2018 Biannual Portfolio Performance Review

REPORT TO CMHC

The Agency for Co-operative Housing
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

Greater Compliance with Operating Agreements

- 83 per cent of Agency clients are fully compliant with their operating agreements, up from 70 per cent in 2008.
- Compliance failures have declined for all degrees of severity since 2008.
- Mortgage and tax arrears have fallen materially since 2007.

Improving Risk Profile

- More than half the portfolio (51%) is now rated Low or Moderate risk (2007: 39%).
- 89 per cent of clients show a Stable or Strengthening risk trend.
- 89 per cent of clients saw their Liquidity, and 72 per cent their Net Income, rated Good or Excellent in 2018 (2007: 79% and 55%, respectively).
- Four of the nine co-operatives whose physical condition was rated Poor in 2018 (2% of the portfolio) have since obtained new loans to pay for major capital repairs and one other is undergoing a complete redevelopment.

Key Findings

Improved Operating Performance

- A steady decline in revenues lost to arrears, bad debts and vacant units has improved the cost-effectiveness of the programs.
- The number of clients reporting director arrears at year end has dropped by nearly two-thirds (2018: 10%; 2007: 28%) and the total owed by directors by 83 per cent.
- Arrears and bad debts in Ontario and B.C. continue to fall, while the rise that began after 2014 in Alberta is now slowing as the province gradually recovers from its economic downturn.
- The median rate of arrears and bad debts across our portfolio has fallen from 0.9 per cent of total annual occupant charges in 2007 to 0.4 per cent in 2018.
- At nine per cent of our portfolio, the share of clients reporting an arrears-bad-debt ratio of three per cent or more is down 12 percentage points from 2007 and three points from 2016.
- The median per-unit vacancy loss across the portfolio has declined to a new low of $33 per unit, despite an increase in average gross housing charge potential since 2007.
- The majority of Agency clients continue to out-perform their local market, with only five per cent posting worse-than-market vacancy losses.
- Spending on maintenance and improvements has risen by 46 per cent since 2007 (median spending per unit in 2018: $3,261; 2007: $2,229).
- The percentage of clients spending $4,000 a unit or more per year on maintenance and repairs has almost tripled since 2007.

Key Findings

- Fewer clients are under-insured.
- The median annual replacement-reserve contribution in our portfolio has grown 2.3 times since 2007, from $985 per unit to $2,256.
- 45 per cent of clients hold a capital reserve balance of $6,000 or more per unit—almost double the rate of 25 per cent in 2007.

GOAL: Continued benefits of co-operative housing for Canadians

- Vacancy and arrears and bad-debt rates among co-operatives with financial workouts have fallen by half in the past ten years.
- More than two-thirds of co-operatives with financial workouts will be able either to refinance their outstanding debt at the end of their operating agreement or to repay their loan in full, without discretionary interest forgiveness.
- Over the Agency's life, only two clients whose first financial workout was recommended by the Agency have received second workouts. There have been no stock losses due to mortgage defaults.

GOAL: Improved client satisfaction within the portfolio

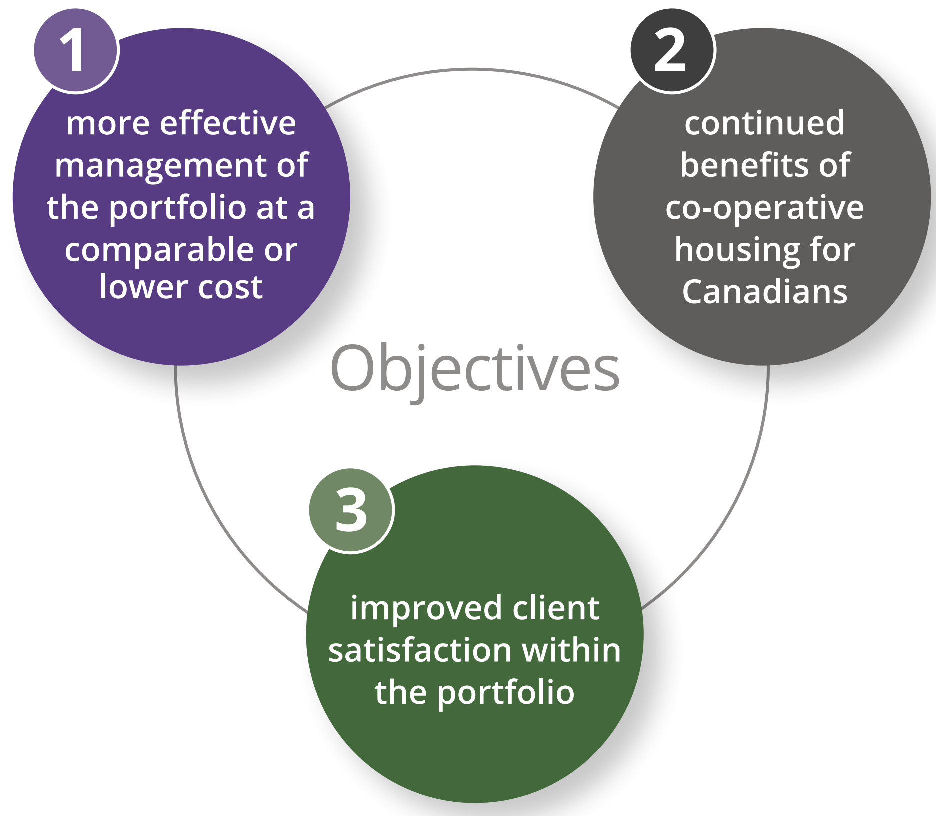
Client satisfaction has greatly improved since 2005, the last full year of CMHC's direct management of the portfolio, and continues to grow, with an overall satisfaction score of 90 per cent in 2018, as confirmed by the our latest Client Satisfaction Survey.

Overview

Overview

Objectives

Every two years, the Agency for Co-operative Housing produces a report assessing the status and performance of the portfolio of housing co-operatives whose agreements with CMHC we manage. The current review demonstrates significant progress over the past 11 years[1] toward the three principal objectives set out in the Agency's agreement with CMHC.



1. The first full year of Agency operations was 2007, the base year against which 2018 information is compared for most indicators.

Overview

Results

COMPLIANCE
More clients are in full compliance with their operating agreement.

RISK PROFILE
The risk profile of the portfolio is significantly improved.

CLIENT SATISFACTION
with the Agency's management of the portfolio continues to grow.

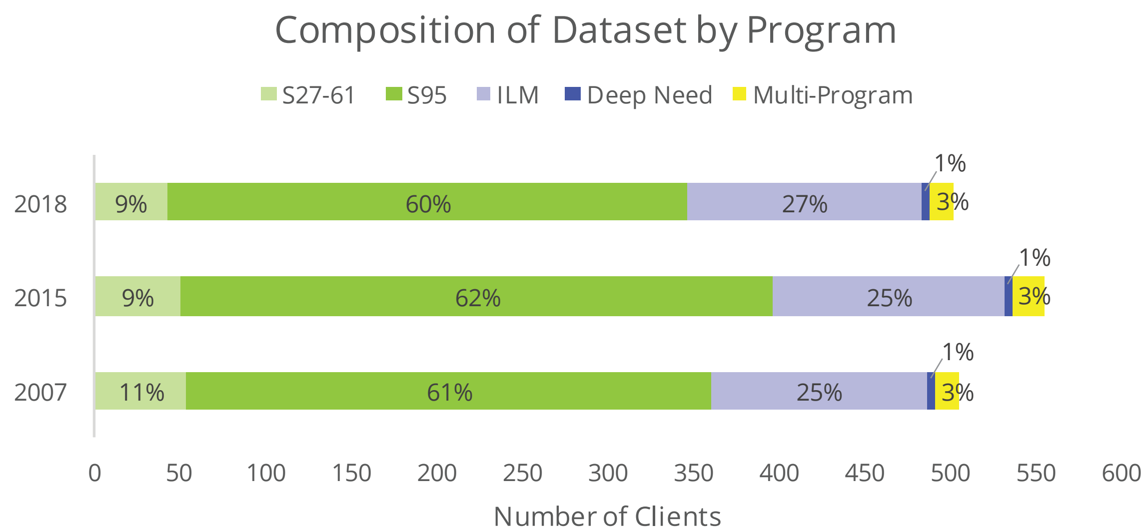
OPERATING PERFORMANCE
Co-operatives are earning more and taking better care of their assets.

- The dataset for this review includes 502 housing co-operatives operating under six federal programs in four provinces. Together, they owned 30,042 units of housing and comprised 97 per cent of the Agency's portfolio at 31 December 2018. More information on the dataset may be found in **Appendix A**.
- All dollar amounts cited in this review have been indexed as constant dollars to 2018, unless otherwise specified.

Overview

Portfolio Profile: Program Distribution

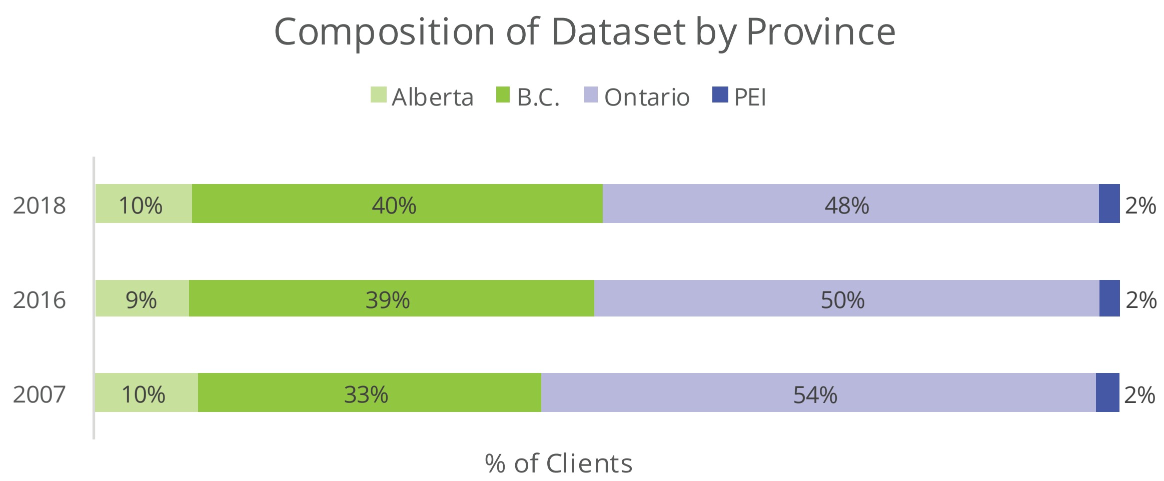
The breakdown of the dataset by program has been quite stable over the time the Agency has been operating, with a slight decline now evident in S95-Program co-operatives—the result of operating agreements under that program ending.



Overview

Portfolio Profile: Provincial Distribution

Though little changed from our last review (2016), the provincial distribution is somewhat different from that of 2007, owing to new clients arriving from B.C. and some in Ontario reaching the end of their operating agreements.

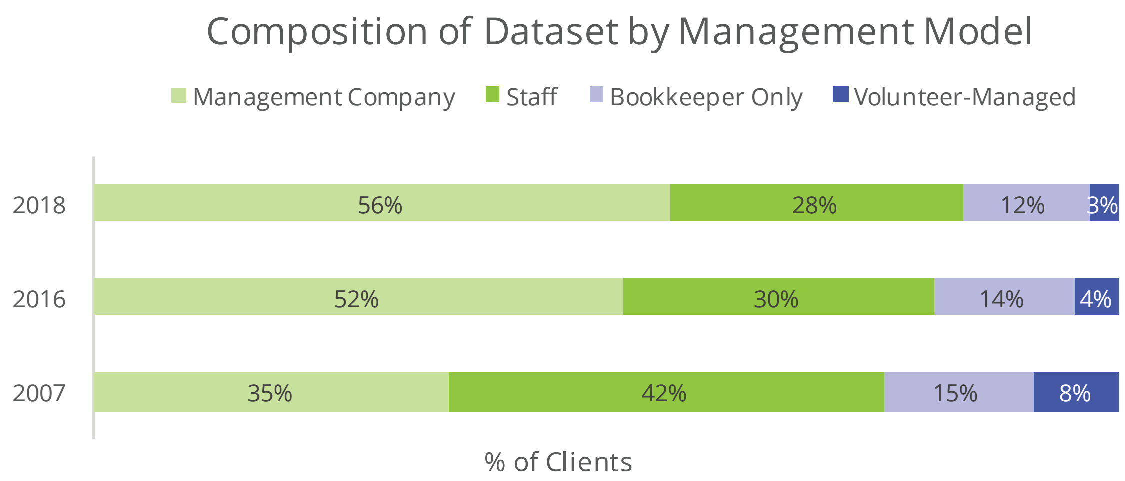


Overview

Portfolio Profile: Distribution by Management Model

A growing number of Agency clients are turning to property-management companies to look after their day-to-day operations. The change reflects both the addition of clients from B.C., where contract property management has long predominated, and the growing preference for this management model in Ontario.

Since 2016, the proportion of Agency clients employing management companies has grown from 52 per cent to 56 per cent. This increase has been at the expense of all three other forms of management.



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. As the Agency's compliance 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 comparisons are to 2007.

Operating-agreement compliance failures are classified as Breaches or Material or Minor Compliance Variances. These ratings are defined in **Appendix B**.

Data reported in this section reflect the compliance status of all 515 Agency clients at 31 December 2018.

