

## **Minto Apartment REIT**

### **2020 Second Quarter Financial Results**

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## PRESENTATION

### Operator

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

Before we begin, I want to remind listeners that certain statements about future events made on this conference call are forward-looking in nature. Any such information is subject to risks, uncertainties, and assumptions that could cause actual results to differ materially. Please refer to the cautionary statements on forward-looking information in the REIT's news release and MD&A dated August 11, 2020 for more information.

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

Mr. Waters, you may begin the conference.

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

Thank you, Sylvie, and good morning, everyone. I'm Michael Waters, Chief Executive Officer of Minto Apartment REIT. Julie Morin, our Chief Financial Officer, is also with me this morning.

I'll begin the call by discussing key highlights from the second quarter. Julie will review our financial and operating results in detail and then I'll provide an update on our COVID-19 response and discuss our business outlook. After that, we'll be pleased to take questions.

I'm very pleased to say that Minto Apartment REIT's business has demonstrated continued strength amidst the disruption created by COVID-19. While our second quarter results were impacted by a reduction in demand for furnished suites, we are still generating solid rental growth across most of our portfolio. Our rent collection in the quarter and subsequent to quarter end has been consistent with pre-pandemic cycles and we maintain strong liquidity.

Given our solid performance and positive business outlook, we were pleased to announce yesterday that the Board of Trustees has approved a 3.4% increase to the monthly cash distribution. This reflects our strong track record of AFFO growth, our low AFFO payout ratio, while prudently managing liquidity during this period of economic uncertainty created by COVID-19. One of the biggest priorities is growing our earnings and cash distributions and we're pleased to be increasing our distributions for the second consecutive year since our initial public offering. This increase takes our monthly distribution to an annualized level of \$0.455 per unit. The increase is effective for our August 2020 distribution, which will be paid on September 15.

Turning to our Q2 performance, it was another quarter of strong operating results for the REIT. We generated year-over-year growth in revenue and NOI of more than 26% while NOI margin improved by 20 basis points to 63.9%. We continue to generate solid organic rent growth in all of our markets except Alberta. We had an average gain of 9.1% on new leases signed during the quarter. While this is lower than pre-pandemic levels, it continues to highlight the strength of the Toronto, Ottawa, and Montréal rental markets. We also renovated 50 suites during the quarter through our repositioning program, which improves asset quality, reduces future repair costs, and drives strong rental growth and asset value.

As I mentioned on our last conference call, we've adapted our operations to support the health and safety of our employees and residents and minimize the spread of COVID-19. As provinces gradually lift pandemic restrictions, we're continuing to adhere to Health Canada guidelines on personal hygiene and social distancing. As I had indicated, our rent collections have not materially changed during the pandemic. Approximately 2.5% of tenants have entered into deferred payment plans and the vast majority of residents on these plans are current. We've also maintained high occupancy throughout this period. More than 97% of our available unfurnished suites were occupied at the end of the second quarter.

While we are pleased with our performance, we recognize that economic uncertainty is elevated and could remain so for a prolonged period. Accordingly, we are maintaining a strong balance sheet and liquidity position. Our total liquidity of approximately \$193 million represents a liquidity ratio of 23%. This puts us in a strong competitive position as we continue to execute on our strategy during these challenging times.

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

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

Thanks, Michael.

Turning to slide four, here we have broken out same-property results both including and excluding furnished suites. As Michael noted, demand for furnished suites was significantly reduced in the quarter as COVID-19 resulted in reduced business travel, corporate relocations, and general reductions on nonessential travel. You can see the impact quite clearly in the two sets of same-property figures.

We reported same-property portfolio revenue, which excludes the impact of acquisitions, of \$20.8 million excluding furnished suites in the second quarter and \$22.6 million with furnished suites. Those numbers represent an increase of 3.1% and a decline of 0.9%, respectively, from the comparable results in Q2 last year. The year-over-year increase excluding furnished suites was due to higher rents achieved on new leases and higher revenue earned from repositioned suites. These positive impacts were offset by the reduced occupancy of our furnished suites when those suites are included.

Total revenue in the quarter increased 26.3% year over year to \$31.3 million from \$24.8 million in Q2 last year. The increase was mainly due to the contribution from the five property acquisitions completed subsequent to March 31, 2019, as well as higher rental rates, partially offset by lower demand for furnished suites.

Same-property NOI in Q2 2020 was \$13.2 million excluding furnished suites and \$14.2 million with furnished suites. Those figures represent an increase of 4.5% and a decrease of 1.7%, respectively, from Q2 2019. The increase in same-property NOI for the unfurnished portfolio primarily reflects higher rental rates, partially offset by increases in insurance premiums and property taxes. The decline in total same-property NOI inclusive of the furnished suites reflects the impact of the lower demand for those suites.

