2014

Annual Portfolio Performance Review

REPORT TO CMHC
REVISED FOR THE AGENCY'S WEBSITE

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

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Key Findings

Key Findings

GOAL: More effective management of the portfolio at a comparable or lower cost

- 83% of Agency clients are fully compliant with their operating agreements (2008: 70%).
- Breaches and material compliance variances are down 41% from 2008.
- Mortgage and tax arrears have fallen since 2007.
- More than half the portfolio (52%) is now rated Low or Moderate risk (2007: 39%).
- 83% of clients show a Stable or Strengthening risk trend.

Key Findings

- Total mortgage debt in the portfolio fell substantially between 2007 and 2014, although the portfolio grew.
- Despite the addition of leaky co-ops from B.C., only 13% of clients rate as High risk (2007: 14%).
- 97% of underperformers that returned to financial health by the end of 2014 did so without Enhanced Assistance or a CMHC Insurance loan.
- 81% of clients have seen their Liquidity, and 64% their Net Income, rated Good or Excellent (2007: 79% and 55%).
- 58% are rated Good or Excellent on both Liquidity and Net Income (2007: 50%).

Key Findings

- 82% have a Good or Excellent physical-condition rating (2007: 77%), only 1% a Poor rating (2007: 1%).
- Revenue lost to vacancies, arrears and bad debts has fallen since 2007.
- Median combined occupant arrears and bad-debt expense has fallen to 0.5% as a percentage of total occupants' share of housing charges (2014: 0.6%; 2007: 0.9%).
- The percentage of clients reporting director arrears at year end is down by half (2014: 14%; 2007: 28%).
- The per-client annual vacancy loss fell 34% ($3,893) between 2007 and 2014.

Key Findings

- The total portfolio vacancy loss is down 30% ($1,738,567) from 2007.

GOAL: Continued benefits of co-operative housing for Canadians

- Fewer clients are under insured.
- Spending on maintenance and improvements is rising (median spending per unit in constant dollars in 2014: $2,531; 2007: $2,069).
- The median annual per-unit replacement reserve contribution has grown by 70% in 7 years (2014: $1,598; 2007: $941, in constant dollars).
- 95% of clients are fully backing their reserve with cash and investments (2007: 92%).

Key Findings

GOAL: Improved client satisfaction within the portfolio

- Client satisfaction has greatly improved since the base year of 2005, the last full year of CMHC's direct management of the portfolio, and continues to be strong, according to CMHC's recent portfolio evaluation.

Overview

Overview

- 2014 was the 9th year of the Agency's operations.
- This review reports on the collective performance of 532 co-operative housing clients who together own 32,523 units of housing.
- The Agency portfolio includes co-operatives operating under 6 programs in 4 provinces.

Overview

This review measures progress made since the Agency began operations toward the 3 principal objectives set out in the Agency's agreement with CMHC.

1 More effective management of the portfolio at a comparable or lower cost

2 Continued benefits of co-operative housing for Canadians

3 Improved client satisfaction within the portfolio

Overview

Positive results observed include

COMPLIANCE

more clients in full compliance with their operating agreement

RISK PROFILE

observable improvement in the portfolio's risk profile

CLIENT SATISFACTION

higher levels of client satisfaction

OPERATING PERFORMANCE

better care of co-operatives' collective assets

Overview

Dataset

- The dataset for 2014
  - draws from 532 Annual Information Returns (AIRs) filed by Agency clients for fiscal years ending in the period August 2013 to July 2014 and validated by January 15, 2015
  - represents 97% of the Agency's 547 clients at December 31, 2014.
- Datasets for prior years are for equivalent periods.
- Appendix A gives more information on the datasets.
- The first full year of Agency operations was 2007, the base year against which 2014 information is compared for most indicators.

Overview

Portfolio Profile: Program Distribution

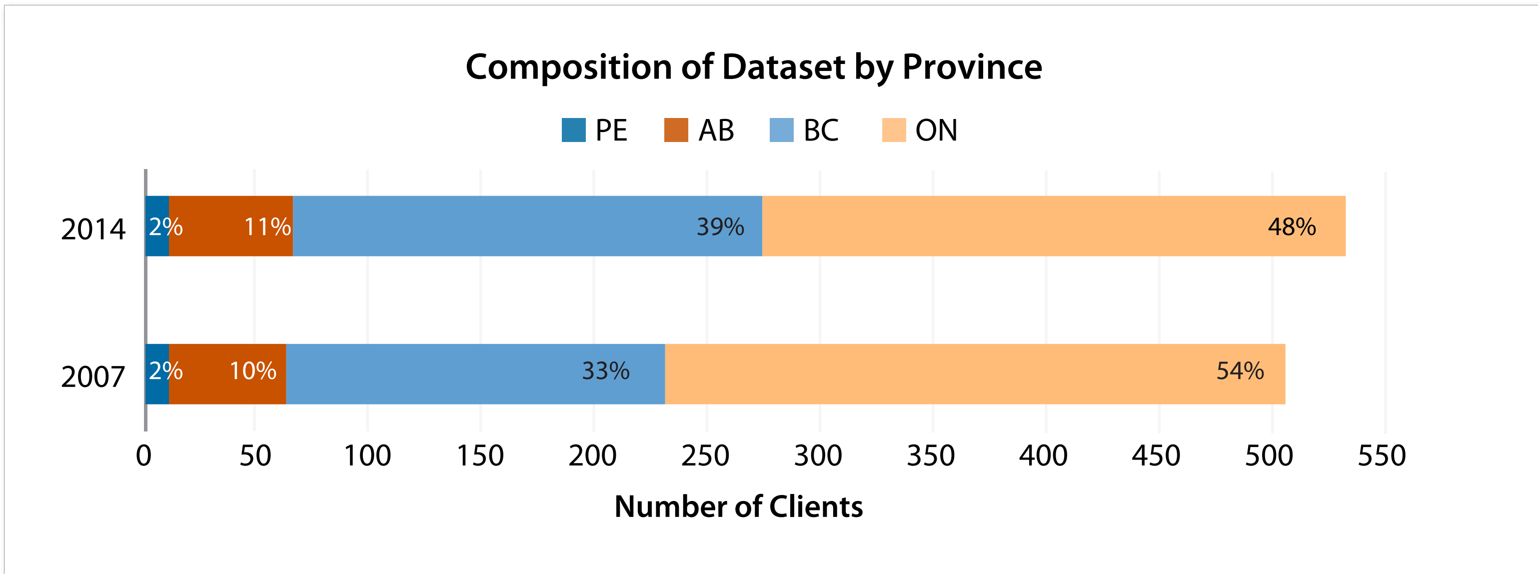
The past 8 years have seen little change in the breakdown of the dataset by program.

Table 1: Portfolio Distribution by Program				
	No. of Clients		% of Clients	
Program	**2014**	**2007**	**2014**	**2007**
S27-61	52	54	10%	11%
S95	328	306	62%	61%
ILM	132	126	25%	25%
Multiple	15	14	3%	3%
Urban Native/PEI NP	5	5	1%	1%
Total	**532**	**505**	**100%**	**100%**

Overview

Portfolio Profile: Provincial Distribution

Owing to new clients from B.C. and expiring operating agreements in Ontario, the provincial distribution has changed.



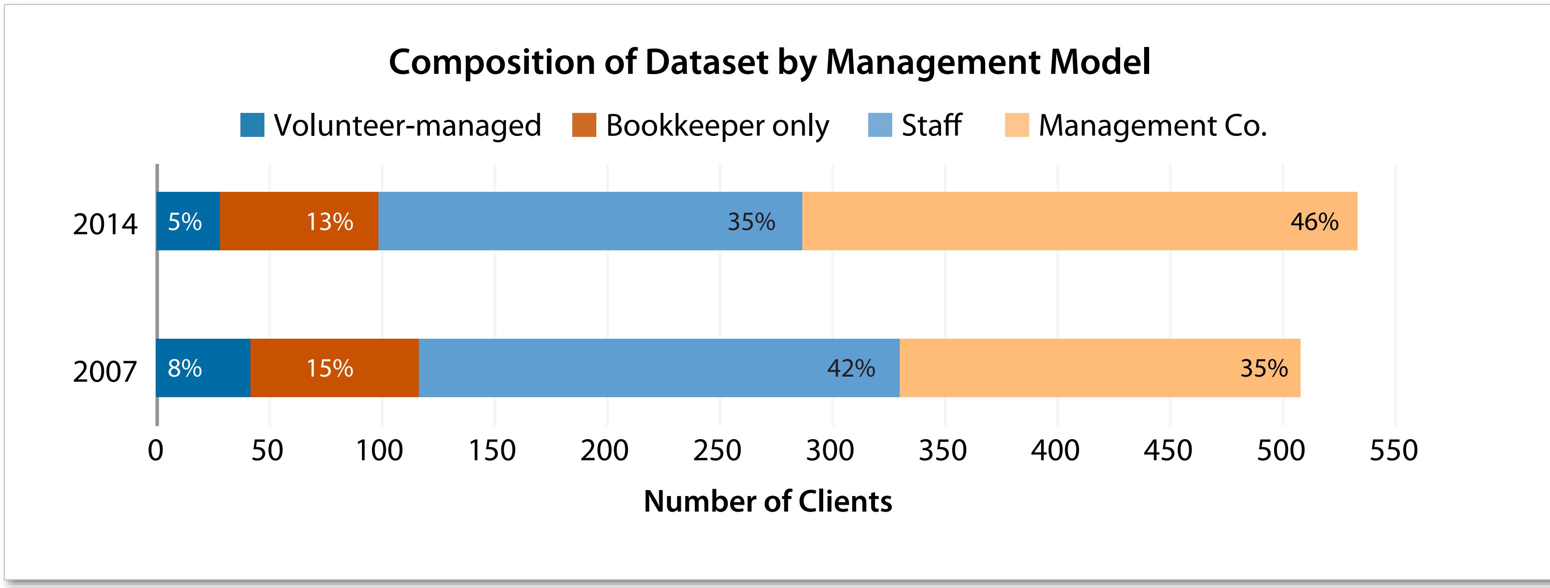
Overview

Portfolio Profile: Distribution by Management Model

- Agency clients continue to turn increasingly to the services of property management companies.
- The change reflects both the addition of clients from B.C., where use of management companies has long predominated, and the growing preference for this management model in Ontario.

Overview

Portfolio Profile: Distribution by Management Model



Portfolio Compliance Profile

Portfolio Compliance Profile

Approach

- The Agency's compliance-management program is intended to ensure that public funds expended under the co-operative housing programs are used as intended and properly accounted for.
- The data in this section reflect the compliance status of all 547 Agency clients at December 31, 2014.
- As the Agency's compliance-variance system was broadly reassessed in 2008, the results from that year serve as the baseline for this review, apart from mortgage and property-tax arrears, where 2007 is the baseline.
- Operating-agreement compliance failures are classified as Breaches or Material or Minor compliance variances, as defined in Appendix B.

Portfolio Compliance Profile

AGREEMENT OBJECTIVES

This review considers the performance of the portfolio against the **three key compliance objectives** set out in the Agency's agreement with CMHC.

1. Increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements
2. 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
3. fewer co-operatives in the portfolio in default of their financial obligations, as evidenced by fewer instances of mortgage or property-tax arrears.

AGREEMENT OBJECTIVE 1

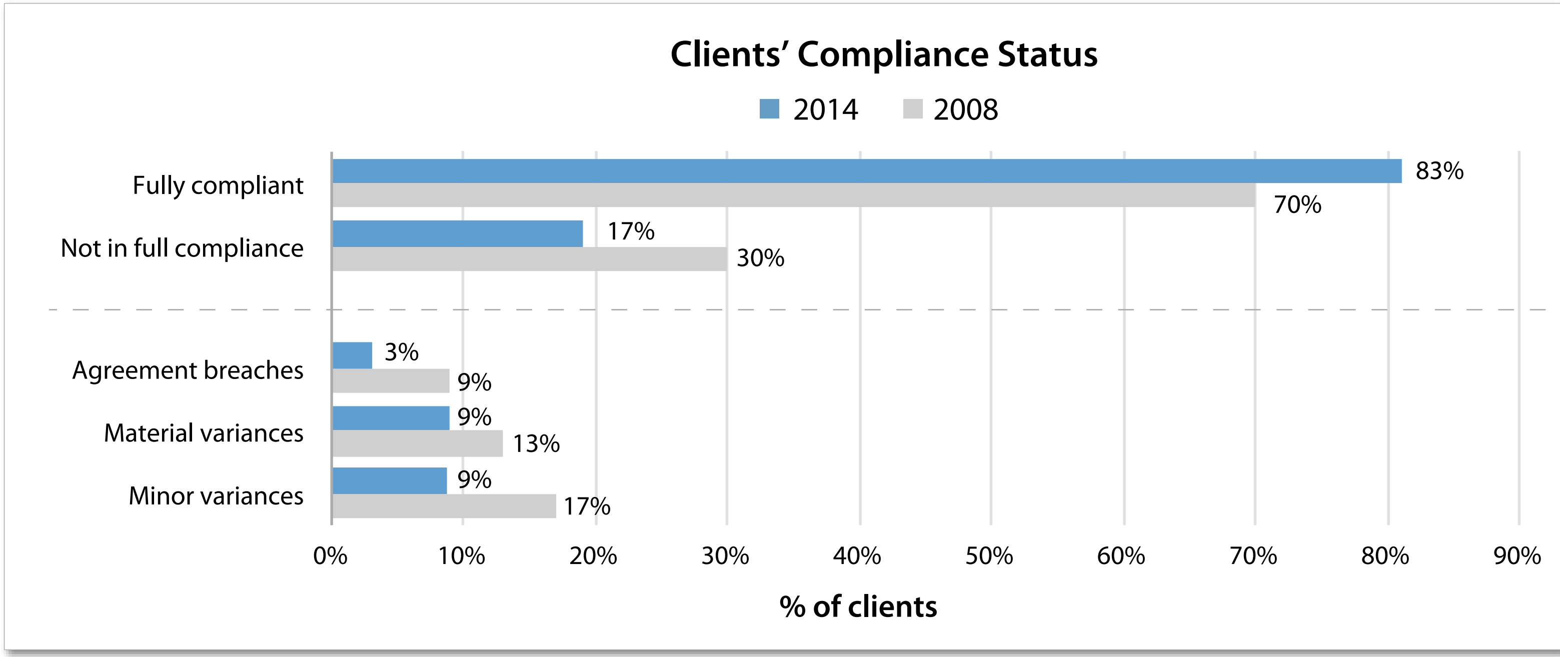
Increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements

- As of 31 December 2014, 83% of Agency clients were fully compliant with their CMHC operating agreement, up from 81% a year earlier and 70% in 2008.
- Compliance failures declined for all degrees of severity.
- At the end of 2014, failure to observe CMHC's Net Operating Revenue Policy accounted for 7% of all variances, down from 8% in 2013.

