2008 ANNUAL REPORT TO
CANADA MORTGAGE AND HOUSING CORPORATION

PORTFOLIO PERFORMANCE

SEPTEMBER 2009
[Edited to protect confidentiality]

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Executive Summary

This third annual report presents a comprehensive assessment of the portfolio of housing co-operatives operating under programs administered for Canada Mortgage and Housing Corporation by the Agency for Co-operative Housing. The report draws on data received through Annual Information Returns filed with the Agency for fiscal years ending between August 2007 and July 2008 and validated by January 15, 2009. It resets the baseline for 2007, the first year for which we had data for our full portfolio. (Our 2006 report presented results for only a portion of the portfolio, complete information being unavailable for the period under review when the report was written.)

At the end of 2008, the full Agency portfolio comprised 511 federal-program housing co-operatives that together owned 31,109 residential units. Co-operatives developed under the S27/61 programs made up 10 per cent of the portfolio; S95 co-operatives 61 per cent; FCHP (ILM) co-operatives 25 per cent; and PEI NP and Urban Native housing co-operatives one per cent. Three per cent of our client co-operatives acquired their properties under more than one program.

B.C. was home to 34 per cent of the portfolio, measured by number of client co-operatives; Alberta to 10 per cent; Ontario to 54 per cent; and PEI to two per cent. At the end of 2008, 41 per cent of our clients employed paid staff; 36 per cent purchased services from a property-management firm; 15 per cent paid only a bookkeeper; and eight per cent were operated entirely by volunteers. The dataset for this report, disclosed in detail in Appendix A and further described in Appendix B, constitutes 97 per cent of the Agency's portfolio at December 31, 2008 and is representative by program, province, management model.

Compliance

At the end of 2008, 70 per cent of clients in the dataset were in full compliance with their operating and other agreements with CMHC. Among the compliance variances identified, most common, at 23 per cent of all variances, were those associated with funding of co-operatives' capital replacement reserves. Five per cent of Agency clients had serious agreement breaches. These included mortgage arrears, failure to file required financial reports within seven months of the co-op's fiscal year end and, in one case, workout-agreement breaches.

Risk

Risk-rating is the Agency process that flags co-operatives that are either already in financial difficulty or at risk of finding themselves so if they do not take corrective action. The composite risk rating assigned to each client reflects its financial strength, current operating results, physical condition and other factors. In the year under review 78 per cent of Agency clients had Good or Excellent liquidity (our measure of financial strength) and 70 per cent Good or Excellent financial results for their most recent completed year. Seventy-eight per cent had properties rated in Good or Excellent condition. Taking these three indicators into account, along with other risk factors such as whether the co-operative held enough insurance, only 43 per cent

of our clients received a composite risk rating of Low or Moderate. The rest were rated Above-Average or High risk.

Operating Performance

Appendix D compares median performance data for 2008 and 2007.

Vacancy Losses

While most Agency clients are out-performing their local rental market with seven out of 10 co-operatives in the dataset reported low or no vacancy losses for 2008, a troubling 10 per cent tallied losses of at least four per cent of their potential revenue from housing charges.

Bad Debts and Arrears

The majority of Agency clients either saw no losses to bad debts in 2008 and no arrears at year end or their combined arrears and bad debts amounted to one per cent or less of the share of occupancy charges payable by members (i.e., the full occupancy charge less geared-to-income subsidies and rental inducements). However, eight per cent posted arrears and bad debts of five per cent or more of occupant housing charges, and 22 per cent had one or more board members with arrears of over $100 at year end. (Both figures represent a slight improvement over 2007.) The median arrears and bad-debt expense ratio for co-operatives with one or more directors in arrears was 119 per cent higher than the 0.8 per cent reported for all clients.

Capital Replacement Reserve

At the end of 2008 the median age of the Agency's clients was 25. The median year-end balance for the capital replacement reserve for all co-ops in the dataset was $3,133 per unit. If co-operatives with workouts are excluded, this figure rises to $3,493. Thirteen per cent of clients held reserves at the end of their 2008 fiscal year of $7,000 per unit or more, an increase of two percentage points over 2007.

Administration Costs

At 6.2 per cent, the median rate of administrative spending as a percentage of revenue was virtually unchanged from 2007.

Other Perspectives

Program Perspective

The Federal Co-operative Housing Program (ILM), which ran from 1986 to 1991, inclusive, is the under-performer among the programs the Agency administers. Sixty-five per cent of co-operatives operating under this program had a composite risk rating of Above Average or High in 2008. Median vacancy losses were the highest, at 0.5 per cent of gross housing charge potential, as was the median arrears and bad-debt ratio, at 1.2 per cent. ILM-program co-ops put a median amount of $44 per unit per month into their capital replacement reserve, as compared to $92 (the median for S27/61) and $73 (S95) for other Agency clients. Co-ops under the S95 program had the best overall risk profile as a group and S27/61 the lowest median vacancy losses (0.2%).

Provincial Perspective

PEI had the greatest proportion of Agency clients at Above Average or High risk (70%) in 2008. Ontario had the second largest (56%) and, at 0.7% of total housing charge potential, the greatest median vacancy loss, substantially in excess of rates posted in Alberta (0.2%), B.C. (0.1%) and PEI (0.0%). Ontario reported the highest combined arrears and bad-debt ratio, at 1.3 per cent. Ontario co-ops also had the highest administrative spending rate, at $810 per unit per year, and the largest median contribution to capital replacement reserves ($97). Alberta co-ops spent only $386 per unit annually on administration and put less money into their capital replacement reserves than co-ops in other regions ($78 median contribution), apart from PEI ($34).

Management Perspective

Volunteer-run co-operatives tied in performance with those having their own employees. The volunteer-run enjoyed the smallest median vacancy losses (0.0%) and the lowest combined year-end arrears and annual bad-debt expense ratio (median ratio: 0.0%) but made the lowest median contribution to the capital replacement reserve ($974 per unit). However, 52 per cent of co-ops with paid staff were rated at Low or Moderate risk; among the others, 45 per cent of volunteer-only co-ops, 37 per cent of co-ops that employ contract property-management services and 32 per cent of those with only a bookkeeper achieved this rating.

Strong Performers

During our research for the 2008 report, we chose to analyse a robust group of co-operatives that consistently performed well without necessarily being rated Low risk. Our analysis is featured in Chapter seven of this report. These clients have a number of unexpected characteristics in common that have implications for the co-operatives we work with in all regions and programs.

Looking Ahead

The Agency is beginning to see the first signs of improvement in the portfolio as a whole and particularly among the co-operatives whose situation and performance leave the most to be desired. We are concerned, however, about the harm done to co-operatives in regions such as Windsor, Ontario by the economic conditions of the past year, which may continue to affect them for a considerable period. We will be watching our most vulnerable clients especially closely during this time.

Chapter 1: Introduction

Under the terms of our agreement with Canada Mortgage and Housing Corporation, the Agency for Co-operative Housing is required to furnish a report each year on the health and performance of clients operating under CMHC programs in the four provinces in which we operate. This is our third annual report and our second review of the Agency's full portfolio of housing co-operatives.

The report draws on data received through Annual Information Returns filed with the Agency for fiscal years ending between August 2007 and July 2008[1] and validated by January 15, 2009. With co-operatives allowed four months to file their returns and associated reports after their fiscal year end, this cut-off has enabled us to include data from 97 per cent of the clients in our portfolio at December 31, 2008. Further information on the 2008 dataset is provided in Appendix A.[2] Appendix B compares the datasets for 2007 and 2008 to the Agency portfolio as a whole.

This report re-establishes baseline information for 2007, our first full year of operation, and has also afforded us an opportunity to dig deeper into the data in some areas, enriching our knowledge of the portfolio. Each chapter begins with a table entitled Facts and Figures, which shows the dataset reflected in the analyses presented. In some chapters we used a slightly smaller dataset, either because the relevant information was not available for all clients or because the issues explored were not applicable to certain funding programs. The first chapter looks at the portfolio as a whole, moving from its compliance status through its risk profile and operating performance against various indicators. Subsequent chapters scrutinize the risk profile and performance of the portfolio by program and by province. Chapter five looks at Agency clients from the perspective of the different management models in use. Chapter six offers something new: a detailed consideration of a group of successful co-operatives that we have labelled "strong performers." The report concludes with a few thoughts about the present and future of the portfolio.

1. Throughout this report, except where the context otherwise requires, "2008" refers to a year ending any time between August 31, 2007 and July 31, 2008.

2. Because our cut-off for our 2007 report was February 15, 2008, for comparison purposes we created a revised 2007 dataset for a parallel time period and cut-off date to those used for 2008. In this report, all references to 2007 figures will be to the parallel dataset and not to data reported in our 2007 report.

Chapter 2: Portfolio-Wide Perspective

Portfolio Facts and Figures

The distribution by program, province and management model of the 497 housing co-operatives that form the dataset from which this report is drawn is shown in the table on this page.

PORTFOLIO FACTS & FIGURES

Total number of co-ops in the dataset: 497

Distribution by Program:		
S27/61	53	11%
S95	301	61%
FCHP (ILM)	123	25%
UN/PEI NP	5	1%
Multiple*	15	3%

*excluded from program-related charts

Distribution by Region:		
Alberta	50	10%
B.C.	171	34%
Ontario	266	54%
PEI	10	2%

Distribution by Management Model:		
Management Company	183	37%
Paid Staff	212	43%
Bookkeeper (Paid) Only	66	13%
Volunteer Only	36	7%

Compliance Profile

The Agency's compliance management program ensures that public funds expended under the co-operative housing programs are used as intended and properly accounted for. While we respond to all incidents of non-compliance as they come to our attention throughout the year, the backbone of our program is the annual compliance review we carry out of each housing co-operative upon receipt and validation of its Annual Information Return. A comprehensive look at the co-op's compliance with program guidelines and the financial and other terms of legal agreements it has entered into with CMHC, the review serves to identify compliance variances, classifying them as minor variances, material variances or breaches, according to their severity[3].

3. Variances are classified according to the following criteria:

Minor compliance variance: a variance from the operating or financial workout 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 as being misused.

Material compliance variance: an operating- or workout-agreement 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.

Breach: an operating- or workout-agreement compliance failure having 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 being perceived as being misused.

Of the 497 co-operatives in the dataset, 70 per cent were fully compliant with their CMHC agreements and other program requirements at the end of 2008, down very slightly from a year earlier. However, the percentage of all variances represented by agreement breaches fell appreciably from 19 per cent in 2007 to 12 per cent, and the proportion of co-ops with breaches from seven per cent to five. Mortgage arrears made up 42 per cent of breaches at the end of 2008 and various filing lapses and a single breach of a workout agreement the balance. We should note here that some clients are in breach of more than one agreement obligation, 33 breaches being associated with 27 co-operatives.

The incidence of co-ops with minor or material compliance variances increased slightly in 2008, in both cases from 14 per cent to 16 per cent, while the proportion of total variances classified as minor rose and the share classified as material declined. Again, many co-ops had more than one variance.

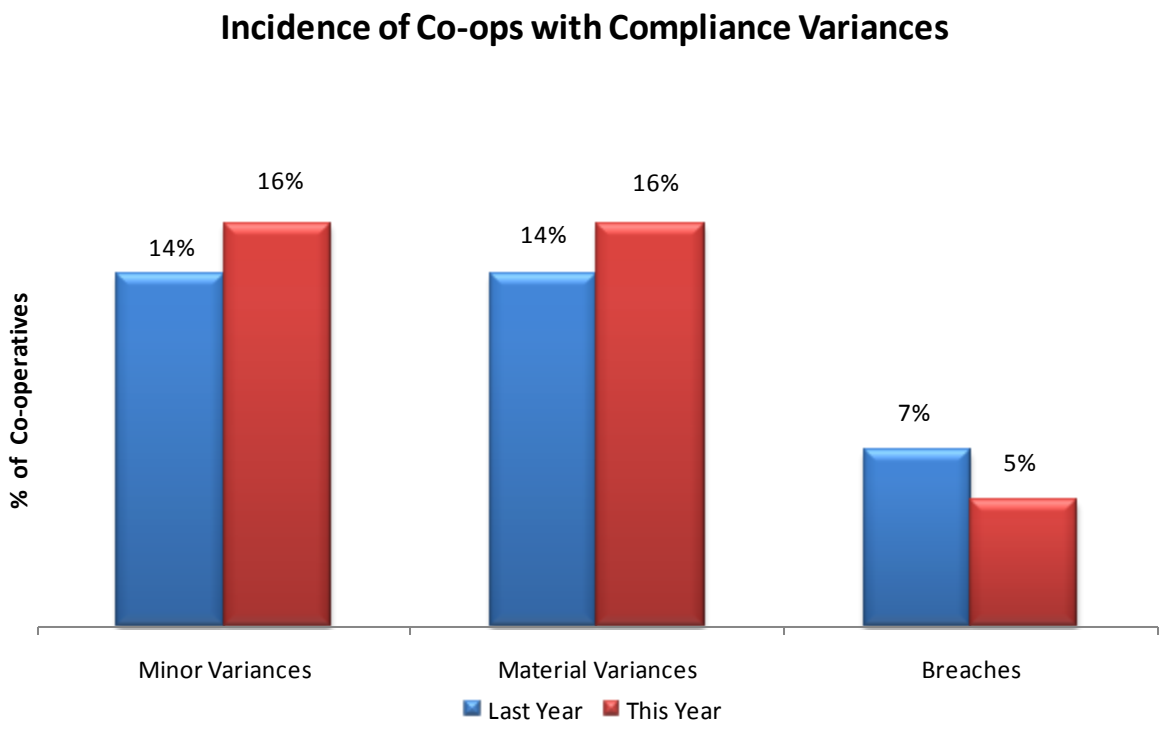

Figure 1

Replacement-reserve funding variances (failure to contribute to the reserve as required, failure to back the reserve with cash or investments, failure to allocate earnings from the fund back to the fund, and prohibited investments) came in at 23 per cent of all variances in 2008—by far the commonest— and 43 per cent of all material variances. Among minor variances, those related to workout compliance took the lead, comprising 10 per cent of all variances.

Table 1: Compliance Variances by Type

	No. 2008	% 2008 *	% 2007 *
Breaches			
Mortgage Arrears	14	5%	4%
ITA Reconciliation More than 3 Months Overdue	11	4%	5%
Audited Financial Statements More than 3 Months Overdue	4	1%	4%
Annual Information Return More than 3 Months Overdue	3	1%	6%
Workout Agreement Breaches	1	0%	N/A
Total Breaches	**33**	**12%**	**19%**
Total Co-operatives Represented	**27**	**5%**	**7%**
Material Variances			
Replacement Reserve Funding[4] and Permitted Investment Variances	51	18%	17%
Non-compliance with Net Operating Revenue Policy (S95 Only)	21	7%	6%
Refund of Excess Federal Assistance Overdue (UN, PEI NP, S95)	10	4%	6%
Subsidy-Surplus Reserve Funding Variances (S95 Only)[5]	10	4%	3%
Rent Supplement Assistance: Verification of Incomes	7	2%	2%
Ineligible Replacement-Reserve Spending	6	2%	4%
Setting the Assisted Housing Charge*	6	2%	2%
Workout Agreement Variances	3	1%	N/A
Other	5	2%	2%
Total Material Variances	**119**	**42%**	**43%**
Total Co-operatives Represented	**84**	**16%**	**14%**
Minor Variances			
Workout Agreement Variances	27	10%	N/A
ITA Reconciliation Less than 3 Months Overdue	21	7%	8%
Audited Financial Statements Less than Three Months Overdue	17	6%	9%
Annual Information Return Less than 3 Months Overdue	12	4%	7%
Replacement Reserve Funding and Permitted Investment Variances	14	5%	4%
Security of Tenure Fund (ILM) Variances	11	4%	1%
Surcharges (ILM and S27/61)	5	2%	1%
Repayment of Excess Federal Assistance (UN, PEI NP, S95)	5	2%	2%
Percentage of Subsidized/Income-Tested Members	5	2%	2%
Subsidy-Surplus Reserve Funding Variations (S95 Only)	4	1%	3%
Other	10	4%	3%
Total Minor Variances	**131**	**46%**	**38%**
Total Co-ops Represented	**82**	**16%**	**14%**
Total Variances	**283**	**100%**	**100%**
Total Co-ops with Variances	**155**	**30%**	**29%**

* for variances, percentage of total variances; for co-operatives, percentage of co-ops in the dataset

N.B.: Certain 2007 variances have been reclassified to conform to the classification system used in 2008.

4. Variances fall into three sub-categories: failure to contribute to the reserve at the required rate; failure to back the reserve fully with cash or investments; and failure to allocate fund investment earnings to the fund.

5. failure to back the reserve fully with cash or investments and/or failure to allocate fund investment earnings to the fund

Risk Profile

Composite Risk Rating

Each year, the Agency performs a comprehensive risk assessment of every co-operative in our portfolio, assigning a composite risk rating that reflects our evaluation of its current health and future prospects, based on separate assessments of its financial strength, current financial performance and physical condition, all viewed in the context of the market environment, and other risk factors, such as the sufficiency of the co-op's capital replacement reserve. Although strongly informed by the results of standardized tests performed for each co-op, the rating is ultimately judgement based. As appropriate, we will adjust it over the course of the year in response to external developments or to actions the co-op takes. Possible risk ratings of Low, Moderate, Above Average and High are defined in Appendix C: Definitions of Composite Risk Ratings.

As the chart below shows, the distribution of composite risk ratings as at January 15, 2009 was little changed from a year earlier.

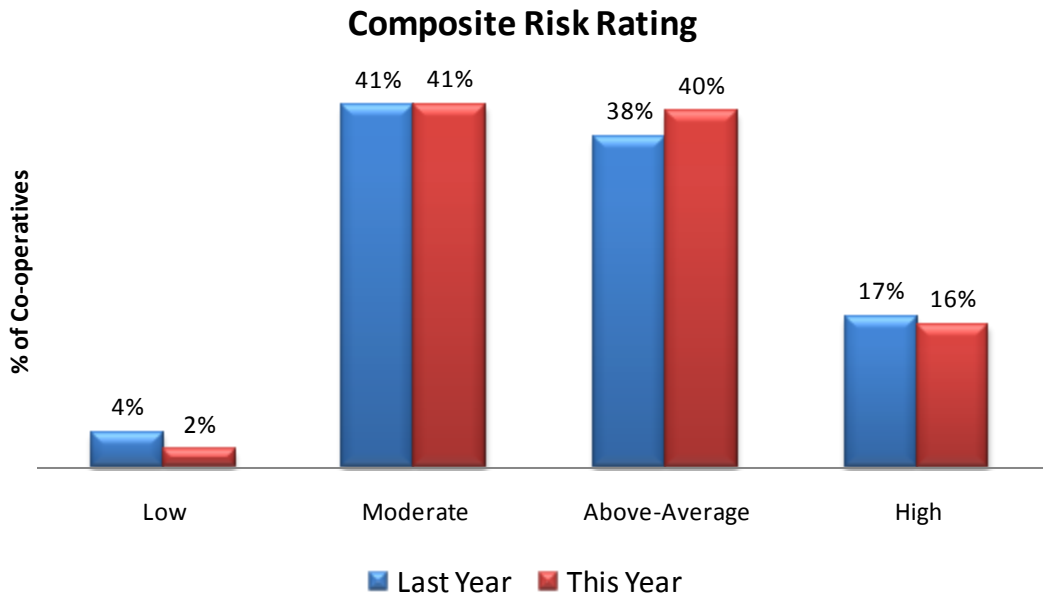

Figure 2

Financial Indicators: Liquidity and Net Income

From the financial data gathered through the Annual Information Return, the Agency calculates a liquidity ratio for each client. A balance-sheet test, the ratio reveals the co-op's financial strength, reflected in its ability to meet its non-negotiable financial obligations. Seventy-eight per cent of co-operatives in the portfolio earned a rating of Excellent or Good in 2008 and seven fewer co-ops had Poor liquidity then in 2007 (1% of the dataset).

The net-income ratio is an income-statement test that examines whether in the year reported a co-operative earned sufficient income to meet all of its operating and debt-service costs and

contribute appropriately to its capital replacement reserve. In 2008 70 per cent of co-operatives in the portfolio were rated Excellent or Good. Although these results were little changed from those of 2007, seven co-operatives previously rated Poor saw their score improve.

Physical Condition Ratings

The physical-condition rating is the product of a visual inspection of a co-operative's property carried out every second year. We made significant changes to our rating process in 2008, resulting, we believe, in more accurate assessments, but making it difficult to compare the current condition of the portfolio with its state a year earlier.

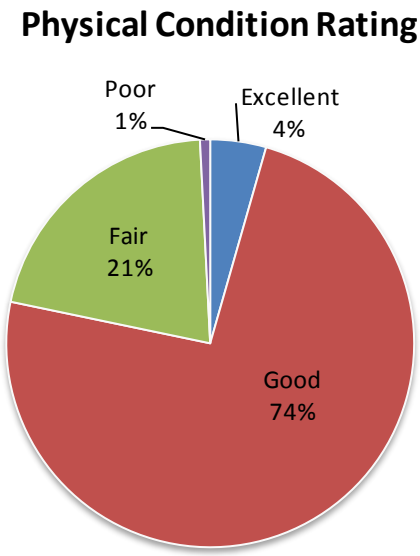

Figure 3

Further Risk Indicators

As in the past, the three leading indicators discussed above do not fully explain a composite risk rating. Of equal importance are the further risks identified below. Once we have received and validated a co-operative's Annual Information Return, we test for these additional risks, which are, of themselves, sufficient to increase a co-op's risk level to Above Average or High, despite satisfactory liquidity, net-income and physical-condition ratings. The elevated risk rating stays in place until the situation has been reviewed and the concern resolved. Any of the following risks, identified at any time, results in a composite rating of High:

- scheduled mortgage payments overdue;
- property taxes in arrears;
- absence of guaranteed full replacement-cost insurance against fire and other perils;
- adverse audit opinion or denial of opinion;
- major fire, material incident of fraud or other loss of insurable assets reported, where the loss is not substantially recoverable from the proceeds of insurance or indicates a failure of internal controls.

If any of the following risks, but no indicators of High risk, are present, the Agency rates the co-op in question at Above-Average risk:

- material contingent liability or future commitment reported on financial statement, other than land-lease payments;
- one or more directors more than $100 behind with their housing charges at year end;
- quorum of board of directors not in office;
- qualified audit opinion reflecting a scope limitation;
- auditor's management letter reports significant deficiencies in internal controls;
- failure of any major building component;
- some or all of the following insurance coverage not in place, or policy limit below required level:
  - loss of rents coverage (limit = > 12 months' gross housing charge potential);
  - public liability coverage (limit = > $2 million);
  - fidelity bonding in the amount of at least the lesser of $1,000 per unit or $100,000 total or, if the co-op uses the services of a bonded property-management firm, $25,000;
- filings with the Agency more than three months overdue.

Improvements in the key indicators manifest themselves slowly, but several of the further risk indicators can be addressed in short order. We are pleased to note particularly encouraging changes in two risk tests: under-insurance and directors in arrears.

Insurance

Early on, the Agency determined the levels and types of insurance that we believed all housing co-operatives should have, viewing lack of adequate coverage as putting at risk their operations and even their survival. The table on the next page shows the extent to which co-operatives within the 2008 dataset met these standards at the time of their AIR filing, compared with the previous year. Well aware that we cannot compel change, our relationship managers continue to work with their clients as necessary to have insurance coverage increased, with notable success.

