

Minto Apartment Real Estate Investment Trust

Fourth Quarter 2021 Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Anis, and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Minto Apartment REIT Fourth Quarter 2021 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'd like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd 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 the cautionary statements on forward-looking information in the REIT's news release and MD&A dated March 8, 2022, for more information.

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

Mr. Waters, you may begin your conference.

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

Thank you, Anis, and good morning, everyone. I'm Michael Waters, CEO of Minto Apartment REIT, and I'm joined on the call this morning by Julie Morin, our CFO.

I'll begin the call by discussing highlights from the fourth quarter and other corporate developments, Julie will review our financial and operating results in detail, and I'll conclude with our business outlook. After that, we'll be pleased to answer any questions you may have.

Our financial performance improved in the fourth quarter as Canadian urban rental market conditions continued to strengthen. We generated solid growth in occupancy and rental rates even as we reduced the use of discounts and promotions.

We entered into 444 new leases in the quarter, an increase of 9 percent compared to Q4 last year. We realized an average rental gain on turnover of 7.2 percent, significantly higher than the 4.4 percent gain-to-lease we generated in the third quarter of 2021 and the 2.1 percent gain-to-lease we generated in Q4 last year.

Average monthly rent was \$1,641, a year-over-year increase of 1.1 percent. But when you exclude the acquisition of Le Hill-Park, which closed on December 7, 2021, average monthly rent would have been \$1,664, a year-over-year increase of 2.5 percent.

We didn't provide same-property information this quarter as Le Hill-Park was only included in the results for 25 days and this wasn't considered material. Total portfolio and same-property portfolio results were substantially the same. However, starting in Q1 2022, we'll be reporting both the total portfolio and the same-property portfolio.

Our average occupancy in the quarter was 95.0 percent, the highest level we've achieved since Q2 of 2020, which was the early stages of the pandemic. In comparison, average occupancy was 92.9 percent in Q3 2021 and 92.3 percent in Q4 2020. So I'm pleased to note that this was the third consecutive sequential quarter in which move-ins exceeded move-outs and occupancy improved.

Supported by these positive developments, in the fourth quarter we generated year-over-year growth of 5.2 percent in net operating income and 6.7 percent in AFFO per unit.

During the quarter, our Board of Trustees also approved a 4.4 percent increase in monthly cash distributions. The increase took effect beginning with our November distribution payable in December. This was the third consecutive annual increase in distributions since the REIT's inception, two of which came during the pandemic. We're determined to steadily increase unitholder distributions as AFFO rises, while also remaining strong liquidity and a conservative balance sheet.

The fourth quarter was also a busy period from a growth standpoint. We committed to provide a convertible development loan of up to \$19.7 million for the development of a new six-storey mixed-use multi-residential and commercial property at 810 Kingsway in Vancouver.

We completed the previously announced acquisition of Le Hill-Park in Montreal for approximately \$80.1 million. It's a high-quality 261-suite rental property located in close proximity to our other Montreal locations.

We commenced construction on new buildings at the Richgrove and Leslie/York Mills properties in Toronto. These will increase our suite count by a combined 417 suites. And we completed an \$87 million bought deal offering of trust units. Proceeds were used to assist in the funding of the acquisition of Le Hill-Park and our convertible development loans and also to provide financial capacity to support future acquisitions.

Finally, we continue to make progress in our repositioning program. We completed the renovation of 113 suites during Q4 to improve asset quality, reduce future repair costs, and drive strong growth in rental revenue. For the full year, we repositioned 367 suites.

I'm pleased that we ended 2021 on a strong note. The last two years have been characterized by volatile markets resulting from pandemic-induced changes in work and lifestyle conditions. What we're seeing now is a steady return to more normalized market conditions. We're well positioned to generate continued improvement in financial performance and to capitalize on new growth opportunities as market conditions continue to recover.

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

Julie?

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

Thank you, Michael. Turning to Slide 4, I'll start by reviewing the Q4 operating results.

We reported revenue, excluding furnished suites, of \$30.3 million in Q4 2021, an increase of 4.7 percent compared to \$29 million in Q4 last year. The increase was mainly due to higher occupancy and average rent.

Total revenue including furnished suites was \$32.4 million, an increase of 4.8 percent compared to Q4 last year, reflecting higher rents and occupancy for both furnished and unfurnished suites.

NOI, excluding furnished suites, in the fourth quarter was \$18.8 million, or 62.1 percent of revenue, an increase of 4.6 percent compared to \$18 million, or 62.2 percent of revenue in Q4 last year. Total NOI including, furnished suites, was \$19.9 million, or 61.5 percent of revenue, an increase of 5.2 percent from \$18.9 million, or 61.3 percent of revenue in Q4 last year.

Higher NOI in Q4 2021 mainly reflected higher revenue due to improved occupancy and rental rates, partially offset by higher property taxes and utilities expense.

FFO in Q4 2021 increased 10.2 percent year over year to \$13.2 million compared to \$12 million last year, mainly due to the positive NOI variance. AFFO increased to 11.4 percent to \$11.7 million, or \$0.189 per unit from \$10.5 million, or \$0.177 per unit last year. Higher AFFO primarily reflected the higher FFO, partially offset by an increase in the maintenance capital expenditure reserve.

