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**Minto Apartment REIT****2022 Second Quarter Financial Results Conference Call**

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*BMO Capital Markets — Analyst*

## PRESENTATION

### Operator

Good morning. My name is Joanna and I'll be your conference coordinator today. At this time I would like to welcome everyone to the Minto Apartment REIT 2022 Second Quarter Financial Results. 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 star then the number 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 August 9, 2022 for more information.

During the call management will also reference certain non-GAAP 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 GAAP. Please see the REIT's MD&A for additional information regarding non-GAAP financial measures, including reconciliations to the nearest GAAP measures. Thank you.

Mr. Waters, you may begin your conference.

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

Thank you, Joanna, and good morning, everyone. I'm Michael Waters, Chief Executive Officer of Minto Apartment REIT, and I'm joined on the call this morning by Julie Morin, our Chief Financial Officer, and Jonathan Li, our President and Chief Operating Officer.

I'll begin the call by discussing highlights from the second quarter as well as other corporate developments. Julie will review our financial results in detail and then Jonathan will provide an overview of our operating performance and growth initiatives. I'll conclude with our business outlook and then we'd be pleased to take your questions.

Our financial performance continued to significantly improve in the second quarter as we capitalized on stronger urban rental market conditions. Market dynamics have substantially returned to pre-pandemic levels and we delivered strong growth in our key financial metrics despite inflationary pressures.

We signed 667 new leases in the quarter, achieving an average gain to lease of 12.1%. It was our single largest quarterly gain since Q1 of 2020 with solid gains across all of our markets. Average monthly rent for the same property portfolio increased 3.4% year over year to \$1,695 at the end of Q2 2022 and average occupancy rose to 94.7% compared to 91.5% in Q2 of 2021, even as we continued to reduce the use of promotions. Again, these results reflect strengthening urban rental market conditions underpinned by net immigration, a widening housing affordability gap, and a return to school, to name just a few.

We also continued to advance our organic growth initiatives during the quarter. We completed the repositioning of 83 suites, generating an average annualized return on investment of 8.6%. These renovations improve asset quality, reduce future repair costs, and drive strong growth in rental revenue. We also closed the acquisitions of two premium downtown rental properties, Niagara West in Toronto and The International in Calgary, which, combined, increased the REIT's gross suite count by 753 suites.

At the end of the quarter, we increased the total commitment of our revolving credit facility from \$200 million to \$300 million, providing us with enhanced financial flexibility as we continue to pursue opportunities to drive NAV growth during a period of reduced accessibility to equity capital markets. We had strong liquidity at quarter end of \$193 million, representing a liquidity ratio of approximately 18%. You're also likely aware that on July 19, subsequent to the end of the quarter, we announced our intention to initiate a normal course issuer bid. The NCIB will be active until July 20, 2023 and enables us to acquire and cancel up to 10% of the REIT's public float. The purchase of units at prices below the REIT's net asset value is an attractive use of funds; however, we're constantly evaluating various capital allocation opportunities and there's no guarantee that we will purchase and cancel any units under the NCIB. It will depend on market conditions, the prevailing unit price, and other factors.

Overall, we're very pleased with our current competitive positioning. We're capitalizing on improving market conditions to deliver strong financial performance while maintaining a very strong balance sheet. The outlook for our business remains highly positive and, while capital market conditions are currently challenging for the Canadian multi-residential sector, we're evaluating alternatives to efficiently raise capital in order to fund the attractive investment opportunities in front of us. I'll speak more about this later in the call.

For now, I'd like to invite Julie to discuss our second quarter financial performance in greater detail.

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

Thank you, Michael.

Turning to slide four, I'll begin with an overview of the key Q2 financial results. We reported same property portfolio revenue of \$32.9 million in Q2 2022, an increase of 10.1% compared to \$29.9 million in Q2 last year. The increase was mainly due to higher occupancy and higher average rents. The total portfolio revenue was \$35.5 million, a year-over-year increase of 18.8% reflecting higher rents and occupancy as well as the acquisitions of Le Hill-Park, Niagara West, and The International. Same property portfolio NOI in the second quarter was \$20.2 million or 61.5% of revenue, an increase of 6.4% from \$19 million or 63.6% of revenue in Q2 last year. Total NOI was \$21.8 million or 61.5% of revenue, an increase of 14.8% from Q2 last year. Higher NOI in Q2 2022 mainly reflected increased revenue, partially offset by higher operating expenses. I will discuss the expenses in more detail shortly. In addition, I want to note that same property NOI would have increased by 9.9% in Q2 2022 and Q2 2021 NOI margin would have been 61.6% if a one-time property tax refund received in Q2 2021 is excluded from the calculation. The AFFO payout ratio was 65.2% compared to 64.8% in Q2 last year. Average monthly rent per unfurnished occupied suite in Q2 2022 was \$1,695 for the same property portfolio and \$1,690 for the total portfolio, representing increases of 3.4% and 3%, respectively, from Q2 last year. Average occupancy was 94.8% for the same property portfolio and 94.7% for the total portfolio. These represented significant improvements from 91.5% in Q2 2021.

Turning to slide five, as I mentioned, higher operating expenses impacted NOI growth. You can see the increases in this chart. Like our sector peers, we are facing inflationary pressures and we are working hard to manage controllable costs and improve operational efficiencies. Property operating costs in the quarter were impacted by higher labour cost, filling staffing vacancies, higher insurance cost, and higher repairs and maintenance cost. The year-over-year increase in property taxes is mainly due to the one-time refund of approximately \$600,000 received in Q2 last year that I previously mentioned. Excluding the refund, property taxes would have been flat year over year and total operating expense growth would have been approximately 11% instead of 16.7%. Higher utilities costs were due largely to a significant increase in natural gas costs. This was due to both higher natural gas prices and cool spring weather, which resulted in greater usage during the quarter with a 9% increase in total heating degree days.

