

# PRIVATE CANADIAN APARTMENTS – OPPORTUNITY AWAITS



## INCOME AND CASH FLOW

Rental income from tenants covers apartment operating expenses. Income left over is available as cash distributions to investors.



## INCREASE IN EQUITY

Tenant rents are used to make mortgage payments on the apartment. This means that someone is buying the apartment for you, increasing your share of ownership.



## BUILDING VALUE APPRECIATION

The value of apartment buildings may increase over time. Active management can accelerate the rate of increase.

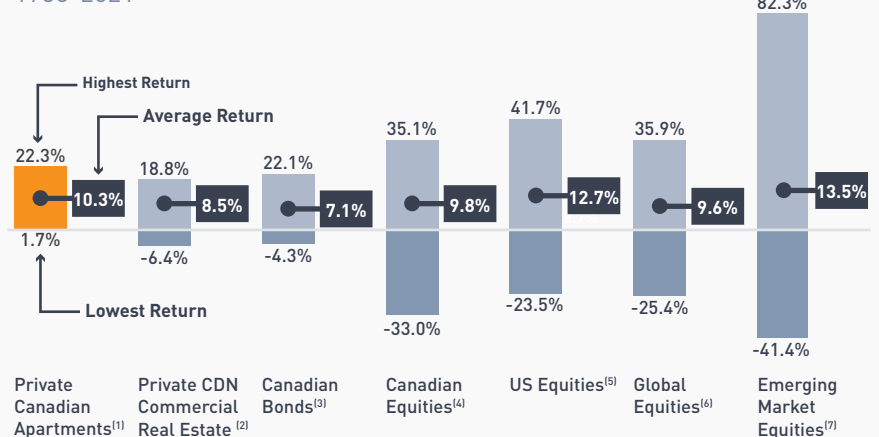
Private, multi-residential apartments offer investors a unique investment opportunity. They have the potential to create returns through three sources: consistent cash flows from operations; increases in equity from mortgage principal repayment (in a sense, the tenants buy the building for you); and, potential increases in property value over time.

# 6 KEY ADVANTAGES OF PRIVATE MULTI-RESIDENTIAL APARTMENTS

## 1 Higher Total Returns

Over the past 34 years, Private Canadian Apartments<sup>1</sup> have not only outperformed Canadian Bonds<sup>3</sup> and Canadian Equities<sup>4</sup> by 45% and 5%, respectively; they have never had a year in which their annual return was negative. The lowest annual return for Private Canadian Apartments was a positive 1.7% versus -4.3% for Canadian Bonds, -33.0% for Canadian Equities and -41.4% for Emerging Market Equities<sup>7</sup>.

### Asset Class Annual Total Returns 1988-2021



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## Lower Volatility and Higher Risk-Adjusted Returns

Not only have Private Canadian Apartments performed better than most major asset classes; they have also been significantly less volatile. Over the last three decades, the annual returns associated with Private Canadian Apartments have been even less volatile than Canadian Bond returns.

Over the last 34 years, as indicated by the Sharpe Ratio, which is widely accepted as the best way of comparing the relative risk-adjusted returns across various investments, the risk-adjusted return on Private Canadian Apartments was meaningfully higher than those of Canadian Bonds, as well as, Canadian, US, Global and Emerging Market Equities.

NOTE: the higher the Sharpe Ratio, the better the investment's historical risk-adjusted performance has been.

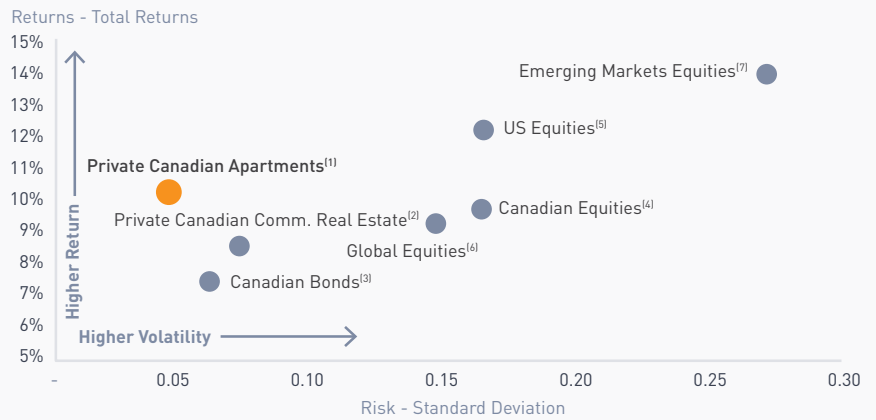
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## Better Downside Protection

Over the last 34 years, Private Canadian Apartments have provided investors with significant downside protection. Over this period, Private Canadian Apartments have never had a negative annual return, while in contrast, Canadian Bonds, US Equities, Global Equities, Canadian Equities and Emerging Market Equities have had negative annual returns 4, 6, 7, 10, and 11 times, respectively.

