

**Minto Apartment REIT**  
**Fourth Quarter 2020 Financial Results**

March 12, 2021 — 10:00 a.m. E.T.

Length: 88 minutes

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## PRESENTATION

### Operator

Good morning. My name is Anas and I will be your conference coordinator today. At this time I would like to welcome everyone to the Minto Apartment REIT Q4 2020 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press the star followed by the two.

Before we begin, I want to remind listeners that certain statements about future events made on this conference call are forward-looking in nature. Any such information is subject to risks, uncertainties, and assumptions that could cause actual results to differ materially. Please refer to the cautionary statements on forward-looking information in the REIT's news release and MD&A dated March 11, 2021 for more information.

During the call management will also reference certain non-IFRS financial measures. Although the REIT believes these measures provide useful supplemental information about its financial performance, they are not recognized measures and do not have standardized meanings under IFRS. Please see the REIT's MD&A for additional information regarding non-IFRS financial measures, including reconciliations to the nearest IFRS measures. Thank you.

Mr. Waters, you may begin the conference.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thank you, Anas, and good morning, everyone. I'm Michael Waters, Chief Executive Officer of Minto Apartment REIT. Julie Morin, our Chief Financial Officer, is also with me this morning. I'll begin the call with a summary of key highlights from the fourth quarter and full year, Julie will review our financial and operating results in detail, and then I'll discuss our business outlook. After that, we'll be pleased to answer any questions.

Let's begin on slide three. As the pandemic evolves, so do trends for rental housing demand, and we saw that firsthand in Q4 when we had unseasonably higher move-outs with more than 521 tenants ending their leases. However, with targeted marketing, incentives, and promotions, we signed more than 400 new leases, which was a 35% increase over Q4 2019, which allowed us to maintain occupancy at 95.6%, which was a significant accomplishment in the middle of both the winter season and a pandemic.

The knock-on effects of the COVID pandemic have produced an unprecedented impact on demand for urban apartment rentals. The customary benefits of urban living—short commutes, easy access to entertainment and restaurants, et cetera—have been placed on a temporary hold. We believe that COVID, however, is an event which is temporary in nature and that, as the vaccination programs roll out, stay-at-home and lockdown restrictions lift, immigration resumes, and on-campus instruction at post-secondary institutions restarts in the fall term, the demand for urban apartment rentals will return. And given this belief, we decided that, in the current market conditions, it was in the REIT's best interest

when setting lease rates to strike an appropriate balance between occupancy and protecting rate, which will put the REIT in a better position when market demand picks up.

The result was that we experienced a slight decline in occupancy in the quarter, while still generating a positive gain to lease. While the 2.1% gain was lower than in prior quarters, we had rent growth in every market, except Alberta. We could have sacrificed more on rental rate to maximize occupancy in the short term, but strategically protecting average monthly rent growth preserves net asset value and is in the REIT's long-term best interest. The resulting decrease in occupancy did result in a modest reduction in same-property NOI, excluding furnished suites. We've also adjusted the pricing on our furnished suite portfolio that, as we've described in previous calls, has been disproportionately affected by COVID-19. As a result, we're driving sequentially higher occupancy and average monthly rent in these furnished suites.

I want to reiterate that we expect a strong recovery in the second half of 2021 as vaccinations increase, immigration volumes recover, post-secondary students return to in-person learning, and people begin returning to their workplaces and life starts returning to normalcy. We fully expect to generate increased occupancy with solid rental income growth and improved demand for furnished suites later this year. We'll talk about that more later in the call.

As Julie will describe in more detail shortly, we generated growth of 3.6% in total revenue and 1.8% growth in NOI in the fourth quarter. We're also active in our portfolio repositioning program, leasing 56 renovated suites at rates comparable to or favourable to underwriting. This program improves asset quality, reduces future repair costs, and drives strong growth in rental revenue. In Q4 we

also advanced an investment loan for a new development in the Greater Vancouver Area and thereby fulfilled the REIT's strategic mandate of establishing a presence in all six of Canada's major urban markets.

Turning to slide four, we've set out a few highlights for the year as a whole. Before describing financial and our operational results, I'd like to recognize and thank all the members of the REIT team who demonstrated their commitment and dedication every day. Their work is critical to keeping our residents' homes healthy and safe.

In 2020, the quality of our portfolio was highlighted by a 2.2% increase in AFFO per unit, weathering the impact of COVID through the year. On the strength of our earnings, the REIT increased its annualized cash distribution by 3.4%, while maintaining a conservative payout ratio of 60.25%. We completed the repositioning of 239 suites and the REIT's net asset value per unit increased 8.3% from 2019. Recognizing that financial flexibility continues to be important in the pandemic economy, we maintained strong liquidity, totalling \$171 million at year end, representing a liquidity ratio, defined as total liquidity to total debt, of 20%. And on December 9<sup>th</sup> we provided for potential increased liquidity by filing a base shelf short-form prospectus that qualifies the issuance of up to \$800 million of trust units, debt securities, and subscription receipts. The prospectus is valid for 25 months.

Turning to slide five, we've set out a chart that shows the growth in the REIT's net asset value per unit since our IPO in Q3 2018. As I'd indicated, the REIT's net asset value increased 8.3% during 2020, ending the year at \$22.26 per unit. We're committed to creating value for unitholders through NAV growth and steady increases in sustainable distributions.

I'll now invite Julie to discuss our fourth quarter financial and operating performance in greater detail. Julie?

**Julie Morin** — Chief Financial Officer, Minto Apartment REIT

Thank you, Michael.

Turning to slide six, I'll start with an overview of the operating results. On this slide we have broken out performance of the same-property portfolio, both with and without furnished suites, as well as the total portfolio. As we have previously discussed, the furnished suite portfolio has been impacted severely in the short-term by travel restrictions related to the pandemic. I'll speak more about how we are addressing this issue in a few minutes.

We reported same-property portfolio revenue, which excludes the impact of acquisitions, of \$20.3 million, excluding furnished suites in the fourth quarter, and \$22.2 million including furnished suites. Those numbers represent decreases of 1.6% and 4.1%, respectively, from the comparable results in Q4 last year. The lower same-property revenue, excluding furnished suites, reflects lower occupancy as well as targeted incentives and leasing promotions. As Michael discussed, we made the strategic decision to balance occupancy and rental rate growth across our portfolio.

Total revenue in the quarter increased 3.6% year over year to \$30.9 million from \$29.9 million in Q4 last year. This increase was mainly attributable to the contribution from the two property acquisitions completed subsequent to September 30, 2019, comprising a total of 528 suites, as well as higher rental rates, partially offset by decreased revenue from furnished suites and lower occupancy.

