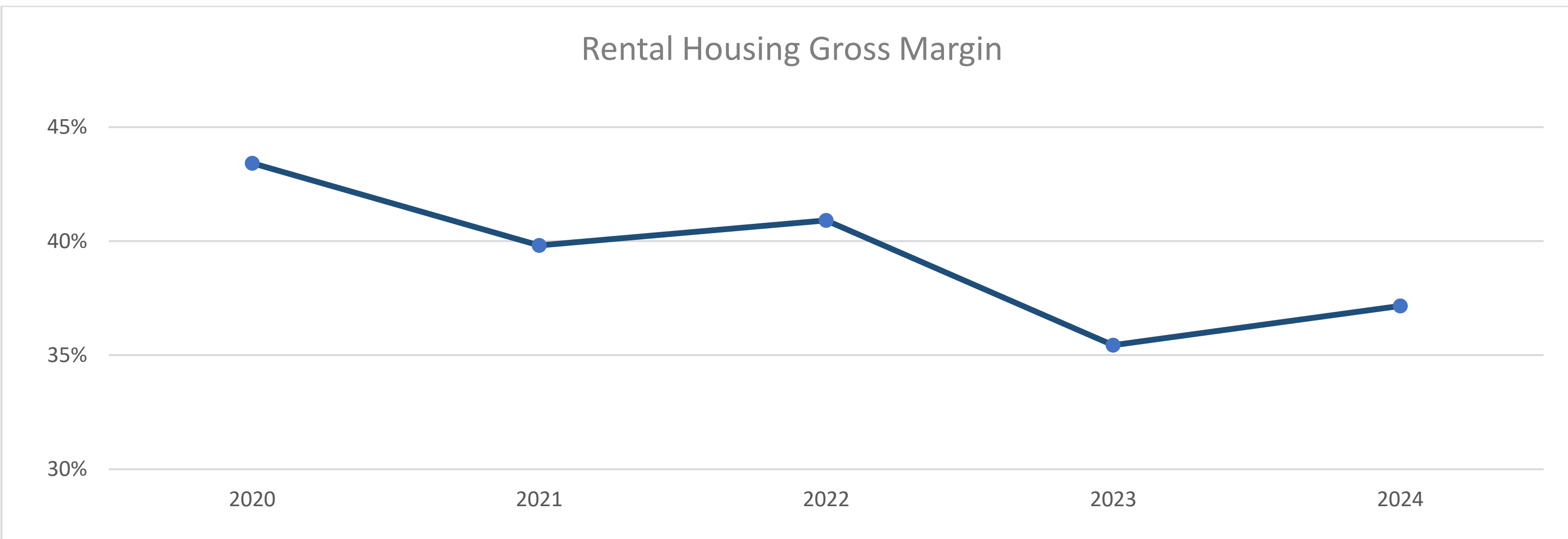
Capital Region Housing Corporation 2024 Financial Performance Measures

Financial indicators are metrics used to quantify current conditions and forecast trends. They can be used to evaluate the overall financial health of an entity. The following information is taken from the annual audited financial statements prepared in accordance with Public Sector Accounting Standards.

