2016

Biannual Portfolio Performance Review

REPORT TO CMHC

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

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Key Findings

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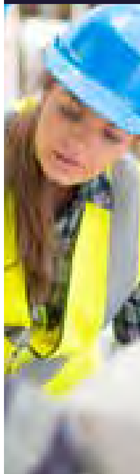
Key Findings

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

- 85 per cent of Agency clients are fully compliant with their operating agreements (2008: 70%).
- Compliance failures have declined for all degrees of severity since 2008.
- Mortgage and tax arrears have fallen since 2007.
- More than half the portfolio (54%) is now rated Low or Moderate risk (2007: 39%).
- 88 per cent of clients show a Stable or Strengthening risk trend.
- Total mortgage debt in the portfolio fell substantially between 2007 and 2016, despite the addition of new clients with large loans.

Key Findings

- Despite the addition to our portfolio of B.C. co-operatives with premature building-envelope failure, the share of clients with a High composite risk rating has declined to 11 per cent (2007: 14%).
- 96 per cent of underperformers that returned to financial health by the end of 2016 did so without Enhanced Assistance or a CMHC Insurance loan.
- 84 per cent of clients saw their Liquidity, and 65 per cent their Net Income, rated Good or Excellent in 2016 (2007: 79% and 55%).
- 62 per cent have a rating of Good or Excellent on both Liquidity and Net Income (2007: 50%).
- 83 per cent have a Good or Excellent physical-condition rating (2007: 77%) and only one per cent a Poor rating (2007: 1%).



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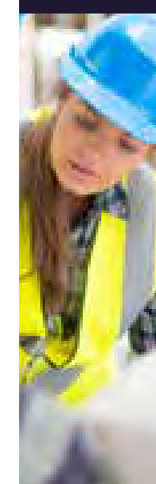
Key Findings

- Revenue lost to vacancies, arrears and bad debts has fallen materially since 2007.
- Median combined occupant arrears and bad debts have fallen to 0.5 per cent as a percentage of total occupant housing charges (2007: 0.9%).
- The percentage of clients reporting director arrears at year end has fallen by more than half (2016: 12%; 2007: 28%).
- The per-client annual vacancy loss fell 39 per cent between 2007 and 2016.
- The total portfolio annual vacancy loss is down 37% ($2,177,156) in constant dollars from 2007.

Key Findings

GOAL: Continued benefits of co-operative housing for Canadians

- Fewer clients are under insured.
- Spending on maintenance and improvements is rising in constant dollars (median spending per unit in 2016: $2,949; 2007: $2,150).
- Over nine years, the median annual per-unit replacement-reserve contribution has more than doubled in constant dollars (2016: $1,940; 2007: $957).
- 95 per cent of clients are fully backing their reserve with cash and investments (2007: 91%).



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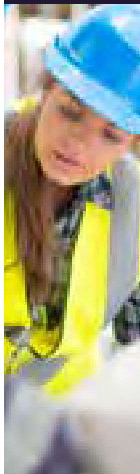
Key Findings

GOAL: Improved client satisfaction within the portfolio

- Client satisfaction has greatly improved since the base year of 2005, the last full year of CMHC's direct management of the portfolio, and continues to be strong, as confirmed by the Agency's 2015 Client Satisfaction Survey.



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Overview

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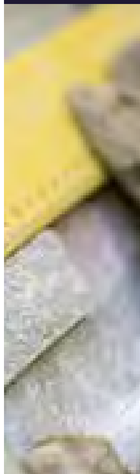
Overview

- The Agency portfolio includes housing co-operatives operating under six programs in four provinces.
- This review reports on the collective performance of 523 clients, who together own 31,563 units of housing.
- The co-operatives studied comprised 98 per cent of the Agency's portfolio at December 31, 2016.



Overview

This review measures progress made over the past 10 years toward the three principal objectives set out in the Agency's agreement with CMHC.

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

2
continued benefits of co-operative housing for Canadians

3
improved client satisfaction within the portfolio

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Overview

Positive results observed include

COMPLIANCE

more clients in full compliance with their operating agreement

RISK PROFILE

observable improvement in the portfolio's risk profile

CLIENT SATISFACTION

higher levels of client satisfaction

OPERATING PERFORMANCE

reduced revenue leakage and better care of co-operatives' collective assets

Overview

Dataset

- The dataset for 2016 draws from 523 Annual Information Returns (AIRs) filed by Agency clients for fiscal years ending in the period August 2015 to July 2016 and validated by January 15, 2017.
- Datasets for prior years are for equivalent periods.
- Appendix A includes more information on the datasets.
- The first full year of Agency operations was 2007, the base year against which 2016 information is compared for most indicators.
- All dollar amounts are indexed as constant dollars to 2016, unless otherwise specified.

Overview

Portfolio Profile: Program Distribution

The breakdown of the dataset by program has changed only slightly over the decade during which the Agency has been operating.

Table 1: Client Distribution by Program

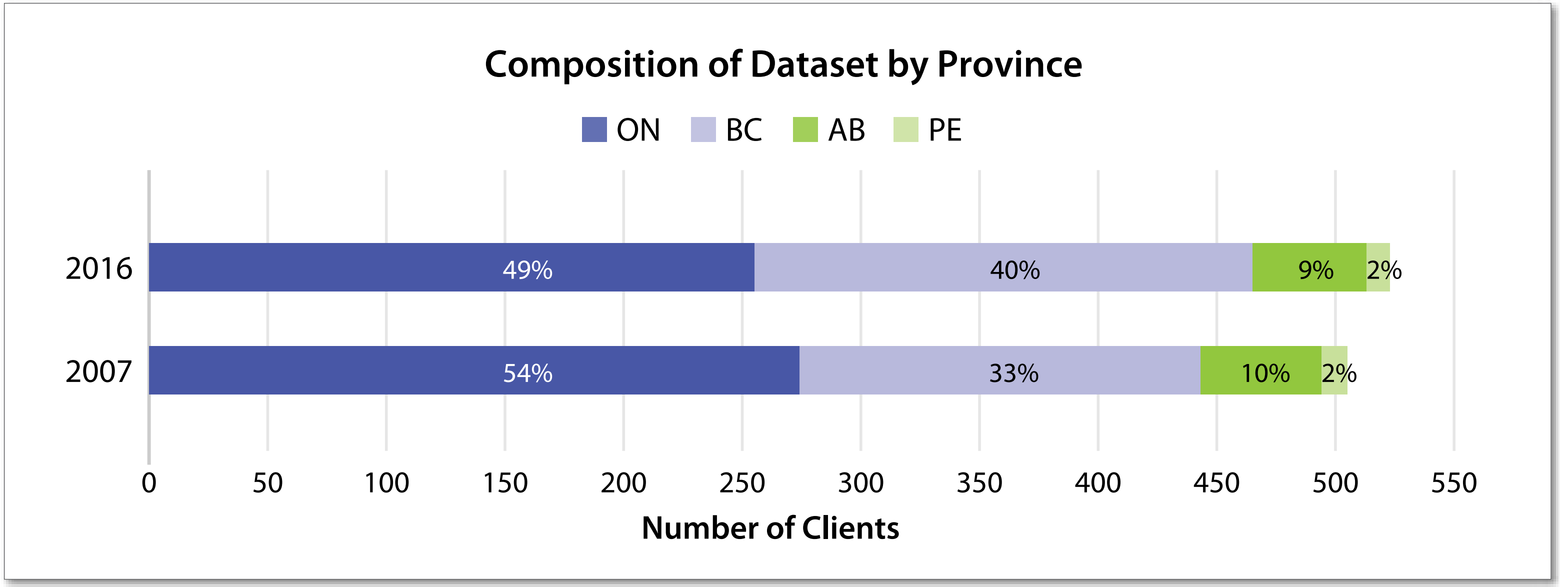
Program	No. 2016	No. 2007	% 2016	% 2007
S27-61	48	54	9%	11%
S95	323	306	62%	61%
FCHP (ILM)	133	126	25%	25%
Multiple	14	14	3%	3%
Urban Native/ PEI Non-Profit	5	5	1%	1%
Total	**523**	**505**	**100%**	**100%**

Overview

Portfolio Profile: Provincial Distribution

Though little changed since our last review (2014), the provincial distribution is somewhat different from that of 2007, owing to new clients arriving from B.C. and some expiring operating agreements in Ontario.

Portfolio Profile: Provincial Distribution



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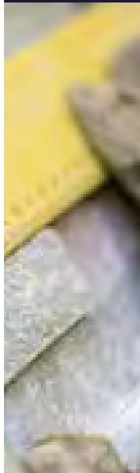
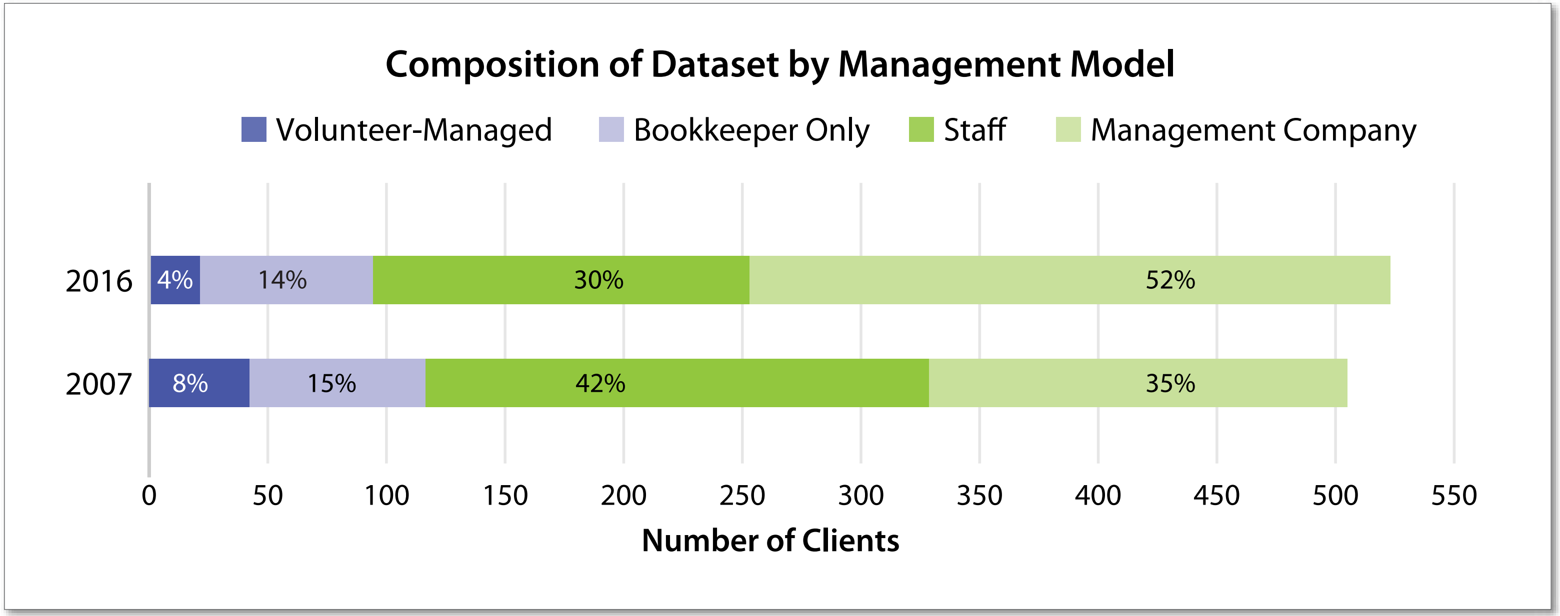
Overview

Portfolio Profile: Distribution by Management Model

- Agency clients are making greater use of the services of property-management companies.
- The change reflects both the addition of clients from B.C., where contract property management has long predominated, and the growing preference for this management model in Ontario.
- The proportion of clients using management companies has grown from 47 per cent to 52 per cent since 2014. The increase has happened entirely at the expense of the direct-staffing model (down five percentage points).



Portfolio Profile: Distribution by Management Model



Portfolio Compliance Profile

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Portfolio Compliance Profile

Approach

- The Agency's compliance-management program is intended to ensure that public funds expended under the co-operative housing programs are used as intended and properly accounted for.
- The data in this section reflect the compliance status of all 532 Agency clients at December 31, 2016.

Approach

- As the Agency's compliance-variance system was broadly reassessed in 2008, the results from that year serve as the baseline for this review, apart from mortgage and property-tax arrears, where the baseline is 2007.
- Operating-agreement compliance failures are classified as **Breaches** or **Material** or **Minor Compliance Variances**. These ratings are defined in Appendix B.

Portfolio Compliance Profile

AGREEMENT OBJECTIVES

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

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

2. Stable and, over time, improved levels of operating agreement compliance within the portfolio, as evidenced by a decline in the number of operating agreement breaches and material compliance variances

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

Agreement Objective 1

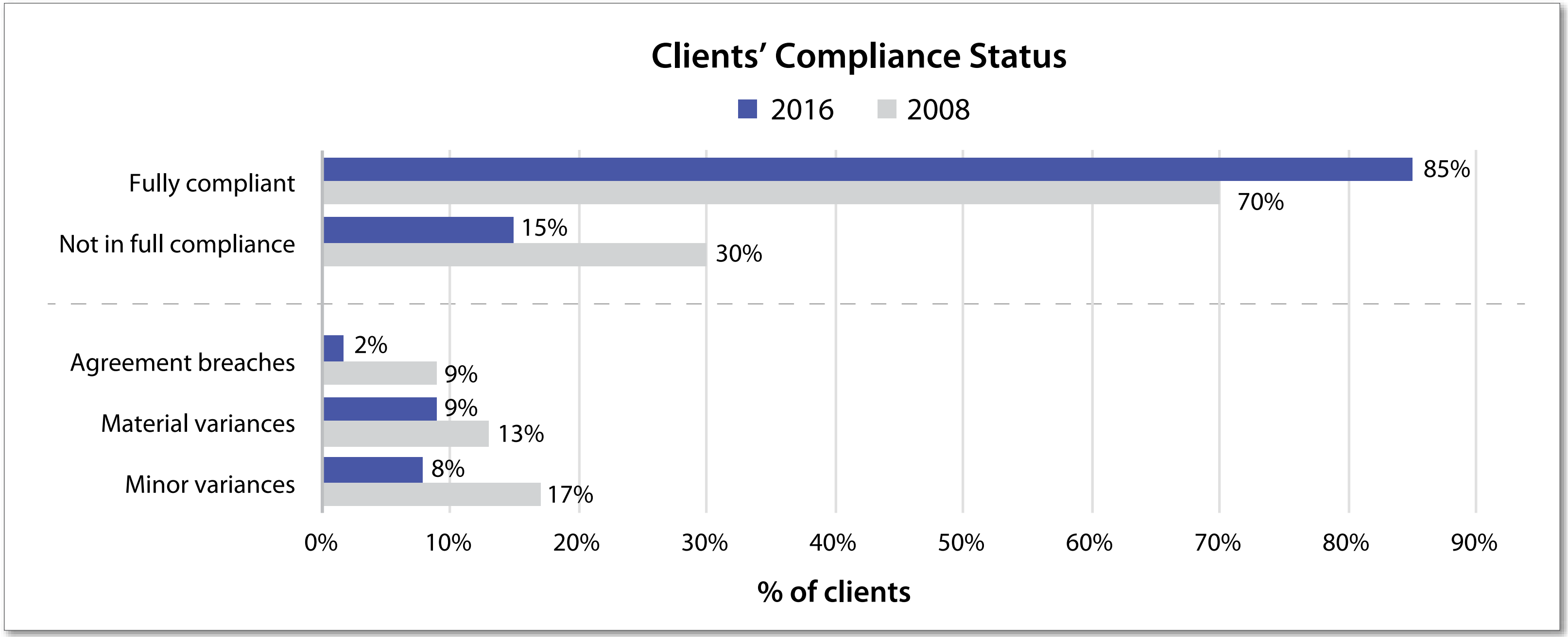
Increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements

- At December 31, 2016, 85 per cent of Agency clients were fully compliant with their CMHC operating agreement, up from 83 per cent in 2014 and 70 per cent in 2008.
- CMHC's second Renovation and Retrofit Initiative, announced in 2016, may account in part for the improvement since 2014, as it gave co-operatives an incentive to come into full compliance.
- Compliance failures have declined for all degrees of severity since 2008.

Portfolio Compliance Profile

- At two per cent and eight per cent of the portfolio, respectively, the number of clients with breaches and minor variances is down slightly from 2014 (3% and 9%). The share with material variances is unchanged at nine per cent.