Same-property NOI in Q4 2020 was \$12.7 million excluding furnished suites and \$13.7 million including them. Those figures represent decreases of 1.3% and 5.9%, respectively, from Q4 a year ago. The decrease, excluding furnished suites, reflects the lower same-property revenue I just mentioned, driven by reduced occupancy. Same-property NOI margin for the unfurnished portfolio was 62.8%, an increase of 20 basis points from 62.6% in Q4 a year ago. With the furnished suites included, same-property NOI margin was 61.5%, a decline of 110 basis points from 62.6% in Q4 2019.

Three properties, Minto Yorkville, 185 Lion, and 150 Roehampton comprised the most of the unfavourable variance of the REIT's same-property NOI. The vast majority of the REIT's furnished suites are located in these three core urban properties, which have been hit hardest by COVID-19-related border closures and business lockdowns. The REIT's same-property NOI excluding these three properties increased 1.4% in Q4 2020 compared to Q4 2019.

Total NOI in the fourth quarter increased 1.8% to \$18.9 million from \$18.6 million last year, reflecting the contribution from the property acquisitions I referenced a moment ago, partially offset by lower revenue from furnished suites. NOI margin was 61.3%, a decline of 100 basis points compared to 62.3% in Q4 last year.

FFO was \$12 million in Q4 2020, an increase of 2.4% from \$11.7 million last year, primarily due to the higher NOI. AFFO also increased 2.4% in Q4 2020 to \$10.5 million from \$10.2 million last year. This result reflected the higher FFO, partially offset by a slight increase in maintenance capital expenditure reserve due to the REIT's increased suite count. AFFO per unit increased \$0.177 compared to \$0.174 in Q4 last year.

We declared cash distributions in the fourth quarter of \$0.1138 per unit, resulting in an AFFO payout ratio of 64.2%. Cash distributions were \$0.11 per unit in Q4 last year, resulting in an AFFO payout ratio of 63.3%. As a reminder, we increased our cash distributions by 3.4% during 2020. The increase took effect beginning with the August distribution.

As at December 30, 2020, our same-property portfolio consisted of 4,554 suites with an average monthly rent of \$1,523 per unfurnished suite and an occupancy rate of 95.1%. Average monthly rent increased by \$43 or 2.9% compared to \$1,480 at the end of Q4 last year. The total portfolio, including acquisitions, consisted of 7,245 suites at December 31, 2020 with an average monthly rent of \$1,623 per unfurnished suite and an occupancy rate of 95.6%. Average monthly rent increased by \$44 or 2.8% compared to \$1,579 at the end of Q4 2019. Occupancy at the end of Q4 last year was 98%.

On slide seven you will see our revenue analysis. We break down gain-to-lease activity in Q4 2020 and our estimate of the gain-to-lease potential of the portfolio. Beginning with the upper chart, we signed 406 new leases in the fourth quarter following suite turnover. This was an exceptionally high number for Q4, which is typically a slower period for leasing due to the colder weather and holidays; however, the second and third quarters of 2020 were unusually slowed due to the pandemic. Completing this volume of leasing during the slower winter season was a significant accomplishment.

As you can see, the average rent on new leases increased by 2.1% to \$1,584 from \$1,551 on expiring leases. Gains were realized in every market, except Alberta. The average gain of 2.1% was lower than prior quarters. The REIT sought to hold rate to the greatest extent possible to preserve future rental growth potential at the expense of higher vacancy and was able to generate positive gain-to-lease

in the quarter. As a result of the new leases, the REIT generated an annualized incremental revenue gain of approximately \$188,000.

The lower chart shows the gain-to-lease potential that we estimate in our portfolio as at December 31<sup>st</sup>. We believe we can generate approximately \$8 million of annualized incremental revenue growth by bringing rents in 6,567 suites to market levels. The embedded potential revenue opportunity declined from approximately \$12.7 million at September 30, 2020 and \$16.2 million at year-end 2019; however, as Michael said, we expect the total gain-to-lease potential will increase in the second half of 2021 as the pandemic effect dissipates and market demand gains momentum.

Turning to slide eight, here we have highlighted the long-term positive trend in the revenue generated by our property. The upper chart shows that our quarterly gain-to-lease has slowed. This is partially due to the higher turnover in Q4 2020, as discussed earlier. However, another factor to the lower growth rate was the average lease term of the residents that moved out. In Q4 2020, the average lease term of residents moving out was approximately two years, which is a full year less than the average lease term of residents moving out in Q4 2019. Residents with shorter lease terms have expiring lease rates that are closer to market rent. When we re-lease these suites, there is a lower gain-to-lease than there would be for suites with longer lease terms that have bigger gaps between sitting rent and market rent. Regardless, we continued to generate gains in Q4 2020 and our average monthly rent continues to increase.

On the lower chart we have broken out our rents and suite sizes by geography. Demand for smaller suites, generally 500 square feet or less, has been hit hardest during the pandemic when people

are spending so much time at home. However, our portfolio is characterized by more spacious suites with an average size of 846 square feet and demand for these apartments is comparatively stronger compared to smaller ones.

Turning to slide nine, I want to talk about our strategy around furnished suites. As we have previously discussed, we are working to adjust our finished suite inventory in response to the decline in demand resulting from temporary border closures, reduced business travel, and mandatory business closures. At the same time, we have also been working hard to boost furnished suite revenue by targeting different users and adjusting our pricing. On the lower chart, you can see that in Q4 2020 the furnished suite occupancy and average monthly rent both improved sequentially. Although full economic recovery is still several quarters away, the trends in our furnished suite operations are turning more positive.

The REIT will be transitioning its 43 furnished suites at its Roehampton property into a repositioning program and we'll be re-leasing these units as unfurnished suites upon completion. Test suites were to be completed in Q4 2020, but this was delayed as design work on these units took longer than expected. Demolition and construction work has been tendered and the rate of completion of the work will depend on the ongoing level of government restrictions. The REIT plans to deliver repositioned suites to the market in the typically stronger Q2, Q3 2021 leasing market.

Moving to slide 10, we have provided more details on our repositioning activities. We renovated a total of 56 suites in Q4 2020, or 37 at the REIT's proportionate ownership share. The average cost per renovation was just under \$39,000 per suite. The average annual rental increase following the

repositioning was \$3,512 per suite, generating an average return on investment of 9%, which is in line with our target for repositioning. Repositioning at Haddon Hall and Le 4300 in Montreal is progressing and pre-leasing is underway for suites to be delivered during Q1 2021. Subsequent to quarter end, eight suites have been leased at rental rates that are at or above pro forma rates. In total, we have 2,323 suites remaining to be renovated through our repositioning program. We expect to renovate 250 to 300 suites this year, or 200 to 250 of the REIT's proportionate share, subject to availability through turnover. Progress of the repositioning program is also dependent on new or revised government restrictions related to COVID-19.

Turning to slide 11, I'd like to provide an update on our intensification and development initiatives, which are also an important source of organic growth for the REIT. Construction of the Fifth + Bank project in Ottawa's Glebe neighbourhood is on schedule. We are pleased with the progress being made, which you can see in the photo on the lower left. The building will be topped off in April with stabilization expected in early 2022. We have an exclusive option to purchase this 160-suite property at 95% of fair market value upon stabilization.