Portfolio Compliance Profile

Agreement Objectives

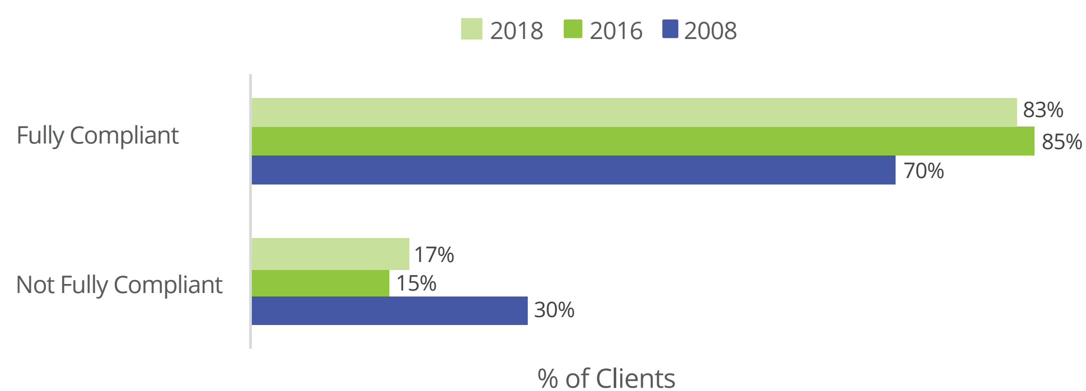
Our review considers the performance of the portfolio against the **three key compliance objectives** set out in the Agency's agreement with CMHC.

OBJECTIVE 1

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

At 31 December 2018, 83 per cent of Agency clients were compliant in every respect with their CMHC operating agreement. Down two percentage points from 2016, full compliance is up 13 points from its 2008 level of 70 per cent.[2]

Portfolio Compliance Status



2. In the analysis that follows, workout-agreement variances are not included.

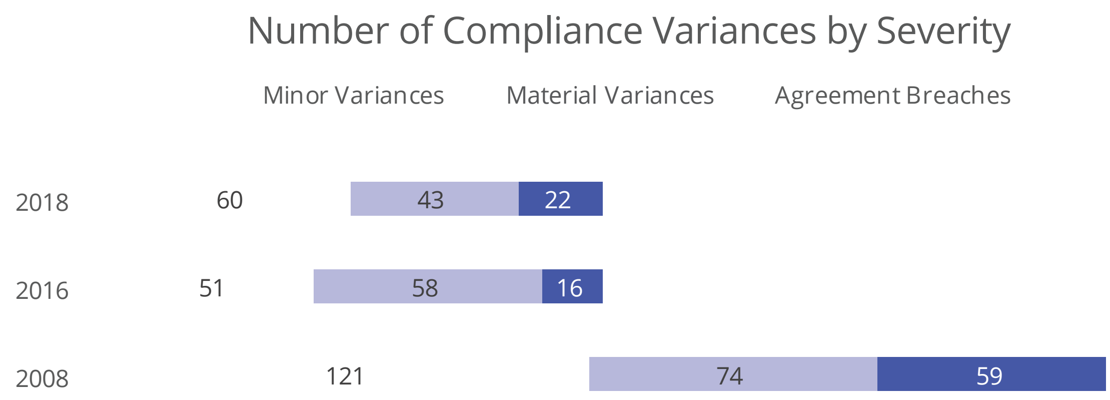
Portfolio Compliance Profile

Severity of Variances

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

Total agreement breaches and material compliance variances (65) are down from both 2016 (74) and 2008 (133).

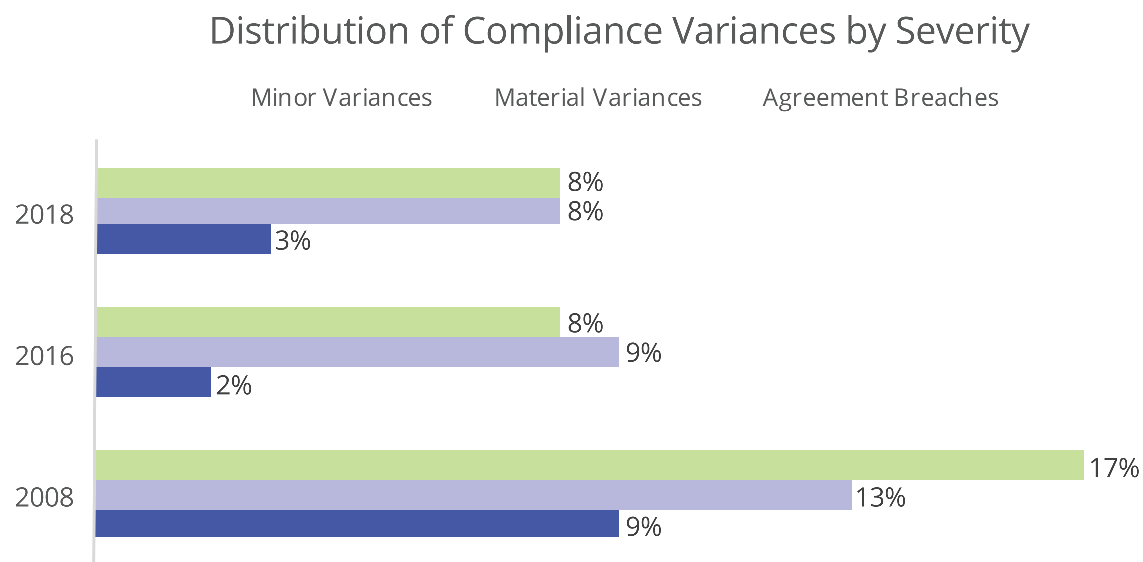


Compliance failures have fallen dramatically for all degrees of severity since 2008.

Portfolio Compliance Profile

Severity of Variances

The number of breaches and share of clients with breaches are both well down from 2008, despite a slight rise since 2016. By contrast, the proportion of co-operatives with material variances and number of such variances have continued their steady descent (2018: 43, 8%; 2016: 58, 9%; 2008: 74, 13%). Those with minor variances make up eight per cent of our portfolio, unchanged from 2016, but well down from 17 per cent in 2008.



Portfolio Compliance Profile

Severity of Variances

The rise in breaches since 2016 is principally attributable to a greater number of clients failing to house the minimum required number of assisted households. We believe this to be due to lack of certainty over whether all households now eligible for assistance under the S95 program will qualify for help under the federal program expected to replace existing RGI support when operating agreements expire. Non-compliant co-operatives may be choosing to reduce their reliance on assistance they fear will not remain available to them.

A closer enquiry into the number of minor variances, which rose from 51 in 2016 to 60 in 2018, reveals an increase in late information returns. While not the sole cause, the rise is largely owing to late filing of rent-supplement claims, which precedes the completion of the AIR filing. As co-operatives become accustomed to the claims process, late filings are expected to decline.

Down sharply from 2008, the number of agreement breaches and minor variances is up a little from 2016, the result of special circumstances.

Portfolio Compliance Profile

Mortgage and Tax Arrears

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

As we move closer to the point when no co-operative is behind with its mortgage or property taxes, progress against this goal may seem immaterial. However, a look at the change in dollar amounts overdue shows an impressive improvement.

Mortgage and Property-Tax Arrears

	2018		2016		2007	
	No. of Clients	% of Clients	No. of Clients	% of Clients	No. of Clients	% of Clients
Mortgage Arrears*	2	0.38%	4	0.80%	11	2.10%
Property-Tax Arrears**	2	0.38%	1	0.20%	3	0.60%
Mortgage and Property-Tax Arrears	$1,509,058		$2,241,204		Not available	

* All clients with any mortgage arrears. In 2016, two clients had second-mortgage arrears only.
** Tax arrears remedied by the lender and added to the mortgage appear as mortgage arrears, not tax arrears.

Portfolio Risk Profile

Portfolio Risk Profile

Approach

The Agency conducts a comprehensive risk assessment of every client once a year. The composite risk rating we assign (Low, Moderate, Above Average or High) reflects the Agency's considered view of the client's current health and future prospects. Definitions of the ratings appear in **Appendix C**.

Ultimately judgement-based, our risk rating of each client is strongly informed by the results of standardized tests. 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 a rating of Above Average or High. Agency staff will also consider other information, 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 were suspended in 2013, at CMHC's direction; from 2013 to 2018, we inspected only the properties of co-operatives at risk or operating under a deep-need program. Partway through 2018, it was agreed that routine property inspections should be reinstated across the full portfolio. Inspections are now being carried out every three years. Absent a recent inspection, Agency relationship managers update the physical-condition rating as new information comes to their attention, for example, when major capital repairs are undertaken or a building-condition assessment reveals new problems.

Portfolio Risk Profile

Agreement Objectives

This review considers the performance of the portfolio against the **four key risk objectives** set out in the Agency's agreement with CMHC,[3] which look for improvements in the overall risk profile, financial health and physical condition of the portfolio.

OBJECTIVES 1 AND 2

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**

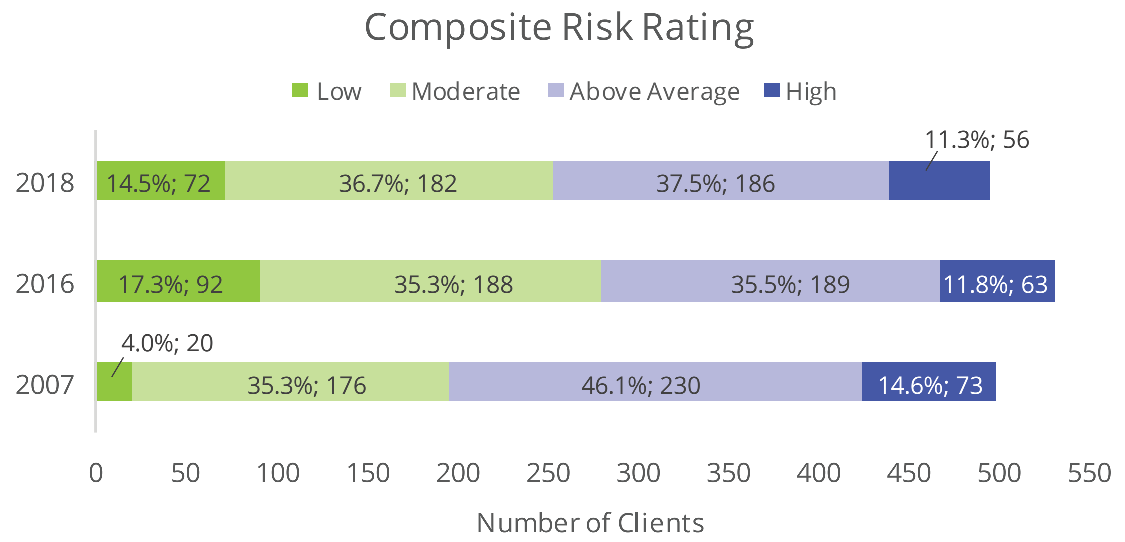
3. Following discussion with CMHC, a fifth objective was removed for purposes of this review. The objective focused on underperforming co-operatives: "Increasing percentage of co-operatives that are underperforming but are not under a workout arrangement returned to financial health without recourse to cash injection funding from CMHC Insurance or Enhanced Assistance." Previous portfolio reviews reported positive results against this objective. However, the very complex analysis required to evaluate the progress made was judged not to be worth the effort.

Portfolio Risk Profile

Risk Trend

Co-operatives with composite ratings of Above Average or High comprised 48.8 per cent of our portfolio in 2018, up slightly from 47.3 per cent in 2016, but down markedly from 60.7 per cent in 2007. Clients with a composite rating of Low or Moderate now make up more than half of the portfolio (51%, up from 39% in 2007).

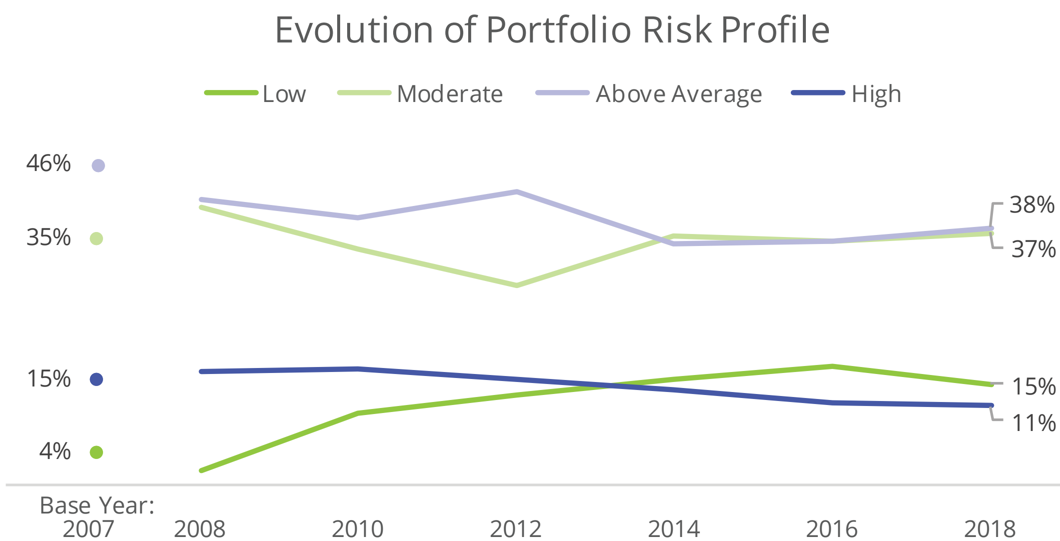
The number of co-operatives with a rating of High has declined since 2007, while the number rated Low or Moderate has grown.



