FINAL TRANSCRIPT

Minto Real Estate Investment Trust

First Quarter 2022 Results Conference Call

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CORPORATE PARTICIPANTS

Michael Waters
Minto Real Estate Investment Trust — Chief Executive Officer

Julie Morin
Minto Real Estate Investment Trust — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Brad Sturges
Raymond James — Analyst

Jonathan Kelcher
TD — Analyst

Kyle Stanley
Desjardins — Analyst

Jenny Ma
BMO Capital Markets — Analyst

Matt Kornack
National Bank — Analyst

Jimmy Chen
RBC Capital Markets — Analyst

Mario Saric
Scotiabank — Analyst

Dean Wilkinson
CIBC — Analyst

PRESENTATION

Operator

Good morning. My name is Miranda, and I will be your conference Operator today. At this time, I would like to welcome everyone to Minto Apartment REIT's First Quarter 2022 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 *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, followed by 2.

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 cautionary statements on forward-looking information on the REIT's news release and MD&A dated May 3, 2022, 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 the 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 now begin your conference.

Michael Waters — Chief Executive Officer, Minto Real Estate Investment Trust

Thank you, Miranda, 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.

I'd also like to welcome Jonathan Li, our President and Chief Operating Officer, to his first quarterly conference call. Welcome, Jonathan.

I'll begin the call by discussing highlights from the first quarter as well as other corporate developments, Julie will then review our financial and operating results in detail, and I'll conclude with our business outlook. After that, we'll be pleased to take your questions.

Canadian urban rental market conditions continued to improve during the first quarter, and we generated solid financial and operating performance. We entered into 401 new leases on which we realized an average gain of 10.8 percent over expiring rents. This was our single-largest quarterly realized gain to lease in two years since the outbreak of the pandemic.

We continued to reduce the use of promotions and discounts in the quarter, reflecting those strengthening market conditions. And we achieved these leasing results despite the challenges in the quarter from the trucker occupation of downtown Ottawa, which severely impacted our 600 suites in the core, and the rise of the Omicron variant generally.

Average monthly rent for the same property portfolio increased 2.9 percent year over year to $1,677 in the quarter and average occupancy improved to 94.2 percent, compared to 91.1 percent in Q1 last year. These figures underscore the fact that market dynamics are steadily improving.

We also continued to pursue important internal and external growth initiatives during the quarter. We completed the repositioning of 60 suites during Q1, generating an average annualized return on investment of 8.4 percent. These renovations improve asset quality, they reduce future repair costs, and they drive strong growth in rental revenue.

In March, we agreed to advance a convertible development loan to Minto Properties Inc. to fund its share of the redevelopment of the University Heights shopping mall in the Greater Victoria Area. The redevelopment will create 593 new residential suites and more than 113,000 square feet of grocery-anchored retail space. The REIT will earn a 7 percent interest rate on the loan during the development period and will have an option to purchase Minto Properties' 45 percent stake upon stabilization. Julie will provide more details on this transaction later in the call.

This is the fifth convertible development loan that we've done with the Minto Group, which provides the REIT access to attractive development opportunities at favourable pricing in new and existing markets.

Finally, subsequent to quarter-end in April, we announced the acquisition of a 28.35 percent managing interest in Niagara West in downtown Toronto and a 100 percent interest in The International property in downtown Calgary for a total purchase price of $201 million. These are premium downtown rental properties that will increase the REIT's gross suite count by a combined 753 suites.

Overall, we're pleased with improving fundamentals. The combination of normalizing rental markets and positive outlook for population growth support our top-line expansion. Although we're facing rising cost pressures on labour and other operating costs, we're focused on managing our controllable operating expenses.

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

Julie?

Julie Morin — Chief Financial Officer, Minto Real Estate Investment Trust

Thank you, Michael. Turning to Slide 4, I'll begin with an overview of the Q1 operating results.

Higher average rents and occupancy drove rental revenue growth in Q1. Average monthly rent for the same property portfolio increased by 2.9 percent and occupancy was 94.3 percent compared to

91.1 percent a year ago. Same property revenue increased 5.6 percent compared to last year and total portfolio revenue, including acquisitions, was up 8.4 percent.

Despite higher operating costs, which I'll discuss in more detail on the next slide, same property NOI increased by 2.6 percent compared to last year. NOI for the total portfolio was up by 5 percent.

FFO and AFFO were up 10 percent and 11 percent, respectively, and AFFO per unit was up 4.3 percent compared to last year. The AFFO payout ratio was 72.1 percent compared to 72 percent in Q1 2021.

Turning to Slide 5. I mentioned that higher operating expenses impacted NOI. This table lays out the cost increases. Higher labour costs, the staffing of certain job vacancies, higher insurance costs, and higher repairs and maintenance costs all contributed to the increase in operating expenses in the quarter.

You'll notice the large year-over-year increase in natural gas costs. This was due to both higher natural gas prices, with unit rates increasing 34 percent year over year and cold winter weather, which resulted in a 13 percent increase in total heating-degree days compared to Q1 last year.

Cost containment is one of our key priorities, and we'll continue to focus carefully on costs to maximize net operating margins.

On Slide 6, we have an overview of occupancy. Michael and I both mentioned that average occupancy in Q1 2022 increased significantly compared to Q1 last year, reflecting the stronger market conditions. Occupancy did decline slightly compared to the fourth quarter of 2021, as move-outs narrowly exceeded move-ins during Q1. This is consistent with normal seasonality in leasing and occupancy patterns and reflects the Ottawa trucker occupation's negative impact on two downtown Ottawa properties representing 600 suites.

Slide 7 has our revenue analysis as of the end of March 2022. The upper chart breaks down our realized gain-to-lease performance in the first quarter, while the lower chart shows our updated estimate of the gain-to-lease potential embedded in the portfolio.

Beginning with the upper chart, as Michael noted, we signed 401 new leases in the quarter following suite turnovers. We realized solid gain-to-lease in all markets, with double-digit growth in every market except Alberta. The average rent on new leases increased by 10.8 percent from $1,620 to $1,794. This resulted in an annualized incremental revenue gain of approximately $726,000. We continued to reduce the use of discounts and promotions during the quarter, which positively impacted gain-to-lease.

Turning to the gain-to-lease potential on the lower chart. We believe we can generate approximately $12.5 million of annualized incremental revenue growth by bringing rents on 6,950 suites to market levels, realizing gain-to-lease of 10.7 percent. This exceeds our estimated gain-to-lease potential of 6.8 percent at the end of December 2021.

