avenueliving
asset management

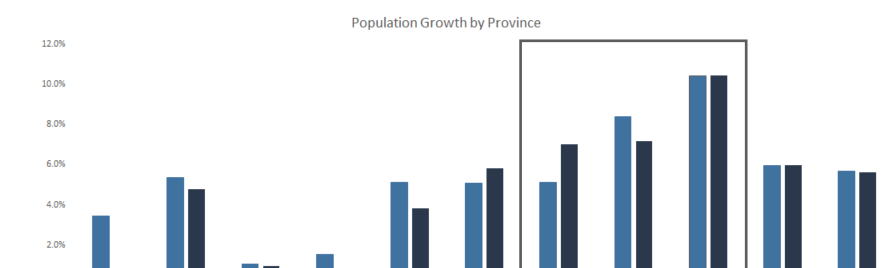
MULTI-FAMILY FUNDAMENTALS SUPPORT CONTINUED GROWTH IN AVENUE LIVING'S MARKETS

Avenue Living Asset Management ("Avenue Living") is Western Canada's fastest growing private multi-family principal investor and operator of 8,000+ units in Alberta (AB), Saskatchewan (SK), and Manitoba (MB) with 450+ staff across 18 markets. Avenue Living's portfolio is made up of properties classified as 'Workforce Housing', a sub-sector market within the multi-family asset class, and strategically selects locations that are supported by strong macro fundamentals; population growth, high incomes, and affordable rents.

The supporting demographic and income fundamentals in Avenue Living's markets continues to offer the opportunity to benefit from increasing rental rates and strong occupancy rates while maintaining affordable communities for renter households. Over the last 10 years, investors have increased their investment allocations into alternative asset classes including real estate, as an effective tool in portfolio diversification. As investors reflect on 2018, Avenue Living believes there continues to be a compelling investment environment within its core markets: Alberta, Saskatchewan and Manitoba. These three markets benefit from strong demographic and income growth fundamentals. Alberta, Saskatchewan and Manitoba have had the highest population growth relative to other Canadian markets, coupled with limited supply of new rental accommodations. In addition, these markets cater to some of the highest income earners (and high annual average income growth rates) and still benefit from some of the most affordable rents. In recent years, developers have delivered new supply of Class A (luxury) purpose-built rental projects in the largest centers across Avenue Living's markets (Calgary and Edmonton). Avenue Living's portfolio of 'Workforce Housing' assets are insulated from this new supply due to average rents being significantly below those in the new-construction Class A sub-sector.

AVENUE LIVING'S PROVINCES HAVE EXPERIENCED LARGEST POPULATION GROWTH

The three provinces Avenue Living has invested in have experienced some of the strongest population growth when compared to other Canadian provinces (inter-provincially and internationally). Alberta has benefited from positive net migration for the last 18-years while Saskatchewan and Manitoba have also experienced positive migration with fundamentals similar to those of Alberta. Primary drivers continue to be employment opportunities, salary growth potential, and low cost of living.



	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	Canada
2007-2012 %Δ	3.4%	5.3%	1.1%	1.5%	5.1%	5.1%	5.1%	8.4%	10.4%	5.9%	5.7%
2012-2017 %Δ	0.4%	4.8%	0.9%	0.4%	3.8%	5.8%	7.0%	7.2%	10.4%	6.0%	5.6%