Portfolio Compliance Profile

- As observance of the policy is not an operating-agreement requirement, its inclusion among other obligations overstates the degree of non-compliance in the portfolio.
- Compliance with the policy has risen since 2008, and again since 2013 (10 clients out of compliance in 2014; 2013: 14; 2008: 27).

Portfolio Compliance Profile



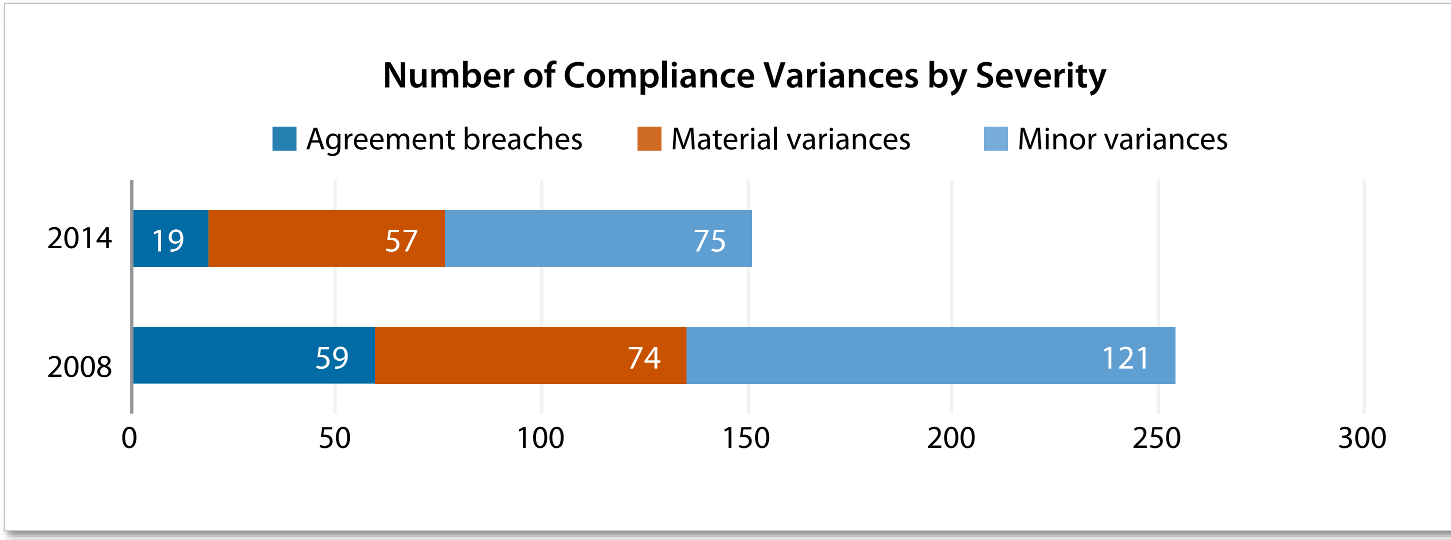
Clients out of compliance with more than one obligation may appear in more than one variance category above.
Workout-agreement variances are not included.

AGREEMENT OBJECTIVE 2

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 8% since 2013, and 41% since 2008.
- Compliance variances of all kinds have fallen from 254 in 2008 to 151 at the end of 2014, despite an increase in the portfolio from 515 to 547 clients.

AGREEMENT OBJECTIVE 2



Portfolio Compliance Profile

Table 2: No. of Operating Agreement Breaches		
	2014	**2008**
Eligible Occupants	5	6
Mortgage Payments	4	13
Subsidy Surplus Fund	4	17
Annual Reporting	2	21
Income-Tested Housing Charges	2	0
Payment of Directors and Officers	1	0
Audited Statements	1	0
Verification of Incomes	0	2
Total Breaches	**19**	**59**

Portfolio Compliance Profile

Table 3: No. of Material Operating Agreement Variances

	2014	2008
Capital Replacement Reserve	38	67
Adequate Regular Housing Charges*	14	0
Rent Supplement Assistance	3	0
Eligible Occupants	2	5
Management Services	0	2
Total Material Variances	**57**	**74**

* Variance type added after 2008

Portfolio Compliance Profile

Table 4: No. of Minor Operating Agreement Variances		
	2014	**2008**
Annual Reporting	33	46
Capital Replacement Reserve	23	11
Net Operating Revenue Policy	10	27
Security of Tenure Fund	8	11
Subsidy Surplus Fund	1	14
Income-Tested Housing Charges	0	8
Verification of Incomes	0	4
Total Minor Variances	**75**	**121**

AGREEMENT OBJECTIVE 3

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

Table 5: Mortgage and Property-Tax Arrears

	2014		2007	
	No. of Clients	% of Clients	No. of Clients	% of Clients
Mortgage Arrears*	8	1.4%	11	2.1%
Property-Tax Arrears**	2	0.4%	3	0.6%

* All clients with any mortgage arrears. 2014 total includes 3 clients with second-mortgage arrears only.
** Tax arrears remedied by the lender and added to the mortgage are treated as mortgage arrears, not property-tax arrears.

Portfolio
Risk Profile

Approach

- A comprehensive risk assessment of each client is performed annually.
- The composite risk rating assigned (**Low, Moderate, Above Average** or **High**) reflects the Agency's considered view of the co-operative's current health and future prospects.
- See Appendix C for definitions of the risk ratings.
- Ultimately judgement-based, the Agency's risk ratings are strongly informed by standardized tests performed for each client.
- The Agency's information system generates a rating based on separate evaluations of the client's financial strength, current financial performance and physical condition.

Approach

- Further risk factors can trigger ratings of Above Average or High.
- Agency staff take other information into account, including local market conditions, before assigning a final rating.
- Ratings are adjusted during the year in response to external developments or significant actions by the client.
- Routine physical inspections ended in 2013, at CMHC's direction. Currently, we arrange inspections only for the properties of co-operatives at risk or operating under a deep-need program. However, Agency relationship managers update the physical-condition rating as new information comes to their attention, for example, when a building condition assessment has been performed.

AGREEMENT OBJECTIVES

This review considers the performance of the portfolio against the **five key risk objectives** set out in the Agency's agreement with CMHC:

1. Increased awareness by co-operatives of their own performance, as evidenced by an improvement in the overall risk profile of the portfolio
2. 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
3. Increasing percentage of co-operatives that are underperforming but are not under a workout arrangement returned to financial health without recourse to cash injection funding from CMHC Insurance or Enhanced Assistance

AGREEMENT OBJECTIVES

4. 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

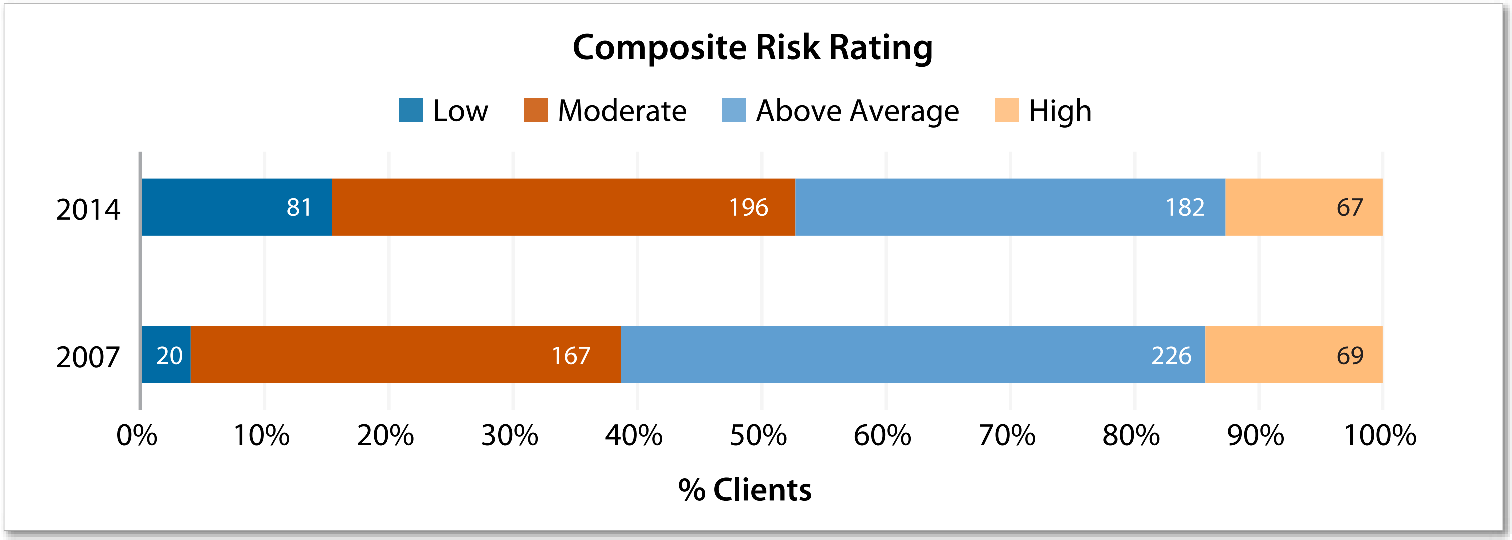
5. Improved physical condition of the stock, as evidenced by a stable or growing number of co-operatives with a physical-condition rating of Good or Excellent and a declining number of co-operatives with a physical-condition rating of **Poor**

AGREEMENT OBJECTIVE 1

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

- The risk profile of the portfolio improved markedly from 2007 to 2014.
- Co-operatives with composite ratings of Above Average or High comprised 48% of our portfolio in 2014, down from 61% in 2007 and 51% in 2013.
- Clients with a positive composite rating of Low or Moderate now make up half the portfolio (52%, up from 39% in 2007 and 49% in 2013).

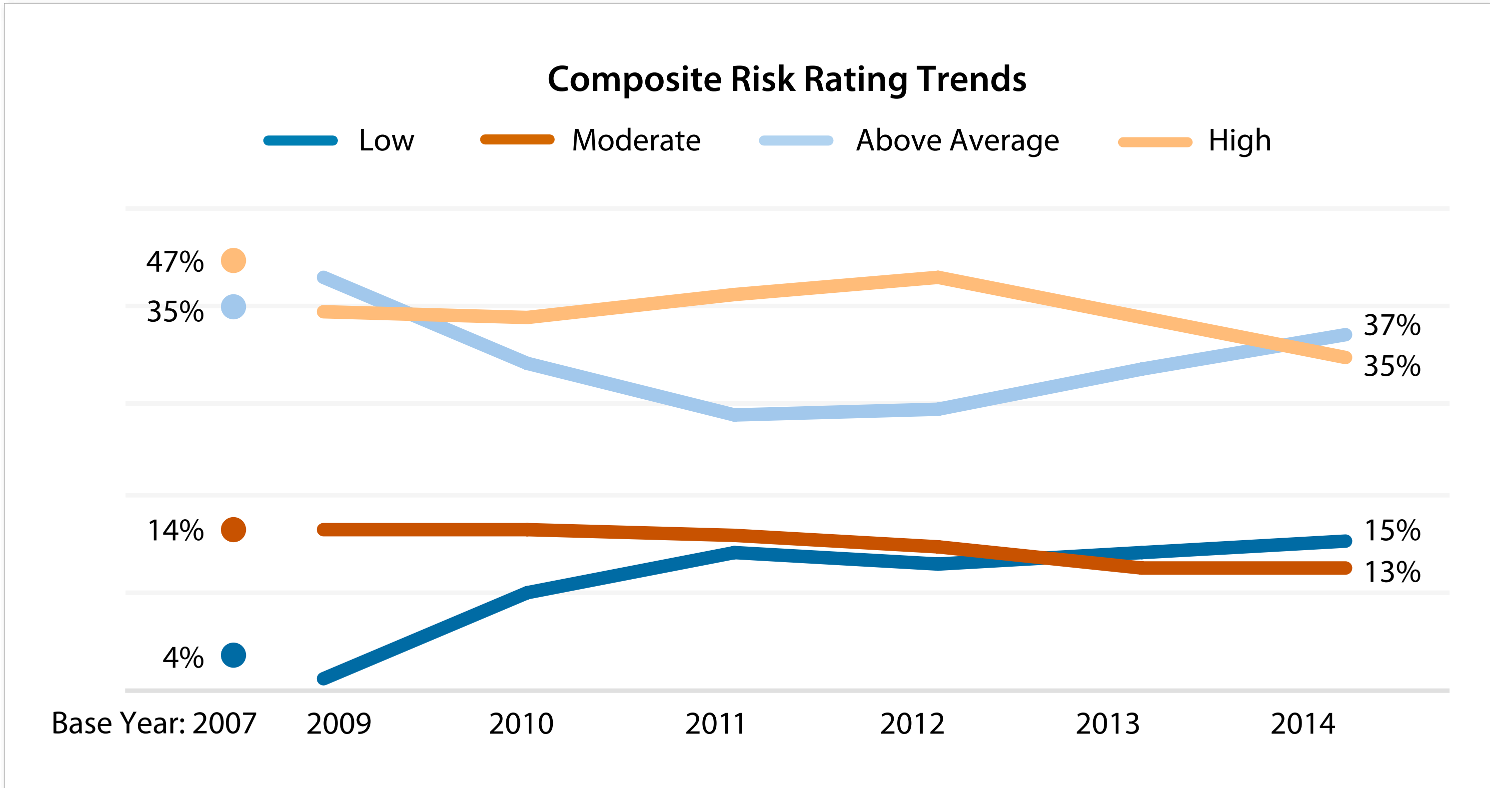
Portfolio Risk Profile



Portfolio Risk Profile

- After an initial increase, the number of clients carrying a **High** rating has fallen since 2010.
- The proportion of clients with a **Low** rating (15%) has nearly quadrupled since 2007 (4%).
- The percentage of clients with a **Moderate** rating rose slightly in 2014, to 37% from 34% in 2013 and 35% in 2007.
- The number of clients with an **Above Average** rating continues to drop (2014: 35%; 2007: 47%).
- This improvement has taken place despite an influx of clients initially held back at CMHC while a financial workout was developed.