Portfolio Risk Profile

Risk Trend

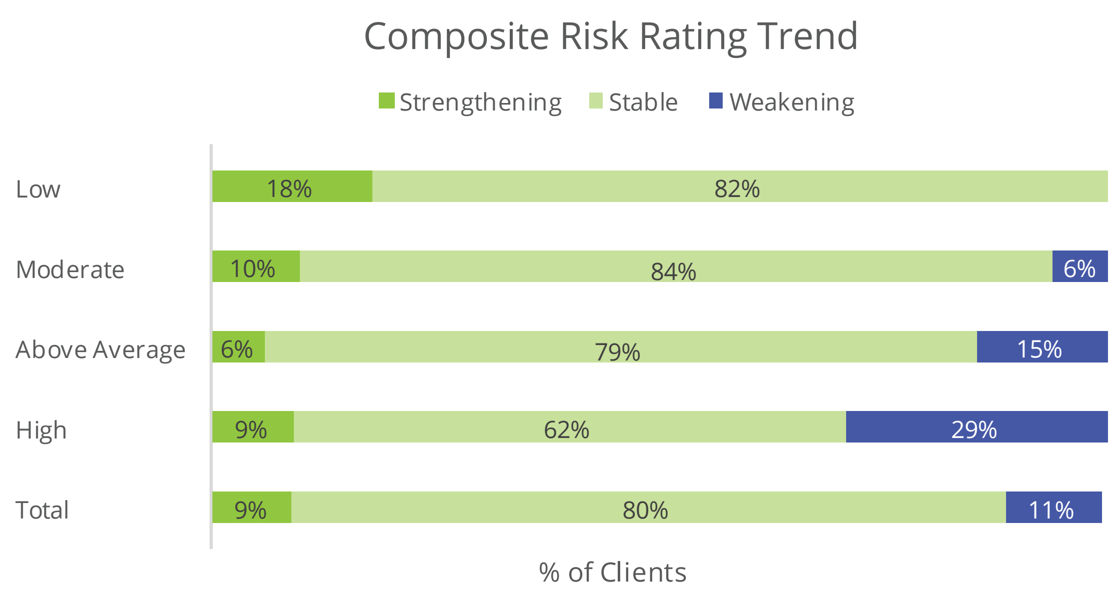
As the next graph shows, after an initial increase, the percentage of clients carrying a High composite risk rating has continued to fall since 2010, while the proportion of clients with a Low rating has almost quadrupled since 2007. The share of clients with a Moderate rating has remained relatively stable since 2014, while the share with an Above Average rating has risen slightly. These results have been achieved despite an influx of clients initially held back at CMHC while they awaited a financial workout.



Portfolio Risk Profile

Risk Trend

During our annual risk assessment process we assign clients a risk trend of Strengthening, Stable or Weakening. Eighty-nine per cent of our clients have an assigned risk trend of Stable or Strengthening. Among those with a High composite risk rating, only 29 per cent were judged to be Weakening in 2018 (2016: 34%). Note that a Weakening trend means that the client has risk factors to attend to; it does not necessarily signal a rising risk of mortgage default.



89% of Agency clients show a Stable or Strengthening risk trend.

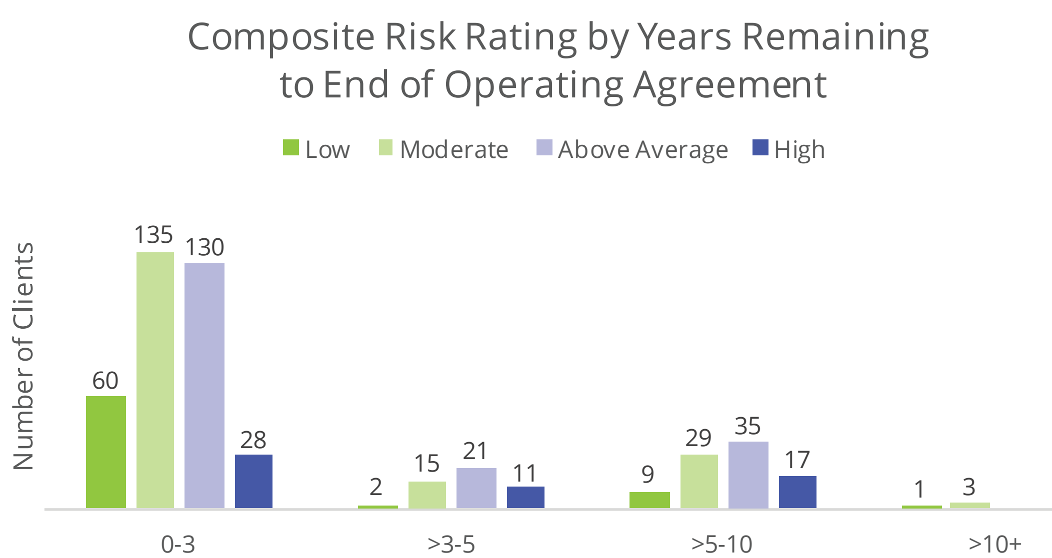
Portfolio Risk Profile

Risk Outlook

CMHC's risk declines steadily as housing co-operatives repay and ultimately retire their mortgage loans, or replace them with uninsured loans. As declining indebtedness is not taken into account in calculating a client's composite risk rating (a measure of enterprise risk), our assessment overstates CMHC's overall risk of mortgage default.

At 31 December 2018, 90 client co-operatives had refinanced their CMHC loans. Forty-four per cent of client operating agreements are now scheduled to end in 2020 and a further 33 per cent will expire before the end of 2023. The graph shows the distribution of composite risk ratings according to the number of years left to run in our clients' operating agreements after 2018.

Seventy-six per cent of co-operatives rated Low or Moderate risk, compared to 50 per cent rated High risk, will reach the end of their agreement in three years or less. The weaker financial position of clients funded under the last of CMHC's major co-operative housing programs, relative to that of clients funded under earlier programs, accounts for the expected shift in the risk profile of our portfolio.



Portfolio Risk Profile

Financial Health

OBJECTIVE 3

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

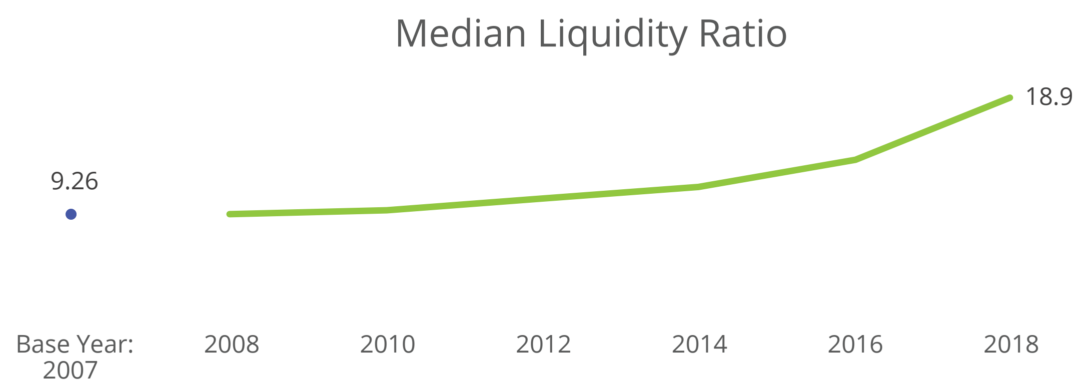
Net-Income and Liquidity ratios strengthened between 2007 and 2018, and a growing percentage of clients enjoy a rating of Good or Excellent on both financial indicators.

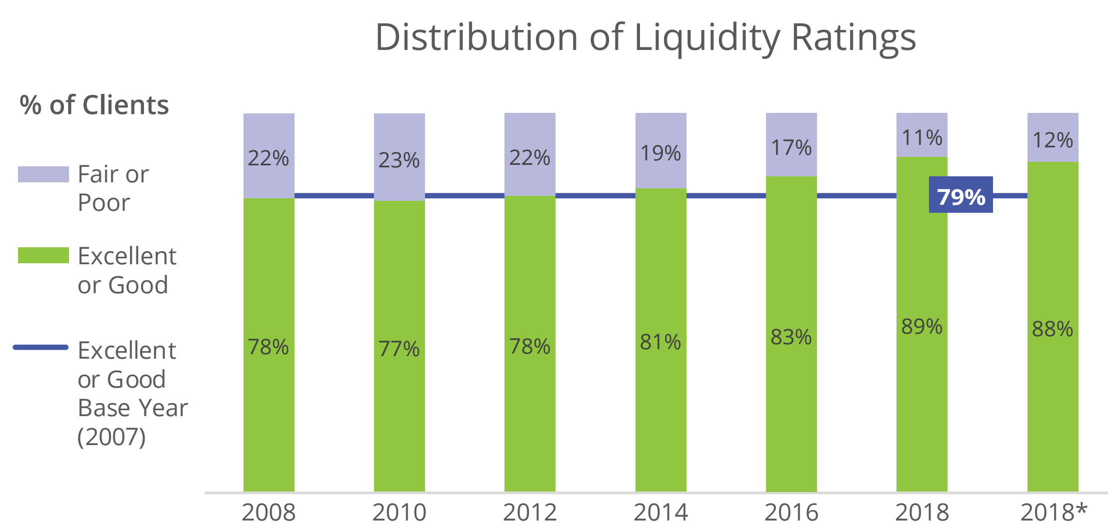
89% of Agency clients saw their Liquidity, and 72% their Net Income, rated Good or Excellent in 2018 (2007: 79% and 55%).

Portfolio Risk Profile

Financial Health

Between 2007 and 2018, the median Liquidity ratio for the total dataset more than doubled, from 9.26 to 18.9, and the share of co-operatives with a Good or Excellent rating rose 10 percentage points. When all mortgage-free co-operatives are removed from the 2018 dataset, we still see a positive trend in liquidity.





* All mortgage-free co-operatives removed

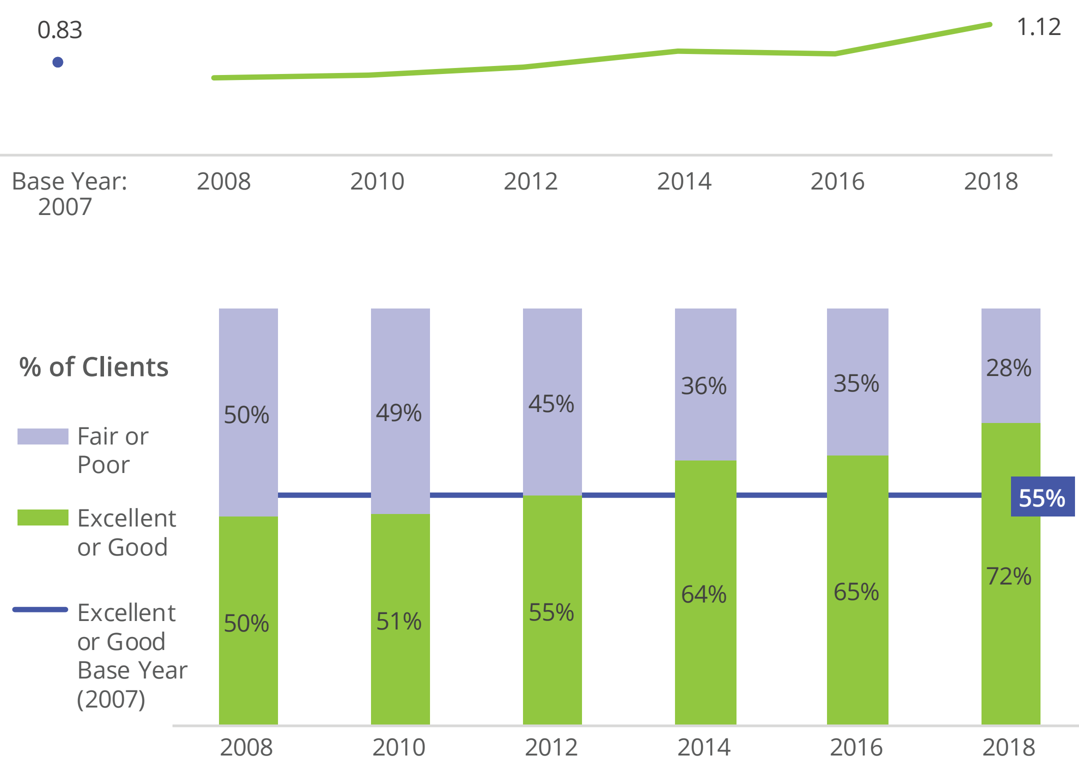
Portfolio Risk Profile

Financial Health

The median Net-Income ratio rose from 2007 (0.83) to 2018 (1.12). Clients with a healthy Net-Income rating (Good or Excellent) made up 72 per cent of the portfolio in 2018, a 17-percentage-point rise from 2007.

In 2018, 28 per cent of Agency clients had a Fair or Poor Net-Income rating, compared with 45 per cent in 2007. The percentage rated Fair went down (2018: 20%; 2007: 26%), as did that rated Poor (2018: 8%; 2007: 19%).

