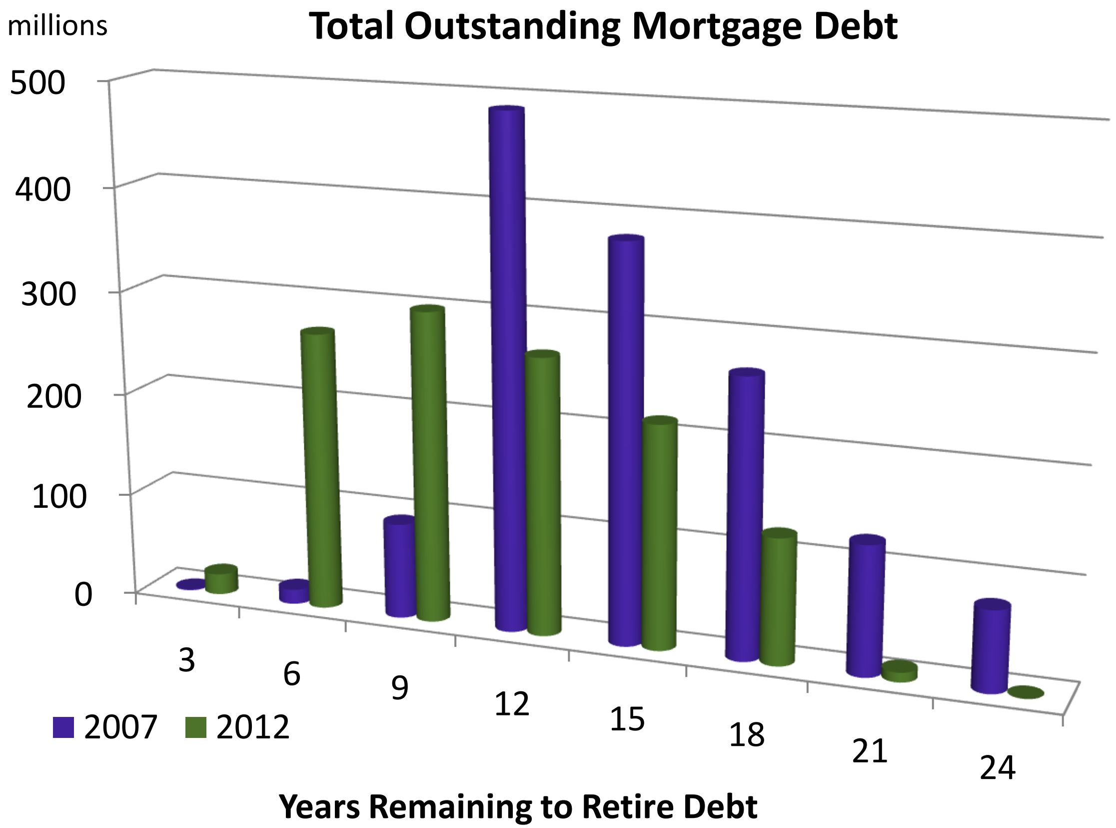
Portfolio Risk Profile

Outstanding Debt

- CMHC's risk declines as the time over which the remaining debt must be retired shortens.
- The next chart shows the total mortgage debt outstanding in relation to the years remaining before the debt must be retired, grouped in 3-year periods.
- It is evident that the arrival of new clients with large workout loans has not increased CMHC's risk, which in fact has declined substantially.

Portfolio Risk Profile

Outstanding Debt



Client Operating Performance

- The Agency's agreement with CMHC includes 3 indicators of success associated with better operating performance for Agency clients.
- The 3rd—improved financial health, as evidenced by an increasing percentage of co-operatives with fully funded replacement reserves—is reviewed further on.
- The other 2 are examined next.

Client Operating Performance

Agreement objective: *More cost-effective use of rent-geared-to-income assistance resulting from project operating efficiencies.*

- Less revenue leakage implies operating efficiency.
- The 2007 to 2012 period has seen solid declines in rental arrears, bad debts and vacancies across the portfolio.
- The result is more effective use of rent-geared-to-income assistance owing to less need to replace lost income through housing-charge increases.

Client Operating Performance

Agreement objective: *Improved management practices, as evidenced by reduced occupancy-charge arrears and bad-debt expenses, vacancy losses and other relevant measures.*

The portfolio's performance against this indicator is examined in several separate sections.

Client Operating Performance

Arrears and Bad Debts

Across the portfolio, between 2007 and 2012, the median combined occupant arrears and bad-debt expense per unit has fallen as a percentage of the occupants' share of housing charges.

Client Operating Performance

Arrears and Bad Debts

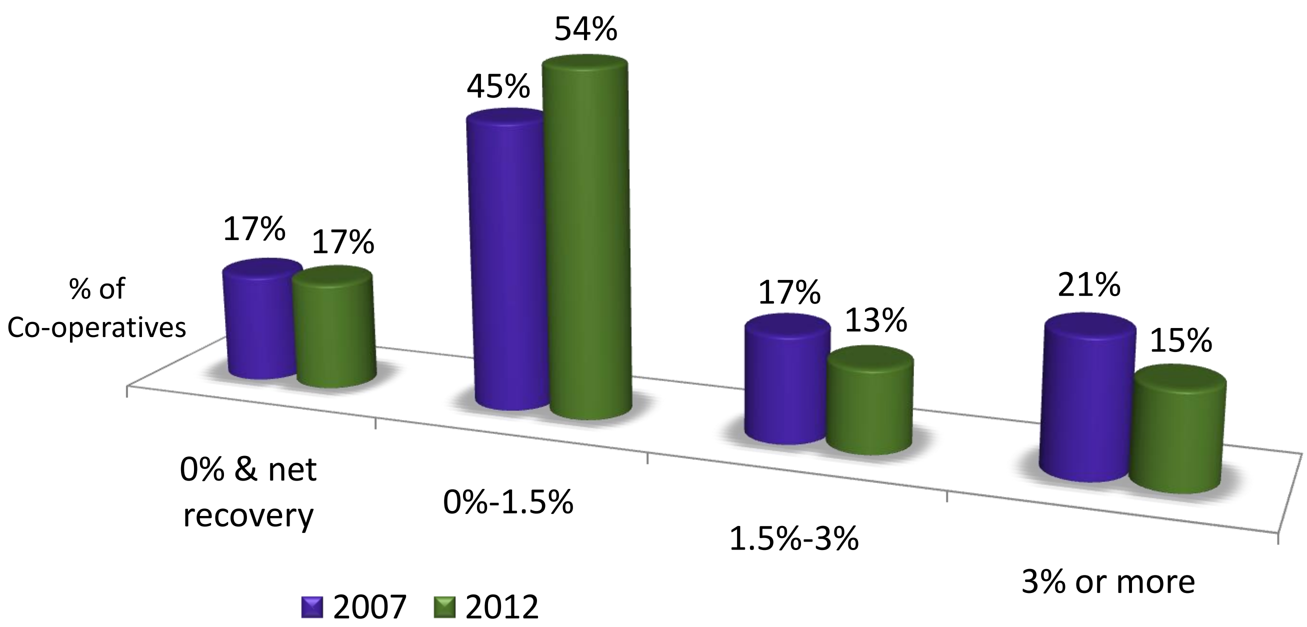
Table 17: Arrears and Bad-Debt Expense				
	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Median Combined Arrears and Bad-Debt Expense as a % of Occupant Housing Charges	0.6%	0.8%	0.8%	0.9%
Median Combined Arrears and Bad-Debt Expense Per Unit	$60	$63	$69	$76

Note: Dollar amounts have been indexed as constant dollars to 2012.

Client Operating Performance

Arrears and Bad Debts

Arrears and Bad-Debt Expense (Recovery)
as % of Occupant Share of Annual Housing Charges



Client Operating Performance

Arrears and Bad Debts

- Significant improvement is evident in
  - the growing percentage of Agency clients with a ratio of 1.5% or less (2012: 71% of clients; 2007: 62%)
  - the shrinking percentage of clients with combined arrears and bad debts of 3% or more (2012: 21%; 2007: 27%)
  - the decline in the median combined arrears and bad debts (2012: $60; 2007: $76).
- The 75th and 95th percentiles have followed a similar pattern.