Portfolio Compliance Profile



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

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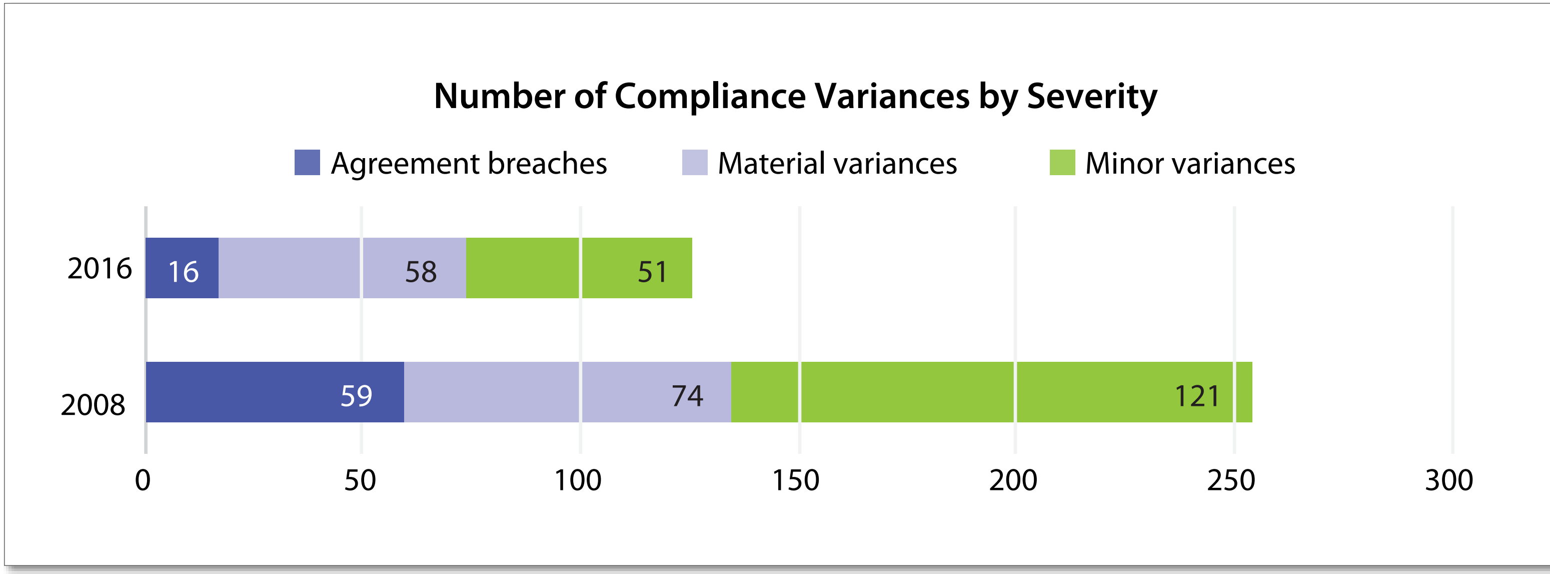
Agreement Objective 2

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

- Breaches and material compliance variances have fallen by three per cent since 2014, and 44 per cent since 2008.
- Compliance variances of all kinds have fallen from 254 in 2008 to 125 at the end of 2016, despite growth in the portfolio from 515 to 532 clients.

Portfolio Compliance Profile



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Portfolio Compliance Profile

Table 2: No. of Operating Agreement Breaches		
	2016	**2008**
Eligible Occupants	5	6
Mortgage Payments	2	13
Subsidy Surplus Fund	0	17
Annual Reporting	7	21
Verification of Incomes	0	2
Budget Submission	1	0
Rent Supplement Assistance	1	0
Total Breaches	**16**	**59**

Portfolio Compliance Profile

Table 3: No. of Material Operating Agreement Variances		
	2016	**2008**
Capital Replacement Reserve	35	67
Adequate Regular Housing Charges*	17	0
Rent Supplement Assistance	2	0
Eligible Occupants	1	5
Income-Tested Housing Charges	3	0
Management Services	0	2
Total Material Variances	**58**	**74**

* Variance type added after 2008

Portfolio Compliance Profile

Table 4: No. of Minor Operating Agreement Variances

	2016	2008
Annual Reporting	21	46
Capital Replacement Reserve	14	11
Net Operating Revenue Policy*	7	27
Security of Tenure Fund	5	11
Subsidy Surplus Fund	2	14
Audited Statements	1	0
Rent Supplement Assistance	1	0
Income-Tested Housing Charges	0	8
Verification of Incomes	0	4
Total Minor Variances	**51**	**121**

* Observance of this policy is not an operating-agreement requirement; its inclusion among other obligations overstates the degree of non-compliance in the portfolio. At the end of 2016, failure to observe this policy accounted for six per cent of all variances, down from seven per cent in 2014 (7 clients out of compliance in 2016; 2014: 10; 2013: 14; 2008: 27).

Agreement Objective 3

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

Mortgage and tax arrears have continued their decline from 2007 through 2014 and beyond. (The number of clients with mortgage or property-tax arrears in 2014 was eight and two, respectively).

Table 5: Mortgage and Property-Tax Arrears

	2016		2007	
	No. of Clients	% of Clients	No. of Clients	% of Clients
Mortgage Arrears*	4	0.8%	11	2.1%
Property-Tax Arrears**	1	0.2%	3	0.6%

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

Portfolio Risk Profile

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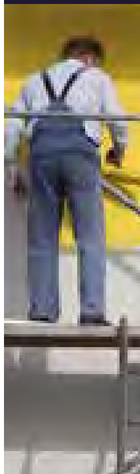
Portfolio Risk Profile

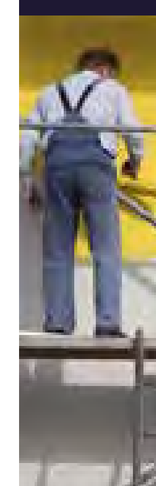
Approach

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



Approach

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



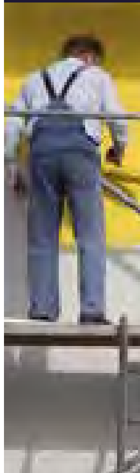
Portfolio Risk Profile

AGREEMENT OBJECTIVES

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

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

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



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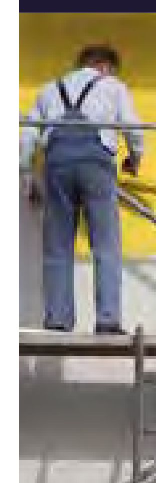
AGREEMENT OBJECTIVES

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

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

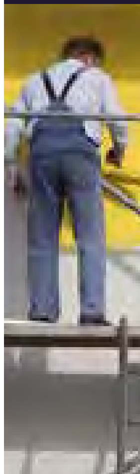
5. Improved physical condition of the stock, as evidenced by a stable or growing number of co-operatives with a physical-condition rating of Good or Excellent and a declining number of co-operatives with a physical-condition rating of Poor



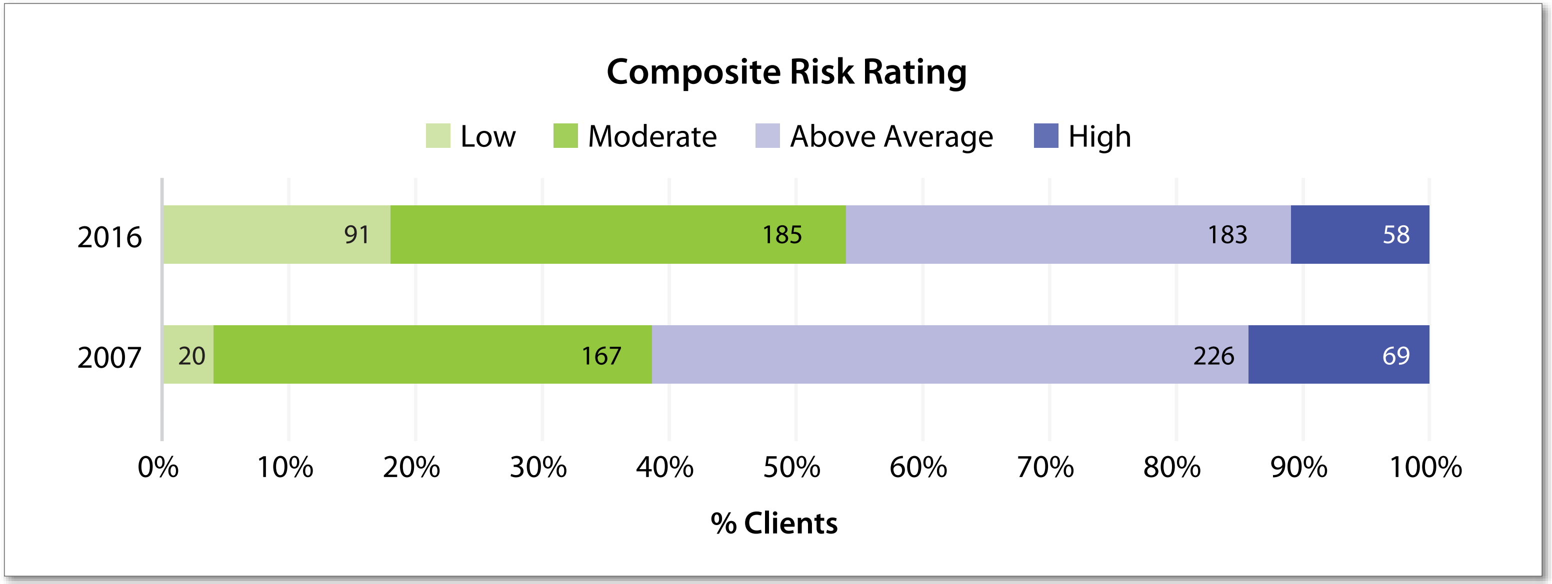
Agreement Objective 1

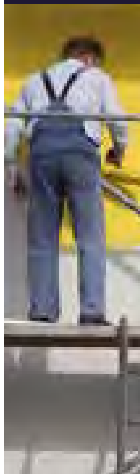
Increased awareness by co-operatives of their own performance, as evidenced by an improvement in the overall risk profile of the portfolio

- The risk profile of the portfolio has improved markedly since 2007.
- Co-operatives with composite ratings of **Above Average** or **High** comprised 46 per cent of our portfolio in 2016, down from 61 per cent in 2007 and 49 per cent in 2014.
- Clients with a composite rating of **Low** or **Moderate** now make up more than half the portfolio (54%, up from 39% in 2007 and 51% in 2014).



Portfolio Risk Profile





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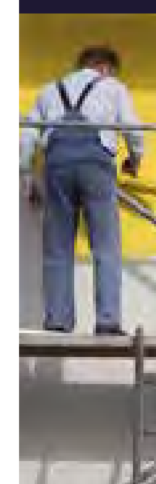
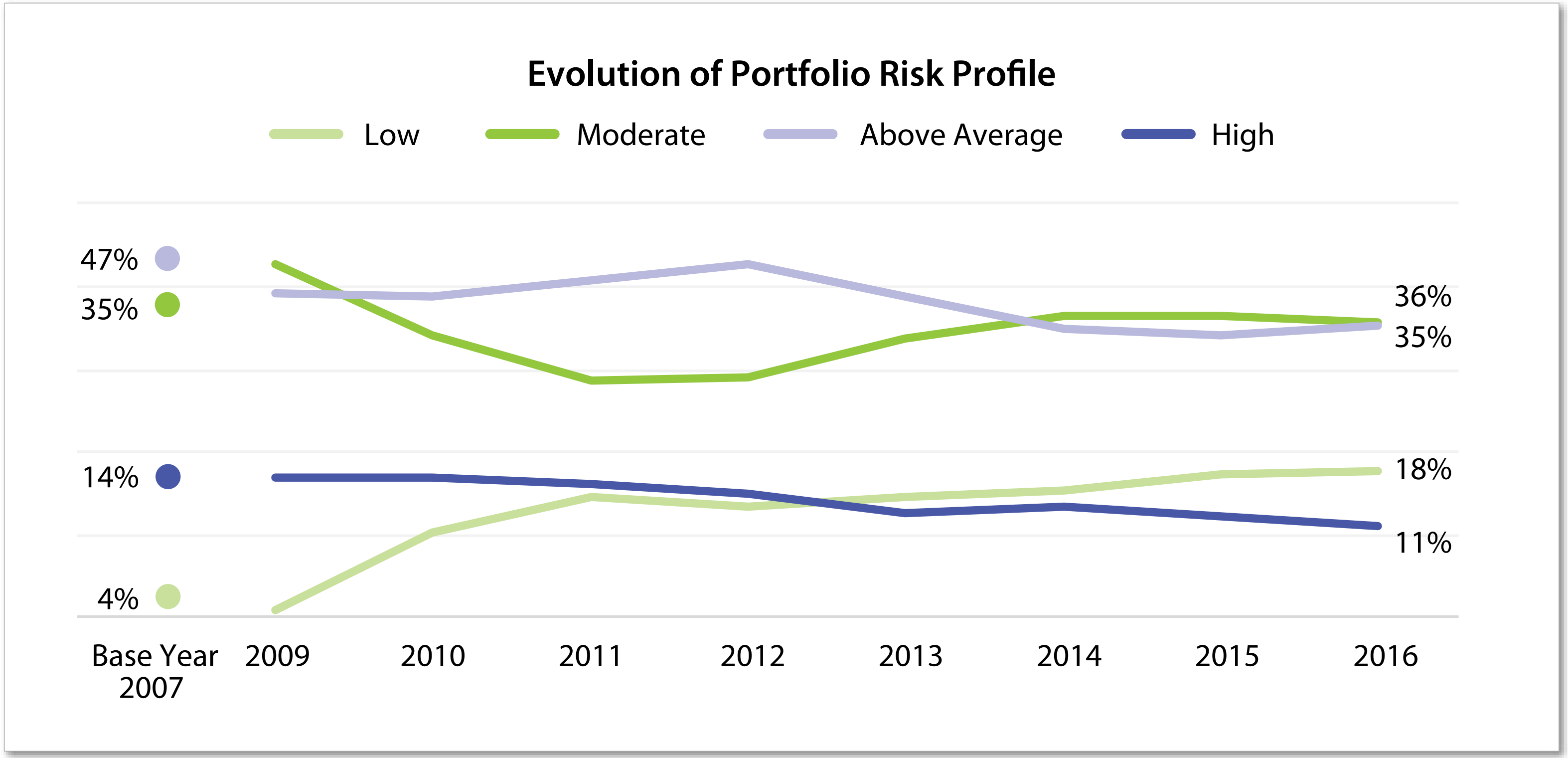
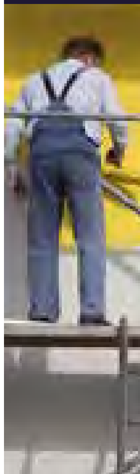
Portfolio Risk Profile

- After an initial increase, the percentage of clients carrying a **High** composite risk rating has fallen since 2010.
- The proportion of clients with a **Low** rating (18%) has more than quadrupled since 2007 (4%).
- At 36 per cent, the percentage of clients with a **Moderate** rating is essentially unchanged from 2014 (36%) and 2007 (35%).
- The share of clients with an **Above Average** rating (35%) is unchanged from 2014 (35%), but has dropped significantly since 2007 (47%).
- These results have been achieved despite an influx of clients initially held back at CMHC while a financial workout was developed.



