THE CASE FOR SINGLE-FAMILY RENTAL INVESTMENT IN ONTARIO, CANADA

CUSHMAN & WAKEFIELD

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INTRODUCTION

The evolution of the $4.4 trillion single-family rental (SFR) sector in the United States serves as a case study to demonstrate how conversions of individually owned single-family homes (SFH) to institutionally owned rental units can create a dual benefit to renters and investors alike. This strategy provides quality rental housing options for tenants and can generate predictable, recurring cash flows for investor-owners. With time and investment, this sector has the potential to evolve into a professionally managed, institutionally owned commercial real estate (CRE) asset class within the larger rental housing spectrum in Canada as it has in the United States.

This report will demonstrate SFR's market potential as an asset class within the broader housing CRE sector in the province of Ontario, Canada's most populous region. This report focuses on 34 markets of various sizes and characteristics in Ontario; however, this SFR strategy may be applied to other regions in Canada.

First, this report puts the Canadian housing market in context of its G7 peers to demonstrate housing demand and market factors that make Canada prime for rental housing investment. This report then leverages the U.S. as a framework to demonstrate how investors can adapt the institutionalization of the SFR sector in the U.S. to the Canadian housing market. The development of the SFR class in Canada can 1) provide a solution to the systemic shortage of housing, 2) provide an investment strategy in targeted SFR markets as an attractive and growing sector.

To that end, this report presents the evolution of the SFR sector, compares the U.S. and Canada (specifically the province of Ontario as a case example), identifies which SFR strategies can be transferred to the Canadian market and where opportunities exist to approach the SFR Canadian market differently. The benefits of an SFR strategy in the Canadian (Ontario) market include:

- Converting, renovating, and densifying single-family home residential properties as an expedited solution to providing quality housing in a market that has experienced a chronic shortage.
- Working with existing housing stock fits an Environmental, Social & Governance (ESG) mission by bypassing the carbon footprint of new construction while providing housing at more affordable rental rates than are financially feasible with new construction.
- The SFR business model has been tried, tested, and proven in the U.S. SFR investors in growing markets such as Ontario can reap the benefits of being early movers or fast followers, as demonstrated by the early adopters in the U.S. during the last real estate cycle.
- Scattered SFR rentals trade at higher spreads than BTR (Build-to-Rent) or conventional, purpose-built multifamily rental developments.
- Layering on a densification strategy to the acquisition-and-rehabilitation of residential properties via Accessory Dwelling Units (ADU) or substantial renovations can enhance investors returns.
- Recent increases in interest rates globally have reduced homeownership by increasing the cost of capital, thereby increasing demand for rentals. These higher borrowing costs have outweighed the impact of decreasing home prices for would-be homebuyers.
- Canada is expected to experience the greatest percent increase in immigration across G7 countries, providing a multiyear tailwind for rental demand and need for new supply of quality rentals.

CANADIAN HOUSING MARKET NATIONAL CONTEXT

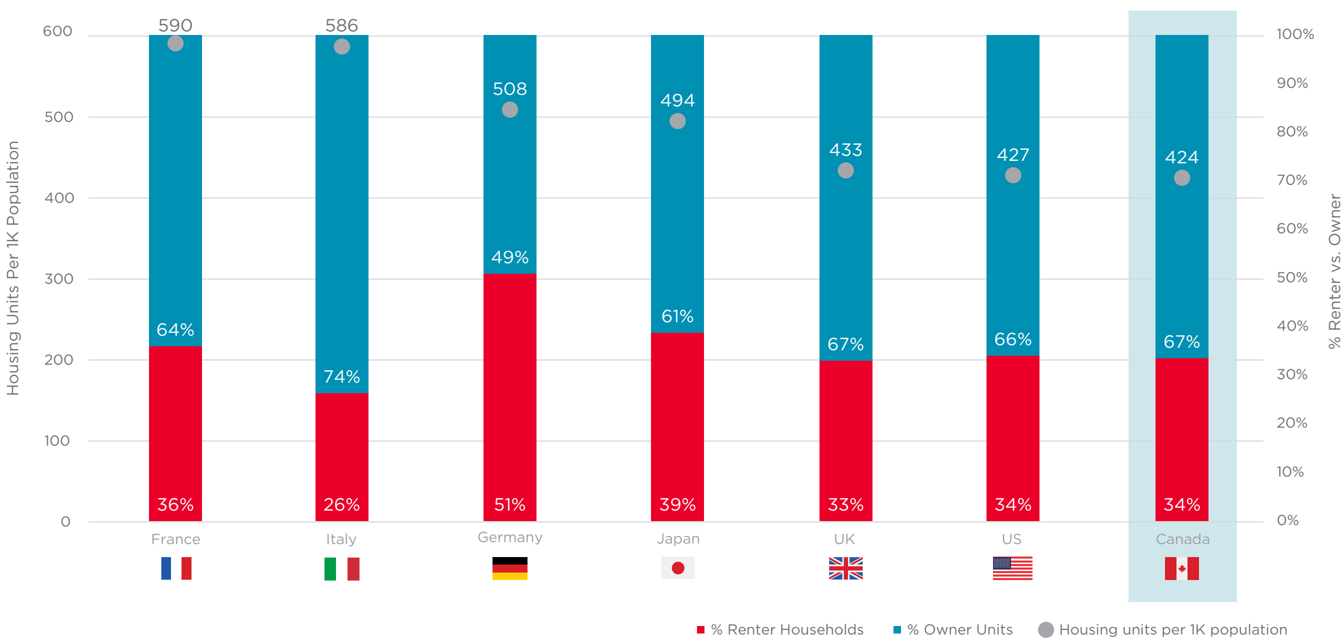
01.

HOUSING STRUCTURE: G7 COMPARISON

Like the U.S., Canada is experiencing a shortage of rental supply. The current 2.3 million units projected to deliver by 2030 is roughly 3.5 million short of the need per Canada Mortgage and Housing Corporation's (CMHC) June 2022 estimates.

Exacerbating the shortage is the process and length of time for new construction developments to achieve regulatory approval and construction completion. The per capita housing stock in Canada is the lowest in the G7. The following graph illustrates the proportion of housing units relative to population among G7 countries:

HOUSING UNITS PER 1,000 POPULATION IN G7 COUNTRIES



Source: Scotiabank "100 Thousand or Nearly 2 Million Units Short?", EuroStat, OECD, Cushman & Wakefield;
Note: Effective date of data varies by country. All statistics are current as of 2020.

IN 2022, CANADA'S POPULATION GREW BY OVER A MILLION PEOPLE FOR THE FIRST TIME EVER, FUELED BY IMMIGRATION.

In May 2021, Scotiabank's chief economist, Jean Francois Perrault, issued a report that compared Canada's housing market to the G7. In "Estimating the Structural Housing Shortage in Canada: Are We 100 Thousand or Nearly 2 Million Units Short?", Perrault describes Canada's housing situation as a "chronic insufficiency of home supply" whose underlying causes have yet to be directly addressed.

In the last 10 years, an annual average of 188,000 homes (including single-and multi-unit buildings) have been constructed in Canada.[i] However, national population growth since 2016 would have required an additional 100,000 dwelling units to deliver to maintain Canada's 2016 ratio of housing units to population stable (427 housing units per 1,000 Canadians). In Toronto specifically, the jurisdiction has approved approximately 28,000 units annually from 2016 to 2021 and an average of only 15,000 units per year have been built.[ii]

Due to low housing production, Canada's housing ratio (471 housing units per 1,000 population) is the lowest among the G7 nations. To achieve the G7 average, an additional 1.8 million homes would have to be built.

According to CMHC's June 2022 housing supply shortage report, Canada's housing stock is on track to reach 18 million units in 2030, a 13% increase over 2019. Using Ontario as an example, housing stock-to-population ratios demonstrate that new home deliveries are not projected to keep pace with its population growth, exacerbating the market's affordability hurdles.[iii] Per the Ontario Housing Affordability Task Force, the average house price in Ontario skyrocketed 181% from 2011 to 2021 while average incomes grew by only 38% during the same period.[iv]

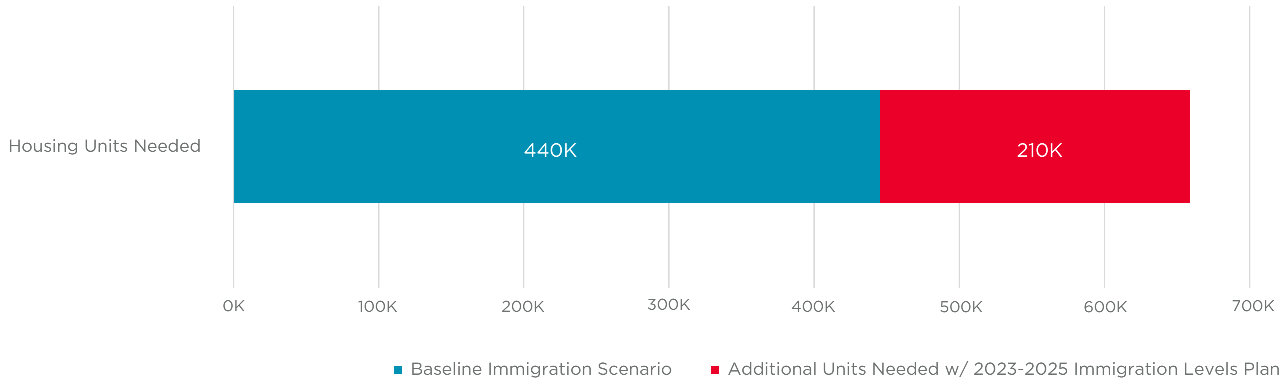
Barriers to new home production include local regulation. Per the Association of Municipalities Ontario (AMO) 2022 report, **new construction requirements vary widely across municipalities with timeline for approval ranging from 14 months to three years.** The time required for approval on the short end of the range is comparable to the highest barrier markets in the U.S.--such as San Francisco--and notably worse on the long end. During this approval period, a single development may require a range of 17 to 28 different studies as part of the process. With approval delays, additional costs accumulate. [v] For each housing unit in a high-density development, each month of construction delay is estimated to add $2,600 to $3,300 in costs per a 2022 BILD report.[vi] As will be discussed in greater detail in this report, the province has taken policy action to address this issue via the passage and enactment of Bill 23 (the More Homes Built Faster Act) in November 2023.

Canada's baseline housing inventory already lagged demand. In the face of recent immigration policy, this imbalance is exacerbated, a topic that is addressed in greater detail later in this report. Per Desjardins' February 2023 "Economic ViewPoint: The Ins and Outs of Immigration and Canada's Housing Market," Canadian housing production will need to increase from a baseline of approximately 200K or more starts annually to 300K or more. The need for housing production will be particularly acute in Ontario as the province attracted 40% of immigrants who settled in Canada from 2018 to 2021.[vii]

2023 & 2024 NECESSARY HOUSING STARTS TO ADDRESS CANADA SHORTAGE

CMHC estimates 3.5M new housing units--in addition to the projected 2M+ deliveries--are needed by 2030. Annual housing starts would have to double to meet the need. In Ontario, the new housing deliveries backlog is estimated to be seven years as of Q1 2022.

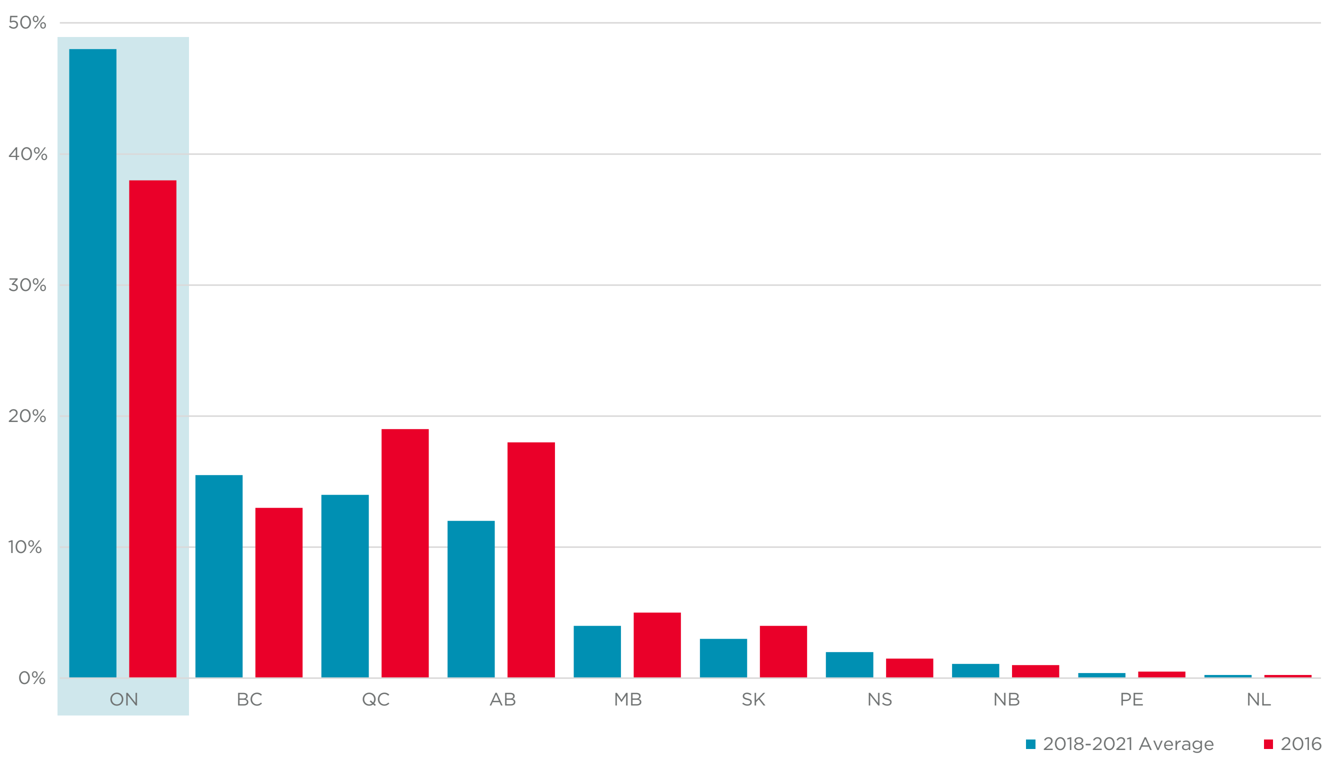
With the implementation of Canada's 2023-2025 Immigration Levels Plan, approximately 200,000 additional housing starts would have to occur in the next two years in order to accommodate the population influx.



Source: Desjardins Economic Studies, Cushman & Wakefield

IMMIGRATION SHARE BY PROVINCE

The proportion of immigrants settling in Ontario in recent years (2018 to 2021) has notably increased compared to 2016, indicating that the necessity for a concentration of housing starts in this province in particular.

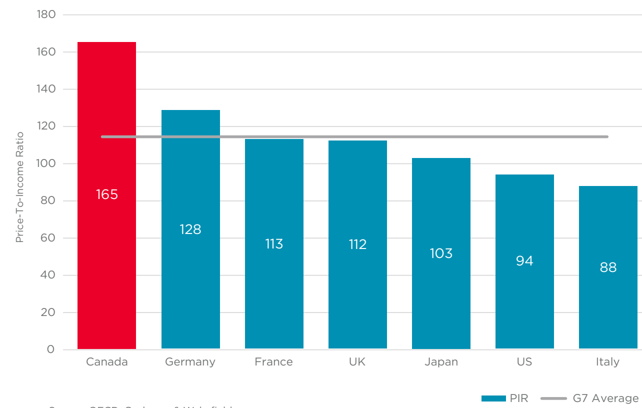


Source: Desjardins Economic Studies, Cushman & Wakefield

RENTAL & HOME PRICE GROWTH

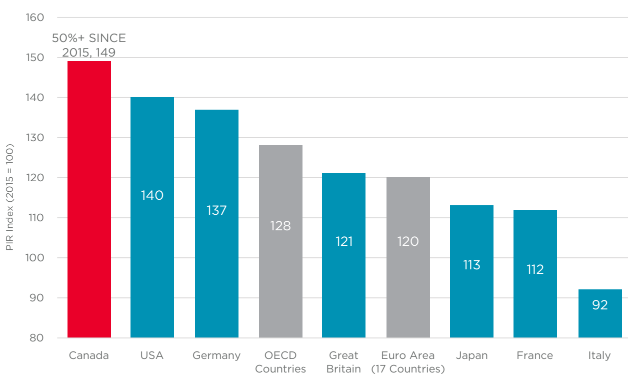
As a result of the shortage, homeownership in Canada is increasingly unaffordable. Canada has the highest price-to-income ratio (PIR) among the G7. Since 2015, Canada's rental and home price growth outpaces all G7 and Euro Area countries as demonstrated by the following PIR and price-to-rent ratio (PRR) graphs. Both trends point towards growing demand for rental housing to temper the rise in housing costs in Canada.