The REIT declared cash distributions in the fourth quarter of \$0.1171 per unit, resulting in an AFFO payout ratio of 63.1 percent. Cash distributions of \$0.1138 per unit were declared in Q4 last year, resulting in an AFFO payout ratio of 64.2 percent.

As Michael noted, we increased our monthly distribution beginning with the November 2021 payment.

At the end of 2021, our portfolio consisted of 7,538 suites with an average monthly rent of \$1,641 per occupied unfurnished suite. Average monthly rent increased by \$18, or 1.1 percent compared to \$1,623 at the end of 2020. The average occupancy rate in Q4 2021 increased to 95 percent compared to 92.3 percent in Q4 last year.

Turning to Slide 5. This chart highlights our steady quarter-over-quarter growth, and occupancy of urban rental market conditions improved over the course of 2021. In the fourth quarter, we had 514 move-ins versus 420 move-outs for 94 net move-ins. It was the third straight quarter with positive net move-ins.

Accordingly, occupancy increased from approximately 91.1 percent in the first quarter to 95 percent in the fourth quarter. While Q4 occupancy is still lower than pre-pandemic levels, it represents a strong improvement in a relatively short period of time.

On Slide 6, we have provided our revenue analysis as of the end of 2021. The upper chart breaks down our gain-to-lease performance in the fourth quarter, while the lower chart shows our estimate of the gain-to-lease potential imbedded in the portfolio.

Beginning with the upper chart, as Michael noted, we funded 444 new leases in the quarter following suite turnover. This was a 9 percent improvement compared to Q4 last year. We generated solid gain-to-lease in all of our markets.

The average rent on new leases increased by 7.2 percent from \$1,652 to \$1,770. This resulted in an annualized incremental revenue gain of approximately \$472,000.

Turning to the gain-to-lease potential on the lower chart. We believe we can generate approximately \$7.9 million of annualized incremental revenue growth by bringing rents in 6,991 occupied suites to market level. We expect to realize a significant portion of this potential over the next three to five years. By comparison, we estimated a gain-to-lease potential of \$7.3 million at the end of the third quarter.

Turning to Slide 7. The upper chart tracks our gain-to-lease and average monthly rent growth on a quarterly basis. Gain-to-lease remains highly positive, with room to improve to pre-pandemic levels and we have generated steady growth in average monthly rent.

You will note on the upper right section of the chart that there was a slight decline in average monthly rent in Q4 2021 relative to Q3. This reflected the acquisition of Le Hill-Park, which has sitting rents that are below the portfolio average. On a same-property basis that excludes Le Hill-Park, average monthly rent continued to rise in the fourth quarter. On the lower chart, we break out our rents by geography as at the end of 2021.

Moving to Slide 8. I want to provide an update on our furnished suite portfolio. Our furnished suites were severely impacted by the drop in distance travel associated with the pandemic. But the recovery over the course of 2021 was impressive as market conditions improved.

As the chart shows, we generated substantial growth in rental rates and occupancy beginning in the second quarter. Average monthly rent in the fourth quarter was \$4,078, while average occupancy exceeded 80 percent for the second straight quarter.

We are continuing to trim the furnished suite inventory by converting furnished suites to unfurnished and leasing them out on that basis. We had a total of 203 furnished suites at the end of 2021, a decline of more than 20 percent from two years earlier.

On Slide 9, you'll find a summary of our repositioning activities. We renovated and leased a total of 113 suites in the fourth quarter, or 85 of the REIT's proportionate ownership share. The average cost per renovation was approximately \$47,400 per suite. The average annual rental increase following the repositioning was \$4,475 per suite, which generated a simple return on investment of 9.4 percent.

In total, we have 2,350 remaining suites to reposition under the current program. We are also exploring repositioning opportunities at two other wholly owned properties in the portfolio. Combined, they have more than 400 suites with repositioning potential. We expect to reposition approximately 250 to 300 suites in 2022, subject to turnover.

On Slide 10, you can see our repositioning results for the full year. We renovated a total of 367 suites in 2021, which exceeded our expectations. This chart highlights the strong predictable returns on invested capital that we generate from repositioning.

During 2021, our average annual unlevered return was between 8.4 percent and 9.4 percent per quarter, with an overall average of 9.1 percent. As we've said before, repositioning represents the best risk return of any of our investment optioning. It will continue to be a major priority for us moving forward.

Now I'll move on to our intensification and development initiatives beginning on Slide 11. Through our strategic alliance with the Minto Group, we're advancing seven different development projects with the potential to add 1,678 new suites to the portfolio or 1,176 suites at the REIT's proportionate share. That would bring our total suite count to 9,216, up 22 percent from the current level.

During the fourth quarter, we made an initial advance of \$10.3 million on the convertible development loan for the 810 Kingsway project in Vancouver. We began demolition and site mobilization at both the Richgrove and Leslie/York Mill properties in Toronto, and we also obtained a construction financing commitment for Richgrove under CMHC's Rental Construction Financing Initiative.

Note that of our seven total developments, six projects totalling 916 suites are now in the active development stage.

I'll now review individual projects in more detail beginning with 810 Kingsway on Slide 12. As we announced on December 1st, we agreed to provide a convertible development loan of up to \$19.7 million to finance Minto's properties 85 percent interest in a joint venture for the development of this project. This is our second property development deal in the greater Vancouver area after Lonsdale Square, which I will discuss shortly. The financing bears interest of 6 percent per annum and matures on August 1, 2024.