Directors in Arrears

The incidence of directors in arrears at the end of the co-operative's fiscal year fell seven per cent from 2007 to 2008. We discuss this risk factor further in this chapter under Arrears and Bad Debts.

Operating Performance

Vacancy Losses

Vacancy losses can pose a significant risk to housing co-operatives. Lost revenue must be recouped through higher housing charges or borrowed through an unofficial internal loan: under-investment in the physical plant or under-contribution to the capital replacement reserve.

Table 2: Insurance Coverage

Coverage	Proportion of Co-ops Insured to Recommended Limit	
	2008	2007
Guaranteed-replacement-cost insurance against fire and other perils	98%	98%
Loss of housing charges coverage	83%	76%
Public liability insurance	92%	89%
Fidelity bonding	81%	78%
Directors' and officers' liability insurance	95%	93%

The chart below shows the dollar cost of vacancy losses reported by co-operatives in the dataset, measured per unit per year. More than one quarter reported no losses at all in 2008 and the median vacancy cost was a very low $33 per unit per year. In addition, the 75th percentile per-unit cost dropped from $130 per unit per year in 2007 to $120. Against this progress, 15 per cent of co-ops in the dataset incurred annual losses of $250 per unit or more, with seven per cent reporting losses of at least $500 per unit. We did see some improvement at the extreme high end, with the maximum loss per unit dropping from $3,575 in 2007 to $2,774 in 2008.

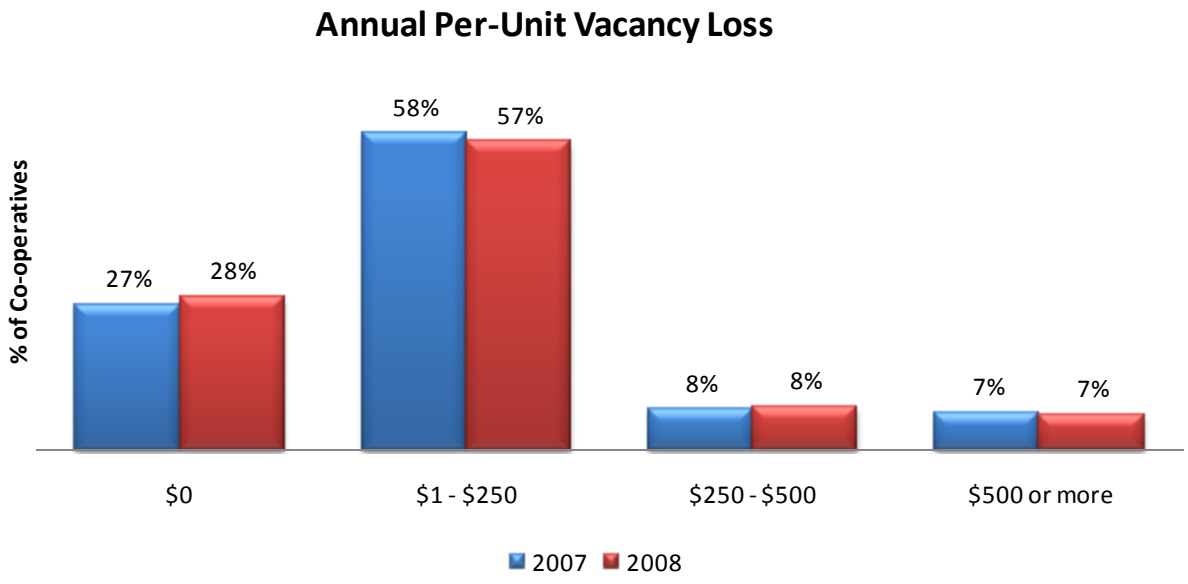

Figure 4

Turning to vacancy loss as a percentage of gross housing charge potential, 71 per cent of the dataset lost less than one per cent in 2008, and 28 per cent had no vacancy losses at all. But this

fine performance was counterbalanced by the tenth of the portfolio with losses of at least four per cent. At 0.4 per cent, the median loss was unchanged from 2007.

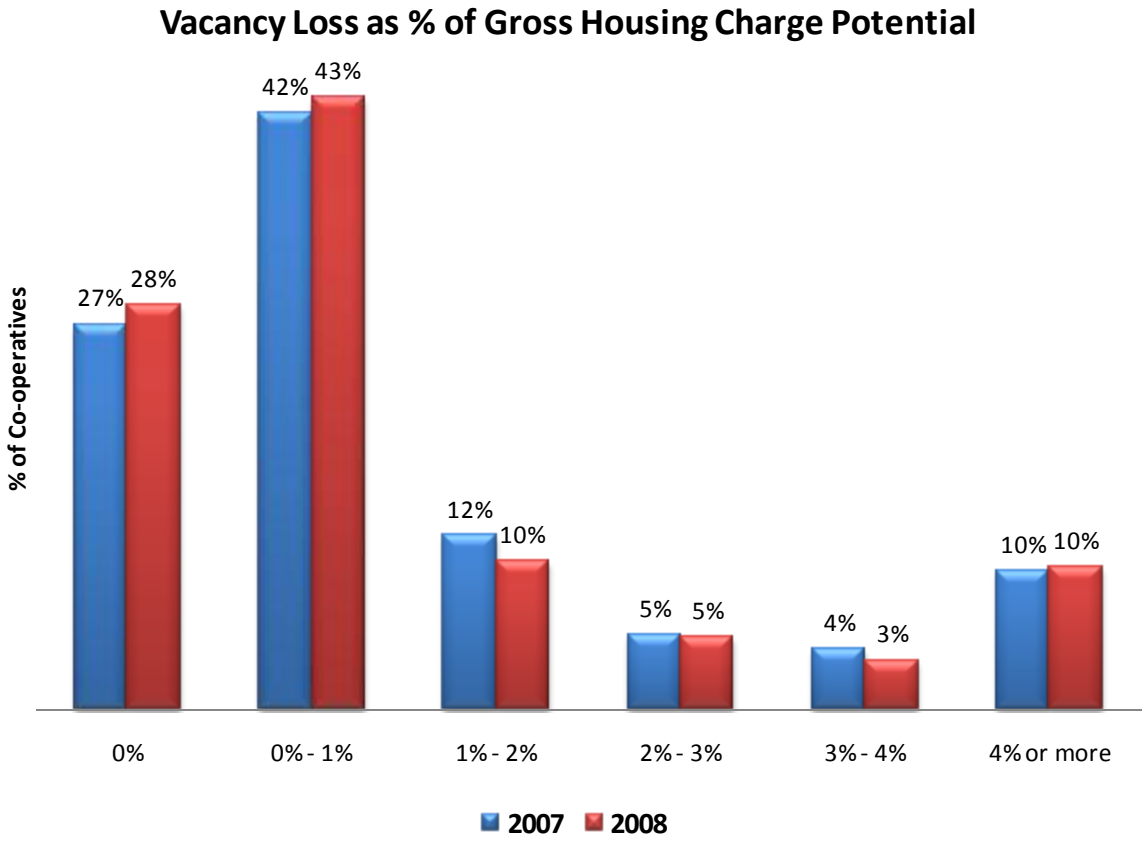

Figure 5

While it is important to look at their absolute results, as identified above, it may be more revealing to examine how co-operatives perform in relation to their local rental market. Figure 6 on the next page shows that in 2008 most co-operatives did as well as or better than the market in low-, moderate- and high-vacancy rental markets alike[6]. These results are further explored in Chapter 4: Regional Perspective.

Arrears and Bad Debts

As in 2007, we studied arrears and bad-debt expenses together in assessing co-operatives' operating performance. The former captures monies owed from past and present occupants at the end of the fiscal year reported and not previously written off, net of any allowance recorded for bad debts. The latter represents the increase in the allowance for doubtful accounts or, if the co-op has not established an allowance, amounts written off that year as uncollectable. Measuring arrears and bad-debt expense together standardizes the data for different accounting practices. The sum of the two is treated in this report as a ratio of the total occupants' share of

6. We define a low-vacancy market as one with an average vacancy rate of below two per cent, a moderate-vacancy market as one with a rate of between two and three per cent and a high-vacancy market as one with a rate of three per cent or higher.

annual housing charges. This normalizes the data for differing vacancy rates and levels of income-based subsidies (e.g., income-tested assistance and rent supplements), allowing for truer comparisons.

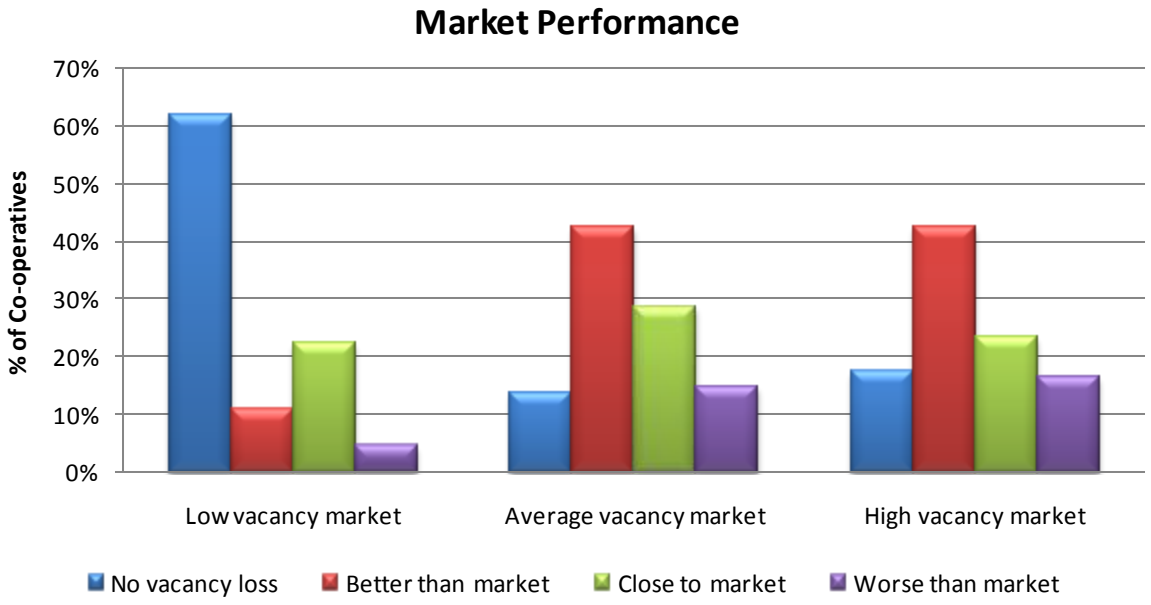

Figure 6

As the chart below shows, just over a majority of co-ops in the dataset (56%) had either a net bad-debt recovery or combined arrears and bad debts of less than one per cent of the residents' share of annual housing charges. Less happily, about one-quarter had arrears of two per cent or

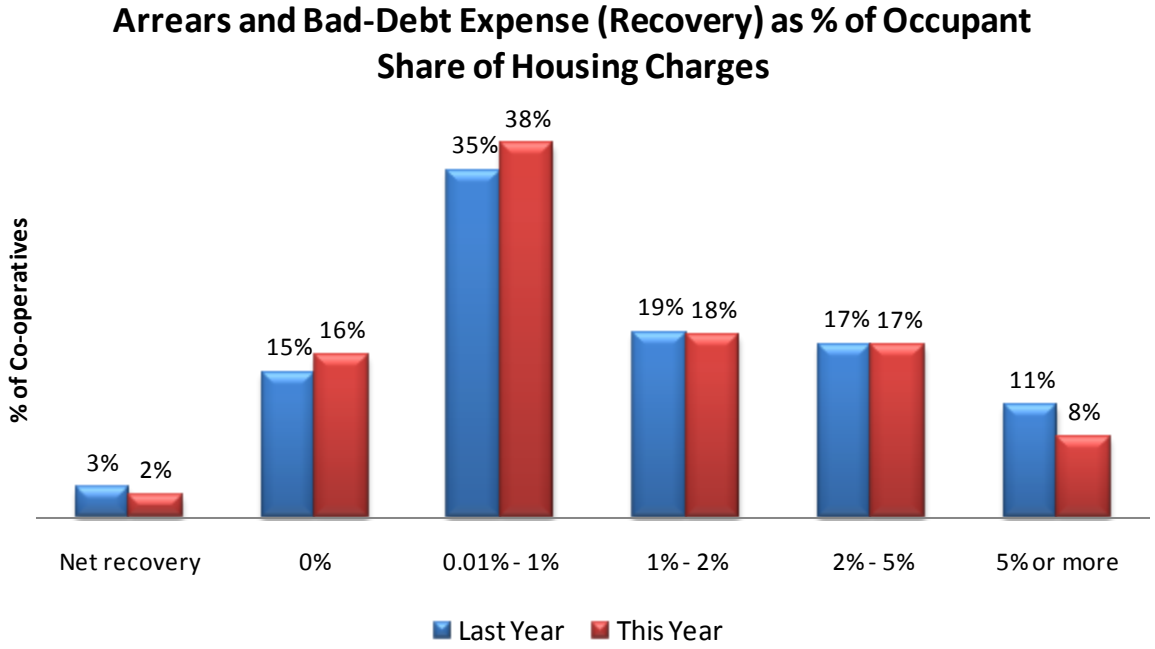

Figure 7

more, with eight per cent reporting combined arrears and bad debts of higher than five per cent. These results are an improvement over 2007, when 28 per cent of co-ops reported rates of two per cent or higher. We note that the median rate of arrears and bad debts for the portfolio of 0.8 per cent was a slight improvement over 2007 (0.9%).

When we looked at arrears and bad debts in terms of dollars, rather than percentages, the change was unmistakeable. While the per-unit maximum was still disturbingly high, it was down from 2007, as were the median and 75th percentile rates.

Table 3: Per-Unit Combined Arrears and Bad-Debt Expense (Recovery)

Year	Median	75th Percentile	Maximum
2008	$61	$149	$2,081
2007	$69	$183	$2,398

Because arrears and bad debts can so quickly drain away a co-op's revenue, the Agency considers this a key marker of not only the co-op's operating performance but also of the quality of its management—one worthy of scrutiny from many angles. Looking at the 2008 data, we made the following observations, some of which surprised us.

Intriguingly, more apartment-style co-operatives had very low or no arrears: 61 per cent of apartment co-ops, 56 per cent of mixed-unit co-ops and 51 per cent of townhouse co-ops had arrears rates of either zero or less than one per cent. In contrast, a disportionate share of town-house co-ops had arrears of more than five per cent: 29 per cent of such co-ops had arrears in this range, compared with 16 per cent of apartment co-ops and 21 per cent of mixed-unit developments.

We also saw a relationship between arrears and rental markets of varying strength (low-vacancy, moderate-vacancy and high-vacancy). Here we will note only that co-operatives tended to have higher arrears in high-vacancy markets than where markets were tight. We can see several possible explanations for this: co-ops in soft markets may fall to the temptation of accepting members with poorer credit ratings; residents in these markets may value their housing less and so make less effort to remain in good standing; boards and staff may hope that giving residents more time to pay may avert a vacancy; and, pre-occupied with responding to high turnover and the attendant need to fill vacancies, the co-op's management may not be devoting sufficient time to collection activities.

Table 4: Median Arrears and Bad Debts by Market Type

Market Type	Low-Vacancy	Moderate-Vacancy	High-Vacancy
Per-Unit Median	$30	$74	$107

Directors in Arrears

From the first, our Annual Information Return has asked for the number of board members in arrears, if any, and the combined amount they owe. The Agency is gradually bringing about a change in the attitude of housing co-operatives toward directors in debt. In the past, too many housing co-operatives did not consider director arrears troubling, provided the board member had signed and was adhering to a repayment agreement. We are now beginning to see a new understanding that, apart from the potential for conflicts of interest, such directors lack moral authority in dealing with member arrears, even if their own arrears are not public knowledge within the co-operative.

In 2007, 24 per cent of the dataset (117 co-ops) reported having one or more directors in arrears for an average amount exceeding $100 as of the co-op's fiscal year end. Reported arrears ranged from $109 owed by a single board member to as much as $5,743 per director, with a median amount due per director of $552. The median overall arrears and bad-debt expense ratio for these co-ops was 1.5 per cent, 93 per cent higher than the portfolio-wide median.

Twenty-two per cent of the 2008 dataset (108 co-ops) had at least one director who was behind with their housing charges, with amounts owing ranging from $143 to $14,773 for a single director. (The extremely high arrears—atypical even among this group—occurred in a very troubled co-operative long in difficulty. The Agency has since arranged for an outside board that has already begun to improve the quality of management.) The median per-director amount owing was again $552. Underscoring the importance of maintaining the right "tone at the top," these co-ops reported a median arrears and bad-debt ratio of two per cent, 119 per cent higher than the median for the full portfolio.

Investment in Physical Plant

Members' pride in their housing co-operative is often apparent in the property's curb appeal and attractiveness to prospective residents. On the other hand, a co-op's neglect of its property through poor upkeep, deferred maintenance or failure to replace worn-out capital components suggests that either it is in financial difficulty or that it may be headed there. Co-operatives can neglect their buildings when the rental market is strong, because a below-market charge in that environment has appeal, even when the product does not. However, as the market softens, these co-ops cannot easily adopt higher standards, especially if lower housing charges have resulted in under-contributions to their capital replacement reserves.

When co-ops in weak markets allow any lapses in their attention to their property, they quickly pay the cost in vacancies and less committed members. Unfortunately, the immediate response to a problem market and higher vacancies is often to keep housing charges low by cutting back on maintenance and capital replacements, compounding the problem.

Figure 7 looks at spending on maintenance and capital repairs and replacements in 2008 and in 2007. We have combined these two forms of investment in the physical plant, as we did in our 2007 report, for the sake of gaining a clearer picture of the attention co-operatives pay to their chief asset. We were pleased to see that in 2008 the percentage of Agency clients spending at the lowest level—under $1,000 per unit per year—fell, while the share spending at higher levels—$3,000 or more—grew.

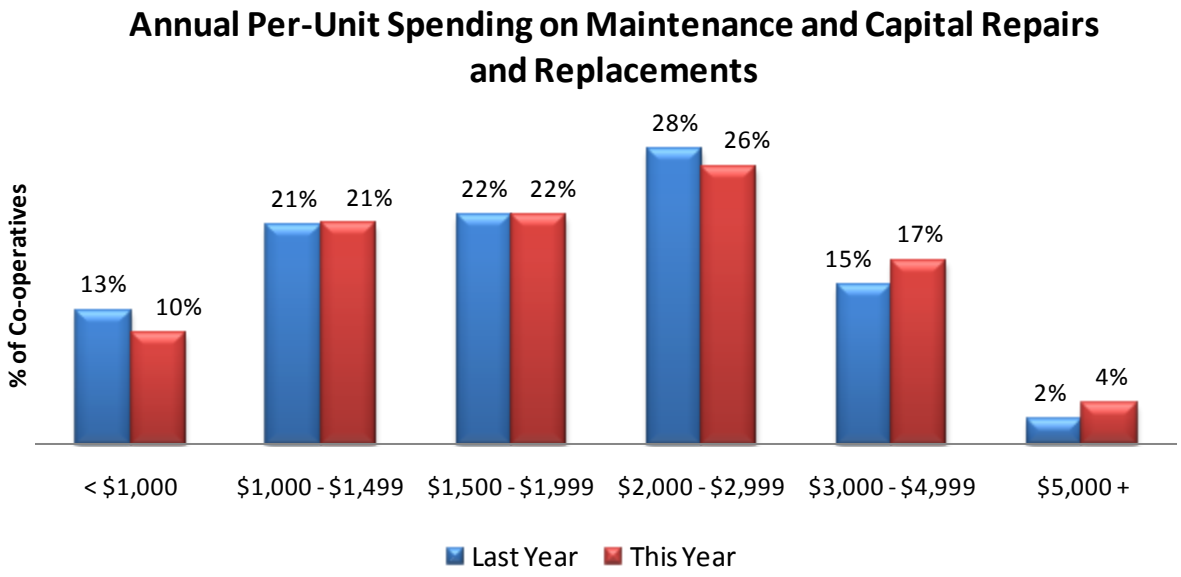

Figure 8

Figure 9 examines maintenance and capital spending as a percentage of the insured replacement value of the co-operative's buildings and equipment. We chose this measure because it helps normalize the data for different repair and construction costs, allowing us to compare results from year to year, across the country and among various building types. The median ratio for 2008 was 1.5 per cent, slightly lower than in 2007 (1.6%). As spending was up, we attribute the decline in this ratio to increased insured replacement values.

Capital Replacement Reserves

At the end of 2008 the median age of a housing co-operative in the Agency's portfolio was a quarter of a century[7]. The average age of the buildings they own is unknown, but is undoubtedly higher, as many co-ops acquired much older buildings and rehabilitated them when they started up. Regardless of their precise age, substantial investments will be required from now on to replace worn-out elements. As we noted in our 2007 report, the chief method used in the co-operative housing programs for funding capital work is to draw from a capital replacement reserve accumulated through annual charges to operations and, in some cases, transfers of any operating surplus earned in the year. Borrowing to fund repairs is much less common, probably because such a loan is arranged only with some difficulty. All the operating agreements prohibit housing co-operatives from registering a second charge against their real property without CMHC's permission; second mortgages normally attract a higher rate of interest than first mortgages, especially if uninsured; and many co-ops lack sufficient equity in their property to secure a second loan, the capacity to repay a new loan from their rental income, or both. To date, CMHC has been unable to support the typical technique used in the private sector to pay for major property work: taking out a new, larger loan with a suitably long amortization period and using the proceeds to fund needed repairs, after paying out the balance due on the existing loan.

7. calculated from the interest adjustment date on the co-operative's first mortgage loan

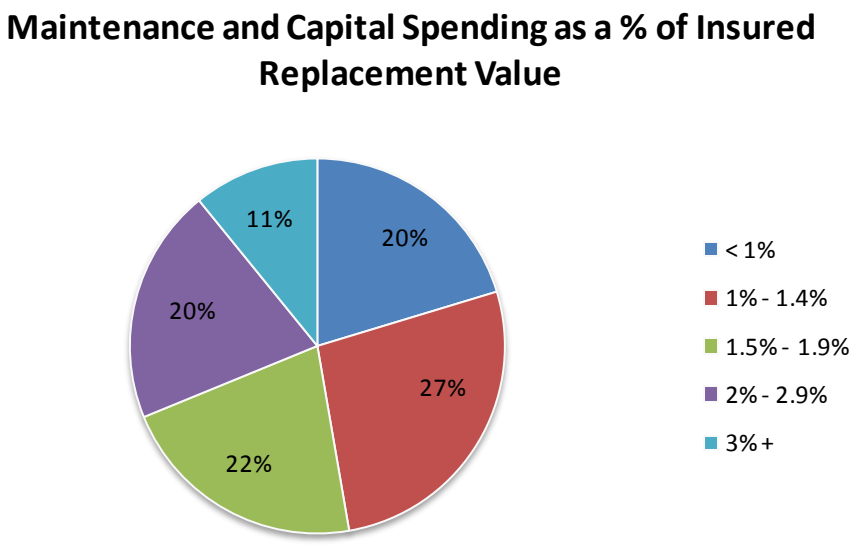

Figure 9

Figure 10 on the next page compares the 2008 and 2007 distributions of co-operatives' capital reserve balances. The median balance in 2008 was $3,133, up 3.5 per cent from $3,028 a year earlier. Given the age of the portfolio, this amount is far from adequate, although moving in the right direction.

We draw more encouragement from looking at contributions to the capital reserve—a statistic that speaks to the short term, rather than to stewardship of the property over time—where we see a considerable improvement over 2007. The median annual contribution per unit, including supplementary contributions from surplus, rose 18 per cent in 2008, from $954 to $1,123.