Portfolio Risk Profile





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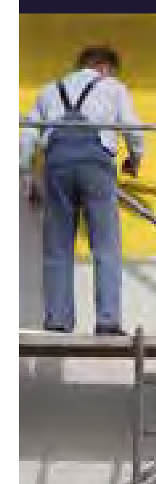
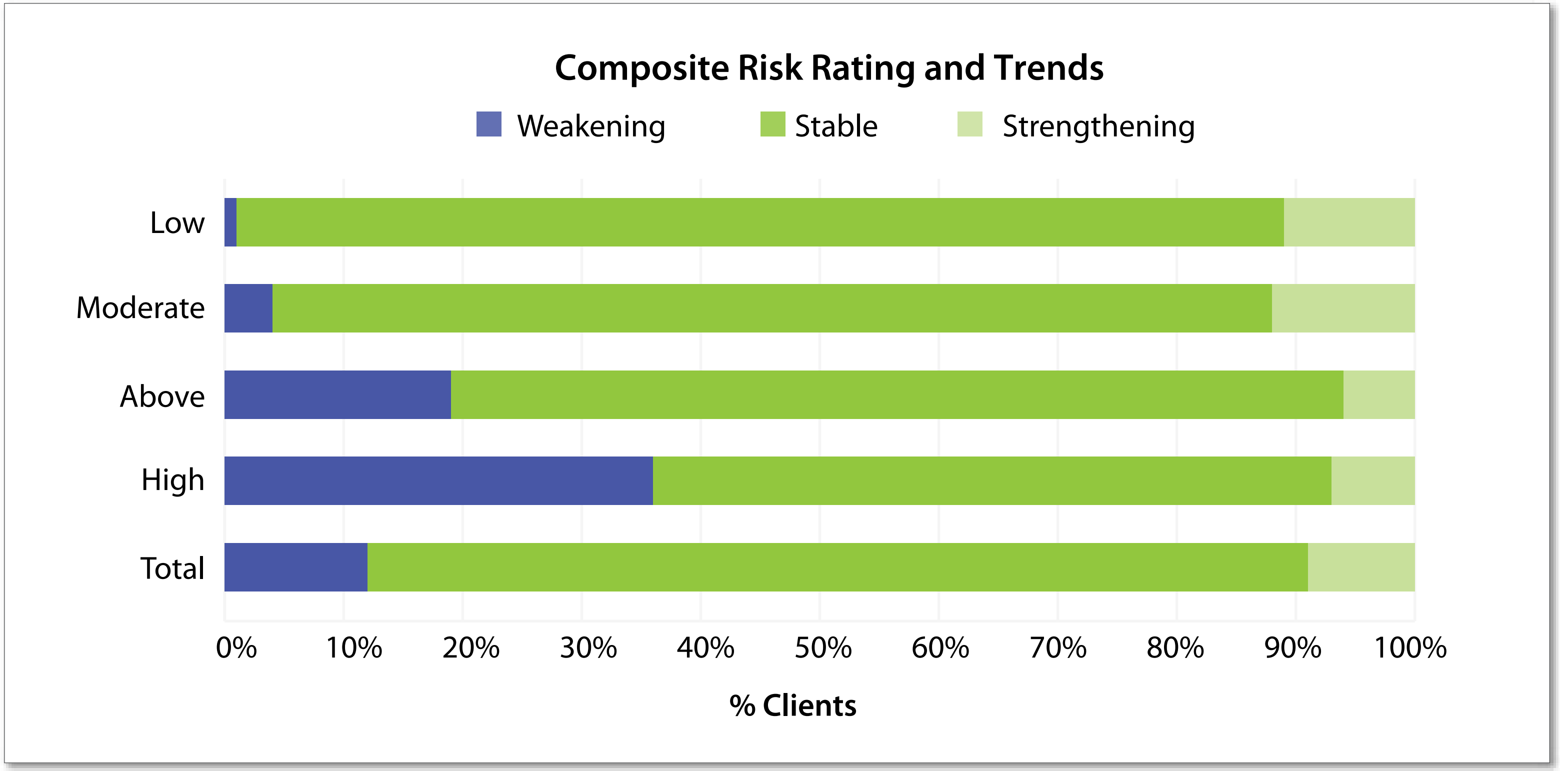
Portfolio Risk Profile

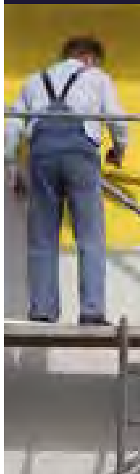
Risk Trend

- The annual risk assessment includes assigning clients a risk trend of **Strengthening**, **Stable** or **Weakening**.
- 88 per cent of clients have an assigned risk trend of **Stable** or **Strengthening**.
- Among those with a **High** composite risk rating, 36 per cent were assigned a trend of **Weakening** in 2016.
- A **Weakening** trend means that the client has risk factors to attend to. Default risk may not have increased materially.



Risk Trend





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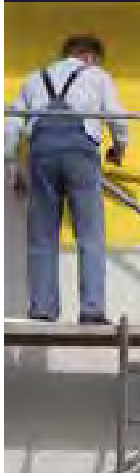
Portfolio Risk Profile

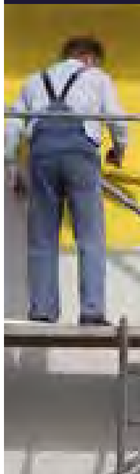
Outstanding Debt

- CMHC's risk declines steadily as housing co-operatives repay their mortgage loans.
- As the next table shows, total mortgage debt in the portfolio fell significantly between 2007 and 2016, despite the addition of many new clients with large workout loans.
- As declining indebtedness is not taken into account in calculating a client's composite risk rating (a measure of enterprise risk), CMHC's overall risk of mortgage default is overstated.



Outstanding Debt

- Note that at the end of 2016, the Agency performed an exercise in rating clients' default risk. We subsequently advised CMHC that a default-risk rating more favourable than their composite risk rating had been assigned to 70 per cent of the 337 co-operatives with operating agreements ending in the next five years.

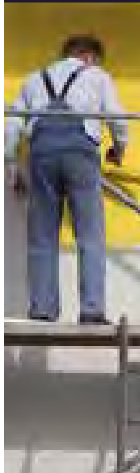


Outstanding Debt

Table 6: Total Mortgage Debt for All Agency Clients

	2016 or Latest AIRs	2014 AIRs	2007 AIRs
Total Mortgage Debt	$945,882,759	$1,099,497,105	$1,478,677,702
Total Units	31,563	33,517	30,783
Mortgage Debt per Unit	$29,968	$32,804	$48,036

Note: Dollar amounts for 2007 and 2014 have not been indexed. The mortgage debt shown was drawn from valid AIRs in hand when the report was prepared. It comprises all debts secured by a charge against properties operated under a CMHC program, including forgivable loans, workout loans and deferred interest charges on workout loans. Included in total mortgage debt are uninsured loans held by private lenders, resulting in an overstatement of CMHC's risk. Future reports will exclude such loans.

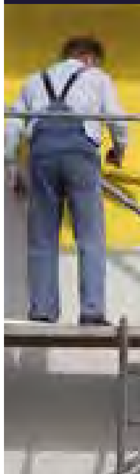


Portfolio Risk Profile

Expiring Operating Agreements

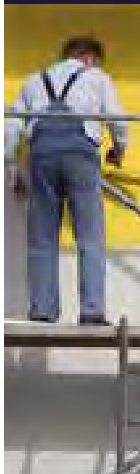
- CMHC's risk will decline steadily as housing co-operatives retire or refinance their outstanding debt upon the expiry of their last operating agreement.

- Forty-three per cent of client operating agreements will end in the next three years, with a further 21 per cent concluding within five years. Twenty-four per cent will expire within five to ten years and the remaining 12 per cent in more than ten years.



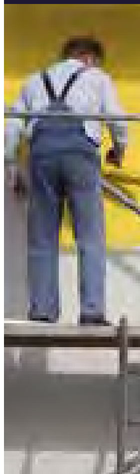
Expiring Operating Agreements

- With the federal government's short-term initiative to extend rent-geared-to-income subsidies, 25 clients with final operating agreements set to expire in 2016, and 30 in 2017, have had their agreements extended to March 2018. A further 42 clients will be eligible for extensions.
- Somewhat offsetting the decline in CMHC's risk as overall indebtedness in the portfolio falls is the weaker risk profile of the youngest of the three main programs the Agency administers—the FCHP (ILM program).



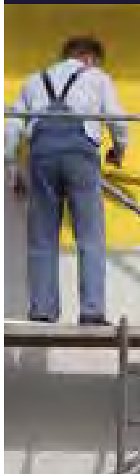
Expiring Operating Agreements

- When it launched the ILM program, the government chose to control the cost by fixing a set dollar budget for the program as a whole, rather than committing to create a specific number of housing units. The budgeted funds proved insufficient in the face of higher-than-expected interest rates and a building boom that raised capital costs.
- The competitive process for awarding allocations was intended to stretch the available funds as far as possible, but, instead, by rewarding underestimation of costs and overestimation of revenue, it set the scene for future problems.



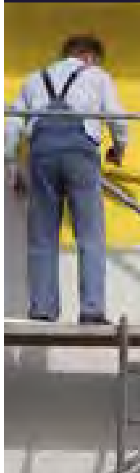
Expiring Operating Agreements

- Rather than being positioned at the low end of market, as had been the practice under earlier programs, housing charges were fixed initially at the highest rate the market could bear.
- The recession of the early 90s led to falling market rents, which left many FCHP co-operatives struggling to fill cheaply built units at rents above market rates.
- After decades of operation, many of these co-operatives are still suffering the consequences.
- As a result, FCHP clients are overrepresented two to one among clients at High risk.



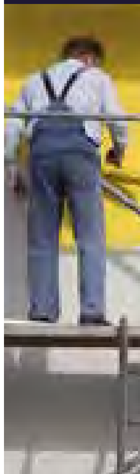
Expiring Operating Agreements

Table 7: Years Remaining to End of Operating Agreement by Federal Program						
	0-3	>3-5	>5-10	>10+	Total	% of Clients
Section 27/61	8	0	5	38	51	9.6%
Section 95	207	104	7	1	319	60%
FCHP (ILM)	12	7	106	15	140	26.3%
Urban Native (Post 85)	0	0	1	1	2	0.4%
PEI Non-Profit	0	0	3	0	3	0.6%
Multiple Programs	0	1	6	10	17	3.2%
Total	**227**	**112**	**128**	**65**	**532**	**100%**
% of Clients	**42.7%**	**21.1%**	**24.1%**	**12.2%**	**100%**	



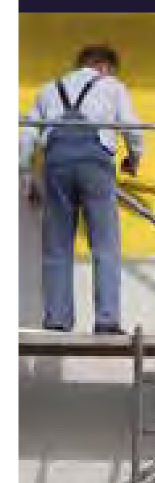
Expiring Operating Agreements

- Of co-operatives rated Low or Moderate risk in 2016, 49 per cent will reach the end of their agreement in three years or less, compared with only 22 per cent of those rated High risk.
- Of co-operatives rated High risk, 52 per cent are not due to exit their agreements for more than five years.



Expiring Operating Agreements

Table 8: Years Remaining to End of Operating Agreement by Composite Risk Rating										
	0-3		>3-5		>5-10		>10+		Total	% of Clients
Low	52	57%	18	20%	7	8%	14	15%	91	18%
Moderate	84	45%	37	20%	41	22%	23	12%	185	36%
Above Average	85	46%	38	21%	39	21%	21	11%	183	35%
High	13	22%	15	26%	28	48%	2	3%	58	11%
Total	**234**	**45%**	**108**	**21%**	**115**	**22%**	**60**	**12%**	**517**	**100%**
% of Clients	**45%**		**21%**		**22%**		**12%**		**100%**	



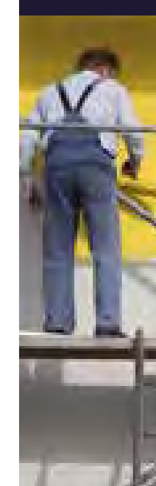
Agreement Objective 2

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

Results from 2016 show a strong increase over the base year in the proportion of co-operatives holding a **Low** or **Moderate** composite risk rating. The percentage of co-operatives rated **High** risk has declined over the same period.

Table 9: Evolution of Portfolio Risk Profile

Composite Risk Rating	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
High	11%	12%	13%	16%	14%
Low or Moderate	54%	53%	49%	43%	39%

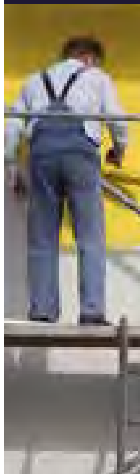


Agreement Objective 3

Increasing percentage of co-operatives that are under-performing but are not under a workout arrangement returned to financial health without recourse to cash injection funding from CMHC Insurance or Enhanced Assistance[1]

As the next table shows, 188 co-operatives were first identified as underperforming between 2007 and 2016 and had no workout agreement at the time.

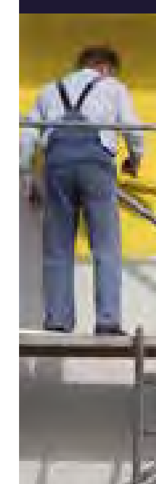
1 "underperforming" and "financial health" as determined through the Agency's risk-rating system and defined, respectively, as having a score of Poor on either of the Liquidity or Net-Income indicators, or having a score of Fair on both and being behind with scheduled mortgage or property tax payments,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



Portfolio Risk Profile

Underperformers

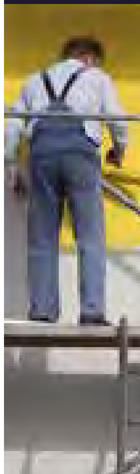
- Of these, 18 are no longer Agency clients.
- Of the still-active Agency clients, 127 had returned to financial health by the end of 2016 (75%; 2014: 69%).
- All but five of these (96%; 2014: 97%) did so without receiving Enhanced Assistance or a cash-injection loan from CMHC Insurance.
- Financial health remains elusive for 25 per cent of the underperformers that are still Agency clients (43 co-operatives), including eight that have received CMHC assistance.
- Of those that have not yet returned to financial health, four, or nine per cent, were first identified as underperformers only in 2016.



Underperformers

Table 10: Underperforming Co-operatives

Cohort *	Total	Returned to Financial Health		Not Yet Returned to Financial Health		No Longer Clients
		No CMHC Assistance	CMHC Assistance	No CMHC Assistance	CMHC Assistance	
2007	74	42	5	13	6	8
	100%	57%	7%	18%	8%	11%
2008	31	21	–	7	1	2
	100%	68%	–	23%	3%	6%
2009	26	22	–	1	–	3
	100%	85%	–	4%	–	12%
2010	16	10	–	4	–	2
	100%	63%	–	25%	–	13%
2011	14	12	–	–	1	1
	100%	86%	–	–	7%	7%
2012	4	2	–	2	–	–
	100%	50%	–	50%	–	–

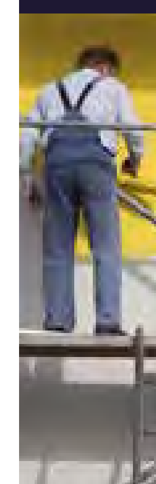


Underperformers

Table 10: Underperforming Co-operatives

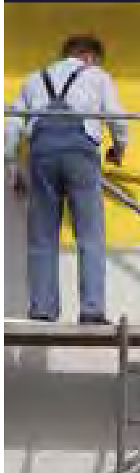
Cohort *	Total	Returned to Financial Health		Not Yet Returned to Financial Health		No Longer Clients
		No CMHC Assistance	CMHC Assistance	No CMHC Assistance	CMHC Assistance	
2013	6	5	–	1	–	–
	100%	83%	–	17%	–	–
2014	6	4	–	–	–	2
	100%	67%	–	–	–	33%
2015	7	4	–	3	–	–
	100%	57%	–	43%	–	–
2016	4	–	–	4	–	–
	100%	–	–	100%	–	–
Total	188	122	5	35	8	18
	100%	**65%**	**3%**	**19%**	**4%**	**10%**

* Underperformers are assigned to a cohort based on the year in which they were first identified as such. The analysis includes all clients identified up to and including 2016. Minor corrections have been made to previously reported data.



Underperformers

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



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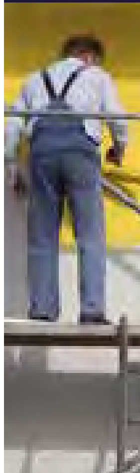
Agreement Objective 4

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

Net-Income and Liquidity ratios strengthened between 2007 and 2016, and a growing percentage of clients enjoy a rating of **Good** or **Excellent** on both financial indicators.

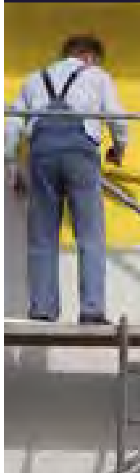


Portfolio Risk Profile

Liquidity and Net-Income Ratios

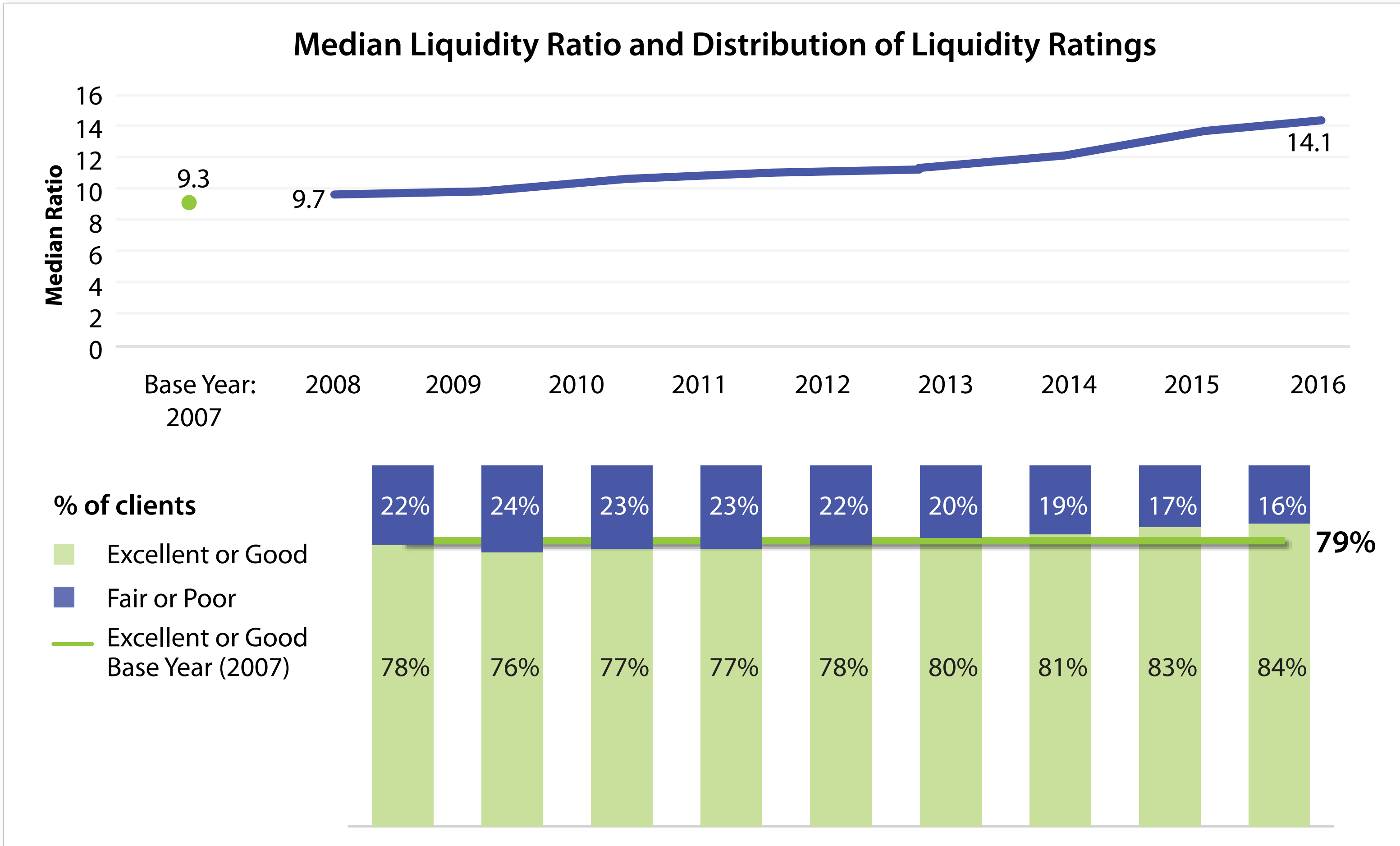
Table 11: Evolution in Liquidity and Net-Income Ratios					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Good or Excellent Liquidity Ratio	84%	83%	80%	77%	79%
Good or Excellent Net-Income Ratio	65%	62%	61%	54%	55%
Both Indicators Good or Excellent	62%	58%	56%	48%	50%

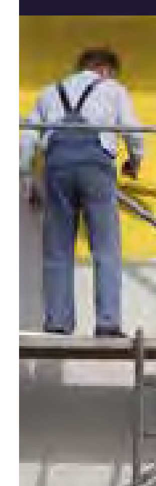
The proportion of clients with a **Good** or **Excellent** rating has grown five percentage points for Liquidity and ten for Net Income since 2007. The percentage with a **Good** or **Excellent** rating on both indicators has risen by 12 points.