Median Net-Income Ratio and Distribution of Net-Income Ratings



Portfolio Risk Profile

Physical Condition

OBJECTIVE 4

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

Distribution of Physical-Condition Ratings

	2018	2016	2014	2012	Base Year: 2007
Good or Excellent Physical Condition	377	441	446	436	383
	76%	83%	82%	81%	77%
Poor Physical Condition	9	6	6	6	6
	2%	1%	1%	1%	1%

Portfolio Risk Profile

Physical Condition

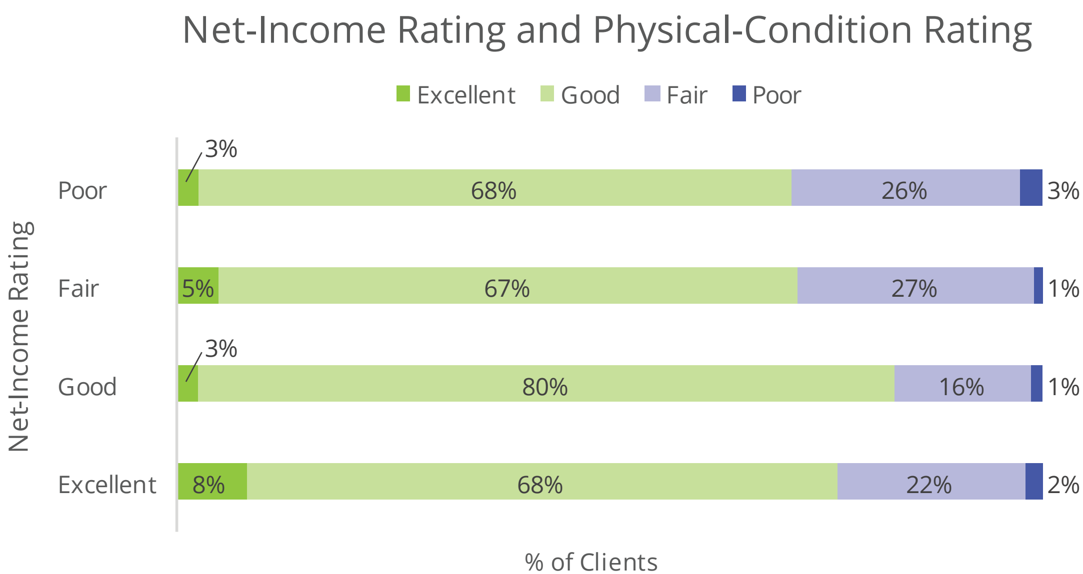
After rising slowly but steadily for many years, the proportion of co-operatives with an Excellent or Good physical-condition rating fell in 2018. Nonetheless, positive trends are apparent. While the share of clients whose physical condition is rated Excellent has dropped by four percentage points since 2007, the share whose condition is rated Good has risen by three points. At 22 per cent, the proportion judged to be in Fair physical condition is unchanged from 11 years earlier. Further, four of the nine co-operatives rated in Poor physical condition in 2018 have since obtained new loans to pay for major capital repairs. Two others suffering from the severe failure of their building envelope were transferred to the Agency without a remediation plan. One of these is now undergoing a complete redevelopment; the other is still reviewing its options.

Physical-Condition Rating

Portfolio Risk Profile

Physical Condition

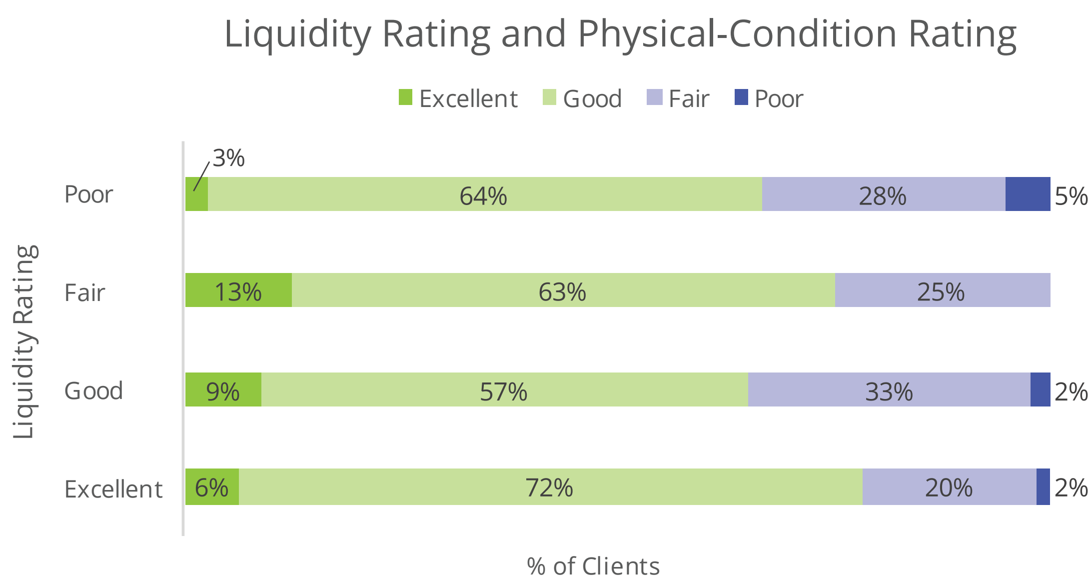
The ability of a co-operative to attend to the proper maintenance of its property is a function of the quality of its governance and management and of its financial capacity (two factors that are themselves related). Exploring the latter in relation to a co-operative's physical condition, we see that clients with a Net-Income rating of Excellent or Good enjoy better physical-condition ratings, on the whole.



Portfolio Risk Profile

Physical Condition

Similarly, when we look at the relationship between liquidity and physical condition, we find that 78 per cent of co-operatives with a Liquidity rating of Excellent have a physical-condition rating of Excellent or Good, compared with only 67 per cent of co-operatives with a Poor condition rating. The latter number would be lower had not many clients with financial workouts, whose liquidity is normally quite limited, made important investments in their physical plant.



Client Operating Performance

Client Operating Performance

Agreement Objectives

The Agency's agreement with CMHC sets out **three key objectives** respecting the operating performance of the portfolio. The first two are focused on operating efficiencies, while the third looks at improvements in financial health, as evidenced by the funding of capital-replacement reserves.

OBJECTIVES 1 AND 2

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**

The period from 2007 to 2018 saw a significant decline across the portfolio in revenue lost to rental arrears, bad debts and vacant units. Declining revenue leakage implies greater operating efficiency. The result is a more effective use of rent-geared-to-income assistance, as lost income need not be replaced through higher housing charges.

In addition to arrears, bad debts and vacancy losses, this section looks at four other markers of good management:

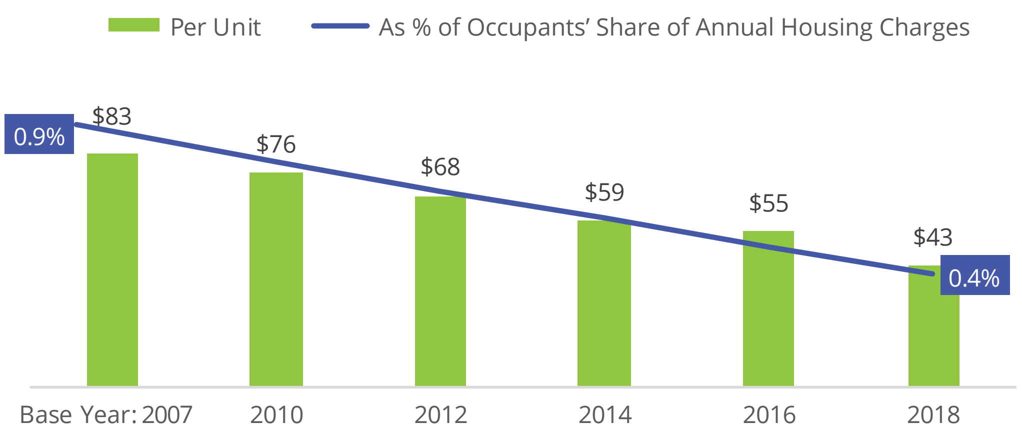
- directors in arrears
- insurance
- maintenance and
- capital spending.

Client Operating Performance

Arrears and Bad Debts

Across the portfolio, the median combined occupant arrears and bad-debt expense, measured as a percentage of total occupants' housing charges,[4] fell from 0.9 per cent in 2007 to 0.4 per cent in 2018 (2016: 0.5%). Considered as a dollar amount, the median combined year-end arrears and annual bad-debt expense have declined 48 per cent, falling from $83 per unit (2007) to $43 per unit (2018).

Median Combined Arrears and Bad-Debt Expense



4. Putting arrears, a balance-sheet measure, together with bad-debt expense, an income-statement measure, normalizes the data for different accounting treatments. Arrears are net of any allowance for doubtful accounts. "Occupants' share of housing charges" excludes rent-geared-to-income subsidies, whether provided internally or received from government.

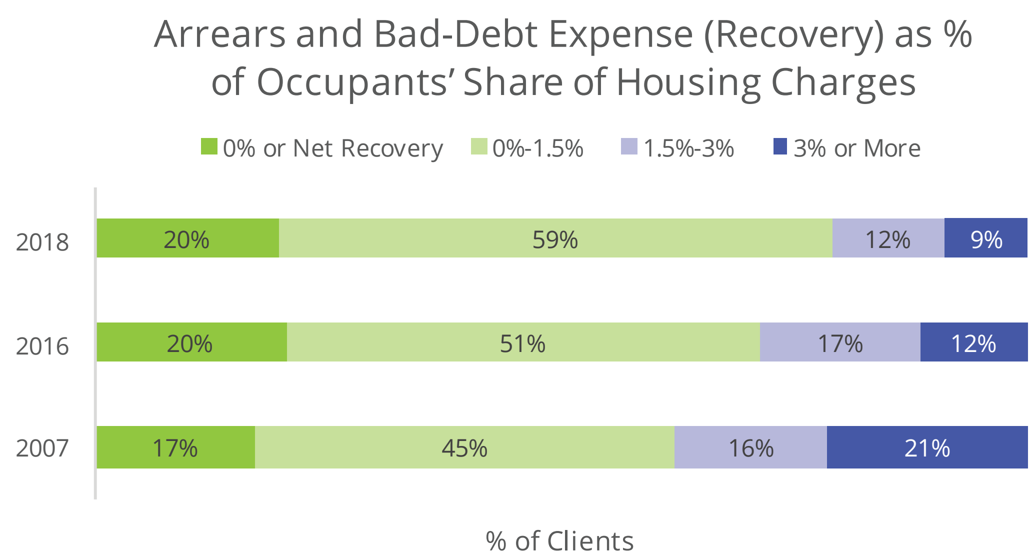
Arrears and bad debts have declined steeply since 2007, to a median of $43 per unit.

Client Operating Performance

Arrears and Bad Debts

Significantly better results are evident in

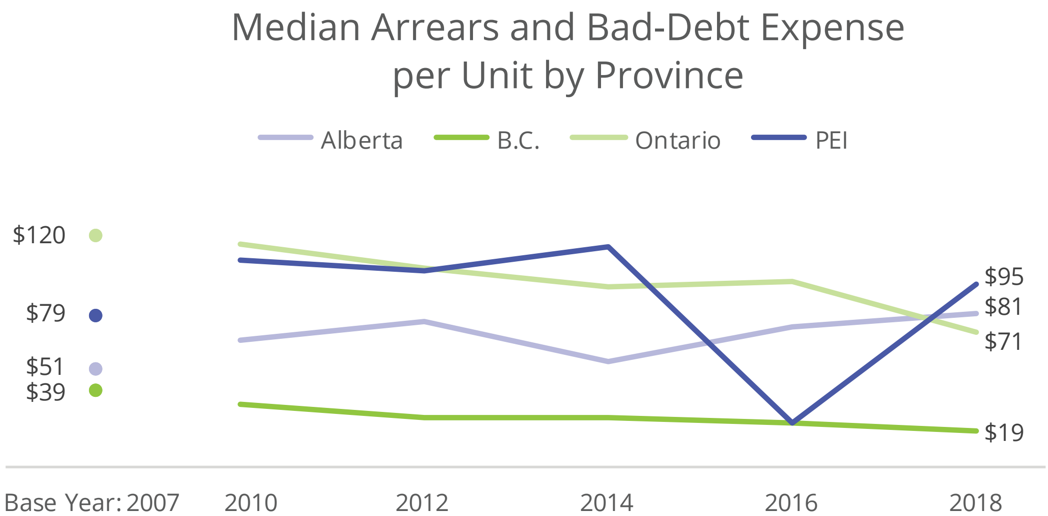
- the growing proportion of clients with a ratio of 1.5 per cent or less (2018: 79% of clients; 2016: 71%; 2007: 62%)
- the shrinking percentage with combined arrears and bad debts of three per cent or more (9% of clients in 2018, down 12 points from 2007 and three points from 2016).



Client Operating Performance

Arrears and Bad Debts

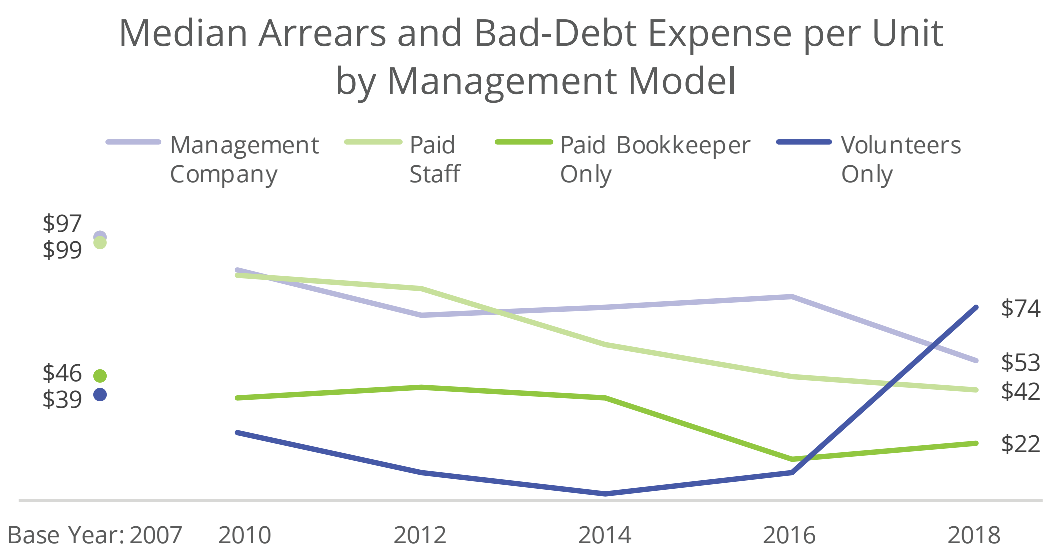
An analysis by province of the trend from 2007 to 2018 for median combined arrears and bad debts shows a consistent decline for both Ontario and B.C. The rise in Alberta that began after 2014 is now slowing, as the province gradually recovers from its economic downturn (2016-2018: up 9%; 2014-2016: up 32%). With only ten co-operatives in the PEI dataset, median performance will fluctuate considerably.



