

November 24, 2008

Research Update:

**Toronto Community Housing Corp.
'AA-' Rating Affirmed On Strong
Relationship With City**

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Rationale

On Nov. 24, 2008, Standard & Poor's Ratings Services affirmed its 'AA-' long-term issuer credit rating on Toronto Community Housing Corp. (TCHC). The outlook is stable.

At the same time, Standard & Poor's affirmed its 'AA-' senior unsecured debt rating on TCHC Issuer Trust.

The rating on TCHC reflects the company's supportive relationship with its owner, the City of Toronto (AA/Positive/A-1+); robust interest coverage; strong liquidity support; solid and improving financial results; strong demand; and the company's dominant supplier position. Somewhat counterbalancing these strengths are TCHC's considerable redevelopment plans, moderate state-of-good repair backlog, weakening operational results, and low geographical diversification.

We rate TCHC in accordance with Standard & Poor's government-related entities methodology. Given the importance of public housing to Toronto and TCHC's public policy role, we rate TCHC using a top-down approach.

As a share-held corporation operating at arm's length from the city, TCHC benefits from a supportive relationship with its owner. This support has been recently manifested by an unexpected capital grant from the city of C\$75 million that the company will use to reduce its state-of-good-repair backlog. The city has established a stable multiyear funding formula for TCHC and has provided the company with clear and straightforward operating direction, permitting it to manage its operations on a hands-off basis. Its operating direction, however, does require the company to seek city approval for debt issuance and any program expansion that would require additional funding beyond the existing funding formula.

Interest coverage levels, which were almost unchanged in 2007 from the previous year, remained robust even with the issuance of C\$250 million of bullet bonds in May 2007. For 2006 and 2007, the EBITDA-based gross interest coverage was 3.1x, which was up very slightly from 3.0x in 2005. The funds from operations (FFO) gross interest coverage ratio fared similarly, at 1.7x in 2007, down slightly from 1.8x in 2006. This stability came despite significant new issuance in 2007. At the end of that year, total debt stood at slightly less than C\$1.3 billion, up about 27% from a year earlier. We expect that the company's debt will not increase materially in 2008, and the EBITDA-based gross interest coverage to be 2.9x for 2008 and 3.1x for 2009.

TCHC benefits from strong liquidity support. The company's available cash and investments stood at almost C\$290 million at the end of 2007, which was up very dramatically from C\$60 million a year earlier. Total cash and investments were almost C\$440 million, but about C\$155 million of the total represented

internally and externally restricted reserves. The increase is largely due to the C\$250 million issuance in 2007, which will fund general capital renewal and will fund a substantial portion of a large redevelopment. Accordingly, we expect that the company will draw down liquidity in 2008 and 2009 as both initiatives progress. In addition to the cash and investments, TCHC maintains committed bank facilities of C\$200 million, of which about C\$20 million had been used at the end of 2007.

For fiscal 2007 (ended Dec. 31), TCHC generated EBITDA of C\$220 million and a net income of C\$60 million on revenues of about C\$640 million. Relative to 2006, EBITDA was up about 8% in 2007 but net income was down by 23% due to increased interest and depreciation expense. Both EBITDA and operating margins improved slightly in 2007: The operating margin rose to 21.6% in 2007 from 21.1% in 2006, while the EBITDA margin increased to 34.1% from 32.6%.

Strong demand and supply conditions in the Toronto housing market benefit TCHC. The economics of social housing in Canada do not encourage private development and TCHC is easily the dominant provider of subsidized housing in Toronto. Historically, demand has been very brisk: The waiting list for subsidized units typically is close to the total number of units in the company's portfolio. The demographics of the Toronto market and the relative paucity of private-sector alternatives strongly suggest that the favorable market conditions will persist for TCHC.

Ambitious redevelopment plans, a moderate capital backlog, and weakening operational performances offset to a degree the strength of the company's financial and business profiles. TCHC's current redevelopment plans are considerable: Two major projects, Don Mount Court and Regent Park, are underway, resulting in the renewal of about 2,300 units or 4% of the present portfolio in 10 years. The ongoing projects expose TCHC to a number of risks, most notably construction and market risk (the projects have market components). As well, a significant proportion of one project has been debt-funded, which has resulted in a moderate increase in leverage. Furthermore, the company has begun planning two additional large-scale projects.

A moderate state-of-good-repair capital backlog is also a significant challenge. When TCHC was created in 2002, its portfolio had a number of properties that had state-of-good-repair deficiencies. Although the company has made considerable progress in addressing the deficiencies, the backlog remains significant. TCHC will use about C\$100 million of the proceeds of C\$250 issuance million and an unexpected city grant of C\$75 million to catch up on the backlog, which it currently estimates to be about C\$300 million and increasing at an estimated C\$50 million per year.

Operating performance metrics have declined overall. Key metrics, such as vacancy rates, arrears, and unit turnaround times, have worsened in the past three years. Poor operational performances can increase risks to the business and financial profiles through lost revenue opportunities, rising bad debt expense, and reduced demand. Some of the operating weakness is the result of redevelopment and capital backlog initiatives and will dissipate as redevelopment projects are completed and capital repairs are made to units and buildings.

Outlook

The stable outlook reflects the expectation that TCHC will continue to generate solid financial and operational performances and that interest coverage ratios will not significantly deteriorate. Liquidity levels will fall as construction at Regent Park progresses and unused bond proceeds are drawn. We expect the company's relationship with Toronto to remain supportive. Standard & Poor's also expects that the demand and supply conditions of the past decade will continue to ensure that vacancies will be promptly filled. A significant adverse change in the relationship with the city, unexpected increase in debt issuance, or a marked deterioration of financial results could place downward pressure on the rating. Conversely, a substantial reduction in debt or a significant increase in senior government capital and operating grants would be a definite precursor to an upgrade.

Ratings List

Ratings Affirmed

Toronto Community Housing Corp.	
Issuer credit rating	AA-/Stable/--
TCHC Issuer Trust	
Senior unsecured debt (1 issue)	AA-

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