

Avenue Living: Lots of Opportunity in a Fragmented Market

Avenue Living Asset Management (“Avenue Living”) is Western Canada’s fastest growing private multi-family principal investor and operator of 8,000+ units in Alberta (AB), Saskatchewan (SK), and Manitoba (MB) with 450+ staff across 18 markets. Avenue Living’s portfolio is made up of properties classified as ‘Workforce Housing’, a niche market within the multi-family asset class, that strategically invests in locations that are supported by strong macro fundamentals; population growth, income growth, and affordable rents. Furthermore, Avenue Living has identified a highly fragmented rental ownership market in the Prairie Province’s which provides Avenue Living with consistent deal flow to grow through acquisitions.

According to Canada Mortgage and Housing Corporation (“CMHC”), the Canadian purpose-built multi-family rental universe currently consists of 2.1 million units (CMHC 2018). The Top-30 multi-family operators in Canada represent ~20% of the total rental stock, indicating a highly fragmented ownership landscape with private, often “mom and pop” owners, owning ~80% of all multi-family assets. In 2018, Avenue Living acquired over 1,800+ multi-family rental units across Manitoba, Saskatchewan and Alberta in strategic markets with compelling investment fundamentals. Avenue Living believes there continues to be acquisition opportunities and further market consolidation across Canada’s Prairie provinces.

THE CANADIAN MULTI-FAMILY RENTAL MARKET IS HIGHLY FRAGMENTED

The Canadian multi-family rental market remains highly fragmented with the concentration of institutional investors and operators assembling portfolio’s in Canada’s largest markets. As of October 2018, there were 2,100,900 rental units in Canada (CMHC), and as illustrated below, the top 10 largest markets in Canada hold 67% of the total rental universe.

Canadian Multi-Family Universe

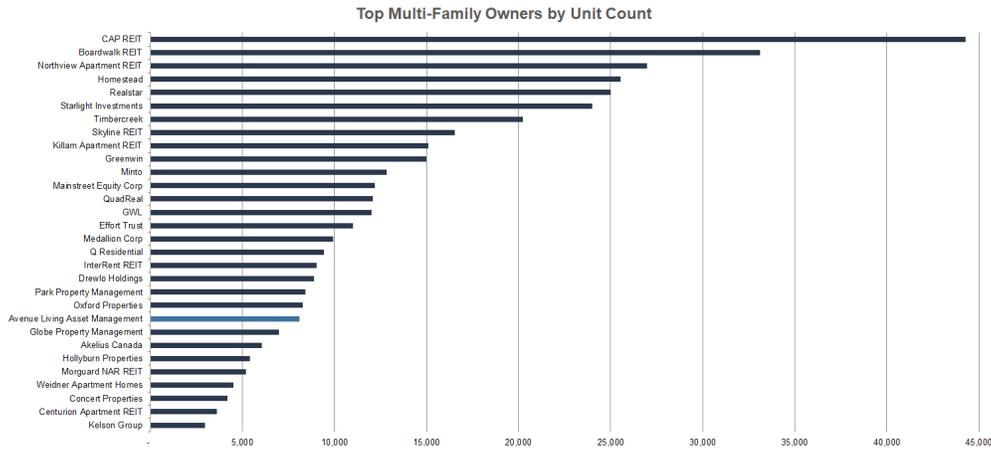
Province	Rental Units	Province	Largest Markets	Rental Units	% of Canada
Quebec	858,948	Quebec	Montreal	585,873	28%
Ontario	689,320	Ontario	Toronto	320,898	15%
British Columbia	184,211	British Columbia	Vancouver	112,228	5%
Alberta	150,192	Alberta	Edmonton	77,734	4%
Manitoba	70,894	Ontario	Ottawa	70,004	3%
Nova Scotia	58,499	Manitoba	Winnipeg	61,553	3%
Saskatchewan	37,974	Nova Scotia	Halifax	49,609	2%
New Brunswick	35,066	Ontario	London	49,073	2%
Prince Edward Island	7,153	Ontario	Hamilton	46,747	2%
Newfoundland	6,625	Alberta	Calgary	43,392	2%
Yukon/NWT	2,018				
Canada Total	2,100,900	Top 10 Markets		1,417,111	67%

