FINAL TRANSCRIPT

Minto Apartment Real Estate Investment Trust

Second Quarter Results

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PRESENTATION

Operator

Good morning. My name is Joanna, and I will be your conference Operator today.

At this time, I would like to welcome everyone to the Minto Apartment REIT Second Quarter 2019 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press star, followed by two.

Before we begin, I want to remind listeners that certain statements about future events made on this conference call are forward-looking in nature. Any such information is subject to risks, uncertainties, and assumptions that could cause actual results to differ materially. Please refer to the cautionary statements on forward-looking information in the REIT's news release and MD&A dated August 12, 2019 for more information.

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

Thank you. Mr. Waters, you may begin your conference.

Michael Waters — Chief Executive Officer, Minto Apartment REIT

Thank you, Joanna. Good morning, everyone. Thank you for joining us today. I'm Michael Waters, Chief Executive Officer of Minto Apartment REIT, and with me on the call today is Julie Morin, our Chief Financial Officer.

I'll begin the call on Slide 3 by going over some highlights of the second quarter, including our financial performance and other major developments. Julie will then review our financial and operating results in greater detail, and I'll conclude with some comments on our business outlook. Then we'll hold a question-and-answer session.

Let's begin with the most exciting news we reported last night which is the increase to our distribution. Our Board of Trustees approved a 7.4 percent increase to our monthly distribution, increasing it from an annualized rate of $0.41 per unit to $0.44 per unit. This change is effective for our August distribution which will be paid on September 16, 2019. The distribution increase is based on the REIT's consistently solid financial performance and growth prospects generated from both the organic growth and the external growth that we envisioned when we launched the initial public offering last year. We also have a strong outlook which suggests that we will be able to continue to perform well going forward.

The second quarter marks the end of our four quarter IPO forecast period, so it's a good opportunity to look back and measure the REIT performance against our expectations we had then. I'm pleased to say that we out-performed on all of our key operational and financial estimates for the period. I won't go through all of them here, but I will note that AFFO per unit was 12.9 percent higher than forecast for the 12-month period. Same property NOI was 7.2 percent greater than the IPO forecast. For the second quarter, we reported revenue of $24.8 million which was 17.8 percent greater than forecast, NOI of $15.8 million, which was 25.2 percent higher than forecast, and AFFO of $8.5 million which was 35.7 percent greater than forecast. Same property revenue and NOI also exceeded the forecast. We achieved these results while maintaining a strong balance sheet with a conservative debt to gross book value ratio of 43.3 percent.

Overall, it was another busy quarter. We completed the repositioning of 57 suites, significantly more than the 21 suites we renovated in the first quarter. This program continues to drive strong organic rental growth. As announced previously, we also acquired 50 percent interest in two high quality properties, Rockhill in Montreal and Leslie/York Mills or LYM in Toronto. The total purchase price was approximately $209 million. These two properties comprise more than 1,400 combined suites. The LYM stake was purchased from Minto Properties, another example of the strategic benefit of our relationship with the Minto Group. The acquisition was financed in part through an equity offering in which we issued 8.8 million trust units at a price of $19.60 per unit for gross proceeds of approximately $173 million. The underwriter's over-allotment was fully exercised, and we were pleased to see such a strong reception from the investment community.

Finally, subsequent to the end of the quarter, we acquired a 40 percent interest in the High Park Village apartment complex in Toronto from Minto Properties, which comprises 750 suites and has significant repositioning and intensification potential. The purchase price was approximately $131.2 million, and the transaction closed on August 1 following unit holder approval.

On Slide 4, we've provided more support for the increase to the monthly cash distribution. Our total AFFO per unit for the four-quarter forecast period was $0.712 per unit, 12.9 percent favorable to the IPO forecast of $0.631. As you can see, we've exceeded the forecasted AFFO per unit in every quarter since the IPO. The out-performance was driven by strong organic growth through gains and lease and asset repositioning activities, disciplined cost controls, and accretive acquisition. As a result of this strong performance, our payout ratio dropped below the 65 percent in our IPO forecast.

We're committed to striking an appropriate balance between paying unit holder distribution and retaining capital to support our growth initiatives. This distribution increase allows us to reward our unit holders while still retaining a significant proportion of the AFFO increase for growth.