During Q4 2020 we completed a contribution agreement with the City of Toronto under which the city will contribute funds towards construction of 100 affordable rental suites in a new 225-suite building at Richgrove. We are in the final stages of obtaining development approvals to permit construction and also in the process of obtaining rental construction financing from CMHC. Subject to finalizing customary approvals, construction of this project is expected to begin in Q2 2021. At Leslie York Mills we are working through the final stages of the site plan agreement with the city to add 192 residential rental suites. Construction is expected to begin in 2021. And at High Park Village we have

received a favourable ruling from the local planning appeal tribunal for the rezoning of the property to allow for the addition of approximately 650 new residential rental suites. We are in the process of satisfying the city's approval conditions. Combined, these projects could add more than 1,200 suites to the REIT's portfolio.

Turning to slide 12, in December we made the exciting announcement that we are entering the Greater Vancouver market through an investment in a development with the option to purchase the stabilized building. We are advancing up to \$11.9 million to a joint venture between Minto Properties and Darwin Properties to develop Phase I of Lonsdale Square, a large multiphase mixed-use development in North Vancouver. Phase I is comprised of 113 rental suites over six storeys and approximately 7,800 square feet of retail at grade. The financing will bear interest at 7%, which will accrue and be payable in full of the maturity of the loan. On stabilization of the property, which is expected in 2023, the REIT will have the exclusive option to purchase it at 95% of its then appraised fair market value. We will also have the opportunity to participate in future phases of development at Lonsdale Square, which are currently expected to include an additional 700 suites.

You can see on slide 13 that the Lonsdale Square development is in an excellent North Vancouver location. It has proximity to amenities in the Central Lonsdale area, as well as numerous outdoor lifestyle activities. The location provides easy access to Downtown Vancouver through the Upper Levels Highway or SeaBus. The walk score is 79.

Slide 14 shows the project's location relative to local urban and recreational amenities, including Grouse Mountain and the Big Cedar trail. Directly across the street from Lonsdale Square, the City of

North Vancouver has announced plans to invest \$180 million to construct a new phase of the Harry Jerome Community Recreation Centre, which will be a significant amenity for North Vancouver and will be a strong driver of residential demand.

Turning to slide 15, we would like to provide an update on the REIT's ESG plan. Sustainability and social responsibility have always been an important part of the Minto Group's culture and this extends to the REIT as well. In 2020, the REIT's Board of Trustees approved a new ESG framework for the REIT and the implementation of that framework is underway. In 2021, the REIT will align its reporting with GRI and SASB and we'll participate in GRESB, the Global Real Estate Sustainability Benchmark. Annual reporting against ESG targets will begin in the second half of 2021.

Finally, I would like to review our debt financing and liquidity on slide 16. As always, we are committed to maintaining a conservative leverage ratio and a balanced maturity schedule. As of December 31, 2020, the weighted average term to maturity on our fixed-rate debt was 5.81 years with a weighted average interest rate of 2.94%. Approximately 96% of our debt is fixed rate and 77% is CMHC insured. Our total liquidity was \$170.7 million at year end and debt to gross book value was 38.6%. By comparison, we had total liquidity of \$111 million at the end of 2019 with a debt to GBV of 39.3%.

I'll now turn it back over to Michael.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Julie. And before we close off, I'd like to move to slide 13 and just review our outlook.

Looking past the pandemic, the REIT's focus on high-quality multifamily housing in desirable urban locations is expected to lead to long-term outperformance. Canada has now approved four COVID vaccines and the rollout of vaccination programs is accelerating. The benefits of urban living, walking to work, restaurants, and entertainment, have all been temporarily put on hold during the COVID restrictions, but they remain highly desirable fundamentals supporting our core markets. And the housing crisis in Canada's major urban centres, which was temporarily masked by the pandemic, is expected to reassert itself. The strong underlying fundamentals that have driven long-term growth in our rental markets, including immigration and the cost of housing, are still present. Accordingly, as the pandemic subsides, immigration picks up and post-secondary institutions return to on-campus instruction, we expect the benefits of urban living to be re-established. We're expecting a strong recovery in our core urban rental markets in the second half of 2021 and, as this plays out, we expect occupancy and AMR to respond accordingly.

Minto Apartment REIT has the right assets and strategy for long-term success. We're actively capitalizing on our organic growth opportunities and creating value from suite repositioning. We have a strong liquidity position, which enables us to move quickly to take advantage of emerging acquisition opportunities. As evidenced by the Lonsdale and Fifth + Bank investments, we're capitalizing on the relationship with the Minto Group to cost effectively source growth and development opportunities. And we're meeting our obligations to our communities and stakeholders by ensuring environmental, social, and governance criteria are part of our business strategy. We're confident in our ability to consistently create value for unitholders through growth in NAV and cash distributions.

That concludes our presentation this morning. Julie and I would now be pleased to answer any questions you may have. Operator, please open the line for questions.

## Q & A

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have any questions, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

Your first question comes from Brendon Abrams with Canaccord. Brendon, please go ahead.

### **Brendon Abrams** — Analyst, Canaccord Genuity

Hi. Good morning.

### **Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Hey, Brendon.

**Brendon Abrams** — Analyst, Canaccord Genuity

Maybe just focusing on the leasing front, we're more than three-quarters through Q1 already. Just wondering if you could comment on where turnover, occupancy, and incentive use are trending so far this quarter.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

So, I think what we're looking at in Q1 is probably a continuation of the trends that we saw in Q4. Specifically, I would say that move-outs probably trending higher year over year, probably on order to what we saw in Q4. I mean with that, of course, we're seeing leases signed higher, but I think the net leasing activity is probably negative in terms of move-outs exceeding leases in Q1. Now Q1 is seasonally a low-demand quarter, being winter in most of our markets, very, very challenging from a leasing and moving perspective. As I say, we're generating strong leases, it's just the volume of move-outs is outpacing leases signed, as it did in Q4.

**Brendon Abrams** — Analyst, Canaccord Genuity

Great. And I guess in your opening remarks you seem to be more optimistic in terms of the recovery in the second half of 2021. In your view, is this predicated more on the easing of border restrictions or a return to much stronger immigration levels? Or is it just a reopening of the economy and vaccinations getting to a certain level? Would you say one has more weight than the other in terms of rental demand?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Well, I think, as we talked about, if we look at what happened to us in Q4 as being sort of emblematic, the Q4 SPNOI story was a revenue story and it was really the three properties, three urban properties accounted for all of the revenue drop that we had in Q4 year over year. So what we're looking for in the second half of the year is the acceleration of some of the good-news stories that we've seen. Four vaccines now approved, the rollout of the vaccination program accelerating. What we're seeing now is federal government announcing deliveries of vaccines that, in the last three or four weeks, have moved up with the approval of the J&J vaccine and the change in the protocol about administering first dose, second dose. So I think it starts with vaccinations, Brandon, and then from there, it moves to some of the other drivers that re-establish the benefits of urban living.