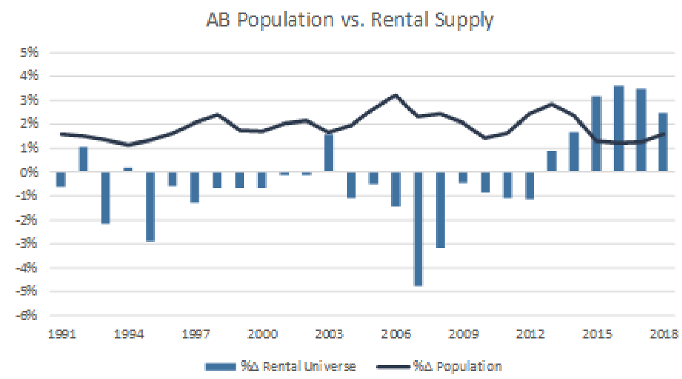
Source: Statistics Canada

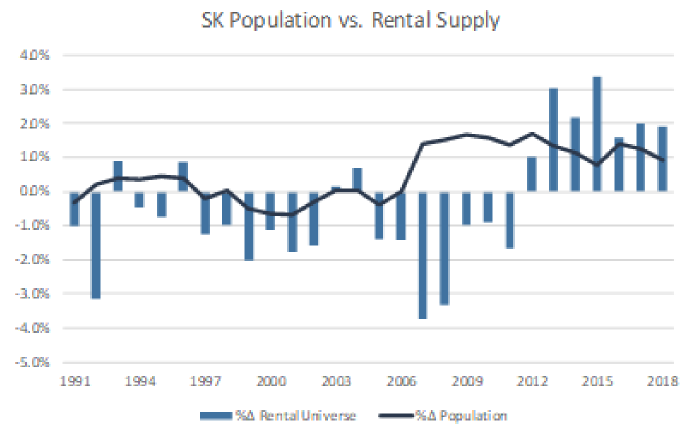
AVERAGE POPULATION GROWTH OUTPACING NEW SUPPLY

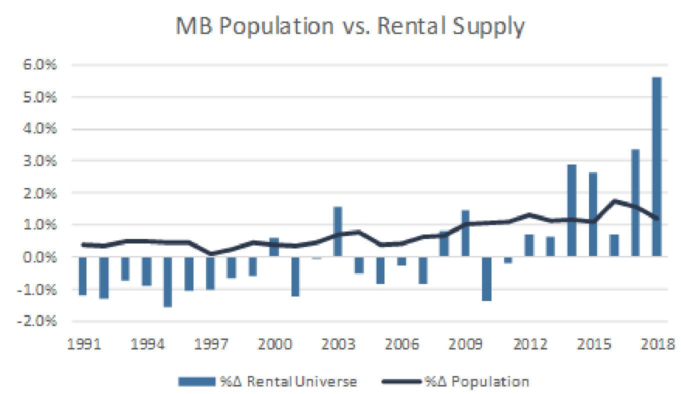
Avenue Living's properties are strategically located in markets where population growth rates have exceeded new supply of multi-family rental units. Overall, in all three provinces where Avenue Living has invested, the rate of population growth has not been met with equal growth of additional rental units. This continues to create pressure on rental rates and occupancy as more people look to rent from a stagnant supply of rental units.

From the period of 1991-2018, the Alberta rental universe (the total number of multi-family rental units in the market) saw the highest discrepancy with its 29-year supply of rental units contracting at a compounded annual growth rate ("CAGR") of -0.20%, while the provincial population CAGR increased by 1.82%. Saskatchewan's rental universe contracted at a CAGR of -0.40%, while the population CAGR was 0.52%. The decline in the number of rental units has been due to the conversion of rental units to individual private ownership (condominium), and places additional pressure on the rental market as units and buildings are removed. Manitoba's rental universe increased at a CAGR of 0.2%, while its population CAGR was 0.7%.

Across Alberta, Saskatchewan and Manitoba, to match supply constraints, much of the increased supply has come in recent years through Class A (luxury) purpose-built rental units.







Source: Statistics Canada, CMHC

NEW SUPPLY REQUIRING SIGNIFICANTLY HIGHER RENTAL RATES

While overall change in population has exceeded the change in supply, supply of Class A (luxury) rental units has increased in recent years as illustrated above. In order to offset the increasing cost of development, new rental projects require significantly higher rental rates relative to the broader rental market and cater to a niche portion of renters that opt out of home ownership.