Source: CMHC

Avenue Living Markets: Rental Universe

Province	Market	Rental Units
Alberta	Brooks	951
Alberta	Calgary	42,197
Alberta	Camrose	1,189
Alberta	Cold Lake	767
Alberta	Edmonton	75,841
Alberta	Lethbridge	3,839
Alberta	Lloydminster	1,557
Alberta	Medicine Hat	3,417
Alberta	Red Deer	6,697
Alberta	Wetaskiwin	1,152
Alberta / Saskatchewan	Lloydminster (AB+SK)	967
Saskatchewan	Moose Jaw	1,347
Saskatchewan	Regina	13,689
Saskatchewan	Saskatoon	14,529
Saskatchewan	Swift Current	1,027
Saskatchewan	Yorkton	1,029
Manitoba	Winnipeg	59,013
Total: Avenue Living Markets		229,208

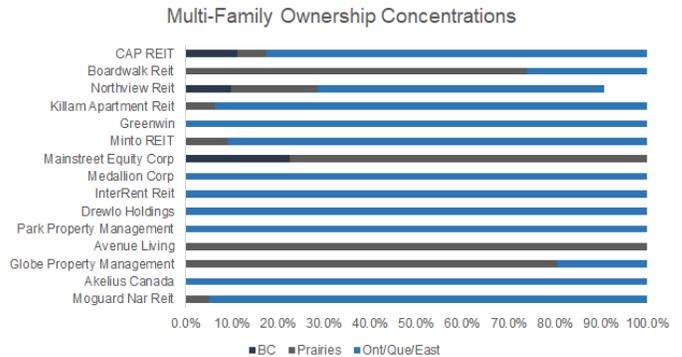
Based on Avenue Living’s research, in conjunction with BMO Capital Markets and CIBC World Markets data, the top 30 largest multi-family owners and operators have assembled approximately 400,000+ units, or only ~20% of the total rental universe in Canada.



Source: BMO Capital Markets, CIBC World Markets, Company reports

THE CANADIAN PRAIRIES ARE MORE FRAGMENTED

Avenue Living has also completed analysis on the portfolio concentration of the largest multi-family owners and operators in Canada. Featured right is a sample from the Top 30 Institutions who have unit count information available. The multi-family ownership is concentrated somewhat in British Columbia and more so in Ontario markets, leaving Canada’s Prairie provinces (Alberta, Saskatchewan and Manitoba) with a more fragmented ownership structure. The multi-family owners and operators with large concentration of units in the Prairies are Boardwalk REIT (“Boardwalk”), Northview REIT (“Northview”), Mainstreet Equity Corp. (“Mainstreet”), Globe Property Management (“Globe”), Weidner Apartment Homes (“Weidner”), Kelson Group (“Kelson”) and Avenue Living. With the exception of Boardwalk and Northview, the Prairie peer group is more focused in primary Prairie markets (Calgary, Edmonton, Regina, and Saskatoon) leaving the secondary Prairie markets even less institutionally owned.



Source: Company reports

AVENUE LIVING CONTINUES TO FIND WAYS TO ADD VALUE

The purpose-built multi-family rental market in Canada is largely made up of older properties. According to CMHC, 75% of all purpose-built rentals in Canada were constructed before 1979. This older vintage stock coupled with the small institutional ownership, highlights the significant amount of inventory in the market that requires capital expenditure.

Avenue Living targets the older vintage stock as these rental properties typically have the following characteristics:

- ✓ **Larger unit sizes:** older properties on average have 100-150 sq. ft of more space in units compared to newer properties.
- ✓ **Affordable rents:** older vintage units rent at a significant discount to newer properties which also leads to a larger renter pool to choose from.
- ✓ **Opportunity to drive stronger returns:** through identifying mismanaged assets, spending capital to improve quality and bringing rents up to market value.
- ✓ **Great locations:** close to schools, community amenities, retail, and transit.

Continued investment and capital expenditures are required to maintain and maximize value in this aged stock of rental accommodations. Without this investment, property performance suffers from deferred maintenance, increasing vacancy, and declining rental income. The private, non-institutional ownership group in Canada often lacks the operational platform, expertise, dedicated renovation, and capital to optimize property-level performance. During the recent economic downturn, private owners suffered from receiving lower rental rates and higher vacancy rates, while deferred capital maintenance accumulated. In addition, many of these owners are transitioning through intergenerational events as primary stakeholders reach retirement age. The impetus for this ownership group to re-invest in their properties, combined with succession planning, creates an exit point for them and an opportunity for Avenue Living.