Client Operating Performance

Arrears and Bad Debts

Table 18: Arrears and Bad-Debt Expense (Recovery) per Unit		
	2012	2007
Median	$60	$76
75th Percentile	$146	$205
95th Percentile	$476	$624
Second Highest Rate	$1,585	$2,637
Highest Rate	$1,691	$5,499

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2012.

Client Operating Performance

Arrears and Bad Debts

- Volunteer-managed co-ops report the lowest median rates of combined arrears and bad debts (0.1% of occupants' share of annual housing charges; $9 per unit).
- Co-ops with only a paid bookkeeper have the next lowest rate (0.5%).
- As together these groups form only 20% of the portfolio, their influence on portfolio-wide results is modest.

Client Operating Performance

Vacancy Losses

- Vacancy losses usually represent the single greatest source of revenue leakage.
- High vacancy losses will greatly reduce a co-op's financial strength.

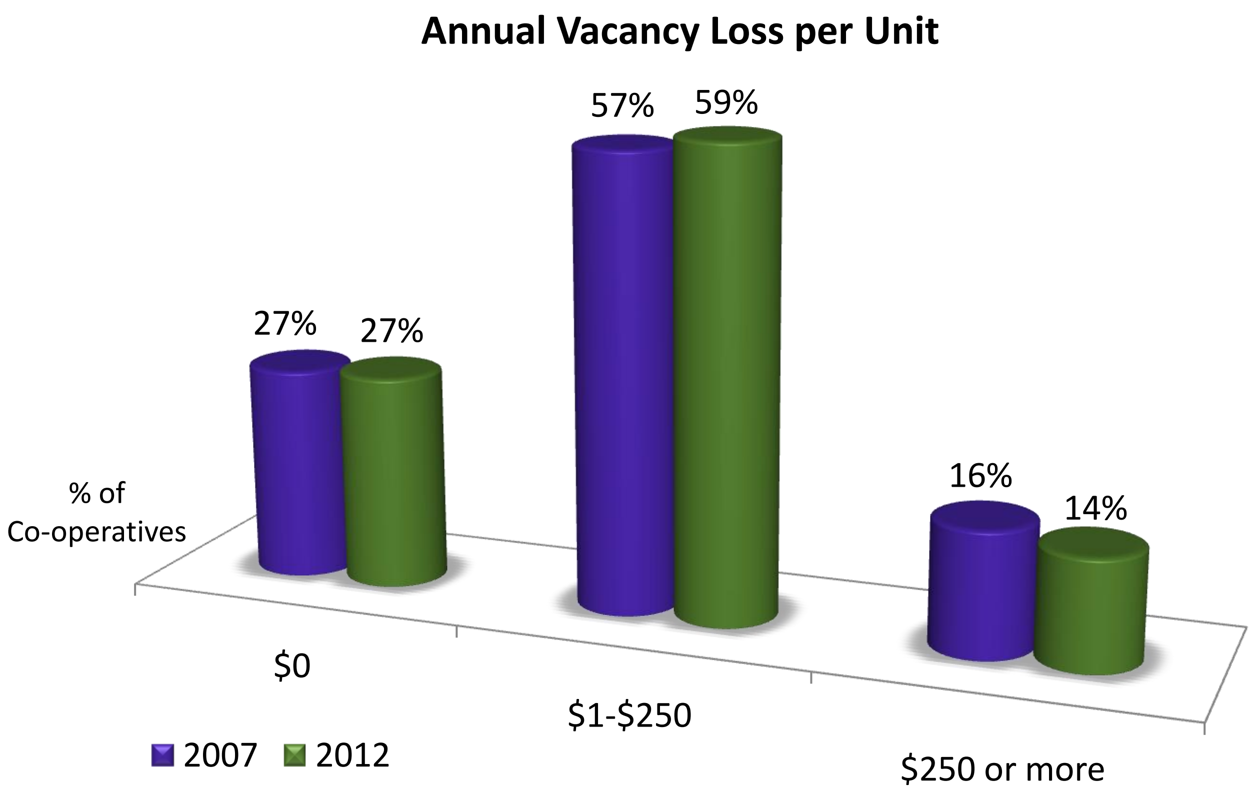
Client Operating Performance

Vacancy Losses

Table 21: Annual Vacancy Loss per Unit				
	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Clients with No Vacancy Loss as % of Dataset	27%	24%	30%	27%
Clients with Losses of $250 or More	14%	14%	14%	16%

Client Operating Performance

Vacancy Losses



Client Operating Performance

Vacancy Losses

- Median vacancy losses have dropped since 2007 but have been volatile (2012: $33; 2011: $41; 2009: $30; 2007: $35).
- Our analysis reveals a similar but more extreme pattern in the 75th and 95th percentiles.

Client Operating Performance

Vacancy Losses

Table 22: Annual Vacancy Loss per Unit				
	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Median	$33	$41	$30	$35
75th Percentile	$126	$138	$131	$143
95th Percentile	$487	$741	$535	$786
Second Largest	$2,720	$2,666	$2,776	$3,149
Largest	$6,317	$7,734	$4,474	$3,932

Note: Dollar amounts have been indexed as constant dollars to 2012.

Client Operating Performance

Vacancy Losses

- Fewer co-operatives are reporting losses in excess of $1,000 per unit:
  - 20 had losses at this level in 2007
  - 5 years later, only 9 reported losses this high, despite a 6% increase in the size of the dataset.
- The average loss reported among clients with any vacancy loss has also improved (2012: $184; 2007: $231).
- Including co-ops without any vacancy loss, the average loss dropped from $168 to $134.

Client Operating Performance

Vacancy Losses

- Looking at absolute vacancy losses, the trend is very positive.
- Total losses fell despite higher housing charges and a larger dataset.

Table 23: Total Annual Vacancy Losses in the Portfolio

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Total Reported Loss	$3,986,000	$4,958,000	$4,416,000	$5,589,000
Clients in Dataset	527	528	515	499
Vacancy Loss per Client	$7,564	$9,390	$8,575	$11,200

Note: Dollar amounts have been indexed as constant dollars to 2012.

Client Operating Performance

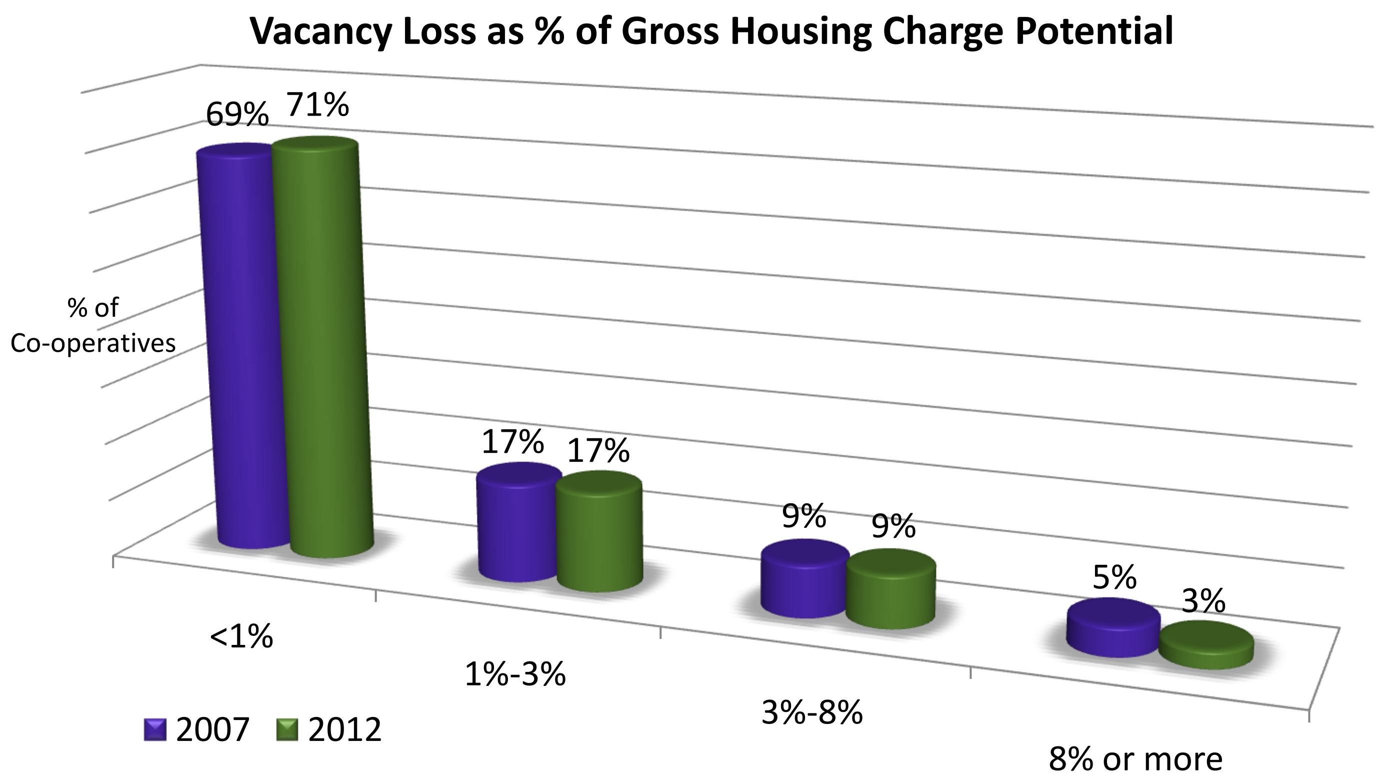
Vacancy Losses

Vacancy loss is best measured as a ratio of a co-op's annual gross potential revenue from housing charges. This indicator reveals some improvement:

- The portion of the portfolio with vacancy losses below 1% has gone up (2012: 71%; 2007: 69%)
- The portion with losses of 8% or more has fallen (2012: 3%; 2007: 5%).

Client Operating Performance

Vacancy Losses



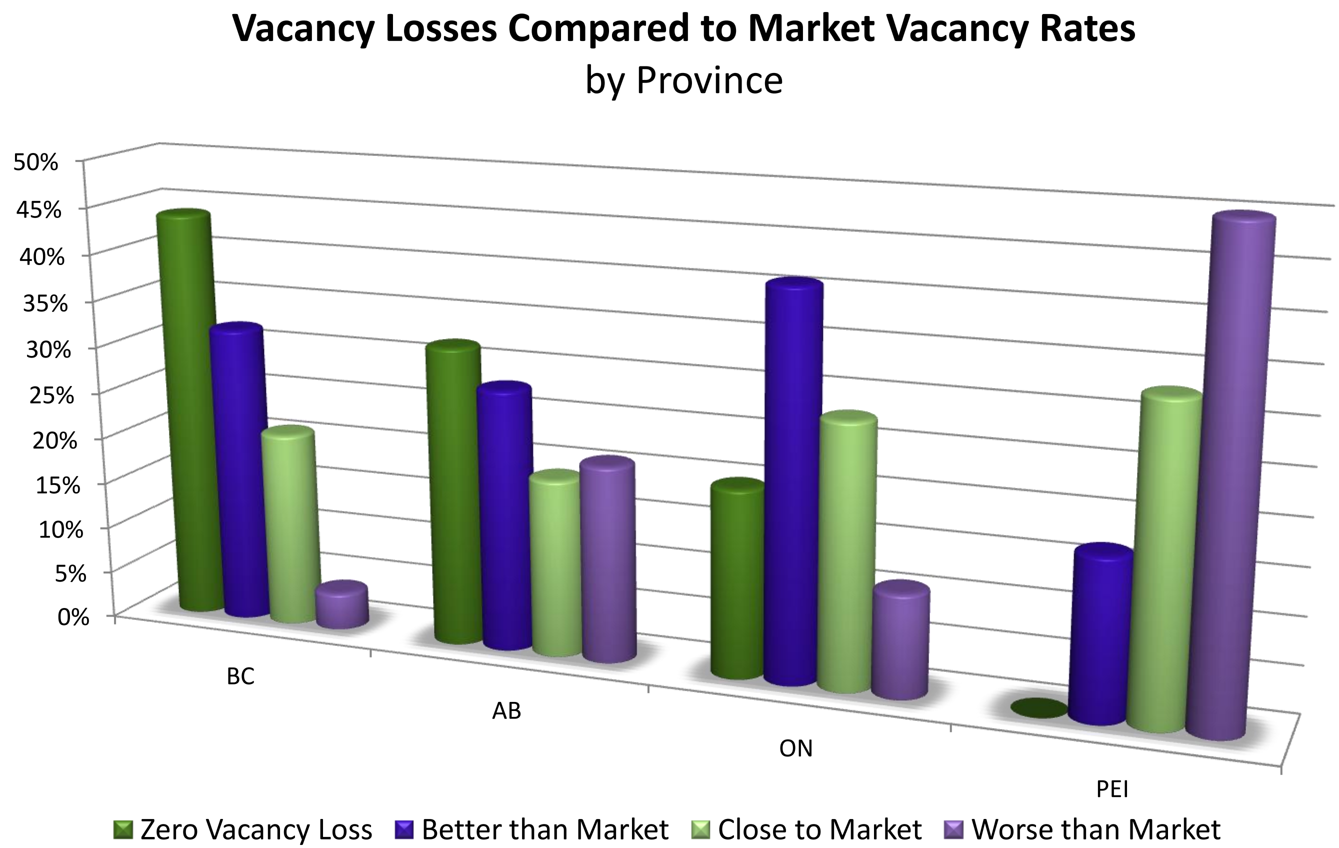
Client Operating Performance

Vacancy Losses

- The true test of performance is how co-ops' vacancy losses compare to vacancy rates in their local rental market.
- A strong majority of Agency clients continues to out-perform the local market.
- However, results vary greatly between regions.

Client Operating Performance

Vacancy Losses



Client Operating Performance

Vacancy Losses

- B.C. had the highest proportion of co-ops without vacancy losses at 44%.
- Alberta was next at 32%.
- A lower percentage of Alberta clients out-performed their strengthening local market than in the past (2012: 28%; 2011: 66%).
- The stronger market helped increase the percentage of co-ops in Alberta with no vacancy loss (2012: 32%; 2011: 21%).

Client Operating Performance

Vacancy Losses

Ontario co-operatives

- out-performed the market more often than B.C. co-ops
- were less likely to report no vacancy loss
- tended to have housing charges closer to market.

Client Operating Performance

Vacancy Losses

PEI co-operatives

- A higher ratio did worse than market.
- None of the 6 in the dataset—which excludes those in the deep-need program—had no vacancy loss.
- The close-to-market group increased.
- Results will swing sharply from year to year, as the small number and size of co-ops in our PEI portfolio intensify the impact of one empty unit.