As we noted in last year's report, determining how much a particular housing co-operative should put aside in its capital replacement reserve each year is not an exact science, but a complex judgement involving many factors including the co-op's age, current and past maintenance practices, whether the remaining useful life of a specific building component will end before the mortgage is fully repaid, the probable cost of its replacement, and the likely rate of return on reserve funds over time, given the economy and the program guidelines for investment. Even with a detailed capital reserve study in hand, any answer to these questions must depend on so many assumptions as to be speculative. Nevertheless, given the alternative—a shot in the dark—the Agency strongly encourages its client co-operatives to undertake reserve studies and in 2008 we approved 28 new or updated plans.

A measure the Agency has devised to improve our understanding of the adequacy of capital replacement reserves—the replenishment ratio—looks at net cash flows in and out of the reserve. The ratio sets two years of contributions to the fund (including supplementary contributions from surplus) against two years of fund expenditures. While the average replenishment ratio was 1.7, the median rate was only 1.1. At the 25th percentile, the ratio was 0.7, while at the 75th percentile it more than doubled to 1.7.

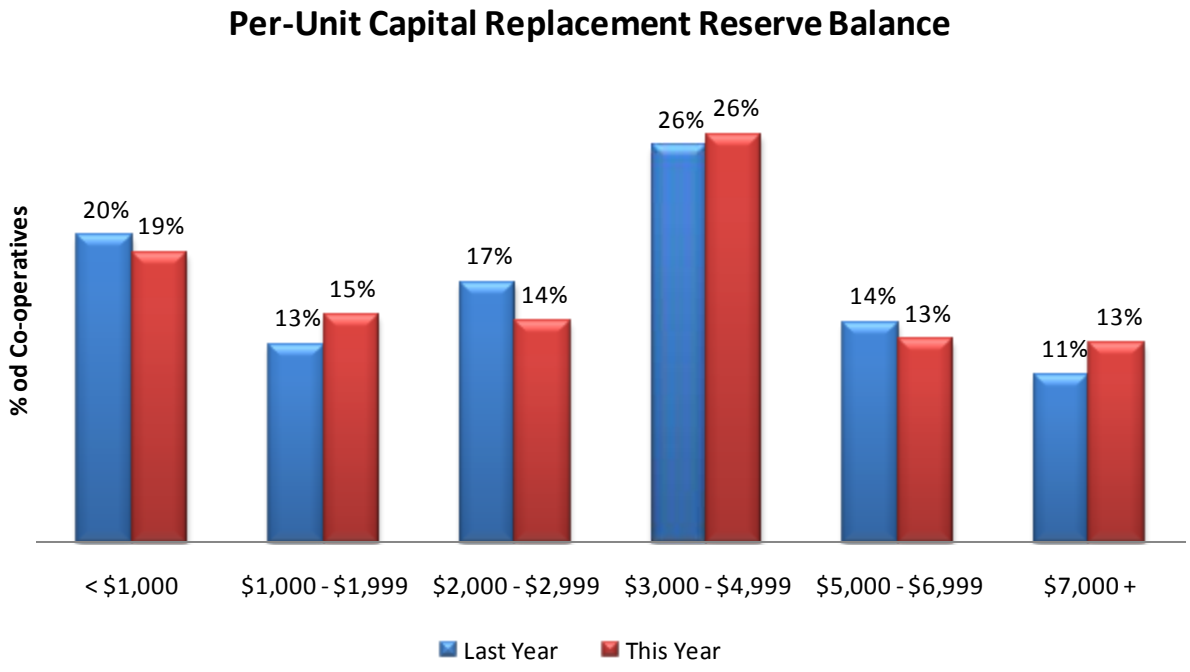

Figure 10

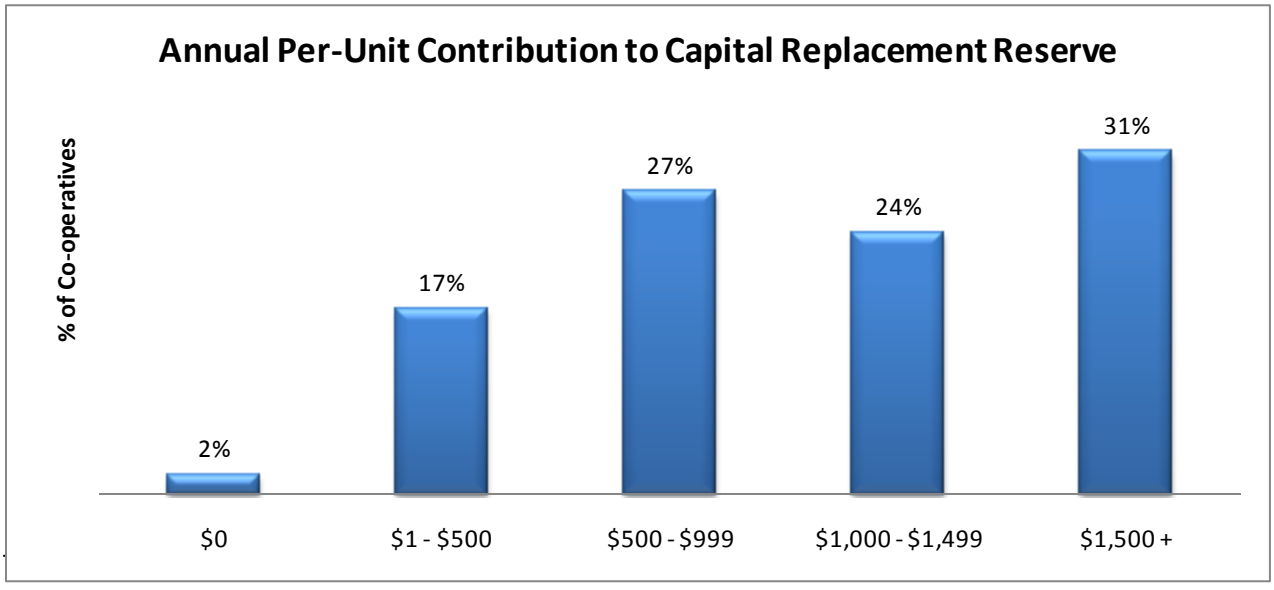

Figure 11

On the face of it, a low replenishment ratio is a sign of potential trouble, while a high ratio would suggest that a co-operative is being prudent in saving now to meet future costs. Closer examination may show that where a replenishment ratio falls below 1.0 it is because capital expenditures are high: this was the case for 38 per cent of the co-ops in our dataset that had replenishment ratios below 1.0. Conversely, a high replenishment ratio may indicate that a co-op

is postponing needed work: we found low capital spending rates among 30 per cent of clients with ratios above 1.0. A final observation about the dataset was that 175 co-ops (37%) made two-year contributions to their reserve fund that were less than the amount they spent on capital repairs and replacements in the same period. But for the widespread practice among S95 co-ops of transferring operating surpluses to their capital replacement reserve, this percentage would have been 64, strong evidence that the Net Operating Revenue Policy is having positive effects.

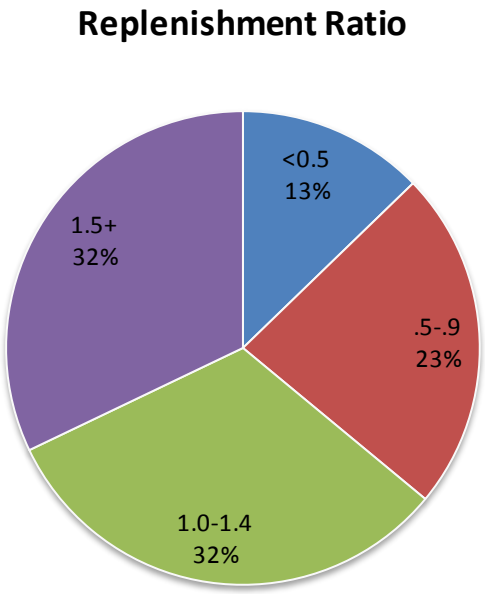

Figure 12

Administration Costs

Figure 13 shows administrative spending as a percentage of revenue in 2008 compared to 2007. Despite the small changes in the distribution of spending rates the chart reveals, the 2008 median level was virtually unchanged from 2007 (6.2 per cent and 6.0 per cent respectively).

Figure 14 shows administrative spending on a dollars-per-unit basis. Here the median for the dataset rose slightly from 2007, to $590 a year from $575. As we noted last year, a significant number of Agency clients have relatively high administrative expenses, a finding to which we will give more attention in the later chapter on strong performers.

Is administration more costly in larger co-operatives or do they benefit from economies of scale? As illustrated in figure 15, which shows the association between administration and co-op size, larger co-ops generally spend more per unit to administer their affairs, a finding we had not expected to see.

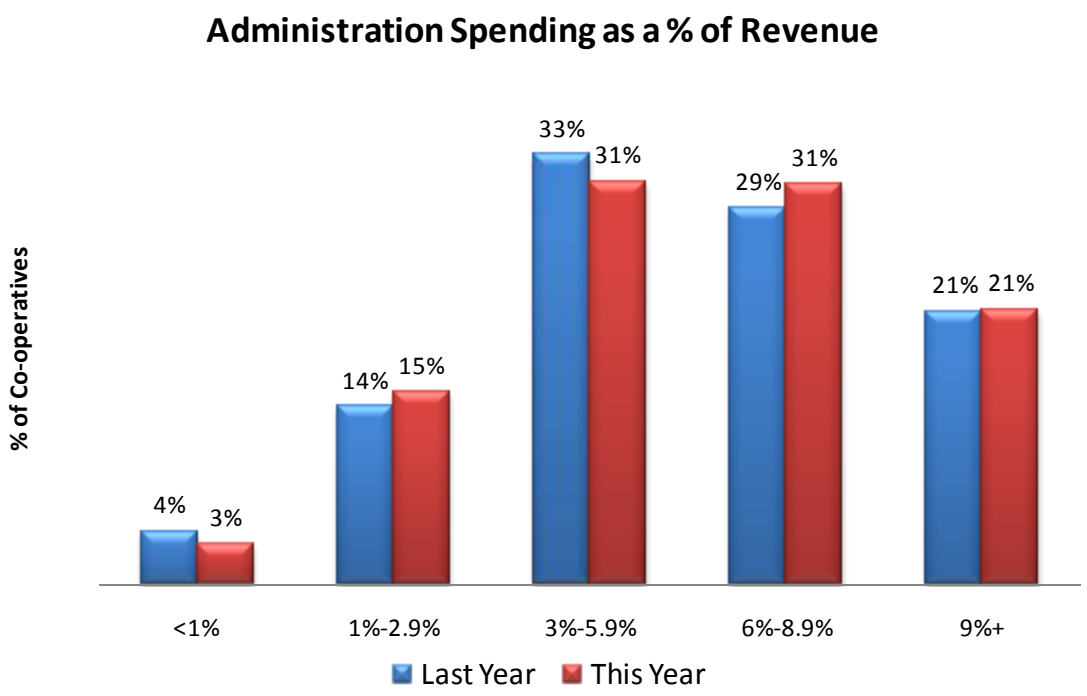

Figure 13

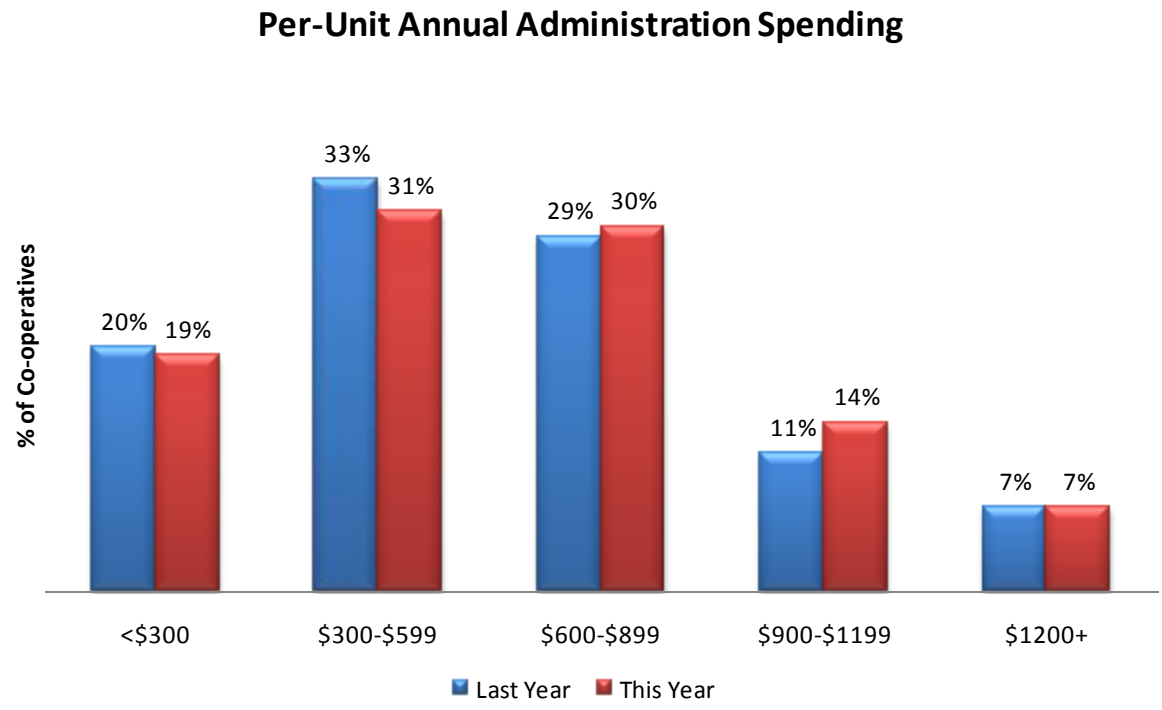

Figure 14

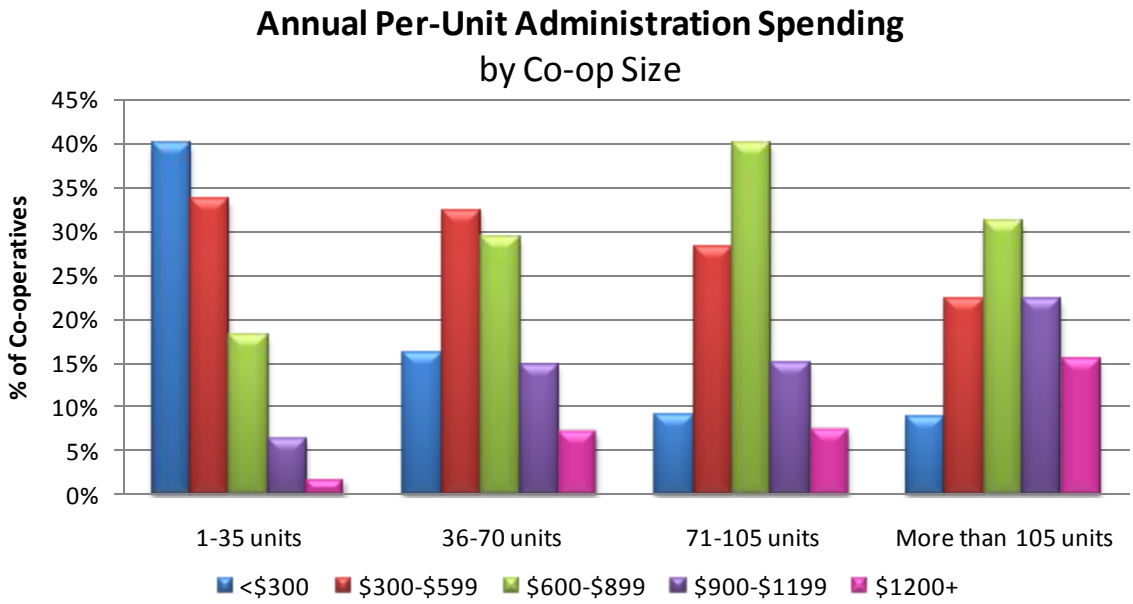
Annual Per-Unit Administration Spending
by Co-op Size
% of Co-operatives
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1-35 units
36-70 units
71-105 units
More than 105 units
<$300
$300-$599
$600-$899
$900-$1199
$1200+

Figure 15

Chapter 3: Program Perspective

Facts and Figures

By far the largest proportion of Agency clients—61 per cent of both the portfolio and the dataset—operates today under the S95 Co-operative Housing Program, delivered between 1979 and 1985. (It should be noted that some of these co-operatives—a small minority— were developed under earlier programs and later converted to the S95 Program.) At 25 per cent, the Federal Co-operative Housing (ILM) Program, in effect from 1986 to 1991, is the second largest the Agency administers. Ten per cent of co-operatives in the dataset operate under the oldest program—the S61 program—which ran from 1973 to 1978. Three per cent have operations under more than one of these programs and the remainder were funded through one of the deep-subsidy programs (Pre-86 and Post-85 Urban Native Programs or Post-85 PEI Non-profit Program). We omit the latter group from most of the analyses presented in this chapter: because the sample is so small and the economic model of these programs fundamentally different—all residents pay a charge geared to their income with the full difference between their payments and the sum of eligible project expenses covered by federal assistance—comparisons with the other programs would not be meaningful.

FACTS & FIGURES BY PROGRAM

S61	49	10%
S95	301	61%
FCHP (ILM)	123	25%
UN/PEI NP	5	1%
Multiple	15	3%

N.B.: A series of rounded percentages may not add up to 100% in every instance.

Although median co-op size does not vary significantly by program, there is a notable difference in the distribution of co-ops by size. Among ILM co-ops, 59 per cent are what we have called "medium-small" (36-70 units). This compares to 33 per cent of S61 co-ops and 42 per cent of S95 co-ops. Only 21 per cent of co-ops developed under the ILM program have more than 70 units, in contrast to 39 per cent of S61 and 37 per cent of S95 co-ops.

It is difficult to say what bearing size has generally on the success of co-operatives developed under a particular program; however, we will return to the topic in the section below on administrative costs, where the influence is significant.

Risk Profile by Program

Composite Risk Rating

In the previous chapter we discussed the elements of the Agency's risk-rating system. Here we will look at the respective risk profiles of each of the three main co-operative housing programs. An almost equal percentage of S95 and ILM Program co-ops carried a composite risk rating of Low at the end of 2008 (2.3% and 2.4% respectively), but here the likeness ended. The S95 and S61 Programs had a similar percentage of co-ops rated Moderate risk (low 40%'s). Fifty-seven per cent of S61 and 53.5 per cent of S95 co-ops carried a rating of either Above Average or High. By contrast, 65 per cent of ILM-program co-ops had an unfavourable rating with a startling 31per cent of ILM co-ops considered at High risk, compared to eight per cent of S61 and just below 11 per cent of S95 co-operatives. Multi-program co-operatives have not fared especially well, perhaps due to the complexity inherent in managing multiple properties and more than one set of program requirements.

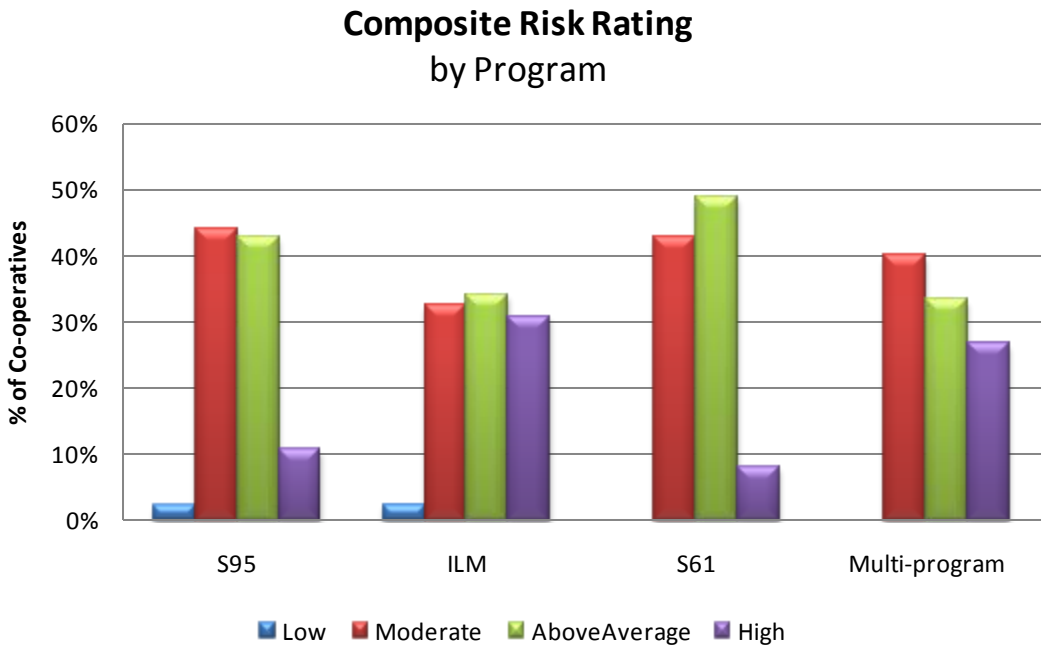

Figure 16

The different features of each program do something to explain these risk ratings. The S61 Program provided a capital grant to cover 10 per cent of the project cost and a 50-year equal-payment mortgage from CMHC for the balance. In the initial years of the program, inflation rates were very high and, over time, these co-ops' debt-service costs declined markedly in constant dollars, resulting in comparatively inexpensive housing charges. On the other hand, those facing a need for new capital financing have had the severe disadvantage of being locked into mortgages that have carried above-market rates through much of their existence.

The S95 Program got its start at a time when inflation was the dominant economic concern. In place of capital grants, which were insensitive to a capacity to generate revenue that grew with inflation, CMHC moved to a system of operating grants. A special feature of the program tied the availability of federal support for low-income households to the interest rate on the co-op's mortgage loan. Starting within a few years of the end of the program-delivery period, declining interest rates at each roll-over of the five-year mortgage resulted in less money for income-tested assistance, even after taking into account the benefit of lower mortgage payments. Section 95 co-operatives developed three different approaches to forestalling economic eviction for households of modest income. A great many voluntarily raised their housing charge-to-income ratio to 30 per cent or more from the program minimum of 25 per cent. A majority also allowed the number of assisted households to decline through attrition, while about one quarter, extrapolating from today's rate, began to contribute significantly from their own revenues to the pool of funds available to support low-income households. In the mistaken belief that raising their housing charges would worsen the shortage of income-tested assistance, many co-ops adopted a fourth strategy: annual increases that kept housing charges unsustainably low. We suggest that the prevalence of this practice has much to do with the proportion of S95 co-operatives at High or Above-Average risk in 2008.

We discussed the experience of the Federal Co-operative Housing (ILM) Program in some detail in our 2007 report. To the principal observation made then—that the relatively ungenerous method of setting initial operating subsidies and adjusting them over time, combined with a new approach to program delivery and a severe economic recession early in the life of the program, had stunted the economic prospects of a substantial number of ILM co-ops—we would only add that the current recession and continuing weakness of eastern rental markets offer little hope of early improvement in the program's risk profile. One region stands out as the exception: though it seems now to have come to an end, the strong growth in market rents in Alberta in recent years gave significant breathing room to many ILM co-ops. This will stand them in good stead as they seek to catch up with overdue repair needs.