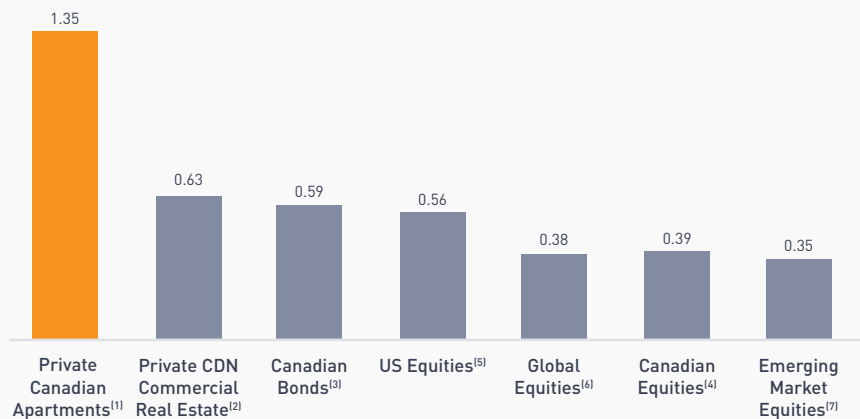
During the Financial Crisis of 2008, the single worst year in global investing since the early 1930s, Private Canadian Apartments posted a positive return of over 6%.

### Total Returns & Volatility (1988-2021)



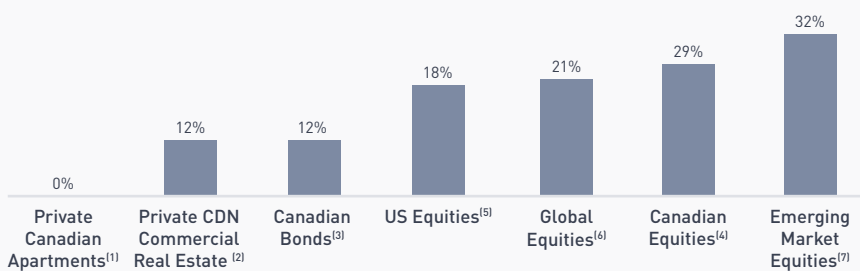
### Sharpe Ratio - Relative Risk - Adjusted Returns

1988-2021

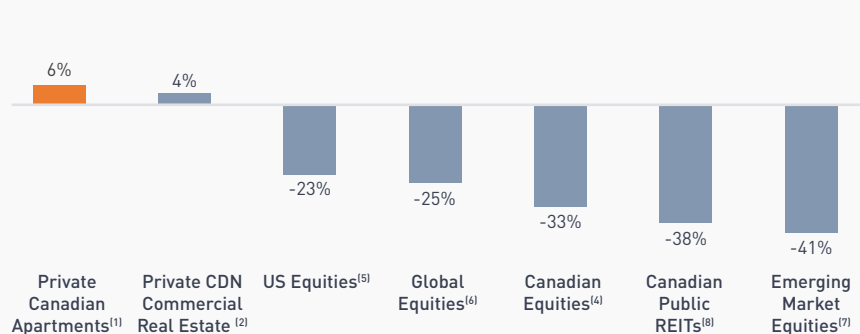


### Years with Negative Annual Returns (%)

1989-2021



### Total Returns 2008



## 4 Real Diversification

Private Canadian Apartments can potentially add meaningful diversification to a typical investment portfolio. They have historically demonstrated negligible correlation to Canadian Bonds as well as Canadian, Global, Emerging Market, and US Equities. Also, with only modest correlation with Private Canadian Commercial Real Estate, an investor can include additional diversification in their portfolio by adding exposure to Private Canadian Apartments to their portfolio even if they already have exposure to other real estate asset classes, such as offices and retail.