So we think about, for sure, immigration, because we know new Canadians settle in major markets. And maybe they're not a big component of our rent roll, but they certainly drive demand for rental housing. Students, post-secondary students, certainly are a big driver of rental demand in urban settings and we are already starting to see signs of major Canadian post-secondary institutions announcing plans for at least some portion of their fall term to be held in person or in a hybrid format. We are looking for, with the vaccination rollout, a return to workplaces. For those workers who have been working remotely, a return at least in part to working in their normal workplace, I think, will also be a key factor.

And so we sort of think about the inflection point being kind of late Q2 when we're hoping to see vaccine rollouts hit some critical mass whereby the broader public can begin to take confidence in some

of these factors and begin to return to urban settings. We do see some green shoots in the condo market. Very early, but interesting to sort of look at that, just the volume of new urban condo product releases beginning to pick up steam.

So I mean that's kind of our outlook. I guess if you could say risk factors to it, one thing that we do watch is the proportion of COVID case load that is derived from variants, variants which spread more quickly and maybe relatively more resistant to vaccines. And so that's something that we're watching carefully. It obviously could slow things down for us a little bit were it to materialize in a meaningful way.

**Brendon Abrams** — Analyst, Canaccord Genuity

Okay. That's very helpful. And then last question before I turn it over. Yourself at the Minto Group, you have the unique, I guess, perspective of also having the land development and homebuilding division. Just wondering, obviously home sales activity has been very strong in the suburbs and, you know, whether some of that's driven by the pandemic and desire for more space or the low interest rate environment. Just wondering if there's any insights you've gained from the homebuilding division that gives you insights in terms of the apartment portfolio.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Well, as you pointed out, I think the low-rise wood-frame ground-oriented product, whether it's resale or new home, has been just white hot in most Canadian markets. In fact, we're even seeing strength in the resale market in Calgary and Edmonton, which we haven't seen in a very long time. I think that points to an affordability gap. We often think about, using a Toronto context, the gap in

affordability between 416 and 905, and that gap waxes and wanes, but with the strength in suburban markets, and it has been a really, really strong, I mean what we've seen in some other markets like Ottawa has been unprecedented in terms of the strength in the wood-frame low-rise housing on the new home side and resales. Ottawa, for example, up kind of roughly 20% year over year, which is not very unusual for Ottawa, but we're seeing similar strength in the GTA and other major markets. I think that means that that affordability gap may begin to put pressure and may, in fact, push Canadians to relook at urban settings, whether it's to rent or to buy. And as I mentioned, I think we're starting to see the very early green shoots in the urban condo market. When I look at urban condo product releases and activity, we're starting to see projects that had been mothballed coming on to market and we're starting to see, I would say, very strong reception on those. And really developers had been on the sidelines for many months waiting to see when things would start to turn.

So those are some of the things that I think we look at. And the housing crisis that existed on February 28, 2020 is still there. We still have the same restrictions on new supply coming on line. We have, if anything, higher pressure on construction prices. We've recently seen lumber and OSB hit all-time record highs in pricing, but it's really, many facets of both the materials and labour that would drive construction costs higher. I think that there are a bunch of those factors, Brendon, that are probably suggesting, you know, timing maybe not completely clear, but certainly a resurgence on the urban side.

**Brendon Abrams** — Analyst, Canaccord Genuity

Right. Okay, that's helpful. I'll turn it over. Thank you.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Brendon.

**Operator**

Thank you. We have a following question from Liyan Chen, iA Capital. Liyan, please go ahead.

**Liyan Chen** — Analyst, iA Capital Markets

Hi. Good morning.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Hey, Liyan.

**Liyan Chen** — Analyst, iA Capital Markets

Hey. My first question is actually twofold and it's just regarding your last comment on construction costs. So, in terms of your repositioning program, just regarding your pipeline for 2021, so what would you expect in terms of ROI notably in light of rising material costs?

And kind of along the same lines, how did the expected yield on cost on your intensification pipeline evolve over the last 12 months and what would be your expectations today?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

So maybe I'll tackle your first question. I'll say one thing. Renovation and new build are fundamentally a little bit different in that you're often using different trades for a renovation program than you are for a new build. And so there is some overlap, certainly, Liyan, in things like cabinetry, millwork, and other things, but in other areas, they are not overlapping.

We have targeted an underwrite to an 8% to 15% simple ROI on our renovation programs. And what we've seen Q4, and early stages of Q1 even, that we are hitting those numbers. We're hitting lease rates that are consistent with our underwriting. And I think that, from the perspective of when you look at kind of that 9%, which is what we achieved in Q4, and you compare that to cap rates, I think cap rates, if anything, in some markets are compressing further. That spread is better. And I think we look at repositioning program, the value-add capital we're doing particularly in suite, as being our single best use of capital on a risk/return basis.

One, they're relatively small capital outlays and we can scale the programs, accelerate them, slow them down as market conditions merit, but because we have longstanding relationships with our trades we do, test suites, we have very high degree of comfort on cost. And of course, because we're leasing renovated suites on an ongoing basis, we have high visibility and comfort on the renovated lease rate that we're going to generate when we are able to complete the renovation program. So from our perspective, the buying power, the relationship we have with those trades, the kind of work we're doing in those test suites to value engineer, plan them out, I think gives us, I think, comfort maybe that you

wouldn't necessarily see in a new build context because the landscape is a little different from a supply chain perspective. Hopefully that addresses that question.

**Liyan Chen** — Analyst, iA Capital Markets

Great. Perfect. And just going back on the first question that Brendon asked, just during your remarks on the stronger recovery that's expected in the second half of the year, but looking at some of the recent news, while we are accelerating our vaccination efforts and there's going to be an eventual return to normalcy, some experts say that with the current rise of COVID variance, that could actually trigger a potential third wave and slow down the recovery process. So I was just wondering how do you think that could affect your portfolio, but mostly like what are some of your mitigation plans?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah, so I touched on that risk of variant-fuelled subsequent wave in my outlook remarks at the end of our formal presentation. It's certainly something that we're watching carefully. And what I think it would do potentially is delay recovery. I think offsetting that, of course, is the pace of vaccinations. Where I think it impacts us most would be in urban locations. And those three properties that we'd highlighted, Julie had highlighted in her remarks as being the major contributors to our SPNOI drop in Q4, I think are probably our most valuable properties. So ironically, I mean while you may see a momentary lapse or lag in demand for urban apartment rentals, those are the properties where, in fact, we're seeing the strongest investment demand for (inaudible). And we could point to a bunch of transactions in all of Canada's major markets where high-rise, concrete, urban assets, in fact, we're seeing them bid up at levels higher than where they were pre-COVID.