Portfolio Risk Profile

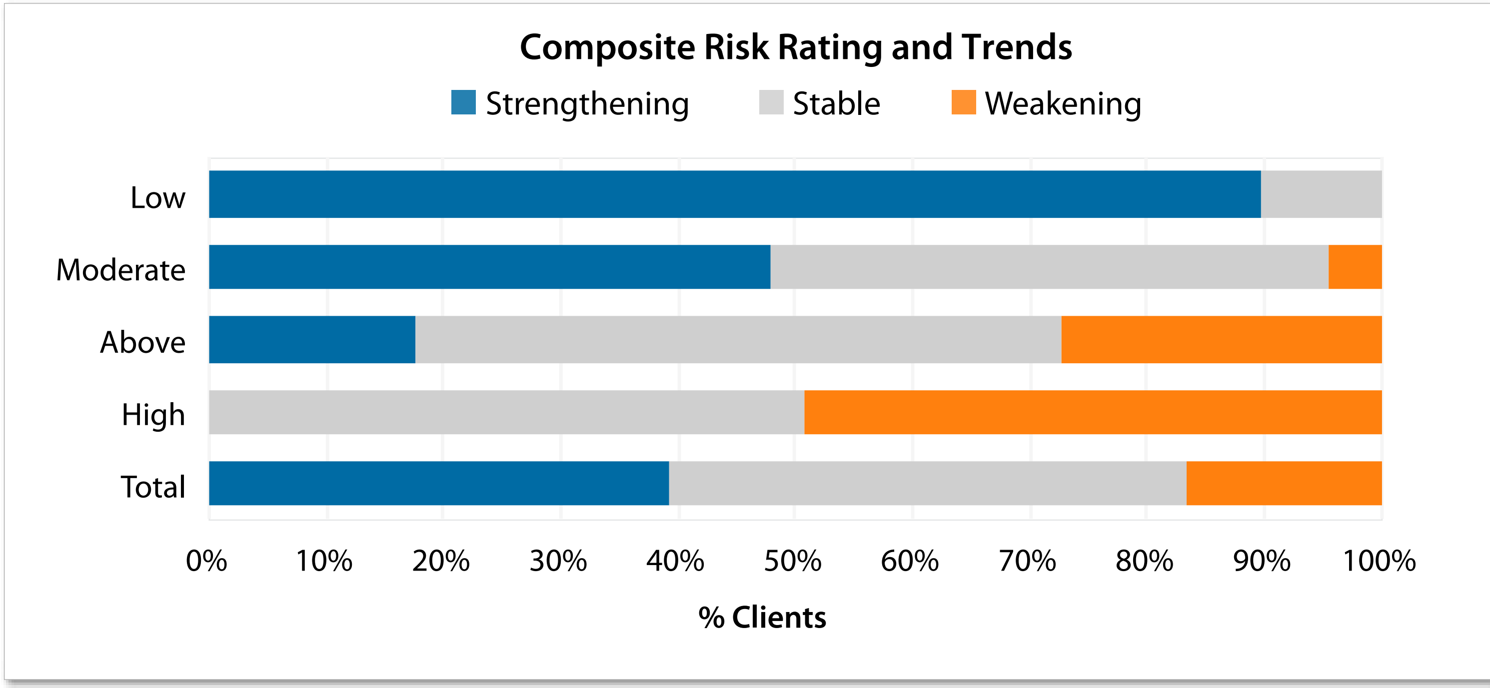


Portfolio Risk Profile

Risk Trend

- The annual risk assessment includes assigning clients a risk trend of Strengthening, Stable or Weakening.
- 83% of clients have an assigned risk trend of Stable or Strengthening (2013: 81%).
- Among those with a High composite risk rating, 49% were assigned a trend of Weakening in 2014, up from 46% in 2013.
- A Weakening trend means that the client has risk factors to attend to. Default risk may not have increased materially.

Risk Trend


Composite Risk Rating and Trends
Strengthening
Stable
Weakening
Low
Moderate
Above
High
Total
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
% Clients

Portfolio Risk Profile

Outstanding Debt

- CMHC's risk declines steadily as housing co-operatives repay their mortgage loans.
- As the next table shows, total mortgage debt in the portfolio fell significantly between 2007 and 2014, despite the addition of many new clients with large workout loans.
- As the Agency's risk-analysis system does not take into account the portfolio's declining indebtedness, CMHC's overall risk is overstated.

Outstanding Debt

Table 6: Total Mortgage Debt for All Agency Clients			
	2014 or Latest AIRs	2013 AIRs	2007 AIRs
Total Mortgage Debt	$1,094,225,283	$1,190,578,890	$1,473,127,920
Total Units	32,904	33,471	31,521
Mortgage Debt per Unit	$33,255	$35,570	$46,735

Note: Dollar amounts for 2007 and 2013 have not been indexed. The mortgage debt shown was drawn from valid AIRs on hand when the report was prepared and comprises all debts secured by a charge against properties operated under a CMHC program, including forgivable loans, workout loans and deferred interest charges on workout loans. Unit numbers reflect 2014 unit counts for co-ops in the portfolio in the year in question. This understates very slightly the unit count for 2007.

Portfolio Risk Profile

End of Operating Agreements

- CMHC's risk will decline steadily as housing co-operatives retire or refinance their outstanding debt upon the expiry of their operating agreements.
- 23% of client operating agreements will end in the next 3 years, with a further 29% expiring within 5 years. 32% will expire within 5 to 10 years and the remaining 16% in more than 10 years.
- Somewhat offsetting the decline in CMHC's risk as overall indebtedness in the portfolio falls is the weaker risk profile of the newest of the 3 main programs the Agency administers—the FCHP (ILM program).

End of Operating Agreements

Table 7: Years Remaining to End of Operating Agreement by Federal Program						
	0-3	>3-5	>5-10	>10+	Total	% of Clients
Section 27/61	4	4	4	41	51	9%
Section 95	122	153	60	1	336	62%
FCHP (ILM)	0	0	103	33	136	25%
Urban Native (Post 85)	0	0	1	1	2	0%
Post 85 Non-Profit	0	0	3	0	3	1%
Multiple Programs	1	1	4	12	18	3%
Total	**127**	**157**	**174**	**88**	**546**	**100%**
% of Clients	**23%**	**29%**	**32%**	**16%**	**100%**	

End of Operating Agreements

- When the ILM Program was launched, the new approach to budgeting was to provide a set dollar amount, rather than a commitment to create a specific number of housing units. These funds proved insufficient in the face of a higher-than-expected interest rate and a building boom that raised capital costs.
- The competitive process for awarding allocations was intended to stretch the available funds as far as possible, but instead rewarded underestimation of costs and overestimation of revenue.
- Instead of being set at the low end of market, as had been the practice, housing charges were fixed initially at the highest rate the market could bear.

End of Operating Agreements

- The recession of the early 90s led to falling market rents, which left many ILMs struggling to fill cheaply built units at rents above market rates.
- Many FCHP co-operatives are still suffering from the consequences after decades of operation.
- As a result, FCHP clients are overrepresented 2 to 1 among co-ops at High risk.
- 29% of co-ops rated Low or Moderate risk in 2014 will reach the end of their agreement in 0-5 years, compared with only 7% of co-ops rated High risk.
- 78% of co-ops rated High risk are not due to exit their agreements for more than 5 years.

End of Operating Agreements

Table 8: Years Remaining to End of Operating Agreement by Composite Risk Rating

	0-3		>3-5		>5-10		>10+		Total	% of Clients
Low	27	33%	16	20%	19	23%	19	23%	81	15%
Moderate	53	27%	40	20%	61	31%	44	22%	198	37%
Above Average	41	22%	42	23%	68	37%	35	19%	186	35%
High	5	7%	10	15%	42	63%	10	15%	67	13%
Total	**126**	**24%**	**108**	**20%**	**190**	**36%**	**108**	**20%**	**532**	**100%**
% of Clients	**24%**		**20%**		**36%**		**20%**		**100%**	

AGREEMENT OBJECTIVE 2

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

As the table below shows, 2014 results demonstrate strong improvement over the base year in the proportion of co-ops rated Low or Moderate. The percentage of co-ops rated High risk is down slightly.

Table 9: Evolution in Portfolio Risk Profile

Composite Risk Rating	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
High	13%	13%	16%	17%	14%
Low or Moderate	52%	49%	43%	44%	39%

AGREEMENT OBJECTIVE 3

Increasing percentage of co-operatives that are underperforming but are not under a workout arrangement returned to financial health without recourse to cash injection funding from CMHC Insurance or Enhanced Assistance*

As the next table shows, 181 co-operatives were first identified as underperforming between 2007 and 2014 and had no workout agreement at the time.

* "underperforming" and "financial health" as determined through the Service Provider's risk-rating system and defined, respectively, as having a score of Poor on either of the Liquidity or Net-Income indicators, or having a score of Fair on both and being behind with scheduled mortgage or property tax payments, and as having a score of at least Fair on both the Liquidity and Net-Income indicators and having no scheduled mortgage or property tax payments overdue.

Portfolio Risk Profile

Underperformers

- Of these, 9 are no longer Agency clients.
- 119 had returned to financial health by the end of 2014 (69% of those still clients).
- Of these, all but 4 (97%; 2013: 94%) did so without receiving Enhanced Assistance or a cash-injection loan from CMHC Insurance.
- Financial health remains elusive for 29% of all underperformers (53 co-ops), including 9 of the 13 co-ops that have received CMHC assistance.
- Of those that have not yet returned to financial health, 7, or 13%, were first identified as underperformers only in 2014.

Underperformers

Table 10: Underperforming Co-operatives						
Cohort *	Total	Returned to Financial Health		Not Yet Returned to Financial Health		No Longer Clients
		No CMHC Assistance	CMHC Assistance	No CMHC Assistance	CMHC Assistance	
2007	69	40	3	13	8	5
	100%	58%	4%	19%	12%	7%
2008	31	20	–	9	–	2
	100%	65%	–	29%	–	6%
2009	26	21	–	3	–	2
	100%	81%	–	12%	–	8%
2010	16	13	–	3	–	–
	100%	81%	–	19%	–	–
2011	19	12	1	6	–	–
	100%	63%	5%	32%	–	–
2012	6	4	–	2	–	–
	100%	67%	–	33%	–	–
2013	6	4	–	2	–	–
	100%	67%	–	33%	–	–
2014	8	1	–	6	1	–
	100%	13%	–	75%	13%	–
Total	181	115	4	44	9	9
	100%	**64%**	**2%**	**24%**	**5%**	**5%**

* Underperformers are assigned to a cohort based on the year in which they were first identified as such. The analysis includes all clients identified up to and including 2014 (previous reports excluded underperformers identified in the previous 3 years).

Underperformers

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

AGREEMENT OBJECTIVE 4

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

The next table shows the improvement in Net-Income and Liquidity Ratios from 2007 to 2014 and the growing share of clients with a rating of Good or Excellent on both financial indicators.

Portfolio Risk Profile

Liquidity and Net-Income Ratios

Table 11: Evolution in Liquidity and Net-Income Ratios

	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Good or Excellent Liquidity Ratio	81%	80%	77%	76%	79%
Good or Excellent Net-Income Ratio	64%	61%	54%	49%	55%
Both Indicators Good or Excellent	58%	56%	48%	43%	50%

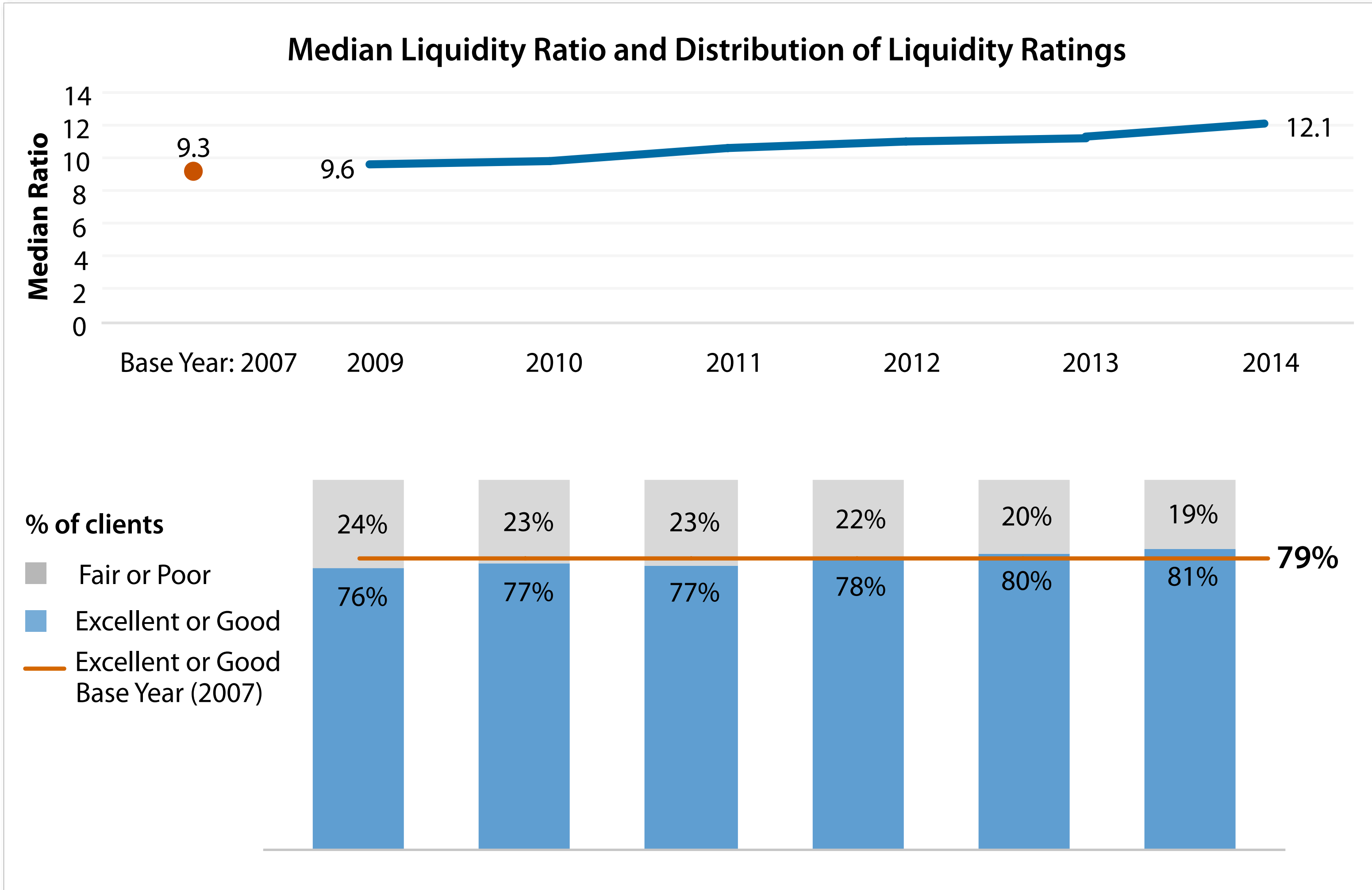
- The proportion of clients with a Good or Excellent Net-Income Ratio has grown by 9 percentage points since 2007 and those with a Good or Excellent rating on both the Liquidity and Net-Income indicators by 8 points.

Portfolio Risk Profile

Liquidity Ratio

- On the surface, Liquidity ratings are only slightly improved over 2007, but a closer look shows an improving trend.

Liquidity Ratio



Liquidity Ratio

- Between 2007 and 2014, the median Liquidity ratio for the total portfolio rose from 9.3 to 12.1.
- Both the 2007 and 2014 median scores were in the Excellent range.
- More co-ops had an Excellent and fewer a Poor rating in 2014.