Liquidity Indicator

Consistent with the programs' better overall risk profiles, S61- and S95-program co-operatives continued to have the better liquidity ratios in 2008, with 82 per cent of the former and just under two-thirds of the latter having scores of Excellent. Not surprisingly, given their history of difficulty, ILM co-ops were least likely to have an Excellent liquidity rating (46%) and more were rated Poor (29%). By contrast, only four per cent of S61co-ops and eight per cent of S95 co-ops had a Poor liquidity rating. Multi-program clients reflected the additional challenges and costs associated with managing multiple properties under more than one program: two-fifths of these co-operatives had a negative rating of either Fair or Poor.

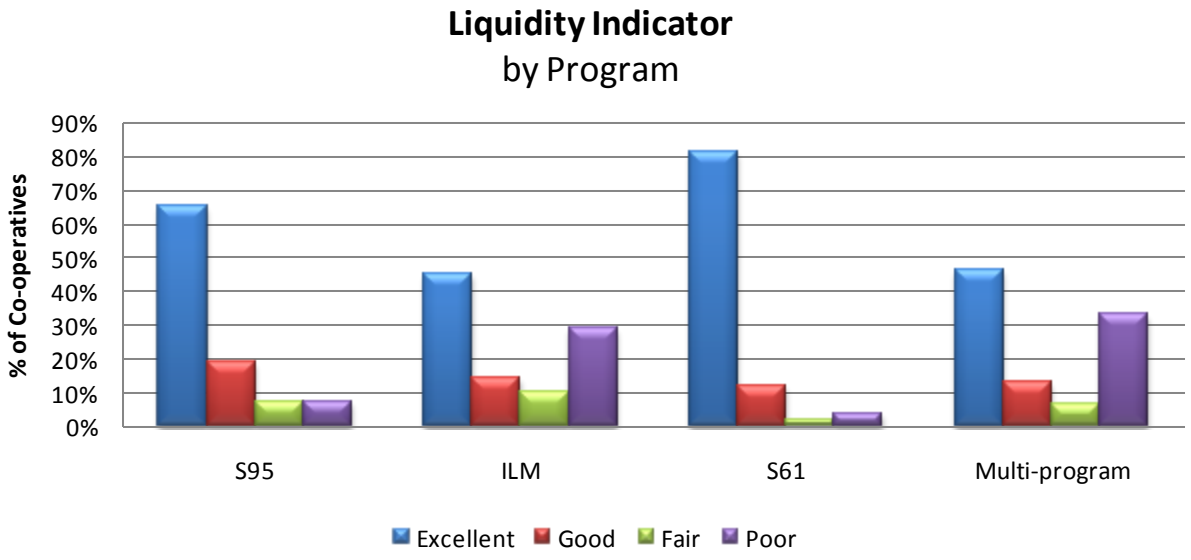

Figure 17

Net Income Indicator

Net-income indicator ratings reinforce our sense that many ILM-program co-operatives are not putting their difficulties behind them. Fewer than one-third of co-ops operating under this program earned a net-income rating of Excellent in 2008, and nearly twice as high a percentage had a net income rated Poor as in the two older programs. Multi-program co-ops did somewhat

better, with over half scoring Excellent, although 27 per cent had an unsatisfactory rating. In a change from 2007, the oldest co-operatives and those in the S95 Program reported almost the same proportion of positive ratings (75%; 74%).

Physical Condition Rating

We saw little to distinguish the separate programs when we looked at co-ops with Good or Fair property scores. By contrast, differences by program among the Excellent and Poor scores were notable. None of the ILM co-ops had Poor property scores, unlike the results we saw in 2007, and only two per cent of S61 co-ops had an Excellent property score, compared to five per cent of S95 and six per cent of ILM co-operatives. Again the results of co-ops with operations under more than one program were closest to those of the ILM co-ops, but on this occasion were not as good, as not one was rated Excellent.

Operating Performance by Program

Vacancy Losses

Vacancy-loss patterns were mostly consistent between 2007 and 2008, with co-operatives under older programs, as a group, having lower losses than those under more recent programs. Of the S61 co-operatives in our portfolio, 37 per cent reported no vacancy loss in their 2008 fiscal year. This compares to 27 per cent of S95 and 31 per cent of ILM-program co-operatives. At the troubled end of the scale, only eight per cent of S61 co-ops had losses above two per cent, compared to 16 per cent of S95 and 29 per cent of ILM-program co-operatives. The median annual loss per unit for each program appears below:

Table 5: Median Per-Unit Annual Vacancy Losses

S61	S95	FCHP (ILM)
$19	$31	$51

As the two charts on the next page show, S61 co-operatives were clearly faring best, possibly because of lower housing charges. The median 2008 vacancy loss for this group was 0.2 per cent of gross housing charge potential, compared with 0.3 per cent for S95 Program co-ops and 0.5 per cent for co-ops operating under the ILM Program—results similar to those of 2007, although modestly improved for ILM Program co-operatives.

In 2008 a majority of S61 co-ops (57%) were located in markets with prevailing rental vacancy rates of at least two per cent and under three per cent. The remaining S61 co-ops were divided rather evenly between markets where vacancies were below one per cent (22%), and markets with vacancy rates at or above three per cent (20%). Only two per cent of S61 co-operatives performed worse than the market in which they were based. The distribution of S95 co-operatives was perhaps more advantageous, with 37 per cent in low-vacancy markets, 40 per cent in moderate-vacancy markets and 23 per cent in high-vacancy markets. Eleven per cent of S95 co-operatives performed worse than market.

The majority of ILM co-ops were located in either low- or high-vacancy markets—43 per cent in low, 32 per cent in high—while only 25 per cent were in moderate-vacancy markets. Fifteen per cent of ILMs performed worse than market.

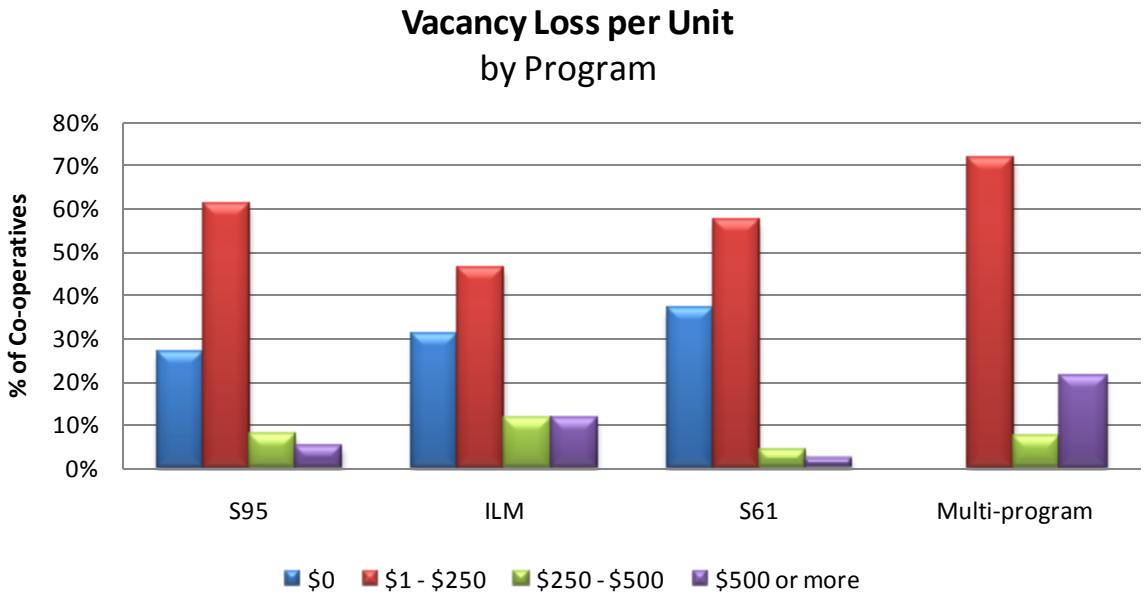

Figure 18

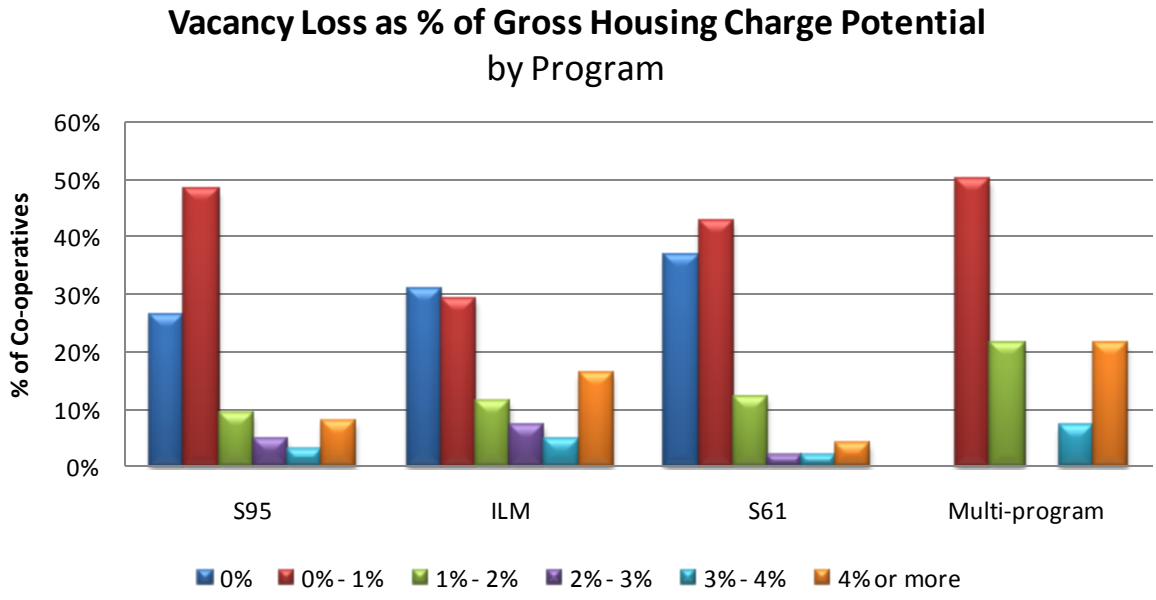

Figure 19

Arrears and Bad Debts

The poorer performance of the ILM Program in the area of arrears and bad debts continued in 2008. While the median combined arrears and bad-debt expense ratio reported for this program in was 1.2 per cent of total annual housing charges payable by occupants, medians for S95 and S61 co-ops were markedly lower, at 0.6 and 0.7 per cent, respectively. In 2007 we speculated as to the reasons for what seemed a poor result. Additional analysis we undertook this year led us to other conclusions. We now know, and will later explain, that ILM and S95-Program co-operatives spend on administration in a similar fashion. Instead, the answer seems to lie in the higher housing charges of ILM co-ops and the fact that a larger percentage is located in high-vacancy markets. Although we do not argue for a causal connection, that there is a correlation between a co-op's market position and its arrears is indisputable; the explanation may be that managers in weak markets must devote time to filling units that could otherwise be spent in managing collections.

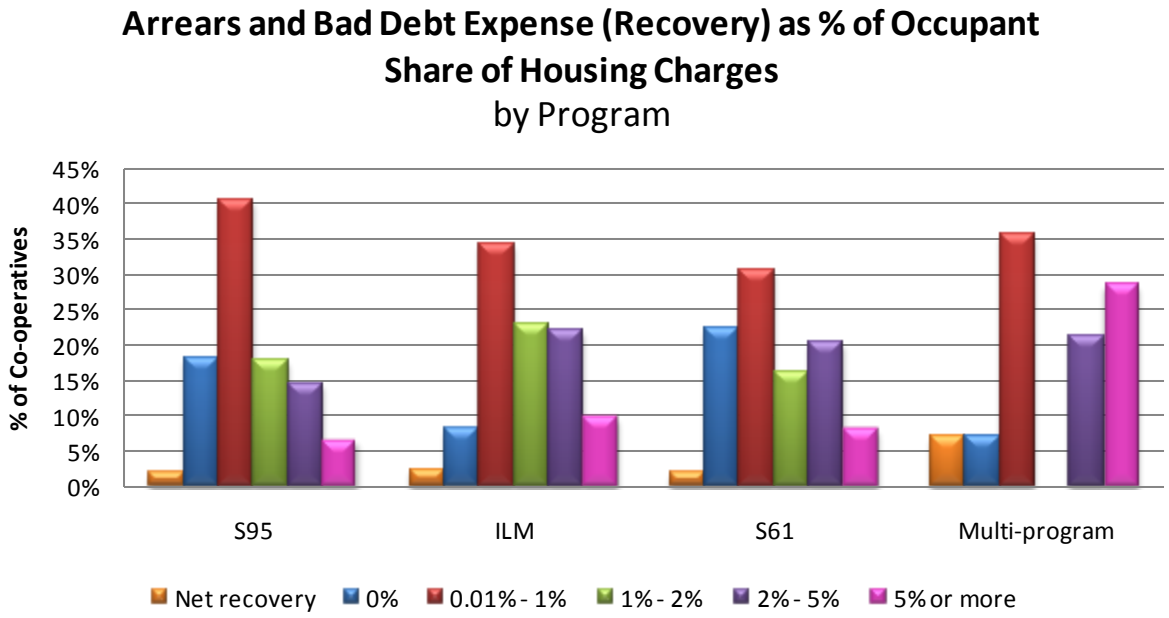

Figure 20

Capital Replacement Reserves

Early on, the Agency identified under-funding of capital replacement reserves as a significant risk to the portfolio and, accordingly, our relationship managers have been at pains to encourage their clients to increase their annual contributions. We were therefore pleased to note increases from 2007 to 2008 in the per-unit reserve contributions for all co-operative programs (see Appendix D for contribution details), ranging from a low of 6.5 per cent for multi-program co-ops to a high of 16 per cent for co-ops under the S61 Program.

At $656 per unit annually, the median replacement-reserve contribution reported in 2008 for the ILM Program showed an increase of 12.5 per cent over 2007; even so, as was the case last year, the contribution rate was very much lower than the median reported rates for the two older

programs (S27/61: $1,268; S95: $1,297)[8]. As we said then, the result is counter-intuitive, since, at 0.6 per cent per year of the initial project capital cost, starting contribution rates for ILM co-ops were much higher than in the earlier programs. Part of the explanation is surely that their rates are indexed annually at the same rate as the monthly mortgage payment: the change in the Consumer Price Index, less two percentage points. Unless a co-op takes the initiative to increase its base contribution, its rate will fall steadily in real terms over time, which appears to have happened. However, another factor may be the over representation of ILM-Program co-operatives among Agency clients with financial workouts: in 2008 the median reserve contribution rate for the latter was less than half that for co-ops without workouts. The fact that a greater proportion of ILM co-ops is to be found in high-vacancy rental markets and that fewer ILM co-ops have enjoyed the advantage of below-market housing charges has likely acted as a further constraint on the ability of co-ops under this program to increase their contribution rates.

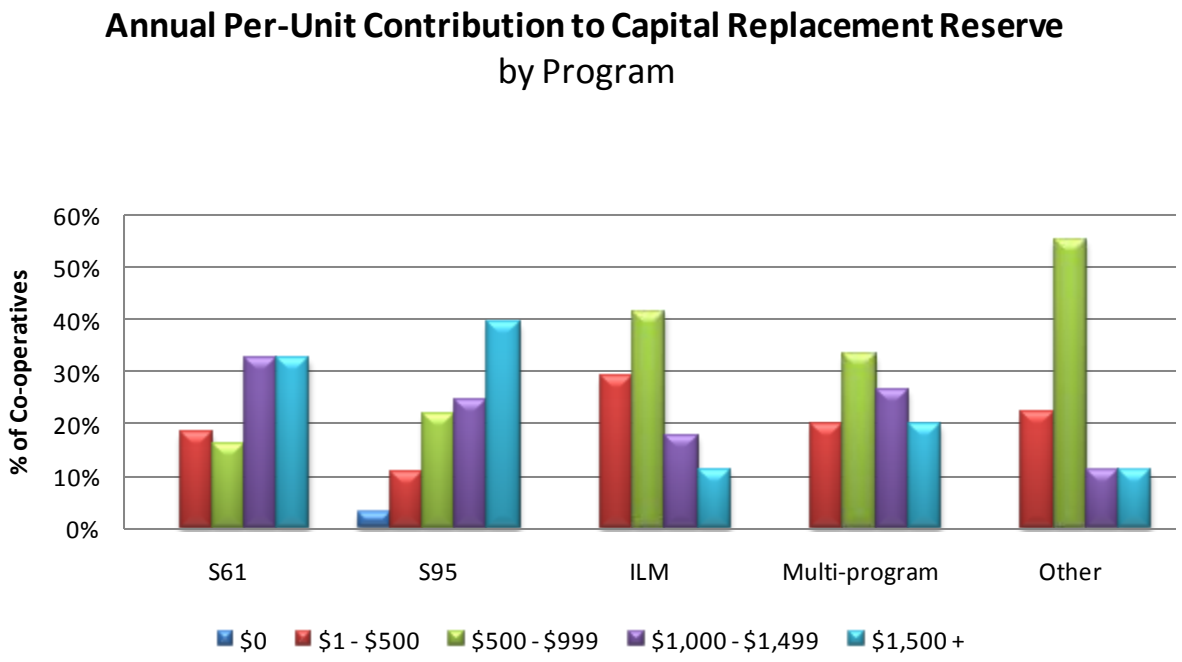

Figure 21

Co-operatives under the earlier programs are under no obligation to change the amount they contribute to their reserve from one year to the next and, from the proportion of co-ops contributing a small amount, it would appear that some do not. But other data suggest that many co-ops have recognized that the contribution rates mandated in operating agreements signed so long ago are most inadequate and are taking the initiative to put aside more. While only 38 per cent of co-ops under the ILM Program recorded contribution rates in excess of $50 per unit each month in 2008, 69 per cent and 70 per cent of S95 and S61 co-ops, respectively, contributed at this level—higher rates being demanded by the capital expenses these older co-operatives must expect to meet in the short and medium term. We note also that co-ops operating under the S61

8. Note that these figures include supplemental contributions from operating surpluses to the capital replacement reserve.

Program made up the largest group of co-operatives contributing more than $100 per unit to their capital replacement reserve each month.

While we have refrained throughout this chapter from analysing the performance of our deep-subsidy-program clients, we cannot let pass the observation that, at $760 per year, the median capital-replacement-reserve contribution for these co-ops is lower than that for all but the ILM Program, nor that it increased less than one per cent over 2007.

Investment in the Physical Plant

The following chart compares rates of investment in the physical plant, in the form of maintenance spending and capital repairs and replacements, among programs.

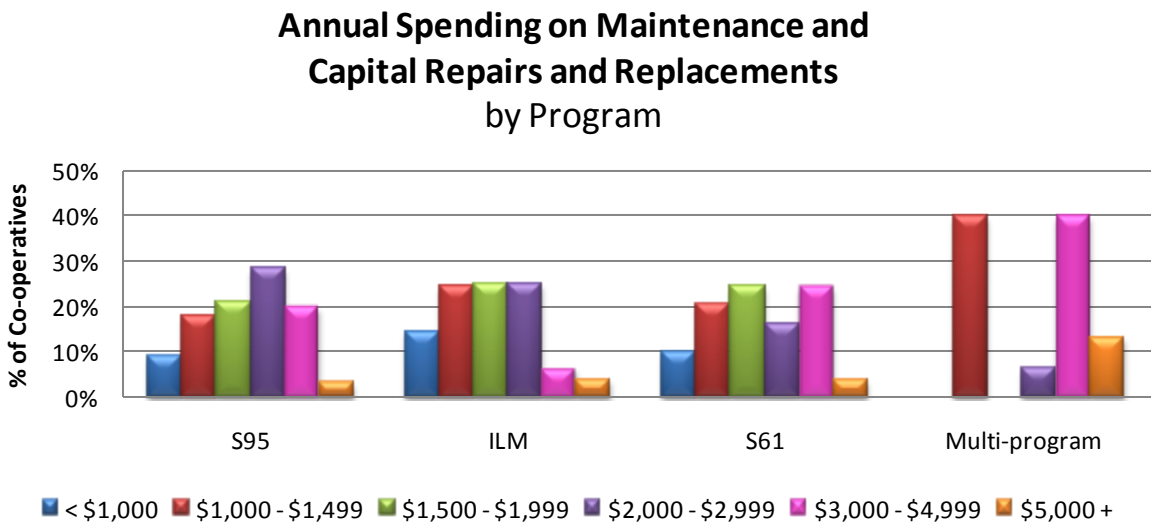

Figure 22

While, as a group, co-ops under the older programs spent more on their buildings, this was primarily due to differences in capital expenditures. Apart from a large segment of S61 Program co-operatives that spent much more on maintenance than any other group, maintenance expenditures across programs fell into relatively narrow quartile ranges.

Administration Costs

The table below and figure 23 on the next page show markedly different annual administration costs across the three main programs the Agency administers.

Table 6: Median Administration Expense (Unit/Yr) by Program

Program	S27/61	S95	ILM
Median Cost	$422	$585	$605

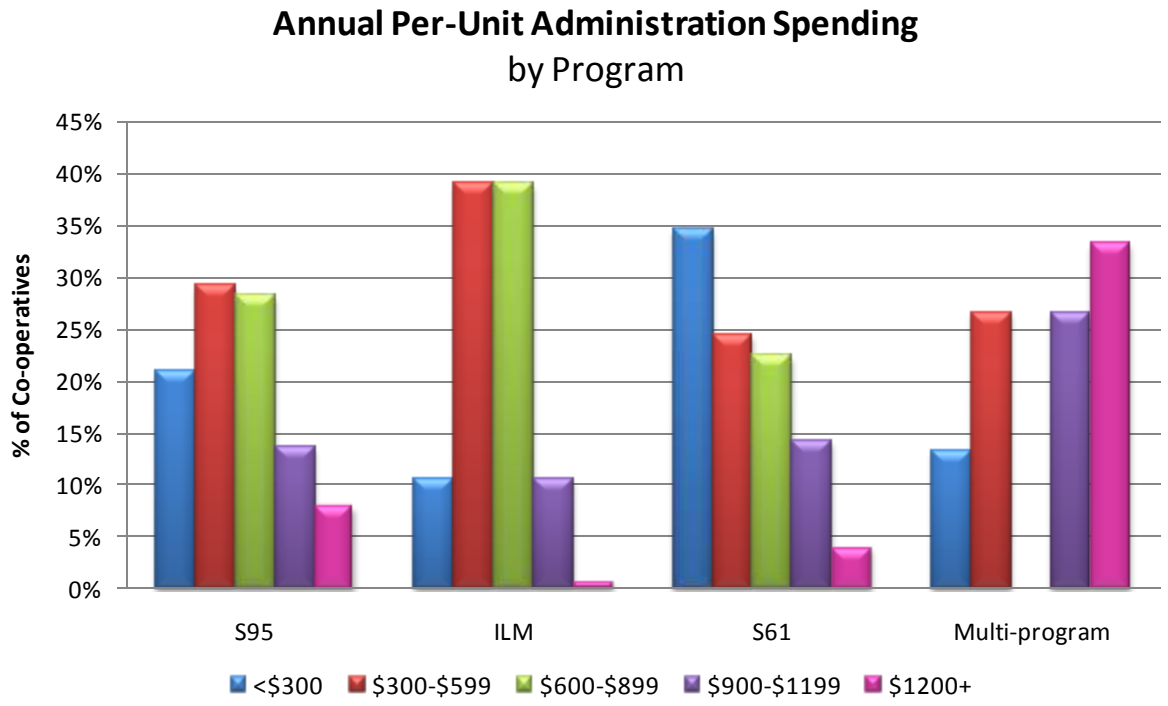

Figure 23

Our analysis suggests that the apparent relationship between program and administration costs is, in fact, accidental and is explained by two other factors that also happen to vary by program: co-op size and management model deployed.