So I think that, from a long-term perspective, Liyan, I don't think we have any concerns about that. I think that the quality of the locations and the—it's a question of when, not if, I guess. So could the rise of variants delay a recovery? Certainly. I think that was the risk I highlighted in my outlook. But from a long-term perspective, I think our portfolio is more valuable now than it was pre-COVID and I think that that will continue to be the case. And certainly when I look at market transactions and the pursuit by investment capital in multi-res assets, I don't see any diminution of that trend. So those are the sort of views, I guess, I would have on that.

**Liyan Chen** — Analyst, iA Capital Markets

Perfect. Well, thank you for your insights. I'll turn it back. That's it for me. Thanks.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Liyan.

**Operator**

Thank you. We have a following question from Brad Sturges with Raymond James. Brad, please go ahead.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Hey, Brad.

**Brad Sturges** — Analyst, Raymond James

I guess continuing on that line of questioning, I guess starting with Q2, you start to overlap some weaker comps, but assuming that your expectations are correct for a stronger recovery in the back half of the year, how would you compare, let's say, the three buildings that have been disproportionately impacted by COVID in terms of a recovery versus, let's say, the rest of the portfolio or more of a general rental demand recovery for the sector?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Well, I think those three urban properties are the ones that would benefit most from a recovery in urban living. One, they're very well located, Downtown Ottawa, Yorkville, Yonge and Eglinton. These examples, those kinds of locations are the ones that attract that urban professional demographic who, I think, on a return to urban living, would look for locations like that and I think that's where we would see the highest demand when that sort of recovery happens. I think when we look at those locations, as I said earlier, I think they're the three most valuable assets in our portfolio and would be the ones that would attract the highest valuations were they marketed. So I think most investors like us probably look right through the near-term chop that we see in the market and they're looking long term at these assets and our entire portfolio, I think, is very well located, those three in particular.

**Brad Sturges** — Analyst, Raymond James

Okay. And I guess just to go back to your Q1 comments about similar trends as Q4, would that be also the same in terms of the type of turnover you're experiencing at the moment? Is it kind of the

shorter leases, the newer tenants that haven't been in the suites as long? Or has it normalized kind of back to a typical lease term?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

No, it's definitely on the shorter end of the spectrum, Brad. Those shorter tenures in those tenancies are the ones that tend to be turning. Those people are the ones who, relatively speaking, are paying the highest rents, so those are the ones that we're seeing right now. So what you might see is a lower gain-to-lease than traditional, though perhaps higher than what you saw in Q4, but certainly that is an impact.

**Brad Sturges** — Analyst, Raymond James

Okay. And maybe my last question, just in terms of the renovation program, you've halted or suspended renovations in Edmonton, but what are your thoughts on what it would take to resume renovations there if you continue to start to see momentum in the market or get to a point where you can generate the appropriate returns? You know, what that timeline could be perhaps to maybe restarting or take another look at that renovation program in Edmonton.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah. So we halted that program way back in Q2, early Q2 of 2020. Remember, Edmonton, Calgary, both are no rent control jurisdictions, so very easy to stop or start renovation programs in those markets because you just don't have the turnover issue that you see in a rent-controlled market. So what we're looking for, Brad, is to see an 8% ROI. And so that is, for us, I think, a return to demand in

pricing on our renovated suites and that kind of, we already have the spec, the design, the trades all figured out. So it's really a function of the market rates, because we have known costs, and we'll see that revenue on those renovated suites because, of course, they're turning. So we have a pretty good sense of that. And because it's not rent controlled, as I say, we can start it very, very quickly.

**Brad Sturges** — Analyst, Raymond James

Great. I'll turn it back. Thanks.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Brad.

**Operator**

Thank you. Your next question comes from Jonathan Kelcher with TD. Jonathan, your line is now open.

**Jonathan Kelcher** — Analyst, TD Securities

Thanks. Good morning.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Good morning, Jonathan.

**Jonathan Kelcher** — Analyst, TD Securities

First, can you just remind us what the difference is between suites that you're holding off for repositioning and those for enhanced turns?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah. So the enhanced turns, well, let's take the full repositioning. They're in the order of \$30,000 to \$35,000, even \$40,000, depending—it varies quarter to quarter simply because of what the mix of suite types that are being renovated in that quarter. The enhanced turns are less than \$10,000 spend. And they're really, again, we're making the same underwriting target here. We still want to hit that 8% to 15% ROI. But it's a more modest spend because the incremental dollar, nominal dollar gain from a renovation is a little bit smaller. So it's more modest. What it really is is appliances, flooring, and other things that we think we'll add. And certainly what we've seen is that the enhanced turns have generated ROIs that have been strongly within that guideline of 8% to 15%. So we're going to continue to see those opportunities, I think, and continue to exploit them when they present themselves.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. That's helpful. And if you look at just the estimated market rents that you guys have out there, it looks like versus Q3 it was flattish in Montreal; Alberta actually up a little bit, which was nice to see; and then Toronto and Ottawa down. Like the Toronto and Ottawa markets, would it be mostly related to the three properties that you've been talking about or is it more widespread than that?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

So I'll say this. That view, that estimate we update every quarter, we obviously update it more frequently but we publish the quarterly one, is a function of what we know is turning and what suites are available in the buildings at the end of the quarter. So they're kind of a moment in time snapshot and they tend to be—it's not a long-term view. It's what we think it would be worth at that point in time. So it's definitely a snapshot at a point in time.

It is, as a consequence, somewhat volatile and there is an underlying seasonality element. Obviously, Q4, Q1, all else equal, steady market, you would tend to see some ebb and surge between Q1/Q4 and Q2/Q3. So you tend to see a little bit of variation from a secular or cyclical perspective seasonality, I guess, you might say, and then it's really what's turned and what we know is turning because of the notices that we see. And so if you're seeing a relatively larger mix of larger units turning versus smaller units, that might change the estimate as well.

I wish it was a simpler question. We try and be as, I'll say, unbiased and maybe even conservative in those estimates, but there is, unfortunately, a little bit of variation just because of those underlying factors.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. So it would be fair to say, like if I looked at the last four quarters on average that would be probably a better way to look at it than just any single quarter?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah, I think so. And I would expect, all else equal, to see that number maybe come up a little bit at the end of Q2 than where it was at the end of Q1 or Q4, certainly.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. And then just my last question, the furnished suites obviously have weighed on you guys in terms of overall same-property NOI in 2020. Do you think that turns starting in Q2 when you start to look at very easy comps? I'd imagine it's very rare in that portfolio where you get more revenue in Q4 than you do in Q2.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah. It's a fair point. Q4 is always probably the weakest quarter. Q1 probably right behind it or kind of... Those are tougher quarters generally. Q2, Q3 tend to be better. Obviously, that varies property by property in the mix. We've seen a substantial change in the mix. And that's important. With the border closures, restrictions on business travel, we've seen relatively less business in our mix and relatively more transient and government and other segments, which are just lower rate businesses in that, which is significant.