Table 12: Median Liquidity Ratio per Liquidity Rating

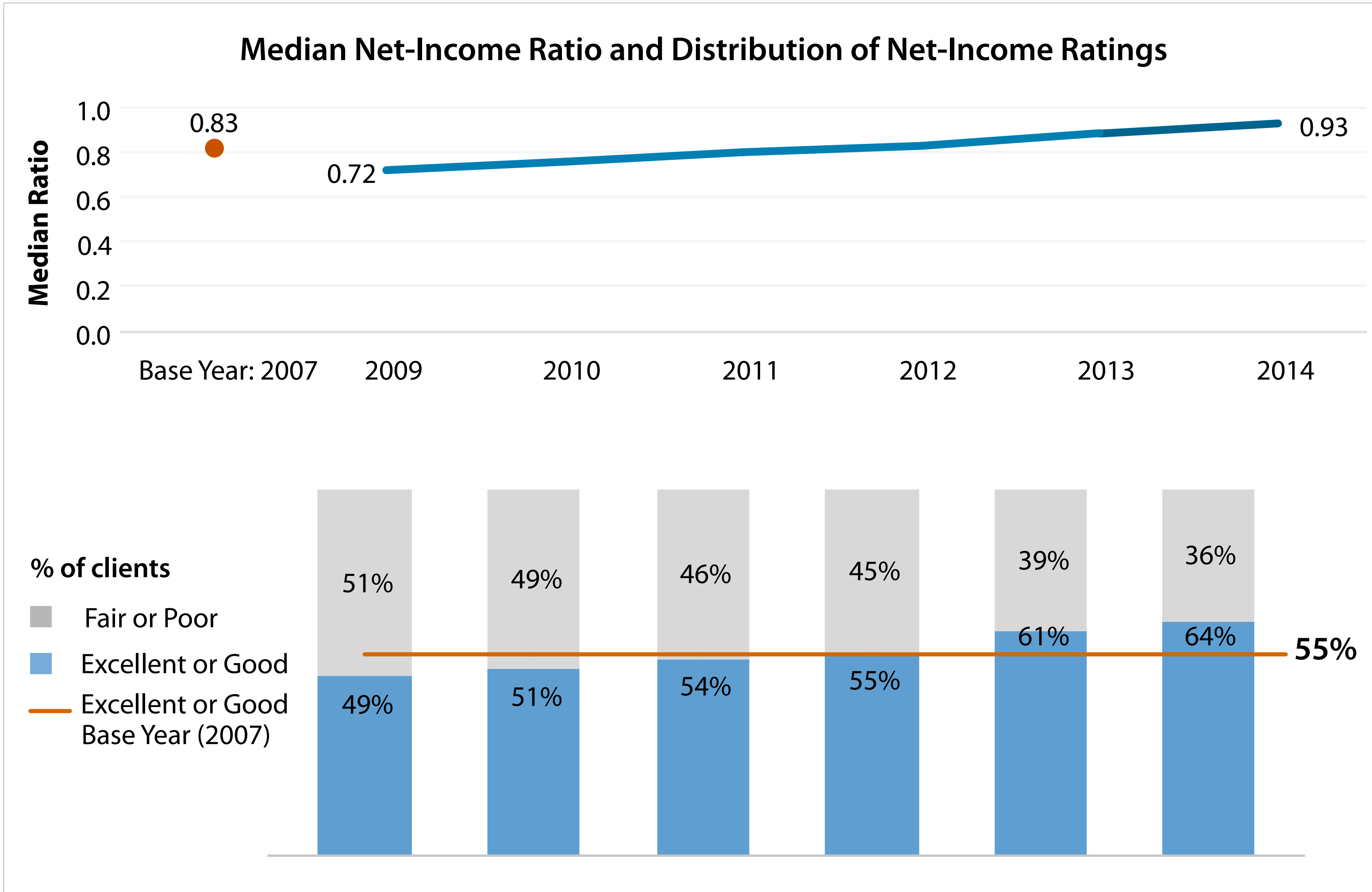
	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Excellent	15.9	15.3	13.8	14.4	14.0
Good	6.7	6.4	6.4	6.7	6.7
Fair	3.9	3.9	3.7	3.9	4.0
Poor	0.7	1.0	0.8	1.1	0.9
All Ratings	12.1	11.3	10.6	9.6	9.3

Portfolio Risk Profile

Net-Income Ratio

- The median Net-Income Ratio increased slightly from 2007 (0.83) to 2014 (0.93). This ratio falls in the Good range.
- Clients with a healthy Net-Income rating (scoring Good or Excellent) made up 64% of the portfolio in 2014, up 9 percentage points from 2007.
- In 2014, 36% of Agency clients had a Fair or Poor Net-Income rating, compared with 45% in 2007. The percentage rated Fair went down (2014: 25%; 2007: 26%), as did that rated Poor (2014: 11%; 2007: 19%).

Net-Income Ratio



AGREEMENT OBJECTIVE 5

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 13: Distribution of Physical-Condition Ratings

	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Good or Excellent Physical Condition	82%	81%	82%	81%	77%
Poor Physical Condition	1%	1%	1%	1%	1%

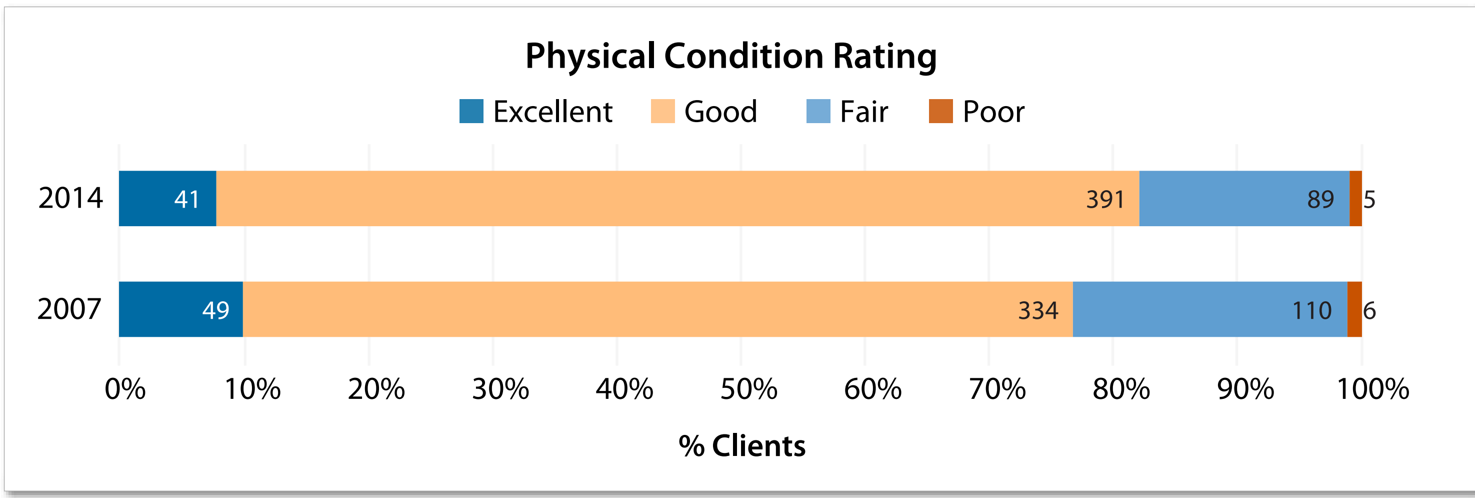
Portfolio Risk Profile

Physical Condition

- Physical-condition ratings for the portfolio are relatively stable, despite aging buildings.
- In 2014, 82% of co-operatives had a positive (Good or Excellent) physical-condition rating, up from 77% in 2007.
- Although the number of co-operatives with an Excellent rating has declined since 2007, mainly as a result of the portfolio's increasing age, positive trends are apparent.
- The proportion of co-operatives rated in Fair physical condition declined from 22% in 2007 to 17% in 2014.

Physical Condition

- Only 1% of clients have a rating of Poor, a percentage that has remained stable over the past 7 years.
- More co-operatives were rated in Good condition in 2014 than 7 years earlier



Physical Condition

- In the medium and long term, a co-operative's financial performance will strongly influence its physical condition.
- Clients with a Net-Income Ratio of Excellent made a median annual contribution to their capital replacement reserve of $2,347 per unit in 2014 (1.3% of their insured replacement value).
- By contrast, clients with a Net-Income Ratio of Poor made a median contribution of only $469 per unit (0.2% of their insured replacement value).
- Clients with a Liquidity Ratio of Excellent made a median annual reserve contribution of $1,878 per unit in 2014 (1.0% of their insured replacement value).
- Clients with a Liquidity Ratio of Poor made a median contribution of only $643 per unit (0.4% of their insured replacement value).

Client Operating Performance

Client Operating Performance

AGREEMENT OBJECTIVES

This review considers the performance of the portfolio against the **three key performance objectives** set out in the Agency's agreement with CMHC:

1. More cost-effective use of rent-geared-to-income (RGI) assistance resulting from project operating efficiencies
2. Improved management practices, as evidenced by reduced occupancy-charge arrears and bad-debt expenses, vacancy losses and other relevant measures
3. Improved financial health, as evidenced by an increasing percentage of co-operatives with fully funded replacement reserves.

AGREEMENT OBJECTIVE 1

More cost-effective use of rent-geared-to-income (RGI) assistance resulting from project operating efficiencies

- The period from 2007 to 2014 saw a decline in rental arrears, bad debts and vacancy rates in the portfolio.
- Less revenue leakage implies greater operating efficiency.
- The result is a more effective use of rent-geared-to-income assistance, owing to less need to replace lost income through higher housing charges.

AGREEMENT OBJECTIVE 2

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

The portfolio's performance is examined below against several specific markers for good management.

These are

- arrears and bad debts
- directors in arrears
- vacancy losses
- insurance
- maintenance and capital spending.

Client Operating Performance

Arrears and Bad Debts

- Across the portfolio, between 2007 and 2014, the median combined occupant arrears and bad-debt expense as a percentage of total occupants' share of housing charges fell 44% from 0.9% to 0.5% (2013: 0.6%).
- Considered as a dollar amount, the median combined arrears and bad-debt expense has declined from $77 per unit (2007) to $51 per unit (2014) in constant dollars.

Arrears and Bad Debts

Table 14: Median Combined Arrears and Bad-Debt Expense					
	2014	**1 Year Ago 2013**	**3 Years Ago 2011**	**5 Years Ago 2009**	**Base Year 2007**
Median Arrears and Bad Debts as % of Occupant Share of Annual Housing Charges	0.5	0.7	0.8	0.8	0.9
Median Arrears and Bad Debts Per Unit	$51	$63	$66	$71	$77
Note: Dollar amounts for 2007 have been indexed as constant dollars to 2014.					

Arrears and Bad Debts

- Significant improvement is evident in
  - the growing percentage of Agency clients with a ratio of 1.5% or less (2014: 73% of clients; 2007: 62%)
  - the shrinking percentage with combined arrears and bad debts of 3% or more (12% of clients in 2014, down 9 points from 2007)
  - the fall in median per-unit arrears and bad debts (2014: $51; 2007: $77)
- The 75th and 95th percentiles have followed a similar pattern.

Arrears and Bad Debts

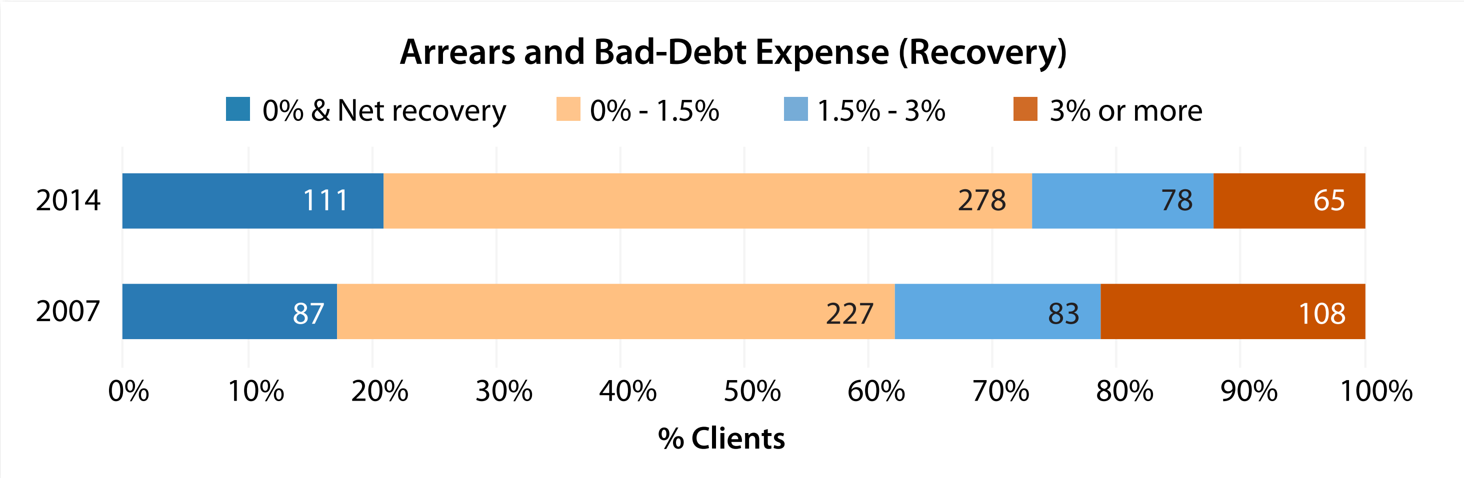


Table 15: Median Arrears and Bad-Debt Expense per Unit

	2014	2007
Median	$51	$77
75th Percentile	$141	$209
95th Percentile	$447	$636
Second Highest Amount	$1,762	$2,700
Highest Amount	$2,104	$5,607

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2014.

Arrears and Bad Debts

An analysis of the trends from 2007 to 2014 for median combined arrears and bad debts by management model shows a decline for all.

Table 16: Median Arrears and Bad Debts by Management Model

	2014	2007
Management Company	$66	$92
Paid Staff	$50	$91
Paid Bookkeeper Only	$32	$44
Volunteers Only	$4	$36

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2014.