PRICE-TO-INCOME RATIO (PIR) AMONG THE G7



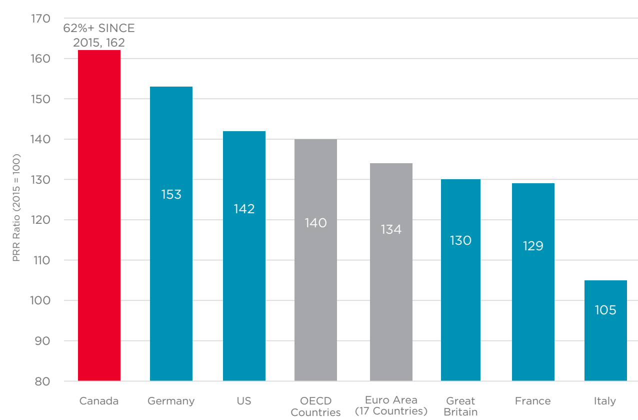
Source: OECD, Cushman & Wakefield

2Q22 PRICE-TO-INCOME RATIO (PIR) INDEX INDEXED TO 2015 = 100



Source: OECD, Cushman & Wakefield

2Q22 PRICE-TO-RENT RATIO (PRR) INDEX INDEXED TO 2015 = 100



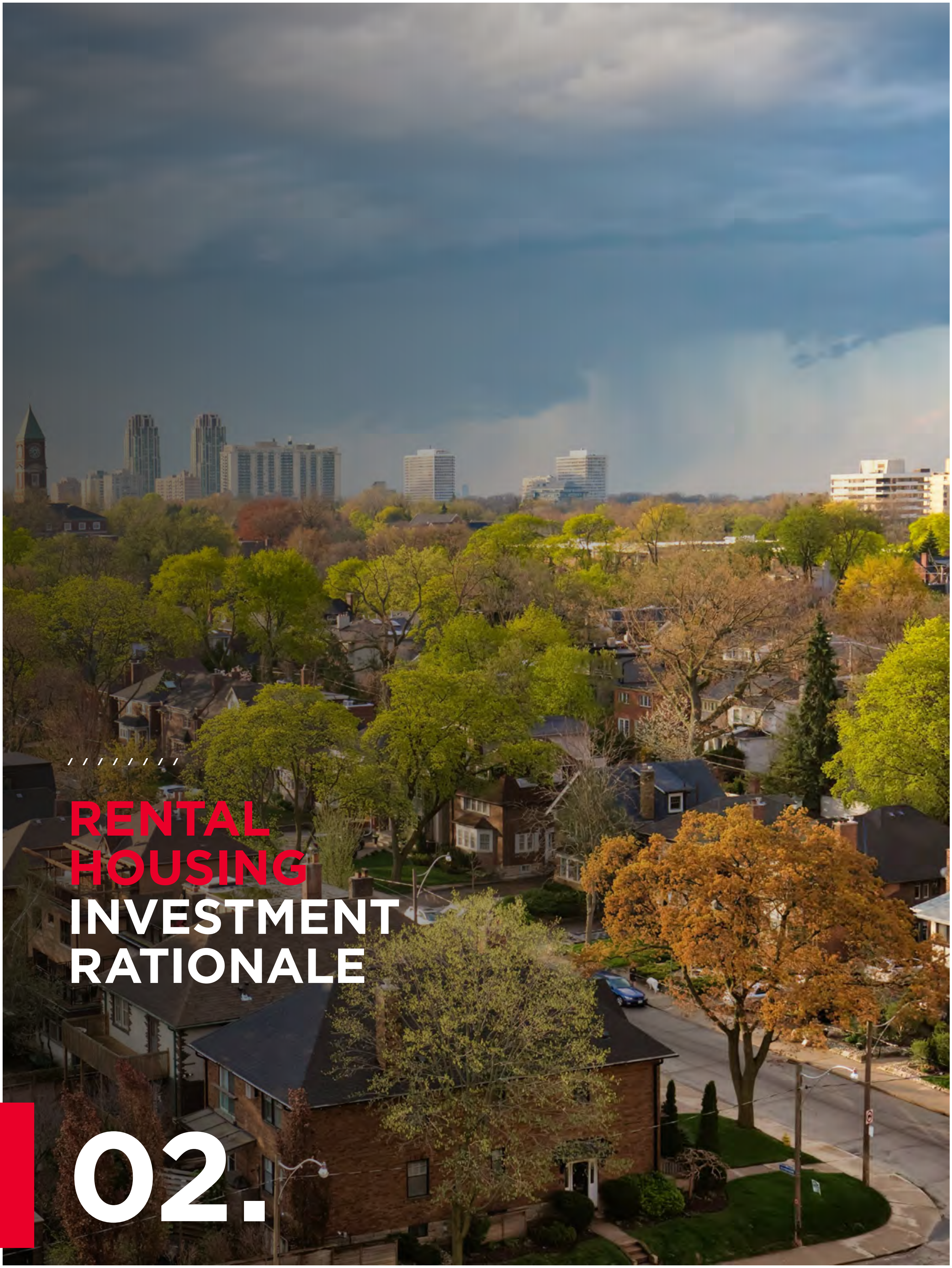
Source: OECD, Cushman & Wakefield

CANADA & U.S. COMPARISON

While key differences in housing structure between the U.S. and Canada exist, the Canadian housing market parallels many of the conditions that have influenced the single-family rental sector in the U.S., namely: lack of home ownership affordability. A confluence of structural factors contributes to unaffordability: aging Millennials seeking larger homes for growing families, Boomers downsizing and cashing out, increased need for home offices/larger homes due to the COVID/work from home effect, and rising rents to make value-add renovations of single-family rentals financially feasible. The following table illustrates how Canada and the U.S. compare in terms of key housing indicators.

HOUSING STRUCTURE KEY INDICATORS

	U.S. ($USD)	CANADA ($CAD)	ONTARIO ($CAD)	COMMENTARY
Percent Renter Households (St. Louis FRED, StatsCan)	34%	34%	31%	Similar proportion of renters versus homeowners suggests similar housing dynamics despite differences in the mortgage financing market and incentives.
Price-to-Rent Ratio (Trading Economics, Jan 2023)	136	143	162	All demonstrate lack of home ownership affordability, thereby incentivizing renting.
Housing Cost Overburden Rate (>40% income on housing cost, renter and owner)	46%	50%	55%	Total housing cost as 30% of gross income is the standard for affordability. Canadian figures are from Housing Shortages in Canada: Solving the Affordability Crisis, issued 2022. In Canada, strict mortgage stress tests have prevented the housing financial crisis previously seen in the U.S. but have also decreased ownership potential as it is more difficult for borrowers to qualify and lenders demand recourse and guarantees.
SFH Rent Growth (YOY Feb 2023)	5.0% 7.7%% for bottom tier and 3.5% for top tier assets; Top markets show 6.0-8.0% growth)	-	-	US Data reported from Corelogic's SFRI, February 2023, YOY Rent Gains from SFH 3-bedroom home. Data not available in Canada.
Multifamily Rent Growth (YOY Mar 2023 (OECD 2020) (RealPage, Rentals.ca, Urbanation)	3.9%	13.5%	22.4%	U.S. YOY rent growth peaked in March 2022 at 18.0% and has since tempered while that in Canada remains in the double digits.
Average Home Price (St. Louis FRED, TD Economics, CREA)	$516,500 ($USD - Q1 2023)	$612,204 ($CAD - Jan 2023)	$1.04M ($CAD - Jan 2023)	The average price of houses sold in the U.S. peaked in Q4 2022 and declined 6.5% in Q1 2023. Canadian MLS HPI for SFH declined 16.6% March YoY. However, Canadian house price growth in 2022 outpaced income growth by nearly 50%.
All Rentals Rent Growth (YOY Mar 2023) (Zillow, Rentals.ca)	6.0%	10.8%	17.0%	There are limitations to comparing average rents without considering rent-to-income ratios and other relative factors. Nevertheless, the average nominal is higher in Canada indicating a general advantage in terms of rental revenue potential. This is for all rentals, not only SFR.
Average Rent Zillow, Rentals.ca, Urbanation)	$1,996 ($USD)	$2,004 ($CAD)	$2,818 ($CAD)	There are limitations to comparing average rents without considering rent-to-income ratios and other relative factors. Nevertheless, the average nominal is higher in Canada indicating a general advantage in terms of rental revenue potential. This is for all rentals, not only SFR.
Interest Deductibility	Yes	No	No	U.S. Homeowner can deduct interest on mortgages; however, this does not apply to Canadian homeowners.
Median Incomes	$45,470	$41,200	$39,100	2021 StatsCan Census Data. Census, 2021
Rent Control	Varies by state and municipality. Only four states have no provisions addressing rent control whereas 26 have statewide regulations that pre-empt rent control from occurring on a local level.	Varies per province	Capped on Units Built Prior to 2018	In Ontario, units built prior to 2018 are subject to rent control unless application is made to the Land and Tenant Board to recover costs of repairs and renovations (Above-Guideline Increases, AGIs.) Caps on units prior to 2018 range from 0.5 to 3.0%. In 2018, Ontario ended the rent control on new units to encourage new developments. As an example, using CMHC data sources, Toronto on average experienced historical rent growth for apartments (1990-2022) across all categories (1 bed, 2 bed, 3 bed) at approximately 3.0% per year, however, the largest jump occurred in 2018 with an average of approximately 7.0% in one year.
Residential Construction Regulatory Environment	Varies by state and local level. Highest regulatory barriers in markets such as San Francisco and New York City and lowest in Atlanta, Charlotte, St. Louis etc. per the Wharton Land Use Regulatory Index.	Varies by province and local level. Overall, Canada is one of the most restrictive building markets globally.	Timelines for approval in Ontario ranges from 14 months to three years and a single development may require 17 to 28 different studies.	Bill 23, Ontario 2022 Build Homes Faster Act aims to incentivize the production of 1.5M homes in 10 years.



RENTAL HOUSING INVESTMENT RATIONALE

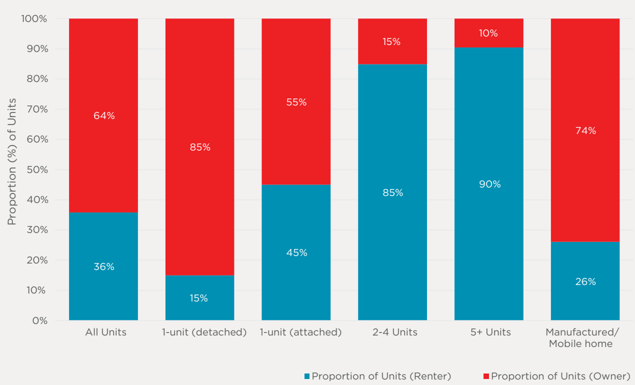
02.

US SFR MARKET OVERVIEW

The single-family rental sector (SFR) in the U.S. reached a tipping point in the past five years, fueled by opportunity and the strategies of institutional investors following the Great Financial Crisis. What began as acquisitions, renovations, and subsequent operations of scattered single-family homes as rentals has now blossomed into a multilayered marketplace including the proliferation of single-family detached and attached homes built for the explicit intent to operate them as rental properties, which is also known as "built-to-rent" or BTR.

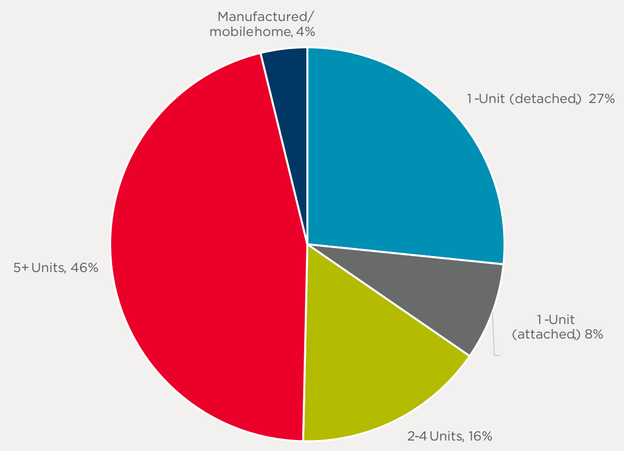
While the SFR sector (scattered site and BTR) is growing, its impact on the single-family home sector overall cannot be overstated, particularly that of institutional investors. As it stands, 36% of the housing stock in the U.S. is renter occupied and a minority 27% (12.2M) consists of single unit, detached single-family homes. When including attached single-family homes (e.g., townhomes, row homes etc.), then 18% (15.9M) of single-family homes are rental units per the U.S. Census Bureau.

US HOUSEHOLD TENURE BY PROPERTY TYPE



Source: U.S. Census Bureau, 2021 data; Cushman & Wakefield

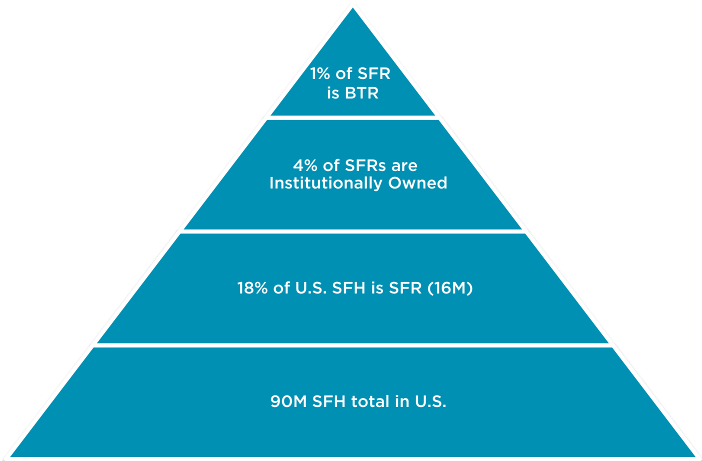
US RENTAL UNIT BREAKDOWN BY BUILDING TYPE



Source: U.S. Census Bureau, 2021 data; Cushman & Wakefield

SFR (~16M units) comprises just under ~20% of the overall U.S. single-family residential housing market (~90M). Within the SFR sector, institutional investors are by far the vast minority (4% or ~700K units); the majority is still owned by non-institutional investors aka "mom and pop" groups. Further, the BTR sector remains the minority of the SFR market with approximately 150K existing Class A and B market-rate units.