Client Operating Performance

Arrears and Bad Debts

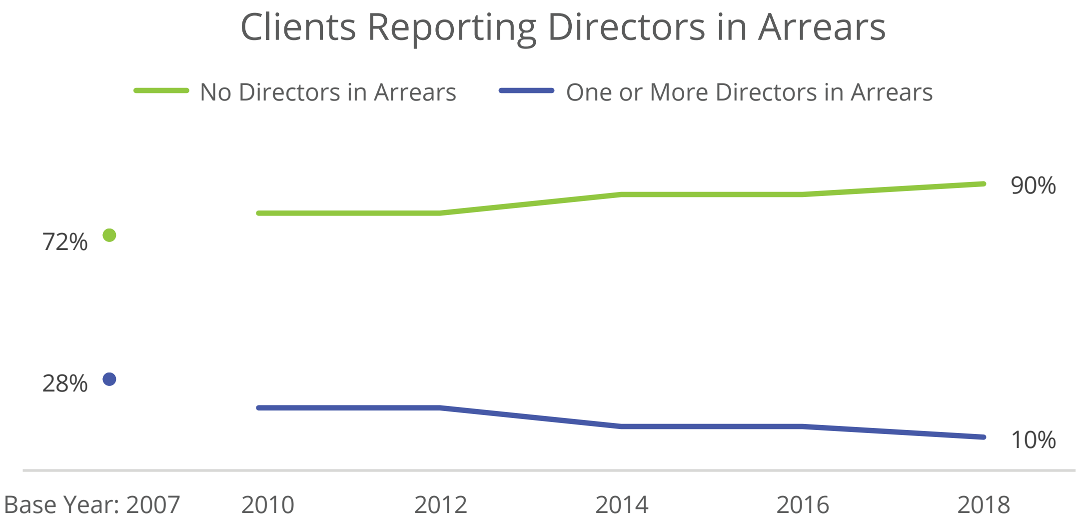
Looking at combined arrears and bad debts by management model shows a continued decline in the median per-unit amount for clients with management companies or paid staff. Those co-operatives reliant on a paid bookkeeper only, or entirely volunteer-run, comprise 15 per cent of the 2018 dataset; while their per-unit median values have increased since 2016, the effect on the dataset as a whole is modest.



Client Operating Performance

Directors in Arrears

Over time, the portfolio has seen a marked decline in the number of co-operatives with members of their boards of directors in arrears, reflecting the Agency's steady efforts to have clients address this problem. Although the rate of improvement has slowed, the proportion of clients reporting at least one director owing $100 or more at the co-operative's year end has dropped by nearly two-thirds, to 10 per cent in 2018 from 28 per cent in 2007 (2016: 13%).

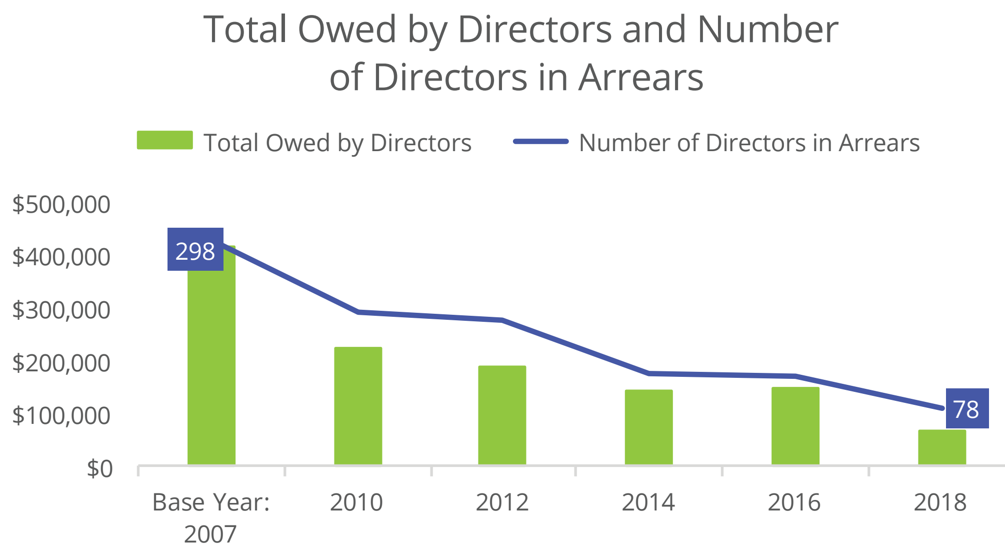


The percentage of clients reporting director arrears has fallen by nearly two-thirds since 2007. Total director arrears are down 83%.

Client Operating Performance

Directors in Arrears

The total owed by directors across the portfolio has fallen 83 per cent, from $416,383 in 2007 to $69,680 in 2018 (2016: $147,631), reflecting a steep decline in the number of directors who owe money to their co-operative.



Client Operating Performance

Directors in Arrears

Co-operatives with indebted directors report much higher rates of general member arrears and bad debts than do those with no directors in arrears (2018: nearly four times as high; 2007: more than three times as high).

Median Combined Arrears and Bad-Debts Rate					
	2018	2016	2014	2012	Base Year: 2007
Full Dataset	0.4%	0.5%	0.6%	0.7%	0.9%
Co-operatives with Director Arrears	1.4%	1.7%	1.1%	2.0%	2.0%
Co-operatives without Director Arrears	0.4%	0.4%	0.5%	0.5%	0.6%

Similar results are apparent when 2018 median total arrears and bad debts are viewed as dollar amounts:

- co-operatives with director arrears: $148 per unit
- co-operatives without director arrears: $38 per unit.

Co-operatives with at least one director in arrears report much higher total rental arrears and bad debts than those without director arrears.

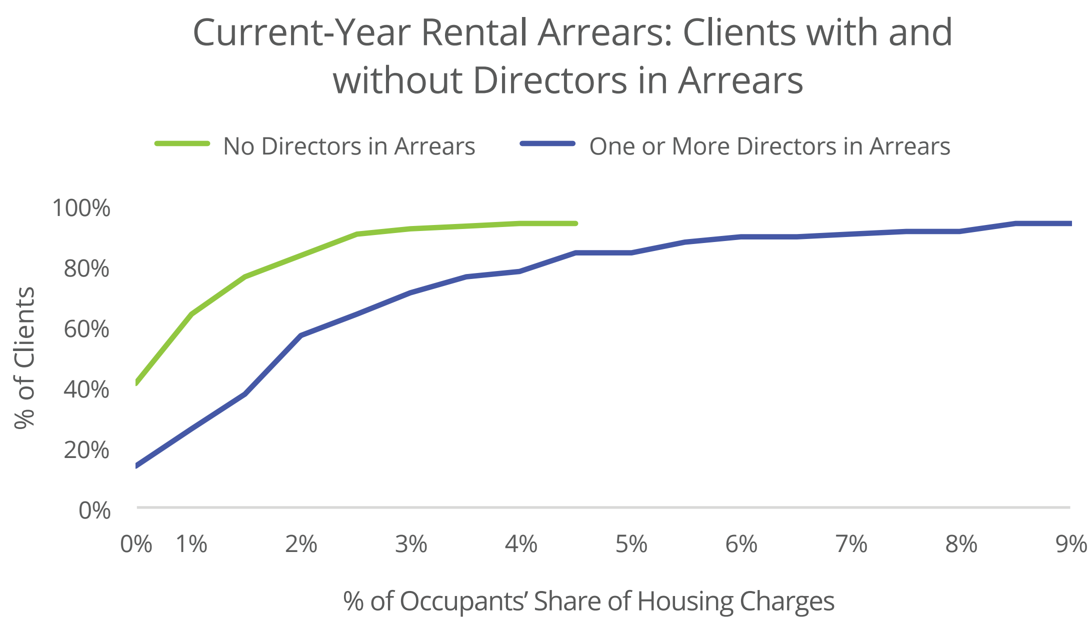
Client Operating Performance

Directors in Arrears

As shown on the next graph, in 2018 40 per cent of housing co-operatives without director arrears (green line) had either net recoveries or no member arrears or bad debts, compared with 14 per cent of co-operatives with director arrears (blue line). Further, 64.5 per cent of those without director arrears had member arrears and bad debts under one per cent of annual occupant charges, compared with only 26.5 per cent of co-operatives with director arrears.

Of co-operatives with director arrears, 21.5 per cent had member arrears and bad debts greater than three per cent of annual occupant charges, and 12.5 per cent had arrears and bad debts above 4.5 per cent. By comparison, not a single client whose directors were in good standing had an arrears problem of this severity.

The Agency strongly encourages clients to adopt by-laws or rules that preclude members in arrears from serving as directors. On the evidence, this measure is helping to reduce director arrears. The discussion itself is driving a change in the prevailing culture, even though some co-operatives have been slow to turn to by-laws or rules to manage the problem.



Client Operating Performance

Vacancy Losses

Vacancy losses are the greatest single source of revenue leakage for Agency clients. Because high vacancy losses will quickly deplete a co-operative's financial strength, we are pleased to confirm that the proportion of clients reporting annual losses of $250 or more per unit per year is well down from 2007. At the other end of the spectrum, the proportion of the portfolio without any vacancy loss has grown since 2007. While this probably reflects the improving affordability of the portfolio, some vacancy loss is desirable, as a co-operative with no loss at all may be failing to refresh its units.

The median per-unit vacancy loss has declined to a new low of $33 per unit, despite a 30 per cent increase in average gross housing charge potential per unit since 2007.

Annual Vacancy Loss					
	2018	2016	2014	2012	Base Year: 2007
% of Clients with No Loss	31%	22%	23%	27%	27%
% of Clients with Loss of $250 per Unit or More	9%	12%	15%	16%	18%
Portfolio Median	$33	$46	$46	$37	$38

Client Operating Performance

Vacancy Losses

In absolute terms, total losses across the portfolio have fallen steadily, despite a dataset that grew until 2016. From 2007 to 2018, total reported losses dropped more than $2.8 million (47%). The vacancy loss per client also fell 47 per cent from 2007 to 2018.

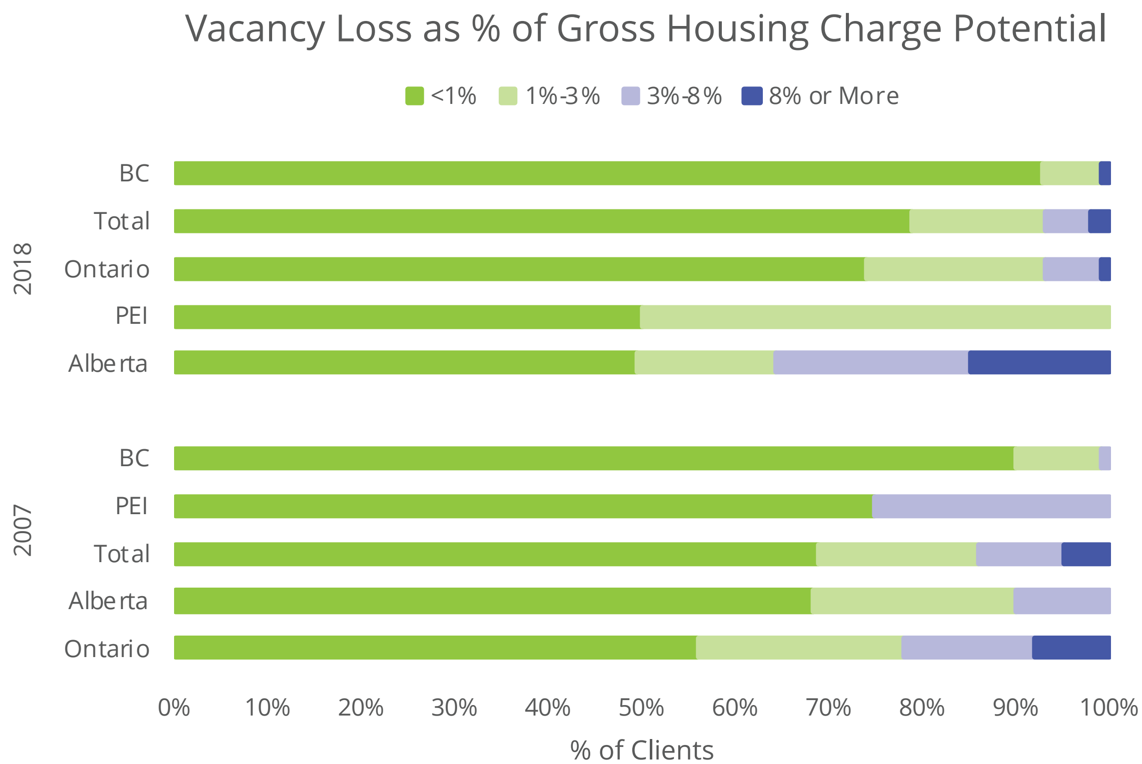
Total Annual Vacancy Loss					
	2018	2016	2014	2012	Base Year: 2007
Portfolio Vacancy Loss	$3,223,264	$4,009,705	$4,490,889	$4,699,770	$6,079,759
Total Co-ops	496	532	545	541	499
Vacancy Loss per Co-op	$6,499	$7,537	$8,240	$8,687	$12,184
Total Units	29,924	32,292	33,336	33,151	30,612
Vacancy Loss per Unit	$108	$124	$135	$142	$199

Client Operating Performance

Vacancy Losses

Vacancy loss is most usefully measured in comparison to a co-operative's annual gross potential revenue from housing charges (GHCP). Since 2007, the percentage of the portfolio with vacancy losses below one per cent of GHCP has grown (2018: 79%; 2007: 69%), and the percentage with losses of eight per cent or more has dropped (2018: 2%; 2007: 5%), in both cases materially.