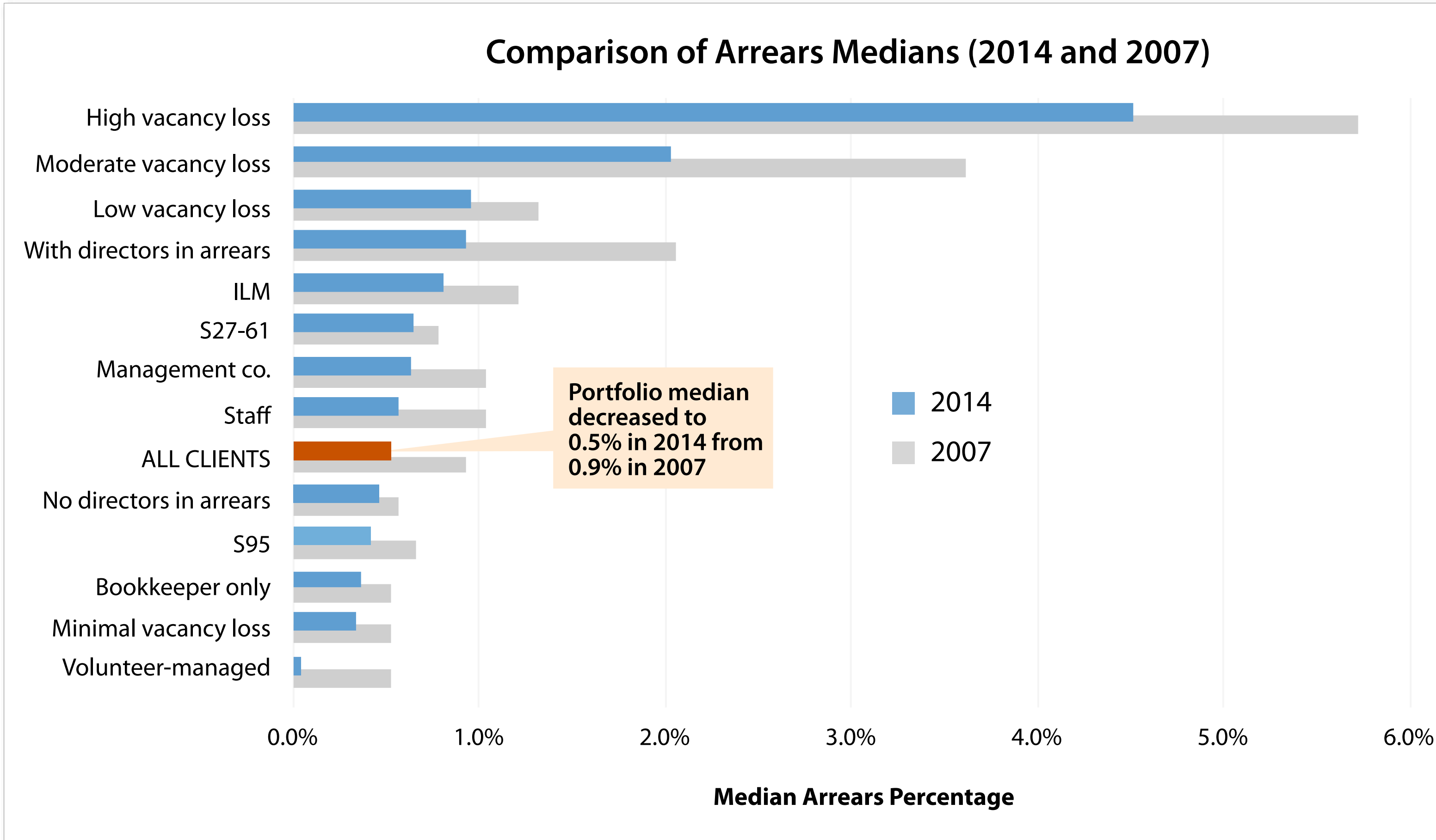
Arrears and Bad Debts

- As in the past, volunteer-managed co-operatives have the lowest median rate of combined arrears and bad debts (0.0% of occupants' share of annual housing charges).
- The Paid Bookkeeper Only category has the next best result (0.4%).
- As together these groups form only 18% of the portfolio, their influence on portfolio-wide results is modest.

Arrears and Bad Debts

- The following graph explores the correlation in each of 2007 and 2014 between combined arrears and bad debts and other co-op traits.
- The correlation between higher vacancy rates and higher arrears and bad debts is strong. This could signal that
  - co-ops with higher vacancy rates must set a low bar when recruiting new members
  - higher vacancy rates and higher arrears both originate in weak management.
- The rate of member arrears also correlates strongly with the presence or absence of directors in arrears.

Arrears and Bad Debts



Client Operating Performance

Directors in Arrears

- Over time the portfolio has seen a marked decrease in the number of co-ops with members of their board of directors in arrears, reflecting the Agency's steady efforts to have clients address this problem.
- Although the rate of improvement has slowed, the number of co-ops reporting one or more directors owing $100 or more at the co-op's year end has dropped to 73 in 2014 from 140 in 2007.
- The median reported average arrears per indebted director has fallen from $656 in 2007 to $634, while the total amount owed by directors is down 68% from 2007 (constant dollars).

Directors in Arrears

Table 17: Directors in Arrears at Client Fiscal Year End

	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
No. of Clients Reporting Directors in Arrears	73	75	78	109	140
% of Dataset	14%	14%	15%	21%	28%
No. of Directors in Arrears	120	140	138	233	298
Total Owed by Directors	$126,982	$137,299	$127,374	$214,933	$391,289
Average per Director: Portfolio	$1,058	$981	$923	$922	$1,313
Average per Indebted Director: Dataset Median	$634	$598	$628	$572	$656
Average per Indebted Director: Dataset Maximum	$9,870	$4,273	$5,484	$3,304	$8,872

Note: Dollar amounts have been indexed as constant dollars to 2014. Clients with directors who owe less than $100 are excluded.

Directors in Arrears

- As noted above, Agency clients have steadily improved their control of arrears and bad debts.
- Although the median ratio of combined arrears and bad debts to occupant housing charges has fallen both for co-ops with director arrears and those without, the median ratio for the former group is nearly double that of the latter (2007: more than triple).

Table 18: Median Combined Arrears and Bad Debts

	2014	2007
Full Dataset	0.5%	0.9%
Co-ops with Director Arrears	0.9%	2.0%
Co-ops without Director Arrears	0.5%	0.6%

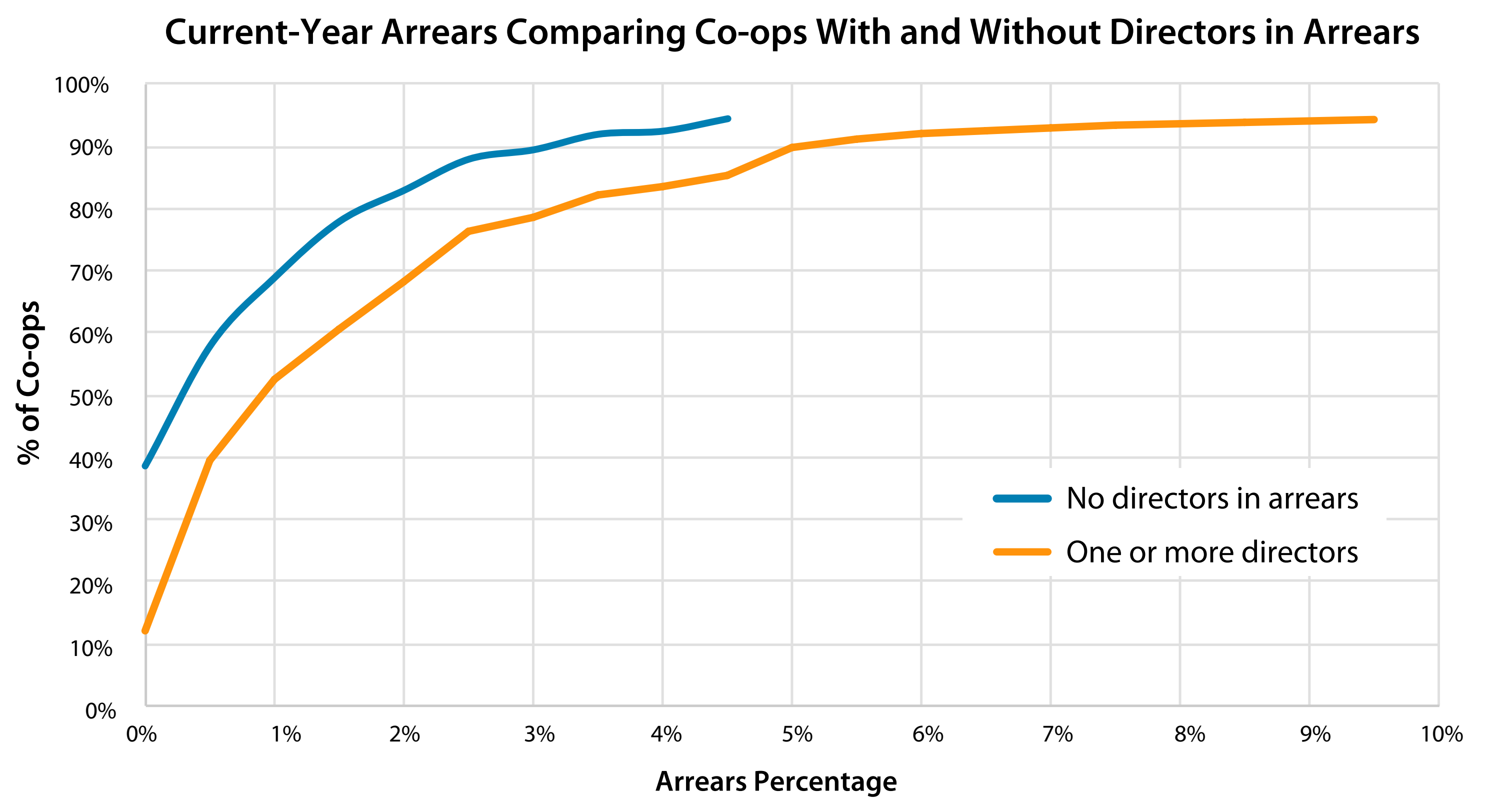
Directors in Arrears

- Similar results are apparent when median total arrears and bad debts are viewed as dollars per unit:
  - co-ops with director arrears: $96 per unit
  - co-ops without director arrears: $43 per unit
- As shown on the next graph, of clients without director arrears (blue line), 39% had either net recoveries or no member arrears or bad debts, compared with only 12% of co-ops with director arrears (orange line).
- 69% of those without director arrears had member arrears and bad debts of less than 1% of annual occupant charges, compared with 53% of co-ops with director arrears.

Directors in Arrears

- Of co-ops with director arrears, 23% had member arrears and bad debts greater than 3.0% of annual occupant charges.
- 15% had arrears and bad debts above 4.5%, compared to 5% of co-ops with no directors in arrears.

Directors in Arrears



Arrears and Bad Debt Expense (Recovery) as a Percentage of Occupants' Share of Housing Charges (to 95th percentile)

Directors in Arrears

- The Agency strongly encourages clients to adopt by-laws or rules that preclude members in arrears from serving as directors.
- We are confident this is helping to reduce director arrears.
- The discussion itself is driving a change in the prevailing culture, even among co-ops that do not adopt the by-law.

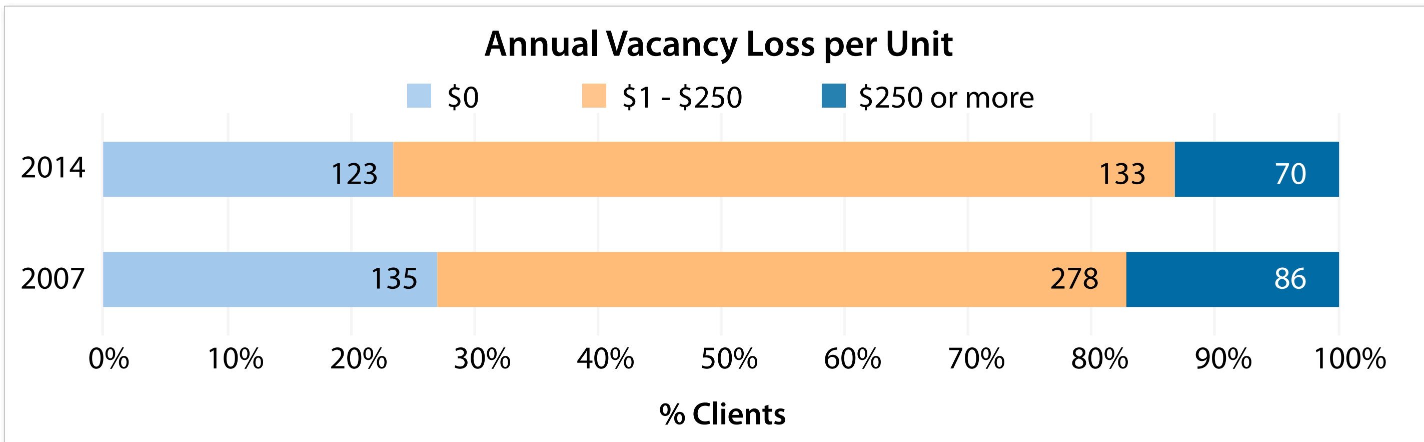
Client Operating Performance

Vacancy Losses

- Vacancy losses usually represent the single greatest source of revenue leakage.
- High vacancy losses will quickly deplete a co-op's financial strength.
- Both the proportion of clients with no vacancy loss and the proportion reporting losses of $250 or more per unit (in constant dollars) have fallen since 2007.

Vacancy Losses

Table 19: Annual Vacancy Loss					
	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
% of Clients with No Loss	23%	25%	24%	30%	27%
% of Clients with Loss of $250 Per Unit or More	13%	15%	15%	14%	17%



Vacancy Losses

- The fluctuating median per-unit vacancy loss has returned to its 2011 level of $42 per unit (constant dollars).
- The 75th percentile loss has also fluctuated but improved a little in 2014 over 2013 and 2007.
- The 95th percentile loss continues to decline.

Table 20: Per-Unit Annual Vacancy Loss

	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Portfolio Median	$42	$39	$42	$31	$36
75th Percentile	$141	$144	$143	$132	$146
95th Percentile	$470	$524	$765	$546	$806
Highest	$4,300	$3,894	$8,058	$4,476	$4,022

Note: Dollar amounts have been indexed as constant dollars to 2014.

Vacancy Losses

- The average per-unit loss reported among clients with any vacancy loss has improved (2014: $172; 2007: $235) (constant dollars).
- Including co-ops without any vacancy loss, the average per-unit loss rose to $132 in 2014 from $128 in 2013, but remains well below its 2007 level of $171 (constant dollars).
- Despite the growth in the portfolio, fewer co-operatives are reporting annual vacancy losses in excess of $1,000 per unit:
  - 20 had losses at this level in 2007
  - 7 years later, only 6 reported losses this high (2013: 7).

Vacancy Losses

Looking at absolute vacancy losses, the trend is very positive.

- Total losses have fallen steadily, despite growth in the dataset.
- From 2007 to 2014, total reported losses fell more than $1.7 million (30%) in constant dollars.
- The vacancy loss per client fell 34% from 2007 to 2014.