2023 COMPOSITION OF SINGLE-FAMILY HOME HOUSING STOCK IN THE U.S.



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SECTOR MATURITY & EARLY MOVER ADVANTAGE

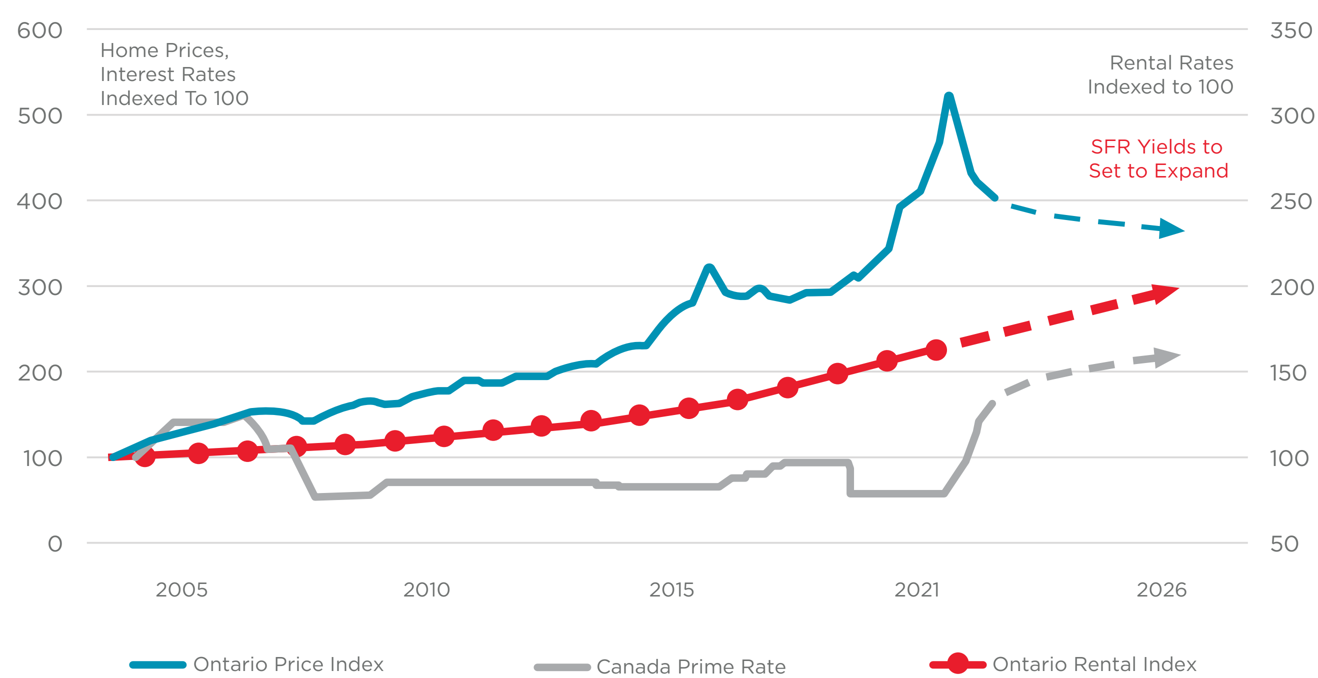
The four largest players in the overall SFR space in the U.S.—including purpose-built single-family homes and scattered site homes—as of Q4 2022 are:

1. **INVITATION HOMES (INVH)** – Owns approximately 80,000 SFR and BTR units. On the BTR front, INVH formed a partnership with Pulte Homes in 2021 to build 7,500 purpose-built SFR units within seven years.
2. **AMERICAN HOMES 4 RENT (AMH)** – Owns approximately 60,000 SFR and BTR units.
3. **AMHERST** – Owns approximately 45,000 SFR and BTR homes.
4. **TRICON** – Owns approximately 36,000 SFR in US.

These groups are the early adopters of the SFR strategy in the U.S., beginning with scattered site single-family home acquisitions post-2008 after the Great Financial Crisis and remain leaders in the sector. Without the need for global distress to create a parallel environment, Canada serves as an opportunity for investors to apply this strategy, help ease the housing shortage, and capitalize on attractive returns early in a burgeoning SFR market with ample runway for maturation and growth.

Bank of Canada's prime rate increased from 2.45% in December 2021 to 6.70% as of March 2023. [viii] Per CREA, the actual (not seasonally adjusted) national average sale price posted an 18.9% year-over-year decline in February 2023 and home sales edged up (2.3%) from January to February, but listings were down. The rise in interest rates has caused price softening for sales, but as this report demonstrates, rent growth has not slowed. The combination of lower home prices and rent growth has created a generational opportunity to invest in Canadian SFR at historically high expected returns. The following chart demonstrates this phenomenon where softening single-family home purchase prices combined with rising rental rates creates a robust yield environment.

2005 – 2026 PROJECTED CANADIAN HOME PRICES, RENTAL RATES, AND INTEREST RATES



In Canada, relative financial feasibility of an acquisition/rehabilitation SFR strategy is an advantage over purpose-built apartment developments. The Canada Mortgage Housing and Housing Corporation (CMHC) released a report in January 2022, "Purpose Built Rentals Facing Financial Feasibility Challenges" and determined that achievable rents were generally not high enough to support high-rise development in most markets. They cited land costs, government charges and underground parking construction costs as significant items hindering financial performance. This report focused on major markets—Vancouver, Calgary, Winnipeg, Toronto, Montreal, and Halifax—and explains the rise of 'luxury high rise' rentals in those cities, with average one-bedroom rents exceeding $2,500 per month. Growth of these building types is attributed to non-traditional developers such as REITs and pension funds which benefit from long-term investments and have the capital to fund the development and construction of rental buildings. It is worth noting that all new high-rise developments in Toronto must contain an affordable housing component, whether for rental or ownership by tenants.

SFR BUSINESS MODEL

Upgrading and converting single-family rentals and densifying residential uses is a prime solution in markets characterized by rising housing costs, elevated construction costs, aging housing stock, and regulatory barriers to new supply. The combination of these factors limits inventory growth to address housing shortages.

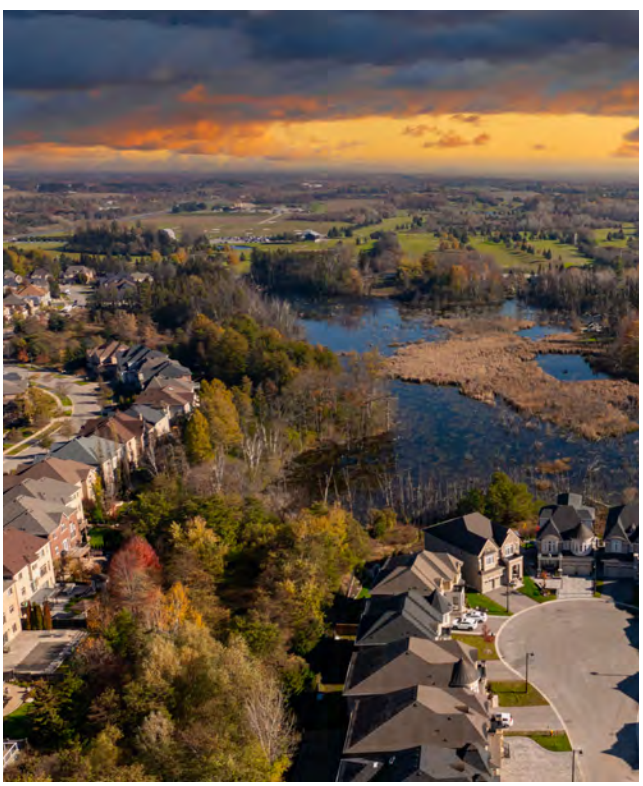
Invitation Homes (INVH) is a prime example of the success of this strategy. In the four years between 2012 and 2016, INVH deployed $8.3 billion in capital to acquire 50,000 single-family homes at below replacement cost (average of $166,000 per home) in 13 markets across the U.S. "Sunbelt Smile State" markets and the Midwest. Post-acquisition, INVH invested $1.2 billion to renovate and upgrade each home at an average of $25,000 per home and converted them to rentals. As a result, INVH took aging housing stock and provided quality rental housing. In turn, INVH benefited from a "stickier" tenant base that largely falls within what the industry refers to as the workforce housing segment. The firm's inventory now targets higher income renter households. The following highlights the firm's performance as of Q4 2022 per their filings:

- Occupancy remained high across their portfolio at an average of 97%, experiencing only nominal softness (-80 bps) year-over-year (YoY) from near full occupancy in Q4 2022.
- INVH averaged 7.4% rent increase in new leases YoY as of Q4 2022 versus 15.6% YoY as of Q3 2022. This compares to 9.9% same-store lease renewals for a blended rate of 9.1%.
- Rental revenue gains outpaced operating expense growth, resulting in a 3.7% increase in same-store NOI YoY for Q4 2022 and 9.1% YoY for FY 2022.
- Further, the firm's Global Real Estate Sustainability Benchmark ("GRESB") score increased by 13.3% from 2021 to 2022, allowing it to maintain favorable pricing via its ESG-related revolving line of credit. This demonstrates how management in the scattered site SFR sector can lead to tangible economic gains."

In 2021, the Bank of Canada reported shares of mortgaged homes by investors grew in every major market except Quebec, undoubtedly driven by record low interest rates. However, it is unclear if this is "organized investment" or "individual Mom & Pop" investment. While institutional investment in single family rental homes (SFR) in Canada is rare and not tracked by CMHC or StatsCan, in the U.S., this is an area that is gaining ground. Recent research by MetLife Investment Management (MIM) estimated that by 2030, institutional ownership will increase to 40% of all single-family rental homes in the U.S. Rising interest rates and consequently the rising cost of capital may slow this trend somewhat during 2023, but as the market rebounds, growth is expected to continue.

Local regulations permitting, densifying homes is an added layer of value to both the developer and the tenant. Investing in Accessory Dwelling Units (ADUs) on available lot space boosts rental revenue, ROI, and multiplies the number of new rental housing units created in the market. In Ontario, with the most recent legislation (Build New Homes Faster Act) this is more feasible than ever with restrictions eased on basement units, laneway housing and garden suites.

The following discussion highlights two methods for creating value with an SFR investment strategy:



1. **MINIMAL UPGRADES POST-ACQUISITION:** This method demonstrates stabilized yields after a home is acquired and is minimally upgraded. The assumptions for this analysis include:
    - Median home price by market as of December 2022
    - $10K in upgrades (e.g., new paint, minimal repairs)
    - 75% NOI margin
    - Top 70th percentile rents among houses (excluding multifamily or apartments)

2. **CREATING VALUE VIA HOME DENSIFICATION:** **This method generates greater returns than the stabilized acquisition** as an additional bedroom or revenue unit is added to a single building. This approach converts an existing space into a rental unit (e.g., basement or floor). Note that densifying by adding detached laneway houses and garden suites would require a greater capex investment at approximately $250,000+ per unit. To illustrated the development returns, this report assumes the following:
    - Median home price by market as of December 2022
    - Capex of $125K-$175K (top 70th percentile house rents), $150K (top 80th percentile house rents), and $175K (top 90th percentile house rents) to achieve their respective market rent levels to upgrade the overall home and add 2BR units
    - 80% NOI margin
    - Post development, a single single-family home will include one 3BR rental unit and one 2BR rental unit

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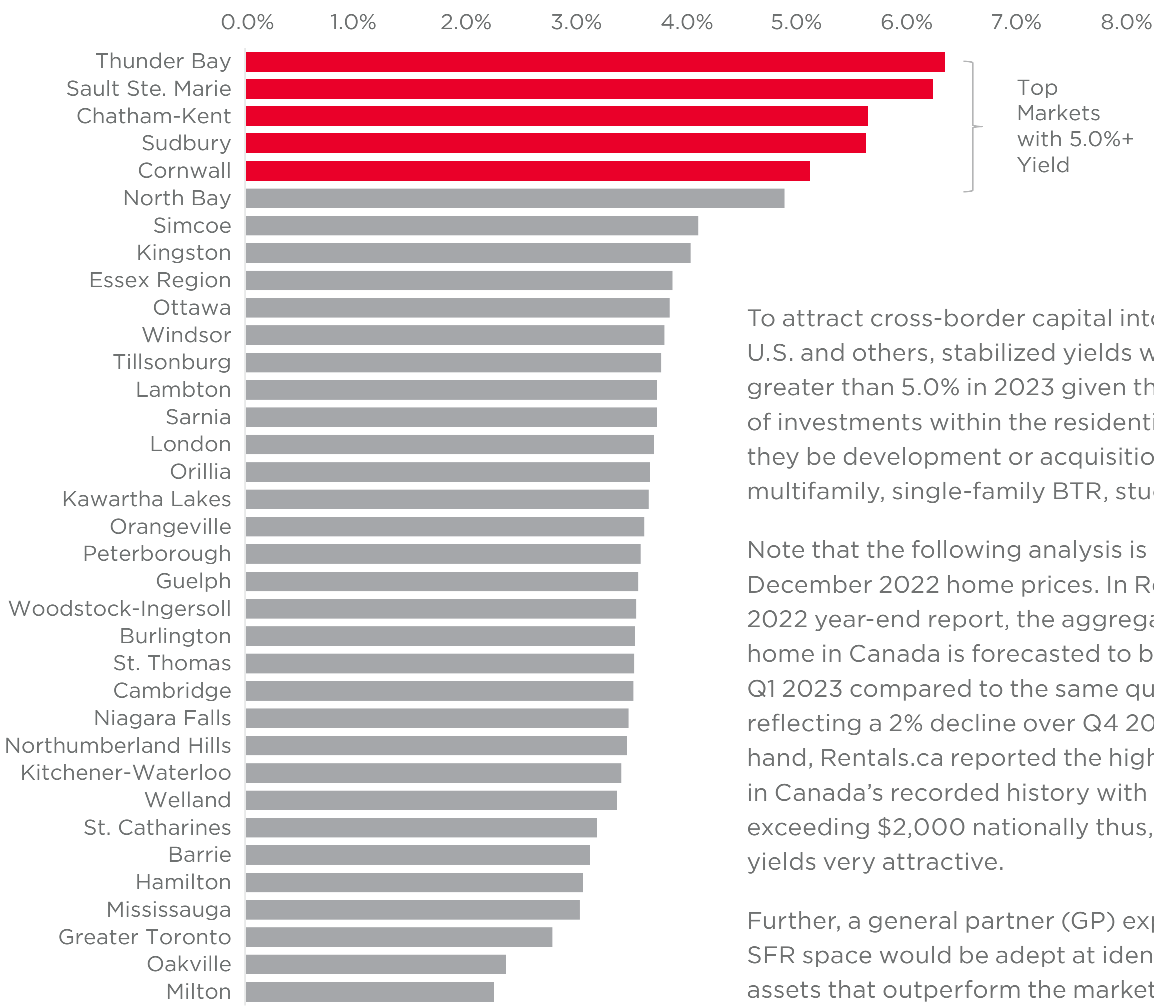
STRATEGY #1: STABILIZED YIELDS VIA REGULAR UNIT UPGRADES

The following illustrates the stabilized yields among the Ontario markets that are covered in this report. As previously stated, Ontario was chosen for examination as the most populous province in Canada. Ontario's top SFR rental markets are largely secondary cities that can be bifurcated into two general groups:

1. More "rural", affordable rental and ownership markets that allow for acquisition of homes at a low basis and are characterized by limited rental supply. These markets include Thunder Bay, Sault Ste. Marie, Sudbury, Chatham-Kent, Cornwall, and North Bay. However, inventory in these markets can be low, therefore scale of investment could be limited. For example, in Thunder Bay, as of March 21, 2023, there were 140 listings for sale, Sault Ste. Marie (190) North Bay (177), Cornwall (215), Sudbury (1,112), Chatham-Kent (2,240).
2. "Up-and-coming" markets with proximity to Toronto and on the GO train line and directly connected by a major highway such as London and Kingston. (Please note, the GO Train is a major commuter rail.)

STABILIZED YIELD - 70% PERCENTILE ACHIEVABLE RENT SCENARIO



Source: Konfidis, CREA, Cushman & Wakefield

To attract cross-border capital into Canada from the U.S. and others, stabilized yields would have to be greater than 5.0% in 2023 given the opportunity set of investments within the residential space, whether they be development or acquisitions of conventional multifamily, single-family BTR, student housing, etc.

Note that the following analysis is based upon December 2022 home prices. In Royal Lepage's 2022 year-end report, the aggregate price of a home in Canada is forecasted to be 12% lower in Q1 2023 compared to the same quarter in 2022, reflecting a 2% decline over Q4 2022. On the other hand, Rentals.ca reported the highest average rent in Canada's recorded history with the average rent exceeding $2,000 nationally thus, making rental yields very attractive.

Further, a general partner (GP) experienced in the SFR space would be adept at identifying single assets that outperform the market-based metrics shown here.

