2020
Biannual Portfolio Performance Review

REPORT TO CMHC

THE AGENCY
FOR CO-OPERATIVE
HOUSING

L'AGENCE
DES COOPÉRATIVES
D'HABITATION

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KEY FINDINGS

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

Greater Compliance with Operating Agreements

- 80 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%).
- 92 per cent of clients show a Stable or Strengthening risk trend.
- 89 per cent of clients saw their Liquidity, and 76 per cent their Net Income, rated Good or Excellent in 2020 (2008: 89% and 50%, respectively).
- Two of the nine co-operatives whose physical condition was rated Poor in 2020 (2% of the portfolio) have since obtained new loans to pay for major repairs while one other is undergoing a complete redevelopment. A fourth received Special Contribution Funding from CMHC to address capital repairs.

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 two-thirds (2020: 8%; 2018: 11%; 2007: 28%) and the total owed by directors by 88 per cent.
- Arrears and bad debts in Ontario and B.C. continue to fall, while the bump that began after 2014 in Alberta is now leveling out as the province gradually recovers from its economic downturn.

KEY FINDINGS

- 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 and has remained there through 2020.
- 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 remains the same as in 2018.
- The median per-unit vacancy loss across the portfolio has risen slightly to $34 per unit, up one dollar from $33 per unit in 2018.
- Most Agency clients continue to out-perform their local market, with only six per cent posting worse-than-market vacancy losses.
- Spending on maintenance and improvements has risen by 46 per cent since 2007.
- The percentage of clients spending $4,000 a unit or more per year on maintenance and repairs has almost tripled since 2007.
- Fewer clients are under-insured.
- The median annual replacement-reserve contribution in our portfolio has grown 2.3 times since 2007, from $1,026 per unit to $3,052.

KEY FINDINGS

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 the base year of 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, as confirmed by the Agency's 2018 Client Satisfaction Survey. A new survey is planned for 2022.

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 measures our progress over the past 13 years* toward the three principal objectives set out in the Agency's agreement with CMHC.

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

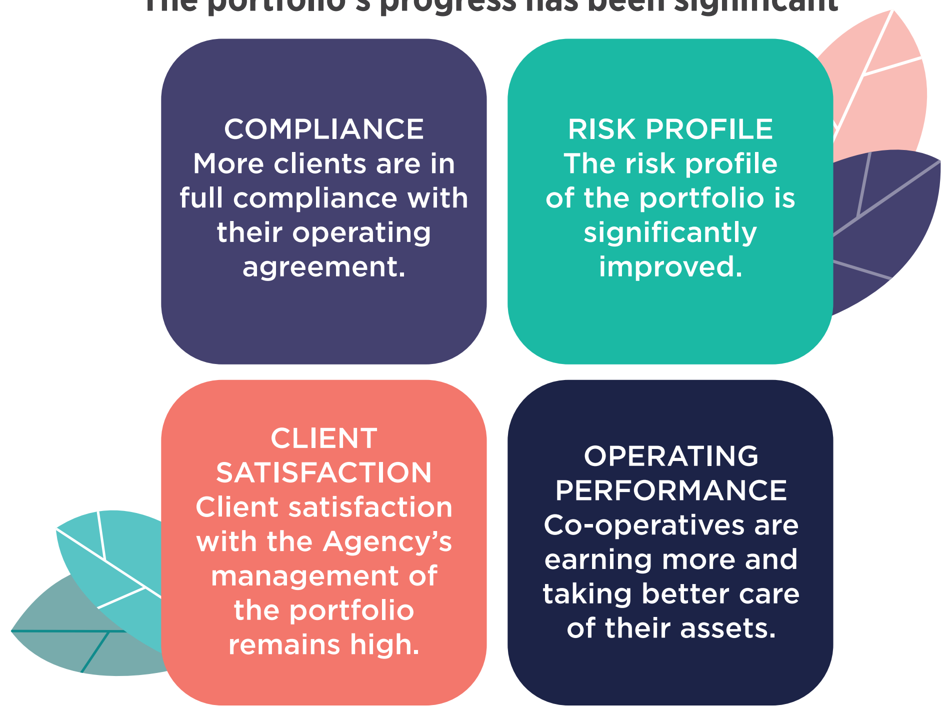
Continued benefits of co-operative housing for Canadians

Improved client satisfaction within the portfolio

* The first full year of Agency operations was 2007, the base year against which 2020 information is compared for most indicators.

Results

The portfolio's progress has been significant



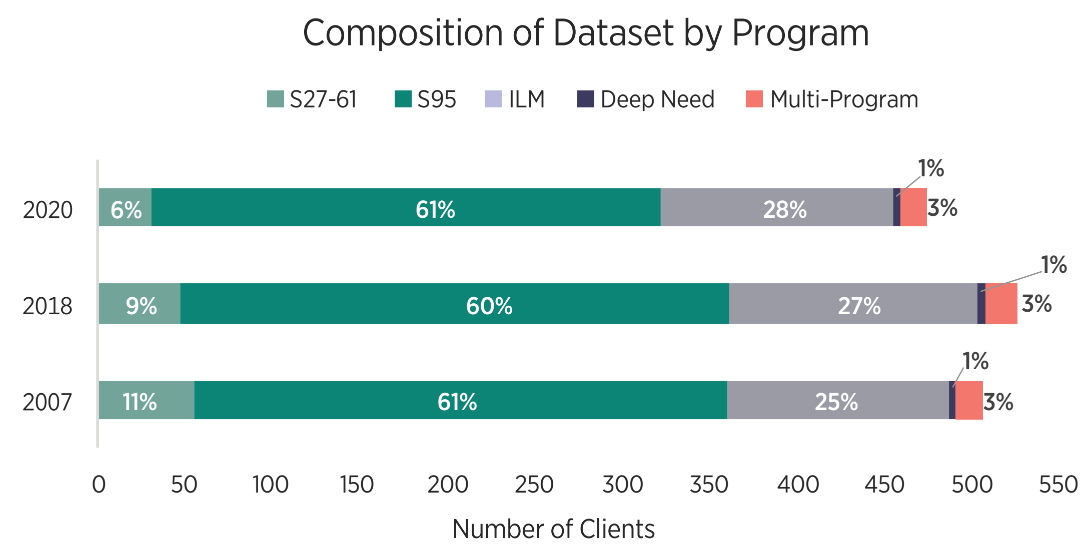
The dataset for this review includes 499 housing co-operatives operating under six federal programs in four provinces. Together, they owned 26,064 units of housing and comprised 89 per cent of the Agency's portfolio at 31 December 2020. More information on the dataset may be found in Appendix A.

All dollar amounts cited in this review have been indexed as constant dollars and are noted as such on the chart in question.

OVERVIEW

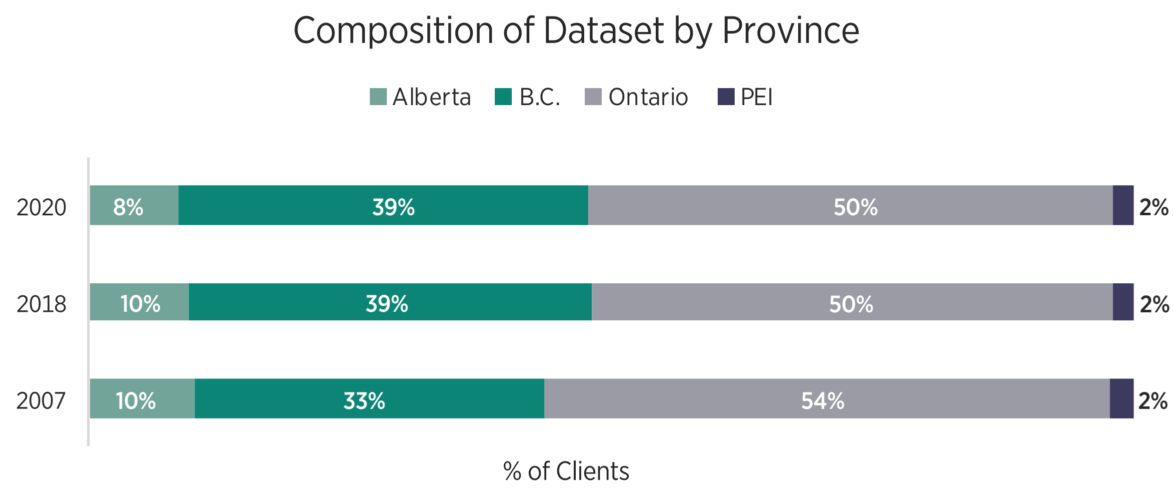
Portfolio Profile: Program Distribution

The breakdown of the dataset by program has been quite stable over the Agency's operating life, apart from a decline in the number of S27-61-program co-operatives, some of which have ended their operating agreement by pre-paying their mortgage.



Portfolio Profile: Provincial Distribution

Although provincial distribution has not greatly changed since our last review (2018), it is somewhat different from that of 2007, owing to new clients from B.C. and the expiry of operating agreements in Ontario.