Same-property NOI margin for the unfurnished portfolio was 63.5%, an increase of 90 basis points from 62.6% in Q2 last year. With the furnished suites included, same-property NOI margin with 62.9%, a decline of 40 basis points from 63.3% in Q2 2019.

Total NOI in the second quarter increased 26.8% to \$20 million from \$15.8 million last year due to the impact of the property acquisitions completed subsequent to March 31, 2019, partially offset by the lower revenue from furnished suites. NOI margin was 63.9%. As Michael noted, that's an increase of 20 basis points from 63.7% in Q2 last year.

FFO was \$12.7 million in Q2 2020, an increase of 29.6% from \$9.8 million in Q2 last year, primarily due to the positive NOI variance. AFFO increased 31.4% to \$11.1 million from \$8.4 million last year. This primarily reflects the higher FFO, partially offset by an increase in maintenance capital expenditure reserve as a result of the REIT's increased suite count. AFFO per unit increased to \$0.1879 compared to \$0.1855 in Q2 last year. We declared cash distribution in the second quarter of \$0.11 per unit, resulting in an AFFO payout ratio of 58.5%. Cash distributions were approximately \$0.1025 per unit in Q2 last year, resulting in an AFFO payout ratio of 55.2%.

As at June 30, 2020, our same-property portfolio consisted of 4,552 suites with an average monthly rent of \$1,511 per unfurnished suite and an occupancy rate of 96.9%. Average monthly rent increased by \$77 or 5.4% compared to \$1,434 at the end of Q2 last year. Average monthly rents increased by \$11 or 67 basis points compared to Q1 2020. Occupancy of our unfurnished suite portfolio, excluding those held for repositioning, was 99% as at June 30, 2019.

The total portfolio, including acquisitions, consisted of 7,243 suites at June 30, 2020 with an average monthly rent of \$1,609 per unfurnished suite and an occupancy rate of 97.2%. Average monthly rent increased by \$170 or 11.8% compared to \$1,439 at the end of Q2 2019. Occupancy at the end of Q2 last year was 98.7%.

Turning now to our operating expenses on slide five, beginning with the same property portfolio, property operating cost of \$4.2 million declined by 1.1% from Q2 2019 due to lower repair, maintenance, and furnished suite costs. Property taxes increased by 5.7% to \$2.6 million due to higher assessments and changes in tax rates, especially on our Calgary properties. And utilities expenses were \$1.7 million, a decline of 4% from Q2 last year. That was primarily due to lower consumption, which resulted from milder weather and our implementation of green initiatives.

On the right side of the chart we have provided the operating expenses for the total portfolio. We had property operating costs of \$5.7 million, property taxes of \$3.5 million and utilities expenses of \$2.1 million in the second quarter. These figures represented increases of 26.9%, 30.8%, and 13.9%, respectively, from Q2 2019, reflecting the impact of property acquisitions we completed subsequent to March 31, 2019. The pandemic has triggered changes to our operating costs. Cleaning costs have

increased while repair and maintenance costs have declined because of lower suite turnover, but there has been no overall material impact on NOI margins to date arising from the pandemic.

On slide six you will find our revenue analysis. We have broken down our gain-to-lease activity in Q2 2020, along with our estimate of the gain-to-lease potential for the portfolio. Beginning with the upper chart, we signed 339 new leases during the second quarter upon suite turnover. The average rent on these suites increased by 9.1% from \$1,469 to \$1,602. As a result, the REIT generated an annualized incremental revenue gain of approximately \$467,000.

We generated strong, double-digit rent growth in the Toronto and Ottawa markets despite the economic disruption in the quarter. Rent growth was positive but somewhat slower in Montréal and we had slightly negative gain-to-lease in Alberta where low oil prices are continuing to negatively impact the economy. The number of new leases signed in Q2 2020 was lower than the 435 we signed in the same quarter year. That reflects the impact of COVID-19. Typically, the second and third quarters of the year represent the peak leasing season, while there is relatively less leasing activity during the winter period.

The lower chart shows the gain-to-lease potential that we estimate in our portfolio as at June 30. We believe we can generate approximately \$13.4 million of annualized incremental revenue growth by bringing rents in 6,745 suites to market levels. The gain-to-lease potential is very attractive in all of our markets apart from Alberta. In Alberta, many of our competitors are offering leasing incentives, which is decreasing the effective rental rates. We have done the same in order to remain competitive.