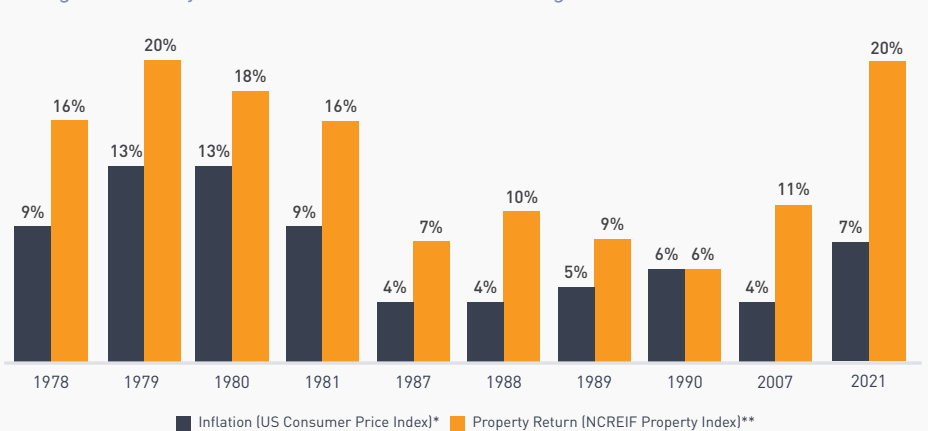
**Correlation Between Asset Categories' Annual Returns (1988-2021)**

	Canadian Equities <sup>(4)</sup>	Canadian Bonds <sup>(3)</sup>	Private Canadian Commercial Real Estate <sup>(2)</sup>	Global Equities <sup>(6)</sup>	Emerging Market Equities <sup>(7)</sup>	US Equities <sup>(5)</sup>
Private Canadian Apartments <sup>(1)</sup>	0.01	-0.08	0.67	0.06	-0.15	0.16
Canadian Equities <sup>(4)</sup>	-	0.05	0.04	0.61	0.67	0.45
Canadian Bonds <sup>(3)</sup>	-	-	-0.19	0.01	0.20	0.16
Private Canadian Commercial Real Estate <sup>(2)</sup>	-	-	-	0.02	-0.20	0.00
Global Equities <sup>(6)</sup>	-	-	-	-	0.42	0.89
Emerging Market Equities <sup>(7)</sup>	-	-	-	-	-	0.23

## 5 Proven Inflation Hedge

Over the last 43 years, commercial real estate in the U.S. has normally provided positive annual real returns during periods in which inflation, as measured by the annual change in the Consumer Price Index, was over 4%. While the relationship between real estate and inflation should not be the primary factor for investment in real estate, it is a component worth noting within the context of the diversification benefit to a multi-asset portfolio.

**Annual Performance of US Private Apartments**  
in high inflation years (Year-end to Year-end Change %)

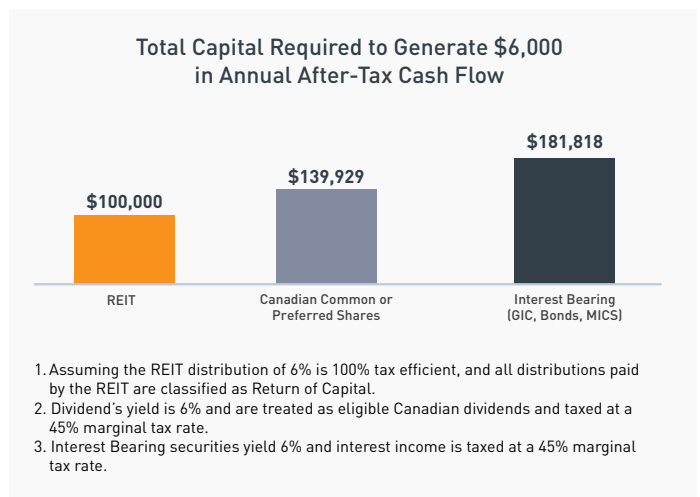
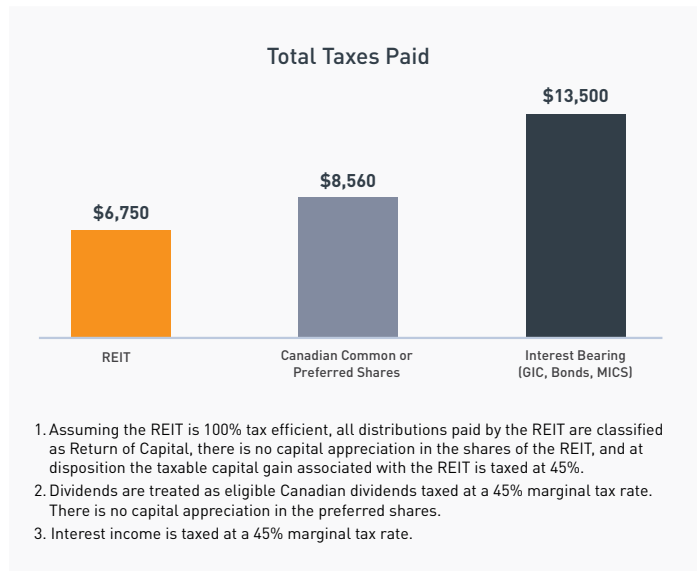
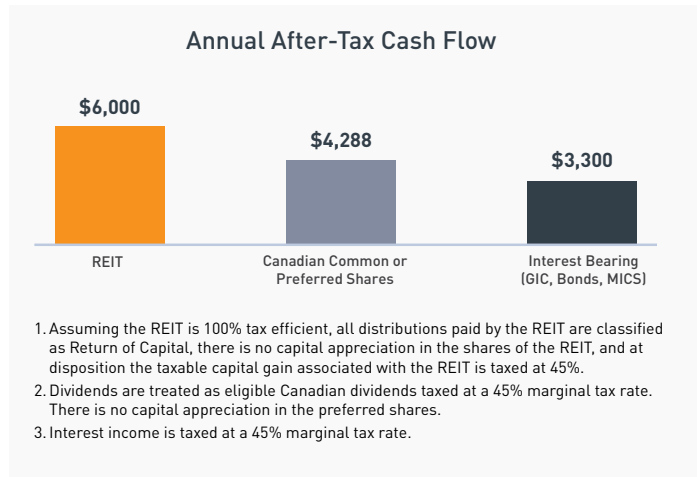