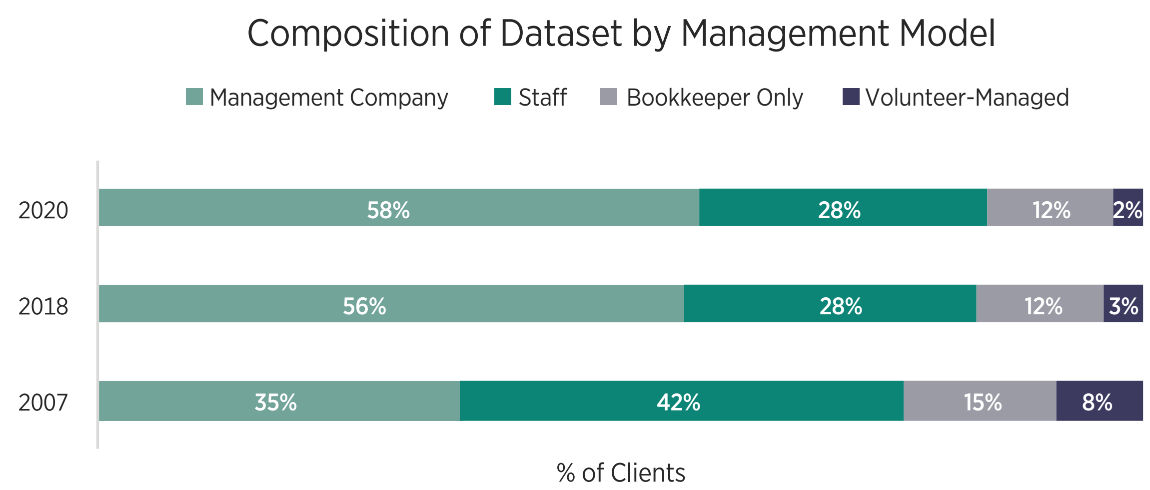


OVERVIEW

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 2007 the proportion of Agency clients employing management companies has grown from 35 to 58 percent. This increase has been at the expense of all three other forms of management, although it now seems to be stalling.



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 499 Agency clients on 31 December 2020.

PORTFOLIO COMPLIANCE PROFILE

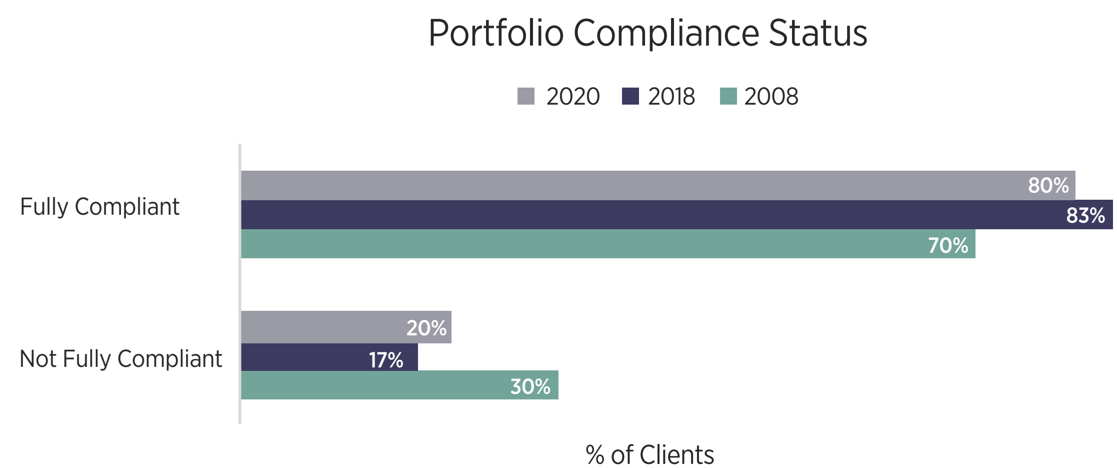
Agreement Objectives

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

OBJECTIVE 1

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

On 31 December 2020, 80 per cent of Agency clients were compliant in every respect with their CMHC operating agreement. Down three percentage points from 2018, full compliance is up 10 points from its 2008 level of 70 per cent*.



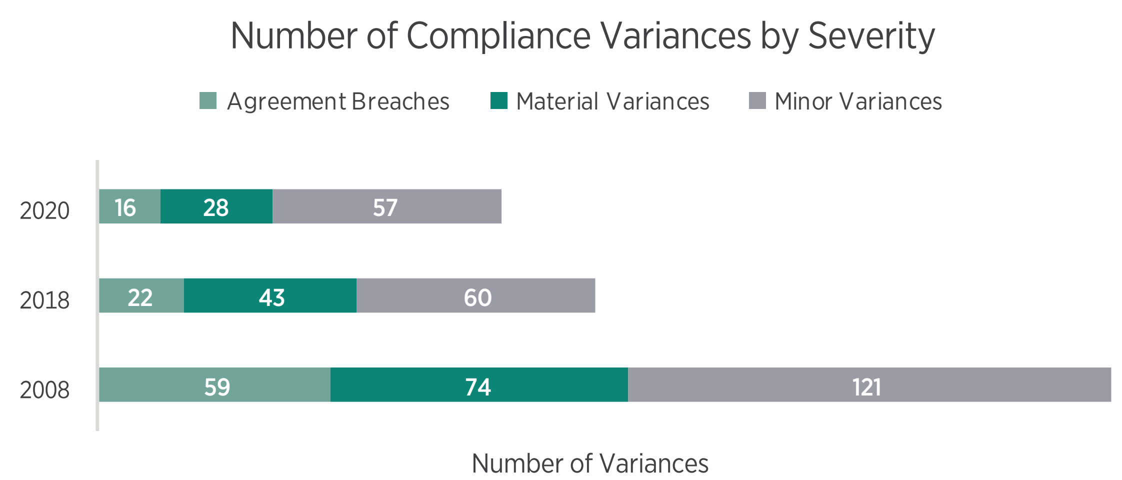
* In the analysis that follows, workout-agreement variances are not included.

PORTFOLIO COMPLIANCE PROFILE

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

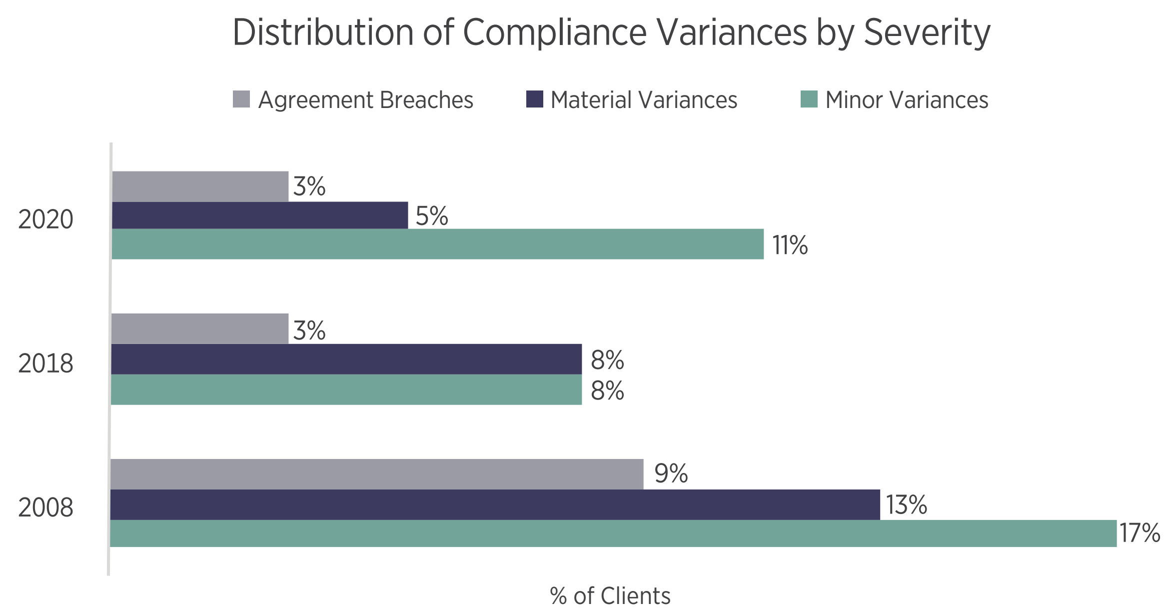
Total agreement breaches and material compliance variances (44) are down from both 2018 (65) and 2008 (133).



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

PORTFOLIO COMPLIANCE PROFILE

Severity of Variances



The number of breaches and the share of clients with breaches are similar to what we saw in 2018. By contrast, the proportion of co-operatives with material variances and the number of such variances have fallen (2020: 28, 5%, 2018: 43, 8%; 2008: 74, 13%), in line with the modest rise to eleven per cent in minor variances since 2018. While the share of those with minor variances is three percentage points higher than in 2018, it is well down from 17 per cent in 2008.

PORTFOLIO COMPLIANCE PROFILE

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, the number of clients in this position fell by only one over the past two years. However, the change in overdue dollar amounts shows an impressive improvement.

Mortgage and Property-Tax Arrears

	2020		2018		2016		2007	
	No. of Clients	% of Clients	No. of Clients	% of Clients	No. of Clients	% of Clients	No. of Clients	% of Clients
Mortgage Arrears*	1	0.2%	2	0.38%	4	0.80%	11	2.10%
Property-Tax Arrears**	0	—	2	0.38%	1	0.20%	3	0.60%
Mortgage and Property-Tax Arrears	$867,481		$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 risk rating we assign (Low, Moderate, Above Average or High) reflects the Agency's considered view of the client's current health and prospects. Definitions of the ratings may be found 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 ratings 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. However, part way through 2018, it was agreed that routine property inspections should be reinstated across the full portfolio. While COVID-19 did not reduce the number of inspections scheduled in 2020, we did have to limit their scope to exterior elements. Inspections now take place every three years. Where we lack current property information, Agency relationship managers and rental-assistance officers 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*, which look for improvements in the overall risk profile, financial health and physical condition of the portfolio.