Turning to Slide 8. The upper chart tracks our gain-to-lease and average monthly rent on a quarterly basis. Gain-to-lease in Q1 2022 was the highest we have generated since the start of the pandemic in the first quarter of 2020, and we have generated steady growth in average monthly rent despite the negative impact of COVID-19 on urban rental markets.

On Slide 9, you'll find a summary of our repositioning activities. We renovated and leased a total of 60 suites in the first quarter, or 45 of the REIT's proportionate ownership share. The average annual rental increase following repositioning was $4,468 per suite, which generated a simple return on investment of 8.4 percent, in line with our target.

We have 2,255 remaining suites to reposition under the current program. We expect to reposition approximately 180 to 250 suites over the rest of the year, subject to turnover.

On Slide 10, you can see our repositioning results for the trailing four quarters. Repositioning investment is our best use of capital. It generates our highest risk-adjusted return. This chart clearly demonstrates that. The average unlevered return for the four quarters was 8.8 percent and remained in a narrow band of 8.4 percent to 9.4 percent per quarter. We renovated a total of 381 suites over the 12-month period.

Now I'll review our intensification and development initiatives, beginning on Slide 11. With the addition of University Heights, our development pipeline now consists of eight projects, seven of which are in active development. These projects comprise 2,271 suites.

During the first quarter, we provided the first advance on the University Heights convertible development loan and construction continued on Fifth + Banks, Lonsdale Square, Richgrove, Leslie/York Mills, Beechwood, and 810 Kingsway. I'd like to highlight some of that work now.

Let's start with our most recent development loan on Slide 12, which is for University Heights in the Greater Victoria market. The plan is to redevelop this shopping centre in order to construct five six-storey wood-frame buildings with 593 new residential rental suites and 113,485 square feet of grocery-anchored retail space. We expect construction to commence in late 2022 or early 2023, with completion and stabilization in 2026.

We have agreed to provide a $51.7 million convertible development loan to Minto Properties to finance its 45 percent interest in the project. The financing bears interest at 7 percent, which will accrue and be payable in full upon maturity of the loan. As with our other convertible development loans, we have an option to purchase Minto's interest upon stabilization at a 5 percent discount to its then-appraised value.

Slide 13 pinpoints the location of University Heights. It is in the Shelbourne Valley neighbourhood of Saanich, near the University of Victoria and Camosun College, with good access to public transit and hospitals and attractive amenities, including parks, beaches, and a library. The walk score is 77 and the bike score is 88.

There is significant demand for student housing in this area. Two of the five buildings in the planned redevelopment will specifically target students with smaller furnished suites and student-focused amenities

Moving to Fifth + Bank on Slide 14. Construction of this building in Ottawa's Glebe neighbourhood is nearly complete. As you can see from the photo on the upper right, more than three-quarters of the 163 suites have been leased and nearly 100 are already occupied. We will have the ability to exercise our purchase option later this year.

Turning to Lonsdale Square in North Vancouver on Slide 15. Excavation on this project is complete and formwork is well underway, with concrete poured at the P1 basement level. We continue to expect construction completion in the second quarter of 2023, with stabilization in Q4 of that year.

Progress was also made on two other convertible development loan projects in Q1 2022. Demolitions at 810 Kingsway in Vancouver continued, and the Beechwood project in Ottawa officially broke ground.

On Slide 16, you'll find a recent photo of the Richgrove site in Toronto, where construction is underway on a new rental tower with 225 suites, including 100 affordable suites. Stabilization is expected in the first quarter of 2026. As I have previously noted, this site is attractive in part because it is beside the future Martin Grove LRT station, which should be operational in 2030 or 2031.

Construction is also moving ahead at Leslie/York Mills in Toronto, which you can find on Slide 17. We are transforming this site with 192 new rental terrace suites and a new 9,000 square foot amenity pavilion serving the entire community. Construction got underway late last year and stabilization is expected in late 2025.

Now I'd like to review the newest addition to our portfolio, Niagara West in Toronto and The International in Calgary. I should note that the closing of the purchase of The International is expected later this week.

Let's review Niagara West first on Slide 18. On April 22nd, we completed the acquisition of a 28.35 percent managing interest in this premium and newly built downtown property. The total purchase price was $114.5 million.

We capitalized on a very rare opportunity to acquire a newly constructed residential rental building in downtown Toronto. Returns on the property are also enhanced by asset and property management fees earned for managing our institutional partners' interest in the property.

The property was completed in 2020 and consists of 501 rental suites and 52,600 square feet of retail at grade anchored by a pharm or grocery store. The east-facing suites also provide a lovely view of the downtown core, as you can see.

Turning to Slide 19. I want to note that this building prioritizes sustainability. It is equipped with electric vehicle charging stations, secure bicycle parking, and a green roof that absorbs and captures storm water for on-site irrigation. The design of the water and electrical system is also highly efficient, which results in 45 percent energy savings compared to the National Code standard for this building category.

The building is currently undergoing certification under the Canada Green Building Council's LEED program and is expected to earn LEED Silver certification. This highlights it's a highly sustainable and efficient design.

More photos of Niagara West are on Slide 20. It features condo-quality suites and amenities, including a rooftop pool and urban garden with barbecue facilities, a full-service fitness centre, and a rooftop off-leash area for dogs. The walk score for this property is 94. It also has a bike score of 73 and a transit score of 100.

Turning now to The International on Slide 21. This downtown Calgary building consists of 252 suites with 2,700 square feet of commercial space. The purchase price is $86.5 million. The International is located in Calgary's central business district and offers direct access to the Plus 15 skywalk, an 18-kilometre weather-protected aboveground walkway. This is very unique for a residential building and connects residents directly to offices, restaurants, retail, and entertainment without having to go outside.

The property was originally constructed in 1970 and was operated as a hotel before being acquired in 2015. The property underwent a $30 million conversion into a condo-quality residential rental property. It has retained high-quality, hotel-inspired common areas and amenities.

Moving to Slide 22. These photos provide a snapshot of the rooms and amenities. A multiyear renovation program of all suites, common areas, and amenities was recently completed, and significant upgrades have also been made to the heating and building automation system. The International has a walk score of 97, a bike score of 79, and a transit score of 85, which highlights its attractive downtown location.

Turning to Slide 23. I'll conclude with a review of our debt financing and liquidity. Since the REIT's inception, we have maintained a conservative leverage ratio and balance in our debt maturity schedule. The chart on this slide shows that maturities are highly manageable through 2027.

As of March 31, 2022, the weighted average term to maturity on our fixed-rate debt was 4.77 years, with a weighted average interest rate of 2.81 percent. Approximately 93.6 percent of our debt is fixed rate and 70 percent is CMHC-insured lower-cost debt.