## 6 More Tax Efficient

Although dividends received from common/preferred shares are relatively more tax efficient than interest income both may be significantly less tax efficient than distributions received from a Private Apartment REIT.

Compare the tax consequences of investing \$100,000 for five years in a common/preferred share with a 6% dividend, an interest paying security yielding 6%, and an investment in an REIT with a 6% distribution.

- a) Higher after-tax cashflow:** Although all three investments would provide the investor with \$6,000 in pre-tax annual cashflows, the dividends received and the interest income earned would be subject to \$1,712 and \$2,700 in taxes every year, respectively. The REIT investor may not be required to pay any taxes in the current year and may be able to defer paying any tax until the REIT is sold.
- b) Pay less total taxes:** Total taxes paid over 5 years on the dividend and interest income would be \$8,560 and \$13,500, respectively, while on the REIT taxes would only be \$6,750 and could potentially be deferred until the REIT is sold.
- c) Tie up less capital:** From an after-tax perspective, an investor would have to invest over \$181,818 in a 6% interest bearing security or \$139,929 in a 6% preferred/common share to generate the same \$500 a month after-tax income stream as an investor who has invested \$100,000 in a REIT.



## SUMMARY

In comparison to typical bond and equity investments, Private Canadian Apartments have demonstrated that they have provided the following<sup>†</sup>:

- Higher returns;
- Lower volatility and higher risk-adjusted returns;
- Better downside protection;
- Enhanced portfolio diversification;
- Protection against inflation; and
- More tax efficient.

<sup>†</sup> Historical returns may not be indicative of future performance.



## Notes/Sources

### Notes/Sources

- 1) Private Canadian Apartments = MSCI/REALPAC Canada Quarterly Property Fund Index- Residential / MSCI Real Estate Analytics Portal– Accessed January 28, 2022
  - 2) Canadian Commercial Real Estate = MSCI/REALPAC Canada Quarterly Property Fund Index - All Properties / MSCI Real Estate Analytics Portal– Accessed January 28, 2022
  - 3) Canadian Bonds = FTSE Canadian Universe Bond Index /www.blackrock.com/ca – Accessed January 28, 2022
  - 4) Canadian Equities = S&P/TSX Composite Total Return Index / Bloomberg - Accessed January 28, 2022
  - 5) US Equities = MSCI US Index / Bloomberg - Accessed January 28, 2022
  - 6) Global Equities = MSCI World Index / MSCI Inc., www.msci.com/end-of-day-data-search - Accessed January 28, 2022
  - 7) Emerging Market Equities = MSCI Emerging Market Index / MSCI Inc., www.msci.com/end-of-day-data-search - Accessed January 28, 2022
- \* Inflation.eu, <http://www.inflation.eu/inflation-rates/united-states/historic-inflation/cpi-inflation-united-states.aspx>, "Historic inflation United States - CPI inflation", Accessed July 27, 2017
- \*\* Pension Real Estate Association, <http://docs.prea.org/pub/fa0175d3-d8dd-b1af-851d-ea3929ea043b>, "Why Real Estate" updated Q2 2017, Accessed July 27, 2017