Portfolio Risk Profile

Liquidity Ratio



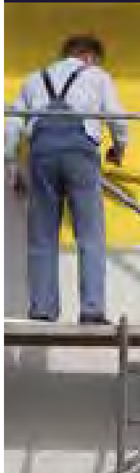


Liquidity Ratio

- Between 2007 and 2016, the median Liquidity ratio for the total portfolio rose from 9.3 to 14.1.
- Both the 2007 and 2016 median scores were in the **Excellent** range.
- More co-operatives had an **Excellent** and fewer a **Poor** rating in 2016.

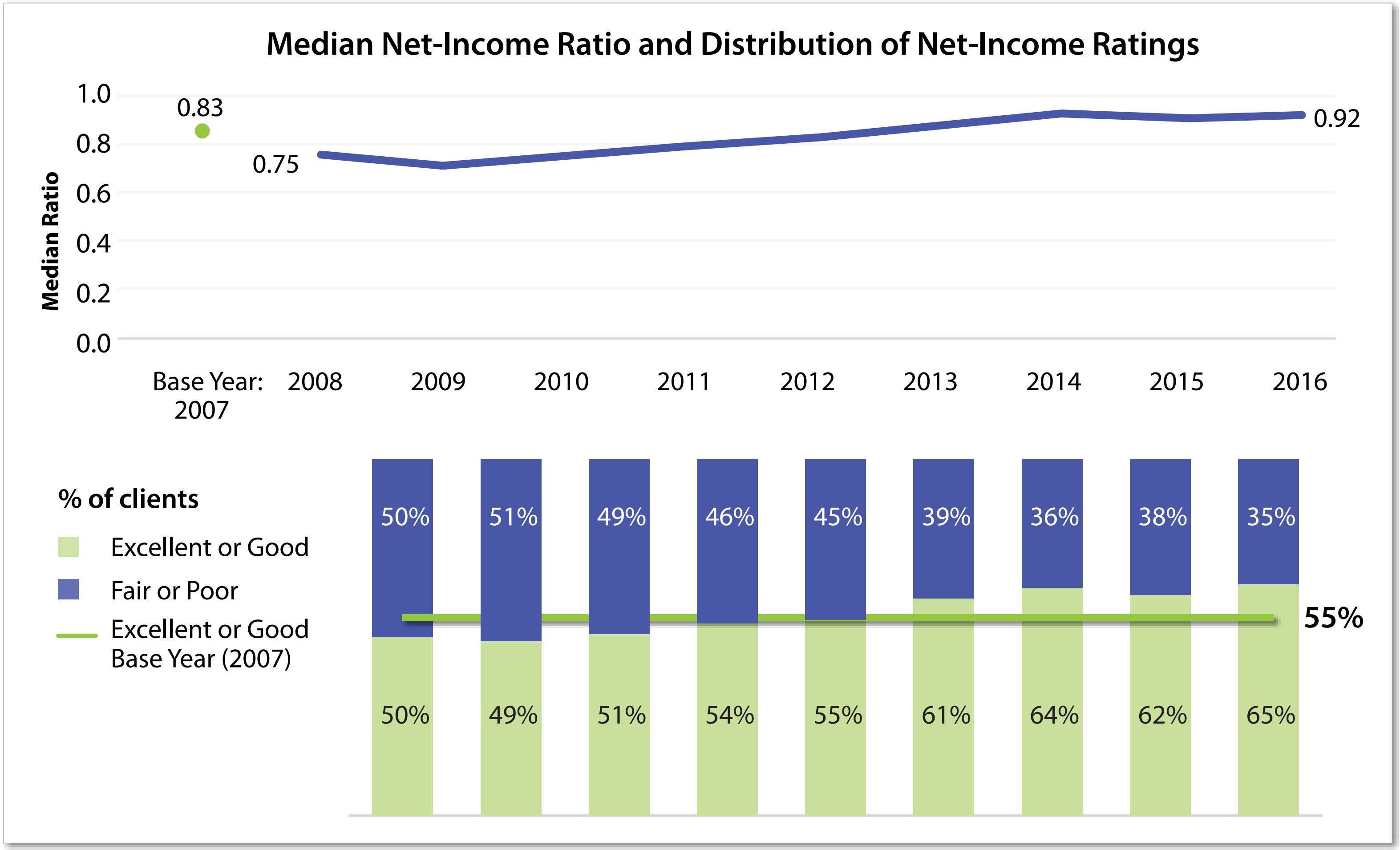
Table 12: Median Liquidity Ratio per Liquidity Rating

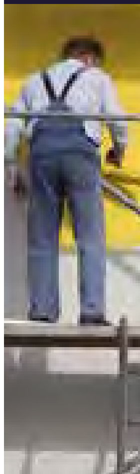
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Excellent	17.1	16.9	15.3	13.8	14.0
Good	6.4	6.7	6.4	6.4	6.7
Fair	4.0	3.8	3.9	3.7	4.0
Poor	0.3	0.5	1.0	0.8	0.9
All Ratings	14.1	13.4	11.3	10.6	9.3



Portfolio Risk Profile

Net-Income Ratio





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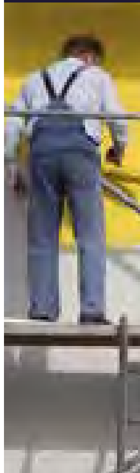
Net-Income Ratio

- The median Net-Income ratio rose slightly from 2007 (0.83) to 2016 (0.92). This ratio falls in the **Good** range.
- Clients with a healthy Net-Income rating (**Good** or **Excellent**) made up 65 per cent of the portfolio in 2016, a 10-percentage point rise from 2007.
- In 2016, 35 per cent of Agency clients had a **Fair** or **Poor** Net-Income rating, compared with 45 per cent in 2007. The percentage rated **Fair** went down (2016: 25%; 2007: 26%), as did that rated **Poor** (2016: 9%; 2007: 19%).

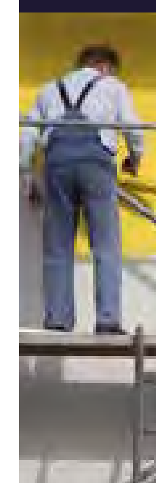


Agreement Objective 5

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

Table 13: Distribution of Physical-Condition Ratings

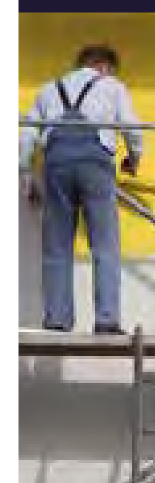
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Good or Excellent Physical Condition	83%	83%	80%	82%	77%
Poor Physical Condition	1%	1%	1%	1%	1%



Portfolio Risk Profile

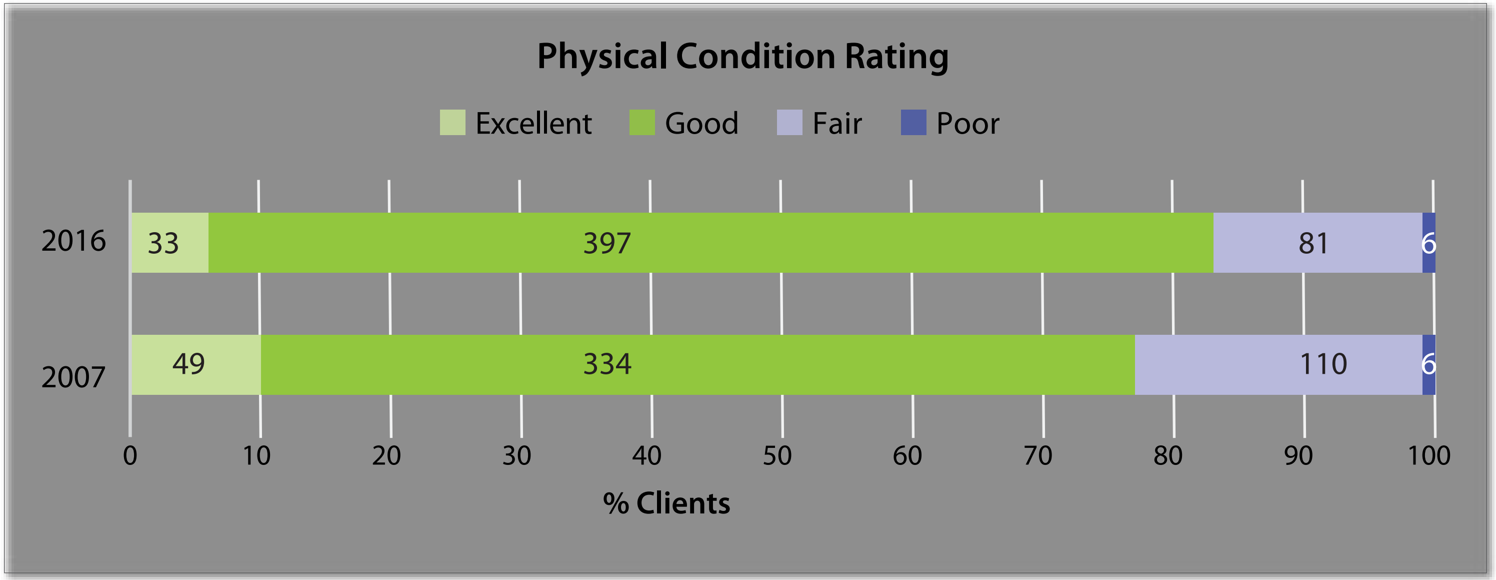
Physical Condition

- Physical-condition ratings for the portfolio are relatively stable, despite aging buildings.
- In 2016, 83 per cent of co-operatives had a positive (**Good** or **Excellent**) physical-condition rating, up from 77 per cent in 2007.
- Although the proportion of co-operatives with an **Excellent** rating has fallen since 2007, mainly as a result of the portfolio's increasing age, positive trends are apparent.
- The percentage of co-operatives rated in **Fair** physical condition declined from 22 per cent in 2007 to 16 per cent in 2016.



Physical Condition

- Only one per cent of clients has a rating of **Poor**, a percentage that has remained stable over the past nine years.
- A higher proportion of co-operatives were rated in **Good** condition in 2016 than nine years earlier.



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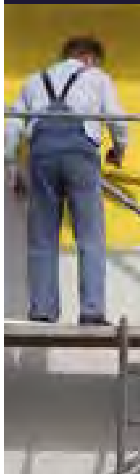
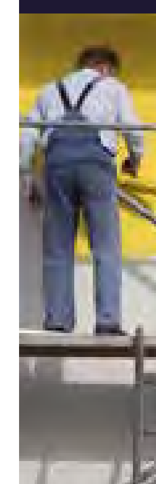
Physical Condition

- As would be expected, a client's financial performance and its physical condition are strongly correlated.
- Co-operatives with lower earnings have less money to set aside in their reserves, while inferior physical condition will reduce a co-operative's revenue potential.
- In 2016, clients with a Net-Income rating of **Excellent** made a median annual contribution to their capital replacement reserve of $2,645 per unit (1.4% of the insured replacement value of their buildings).



Physical Condition

- By contrast, clients with a Net-Income rating of **Poor** made a median contribution of only $457 per unit (0.3% of their insured replacement value).
- Clients with a Liquidity rating of **Excellent** made a median annual reserve contribution of $2,126 per unit in 2016 (1.1% of insured replacement value).
- Clients with a Liquidity rating of **Poor** made a median contribution of only $700 per unit (0.4% of insured replacement value).



Client Operating Performance

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Client Operating Performance

AGREEMENT OBJECTIVES

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

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

Agreement Objective 1

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

- The period from 2007 to 2016 saw a decline in rental arrears, bad debts and vacancy rates in the portfolio.
- Less revenue leakage implies greater operating efficiency.
- The result is a more effective use of rent-geared-to-income assistance, owing to less need to replace lost income through higher housing charges.

Agreement Objective 2

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

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

These are

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

Client Operating Performance

Arrears and Bad Debts

- Across the portfolio, the median combined occupant arrears and bad-debt expense, measured as a percentage of total occupants' housing charges, fell from 0.9 per cent in 2007 to 0.53 per cent in 2016 (2014: 0.55%).

- Considered as a dollar amount, the median combined arrears and bad-debt expense has declined 36 per cent, falling from $80 per unit (2007) to $51 per unit (2016).

Arrears and Bad Debts

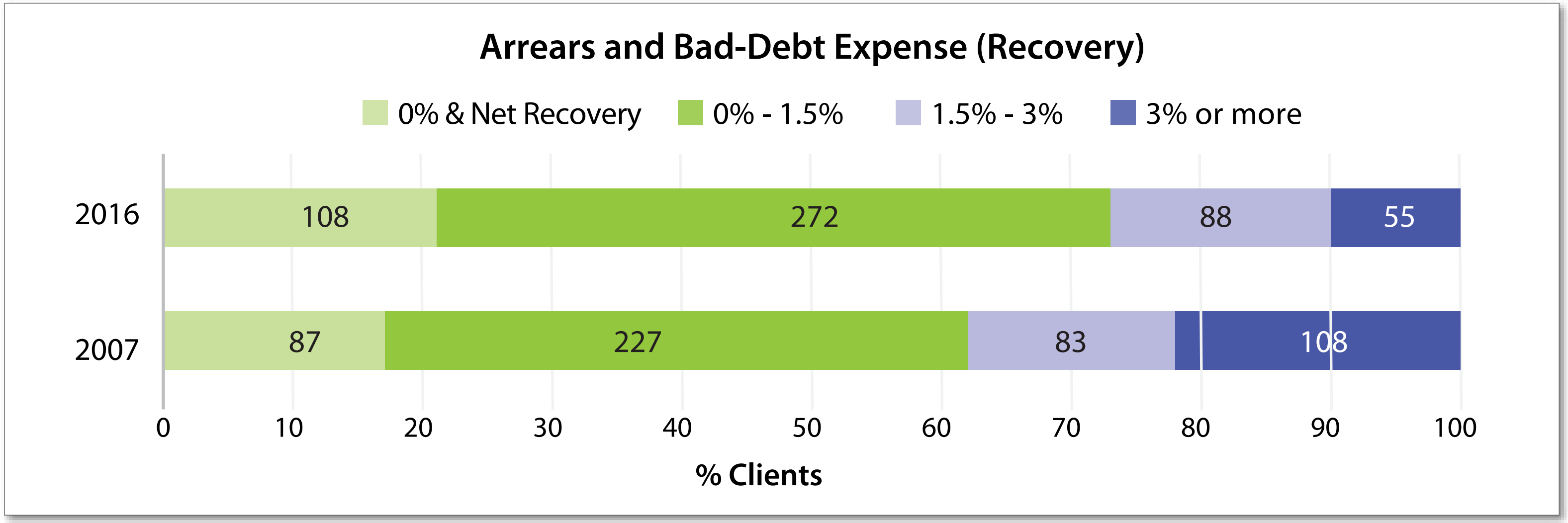
Table 14: Median Combined Arrears and Bad-Debt Expense					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Median Arrears and Bad Debts as % of Occupant Share of Annual Housing Charges	0.5%	0.5%	0.7%	0.8%	0.9%
Median Arrears and Bad Debts per Unit	$51	$46	$65	$67	$80

Note: Dollar amounts have been indexed as constant dollars to 2016.