Client Operating Performance

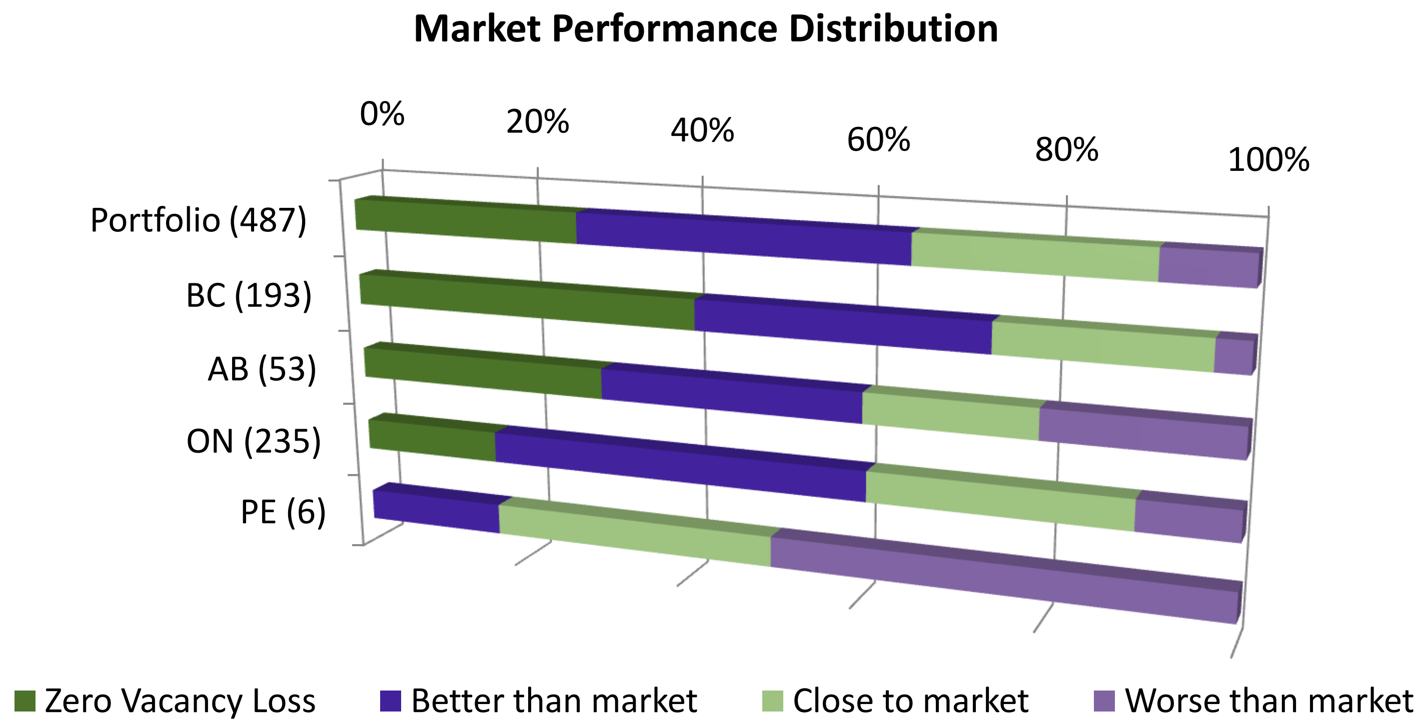
Vacancy Losses

The next chart shows that

- 28% of co-ops reporting had no vacancy loss in 2012 (2011: 25%).
- 38% had some vacancy loss but performed better than their local market (2011: 41%).
- 9% of the portfolio posted worse-than-market vacancy losses, down from 10% a year earlier.

Client Operating Performance

Vacancy Losses



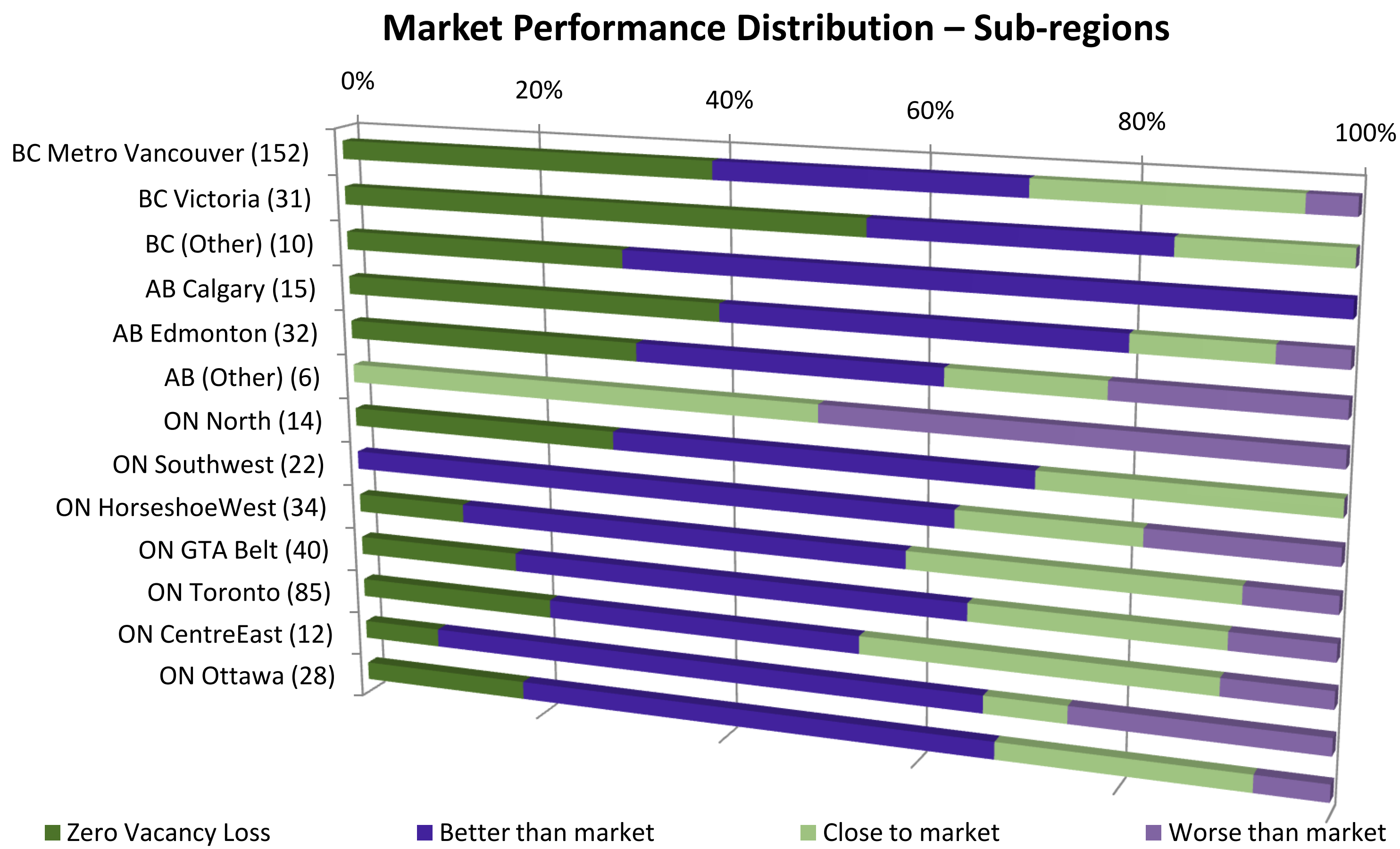
Client Operating Performance

Vacancy Losses

- The next graph illustrates the market performance of Agency clients in each of 13 sub-regions, pointing up the distinct differences among them.
- Caution is advised in reviewing the results for regions with very few co-operatives.

Client Operating Performance

Vacancy Losses



Client Operating Performance

Vacancy Losses

Vacancy losses have been compared to market vacancy rates by

- developing a weighted market vacancy rate reflecting the unit mix of Agency clients in each applicable CMHC market zone.
- using data drawn from CMHC's rental market reports.
- assigning each co-operative to one of three market types on the weighted rates:
  - low-vacancy (market-vacancy rate below 1.5%)
  - moderate vacancy (rate between 1.5 and 3.5%)
  - and high vacancy (rate of 3.5% or greater).

Client Operating Performance

Vacancy Losses

- We then determined the average co-op vacancy loss for each market type and compared it to the weighted average market vacancy rate.
- The results appear in the next table.

Client Operating Performance

Vacancy Losses

Table 24: Co-op Vacancy Losses Compared to Market Vacancy Rates			
	Low-Vacancy Markets	Moderate-Vacancy Markets	High-Vacancy Markets
2007			
Distribution of Co-ops (%)	35%	36%	28%
Average Co-op % Vacancy Loss	0.5	1.5	2.4
Average Weighted Market Vacancy Rate	0.5	2.5	5.6
2012			
Distribution of Co-ops (%)	39%	42%	19%
Average Co-op % Vacancy Loss	0.8	0.9	2.1
Average Weighted Market Vacancy Rate	0.9	2.2	5.9

Client Operating Performance

Vacancy Losses

- As the table shows, except in low-vacancy markets in 2007, as a group, Agency clients in each type of market out-performed the market in both 2007 and 2012.
- The average co-op vacancy rate improved against the market in the 3 market types, in 2 cases even as rental markets weakened.

Client Operating Performance

Insurance

- Lack of adequate insurance coverage is a risk factor for our clients' performance and even survival.
- Early on, the Agency determined the levels and types of insurance that all housing co-operatives should have.
- The following table shows how clients in the 2012 dataset met these standards at the time of their AIR filing, compared with 2007.

Client Operating Performance

Insurance

Table 25: Clients with Full Recommended Insurance Coverage

	2012	2007
Guaranteed-Replacement-Cost Insurance against Fire and Other Perils	100%	98%
Loss-of-Housing-Charges Coverage	84%	76%
Public Liability Insurance	100%	89%
Fidelity Bonding	89%	78%
Directors and Officers Liability Insurance	99%	93%

Clients with less than the full recommended coverage for each type of insurance are excluded from the table above; those included are covered to the full extent recommended.

Client Operating Performance

Insurance

- Our relationship managers have persuaded a substantial number of underinsured clients to increase their coverage.
- As a result, the portfolio is now better protected than it was five years ago.