Table 21: Total Annual Vacancy Loss in the Portfolio

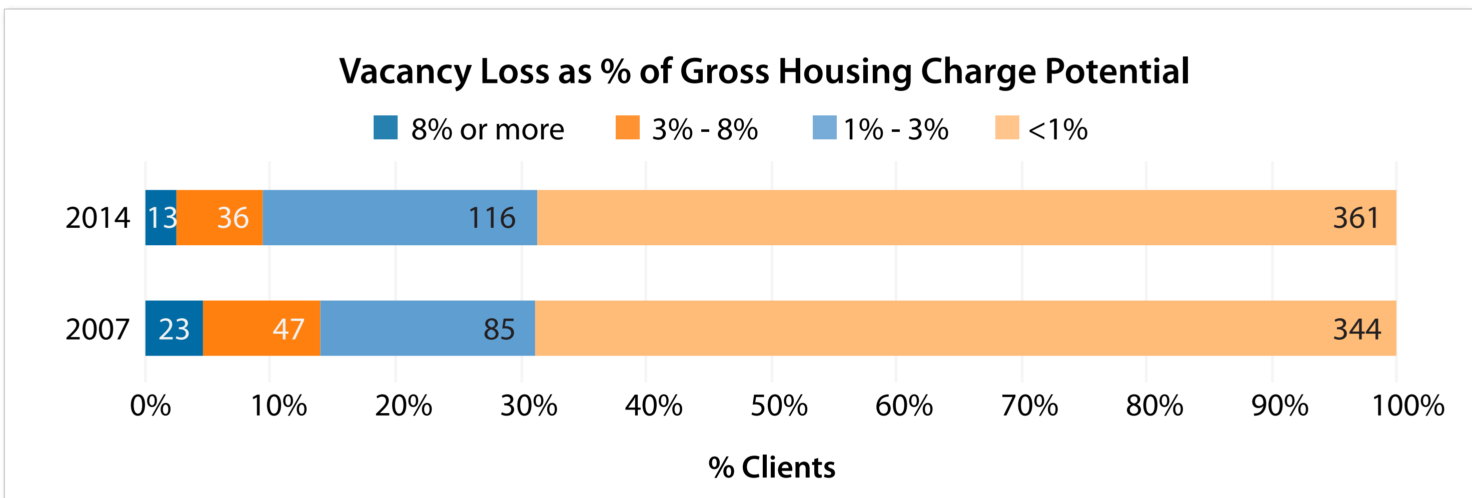
	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Total Reported Loss	$3,974,104	$4,023,423	$5,133,145	$4,506,653	$5,712,671
Clients in Dataset	526	541	529	515	499
Vacancy Loss per Client	$7,555	$7,437	$9,704	$8,751	$11,447

Note: Dollar amounts have been indexed as constant dollars to 2014. Deep-need-program co-ops excluded.

Vacancy Losses

Vacancy loss is most usefully measured as a ratio of a co-op's annual gross potential revenue from housing charges (GHCP).

- The percentage of the portfolio with vacancy losses below 1% of GHCP is stable (2014: 69%; 2007: 69%)
- The percentage with losses of 8% of GHCP or more has dropped materially (2014: 2%; 2007: 5%).

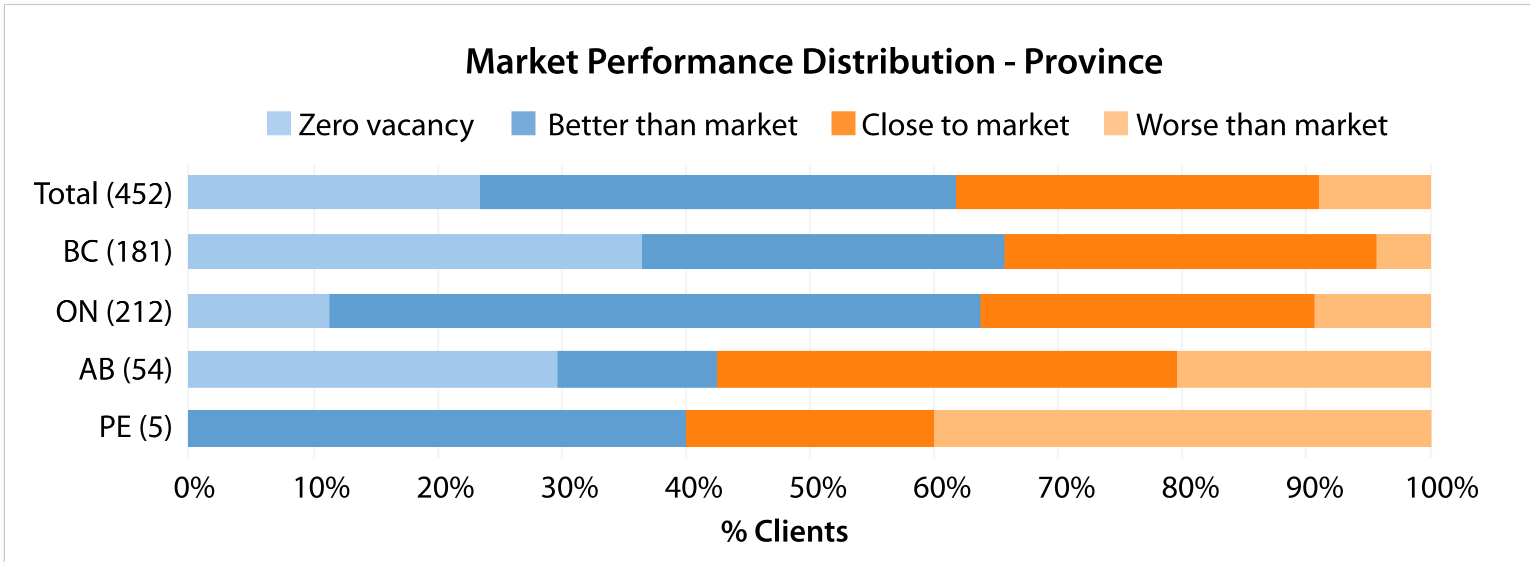


Vacancy Losses

- The true test of performance is how a co-op's vacancy loss compares to the vacancy rate in its local rental market.
- A strong majority of Agency clients continue to outperform their local market.
- Looking at the portfolio as a whole, in 2014
  - 23% of Agency clients had no vacancy loss
  - 38% of the portfolio reported some vacancy loss but performed better than the local market (2013: 34%), while 30% did about as well
  - 9% posted worse-than-market vacancy losses (2013: 9%).

Vacancy Losses

- However, results vary greatly from region to region.
- Note that co-ops for whom market data is not available are excluded from the analysis.



Vacancy Losses

- In 2014 British Columbia had the highest proportion of co-ops without any vacancy loss, at 36% (2013: 40%).
- Alberta was next, at 30% (2013: 25%).
- The percentage of Alberta clients with below-market vacancy losses dropped again, to 13% (2013: 28%), remaining dramatically below 2011, when it was 66%. Alberta rental markets tightened sharply in the intervening period, prior to the oil shock.

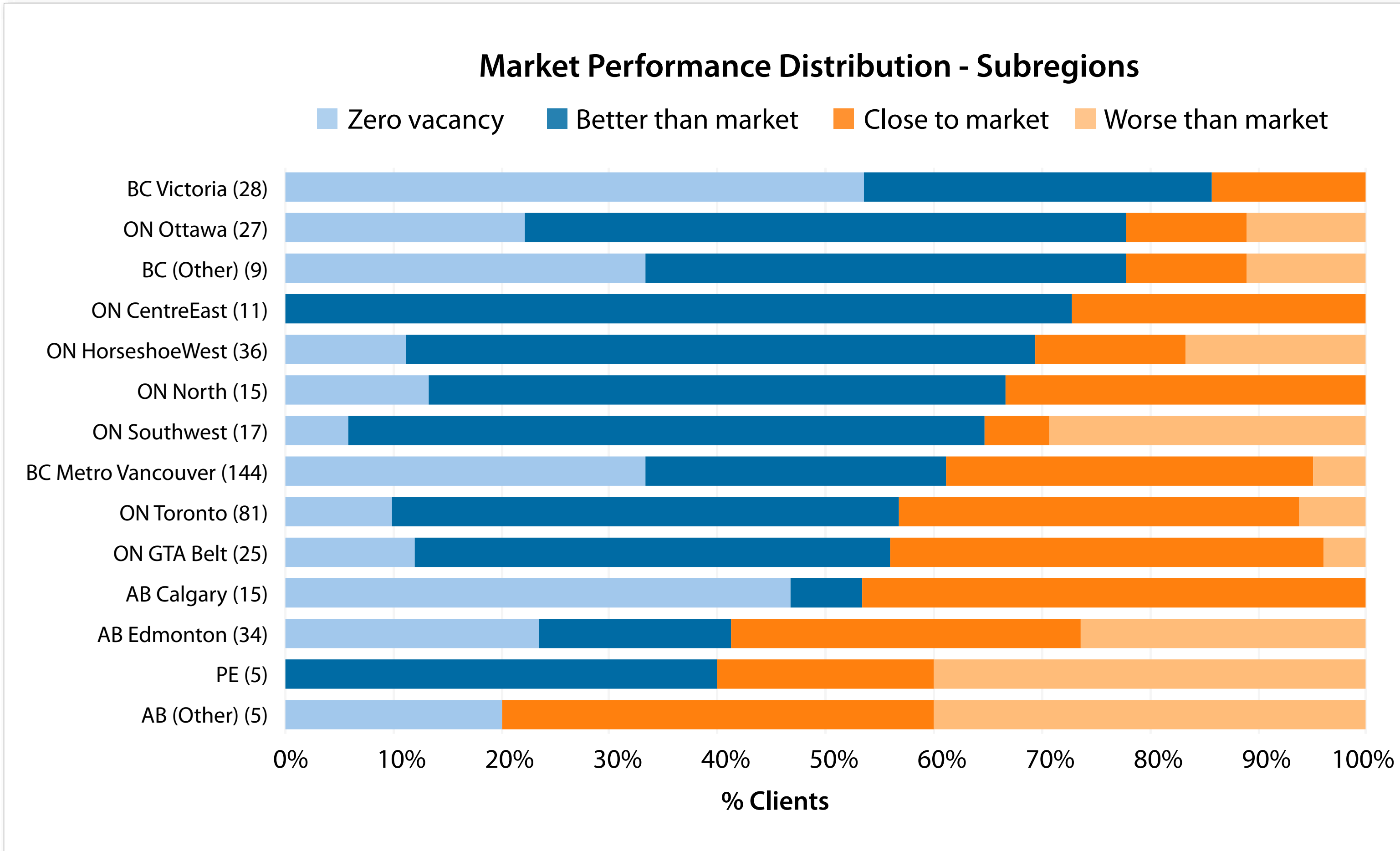
Ontario co-operatives

- were most likely to outperform the market
- were less likely to report no vacancy loss.

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.
- Again, co-ops for whom market data is not available are excluded from the analysis.
- Caution is advised in reviewing the results for regions with very few co-operatives (PEI, Alberta other).

Vacancy Losses



Vacancy Losses

The next table examines client vacancy losses against market vacancy rates from a different perspective. In this analysis we

- worked with data from CMHC's rental market reports to calculate a weighted market vacancy rate for each Agency client, reflecting its unit mix
- assigned each Agency client to 1 of 3 market types based on its weighted market vacancy rate:
  - low-vacancy market (weighted market-vacancy rate below 1.5%)
  - moderate-vacancy market (rate between 1.5 and 3.5%)
  - high-vacancy market (rate of 3.5% or greater).

Vacancy Losses

For each market type, we then calculated and compared

- the median vacancy loss reported by Agency clients assigned to that market type
- the median weighted market vacancy rate for that market type.

The results for the 2014 dataset were then compared with the results of the same analysis performed for the 2007 dataset.

Two factors explain the change in the distribution of Agency clients from 7 years earlier:

- the addition to the Agency's portfolio of a large number of co-operatives located in the B.C. lower mainland
- changes in market vacancy rates.

Vacancy Losses

Table 22: Co-op Vacancy Losses Compared to Market Vacancy Rates			
	Low Vacancy Markets	Moderate Vacancy Markets	High Vacancy Markets
2007			
Distribution of Agency Clients	36%	36%	28%
Median Co-op Vacancy Loss	0.1%	0.4%	0.9%
Median Weighted Market Vacancy Rate	0.4%	2.4%	4.7%
2014			
Distribution of Agency Clients	41%	39%	21%
Median Co-op Vacancy Loss	0.2%	0.4%	0.6%
Median Weighted Market Vacancy Rate	0.9%	2.2%	4.7%

Vacancy Losses

- As the table shows, as a group, Agency clients outperformed the market in each market type in both years.
- Co-ops' market advantage has widened in the low- and high-vacancy markets and narrowed slightly in the moderate-vacancy markets.
- Looking at co-ops in high-vacancy markets, in 2014
  - 21% had no vacancy loss
  - 5% had losses close to market
  - 67% had better-than-market losses (median loss of 0.8% compared to a median market vacancy rate for their group of 4.7%)
  - only 6% had worse-than-market rates (median loss of 9.6%).

Vacancy Losses

- There is a strong correlation between a co-op's physical condition and its vacancy loss.
- 76% of clients in excellent physical condition have vacancy losses below 1% of gross housing charge potential (GHCP), compared with only 40% of co-ops in poor condition.
- 40% of co-ops in poor condition have vacancy losses of 8% or more.