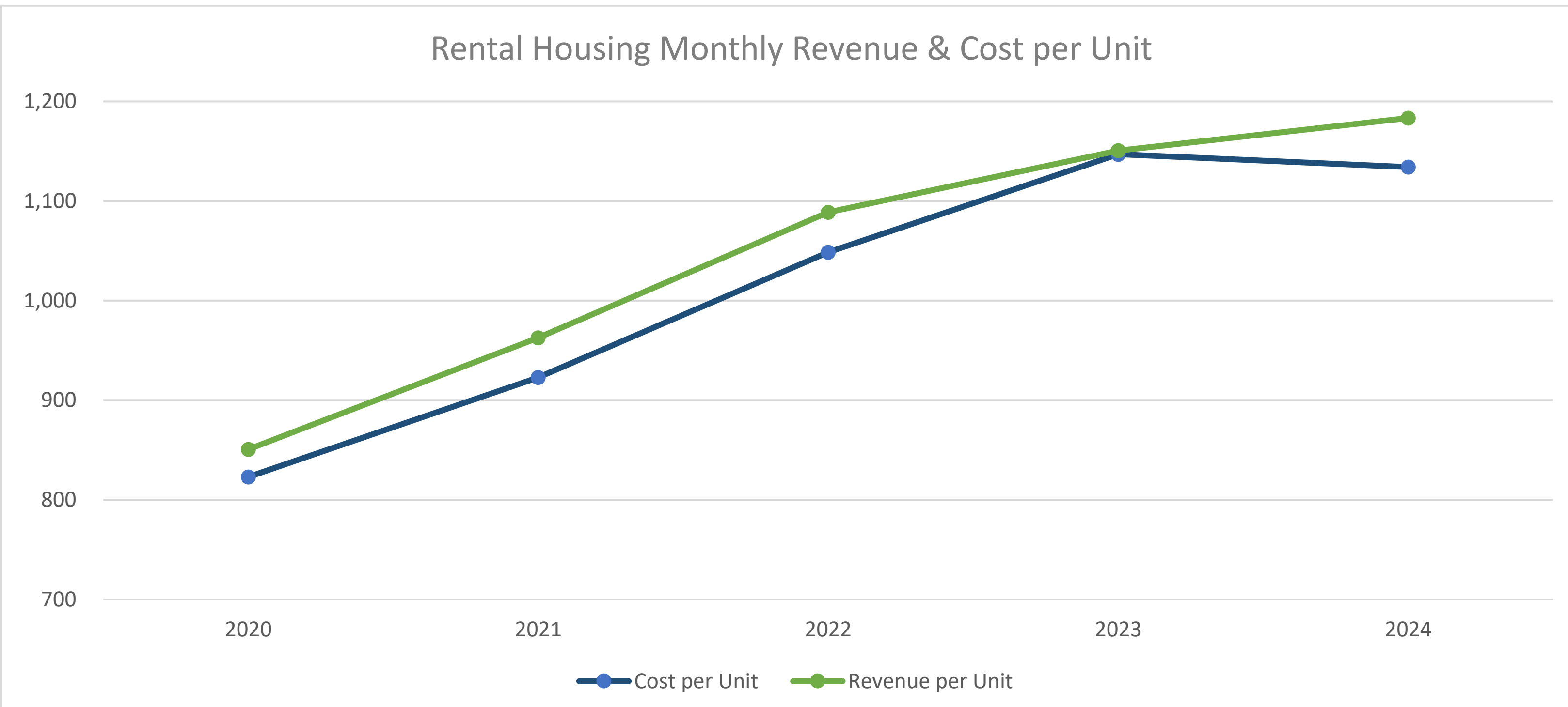
1. Gross Margin

Gross margin is a critical measure that evaluates an organization's retained revenue after direct expenses, such as labour and materials, have been subtracted. The higher the gross margin, the more revenue a company retains, which it can then use to pay other costs or satisfy debt obligations. From 2020 to 2024, rental housing revenue has consistently increased, a compound annual growth rate (CAGR) of 10%. Despite revenue growth, gross margin has shown a decreasing trend over the same period, declining from 43% in 2020 to 37% in 2024. Indirect expenses are increasing primarily due to inflation and interest on new mortgages required to support the addition of new rental units. In 2024, the revenue increased by 8% compared to 2023 which outpaced the increase in expenses of 5% resulting in a slight upward swing in gross margin.