Now on Slide 5, I'd like to talk a little bit more about High Park Village, our latest acquisition. As you've probably gathered from the name, the property is located in Toronto's attractive High Park neighborhood. It's a high quality multi-residential property comprising three buildings and 750 suites on 5.6 acres. The purchase price of $131.2 million represents an implied cap rate of 4.02 percent on forecasted year 1 NOI, and a 5 percent discount to appraised value at December 31, 2018. It's important to note that this transaction was financed partly through the issuance of class B LP units to Minto Properties at $19.60 per unit.

As a result, MPI's direct and indirect interest in the REIT increased from approximately 46 percent to 49 percent. MPI remains committed to the REIT and highly supportive of our growth efforts. We have a fantastic joint venture partner with this property, the Canada Pension Plan Investment Board, which owns the remaining 60 percent interest. We serve as asset manager, property manager, and earn market fees for these services.

One of the most attractive aspects of this property is the repositioning potential. A suite repositioning program began in 2016 and has generated strong returns on invested capital to date. Approximately 400 of the 750 suites have yet to be renovated. We have a great opportunity here to continue to drive rent growth.

The other attractive opportunity is intensification. A development proposal has been submitted to the city of Toronto, and we're working our way through the re-zoning process. We will provide updates on this plan in the months ahead.

On Slide 6, you can see that this property has an outstanding location. It's in close proximity to many attractive retail and dining options on Bloor Street West. High Park, the city of Toronto's largest public park, is very close by, and the property is a short walk from two subway stations providing easy access to the rest of the city.

As illustrated on Slide 7, the property acquisitions we've completed since our IPO have materially expanded and diversified our portfolio. We've acquired interest in 2,432 suites, representing growth of 57 percent in total suite counts since the IPO. Our acquisitions have been located in Toronto, Montreal, and Calgary, all primary urban markets in Canada that we targeted for growth. We now have property holdings in five of Canada's six primary housing markets.

I'll now invite Julie to review our second quarter financial and operating results in more detail. Julie?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

Thanks Michael. Turning to Slide 8, you can see that all of our key operating metrics exceeded our IPO forecast in the second quarter. We reported same property revenues which includes the impact of acquisitions of $21.6 million, out-performing the forecast by 2.6 percent. The positive variance reflects higher than forecasted occupancy as well as higher rents achieved on new leases, revenue earned from furnished suites, higher revenue earned from repositioned suites, and ancillary revenue. Total revenue in the quarter of $24.8 million exceeded the forecast by approximately $3.7 million or 17.8 percent. In addition to the increase from same property revenue, the out-performance on total revenue was mainly due to the contribution from the properties acquired in Calgary, Toronto, and Montreal subsequent to the IPO.

Same property NOI in Q2 2019 was $13.6 million which was 8.2 percent above the forecast, due to higher than expected revenues and lower operating expenses. As a percentage of revenue, same property NOI was 63.2 percent, exceeding the forecast of 59.9 percent by 330 basis points. Total NOI in the quarter was $15.8 million which out-performed the forecast by $3.2 million or 25.2 percent. This result was due to higher revenues and the contribution from property acquisitions. NOI margin was 63.7 percent, 380 basis points above the forecast of 59.9 percent. FFO was $9.8 million in Q2 2019 which was 31.5 percent above the forecast of $7.4 million. This out-performance mainly reflects a positive NOI variance. AFFO was $8.4 million or $0.186 per unit compared to the forecast of $6.2 million or $0.17 per unit. The positive variance reflects the higher than forecast FFO adjusted for the amortization of market adjustments and maintenance capital expenditure reserve. We also declared cash distribution of $10.25 per unit resulting in an AFFO payout ratio of 55.2 percent, 530 basis lower than the forecast of 60.5 percent.

As of June 30, 2019, our same property portfolio consisted of 4,283 suites with an average monthly rent of $1,435 per suite, and an occupancy rate of 99.2 percent. Average monthly rent exceeded the forecast by $19 reflecting the positive impact of our gain to lease and repositioning activities. Occupancy exceeded the forecast by 240 basis points. The total portfolio, including acquisitions, consisted of 5,965 suites at June 30 with an average monthly rent of $1,439 per suite, and an occupancy rate of 98.72 percent. Average monthly rent was $23 above the forecast, and occupancy exceeded the forecast by 192 basis points. These figures do not include the impact from High Park Village which was acquired subsequent to quarter end.