810 Kingsway is expected to comprise 108 unfurnished rental suites, as well as approximately 11,500 square feet of at-grade retail space. The conceptual images on this slide give you a good sense of what it's going to look like.

Site mobilization and demolition has commenced, and the project is expected to be completed and stabilized in Q3 of 2024. At that point, we'll have the option to purchase Minto property's 85 percent stake at a 5 percent discount to its then appraised value.

Slide 13 shows the locations of 810 Kingsway and Lonsdale Square in Vancouver and North Vancouver, respectively. Expanding into the greater Vancouver area has been one of our key priorities since the inception of the REIT. Development of these two attractive urban infill projects gives us the ability to secure quality assets in Vancouver's highly competitive rental housing market.

Moving to Lonsdale Square on Slide 14. The photo on the right of the slide shows the good progress that's being made here. Excavation is complete and formwork is well underway. Concrete has been poured at the P1 basement level. Construction is expected to be completed by the second quarter of 2023, with property stabilization in the fourth quarter of that year.

As a reminder, Lonsdale Square is part of a large master plan community on a 99-year land lease with the City of North Vancouver. The building is expected to comprise 113 rental suites and approximately 8,000 square feet of retail space. The REIT provided financing to this project through a convertible development loan and has the option to purchase this project upon stabilization at a 5 percent discount to its then appraised fair market value.

Turning to Richgrove on Slide 15. As I noted, construction got underway in the fourth quarter. We are taking advantage of excess land on this site to add a new rental tower with 225 suites, including 100 affordable housing suites and 200—sorry about that. Stabilization is expected in the first quarter of 2026. One reason this property is attractive is that it is adjacent to the site of the future Martin Grove LRT station, which is expected to be completed by 2031.

Moving to Leslie/York Mills on Slide 16. Construction also commenced here in the fourth quarter, with demolition and site preparation underway. Currently, this site has three 18-storey towers. We are planning to develop 192 new ground-oriented rental carriage (phon) suites, as well as a host of new amenities and a new underground parking garage. The large conceptual image on the left shows how this will significantly transform the existing site. Stabilization of this project is expected in late 2025.

Turning to Slide 17. I have a brief update on the Fifth + Bank REIT development in the heart of Ottawa's Glebe neighbourhood. This mixed-use, multi-residential, and retail property is financed through convertible development loan from the REIT and is very near completion. Currently, 96 of the 163 suites have been leased and more than 50 are already occupied. Stabilization is expected in mid-2022, at which point we will have the ability to exercise our purchase option to acquire the property at a 5 percent discount to its then appraised fair market value.

Finally, I'd like to review our debt financing and liquidity on Slide 18. We are committed to maintaining a conservative leverage ratio and balance in our debt maturity schedule. The chart demonstrates that maturities are highly manageable through 2026. As of December 31, 2021, the weighted average term to maturity on our fixed rate debt was 4.69 years with a weighted average interest rate of 2.82 percent. Approximately 94.2 percent of our debt is fixed rate and 72 percent is CMHC insured. Our total liquidity was approximately \$151 million at year-end and debt to gross book value was 36.5 percent.

I'll now turn it back over to Michael.

Michael?

Michael Waters

Thanks, Julie. Sorry, I've been only living through COVID for two years and still doing the mute thing. I'll wrap up with our business outlook on Slide 19 before we take your questions.

The pandemic continued to impact us during 2021, but as you saw from our presentation this morning, our financial and operating performance improved steadily over the course of the year as urban rental market conditions recovered.

Throughout the pandemic, we've adapted and executed on our strategic plan to grow the business and build value for unitholders. We'll continue to do so in 2022 and beyond.

It's important to remember that the long-term fundamentals supporting Canadian urban rental housing have not changed despite the short-term disruptions caused by COVID-19. Our market is supported by population growth, including high levels of immigration, the rising affordability gap between owning and renting a home, and constraints on new housing supply amongst other factors.

We're optimistic that the market recovery will accelerate in the coming quarters, driving continued growth in occupancy and rental rates. By the middle of 2022, we anticipate that market dynamics will have returned to pre-pandemic levels. However, COVID-19 has proven to be unpredictable and it's possible that future variants, such as Omicron, could disrupt the recovery in the short term. With our strong liquidity position and conservative balance sheet, we believe we're well positioned to manage any potential market volatility.

To conclude, I want to reiterate that we have the right team, the right assets, and the right strategy for long-term success. They've served us well to date and we're confident they'll continue to do so in the months ahead.

We remain focused on four key areas to grow the REIT. First, the capitalizing on organic growth through gain-to-lease; second, creating value from suite repositioning; third, exploring attractive acquisitions and developments; and fourth, capitalizing on our relationship with the Minto Group.

As Julie pointed out, we currently have six active development projects and we're partnering with Minto Group on all of them. The Minto Group is the development and construction manager on four of the projects and is developing or codeveloping all of the projects financed with convertible development loans. This underlines the value of that relationship.

By continuing to focus on these four business priorities, we're confident that we will deliver significant value to unitholders as market conditions continue to improve.