I'll now turn it over to Jonathan to review our operating performance and growth initiatives.

Jonathan?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Thank you, Julie.

I'd like to start by reviewing occupancy on slide six. Average occupancy increased both sequentially in Q2 2022 and compared to the same period last year. This reflects the fact that, as market conditions have improved, our move-ins have significantly outpaced move-outs. We had 585 move-ins during the second quarter compared to 492 move-outs, a net increase of 93. Over the last four quarters

we have had 2,024 move-ins compared to 1,753 move-outs, a net increase of 271. Move-ins have now exceeded move-outs in four of the last five quarters.

Slide seven shows our revenue analysis for Q2. The upper chart breaks down our realized gain-to-lease in the second quarter while the lower one outlines our estimate of the gain-to-lease potential embedded in the portfolio at June 30<sup>th</sup>. Beginning with the upper chart, we signed 667 new leases in the quarter, an increase of 25% compared to 534 new leases in Q2 last year. We continued to realize very solid gain-to-lease in all markets with double-digit growth in every market except Alberta, where we had high single-digit growth. The average rent on new leases increased by 12.1% from \$1,645 to \$1,844. This resulted in an annualized incremental revenue gain of approximately \$1.3 million. During the quarter, as market conditions strengthened further, we continued to drive occupancy while simultaneously reducing the targeted use of discounts and promotions. We expect to reduce these even further in the months ahead as market conditions continue to improve. Turning to the embedded rent potential on the lower chart, we believe we can generate approximately \$14 million of annualized incremental revenue by bringing rents in 7,753 suites to market levels.

Turning to slide eight, the upper chart tracks our gain-to-lease and average monthly rent growth on a quarterly basis. You can see how the quarterly gain-to-lease has improved over the last four quarters. The 12.1% quarterly gain in Q2 2022 was the strongest that we have achieved in more than two years and was roughly in line with pre-pandemic levels. We have also generated steady growth in average monthly rent despite the particularly negative impact of COVID-19 on urban rental markets, which we believe is now reversing. On the chart we break out rents by geography. Our rental pricing

continues to compare favourably to condos on a size and rental rate basis, making for a very attractive offering to renters.

Now I'd like to review our furnished suite performance on slide nine. As we have previously discussed, the pandemic has had an outsized negative impact on our furnished suites, due primarily to the curtailment of business travel; however, rental rates and occupancy have trended steadily upward as market conditions have improved and business travel has recovered. Average monthly rent in the second quarter for furnished suites was \$4,476 compared to \$3,572 in Q2 last year while average occupancy was 86.2% compared to 74.4% last year. We are continuing to trim the furnished suite inventory by converting furnished suites to unfurnished in our Roehampton property in Toronto and. once this is done, the furnished suite count will reach our steady-state target of approximately 185 suites.

On slide 10 you'll find a summary of our repositioning activities. We renovated and leased a total of 83 suites in the second quarter, or 61 at the REIT's proportionate ownership share. The average monthly rental increase following repositioning was \$370 per suite, which generated a simple return on investment of 8.6%, in line with our target. We have 2,172 remaining suites to reposition under our current program. We expect to reposition approximately 100 to 170 suites over the second half of the year, subject to turnover. We repositioned a total of 143 suites in the first half.

Now I will review our intensification and development initiatives, beginning on slide 11. We currently have eight projects in our pipeline, six of which are in active development. These projects have the potential to increase the suite count by 2,271 suites, or 1,443 at our proportional ownership share, a

27% increase. Of note, over 82% of our growth pipeline by suite count is located in Vancouver, Victoria, and Toronto.

You can see the current status of several of the properties in our development pipeline on the next two slides, beginning with Fifth + Bank on slide 12. This mixed-use residential and retail property in Ottawa's Glebe neighbourhood stabilized during Q2 2022. All of the 163 suites have been leased and are now occupied. Solid construction progress is being made at Lonsdale Square in North Vancouver. You can see in the updated photo that framing is well underway and construction has reached the fifth story. We continue to expect the property to stabilize at the end of 2023. Demolition is complete at 810 Kingsway in Vancouver and excavation commenced in June. This will be a six-storey mixed-use building comprising 108 suites and approximately 11,500 square feet of at-grade retail space and we anticipate stabilization by the end of 2024.

Turning to Beachwood in Ottawa on slide 13, demolition of the previous buildings on the site is complete and excavation is well underway. We are anticipating stabilization by the end of 2024. At Leslie York Mills in Toronto, site work continues and the existing parking structure has been demolished. We are transforming this site with 192 new townhomes, several new amenities, and a new two-level underground parking garage. Construction began late last year and stabilization is expected in late 2025. At our Richgrove project also in Toronto, shoring and excavation is well underway. We are building a new rental tower with 225 suites, including 100 affordable suites. We currently expect stabilization in the second quarter of 2026.

Moving to slide 14, as you know, we completed the acquisitions of Niagara West in Downtown Toronto and The International in Downtown Calgary during the second quarter. I am pleased to say that occupancy has remained strong at both properties and there has been significant market rent growth since they were purchased by the REIT. In addition, we are executing on exciting initiatives to drive rent growth and maximize value at each property. For example, at Niagara West, we are working with a prospective investment-grade tenant to fill all of the remaining retail space, which amounts to about 12,000 square feet.