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STRATEGY #2: DEVELOPMENT YIELDS VIA DENSIFICATION

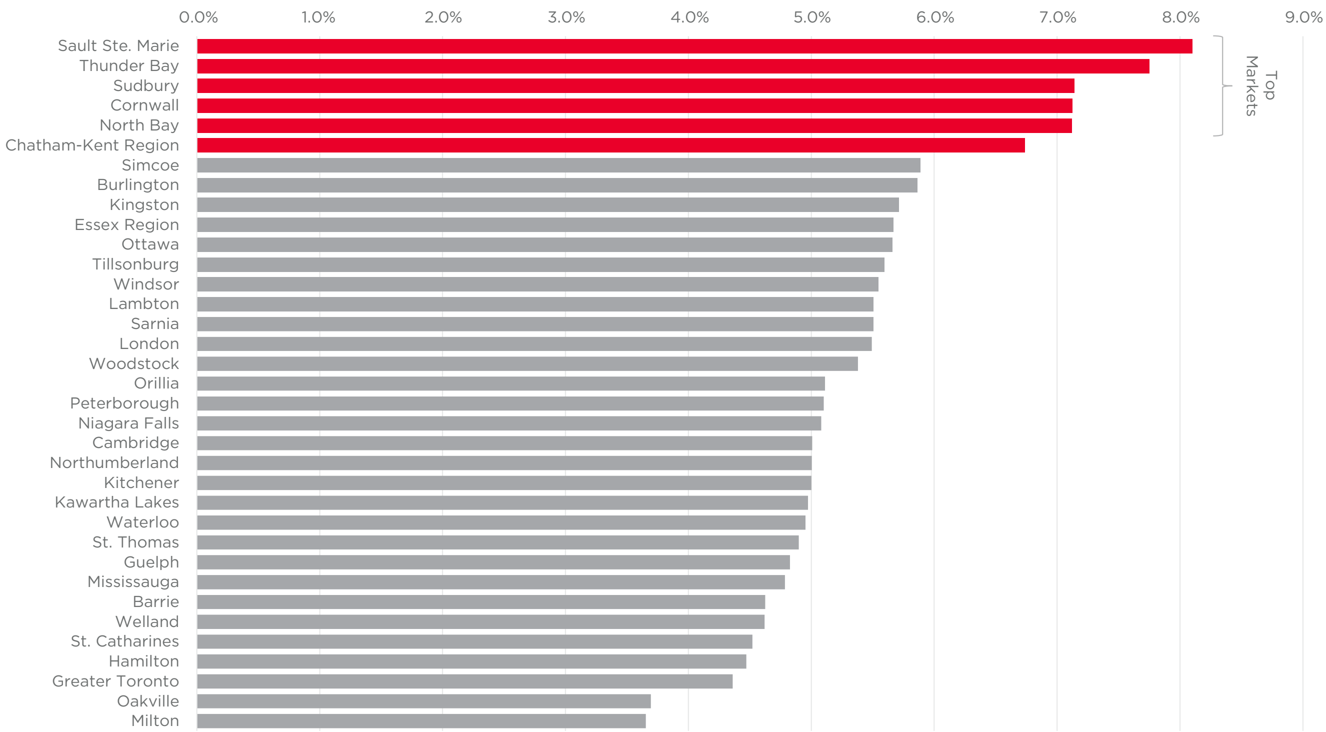
The returns for densification or the addition of rental units are reflected in the development yield on cost. To render these yields attractive, they should be at a given spread to the stabilized cap rate. Generally, markets with 6.0% development yield or higher would be attractive to investors in the current capital markets climate in 2023 based upon a 100-125 bps spread to exit cap rates in Canada.

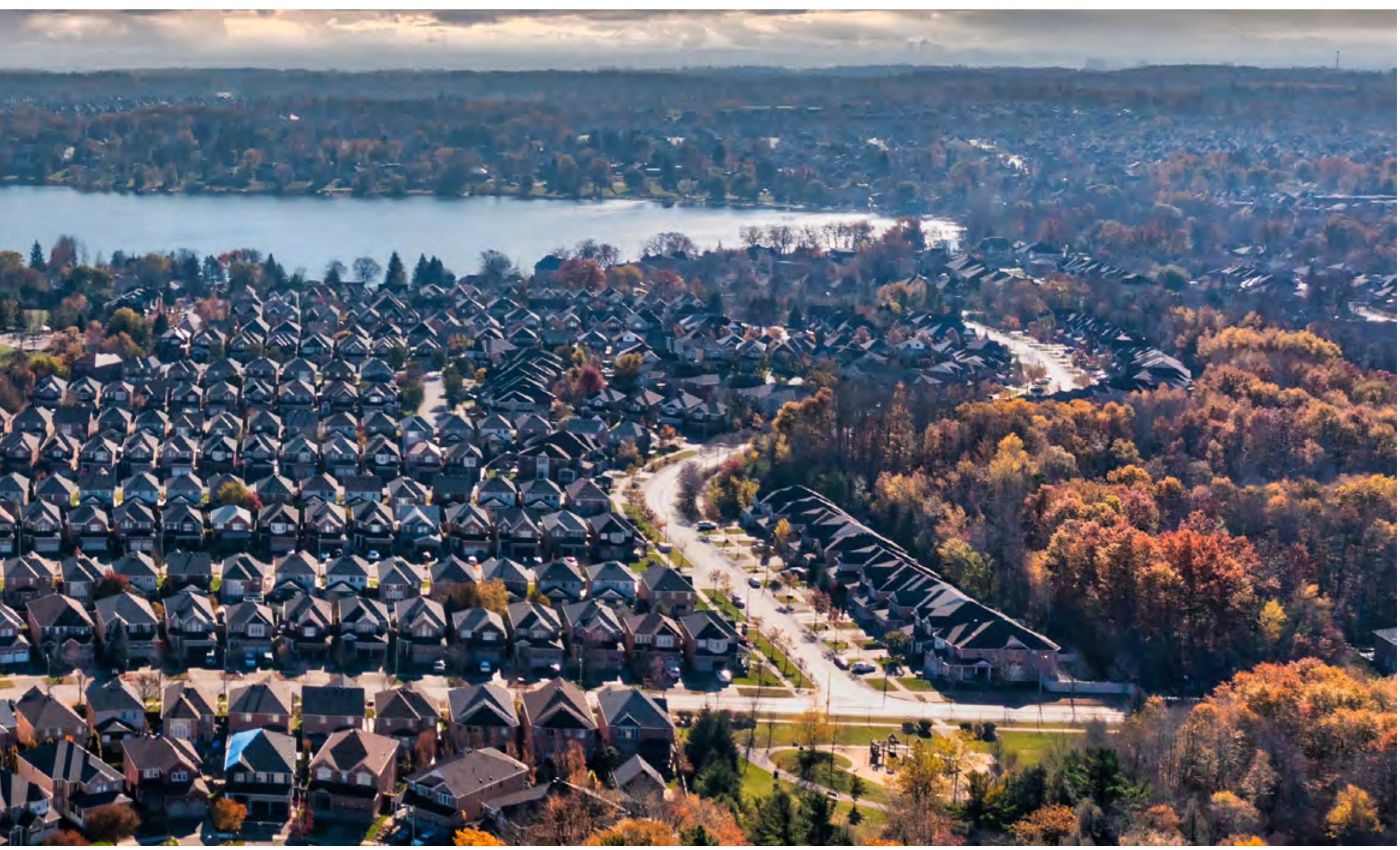
Development yields vary based upon a range of densification scenarios. The lower end assumes a capex expenditure of roughly $125K to add a rental unit to an existing property in order to achieve rents in the 70th percentile of the market. On the high end is $180K capex per unit.

The following graph demonstrates development yields contemplating a mid-range capex cost of $150K per unit. This assumes an outcome of achieving 80th percentile rents among houses in each Ontario market.

Overall, the same markets remain at the top in terms of attractiveness and tend to be more rural in nature, indicating that from a ROI perspective, this strategy can be profitable in non-high-growth areas. Further, deploying the extensive capex strategy somewhat broadens the number of top markets to target.

DEVELOPMENT YIELD ON COST (%) - 80TH PERCENTILE ACHIEVABLE RENT SCENARIO





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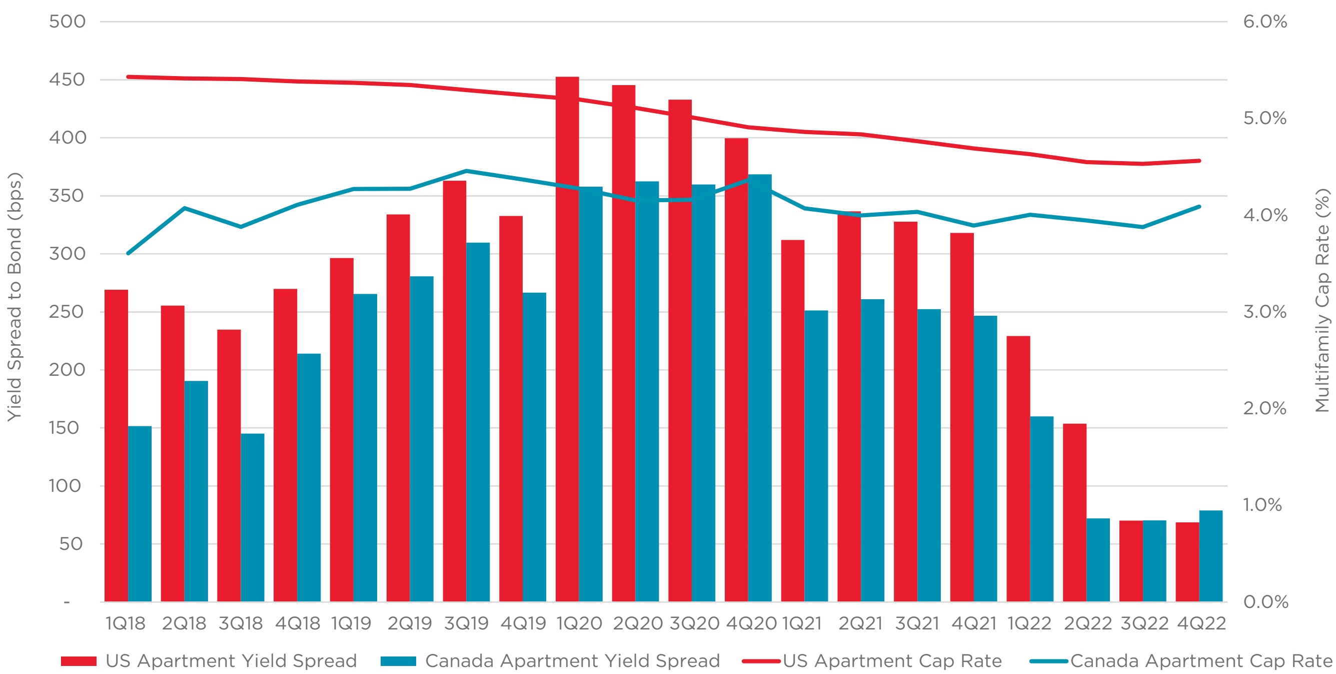
ADVANTAGES OF SFR STRATEGY: SCATTERED SFRS PROVIDE GREATER SPREADS THAN MULTIFAMILY

Multifamily cap rates in Canada and the U.S. have steadily compressed since a cycle peak in 2009 until 2022. Due to rising interest rates investors in U.S. multifamily now expect a price adjustment and for cap rates to expand once again. The following graph illustrates apartment cap rates and yield spreads in Canada and the U.S.

2018-2022 CANADA & U.S. MULTIFAMILY RETURNS

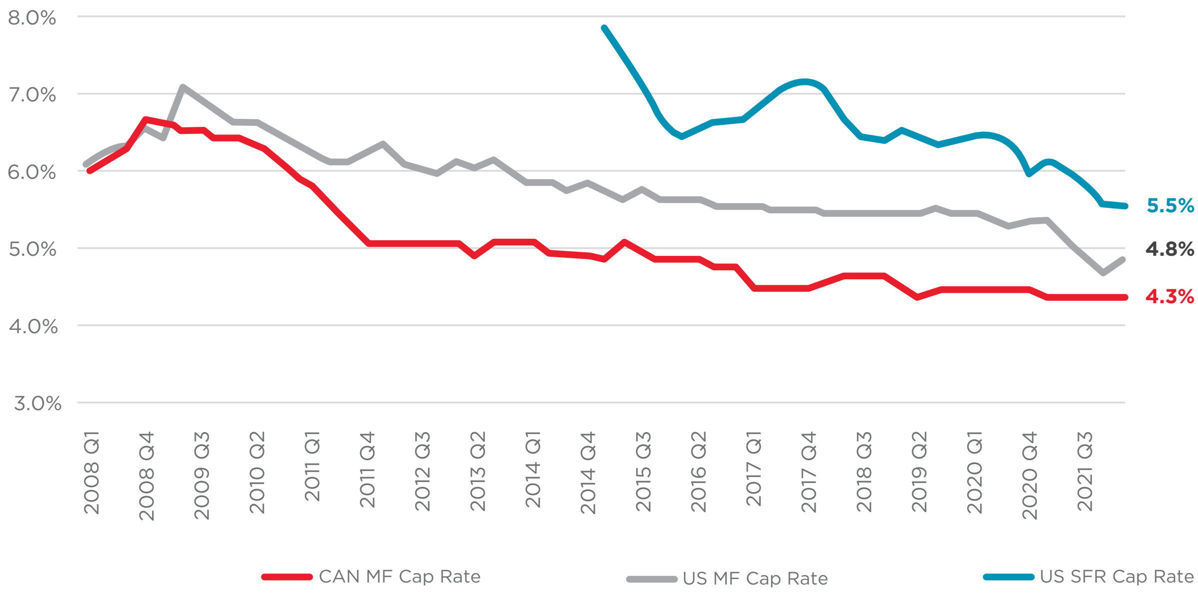


Source: Real Capital Analytics, Cushman & Wakefield

Given the ongoing multifamily cap rate compression, BTR assets in the U.S. were an attractive investment as there was a spread to comparable multifamily assets until late 2021 and early 2022. BTR properties were trading at higher yields from 25-50 basis points higher, but those cap rates have since tightened given the amount of capital chasing this property type and facing the relative dearth of supply.

Scattered site developments maintain greater spreads given that fewer SFR and multifamily operators are equipped to manage distributed single assets with the technology and budgeting that they require. As the following graph demonstrates, SFR cap rates in the U.S. are nearly 75 bps wide of multifamily cap rates.

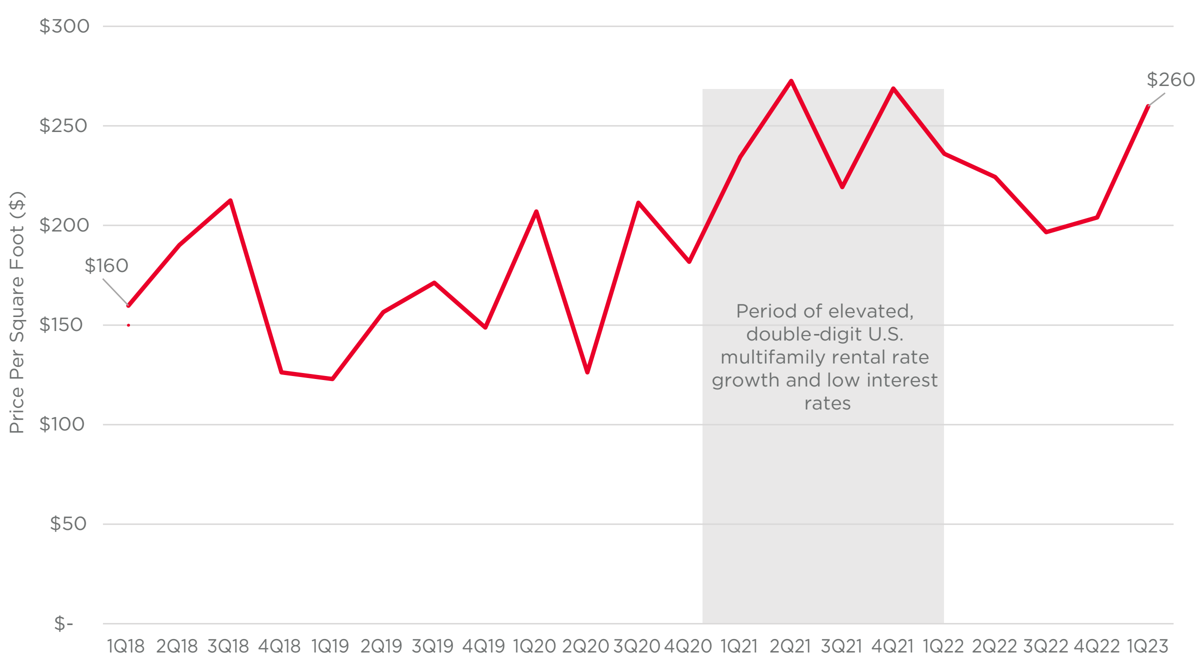
US AND CANADA CAP RATES



Source: Arbor Realty Trust, MSCI Real Capital Analytics

AVERAGE PRICE PER SQUARE FOOT OF CLASS A & B+ BTR PROPERTIES (U.S.)