2. Rental Housing Monthly Revenue and Cost Per Unit

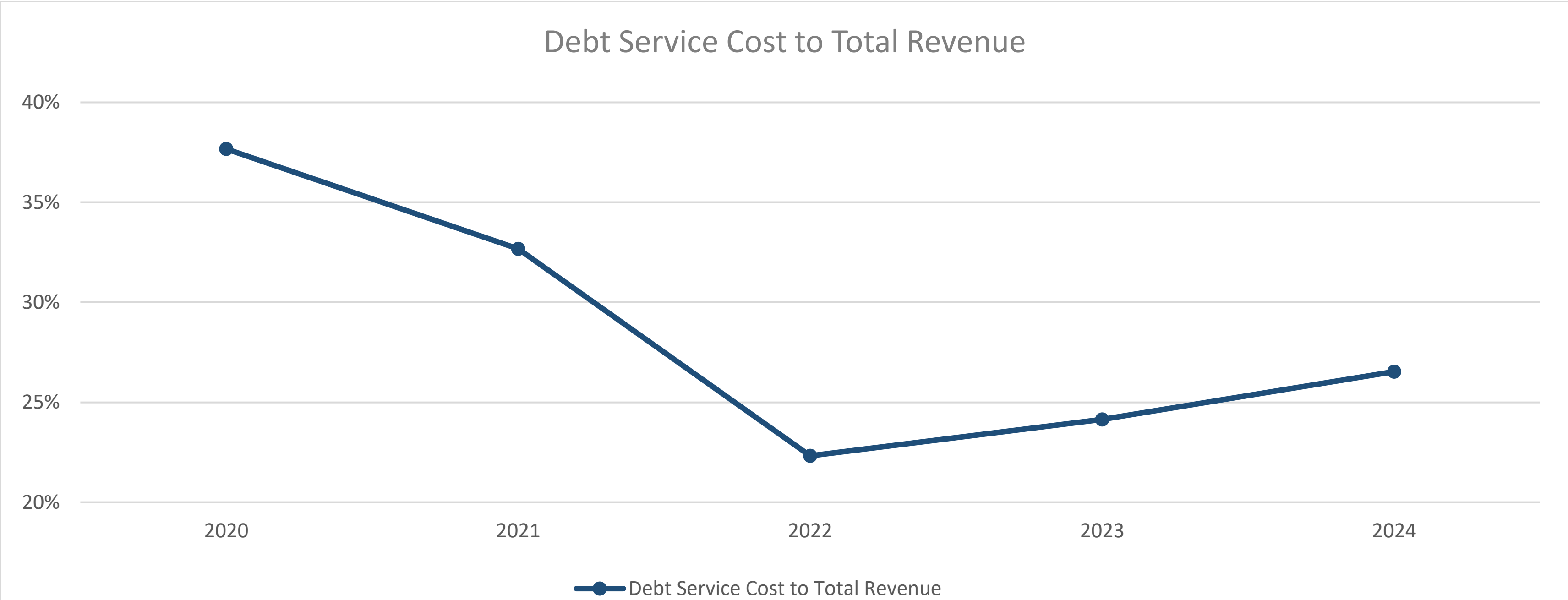
The revenue and cost per rental unit serves as a financial metric for evaluating the cost effectiveness of managing an entity's rental properties. Data extracted from Schedule E Rental Operations was utilized to analyze this trend, encompassing total expenditures including principal and interest payments on mortgages throughout the year. In 2020, the cost per unit experienced a notable decrease, attributed to the addition of 355 new units. The increase in the number of units outpaced the rise in costs, primarily due to part-year operations for the newly acquired properties (Spencer Close and West Park). From 2021 to 2024, the monthly cost per unit presented an upward trend, reaching $1,134 in 2024 (2023: $1,147). This escalation can be attributed to various factors, including inflationary pressures and the continuous rise in expenses such as labour, maintenance, insurance and debt servicing costs. Excluding debt servicing costs, the 2024 monthly cost per unit is $689 (2023: $688). Despite increasing cost pressures, revenue per rental unit has kept pace with costs.



3. Debt Service Cost to Total Revenue

The debt service costs to total revenue ratio signifies the portion of revenue allocated towards servicing interest and principal payments on both short-term and long-term debts. A higher ratio suggests a larger proportion of revenue dedicated to debt repayment, limiting flexibility in responding to unexpected situations and adapting to changing conditions.