Total liquidity was approximately $144 million at the end of March 2022 and debt to gross book value was 36.8 percent.

Subsequent to the end of the first quarter, we obtained a commitment from our lenders to increase the limit on the REIT's revolving credit facility from $200 million to $300 million. This provides us with additional financial flexibility as we pursue growth opportunities. Closing of the amended credit facility is expected this month.

I'll now turn it back over to Michael.

Michael Waters

Thanks, Julie. I'll wrap up with our business outlook on Slide 24 before we take your questions.

We believe the outlook for Minto Apartment REIT is highly positive. The Canadian urban multi-residential rental market is steadily improving. The strong fundamentals that have driven long-term growth in this market remain in place and that includes Canada's expansive immigration policy, inelastic housing supply, and the increasing gap between the cost of renting and owning a home. These factors were driving the market prior to the pandemic and we believe that they'll continue to do so for the foreseeable future.

We're confident that we have the right assets and strategy to succeed as the market conditions continue to strengthen. Our strategy is made up of five key pillars: firstly, capitalizing on organic growth through gain-to-lease; creating value from suite repositioning; focusing on cost containment; exploring attractive acquisitions and development opportunities; and lastly, capitalizing on our relationship with the Minto Group, which continues to provide us with proprietary and highly attractive investment opportunities.

Our strategy has served us well since the inception of the REIT, which you can expect that it will continue to do so in the post-pandemic world. By sticking with it, we believe we're well positioned to generate strong returns for unitholders in both the short and long term.

That concludes our presentation this morning. Julie and I would now be pleased to answer any questions you may have.

Miranda, 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 *, followed by the number 1 on your touch-tone phone. You'll hear a three-tone prompt acknowledging your request, and questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by 2. If you're using a speakerphone, please lift the handset before pressing any keys.

One moment for your first question. Again, if there are any questions, please press *, then number 1 on your phone.

There appears to be no questions.

Michael Waters

Okay, Miranda. Well, I guess that concludes our call this morning then. Thank you very much for joining us and—

Julie Morin

There's an issue with the call.

Michael Waters

Hang on. Sorry, we've just got a note. Miranda, there seems to be a problem with the call-in. I'm not sure quite what that is. Maybe what we'll do is just take 60 seconds here to see if we can resolve the issue. Miranda, do you mind taking a quick look at that, please?

Operator

Yes. Of course. Okay. It does seem like there are a couple people here now in queue.

The first one would be Brad Sturges from Raymond James. Please go ahead.

Brad Sturges — Raymond James

Hi. Good morning.

Michael Waters

Hey, Brad. How are you?

Brad Sturges

Good. Wanted to get your thoughts on, I mean, we've seen a pretty sizeable movement in the underlying bond yields and debt financing costs. How do you think that translates into acquisition pricing or valuation? Given that movement, do you see much of an impact on valuation metrics? Or do you expect, given the inflationary environment, for valuation to hold in right now?

Michael Waters

No. I think the question we probably need to consider, funding sources for some of the bidders. In addition to long-term debt, a component of the bidding, I'll say market, would be publicly traded REITs. And in current conditions, ourselves and our peers are all trading at substantial discounts to NAV. And so that might, at least in the near term, take some of those bidders out of the market.

But when you turn to the other players, the other segments, I guess, of demand for investments in multi-res looking at private equity and private buyers, they, of course, will be looking to fund acquisitions with term debt in many cases. And I think the sort of initial conclusion might be to say rising rates might translate into valuations. Of course, as you pointed out, there would be an offsetting, I'll say, offsetting impact from NOI growth. And it's hard to say that there would be a 1-to-1 sort of linkage. I think, I mean, we're going to need a little bit of time here to see exactly how the market plays out.

But the expectation, I think, we have seen rising bond rates for—several months we've been seeing the bond rates move. It hasn't had, to this point, an immediate and obvious impact in what we're seeing in the private market for multi-res assets. And we've been sort of monitoring several options and seeing some fairly deep bidding pools and fairly aggressive bids.

Now I think as we watch the central banks continue to ratchet rates and we progress into Q2, I think that might change a little bit. So I think from our perspective—and I think most bidders are probably underwriting not on a cap-rate basis, but probably on a 5 or 10-year DCF basis. And so they are looking at NOI growth. Of course, they are layering in value-add capital for suite repositioning and possibly intensification. And so I think that it does not necessarily follow that there'd be a 1-to-1 relationship between rising rates and cap rates. I think there's more factors at play, and I think we need to see sort of how the market dynamic plays out on that.

Brad Sturges

Great. And from Minto's perspective, the REIT's perspective, I guess, beyond the eventual lending of Fifth + Bank, I guess, in terms of incremental capital being deployed, I guess that use of proceeds for now would be still on the renovation program. And would there be more opportunities for a further development loan being deployed?

Michael Waters

So obviously—and we've said this at length in the past—the highest and best use of capital for us on a risk-adjusted basis is the repositioning program, partly because we have tremendous visibility into what renovated suites are fetching in the buildings that we're renovating because we're leasing them more or less on a continuous basis. We have really good visibility on the renovation costs because we're on a more or less continuous renovation program in the buildings that we've highlighted for repositioning.

But also that we're metering out capital in very discrete amounts, and so we can tailor the program to what market demand is showing us. And so the only negative is that we're really gated in the amount of capital we can deploy in value-add repositioning by the turnover of unrenovated suites. So it's a very attractive use of capital for us, but it's relatively limited in how much we can deploy in any given year.

So turning to other uses of capital, certainly we are looking for accretive investments. CVL loans, they're all accretive. The coupons are accretive from an AFFO perspective and they do give the REIT preferential access at a discount to fair value to buy new assets when those buildings are stabilized. Fifth + Bank is an example. As Julie highlighted, we have five CVL programs out there right now. We are looking at others.

The question comes to where is the capital coming from? Certainly, our liquidity position right now is very healthy. It's possible that on a go-forward basis we might look to certainly—sorry, not looking to raise capital at a significant discount to NAV or any discount to NAV. And right now, the stock is trading at a very substantial discount to our IFRS book-value NAV.

So it's possible that we could look for capital in other ways. Recycling some capital, which would allow us to upgrade the portfolio, is one such option. But we'll be managing it very carefully.

Brad Sturges

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

Michael Waters

Thanks, Brad.

Operator

Your next question will be coming from Jonathan Kelcher with TD. Please go ahead.

Jonathan Kelcher — TD

Thanks. Good morning. Just following up on that last one.