The following graph illustrates the average price per square foot per quarter of Class B+ and higher BTR properties or what Yardi-Matrix refers to as "Upper Mid-Range" to "Discretionary" rental properties. Most properties were built in 2000 or later. Note that sales data on BTR properties remain limited. Overall, the following demonstrates that the prices per square foot of BTR properties appreciated by 45% since 2019 and pricing softened by approximately -9% from 2021 to 2022. This trend parallels Cushman & Wakefield's experience with potential BTR buyers whose pricing expectations expanded 100 to 150 basis points in terms of going-in cap rates on a BTR transaction.



Source: Yardi-Matrix, Cushman & Wakefield

The rise in SFR pricing in the U.S. is largely driven by robust and reliable rent growth combined with the amount of capital seeking this product type. Per CoreLogic's Single-Family Rent Index (SFRI), annual single-family rent growth reached a record high of 13.9% year-over-year as of May 2021. This growth rate tapered to 8.8% as of October (most recent data available) compared to 9.8% across all multifamily during the same period.

CURRENT SFR/BTR-RELATED ACTIVITY IN CANADA

At present, data surrounding institutional ownership of SFR is opaque in Canada as it remains a new sub-asset class of commercial real estate. Per Statistics Canada, individuals who own more than one property comprise a notable portion of the housing stock in key provinces as of 2020: 29% in British Columbia, 41% in Nova Scotia, and 31% in Ontario.[ix] These multiple-property owners include individual or "mom and pop" landlords who own a couple of rental properties or larger investors who register homes under a single name.

LAND LEASE STRATEGY. There are other institutional models for more affordable home ownership, which includes land lease developments. Parkbridge is owned by British Columbia Investment Management Corporation (BCIMC), one of Canada's largest institutional investors that provides fund management services for British Columbia's public sector pension plans. BCIMC is a developer and owner-operator of residential land lease communities. Their differentiator is "an affordable approach to home ownership allowing people to own a home, without buying the land – known as 'land lease.'" Parkbridge has expanded from "lifestyle" cottage RV parks to full scale developments in recent years.

VALUE-ADD & CONVERSION STRATEGY. Avanew, a subsidiary of Core Development group, is currently deploying capital to purchase, renovate, and operate single-family homes in bedroom communities within commuting distance of the Greater Toronto Area (GTA) and also in Northern Ontario.

Additionally, there has been speculation that Blackstone (a key player in the US rent to own market with Invitation Homes), after opening a Canadian office in 2022, would begin investing in the SFR market - but this has not come to fruition at the time of this publication and all indication has been that their investments are focused on the industrial market.

It is also worth noting that Canadian investment companies, such as PSP and TriCon Residential have significant investments in the U.S. SFR market.

ADVANTAGES OF SFR STRATEGY: ESG BENEFITS OF ACQUISITION & REHAB

Environmental, Social and Governance (ESG) is an area of growing concern for many industries, including residential housing. For the purposes of this report, please see the following definition:

- **ENVIRONMENTAL:** Climate Change Strategy, Biodiversity, Water Efficiency, Energy Efficiency, Carbon Intensity, Environmental Management Systems
- **SOCIAL:** Equal Opportunities, Freedom of Association, Health and Safety, Human Rights, Customer and Product Responsibility
- **GOVERNANCE:** Business Ethics, Compliance, Board Independence, Executive Compensation, Shareholder Democracy

The following is a summary of ESG issues that are applicable to this study.

SOCIAL

AFFORDABILITY

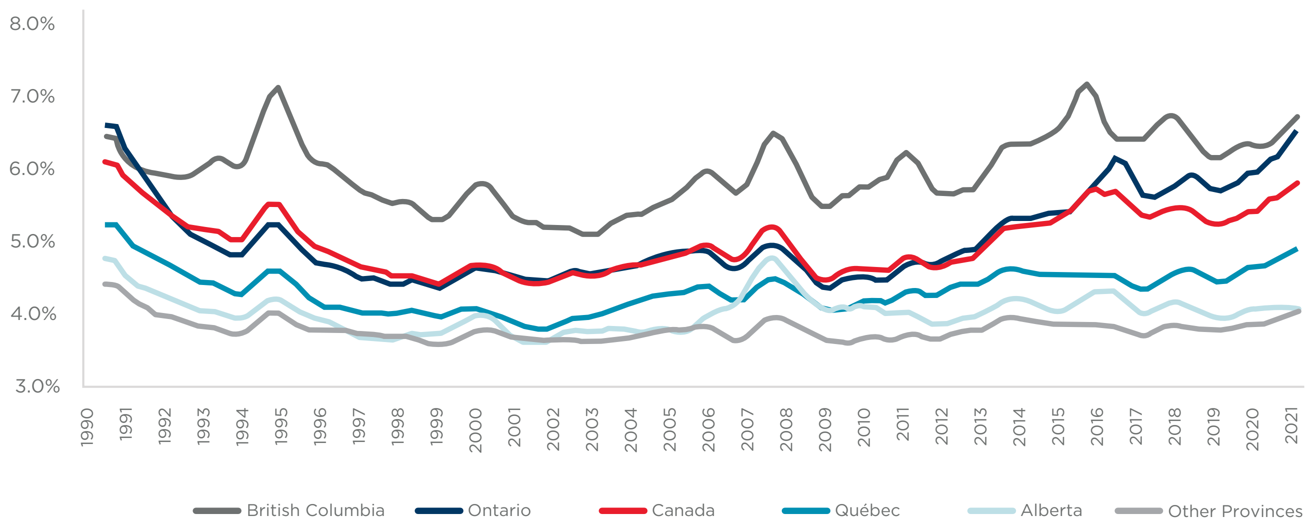
Due to increased interest rates in 2022/2023 and stricter mortgage stress tests, the rental market will continue to grow. Unfortunately, home ownership is out of reach for many Canadians who simply cannot save enough money for the down payment and/or meet financial institution and regulatory (stress test) requirements, as confirmed by the 2021 Canadian Housing Survey. The benefit of institutional housing ownership may be advantageous to Canadians as this may provide higher quality housing, with better service at a price that is more affordable.

The following national map illustrates the proportion of households who are spending over 50% of their gross income on total rental housing costs (rent and utilities) by regional district. In the majority of Ontario, 10 to 20% of household are severely rent overburdened. The situation is more acute with 20 to 30% severely rent overburdened households in the following markets: Middlesex, Halton, Peel, Simcoe, Muskoka, Kawartha Lakes, York, Durham, Toronto, Peterborough, Northumberland, Frontenac, and Lanark.

PROPORTION OF HOUSEHOLDS SPENDING OVER 50% OF INCOME ON TOTAL RENTAL HOUSING COST

The home ownership market mirrors rental housing trends in terms of affordability, demonstrating that the issue is broad reaching. In the CMHC report, "Solving the Affordability Crisis," purchasing an average home in Ontario in 2003-2004 required an average household to invest nearly 40% of their disposable income. Fast forward to 2021, an average household would have had to spend nearly 60% of their incomes toward housing. To reach affordability standards, the shelter costs would have to decline by at least 25%.[x] The following demonstrates that Ontario maintains the second highest percent shelter cost as a share of disposable income (DY) after British Columbia. Beginning in 2019, Ontario's steep rise in shelter costs rapidly approached that of British Columbia.

SHELTER COST AS A SHARE OF DISPOSABLE INCOME WHEN THE AVERAGE HOUSEHOLD PURCHASES THE AVERAGE HOUSE (BASED ON MLS® PRICES)



Source: CMHC calculations based on data from CMHC, Statistics Canada, Conference Board of Canada, CREA, Bank of Canada and Altus

HEALTH, SAFETY AND QUALITY

At present, many single-family homes for rent are from older housing stock and do not meet building codes. Per Statistics Canada, 43% of renters and 56% of owners in Ontario reported in 2016 that major repairs were needed to their homes.[xi] Reports from the Human Rights Commission document numerous cases where rental units violate building codes and put residents at risk. Older housing stock may be a health and safety risk for occupants. Post-war bungalows[xii] are typical in Canada with stairs that are smaller than allowable by building codes, as well as basements without means of egress in case of fire, i.e., illegal basement apartments.[xiii] Many homes have basement ceilings that barely reach seven feet. Typical renovations to homes include underpinning to lower the basement floor (and gain ceiling height), the enlargement of windows in the basement for egress, and the replacement of the stairs with a riser/run that meets building codes. These types of renovations make rental homes safer and provide a better-quality environment for living.

MAINTENANCE

Institutional owners can provide processes and systems for ease of maintenance. Established procedures with a roster of contractors and repair persons takes a tremendous amount of stress off occupants. This is typically an advantage over individual landlords who may not have the means, expertise, or capability to resolve complex issues. Regular maintenance items may include lawn maintenance, seasonal maintenance (snow removal), equipment servicing, appliance repair, painting, pesticide use, roofing repairs and water quality checks. Additionally, it is feasible that institutional owners' interface with customers using technology which can improve customer service and track issues for continual improvement. Items such as building plans, warranties and service history can all be maintained online for ease of access when repairs are needed.

ENERGY EFFICIENCY

Many older homes do not meet energy efficiency guidelines, which contribute to higher utility bills (gas, electric and water) as well as increased pressure on municipal infrastructure. Moreover, if homes need renovating, an owner may want to consider more energy efficient windows, doors, and appliances. The insulation may also be upgraded. Government rebates may apply. CMHC offers a program called MLI (Mortgage Loan Insurance) Select which is geared toward multi-residential units (at least five) and incentives are provided for affordability, climate/energy efficiency, and accessibility/universal design. These upgrades, which are costly, are likely easier for owners with a stable source of capital, such as institutional investors.

DENSIFICATION

With the passage of the new More Homes Built Faster Act in Ontario, three units are allowed on a single-family lot without a bylaw change. This will make adding a basement suite, garden suite or laneway house much easier. Density can provide a vibrancy to communities and neighborhoods and prevents further urban sprawl and pressure on municipal infrastructure. Many individual homeowners may find the process of densification advantageous, but overwhelming due to the process of design, permitting and construction. An institutional entity can invest in repeatable processes developed by experts which may expedite design and construction and lead to homes being available for rental faster.

ADVANTAGES OF INVESTING IN CANADA

Canada has several key characteristics which make investment in the rental housing market advantageous: population growth (due to immigration), stable political climate, robust banking system and predictable social norms.

LACK OF HOME OWNERSHIP AFFORDABILITY

Specifically related to housing, Canadian incomes have not kept pace with housing prices which have made ownership increasingly more difficult and rental properties more prolific. Recent rises in interest rates have cooled the housing market across Canada, however, inventory has remained historically low. Every major city is experiencing a shortage of housing.

MARKET LONG-TERM TREND TOWARD RENTERS VS. OWNERS

The Bank of Canada has also reported that first time home buyers, which typically make up the bulk of home purchases, has been steadily declining since 2015. Canadian home ownership peaked in 2011 and per StatsCan, the number of renter households grew over double the rate of owner households from 2011 to 2021.[xiv] Data also indicates that repeat home buyers and investor home purchases have been rising. These trends point toward the likelihood of a strong rental market for the future, especially as the population grows and PIR.

AGING HOUSING STOCK

In cities across Canada, much of the housing stock is aging and construction costs can be prohibitive for individual homeowners who need to renovate to rent their property. Per StatsCan, nearly 1.5 million households lived in an "unsuitable, inadequate or unaffordable dwelling" and were unable to afford alternative housing in their community, which is referred to as "core housing need."

IMMIGRATION

As of 2021, 23% of the population in Canada are or were immigrants to Canada, which is the highest rate among the G7 countries. Immigrants contribute to Canada's labor force by helping to mitigate the impacts of labor shortages fueled by low fertility rates and an aging population. From 2016 to 2019, immigrants contributed to approximately 80% of labor force growth, according to a StatsCan report released in December 2022. By 2032, immigration is projected to account for 100% of Canada's population growth.

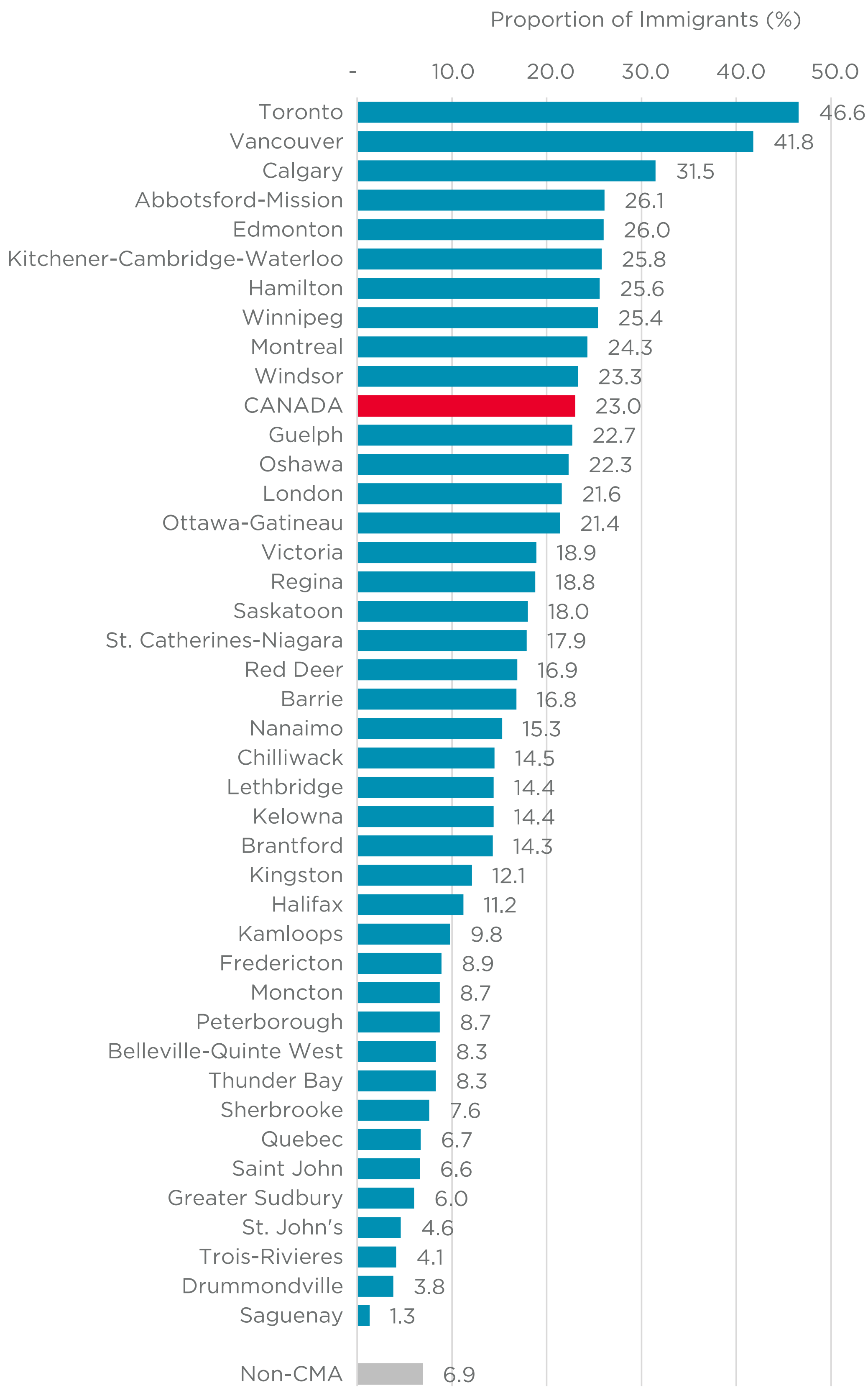
Following border and travel restrictions to curb the spread of COVID-19, the percentage of international migration dropped from 85.7% in 2019 to 58% in 2020. In 2020, Canada welcomed 184,624 immigrants, which was down by almost half from 2019 and the lowest of any year since 1998. The pre-pandemic target for immigration was set by Immigration, Refugees and Citizen Canada (IRCC) was 341,000. In 2020, the entire population growth rate was the lowest since 1945 in numbers and 1916 in percent.