Looking at results by province, we see the greatest improvement in Ontario, where the proportion of co-operatives with a ratio of less than one per cent of GHCP has grown 18 percentage points and of those with a ratio of three per cent or more fallen from 23 to seven per cent. Improvements can also be seen in B.C. and PEI. While market conditions have affected Alberta client co-operatives, we are now starting to see some recovery.



Client Operating Performance

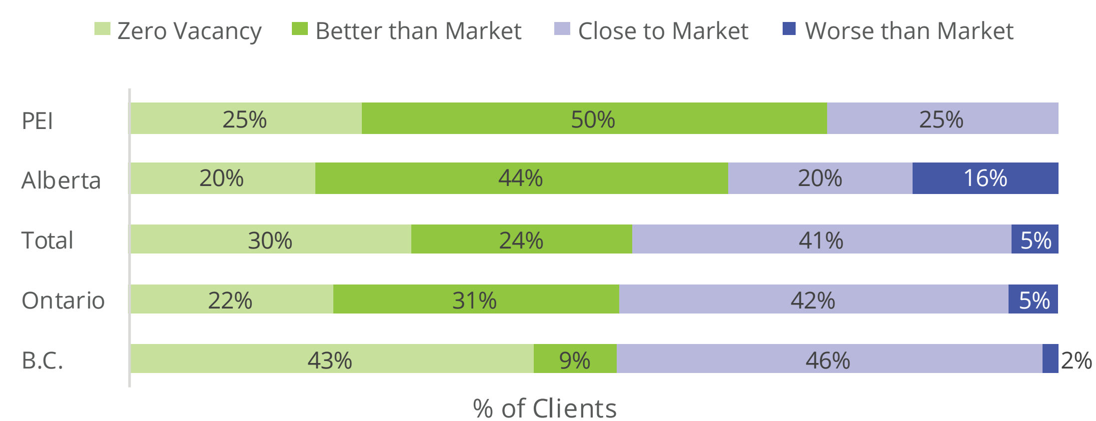
Vacancy Losses

The true test of performance is how a co-operative's vacancy loss compares to the prevailing vacancy rate in the surrounding rental market. Looking at the portfolio as a whole, in 2018, the majority of Agency clients continued to out-perform their local market, with only five per cent posting worse-than-market vacancy losses (2016: 8%).

However, results vary greatly from region to region. (Note that co-operatives in regions where market data are not available are excluded from this analysis.)

In 2018, British Columbia had the highest proportion of clients without any vacancy loss, at 43 per cent (2016: 33%). At 25 per cent, PEI was next, a tremendous improvement over 2016 (0%). While the percentage of Alberta clients with worse-than-market vacancy losses remains relatively high—the result of a spike in rental-market vacancy rates following the oil-price shock, exacerbated in some cases by weak management—it has stabilized at 16 per cent (2016: 16%; 2014: 20%). Note that where the market vacancy rate is low, it is difficult to show better-than-market results, for example, in British Columbia.

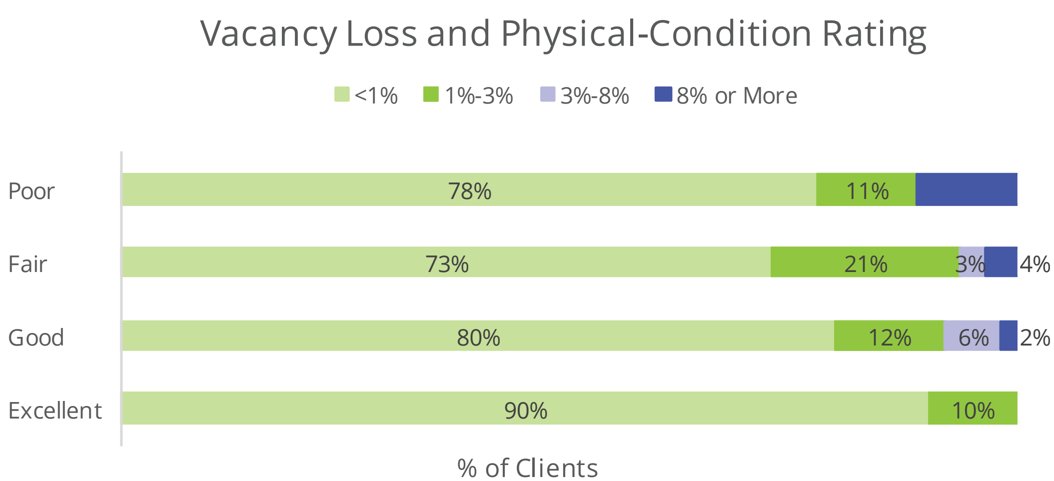
Market Performance Distribution by Province



Client Operating Performance

Vacancy Losses

Unsurprisingly, there is a strong relationship between a co-operative's physical condition and its vacancy loss. In 2018, 90 per cent of clients in Excellent physical condition had vacancy losses below one per cent of gross housing charge potential, compared with 78 per cent of co-operatives in Poor condition. We believe that the lower housing charges of clients in Poor condition account for their reporting lower losses than clients in Fair condition.

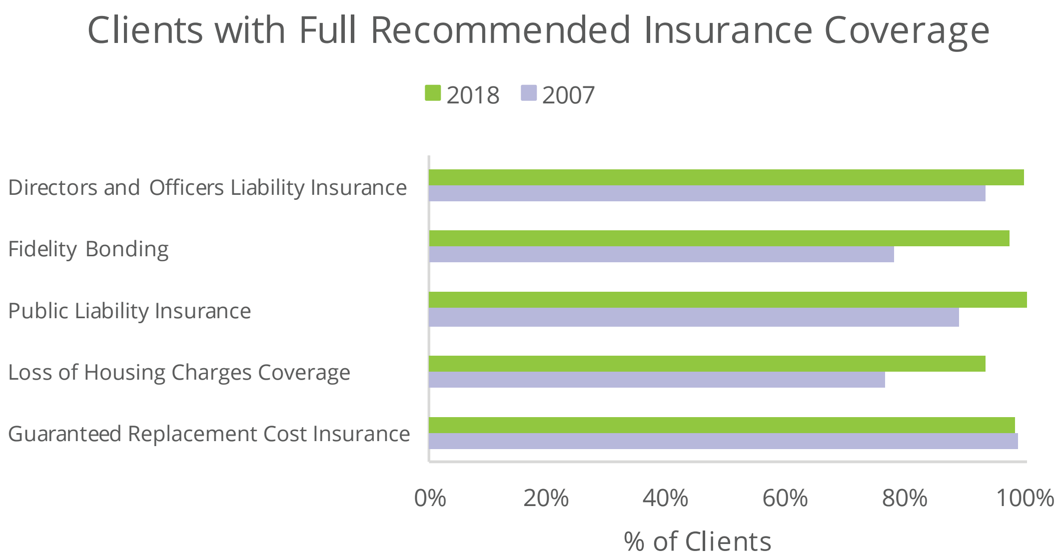


Client Operating Performance

Insurance

Housing co-operatives produce their income from their physical assets. Lack of adequate insurance coverage is therefore a significant risk factor for our clients, and our relationship managers continue to encourage under-insured clients to increase their coverage. As a result, the portfolio is now considerably better protected than it was 11 years ago.

The presence of a small percentage of co-operatives that report not having guaranteed replacement cost insurance is not of concern; a close look at their situation shows either that building insurance is the responsibility of another party (a community land trust, in one case, the strata-title corporation in another) or that the co-operative has coverage with a fixed limit that reflects an assessment of the replacement cost.



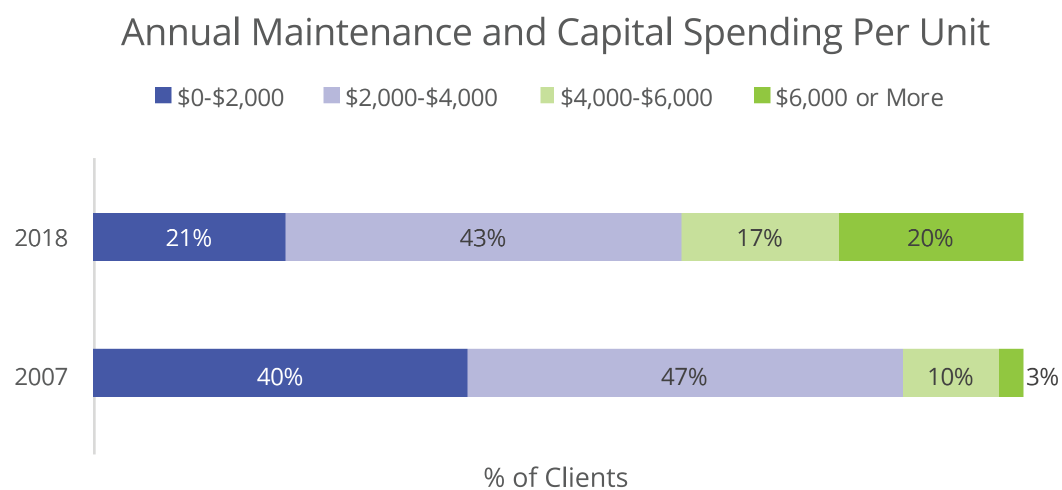
Client Operating Performance

Spending on Maintenance and Capital Repairs

Looking at spending on maintenance and capital repairs and replacements gives a clear picture of the care our clients are taking of their chief asset. Their properties are now on average about 40 years old. At this age, higher levels of physical-plant spending are both very desirable and to be expected.

Owing to a change to the Annual Information Return partway through 2010, physical-plant spending rates from 2007 through 2010 are not entirely comparable with rates for later years. The implications of the change are discussed in **Appendix A**. However, the broad trend identified below—increased spending by clients on their physical plant—is considered valid, nonetheless.

The percentage of Agency clients spending at the lowest level—under $2,000 per unit per year—continues to decline (2018: 21%; 2016: 26%; 2007: 40%), while the percentage spending at higher levels—$4,000 or more—has almost tripled since 2007.



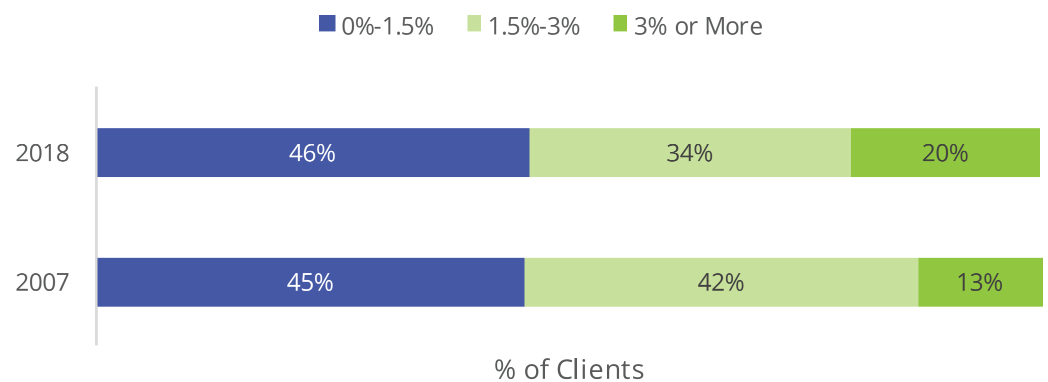
Client Operating Performance

Spending on Maintenance and Capital Repairs

Maintenance and capital spending are also usefully measured as a percentage of the insured replacement value of each client's buildings and equipment. Doing so normalizes the data for different repair and construction costs, allowing comparisons from year to year, across the country and among building types. (Note that replacement values exclude land costs.)

After dropping slightly to 1.4 per cent in 2014, the median rate of investment in the physical plant by this measure rose to two per cent in 2018 (2016: 2%; 2007: 1.6%), with 20 per cent of co-operatives spending three per cent or more.

Maintenance and Capital Spending as a % of Insured Replacement Value



Client Operating Performance

Spending on Maintenance and Capital Repairs

In dollar terms, 2018 saw clients continuing to spend more on their properties in all regions except B.C., where spending declined to its 2014 level. The drop in spending in that province is likely due to the completion of major capital-repair programs by most of the co-operatives that required a financial workout to address the premature failure of their building envelope.

The cost of capital repairs funded through the federal Social Housing Renovation and Retrofit Initiative is excluded from the above analysis. Loan-funded work is included.