Slide 9 has a breakdown of our operating expenses in Q2 2019. Same property costs were $4 million coming in 8.1 percent favorable to the forecast of $4.4 million. This was due to lower marketing and administrative costs. Property taxes of $2.3 million were in line with the forecast, while utilities expenses of $1.6 million were 7.7 percent favorable to the forecast. On a total portfolio basis, property and operating costs were $4.5 million, property taxes were $2.6 million, and utilities expenses were $1.9 million. All these total portfolio metrics were higher than forecast as they included costs related to the properties acquired subsequent to the IPO.

On the first chart on Slide 10, you can see how suite turnover generated rental growth for the REIT in the second quarter. We find a total of 435 new leases in the quarter, well above the 247 we find in Q1. The weighted average monthly rent on these suites increased by 11.5 percent from $1,417 to $1,585. These rental increases provided an annualized incremental revenue gain of approximately $822,000 to the REIT.

The second chart shows the gain to lease potential we estimate in our portfolio as of June 30. We believe we can generate more than $11.5 million of annualized incremental revenue growth by brining rents to market levels. This is a significant increase from the $7 million gain to lease opportunity we saw at the end of the first quarter. The increase reflects acquisitions subsequent to Q1, and higher market rents due to the strong leasing season. This estimate does not, however, include High Park Village, so you will see the impact from that property next quarter.

On Slide 11, you'll find an update on our repositioning program. During the second quarter, we repositioned and leased a total of 57 suites. We renovated 19 suites in Toronto at Minto Yorkville and Leslie York Mills, 14 suites in the Edmonton portfolio, and 24 suites at Ottawa at Carlisle and Castle Hill. We just recently began repositioning activities at those two Ottawa properties. We currently have more than 1,300 remaining suites to repositioning, including 400 at High Park Village. These renovations are highly accretive to AFFO and net asset value, with an average simple return on investment target of 15 percent depending on the suite type. The rate at which we can complete them is obviously dependent on suite turnover. We also expect to initiate a repositioning program at the Rockhill property in Montreal later this month.

Turning now to some balance sheet metrics on Slide 12. We continue to have a conservative debt profile. At the end of the second quarter, the weighted average term to maturity on our fixed rate debt was 6.09 years with a weighted average interest rate of 3.19 percent. A total of 78 percent of our debt is CMHC insured lower cost debt, and approximately 96 percent is fixed rate. Our debt maturities are staggered with minimal repayments this year. Our debt to GBD was 43.3 percent as at June 30, and available liquidity was $131.3 million.

I'll now turn it back to Michael for some closing comments. Michael?

Michael Waters – Chief Executive Officer, Minto Apartment REIT

Thanks, Julie. We think the outlook for our business is very strong. We've established a track record of accretive growth in the REIT's first year of operations, and we fully expect it to continue. The distribution increase we announced yesterday illustrates the confidence we have in our business. Slide 13 outlines our growth initiatives. We'll continue to capitalize on organic growth opportunities that we've talked about, and that starts with gain to lease. As Julie said, we currently estimate that our portfolio has an annualized revenue gain opportunity of more than $11.5 million from suite turnover. That figure has moved steadily higher since the IPO as we acquire properties and benefitted from healthy rental markets.

We'll also create value from suite repositioning. With the addition of High Park Village and our repositioning program soon to begin at Rockhill, we have a lot of opportunities and we expect this program to generate strong return. We'll also continue to evaluate attractive acquisition opportunities in urban centers across Canada. We have a proven ability to build value through acquisitions and we're keen to further expand and diversify our portfolio. As part of those efforts, we'll seek to capitalize on our proprietary relationship with the Minto Group, which has already provided us with access to attractive growth opportunities including the Leslie York Mills and High Park Village properties.

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

Q & A

Operator

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

Your first question is from Brandon Abrams from Canaccord. Please go ahead, Brandon.

Brandon Abrams – Analyst, Canaccord

Hi, good morning, everyone.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Hi Brandon, how are you?

Brandon Abrams – Analyst, Canaccord

Good. Michael and Julie, just looking at the gain to lease opportunity, obviously increased quite materially from Q1 to $11.5 million. I don't know if you have the breakdown between how much of that growth is attributable to the acquisitions completed during the quarter versus the portfolio that was in place at last quarter end?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

Yes, for sure. Quarter-over-quarter, we're looking at about a $4.5 million increase, $1.1 million relates to our Montreal acquisition. There's probably another $800,000 or $900,000 that relates to Leslie York Mills, and the balance of that really is in Ottawa just from really strong market conditions there.