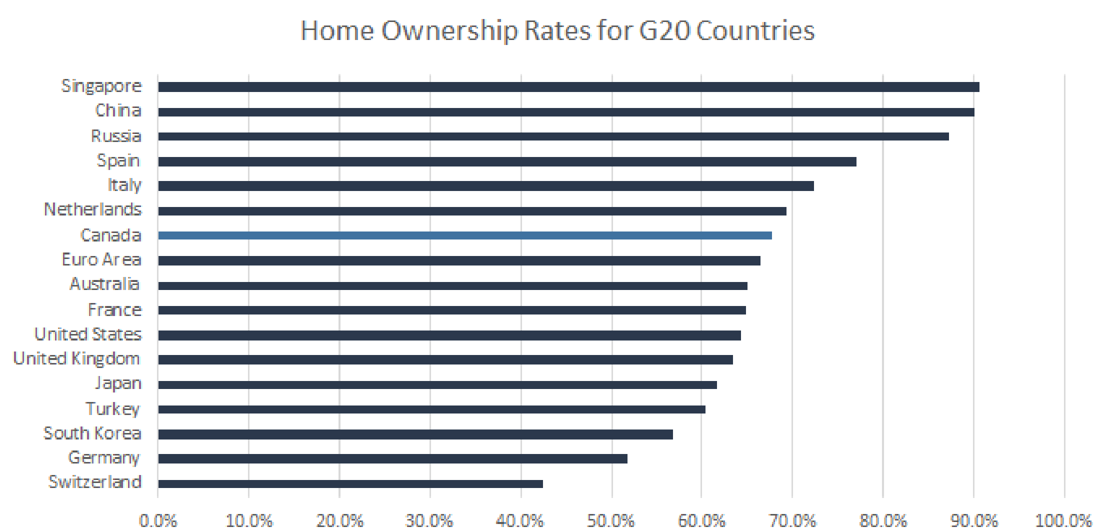
On average across Alberta, Saskatchewan and Manitoba, it costs almost 40% more to rent a newly constructed apartment, when compared to older, more traditional properties within these markets. While new supply creates negative pressure on market occupancy rates, Avenue Living's focus in the 'Workforce Housing' sub-sector (where renters earn 60%-120% of area median incomes) insulates it from the impact of new supply. On average, renters within the 'Workforce Housing' sub-sector account for 30% of provincial populations, which typically require more affordable rents that exist in the older and more traditional rental accommodations.

	Pre 1960	1960-1979	1980-1999	2000+	%Δ Pre 1960-2000+
Alberta	$1,069	$1,065	$1,118	$1,330	24.4%
Saskatchewan	$897	$951	$1,026	$1,221	36.1%
Manitoba	$828	$999	$976	$1,312	58.5%