I'll now turn it back to Julie to discuss our debt financing and liquidity.

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

Thank you, Jonathan.

Turning to slide 15, since the REIT's inception, one of our key priorities has been to maintain a conservative leverage ratio and a balanced debt maturity schedule. As you can see on this chart, maturities are highly manageable through 2027. As of June 30, 2022, the weighted average term to maturity on our fixed rate debt was 4.74 years with a weighted average interest rate of 2.9%. Approximately 80% of our debt was fixed rate and 63% was CMHC insured. I want to note that we assumed approximately \$108 million of floating rate loans during the second quarter on the acquisitions of Niagara West and The International. We are actively pursuing long-term fixed-rate CMHC-insured financing to refinance these properties. Total liquidity was approximately \$193 million at the end of June 2022 and debt-to-gross book value was 39.5%. As Michael mentioned earlier, we increased our revolving

credit facility at the end of the second quarter from \$200 million to \$300 million and this provides us with significantly enhanced financial flexibility.

I'll now turn it back over to Michael to wrap up.

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

Thanks, Julie.

I'll wrap up with our business outlook on slide 16 before we take your questions. We're obviously very pleased with our strong financial performance in the second quarter and we're confident that all of the fundamentals that have driven the market over the long term remain in place. These include our country's expansive immigration policies, the increasing housing affordability gap between owning and renting a home, and the inelastic housing supply curve in Canada. These factors have gradually reasserted themselves after the Canadian rental market was severely disrupted by the pandemic. We also believe that we'll benefit from additional rental demand as the population continues to return to urban centres that went temporarily quiet due to COVID. The positive fundamentals driving our market aren't new, but we believe that they're becoming more pronounced. For example, I'd note that rising interest rates have significantly increased the cost of homeownership in recent months, which has further widened the affordability gap between owning and renting.

We're confident that we're well positioned for long-term success and to achieve it we'll be focused on five key strategies. Firstly, growing NOI by maximizing revenue, optimizing occupancy, creating value from suite repositioning, and minimizing OpEx; strategic allocation of capital, which may

include capital recycling opportunities, accretive investments, deleveraging, and unit buybacks; third, best-in-class execution of our existing intensification and development pipeline through our relationship with Minto Properties; third-party acquisition or development opportunities, although these may be challenging in the short term given our current cost of capital; and lastly, prudent balance sheet and liquidity management.

I want to spend a bit of time focusing on capital allocation before I wrap up as I suspect many of you may have questions about that. The current capital market environment is challenging for the Canadian multi-res sector. Accordingly, in order to strengthen our portfolio and capitalize on attractive growth opportunities, we've initiated a capital recycling program. Under this program, we're exploring the potential sale of certain mature, stabilized properties in our portfolio. The proceeds would be deployed to fund higher growth or value-add initiatives, which could include property developments, property purchase options, convertible development loans, suite repositionings, and potential opportunities under the NCIB program. The capital recycling program could also enable us to adjust our geographic diversification and reduce the average age of our portfolio. There's no guarantee that we'll sell any properties under this program, but we believe it's an appropriate strategy to seek to efficiently redeploy capital into better risk-adjusted and accretive investment opportunities. In addition, given our current cost of capital, pursuing third-party acquisitions and development opportunities is currently challenging. We're putting less of a priority on these initiatives in the short term. Fortunately, we already have a very strong pipeline of growth opportunities through our property intensification and CDL programs. We're confident that, by continuing to execute on our strategy, we'll deliver strong financial performance and strong returns to unitholders.

This concludes our presentation this morning. Julie, Jonathan, 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 a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you would like to withdraw your question, please press star followed by two.

The first question comes from Sairam Srinivas at Cormark Securities. Please go ahead.

### Sairam Srinivas — Analyst, Cormark Securities

Thank you, operator. Michael, Julie, Jonathan, congratulations on a great quarter. My first question is probably just on the elephant in the room, and that's capital recycling. Michael, can you give us a little more colour in terms of are there any specific assets you're looking at or have you identified markets where you'd probably want to lighten your load (inaudible)?

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

Well, as we mentioned, we listed some properties in Edmonton earlier in the summer. Many of you are probably aware of that. We're very early stages on that one in terms of working with prospective interested parties. There's no guarantee anything will happen. So we'll continue to work on

that. We'll share an update on the next quarterly call. We are, every year, constantly, for each asset, conducting a very rigorous asset management review and from time to time we do look at assets where, as we indicated earlier, maybe they're fully stabilized, the value creation curve is flattening, and there may be an opportunity to harvest some value and redeploy it.

Jon, I don't know if you'd add any colour to that.

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

No, I think you covered it well, Michael.

**Sairam Srinivas** — Analyst, Cormark Securities

That's good colour, Michael. Just probably shifting gears to occupancy, thank you for the disclosure on the vacancy breakout this quarter. Just looking at that, so I guess you guys have probably close to 2% of the suites available right now for renting at some stage or another. Considering where the markets are and considering (inaudible) developers are slowing projects as well, do you see a lot of scope for rent growth?