OBJECTIVES 1 AND 2

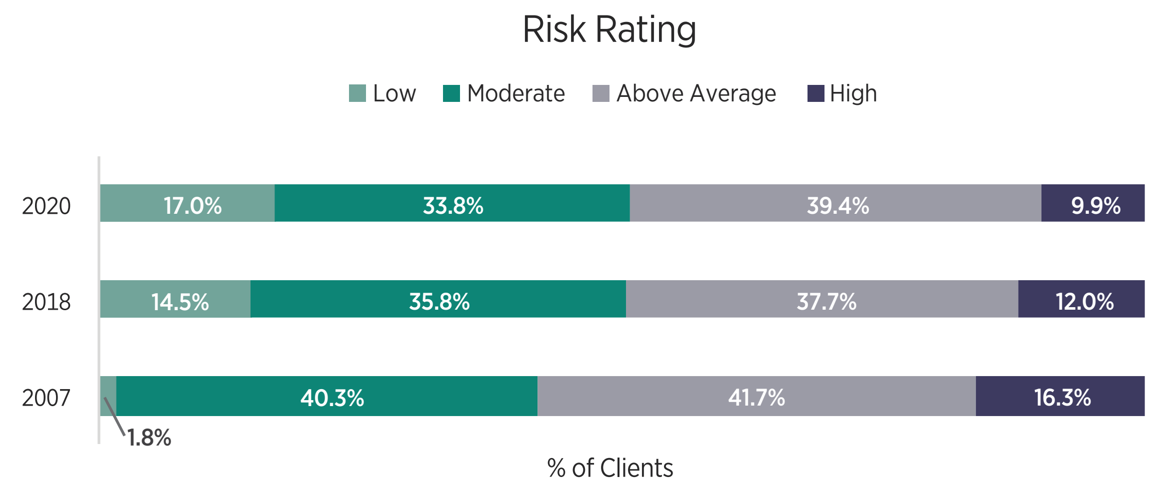
1. **Increased awareness by co-operatives of their own performance, as evidenced by an improvement in the overall risk profile of the portfolio**
2. **Improvement in the overall risk profile of the portfolio, as evidenced by a declining number of co-operatives rated High and a stable or growing number of co-operatives rated Low or Moderate**

* Following discussion with CMHC, a fifth objective was removed for purposes of this review. This 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."

PORTFOLIO RISK PROFILE

Risk Trend

Co-operatives with ratings of Above Average or High comprised 49.3 per cent of our portfolio in 2020, down slightly from 49.7 percent in 2018, but down markedly from 60.7 per cent in 2008. Clients with a rating of Low or Moderate now make up more than half the portfolio (50.8%, up from 42.1% in 2008).

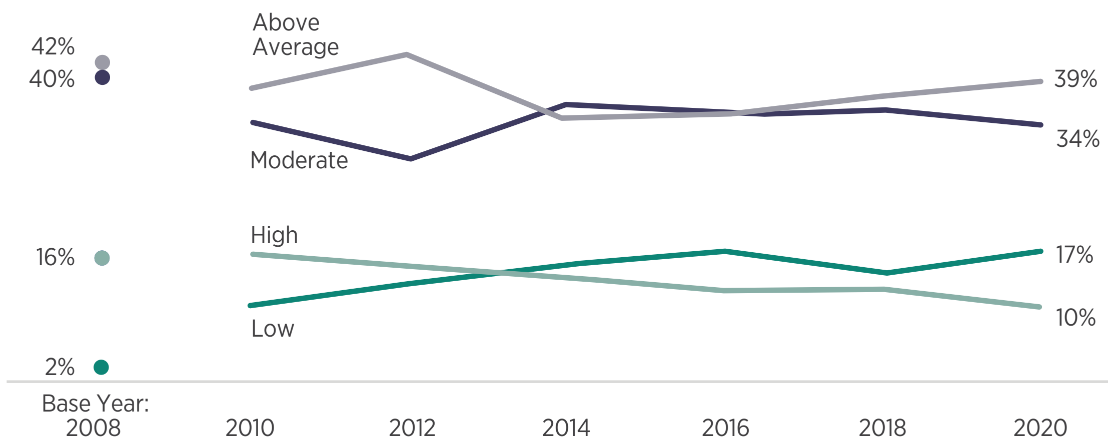


Clients with a High risk rating make up only 9.9% of the Agency's portfolio (2008: 16.3%).

PORTFOLIO RISK PROFILE

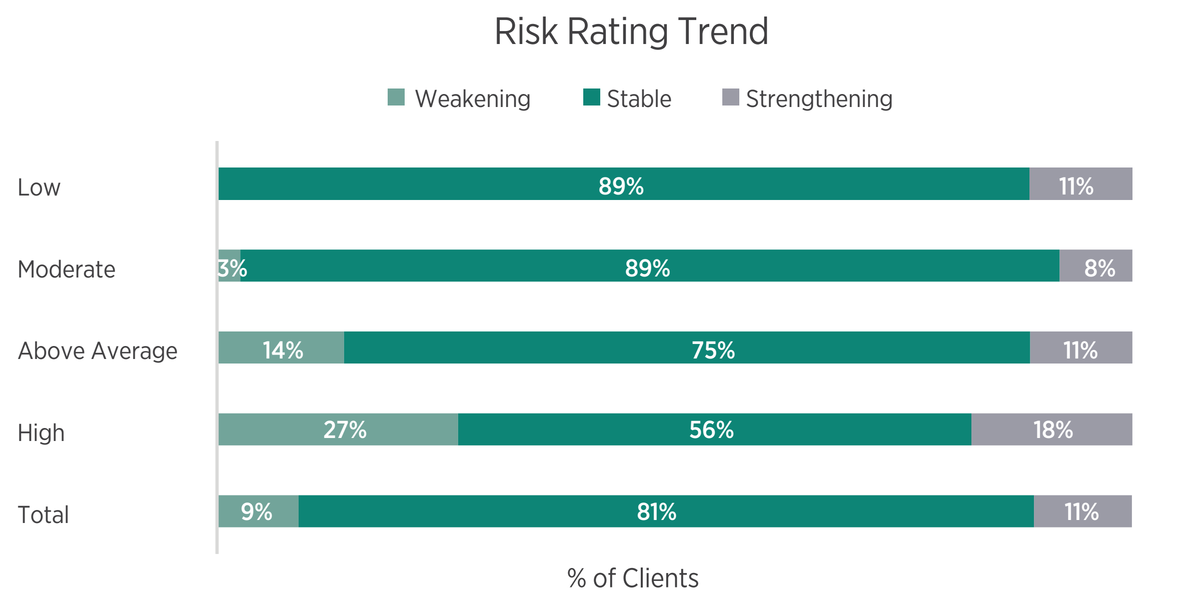
As the next graph shows, the percentage of clients carrying a High risk rating has continued to fall since 2010, while the proportion of clients with a Low rating has grown to 17 per cent from two per cent in 2008. After remaining relatively stable for four years, the share of clients with a Moderate rating has fallen about five percentage points since 2018, and the number of clients with an Above Average rating has risen slightly.

Evolution of Portfolio Risk Profile



PORTFOLIO RISK PROFILE

During our annual risk-assessment process, we assign clients a risk trend of Strengthening, Stable or Weakening. Ninety-two per cent of our clients have an assigned risk trend of Stable or Strengthening. Among those with a High risk rating, 27 per cent were judged to be Weakening in 2020 (2018: 29%). Note that a Weakening trend means that the client has risk factors to attend to; it does not necessarily signal a higher risk of mortgage default.



92% of Agency clients show a Stable or Strengthening risk trend.

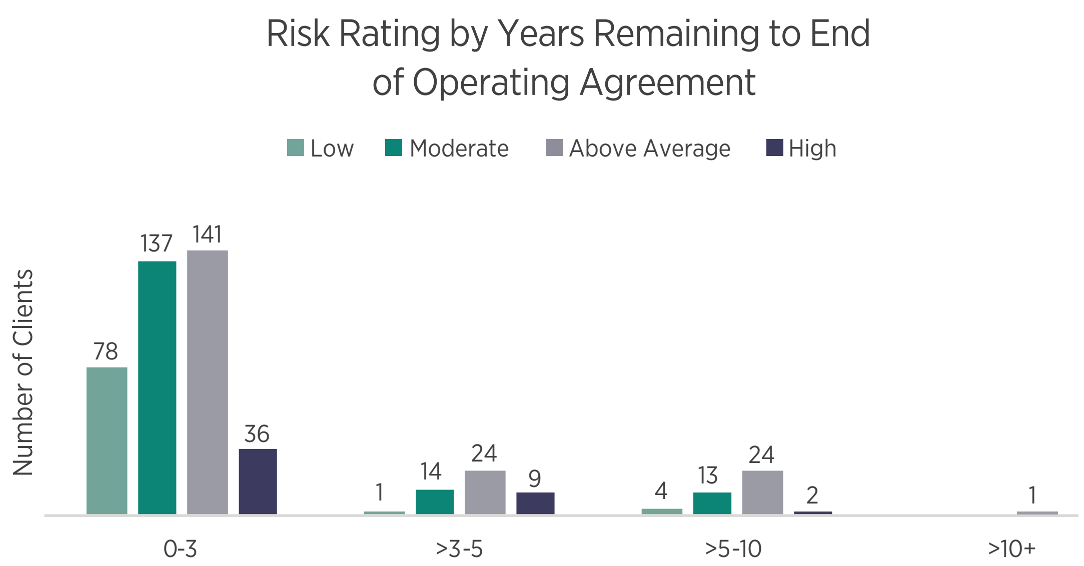
PORTFOLIO RISK PROFILE

77% of client operating agreements will expire by the end of 2023.

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 considered in calculating a client's risk rating (a measure of enterprise risk), CMHC's overall risk of mortgage default is overstated.

By 31 December 2020, 98 client co-operatives had refinanced their CMHC loans. The graph below shows the distribution of risk ratings according to the number of years left for clients' operating agreements after 2020.



Ninety-one per cent of co-operatives rated Low or Moderate risk, and 77 per cent rated High risk, will reach the end of their agreement in three years or less. Owing to the lesser financial strength, on average, of co-operatives funded under the last of CMHC's three major co-operative housing programs, this shift will have a noticeable effect on the risk profile of our portfolio.