Source: CMHC

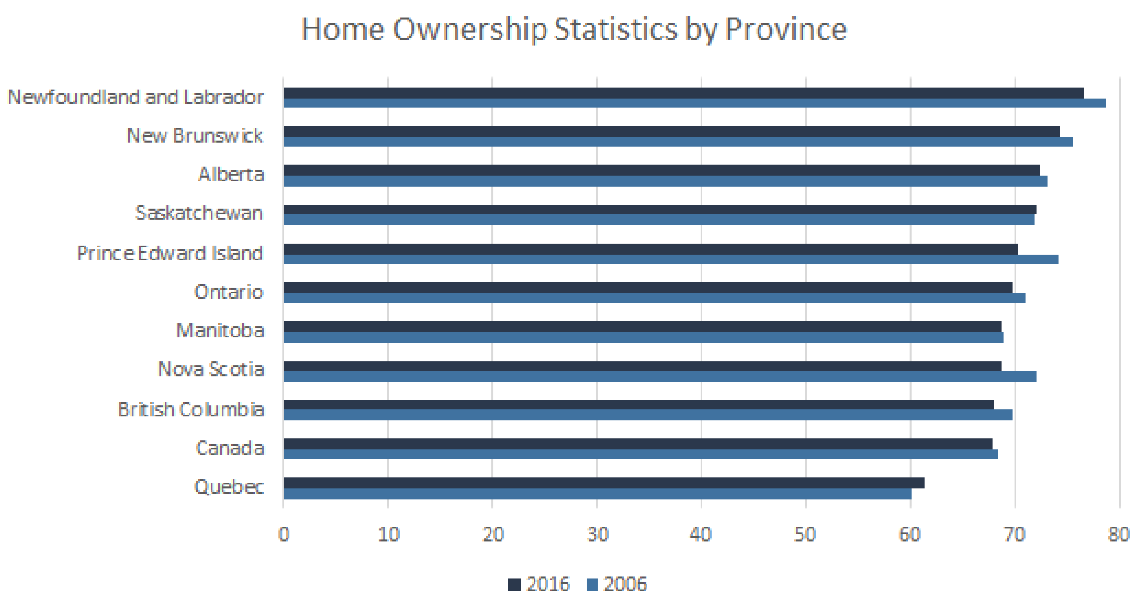
HIGH HOMEOWNERSHIP RATES IMPACTED BY TOUGHER FINANCING ENVIRONMENT

According to an article from Trading Economics, Canada is ranked 7th in the G20 for home ownership rates at 67.8% (data as of 2016).



Source: Trading Economics

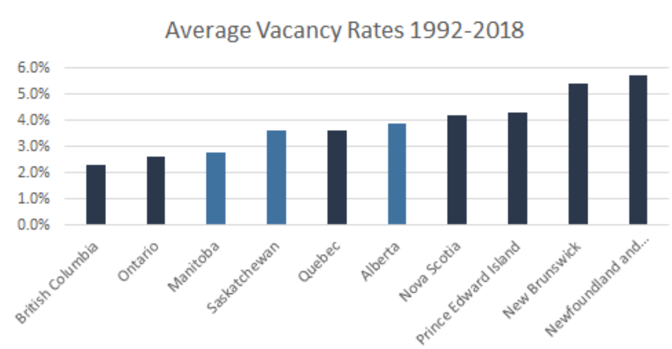
This compares to Alberta at 72.4%, Saskatchewan at 72.0%, and Manitoba at 68.7%, all above the national average. With increasing restrictions on traditional bank financing and relatively high homeownership rates, these statistics point to an increasing population that may look to rental accommodations. This will be further compounded with the 'millennial' generation (aged 20-35), who are less motivated to own a home, that will also keep the rental pool in strong demand moving forward. A Stanford University report cites that by age 30, 48% of the 'boomer' generation owned homes compared to only 36% in the 'millennial' cohort.



Source: Statistics Canada

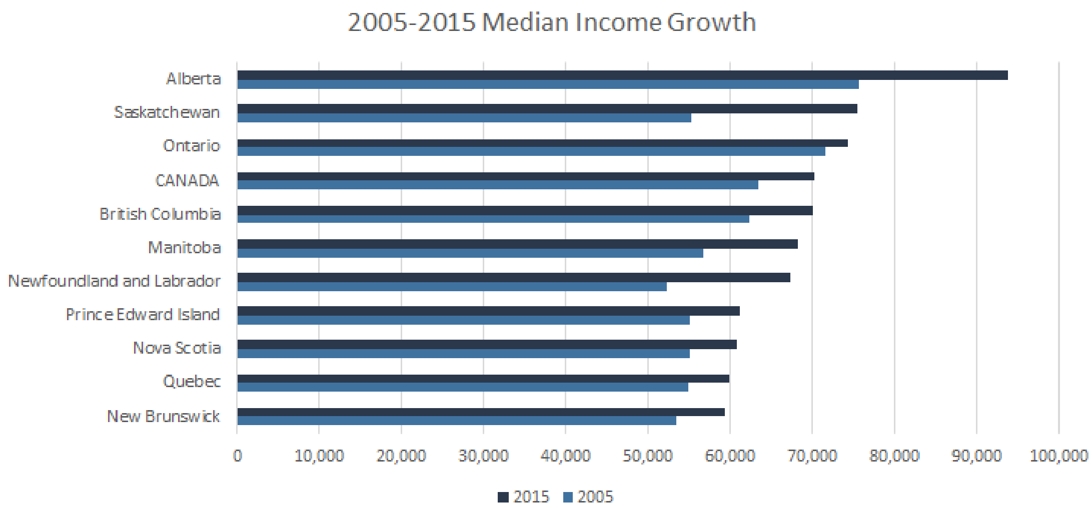
HIGH INCOME GROWTH, LOW LONG-TERM AVERAGE VACANCY RATES, AND LOW AVERAGE RENTS

Avenue Living's markets benefit from low long-term vacancy rates, which are influenced by the relationship between population growth, lack of affordable new supply, as well as positive income growth trends. The standard of living continues to be high in Avenue Living's markets, where median income has grown significantly over the last 10 years, while average rents remained low.



