EQUITON® | VIEWPOINT

2023 Market Commentary and 2024 Outlook:

EQUITON RESIDENTIAL INCOME FUND TRUST

PROVEN RESILIENCE IN AN EVOLVING RENTAL MARKET

It was an undeniably challenging year in Canadian real estate. High interest rates in particular impacted transaction volume, borrowing costs, and housing starts through the introduction of rate uncertainty. By the time the Bank of Canada paused — and potentially ended — its protracted interest-rate hiking cycle mid-year, it had become clear which real estate companies had built resilient portfolios capable of navigating macroeconomic challenges such as lingering inflation costs. Though not isolated from those same economic forces, firms exercising conservative operation entered the period from a position of strength, ultimately rewarding their investors. With a disciplined debt portfolio consisting of fixed-rate mortgages and a conservative investment approach, the Equiton Residential Income Fund Trust (the Apartment Fund) navigated this high-interest environment to produce an annual net return of 11.9% (Class F DRIP) in 2023.

The fourth quarter of 2023 concluded what was a banner year for Canadian rental growth. Looking forward to 2024, underlying market fundamentals are strong. Rental demand outpaced the construction of new supply, despite the latter achieving noteworthy gains throughout the year. Buoyed by tailwinds such as surging population growth, the rental market will continue to present investors with considerable opportunities.

Finding Opportunity in a High-Interest Environment

Canada avoided a significant recession amid high interest rates, but economic growth remains languid. A strong foundation will be necessary to capitalize on acquisition and development opportunities that arise in the initial months of 2024. Within this window, a lower transaction volume offers well-positioned companies the chance to make acquisitions with less competition. In such an economic environment, private equity firms have historically exhibited an ability to leverage a deep pool of capital to satisfy the creation of value over the long term. Indeed, while only 64 multi-residential transactions took place in the Greater Toronto Area last year, private equity real estate firms constituted 70% of total dollar volume[1].

With that in mind, Equiton made two acquisitions in Q4'23. Located in London and Brantford, Ontario, the properties totalling 170 rental units were an exceptional fit for the portfolio. Both were purchased at below-market values, and one is adjacent to an existing Equiton-owned building, unlocking operational efficiencies.

For the year ahead, Equiton is maintaining a selective, proactive posture to ensure all opportunities are captured effectively. Equiton will look to reinforce its market position in Ontario's high-growth regions, including Toronto and the GTA, where transaction activity is expected to pick up, as well as expand its presence into Vancouver and secondary markets such as New Westminster, Coquitlam, and Victoria. In the growing Edmonton market, Equiton will seek to bolster the scale of its portfolio.

Optimism in Purpose-Built Rental Construction

Other opportunities may arise out of the entrenched supply-demand gap in Canadian rentals, which is expected to widen amid high population growth and robust employment. Federal immigration targets will continue to drive population growth in larger markets, particularly in the Ontario and Vancouver areas where immigrants have a higher tendency to rent.

[1] https://www.collierscanada.com/en-ca/research/gta-multifamily-market-report-2023-year-in-review

Canada expects to welcome up to 485,000 permanent residents in 2024[2], and up to another million by the end of 2026. In parallel, housing starts dropped off sharply in 2023[3]. Though purpose-built rental construction slowed as well, quarterly completions in the GTA hit a 30-year high in Q4'23[4]. Ultimately, rentals comprised 35% of total housing completions in major Canadian markets last year[5].

While challenges to creating new supply remain, Equiton is encouraged by accelerating policy trends aimed at easing the construction of purpose-built rentals. Various levels of government have taken measures to shorten development timeframes and reduce costs in key markets. Industry groups suggest that the recent removal of HST and PST on purpose-built rental construction positively impacted starts in Q4'23.

As one example, the tax rebate on purpose-built rentals has added a level of cost certainty to new and some in-progress projects, including the three-tower Maison Riverain development in Ottawa where Equiton partnered with local-market experts Main and Main. While the first tower is on track to welcome residents in early 2025, investors will benefit from lower costs in future phases of the project.

Riverain will contribute approximately 1,100 sorely needed residential units to the local supply when it is completed.

In addition, Q4'23 saw several more major metros engage with federal and provincial incentives by committing to end exclusionary zoning practices and allow purpose-built rentals in residential areas by default; opening greater density along transit corridors; and slating municipal lands for high-density development. In Equiton's view, these policy tailwinds must evolve into more incentives to increase the viability of building rental supply at scale. Other opportunities include reducing multi-residential property taxes, a key component of post-construction costs and rent prices, to the level of condos and low-rise homes[6]. Ongoing work by organizations such as the Canadian Chamber of Commerce's Housing and Development Strategy Council*, in addition to demonstrations of political will, are causes for optimism in the realm of construction.

Demand for High-Quality, Accessible Rental Options

The costs of buying and owning a home, pushed up by high lending rates and the lingering costs of inflation, supported the retention of potential homeowners within the rental market. Though rent prices increased as well, purpose-built rentals continued to offer a more affordable alternative to homeownership's escalating costs, as indicated by record low vacancy rates and a cooler market for private homes. In this regard, Equiton places great importance on providing residents with high-quality and accessible housing options.

In addition, stability has become a primary renter concern. Renters living in purpose-built units benefit from regulated rent prices that can offer a measure of predictability in periods of high rent growth.

**Equiton is a member of the Housing and Development Strategy Council*

[2] https://www.canada.ca/en/immigration-refugees-citizenship/news/notices/supplementary-immigration-levels-2024-2026.html
[3] https://www.cmhc-schl.gc.ca/media-newsroom/news-releases/2024/housing-starts-down-2023-from-2022
[4] https://www.urbanation.ca/news/gta-rental-market-slowed-q4
[5] https://economics.td.com/ca-rent-outlook

By contrast, renters in newer condo units can be subject to sudden rent hikes in line with tax, strata fee, and market rent increases. They may also face eviction for a unit owner's personal use — in Toronto, personal-use applications surged 77% in the first nine months of 2023[7].

Responding to Renters' Evolving Expectations

The population of potential renters aged 24 and under accelerated in most provinces, with more forming households owing in part to employment gains[8]. Among this group, Equiton observes an acceptance of (and preference for) the rental lifestyle, which offers greater flexibility and mobility than ownership. Although these and other renters gravitate toward creating households in lower-cost accommodations and smaller unit sizes due to economic constraints, many have also signalled a desire for single-occupant accommodations. Equiton explores opportunities to meet this demand within its existing portfolio through units that offer an attractive combination of accessibility and privacy.

Equiton's demonstrated ability to identify and respond to the changing needs of residents is foundational to its mission of building a resilient, stable portfolio that continues to create value for investors through many different market conditions.

ESG: Adding Value in Challenging Times

In alignment with Environmental, Social, and Governance (ESG) practices, Equiton concluded its first full year of participation in the Global Real Estate Sustainability Benchmark (GRESB). The independent environmental assessment provided insights into Equiton's strengths and areas for improvement, informing our approach to the year.

When faced with a challenging environment for acquisition and development, Equiton turned to implementing a number of green upgrades to existing properties to strengthen the quality of its portfolio. For example, Equiton recently completed the modernization of windows at five of its largest properties, with the aim of improving heat retention and reducing energy consumption. Measures of resident satisfaction experienced an immediate boost. Over the long term, the retrofits are expected to achieve significant cost savings as well.

By harnessing a variety of approaches to create value, Equiton aims to achieve sustainable growth within its portfolio and stay on pace to achieve the goal of net-zero carbon emissions by 2050.

Equiton's commitment to creating spaces where residents thrive was recently recognized by SatisFacts. The independent multi-residential housing evaluator awarded three Equiton properties with the 2023 SatisFacts Resident Satisfaction Award, which recognizes superior resident satisfaction and retention rates. Notably, two of these award-winning communities were the site of Equiton's new emergency awareness and community social pilot programs, which were designed to engage residents and foster a sense of belonging.

[6] https://www.bildgta.ca/wp-content/uploads/2023/02/Purpose-Built-Rental-Whitepaper-FINAL.pdf

[7] https://www.cbc.ca/news/canada/toronto/personal-use-n12-evictions-up-1.6999969

[8] https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/market-reports/rental-market-report/rental-market-report-2023-en.pdf

Equiton regularly connects with residents through satisfaction surveys at multiple touchpoints throughout their tenancy and acts on the findings.

A Portfolio Built to Navigate Uncertainty

The past year was an ultimately positive period for firms demonstrating a commitment to conservative decision-making and growing value. 2024 is widely predicted to be another year of exceptionally tight rental markets amid ongoing population growth. Rental demand continues to be well-supported by robust employment numbers, and rental growth — expected to moderate toward its five-year average of approximately 5% in 2024[9] — establishes room for further gains. Equiton will continue to respond to the dynamics of immigration, interest rates, and new rental trends as they arise to continue to provide solid returns for investors.

[9] https://rentals.ca/blog/january-2024-rentals-ca-report

Forward-Looking Information

Certain information in this communication contains "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information may relate to future events or the Trust's performance. Forward-looking information includes, but is not limited to, information regarding the Trust's distributions, growth potential and volatility, investor returns, ability to achieve operational efficiencies, objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations and other statements that are not historical facts. These statements are based upon assumptions that the management of the Trust believes are reasonable, but there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking information involves numerous assumptions, known and unknown risks, and uncertainties that contribute to the possibility that the forward-looking statements will not occur and may cause actual results to differ materially from those anticipated in such forward-looking statements. Some of these risks are discussed in the section "Risk Factors" in the Offering Memorandum. These forward-looking statements are made as of the date of this communication and the Trust is not under any duty to update any of the forward-looking statements after the date of this communication other than as otherwise required by applicable legislation.

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