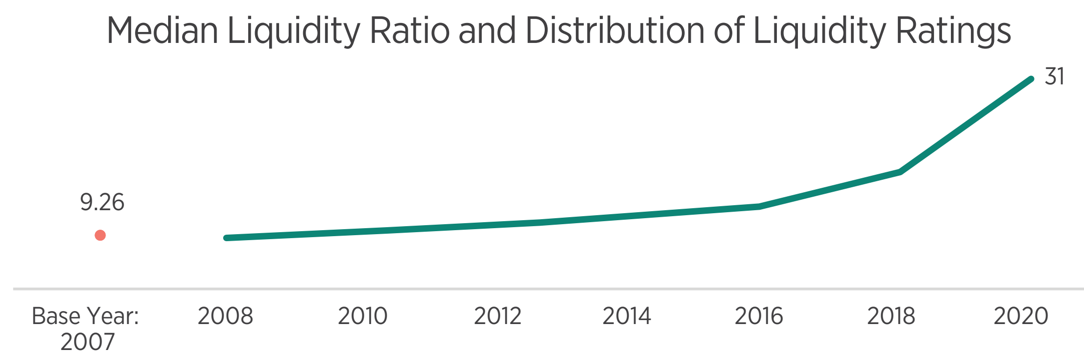
PORTFOLIO RISK PROFILE

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 2020, and a growing percentage of clients enjoy a rating of Good or Excellent on both financial indicators.

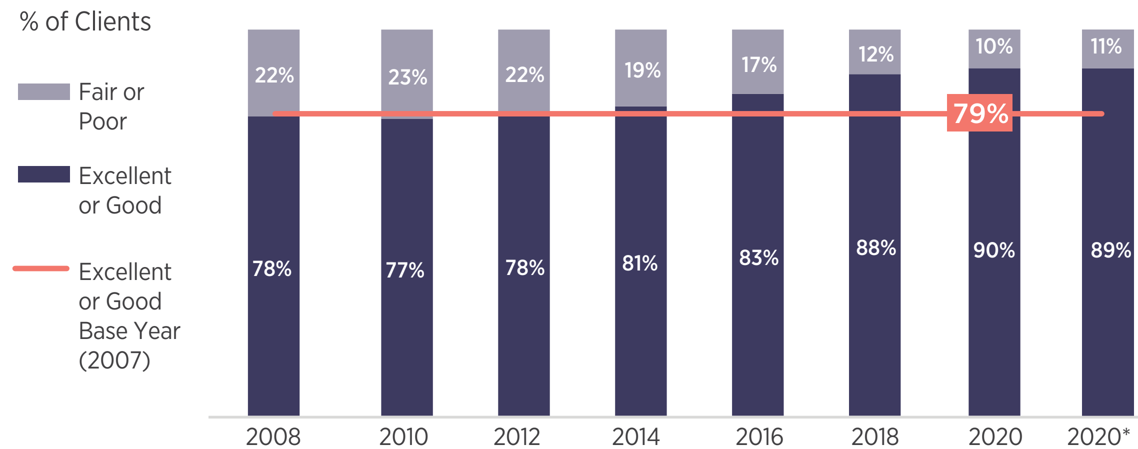


90% of Agency clients saw their Liquidity, and 76% their Net Income, rated Good or Excellent in 2020 (2007: 79% and 55%).

PORTFOLIO RISK PROFILE

Between 2007 and 2020, the median Liquidity ratio for the total dataset rose strongly from 9.26 to 31, 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 2020 dataset, we still see a positive trend in liquidity.

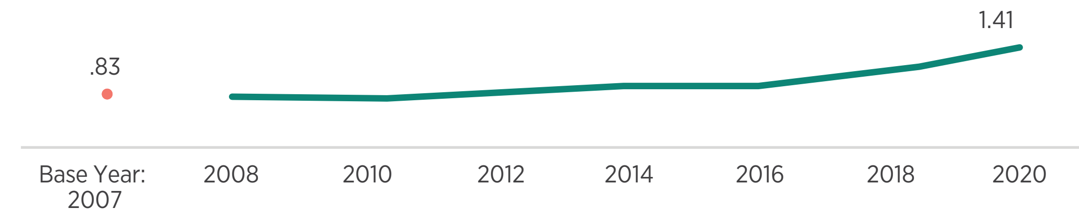
Distribution of Liquidity Ratings



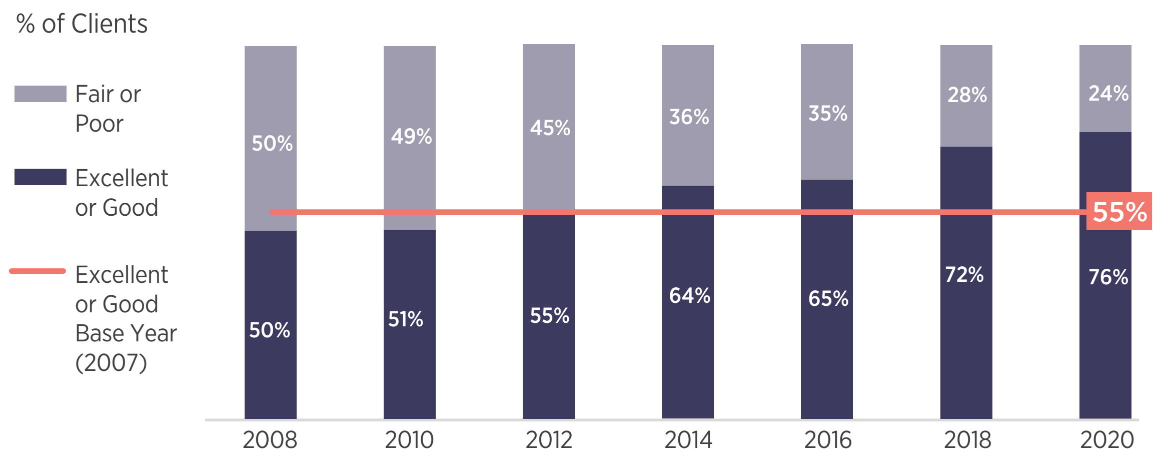
* All mortgage-free co-operatives removed

PORTFOLIO RISK PROFILE

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



Distribution of Net-Income Ratings



The median Net-Income ratio rose from 2007 (0.83) to 2020 (1.41). Clients with a healthy Net-Income rating (Good or Excellent) made up 76 per cent of the portfolio in 2020, a 26 percentage-point rise from 2008.

In 2020, 24 per cent of Agency clients had a Fair or Poor Net-Income rating, compared with 50 per cent in 2008. The percentage rated Fair went down (2020: 18%; 2008: 32%), as did that rated Poor (2020: 6%; 2008: 18%).

PORTFOLIO RISK PROFILE

Physical Condition

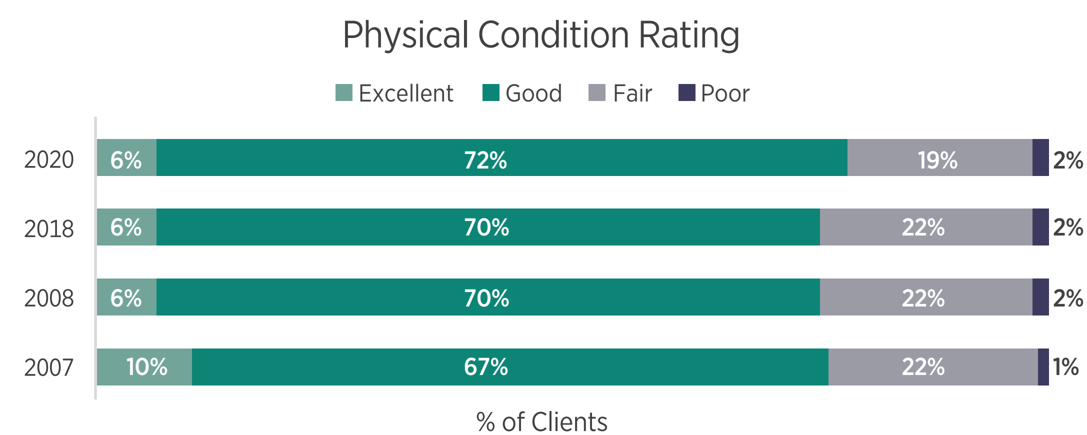
OBJECTIVE 4

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

	2020	2018	2016	2014	2008	Base Year: 2007
Good or Excellent Physical Condition	375	392	441	446	392	383
	79%	76%	83%	84%	78%	77%
Poor Physical Condition	9	9	6	6	9	6
	2%	2%	1%	1%	1%	1%

The proportion of co-operatives with an Excellent or Good physical-condition rose in 2020. 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 five points. At 19 per cent, the proportion judged to be in Fair physical condition has decreased from 13 years earlier.



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 call for 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 2020 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.

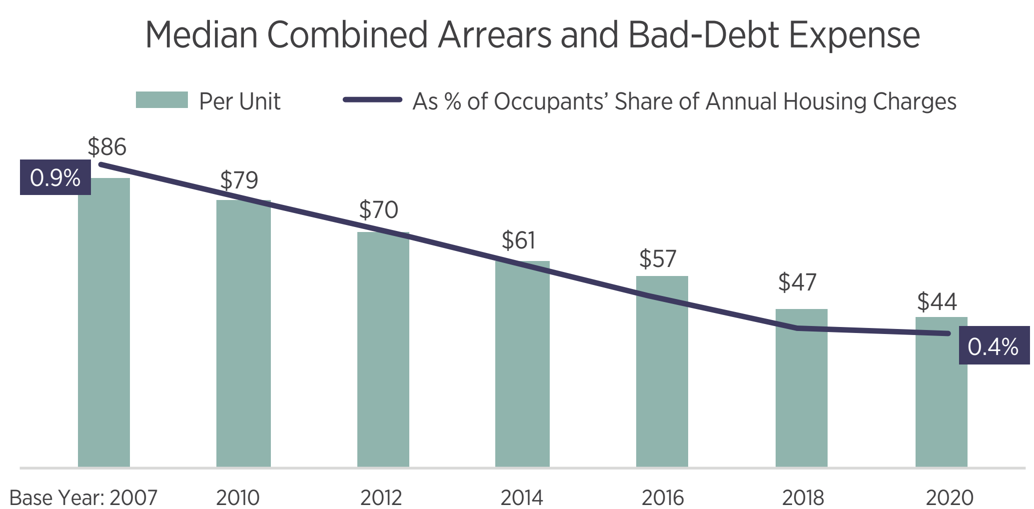
In addition to arrears, bad debts and vacancy losses, this section looks at four other markers of good management:

- 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*, fell from 0.9 per cent in 2007 to 0.4 per cent in 2020 (2018: 0.4%). Considered as a dollar amount, the median combined arrears and bad-debt expense has declined 48 per cent, falling from $86 per unit (2007) to $44 per unit (2020).