While immigration slowed during the pandemic, the government of Canada announced new aggressive immigration targets to make-up for the shortfall. In November 2022, the Minister of Immigration, Refugees and Citizenship, released Canada's 2023-2025 immigration levels plan. This stated that Canada aims to welcome 1.45 million new permanent residents from 2023 to 2025 at a ramped-up pace each year.

As an employment hub, Ontario will be the settling point for many of these immigrants, amplifying the urgency to address the existing housing shortage. In 2021, approximately half of all immigrants moved to Ontario. Moreover, more immigrants rent than own. According to StatsCan report in 2018, approximately 55% of immigrants rent, 45% own, and only 12% of all renters live in subsidized housing.

The following graph illustrates the proportion of immigrants by Census Metropolitan Area (CMA). Toronto (6.4 million population) and Vancouver (2.6 million population) far outpace the remaining CMAs in terms of welcoming immigrants with Toronto at double the national average.

2021 IMMIGRANTS AS PERCENT OF POPULATION BY CMA



Source: Statistics Canada, Cushman & Wakefield

CONTROLLING CONSTRUCTION COSTS

A key component to financially feasible SFR in Canada is controlling costs. Construction costs are at an all-time high across Canada and the labor shortage of trades is significant. As of Q3 2022, StatsCan's building construction price indices for residential properties is 62% higher than pre-pandemic levels in Q1 2020. The elevated cost of construction limits new builds and therefore favors an acquisition-rehabilitation or densification strategy to adding to the rental housing stock. Further, alternative methods of construction (modular, factory built) and standardized finishes and fixturing may be methods to control quality and cost.

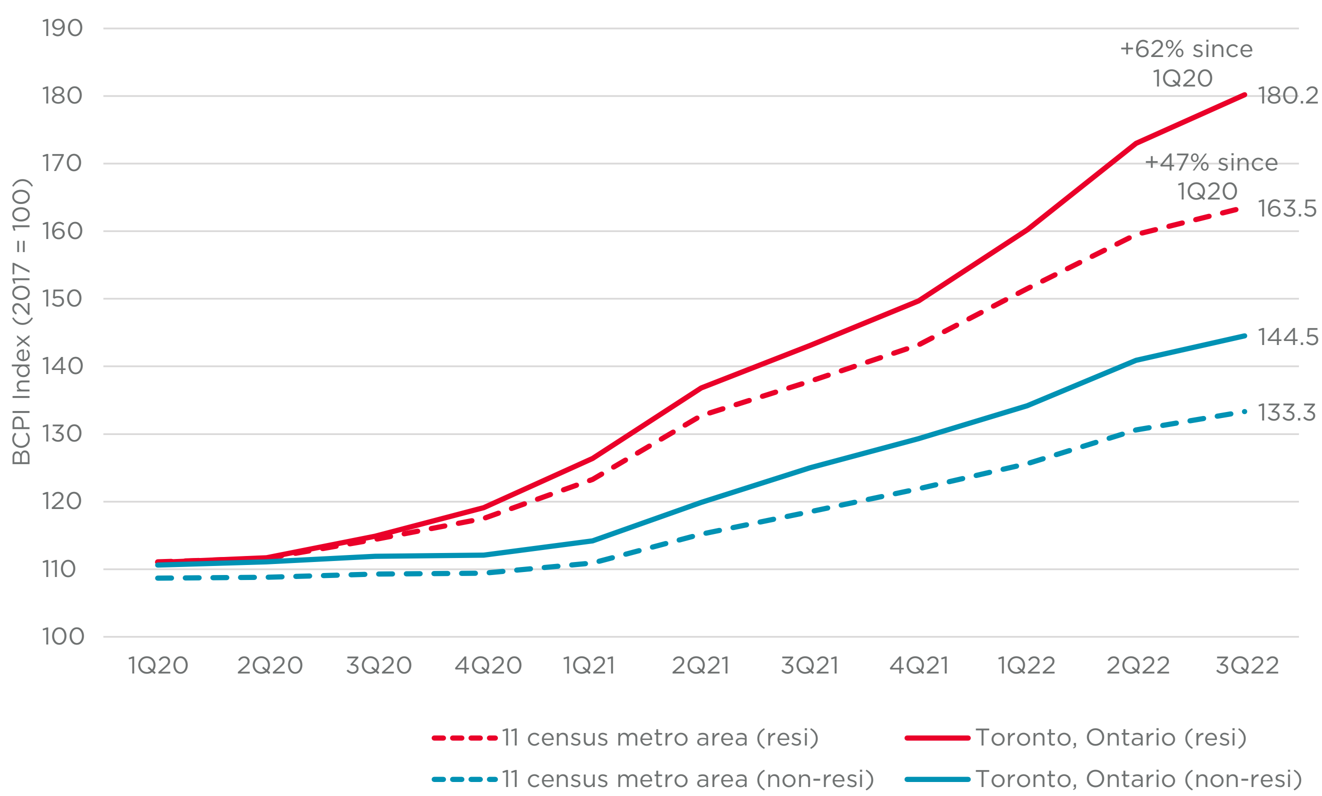
Given the general market conditions above, an institutional investor has distinct advantages in capital, knowledge, and market reach.

NEW LEGISLATION ALLOWING GREATER DENSITY

New regulations allow densification of residential lots with laneway homes and garden suites, but individual homeowners may not be prepared for the onerous task of design, permitting and construction Moreover, costs can be prohibitive for many individual owners.

1. Renovating basements into legal apartments often requires investment with the range of $200,000. This includes underpinning, stair replacement, window enlargement and addition of a small kitchen and bath.
2. Adding a laneway or garden suite can cost within the range of $250,000 and up, depending upon the size and complexity of the structure and the investment in utility/sewerage connections.
3. Converting a single family home into a duplex can also be expensive as this requires additional fire proofing between units, upgraded plumbing and electrical services and an additional kitchen and bath.

BUILDING CONSTRUCTION PRICE INDEX (BCPI) FOR RESIDENTIAL PROPERTIES (2017 = 100)



Source: Statistics Canada

Three regulatory tailwinds create amplified opportunity in the near term: More Homes Built Faster Act, 2023-2025 Immigration Levels Plan, and approved pro-investor amendments to Prohibition on the Purchase of Residential Property by Non-Canadians Act.

BILL 23 "MORE HOMES BUILT FASTER ACT" & ONTARIO REGULATORY TAILWINDS

Ontario serves as an example of how legislation in other areas of Canada may incentivize housing production. Bill 23 is legislation that Ontario's provincial government passed in November 2022 that ultimately seeks to spur new housing development. This bill may provide a guideline for other provinces, however, regulations in other provinces vary and further study is needed to determine if this is directly applicable. Bill 23 amends the Development Charges Act by exempting, lowering, or freezing municipality's development-related fees. In Ontario, due to the housing shortage, the provincial government is focused on building homes faster. They have implemented many programs over the last few years to speed up the development processes. The advantage of this new legislation for investors in the SFH market is that it allows increased density on individual SFH lots, which include garden suites, laneway houses and basement apartments without a bylaw variance. This allows investors to capitalize on increased occupancy with less capital investment.

Additionally, for investors seeking to create single family rental developments, this bill expedites the process, which was previously onerous per the development community. Investors wishing to provide a mix of affordable rental units mixed with market rental units may find that there are new incentives within the province and municipalities that make it more advantageous than before.

The following are key points within Bill 23 passed in November 2022, which presents numerous methods intended to spur development.

DENSITY

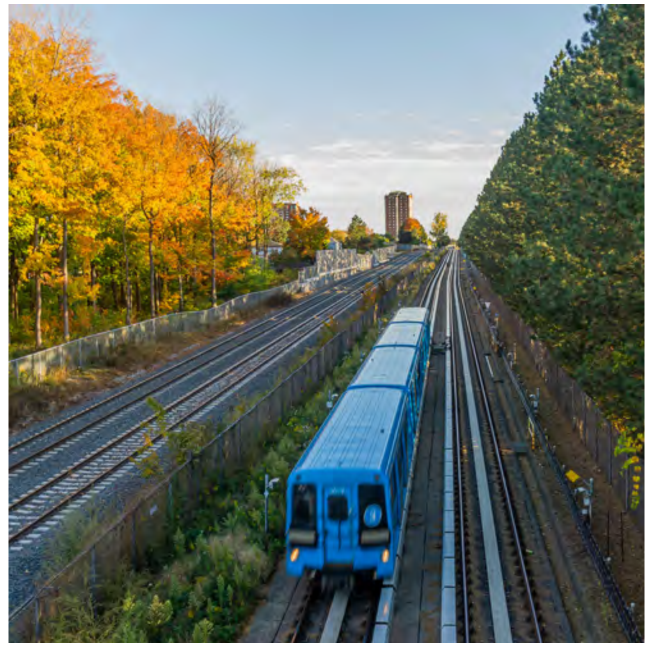
Up to three units will be allowed on a single residential lot without any bylaw amendments or municipal permissions. Municipalities will not be able to set minimum unit sizes or require more than one parking space per unit. Duplexes and triplexes will also be allowed on single residential lots.

SITE PLAN REVIEW

Site plan reviews will be restricted to health and safety issues rather than landscaping or architectural details, meaning that exterior design will no longer be a matter subject to site plan control.

TRANSIT ORIENTED DEVELOPMENT

Zoning changes to allow more homes near transit.



DEVELOPMENT CHARGES

Development charges are fees collected from developers that help pay for the cost of municipal services or impacted infrastructure such as roads and transit. Development charges for additional units built on single residential lots will be waived. Development charges will be waived for affordable housing, non-profit housing, and inclusionary zoning units, as well as select attainable housing units. These homes would also be exempt from parkland dedication levies and community benefit charges. Development charges will be reduced up to 25% for family-sized rental units. Any development charges in new bylaws as of June 2022 would be phased-in over five years to make the increases more manageable.

CONSERVATION

Conservation Authority fees for development permits and proposals will be temporarily frozen. The regulations of 36 conservation authorities in Ontario will be streamlined into one. When approving permits factors such as pollution and conservation of land will no longer be considered. The only requirements would be the consideration of unstable soil or bedrocks. Permits will also be issued for development in areas “prone to flooding and erosion” along rivers and lakes and within wetlands.

CITY PARTICIPATION

29 of the fastest growing cities in Ontario are required to develop a pledge for increasing housing by 2031. For example, Toronto must meet the target of 285,000 units and Ottawa has a target of 151,000 units.

MUNICIPAL FEES AND FUNDING

No additional funding has been announced thus far to help with housing targets. There is a proposal that would require municipalities to spend or allocate at least 60% of their development charge and parkland reserve balances each year to building infrastructure and parks. On the accountability front, the Act increases maximum penalties to $50,000 for "bad actors" who terminate contracts or cancel projects such as pre-construction homes; and, it increases the non-resident speculation tax from 20% to 25%.

INCLUSIONARY ZONING

Make inclusionary zoning rules "more consistent" where they are applied, including a maximum 25-year affordability period, a five per cent cap on the number of affordable units and a standardized approach to determining an "affordable price or rent."

COMMUNITY INVOLVEMENT IN DEVELOPMENT

Limit third-party appeals at the Ontario Land Tribunal for official plan amendments, zoning bylaw amendments, as well as "minor variances and consents." This includes appeals made by individuals or community groups not directly involved in the development case. Speeding up decisions at the Ontario Land Tribunal by prioritizing cases that will create the most housing, among other things. Municipalities will no longer be required to hold public meetings for drafts of a new development. This also includes reduced parkland requirements for higher density residential developments.

RESIDENTIAL OWNERSHIP TAX AND REGULATORY COMMENTARY

RESIDENTIAL TAXES

Residential taxes vary across the province of Ontario. There are several types of taxes that may apply:

- ***Land transfer tax.*** Currently there is a scale that the province applies for land transfer tax. This is determined by the 'value of consideration' multiplied by a predetermined % and is delineated by tranches, for example, up to $55,000, exceeding $55,000 and up to $250,000, etc. Properties with 2 SFRs exceeding a certain value will have a higher tax rate. Thus far, Toronto is the only city within Ontario to levy an additional land transfer tax, which is significant. For example, Toronto charges 2% of the selling price for homes valued between $400,000-$2,000,000, which encompasses most Toronto properties.
- ***Annual property tax.*** MPAC (Municipal Property Assessment Corporation) is responsible for assessing properties every 4 years to determine their value. Due to the pandemic, property values are frozen until 2024, which means 2016 levels are still applied. Toronto (.632%) had one of the lowest property tax rates in 2022. The highest tax rates belong to Windsor (1.853%), Thunder Bay (1.648%), Sault Ste. Marie (1.63%), North Bay (1.619%), Sudbury (1.590%) and Peterborough (1.491%).
- ***Capital gains taxes.*** When a home is a principal residence, it is tax exempt. However, a home must be owner-occupied for a period of at least 24 months before a sale, otherwise it is subject to capital gains taxes. This legislation is in effect to prevent excessive 'home-flipping' in the market. For investment or rental properties, 50% of any capital gain is subject to tax at the time of sale or disposition.
- For investment properties, capital cost allowances for depreciable properties may apply.

TENANT RIGHTS

In Ontario, the 'Residential Tenancies Act' regulates all rental properties. It outlines standards for Structural, Utilities and Services, Safety and General Maintenance. It is strict and the method for mediation (Tribunals Ontario, Landlord and Tenant Board – commonly known as LTB) is frequently backlogged with peak filings in 2022.[xvi] Resolution for disputes can take 9-18 months and during this time, tenants may not pay rent.[xvii] Even after resolution, tenants can be granted an extended grace period for rent repayment. Landlords cannot impose rent repayment agreements on tenancies and tenants cannot be evicted for refusing a rent repayment plan. However, the landlord can apply

to evict the tenant with the Landlord Tenant Board, but this can take significant time. This discourages many potential individual landlords from renting out properties as the financial risk can be great. Alternatively, this creates an opportunity in the market for institutional investors who can manage cash flow easier and have resources to manage complex issues.

FOREIGN & CROSS-BORDER INVESTMENT IN REAL ESTATE

Foreign investment in Canadian real estate is a complex and currently evolving issue as the Canadian government has made it a policy priority to shape and steer real estate investment in recent years. On December 2, 2022, the Privy Council passed an Order in Council confirming regulations related to the Prohibition on the Purchase of Residential Property by Non-Canadians Act. The Prohibition on the Purchase of Residential Property by Non-Canadians Regulations was published on December 21, 2022. The Regulation came into force on January 1, 2023, along with the Act, and is effective for two years.