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

So maybe, Jon, do you want to take a stab at that one?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Sure. So I mean, look, absolutely we see an opportunity for rent growth, especially in our markets. Even through July we've continued to see some nice rent growth in market rents in all of our key markets. In terms of the occupancy, yeah, we added that disclosure. We thought it was helpful because, look, we are repositioning a very large number of our suites over time and that will help with our gain-to-lease, obviously, but it also creates what I'll call some structural vacancy in our portfolio. So occupancy continues to tick up nicely. Don't forget that part of the in-place occupancy as well that you see, we know some of those people are moving out as well, so some of those people move out, we know when they're going to move out, and we're highly focused on turning suites extremely, extremely efficiently so that we can kind of minimize any downtime and maximize folks in the suites and maximize our monthly rents.

**Sairam Srinivas** — Analyst, Cormark Securities

That's great, Jon. Thanks for the colour. And my last question is on broader policy and government initiatives. I know affordability has been a big topic of late as well and there was some noise around vacancy decontrol as well, especially in Toronto. Is that something you guys are hearing or are there any policy-level discussions you've been having?

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

So, I mean obviously this is a big topic of late, particularly with housing affordability, both for purchase and for rent, eroding, and it's obviously been a politically-charged topic, even going back to the

federal election campaign last fall. And so looking at governments at multiple levels—federal, provincial, and municipal—who are all under pressure by their constituencies to tackle this issue. And so we've been active both through groups like REALPAC, (inaudible), and others at that level, but also working very closely with our peers in the industry, both publicly-traded REITs and other rental housing providers, to develop, we think, policy alternatives that we think could really move the dial. And I think there's a growing consciousness at the policymaker level that supply is the issue. And I mean I think there have been many forecasts produced indicating both current state, the relative undersupply of housing in Canada, but further, with our heightened population growth, how that deficit in housing supply is likely to worsen materially over the next decade or more, and just given the cycle to redevelop urban sites in particular, but even in greenfield sites, cycle time to bring new rental housing on line is measured in years, five, six, seven, eight years in many cases. So we need to start that work now.

I think that our challenge will be to continue to work with policymakers to educate, to provide our perspective. Obviously, we've been in business for seven decades and we've built over 100,000 homes, so we've got a lot of experience in this area, and certainly our peers have much of that same experience. And so we do see policy alternatives that we think can help and we also see areas where policies maybe have not been as effective. And certainly, eliminating vacancy decontrol or extra taxation would be areas that we would sort of gently guide policymakers away and look at options, policy options like we've seen in some cities, Vancouver, for example, where we've seen density bonuses. The city of Toronto has programs in place to help with the development of affordable rental housing. We're leveraging that right now at our Richgrove property. And we've also seen policies that, through agencies like CMHC, their RCFI program, their MLI Select program, where we think we can introduce incentives to bring private capital to deliver much of the gap that we need to fill in terms of housing supply. So I think

it's a complex issue, we could talk about it at length, but suffice it to say we're working very closely with other players, trade groups, and policymakers to see if we can make a difference.

**Sairam Srinivas** — Analyst, Cormark Securities

That's great colour, Michael. Thank you for that. I'll turn it back.

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

Great. Thank you.

**Operator**

Thank you. Next question comes from Jonathan Kelcher at TD Securities. Please go ahead.

**Jonathan Kelcher** — Analyst, TD Securities

Thanks. Good morning. Just going back to the occupancy, it looks like you're around 97% if you include the suites out for repositioning. Is that your sweet spot in terms of where you're pushing rents versus keeping suites full?

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

Good morning, Jon. Maybe I'll start off and then maybe Jon Li can jump in. As we've talked about in the past, our yield management philosophy has never been one of sort of full occupancy but more, I'll say, revenue optimization, and that is partly investing in repositioning programs but also a bit of a price

discovery exercise with tenants and trying to drive rents. And so we typically would run a little bit more vacancy as we seek to drive that top line and, obviously, that goes to NAV growth.

Jon, do you want to fill in the blanks on that?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Sure, Michael. Good morning, Jonathan. Given where we are now and what we've experienced over the last couple of months, we are already in a position where we can push rents and increase occupancy simultaneously. And I'd say that's across all of our geographies. I would say though, also in Montreal, we actually think that's a really good opportunity because currently our occupancy is in the low 90s and we, you know, given all of the suite turns that we anticipate are going to come down the pipe, especially in two of our properties in Rockhill and both Le Hill-Park, you know, we're seeing, ah, those are very well positioned in order for us to do both of what you just said in terms of pushing rents and pushing occupancy higher.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. And then that sort of, I guess, leads into my next question. The mark to market in the market rents that you guys put out, that's a June 30<sup>th</sup> snapshot, correct?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Correct.

**Jonathan Kelcher** — Analyst, TD Securities

So, how has Q3 been shaping up thus far?

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

From a cap rate perspective, Jon?

**Jonathan Kelcher** — Analyst, TD Securities

No, not from a cap rate, from a demand and the ability to push rents. Like would you expect to see similar growth in market rents that we saw in Q2 and, I guess, similar mark-to-market gains on new leasing? Like I know if I look back at just your slide deck, Q3 2019 was very, very strong.

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

Yes. So, seasonally, of course, Q2 and Q3 are the two strongest quarters from a leasing perspective in terms of demand and I think that would certainly be our expectation that our Q3 numbers, from a leasing and revenue perspective, would be quite strong.

I mean, Jon, do you want to provide a little bit of colour on that?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Sure. So, Jonathan, I'd say the trend has continued, at least what we've sort of witnessed in early parts of Q3, quite nicely. I'd say in Montreal, in particular, if you talk about gain to lease, I think you can see that that was actually our strongest gain-to-lease market. And that goes to what I said before about

just there's a large percentage of these suites that we're turning. And we expect that to continue. So we see Montreal, you know, we're cautiously optimistic about Montreal in terms of what we can do with our portfolio to improve the performance and increase occupancy and optimize revenue. Obviously, the return of the students, I think, is going to help us on the margin, as it just, it lifts all boats in terms of the rental market, and we're experiencing that in all of our markets.