All amounts are expressed in constant dollars (2020).

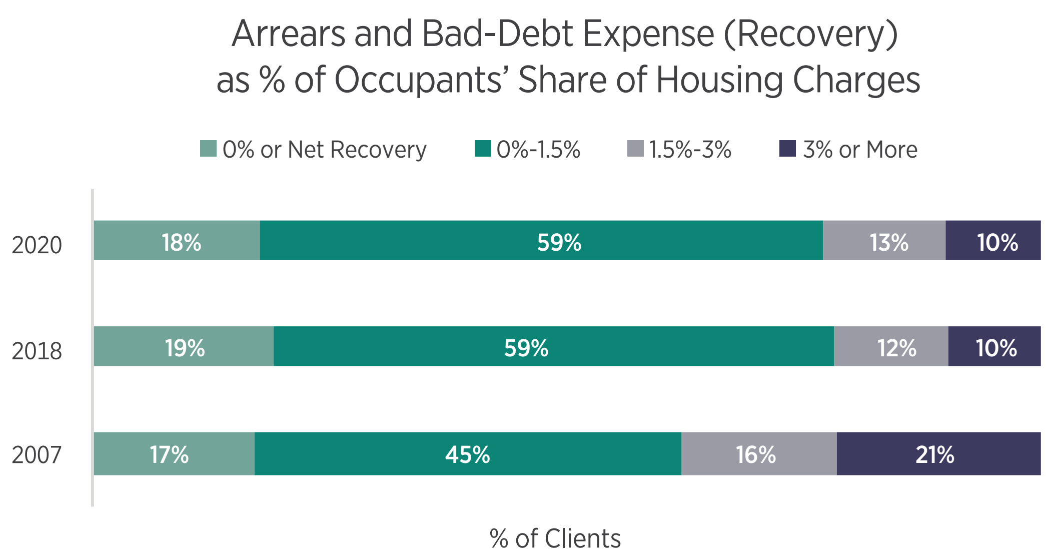
Arrears and bad debts have declined steeply since 2007, to a median of $44 per unit.

* Putting arrears, a balance-sheet measure, together with bad-debt expense, an income-statement measure, normalizes the data for different accounting practices. 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.

CLIENT OPERATING PERFORMANCE

Significantly better results are evident in

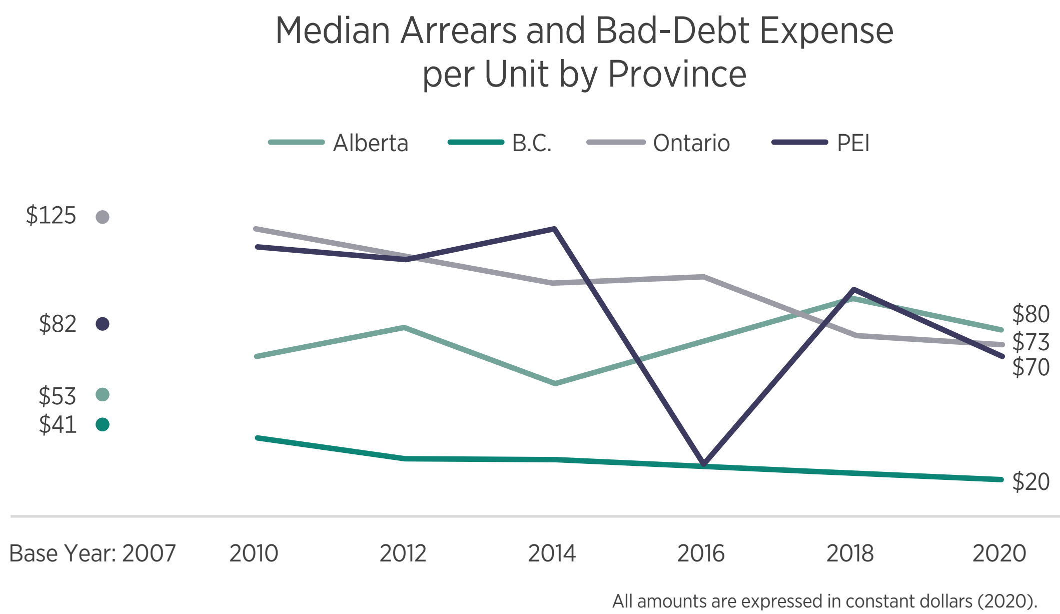
- the growing proportion of clients with a ratio of 1.5 per cent or less (77% of clients in 2020, increased from 62% in 2007)
- the shrinking percentage with combined arrears and bad debts of three per cent or more (10% of clients in 2020, down 11 points from 2007)



CLIENT OPERATING PERFORMANCE

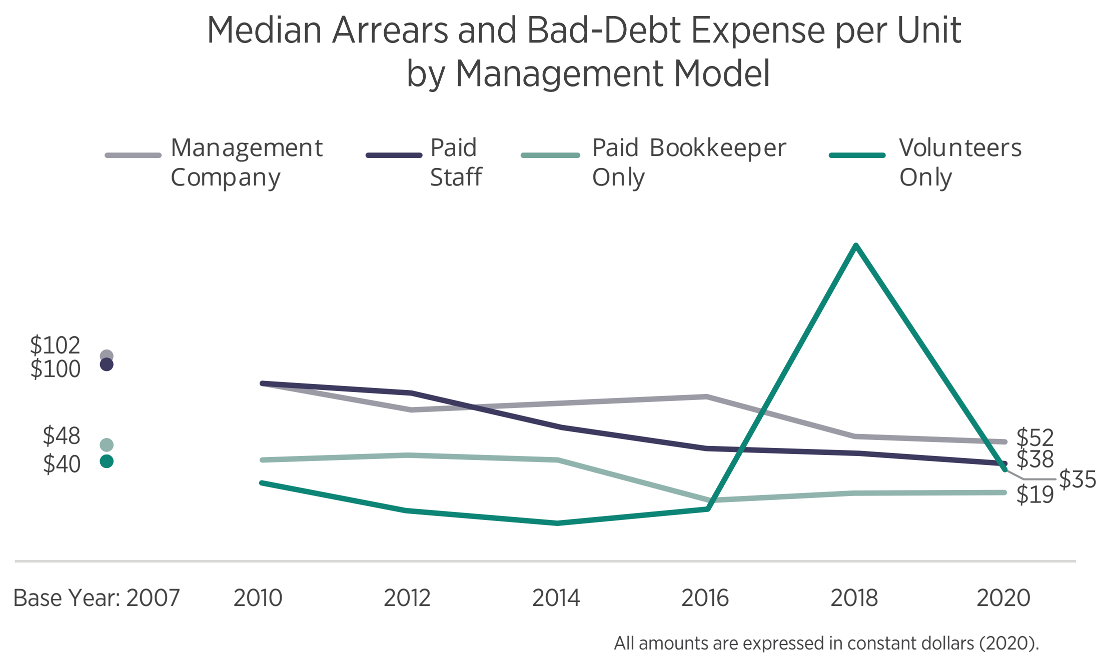
An analysis of the trend from 2007 to 2020 for median combined arrears and bad debts by province shows a consistent decline for both Ontario and B.C. With only ten co-operatives in the PEI dataset, median performance will fluctuate considerably, but arrears and bad debt have been falling over the past two years.

The rise in Alberta's arrears and bad debt that began after 2014 seems to have reversed as the province recovers from its economic downturn.



CLIENT OPERATING PERFORMANCE

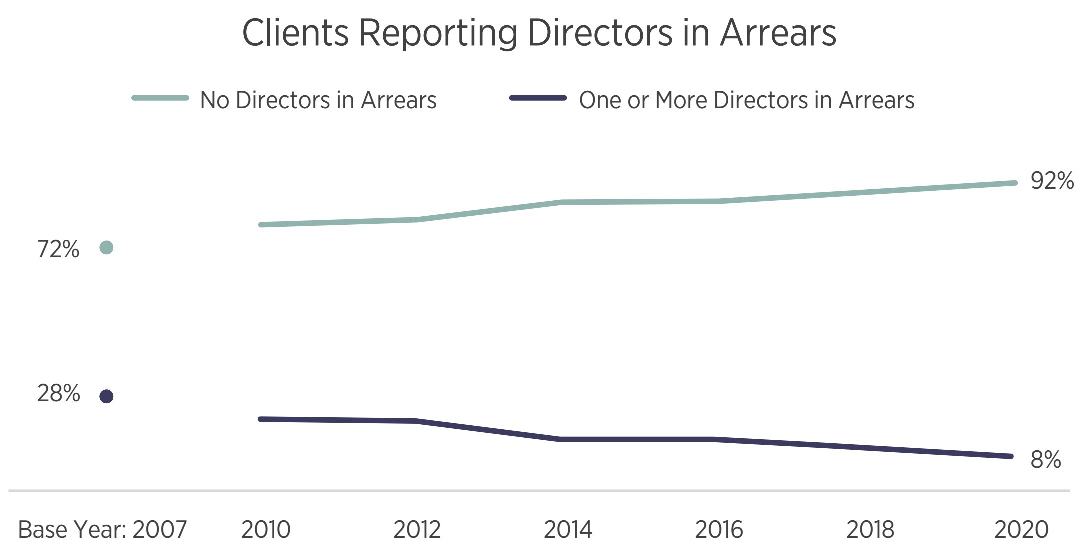
Looking at combined arrears and bad debts by management model shows a continued decline in the median per-unit amount for clients with management companies or paid staff. Those co-operatives reliant on a paid bookkeeper only, or entirely volunteer-run, comprise 24 per cent of the 2020 dataset. Arrears and bad debts increased in 2018 for volunteer-run co-ops, which have since shown great improvement. (As these are relatively few, the effect on the entire dataset is modest.) Since 2018 bad debts have declined, except in B.C., where they have stabilized at the lowest level of any region where the Agency is active.