Brandon Abrams – Analyst, Canaccord

Okay, that's helpful. Just taking a look at the repositioning program, the repositioning of 57 suites during the quarter, just over 1,300 remaining. Michael, I'm just wondering if you could speak to perhaps the balance in this program between taking suites offline to reposition versus the potential outside of repositioning the suite.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Yes. The pace of which we can deploy capital through our repositioning program is dictated by the rate of turnover. That sets an ultimate upside, if you will. We do balance, as you suggest, the impact of taking suites offline with the accretive growth that we get from those repositioned suites once we're able to lease them back at the new market rate. We typically look at a renovation for a typical repositioning that would be something in the order of 30 days, and then we typically allow a small allowance as well for lease up that could be 15 days, for example. All of those considerations go in to our calculus when we are looking at our repositioning program from an asset management perspective.

Brandon Abrams – Analyst, Canaccord

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

Operator

Thank you. Your next question is from Jonathan Kelcher of TD Securities. Jonathan, please go ahead.

Jonathan Kelcher – Analyst, TD Securities

Thanks, good morning.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Good morning.

Jonathan Kelcher – Analyst, TD Securities

First question, you've done two acquisitions so far from MPI totaling about $200 million, and I believe at the IPO they had about $500 million proportionate interest that could be available. How much of that that's left would you consider REIT suitable?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

A substantial proportion of that would be REIT suitable. Of course, we don't have a unilateral right to dictate the transfer of those assets into the REIT. Every single of those assets is in a fund or co-tenancy or joint venture, and we require the consent of our partners, our institutional partners in those. To date, we've been fortunate that our partners with whom we have longstanding and productive relationships have been happy to provide those consents. In some cases, some of those assets may not be suitable for the REIT simply because their valuation is too high or their location, the quality in character or otherwise factors that would say that they don't fit the quality and character of our portfolio. We carefully evaluate those considerations when we're making those decisions and then underwriting those deals for the REIT.

Jonathan Kelcher – Analyst, TD Securities

Okay. Then just turning to the development opportunities with Richgrove and Leslie York Mills and High Park. You now have three at various stages ongoing in Toronto. Which of those is the furthest along, and do you have an estimate of when you might start in the ground on any of them?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

The very first one that would begin would be Fifth and Bank which is an opportunity in Ottawa which is also a deal we sourced last year from MPI. It's the third MPI deal that we did. It could begin construction in Q4 of 2019. We're well advanced on that project. When I look at Richgrove and LYM, they're still in the, I'll say, pre-development stage putting the finishing touches, if you will, on planning approvals. They both have zoning so they've both been re-zoned, but we're at the stage now where we need to get site plan approval perfected on both of those. That's a process that is something that's been delegated to city staff, of course, but it requires some back and forth with city staff before we can get those finalized. Both of those are still subject to our internal approval milestones that would include tenders, building permits, and other considerations including construction financing. Moreover, I would just add that LYM would also be subject to approval by our co-owner, Healthcare of Ontario Pension Plan.

The High Park Village project is probably the farthest out. Again, it's in the process of going through the re-zoning process, it does not yet have an approved zoning bylaw in place. That has, like the adjoining properties in that submarket, have been subject to considerable scrutiny, shall I saw, from local rate payers. Obviously, we're very confident about the ultimate outcome that we will be successful, but it is a process that we've been engaged in for a couple of years and I expect that we've got more time to run before we get to end of job on the zoning bylaw approval there.

Jonathan Kelcher – Analyst, TD Securities

Okay. Just back to Fifth and Bank. You guys are providing mes loans (phon) for that. Do you expect to start to put the money out in Q3 or Q4?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Our expectation right now is Q4. The conditions that we set in place is site plan approval which is in hand. Number two was the construction financing commitment, and that is very close. We're within weeks of having that completed. Third point is tenders. We're looking to have about 70 percent of the hard costs tendered before the end of September, and I think we're making solid progress on that. The last one, of course, is permits and again, I think we're making good progress on that. I'm cautiously optimistic that it will be towards the beginning of that quarter, but some of these things are out of our control and there are city processes that we need to work through, the machinations of the city of bureaucracy to get these things done.

Jonathan Kelcher – Analyst, TD Securities

Okay. Thanks. I'll turn it back.

Operator

The next question is from Brad Sturges of IA Securities. Brad, please go ahead.

Brad Sturges – Analyst, IA Securities

Hi there.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Hi Brad.