When you're talking about recycling capital, Michael, would that be sales of partial interests in properties? Or would you look to sell 100 percent interest in some?

Michael Waters

Good morning, Jon. I think it might vary, but there are assets where potentially we have generated significant value and perhaps the future potential that might be possible from selected assets might be attenuating. And so in certain cases it could be potentially the sale of 100 percent in certain assets. That's a process that we're evaluating on a more or less regular basis.

When we're looking for assets, when we think about acquiring stuff, and essentially by deciding to hold something we're making a decision effectively to buy it. And our acquisition criteria include repositioning potential, intensification potential, or significant gain-to-lease. And so when there's assets in our portfolio where the gain-to-lease potential is limited either because we're at or near market rents, or turnover is limited, or where there's limited potential for intensification just because of the site characteristics, or renovation is limited, those might be assets that we would highlight for sale and then redeploying the capital into opportunities that are not only accretive, but raise the overall quality level of the portfolio.

Jonathan Kelcher

Okay. That's helpful. On debt refinancing, you've got the current five-year CMHC rate in your presentation deck. Would that be a fair assumption to use that you're going to be doing mostly five-year renewals and new mortgages?

Julie Morin

We always look to ladder our maturities, so I think it'll really depend on what's coming to maturity and where we have gaps. But to your point, with rising interest rates right now, the bias would be to shorter term.

Jonathan Kelcher

Okay. And your stack looks like you've got nice room in 2026, 2027, so.

Julie Morin

Yep. Yep.

Jonathan Kelcher

Okay. And then lastly just for me, what's the expected development spend for the remainder of this year?

Michael Waters

And you're looking at the—

Jonathan Kelcher

Just, yeah, the Richgrove and Leslie/York Mills.

Michael Waters

So we've begun drawing on the construction loan for Richgrove, so as far as equity outlay, it would be minimal or nothing. I think we made the first draw in Q1. And we—and, Julie, I don't know if you have that handy. Jonathan, unfortunately, I just don't have that information at my fingertips.

But those two on-balance sheet deals are, I think, roughly $10 million, I'd say, for Leslie/York Mills, and as I say, at Richgrove we're already drawing on the construction loan.

Jonathan Kelcher

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

Michael Waters

Okay.

Operator

Your next question coming from Kyle Stanley with Desjardins. Please go ahead.

Kyle Stanley — Desjardins

Thanks. Good morning, everyone.

Michael Waters

Hey, Kyle.

Kyle Stanley

I was just looking for a bit of an update on the Carlisle and your plans there. You mentioned potentially renovating the commercial space. I'm just wondering, what would the impact be to NOI if you were to de-lease the remaining 35,000 square feet?

And then just generally, what are your thoughts on development, potential investment, and return to be generated? I understand it's probably early days, but just an update there.

Michael Waters

Yeah. So we immediately prior to COVID had engaged consultants to evaluate the feasibility of converting either nonrevenue or commercial space in that building to revenue space. And immediately pre-COVID, we actually did convert some nonrevenue space to residential suites. As part of that work we developed a number of concepts for the podium itself and are now taking that to the next level of design development drawings.

The property is zoned to allow for that use. We think, based on our concept and sort of our preliminary yield analysis, it could generate something like 40 to 50 suites. The space there is about 43,000 square feet. And so as we go through that design development stage and we cost it out, we'll be developing a pro forma.

So I think it's preliminary right now, which is why we've left that asset in property. But I would expect that at some point in Q2 we'll have advanced our feasibility analysis on that.

I would expect, Kyle, that it would take 12 months or more to get us through site plan and permitting and then perhaps 12 to 18 months to complete the renovation work and bring those suites online. But we did make the preliminary steps as well as it relates to the tenants that we have in there to convert them to month to month. They are cash flowing, despite the difficulties of COVID for commercial users, the office users in the downtown core. So we've taken all the preliminary steps to take this podium through a repositioning. And I think it'll make a substantial impact on the performance of the asset, but I think it's premature right now to say precisely what that might look like.

We do note, obviously, in the quarter with having converted those to month to month, it did have an impact on SPNOI performance of about, I think, 60 to 80 bips. And I think from, obviously, we've been using it to cash flow the space as we completed the design work. So I don't know if that helps.

Kyle Stanley

Yeah. No, definitely. That's very helpful and good to understand what you're thinking there. Just maybe a last one and then just turning to the furnished-suite business. I know it's a small component now, but rental rates within that part of the business improved pretty nicely on a sequential and year-over-year basis, especially given the trucker occupation in Ottawa.

Just wondering with the economy reopening, business travel ramping a bit, what are your thoughts on where we see the rental rate on the furnished side go? And do we hit pre-pandemic levels in the near term?

Michael Waters

Well, we've steadily drawn down the inventory, which makes yield management on those a little easier. And as you pointed out, the average monthly rate has climbed well in excess of $4,200. We had lower occupancy in Q1; it's kind of a seasonal lower occupancy quarter for furnished suites. And of course, it was impacted, as you pointed out, by the trucker occupation and some of the Omicron shutdown.

I think when we're looking at April, we've already seen the occupancy improve well in excess of 70 percent. I expect that will continue to improve and with that, I think, rate. I'm not sure we'll see that rate move to pre-COVID levels in Q2, but obviously it will continue to strengthen, I think, as we get through the latter part of the year.

Kyle Stanley

Okay. Great. Thanks for that. That's it for me. I'll turn it back.

Michael Waters

Thanks, Kyle.

Operator

Your next question will be coming from Jenny Ma with BMO Capital Markets. Please go ahead.

Jenny Ma — BMO Capital Markets

Thank you. Good morning.

Michael Waters

Hey, Jenny.

Jenny Ma

Turning to the op cost trends that you're seeing, especially as it relates to energy price of natural gas, do you see much of a differential amongst the different markets? Or are rates going up at the same clip across most of your markets?

Michael Waters

I mean, we sort of look at it kind of—I mean, it's a global commodity and we've seen—I mean, there's probably small differentials for delivery costs, but the actual unit cost of the energy is relatively uniform market to market.

Jenny Ma

Okay. Great. And for these costs, can you remind me if you guys do any hedging? Or do you have any of that in place right now?

Michael Waters

We don't.

Jenny Ma

And—okay.

Michael Waters

And we've evaluated it at length in the past, Jenny. Our sense has been that over the long term, a hedging program obviously will dampen volatility, or eliminate volatility, but it does come at a cost, being the cost of those hedging contracts. So we opted for better for worse, to forego a hedging program with the expectation that over the long term performance would be better because we would've avoided the cost of the insurance, if you will, that you pay when you implement a hedging program.