CLIENT OPERATING PERFORMANCE

Directors in Arrears

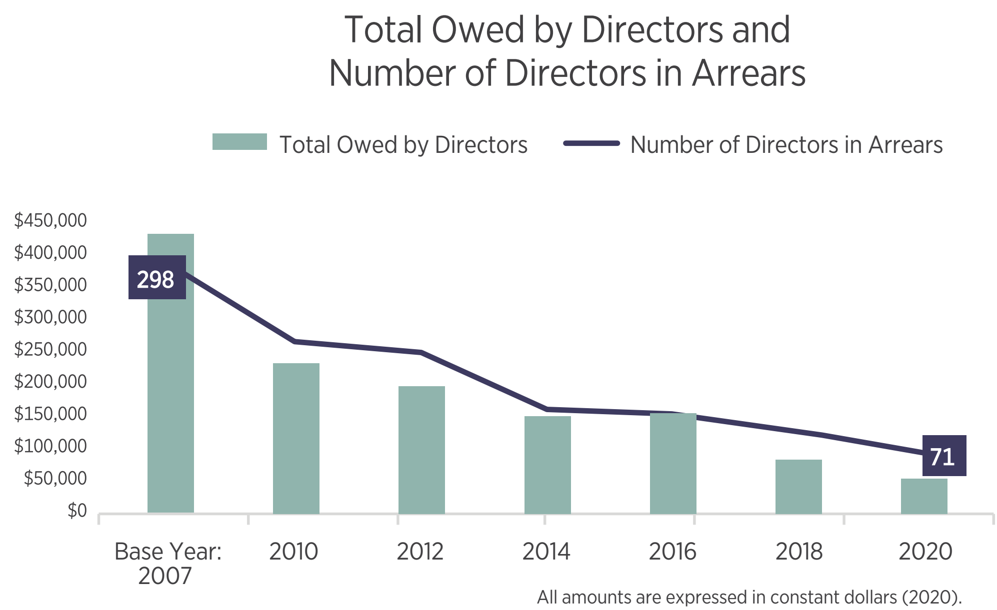
Over time, the portfolio has seen a marked decline in the number of co-operatives reporting directors in arrears, reflecting the Agency's steady efforts to have clients address this problem. Although the rate of improvement has slowed, the proportion of clients reporting at least one director owing $100 or more at the co-operative's year end has dropped by more than three-quarters to eight per cent in 2020 from 28 per cent in 2007 (2018: 10%).



The percentage of clients reporting director arrears has fallen by over three-quarters since 2007.

CLIENT OPERATING PERFORMANCE

The total owed by directors across the portfolio has fallen 88 per cent, from $430,582 in 2007 to $50,791 in 2020 (2018: $80,155).



Co-operatives with indebted directors report much higher rates of general member arrears and bad debts than those with no directors in arrears (2020: nearly four times as high; 2007: more than three times as high).

Median Combined Arrears and Bad Debts Rate

	2020	2018	2016	2014	2012	Base Year: 2007
Full Dataset	0.4%	0.4%	0.5%	0.6%	0.7%	0.9%
Co-operatives with Director Arrears	1.4%	1.5%	1.7%	1.1%	2.0%	2.0%
Co-operatives without Director Arrears	0.4%	0.4%	0.4%	0.5%	0.5%	0.6%

Similar results are apparent when 2020 median total arrears and bad debts are viewed as dollar amounts:

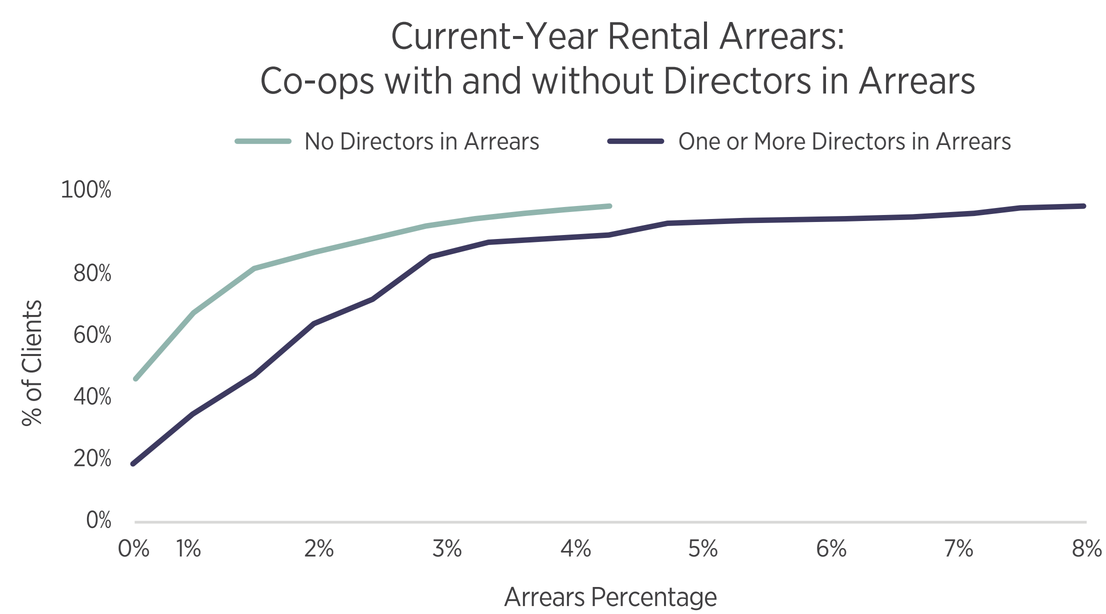
- co-operatives with director arrears: $152 per unit
- co-operatives without director arrears: $40 per unit.

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

As shown on the next graph, 42 per cent of housing co-operatives without director arrears (light green line) had either net recoveries or no member arrears or bad debts, compared with 17 per cent of co-operatives with director arrears (purple line). Further, 62.5 per cent of those without director arrears had member arrears and bad debts under one per cent of annual occupant charges, compared with only 32 per cent of co-operatives with director arrears.

Of co-operatives with director arrears, 16 per cent had member arrears and bad debts greater than three per cent of annual occupant charges, and 10.5 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 manage the problem through the use by-laws or rules.

CLIENT OPERATING PERFORMANCE

Vacancy Losses

Vacancy losses are the greatest single source of revenue leakage for Agency clients. Because high vacancy losses 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 has dropped significantly since 2007. At the other end of the spectrum, the proportion of the portfolio without any vacancy loss has grown slightly 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 upon turnover.

Annual Vacancy Loss

	2020	2018	2016	2014	2012	Base Year: 2007
% of Clients with No Loss	28%	31%	22%	23%	27%	27%
% of Clients with Loss of $250 Per Unit or More	9%	10%	12%	15%	16%	18%

The number of Agency clients reporting vacancy losses of more than $250 per unit per year has fallen 50% since 2007.

CLIENT OPERATING PERFORMANCE

In absolute terms, total losses across the portfolio have declined steadily, despite a dataset that grew until 2016. From 2007 to 2020, total reported losses dropped more than $3.7 million (47%). The vacancy loss per client also fell 41 per cent from 2007 to 2020.

Total Annual Vacancy Loss in the Portfolio

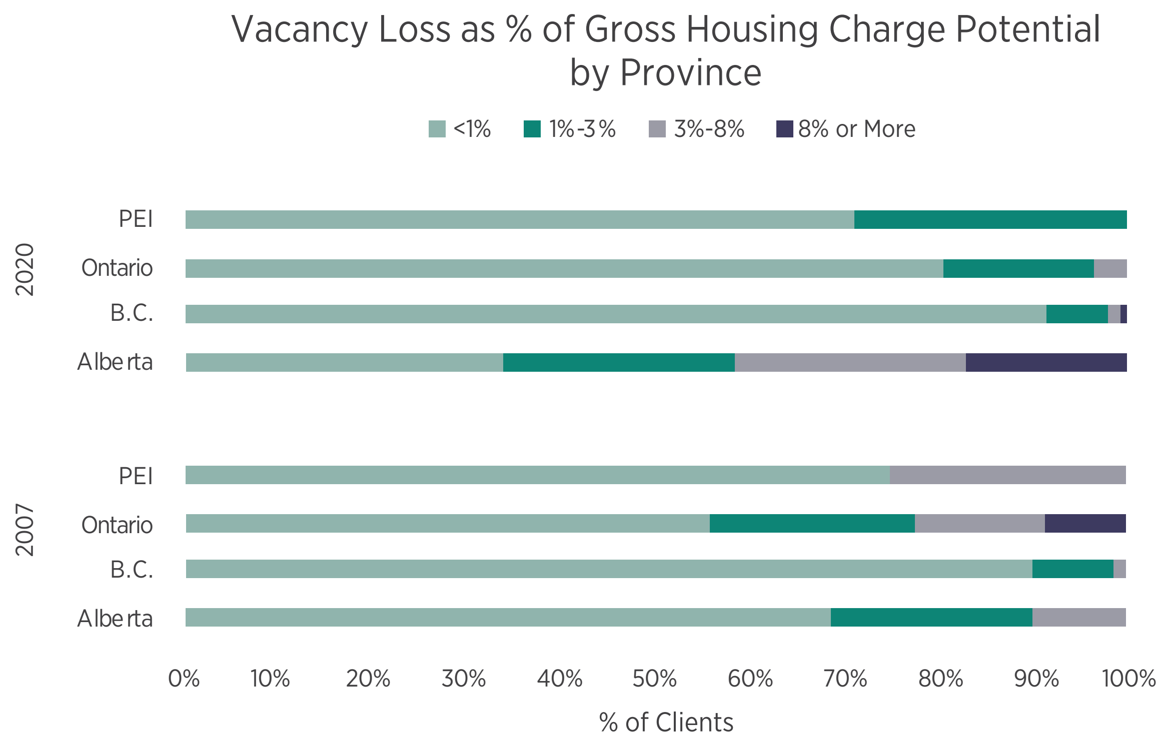
	2020	2018	2016	2014	2012	Base Year: 2007
Total Vacancy Loss	$2,555,833	$3,473,141	$4,136,209	$4,642,349	$4,857,034	$6,278,657
Total Co-ops	477	517	532	545	541	499
Total Vacancy Loss Per Co-op	$5,358	$6,718	$7,775	$8,518	$8,978	$12,582
Total Units	28,746	31,022	32,292	33,336	33,151	30,612
Total Vacancy Loss Per Unit	$89	$112	$128	$139	$147	$205

All amounts are expressed in constant dollars (2020).