Annual Per-unit Spending on Maintenance and Capital Repairs					
	2018	2016	2014	2012	Base Year: 2007
Alberta	$3,918	$3,751	$2,803	$2,571	$1,793
B.C.	$2,593	$3,047	$2,559	$2,630	$2,058
Ontario	$3,727	$2,828	$2,918	$2,652	$2,450
PEI	$4,713	$3,240	$2,151	$2,736	$2,081
Median for Dataset	$3,261	$3,033	$2,723	$2,633	$2,229

Client Operating Performance

Fully Funded Reserves

OBJECTIVE 3

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

Capital-Replacement Reserve Funding				
	Clients with Fully Funded Capital Reserve		Median Funding Rate where Reserve not Fully Funded	
	2018	2007	2018	2007
All Clients in Dataset	93%	91%	83%	63%
Clients without Workouts	96%	92%	89%	66%
Clients with Workouts	86%	88%	73%	40%

In a fully funded reserve—the focus of this indicator—the entire reserve liability is backed by cash and investments. Failure to fund the reserve in full reflects a lack of financial capacity, normally the result of accumulated operating losses, though investments in the physical plant that are not funded by loans may play a part in a few cases, as may excessive rental arrears.

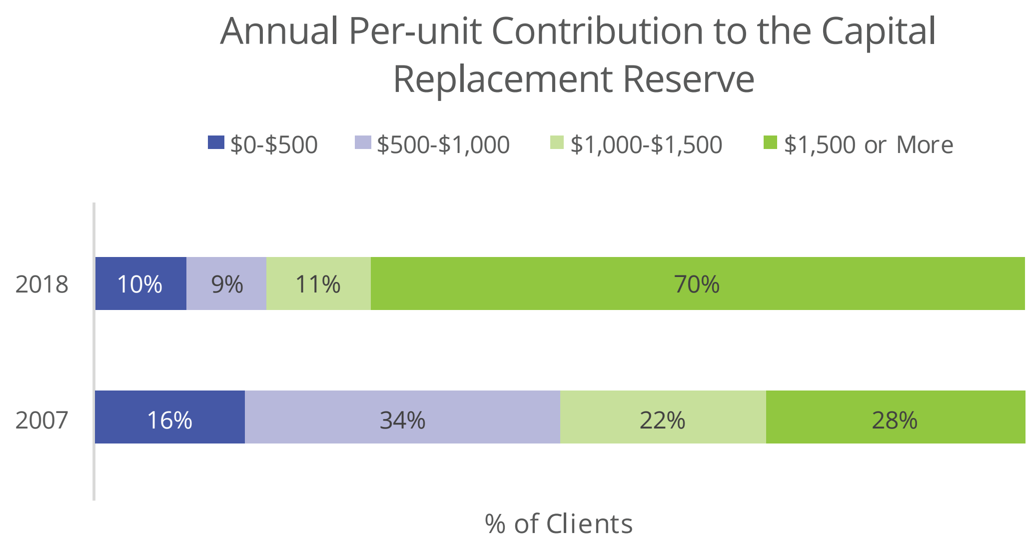
Ninety-three per cent of Agency clients in the dataset had fully funded reserves in 2018, down slightly from 2016 (95%), but still above 2007 levels (91%). Ninety-six per cent of co-operatives without financial workouts reported fully funded reserves in 2018, on par with 2016 and up from 92 per cent in 2007. Co-operatives with workouts were slightly more likely to have underfunded reserves in 2018 than in 2007, but the underfunding was considerably less severe. Note that, while a financial workout is in place, a co-operative's focus is either on refurbishing its property or repaying its workout loan, leaving it with little or no opportunity to address the under-funding of its reserve.

96% of co-operatives without financial workouts reported fully funded capital-replacement reserves in 2018.

Client Operating Performance

Contributions to Reserves and Reserve Balances

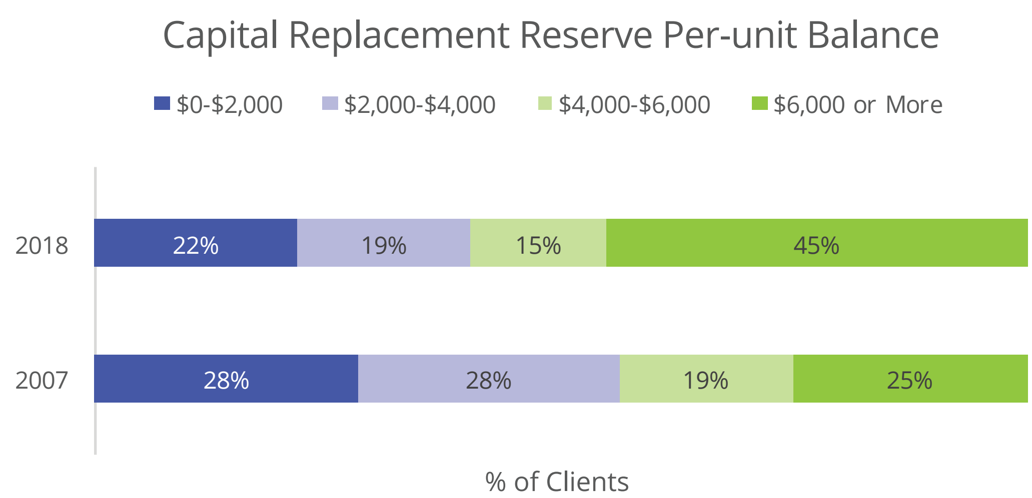
In response to the aging of their properties and the Agency's persistent advice, our clients have been steadily increasing their contributions to their capital-replacement reserves. A comparison of the full 2007 and 2018 datasets reveals that the median annual contribution, including any supplemental contribution from operating surpluses, has grown 2.3 times, from $985 per unit to $2,256 (2016: $1,858).



Client Operating Performance

Contributions to Reserves and Reserve Balances

Per-unit reserve balances have risen as well, with the proportion of clients holding a balance of $6,000 or more per unit almost double its 2007 level. The median per-unit balance is up 24 per cent from 2016, and 48 per cent from 2007 (2018: $5,365; 2016: $4,321; 2007: $3,615).

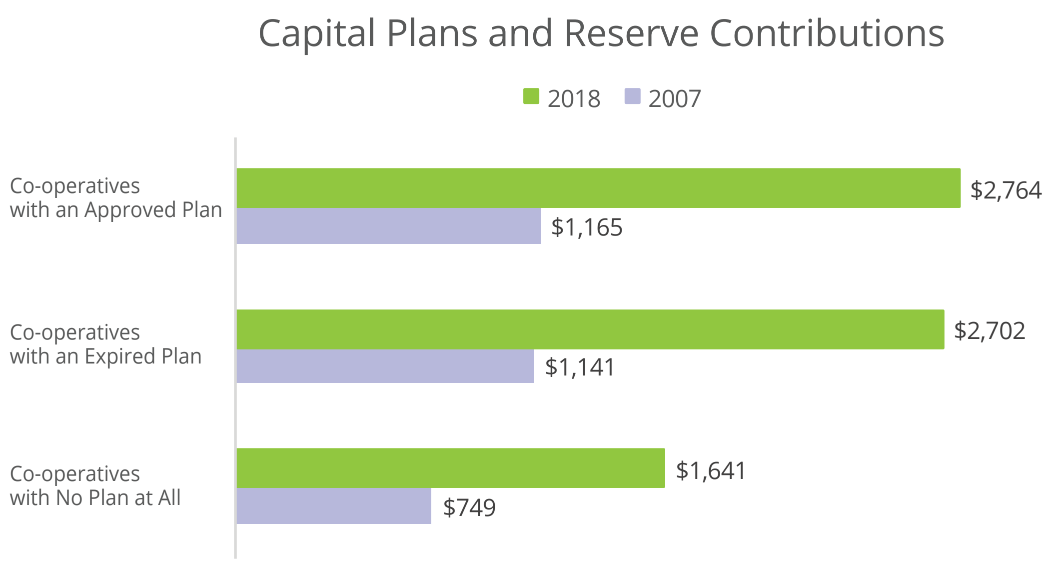


Both per-unit balances and annual contributions to capital-replacement reserves have risen sharply in the Agency portfolio since 2007.

Client Operating Performance

Contributions to Reserves and Reserve Balances

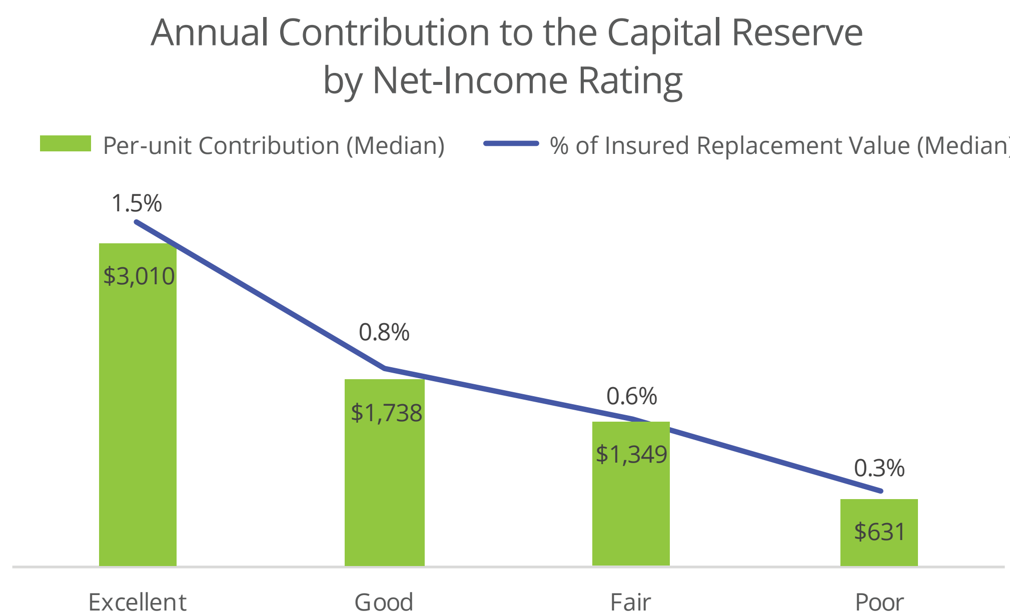
Higher capital replacement-reserve contributions correlate strongly with the presence of capital-reserve plans. As shown here, the median reserve contribution rate is considerably lower among clients without a capital replacement-reserve plan. Interestingly, once a plan is in place, a co-operative tends to continue making higher contributions, even after the plan approval has lapsed.



Client Operating Performance

Contributions to Reserves and Reserve Balances

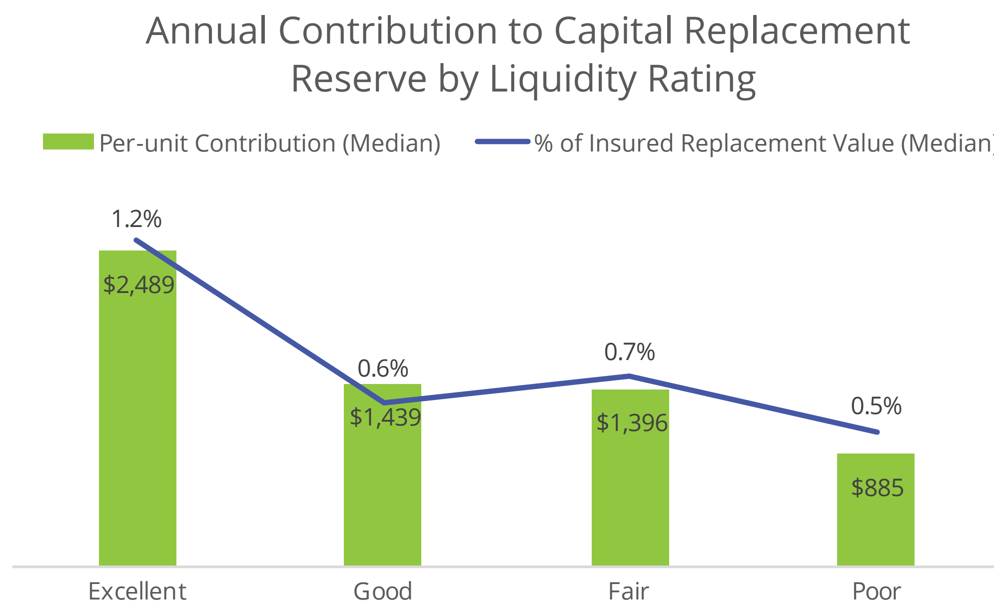
A client's capacity to contribute to its reserve is a function of its earnings. In 2018, clients with a Net-Income rating of Excellent made a median annual reserve contribution of $3,010 per unit (1.5% of the insured replacement value of their buildings), while those with a Poor Net-Income rating contributed only $631 per unit (0.3% of their insured replacement value).



Client Operating Performance

Contributions to Reserves and Reserve Balances

On the other side, higher contributions to the capital-replacement reserve greatly improve a co-operative's liquidity. In 2018, clients with a Liquidity rating of Excellent made a median annual reserve contribution of $2,489 per unit (1.2% of the insured replacement value of their buildings). Clients with a rating of Poor made a median per-unit contribution of only $885 (0.5% of the insured replacement value).



While these results may seem obvious, they support the general observation that our clients' financial wellbeing is based on their willingness, over time, to commit to housing charges at a level sufficient to meet the true cost of properly maintaining and repairing their property and also putting funds aside for future building needs. If co-operatives seek financial solvency through deferred maintenance and cuts to reserve contributions and capital spending, the consequences are predictable in the near term for their Net-Income ratio and, in the long term, for their Liquidity rating and building condition.

Client Satisfaction

Client Satisfaction

Approach

Periodically—normally every three years—the Agency commissions a survey of its clients to determine their satisfaction with our service. The most recent survey took place in 2018. To ensure its objectivity and protect the anonymity of responses, the survey is conducted by a third party. A baseline survey was carried out in 2005, the last full year in which CMHC managed the portfolio.

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.