Jenny Ma

Okay. Great. That's helpful. Turning to the development loans. When you look at the nice yield that you get, how is the pipeline looking for future loans? And more specifically, how is that yield calculated? I guess what I'm getting at is as rates go up, is there any provision for that yield to go up for future development loans?

Michael Waters

Obviously, future loans would be negotiated based on market conditions at the time. We do have a pipeline of opportunities that we're looking at. We haven't committed to anything, obviously. And so I think if we look forward at projects over the latter part of the year, we'll be evaluating credit market conditions at that time in setting rate, obviously, and looking for, obviously, a reasonable spread over the underlying.

From the REIT's perspective, though, it's important to note that the bulk of the return from the CVL program actually comes from the exercise of the options because these options are established at a 5 percent discount to appraised value, and appraisals often lag through fair value. But even if you just look at it on appraised-value basis, about 60 percent to 70 percent of the return to the REIT from the CVL program is coming from the exercise of the option. And as we talked about, with NOI growth and, particularly, rental growth, we might see that gap widen even further in terms of the discount to fair value.

Jenny Ma

Okay. Great. That's helpful. And then lastly for me, with the Ontario provincial election less than a month away, just wondering if you could share any feedback or tidbits from you discussions with government? And of course, you can't predict the outcome, but if we end up with a government that is going to be more friendly to building out supply, how do you see the REIT participating in that? Would you sort of continue with what you're doing now? Or is there any sense you could ramp up construction and helping with the supply issue?

Michael Waters

Well, I mean, I think at the provincial level, the two big levers the provincial government has is rent control on one side, and then planning policy, which really goes to the growth side. So I think the expectation is, is that a Conservative government would be relatively more constructive, shall we say, than the alternatives, on a rent-control perspective.

We also view that the Conservative government, if it was returned to a majority, might also be more constructive on planning policy. Moves such as increasing density around transit nodes, for example, and streamlining planning processes, those would all help. Of course, the reality is, is that municipalities play a very significant role in planning approvals. They can, right, both help and hurt—hurt in the form of delays in processing planning applications and restrictions in terms of bringing more density on line.

But they can also help. We've seen great policy, for example, implemented by the city of Toronto for affordable housing. In fact, we're leveraging that program at our Richgrove project. The new tower that we're building there is being built in partnership with the city of Toronto through their Open Door Program, where they're granting waivers or deferrals on things like property taxes and development charges.

So I think that there's, rightly, a lot of emphasis on what's happening at the provincial level on June 2nd. But we also need to keep in mind as well that the planning environment is complicated and by municipal—the impact of municipal government. So I guess that's our sort of look at it.

Jenny Ma

Okay. Great. That's great colour. Thank you very much.

Michael Waters

Thanks, Jenny.

Operator

Your next question comes from Matt Kornack with National Bank. Please go ahead.

Matt Kornack — National Bank

Hi, guys. Quickly, just wanted to get your sense as to—it's early days—but how things are trending in the spring market. I think you highlighted that there's going to be a bit of an opportunity in Q2 and Q3 of this year.

But is that materializing in what you're seeing on the demand side, from both an occupancy and rent trajectory standpoint?

Michael Waters

Yeah. I think, number one, just in Q1, we saw that realized gain-to-lease of 10.8 percent versus what we had forecast at the end of Q4, so it was materially higher. Part of that is a function of the suites that actually did turn versus what our forecast had been, so it was stronger than what we had expected. We ended the quarter, Q3, with an expectation of 10.7 percent gain-to-lease, and the early indications of what we've actually achieved in April are entirely consistent with that estimate. So we're realizing in April what level's consistent with the forecast from the end of March.

April's tracking very well, not just on gain-to-lease, but demand. Our focus is on downtown Ottawa, filling some of that white space that we suffered from the shutdowns. The city streets, in many cases, remain shut. We did have another protest roll through last weekend, so hoping that we can get through some of these disturbances and sort of return to some sense of normalcy in downtown Ottawa, in terms of street closures and disruptions.

Other areas of focus for us, Rockhill in Montreal and Edmonton but, generally speaking, yeah. I mean that's what's really buoying our optimism, is what we're seeing in the leasing offices from a demand perspective, and the early indications as well, for move-ins versus move-outs, is also strongly positive in April, so. April is a strong leasing month, perhaps our second-best leasing month traditionally in the year, after September. And certainly, the early indications are for a good Q2 from a leasing perspective.

Matt Kornack

And from an occupancy standpoint, was the sequential pullback mostly related to the issues in Ottawa? Or was there anything else there? Obviously, seasonally, it's slow, but was that responsible for the pullback in occupancy?

Michael Waters

It was—I mean, we had two properties there that are right across the street from each other, 185 and The Carlisle, and they've literally straddled the security cordon and so, for tenants or folks looking to move in, it was incredibly difficult to access those buildings. The smell of diesel hung in the air, a constant blaring of horns, and we did see fairly significant sequential decreases in vacancy at 185 and The Carlisle from the end of Q4 to where we ended up in Q1, and that was entirely due to that. And so, when you think about those 600 suites, they did have an impact in the sequential overall portfolio occupancy.

The good news is, is that we've got renovated suites available. We're starting to see some movement, and we are seeing improvement in occupancy. But certainly, the occupation did not help us in Q1, and that was not anticipated in our thinking about how—late last year, how we were looking at the Ottawa market.

Matt Kornack

Okay. Fair enough. And then on the incentives front, it sounds like you're not giving incentives in Ottawa and Toronto anymore. Calgary, obviously, it's part of the market and funnelling through. But are you still giving select incentives in Montreal? Or is that a market that you're seeing get back to normal as well?

Michael Waters

I would say we're very tactical across markets. I mean, in some buildings and some suite plans where there is availability, we're applying it. But I would say, if Q1 2021 was a carpet-bomb approach to discounts across the portfolio, given how weak market conditions were, now, it's kind of a sniper approach, looking in building rent rolls and stacking plans for certain views, certain plans. Where there's availability, we're applying discounts sort of judiciously.

And I think it also varies based on where you are in the year. In many ways, it's preferable to carry a little bit of vacancy as you head into April versus heading into November, let's say. So you wouldn't want to carry—or you'd want to minimize the vacancy you're carrying in November, but as you head into the best—

Matt Kornack

Mm-hmm.

Michael Waters

—or second-best leasing month of the year in April, you probably want to have a little bit of availability. So we are pushing rents, conversely, in plans where there's very low availability or properties where there's very low availability. So we're seeing pricing power return as the white space on the rent roll shrinks or disappears.