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

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now conduct the question-and-answer session. If you would like to ask a question, please press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press *, 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Jonathan Kelcher with TD Securities. Please go ahead.

Jonathan Kelcher — TD Securities

Thanks. Good morning.

Michael Waters

Hey, Jonathan.

Jonathan Kelcher

First question just on the occupancy. It came back nicely in the quarter; Q1 seasonally weaker. How should we expect that to trend over the course of 2022?

Michael Waters

Yeah. So we did see a slightly slower January and then things sort of returning to kind of a normal seasonal pattern after really two years of kind of disrupted seasonality. So we're expecting that the strong leasing season in Q2 and Q3 we'll see a real move in occupancy from where we're at now to sort of kind of what we would consider to be our kind of pre-pandemic normal in the high 90s, sort of 96, 97 kind of range.

So that's kind of how we're looking at it. Certainly the patterns that are developing thus far are kind of supporting that.

Jonathan Kelcher

Okay. And as it ticks up, do you expect that to have any impact on the mark to market? The 7 percent seems conservative to me.

Michael Waters

I would expect that as we get into Q2 and Q3 that we'll see that continue to strengthen. My hope is that we'll see a return to kind of where we were pre-COVID, which was low double digits, but I think that would be something that we would expect in Q2 or Q3.

Jonathan Kelcher

Okay. And then just lastly on the repositioning. You're targeting 250 to 300 and that's down from 367 this year. Is that just a function of your expectation of turnover in those suites?

Michael Waters

Yeah. It is. I mean, the gating item for us on the repositioning program is turnover of unrenovated suites and so it's not always predictable with a great precision. What I can say is the Q1 repositioning is tracking ahead of where we were Q1 of 2021. So that's encouraging, but that is the limiting factor is turnover of unrenovated suites.

Jonathan Kelcher

Okay. Thanks. I'll turn it back.

Michael Waters

Great. Thanks, Jonathan.

Operator

Thank you. Ladies and gentlemen, as a reminder if you have any questions, please press *, 1.

Your next question comes from Jimmy Chen with RBC. Please go ahead.

Jimmy Chen — RBC

Thanks. Just a couple of quick ones for me. Do you keep stats on rent to income ratio for your tenant base? And what would that look like today?

Michael Waters

So when we're qualifying a prospect for a lease, we would do income confirmation validation. But there isn't an ongoing sort of income verification requirement. So we really have our best picture at the time that the tenant signs the new lease. And our internal threshold is 30 percent. We want to see income sufficient such that rents don't exceed 30 percent. And typically what I would say is that our tenant prospects that are signing leases are below that level and comfortably so.

So that's really the best stat that I can offer, Jimmy.

Jimmy Chen

Okay. Okay. And then maybe to Jonathan's point in terms of the market rent trends you're seeing in the different markets that you operate in, we've seen condo rents snap back quite nicely over the last few months. And so, again, just sort of any indication of what you're seeing in terms of how the market rents are trending in the market that you operate.

Michael Waters

Yeah. So condo rents, certainly in Toronto, were leading indicators. Certainly they fell first and they fell most at the onset of the pandemic, if you remember back in early mid-2020. Certainly they have snapped back. And what we've seen, and we sort of highlighted this really beginning in Q2 but continuing through the second half of the year and certainly in Q4, was that we've been reducing the use of discounts and promos that we'd been offering. And that, I think, is generally consistent with what we're seeing broadly in the market.

Where the strongest markets for us really had been in the fourth quarter were Ottawa and Toronto. Toronto was heavily impacted and so it was nice to see the recovery there. I think we're broadly seeing good strength in most of the markets partly driven by kind of a return to workplace. We saw strong temporary student arrivals from an immigration perspective. We're anticipating strong arrivals from an immigration perspective for permanent residents. Certainly the statistics that we saw in the latter part of 2021 were very encouraging.

So from our perspective, the other thing that we point out, Jimmy, is the widening gap between housing affordability and the rental option, which continues to be, we think, by far the most affordable housing option for Canadians. And that gap widened even further in 2021 with just runaway property prices in almost every market.

Jimmy Chen

Okay. And sorry, just one quick follow-up then on the discounts. What is roughly the amount of incentives that's currently baked into the current revenue numbers?

Michael Waters

Well, when you say baked into the current revenue numbers, are you saying what incentives are we offering now?

Jimmy Chen

Yeah. Like if I look at the Q4 revenue run rate, what rough percentage of that would be incentives?

Michael Waters

I would say that we'd be in the range of about if you thought about it in terms of number of months rent, it would be in the range of sort of 0.3, if you will, months rent on average. That's what we were sort of looking at on a weighted basis in sort of the latter part of 2021. That's what we were sort of using. And that's an average across the portfolio, Jimmy. In many properties where we had very limited availability, there was no discounting and no incentives being offered. In other places, we were using incentives and promotions strategically.

So I don't know if that helps add some colour to that.

Jimmy Chen

Yeah. It does. Okay. Thank you, guys.

Michael Waters

Thanks, Jimmy.

Operator

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

Matt Kornack — National Bank

Hi, guys.

Michael Waters

Matt.

Matt Kornack

On the furnished suite front, occupancy was down a little bit sequentially, but obviously we had Omicron. Can you give us a sense as to how you think that trends through kind of the first half of the year? And does it exhibit similar-type restraints through the back half of the year?