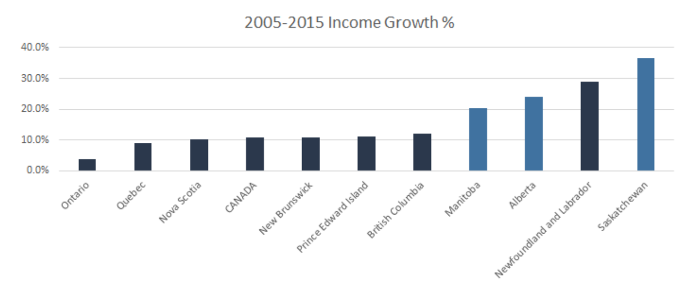
Source: CMHC

As illustrated below, Alberta and Saskatchewan have the first and second highest average provincial median incomes respectively.



Source: Statistics Canada 2016 Census

Between 2005 and 2015, Saskatchewan's median income growth was the highest in Canada at a 36.5% increase, followed by Alberta (24.0%) and Manitoba (20.0%).

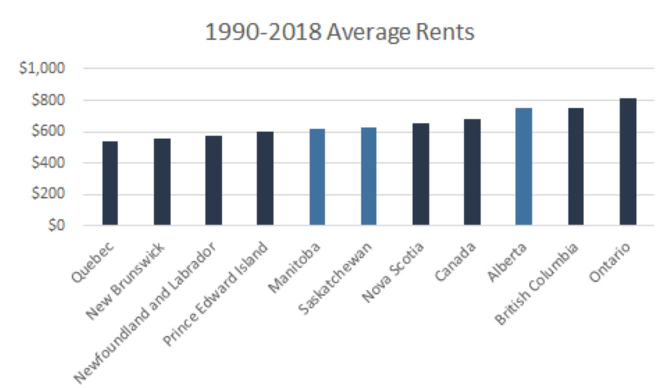


Source: Statistics Canada

The influx of people moving to Alberta, Saskatchewan, and Manitoba to benefit from income growth trends are keeping average vacancy rates the lowest in the country after British Columbia and Ontario.

Avenue Living's markets have high growth rates in median incomes, but rental rates remain low, creating a high standard of living and a compelling investment environment.

As illustrated here, between 1990-2018 average rental rate growth has not reflected median income growth rates. While Alberta sits at the top for income earners, average rents are third highest in the country behind Ontario and British Columbia. Manitoba and Saskatchewan are both currently below the national average and are the fifth and sixth lowest in Canada, respectively.



Source: CMHC

CONCLUSION: STRONG FUNDAMENTALS SUPPORT AVENUE LIVING'S CONTINUED INVESTMENT IN THE PRAIRIES

Avenue Living's provinces have some of the highest incomes with relatively low rents in comparison. The Canadian Rental Housing Index states that a healthy spend on rent equates to 30% or less of people's gross incomes. Anything more begins to impact people's lifestyles significantly. Based on provincial median incomes and average annualized rents, Alberta, Saskatchewan, and Manitoba's rents as a percentage of gross median incomes are 14.7%, 15.1%, and 15.4% respectively, illustrating a low-cost living environment.

Long-term population growth that's outpacing long-term rental supply, a lack of new supply for the 'Workforce Housing' demographic, and assets in locations with some of the strongest Canadian income growth, are all significant strengths in Avenue Living's investment focus. Avenue Living's portfolio across Alberta, Saskatchewan and Manitoba will continue to benefit from strong fundamentals to support rental rate growth, increased occupancy rates, while maintaining affordable rental communities and delivering strong risk-adjusted investment returns.

CONTACT US

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