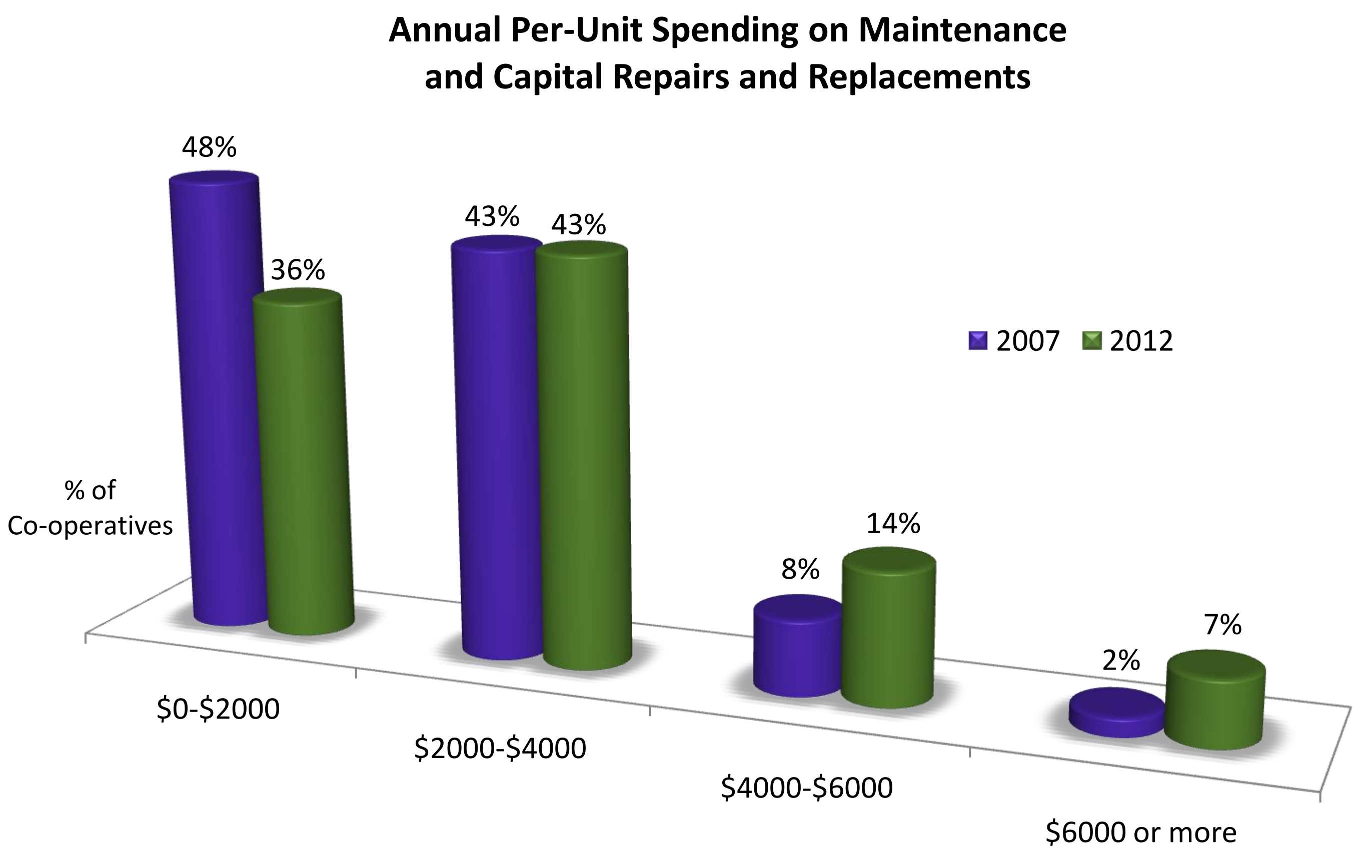
Client Operating Performance

Spending on the Physical Plant

- The next chart looks at spending on maintenance and capital repairs and replacements in 2012, compared with 2007 (dollar amounts have been indexed to their 2012 values).
- These two forms of spending on the physical plant are combined to gain a clearer picture of the care clients are taking of their chief asset.

Client Operating Performance

Spending on the Physical Plant



Client Operating Performance

Spending on the Physical Plant

Table 26: Annual Per-Unit Spending on Maintenance and Capital Repairs and Replacements

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
$0 to $2,000	36%	37%	40%	48%
$4,000 or more	21%	17%	14%	9%

Note that previous-year amounts have been indexed to 2012 values in order to present all years in constant dollars.

- The percentage of Agency clients spending at the lowest level—under $2,000 per unit per year in constant dollars—continues to fall.
- The percentage spending at higher levels—$4,000 or more—is growing.

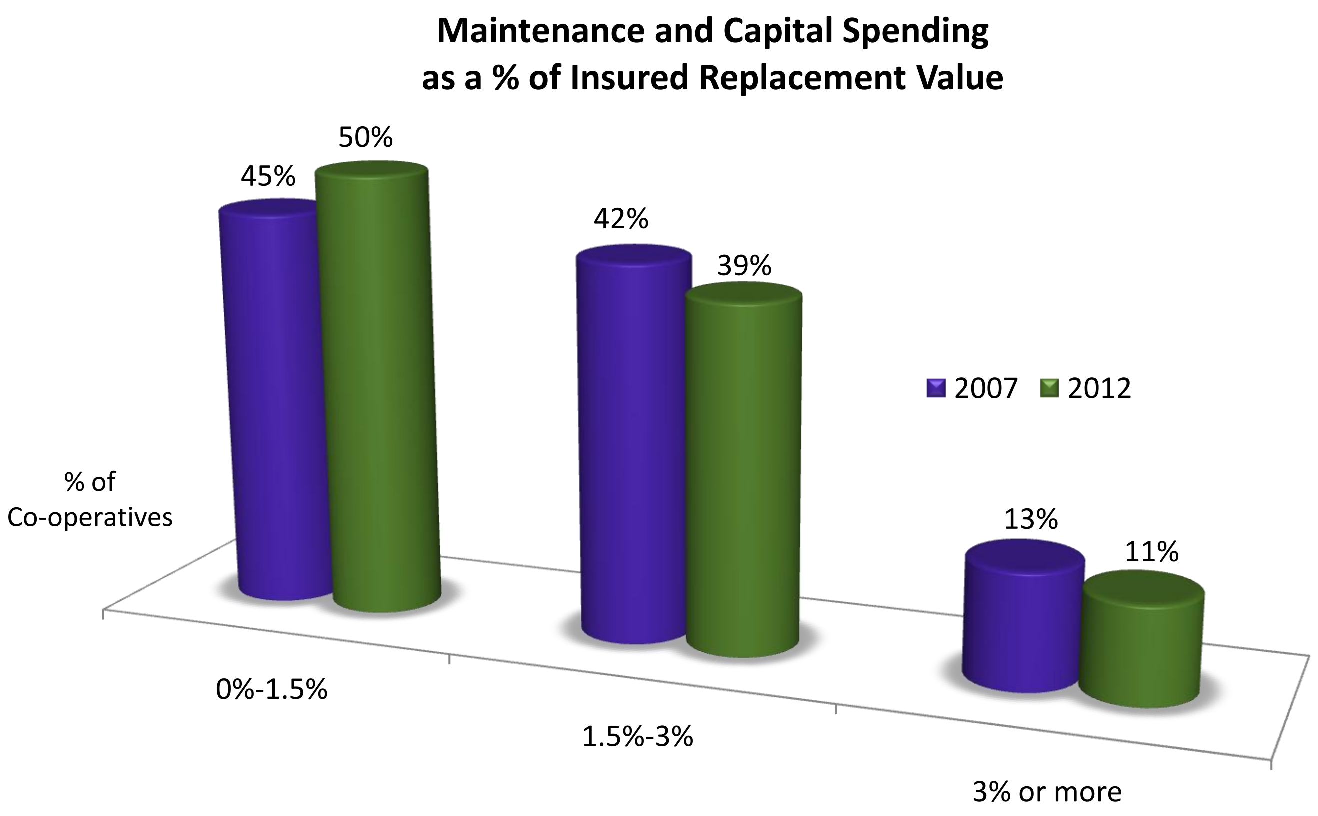
Client Operating Performance

Spending on the Physical Plant

- The next chart shows maintenance and capital spending as a percentage of the insured replacement value of each co-op's buildings and equipment.
- This measure should normalize the data for different repair and construction costs, allowing comparisons from year to year across the country and among building types. (Replacement values exclude land costs.)
- Looked at this way, median rates of investment in the physical plant show a slight decline (2012: 1.5%; 2007: 1.6%).