Michael Waters

Well, firstly this segment, one, is very small as a proportion of our total business, just 203 suites out of more than 7,000. I know it garners a lot of attention; probably out of scale with what it represents.

It is and always has been a more volatile segment from an occupancy perspective. And what we saw certainly beginning in Q2, but really strongly in Q3 and Q4, we saw stronger demand. Our occupancy for the last two quarters has been over 80 percent and rents were up higher. But that segment is sort of always changing, depending on business mix. It is seasonal. I will say that, particularly in Toronto historically in the past, our 61 Yorkville property has had a heavy entertainment segment and that tends to be quite seasonal. What we've seen recently is it's become increasingly transient.

In Ottawa, our 185 Lyon property, which is right downtown very close to Parliament, traditionally had a very strong government segment. Transient and corporate were kind of rounding out the business mix there. What we did see in Q1 is there was some impact due to the restrictions in January arising from Omicron. That tended to alleviate as we've seen the quarter progress.

So it's really hard to say with precision kind of where Q1 or Q2 will play out. As I say, we continue to trim inventories there. Our target, which we articulated last year, early in 2021, was to sort of bring our overall inventory in the furnished suites segment into the sort of low to mid 180-suites range. That helps us actually provide a little bit more yield management there in that segment as well.

Matt Kornack

Fair enough. And then looking at the US, Sunbelt in particular, it's a market with similar, but maybe not as strong demographic trends as Canada and the ability to supply easier than we are here, and yet rent spreads have grown in a market like Austin to plus 30 percent. Do you think—I mean, we were talking about getting back to pre-pandemic levels on the leasing front in Canada, but is there the possibility that actually things are a lot more frothy post-pandemic in Canada given, again, very strong demographics and limited new supply of housing?

Michael Waters

Well, yeah. And I think that's a good point, Matt. I mean, the underlying fundamental dynamics in the housing market and I'm talking about for sale and for rent that existed pre-COVID didn't go away just because of COVID. They may have been temporarily disguised, if you will, but those underlying trends are coming back.

And the first one is very strong population growth driven by immigration. And what we've seen during COVID was the federal government reiterating and really doubling down on a very expansive immigration policy, setting targets well in excess of 400,000 for each of the next three years. And that would bring us to levels we hadn't seen since 1913, if you can believe that.

And what we've seen from that perspective, we know that immigrants tend to rent their first home in Canada, typically until they've established credit history and employment. They tend to cluster

in major centres where our portfolio is focused. And what we do know as well is that these immigrants are good for the economy. They tend to be more highly educated. They tend to start businesses at a higher rate.

And so these are fundamentally good things for the Canadian economy, but in the short term from a housing market perspective, or maybe even the medium term, we simply are not as an economy producing enough housing. If you go back over 20 years of data back to 2000, what you'll see is Canada on average is producing about something like 200,000 new homes of all types every year. At the same time, average household size continues to drop lower and lower. And so we need more houses per capita to house the population growth that Canada's experiencing.

And those fundamentals, that supply/demand mismatch, not surprisingly coming out in housing prices and we think will drive a resurgence in rents. I think Canadian incomes will probably grow as well. We've seen pressure on wages and other things like that.

So I mean, we're very, very bullish on this. And I think the solutions to the supply conundrum that we face are deep and systemic. And they will take years to fix, if they get fixed. They would require a coordination by multiple levels of government and what we've seen to date is that their policy actions haven't been coordinated; in fact, quite the opposite.

Matt Kornack

Makes sense. And a last one for me. Just on Montreal's relative performance, it was one of your stronger markets this quarter. Mark to market was a little bit weaker, but I think they got disproportionately hit earlier on with Omicron. Should we kind of attribute it to that? Or is there anything specific in the Montreal market that was a little bit weaker quarter over quarter?

Michael Waters

No. Quebec certainly probably had the strongest response, if you will. I mean, I think it was the only market in the country that had curfews. So certainly, I think, it probably was maybe more impacted, temporarily at least.

What we've seen there as well is the amenities in most rental properties were shut down longer. We've been very active on our repositioning program. And I think what you'll see in Q1 is our newest asset, Le Hill-Park, will register a bunch of repositionings as well. And so that's going to help us.

We've had higher vacancy in Montreal due to that repositioning program, which has been so aggressive. We're very bullish on that market. And I think the mark to market for us in Montreal is probably skewed a little bit by Le Hill-Park because when we acquired it in December, the gap between sitting rents and unrenovated market rents was something in the order of 20 percent.

We think that the gain-to-lease for repositioning those unrenovated suites is probably 20 percent again. So I think as we continue to realize on the turnover of unrenovated suites in that property in particular, I think that's going to really help us there as well.

So I think we look at a lot of these markets and we're very bullish. Forget that the compound annual growth rate in Toronto of rent pre-COVID was something like 8.5 percent and I think, like I say, we're looking for sort of a return because I don't see the fundamental underlying changing from where it was pre-COVID.

Matt Kornack

No. Fair enough. My associate, who's sitting across from me, has been trying to find a place to rent and it's been a little bit more challenging in Toronto these days. So appreciate the colour, guys.