So I don't know if that answers your question, Jonathan.

**Jonathan Kelcher** — Analyst, TD Securities

Yeah. That is helpful. That's it for me. I'll turn it back. Thanks.

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

Thanks, Jon.

**Operator**

Thank you. Next question comes from Brad Sturges at Raymond James. Please go ahead.

**Brad Sturges** — Analyst, Raymond James

Hi. Good morning. Just to go back to the capital recycling discussion there, at this stage, besides the Edmonton properties, is there anything else you've got earmarked maybe to market for sale at the moment or are you sticking to just that (inaudible)?

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

Nothing specific at this point. We continue to evaluate all properties across the entire portfolio, more or less on a regular basis, Brad. We look ahead for every asset in our asset management planning and look at the trajectory of value creation potential in every asset and look for opportunities where we can, you know, are we optimizing the returns on the capital that we've got deployed in those assets on a risk-adjusted basis, and if there's an opportunity to harvest some value and redeploy it into something else, we would look at that. So our asset management team is very rigorous in that on an almost continuous basis. And obviously you have to pick your moments, market conditions ebb and flow, and looking for opportunity like that you have to be nimble, but at this point I think it's a fairly broad effort.

**Brad Sturges** — Analyst, Raymond James

If you were to do your analysis and believe the time (inaudible), is that ideally through selling the entire ownership interest or would you consider partial interest sales and maintain an interest in the asset with the idea of managing for a third party?

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

Well, obviously we've got very strong relationships with institutional capital that invest directly in real estate entities like CPPIB and HOOPP and IG and others, and obviously they're partners of long standing and obviously present today in the REIT's operations. And so, where those make sense, obviously, we'll continue to leverage those relationships, particularly where it allows the REIT maybe to defray what otherwise would be large checks and allow us to get managing interest in good assets over

time. Certainly, you've seen the recent investment in Victoria on the redevelopment of University Heights Shopping Centre is being done in conjunction with a leading Canadian pension fund. So, that very much is a tool in the toolkit, Brad, that we would use and have used and are always looking at where those fit. They don't work in every case, obviously. In some cases it might be in the best interest for unitholders for us to dispose of an interest entirely and so we look at each circumstance based on the facts at hand and make the judgment based on that. So, where we think that there's long-term value creation potential using third-party capital with a trusted partner is a good option. In other cases maybe we see that the future growth trajectories and potential is more limited and so those are cases where maybe an outright disposition might make more sense.

**Brad Sturges** — Analyst, Raymond James

Last question, just on (inaudible), it's stabilized now. I guess you have some time to make a decision on whether to exercise your option, but just could you walk through the factors that would go into that decision-making process, whether the REIT would acquire the assets? And then I'm assuming it wouldn't be much of a capital outlay just given the outstanding loan and probably the ability to fund with long-term debt.

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

So, you're right. It's not a significant outlay because of the existing loan advance that the REIT has made to the redevelopment. There are a number of factors at play. I mean, Jon, do you want to provide a little colour here on this one?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Sure. I mean, so look, no decision has been made at this time. It is full. But Minto, the private company, is working on a couple of housekeeping items before it can offer it to the REIT. The purchase option expires at the end of November and the CDL expires at the end of December. And look, the REIT is going to evaluate the purchase relative to other capital allocation alternatives that we have at that time and we're going to make a very balanced decision around taking into account access to capital, pro forma leverage, our liquidity position at the time. It's an extremely attractive asset, we want to get it in the portfolio, but we're going to make smart decisions around where we're going to spend our incremental dollars that we have at our disposal.

**Brad Sturges** — Analyst, Raymond James

Okay. I'll turn it back. Thanks a lot.

**Operator**

Thank you. Next question comes from Johann Rodrigues at Industrial Alliance. Please go ahead.

**Johann Rodrigues** — Analyst, Industrial Alliance

Hi, everyone. I just wanted to first ask about cap rates. I noticed you guys took up your cap rates, the midpoint of Ottawa was up five, six basis points and then Montreal was up close to 20. I was just curious to know what the rationale was behind that, what your appraisers were telling you, especially given a couple of your peers that have portfolios in those markets didn't take them up by that degree.

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

Maybe, Julie, do you want to talk a little bit about the process we go through and some of the thinking around this?

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

Yeah, for sure. So, to your point, we only moved cap rates on a couple of our buildings, so the two downtown properties in Ottawa as well as our Montreal portfolio, and to be honest, it wasn't based on transactions per se that were happening in the market. It was more industry trends or sentiment that were pushing us in that direction. Hindsight or, you know, you may think that's a little bit conservative, and certainly would agree with that, but the other thing I think we look at or think about is cap rates are just one of the elements when we value our portfolio and, as you can see from our numbers this quarter, the NOI more than offset that cap rate expansion in those cities. So, overall, still a good result.