Client Operating Performance

Spending on the Physical Plant



Client Operating Performance

Spending on the Physical Plant

- Agency data show that insurance companies increased their replacement-cost estimates from 2009 to 2012 by more than the general rate of inflation.
- The total insured replacement value for co-ops that appear in both the 2007 and 2012 dataset rose 42% between 2007 and 2012.
- However, Statistics Canada indicates that, starting in 2009, construction costs moderated or declined, suggesting that insurance companies were catching up.
- If replacement values were underestimated in 2007, the investment rates for that year in the previous chart are overstated in relation to 2012.

Client Operating Performance

Spending on the Physical Plant

In absolute terms, co-operatives in the dataset continued to increase spending on their property in 2012:

Table 27: Annual Per-Unit Spending on Maintenance and Capital Repairs and Replacements

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Median for Dataset	$2,411	$2,355	$2,275	$2,044

Note: Dollar amounts have been indexed as constant dollars to 2012.

Client Operating Performance

Spending on the Physical Plant

- Readers should note that, owing to a change to the Annual Information Return part way through 2010, data on physical-plant spending from 2007 through 2010 is not entirely comparable with data from 2011 and 2012.
- The implications of the change are discussed in Appendix A: Technical Data.
- The broad trend identified in the last section—increased spending by co-ops on their physical plant—is considered valid nonetheless.
- Note that the value of capital repairs funded through the federal government's Social Housing Renovation and Retrofit Initiative is excluded throughout the analysis.

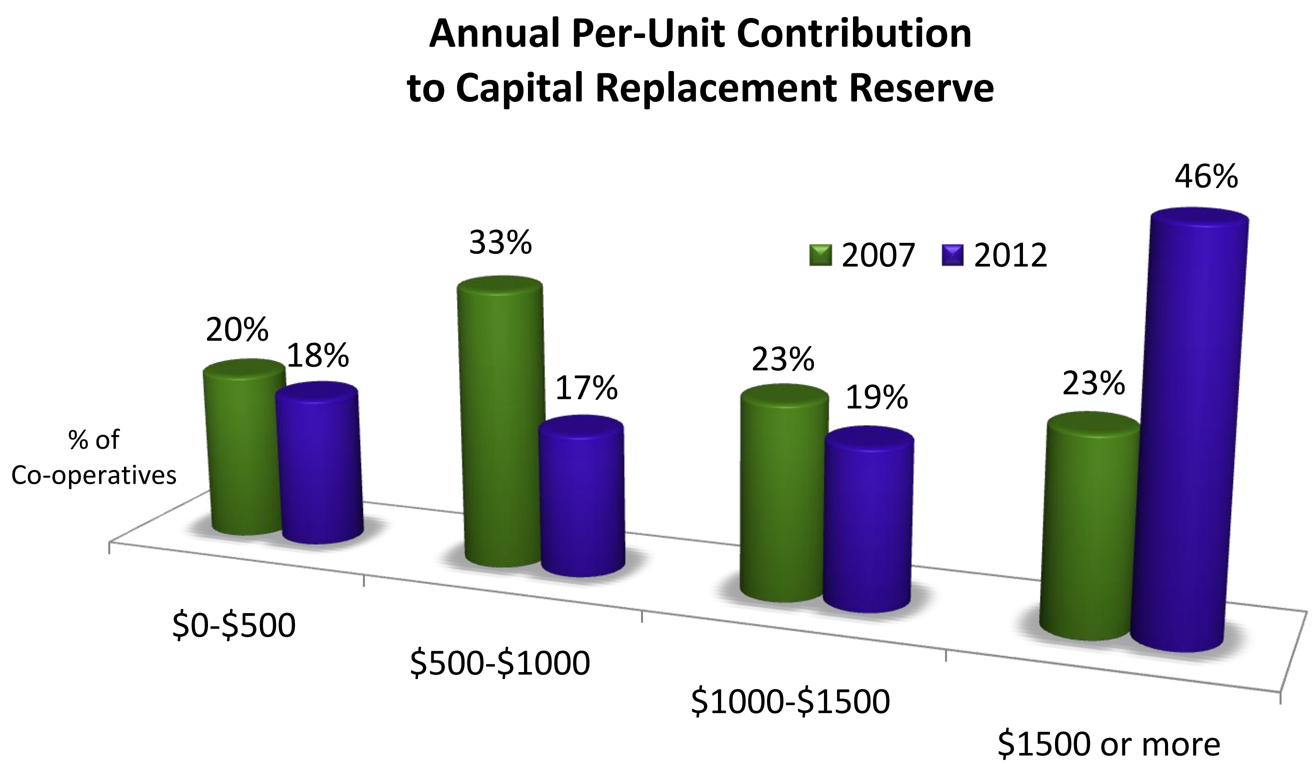
Client Operating Performance

Agreement objective: *Improved financial health, as evidenced by an increasing percentage of co-operatives with fully funded replacement reserves*

- Co-operatives continue to heed our advice by contributing more to their capital-replacement reserves.
- Contributions to reserves, including supplementary contributions from operating surpluses, have risen sharply in constant dollars since 2007.

Client Operating Performance

Fully Funded Reserves



Client Operating Performance

Fully Funded Reserves

Between 2007 and 2012,

- the median annual contribution per unit rose 54% from $905 to $1,390 (constant 2012 dollars)
- 66% of co-operatives increased their contribution during that period
- 40% increased it by $500 per unit or more.

Client Operating Performance

Fully Funded Reserves

- Healthier capital replacement-reserve contributions correlate strongly with capital reserve planning.
- The median contribution rate is much lower among clients without a capital replacement-reserve plan:
  - co-ops with a plan set aside a median amount of $1,826 per unit in 2012
  - co-ops without a plan contributed 38% less ($1,134).

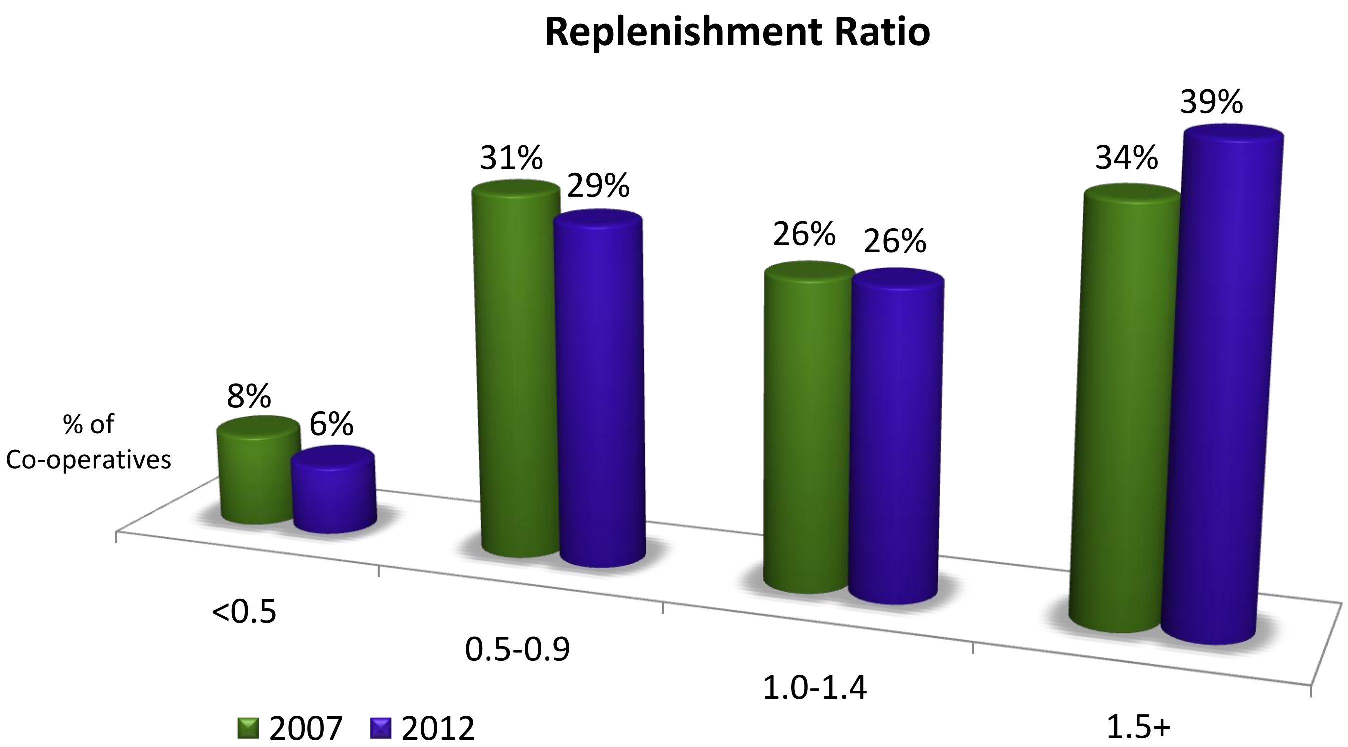
Client Operating Performance

Fully Funded Reserves

- The replenishment ratio expresses the relationship between the sum a co-op contributes to its capital-replacement reserve over two years and the amount it withdraws.
- A client's demonstrated will and capacity to replenish the reserve are at least as meaningful as the reserve balance at any point in time.
- A clear majority of clients in the dataset in 2012—65%—contributed more to their capital reserve over two years than they withdrew.