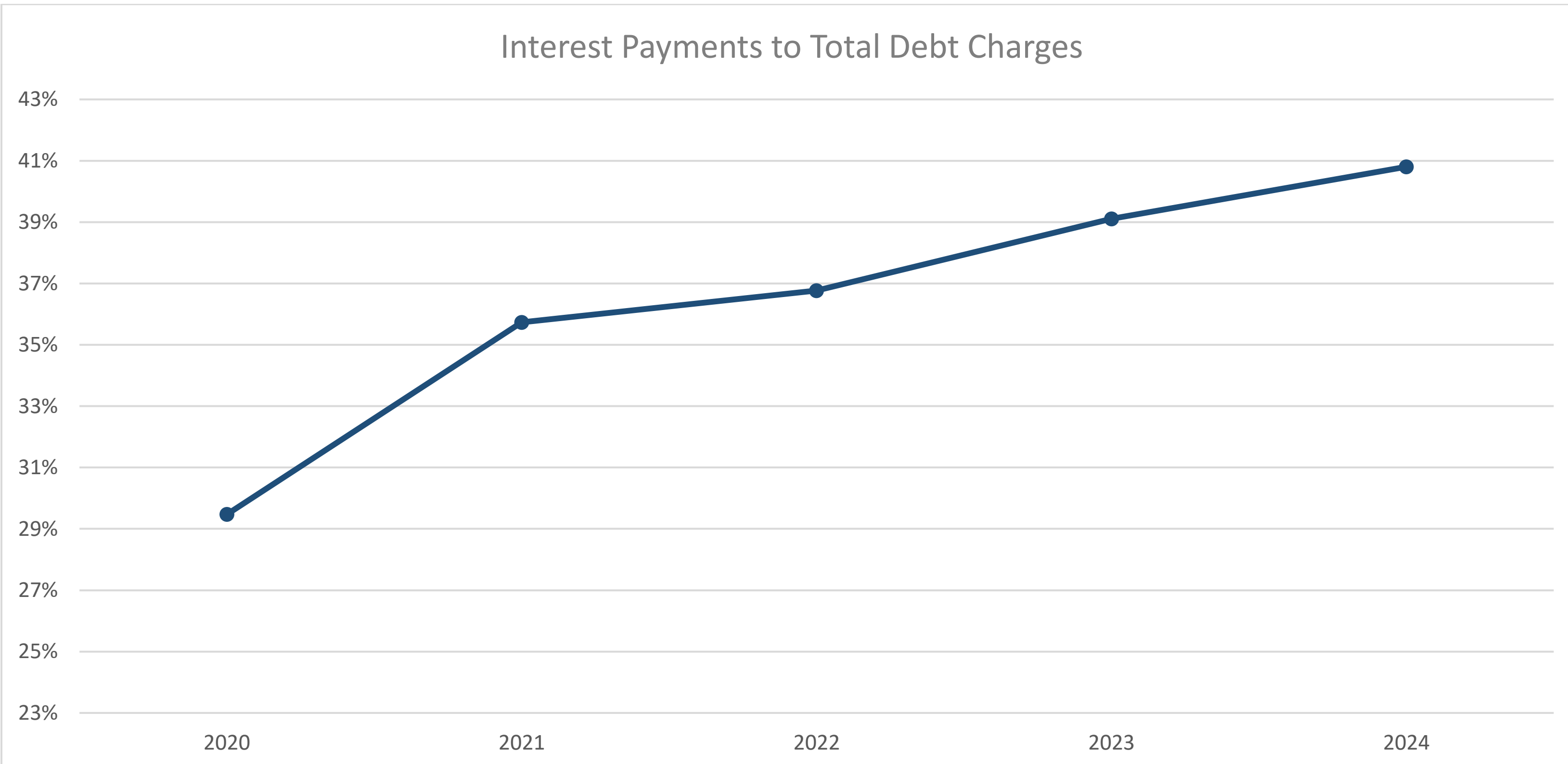
With various funding sources secured, such as forgivable loans and grants, coupled with enhanced tenant rent contributions from new properties, from 2022 revenue experienced a notable upsurge compared to the incremental interest and principal repayments on new debt, which resulted in a sharp decline in the ratio. In 2024, the debt service cost to total revenue is 27% (2023: 24%). The same indicator calculated as a percentage of rental revenue only is 38% in 2024 (2023: 40%), indicating the increase in operating revenue was sufficient to cover the increase in debt charges, though the ratio decreased slightly year over year.