The medians in the table below demonstrate the significance of co-op size in relation to administrative costs. It appears at first that larger co-operatives do not enjoy any economies of scale, but rather must bear the higher costs associated with their increased complexity. A closer look reveals that these cost increases shrink proportionally from one cohort to the next. While the per-unit cost of administration was 58 per cent greater in the Medium Small than in the Small cohort, between Medium Small and Medium Large, the difference was just 19 per cent; and, from Medium Large to Large, only eight per cent.

Table 7: Median Administration Expense (Unit/Yr) by Co-op Size

Size	Small	Medium Small	Medium Large	Large
Median Cost	$396	$624	$744	$804

Turning to the question of management type, co-ops with few or no staff members (paid bookkeeper only and volunteer-run co-ops) inevitably have lower administration costs—when "cost of administration" is interpreted literally. This approach to management was most popular with the early-program co-ops, who adopted it before its disadvantages became apparent and, in many cases, they still adhere to it. Thirty-one per cent of S61 co-operatives have very low or no staff costs, compared with 23 per cent of S95 and 12 per cent of ILM Program co-operatives.

Looking at ILM co-ops' costs, 78 per cent spent between $25 and $75 per unit per month on administration, compared to 58 per cent of S95 and 47 per cent of S61 clients. The median for ILMs is higher because, being larger (one-half have 36 to 105 units), they usually need the services of paid staff or a management company, which costs them between $25 and $75 per unit per month. Moreover, a much higher proportion of ILM co-ops have financial workouts. In our experience, it is next to impossible for a co-op without paid management to administer a financial rescue plan successfully. Those co-ops that do not have paid management when they fall into difficulty usually find this status altered by the time they succeed in securing a workout.

Chapter 4: Regional Perspective

Facts and Figures

A little more than half (54%) of the Agency's portfolio is located in Ontario and the remainder distributed across British Columbia (34%), Alberta (10%) and Prince Edward Island (2%). The distribution of the dataset used for this report is identical to this, and the slightly smaller set used for this chapter is nearly so; the exclusion of data for the PEI Non-profit and Urban Native programs has changed it very slightly. (Co-operatives operating under these programs offer rent-geared-to-income housing exclusively and so are immune from market conditions.)

FACTS & FIGURES BY REGION		
Alberta	49	10%
B.C.	171	35%
Ontario	260	53%
PEI	7	1%

Market Vacancy Rates

Our focus in this chapter is largely on market conditions from region to region, which, through the influence they exert over a co-operative's ability to fill its units, are a strong determinant of its economic performance. In order to sharpen our analysis, we broke out the results for 2008 by the following provincial sub-regions:

- AB Edmonton
- AB Calgary
- AB Other
- B.C. Victoria
- B.C. Vancouver
- B.C. Other
- ON Toronto
- ON GTA Belt: Durham, York, Peel, Halton
- ON Ottawa: Ottawa, Prescott-Russell
- ON North: Thunder Bay, Greater Sudbury, Cochrane, Nipissing
- ON Southwest: Windsor and area, London and area, Chatham-Kent, Lambton
- ON Horseshoe West: Hamilton, St. Catharine's-Niagara, Kitchener-Waterloo, Guelph, Brant
- ON Centre East: the wide geographic span encompassing Kingston, Peterborough, Leeds-Grenville, Frontenac, Hastings, Simcoe, Dufferin, Grey, Keswick and Jackson's Point
- PEI.

Referring to data from CMHC's rental market reports, and weighting them to reflect the unit mix of Agency clients in the area[9], we then assigned each sub-region to one of three classes,

9. The market vacancy rate derived from data from the CMHC rental market report is a weighted average of the local apartment vacancy rate and townhouse vacancy rate based on the ratio of apartments and townhouses in the Agency clients in that market area. If no townhouse vacancy rate was available from CMHC, then the apartment vacancy rate was used for both apartments and townhouses. Units that are not apartments or townhouses were excluded in the weighting system. Seventeen co-operatives are located in markets for which there was no CMHC data; these we excluded from our calculations.

according to the strength of its rental market: low-vacancy (two-year average adjusted market vacancy rate below one per cent); moderate-vacancy (two-year average rate between one per cent and three per cent) and high-vacancy (average vacancy rate of three per cent or greater). The table below shows the resulting distribution of the markets in which the Agency has client co-operatives.

Table 8: Market Vacancy Rates by Market Type

Market Vacancy Rate* (2-Year Average)	Low Vacancy Markets	Moderate Vacancy Markets	High Vacancy Markets
B.C. Metro Vancouver	0.9		
B.C. Victoria	0.4		
B.C. Other		1.2	
AB Calgary		2.3	
AB Edmonton		2.5	
AB Other	0.7		
ON Centre East		2.6	
ON GTA Belt**			3.0
ON Horseshoe West			3.5
ON Ottawa		2.6	
ON North			4.1
ON Southwest			7.2
ON Toronto		2.6	
PEI		2.7	

Table 9: Co-op Vacancy Losses Compared to Market Vacancy Rates

	Low Vacancy Markets	Moderate Vacancy Markets	High Vacancy Markets
2007			
Distribution of Co-ops	171	186	120
Average Co-op Vacancy Loss	0.4	1.8	2.7
Average Market Vacancy Rate*	0.9	2.8	4.3
2008			
Distribution of Co-ops	174	181	115
Average Co-op Vacancy Loss	0.5	1.8	2.4
Average Market Vacancy Rate*	0.7	2.3	4.0

* adjusted as previously noted to reflect unit mix of Agency portfolio in the sub-region

** the Greater Toronto Area, excluding the City of Toronto

Finally, we determined the average co-op vacancy loss for each sub-region and compared it to the adjusted average market vacancy rate. The results are presented in Table 9 on the previous page. They reveal that, collectively, Agency clients in each market class (low-vacancy, moderate-vacancy, high-vacancy) out-performed the market in both 2007 and 2008, although, in low- and moderate-vacancy markets, to a greater extent in the first year.

Figures 24 and 25 provide a more detailed view of the market performance of Agency clients. While, at the portfolio-wide level, the great majority are performing as well as or better than the surrounding market, there is considerable variation from one region to another. Alberta stands out as the province having both the highest proportion of co-ops with better-than-market vacancy losses and the lowest proportion with worse-than-market losses. B.C. co-ops, the great majority of which are located in low-vacancy markets, out-performed the market much less often than did their cousins in Ontario. On the other hand, a higher ratio of Ontario co-ops did worse than market. PEI co-ops were close behind those of Ontario in doing better than the market (33% ; 39%) and only about one-sixth did worse (the PEI portion of the dataset is very small, however, and these results can be expected to swing significantly from year to year). It is worth bearing in mind that co-operatives have an advantage in an average or high-vacancy market because those units for which the occupants pay a rate geared to their income need never be vacant, unless the co-operative wants to refurbish them. We also note that performing better than market in a low-vacancy environment is a challenge.

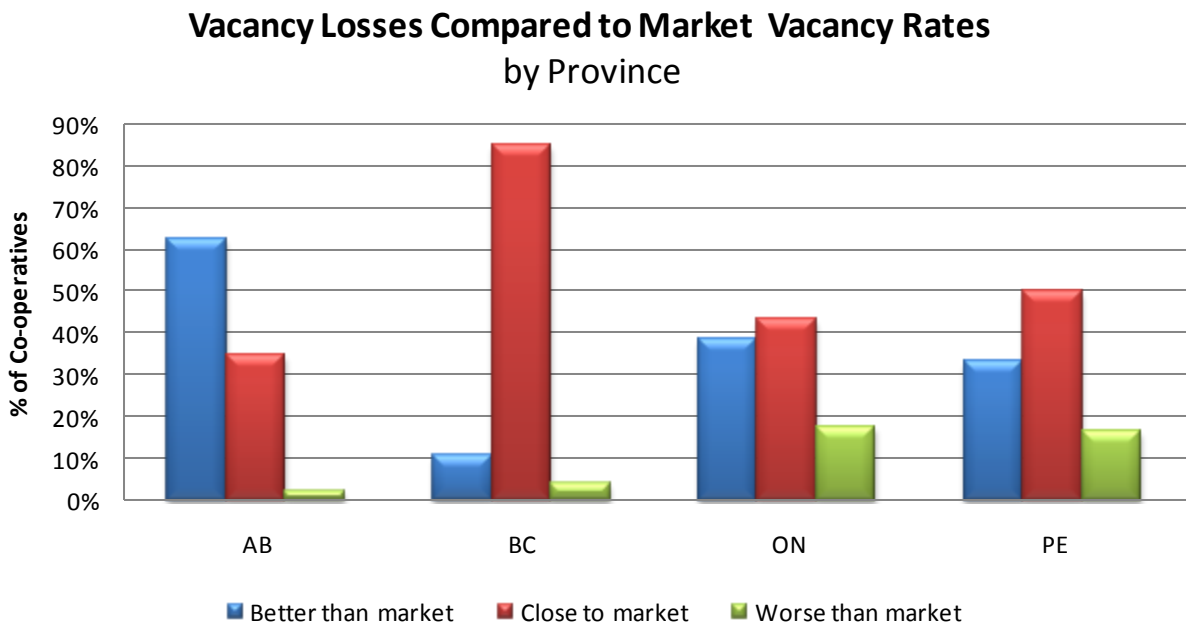

Figure 24

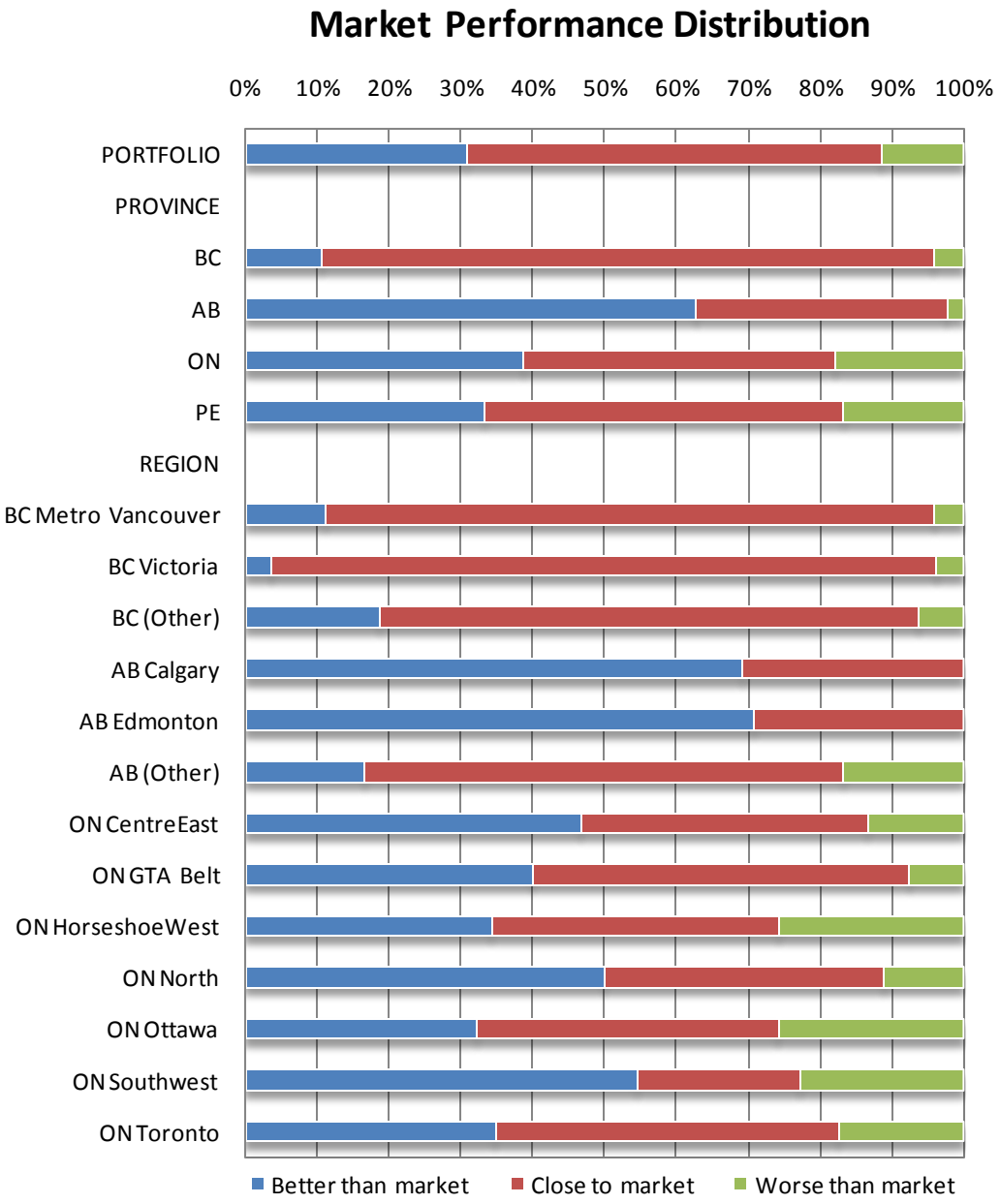

Figure 25

Risk Profile by Province

Composite Risk Rating

Differences in the regional risk profile across the Agency portfolio were as striking as those between programs. As in 2007, PEI had the weakest profile, with fully 70 per cent of the dataset carrying a composite risk rating of Above Average or High as of January 15, 2009. While the proportion of co-ops rated Moderate increased from 20 per cent in 2007 to 30 per cent in 2008, the number of co-ops rated High risk increased to the same extent.

Ontario had the second-weakest profile, with 21 per cent of co-ops holding a rating of High and 35 per cent Above-Average, results little changed from 2007. With only 44 per cent of co-ops scoring Low or Moderate risk, Ontario was also out-performed by two other provinces in this respect. We will shortly discuss what we believe to be the effect of Ontario's rental markets on our clients' operations.

B.C. had the lowest proportion of co-ops rated High risk in 2008 (last year it was Alberta), at nine per cent, with Alberta next at 12 per cent. In addition to the factors examined later on in this chapter, rental markets in these two provinces—still strong in 2008, despite some decline in Alberta—have much to do with this result. Nonetheless, B.C. was home to a higher proportion of co-ops rated Above Average than either Ontario or Alberta (40%).

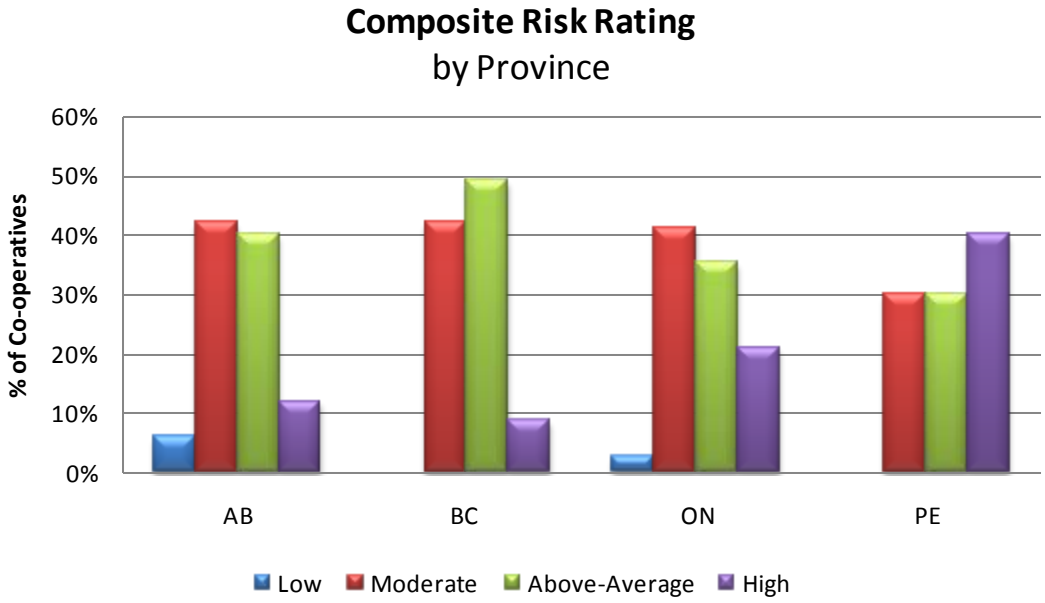

Figure 26

Operating Performance by Province

Vacancy Losses

Earlier in this chapter, we examined vacancy losses in relation to market vacancy rates. We now turn to the vacancy-loss distribution for each province, with losses measured as a percentage of the co-op's gross housing charge potential (defined in Chapter 2). By this measure, in three out of four provinces co-operatives improved their median performance from 2007 to 2008. In Alberta the median loss as a percentage of gross housing charge potential declined from 0.3 per cent to 0.2 per cent; and in B.C. from 0.2 per cent to 0.1 per cent. PEI demonstrated the most impressive success, going from a median of 0.4 per cent in 2007 to 0.0 per cent in 2008. In contrast, Ontario co-ops reported median losses amounting to 0.7 per cent. The province also has the highest proportion of co-ops with vacancy losses of four per cent or greater. PEI's over-representation among co-ops with high vacancy losses reflects the very small average size of co-ops in the dataset for the province. In a small co-op, a single empty unit will result in a high percentage of vacant units.

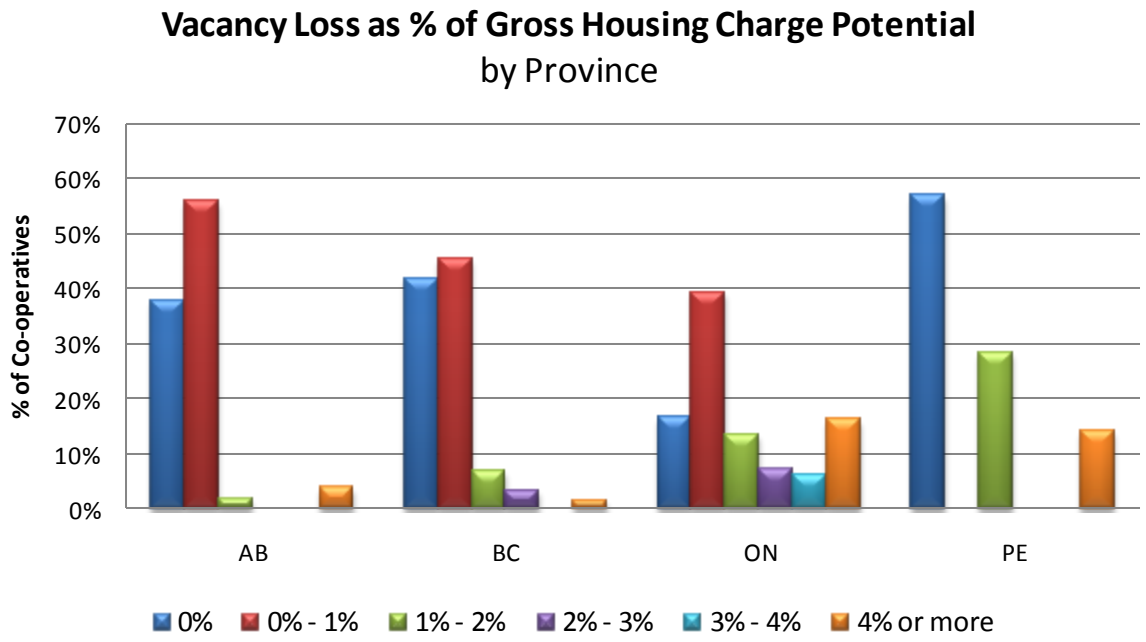

Figure 27

Arrears and Bad Debts

As seen in figure 28 on the next page, we found distinct regional variations in combined year-end arrears and annual bad-debt expense, measured as a percentage of occupants' share of annual housing charges. As in 2007, PEI recorded the highest proportion of co-ops with no arrears and bad debts at all, giving it the lowest median rate (0.0%). However, a significant proportion of the small number of co-ops in the province saw rates of five per cent or more. B.C. again saw a 0.4 per cent median. Alberta had the next lowest median arrears and bad-debt ratio, at 0.6 per cent, a slight improvement over the 0.7 per cent recorded in 2007. Ontario posted a median of twice the Alberta rate (1.3%) and, as in 2007, had the highest proportion of co-ops in all categories above 1.0 per cent.

Investment in Physical Plant

Spending rates on maintenance and capital repairs and replacements varied considerably across the Agency's provincial portfolios in 2008. Ontario recorded the highest median spending rate, at $2,023 per unit annually[10]. Alberta's median rate was the lowest, at $1,489. Rates for B.C. and PEI fell in between, at $1,971 and $1,560, respectively. This represented a considerably higher investment for B.C., up from $1,716 spent in 2007.

10. As noted earlier, capitalized expenditures, whether debt-financed or paid from working capital, are not included in the rates reported.