Turning to slide seven, we are planning some adjustments to our portfolio in order to adapt it to the current environment. With demand for furnished suites declining due to COVID-19, we will respond

by adapting our furnished suite count. As you can see on the chart, our furnished suite inventory has already declined by 18 suites or 7% since Q4 last year. We will reduce it by another 13 suites in the second half of 2020 through conversions to unfurnished suites in our Montréal and Alberta properties. We also plan to reposition 39 furnished suites at our Roehampton property in Toronto to be leased on an unfurnished basis in Q1 next year once the pilot suite test program is completed this fall. As a result of these measures, we expect to have approximately 187 furnished suites at the end of Q1 2021, down by 27% from 257 we had in Q4 2019.

Moving to slide eight, we have a summary of our repositioning activities for the quarter. We renovated a total of 50 suites in Q2, or 32 at the REIT's proportionate ownership share. The average cost per renovation was slightly below \$40,000 per suite. The average annual rental increase following repositioning was \$3,142 per suite, generating an average annual unlevered return of 8%. Our repositioning activity slowed in Q2 owing to the restrictions on residential construction imposed by the Ontario and Québec provincial governments during the quarter. We resumed our program after the restrictions were lifted, subject to scheduling to maintain social distancing and the availability of contractors.

On slide nine you can see the current status of our repositioning program. We have close to 2,000 remaining suites to renovate across several of our properties: Minto Yorkville, Leslie/York Mills, and High Park Village in Toronto; Carlisle and Castle Hill in Ottawa; Rockhill in Montréal; and our Edmonton portfolio. We expect to reposition approximately 100 to 150 suites in the second half of 2020, or approximately 50 to 100 at our ownership share, subject to the availability through turnover. However,

we have put our repositioning activities in our Edmonton portfolio on hold. We will revisit the program after market conditions improve in Alberta.

Turning to slide 10, we are also evaluating the repositioning potential of five additional properties: Haddon Hall and Le 4300 in Montréal, Roehampton in Toronto, and Castlevue and Skyline Maisonettes in Ottawa. These properties have a cumulative 1,085 potential suites to renovate. We have completed test suites at Haddon Hall and Le 4300 as well as Castlevue and Skyline. At Roehampton, we see the opportunity to reposition and lease currently furnished suites as unfurnished beginning next year, as I previously discussed.

The repositioning program is a central part of our growth strategy. It represents the single best risk/return profile of all of our investment opportunities, generating strong net asset value growth at the expense of modest near-term earnings dilution. A benefit of this program is that it's highly flexible with relatively small capital commitments and short project duration. It is easy to speed up or slow down repositioning depending on market conditions. We recently did both as a result of the pandemic. I also want to point out that we have a high volume of repositioning in progress. That generates valuable efficiencies in terms of procurement, repeatable design concepts, and lessons learned that can be deployed on other projects.

Moving to slide 11, we are also focused on generating organic growth through intensification and development. As I noted on our last conference call, construction of the Fifth + Bank project in Ottawa's Glebe neighbourhood is well underway. You can see the updated photo on the bottom left of the slide. Demolition of the existing structures and excavation are complete, the site crane has been erected, and

the raft slab has been poured. We advanced financing to an affiliate of Minto Properties for this redevelopment project and we will have an exclusive option to purchase it upon stabilization at 95% of the fair market value. We are also pursuing development approvals for intensification at Richgrove and Leslie/York Mills properties in Toronto and rezoning approval for the intensification at High Park Village also in Toronto. Combined, these projects could add over 1,200 suites to the REIT's portfolio.

Turning now to our debt financing and liquidity on slide 12, strong liquidity and a healthy balance sheet are key priorities for us. We have a conservative leverage ratio and a highly balanced debt maturity schedule with no material repayments due until 2022. As of June 30, 2020, the weighted average term to maturity on our fixed-rate debt was 5.67 years with a weighted average interest rate of 3.07%. Approximately 86% of our debt is fixed rate and 69% is CMHC insured. Debt to gross book value is 39.5% as at June 30<sup>th</sup> and total liquidity from our cash reserves and credit facilities was \$193 million.

I'll now turn it back over to Michael.

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

Thanks, Julie.

Moving to slide 13, I'd now like to discuss the impact of COVID-19 in a little more detail, as well as our response. Overall, we're in a strong position. We've made the necessary adjustments to our operations in order to mitigate the spread of the virus. We continue to monitor the situation closely and we can implement further adjustments very rapidly, if needed. As Julie noted, government restrictions on

construction activity have been eased, enabling us to resume capital projects. This is crucial to driving organic rent growth through repositionings.

Rent collections have remained very strong with a small volume of deferral requests. We're committed to helping our tenants through these difficult times and we'll work with residents suffering from payment challenges on a case-by-case basis.