**Johann Rodrigues** — Analyst, Industrial Alliance

Yeah, okay. I was just curious if you guys were being conservative or if you thought you might see another rise in cap rates next quarter. Okay. And then just on the developments, obviously we know that cost inflation and labour shortages have changed the math on developments and you guys have a pretty large development pipeline compared to the apartment peers. I know you probably fixed the pricing or structured the contracts and some of your developments so that the move in input costs or labour haven't really changed the yields, but I'm just curious to know, on some of the developments, you can talk about them as a group or we can single out Fifth + Bank since it's the closest to stabilization,

you know, if you were to underwrite or price out the cost of those developments today versus back when you underwrote it, what would the swing in the yield on cost be? Do you have a sense of that?

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

So, it's an interesting one. Inflation has been significant and it's picked up, I'd say, particularly since Q4 last year on the construction cost side. It's been labour and materials both and particularly, let's say, in Toronto and Vancouver, where trade union negotiations yielded settlements that were, I think, materially higher. And I think so, you know, holding the revenue side constant, I think that the inflation on construction costs would be very material to yield. I mean in some cases it might even push returns to well below kind of threshold levels of where you'd want to invest.

That said, what we're seeing is that the revenue inflation, the inflation in rent, is galloping ahead as well and so, in many cases, what we're seeing, while construction costs deteriorate, we're seeing the revenue line and sort of the stabilized value estimate moving along as fast or, in some cases, even faster. So what we're seeing is that margin is not deteriorating to the extent that you might otherwise believe just by looking at construction costs. So that inflation is a double-edged sword. On one hand, it cuts you on the construction costs, but then it saved you a little bit on the revenue side, and we're seeing that in multiple markets. So, it's a challenging environment.

I would just reiterate the point that you made early, which is that we don't commit to construction until we've tendered the vast majority of the bill of materials for a project. So we want to get assurance through tenders and contracts with our trades and suppliers before we commit to putting a shovel in the ground. And so the projects that you saw on slide 11 were sort of all a snapshot at the

point in time when we committed. They all penciled quite nicely. If we were to undertake a new project now, a brand-new project, we'd have to look through it at the lens today with construction costs. And it's an issue. I mean it's a problem that's really affecting our housing supply. It's one of the main reasons our housing supply curve so inelastic, is that it's not just commodity prices, it's the relative lack of availability of skilled trades to do the work and, obviously, we're competing not just with other residential developments but also infrastructure and other projects are consuming scarce resources. So it contributes to that supply-demand imbalance in housing in Canada.

**Johann Rodrigues** — Analyst, Industrial Alliance

Okay. But if we take Fifth + Bank, for example, do you think that rent growth from the time you underwrote it to today, you think that was enough to fully offset the change in inputs and labour? Or are you thinking the spreads still would have shrunk?

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

Look, if we were to start Fifth + Bank today, construction costs would be materially higher than what we committed to way back in 2019, but revenues will have moved materially as well. The leasing that we conducted for this building was higher than our underwritten pro forma. That would be the new basis for that building. If we were to underwrite redevelopment today, we'd forecast out three years from today. Our expectation is that rent growth would be quite significant over the next three years. Remember as well, this building delivered post November 2018 is not subject to rent control, so we have a little bit more flexibility in our ability to capture market rent increases on an asset like that.

**Johann Rodrigues** — Analyst, Industrial Alliance

Gotcha. Okay. Thanks. I'll turn it back.

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

Great. Thanks, Johann.

**Operator**

Thank you. Next question comes from Matt Kornack at National Bank. Please go ahead.

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

Hey, guys. I don't know if you'll be able to provide or if you want to provide this information but, with regards to Fifth + Bank, can you give us a sense as to what the yield on cost would have been? And I know it's subject to be purchased, I think, on an average of an appraisal, but have you gone through the process of getting an appraisal yet on the building?

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

So, we're not at a stage yet where we can exercise the option. As Jon had indicated, MPI is doing a little bit of housekeeping to complete some of the open diligence items that the REIT would need before it would be in a position to exercise the option. Certainly our view on value right now, I think we're, like many, looking for concrete indications of value. We're really looking for transactions contracted post rate tightening in March, let's say, and there hasn't been a tremendous number of

those. And so I think as we near that date when we are in a position to exercise the option, Matt, we would commission an appraisal or appraisals at that point in time to try and get a sense. Certainly, an asset like this, brand new, not subject to rent control restrictions, in a submarket with sub-1% vacancy, loaded with all of the modern conveniences and prop tech, very high operating margin asset as well because of the features around energy efficiency building envelope, we expect would attract a premium valuation if exposed to the market. Of course, the REIT has a right of first offer at a 5% discount to appraised value. So whatever way that looks, the REIT is going to do, I think, quite well out of this transaction when and if it should exercise the option.

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

That absolutely makes sense. On the financing side for, I guess, any new asset purchase, there's a mechanism to get the equivalent of some CMHC, even if you don't have the operating track record. That's correct, right? But LTVs may be a little lower? Or can you get essentially something equivalent to what you could get with CMHC on a stabilized long-term asset?

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

Yeah, maybe I'll let Julie tackle that one.

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

Yeah, so there is definitely a process to get CMHC even on unstabilized property and I'm going to say MPI and the REIT will look to do that before the asset gets transferred if the REIT exercises its option.

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

Okay. And then on just the general capital outlay between your development projects and the loan commitments that you have, can you provide a sense as to what the outlay would be for the remainder of the year as well as maybe into 2023 if that's possible?

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

Julie, do we have that at your fingertips there?

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

I don't. I know for CDLs, for example, we would have probably close to 35 million for the rest of the year. And then on the rest of our capital, it's a fairly even run rate, so I think what we've seen in Q1 and Q2 could be used as a go-forward comparison.