Brad Sturges – Analyst, IA Securities

In terms of High Park Village, I know you're in the planning stage I guess on zoning. I'm just curious to get a sense of under the current planning what the density potential could be. Is that something you could provide?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

There are some public documents I think that we did submit an application. The application would have been to roughly double the density on that site. As I mentioned in my earlier comments, in answer to Jonathan's question, it's still going through the re-zoning process. What the city looked for was to take this asset and other developments in the immediate vicinity through what they call a fast site area specific plan to look at building massing and heights and other things. That took some time to go through that. It's possible that we will achieve our desired outside upper limit of desired additional density, but it's possible equally that it could be somewhat lower than that. I can't be more precise than that, Brad, simply because we're so early in that re-zoning process with the city and going through a process as well with the LPAD (phon). I'm cautiously optimistic. You have to be if you're a developer, but the ultimate outcome is still many months away from having full clarity. We'll provide regular updates on this as we go through the re-development work on High Park.

Brad Sturges – Analyst, IA Securities

Great. In terms of Rockhill, the plan is to start the repositioning program later this month. Does that entail rolling out a few test suites first and then something more formal later in the year if that goes well?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

One hundred percent. We'll stick to our regular program test suites. Those are well advanced. The results from those test suites are just being analyzed now, but we've completed them and the ROI that we're seeing there is in line with the targets that we've established, between 8 percent and 15 percent. We have contractors lined up and we're ready to go.

Brad Sturges – Analyst, IA Securities

Great. Just to go back to the potential pipeline outside the REIT from MPI, just to understand, are those assets theoretically available to the REIT today or would some of those assets at least be—the interest that MPI would hold are those under development or under construction right now?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Both, I guess. Some of are under development, some of them are going through re-positioning, and others are assets that are going through stabilization, I guess you might say. They will each mature as opportunities for the REIT over time, as those processes are advanced, and obviously as discussions with our partners advance as well. Our investment management team is working with our partners on those, and obviously we're anxious to bring them forward to the REIT where they fit and where they'd be accretive to NAV and accretive to earnings.

Brad Sturges – Analyst, IA Securities

Great. I'll turn it back. Thank you.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Brad.

Operator

Thank you. Your next question is from Matt Logan from RBC Capital Markets. Please go ahead, Matt.

Matt Logan – RBC Capital Markets

Good morning.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Hi Matt.

Matt Logan – Analyst, RBC Capital Markets

Can you guys talk a little bit about what's driving the higher rents in Ottawa, and maybe some read through's in terms of what you're seeing on the ground?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Sure. As many of you know, Minto or the Minto Group, an affiliate of Minto Properties Inc. has a lot of home building operations in Ottawa, it has for 60-plus years. We have a first-hand appreciation of the housing market more broadly, re-sale housing, new home sales, and rental, of course. What we've seen in Ottawa over the last four or five years is a resurgence of that housing market, which traditionally has been very stable. As one of my colleagues often says, it queues very close to the trendline. It's not prone to over-building or over-correction.

Since 2015, what we've seen is strong job growth, we've seen strong population growth. Ottawa just passed the million mark just earlier this year. What we've seen is, with that, a concurrent strengthening of the housing market, whether it's re-sale, new home, and particularly price point sensitive product, townhomes for example, we've seen tremendous price growth in that product. Then on the rental side, we've seen just very, very strong performance. As Julie highlighted on Slide 10, when you look at the 262 leases that we signed in the quarter, we saw fairly significant gain over the turning rents during the quarter. I think it's a lot of generally very positive macro environment in Ottawa that's driving a strong housing market and the rental is just a big component of that.

Matt Logan – Analyst, RBC Capital Markets

With growth in Toronto as well, is there any point where consumers are seeing an upper limit in terms of rent growth or is it still kind of to be determined?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

I think it's still TBD because our experience over the last many years, certainly over the last four quarters, has been that the underlying fundamental dynamics, the supply demand dynamics in the GTA remains very constructive for multi-res. We have very strong population growth, and we've seen, notwithstanding the volume of new construction, we've seen restrictions on purpose-build rentals by coming on the market just cannot meet the demand for rentals. I don't see any near-term or even medium-term change in that dynamic that would upset what we're seeing in the GTA right now.