However, on March 27, 2023, the Honourable Ahmed Hussen, Minister of Housing and Diversity and Inclusion, announced four amendments to the Act, which came into force that same day. The news release stated that the purpose of the amendment is to:

- “Enhance the flexibility of newcomers and businesses looking to add to Canada’s housing supply,”
- “Expand exceptions to allow Non-Canadians to purchase a residential property in certain circumstances,”
- “Further support individuals and families seeking to build a life in Canada by pursuing home ownership in their communities sooner and address housing supply issues.”

This leaves flexibility in the policy as ‘development’ may include assets that require substantial renovation to make them suitable for tenants.

According to the CMHC website, this exception allows non-Canadians to purchase residential property for the purpose of development. The amendments also extend the exception currently applicable to publicly traded corporations under the Act, to publicly traded entities formed under the laws of Canada or a province and controlled by a non-Canadian.

Further explained on the CMHC website, “Development means the process of evaluating, planning and undertaking of alterations or improvements (with or without a change in use) to a residential property or the land on which the residential property is located and, for greater certainty, includes redevelopment of an existing building.

In scenarios in which an expansion or remodel is so extensive that it is tantamount to the construction of a new building or a change of use, for example because it creates a new residential property or other types of new and independently usable premises, this would constitute ‘development’.”

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DETAILED ANALYSIS OF TARGET ONTARIO MARKETS

03.

Across Ontario, 34 markets (some were combined) were studied to determine the viability of rental housing investment. The Ontario market has high growth potential for rental homes, especially in the smaller secondary towns and cities. Escalation of housing prices in major cities (Toronto and Ottawa) preclude them from producing an attractive ROI using an SFR investment strategy. In these cities, home prices are typically over $1M. Due to the purchase price and probable renovation costs, the rental prices in Toronto and Ottawa will likely only be targeted toward a higher income niche market. It is recognized that there may be some pockets of outlying areas that are feasible, but for the purposes of this report, we focus on secondary and tertiary cities that are experiencing growth. This market criteria also precluded major suburban areas of Toronto, such as Oakville, Markham, Burlington, Richmond Hill, Vaughan, Ajax, Pickering, as their home price averages are well over $1M.

METHODOLOGY

For this study, the criteria for selection of markets to include in analyzing attractiveness of SFR investment are as follows:

- Median home prices below $1M, making the ROI for acquiring, renovating, and operating single-family homes as rental properties to be feasible and a win-win for both operator and renter.
- Located near a major transit corridor, facilitating market access, migration, and an attractive employment market.
- At least one connection to a provincial highway or other major transit route, which fosters growth.
- Population greater than 20,000 for economies of scale.

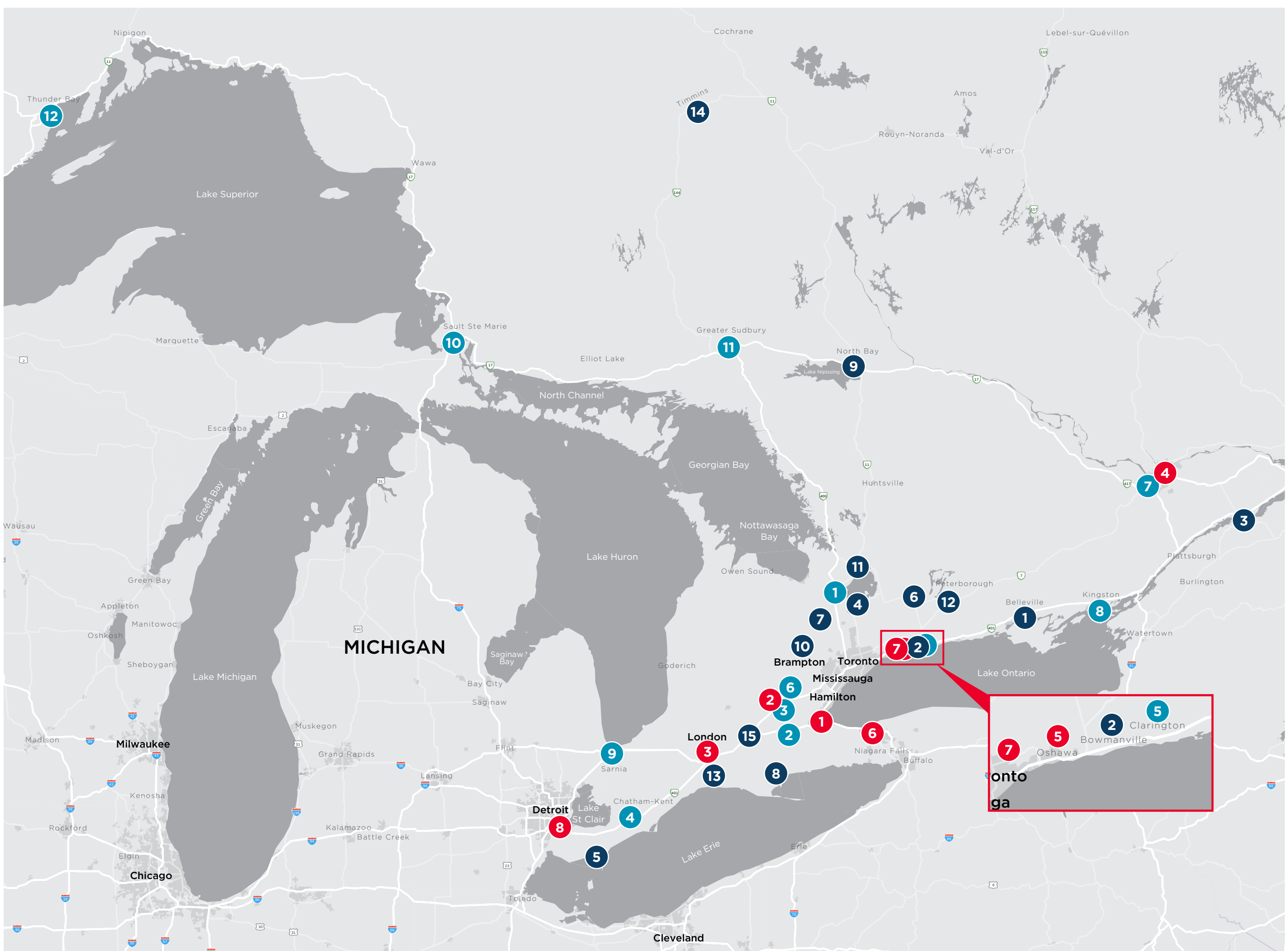
Please note that SFR data on SFHs is not collected by StatsCan or CMHC, leading sources of government supplied data. Data collected by these organizations pertains to apartments. Therefore, all rental data was sourced from Rentals.ca.

When factoring in these criteria, the markets in Ontario were determined to be the following:

ONTARIO MARKETS			
BARRIE / INNISFIL	GUELPH	NORFOLK COUNTY	SAULT STE. MARIE
BELLEVILLE / QUINTE	HAMILTON	NORTH BAY	ST. THOMAS
BOWMANVILLE / NEWCASTLE	KANATA	ORILLA	SUDBURY
BRANTFORD	KINGSTON	ORANGEVILLE	THUNDER BAY
CAMBRIDGE	KITCHNER / WATERLOO (KW)	OSHAWA	TIMMINS
CHATHAM / KENT	LEAMINGTON	PETERBOROUGH	WHITBY
CLARINGTON	LINDSEY / KAWARTHA	SARNIA	WINDSOR
CORNWALL	LONDON	ST. CATHERINES / NIAGARA / WELLAND	WOODSTOCK
GEORGINA	NEW TUMCUMSETH		

PRIMARY, SECONDARY, & TERTIARY MARKETS

PRIMARY MARKETS	SECONDARY MARKETS	TERTIARY MARKETS
1. Hamilton	1. Barrie/Innisfil	1. Belleville/Quinte
2. Kitchener/Waterloo	2. Brantford	2. Bowmanville/Newcastle
3. London	3. Cambridge	3. Cornwall
4. Ottawa	4. Chatham-kent	4. Georgina
5. Oshawa	5. Clarington	5. Leamington
6. St. Catherines/Welland	6. Guelph	6. Lindsay/Kawarthas
7. Whitby	7. Kanata	7. New Tecumseth
8. Windsor	8. Kingston	8. Norfolk County
	9. Sarnia	9. North Bay
	10. Sault. Ste. Marie	10. Orangeville
	11. Sudbury	11. Orillia
	12. Thunder Bay	12. Peterborough
		13. St. Thomas
		14. Timmins
		15. Woodstock



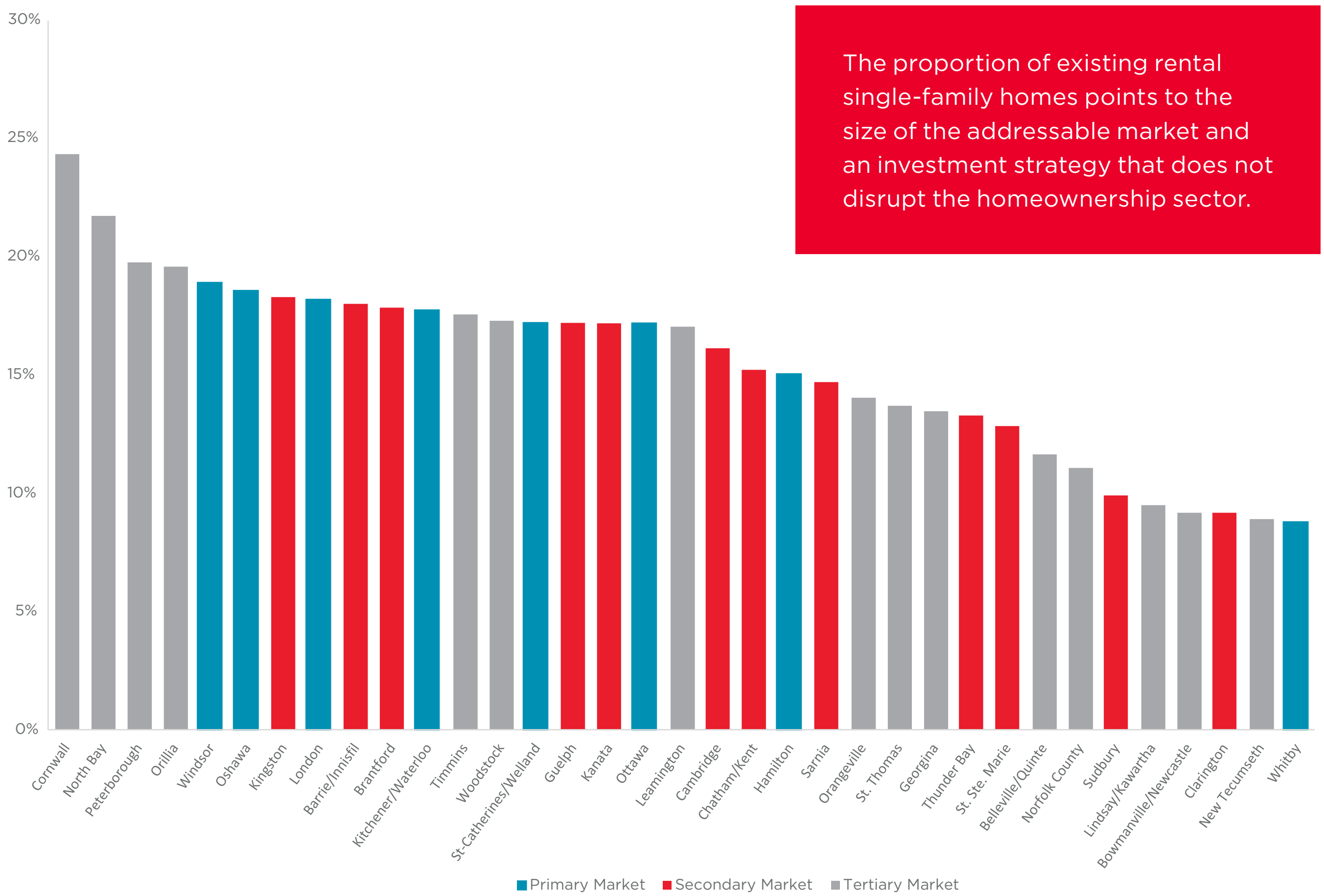
Key statistics examined include the following:

- Percentage of renters
- Demographics (age, ethnicity, gender, language)
- Average household income
- Population of each city, annual population change, population density.
- Supply and Demand Summary (given available data).
- Typical Rental Prices - Per Bedroom, Overall SF, Attributes, etc.

PERCENT OF SINGLE-FAMILY RENTER HOUSEHOLDS BY MARKET (2017 = 100)

The following graph illustrates the tenure of households in single-family homes (detached, semi-detached and townhomes) as defined by Statistics Canada data across the 34 Ontario markets studied in this report. Purpose-built single-family or multifamily rental homes are not included in the following graph.

The proportion of existing rental single-family homes points to the size of the addressable market and an investment strategy that does not disrupt the homeownership sector.



Source: StatsCan Census Data

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FINDINGS

When comparing the data from the cities that were studied, the following five categories emerged as key market factors for determining attractive investment into the SFR market:

- Population Growth
- Development Yields (based upon adding a 2BR rental unit to an existing 3BR SFH and achieving 80% decile rents as a result)
- Rent to Price Ratio (RPR)
- Average SFH price

Based upon an investor's desired strategy, Ontario provides a range of markets for various executions to deploy capital.

ONTARIO HOUSING MARKETS BY HISTORICAL PRICE-TO-INCOME (PIR) RATIO & POPULATION GROWTH

Markets in Ontario provide a range of investment strategies, which are illustrated in the following graph based upon two factors: 1) growth rates, and 2) development yields.

- **Quadrant 1** – Higher Population Growth Markets with High Development Yields
- **Quadrant 2** – Lower Population Growth Markets with Higher Development Yields
- **Quadrant 3** – Lower Population Growth Markets with Lower Development Yields
- **Quadrant 4** – Higher Population Growth Markets with Lower Development Yields

Development yields—with the methodology illustrated earlier in this report—determine whether a market is classified as a higher or lower yield market. Given untrended return on cost investor expectations in the current capital markets climate, the threshold for a higher yield development market is 7.0%.

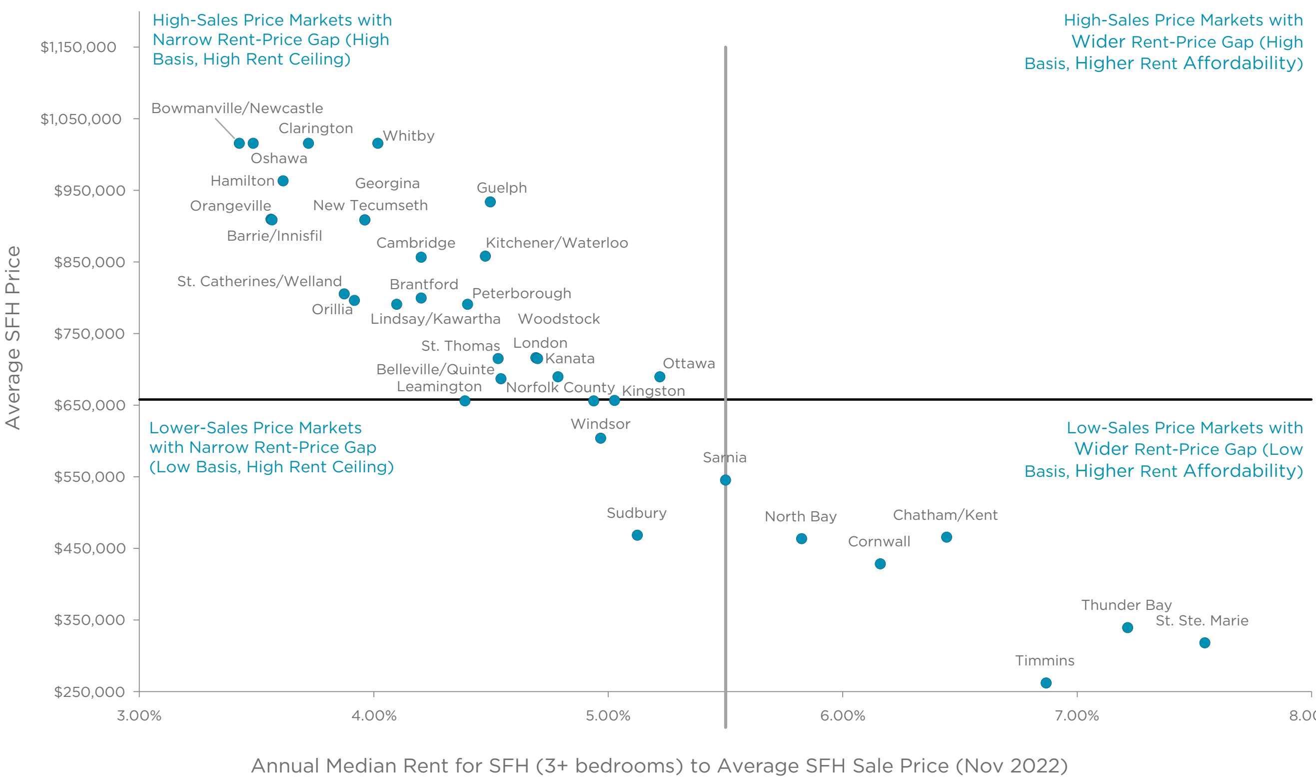
Source: Statistics Canada, Cushman & Wakefield

SINGLE-FAMILY HOME PRICES VERSUS RENT-TO-PRICE RATIO

In addition to comparing yields versus population growth, comparing SFH prices to rent growth is another crucial calculation for an investment strategy.