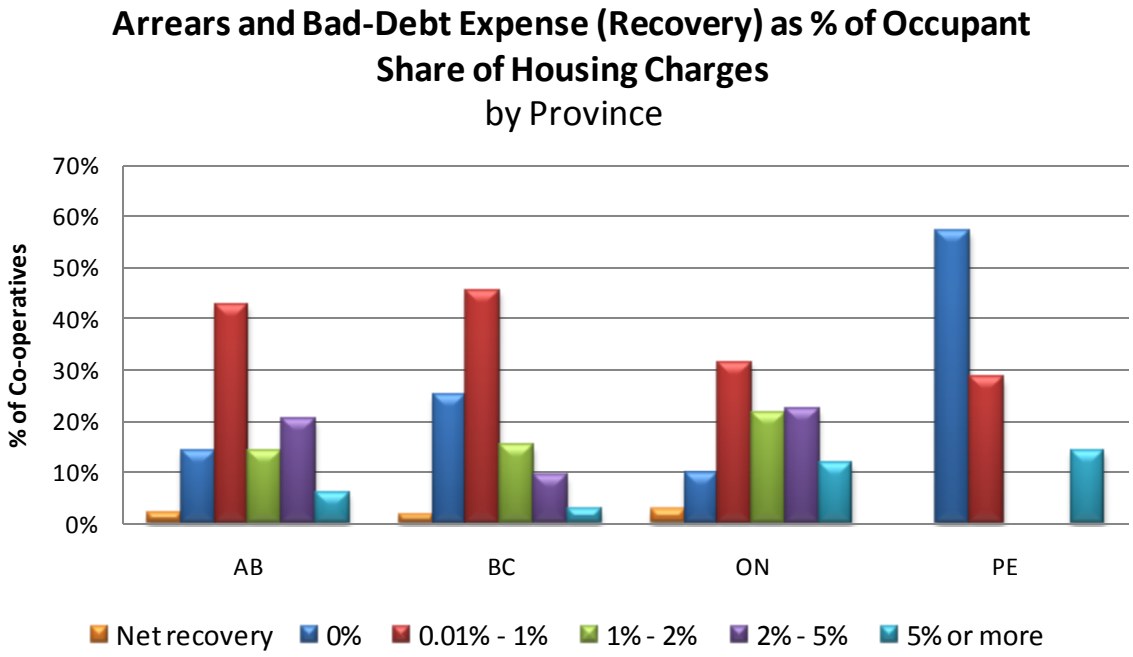

Figure 28

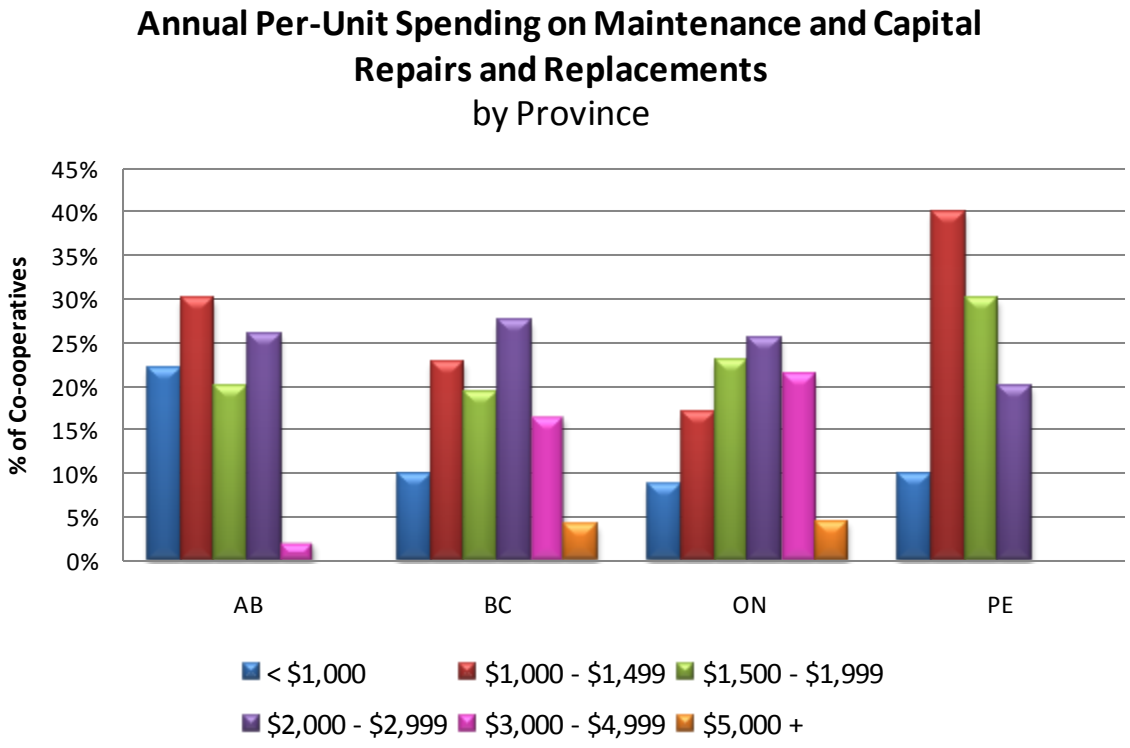

Figure 29

Capital Replacement Reserves

We saw very sharp differences in the median capital-replacement-reserve contribution rate (including supplementary contributions) from one province to another. Median reported rates were similar at $94 per unit per month for B.C. and $97 for Ontario. Alberta and especially PEI, at $78 and $34, respectively, were much lower contributors. A disturbing 20 per cent of PEI co-ops contributed less than $25 per unit and another 50 per cent less than $42. These low rates reflect the high proportion of deep-subsidy-program co-ops in our PEI portfolio. Twelve per cent of Alberta co-ops either made no contribution in 2008 or put in less than $25 per unit per month. At the top end, B.C. was in the lead, with 70 per cent of co-operatives contributing $50 or more per unit per month. Next was Ontario, with 60 per cent contributing at that level, and then Alberta, with 48 per cent. In PEI only 20 per cent of co-ops contributed at least $75 per unit per month.

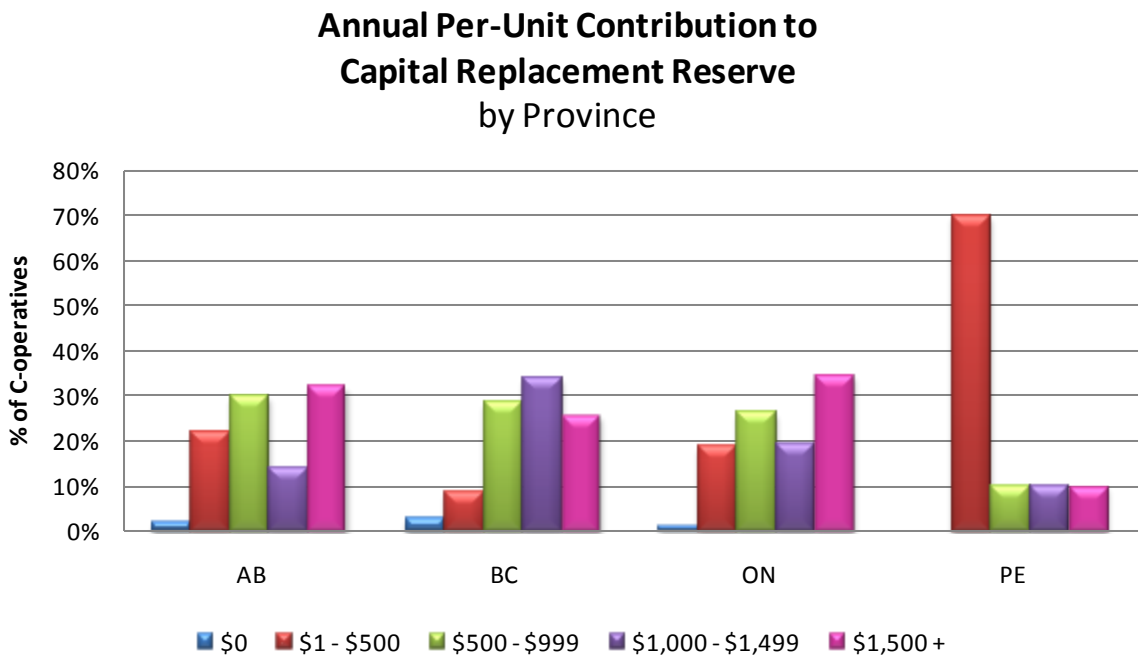

Figure 30

Administration Costs

As figure 31 shows, there were sharp differences in annual administrative spending from one province to another. The median ranged from $386 per unit in Alberta to $810 in Ontario. PEI was second at $716, with B.C. close to Alberta at $396 per unit per year. These differences appear to be closely linked to the management model preferred in each region, a discussion for later in this report. The average co-op size and, to a lesser extent, program also affect these costs.

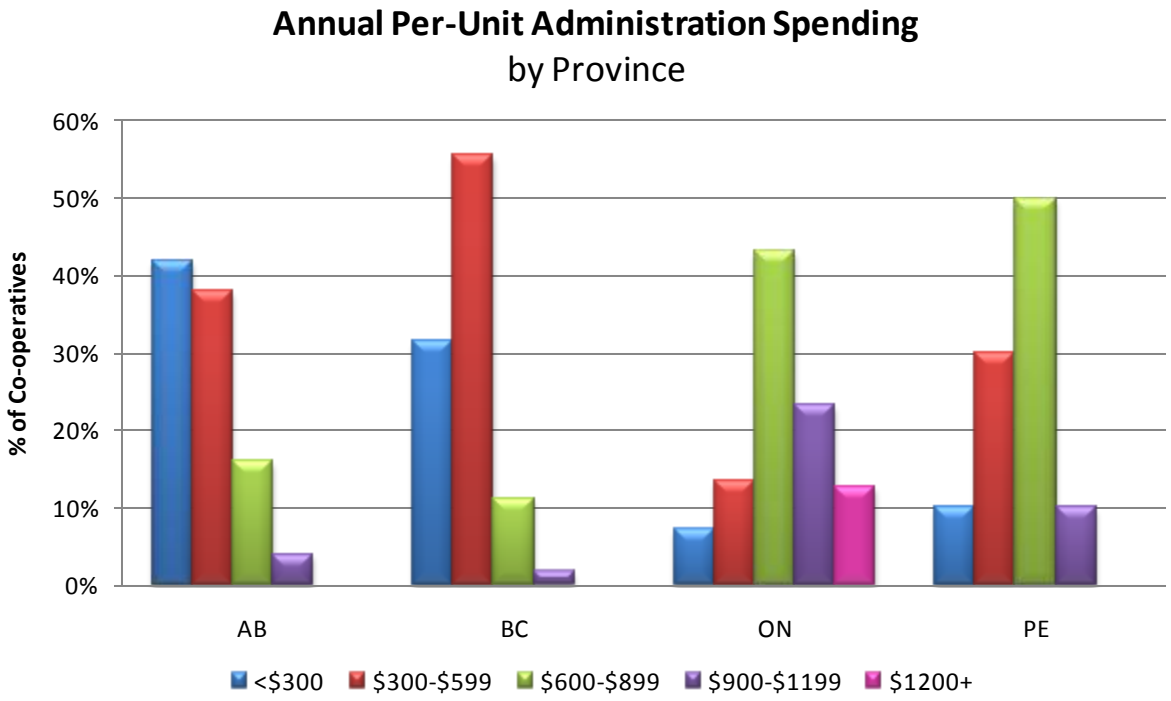
Annual Per-Unit Administration Spending
by Province
% of Co-operatives
60%
50%
40%
30%
20%
10%
0%
AB
BC
ON
PE
<$300
$300-$599
$600-$899
$900-$1199
$1200+

Figure 31

Chapter 5: Management Perspective

Management Models

The housing co-operatives the Agency works with make use of four different management models. In order of prevalence, these are

- paid staff
- a property-management firm
- a paid bookkeeper only, and
- volunteers only.

FACTS & FIGURES BY MANAGEMENT MODEL		
Paid Staff	212	43%
Management Company	183	37%
Bookkeeper (Paid) Only	66	13%
Volunteer Only	36	7%

Forty-three per cent of co-ops in the dataset have paid staff and 37 per cent use the services of a property-management firm. Volunteer labour alone is the choice of seven per cent and nearly double that number operate and manage their properties with only a bookkeeper. The use of management companies has slightly increased in popularity over 2007, when it was the choice of 35 per cent of the dataset.

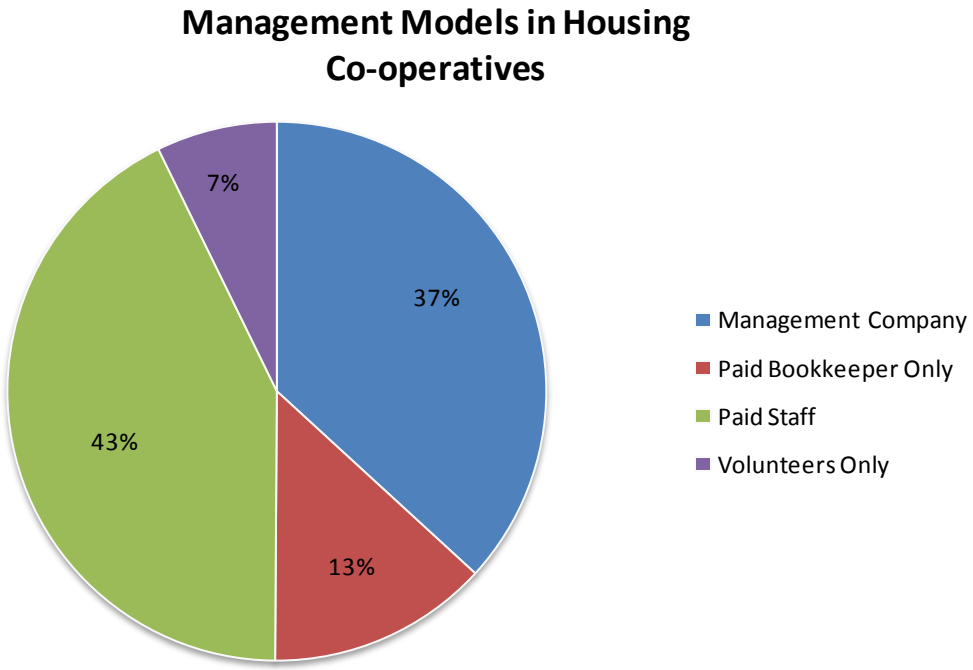

Figure 32

Several factors are responsible for co-operatives' choice of management model. As figures 33 and 34 on the next page suggest, co-op size appears to be a significant determinant, as does established regional tradition. Not surprisingly, most housing co-operatives operated and

managed entirely by volunteers have fewer than 35 units (61%) and only 8 per cent have more than 70 units. In the same vein, 88 per cent of co-ops whose only paid help is a bookkeeper have 70 units or fewer, and only one has more than 105 units. No doubt for financial reasons, the direct-staff model is less common among smaller co-ops, with most that use this model having more than 50 units.

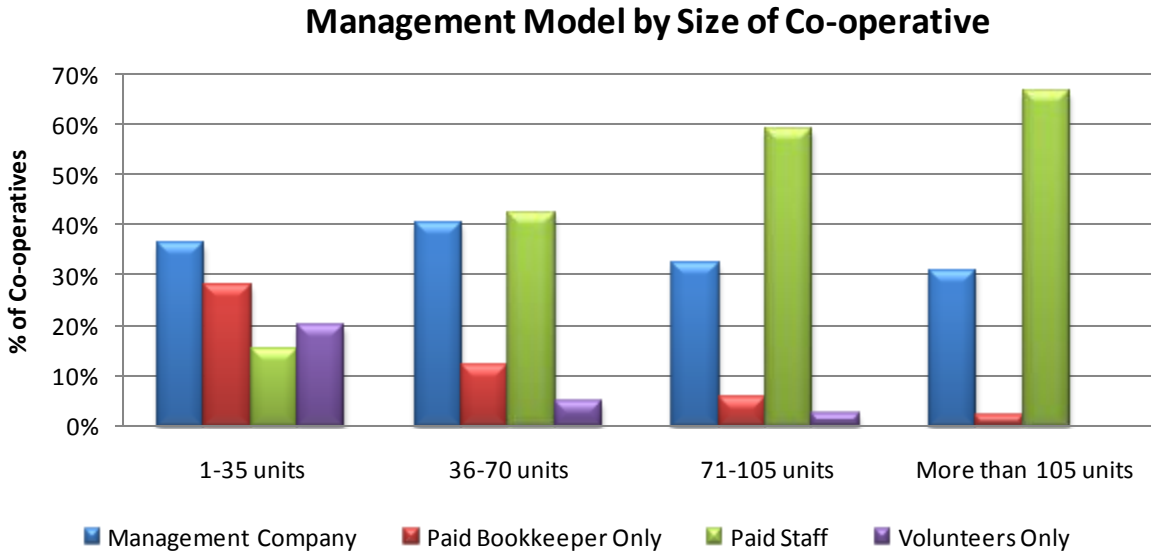

Figure 33

Figure 34 displays the sharp regional differences in the management model customarily chosen by co-operatives—although it is not detailed enough to expose the distinctions within provinces, such as the split in preferred management model between Northern and Southern Alberta.

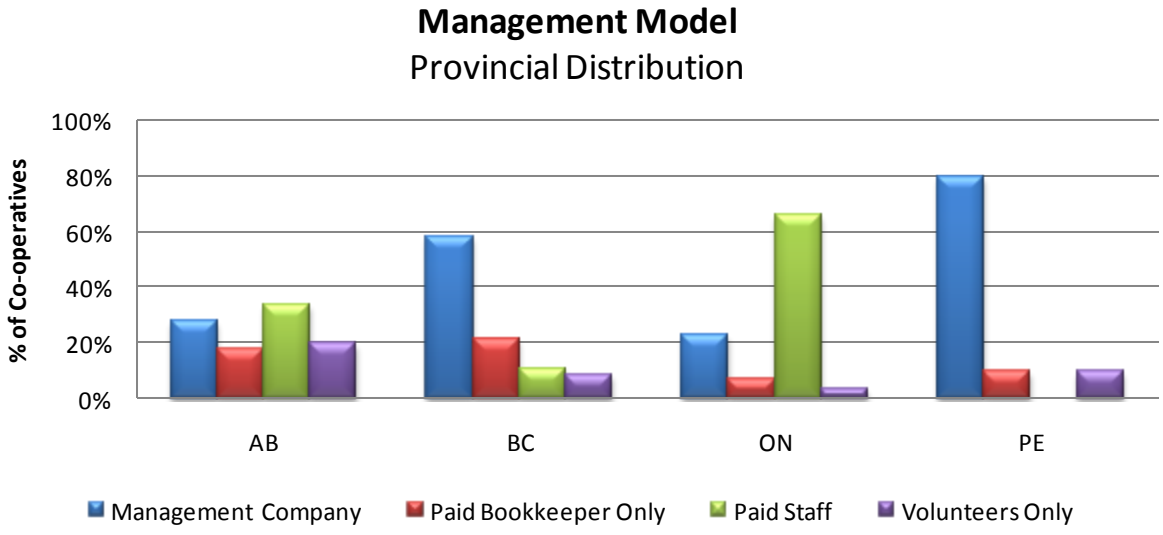

Figure 34

In 2008 housing co-operatives using the services of a property-management firm continued to be heavily concentrated in B.C., where this model has long been popular, as the direct-employee model has been in Ontario. In common with their B.C. peers, the Agency's PEI clients were more likely to use a management company. As noted in 2007, co-operatives relying entirely on volunteers or having only a paid bookkeeper are most frequently found in B.C., where well over one quarter of our clients have chosen one of these options (30%), and Northern Alberta, where they were the choice of 38 per cent.

Risk Profile by Management Model

Composite Risk Rating

In 2008 co-operatives with their own staff tied with those led by volunteers in delivering the strongest performance. For both management models, three per cent of the total earned a composite risk rating of Low. No co-operatives with a paid bookkeeper only and only one per cent of those with management companies were rated Low risk. The picture sharpens when one looks at the Moderate rating, which went to 49 per cent of co-operatives with their own staff. Of those with management companies, 36 per cent were rated Moderate. Not far behind, 32 per cent of co-ops with only a bookkeeper were rated Moderate.

At the other end of the scale, 22 per cent of co-operatives with management companies were at High risk, reflecting a clientele that, in the case of many firms, includes a number of co-operatives in difficulty, some of which were formerly volunteer-managed. Fourteen per cent of co-ops with only a paid bookkeeper were rated High risk, the same as co-operatives that had paid staff. Three per cent of volunteer-only co-operatives were deemed High risk. With regard to our leading financial risk indicators (liquidity and net income), volunteer-only co-ops turned in a fine performance, which was unsurprising, given their much lower operating costs.

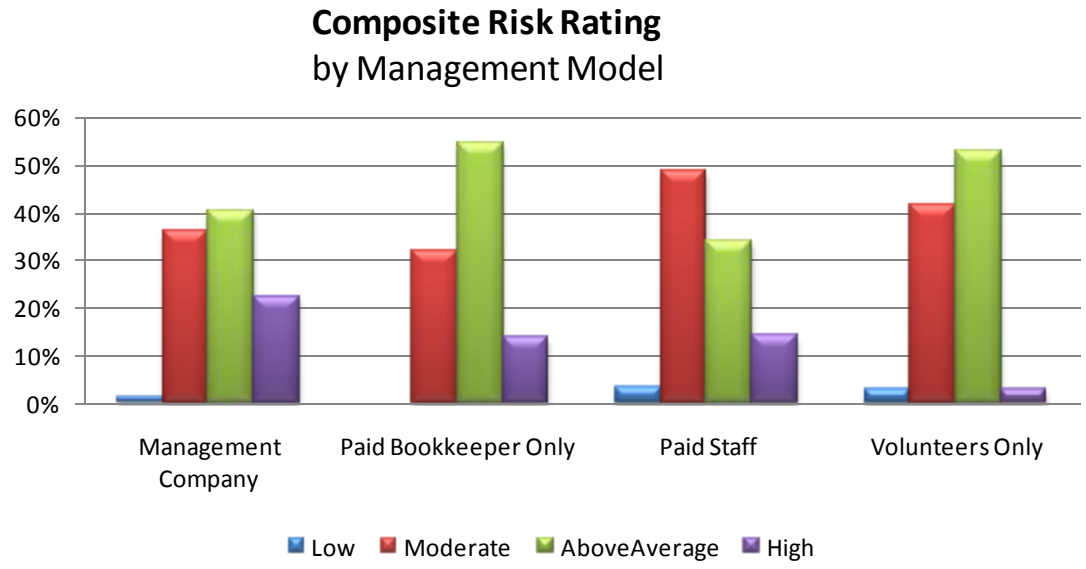

Figure 35

In 2008 co-operatives with paid staff were in better physical condition, with 86 per cent holding a positive rating of Good or Excellent and only 14 per cent a negative rating (all were Fair; none was Poor), against portfolio-wide ratings of 78 per cent and 22 per cent, respectively. The other three groups came in close together: bookkeeper only: 75% positive; volunteer-run: 73% positive; management company: 71% positive.

Operating Performance by Management Model

Vacancy Losses

Co-operatives employing their own staff experienced the highest vacancy losses in 2008, with 19 per cent losing more than $250 per unit over the year, compared to 16 per cent for those using the services of a property-management firm and a mere five per cent for co-ops with only a paid bookkeeper. Volunteer-only co-operatives enjoyed the best results, with 64 per cent reporting no vacancy loss at all. The better results for the latter two categories almost certainly reflect their lower housing charges. We don't think there is a causal relationship between employing direct staff and experiencing higher vacancy rates. Rather, Agency clients with their own staff are concentrated in Ontario, where on the whole rental markets are weaker.

The median loss for each management type is equally striking. Co-ops with paid staff saw their total per-unit vacancy loss rise from $31 in 2007 to $40 in 2008. Among co-ops using the services of management companies, the median declined from $45 to $40 per unit. It changed little in co-ops with a paid bookkeeper only (2007:$18; 2008 $19) and remained at zero for those run by volunteers (however, the average loss for this group was $64, pointing up the fact that when volunteer-led co-ops under-perform, they under-perform significantly).

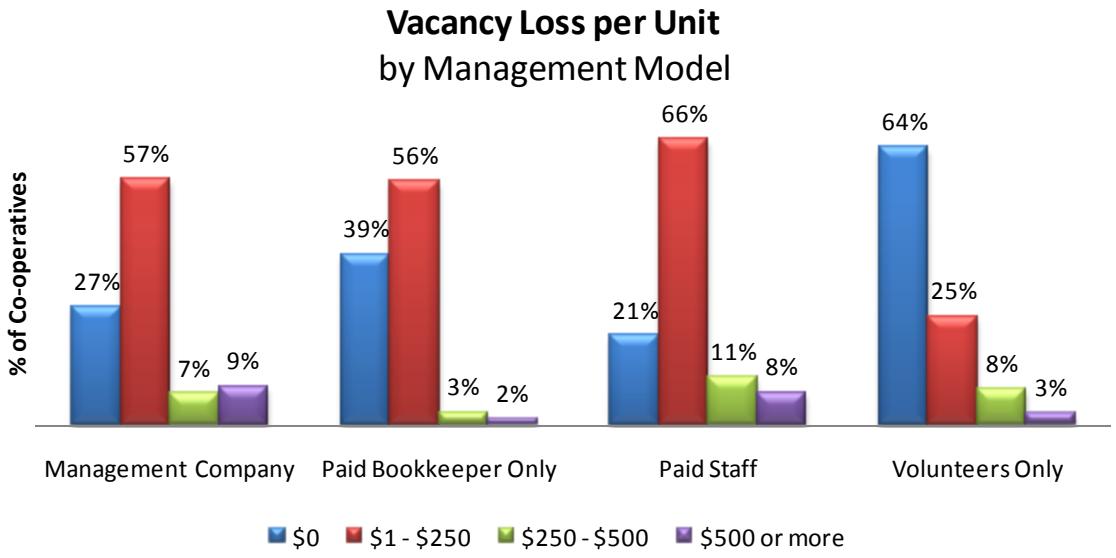

Figure 36

From the perspective of vacancy loss as a percentage of gross potential housing charge revenue, little changed from 2007 to 2008. Co-operatives using a management company saw their median losses drop from 0.5 per cent in 2007 to 0.4 per cent in 2008. Paid staff held fast at 0.4 per cent,

paid bookkeeper only at 0.2 per cent and volunteer-only at zero (here the average rate was two per cent).