And just to see the impact of furnished suites, Q4 to Q4, if we had taken out the furnished suites from our mix, we would have seen SPNOI of plus 2%. In those three properties. So it's very meaningful to us. Now as you say, because we're comparing to Q4 2019, which was a very strong quarter. Now as we get into Q2 2021 you're going to see the comp now is back to something like post-COVID outbreak in

2020. And so those, I'll say, the easier comparisons will be there. I think what you've seen though, in our furnished suite business, things really bottomed out for us in June of 2020. And if you look at us sequentially Q4 to Q3, Q3 to Q2, we've seen a gradual improvement in occupancy, in rate. Of course, we've been trimming inventory through that and will continue to trim. Particularly at Roehampton, we look to see taking 43 suites out there and getting ourselves down to 180, 190 in kind of inventory. So that's kind of our outlook, I guess you might say, on the furnished side.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. That's helpful. Thanks. I'll turn it back.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Jonathan.

**Operator**

We have a following question from Mike Markidis with Desjardins. Mike, please go ahead.

**Mike Markidis** — Analyst, Desjardins Capital Markets

Hi. Thank you. Good morning. Just one for me. I guess we're seeing the activity on the deployment side with the parent company. It's been a while since we've talked about the acquisition through some of the private funds. I was wondering if you could just give us an update there in terms of if there's anything that's potentially there to happen in 2021 or if that's, just given the dynamic, on the back burner for the near term. Thank you.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Mike. The two main streams, there's the acquisition of stabilized buildings that are in funds and joint ventures. Some of these assets are themselves in the construction and/or lease-up stage. They have been impacted by COVID because they are in urban locations and so we're seeing delays in that. Of course, we don't have a unilateral right to force the sale of our interests to the REIT, but certainly the experience we've had thus far with our institutional partners has been positive. And so what we're looking for is to continue to see progress on those lease-up programs, completion of construction work, et cetera. There are certainly a couple of candidates in the pipeline we'd love to bring sooner rather than later, but obviously we are a fiduciary for our partners, institutional partners, and we need to make sure that we complete that lease-up before we move those assets into the REIT.

The second major stream, Mike, very much in line with Fifth + Bank, Lonsdale Square. These would be typically urban development, residential development, some with a mixed-use component. These would be sites that are in the Minto Group's condo pipeline that we think might be candidates for purpose-built rental. And those would be deals that, while respecting the limitations in the declaration of trust around development, we would look to bring forward on a basis very similar to Fifth + Bank or Lonsdale where the REIT would invest capital in exchange for a return that is accretive through the development period and have the option to purchase the stabilized asset on stabilization at a discount to fair value, so instantly NAV accretive once the building has stabilized. It allows the REIT to benefit from the gains from development, effectively taking roughly half of the development profits, yet not exposed to any of the typical development risks that you see when you're constructing new buildings. And so those are definitely very active discussions that we're having on an ongoing basis with our

sponsor to see if we can bring more of those forward. They have all sorts of other benefits, of course, reducing the average portfolio age. In Ontario, those assets are not subject to rent control because they're delivered post-November 2018. I could go on and on. So they take a little longer to bring forward because of the governance structures that we put in place. These are non-arms-length transactions with our sponsor and so they take a little bit longer to work through the diligence process with our independent trustees. But I would look to bring, hopefully, at least one of those forward in the near term.

**Mike Markidis** — Analyst, Desjardins Capital Markets

That's very helpful. Thanks so much for the colour and congrats on the good quarter.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Mike. Thank you.

**Operator**

Thank you. Your next question comes from Matt Kornack with National Bank. Matt, please go ahead.

**Matt Kornack** — Analyst, National Bank Financial

Hi, guys. Just wanted to quickly touch on the Richgrove intensification, the 100 affordable rental units. I wanted to get a sense of the incentives that are being given in terms of relief on development

charges and other fees, like do those make the affordable housing offering economic to you guys? I'm just interested in what the numbers look like on that front.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah, so we would typically be looking for levered IRRs on a new development such as this that would be in the mid to high teens. And certainly the incentives that the municipal government have provided both on development for those 100 affordable suites, but also property taxes, development charges, they certainly make a meaningful impact for us. And so we would look at those as being certainly very helpful in allowing the REIT to bring forward affordable rental housing to the GTA. It's a continuation of a collaboration we've had with the City of Toronto. A very favourable experience we had with the city building the adjacent tower, which was a 245-suite tower that we completed five or six years ago. We did 204 affordable suites in that building, along with a little bit of market housing in there as well.

So it's critical, I think, to make the math work. I mentioned earlier on the call, Matt, the pressures we're seeing on construction pricing, for sure, and those things are, you know, you don't get a discount because you're doing affordable housing. I mean these are built to a very high standard, well amenitized, a nice spec. These are very attractive units. I think they would be something that you'd pleased to have a family member live in. And they're priced at the CMHC market average. So they're not deep discount rents or anything of that nature. We like them because, obviously, there's high demand. There is a discount, obviously, off market rents and so you're never you're never waiting on filling those suites up. And we know that, you know, in a normal market setting, you never want to be zero vacancy,

because then it would suggest you'd underpriced your units. In this case we're pricing to what the CMHC market average is and so that segment of the building can be completely full and we can do back-to-back leasing. There is no white space, if you will. There is very little vacancy loss on that 100-suite affordable segment. They are, just to remind you, 25-year duration on that obligation on the affordable housing in exchange for those benefits, property taxes and other things.

So yeah, I mean, it's a nice to have for sure and, as I say, I think the benefits that the city is providing more than outweigh the potential revenue loss by pricing these at the CMHC market average. And obviously it's completely consistent with our ESG posture about our commitment to the community and helping where we can to make housing affordable for people in the GTA.

**Matt Kornack** — Analyst, National Bank Financial

Sure. No, that all makes 100% sense. I guess on the flip side, when you're going to develop at-market product, I mean COVID's thrown us a bit of an odd case study here, but higher-end product has shown to be maybe a bit more susceptible to market risks. So how do you think of that in the context of the new developments that you're pursuing?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Well, I'm not sure it's higher end, Matt, as it is urban. So you're doing higher end in a place like the Glebe in Ottawa. It's certainly a fantastic neighbourhood. I think it's one of the nicest residential neighbourhoods in the city. It's not super dense. It's not what I would call urban core. In that location also there's very little competing comparables rental. And so with that I would say that project is going

to be tremendously successful, simply because the imbalance between supply of comparable housing product and the demand, which would be very high. I think it will attract very decent rents. Even in this COVID environment we've seen very strong level of interest even at this early stage before the building has even been topped off. We will open a leasing office in the month of April. There will be a test suite in the building in the month of April. And certainly the early indications are very strong. So they would seem to belie the thought that COVID is impacting higher-end, purpose-built rentals. I think it is urban. Urban is the challenge. I think I could do more mid-market in an urban setting and it would struggle. I think it's urban versus lower-density markets, not high end versus medium. Does that make sense?