Vacancy loss is most usefully measured against 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 (2020: 81%; 2018: 78%; 2007: 69%), and the percentage with losses of eight per cent or more has fallen (2020: 2%; 2018: 3%; 2007: 5%), in both cases materially.

CLIENT OPERATING PERFORMANCE

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 by seven percentage points and of those with a ratio of three per cent or more has fallen from 23 to three per cent. Improvements can also be seen in B.C. and PEI by some measures. While market conditions have affected Alberta co-operatives, we are now starting to see some recovery, although the performance of these clients is still far from what we saw in the boomtimes of the past.



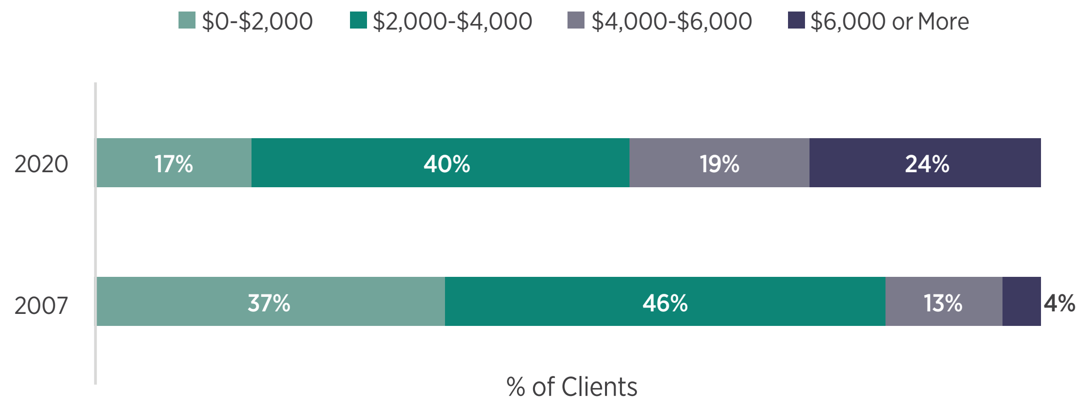
CLIENT OPERATING PERFORMANCE

Spending on Maintenance and Capital Repairs

Spending on maintenance and capital repairs and replacements gives a clear picture of the care clients are taking of their chief asset. Our clients' properties are now on average more than 40 years old. At this age, higher levels of physical-plant spending are both highly desirable and to be expected.

Owing to a change to the AIR part way 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.

Annual Maintenance and Capital Spending Per Unit



All amounts are expressed in constant dollars (2020).

The percentage of Agency clients spending at the lowest level—under $2,000 per unit per year—continues to decline (2020: 17%; 2018: 21%; 2007: 40%), while the percentage spending at higher levels—$4,000 or more—has more than tripled since 2007.

Fully Funded Reserves

OBJECTIVE 3

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

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.

	Clients with Fully Funded Capital Reserve		Median Funding Rate where Reserve not Fully Funded	
	2020	2007	2020	2007
All Clients in Dataset	96%	91%	85%	63%
Clients without Workouts	98%	92%	90%	66%
Clients with Workouts	88%	88%	84%	40%

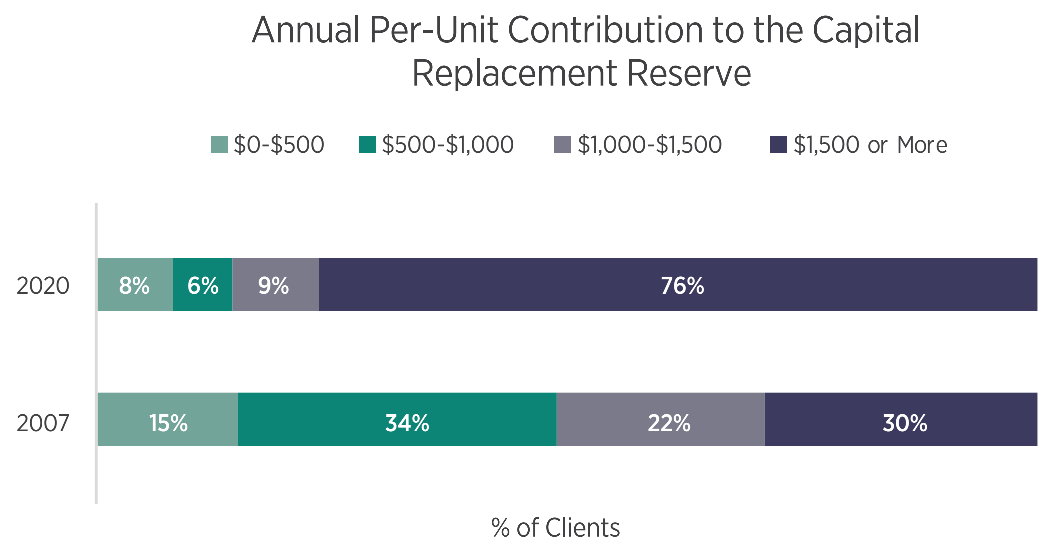
Ninety-six per cent of Agency clients in the dataset had fully funded reserves in 2020, up from 2018 and above 2007 levels (91%). Ninety-eight per cent of co-operatives without financial workouts reported fully funded reserves in 2020, two per cent higher than in 2018 and up from 92 per cent in 2007. Co-operatives with workouts were just as likely to have underfunded reserves in 2020 as in 2007, but the underfunding is 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, presenting very limited opportunities to address the under-funding of its reserve.

98% of co-operatives without financial workouts reported fully funded capital-replacement reserves in 2020.

CLIENT OPERATING PERFORMANCE

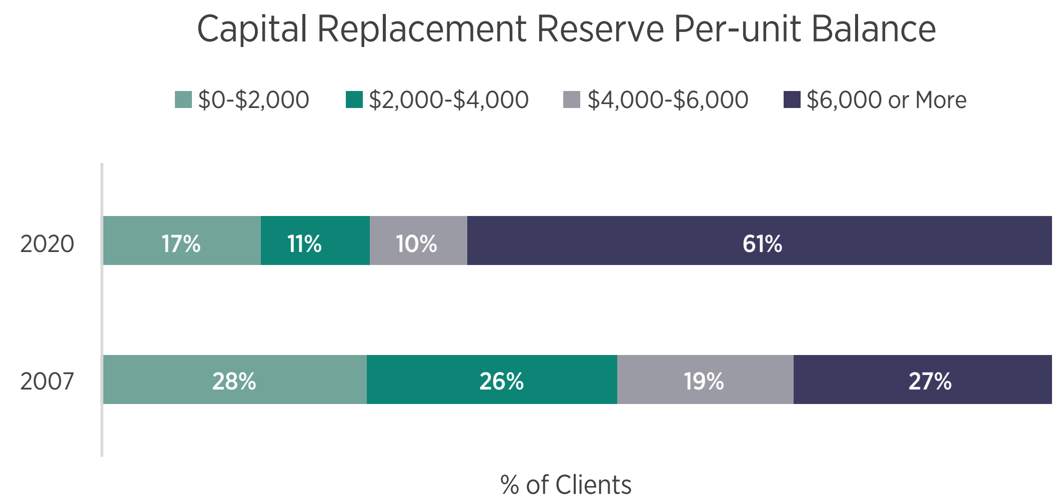
Contributions to Reserves and Reserve Balances

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 2020 datasets reveals that median annual contributions per unit, including any supplemental contributions from operating surpluses, have almost tripled from $1,026 per unit to $3,052 (2018: $2,256).



CLIENT OPERATING PERFORMANCE

Per-unit reserve balances have risen as well, with the proportion of clients holding a balance of $6,000 or more per unit more than double its 2007 level. The median per-unit balance is up 24 percentage points from 2018, and 48 points from 2007 (2020: $7,936; 2018: $5,470; 2007: $3,754). It is possible that some reserves rose in 2020 owing to halts or restrictions in construction resulting from the pandemic.

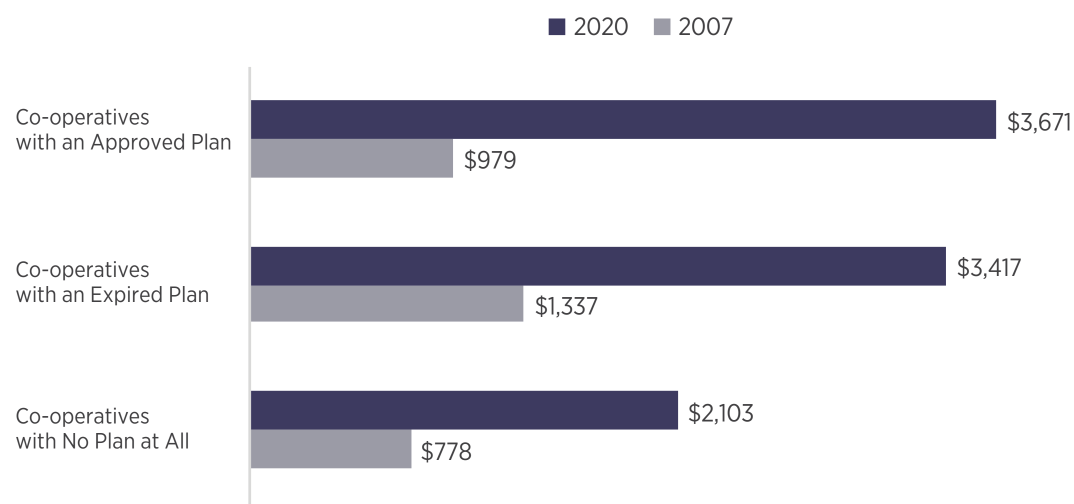


Both per-unit balances and annual contributions to capital-replacement reserves have risen sharply in the Agency portfolio since 2007.

Capital Plans

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 plan approval has lapsed and the plan has not been refreshed, so far as we know.

Capital Plans and Reserve Contributions



All amounts are expressed in constant dollars (2020).

LOOKING AHEAD TO 2020

LOOKING AHEAD TO 2022

Despite the challenges of COVID-19, the 2020 Biannual Portfolio Review shows the health and performance of the portfolio continuing to improve by most measures, as it has 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 are doing all that we can to send our client co-operatives on their way with sound finances and solid business practices. While our responsibilities as the administrator of the Rental Assistance Program FCHI-2 are lighter than for the legacy programs, ensuring that co-operatives are maintaining their properties in good repair remains an aspect of client compliance that we will continue to monitor.

As in the past, the Agency will urge our clients to set all their housing charges at a level sufficient to cover their bills as they fall due and allow for adequate annual contributions to their capital-replacement reserves. We will make sure co-operatives understand what constitutes an adequate contribution by promoting capital-replacement plans based on an up-to-date building condition assessment. With the end of their agreements approaching, the Agency is encouraging the remaining clients still in need of new financing to seek help from an appropriate sector organization or another third party and is supporting the process, as necessary.

Clients moving to the Rental Assistance Program are receiving a complimentary package of the reports that comprise the Agency's Annual Health Check service. Making fact-based decisions possible, this service gives co-operatives access to current information about their risk level, program compliance and comparative performance, in addition to Plain-Language Financials, which restate the financial report in terms that are easier for members to understand.

LOOKING AHEAD TO 2022

Clients in the Rental Assistance Program will shortly have access to an online self-assessment tool, linked to the framework of an action plan. The tool will enable co-operatives to assess the areas where their operations need strengthening and will move them seamlessly through the process of creating an action plan that reflects their self-assessment. The system will encourage them to assess their progress annually and to update the plan after three years. In time, the tool will be made available to all Agency clients. 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 assist them in achieving better performance.

The Agency intends to continue our work with housing partners in and outside of government to help our clients provide good-quality housing for people of various incomes. As operating agreements expire, we will do our best to ensure that co-operatives benefit fully from CMHC's FCHI-2 and enjoy the smoothest possible transition to the new program. We also look forward to working with the housing co-ops that have signed up for the Temporary Rental Assistance initiative and are being given the opportunity to provide longer-term housing assistance under FCHI-2.

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

APPENDICES

Appendix A: Technical Data

The 2020 Dataset

- The data in this report were drawn from Annual Information Returns (AIRs) received and validated by the Agency by 15 January 2021 for fiscal years ending between August 2019 and July 2020. 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.
- On 31 December 2020, the Agency had 499 co-operative clients. Together these clients had 26,064 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 2020 and 2007 datasets have 427 co-operatives in common. Ninety-seven co-operatives are found only in the 2007 dataset and 75 only in the 2020 dataset.

Composition of Datasets for Prior-Year Comparisons

Year	Total Clients	Total Units
2020	484	28,835
2019	515	30,585
2018	524	31,172
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

Appendix A: Technical Data

Deep-Subsidy Programs

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 risk ratings and certain of the vacancy-loss analyses.

Constant Dollar Amounts

Dollar amounts from previous years have been indexed to their 2020 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 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

Influence of Additions to Capital Assets

	2020	2019	2018	2017	2016	2015
Clients Reporting Additions to Capital Assets	87/484 18%	110/515 21%	121/524 23%	78/531 15%	62/539 12%	52/555 9%
Largest Per-Unit Addition	$39,671	$49,707	$126,446	$266,147	$41,868	$23,407
Per-Unit Physical-Plant Spending for Dataset	$5,376	$5,091	$5,201	$4,348	$3,993	$3,711
Per-Unit Additions to Capital Assets for Dataset	$1,403	$1,287	$1,847	$1,126	$894	$545
Additions to Capital Assets as % of Physical-Plant Spending	26%	25%	36%	26%	22%	15%
Median Per-Unit Spending, with Capital-Asset Additions	$3,431	$3,574	$3,196	$2,999	$2,941	$2,758
Median Per-Unit Spending, without Capital-Asset Additions	$3,027	$3,020	$2,759	$2,732	$2,701	$2,654

	2014	2013	2012	2011	2010
Clients Reporting Additions to Capital Assets	36/552 7%	41/550 7%	40/548 7%	41/536 8%	23/529 4%
Largest Per-Unit Addition	$12,366	$28,285	$44,940	$26,296	$41,261
Per-Unit Physical-Plant Spending for Dataset	$3,211	$3,428	$3,336	$3,160	$3,290
Per-Unit Additions to Capital Assets for Dataset	$154	$341	$373	$226	$225
Additions to Capital Assets as % of Physical-Plant Spending	5%	10%	11%	7%	7%
Median Per-Unit Spending, with Capital-Asset Additions	$2,623	$2,606	$2,545	$2,499	$2,452
Median Per-Unit Spending, without Capital-Asset Additions	$2,528	$2,537	$2,467	$2,386	$2,423

Note: Dollar amounts have been indexed as constant dollars to 2020.

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 2020 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 2020 we saw growth from 17 per cent to 32 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 34 per cent to 22 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 +
2020 with Capital-Asset Additions	18%	41%	19%	21%
2020 without Capital-Asset Additions	22%	46%	18%	14%
2007 without Capital-Asset Additions	34%	49%	12%	5%

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, capital replacement plan, 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 can contribute 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 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	
	2020	2007	2020	2007
Full Dataset	0.3%	0.4%	$33	$40
Program				
S27-61	0.2%	0.1%	$18	$16
S95	0.2%	0.3%	$28	$35
ILM	0.3%	0.7%	$42	$83
Multi-Program	1.6%	1.0%	$159	$148
Other	—	—	—	—
Province				
British Columbia	0.1%	0.2%	$16	$18
Alberta	1.5%	0.3%	$192	$33
Ontario	0.3%	0.7%	$42	$81
PEI	0.4%	0.2%	$39	$16
Management Model				
Management Company	0.3%	0.5%	$43	$55
Paid Staff	0.2%	0.4%	$24	$40
Paid Bookkeeper Only	0.1%	0.2%	$10	$25
Volunteers Only	0.2%	0.0%	$9	$0
Workout Status				
Clients with Workout	0.6%	1.5%	$75	$169
Clients without Workout	0.2%	0.3%	$28	$31

Note: The changes over time are due to changes in the dataset and to the evolution of individual clients within the portfolio.
All amounts are expressed in constant dollars (2020).

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	
	2020	2007	2020	2007
Full Dataset	0.4%	0.9%	$917	$713
Program				
S27-61	1.0%	0.8%	$1,081	$613
S95	0.3%	0.7%	$866	$696
ILM	0.7%	1.2%	$929	$724
Multi-Program	0.8%	1.4%	$1,423	$1,205
Other	3.9%	8.4%	$1,477	$1,185
Province				
British Columbia	0.2%	0.4%	$628	$469
Alberta	0.8%	0.7%	$753	$441
Ontario	0.7%	1.4%	$1,107	$950
PEI	0.8%	1.2%	$716	$800
Management Model				
Management Company	0.5%	1.0%	$929	$646
Paid Staff	0.4%	1.0%	$1,087	$977
Paid Bookkeeper Only	0.2%	0.5%	$329	$362
Volunteers Only	0.4%	0.5%	$83	$134
Workout Status				
Clients with Workout	1.0%	1.6%	$990	$809
Clients without Workout	0.4%	0.8%	$891	$693

Note: The changes over time are due to changes in the dataset and to the evolution of individual clients within the portfolio.
All amounts are expressed in constant dollars (2020).

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	
	2020	2007	2020	2007	2020	2007
Full Dataset	$3,628	$2,371	$7,936	$3,754	$3,052	$1,026
Program						
S27-61	$3,271	$2,236	$6,201	$3,981	$2,267	$1,163
S95	$3,854	$2,405	$9,331	$4,180	$3,757	$1,333
ILM	$3,145	$2,158	$4,637	$2,564	$1,931	$611
Multi-Program	$5,521	$3,137	$8,445	$3,183	$2,250	$1,062
Other	$8,894	$3,563	$28,218	$3,210	$3,916	$561
Province						
British Columbia	$3,596	$2,168	$9,335	$3,816	$3,564	$1,168
Alberta	$4,050	$1,842	$6,112	$2,666	$3,000	$810
Ontario	$3,535	$2,601	$6,717	$4,006	$2,484	$1,034
PEI	$2,698	$2,162	$9,863	$1,076	$1,091	$510
Management Model						
Management Company	$3,587	$2,380	$7,582	$3,364	$2,980	$989
Paid Staff	$4,051	$2,614	$8,520	$3,938	$3,220	$1,015
Paid Bookkeeper Only	$2,937	$2,064	$8,447	$3,481	$3,516	$1,195
Volunteers Only	$3,062	$1,805	$3,887	$4,351	$1,763	$1,021
Workout Status						
Clients with Workout	$2,844	$2,064	$2,785	$959	$1,312	$584
Clients without Workout	$3,959	$2,462	$8,579	$4,059	$3,415	$1,168

Note: The changes over time are due to changes in the dataset and to the evolution of individual clients within the portfolio.
All amounts are expressed in constant dollars (2020).