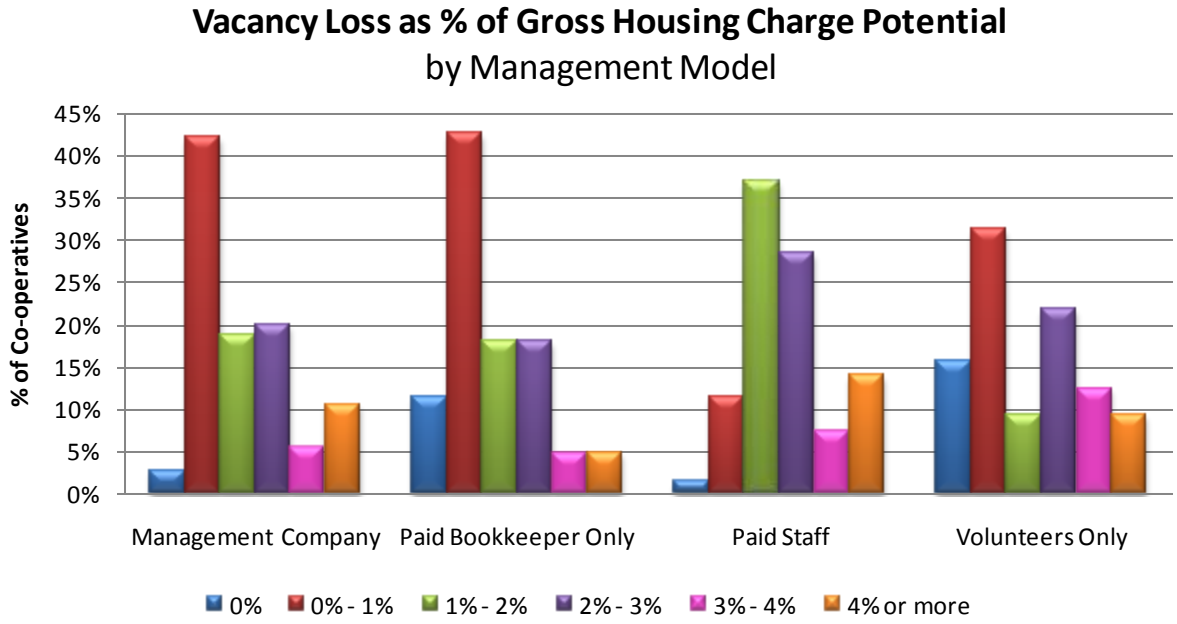

Figure 37

Arrears and Bad Debts

As was the case last year, co-operatives managing with volunteers only had far more success as a group in collecting arrears and preventing bad debts in 2008 than did their peers: they held both the highest percentage of co-ops reporting neither arrears nor bad debts and the lowest percentage with a combined arrears and bad-debt-expense ratio of five per cent or more. The next most successful cohort was co-ops with only a paid bookkeeper: 26 per cent of this group reported no arrears or bad debts at all. However, 11 per cent had an arrears and bad-debt-expense ratio of five per cent or more, pointing to a less consistent performance for this group. Co-ops with management companies or direct staff performed worse overall as a group, with a far lower proportion reporting an arrears and bad-debt ratio of zero. Median combined arrears and bad-debt-expense ratios reflect these observations, ranging from an extraordinary zero for volunteer-only co-ops (note, however, that the average ratio was a high 1.4 per cent), through 0.3 per cent for those with only paid bookkeepers to 0.9 per cent for both co-ops employing management companies and those with their own staff. These results marked a modest improvement for every management type over 2007, when co-ops with paid staff or management companies both had losses of one per cent; bookkeeper-only of 0.4 per cent; and volunteer-only of 0.5 per cent.

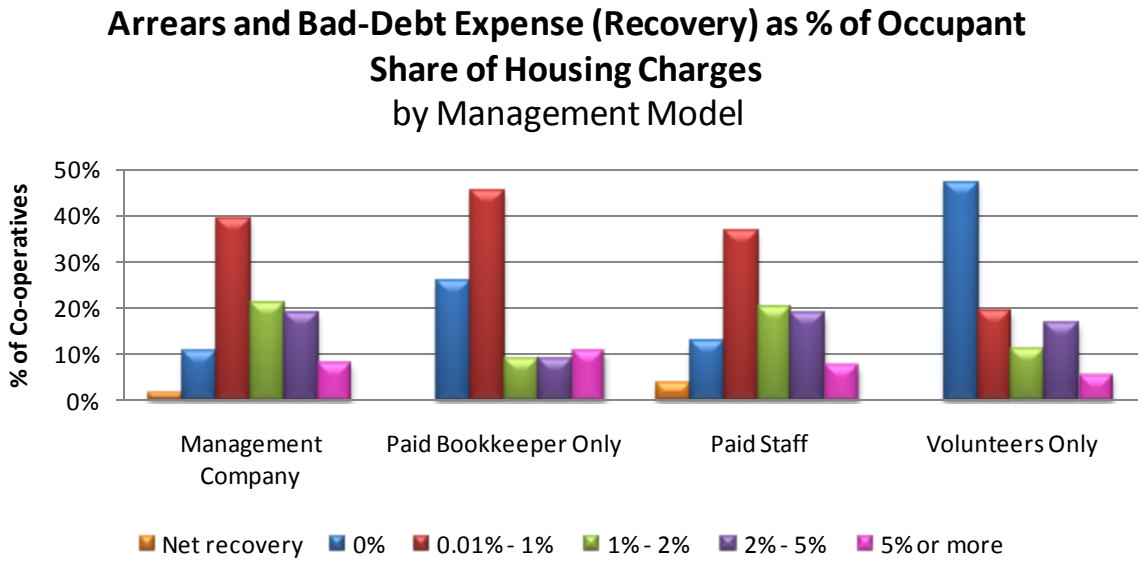

Figure 38

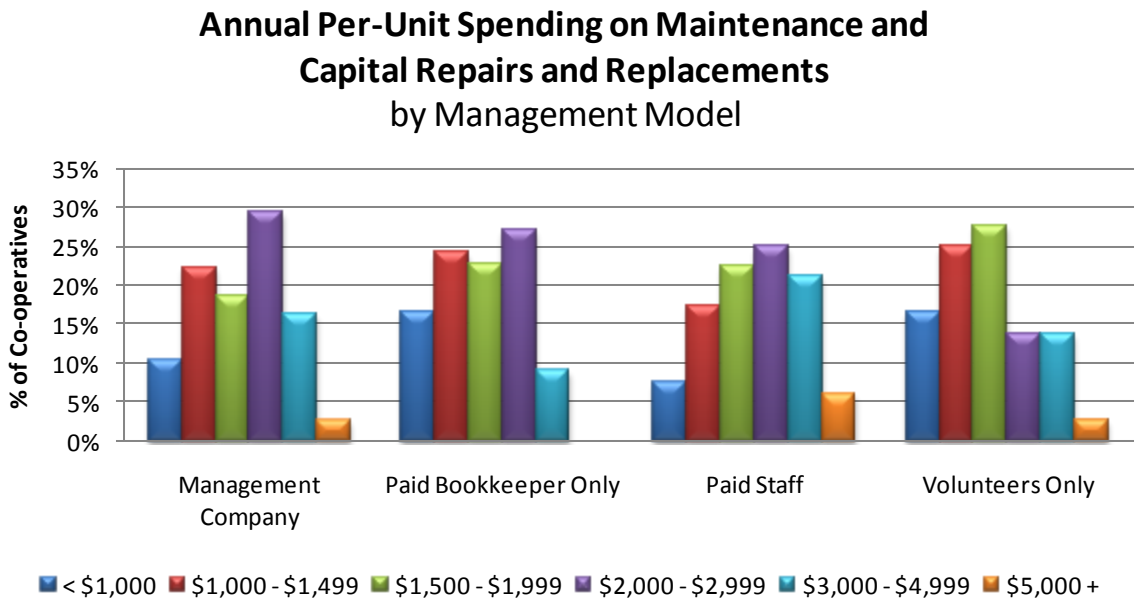

Figure 39

Investment in Physical Plant

Co-operatives using the direct-staff model led in spending on maintenance and capital repairs and replacements in 2008, reporting a median annual expenditure of $2,053 per unit[11], down a little from $2,076 in 2007. Median spending for co-ops using contracted property-management services was next highest at $1,957, up from $1,869. Volunteer-only co-ops lagged noticeably

11. As elsewhere in this report, this number captures only capital expenditures charged in full to the replacement reserve or operations and excludes spending that is capitalized and amortized to operations over time.

behind at $1,777, while those with only a paid bookkeeper came last at $1,727, though median spending for both groups rose noticeably from 2007 (by 22% and 4%, respectively).

Capital Replacement Reserves

In 2008 co-operatives with only a paid bookkeeper were the highest contributors to their capital replacement reserves, reporting a median total contribution of $1,269 per unit. At the same time, they were more likely than other co-ops to set aside nothing at all. At $1,131, those with paid staff came in above the portfolio median. Co-operatives using contracted property-management services improved their contributions to $1,095 from $890 in 2007. Volunteer-run housing co-operatives put aside the least, with a median contribution rate of $974 per unit. For all management models, contributions, including supplementary contributions made from surplus operating earnings, increased over those made in 2007.

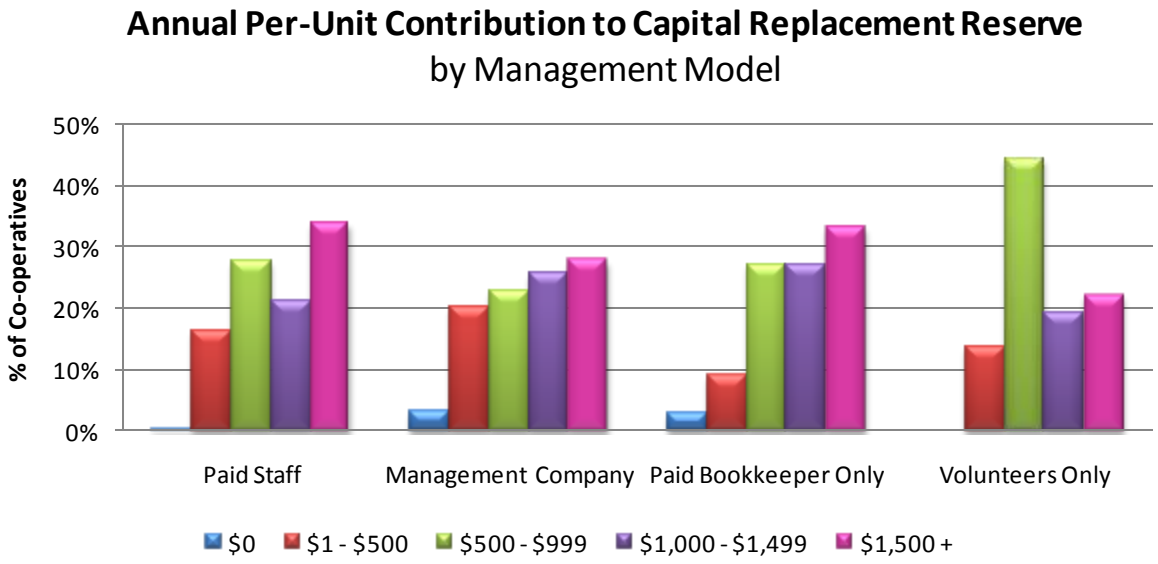

Figure 40

Administration Costs

As compared with 2007, median annual administration costs for volunteer-only co-operatives rose from $104 to $110 per unit, declined for those with paid bookkeepers only ($285 to $246), and rose for management companies (from $515 to $526) and for co-ops with their own staff ($793 to $816). Whatever accounts for these changes, it remains the case that the volunteer-only model is the least costly form of administration and paid staff the most expensive—at least, as regards direct, immediate costs.

In the course of our research, we saw co-operatives that follow the volunteer-only management model continuing to emerge as a cohort with a well-defined character. They tend to be smaller, are often priced below market and, for historical reasons, are concentrated in Edmonton, Victoria, the greater Vancouver region and Ottawa. Many are examples of the Darwinian principle of survival of the fittest, manifesting their fitness through superior performance in several areas, particularly very low vacancy losses and arrears. The former is almost certainly

due to their below-market housing charges. While the greater affordability of volunteer-led co-operatives may contribute to lower arrears, we expect that peer pressure is also a factor: those collecting the monthly housing charge share the same obligation to pay it and may not be inclined to forgive their neighbours' delay. Many fewer housing co-operatives rely on the volunteer-only model than was once the case. Those less hardy than their peers either abandoned the model, choosing one of the more expensive but less demanding alternatives, or were obliged to give it up as a condition of receiving a workout loan.

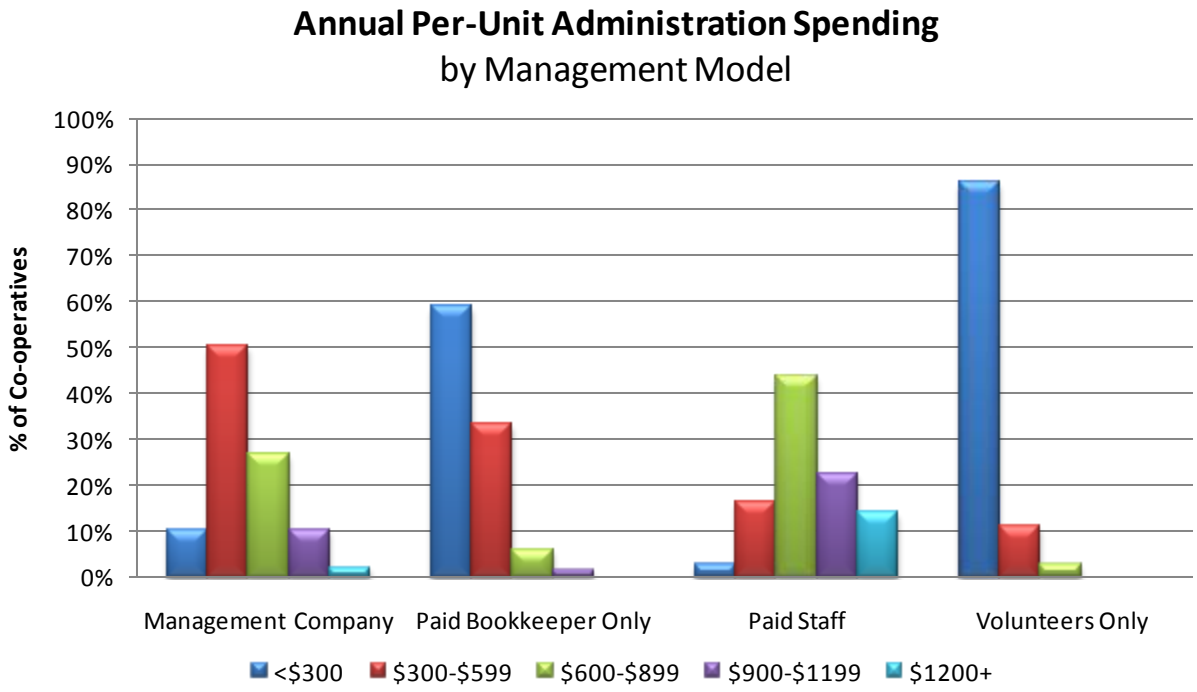

Figure 41

Although their increased spending in 2008 is encouraging, the weakness of all-volunteer co-operatives remains a reluctance to invest in their buildings. In spite of performing well in the aggregate in several areas that test the strength of a co-operative's management, a majority (53%) were rated at Above-Average risk. Unless these co-ops become more willing to set aside funds in their capital replacement reserves and spend the money as needed, they may find themselves losing their market appeal over time or staring at emergency repair needs without the financial resources to pay for them.

Chapter 6: Strong Performers

During our research for this report, we chose to examine a group of co-ops we named "strong performers," identified through our risk-rating model as being in robust financial health.

This group included co-ops that

- had a composite risk rating of Low, or
- had a composite risk rating of Moderate and either of the following two combinations of leading indicators:
  - Excellent physical condition, Good liquidity and Excellent net income
  - Good physical condition, Excellent liquidity (score of 15+) and Excellent net income.

Seventy-three co-operatives, or 14.7 per cent of the 2008 dataset, met this definition. As shown below, our investigation proved them to be a distinct, although not homogeneous, group.

FACTS & FIGURES: STRONG PERFORMERS

Total strong performers: 73

Distribution by Program:		
S27/61	9	12%
S95	51	70%
FCHP (ILM)	6	8%
UN/PEI NP	3	6%
Multiple	4	4%
Distribution by Province:		
B.C.	13	18%
Alberta	10	14%
Ontario	49	67%
PEI	1	1%
Distribution by Management Model:		
Paid Staff	46	63%
Management Company	18	24%
Bookkeeper (Paid) Only	7	10%
Volunteer Only	2	3%

Description

Program

Most of the strong performers operated under the S95 Program (51 co-ops: 70%); 12 per cent came under the S61 Program and the rest were distributed among the remaining programs or had multi-program operations. FCHP (ILM) co-ops were greatly under represented: only five per cent of all ILM co-ops (six co-ops out of 123) were strong performers. In contrast, multi-program and deep-subsidy (Urban Native and PEI Non-profit) co-operatives were over represented (four out of 15 and three out of five, respectively).

Size

Strong performers came in all sizes, but were clustered numerically in the mid-range: one to 35 units (12 co-ops), 36 to 70 units (22 co-ops), 71 to 105 units (26 co-ops) and 106+ units (13 co-ops). However, compared to their presence in the 2008 dataset, larger co-operatives were over represented: just under 30 per cent of co-ops with more than 106 units were strong performers, more than three times their nine-per cent weight in the 2008 dataset. Among co-ops having 35 to 69 units, only 10 per cent were strong performers, although co-ops of this size made up 45 per cent of the dataset.

Location

Two regions had significant concentrations of strong performers, together making up just over one-quarter of the whole group (20 of 73 co-ops): 40 per cent of co-operatives in Calgary were strong performers (six out of 15), as were one-third of co-ops in the GTA belt (the area

surrounding Toronto) (14 out of 42). With 22 strong performers (23% of the group), Toronto, which formed 19 per cent of the dataset, was slightly over represented.

Management Type

Strong performers were almost exclusively administered by paid staff or management companies. Nearly two-thirds (63%) of strong performers employed their own paid staff (as compared to 43 per cent of the dataset). Only six per cent of volunteer-operated co-ops (two out of 36) were strong performers.

Performance

Building Expenditures and Reserve Funds

Because we defined strong performers largely by their robust financial position, it is unsurprising that, compared with other co-operatives at least, most had substantial capital replacement reserve funds. Just under 10 per cent had balances below $2,000 per unit, compared to 37.5 per cent of other co-ops. By another test, 12 per cent of strong performers had reserve-fund balances of less than two per cent of their insured replacement value, compared to 45.5 per cent of other co-ops.

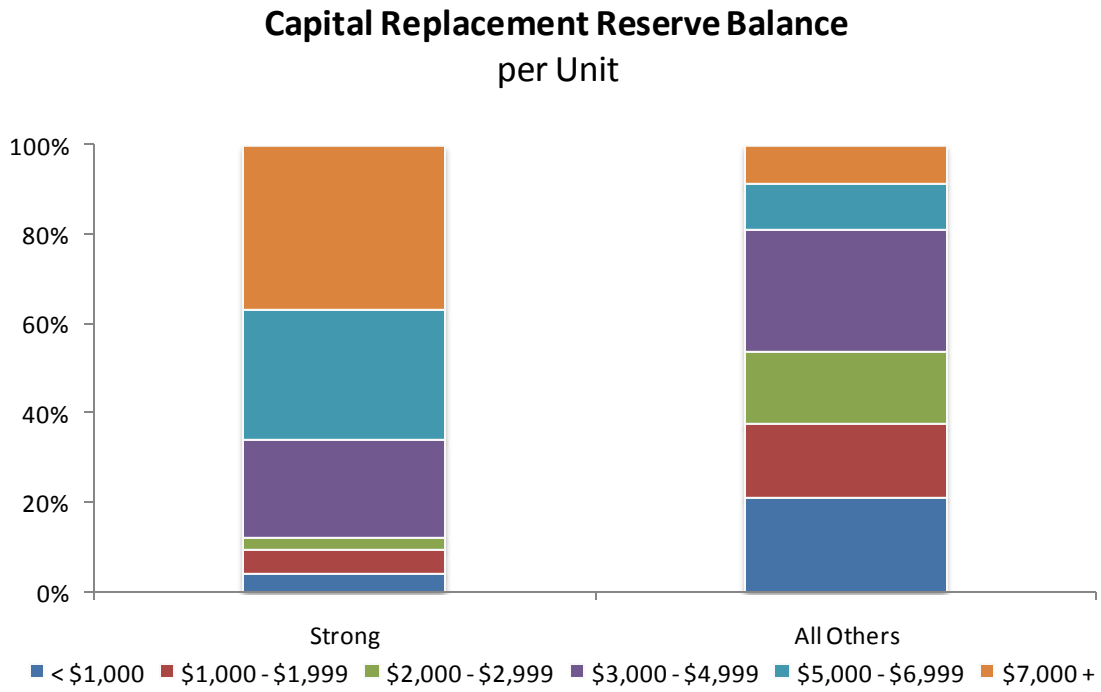

Figure 42

Eighty-four per cent of strong performers contributed at least $1,000 per unit per year to their reserve, compared to 49 per cent of other co-ops. At the lower end, only 5.5 per cent of strong performers contributed less than $500 per unit per year, compared to 21 per cent of other co-ops. Among strong performers, the median annual contribution, including supplementary contributions made from surplus operating earnings, was $1,675 ($995 for other co-ops). Looking at reserve-fund contributions in another way, 78 per cent of strong performers

contributed an amount equal to at least one per cent of the insured replacement value of their buildings, compared to just under 36 per cent of other co-ops; still, some seven per cent of strong performers contributed less than 0.5 per cent of their insured replacement value, although this compares favourably with the 30 per cent of other co-ops who did the same.