I'm also pleased to note that leasing has been solid during the summer. We signed 120 new leases in July at rates that were higher than the expiring rates in all of our markets. The average gain-to-lease for the portfolio was over 10% during the month of July, which was an improvement over the second quarter; however, our suite turnover rate is currently below historical levels due to COVID-19 and we think it could remain relatively low during the crisis and recovery period before returning to normal.

Finally, we're managing our treasury extremely carefully to ensure we have strong liquidity. We can't predict how long this crisis will last or how the provinces in which we operate could be impacted if there are additional waves of the virus. It is in our interest to be prudent and make sure we're prepared for any eventuality.

Now I'll conclude with our business outlook on slide 14. Because of COVID-19, the world looks a lot different today than it did only a few months ago, but our long-term strategy hasn't changed. We found ways to execute on our strategy throughout the pandemic and we will continue to do so as restrictions continue to be lifted. We will capitalize on gain-to-lease opportunities in our portfolio. It's encouraging to see that the rental markets have remained so robust in all of our markets, apart from Alberta. The underlying long-term fundamentals supporting multifamily real estate in urban markets continue to be

very strong. We're confident that gain-to-lease will be a source of strong organic growth for the foreseeable future.

We're also excited about the value we're creating from repositioning. It was unfortunate that we had to bring this program to a temporary halt during the quarter due to COVID-19, but it's now moving ahead briskly and we're excited about the opportunities to add additional properties into the program, as Julie noted. We are exploring potential property acquisitions in our target urban markets across Canada. Our corporate development team is always hard at work and the pandemic could create attractive opportunities; however, our priorities at this time are ensuring the health and safety of residents and staff while maintaining our strong liquidity.

As always, we are in close contact with the Minto Group and expect that the relationship will continue to be an important source of growth for the REIT. In addition, we'll ensure that environmental, social, and governance criteria remain central to our business strategy. We have an ESG steering committee in place that is currently working on a detailed assessment of our business with the goal of reporting annually on performance against ESG targets. That reporting could begin next year.

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

## Q & A

## **Operator**

Thank you, Mr. Waters. Ladies and gentlemen, as stated, if you do have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to withdraw your question, simply press star followed by two. If you are using a speakerphone, we ask that you please lift the handset before pressing any keys. Please go ahead and press star one now if you do have a question.

Your first question will be from Jonathan Kelcher at TD Securities. Please go ahead.

**Jonathan Kelcher** — Analyst, TD Securities

Thanks. Good morning.

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

Hi, Jonathan.

**Jonathan Kelcher** — Analyst, TD Securities

First question just on lease renewals and the increases, and you guys, along with basically everybody else, paused those during the pandemic. Can you maybe give us your thoughts on bringing those back? How that's going to work, when you're going to start, stuff like that?

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

During the second quarter we continued to issue rent increases on renewals, but we did not collect rent increases. Beginning on August 1<sup>st</sup> we began collecting those increased rents. So you would begin to see higher actual collections on renewals beginning August 1<sup>st</sup>. And the same goes for above guideline increases as well. And the reason for that, Jonathan, is it preserved the anniversary dates of those tenancies.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. So that's across the board, your whole portfolio, you're sort of back to, I guess back to normal in terms of increases on renewals.

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

Correct. Yes.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. That's good. And then secondly, on the decline in occupancy, is that a function of demand or is that just you guys pushing or trying to maximize rents on turnover? And what can we expect going forward, I guess?

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

Yeah. Well, we remain focused principally on growing NAV and so to some extent that means maintaining our rate as much as we possibly can and suffering, as a consequence, perhaps higher vacancy/lower occupancy as a consequence in the short term until market conditions change.

So I think that what we've seen is turnover dropped, and we talked a little bit about that, and I expect that we'll see that continue to remain low for the next period of time. Leasing certainly was very slow at the beginning of Q2 and it slowly picked up through the summer. As I mentioned, July leasing activity was stronger than what we had seen in sort of the latter months of Q2. So I think it's partly a function that we're probably philosophically more driven to maintaining rate, driving NAV, versus more of an occupancy sort of approach which others might employ.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. So kind of 97 percentage, plus or minus, is kind of something to look at over the balance of the year?

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

Yeah, I think that's probably a fair comment. I mean Q2 and Q3 are traditionally the highest leasing quarters and as you go into Q4 you tend to see it drop a little bit. We strategically, you know, accept a little bit more vacancy at certain points in the year to position us for stronger leasing periods. And then as you get into softer quarters typically what we'll do is we'll look to adjust our pricing a little bit to ensure that we're able to capitalize on the volume that is available. But I think high 90s is certainly the target, so 97, plus or minus, is an area that I expect we'll be in for a little bit.