Matt Logan – Analyst, RBC Capital Markets

Translating this all back to organic growth, how should we be thinking about same property NOI over the next 12 months? Certainly, the REIT has well exceeded its IPO targets. Maybe just some color on how we should think about revenue and expense growth going forward.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

I'll be cautious about providing big calls going forward. We strive to live to the maxim of under promise and over deliver. Matt, I'm really reluctant to give you a lot of concrete guidance. We are, obviously, quite optimistic about our business. We're very optimistic about the markets that we're in. I think that our ability to continue to deploy capital within our portfolio and adding selectively where it makes sense to the portfolio, either from Minto or third party, is an opportunity but it's really hard for me to say with any degree of precision exactly what that revenue growth rate or NOI growth rate might be. I'm going to sort of dodge that question, I'll be completely honest on that one. We're optimistic.

Matt Logan – Analyst, RBC Capital Markets

That's totally okay. Maybe I'll ask it in a slightly different way. In terms of the leasing velocity, 435 new leases in Q2 seems to be healthy turnover. Maybe just some color on how we should be thinking about that.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Sure. What we see, of course, in our portfolio is a heavy degree of seasonality in lease up. Q1 is the lowest season in terms of move outs. We see Q2 and Q3 traditionally have always been very strong quarters from a leasing perspective, and obviously you saw that in Q2, 435 leases. Normally what you see is that starts to dial back a little bit as we get in to the late fall. Q4 typically sees leasing volume turnover drop as you might expect. I think we would be fairly optimistic about Q3. Q2 was very strong, I'm not sure we'll quite attain that level, but I think we're feeling fairly optimistic about Q3 and beyond. I would expect Q4 would exhibit a similar pattern to what we've seen in the past.

Matt Logan – Analyst, RBC Capital Markets

I appreciate the color. I'll turn it back. Thank you very much.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Matt.

Operator

The next question is from Johann Rodriguez from Raymond James. Please go ahead.

Johann Rodriguez – Analyst, Raymond James

All my questions have been answered, thanks.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Johann.

Operator

Thank you. Your next question is from Troy MacLean of BMO Capital Markets. Please go ahead, Troy.

Operator

I'm sorry, it seems that we lost the line. The next question is from Mike Markidis from Desjardins. Please go ahead, Mike.

Mike Markidis – Analyst, Desjardins

Hi, good morning. Two disclosure questions, actually. I'm just curious now for the next quarter that you've lapped your first four. Your same property NOI comparison is something you'll be providing for the IPO portfolio or will you wait until the beginning of the year?

Julie Morin -Chief Financial Officer, Minto Apartment REIT

No, we will continue doing that.

Mike Markidis – Analyst, Desjardins

Sorry. Continue doing…

Julie Morin – Chief Financial Officer, Minto Apartment REIT

(Inaudible) portfolio for sure.

Mike Markidis – Analyst, Desjardins

Okay. You will provide 3Q 2018 versus 3Q 2019 then?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

Yes.

Mike Markidis – Analyst, Desjardins

Instead of forecast?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

Yes.

Mike Markidis – Analyst, Desjardins

Yes, okay. Perfect. I was just curious, do you guys track average income per unit for all your residents?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

We would traditionally as part of any pre-qualification of any tenant when we're going through that lease up process would be gathering a bunch of personal financial data including income, credit history, and other things like that. Beyond that, we don't typically gather more financial disclosure from them as the lease goes on. We do get data at the time that we are leasing the unit.

Mike Markidis – Analyst, Desjardins

Yes. I guess my comment would be that everyone seems to be concerned, and rightly so, with affordability of rents just given the growth. Data analysis assume that—or that viewpoint assumes that your average income of your unit base is staying the same, and I would suspect when you turn the unit or especially when you reposition one, you attract a higher level of income to the extent that that would be something that yourselves and any other Canadian REIT could track on a go-forward basis. I think that would be very helpful.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Okay, noted. Thanks for that question. Just take that away.

Mike Markidis – Analyst, Desjardins

Thank you.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks Mike.

Operator

Thank you. Your question is now from Troy MacLean of BMO Capital Markets. Go ahead please.

Troy MacLean – Analyst, BMO Capital Markets

Good morning. For your repositioning program, you target to 8 percent to 15 percent. With the rise in market rents, would it be fair to say that ROI is coming in at the high end of the range on your programs?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

It's kind of all over the place. Depending on the property, depending on the suite type within that property, I wouldn't say that it is necessarily coming in at the high end. With rent growth as well, what we're also seeing is, of course, repositioning costs are also growing. I think being in that 8 percent to 15 percent range which is our target, we're sort of moving in to that I'd say the middle of the range versus the high end of the range.