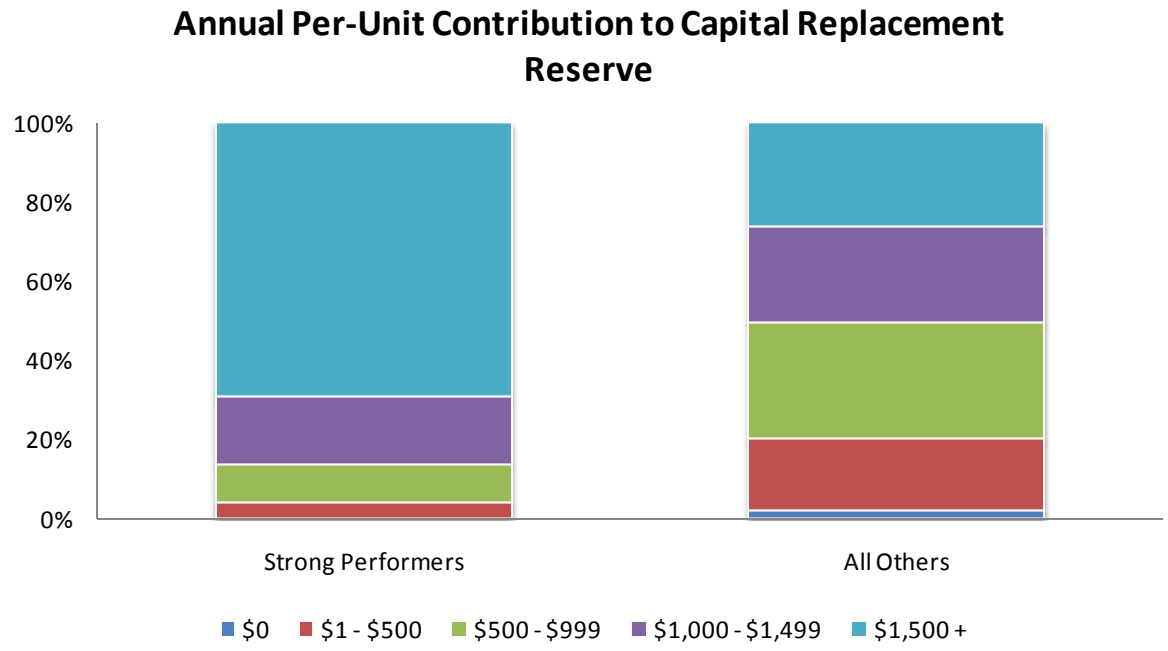

Figure 43

In the area of investment in their physical plant, the contrast between strong performers and other co-ops was less striking, although a distinct tendency was evident among the former to spend more on their buildings. Just over 30 per cent of strong performers spent at least $3,000 per unit per year on maintenance and capital repairs and replacements combined, compared to just under 20 per cent of other co-ops. The median expenditure was $2,314 per unit for strong performers and $1,873 for other co-ops. Turning to the low end of the scale, only 21per cent of strong performers spent less than $1,500, compared to one-third of other co-ops. From the perspective of insured replacement value, 42.5 per cent of strong performers spent at least two per cent of insured replacement value on maintenance and capital repairs and replacements, compared to 29 per cent of other co-ops; and only 9.6 per cent of strong performers spent less than one per cent of insured replacement value, compared to 22 per cent of other co-ops.

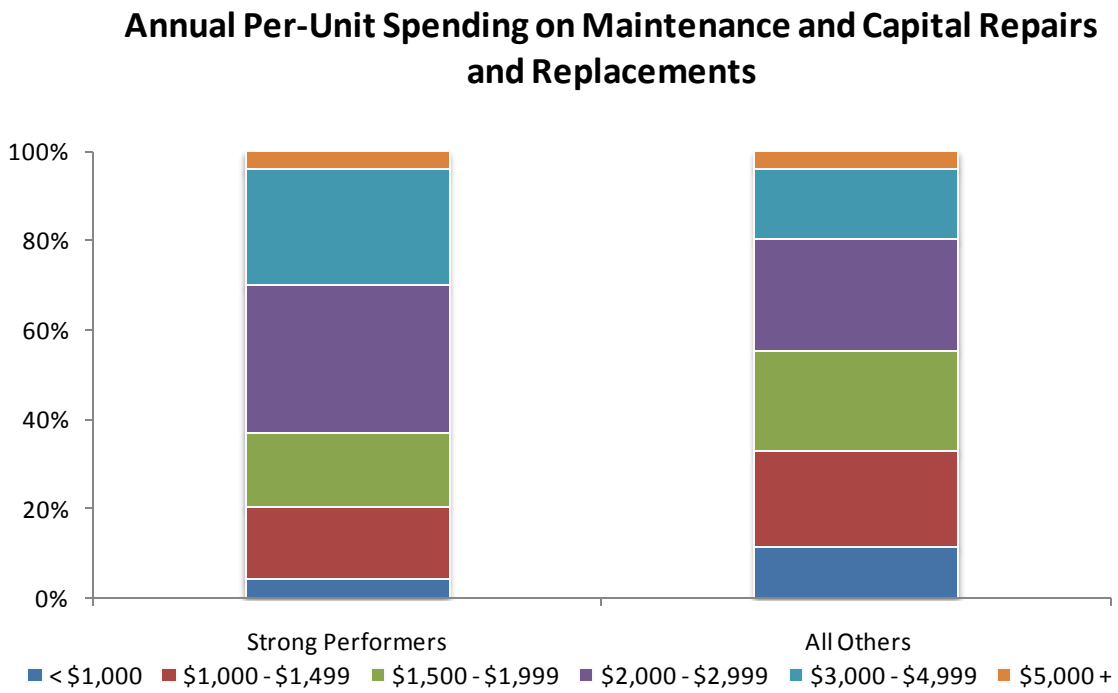

Figure 44

Vacancy Rates

Nearly half the strong performers—36 co-ops—were located in rental markets of moderate strength (vacancy rates of between two and three per cent), well above the portfolio-wide level of 39 per cent, and close to one third were in high-vacancy market areas, compared with one quarter of the dataset as a whole. By contrast, strong performers were dramatically under represented in low-vacancy market areas (19%, compared with 39% for others). These results suggest that strong performers owe their results not to a tight local rental market, but to their own actions.

The median annual vacancy loss in 2008 was $18 per unit among strong performers and about double that ($38 per unit) among other co-ops, clearly an indicator of the former's good management. In fact, nearly 25 per cent of strong performers reported no vacancy losses at all. Most strong performers (92%) had vacancy losses of less than one per cent, as compared with only two-thirds of other co-ops. Only one of the strong performers (1.4%) reported vacancy losses above two per cent of gross housing charge potential, in contrast to 21 per cent of other co-ops.

None of the strong performers had "worse than market" performance. Sixty-three per cent performed better than market, and 31.5 per cent were close to market. Among other co-ops, 13 per cent reported results worse than market, 22 per cent were close to market and 27 per cent reported better-than-market performance. Interestingly, a higher percentage of co-ops that failed to qualify as strong performers (32%) reported no vacancy losses.

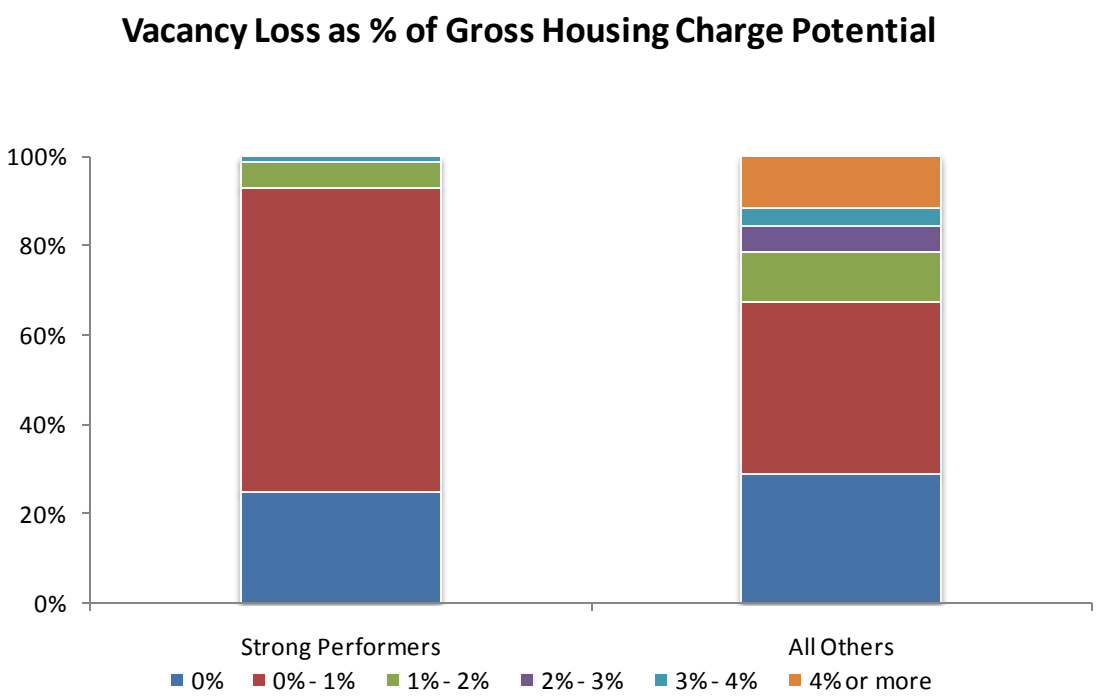

Figure 45

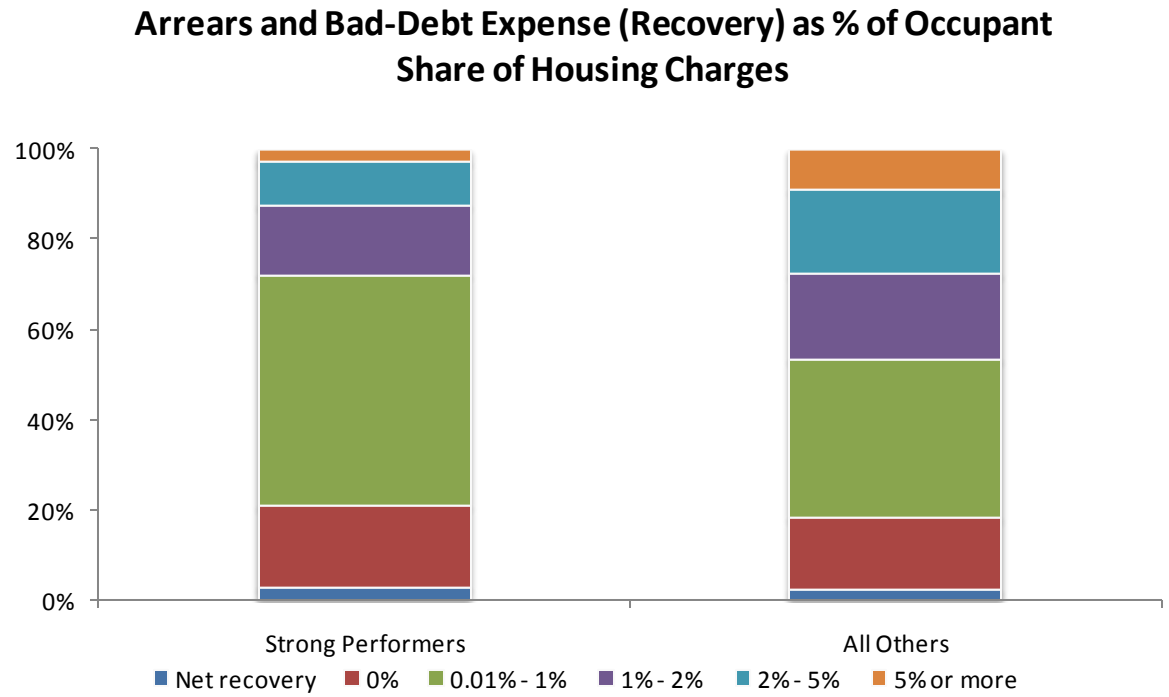

Figure 46

Arrears and Bad-Debt Expense

As the chart on the previous page reveals, a decided majority of strong performers distinguished themselves with very low arrears and bad debts, rather than none. Excluding those with net recoveries, just under 84 per cent of strong performers reported combined arrears and bad debts of less than two per cent of the share of housing charges payable by occupants (68.5 per cent were below one per cent), compared to 69 per cent of other co-ops (50.5 per cent of which had rates below one per cent). The gap narrowed considerably in the net-recovery and no-arrears and bad debts category, with nearly 21 per cent of strong performers falling in this group and other co-ops close behind at 18 per cent. Twelve per cent of strong performers had rates greater than two per cent, less than half the 27 per cent rate among other co-ops.

Administrative Expenses

Strong performers tended to spend more heavily on administration than other co-operatives did: median annual administrative spending was $771 per unit in 2008 for strong performers and only $557 for other co-ops. Of strong performers, 30 per cent spent $900 or more per unit, compared to only 19 per cent of other co-ops. At the low end of the scale, only 31.5 per cent of strong performers spent less than $600 per unit annually, well below the 53 per cent of other co-ops that fall into this band.

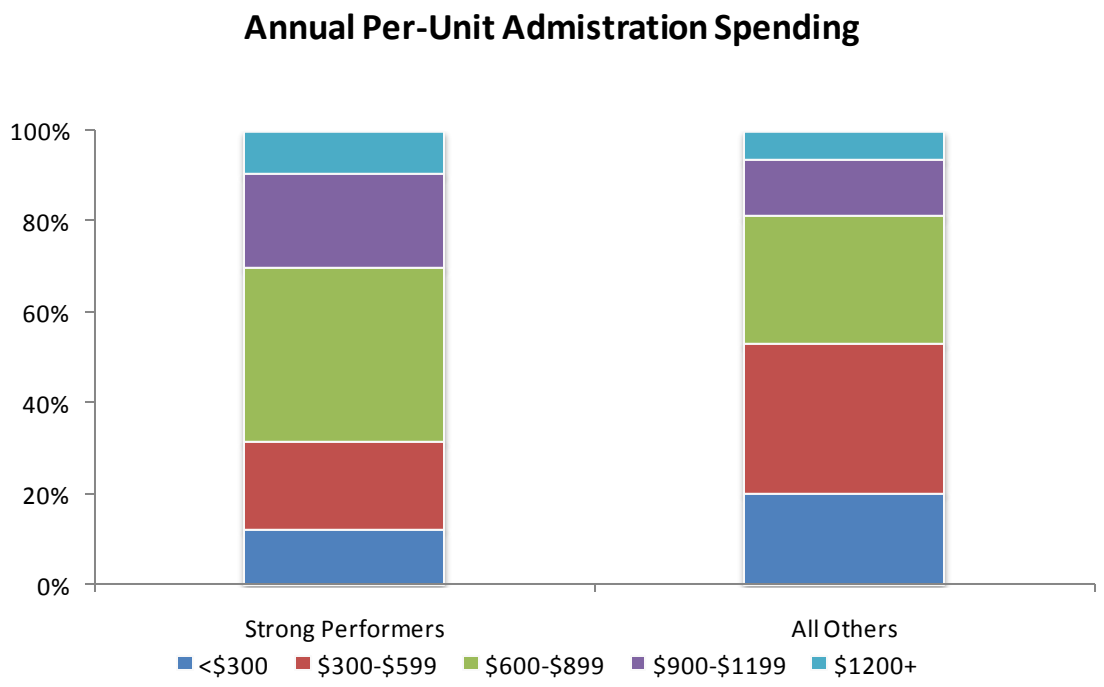

Figure 47

Strong performers are a group that the Agency will be watching closely in future years. They invest in their buildings, demonstrate sound management practices by keeping vacancy losses and arrears low, and spend to effect on administration. If they do nothing perfectly, they do almost everything well. In the end, isolated excellence may prove to be of less value in a housing co-operative than all-around competence.

Chapter 7: Looking Back, Looking Ahead

By the year 2008, the housing co-operatives in our portfolio were beginning to understand what they could expect from the Agency and what their relationship manager would ask of them—repeatedly, if necessary. In the context of this established relationship, our clients were starting to change some of their practices, if not always as quickly and completely as the Agency might have wished. This report shows consistent improvement over 2007 in several key risk indicators. In addition, we identified a robust group of co-operatives—strong performers—that we believe can play a leadership and modeling role for others in future years. We expect to look to this group of co-operatives for the best practices that other clients will want to emulate.

We have much to feel positive about but cannot view the next few years without some anxiety. A report produced for the Agency on 16 key rental markets in the provinces in which we operate[12] suggests that 2009 and 2010 will see sharp changes in many sub-regions. Indeed, some of these are already taking place, as the housing bubbles in urban British Columbia and Alberta begin to deflate. Because the housing stock is continuing to increase in many centres, the report projects that co-operatives will face increased competition next year in the form of new condominium apartments and some new low-rise housing as it comes onto the rental market for lack of buyers. Challenging conditions will affect Toronto and such manufacturing-dependent areas as Hamilton, Oshawa and South-Western Ontario. Confronting these predictions of softening markets, the Agency will continue to urge co-operatives to offer rental incentives where appropriate, to take advantage of the increased availability of building trades during the economic slowdown, and, literally and figuratively, to put their houses in order against the cold winds of economic decline. Looking further ahead, we are also encouraging co-operatives to adopt sustainable practices that will help them both reduce their environmental footprint and perform effectively and economically over the long term in their role as stewards of decent housing offered at a fair price to a mixed community of resident members.

12. Will Dunning, *Rental Market Ratings*, February 2009. Dunning's sources included the data, commentary and forecasts published by Canada Mortgage and Housing for rental markets and housing markets, housing completions and resale activity from the Canadian Real Estate Association, and data about employment and population growth from Statistics Canada.

Appendix A: The 2008 Dataset

The information presented in this report is drawn from Annual Information Returns received and validated by the Agency by January 15, 2009 for fiscal years ending between August 2007 and July 2008. The data were organized by co-operative and by "study year," i.e., a single fiscal year ending within the period indicated above. Static values, such as province, were attached to co-operatives and set out in a co-op table, while attributes that can vary from year to year, such as management type, were assigned on a study-year basis.

Altogether, the co-op table holds 511 records. At January 15, 2009 the Agency had valid AIRs for both 2007 and 2008 for 486 of these. For 14 others, we had 2007 data only and for another 11, data for 2008 alone. (These 11 were not previously Agency clients.) The 2007 dataset, therefore, comprises 500 co-ops and the 2008 dataset 497, giving a total of 997 records in the study-year table.

Of the 14 co-ops for which we lacked 2008 data, half were carrying composite risk ratings of Above Average and half ratings of High. In the Agency's view, their inclusion in the 2008 dataset—had their data been available—would not have led to materially different findings. The table below shows the actual distribution of risk ratings within the 2008 dataset, compared to a theoretical distribution with the 14 co-ops included, assuming their risk ratings remained unchanged from 2007.

Composite Risk Rating	2008 Actual	%	2008 Theoretical	%
Low	10	2%	10	2%
Moderate	205	41%	205	40%
Above Average	201	40%	208	41%
High	81	16%	88	17%
Total	497	100%	511	100%

Appendix B: The 2007 and 2008 Datasets and Full Agency Portfolio Compared

	Portfolio	2008 Dataset*	2007 Dataset**
Co-operatives	511	497	500
% of Portfolio	100%	97%	98%
Units	31,109	30,548	30,668
% of Portfolio	100%	98%	99%

* data for fiscal years ending between August 2007 and July 2008 where AIR validated by 15 January 2009

** data for fiscal years ending between August 2006 and July 2007 where AIR validated by 15 January 2008

Distribution By Program	S27/61	S95	FCHP (ILM)	Multiple	UN/ PEI NP*	Total
Portfolio	53	310	127	16	5	511
%	10%	61%	25%	3%	1%	100%
2008 Dataset	53	301	123	15	5	497
% **	11%	61%	25%	3%	1%	100%
2007 Dataset	53	302	126	14	5	500
%	11%	60%	25%	3%	1%	100%

* excluded from program analysis, as numbers were insufficient

** A series of rounded percentages may not add up to 100%.

Distribution By Province	B.C.	Alberta	Ontario	PEI	Total
Portfolio	173	54	274	10	511
%	34%	10%	54%	2%	100%
2008 Dataset	171	50	266	10	497
%	34%	10%	54%	2%	100%
2007 Dataset	166	51	273	10	500
%	33%	10%	55%	2%	100%

Distribution By Management Model	Management Company	Paid Staff	Bookkeeper (Paid) Only	Volunteer Only	Total
Portfolio	183	211	76	41	511
%	36%	41%	15%	8%	100%
2008 Dataset	183	212	66	36	497
%	37%	43%	13%	7%	100%
2007 Dataset	175	211	73	41	500
%	35%	42%	15%	8%	100%

Appendix C: Definition of Composite Risk Ratings

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

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

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

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

Appendix D: Median Performance Data

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss		Ratio of Combined Arrears and Bad Debts to Occupant Share of Housing Charges		Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements *	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Full Dataset	0.4%	0.4%	$32	$33	0.9%	0.8%	$1,866	$1,952
Strong Performers	0.1%	0.2%	$11	$18	0.4%	0.4%	$2,187	$2,314
All Others	0.5%	0.4%	$42	$38	1.0%	0.8%	$1,822	$1,873
Program								
S27/61	0.1%	0.2%	$12	$19	0.9%	0.7%	$1,731	$1,772
S95	0.3%	0.3%	$28	$31	0.7%	0.6%	$1,936	$2,024
FCHP (ILM)	0.7%	0.5%	$67	$51	1.2%	1.2%	$1,731	$1,663
Urban Native/PEI NP **	N/A	N/A	$20	$0***	3.0%	14.0%	$3,592	$1,673
Multi-Program	1.0%	1.0%	$122	$84	1.1%	1.5%	$2,394	$3,040
Province								
British Columbia	0.2%	0.1%	$15	$9	0.4%	0.4%	$1,716	$1,971
Alberta	0.3%	0.2%	$27	$17	0.7%	0.6%	$1,502	$1,489
Ontario	0.7%	0.7%	$62	$65	1.3%	1.3%	$2,051	$2,023
PEI	0.4%	0.0%	$26	$0	0.0%	0.0%	$1,595	$1,560
Management Model								
Paid Staff	0.4%	0.4%	$31	$40	1.0%	0.9%	$2,076	$2,053
Management Company	0.5%	0.4%	$45	$40	1.0%	0.9%	$1,869	$1,957
Bookkeeper (Paid) Only	0.2%	0.2%	$18	$19	0.4%	0.3%	$1,659	$1,727
Volunteer Only ****	0.0%	0.0%	$0	$0	0.5%	0.0%	$1,459	$1,777

* excludes those capital expenditures amortized to operations over time

** There is no regular occupancy charge in these programs, which are fully occupied on a rent-geared-to-income basis.

*** Average loss is $3 per unit.

**** averages: Vacancy Loss as % of GHCP: 3% (2007), 2% (2008); Annual Per-Unit Vacancy Loss: $81 (2007), $64 (2008); Arrears/Bad-Debt Expense Ratio: 2.6% (2007), 1.4% (2008)

Appendix D: Median Performance Data (continued)

	Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution (excluding supplemental contributions)		Annual Per-Unit Capital Replacement Reserve Contribution (including supplemental contributions)		Annual Per-Unit Administration Spending	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Full Dataset	$3,028	$3,133	$672	$735	$954	$1,123	$575	$590
Strong Performers	$6,106	$5,725	$972	$1,112	$1,630	$1,675	$668	$771
All Others	$2,704	$2,821	$631	$678	$816	$995	$545	$557
Program								
S27/61	$3,202	$3,686	$929	$1,099	$1,089	$1,268	$401	$422
S95	$3,412	$3,652	$783	$874	$1,197	$1,297	$563	$585
FCHP (ILM)	$2,052	$2,228	$479	$529	$583	$656	$584	$605
Urban Native/PEI NP	$728	$1802	$578	$720	$753	$760	$888	$955
Province								
British Columbia	$3,071	$3,084	$789	$852	$1,068	$1,128	$381	$396
Alberta	$2,139	$2,762	$560	$574	$756	$935	$353	$386
Ontario	$3,243	$3,346	$667	$700	$954	$1,163	$773	$810
PEI	$1,574	$1,478	$423	$410	$413	$412	$680	$716
Management Model								
Paid Staff	$3,185	$3,288	$666	$724	$966	$1,131	$793	$816
Management Company	$2,745	$2,831	$694	$759	$890	$1,095	$515	$526
Bookkeeper (Paid) Only	$2,912	$3,493	$714	$846	$1,089	$1,269	$285	$246
Volunteer Only	$3,495	$3,982	$584	$649	$858	$974	$104	$110