**Jonathan Kelcher** — Analyst, TD Securities

Okay. And then just lastly on the occupancy, is that fairly consistent across your portfolio or are there one or two properties that are impacting the overall occupancy?

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

I mean obviously, you've got some that are going to be stronger than others. I would just say for reference, Jonathan, that last year, in the period subsequent to the IPO and up until sort of the end of Q3 2019, we had sort of unusually high occupancy. Market conditions were so strong. So that's always a comparison point. 97, 98 is probably more normal occupancy for us in terms of how we position and think about yield management and driving rate. So we went from unseasonably high to slightly lower at the bottom of our range.

Thinking about our portfolio now, I'd say the areas where it's probably softest, obviously, probably not without any great surprise, Alberta, but specifically Edmonton, where we've had lower occupancy. And that's probably the softest part of our portfolio right now.

**Jonathan Kelcher** — Analyst, TD Securities

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

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

Thanks, Jonathan.

## **Operator**

Thank you. Next question will be from Brendon Abrams at Canaccord Genuity. Please go ahead.

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

Hi. Good morning. Maybe just focusing on the furnished suite segment, the REIT's taken the decision to, I guess, suspend the offering in Montréal and Alberta and also at Roehampton. Just wondering, maybe a two-part question, just wondering what type of data point or trends you would need to see going forward to make adjustments to the two remaining properties, being Yorkville and Minto one80five, in terms of adjusting the furnished suite offering there. And then secondly, maybe more specific on Roehampton, if you have an estimated maybe cost per suite in terms of repositioning and also the estimated loss of NOI or incremental NOI by converting the suites.

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

Okay. So I'll take your first question. On the furnished suite demand picture, typically what we're looking for is lead traffic and indicators that would suggest that the demand from the furnished segment would be substantially accretive to sort of unfurnished. And typically, Brendon, what you see with furnished is you obviously generate a very significant increment over the unfurnished rate but at the expense of typically higher vacancy. So we do look at advanced demand indicators, inquiries, bookings obviously. A lot of the corporate segment that we have, we tend to get a fair bit of advanced notice and so we have a tendency to sort of see early on kind of where trends are coming.

Every property is different. Yorkville and one80five, our two strongest properties from a furnished segment perspective, are motivated by sort of different drivers. Yorkville, for example, has a very strong movie segment. one80five traditionally has a stronger government-oriented segment and we tend to have larger demand from groups like Global Affairs Canada, for example. So, what we look for as well would be things that would be more episodic, so border opening would be very significant for us, particularly at Yorkville. Changes in the movie segment in Yorkville particularly, very significant. So, you know, all the normal demand metrics and indicators, inbound call volumes and things of that nature, would be probably supplemented with stuff that is, as I say, more episodic like the border stuff. Hopefully, that addresses that question. I'll just go to the second question first before reverting.

You'd asked about Roehampton and at this stage we do not yet have pricing. Our process is typically to take suites offline to expose, you know, behind drywall and mechanical spaces, let our trades get in there, do a renovation on something like two to four test suites, and through that process we would go through a value engineering exercise with our trades to fine-tune our design and spec levels. And only at that stage would we have enough information to give a better, more accurate estimate of costing. So, if you think about some of the other Toronto-based projects in the past, Leslie/York Mills and High Park, we've typically been in the \$30,000 per suite, but it obviously varies tremendously based on property, on suite type, et cetera.

So, hopefully that addresses your question.

**Brendon Abrams** — Analyst, Canaccord Genuity

Yeah, no, that's good colour and helpful. Maybe just turning to the Toronto market specifically, I know market rents look to have dropped, I mean it was very slight, but dropped quarter over quarter after a long period of sustained and strong increases. I'm just wondering, you know, you have six properties in that market. I'm wondering if you're seeing any differences in market rents between segments. And what I mean by that is if you looked at maybe your more affordable properties, being Richgrove and Martingrove, versus Yorkville and Roehampton at the high side, and High Park and Leslie maybe somewhere in the middle, if you could just provide any colour on where you're seeing the most adjustments maybe by rent range.

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

Sure. And this quarter we supplemented our disclosure, the very last page of the MD&A we provided a breakout by market to provide the average rent per square foot, and overall you can see the overall portfolio about \$1.90 per square foot, Toronto specifically \$2.30. And that's heavily skewed by Minto Yorkville, which is quite a bit higher. Excluding Minto Yorkville it would probably be just slightly over \$2 a square foot. So our rent levels, I'd say, are actually fairly modest if you were to compare them to condo, which would be, you know, typically, if you look at an urbanation report, recent ones are sort of showing condo rents at sort of \$3.20, \$3.25 a square foot. So we're principally competing with purpose-built rental for most of things, Yorkville being the exception.