Michael Waters

Yeah. No. Great. Thanks, Matt. I appreciate the questions.

Operator

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

Brad Sturges — Raymond James

Hi, there. Just expanding on the repositioning program there. The two assets you're talking about exploring whether or not to add to the program, maybe I missed it, but what assets are you looking at right now within the portfolio?

Michael Waters

So the first one is Castlerview. It's an Ottawa asset. And the second one is a component of our Parkwood Hills portfolio in Ottawa. And they're just going through our normal feasibility analysis.

Brad Sturges

You're going through the assessing process right now and then figuring out whether it makes sense to do more of a full program there?

Michael Waters

Yeah. Correct. I mean, there's lots of opportunity, in particular, at Parkwood Hills. I mean, if you think about that asset, it's a lot of low-rise wood frame and we think there's opportunity there even maybe more broadly from a redevelopment intensification. But just on the repositioning, there's different unit types. There's all sorts of opportunity from a repositioning perspective. And so we're really spending a lot of time on that right now. Our asset team getting into that and working through a bunch of different scenarios.

Brad Sturges

Okay. And then Le Hill-Park, obviously, you identified the mark-to-market opportunity and there's already, I guess, some of the suites renovated there. So you can, I think, based on turnover, you can probably get at that fairly quickly in terms of the renovation or repositioning potential there?

Michael Waters

Yeah. The previous owner had renovated something like 72 suites and actually had done a pretty good job in their execution. The manager of that asset, Cogir, we've retained on a short-term basis. And we've sort of tweaked their program, but really adapted it almost wholesale and continued to just roll straight through that. So we actually had some leasing of renovated suites at Le Hill-Park in December. We don't count those as repositioning until they actually occupy the suite.

So some of the tweaks that we made, like their spec was largely in line. There was a lot of good things done there. So we've made a few minor adjustments, but otherwise I think we'll just keep rolling at Le Hill-Park.

Brad Sturges

Got it. Last question. Just in terms of acquisitions right now, how does the pipeline look? Or the opportunities you're seeing in the market today?

Michael Waters

Well, I think what we're seeing, we continue to spend a lot of time in Toronto, in Montreal, in the greater Vancouver area. There's lots of activity. A lot of what we focus on and, as we've talked about in the past, if they're acquisitions of existing assets we're looking for assets where there is gap to market between the sitting rent role and the unrenovated market rent. We're looking for assets where there is repositioning potentially like Le Hill-Park where we can deploy some value-add capital into amenities, into suites.

We're looking for assets, in particular, where there's intensification potential, maybe excess real estate in the form of surface parking where we can add additional density, as we're doing at Leslie/York Mills and Richgrove. We've become quite expert at that.

The fourth opportunity is development. And you would have seen certainly our market entry strategy into the GVA has been build versus buy. Frankly, we found the buy option in the GVA very challenging. There's very little what I would call institutional-grade product available to purchase. It doesn't trade. And it's really a market characterized, I would say, by small wood-frame, walk-up, dated product that has sort of limited potential, at least to our sort of way of thinking.

So the CDL deals that we saw there, Lonsdale Square Phase 1, the first phase of a three-phase redevelopment project in the Upper Lonsdale node of North Vancouver; 810 Kingsway, the latest deal that we did, which closed in late November of last year, which is an infill development in the Fraserhood area, which is an area that's rapidly transitioning, if we could find more opportunities like that, I think that would be an area that we'd focus on.

We are looking at markets that I would say are near to some of the big six. And by that, I mean places like Hamilton connected with GO train to Toronto and its huge population centre; markets like Victoria with its large student population and proximity to the greater Vancouver area. So we think there's a huge amount of opportunity out there.

We're going to exploit the relationships we have with large institutional investors. That's an opportunity for us to continue to grow as well.

So look for more of that, of course, in 2022.

Brad Sturges

Okay. That's great. I'll turn it back. Thank you.

Michael Waters

Thanks, Brad.

Operator

Thank you. Your next question comes from Mario Saric with Scotiabank. Please go ahead.

Mario Saric — Scotiabank

All right. Thank you, and good morning. Just maybe coming back to the repositioning for the 250 to 300 target for '22. What would that look like on a proportionate basis? And would that include Le Hill-Park or plans at Le Hill-Park?

Michael Waters

So good morning, Mario. It would include Le Hill-Park. And on a proportionate basis, it's sort of hard to say with precision because, of course, the mix will depend on where we're seeing the unrenovated unit turn. But if you think of the assets that are in that program, Leslie/York Mills, High Park Village, these are two of the bigger assets where we don't have 100 percent stake; Rockhill, of course. Those three assets in aggregate have something in the order of 1,550 suites remaining to reposition out of the 2,300. So again, it's really going to depend on where we see that unrenovated suite turnover.

So it's hard to say with precision, Mario, exactly what the effective mix would be. But if you think about where we did the work in 2021, it'd probably be a reasonable proxy for modelling for 2022.

Mario Saric

Okay. Okay. That's helpful. And then just coming back to incentives and to Jimmy's question and also appreciate the colour on the 0.3 months sort of average that you highlighted. Do you have any sense in terms of what percentage ballpark of the buildings or suites are actually offering incentives as of Q4'21?