Client Operating Performance

Fully Funded Reserves



Client Operating Performance

Fully Funded Reserves

Between 2007 and 2012, the median replenishment ratio grew.

Table 28: Replenishment Ratio

	Current 2012	1 Year Ago 2011	3 Years Ago 2009	5 Years Ago 2007
Median for Dataset	1.23	1.12	1.14	1.10

Client Operating Performance

Fully Funded Reserves

- In a fully funded reserve—the focus of this indicator—the entire fund liability is backed by cash and investments.
- 93% of all Agency clients in the dataset had fully funded reserves in 2012 (2007: 91%).
- The median funding rate among clients whose reserves are not fully funded is now 65% (2007: 63%).

Client Operating Performance

Fully Funded Reserves

- In 2012 95% of co-ops without workouts reported fully funded reserves.
- The median funding rate was 85% for the 5% whose reserves were not fully funded.

Table 29: Funding of Capital Replacement Reserve

	% of Co-ops with Fully Funded Capital Reserve		Median % of Funding for Reserves not Fully Funded	
	2012	2007	2012	2007
All Co-ops in dataset	93%	91%	65%	63%
Co-ops without Workout	95%	92%	85%	66%

Client Satisfaction

- Our last portfolio review reported the results of the 2011 client satisfaction survey.
- This survey of all Agency clients takes place once every 3 years.
- The survey is conducted by a third party to ensure the anonymity of responses.

Client Satisfaction

- Client satisfaction has improved enormously since the base year of 2005, the last year of CMHC’s direct management of the portfolio.
- In 2011, steady or slightly improved client satisfaction was reported as compared with 2008.

Table 30: Percentage of Clients Satisfied with Service

	Timeliness of Service	Access to the Program Administrator	Overall Quality of Service
2011	84%	86%	84%
2008	84%	85%	83%
2005	55%	56%	48%

Looking Ahead to 2013

- The 2012 annual review of the portfolio finds it to be in good health, with measurable improvements since 2007 against many indicators.
- However, we are reminded that that housing co-operatives are small enterprises potentially at risk from their internal dynamics and the many environmental factors they don't control.
- The Agency will continue its work
  - to improve our clients' performance
  - to promote the culture and actions necessary to ensure the preservation of the co-op housing heritage now and in the future.

Looking Ahead to 2013

- Co-operatives operating under the S95 Program form 65% of our portfolio.
- A few co-operatives developed in the early years of the program are already without operating agreements.
- The remaining S95 agreements will expire over the next ten years.

Looking Ahead to 2013

- The Agency is working to help those clients approaching the end of their operating agreement to prepare for the future.
- This means persuading them to increase
  - their revenues
  - their contributions to their capital-replacement reserves.

Looking Ahead to 2013

- It also means encouraging clients to prepare a long-term financial plan backed by a thorough building-condition assessment.
- Our approach is consistent with and complements CHF Canada's 20/20 program.
- The Agency is particularly concerned to ensure that all clients succeed in repaying their current mortgage debt, including workout loans, before or at the same time as their agreements end.

Looking Ahead to 2013

- We see a growing number of Agency clients that will need secondary financing before their agreement ends, in every case to carry out major repairs to their property.
- Clients are looking to the Agency for help in
  – finding a lender
  – obtaining CMHC's approval to encumber their property further.
- Sector partners are involved in helping co-ops find financing.

Looking Ahead to 2013

- In 2012 the Agency's work continued on the development of a benchmarking and best-practices service.
- In 2013, we will approach CMHC to support this long-anticipated service.

Appendix A: Technical Data

The 2012 Dataset

- The data in this report are drawn from Annual Information Returns (AIRs) received and validated by the Agency by January 15, 2013 for fiscal years ending between August 2011 and July 2012.
- The data were organized by co-op and by "study year," i.e., a single fiscal year ending within the period above.
- Static values, such as province, were attached to co-ops and set out in a co-op table.
- Attributes that can vary, such as management type, were assigned on a study-year basis.

Appendix A: Technical Data

- As of December 31, the Agency had 549 co-op clients (33,419 units).
- At January 15, 2013 we had received and validated AIRs from 534 of these clients (32,615 units). These co-ops comprise the 2012 dataset.

Earlier Datasets

- Datasets for previous study years have been adjusted to include the AIRs for all co-operatives that were active Agency clients during the period in question.
- This increases the numbers available for trend analyses.

Appendix A: Technical Data

- Composition of datasets for prior-year comparisons:
  - 2011: 535 co-ops with 32,869 units
  - 2009: 522 co-ops with 31,675 units
  - 2007: 505 co-ops with 30,770 units.
- The 2012 and 2007 datasets have 484 co-ops in common.
- 50 co-ops are found only in the 2011 dataset.
- 21 are found only in the 2007 dataset.

Appendix A: Technical Data

Deep-Subsidy Programs

- Composite risk ratings for co-operatives operating under the deep-subsidy programs (Urban Native and PEI Non-profit Programs) are not relevant for purposes of this report, owing to the economic model of those programs.
- They are therefore excluded from the datasets for analyses that involve composite risk ratings.

Appendix A: Technical Data

Constant Dollar Amounts

- Dollar amounts from previous years have been indexed to their 2012 values (constant dollars) using the rate of change in the Consumer Price Index (CPI) for Canada (all items, not seasonally adjusted, as published by Statistics Canada).
- For values relating to specific clients, we calculated the rate of change by comparing the CPI for the month in which the co-operative’s fiscal year ended and the CPI for the same month in the following years.
- Calculations of portfolio-wide numbers, such as medians, were based on the indexed amounts for each co-operative.

Appendix A: Technical Data

Measurement of Investment in Physical Plant

- A change made to the Annual Information Return part way through 2010 makes data on physical-plant spending from the 2007 through 2010 period not fully comparable with data from 2011 and 2012.
- Prior to the change, information on additions made to a co-op’s capital assets could not be isolated.
  As a result, capital repairs that were capitalized and amortized to operations over time are excluded from the data presented for 2007 and 2009 on co-ops’ investment in their physical plant.

Appendix A: Technical Data

To understand the effect that including the capitalized repairs reported in 2011 and 2012 had on our analysis, we looked at the number of clients reporting such repairs and the amount they spent.

	2012	2011
Clients Reporting Additions to Capital Assets: Number and % of Dataset	37/533 (7%)	40/533 (8%)
Largest Per-unit Addition	42,601	24,406
Total Per-unit Spending on Physical Plant for the Dataset	3,106	2,889
Total Additions to Capital Assets/Total Units in Dataset	300	184
Total Additions to Capital Assets as % of Total Physical-plant Spending	10%	6%
Median Per-unit Spending with Additions to Capital Assets Included	2,411	2,355
Median Per-unit Spending Excluding Additions to Capital Assets	2,337	2,243

Appendix A: Technical Data

- While only a small minority of clients reported additions to their capital assets, the value of those additions had a material effect on median physical-plant spending rates in the portfolio.
- Next we examined the 2012 distribution of clients in the dataset by per-unit spending rates, with and without additions to capital assets, and compared these with 2007 spending rates.