Troy MacLean – Analyst, BMO Capital Markets

Just in Alberta, the market to market potential was up marginally to 7.5 percent in Q2. What's driving that, and would you say that the Alberta market is getting stronger quarter over quarter?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

The Alberta market on the whole continues its slow recovery, but for our properties the story of Alberta is more a neighborhood story. For example, for the kaleidoscope project in Calgary, it's the university which is the most important driver of rental demand than the price of oil. I would say that's one example. I guess at Quarry Park as well, we've seen employment there which is quite strong, and that's been driving the Laurier and The Quarters, and benefitting from that. We did see, as you saw on the leases that we signed in the quarter, we saw rental rates move higher on expiring rents. We are still seeing incentives in that market. I'd say that the rental market component of the housing market overall is stronger than resale or new home. I think the recovery has been choppy, and I think we'll continue to see that slow but steady progress, two steps forward one step back.

Troy MacLean – Analyst, BMO Capital Markets

Would that be true for your three properties in Edmonton as well?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Edmonton, those properties have performed quite well, actually. I feel quite bullish about those three properties, actually. Their location is very centrally located just off Jasper, proximate to downtown. We've seen good performance on the repositioning programs there. Our ROI has been solidly in the middle of that range when we've been able to deploy capital in that portfolio, and I think those three assets just get better and better.

Troy MacLean – Analyst, BMO Capital Markets

Thank you. That's good color. I'll turn it back.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Troy.

Operator

Your next question is from Matt Kornack from National Bank. Please go ahead, Matt.

Matt Kornack – Analyst, National Bank

Good morning guys, and congrats on a strong quarter.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Matt.

Matt Kornack – Analyst, National Bank

Quickly, you provide turnover spreads, and I know you're in mostly a rent-controlled market, but including AGI's, do you have a sense as to what you'd be getting on renewals?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

The guideline in Ontario is 2.2 percent. We do have a number of AGI's out there. Straight up renewals, it's really going to depend on the property and whether we have an AGI in place. It's really hard to say, but I would say it's safe to say that 2.2 percent in Ontario for the bulk of the portfolio and perhaps a small margin on top of that for AGI. I don't have those figures in front of me, but we do have a number of AGI's out there right now.

Matt Kornack – Analyst, National Bank

Okay, fair enough. It's a spread to that but it's not a huge amount higher than that.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

No.

Matt Kornack – Analyst, National Bank

In terms of velocity, I'd assume also this is a higher renewal period in terms of a lot of people move in the summer. Do you see a bit of seasonality on that front as well?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

One hundred percent, yes. In Q2, Q3, those are the big months for returns and obviously, then it abates in Q4 a little bit, and Q1 is much quieter traditionally.

Matt Kornack – Analyst, National Bank

Okay, makes sense. From a G&A standpoint, as you scale this portfolio, are you fairly confident that G&A won't move up too much as you grow?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

If you recall when we did the IPO within G&A, for example we would have the ASA, and for this first year that amount was fixed. That is definitely something that as we grow we'll revisit with our Board of Trustees and grow that as required. From a G&A from an operational perspective, there's definitely efficiencies that scale from that perspective.

Matt Kornack – Analyst, National Bank

Okay, makes sense. The last question, your fair value, and I know you like to under promise and over deliver, but I'm just wondering how you treat gain to lease in that equation given that I think you're a fair bit under market in terms of where you're currently valuing the asset.

Julie Morin – Chief Financial Officer, Minto Apartment REIT

What we do when we do our fair value, we actually have an estimate of reposition suites in our NOI, and then we do a CAPEX deduct. In theory, it is already part of our fair value adjustment.

Matt Kornack – Analyst, National Bank

Okay. You'll do a cost to complete essentially net of …

Julie Morin – Chief Financial Officer, Minto Apartment REIT

Yes.

Matt Kornack – Analyst, National Bank

…you're net of future CAPEX in that number.

Julie Morin – Chief Financial Officer, Minto Apartment REIT

Yes, that's correct.

Matt Kornack – Analyst, National Bank

Okay. Thanks, guys. Again, congrats.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Matt.

Operator

Thank you. The next question is a follow up from Johann Rodriguez of Raymond James. Please go ahead, Johann.

Johann Rodriguez – Analyst, Raymond James

Yes. I just wanted to know what the turnover rate is in Montreal?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

What we've shown here, 45 leases, of course, that was a short quarter. We only had two months. We closed on May 7. I think that on an annualized basis it would be something in the order of the mid to high teens, which is decent. That's actually quite comfortable from an underwriting perspective. That's what really drives our ability deploy capital through the repositioning program. If you recall, at the time of the acquisition we had something like 900 suites plus to renovate in there.