Vacancy Losses

Table 23: Vacancy Loss and Physical Condition Rating

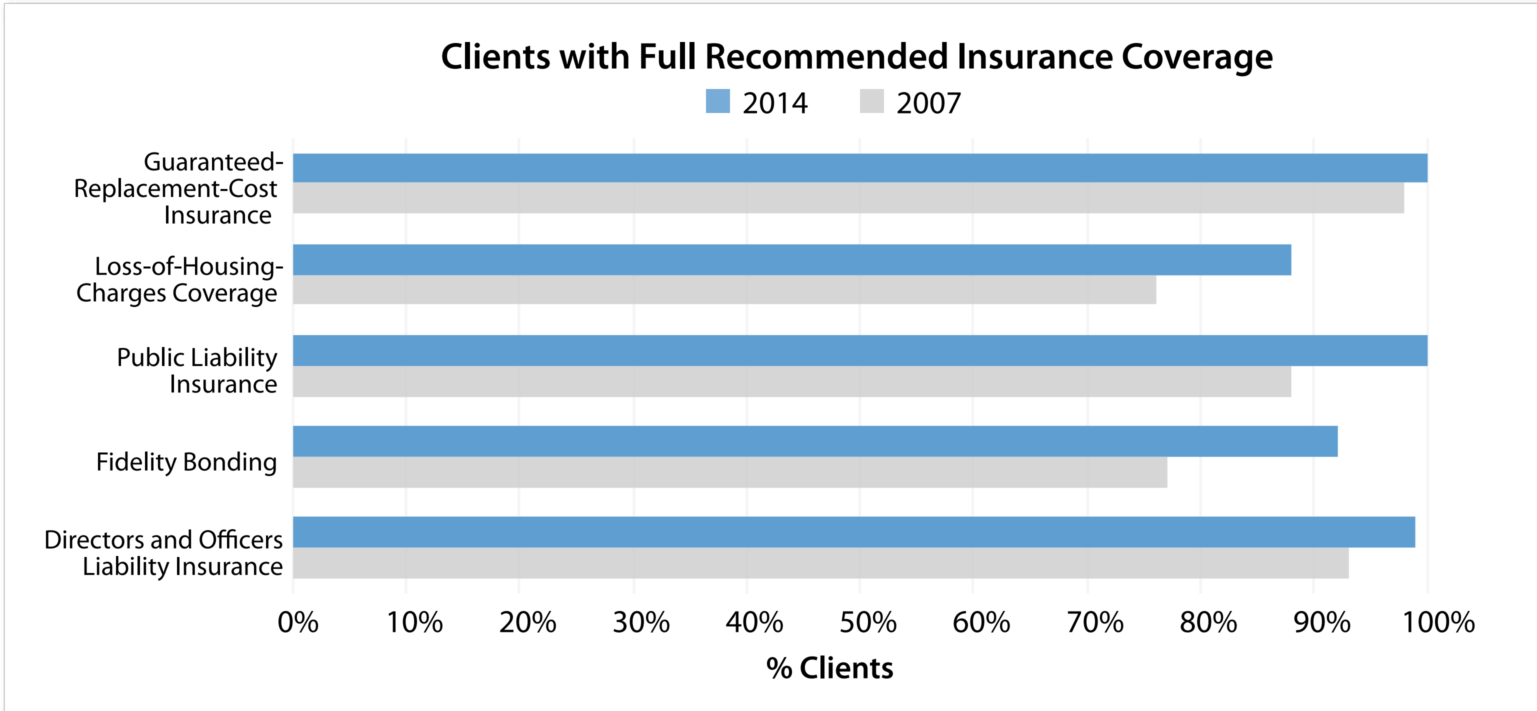
Condition Rating	Excellent		Good		Fair		Poor	
Vacancy Loss	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
<1%	31	76%	272	70%	56	63%	2	40%
1%-3%	7	17%	86	22%	22	25%	1	20%
3%-8%	2	5%	26	7%	8	9%	0	0%
8% or more	1	2%	7	2%	3	3%	2	40%
Total	**41**	**100%**	**391**	**100%**	**89**	**100%**	**5**	**100%**

Client Operating Performance

Insurance

- Housing co-operatives produce all of their income from their physical assets. Lack of adequate insurance coverage is therefore a significant risk factor for our clients.
- Early on, the Agency determined the types and levels of insurance that all housing co-operatives should have.
- The following graph shows the proportion of clients in the 2014 dataset that met these standards at the time of their AIR filing, compared with 2007.

Insurance


Clients with Full Recommended Insurance Coverage
2014
2007
Guaranteed-Replacement-Cost Insurance
Loss-of-Housing-Charges Coverage
Public Liability Insurance
Fidelity Bonding
Directors and Officers Liability Insurance
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
% Clients

Insurance

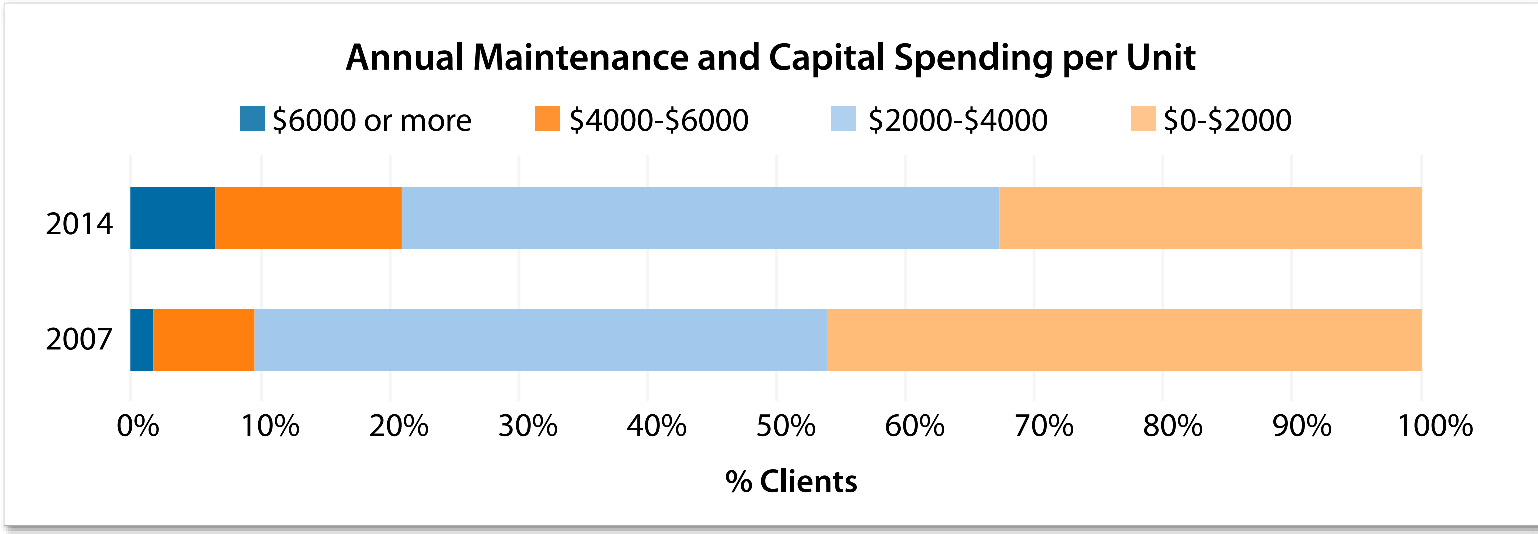
- Our relationship managers have persuaded a substantial number of under-insured clients to increase their coverage.
- As a result, the portfolio is now better protected than it was 7 years ago.

Client Operating Performance

Spending on Maintenance and Capital Repairs

- This section looks at spending on maintenance and capital repairs and replacements in 2014, compared with 2007 (constant dollars).
- These two forms of spending on the physical plant are combined for a clearer picture of the care clients are taking of their chief asset.
- Combining maintenance and capital spending also normalizes the data for different accounting treatments.

Spending on Maintenance and Capital Repairs



Spending on Maintenance and Capital Repairs

Table 24: Annual Per-Unit Spending on Maintenance and Capital Repairs					
	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
$0 to $2,000	33%	34%	35%	40%	46%
$4,000 or more	21%	19%	18%	14%	10%

Note: Dollar amounts have been indexed as constant dollars to 2014.

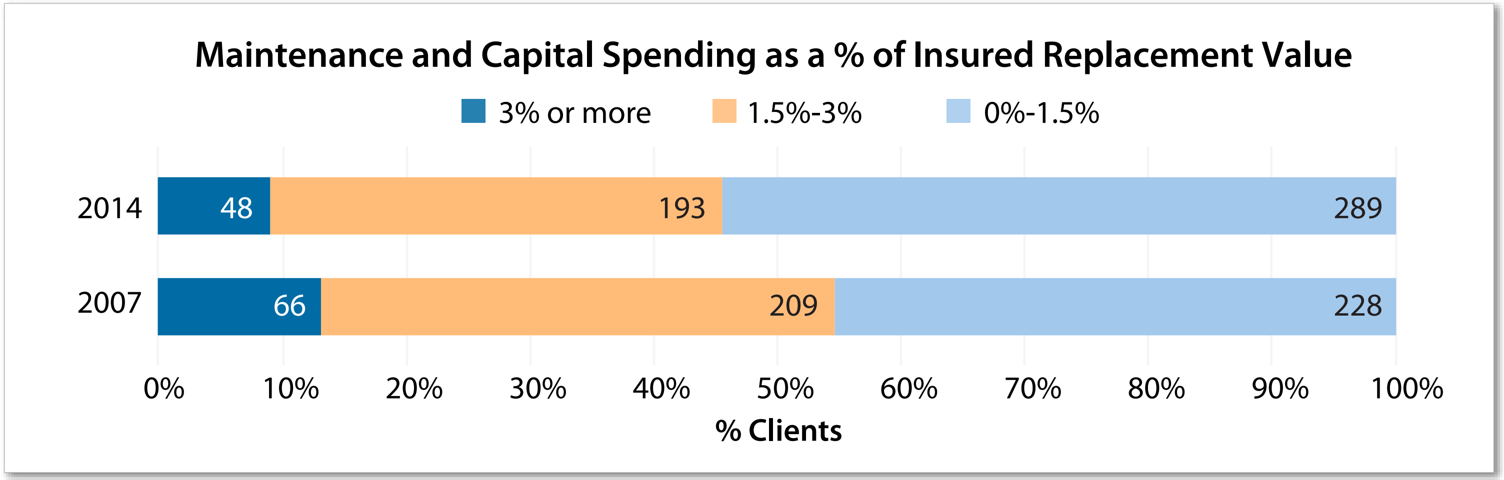
- After dropping sharply from 2007, the percentage of Agency clients spending at the lowest level—under $2,000 per unit per year—is stable.
- The percentage spending at higher levels—$4,000 or more—has more than doubled since 2007.

Spending on Maintenance and Capital Repairs

- The next graph shows maintenance and capital spending as a percentage of the insured replacement value of each client'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.)

Spending on Maintenance and Capital Repairs

- Looked at in this way, the median rate of investment in the physical plant is holding at the 2013 level and remains slightly below the 2007 level (2014: 1.4%; 2013: 1.4%; 2007: 1.6%)



Spending on Maintenance and Capital Repairs

- Agency data show that our clients' insurance companies increased estimates of replacement costs from 2009 to 2014 by more than the general inflation rate.
- The total insured replacement value for clients that appear in both the 2007 and 2014 datasets rose 51% between the 2 years.
- The Consumer Price Index rose 13.7% over the same period.
- Insurance companies appear to have been catching up after a period of rapid rises in residential construction costs.
- If replacement values were underestimated in 2007, the investment rates for that year in the previous graph are overstated in relation to 2014.

Spending on Maintenance and Capital Repairs

In constant dollars, co-operatives continued to increase spending on their property in 2014.

Table 25: Annual Per-Unit Spending on Maintenance and Capital Repairs					
	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Median for Dataset	$2,531	$2,506	$2,421	$2,315	$2,087

Note: Dollar amounts have been indexed as constant dollars to 2014.

Spending on Maintenance and Capital Repairs

- Owing to a change to the AIR part way through 2010, data on physical-plant spending from 2007 through 2010 are not entirely comparable with data collected for later years.
- The implications of the change are discussed in Appendix A.
- The broad trend identified above—increased spending by co-ops on their physical plant—is considered valid nonetheless.
- The value of capital repairs funded through the federal Social Housing Renovation and Retrofit Initiative is excluded from the analysis.

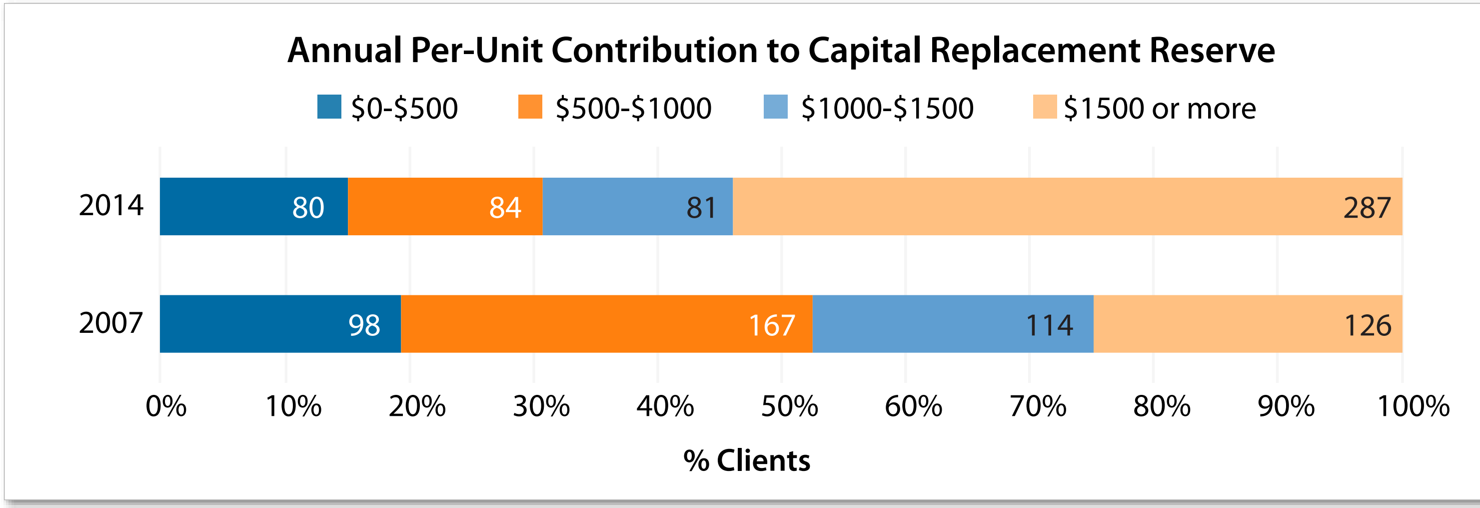
Client Operating Performance

AGREEMENT OBJECTIVE 3

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

- Most clients continue to heed our advice by contributing more to their capital-replacement reserves than in the past.
- Looking at the full 2007 and 2014 datasets, contributions to reserves, including supplementary contributions from operating surpluses, have risen sharply in constant dollars since 2007.

Fully Funded Reserves



- 474 co-ops appear in both the 2007 and 2014 datasets.
- Between those years, the median annual per-unit contribution for this group rose 68%, from $949 to $1,598 (constant dollars).

Fully Funded Reserves

- 75% of co-operatives increased their contribution with 51% increasing it by $500 or more per unit and 30% by more than $1,000.
- The median per-unit reserve fund balance increased by 21% over time (2014: $4,174; 2007: $3,422).
- Higher capital-replacement-reserve contributions correlate strongly with capital-reserve planning.