Appendix A: Technical Data

Distribution of Clients in the Dataset by Annual Per-Unit Spending on Maintenance and Capital Repairs and Replacements				
	$0-$2,000	$2,000-$4,000	$4,000-$6,000	$6,000 or more
2012 with Additions to Capital Assets	36%	43%	14%	7%
2012 without Additions to Capital Assets	39%	44%	13%	4%
2007	48%	43%	8%	2%

- With additions to capital assets excluded, the proportion of housing co-operatives in the database spending more than $4,000 per unit a year on maintenance and capital repairs grew from 10% to 17% in constant dollars between 2007 and 2012.
- The proportion spending less than $2,000 fell from 48% to 39%.

Appendix A: Technical Data

- As the value of additions to capital assets in 2007 is unknown, it cannot be said conclusively that total per-unit spending in the portfolio was higher in 2012. We note, however, that, as table 27 reveals, physical-plant spending rates rose between 2007 and 2009, with additions to capital assets excluded for both years; and between 2011 and 2012, with additions to capital assets included for both years.
- It seems reasonable to surmise that, if information on additions to capital assets in 2007 were available, total spending would be seen to have grown in constant dollars from 2007 to 2012.

Appendix B: Non-Compliance

Variances are classified according to the following criteria:

Breach — a compliance failure that has an impact on the viability of the co-operative in the short term or that could result in public funds committed for the program being misused or perceived to have been misused.

Material compliance variance — a compliance failure that does not threaten the viability of the co-operative in the short term but that, if left unresolved, could have an impact over the longer term; the compliance failure will not result in public funds committed for the program being misused or perceived as being misused.

Appendix B: Non-Compliance

Minor compliance variance: a variance from the operating agreement or program guidelines that neither has an impact on the co-operative's short- or long-term viability nor results in public funds committed for the program being misused or seen to have been misused.

Appendix C: Composite Risk Ratings

The Agency's Composite Risk Ratings are as follows.

Low Composite Risk:

- A strong, well-managed housing co-operative
- The combination of its excellent physical condition, accumulated earnings and reserves, position in the marketplace and current capacity to contribute to its replacement reserve make it resilient to adverse market and economic conditions.
- Provided it continues to be well managed, the co-operative should be able to fund needed repairs and replacements and meet its debt obligations for the foreseeable future, without external support.

Appendix C: Composite Risk Ratings

Moderate Composite Risk:

- A sound, generally well-managed housing co-operative.
- It is in good or better physical condition, has access to adequate cash resources and is able to make an adequate or better contribution from earnings to its replacement reserve, after covering its debt service and all normal operating expenses.
- The co-operative should be able to remain in sound financial and physical condition, provided it continues to be well managed and economic or market conditions do not deteriorate significantly.
- It does not require external support or intervention.

Appendix C: Composite Risk Ratings

Above-Average Composite Risk:

- The co-operative has issues that warn of emerging or potential financial difficulties.
- One or more of the following conditions is present: the co-operative is in Fair, but not Poor, physical condition; its earnings are sufficient to cover current expenses but do not allow for an adequate contribution to the replacement reserve; its combined accumulated earnings and replacement reserve are low and access to other cash resources, such as member shares or deposits, is limited; or vacancy losses or housing-charge arrears are significantly above the median level for its peers.
- No indicators of High risk are present, but the co-operative may be challenged in funding needed capital repairs or meeting its obligations in the future, especially if the market is weak or weakens. It will require effective management and some ongoing monitoring and support.

Appendix C: Composite Risk Ratings

High Composite Risk:

- The co-operative is in financial difficulty or is poorly managed.
- One or more of the following conditions is present: the co-operative's earnings are insufficient to cover its debt service and current expenses; it has insufficient revenue after covering its debt service and current expenses to allow an adequate contribution to the replacement reserve; it has an accumulated operating deficit, a low or non-existent replacement reserve and limited access to other cash resources, such as member shares or deposits; vacancy losses or housing charge arrears are unusually high; the co-operative has urgent or major repair requirements that it is not able to fund; it is behind with its mortgage payments or property taxes; it has suffered a major loss of assets through fire or malfeasance against which it was not adequately insured; or it is suffering from a failure of governance.
- Without intervention and continuing support, and possibly a financial workout, the co-operative is at risk of failure.

Appendix C: Composite Risk Ratings

- In 2010 the Agency
  - increased the combinations of leading-indicator scores that return a composite rating of Low
  - raised the thresholds used in evaluating net-income indicator scores
  - modified the net-income indicator formula to use the higher of the co-operative's reported insured replacement value or the regional median replacement value, adjusted for the size of the co-op.
- In this review, ratings for earlier years have been adjusted as necessary to reflect the changes to the rating system made in 2010.

Appendix D: Median Performance Data

Vacancy	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2012	2007	2012	2007
Full Dataset	0.3%	0.4%	$33	$35
Program				
S27/S61	0.2%	0.1%	$15	$14
S95	0.2%	0.3%	$26	$31
FCHP (ILM)	0.6%	0.7%	$62	$74
Urban Native/PEI NP**	NA	NA	NA	NA
Multi-program	1.6%	1.0%	$191	$134

* * These co-operatives, which operate entirely on a rent-geared-to-income basis, have no regular occupancy charge.

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2012. The variation in a median between 2007 and 2012 may owe more to a change in the dataset than to the evolution of the individual co-operatives within the portfolio, especially for the smaller subsets.

Appendix D: Median Performance Data

Vacancy (cont.)	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2012	2007	2012	2007
Province				
British Columbia	0.1%	0.2%	$14	$16
Alberta	0.7%	0.3%	$78	$29
Ontario	0.5%	0.7%	$55	$73
PEI	2.9%	0.2%	$212	$14
Management Model				
Management Company	0.5%	0.4%	$51	$49
Paid Staff	0.3%	0.4%	$33	$36
Paid Bookkeeper Only	0.2%	0.2%	$19	$22
Volunteers Only	0.0%	0.0%	$0	$0

Appendix D: Median Performance Data

Housing-Charge Arrears and Administration	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2012	2007	2012	2007
Full Dataset	0.6%	0.9%	$679	$632
Program				
S27/S61	0.6%	0.8%	$705	$545
S95	0.5%	0.7%	$639	$615
FCHP (ILM)	1.0%	1.2%	$681	$642
Urban Native/PEI NP	2.2%	8.4%	$1,194	$1,073
Multi-program	1.5%	1.4%	$917	$1,082

Appendix D: Median Performance Data

Arrears and Administration (cont.)	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2012	2007	2012	2007
Province				
British Columbia	0.3%	0.4%	$444	$419
Alberta	0.7%	0.7%	$464	$388
Ontario	1.1%	1.4%	$884	$850
PEI	1.5%	1.2%	$707	$706
Management Model				
Management Company	0.6%	1.0%	$633	$569
Paid Staff	0.9%	1.0%	$905	$873
Paid Bookkeeper Only	0.5%	0.5%	$252	$322
Volunteer Only	0.1%	0.5%	$126	$119

Appendix D: Median Performance Data

Capital Assets	Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements*		Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution	
	2012	2007	2012	2007	2012	2007
Full Dataset	$2,411	$2,044	$3,109	$3,330	$1,390	$905
Program						
S27/S61	$2,651	$2,024	$2,875	$3,511	$1,697	$1,038
S95	$2,438	$2,120	$3,883	$3,745	$1,581	$1,180
FCHP (ILM)	$2,288	$1,899	$1,940	$2,250	$819	$539
Urban Native/PEI NP	$2,809	$3,143	$483	$2,831	$750	$495
Multi-program	$2,666	$2,633	$2,045	$2,833	$1,387	$945

* Values for 2007 exclude capital expenditures amortized to operations over time, information on which is not available for that period.

Appendix D: Median Performance Data

Capital Assets (cont.)	Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements		Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution	
	2012	2007	2012	2007	2012	2007
Province						
British Columbia	$2,409	$1,904	$3,342	$3,397	$1,555	$1,041
Alberta	$2,387	$1,652	$2,803	$2,352	$1,364	$727
Ontario	$2,425	$2,253	$3,174	$3,536	$1,264	$932
PEI	$2,523	$1,903	$954	$949	$455	$450
Management Model						
Management Company	$2,526	$2,057	$2,547	$3,022	$1,364	$879
Paid Staff	$2,401	$2,279	$3,875	$3,507	$1,374	$902
Paid Bookkeeper Only	$2,268	$1,828	$3,700	$3,108	$1,726	$1,061
Volunteer Only	$2,039	$1,605	$2,898	$3,838	$1,104	$916