**Matt Kornack** — Analyst, National Bank Financial

Absolutely. And then just a very quick one for me. I have the benefit of being an urbanite and having to deal with this on a fairly frequent basis, but jobs numbers out for February, up 250,000. I think on reopening. I shopped in the Eaton Centre for the first time in I think four months. Like what is the lag between these openings and kind of demand for urban product? And is it just those service-type jobs or do we need to see more demand drivers in terms of people returning to office before you start to see the demand in the urban centres?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

It's a great question. I mean we did see the unemployment rate drop to 8.2% I think I read. I don't know if we have any precedent. I don't think we've ever seen such a violent contraction of economic activity. I mean Canada's GDP fell by more than 5% in 2020. I don't recall, I don't think we've had that since they began keeping records in the early '60s. So I think that, certainly, this is very

encouraging signs. And I think there are certainly servers and workers in the food and beverage sector, retail, certainly a part to play, but we'd also be looking at travel sector, accommodation, hospitality. These are major job drivers and I think we want to see some of that as well. Certainly, though, this is a good-news story. It's certainly moving in the right direction. But I don't think there are any good models that we can look back on where we've seen such a steep and violent correction to job numbers and see how quickly they return. I certainly, in my experience, have not got anything I could really readily compare it to. It's certainly steeper than the corrections that we saw in 2008, 2009. And certainly the models that we've seen, which suggested a very long and prolonged recovery of the job market then, certainly seems to be more V-shaped now.

But I don't know. It's a great question, Matt. And again, I think we take sort of the long-term view in all of this. Whether it takes two quarters or three quarters to see a recovery, I think at the end of the day, what we remain focused on is strong locations, great assets, continuing to invest in those portfolios, continue to do the value add, the repositioning program. The fact is that housing shortage that was there pre-COVID is still there. That supply-demand imbalance, still there. I think governments are nibbling at the margins on doing things to improve supply coming online, like we saw with Richgrove, but I don't think that it's enough and I think, with construction costs continuing to race ahead through COVID, I think that the supply picture is no better than what it was last February. So how quickly will it recover? Good question. Don't have a model to tell me. I don't have experience necessarily that I can point to that equates. But whether it's two quarters, three quarters, certainly I think this is a good-news story and I think we'll be back. It's a question of how quickly.

**Matt Kornack** — Analyst, National Bank Financial

Thanks. I tend to agree. Take care, guys.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Matt.

**Operator**

Thank you. Your next question comes from Romel Sabat with Scotiabank. Romel, please go ahead.

**Romel Sabat** — Analyst, Scotiabank

Thanks. Hey, Michael and Julie. Good morning. Just wanted to know more about the incentives on the rent. So, you're taking a stand, I guess, buying occupancy, which aligns with your view of strong recovery in the second half of 2021 on the back of returning international immigration. Based on your competitors' shopping, how would you characterize what your competitors are doing in terms of holding firm on rent versus occupancy? And also, what types of incentives are your competitors offering that Minto is not?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

So, Romel, thank you for that question. It's a good question. They're not perfect information here. What you see on a competitor's website, what information you gather when you visit their leasing

office, and what information you may gain in a follow-up conversation with a leasing agent will all tend to give progressively more information around where a competitive product might be. So you might see one month free advertised on their website, you might go in the leasing office and you might learn that maybe there's some other little incentives that are possible. You might engage in a conversation with a leasing agent and they may have a back pocket incentive they can add an extra month onto the incentives that are there. So it's really hard to get great information.

Certainly, what we do know is, compared to January, February of 2020, incentives and promotions are certainly very much more prevalent in the marketplace. What had been really fairly focused narrowly and, certainly in Alberta, but in other markets, pretty narrow, is now, I would say, broadly available. And I guess what we've done, and I think we tried to make this very clear, is we were not going to buy occupancy, because we saw this as being a short-term event. And the unintended consequence of dropping your rate is that you are going to potentially significantly extend the length of stay. And in a rent-controlled environment, the datum on which any increases will be based will be that much lower.

And so I would also just draw the distinction between promotions and incentives on the one hand and rate discounting on the other. And tenants are rational and intelligent creatures. They certainly appreciate an incentive promotion, but they really like a rate discount, because they get the math. They understand the logic and how it works in a rent-controlled environment. And so to meaningfully move the dial, to buy occupancy, we would have had to significantly discount rate. And so we made some discounts in selected areas, but really our focus was on incentives and promotions, and I think, with targeted marketing, I think we did achieve some pretty strong results in Q4. So I think from

our perspective we'd look it at that way. Very much less excited about discounting the face rents for sure.

Now, like I say, it's hard to say specifically what our competition is doing. We look at a metric called penetration. We look at our rents relative to what we're seeing advertised and what further intel we can glean from shopping our competition. We have seen that relative penetration increase. So my gut instinct is to tell you, Romel, that we probably have discounted far less than the competing property set, I'd say, for each of our buildings. And we probably would have matched or been close on incentives and promotions. We're not going to be insensitive to what's happening on that front, but probably relatively less likely to discount rate. I hope that helps.

**Romel Sabat** — Analyst, Scotiabank

Yeah, it does help. Thank you so much for the answer. Also regarding, if I could, a quick follow-up on that, so I just wanted to know, regarding your disclosed in-place rent and estimated market rent, I just wanted to know if those include incentives or is (inaudible). And also we wanted to know how you account for incentives offered. So, for example, is it amortized over 12 months against revenue or is it taken entirely in the quarter? Thanks.

**Julie Morin** — Chief Financial Officer, Minto Apartment REIT

So I'll take that, Romel. So, on whether or not our tables are net or gross, it's a little bit of a combination of both. So we're showing Alberta as net rents whereas the other geographies are all gross. And the reason for that distinction is because the situation in Alberta has been a little longer term and

the discounts and promos being offered there, you know, we don't think are short lived, so we've actually shown those as net now for I'm going to say at least a year, if not more. Whereas for the other geographies we believe that those discounts are going to burn off fairly quickly when the economy picks up again and demand returns, so we're not intending on changing that table to show those items net. In terms of your question about how we account, we do amortize those over the 12-month period.

**Romel Sabat** — Analyst, Scotiabank

Okay. Awesome. That makes sense. Thank you for the answer. Also, if I could just fit in another quick one regarding the balance sheet, we just wanted to get some colour around your acquisition capacity. So currently your liquidity sits at \$170 million, your debt to gross book value down 100 basis points to 38.6%. And we just wanted to know more about your net debt to EBITDA. So we know it's a bit up this quarter to 11.5 times EBITDA and I just wanted to know like how high are you willing to go on the net debt to EBITDA on the balance sheet to support future acquisition activity.

**Julie Morin** — Chief Financial Officer, Minto Apartment REIT

So it's interesting, because we actually don't look at our debt-to-EBITDA ratio. We prefer looking at our debt service coverage ratio. We think that's a better indicator of our ability to pay our obligations. And our debt service coverage ratio is strong at 1.91. So when you think about sort of the CMHC requirements, they typically ask for 1.20. So I'm going to say we're fairly comfortable and we've got a lot of room to move there. So we'd definitely be comfortable increasing our leverage.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

I would also just add to Julie's answer is that we're very careful laddering our maturities. So we take a more holistic view and not so focused on the debt-to-EBITDA metric, which is not one that we would not normally have followed.