In 2018, Agency clients expressed the same or higher levels of satisfaction as in 2015 for all services, with satisfaction with the overall quality of the Agency's service up eight percentage points.

Percentage of Satisfied Clients			
	Timeliness of Service	Access to the Program Administrator	Overall Quality of Service
2018	90%	88%	90%
2015	84%	87%	82%
2011	83%	86%	84%
2008	84%	85%	83%
2005	55%	56%	48%

Satisfaction with the overall quality of service provided has almost doubled since the Agency assumed responsibility for the portfolio.

Looking Ahead to 2020

Looking Ahead to 2020

The 2018 Biannual Portfolio Review shows the health and performance of the portfolio continuing to improve, as it has steadily done since the Agency first assumed responsibility for its oversight. With 77 per cent of portfolio operating agreements expiring by 2023, CMHC can rest assured that we will do all that we can to send our client co-operatives on their way with sound finances and solid business practices.

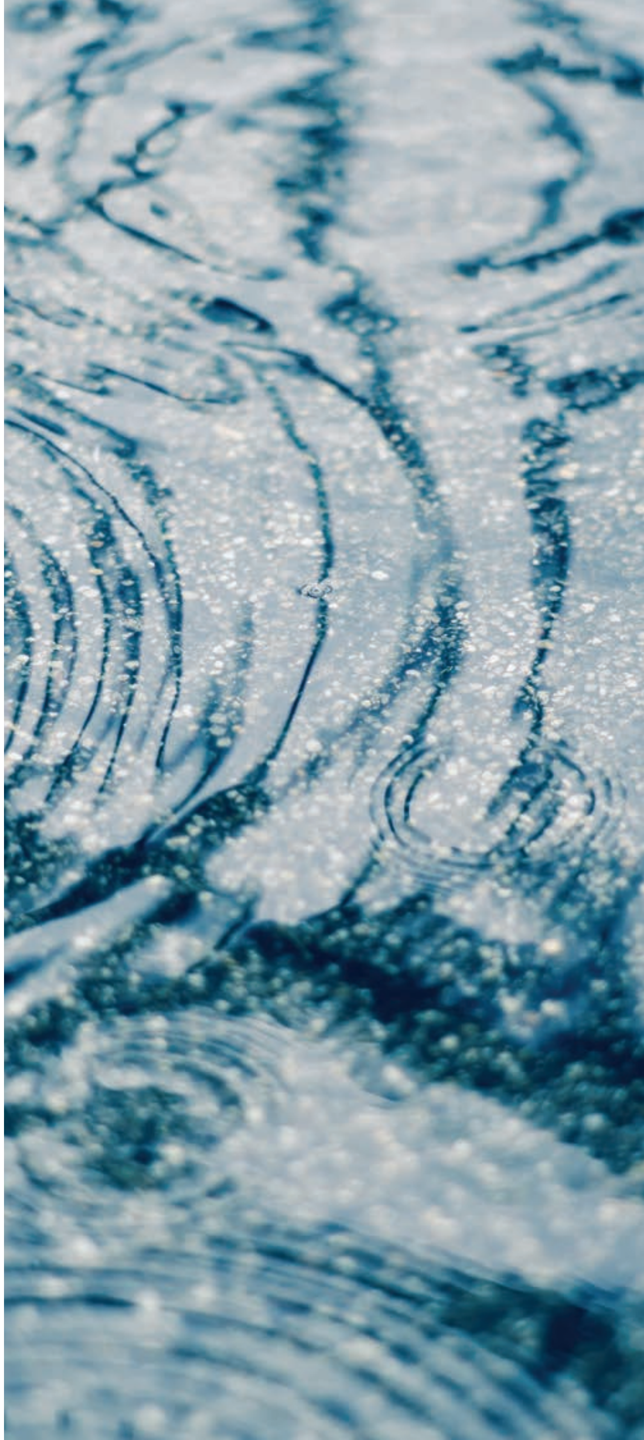
As in the past, we will strongly encourage all our clients to set their charges at a level sufficient to cover their bills as they fall due and to allow for healthy contributions to their capital-replacement reserves. We will make sure co-operatives understand what constitutes an adequate contribution by urging each of them to commission a capital-replacement plan supported by an up-to-date building-condition assessment. With the end of their agreements now in view, the Agency will urge all clients who need new financing to seek expert help from an appropriate sector organization or another third party and will provide support to those parties as need be.

Before their operating agreement with CMHC has expired, we will invite departing clients to secure the support they will need in the future for informed financial decisions by signing up for the Agency's Annual Health Check service. Through this service, co-operatives will continue to receive several of our standard reports, now being refreshed. A new look and other changes will make the reports more accessible and engaging, which should result in wider sharing with co-op memberships. We will continue our use of multiple media, including social media and other communication tools, to inspire our clients and lead them to the information sources that will support them on their journey to better performance.

Looking Ahead to 2020

The Agency intends to continue our work with housing partners in and outside of government to help housing co-operatives provide good-quality, fairly priced housing for people of varying incomes. We will do our best to ensure that our clients benefit fully from CMHC's FCHI Phase II, including petitioning CMHC for a role in its administration—an arrangement that would provide the smoothest transition for our clients. Our experience with CMHC's Rent Supplement Program, and the extensive work we have done to develop our on-line filing system, should place us at the head of the line for this responsibility.

Finally, we will continue our collaboration with the Community Housing Transformation Centre, sharing our expertise with our sector partners and ensuring that technical assistance will be available for our departing clients. Together, we will do our part to see that all Canadians, whatever their income, have access to the kind of housing that meets their needs.



Appendices

Appendices

Appendix A: Technical Data

The 2018 Dataset

- The data in this report were drawn from Annual Information Returns (AIRs) received and validated by the Agency by 15 January 2019 for fiscal years ending between August 2017 and July 2018. Datasets for prior years are for equivalent periods.
- The data were organized by co-operative and by “study year,” i.e., a single fiscal year ending within the period above.
- Static values, such as province, were attached to co-operatives and set out in a co-operative table.
- Attributes that can vary, such as management type, were assigned on a study-year basis.
- At 31 December 2018, the Agency had 515 co-operative clients. Together these clients had 29,764 units under agreements with CMHC.

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.
- The 2018 and 2007 datasets have 427 co-operatives in common. Seventy-eight co-operatives are found only in the 2007 dataset and 75 only in the 2018 dataset.

Composition of Datasets for Prior-Year Comparisons

Year	Total Clients	Total Units
2017	530	31,676
2016	539	32,442
2015	555	33,756
2014	552	33,516
2013	550	33,561
2012	548	33,331
2011	536	32,882
2010	529	32,423
2009	522	31,668
2008*	516	31,213
2007	505	30,783

*base year for compliance

Appendices

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. These clients are therefore excluded from the datasets for analyses that involve composite risk ratings and certain of the vacancy-loss analyses.

Constant Dollar Amounts

Dollar amounts from previous years have been indexed to their 2018 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 with 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.

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 partway 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

Influence of Additions to Capital Assets (2018-2014)					
	2018	2017	2016	2015	2014
Clients Reporting Additions to Capital Assets	111/501	77/530	62/539	52/555	36/552
	22%	15%	12%	9%	7%
Largest Per-unit Addition	$59,847	$52,287	$41,868	$23,407	$12,366
Per-unit Physical-Plant Spending for Dataset	$5,124	$4,290	$3,987	$3,708	$3,211
Per-unit Additions to Capital Assets for Dataset	$1,763	$1,092	$894	$545	$154
Additions to Capital Assets as % of Physical-Plant Spending	34%	25%	22%	15%	5%
Median Per-unit Spending, with Capital-Asset Additions	$3,187	$2,998	$2,941	$2,748	$2,623
Median Per-unit Spending, without Capital-Asset Additions	$2,804	$2,729	$2,696	$2,654	$2,528

Note: Dollar amounts have been indexed as constant dollars to 2019.

Appendices

Appendix A: Technical Data

Influence of Additions to Capital Assets (2013-2010)				
	2013	2012	2011	2010
Clients Reporting Additions to Capital Assets	41/550	40/548	41/536	23/529
	7%	7%	8%	4%
Largest Per-unit Addition	$28,285	$44,940	$26,296	$41,261
Per-unit Physical-Plant Spending for Dataset	$3,428	$3,336	$3,160	$3,290
Per-unit Additions to Capital Assets for Dataset	$341	$373	$226	$225
Additions to Capital Assets as % of Physical-Plant Spending	10%	11%	7%	7%
Median Per-unit Spending, with Capital-Asset Additions	$2,606	$2,545	$2,499	$2,452
Median Per-unit Spending, without Capital-Asset Additions	$2,537	$2,467	$2,386	$2,423

Note: Dollar amounts have been indexed as constant dollars to 2019.

Appendices

Appendix A: Technical Data

While only a 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 2018 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.

With additions to capital assets excluded, between 2007 and 2018 we saw growth from 11 per cent to 23 per cent in the proportion of clients in the database spending more than $4,000 per unit a year on maintenance and capital repairs, in constant dollars. The proportion spending less than $2,000 fell from 43 per cent to 28 per cent.

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 +
2018 with Capital-Asset Additions	22%	42%	17%	19%
2018 without Capital-Asset Additions	28%	48%	16%	7%
2007 without Capital-Asset Additions	43%	46%	9%	2%

Appendix B: Non-Compliance Definitions

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 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 any debt obligations for the foreseeable future, without external support.

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.

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 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, the co-operative is at risk of failure.

Changes to the Risk-Assessment Model

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

- increased the combinations of leading-indicator ratings that return a composite risk rating of Low
- raised the thresholds used in establishing Net-Income indicator ratings
- 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-operative.

Appendix D: Median Performance Data

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per unit Vacancy Loss	
	2018	2007	2018	2007
Full Dataset	0.3%	0.4%	$33	$38
Program				
S27-61	0.1%	0.1%	$14	$15
S95	0.2%	0.3%	$28	$33
ILM	0.4%	0.7%	$43	$80
Multi-Program	1.1%	1.0%	$102	$144
Province				
British Columbia	0.1%	0.2%	$8	$18
Alberta	1.0%	0.3%	$136	$32
Ontario	0.4%	0.7%	$44	$79
PEI	1.1%	0.2%	$87	$15
Management Model				
Management Company	0.3%	0.5%	$36	$53
Paid Staff	0.3%	0.4%	$37	$39
Paid Bookkeeper Only	0.0%	0.2%	$0	$24
Volunteers Only	0.0%	0.0%	$0	$0
Workout Status				
Clients with Workout	0.5%	1.5%	$67	$162
Clients without Workout	0.2%	0.3%	$26	$30

Note: The changes over time are due both to changes in the dataset and to the evolution of individual clients within the portfolio.

Appendix D: Median Performance Data

Housing Charge Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per unit Administration Spending	
	2018	2007	2018	2007
Full Dataset	0.4%	0.9%	$844	$686
Program				
S27-61	0.6%	0.8%	$905	$593
S95	0.4%	0.7%	$806	$670
ILM	0.5%	1.2%	$847	$700
Multi-Program	0.4%	1.4%	$1,183	$1,172
Other	2.7%	8.4%	$1,376	$1,161
Province				
British Columbia	0.2%	0.4%	$595	$456
Alberta	0.8%	0.7%	$636	$425
Ontario	0.8%	1.4%	$1,018	$925
PEI	1.2%	1.2%	$816	$767
Management Model				
Management Company	0.5%	1.0%	$863	$620
Paid Staff	0.4%	1.0%	$1,006	$951
Paid Bookkeeper Only	0.2%	0.5%	$310	$350
Volunteers Only	0.8%	0.5%	$54	$130
Workout Status				
Clients with Workout	0.7%	1.6%	$897	$781
Clients without Workout	0.3%	0.8%	$810	$670

Note: The changes over time are due both to changes in the dataset and to the evolution of individual clients within the portfolio.

Appendices

Appendix D: Median Performance Data

Physical Plant

	Combined Per unit Annual Spending on Maintenance and Capital Repairs and Replacements		Year End Per unit Capital Replacement Reserve Balance		Annual Per unit Capital Replacement Reserve Contribution	
	2018	2007	2018	2007	2018	2007
Full Dataset	$3,261	$2,229	$5,365	$3,615	$2,256	$985
Program						
S27-61	$2,786	$2,194	$5,203	$3,820	$2,000	$1,130
S95	$3,290	$2,313	$6,548	$4,069	$2,544	$1,282
ILM	$3,189	$2,076	$3,113	$2,457	$1,607	$585
Multi-Program	$4,153	$2,855	$4,463	$3,078	$2,022	$1,026
Other	$7,996	$3,416	$19,216	$3,078	$5,213	$538
Province						
British Columbia	$2,593	$2,058	$6,495	$3,714	$2,522	$1,138
Alberta	$3,918	$1,793	$4,073	$2,571	$2,446	$789
Ontario	$3,727	$2,450	$4,529	$3,853	$1,961	$1,013
PEI	$4,713	$2,081	$5,680	$1,031	$1,000	$489
Management Model						
Management Company	$3,202	$2,245	$4,625	$3,276	$2,125	$957
Paid Staff	$3,803	$2,477	$5,742	$3,824	$2,443	$979
Paid Bookkeeper Only	$2,697	$1,984	$6,271	$3,377	$2,437	$1,149
Volunteers Only	$2,305	$1,740	$4,930	$4,178	$1,530	$994
Workout Status						
Clients with Workout	$2,525	$1,903	$2,094	$925	$1,136	$565
Clients without Workout	$3,389	$2,326	$6,185	$3,919	$2,475	$1,136

Note: The changes over time are due both to changes in the dataset and to the evolution of individual clients within the portfolio.