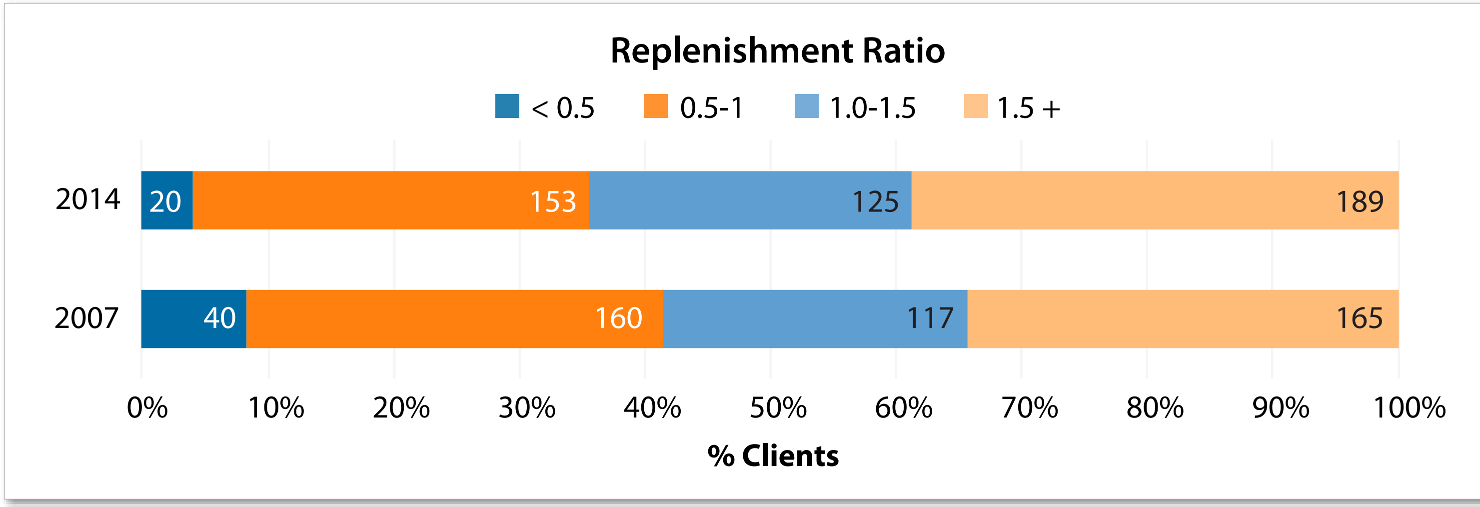
Capital Replacement Reserves

- The median contribution rate is much lower among clients without a capital replacement-reserve plan:
  - Co-ops with an approved plan set aside a median amount of $2,064 per unit in 2014, an increase of 74% from 2007 rates ($1,186);
  - Co-ops with an expired plan set aside a median amount of $2,108 per unit in 2014;
  - Co-ops with no plan at all set aside a median amount of $1,230.

Capital Replacement Reserves

- The replenishment ratio expresses the relationship between the amount a co-op adds to its capital-replacement reserve over 2 years and the sum 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 strong majority of clients in the dataset in 2014—64%—contributed more to their capital reserve over the previous 2 years than they withdrew (2013: 63%; 2007: 59%).

Capital Replacement Reserves



The median replenishment ratio grew by 9% between 2007 and 2014.

Table 26: Capital Replacement Reserve Replenishment Ratio					
	2014	1 Year Ago 2013	3 Years Ago 2011	5 Years Ago 2009	Base Year 2007
Median for Dataset	1.2	1.2	1.1	1.1	1.1

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 Agency clients in the dataset had fully funded reserves in 2014 (2007: 91%).
- The median funding rate among clients whose reserves are not fully funded is now 71%, up from 65% in 2013 (2007: 63%).
- 95% of co-ops without workouts reported fully funded reserves in 2014, up from 92% in 2007 and unchanged from 2013.
- The median funding rate for co-ops without workouts whose reserves are not fully funded was 88%, up strongly from 66% in 2007 (2013: 85%).

Fully Funded Reserves

- The proportion of co-ops with workouts holding fully funded reserves remains stable (2014: 87%; 2007: 88%).
- The median funding rate for co-ops with workouts whose reserves are not fully funded has dropped to 38% from 60% in 2013 (2007: 40%). However, the picture is incomplete, as 2014 AIRs were not available for one-third of co-ops appearing in this category in the 2013 dataset.
- Note that a co-operative with a workout cannot normally address this under-funding while the workout is in place.

Fully Funded Reserves

Table 27: Capital Replacement Reserve Funding Rates				
	% of Co-ops with Fully Funded Capital Reserve		Median Funding Rate for Reserves not Fully Funded	
	2014	2007	2014	2007
All Co-ops in Dataset	93%	91%	71%	63%
Co-ops without Workouts	95%	92%	88%	66%
Co-ops with Workouts	87%	88%	38%	40%

Client Satisfaction

Client Satisfaction

Approach

- The Agency normally commissions a client-satisfaction survey every 3 years.
- Although the last survey took place in 2011, the next survey was rescheduled to 2015, owing to the timing of CMHC's evaluation of the Agency and our concern that our clients not be surveyed too often.
- The survey is conducted by a third party to ensure its objectivity and protect the anonymity of responses.

Client Satisfaction

AGREEMENT OBJECTIVE

Improved client satisfaction within the portfolio

- Client satisfaction has greatly improved since the base year of 2005, the last full year of CMHC's direct management of the portfolio.
- Between the 2008 and 2011 surveys, satisfaction improved slightly in some areas and remained steady in others.

Table 28: Percentage of Satisfied Clients

	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 2015

Looking Ahead to 2015

- The 2014 annual review shows the health and performance of the portfolio continuing to improve, as it has since the Agency first assumed responsibility for its oversight.
- Periodically, our clients face the predictable difficulties with governance and management endemic to small, democratic community businesses. We assist them in these areas when their financial health and performance are threatened, as far as our mandate permits.
- As our clients approach the end of their operating agreements, the Agency is striving to send them on their way with sound finances and solid business practices in place.

Looking Ahead to 2015

The Agency intends to continue

- inspiring our clients to improve their performance by every means possible
- preparing our clients for the future
  - by supporting them in arranging for new and necessary financing, whether through their own efforts or those of a co-operative housing federation or another third party
  - by encouraging them to
    - increase their revenues as needed to cover their bills as they come due and to allow for appropriate annual contributions to their capital-replacement reserves
    - arrange for a current capital plan supported by an up-to-date building condition assessment.

Looking Ahead to 2015

The Agency also looks to

- expand the number and reach of services that we deliver on CMHC's behalf
- work closely with government and our co-operative partners to ensure that good-quality, fairly priced housing continues to be available to Canadians of all income levels.

Appendices

Appendix A: Technical Data

The 2014 Dataset

- The data in this report were drawn from Annual Information Returns (AIRs) received and validated by the Agency by January 15, 2015 for fiscal years ending between August 2013 and July 2014.
- 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 31 December 2014, the Agency had 547 co-op clients (32,418 units).
- At January 15, 2014 we had received and validated AIRs from 532 clients (32,523 units). These co-ops comprise the 2014 dataset.

Appendix A: Technical Data

Earlier Datasets

- Datasets for previous study years have been adjusted to include late-arriving AIRs for all co-operatives that were active Agency clients during the period in question.
- This increases the numbers available for trend analyses.
- Composition of datasets for prior-year comparisons:
  - 2013: 548 co-ops with 33, 475 units
  - 2011: 536 co-ops with 32,872 units
  - 2009: 522 co-ops with 31,673 units
  - 2007: 505 co-ops with 30,768 units

Appendix A: Technical Data

- The 2014 and 2007 datasets have 474 co-ops in common.
- 58 co-ops are found only in the 2014 dataset.
- 31 are found only in the 2007 dataset.

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 and certain of the vacancy loss analyses.

Appendix A: Technical Data

Constant Dollar Amounts

- Dollar amounts from previous years have been indexed to their 2014 values (constant dollars) using the rate of change of 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 for portfolio-wide numbers, such as medians, were based on the indexed amount for each co-operative.

Appendix A: Technical Data

Measurement of Investment in Physical Plant

- Data on physical-plant spending from 2007 through 2010 are not fully comparable to data for subsequent years, owing to a change made to the AIR part way through 2010.
- Prior to the change, information on additions to a client's capital assets could not be isolated. As a result, repairs and replacements that were capitalized and amortized to operations over time are excluded from the data presented for physical-plant investments for periods before 2010.
- To understand the effect that including the capitalized repairs reported after 2009 had on our analysis, we looked at the clients reporting such repairs and the amount they spent.

Appendix A: Technical Data

Measurement of Investment in Physical Plant

Table 29: Influence of Additions to Capital Assets	2014	2013	2012	2011
Clients Reporting Additions to Capital Assets	36/532 (7%)	41/548 (7%)	39/547 (7%)	40/536 (7%)
Largest Per-Unit Addition	$38,613	$27,303	$44,109	$25,428
Per-Unit Physical-Plant Spending for Dataset	$ 3,183	$ 3,283	$ 3,163	$ 2,931
Per-Unit Additions to Capital Assets for Dataset	$ 157	$ 332	$ 363	$ 219
Additions to Capital Assets as % of Physical-Plant Spending	5%	10%	11%	7%
Median Per-Unit Spending, with Capital-Asset Additions	$ 2,584	$ 2,525	$ 2,483	$ 2,437
Median Per-Unit Spending, without Capital-Asset Additions	$ 2,495	$ 2,469	$ 2,400	$ 2,323

Note: Dollar amounts have been indexed as constant dollars to 2014.

Appendix A: Technical Data

Measurement of Investment in Physical Plant

- 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 2014 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

Measurement of Investment in Physical Plant

Table 30: Distribution of Clients in the Dataset by Annual Per-Unit Spending on Maintenance and Capital Repairs

	$0-$2,000	$2,000-$4,000	$4,000-$6,000	$6,000 or more
2014 with Capital-Asset Additions	31%	47%	15%	7%
2014 without Capital-Asset Additions	33%	47%	14%	5%
2007 without Capital-Asset Additions	46%	45%	8%	2%

- With additions to capital assets excluded, the proportion of clients in the database spending more than $4,000 per unit a year, in constant dollars, on maintenance and capital repairs grew from 10% to 19% between 2007 and 2014.
- The proportion spending less than $2,000 fell from 46% to 33%.

Appendix B: Non-Compliance Definitions

Compliance failures 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.

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

DEFINITIONS

Low

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 in 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

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 a contribution from earnings to its replacement reserve, after covering its debt service and all normal operating expenses. No indicators of high risk are present. 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

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 very effective management and some ongoing monitoring and support.

Appendix C: Composite Risk Ratings

High

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, before a 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 payment 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

Changes to the Risk-Assessment Model

In this review, ratings for earlier years have been adjusted as necessary to reflect the following changes to the risk-rating system made in 2010: we

- increased the combinations of leading-indicator scores that return a composite rating of Low
- raised the thresholds used in establishing 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.

Appendix D: Median Performance Data

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2014	2007	2014	2007
Full Dataset	0.4%	0.4%	$42	$36
Program				
S27/S61	0.2%	0.1%	$23	$14
S95	0.3%	0.3%	$35	$31
FCHP (ILM)	0.6%	0.7%	$67	$75
Multi-program	1.1%	1.0%	$85	$135
Province				
British Columbia	0.2%	0.2%	$23	$16
Alberta	0.4%	0.3%	$45	$30
Ontario	0.6%	0.7%	$65	$74
PEI	4.6%	0.2%	$392	$14

Note: Dollar amounts have been indexed as constant dollars to 2014.
The changes over time are due both to changes in the dataset and to the evolution of individual co-operatives within the portfolio.

Appendix D: Median Performance Data

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2014	2007	2014	2007
Full Dataset	0.4%	0.4%	$42	$36
Management Model				
Management Company	0.5%	0.5%	$58	$50
Paid Staff	0.3%	0.4%	$35	$37
Paid Bookkeeper Only	0.2%	0.2%	$24	$22
Volunteers Only	0.0%	0.0%	$0	$0

Note: Dollar amounts have been indexed as constant dollars to 2014.
The changes over time are due both to changes in the dataset and to the evolution of individual co-operatives within the portfolio.

Appendix D: Median Performance Data

Housing Charges Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2014	2007	2014	2007
Full Dataset	0.5%	0.9%	$722	$649
Program				
S27/S61	0.6%	0.8%	$767	$558
S95	0.4%	0.7%	$706	$628
FCHP (ILM)	0.8%	1.2%	$712	$657
Multi-program	1.7%	1.4%	$977	$1,105
Other	1.6%	8.4%	$1,270	$1,095
Province				
British Columbia	0.2%	0.4%	$480	$428
Alberta	0.5%	0.7%	$629	$398
Ontario	0.9%	1.4%	$940	$870
PEI	1.8%	1.2%	$922	$720

Note: Dollar amounts have been indexed as constant dollars to 2014.
The changes over time are due both to changes in the dataset and to the evolution of individual co-operatives within the portfolio.

Appendix D: Median Performance Data

Housing Charges Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2014	2007	2014	2007
Full Dataset	0.5%	0.9%	$722	$649
Management Model				
Management Company	0.6%	1.0%	$688	$583
Paid Staff	0.6%	1.0%	$919	$892
Paid Bookkeeper Only	0.4%	0.5%	$263	$329
Volunteers Only	0.0%	0.5%	$ 94	$122

Note: Dollar amounts have been indexed as constant dollars to 2014.
The changes over time are due both to changes in the dataset and to the evolution of individual co-operatives within the portfolio.

Appendix D: Median Performance Data

Physical Plant

	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	
	2014	2007	2014	2007	2014	2007
Full Dataset	$2,531	$2,087	$3,728	$3,411	$1,598	$949
Program						
S27/S61	$2,559	$2,065	$3,292	$3,592	$1,533	$1,059
S95	$2,622	$2,169	$4,457	$3,828	$1,868	$1,206
FCHP (ILM)	$2,328	$1,944	$2,319	$2,309	$1,015	$550
Multi-program	$2,862	$2,685	$2,397	$3,295	$1,000	$987
Other	$6,415	$3,205	$9,627	$2,887	$16,858	$505
Province						
British Columbia	$2,424	$1,941	$4,151	$3,511	$1,886	$1,066
Alberta	$2,629	$1,690	$4,160	$2,408	$1,781	$744
Ontario	$2,607	$2,305	$3,264	$3,623	$1,428	$951
PEI	$2,019	$1,949	$2,293	$968	$778	$458

Note: Dollar amounts have been indexed as constant dollars to 2014.
The changes over time are due both to changes in the dataset and to the evolution of individual co-operatives within the portfolio.

Appendix D: Median Performance Data

Physical Plant

	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	
	2014	2007	2014	2007	2014	2007
Full Dataset	$2,531	$2,087	$3,728	$3,411	$1,598	$949
Management Model						
Management Company	$2,444	$2,105	$3,073	$3,084	$1,573	$897
Paid Staff	$2,828	$2,324	$4,181	$3,615	$1,570	$929
Paid Bookkeeper Only	$2,426	$1,865	$4,762	$3,170	$2,010	$1,082
Volunteers Only	$1,803	$1,639	$3,602	$3,922	$1,233	$937

Note: Dollar amounts have been indexed as constant dollars to 2014.
The changes over time are due both to changes in the dataset and to the evolution of individual co-operatives within the portfolio.