Michael Waters

It's so variable because we are, as I said in the earlier remarks, it really depends on buildings where we've got white space or availability. In many buildings where we have limited or no availability, it really goes right down to the plan. So certain plans and certain buildings we've got zero availability. So a lot of pricing power, I'm not seeing use of discounts or incentives there. In other cases where we do have availability we are applying it, but really on a tactical basis based on suite type.

The other element I would say, Mario, it is very seasonal. Thinking about the end of Q1, early part of Q2, as you head into the busy leasing season where leasing demand is really strong in the months of April, May, June, if you think about the last month of Q1, you're probably not going to go crazy incentivizing to fill suites when you're going to see strong demand as you get into Q2.

Now contrast that with, say, November. November, late, late in Q4 heading into Q1, which is a lower leasing season demand typically, and I think that's the pattern we've seen, we might be more open to using incentives on a tactical basis. Otherwise, the risk is that you could be sitting on vacant suites for a little bit longer as you head into, like I say, a lower leasing season in December, January, February, March.

So it's quite variable. I hate to give you the nonanswer, but it's hard to say precisely how that will play out in 2022 by property, by market.

Mario Saric

All right. Would it be fair to say that the 0.3 would have been a bit lower in the summer of '21?

Michael Waters

I would say in Q1 of 2021, we saw very heavy use of incentives and promotions. And then where we really changed that and the turning point for us was May of last year. And we really saw that use of promotions thin, not just in our portfolio, but in our competing submarkets, the competing properties

dropped way off. And that trend, certainly in the summer, I'd say July, August, was probably a little bit higher than where we are now. We're lower still than where we were at that point.

Mario Saric

Perfect. Okay. And then switching gears just to the OpEx. It was essentially flat year over year in Q4, the property operating costs. The suite count was up a little bit even if I exclude Le Hill-Park. I'm just curious in terms of whether there was anything unusual timing-wise in terms of recording of expenses? And then secondly, whether you feel comfortable that the amount of R&M required within the portfolio is up to date, notwithstanding perhaps maybe having less access into tenant suites during the pandemic?

Michael Waters

Yeah. So I think one of the drivers for us in Q4 was we did have some vacancies in our headcount. And so that would've artificially depressed salary and wage expense. Q4 was warmer. And so I would say, as well, it got cold in Q1. That might be impacting on the utility expense.

I would say from a repairs and maintenance perspective, we're not really being held back. That wouldn't have been a factor that really played on us in Q4, so I mean, from that perspective. I think what you could see going forward is now the amenities in most properties are going to be unrestricted. And so there could be an operating impact of slightly higher cleaning costs. I think we will fill some of those vacancies in the staffing side.

Looking further ahead, we do think about, and we've talked about this at length, property taxes, insurance. Those are areas where we've seen cost growth. I think, broadly speaking, just thinking about inflation, particularly in energy, those are areas where we see risk as well. So just something to be mindful of from an OpEx perspective looking into 2022.

Notwithstanding that, the expectation of some OpEx growth next year, we think that the combination of improved occupancy, burn off of the amortization of promotion incentives granted in 2021, and higher rate and gain-to-lease and the repositioning programs, we should see revenue growth outpace the OpEx.

Mario Saric

No. That make sense. Okay. My last question is just more of a high-level question. Michael, if you had to pick one or two initiatives in '22 that you're really focused on as an entity, whether it's per unit growth, or capital deployment, or what have you, what would those one or two initiatives be that if you were to achieve them by the end of the year you'd consider the year a success?

Michael Waters

We're very long-term thinkers. These are long-term investments, so we're very focused on long-term value growth in the portfolio. And I would say that adding and improving the portfolio through the convertible development loan program and acquisitions. I think if we are able to exercise the option to purchase Fifth + Bank, for example, if we are able to deploy capital on some new convertible development loan investments, those would be, I think, value drivers for the long term for the portfolio.

I think our repositioning program at a near-term level is always an area of focus for us. It's probably the highest and best use of capital from a risk-adjusted perspective in our portfolio. And so, I mean, for us it improves the attractiveness and value of our properties to tenants and I think it reduces our R&M expense. It drives higher revenues from a rent perspective. I mean, that at a near-term tactical level will always be an area of focus for us.

And we recognize that a lot of these initiatives are dilutive in the short term from an AFFO perspective. Capital that's developing, for example, 192 new suites at L/YM is going to dilute our AFFO.

But long-term value creation focus at that property level, Leslie/York Mills, but more broadly for the REIT's portfolio, I think, outweighs the near-term dilution impact.

Mario Saric

Okay. Thank you.

Michael Waters

Thanks, Mario.

Operator

Thank you. Your next question comes from Mike Markidis with Desjardins. Please go ahead.

Mike Markidis — Desjardins

Thanks for my taking my question. Correct me if I'm wrong. I think you'll probably say, Michael, that the demand for assets in the market certainly hasn't slowed down, but at the same time you've mentioned increased uncertainty with respect to OpEx and potentially with respect to regulatory management. You didn't refer to that, but we all know it's out there and the equity markets are pricing that in to some extent.

So my question would be as an entity or as an organization, when you look at existing assets in the market, has your risk premium, or your underwriting parameters changed at all in the past three to six months?