Arrears and Bad Debts

- Significantly better results are evident in
  - the growing percentage of Agency clients with a ratio of 1.5 per cent or under (2016: 73% of clients; 2014: 71%; 2007: 62%)
  - the shrinking percentage with combined arrears and bad debts of three per cent or more (11% of clients in 2016, down 10 points from 2007 and two points from 2014)
  - the fall in median per-unit arrears and bad debts (2016: $51; 2014: $57; 2007: $80)
- The 75th and 95th percentiles have followed a similar pattern.

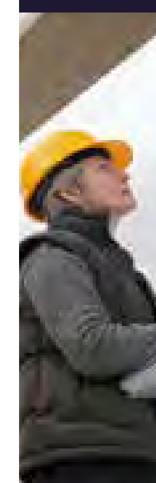
Arrears and Bad Debts



Arrears and Bad Debts

Table 15: Median Arrears and Bad-Debt Expense per Unit		
	2016	**2007**
Median	$51	$80
75th Percentile	$157	$216
95th Percentile	$422	$653
Second Highest Amount	$1,698	$2,766
Highest Amount	$2,958	$5,781

Note: Dollar amounts have been indexed as constant dollars to 2016.



Arrears and Bad Debts

An analysis of the trend from 2007 to 2016 for median combined arrears and bad debts by management model shows a decline for all models.

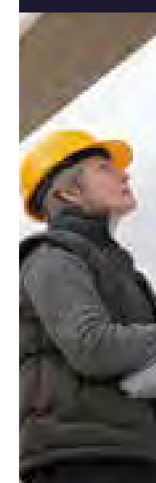
Table 16: Median Arrears and Bad Debts by Management Model

	2016	2007
Management Company	$74	$95
Paid Staff	$45	$93
Paid Bookkeeper Only	$14	$45
Volunteers Only	$10	$37

Note: Dollar amounts have been indexed as constant dollars to 2016.

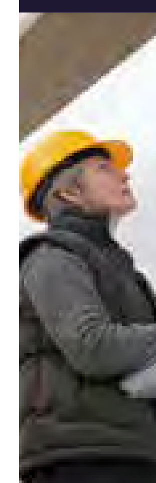
Arrears and Bad Debts

- As in the past, volunteer-managed co-operatives have the lowest median rate of combined arrears and bad debts (0.1% of occupants' share of annual housing charges).
- The Paid Bookkeeper Only category has the next best result (0.2%).
- As together these groups form only 18 per cent of the portfolio, their influence on portfolio-wide results is modest.
- The Agency is addressing the much higher ratio for co-operatives that use the services of property-management firms (0.7%) by encouraging clients to pay their managers a percentage of income collected, rather than a fixed dollar fee.



Arrears and Bad Debts

- The following graph explores the correlation in 2007 and 2016 between combined arrears and bad debts and other client traits.
- The correlation between higher vacancy rates and higher arrears and bad debts is strong, though much less marked than in 2007 and 2014.
- The correlation could signal that
  - co-operatives with higher vacancy rates must set a low bar to recruit new members
  - higher vacancy rates and higher arrears both originate in weak management.



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Arrears and Bad Debts

- The improvement over time in the arrears and bad-debt performance of co-operatives with higher vacancy levels suggests that these clients are adopting stronger arrears-management practices.
- The rate of member arrears also correlates strongly with the presence or absence of directors in arrears.

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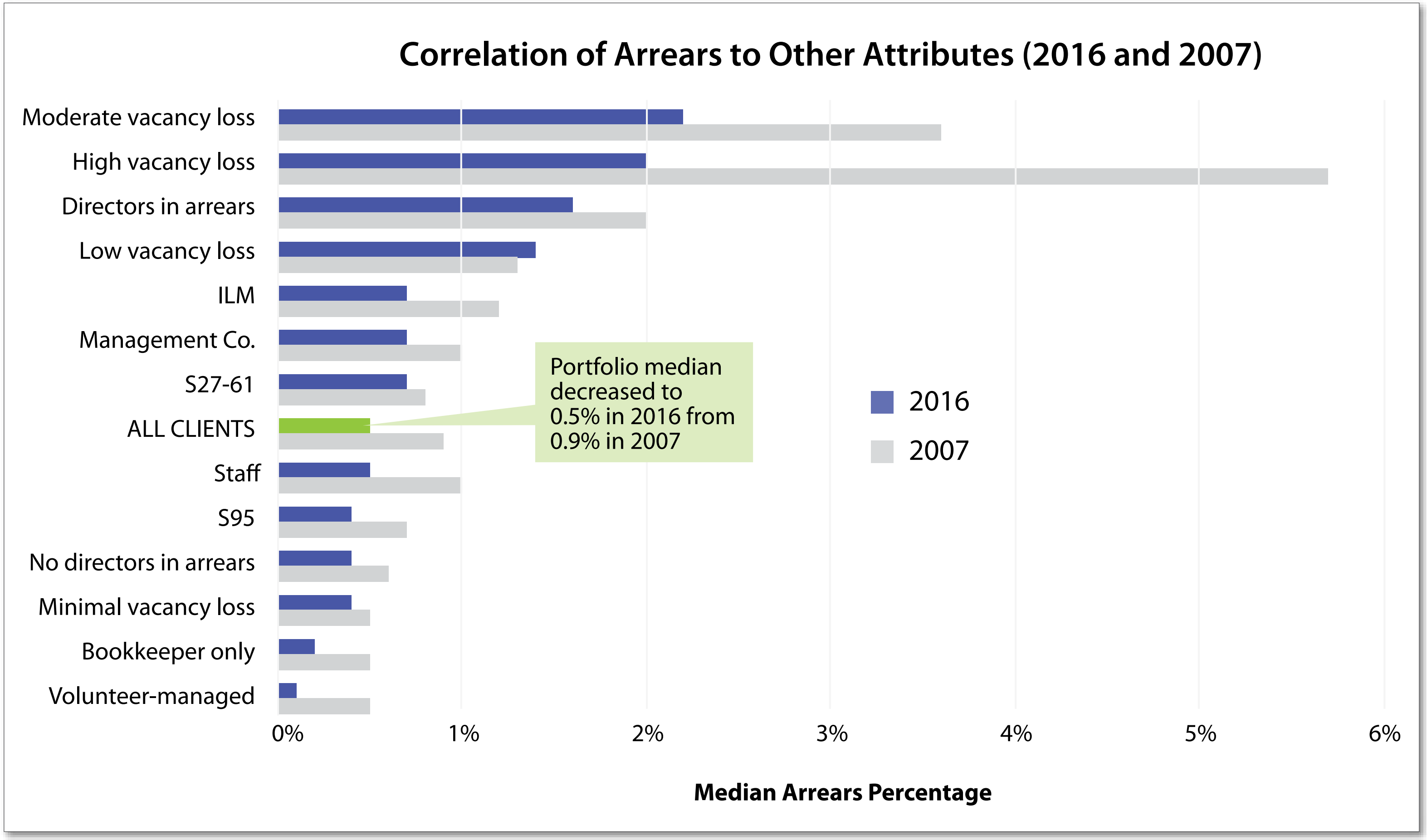
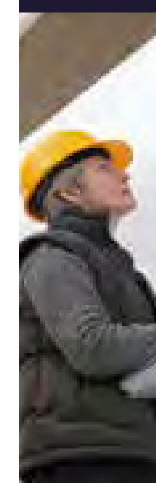
Arrears and Bad Debts



Client Operating Performance

Directors in Arrears

- Over time, the portfolio has seen a marked decrease in the number of co-operatives with members of their boards of directors in arrears, reflecting the Agency's steady efforts to have clients address this problem.
- Although the rate of improvement has slowed, the proportion of clients reporting at least one director owing $100 or more at the co-operative's year end has dropped to 12 per cent in 2016 from 28 per cent in 2007.



Directors in Arrears

- The percentages cited are calculated from data collected through the AIRs. In response to the Agency's pointing out the problem, shortly after filing their AIRs most co-operatives take steps to collect the amounts owing, resulting in a reduction in the number of directors in arrears over the following months. While to the co-operative's benefit, the practice suggests that clients may resume weaker arrears-management practices when no longer under our oversight.

- The median average arrears per indebted director has fallen from $675 in 2007 to $623, while the total amount owed by directors is down by almost 70 per cent from 2007.

Directors in Arrears

Table 17: Directors in Arrears at Client Fiscal Year End					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
No. of Clients Reporting Directors in Arrears	64	68	75	78	140
% of Dataset	12%	12%	14%	15%	28%
No. of Directors in Arrears	105	108	140	138	298
Total Owed by Directors	$121,853	$123,075	$141,044	$130,933	$402,415
Average per Director: Portfolio	$1,161	$1,140	$1,007	$949	$1,350
Average per Indebted Director: Dataset Median	$623	$633	$616	$649	$675
Average per Indebted Director: Dataset Maximum	$11,974	$8,510	$4,377	$5,654	$9,093

Note: Dollar amounts have been indexed as constant dollars to 2016. Clients with directors who owe less than $100 are excluded.

Directors in Arrears

Co-operatives with indebted directors report much higher rates of arrears and bad debts generally than do co-operatives with no directors in arrears (2016: four times as high; 2014: nearly twice as high; 2007: more than three times as high).

Table 18: Median Combined Arrears and Bad Debts Rate

	2016	2007
Full Dataset	0.5%	0.9%
Co-operatives with Director Arrears	1.6%	2.0%
Co-operatives without Director Arrears	0.4%	0.6%

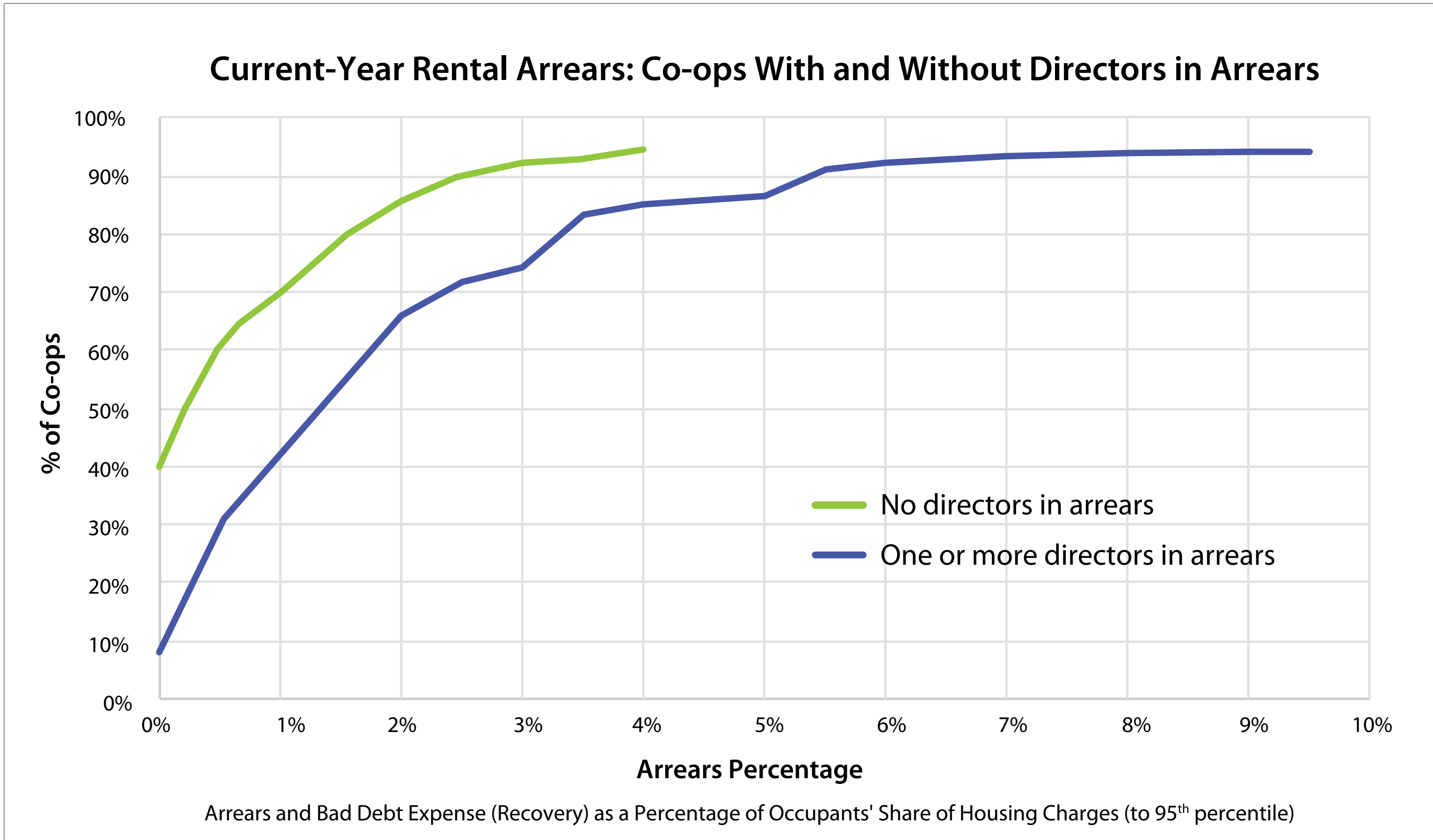
Directors in Arrears

- Similar results are apparent when median total arrears and bad debts are viewed as dollar amounts:
  - co-operatives with director arrears: $142 per unit
  - co-operatives without director arrears: $43 per unit.
- As shown on the next graph, 40 per cent of clients without director arrears (green line) had either net recoveries or no member arrears or bad debts, compared with only eight per cent of co-operatives with director arrears (blue line).

Directors in Arrears

- 70 per cent of those without director arrears had member arrears and bad debts under one per cent of annual occupant charges, compared with 43 per cent of co-operatives with director arrears.
- Of co-operatives with director arrears, 26 per cent had member arrears and bad debts greater than three per cent of annual occupant charges.
- Among this group of clients, 14 per cent had arrears and bad debts above 4.5 per cent. By comparison, not a single client whose directors were in good standing had an arrears problem of this severity.

Directors in Arrears



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Directors in Arrears

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

Client Operating Performance

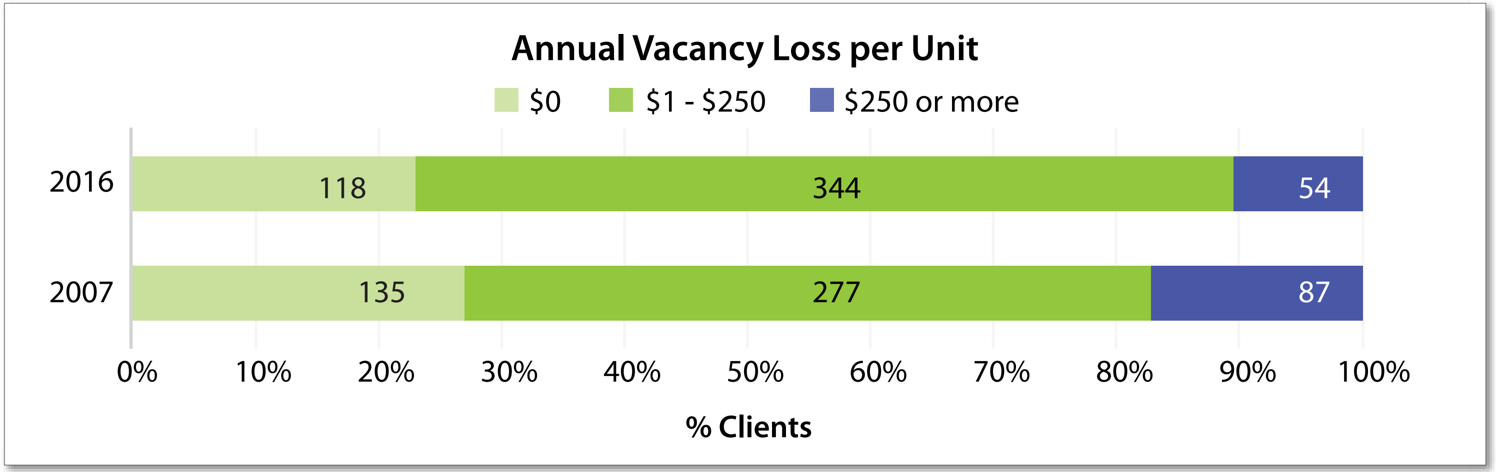
Vacancy Losses

- Vacancy losses are the greatest single source of revenue leakage for Agency clients.
- High vacancy losses will quickly deplete a co-operative's financial strength.
- On the other hand, a co-operative with no vacancy loss may be failing to refresh units as they turn over.
- Both the proportion of clients with no vacancy loss and the proportion reporting losses of $250 or more per unit have fallen since 2007.

Vacancy Losses

Table 19: Annual Vacancy Loss

	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
% of Clients with No Loss	23%	23%	25%	24%	27%
% of Clients with Loss of $250 Per Unit or More	10%	15%	15%	15%	17%



Vacancy Losses

- The median per-unit vacancy loss has returned to its 2011 level of $43 per unit. However, the average gross housing charge potential per unit has grown 13 per cent during this time.
- The 75th percentile loss has declined markedly since 2007.
- The 95th percentile is up slightly from a year ago, but is well down from 2007.