**Romel Sabat** — Analyst, Scotiabank

Okay. That makes sense. Thank you so much for your answers and congrats on the quarter.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Romel.

**Operator**

Thank you. Your next question comes from Jenny Ma with BMO. Jenny, please go ahead.

**Jenny Ma** — Analyst, BMO Capital Markets

Thank you. Good morning.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Hey, Jenny.

**Jenny Ma** — Analyst, BMO Capital Markets

With regards to the move-outs, you gave some good drivers of that, but I'm wondering in terms of the move-ins, which was tracked higher seasonally, were there any unique drivers of that or is it really just pent-up demand spilling over from Q2, Q3? Just want to get a sense if there's any green shoots on the demand side, at least domestically, like people finally moving out of their parent's house to get their own place or just looking for more space moving from downtown to the suburban areas. Are you seeing any signs of that right now?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

So, again, I guess we look at the net leasing activity, and really it would have been negative in those three properties that we'd highlighted, 185 Lyon, Yorkville, and Roehampton. And those are urban core typically attracting a professional renter. And so I think we saw, certainly in the latter stages of Q3, those notices for move-outs begin to roll in. As I say, Q2 and Q3 were fairly low turnover and in Q4 it suddenly popped up. And I speculate that that may have been, as the duration of the COVID crisis really was becoming clear and employers were making, I'll say provisions for virtual and work from home and people were sort of getting into that sort of mindset of working remotely and wanting more space, and the positive vaccine approval news didn't happen until very late in Q4. It was in December, really the middle of the month of December. And I think subsequent to that, we only started to see the positive news on vaccines. Approvals and rollout really only started to happen as we got well into Q1. I still think it's too early to say, but to say there were green shoots in terms of move-in trends, there were move-ins

for professionals, certainly, which are really targeted those urban locations, but I think it's still too early to say at this point, Jenny.

**Jenny Ma** — Analyst, BMO Capital Markets

Okay. And then when you think about the turnover trends, obviously they've been dislocated with COVID in an unprecedented way, but whenever it is we get back to some sense of new normal, how many quarters do you think it would take for turnover patterns to normalize?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Oh, great question. I mean I think we'd be looking for a couple of things. I think the on-campus experience at post-secondary will be important and how quickly do they move from a virtual to a hybrid to a fully in-person instruction mode. I think that's one factor I would probably look at. Certainly the early signs from major Canadian universities, McGill and UBC, for example, made announcements early this week or late last that they would be moving to at least some component of in-person instruction in the fall term. I think that's one factor.

I think return to workplace is another factor and what form does that take and how quickly does it take root. I mean certainly my sense is that that tipping point around vaccinations is probably towards the end of Q2 at the earliest when we start to see most Canadian adults have access to at least that first dose, or if it's the case of Johnson & Johnson the only dose, and what does that mean from an employer's perspective to begin inviting employees back into their workplaces if they were closed, if they were nonessential.

And certainly the anecdote that I have from many employers is that they do intend to return to workplaces. There may continue to be some element of flex work or virtual work from home or work remote kind of mode, but certainly the benefits of face-to-face interaction from innovation, certainly from an on-boarding of new employees, training and other things would mitigate heavily in favour of at least some portion of the work week going back to in-person and what's that tipping point if, you know, if I could commute one day a month in a COVID world from Pickering to Downtown Toronto, if my employer suddenly wants me to be in the office three days a week or four days a week, and certainly that's what I'm hearing from a lot of employers, that commute probably a lot less exciting for me. And certainly the benefits of urban living as a pull, I think, would also be that factor.

And so how quickly do we see food and beverage, entertainment venues, whether it's musical events, performances, sports, move to a full-on in-person? I just happen to note that I believe it's the Texas Rangers that announced their home opener is going to be 100% capacity in person. Texas is Texas. Ontario might be a little different. Québec may be a little different. But I think some of those factors.

So a question of how long to see return to normal seasonal turnover patterns. I think it's going to be at least, I would suspect, into Q3 of this year, and that might be the earliest. It might take us even into 2022 before we start to see kind of normal patterns begin to reassert themselves. Risk factor, of course, which we talked about earlier in my outlook remarks, is whether this wave of variants that are taking up a bigger and bigger share of new COVID cases, whether that could throw a wrench into the timing and delay it by a quarter or two is another question.

**Jenny Ma** — Analyst, BMO Capital Markets

I appreciate that it's not an easy question to answer. That's actually a good segue into my final question. If I'm connecting the dots between your comments about holding rent steady and not buying occupancy, if we do hit a worst-case scenario where there's a third wave, it's really bad and market conditions worsen, is it fair to say that you're going to hold the line on your philosophy because we're recognizing that the vaccine should or hopefully be a backstop at some point?

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Yeah. I mean I'm not an epidemiologist or an immunologist, so... What I have read has been the efficacy of the existing vaccines against these variants and whether they would halt the spread, certainly they would slow them down. I'm also reading though, of course, that the vaccine developers and manufacturers are developing variations that are effective against these variants. And so I guess we are in a battle of vaccination catching up and superseding the spread of COVID and its variants. But either way, I think our view is very much that this is transitory, temporary, and so it is an event. It is not a permanent state.

Now obviously, we reserve the right to change our minds as circumstances evolve, but my sense is, you know, I think if we flash forward one quarter and we see variants are continuing to accelerate and case counts continuing to move, vaccinations accelerating but maybe not quite keeping pace, I think we'd look ahead a quarter or two and try and triangulate and see where we think vaccinations will catch up. But I don't see that running to years. I see that quarter by quarter. And certainly our view is that this is temporary. And discounting rate, mortgaging our future just to fill the buildings, is absolutely not

within the best interests of the REIT. And certainly I think what we would see is that average length of stay go from something like five years to materially more, which that is the risk, and so we want to avoid that. I mean, from our perspective, I think we'd have to see something change meaningfully in the environment to get us to change that view and I just, I put that as a very remote chance at this stage.

**Jenny Ma** — Analyst, BMO Capital Markets

Great. Thank you very much.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Thanks, Jenny.

**Operator**

Thank you. Ladies and gentlemen, as a final reminder, should you have any questions, please press star one.

There are no further questions at this time. Please proceed.

**Michael Waters** — Chief Executive Officer, Minto Apartment REIT

Okay. Thanks, Anas. Everybody, thank you. I think that we've set a new record for the length of our call, so a very thoughtful discussion and questions. Appreciate all of your interest. That concludes our call this morning. Thank you for joining us and for your interest in the REIT. We look forward to speaking with you again after we report our Q1 results in May. Thank you. Goodbye.

## **Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.