Michael Waters

I think just turning—let's talk about acquisition of stabilized buildings. I think we're careful in our underwriting. Not just underwriting where we think revenues are and what we might see from a rent growth and turnover perspective, but certainly from an OpEx perspective as well. And I think we are

conscious of the inflationary impact that we're seeing right now in energy and other segments that we've talked about.

I mean, we continue to run scenarios through our underwritings to really evaluate kind of how robust the returns could be if there were cost shocks. I would say that I don't think we've changed the threshold underwriting return requirements, though. I just think we're probably doing a little bit more work from an evaluation and risk mitigation perspective in the underwriting.

On the development side, obviously, Minto Group outside the REIT is very involved in the construction of residential housing in multiple markets across the country. So we have, I think, our finger on the pulse of sort of where we're seeing crate availability and materials costs, where construction costs are headed. We continue to be very conservative on that front and quite cautious in how we risk mitigate.

So again, I don't think that we've changed the underwriting threshold requirements, but probably just doing a lot more work up front in terms of really making sure that our underwritings are as robust as they can be for some of these potential negative impacts on returns from cost inflation.

Mike Markidis

Okay. That's helpful. Thank you. And then the REIT has acquired some assets where there's an institutional partner that was there in the existing ownership structure. And I think, if I remember, for Rockhill you brought in institutional investors, so. And you've got certainly a robust pipeline of near-term and longer-term capital deployment opportunities without third parties just with your relationship with Minto. With the equity markets not necessarily cooperating, have you looked at potentially bringing in a partner on one or two of your existing assets as a source of capital in the near term?

Michael Waters

I mean, we've looked and we continuously look, I guess, at the portfolio and the opportunity to recycle capital, whether it's through sale, or whether we could work with institutional investors as we did at Rockhill, for example.

It might be something that we see on future growth opportunities working with institutional investors. Particularly where we can have a managing interest in the investment, that certainly would be a focus for us. So it's something that we are looking at. I mean, obviously, trading at a fairly significant discount to NAV right now, it's not an appetizing time to be out raising equity.

Mike Markidis

No. Absolutely not. But markets can change pretty quickly, so here's hoping for a better remainder of the year. Thanks very much.

Michael Waters

Thanks, Mike.

Operator

Thank you. Your next question comes from Joanne Chen with BMO Capital Markets. Please go ahead.

Joanne Chen — BMO Capital Markets

Hi. Good morning. Sorry, just a quick one for me. With respect to—it was nice to see that on your repositioning pipeline it looks like the average cost actually went down per suite. So just kind of wondering how should we be thinking about the returns, given potential some inflationary cost pressures for your repositioning program?

Michael Waters

Yeah. So we target an 8 percent to 15 percent ROI for our repositioning program. I think in Q4 we saw that ROI increase. It was at 9.4 percent over where we were in Q3.

The spend per suite is highly variable, Joanne, as you can imagine.

Joanne Chen

Okay.

Michael Waters

The difference between a three-bedroom, two-bath unit and a bachelor, even if you're repositioning to the same spec level, the overall investment in those two suites could be quite significantly different. And so to some extent that average investment each quarter will be somewhat variable. And it's dependent on the suite mix of what was actually renovated in the quarter.

The reason that we like the repositioning program so much, as I've said in the past it's the highest and best use of our capital on a risk adjusted basis, is that we have a high degree of visibility on what the renovated market is for suites because we're typically leasing those in that same building on a regular and continuous basis.

At the same time, on the cost side we have long relationships with the trades that we have. And while we are seeing cost inflation, it's mitigated by those relationships and the buying power that we have.

Joanne Chen

Right.

Michael Waters

And the beauty of this program is you're really metering out capital in very small and discreet chunks. And so—

Joanne Chen

Mm-hmm.

Michael Waters

—you can accelerate, slow down the program in buildings as needs dictate. And so we're very, very careful about that ROI threshold and what we want to achieve. And optimistic that as much as we're seeing cost inflation we're also seeing, as we talked about early in the call, I think potential for market growth rate in rents that in many cases will outpace the rate of cost inflation.

So from our perspective, again, I think we're able to assure ourselves of achieving that minimum ROI threshold with a high degree of assurance.

Joanne Chen

All right. Okay. And just one last quick one for me. So it obviously was great to see the pickup in your gain-on-lease potential, but I guess could you maybe comment on what you're seeing in terms of the turnover activities thus far in 2022?

Michael Waters

I mean, I think what we'll see in January—well, in Q1, I think we're expecting a sort of—as I mentioned earlier, January was a slower leasing month—I expect that we're going to see the quarter overall will look kind of like Q1s of past pre-COVID: tends to be a lower turnover, lower leasing demand. And that sets us up well for Q2 and Q3 where we're expecting to see, I think, again, strong leasing market conditions and strong pricing power.

So that's how we're sort of looking at a return to normal seasonality.

Joanne Chen

Got it. Okay. No, that's helpful. That's it for me. Thank you very much. I'll turn it back.

Michael Waters

Thanks, Joanne.

Operator

Thank you. There are no further questions. Mr. Waters, you may proceed.

Michael Waters

Thanks, Anis.

Well, that concludes our call this morning. Thank you for joining us and for your interest in Minto Apartment REIT. We look forward to speaking with you all again after we report our Q1'22 results in the spring. Thank you so much.

Operator

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