Trend line for 2020-2022 has been adjusted to reflect consistent presentation of rental management fees adopted in 2022 and project mangement fees adopted in 2023

4. Principal and Interest as a Proportion of Debt Servicing Costs

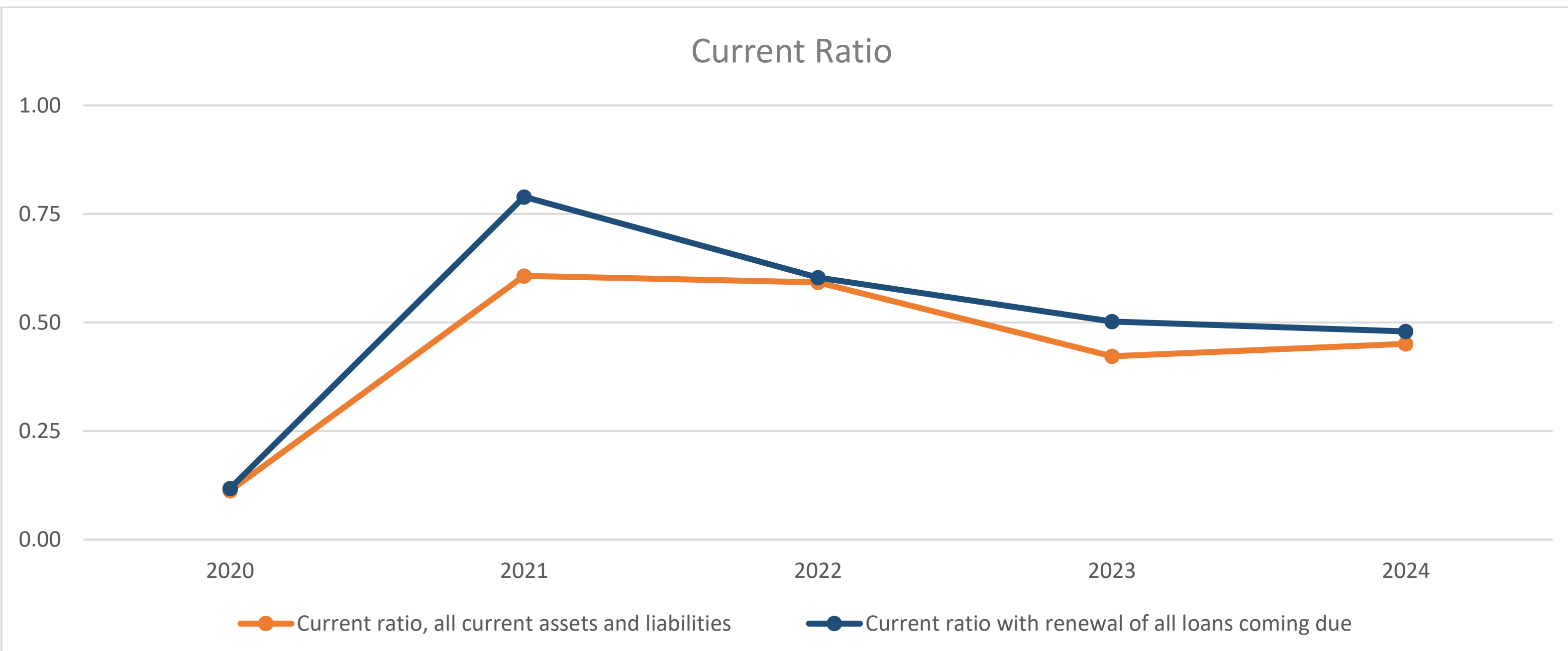
Principal and interest are the main components of a mortgage. Principal refers to the amount of money borrowed from the lender, while interest refers to the cost of borrowing. At the beginning of the mortgage term, more interest than principal is paid. In 2024, of the total mortgage debt servicing costs, 41% were attributed to interest payments (2023: 39%), an increase due to interest on new mortgages for properties at 330 and 332 Michigan.



5. Current Ratio

The current ratio serves as a measure of an entity's liquidity, indicating its ability to settle short-term debts using current assets. A higher ratio suggests a stronger ability to cover planned and unforeseen expenses. The 2020 current ratio was lower compared to other years due to acquiring West Park and Spencer Close, which added $61.3 million in new debt. Since 2021, the current ratio has declined due to new debt starting in 2022, and in 2024 it increased with the construction of 330 and 332 Michigan.