Matt Kornack

Makes sense. And last one for me just on the cost side. It sounds like you're focused on that. But are there opportunities, I guess, to streamline things? Or where do you see the ability to kind of rein in your controllable costs? Or should we just expect limited growth from this point then?

Michael Waters

Well, I mean one thing is it's sort of hard to look at a full year based on Q1. Q1 is easily your slowest profitability quarter just because your use of heating is the highest. And we did have this confounding impact, not only of a colder winter than the year before, so using relatively more gas, but just the surge in gas prices did have that very significant impact.

I mean, where we are looking at, really, is everywhere in the controllable cost category. We're also looking at new capital programs on the energy side, investments in energy-reducing technology or investments with higher gas prices. Those that were marginal ROI projects suddenly become, I think, very good projects, so we're looking at that.

We're also looking at other areas, leveraging relationships to mitigate some of the contracts increases in things like waste and other areas. G&A is another area from the perspective of consultants and other things. So we're looking really across the board at managing it. It's challenging in an inflationary environment, of course, but we're pulling out all the stops.

Matt Kornack

Okay. Sounds good. Thanks for the update.

Michael Waters

Thanks, Matt.

Operator

Your next question will come from Jimmy Chen with RBC Capital Markets. Please go ahead.

Jimmy Chen — RBC Capital Markets

Thanks. Yeah. Just two questions for me. If I could go back to Niagara West, how did you underwrite the asset in terms of growth potential? Maybe more to the point, like what made it compelling for you to go ahead with this deal despite what looks to be reasonably skinny economics? Especially in the higher interest rate?

Michael Waters

Yeah. So firstly, maybe, I'll just tackle the timing issue. This asset and The International were both held in a private equity fund that had reached the extent of its investment period, if you will. Both assets had stabilized in the last quarter of 2021. We completed construction at 39 Niagara in—really, over the 18 months following, worked through the lease-up. The International conversion work completed around the same time frame and, again, the lease-up there in that building sort of reached—we reached 99 percent occupancy, I guess, in Q4. So we had fairly limited potential to extend the disposition of the assets from those private equity funds.

If we could have pushed them out farther, we absolutely would have, looking for higher unit prices to reduce the impact of the dilution. But notwithstanding all of that, we went into it with our eyes wide-open because we think both of these assets have higher, much higher-than-average NOI growth profile. Firstly, neither one of them is subject to rent control. Obviously, The International, Alberta, there is no rent control regimes. Thirty-Nine Niagara, being one of the buildings delivered or occupied post November 2018, is not subject to rent control. And those are a very rare beast indeed, difficult to find.

When you look at the valuation the REIT paid for that asset, the res cap rate would have been in the low 3s percent, the commercial component, of course, in the mid-4s percent. That was based on two appraisals. I think that if it was actually exposed to the market, the valuation would have been fair higher, possibly in the high 2s percent, 2.75 percent CAP rate on the residential component, for example.

So I mean, both of those assets just from a location perspective, the fact that they're not subject to rent control, significant investments made in The International, obviously, 39 Niagara is loaded with prop tech. And from an operating perspective, the operating margin on 39 Niagara would be very high; it would start with a 7 percent. And so as you do see revenue growth there, because we are able to reprice renewals to market, I think it, from an operating leverage perspective, will be very substantial.

So on balance, we looked at all of those factors and said these two assets, perhaps not in the near term, but in the near to medium term, will be very significant attributes for REIT unitholders in terms of their NOI growth profile. So from our perspective, in the medium to long term, these will be jewels in the crown of the REIT portfolio, and that's how we underwrote them.

Jimmy Chen

Okay. Thank you. And then the other question I had was, has CMHC underwriting standard changed at all with the rate increase in how they—whether it's a loan-to-value cap rate in how they look at assets?

Michael Waters

I think, at this stage, it's too early to say. We haven't seen any indication of that. Traditionally, CMHC valuations have been quite a bit lower than market or appraised values. Their cap rates, typically, have traditionally been quite a bit higher. And they look at things like—debt service coverage ratio is actually usually the gating factor. So that could be impacted, as opposed to loan to value; I think it's more debt service coverage ratio.

Jimmy Chen

Okay. Okay. Thank you.

Michael Waters

Thanks.

Operator

Your next question will come from Mario Saric with Scotiabank. Please go ahead.

Mario Saric — Scotiabank

Hi. Yeah. Good morning and thank you for taking the question.

I wanted to start off on the operational side. Can you provide us with the total incentive amortization recorded during the quarter? And kind of the pace that you think that'll kind of trend lower at over time, over the next two, three quarters in '22?

Michael Waters

Thanks, Mario. So you said the total promotion—I missed your next word. Sorry.

Mario Saric

Yeah. So like the deduction against revenue this quarter in terms of the amortization of previously provided incentives.

Michael Waters

Yeah. So we don't typically break that out but this quarter, it would've been between $700,000 and $800,000. So that's representing the amortization of incentives granted over the previous four quarters.

And just for reference, the amortization expense for promotions would've peaked in Q3 of last year, and we're forecasting they will continue to fall because, really, the peak application of incentives and promotions was Q1 and Q2 of last year, particularly Q1 of last year.

Mario Saric

Got it. Okay. Yeah. No. That's helpful. And then in terms of occupancy, is it still your expectation to hit 96 percent to 97 percent in '22? And is that more of a—kind of a Q3, Q2 event? Or do you think you can hold at that level by the end of the year?

Michael Waters

I mean Q2 is the key leasing quarter, obviously and, as I mentioned, the earlier question about April's results and the net move-ins and move-outs. So leasing, obviously, is a leading indicator of move-ins. And we had strong move-ins in the quarter that were in line with our internal forecast, and the leasing activity was strong.

So our expectation, as I've said at the end of the Q4, when we did our Q4 earnings call, was that we would return to something like full occupancy, from our perspective, in the 97s percent by Q3. So I expect we'll see strong improvement in Q2, with the spring leasing season sort of getting to that 97 percent-plus range in Q3 and possibly see it climb further in Q4.

Mario Saric

Perfect. Okay. So no significant change on that front. I wanted to also touch on your estimated market rent, which was up pretty significantly, 4.5 percent, quarter over quarter; think that was the largest increase during the pandemic, including 6 percent in Toronto. Now can you provide a bit more colour on kind of the internal estimation process there?

