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Q2 2024 Commentary and Outlook:

INTEREST RATE CUTS ACCELERATE POSITIVE OUTLOOK FOR RENTALS

- In the second quarter, the Bank of Canada (BoC) decreased its key interest rate by 25 basis points to 4.75%. The cut was supported by the rising unemployment and flat GDP growth that had characterized previous quarters. In April, inflation had eased to 2.7%, within the BoC's target range. It laid out an optimistic case for a second rate cut at the July meeting.
- Multifamily real estate emerged as the industry's most-favoured asset class in terms of expected performance over the next 12 months, according to the Altus Group's CRE Industry Conditions & Sentiment Survey for Q2'24. Responding real estate firms polled in the survey anticipate NOI and property revenue growth to remain stable or increase. Likewise, respondents expect cap rates will remain stable over the next year, and fewer expect rates to increase than in the previous quarter.
- Throughout the quarter, cap rates showed further signs of contracting after expansion slowed in the previous months. As a result, property valuations could be seen to stabilize in the multifamily, industrial, and commercial spaces.
- National average asking rents for all residential property types hit a record high in May, followed by a slight pullback in June. Purpose-built rents were up 11.0% Y/Y and the increase in condo apartment rents hit 2.6% Y/Y by quarter end.
- Although sentiment improved, the BoC's still-restrictive rate level is not expected to materially improve market conditions in the near term.
- Transactions across all property types slowed throughout the quarter, particularly in residential markets where sales fell below pre-COVID levels. A significant build-up of resale properties in Vancouver, Toronto, and Montreal went unsold. Despite this, high prices continue to present a major obstacle for first-time home buyers.
- Regarding supply, high interest rates likely contributed to a decrease in total starts in major cities, led by slowing multi-unit construction. Compared to June 2023, actual housing starts in Toronto and Vancouver declined 60% and 55%, respectively. This potential undersupply of newly built units could lead to price increases in the category.
- Population growth, a key driver of real estate and rental market expansion, is now becoming more widespread. While major metros like Toronto continue to attract the majority of new immigrants, lower-cost-of-living markets such as Niagara, Hamilton, and London in Ontario, as well as Edmonton and Calgary in Alberta, are also experiencing accelerated population growth.

Portfolio Update

In June, the Equiton Residential Income Fund Trust (the Trust) purchased four properties located in Welland, Ontario, increasing the Trust's AUM to over $1 billion. The acquisition totalled 388 rental units, representing more than 10% of the local market's primary rental stock. This strategic entry into the Niagara Region capitalizes on the area's strong economic growth and rental tailwinds.

Meanwhile, we continued to strengthen the existing portfolio through physical improvements and by increasing Resident satisfaction. Ongoing projects of note include common area renovations and a major garage restoration aimed at enhancing the Resident experience. Energy-saving projects that were completed included building envelope repairs, lighting installations, and water-systems maintenance across the portfolio.

In Ottawa, the first of the Maison Riverain development project's three towers remains on track to welcome Residents in late Q1 or early Q2'25. Ultimately, it is expected to add over 1,100 rental units to the Trust's portfolio.

Performance

The Trust posted a trailing 12-month return of 11.07% (Class F DRIP) in Q2. Without taking the Welland acquisition into account, the portfolio's top line growth and operational gains fully offset the appreciation of market cap rates, a potential $10.5M negative impact to portfolio market values. A 16.6% quarterly increase in portfolio NOI, led by high occupancy (99.3%) and new lease rental growth (20% Y/Y), contributed to the Trust's strong balance sheet.

The Trust maintained a weighted average borrowing rate of 3.19%, in line with its conservative leverage strategy. Equiton qualifies for Canada Mortgage and Housing Corporation (CMHC) rates (estimated at 4.35% to 4.55% at 10-year market rates during the previous quarter), generating significant savings over conventional mortgage lending rates, which were estimated at 5.25% to 7.50%. This approach, which saved the Trust approximately $13.3M in 2023, strengthens the Trust's ability to make accretive acquisitions in a fluctuating rate environment.

Market Outlook and Fund Strategy

Persistently low inflation data, weak consumer spending, and a slower labour market strongly suggest the possibility of more rate cuts later this year. In turn, cap rates can be expected to stabilize and contract as rates decrease, positively impacting the Trust's fair value should property values recover in the first half of 2025.

Notwithstanding the BoC's earlier rate cut announcement, buyers and sellers are unlikely to step off the sidelines until greater rate certainty is achieved. A recent poll for the Toronto Regional Real Estate Board suggests that cumulative rate cuts of at least 100 basis points will be required to stimulate homebuying activity. Should falling rates encourage a surge of buyers off the sidelines, the resulting demand could result in a significant run-up in home prices. Until then, stagnant resale transactions typically lead to fewer renters transitioning to homeownership.

We continue to view the current economic environment as an opportunity to scale up holdings in key markets. Generally, the low transaction volumes of recent quarters have allowed well-capitalized firms to make purchases with minimal competition.

This advantageous window is expected to remain open until falling interest rates reaccelerate the market.

We continue to explore new acquisitions to diversify and strengthen the resiliency of the portfolio.

In a departure from previous quarters, multi-unit starts led a significant decrease in the annual pace of overall housing starts in urban centres. The CMHC attributes this shift to a higher interest rate environment and predicts fewer starts through the end of 2024.

In fact, a partial rebound in starts activity is unlikely to occur until 2025 or 2026, according to the agency. A constricted development pipeline will result in fewer launches over the coming years, resulting in higher overall competition for product that actually reaches completion.

Occupancy rates declined primarily in markets impacted by the higher cost of living.

As part of the Trust's active management approach, we have successfully deployed an aggressive marketing stance to quickly close vacancies. Strategies included the use of referrals, targeted digital advertising campaigns, and in-person open houses.

This active management approach will become more central as lower interest rates encourage homebuying activity, resulting in higher turnover among rental apartments and more opportunities to close rent gap to market.

Through its conservative approach, the Trust achieved significant growth despite the challenges of recent quarters. Even in a high-rate environment, the Trust expanded and strengthened its property portfolio while maximizing operational efficiencies. With interest and cap rates headed in a positive direction, we expect accelerated growth in the months and years ahead.

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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