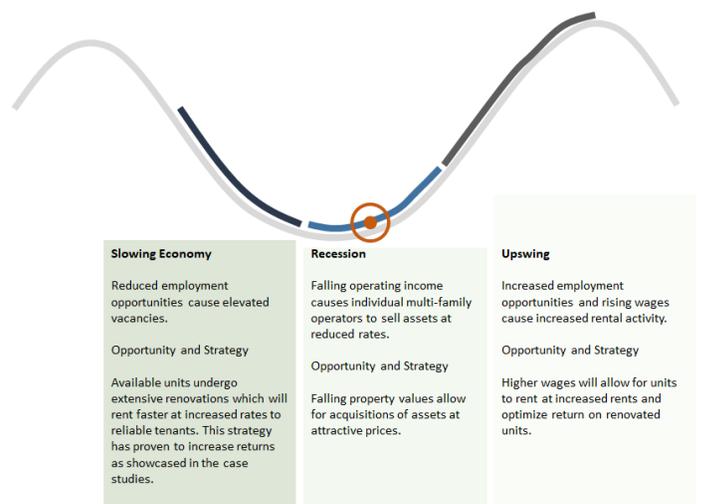
STRATEGIC CAPITAL INVESTMENT OPPORTUNITY

From 2015 to 2017, Avenue Living took advantage of higher vacancy rates to engage in large capital expenditure projects across its portfolio, with the goal of standardizing unit and building finishes and features. The recession in the Prairie markets has provided opportunities for strategic reinvestment of capital to further drive rental income and returns on investment.

Avenue Living has provided two case studies to illustrate different value-add initiatives undertaken in capital projects. Strategic investment in curb appeal, building aesthetics, systems and suite upgrades can improve net rents, property-level cash flows and property valuation.

The Edmonton property was situated across the street from the Northern Alberta Institute of Technology, a desirable area in the city. Avenue Living identified gaps in current rents vs. competition in the same targeted area, offering a renovated product including common areas & curb appeal. After investing \$350,000 in capital upgrades which included parking lot resurfacing, common area upgrades, exterior siding and paint, and upgraded suites, Avenue Living realized a 36% unlevered return on investment (“ROI”).

The Regina property was located in one of Regina’s trendiest neighbourhoods in the city. Avenue Living was able to identify large gaps in current rents vs. competitor rents and underwent a capital investment program with an expected budget of \$400,000, which improved curb appeal from new siding, windows, common areas, and from in-suite upgrades. Renovations are scheduled to be completed at the end of the first quarter of 2019 and is expected to earn a ROI of 150%.



Source: Avenue Living Asset Management

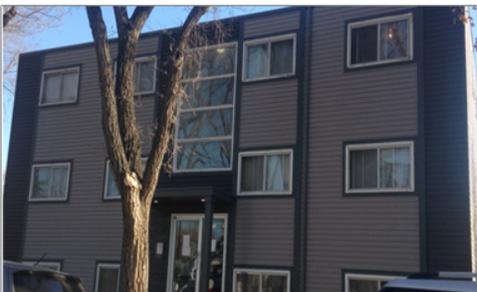
Avenue Living -Edmonton & Regina Property

Regina

Pre-CAPEX



Post-CAPEX



Edmonton

Pre-CAPEX



Post-CAPEX



CONCLUSION: AVENUE LIVING BELIEVES THERE IS CONTINUED OPPORTUNITY IN THE PRAIRIE MARKETS

Avenue Living's platform benefits from the highly fragmented ownership market in the Canadian Prairies, which inherently generates acquisition opportunities. Additionally, as private owners seek liquidity, there continues to be opportunities to re-invest in property finishes that can increase rental rates and property-level cash flow. As Avenue Living looks into 2019, following the acquisition of 1,800+ units in 2018, there continues to be a compelling investment environment in the multi-family rental market across Manitoba, Saskatchewan and Alberta.

CONTACT US

FOR MORE INFORMATION PLEASE CONTACT:

Avenue Living Asset Management

400-4820 Richard Road SW,
Calgary, AB,
1-855-247-1492

Jason Jogia

Chief Investment Officer
jjogia@avenueliving.ca

David Smith

Chief Operating Officer
dsmith@avenueliving.ca

Tom Spoletini

Associate Director Business Development
tspoletini@avenueliving.ca

Ted Bobier

Associate, Investments
tbobier@avenueliving.ca