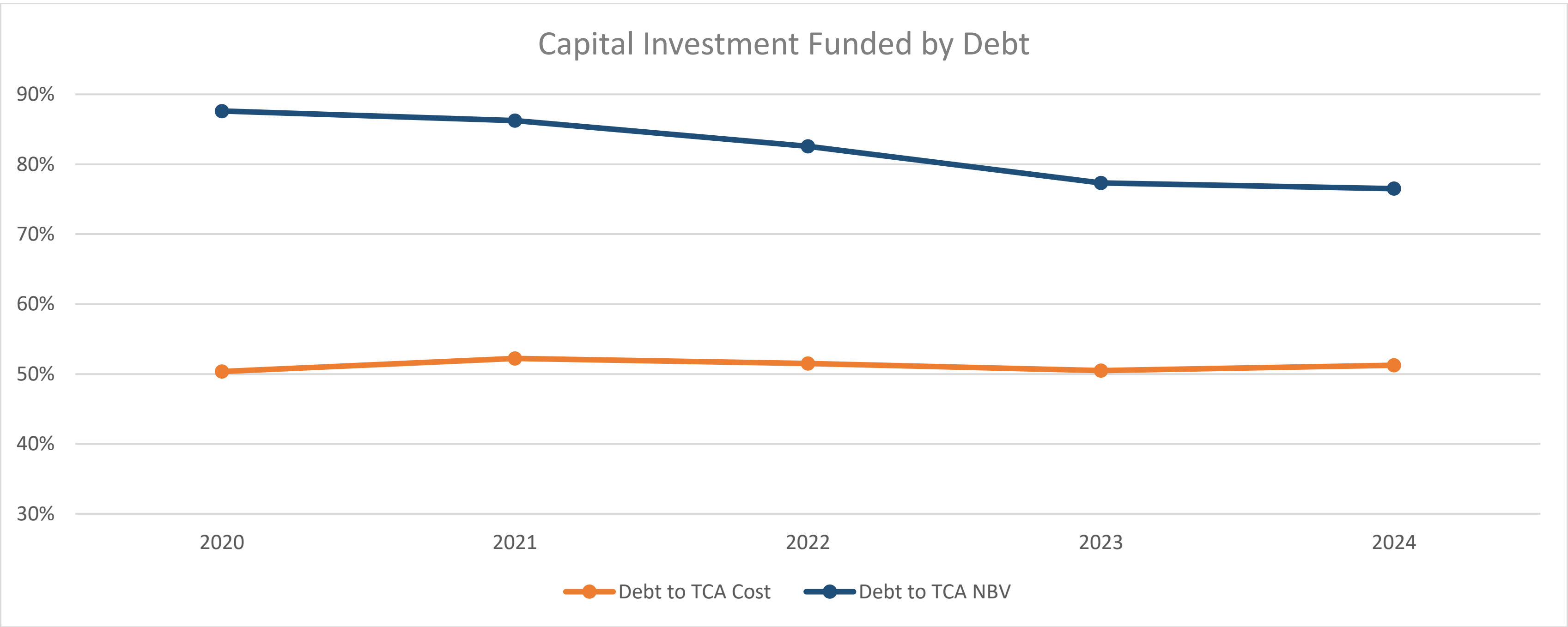
Mortgages with due dates in the upcoming fiscal year are categorized as current assets in financial statements. The Capital Region Housing Corporation usually renews loans rather than paying off the full mortgage balance. Two trend lines are observed: one assuming no mortgage renewals (aligning with financial statement presentation) and the other assuming all due mortgages will be renewed without requiring full repayment within the next fiscal year. This results in a higher current ratio, reflecting the more probable scenario for the upcoming year. In 2022, the two ratios nearly aligned because only one mortgage of $595K was due in 2023. In 2024, there is a spread between the ratios due to $3.6 million in mortgages coming due in 2025 and the renewal portion of the mortgage's payable is removed from the calculation as not considered a current liability.