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Vacancy Losses

Table 20: Per-Unit Annual Vacancy Loss					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Portfolio Median	$43	$47	$40	$43	$37
75th Percentile	$126	$140	$147	$147	$150
95th Percentile	$500	$476	$536	$785	$831
Highest	$4,567	$4,567	$4,027	$8,333	$4,124

Note: Dollar amounts have been indexed as constant dollars to 2016.

Vacancy Losses

- Among those clients with any vacancy loss, the average per-unit loss reported has fallen (2016: $167; 2014: $182; 2007: $242).
- If co-operatives without any vacancy loss are included, the average per-unit loss dropped to $129 in 2016, well below its 2007 level of $177 (2014: $140).
- Despite the net growth in the portfolio size since 2007, fewer clients are reporting annual vacancy losses in excess of $1,000 per unit:
  - 20 had losses at this level in 2007
  - nine years later, only nine reported losses this high (2014: 8).

Vacancy Losses

In absolute terms, total losses have fallen steadily, despite growth in the dataset.

- From 2007 to 2016, total reported losses dropped more than $2.1 million (37%).
- The vacancy loss per client fell 39 per cent from 2007 to 2016.

Vacancy Losses

Table 21: Total Annual Vacancy Loss in the Portfolio					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Total Reported Loss	$3,693,249	$4,537,229	$4,144,029	$5,277,967	$5,870,405
Clients in Dataset	517	547	543	529	499
Vacancy Loss per Client	$7,144	$8,295	$7,632	$9,977	$11,764

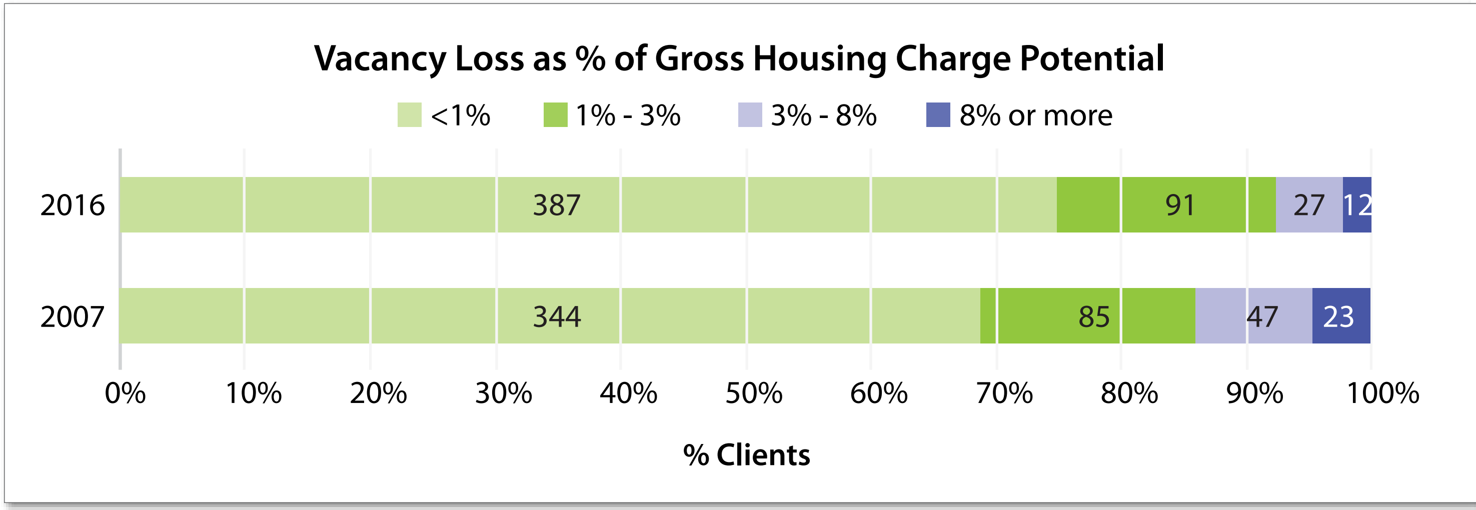
Note: Dollar amounts have been indexed as constant dollars to 2016.

Vacancy Losses

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

- The percentage of the portfolio with vacancy losses below one per cent of GHCP has grown (2016: 75%; 2007: 69%).
- The percentage with losses of eight per cent of GHCP or more has dropped materially (2016: 2%; 2007: 5%).

Vacancy Losses



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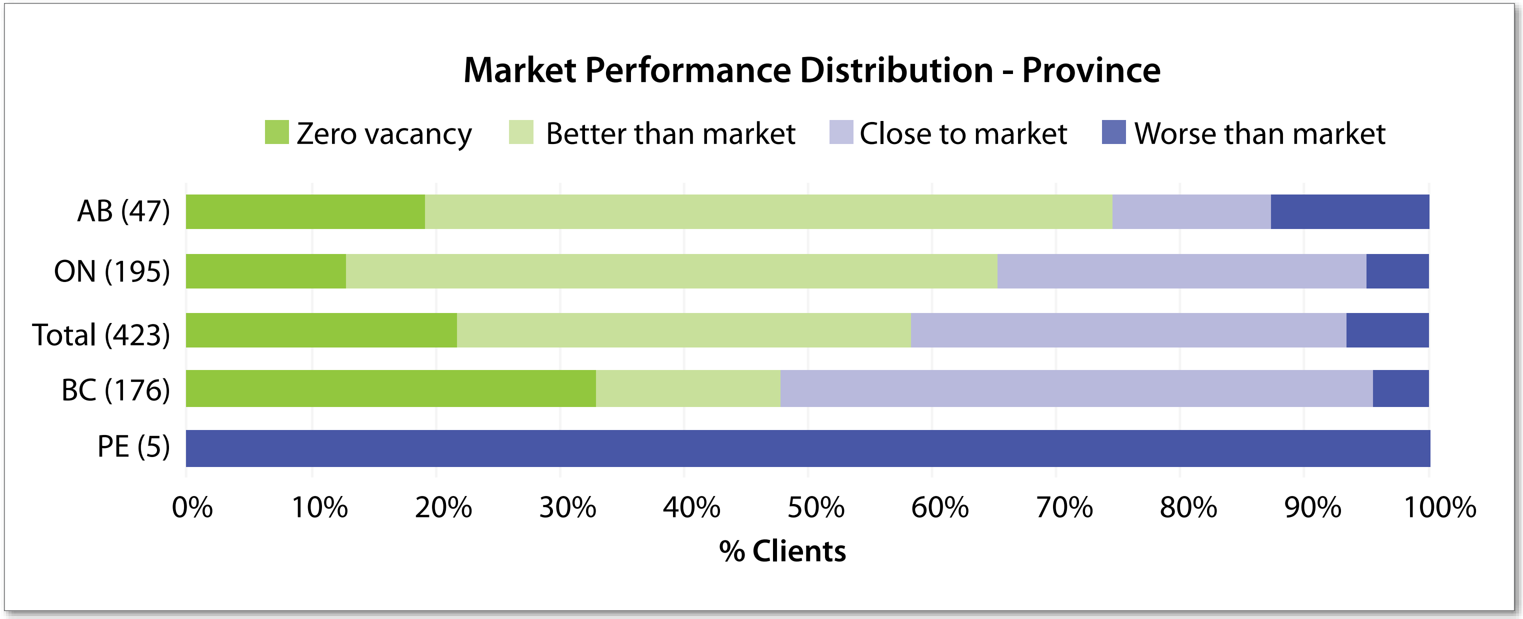
Vacancy Losses

- The true test of performance is how a co-operative's vacancy loss compares to the prevailing vacancy rate in its local rental market.
- A strong majority of Agency clients continue to out-perform their local market.
- Looking at the portfolio as a whole, in 2016
  - 36 per cent of clients reported some vacancy loss but performed better than their local market (2014: 38%), while 35 per cent (2014: 29%) did about as well
  - seven per cent posted worse-than-market vacancy losses (2014: 10%).

Vacancy Losses

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



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Vacancy Losses

- In 2016, at 33 per cent, British Columbia had the highest proportion of clients without any vacancy loss (2014: 36%).
- Alberta was next, at 20 per cent (2014: 30%).
- While the percentage of Alberta clients with worse-than-market vacancy losses remains relatively high, it has dropped to 13% (2014: 20%), the result of a spike in rental-market vacancy rates following the oil-price shock (2016: 8.1%; 2014: 2.1%). (It is easier to out-perform a weak market.)
- Ontario co-operatives were the second most likely to out-perform the market and least likely to report no vacancy loss.

Vacancy Losses

- The five clients in the very small PEI dataset under-performed a rental market that has tightened since our last report. (Clients operating under the 100 per cent rent-geared-to-income programs and those for whom comparable market data are not available are excluded from the analysis.) In one case, vacancies were unusually high as units were being refurbished; in the other, a small scattered-unit co-operative, a unit was being held vacant pending its sale.

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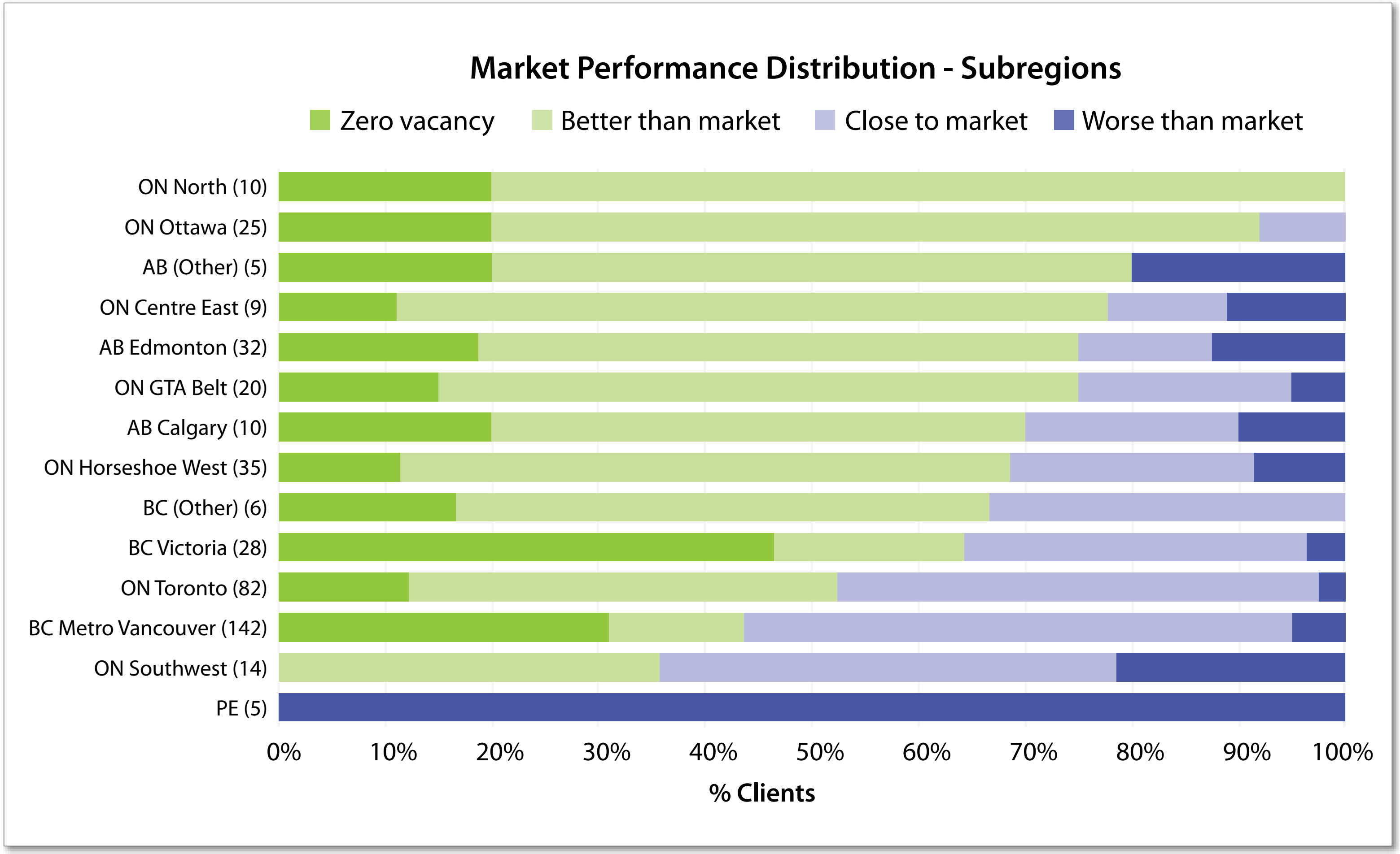
Vacancy Losses

- The next graph illustrates the market performance of Agency clients in each of 13 sub-regions, pointing up the distinct differences among them.
- Again, co-operatives for which we have no market data are excluded from the analysis.
- The relatively poorer performance of B.C. co-operatives reflects the very tight rental markets in that province, as out-performing a market with low vacancy rates is challenging.
- Caution is advised in reviewing the results for regions with very few co-operatives (PEI, Alberta Other).

Vacancy Losses



Vacancy Losses

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

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

Vacancy Losses

For each market type, we then calculated and compared

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

The results for the 2016 dataset were then compared with the results of the same analysis performed for the 2007 dataset.

Vacancy Losses

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

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

Vacancy Losses

Table 22: Co-operative Vacancy Losses Compared to Market Vacancy Rates			
	Low Vacancy Markets	**Moderate Vacancy Markets**	**High Vacancy Markets**
2007			
Distribution of Agency Clients	36%	36%	28%
Median Co-operative Vacancy Loss	0.1%	0.4%	0.9%
Median Weighted Market Vacancy Rate	0.4%	2.4%	4.7%
2016			
Distribution of Agency Clients	46%	37%	17%
Median Co-operative Vacancy Loss	0.3%	0.4%	0.6%
Median Weighted Market Vacancy Rate	0.8%	2.0%	4.5%

Vacancy Losses

- As seen in the table above, Agency clients, as a group, out-performed the market in each market type in both years.
- Co-operatives' market advantage has widened in the low- and high-vacancy markets and narrowed slightly in the moderate-vacancy markets.
- Looking at co-operatives in high-vacancy markets, in 2016
  - 17 per cent had no vacancy loss
  - 72 per cent had better-than-market losses (median loss of 0.8% compared to a median market-vacancy rate for their group of 4.8%)

Vacancy Losses

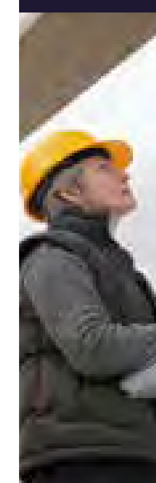
  - three per cent had losses close to market
  - only eight per cent had worse-than-market rates (median loss of 7.3%).

- Unsurprisingly, a co-operative's physical condition and its vacancy loss are strongly correlated.
- In 2016, 82 per cent of clients in **Excellent** physical condition had vacancy losses below one per cent of gross housing charge potential (GHCP), compared with 67 per cent of co-operatives in poor condition.
- The absence of co-operatives in **Poor** condition in the higher vacancy rate categories is probably explained by their relatively low housing charges.

Vacancy Losses

Table 23: Vacancy Loss and Physical Condition Rating

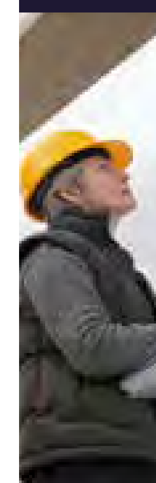
Condition Rating	Excellent		Good		Fair		Poor	
Vacancy Loss	No.	%	No.	%	No.	%	No.	%
<1%	27	82%	306	77%	50	62%	4	67%
1%-3%	3	9%	66	17%	20	25%	2	33%
3%-8%	2	6%	18	5%	7	9%	-	0%
8% or more	1	3%	7	2%	4	5%	-	0%
Total	**33**	**100%**	**397**	**100%**	**81**	**100%**	**6**	**100%**



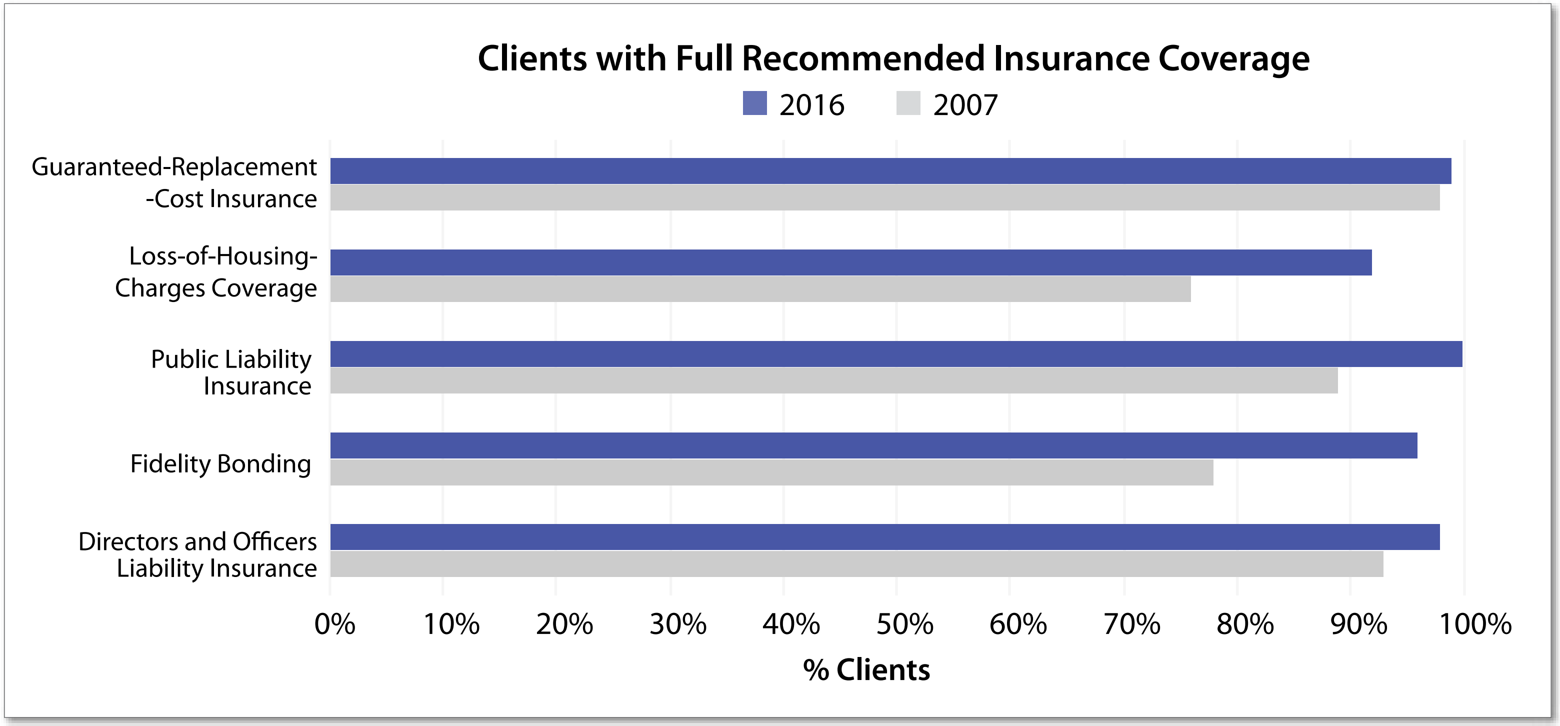
Client Operating Performance

Insurance

- Housing co-operatives produce their income from their physical assets. Lack of adequate insurance coverage is therefore a significant risk factor for our clients.
- Early on, the Agency determined the types and levels of insurance that all housing co-operatives should have.
- The following graph shows the proportion of clients in the 2016 dataset that met these standards at the time of their AIR filing, compared with 2007.



Insurance



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Insurance

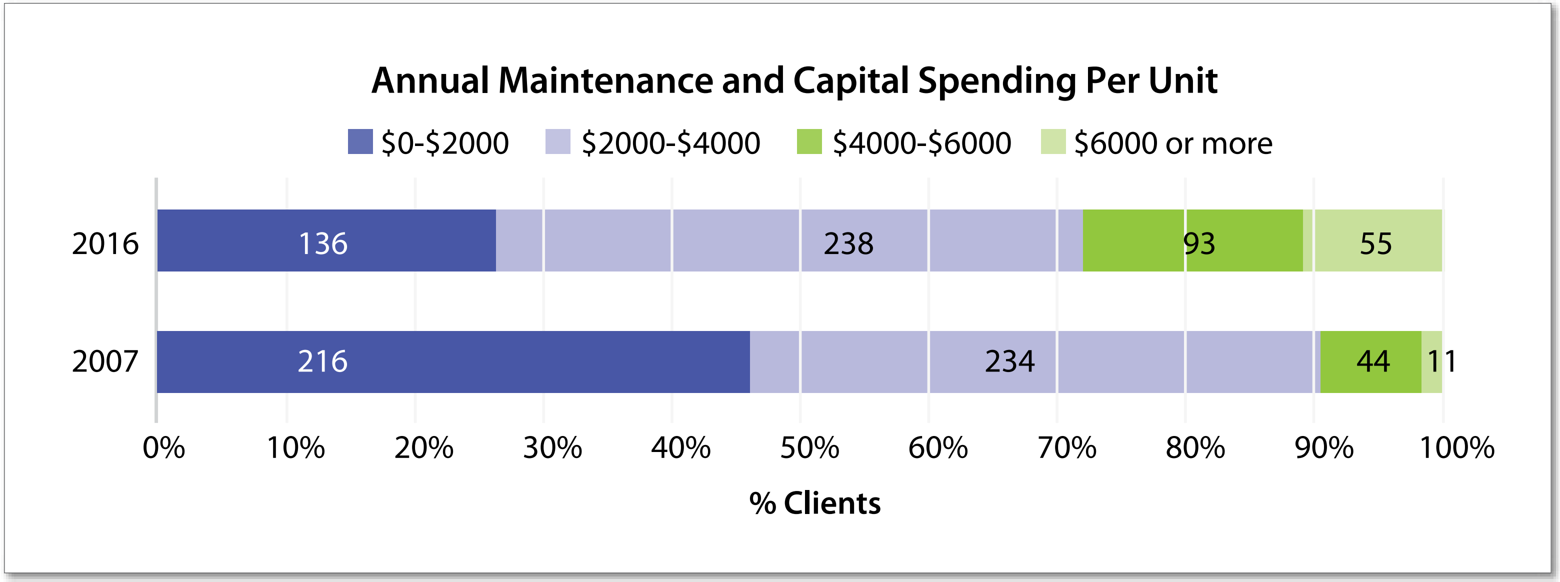
- Our relationship managers have persuaded a substantial number of under-insured clients to increase their coverage.
- As a result, the portfolio is now better protected than it was nine years ago.

Client Operating Performance

Spending on Maintenance and Capital Repairs

- This section looks at spending on maintenance and capital repairs and replacements, taken together, in 2016, compared with 2007.
- These two forms of spending on the physical plant are combined for a clearer picture of the care clients are taking of their chief asset.
- Combining maintenance and capital spending also normalizes the data for different accounting treatments.
- Our clients' properties are now on average almost 40 years old. Higher levels of physical-plant spending are both expected and desirable.

Spending on Maintenance and Capital Repairs



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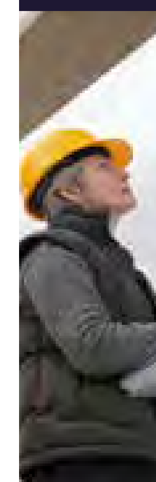
Spending on Maintenance and Capital Repairs

Table 24: Annual Per-Unit Spending on Maintenance and Capital Repairs					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
$0 to $2,000	26%	26%	33%	32%	43%
$4,000 or more	29%	24%	20%	20%	11%

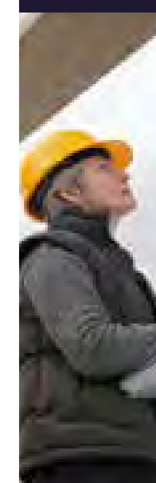
Note: Dollar amounts are indexed as constant dollars to 2016.

- After dropping sharply from 2007, the percentage of Agency clients spending at the lowest level—under $2,000 per unit per year—seems to have stabilized.
- The percentage spending at higher levels—$4,000 or more—has almost tripled since 2007.



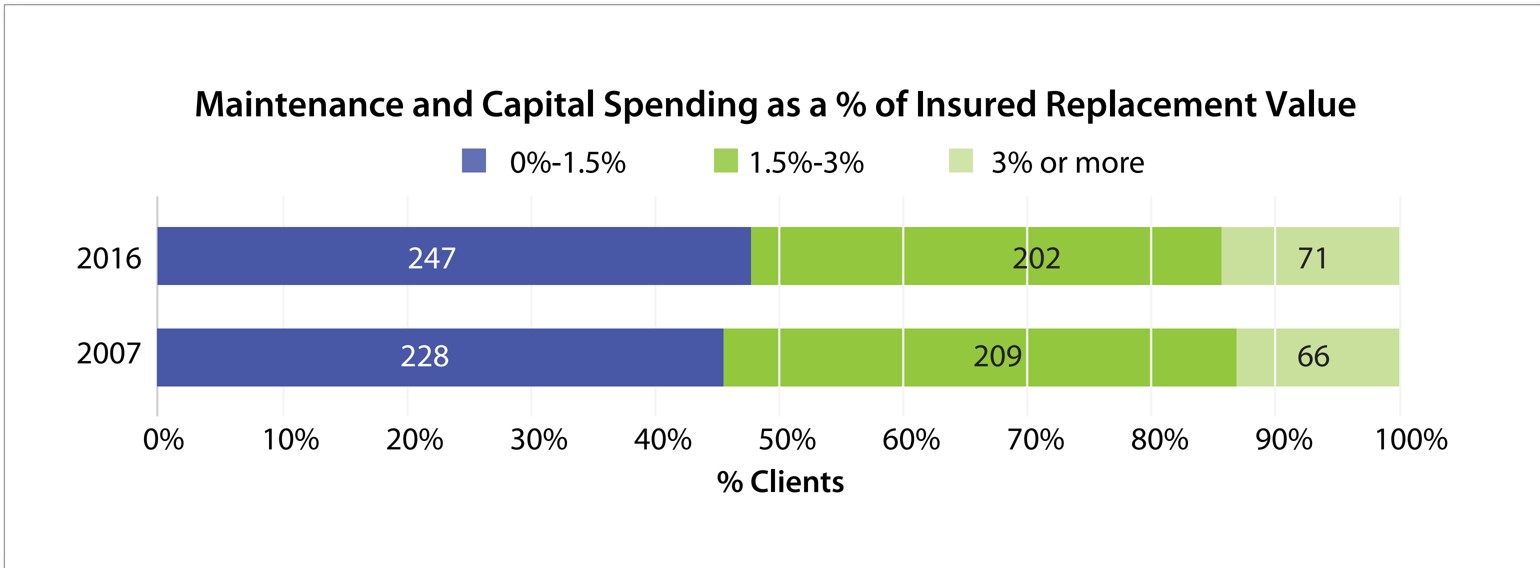
Spending on Maintenance and Capital Repairs

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



Spending on Maintenance and Capital Repairs

After dropping slightly in 2014 (1.4%), the median rate of investment in the physical plant rose in 2016 to 1.6 per cent (2007: 1.6%)



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Spending on Maintenance and Capital Repairs

- Agency data show that from 2007 to 2016 our clients' insurance companies increased their estimates of replacement costs by more than the general inflation rate.
- The total insured replacement value for clients that appear in both the 2007 and 2016 datasets rose 58 per cent between the two years.
- The Consumer Price Index rose 15.2 per cent over the same period.
- Insurance companies appear to have been catching up after a period of rapid rises in residential construction costs.
- If replacement costs were underestimated in 2007, the investment rates for that year in the previous graph are overstated in relation to 2016.

Spending on Maintenance and Capital Repairs

Our clients continued to increase spending on their properties in 2016.

Table 25: Annual Per-Unit Spending on Maintenance and Capital Repairs					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Median for Dataset	$2,949	$2,724	$2,595	$2,489	$2,150

Note: Dollar amounts are indexed as constant dollars to 2016.

Spending on Maintenance and Capital Repairs

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

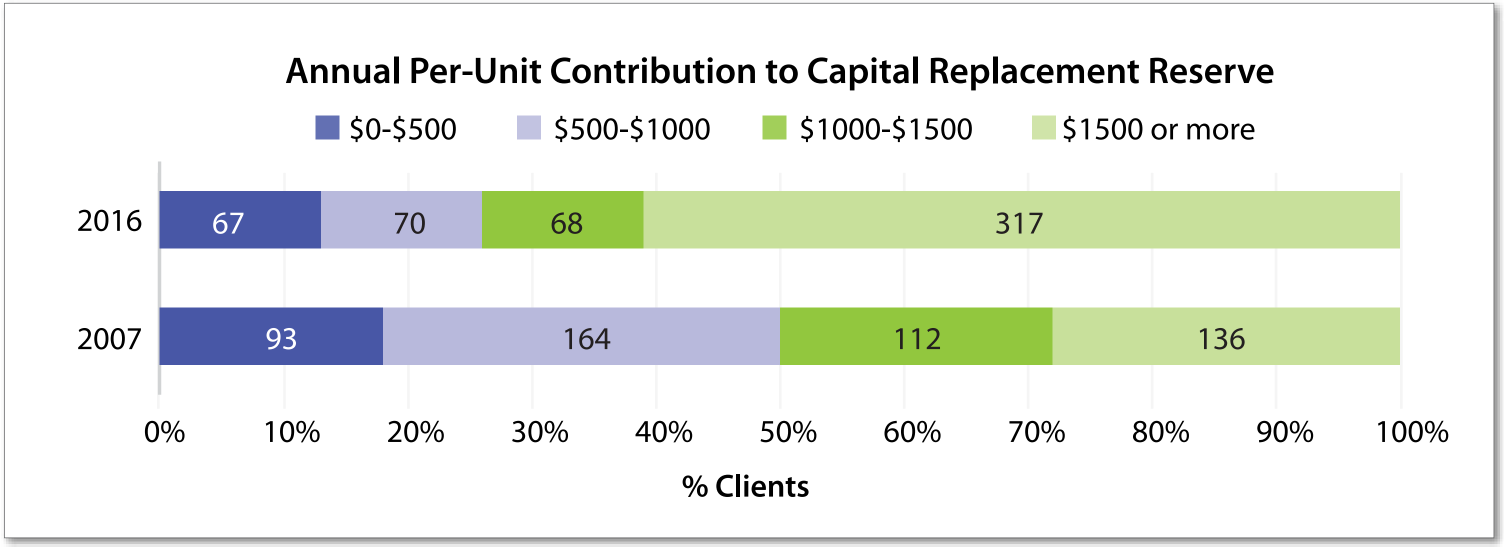
Agreement Objective 3

Capital Replacement Reserves

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

- Most clients continue to heed our advice by contributing more to their capital-replacement reserves than in the past.
- Looking at the full 2007 and 2016 datasets, contributions to reserves, including supplementary contributions from operating surpluses, have risen sharply since 2007.

Capital Replacement Reserves



Capital Replacement Reserves

Looking only at the 453 co-operatives that appear in both the 2007 and 2016 datasets, we see that

- between those years, the median annual per-unit contribution doubled, from $957 to $1,940
- 81 per cent of co-operatives increased their contribution, with 58 per cent raising it by $500 or more per unit and 38 per cent by more than $1,000
- the median per-unit reserve-fund balance increased by 21 per cent (2016: $4,265; 2007: $3,511).

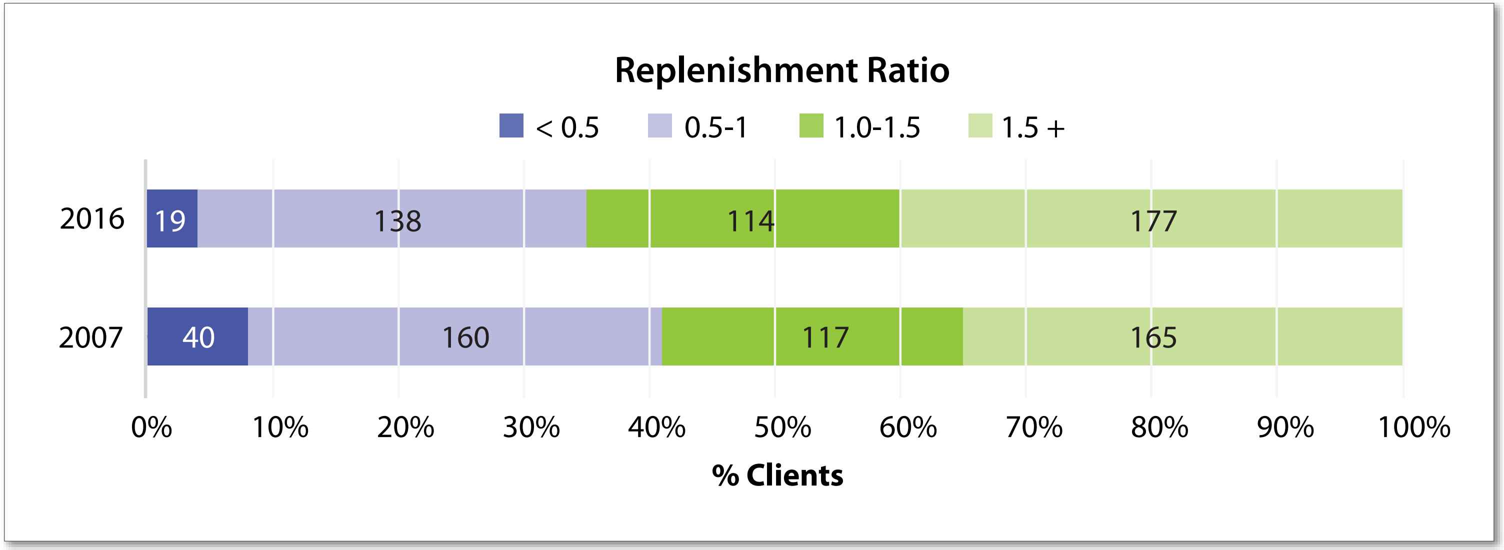
Capital Replacement Reserves

- Higher capital replacement-reserve contributions correlate strongly with capital-reserve planning.
- The median contribution rate is lower among clients without a capital replacement-reserve plan:
  - Co-operatives with an approved plan: $2,203 per unit
  - Co-operatives with an expired plan: $2,175 per unit
  - Co-operatives with no plan at all: $1,579 per unit.