Johann Rodriguez – Analyst, Raymond James

Okay. You're looking at mid to high teens for Montreal?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Correct. It could rise in Q3. We're gaining experience with that property. We've now got three months now under our belt going in to our fourth month. We'll get smarter and smarter about that leasing market over the next couple of months.

Johann Rodriguez – Analyst, Raymond James

Okay. Perfect. Thanks, I'll turn it back.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Johann.

Operator

Thank you. Your next question is from Dean Wilkinson of CIBC. Dean, please go ahead.

Dean Wilkinson – Analyst, CIBC

Thanks, good morning, everyone.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Hi Dean.

Dean Wilkinson – Analyst, CIBC

Michael, when you look across the portfolio and drawing upon Minto's experience as a builder, what's the biggest impediment to new supply in any of the markets, and is that something that can be overcome?

Michael Waters, Chief Executive Officer, Minto Apartment REIT

You risk—you've hit my favorite preaching point here. We feel very strongly that supply constraints are largely around the implementation of planning policy. I say implementation because planning policy is set provincially, and then to some lesser extent at the municipal level. Unfortunately, what happens, even with the benefit of great planning policy is the implementation of it, it kind of lives or dies at the ward level. What we have is well organized and thoughtful rate payer groups who look at new development applications and they look at it through the lens of their own parochial interest. Frankly, they live in the neighborhood, they don't want to see increased traffic or other things. Our frustration, I think, as an industry is that often many of the sites that we're seeking to intensify are poster children for good planning policy, and that like High Park, they are on mass transit routes, they're in areas that are already quite dense and we're seeking to add further intensification to an area that already has towers, for example. I think there is, and Toronto would probably be the worst in the country in my experience, at least in the markets that we know in terms of getting things through the planning process.

Dean Wilkinson – Analyst, CIBC

It's not getting any better, either.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

It's not. I think there were a bunch of provincial reforms that the Ford government brought out which certainly will be helpful. Brining new supply online it's not a month to month, it's a multi-year process. The reforms to the LPAD regime and that process and other things relating to development charges and other stuff will take time to play out. We know that they will have an impact. How much of an impact they can have will depend to some extent on how planning policy is actually executed on the ground in these markets. That's our biggest challenge. I'd say planning policy overall is far and away the biggest impediment to new supply coming online.

Number two, I think is cost. Construction costs continue to rise. That's supply, materials, but also availability of labor. Things are also impediments. Those are probably the two biggest factors. Moving down the list would be infrastructure funding and other things that are there, I'd say to a lesser extent, but still impactful on new supply coming online. I could talk about this for hours, we don't have that much time. Those would be the top factors at least in my mind.

Dean Wilkinson – Analyst, CIBC

Nothing that would be imminently, for lack of a better term, fixable, so it's just going to continue.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Sadly, from the perspective of residents looking for a home, yes, unfortunately I don't think there's a quick fix. The benefit of our unit holders, there is no quick fix.

Dean Wilkinson – Analyst, CIBC

Yes.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Yes. The supply deadlock, there's no sign that that will rectify itself in the near term. For the benefit of our unit holders, it means we don't expect a flood of new supply coming online.

Dean Wilkinson – Analyst, CIBC

Yes. That's where I was getting to. That's perfect. Thanks. Appreciate that.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Yes. Great. Thanks, Dean.

Operator

Your next question is a follow up from Brad Sturges of IA Securities. Brad, please go ahead.

Brad Sturges – Analyst, IA Securities

Hi. Just one quick follow up. On the third-party management fee income, with the closing of High Park Village, do you have a rough sense of what that run rate would be going forward?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

All of our management fees with property and asset management fees are really market rates. Typical of what you would find for similar services in the industry.

Brad Sturges – Analyst, IA Securities

In terms of annualized numbers though, do you have any guidance or no?

Julie Morin – Chief Financial Officer, Minto Apartment REIT

No.

Brad Sturges – Analyst, IA Securities

Okay. Great, thank you.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Thanks, Brad.

Operator

Thank you. There are no further questions at this time. You may proceed.

Michael Waters, Chief Executive Officer, Minto Apartment REIT

Great. Thank you, everybody. This concludes our call this morning. Thank you for your interest in Minto Apartment REIT. We look forward to speaking with you again after our Q3 results come out. Please enjoy the rest of summer and look forward to chatting with you all soon.

Operator

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