6. Capital Investment Funded by Debt

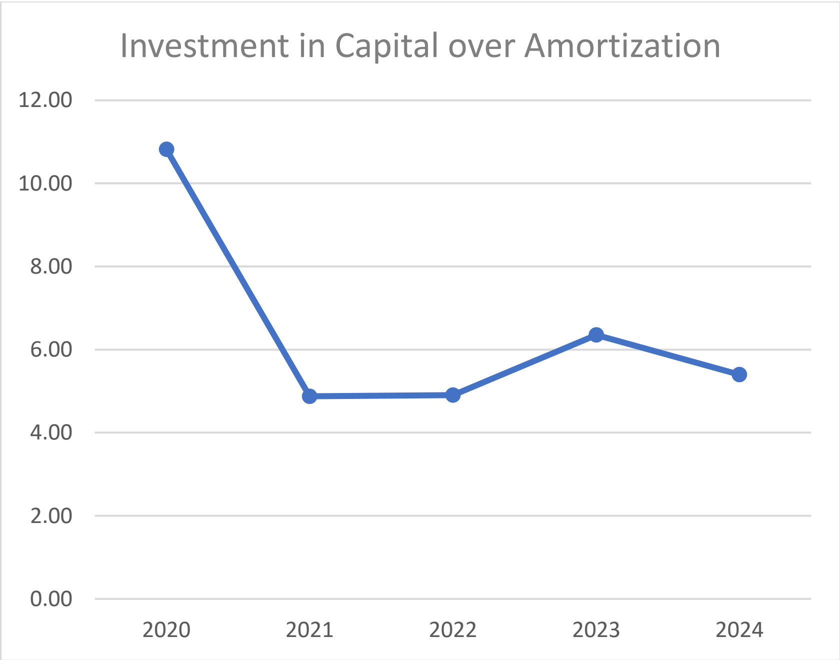
Capital investment funded by debt illustrates how much of an entity's tangible capital assets (TCA) have been purchased using debt. Over the past five years, the debt to total capital assets net book value (TCA NBV) ratio has consistently ranged between 77% and 88%. This signifies that a significant portion of the entity's capital investment is financed through debt, with capital assets being amortized at a similar pace to debt repayment. As more assets reach full depreciation, this ratio is expected to decline more rapidly as debt repayment surpasses amortization.

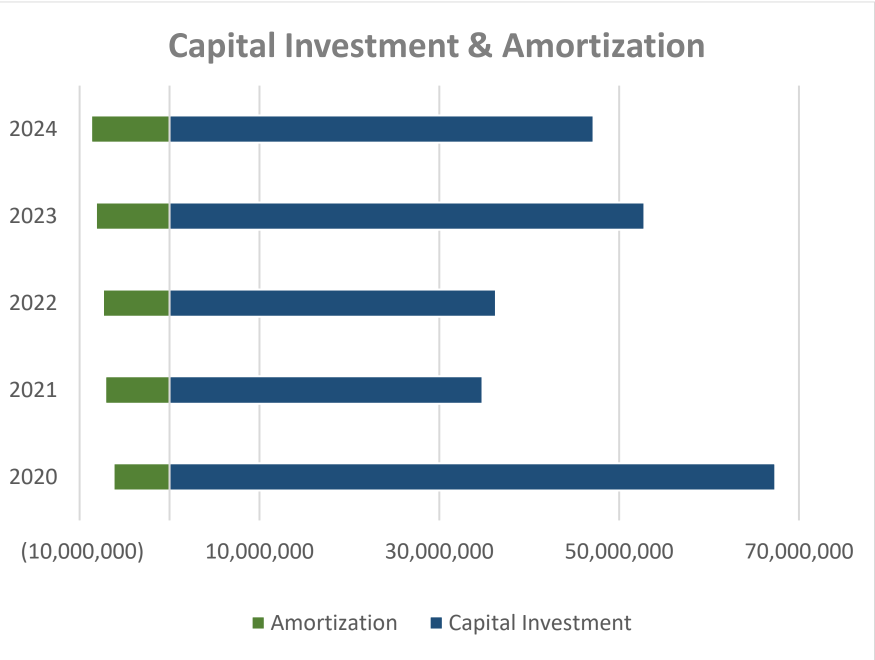
In contrast, the debt to total capital assets cost ratio averaging 51% indicates a steady percentage of new property costs financed through debt. Notably, this ratio does not encompass the Capital Regional District's equity in the new leased buildings under the Regional Housing First Program.



7. Investment in Capital Over Amortization

The charts below demonstrate the capital investment-to-amortization ratio which indicates the level of capital expenditure relative to the annual depreciation of assets. A higher ratio suggests that the entity is allocating more capital towards investments compared to the depreciation incurred on older properties. In 2024, capital investment outpaced amortization by 5.39 times.