I would say that our Toronto properties are quite resilient. It is a diverse portfolio. We have assets in there, such as our Martingrove project that has an affordable rental component there that's always full. And there are 204 suites there that are at rents that are established relative to a discount to the CMHC

average. I think that at the other end of the scale, of course, you have Minto Yorkville, which, in the Yorkville market, has tended to be quite resilient in that sort of higher-end segment. It tends to be very submarket to submarket driven, Brendon. I mean we look at and we price our product on a weekly basis and we're always looking to see trends and where the competition is at.

From a segment perspective, I think that you look at some of them, Leslie/York Mills for example, very family oriented, and so that obviously is going to act and feel a little differently than, say, some of the other properties. But I'd say that overall I think that we've seen very, very strong and resilient performance across the entire Toronto portfolio. And a lot of questions were asked about the competition coming from Airbnb and condo product and we, frankly, just have not seen it because we are not competing head to head against that. As I say, condo \$3.25 a foot, our portfolio in Toronto around \$2.30, excluding Yorkville probably more like just over \$2, and so both that condo and Airbnb is a pitch an entirely different price point.

So I don't know if that addresses your question.

**Brendon Abrams** — Analyst, Canaccord Genuity

Yeah, that's good colour. I'll turn it over. Thanks.

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

Thanks, Brendon.

**Operator**

Thank you. Next question will be from Sairam Srinivas at BMO Capital Markets. Please go ahead.

**Sairam Srinivas** — Analyst, BMO Capital Markets

Hi, Michael and Julie. Thanks for your time this morning. My first question is on the Alberta market. Are you seeing competitors over there being aggressive on either incentives or like lowering rents?

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

In terms of Alberta, firstly, of course, it's an unregulated market. We tend to see adjustments both on the downside and on the upside very much more quickly than what we're seeing elsewhere in, say, more regulated markets, Ontario, Quebec. And what we've seen is that the competition in the markets in Alberta have seen discounting and incentives pretty much across the board and we have certainly adopted the same approach to remain competitive.

And we do develop retention strategies for properties in that market that are based on length of stay so that when we are looking at tenants that are, you know, where their tenancies are maturing, of course we are looking at that and developing approaches to ensure that we do maintain retention there for sure. So Alberta is definitely a tricky market, as you would have seen in the quarter with the results that we posted that we had actually negative gain to lease in Q2.

**Sairam Srinivas** — Analyst, BMO Capital Markets

Michael, thanks for the colour, but like in the near term do you see any kind of recovery in that softness coming out of that market? Or do you think it's going to be a while before that happens?

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

It's a great question. I mean obviously Alberta is dealing with COVID, but also with lower oil and gas prices. We have seen oil prices begin to move back up over the last several weeks. It, as a market, tends to be more, I'll say unregulated generally, typically less restrictions through the COVID period. And obviously we're bullish long term on Alberta and Calgary and Edmonton in particular, but I think it's hard to say exactly when we'll see a full-throated recovery to that market and so I think it's too early to call.

**Sairam Srinivas** — Analyst, BMO Capital Markets

Fair enough. And probably taking a step back and looking at the overall portfolio, what would you say would be the proportion of units still being rented out to students as such?

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

So I think, from the perspective of the portfolio, we have fairly small exposure to students. In fact, I think there's just one property in Ottawa that has a meaningful student population, but it's not a big part of our rent roll for sure. So it hasn't maybe impacted us maybe as it may have others.

**Sairam Srinivas** — Analyst, BMO Capital Markets

Fair enough. Thanks, Michael. That'll be all for me. I'll turn it back.

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

Thank you.

**Operator**

Thank you. Next question will be from Mike Markidis at Desjardins. Please go ahead.

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

Hi there. A couple quick ones from me. I just want to make sure I understand, so I think you said 2.5% of your tenant base was in the deferral program, and I guess that was a 50% deferral, it wasn't a full deferral, if I remember correctly, which brings you pretty close to 99%. But outside of that, I think you noted your collections were consistent historically, so would that mean that you didn't really see any meaningful uptick in delinquencies outside of that program?

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

Yeah, correct. I mean I think we, like most multi-res, probably not, collections had never been an issue. And historically, our bad debt expense would have been around 25 basis points. So when the crisis erupted, we began tracking collections in a way we never had before and tracking them day by day and comparing them to previous periods. And what we could see is that there was really no discernible difference in our collection patterns pre- and post-pandemic. Our collections in Q2 were 99%-plus. June collections were very, very strong at that level and July also. So I think that, both on the res side and on

the commercial side, which is tiny, I think, we've generally done very, very well. I think we were all looking back in March and worrying about April 1 and then worrying about May 1 and then June 1, but it all turned out, I think, to actually be a very minor issue as it related to our portfolio. Collections were very strong and, as I say, no discernible difference to what we had seen pre-pandemic.