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

And Matt, if you just look at slide 11 there, you can see, at least at the end of Q2, the CDL commitment and the CDL advanced for the CDL deals, of which there are five. The other three less—Leslie York Mills, Richgrove, and High Park Village—the ones that are on balance sheet, Richgrove has already reached the stage where we're drawing on the construction loan on that one, so there's not any more equity outlay at this stage. Lesley York Mills, as Jon mentioned, well advanced in the preparation for excavation and stuff now beginning. And so High Park is in the predevelopment stage and not anticipated to start in the next very near term. We're still perfecting the entitlements on that one, so it's

more predevelopment spend in the nature of consultants type costs and stuff like that. So that might be a useful guide for you as you think about capital outlay.

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

That's perfect. Very helpful. And then lastly, from my perspective, G&A was a little high in the quarter. I don't know if there was anything one-time in nature or if you can provide a sense as to what a run rate should be for that going forward for the next two quarters.

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

Julie, do you want to grab that one as well?

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

Yeah, for sure. So the run rate you're seeing for G&A is probably what you're going to see on a go-forward basis and most of that is related to Jonathan joining us in April.

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

I guess I could be one time.

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

High-priced talent, but you're right.

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

We won't back into what that is. Thanks, guys.

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

Thanks, Matt.

**Operator**

Thank you. Next question comes from Mario Saric at Scotiabank. Please go ahead.

**Mario Saric** — Analyst, Scotiabank

Hi. Thank you and good morning. I just want to come back to the capital recycling program. Given you have completed a rigorous asset management review, can you give us any more colour on the potential quantum of dispositions, whether it's dollar value or percentage of suites? I'm not necessarily asking how much you think you can do but more so, like after the review, how much would you like to do if everything went according to plan?

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

I would say the ones that obviously are public, the three Edmonton high-rise assets, certainly we're looking to achieve values in excess of our carrying value, our mark to market at the end of Q2, and certainly the early indications are that there's good appetite. But we're going to have to evaluate conditions over the fall as that process developed.

We look at the rest of the portfolio and there are certainly areas where we think there may be opportunities, but it's partly a function of where we think market appetite might be and, obviously, wanting to maximize return for our unitholders on some of those. In some cases there's maybe a little bit of unfinished business we need to complete before we'd be in a position. In other cases, we continue to look at assets to say that they're keepers just because of their value creation potential.

So we don't have a specific target, Mario, that we're looking at. As I say, we're looking at asset by asset where that value creation curve starts to taper or we forecast that it will taper in the near term. That's where we're looking at specific assets, but at this point no targets other than the one that is public, Edmonton, that we're looking at. But again, wanting to see bids and terms that make sense for unitholders and we're not committed to doing anything unless we see what we want.

**Mario Saric** — Analyst, Scotiabank

And in terms of that market appetite, like where are you seeing relatively the strongest institutional asset type today?

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

I think what we have said, and we've said this repeatedly, the most liquid assets, in our view, are assets that are typically urban-oriented. Concrete still is a premium from an institutional investor perspective. And thankfully, that's where the bulk of our portfolio fits in those categories. Obviously, other REITs are not actively in the market today, at least the public REITs not active with unit prices trading where they are, but certainly there is a substantial number of private investors and private

equity and others that are very interested in making investments in the multi-res space in those areas, and so I think everyone's going to be looking for a couple big transactions coming out this fall. There's a number of portfolios that I think are well known that are in the market. We expect that, and certainly the intelligence that we're getting, is that the valuations on those will be very comparable to what we saw pre-March. Investors are underwriting not on a cap rate basis. They're typically doing five-year to ten-year DCFs and they're liking what they see in many cases on a lot of these assets.

So I think that there's a little bit of, ah, I'll say chop right now, because people are waiting to see where the capital markets are playing out, but we've already seen bond rates begin to come back in. We're expecting that, I mean there's a number of players in the market active now, but I suspect that that volume of activity will pick up as we get into the fall.

**Mario Saric** — Analyst, Scotiabank

Okay. And then just maybe coming to your comment on buyers not necessarily focused on going-in yields when making their investment decisions, you've outlaid a plethora of potential uses of capital, highly attractive returning uses of capital if you were to sell some assets. REITs, implied cap rates are probably pretty close to 5%, give or take. How do you assess putting capital into the units at a 5% implied cap rate, say, give or take, versus financing loans versus redevelopment at a high single digit unlevered return? How important is that initial kind of going-in yield when you're deciding to allocate capital versus other qualitative factors such as the desire to grow the portfolio or just improve the overall quality of the portfolio on its own?

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

Well, I think, look, at a 35% discount to NAV, our unit trading price is a pretty attractive alternative, so share buybacks certainly are part of the discussion, Mario. But of course we are looking long term as well beyond the current volatility in the market and where multi-res sits today. We've obviously made some commitments on CDL loans. We're going to continue with those. We think we are looking forward to the betterment of the portfolio and so investments in projects like Beachwood and Lonsdale Square in North Vancouver and others only improve the overall cash flow generation potential of our portfolio. So it's not, I would say, exclusively in sort of one specific area. We would look at the NCIB program for sure as a very clear opportunity for us right now, but certainly we think there are other opportunities as well. And we probably have more, frankly, than we have capital right now, which, frankly, has been the case since we went public. So, lots of potential there.

**Mario Saric** — Analyst, Scotiabank

Okay. And then if you were to sell your Edmonton assets that are on the market for IFRS fair value, do you have any sense as to whether that would necessitate any special distribution?

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

Julie, do you want to tackle that one?