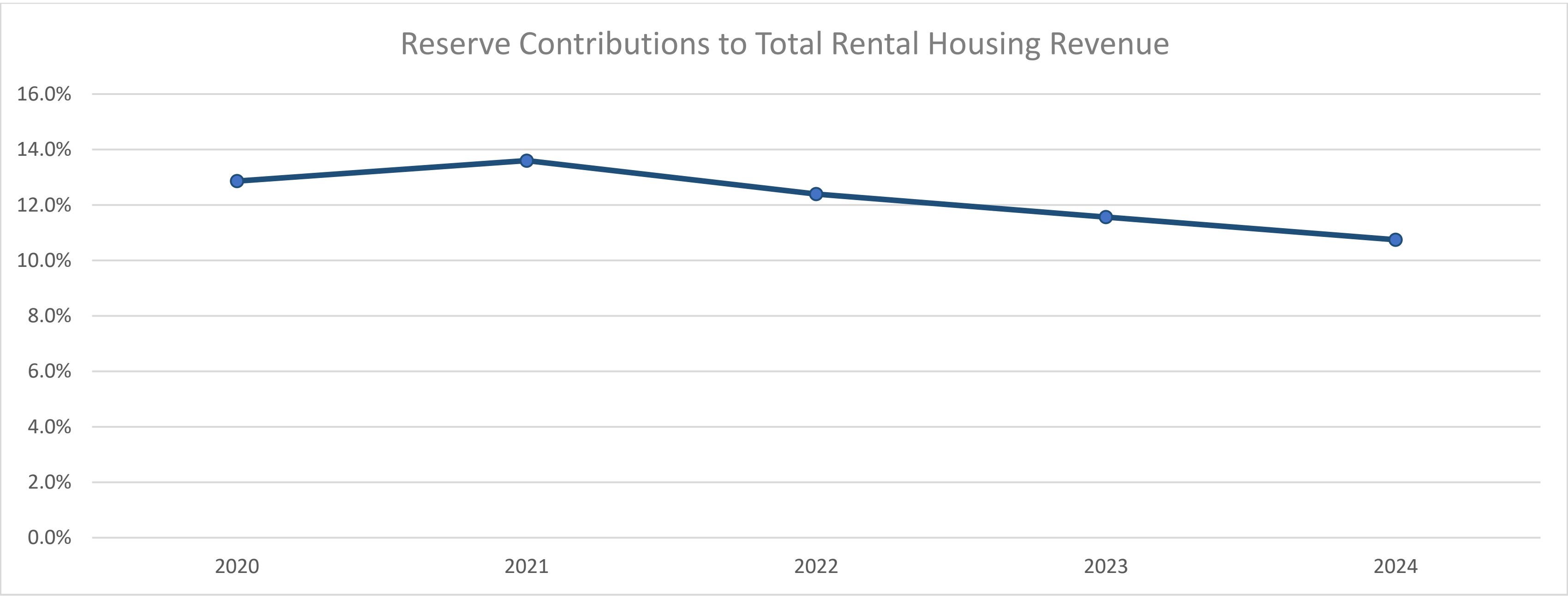




Data for 2019-2021 was not adjusted for ARO, standard was adopted in 2023.

8. Contributions to Reserves as a Percentage of Total Revenue

Each building makes annual contributions to their Replacement Reserve Fund (RRF) which are required to fund future planned replacement of items. In 2024, contributions to the RRF were based on a calculation of $173/unit per month and resulted in a contribution level of 10.7% (2022: 11.6%) of rental income. Contribution metrics and funding levels are a requirement of BC Housing Management Commission operating agreements which informs the contributions across all building portfolios. Fluctuations in contribution levels 2020 to 2024 can be attributed to changes in the number of rental units. Increases in 2020 and 2021 reflect new units being added and decreases reflect units not contributing while under redevelopment (2022 and 2024).



9. Reserve Balances

The entity's net assets comprise of investments in TCAs, externally restricted reserves, internally restricted reserves and unrestricted reserves. The following displays the quantity of each reserve category held by the Entity over the last five years. Reserves serve as savings to bolster service delivery, potentially reducing borrowing costs for asset renewal and replacement. The uptick in the externally restricted reserve balance in years 2020-2022 signifies additions to replacement reserves surpassing expenditures from the reserve.