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

Okay, great. With respect to the furnished suite contribution, you talk about how your portfolio velocity is picking up in the unfurnished. Just curious what you've seen in terms of the activity on the furnished suite side in July.

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

We are seeing some encouraging signs in terms of lead traffic and inquiries, but I think one of the, as I mentioned earlier to one of the other questioners, some of the things that we'll be looking for will be an uptick in business travel and certainly we're seeing hotel occupancies begin to pick up. I think we'll look to see a meaningful change in air travel, border restrictions loosening, an increase in the entertainment business. By that, I mean the movie filming business.

There are segments like the government relo segment in Ottawa that sort of moved to a different rhythm and sometimes that is countercyclical, but those are all the things that we'd be looking for and, as I say, at this stage it's sort of mildly encouraging, but I think we can anticipate that Q3 will continue to be a fairly soft quarter for furnished suites. And that's been our response through Q2 and over the next couple of quarters would be to trim furnished suite inventory. We like the business, obviously, in a market

where there is strength. It's a very effective yield management tool. It's the kind of segment that we can bring online and offline very quickly. And so we'll be looking for those demand indicators and we'll shift our approach quickly as those indicators merit.

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

Okay, great. And then last one for me, I know you've been, ah, maybe not the right term, but almost militant with respect to your core focus on the acquisition side. I think some of your peers have been getting enthused with the amount of deal flow and velocity that they're seeing in terms of acquisition opportunities now and heading into the back end of the year. I'm just curious just with your focus, if you're experiencing the same thing or if most of this product would be sort of more in the outlying areas

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

Well, there have been a number of deals announced. The investment transaction market went to a dead stop for about three months and then beginning in June we began to see more deals come to market in major centres. And what we've seen is that the competition for those deals has been very intense, large numbers of bids, aggressive bidding, and we maintain, I think, a stance that is fairly cautious around acquisitions. And I think that we're going to be looking at our growth strategy probably in the way that we have traditionally in the past, looking for properties where there are organic growth opportunities with gain-to-lease potential, maybe there's some intensification potential, repositioning potential. Certainly the deals that we've looked at in the last six or eight weeks have some elements of those, but we've seen, as I say, very, very strong demand and aggressive bidding and we maintain a sort of, essentially, a very cautious approach.

We don't get paid for doing deals. We get paid to deliver NAV per unit growth. And so we want to be careful about what we're adding to that portfolio. I think more and more in the current environment we're seeing some of these existing properties trade at cap rates, I think, that would indicate that maybe the gap between public and private valuations, if anything, has maybe widened. And I think that the strategic relationship we have with the Minto Group might be a larger source of our growth, whether it's developing properties or acquiring assets from Minto or the Minto pipeline, those might be opportunities for us to add really high-quality assets at cap rates where there's a meaningful spread to what the development yield would be.

So I think people will see, when some of these deals get announced, that the private market has not gone away. It's at pre-COVID levels or maybe even beyond that from what we can see on some of the transactions so far.

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

Thank you.

**Operator**

Thank you. And your next question will be from Matt Logan at RBC Capital Markets. Please go ahead.

**Matt Logan** — Analyst, RBC Capital Markets

Thank you and good morning.

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

Hey, Matt.

**Matt Logan** — Analyst, RBC Capital Markets

Michael, now that we're five or six months into the pandemic, can you talk about any of the key lessons or takeaways for the business going forward? Like has there been any change to your preferences by region, whether it's new or old buildings or perhaps by submarket?

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

Well, one of the things that came to mind for me and what we sort of adopted very quickly was probably an acceleration of the digitization of our business. Moving to a virtual selling process I think would have taken years to get to but for the crisis, both ourselves and the competition.

I think probably the meat of your question is sort of markets and where we'll be focusing our growth. I think through the crisis, and certainly we saw it with US peers, the top-tier of US REITs like Essex and others, was that major urban centres were looked at with concern. And certainly I think that was certainly some of the inquiries we got through the quarter and immediately subsequent to quarter and some of the feedback was how are urban markets going to fare. And I think our view, very strongly, is that, as a species, we've been urbanizing for more four millennia and cities remain the centre of commerce, of innovation, of education, of healthcare, and people will continue to gravitate to cities. And having core urban locations close to those attractions and transit and other things will continue to be locations that will be more resilient over time and generate higher-value growth.