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

For Edmonton, no, there would be no special distribution associated with that sale.

**Mario Saric** — Analyst, Scotiabank

Okay. Two more quick ones on my end. Regarding the new vacancy competition disclosure, which (inaudible), I think that's really helpful. You noted the 180 suites that were leased for future occupancy. Do you have a similar number in terms of known move-outs at this stage?

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

Jon, do you want to tackle that one?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Yeah, look, we do have that. We're trying to evaluate whether or not we're going to share that with the market, Mario. So let us do a little bit of thinking internally and then we can get back to you. But sense of direction, I mean it's a pretty similar number to what you see as the move-ins.

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

And Mario, how we've tackled that in some markets, it's obviously province by province. In many cases, renewal notices, we can issue those a little earlier. In Quebec, for example, we can accelerate that. And so we've done that and that gives us a lot more visibility on when suites are going to turn and allows us to gear up, if it's the un-renovated suite and it's a building that's in a repositioning program that we can tackle that and turn those suites as quickly as possible. But getting visibility is a little different province by province just because of the way the legislation works.

**Mario Saric** — Analyst, Scotiabank

Got it. Okay. Last one for me: Can you give us a sense of what the incentive amortization was this quarter and how that compared to, let's say, Q1? And then secondly, what percentage of the portfolio are you still offering any type of incentives on either new or renewal leasing?

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

Jon, do you want to just talk about how we're using incentives and promotions now?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Yeah. So, it's extremely targeted right now. Effectively, you know, it's mostly, at the end of June it was mostly actually in two buildings, which was The International and then 185 Lyon. I would say the trending has continued to be reduced and we are using very few promotions kind of across the portfolio as we're sitting here today in July.

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

And just in terms of amortization, it continues to burn off from the peak that we talked about in Q3 2021, it continues to step down, as you'd expect, quarter by quarter, and certainly Q2 was another increment down from where we were earlier in the year and late 2021.

**Mario Saric** — Analyst, Scotiabank

Did you happen to have the Q2 number handy?

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

I can't recall if we've disclosed that, so let us give some thought to whether we'll be putting that out. Julie, I don't know if we put that out in our materials.

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

We haven't. So let us take that away.

**Mario Saric** — Analyst, Scotiabank

Okay. That's it for me. Thanks, everyone.

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

Thanks, Mario.

**Operator**

Thank you. Next question comes from Jenny Ma at BMO. Please go ahead.

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

Thanks. Good morning. I just have a few quick questions. First one is, in terms of operating costs, have you seen any change in the pace of inflationary pressure on op costs? Q1, Q2 obviously a big year-over-year step up and we probably should expect that for the rest of the year, but in terms of the costs changing, has that slowed down at all?

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

Jon, do you want to grab that one?

**Jonathan Li** — President & Chief Operating Officer, Minto Apartment REIT

Sure. Maybe a combination of Julie and I can handle this one. Look, we are seeing a little bit of stabilization in terms of, you know, the big one, Jenny, has been gas, right? And so both usage and pricing has gone up exponentially over the last number of quarters. Obviously in this Q usage is down a little bit. We expect it to be down a little bit again for Q3. And it seems like the rates are stabilizing somewhat, but I can't predict where it's going. We are experiencing some more like efficiencies, what I'll say, with new contractors and sustainability initiatives that we have in place with our boilers, for example, at the property level. So I don't want to use the words cautiously optimistic, but I guess we are seeing some reduction in acceleration in inflation on (inaudible).

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

Okay. That's what I was trying to get at. So hopefully that might be an easier comp starting in 2023. As far as the fair value adjustments, I saw that the NOI markup was a bigger piece to that and offset some of the cap rate changes. Is that change in the NOI a result of just different assumptions for rent and/or occupancy?

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

Julie, do you want to speak to that one?

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

Yeah, I'd say it's a combination of all of that. When we do our models internally, we do a full update, so we'll look at rent growth, we'll look at our expenses, we'll look at basically everything. Obviously, the big driver was definitely a combination of both the rent growth and a little bit of occupancy in there as well.

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

Okay. And then lastly, on the debt, could you share what kind of indicative rates you're seeing on CMHC-insured mortgages, I'm thinking about how that pertains to the floating rate debt that you put on the two acquisitions, and whether or not there is a desire to go long or short term and what the spreads on those might be?

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

Yeah, I think right now, CMHC all in, we can probably get 3.7 or somewhere around there. And interestingly enough, you can get that for five or ten years. The ten was actually a little bit cheaper than the five recently. So we're looking at that and, as we get closer for Niagara West and The International, we'll have a better sense in terms of where they are. The rates have been coming down a little bit as well, so we'll see, but that's what we can get today.

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

So that sounds like the spread between five and ten years is actually not that far apart, if at all?

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

Yeah, that's correct.

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

Okay. Okay, great. So, I guess, all else being equal then, is there a desire to take it longer or is five years what you want to stay close to?

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

So we always look at our maturities as well, so that will play in in terms of whether or not we want to do five or ten, but if they come in a little bit more and we can get the same for the five and ten, we'll probably go long.

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

Okay. Perfect. Great. That's all for me. Thank you.

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

Thanks, Jenny.

**Operator**

Thank you. There are no further questions. You may proceed.

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

Well, that's great. I think, with that, we can conclude our call today. Thank you very much for joining us and for your interest in the REIT. We look forward to speaking with you again after we report our Q3 results in November. We hope you all enjoy the rest of the summer. Thanks so much.

**Operator**

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