And is—like the 4.5 percent, is it essentially a bit of a catch-up from prior quarters where you didn't feel kind of as confident? Even though you saw on the ground that rents were moving up, you didn't feel as confident in terms of disclosing those? Or is the 4.5 percent kind of legitimately what's happened in the last three months in terms of where you think market rents are today?

Michael Waters

Well, so two things. First, I'll speak to methodology. When we measure or develop our estimate at the end of each quarter, it's based on a plan-by-plan analysis of sitting rent versus the market rent for that specific plan. So we would go through the stacking plan of every single building. And the estimate of the market rent is based on the last actual rent that we achieved for that suite.

So as I pointed out in the past, Mario, it's highly seasonal. As you go into Q1—so the end of December, typically, is you're heading into January, not a high leasing month. And so, typically, our estimates of what we're looking at from a market rent potential tends to be a little bit lower. And then as you go into the spring leasing season, and demand rises, and conversion rates improve, we would tend to see that number rise.

So there would be a bit of a sine wave-type function holding acquisitions and everything else constant for your estimate of market rents. Right? Obviously, it's low in Q1, rising in Q2, Q3, dropping again in Q4.

What made it difficult at the end of Q4 to estimate and come up with that 6.8 percent is we were already in Omicron because those shutdowns, really, began the middle of December. And we had some difficulty in coming up with, truly, an estimate of market rents. Because of the shutdowns, there was some uncertainty.

And then, obviously, as we got through the end of January, we saw the actual conversion rate, what we actually realized, 10.8 percent, was stronger than we had—maybe we'd been a little too conservative in our estimates at the end of Q4.

What we saw in April, as I mentioned, was the realized gain-to-lease was exactly in line with our estimates at the end of Q1. So the early signs, at least, are that Q2 is playing out very consistent with our expectations at the end of March. So that's the hope, and that's the expectation now, based on the data that we have.

Mario Saric

And when you're shopping your competitors as part of your process, I mean are you seeing your competitor buildings inching up asking rents as well?

Michael Waters

Yeah. So how we do it is, on a building-by-building basis, we look at the competitive set, which usually is purpose-built rental but, in some cases, would include condo rentals. And what we are seeing is that generally, yes, we are seeing rents edging up.

There are specific considerations in each market, of course, and so we look at that. But generally speaking, as a broad statement, yes, we're seeing those market rents go up. And that's part of what's contributing to our sense of optimism around the growth in the market rent.

Mario Saric

Okay. And then maybe shifting gears just to capital allocation that's been touched on a bit during the call. But we're not used to seeing the REIT sector sell off like it has in the past couple of weeks. How does that change your capital allocation priorities, if at all? I mean, and when you look into the next six to nine months, does it make you think more about unit buybacks, even though the intention is to grow the REIT over time? Like how responsive, as a management team or as a company, are you to these kind of admittedly shorter-term fluctuations in cost of capital, in terms of weighing out your capital allocation decisions over the next couple years?

Michael Waters

Yeah. So I mean we obviously are tracking the unit price for ourselves and our peers and watching capital markets activity from an equity rates perspective. And certainly, there's been of couple data points—not a lot, but a couple data points on that front.

Obviously, for us, trading at a 20 percent to 25 percent discount to NAV is unusual. We're not expecting it to endure but, certainly, for the time being, our focus from a capital allocation perspective remains, as I said earlier, on the value-add capital that we can deploy in the portfolio. It's our single-highest and best use from a risk-adjusted basis, with the limitation we can only deploy a limited amount because we're gated by the turnover of unrenovated suites, so.

And then we'd look at other opportunities. Obviously, the development pipeline, Leslie/York Mills and Richgrove, we're committed on those. We're under construction. But they're largely self-funding at this stage. Certainly, Richgrove, it's begun its first draw on a cost-to-complete funding basis. It's not requiring a lot of more REIT capital at this stage. The construction draw is now funding that. Leslie/York Mills, as we indicated, probably roughly $10 million of capital to get to that equity requirement that we have in the construction facility there.

The CVL programs, as we've talked about, that we've committed, some of them are fully drawn. Fifth + Bank, for example, is fully drawn. Our expectation, assuming the REIT that they will exercise the option to acquire the asset, would be minimal equity outlay to acquire that building.

And so those would be the big sort of ones that are committed today and over which we have visibility. And based on our liquidity situation right now, our outlook is that we have more than sufficient liquidity to handle all of those commitments.

We do get questions about how would we fund growth. We did talk, as I mentioned with an earlier caller, about possibly recycling capital. Of course, in the past, we've also leveraged joint ventures with institutional investors if there were opportunities that made sense.

We do get the question regularly about NCIBs and share buybacks. And certainly, for us, it's a bit of suck and blow because we also get questions about—or one of the biggest issues we have with some investors is the small size of our float. And so, obviously, an NCIB would work against that, so. And the impact, of course, at our volume it's relatively minimal impact. And of course, it would negatively impact our leverage as well.

So at a high level, I guess that's kind of sort of how we're looking at it. Globally, the commitments that we have, future sources of capital beyond a bought deal, which the window seems to be shut right now, and then this notion of share buyback.

Mario Saric

Okay. I guess I'm asking the question in relation to maybe to Fifth + Bank in terms of it's a good point that the equity's kind of already in the asset, so it's not a big capital outlay. But kind of consistent with Jimmy's question on 39 Niagara where the acquisition cap-rate spread is pretty skinny, presumably it could be a bit better on Fifth + Bank because the cap rates in Calgary are a bit higher than they are in downtown Toronto.

I was just curious in terms of how you think about acquiring assets at tighter acquisition cap-rate spreads versus buying back units at a 25 percent discount where apparently the spread would be higher? And kind of the puts and takes involved in decision-making activity?

Michael Waters

Yeah. I mean, I guess, we look at things like our CVL program where the yield on those is 6 percent to 7 percent through the development stage. If the option's exercised on those, the effective IRR for the REIT is mid teens, which is a really good result from our perspective. We're, I guess, sort of looking at that.

I mean, as we talked about with 39 Niagara and The International, the timing was really not fully within our control. We do think that in the medium to long term, those assets will really reflect an above-average NOI growth profile simply because of the flexibility we have in terms of moving rents as the market continues to strengthen.

You mentioned Fifth + Bank. We're buying that asset when we exercise the option at a 5 percent discount to appraised value. Appraised values there will probably lag true market value. I mean, there just aren't great comps and there's nothing, really, that is selling. Brand-new apartment buildings in Ottawa in a neighbourhood like The Glebe just aren't there.

So we look at it more than just cap rate too, though, Mario. We do look at a multiyear DCF and we layer on NOI growth.