So, I mean from our perspective, I think we're not shaking off our investment strategy. We will continue to focus on urban locations, core markets. As I say, I think perhaps more of that growth may come through development and the relationship with Minto Group and its pipeline, because I think, at this stage, we may see that the investment market for existing properties has pushed valuations even further than where they were pre-COVID. So I think we may see more advantages through development, but that's not really a change in strategy, it's just it's possibly adapting to where the private market valuation for apartments is right now.

**Matt Logan** — Analyst, RBC Capital Markets

And certainly, with Minto also being a homebuilder, are there any read-throughs from that segment of Minto's business regarding the kind of urban/suburban divide?

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

Well, I think it's a great question, Matt. We've been seeing, through the crisis, I think, very strong, surprisingly strong both resale and new home markets in Canada's major centres, and I'll talk about Ottawa and Toronto particularly. We saw very, very strong sales. Our sales centres have been busy. I think what we were all looking for was a bellwether GTA urban high-rise condo sales launch. And we did see a couple in the quarter. One that we tracked very closely was a development by CentreCourt, 199 Church Street, and they went to market about three weeks ago and our read on that was that their progress on presales was actually quite strong at very high pricing, well over \$1,300 a foot.

And so that's obviously a market the Minto Group, the private side, is very active in, and so we rejoiced a little bit to see that kind of activity. Of course that's where the strategic relationship probably generates its value in that the Minto Group's land pipeline, urban settings where sites are strong candidates both for condo but also for rental. I think that's certainly an area that we'll be doubling down and focusing on.

**Matt Logan** — Analyst, RBC Capital Markets

And for developers who perhaps aren't as well capitalized as Minto, would there be any opportunity to acquire what would have been a condo site and perhaps build rental with the Minto Group?

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

We've seen prices on development sites drop ever so slightly from where they were pre-COVID. We were seeing sites well in the high \$200 per GFA pre-COVID. We're starting to see a couple sites come to market and we've seen some of that pricing come down a little bit. So there are some opportunities, I think. That was something we were looking for, whether there were developers or landowners that may be not as well capitalized or unable to proceed with development and whether there might be some opportunities spring loose from that. So there are several that we're monitoring right now and hopeful that, on the private side, that we might see some more opportunity come forward.

**Matt Logan** — Analyst, RBC Capital Markets

Thanks, Michael. I appreciate the colour. That's all for me.

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

Thanks, Matt.

**Operator**

Thank you. Ladies and gentlemen, as a reminder, if you do have a question, please press star followed by one on your touchtone phone.

And your next question will be from Matt Kornack of National Bank Financial.

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

Hi, guys. Just two quick ones for me, one on the furnished suite side. Has the performance been driven by higher vacancy or are you taking lower rents to fill the furnished suites? And then a second question with regards to, it sounds like you're pushing through the rent increases but maybe not collecting that rent today. How is that being accounted for in your aggregate rental figures?

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

So I'll deal with the first one. The furnished suite demand has just been lower, so that's obviously impacting vacancy for sure and, to a lesser extent, rate, but rate for sure is being impacted as well, so it just sort of goes hand in hand with the vacancy and so we sort of look at the spread over unfurnished and what that's generating. So, as it relates to rent increases, as I'd indicated, we, throughout the crisis, provided rent increase notices, but with a cover note that we would not be collecting those rent increases. And from an accounting perspective, we just simply reflected the net amount, the amount that we were

actually collecting. We were not grossing it up and then taking an offsetting expense in OpEx. But Julie, maybe you could add some further colour to that.

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

Yeah, so essentially it was a nothing from an accounting perspective. So, as Michael mentioned, we didn't gross up the revenue and then apply a write-off or a discount as promo or anything like that, so no gross up of revenue and no implications on our OpEx either.

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

And Matt, by issuing those notices we preserved the anniversary dates in those tenancies, which obviously translates to valuation ultimately, and we've maintained the flexibility to actually begin collecting when market conditions permitted. And obviously we'll continue to work with tenants who are struggling, but we'll do that on a case-by-case basis as opposed to sort of a more blanket approach.

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

So, just out of curiosity, let's say my rent was up for renewal in April and I couldn't have my rent and you told me what the increase was going to be, like in August will I have to pay the higher rent or do I pay the higher rent a year from April?

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

No. Starting on August 1<sup>st</sup> you would be paying that higher rent.

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

Okay. Great. Thanks, guys.

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

Thanks, Matt.

**Operator**

Thank you. And at this time, Mr. Waters, we have no other questions. Please proceed.

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

Thank you, Sylvie. So 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 again after we report our third quarter financial results. In the meantime, we wish you all good health and hope you enjoy the rest of the summer. Thank you.

**Operator**

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines.