Q3 2024 Commentary and Outlook:

RATE CUTS SPUR RISE IN MULTIFAMILY ACTIVITY

The Equiton Residential Income Fund Trust (the Trust) is a private real estate trust that specializes in acquiring underperforming and undervalued multi-residential properties and select new developments in Canada and increasing value through active management.

- The Bank of Canada (BoC) implemented two interest rate cuts totalling 50 basis points in Q3'24, bringing its key interest rate to 4.25%. August inflation data showed that Consumer Price Index growth fell to within the BoC's 2.0% inflation target for the first time since February 2021. With inflation tracking downward, a slowed economy, and rising unemployment, the BoC will likely continue to steadily cut rates, contributing to improved market conditions and moving cap rates in a favourable direction.
- Residential home price growth continued to stall, with Toronto and other premium markets particularly impacted. This led to modest transaction gains that nonetheless reached their highest level since July 2023.
- Decreased competition across most categories, including purpose-built apartments, created advantageous buying opportunities for well-capitalized companies to expand their portfolios with strategic acquisitions.
- In contrast to modest transaction gains in other categories, multifamily sales volume soared 1,000%+ Y/Y to $1.06B from $91.1M in Q3'24, This resurgence was primarily driven by institutional capital, and includes the Trust's second major acquisition of the year. Institutional activity generally precedes broader moves within the market and can indicate its trajectory.
- National average asking rents ended the quarter at $2,193, up 2.1% from a year ago. Rents for purpose-built apartments rose by 5.4%, while condominium rents declined 1.7%. Although Canadian home prices ended the quarter 3.3% below year-ago levels, they made modest gains throughout the quarter compared to early-year lows. This trajectory may signal homebuying challenges in the future, favouring the rental category.
- Canada Mortgage and Housing Corporation (CHMC) housing supply data released Q2'24 found that, in the first half of 2024, Canada's six largest metro areas observed the second strongest wave of new construction since 1990. Purpose-built rentals comprised nearly half of all apartment starts during the period.
- In Q3'24, builders broke ground on a larger-than-expected number of units in July, with Ontario housing starts surging 57% from the previous month. Nationally, total starts increased 5.0%, driven in part by a 6.0% increase in multi-unit urban starts.
- Toronto continued to lead North America in construction activity with over 80 cranes in operation. However, this represents a substantial decrease compared to the 220 cranes recorded earlier this year. This slowdown may signal worsening supply shortages in the future. CMHC noted that the pace of new housing is still unlikely to satisfy demand, doing little to improve housing affordability.
- With this longstanding supply-demand gap in mind, Equiton partnered with Concordia University's John Molson School of Business to launch new, artificial-intelligence (AI) driven insights into key factors contributing to rental growth across Canada. Leveraging a neural network model to generate rental projections, the report forecasts rent price increases of up to 225% in major markets, by 2032.

Portfolio Update

The Equiton Residential Income Fund Trust (the Trust) expanded its presence in Toronto with a three-property acquisition in September. The addition represents just under 350 residential rental units, including premium townhomes situated in one of the city's most exclusive mid-town communities. This strategic move into Forest Hill and North York further expands the Trust's footprint in one of North America's strongest multifamily markets and bolsters its portfolio with strong existing and potential cash flow. The Trust's total holdings now comprise 41 properties in Ontario and Alberta with a total of 3,463 portfolio units.

The purchase complements the previous quarter's acquisition of four rental properties in Welland, Ontario. The Welland portfolio features a gap to market of 73.3%. The Trust has since started the process of making improvements that will reduce operational costs over the long term, including the implementation of a utility sub-metering program. Sub-metering is proven to reduce energy and water consumption by enabling Residents to directly control their usage costs, thereby enhancing the overall living experience.

In adherence to the firm's commitment to Environment, Social, and Governance (ESG) practices, Resident satisfaction remains a priority. To track satisfaction and help guide Resident initiatives, Management conducts regular satisfaction surveys at key points in each Resident's tenure. By the end of the quarter, the number of resident satisfaction surveys collected had already surpassed last year's total. To further enhance Resident satisfaction portfolio-wide, on-site Resident Managers received comprehensive customer service training, equipping them to respond more effectively to feedback. Training is a key part of Equiton's governance and social strategies, with regular sessions offered both online and in person for all Employees, from new hires to the leadership team.

Management is in the process of finalizing the leasing strategy for Maison Riverain, a joint development in Ottawa that will add over 1,100 rental units to the local market. Tactics include model suites, virtual tours, and a dedicated leasing office. Occupancy is projected to commence in early- to mid-2025.

Performance

In the third quarter of 2024, Class F DRIP Unitholders received a 7.94% trailing 12-month total return, contributing to a 10.92% annualized return since the class's inception. The portfolio's weighted average cap rate appreciated to 4.43% Y/Y by approximately 46 basis points, inclusive of recent acquisitions. Operational performance predating the recent Toronto acquisition offset this increase, which was attributed to market-driven conditions. The portfolio generated quarterly revenue and NOI increases of 18.8% ($6.5M) and 21.0% ($4.1M) Y/Y, respectively.

Rental growth was supported by efficiently filling vacancies through active marketing strategies. Portfolio occupancy of rent-ready units ended the quarter at 99.3%, well above the national average of 96.8%. While same-store market rents rose approximately 5% Y/Y, the Trust achieved an 11% increase in same-store rents in the same period through its extensive renovation program.

Meanwhile, the Trust realized same-store utility savings of more than $350K (11% Y/Y) through a combination of lower natural gas costs, energy conservation efforts, and the ongoing portfolio-wide sub-metering program.

The Trust's demonstrated ability to capitalize on gap to market rent while reducing costs speaks to the effectiveness of its active management approach, which generates value through operational efficiencies and strong organic growth. The portfolio's gap to market remains stable at 35.1% as at September 30, from 35.8% in the previous quarter, retaining potential for future appreciation.

Market Outlook and Fund Strategy

The slower pace of the economy and controlled inflation leave room for further interest rate cuts in Q4'24. Canadian economic growth is poised to recover moderately as rates potentially settle at a new baseline. Rate easing could trigger new real estate activity as early as the first half of 2025, particularly in the residential market, pushing up home values and constricting cap rates on income-producing properties.

The potential for lower rates could further ease underwriting challenges and encourage cautious optimism around new dealmaking. 75% of Canadian real estate firms, responding to Altus Group's latest sentiment survey signalled an intent to transact in the next six months. The Trust's capitalization and prudent financing strategy positions it to benefit from improved financing conditions. As an active buyer, the Trust continues to explore the growing Ontario and Alberta markets.

The slowing in market rent growth recently experienced by major cities like Toronto is expected to rebound slightly. In certain metros, such as Kitchener, Waterloo, Guelph, and Ottawa in Ontario, this moderation already appears to have run its course. Equiton's portfolio of income-producing properties benefits from a substantial gap to market, creating opportunities for growth beyond rental increases alone.

As more buyers enter the market and home sales recover, new home construction is expected to rise in 2025. According to Deloitte's Fall Outlook, the number of new homes could rise from 246,000 in Q1'25 to 267,000 by the end of the year. Nonetheless, housing completions are expected to fall far short of existing demand. As home affordability improves in the near term, Equiton anticipates that some renters may transition to homeownership, creating new turnover opportunities.

Looking ahead to Q4'24 and beyond, Canadian rental markets are beginning to recover from pockets of marginally higher vacancies and slower rental price growth. Historically, softer rental markets have been part of natural market cycles, often presenting brief windows of opportunity for strong gains during the subsequent rebound. The Trust's acquisition of assets with exceptional fundamentals bolsters its resilience and positions it for substantial gains in upcoming quarters, leveraging both market rent gaps and capital appreciation.

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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