Fifth + Bank, again, like 39 Niagara, would not be subject to rent control, so the profile on that would be very strong. And because it's a new building, the NOI margin there would be quite high. It would be in the 70s percent. And so as you are moving that top line, and you can move it more quickly than a rent-controlled building, it would be disproportionately accretive to the REIT's earnings.

So I don't know if that maybe addresses your question a little better?

Mario Saric

Yep. No, that's great. Thanks, Michael.

Michael Waters

Thanks, Mario.

Operator

Your next question comes from Brad Sturges from Raymond James. Please go ahead.

Brad Sturges

Hi. Just a quick question on Toronto's proposal for increasing development charges. I just wanted to understand, or based on what you understand to date, would that be fully phased in at once? Or do you think that's over a period of time? And then secondly, would that increase potentially be retroactive to current projects under construction?

Michael Waters

That I don’t know. It would be atypical to make them retroactive. Typically, you pay the DCs when you pull the permit. So I’d be shocked if folks had paid it—pulled a permit, paid the DCs, and then the city somehow has the power to go back retroactively and increase the DC levy. That would seem—I would be shocked if that was the case. But to be fair, I have not read the language in the bylaw, so I would need to go back and look.

Suffice it to say, development charges have been growing at a rate substantially higher than inflation over several cycles. They’re typically reviewed on a five-year cycle and so they have been long term running much higher than inflation.

Just to give you a sense, I mean, when we’re underwriting a new development deal, we are using—in our pro formas we’re using what we’re forecasting either in the bylaw or what we’re forecasting for the bylaw that will be in effect when we pull the permit.

In many cases, we’ve been able to accelerate the payment of the DC to lock in that lower rate. In fact, we did that on one of the two projects that we’ve got active in Toronto right now. And it was one example where we moved quickly to pay the DC to make sure that we were protected from increases under the new DC bylaw that was coming into effect.

Brad Sturges

When an increase is implemented, for example in Toronto on a five-year cycle, does that—I guess, does it get phased in over that five-year period? Or would it basically be a full increase once it’s reviewed?

Michael Waters

I mean, I'd have to go back and take a look. I think that it's phased in—or not phased in. I think it kind of hits you all in one throw.

Now there may be some transitory relief, but I don't believe so, Brad. I think you kind of pay the new higher rate. And that's what causes the panic to make sure that everyone's pulling their permit and locking in the DC rate before the new one comes in.

Brad Sturges

Got it. That's helpful. And I'll turn it back. Thanks.

Michael Waters

Yep. Thanks, Brad.

Operator

Your last question comes from Dean Wilkinson with CIBC. Please go ahead.

Dean Wilkinson — CIBC

Thanks. Morning, Michael.

Almost along the lines of Brad's question there, with the rapid increase in DCs, levies, municipal charges, permitting, all the rest of that great stuff, is it possible to actually build affordable housing at these levels? I mean, you look at the 1,000 and so units you've got sort of shovel in the ground, you're probably pushing $700,000 a door on the build-out there. Can you build stuff that would be economic in terms of you've got $1,600 a month, call it $1,800 market rents? Like it just seems something's got to give in that equation. No?

Michael Waters

Well, I could break your question into two, kind of what's in the works now versus a prospective view, let's say. I'll just say when we—before the REIT commits to construction—and that would be true on any of these CDL loans and it would be true on the on-balance sheet deals if you think about Leslie/York Mills and Richgrove—we would not commit to construction until we had tendered 75 percent or more of the construction cost.

And so we have a high degree of visibility on probably the single-biggest chunk of the cost side of the equation. We also, as I've indicated further to the comments from Brad, we would be looking to lock in things like DCs and permit charges and things of that nature. So I think for the projects that we have underway, we have very high visibility and comfort level on those pro formas.

I think, though, your question may be on a prospective basis what does the impact of the rising levies, development charges, permitting fees, the new community benefits charge in Toronto parkland—they're changing how the parkland dedication mechanisms work—and then add on to that the inflation on cost of construction, is that they are conspiring to raise the cost of building new rentals to a level that, I think, is going to make some pro formas difficult to pencil.

So I think if you do have assets already, you're probably finding that the fair value probably lags replacement cost by a fairly wide margin. That was true—that's been true for quite a while, but I think it may even be getting—may be becoming even more extreme now.

Now what we are finding, and I mentioned earlier, there is positive policy that is happening. I mentioned that the City of Toronto Open Doors Program that we're leveraging together with the CMHC/RCFI program for the Richgrove project, that project probably would not have proceeded without the combination of those two programs that really have made the math work and putting our levered IRR into kind of a high-teens territory. Without those things, it would not have penciled.

And I'll also cite, for example, the City of Vancouver grants density bonus for rentals. And so that—kind of programs like that are very helpful. I'm just offering those as a counter to a constant steady drumbeat of DC increases, which runs counter to bringing new housing supply online. And I think that was kind of highlighted by the Ontario Affordable Housing Task Force. Amongst other measures, they cited those things as well.

Dean Wilkinson

Right, I guess. But from a renter's perspective, that which already exists becomes that much more coveted because if I can get into something at 1,600 bucks a month, that's a lot better than $3,200, so.

Michael Waters

Well, absolutely, but I mean there's also material differences in the quality of those assets, right?

Dean Wilkinson

Oh, for sure.

Michael Waters

If you're getting into a 1968 apartment building, you may not have AC; and if you do, maybe it's a window unit. You may not have in-suite laundry. You may not have a balcony. You may have older windows, older kitchen, older bath. And so we—I mean, there is a place for that product because of affordability issues, but we also think there's a place as well for newer product that has more amenities and more condo-like qualities.

And at the end of the day, it's great to own rental because we think that the fundamentals with population growth set to surge and return to levels we saw in 2019 or perhaps higher based on the new higher immigration targets, and the really inelastic housing supply curve, which is exacerbated by some of the points you've cited here in terms of cost pressures from construction, I think if you own rental, you're in a pretty good spot, notwithstanding kind of where the market's view of apartment REITs is right now, but that's a sidebar comment.

Dean Wilkinson

No, that's great. Thanks for that. And I'll try not to take the 1968 vintage as being old and derelict on a personal level because you shot straight at me there. Thanks, guys. I'll hand it back.

Michael Waters

Thanks, Dean. Appreciate the questions.

Operator

Mr. Waters, there are no more questions at this time. Please proceed.

Michael Waters

Okay. Well, thank you, everybody. That concludes our call this morning. Thanks very much for joining us and appreciate your interest in Minto Apartment REIT. We look forward to speaking with you again after we report our Q2 results in 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.