Capital Replacement Reserves

- The replenishment ratio expresses the relationship between the amount a co-operative adds to its capital-replacement reserve over two years and the sum it withdraws.
- A client’s demonstrated will and capacity to replenish the reserve are at least as meaningful as the reserve balance at any point in time.
- A strong majority of clients in the dataset in 2016—65 per cent—contributed more to their capital reserve over the previous two years than they withdrew (2014: 64%; 2007: 59%).

Capital Replacement Reserves



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Capital Replacement Reserves

The median replenishment ratio grew by 18 per cent between 2007 and 2016.

Table 26: Capital Replacement-Reserve Replenishment Ratio					
	2016	1 Year Ago 2015	3 Years Ago 2013	5 Years Ago 2011	Base Year 2007
Median for Dataset	1.3	1.2	1.2	1.1	1.1

Client Operating Performance

Fully Funded Reserves

- In a fully funded reserve—the focus of this indicator—the entire fund liability is backed by cash and investments.
- 95 per cent of Agency clients in the dataset had fully funded reserves in 2016 (2014: 93%; 2007: 91%).
- The median funding rate among clients whose reserves are not fully funded has fallen from 2014 but remains above the 2007 level (2016: 67%; 2014: 71%; 2007: 63%).

Fully Funded Reserves

Table 27: Capital Replacement Reserve Funding Rates

	% of Clients with Fully Funded Capital Reserve		Median Funding Rate for Reserves Not Fully Funded	
	2016	2007	2016	2007
All Clients in Dataset	95%	91%	67%	63%

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Client Satisfaction

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Client Satisfaction

Approach

- The Agency normally commissions a client-satisfaction survey every three years.
- The last survey took place in 2015. The next survey is scheduled for 2018.
- To ensure its objectivity and protect the anonymity of responses, the survey is conducted by a third party.

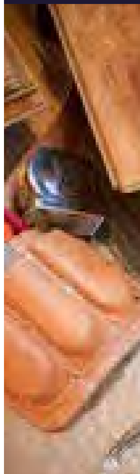
Agreement Objective

Improved client satisfaction within the portfolio

- Client satisfaction has greatly improved since the base year of 2005, the last full year of CMHC's direct management of the portfolio.
- Satisfaction with the overall quality of the Agency's service dropped two percentage points in 2015 from 2011, to 82 per cent.
- Slight increases in satisfaction with timeliness of service and access to the program administrator were registered.

Client Satisfaction

Table 28: Percentage of Satisfied Clients			
	Timeliness of Service	Access to the Program Administrator	Overall Quality of Service
2015	84%	87%	82%
2011	83%	86%	84%
2008	84%	85%	83%
2005	55%	56%	48%



Looking Ahead to 2018

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Looking Ahead to 2018

- The 2016 biannual review shows the health and performance of the portfolio continuing to improve, as it has since the Agency first assumed responsibility for its oversight.
- As our clients approach the end of their operating agreements, we strive to send them on their way with sound finances and solid business practices in place.

Looking Ahead to 2018

The Agency intends to continue

- encouraging our clients to undertake major capital repairs overseen by professional project managers
- preparing our clients for the future by
    - encouraging them in their efforts to secure new financing, where needed, with assistance from a sector organization or another third party
    - promoting adoption of effective prohibitions against director arrears

Looking Ahead to 2018

The Agency intends to continue

- encouraging clients to
  - ensure they earn enough to pay their bills as they fall due and to set aside for adequate annual contributions to their capital replacement reserves
  - commission a capital replacement plan supported by an up-to-date building condition assessment
  - reduce their workout debt through extra payments, as circumstances permit.

Looking Ahead to 2018

The Agency also looks to

- use multiple media to inspire our clients to better performance
- administer CMHC's Rent Supplement Program effectively
- help our clients to reduce their environmental footprint and, within available resources, support their efforts
- assist co-operative housing federations in their work by making information available that supports the effective management of housing co-operatives

Looking Ahead to 2018

- increase awareness of the Agency's information products on the part of clients, governments and other actors in the affordable housing sphere
- invite clients to subscribe to the Agency's Annual Health Check service when their operating agreement ends and so retain access to the Agency's unique information products
- work closely with government and our co-operative partners to ensure that good-quality, fairly priced housing continues to be available to Canadians of all income levels.

Appendices

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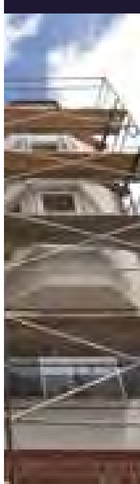
Appendix A: Technical Data

The 2016 Dataset

- The data in this report were drawn from Annual Information Returns (AIRs) received and validated by the Agency by January 15, 2017 for fiscal years ending between August 2015 and July 2016.
- The data were organized by co-operative and by “study year,” i.e., a single fiscal year ending within the period above.
- Static values, such as province, were attached to co-operatives and set out in a co-operative table.
- Attributes that can vary, such as management type, were assigned on a study-year basis.



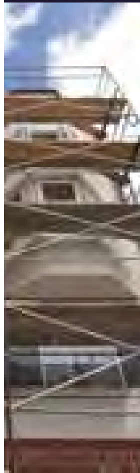
Appendix A: Technical Data

- As of December 31, 2016, the Agency had 532 co-operative clients (31,621 units under agreements with CMHC).
- At January 15, 2017, we had received and validated AIRs from 523 clients (31,563 units). These co-operatives comprise the 2016 dataset.

Appendix A: Technical Data

Earlier Datasets

- Datasets for previous study years have been adjusted to include late-arriving AIRs for all co-operatives that were active Agency clients during the period in question.
- This increases the numbers available for trend analyses.
- Composition of datasets for prior-year comparisons:
  - 2015: 554 co-operatives with 33,749 units
  - 2014: 552 co-operatives with 33,517 units
  - 2013: 550 co-operatives with 33,561 units
  - 2012: 548 co-operatives with 33,331 units



Appendix A: Technical Data

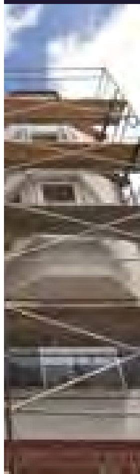
- 2011: 536 co-operatives with 32,882 units
- 2010: 529 co-operatives with 32,423 units
- 2009: 522 co-operatives with 31,688 units
- 2008 (base year for compliance): 516 co-operatives with 31,213 units
- 2007: 505 co-operatives with 30,783 units

- The 2016 and 2007 datasets have 453 co-operatives in common.
- 67 co-operatives are found only in the 2016 dataset.
- 49 are found only in the 2007 dataset.

Appendix A: Technical Data

Deep-Subsidy Programs

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



Appendix A: Technical Data

Constant Dollar Amounts

- Dollar amounts from previous years have been indexed to their 2016 values (constant dollars) using the rate of change in the Consumer Price Index (CPI) for Canada (all items, not seasonally adjusted), as published by Statistics Canada.
- For values relating to specific clients, we calculated the rate of change by comparing the CPI for the month in which the co-operative's fiscal year ended and the CPI for the same month in the following years.
- Calculations for portfolio-wide numbers, such as medians, were based on the indexed amount for each co-operative.

Appendix A: Technical Data

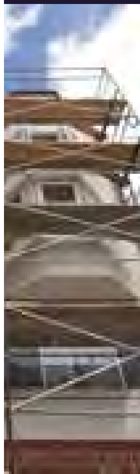
Measurement of Investment in Physical Plant

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

Appendix A: Technical Data

Measurement of Investment in Physical Plant

Table 29: Influence of Additions to Capital Assets						
	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Clients Reporting Additions to Capital Assets	61/523 (12%)	51/554 (9%)	36/552 (7%)	41/550 (7%)	40/548 (7%)	41/536 (8%)
Largest Per-Unit Addition	$41,868	$23,407	$12,366	$28,285	$44,940	$26,296
Per-Unit Physical-Plant Spending for Dataset	$4,027	$3,708	$3,211	$3,428	$3,336	$3,160
Per-Unit Addition to Capital Assets for Dataset	$918	$545	$154	$341	$373	$226
Addition to Capital Assets as % of Physical-Plant Spending	23%	15%	5%	10%	11%	7%
Median Per-Unit Spending, with Capital-Asset Addition	2,963	2,747	2,623	2,606	2,545	2,499
Median Per-Unit Spending, without Capital-Asset Addition	2,701	2,654	2,528	2,537	2,467	2,386



Appendix A: Technical Data

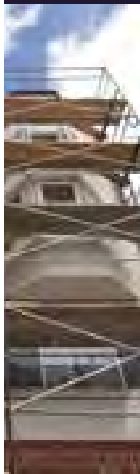
Measurement of Investment in Physical Plant

- While only a small minority of clients reported additions to their capital assets, the value of those additions had a material effect on median physical-plant spending rates in the portfolio.
- Next we examined the 2016 distribution of clients in the dataset by per-unit spending rates, with and without additions to capital assets, and compared these with 2007 spending rates.

Appendix A: Technical Data

Measurement of Investment in Physical Plant

Table 30: Distribution of Clients in the Dataset by Annual Per-Unit Spending on Maintenance and Capital Repairs				
	$0-$2,000	**$2,000-$4,000**	**$4,000-$6,000**	**$6,000 or more**
2016 with Capital-Asset Additions	26%	46%	18%	11%
2016 without Capital-Asset Additions	29%	49%	17%	5%
2007 without Capital-Asset Additions	43%	46%	9%	2%



Appendix A: Technical Data

Measurement of Investment in Physical Plant

- With additions to capital assets excluded, between 2007 and 2016 we saw growth from 11 per cent to 22 per cent in the proportion of clients in the database spending more than $4,000 per unit a year on maintenance and capital repairs, in constant dollars.
- The proportion spending less than $2,000 fell from 43 per cent to 29 per cent.

Appendix B: Non-Compliance Definitions

Compliance failures are classified according to the following criteria:

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

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

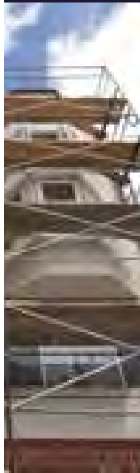
- **Minor Compliance Variance**—a variance from the operating agreement or program guidelines that neither has an impact on the co-operative's short- or long-term viability nor results in public funds committed for the program being misused or seen to have been misused.

Appendix C: Composite Risk Ratings

Definitions

Low

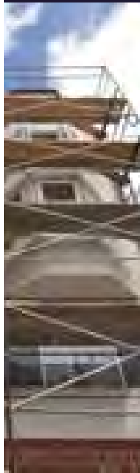
A strong, well-managed housing co-operative. The combination of its excellent physical condition, accumulated earnings and reserves, position in the marketplace and current capacity to contribute to its replacement reserve make it resilient in adverse market and economic conditions. Provided it continues to be well managed, the co-operative should be able to fund needed repairs and replacements and meet any debt obligations for the foreseeable future.



Appendix C: Composite Risk Ratings

Moderate

A sound, generally well-managed housing co-operative. It is in good or better physical condition, has access to adequate cash resources and is able to make a contribution from earnings to its replacement reserve, after covering any debt service and all normal operating expenses. No indicators of high risk are present. The co-operative should be able to remain in sound financial and physical condition, provided it continues to be well managed and economic or market conditions do not deteriorate significantly.



Appendix C: Composite Risk Ratings

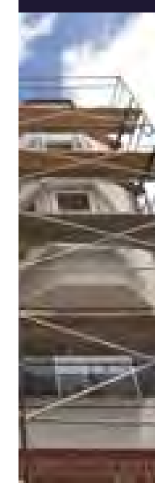
Above-Average

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

Appendix C: Composite Risk Ratings

High

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

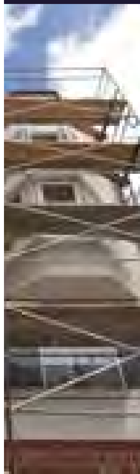


Appendix C: Composite Risk Ratings

Changes to the Risk-Assessment Model

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

- increased the combinations of leading-indicator ratings that return a composite risk rating of Low
- raised the thresholds used in establishing Net-Income indicator ratings
- modified the Net-Income indicator formula to use the higher of the co-operative's reported insured replacement value or the regional median replacement value, adjusted for the size of the co-operative.



Appendix D: Median Performance Data

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2016	2007	2016	2007
Full Dataset	0.4%	0.4%	$43	$37
Program				
S27/S61	0.3%	0.1%	$29	$15
S95	0.3%	0.3%	$35	$32
FCHP (ILM)	0.6%	0.7%	$72	$77
Multi-program	1.7%	1.0%	$136	$139
Province				
British Columbia	0.2%	0.2%	$25	$17
Alberta	1.0%	0.3%	$103	$31
Ontario	0.5%	0.7%	$49	$76
PEI	4.9%	0.2%	$169	$15

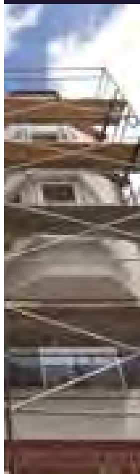
Note: The changes ove
r time are due to changes in the dataset and to the evolution of individual clients within the portfolio.

Appendix D: Median Performance Data

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2016	2007	2016	2007
Management Model				
Management Company	0.5%	0.5%	$61	$51
Paid Staff	0.4%	0.4%	$39	$38
Paid Bookkeeper Only	0.2%	0.2%	$16	$23
Volunteers Only	0.2%	0.0%	$15	$0

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

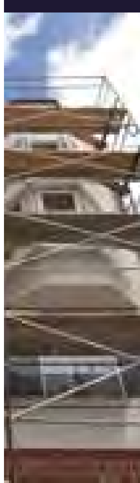


Appendix D: Median Performance Data

Housing Charge Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2016	2007	2016	2007
Full Dataset	0.5%	0.9%	$790	$663
Program				
S27/S61	0.7%	0.8%	$816	$573
S95	0.4%	0.7%	$758	$649
FCHP (ILM)	0.7%	1.2%	$761	$678
Multi-program	1.1%	1.4%	$1,080	$1,132
Other	1.7%	8.4%	$1,506	$1,121
Province				
British Columbia	0.2%	0.4%	$534	$439
Alberta	0.7%	0.7%	$693	$411
Ontario	1.0%	1.4%	$985	$893
PEI	0.4%	1.2%	$767	$742

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

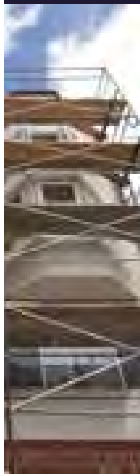


Appendix D: Median Performance Data

Housing Charge Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2016	2007	2016	2007
Management Model				
Management Company	0.7%	1.0%	$794	$600
Paid Staff	0.5%	1.0%	$953	$918
Paid Bookkeeper Only	0.2%	0.5%	$273	$338
Volunteers Only	0.1%	0.5%	$82	$125

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

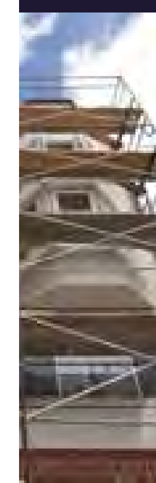


Appendix D: Median Performance Data

Physical Plant

	Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements		Annual Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution	
	2016	2007	2016	2007	2016	2007
Full Dataset	$2,949	$2,150	$4,265	$3,511	$1,833	$957
Program						
S27/S61	2,890	2,115	4,589	3,703	1,911	1,088
S95	2,964	2,234	4,960	3,924	2,060	1,243
FCHP (ILM)	2,801	2,002	2,823	2,388	1,300	567
Multi-program	3,328	2,759	2,700	2,975	1,726	992
Other	7,868	3,304	19,295	2,977	1,639	520
Province						
British Columbia	2,973	2,001	4,900	3,562	2,073	1,091
Alberta	3,716	1,733	4,327	2,467	2,270	763
Ontario	2,735	2,364	3,871	3,734	1,622	975
PEI	3,143	2,014	6,408	998	665	473

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



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Appendix D: Median Performance Data

Physical Plant

	Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements		Annual Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution	
	2016	2007	2016	2007	2016	2007
Management Model						
Management Company	2,964	2,168	3,747	3,157	1,754	921
Paid Staff	2,958	2,392	4,825	3,670	1,903	946
Paid Bookkeeper Only	3,127	1,920	4,979	3,259	2,000	1,113
Volunteers Only	2,245	1,686	4,385	4,030	1,432	960

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