SFH prices determine barriers to entry for both the renter and an investor in terms of cost basis of acquisition. Whereas, rent-to-price ratios (RPR) demonstrate potential upside for rental revenue.

The following graph combines both factors and illustrates that some of the less expensive markets have the highest RPRs.



Source: CREA, Realtor.ca, Kijiji.ca

#1. HIGH POPULATION GROWTH MARKETS

Population growth is a fundamental driver of demand, rendering these markets attractive for investment.

TOP 10 MARKETS (BASED ON PROJECTED POPULATION GROWTH)	PROJECTED 5-YEAR POPULATION GROWTH %	HISTORICAL 5-YEAR POPULATION GROWTH %	AVERAGE SFH SALE PRICE (2022)
Bowmanville/Newcastle	13%	13%	$1,015,719
Clarington	13%	13%	$1,015,719
Woodstock	13%	14%	$716,312
Kanata	12%	14%	$689,655
New Tecumseth	11%	13%	$908,652
Orangeville	11%	8%	$909,755
Barrie/Innisfil	11%	13%	$908,652
Oshawa/Whitby	10%	9%	$1,015,719
Guelph	9%	8%	$933,886

Source: C&W Analysis, Environics, CREA. Note that projections are based on historical data.

KITCHENER/WATERLOO – The population growth rate is high (10%) and average incomes have not kept pace with average home prices. The PIR is 7.78 and the growth rate for the rental market is strong (4%) and therefore this market warrants in-depth examination. It is likely that growth may be in upscale purpose-built density residential, as this is a growing trend among larger primary and secondary cities. However, there may be the opportunity for SFH rentals as an alternative or the opportunity for a SFH rental development. Furthermore, this market is driven by the tech sector, therefore, close attention to the fluctuations of the tech industry is advised.

KANATA – Kanata, a suburb of Ottawa and part of the high-tech corridor, has a strong growth rate of 14%, but a lower PIR (4.5), therefore the demand for rental property may not be as high.

Communities with a population of less than 50,000 may not be a priority for initial investment; however, they should not be discounted due to growth and a high PIR.

- New Tecumseth, 13% 7.7
- Woodstock, 14%, 7.3

WOODSTOCK – The population growth rate has seen tremendous demographic growth in the last five years. The growth rate can be attributed to the COVID-19 migration trend that saw people moving from large urban centers to smaller more affordable communities near big cities. Woodstock proximity to London, Kitchener/ Waterloo, and Hamilton, makes it a desirable market for those looking to for more affordable homes.

#2 – HIGH PIR MARKETS WITH BARRIERS TO OWNERSHIP / UNAFFORDABILITY

High PIR markets impede renters from owning homes and therefore creates an environment where the rent ceiling is high, allowing for rent growth.

Oshawa – Of the markets studied in Ontario, Oshawa's PIR is the highest as of 2022. Its average sale price for SFH grew 66% over the last five years and incomes have not kept pace with housing prices (Price to Income ratio of 10.2 in 2022), there is the opportunity for rental home investment. The proximity of Oshawa to Toronto makes this a stable market. Additionally, there is a high growth rate (9%) and a high immigrant population growth (18%). Although the average house price is hovering around 1M, this market is worth exploration, particularly as a long-term investment.

Chatham/Kent – While Chatham/Kent's PIR is moderate, its PIR growth rate in the past five years is a leading indicator that the market is becoming increasingly more unaffordable (at a faster pace) and will need rental housing as the population expands. For example, Chatham/Kent had 124% PIR over the last five years, which makes it highly likely that there will be a pressing need for rental homes. The average sale price of a home in Chatham/Kent $465K, which may make this an advantageous opportunity for investment in volume. Tempering its attractiveness in terms of PIR growth is Chatham/Kent's population growth at 2%, however. Further, the greater Chatham/Kent market is comprised of 23 communities and is geographically dispersed, which necessitates an SFR operator that is fully adept in true scattered site property management.

#3 – TERTIARY MARKETS (LOW GROWTH, LESS EXPENSIVE HOMES)

At first glance, these markets may not stand out due to key factors; however, they have proven to generate attractive SFR opportunities. The markets that fall into this category include:

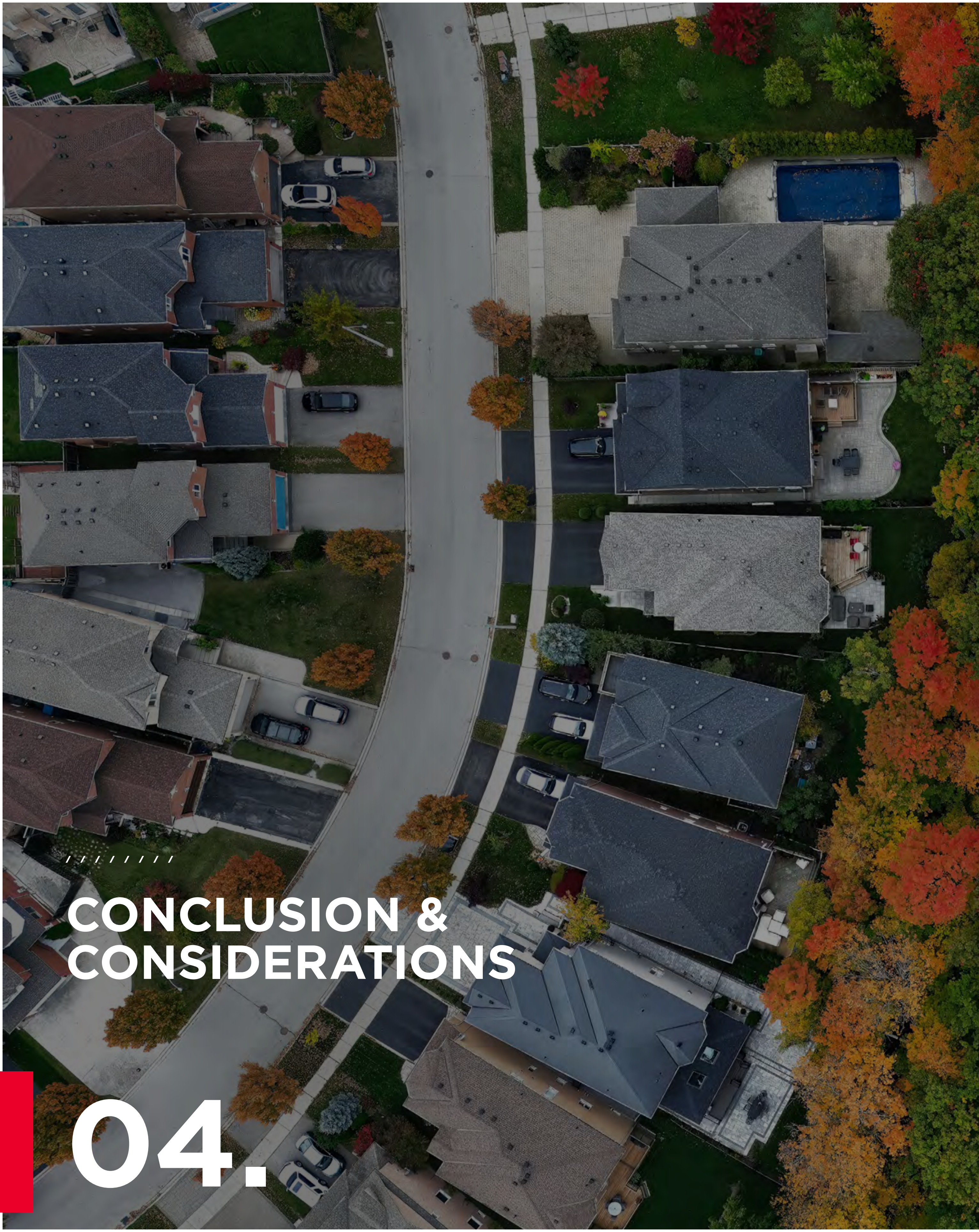
- Timmins
- Thunder Bay
- Sault Ste. Marie
- North Bay

Markets such as Thunder Bay and Sault Ste. Marie and Timmins have soft demographic projections in the next five years and the homes are relatively affordable. Yet, these markets have among the highest rent-to-price ratios (RPR). High rent-to-rice ratios indicate that the rent floor is high in these markets, which makes them attractive for investment as they are rent resilient.

We primarily attribute the high rent floor to the lack of quality SFR and overall rental housing supply in these markets in conjunction with an aging housing stock. There were no rental listings on the MLS for these markets at the time of this report. Rental data was obtained from the Canadian online classified advertising website Kijiji.ca, which had very few rental listings. Therefore, the following markets listed have the lowest supply of SFH rentals out of the 34 markets that were studied for this report.

We predict that for these markets the low supply of available SFH rental will continue to drive the higher rent-to-sale price ratio. Despite Thunder Bay, Sault Ste. Marie, and Timmins having a population that is expected to shrink in the next five years, the limited rental supply and low new home inventory will allow the rental rates to continue to remain at their current level or higher. This may make these markets advantageous to investors.

For greater detail on each of the markets included it his report, refer to the **Appendix** of the report.



CONCLUSION & CONSIDERATIONS

04.

The addressable SFR market in Ontario has the potential to yield positive financial performance for institutional investors, much like the U.S. market.

Contributing factors such as rising interest rates which prohibit individual home ownership, home prices, the shortage of housing, and aging housing stock have created opportunities for institutional investors and several strategies could be deployed according to individual markets.

Strategies may include the following:

- SFR in high growth markets close to Toronto, such as Oshawa, which offer stability due to proximity.
- SFR in high growth and industry focused markets, such as Kanata and Kitchener/Waterloo which may capture corporate rentals focused on the tech industry or well-paid transient salaried workers.
- SFR in high-growth, high PIR markets, such as Bowmanville, which indicate increasing unaffordability for home ownership.
- SFR in smaller, low-cost, low-growth outlier markets, such as Timmins, which have high rent floors.

Due to relatively high housing prices in many of the markets, an investor must balance purchase and investment with the ROI. Depending upon the investment strategy, it is feasible that some markets may be prohibitive due to the housing prices and purchasing multiple units (scaling) may require excessive capital. This may be especially true for housing markets with a high growth rate and a high PIR.

Other options to consider are land lease developments and rent-to-own developments which may be easier to service and may have significant advantages in secondary cities. There are successful models for institutionally owned land-lease developments in Ontario, which may serve as a guideline for further exploration. There are also rent-to-own home programs in Ontario which have been met with a degree of success and this may be a strategy that resonates well with institutional investors who prioritize ESG initiatives.

Options for consideration include the following:

- SFH - individual rentals (existing, to be renovated/densified)
- BTR - purpose-built rentals (small, medium, and large developments)
- MFH - land-lease (small, medium to large scale developments)

SFH rental and BTR, and rent-to-own are all worthy of exploration and may provide timely and necessary housing options for Canadians and further provide a method to offset the housing shortfall.

Determining investment strategies for the rental market should include an examination to compare the options above for highest financial yield. It may also be likely that in some markets, delineation by demographic growth (seniors vs singles vs families) may determine investment in housing types or development strategies and further reduce risk. This could include co-living developments, seniors' developments, and student housing.

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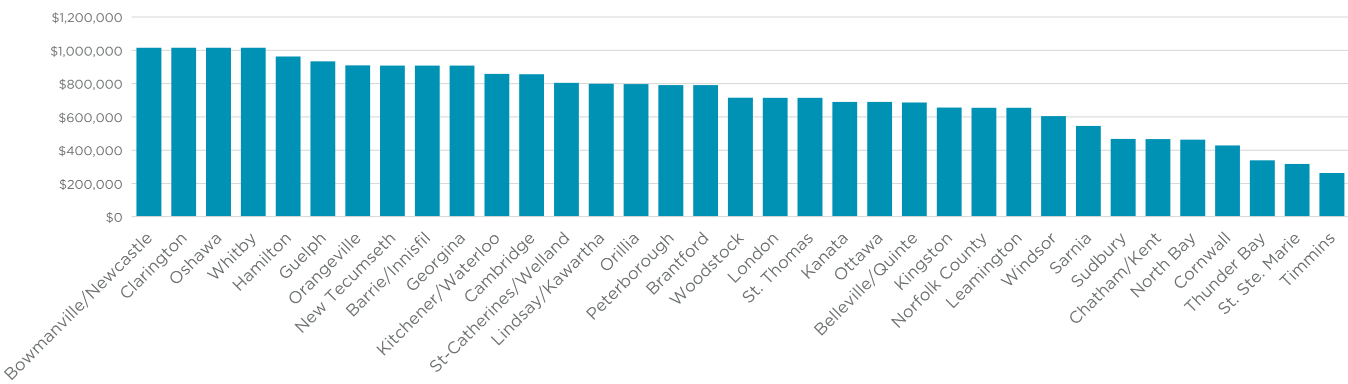
APPENDIX

05.

APPENDIX A: ADDITIONAL CHARTS

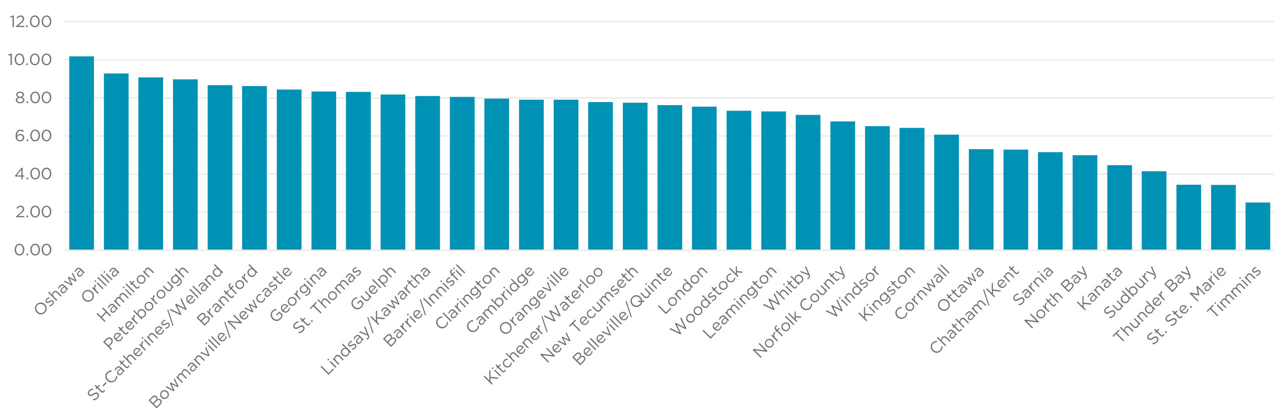
AVERAGE SFH SALE PRICE 2022

Source: CREA



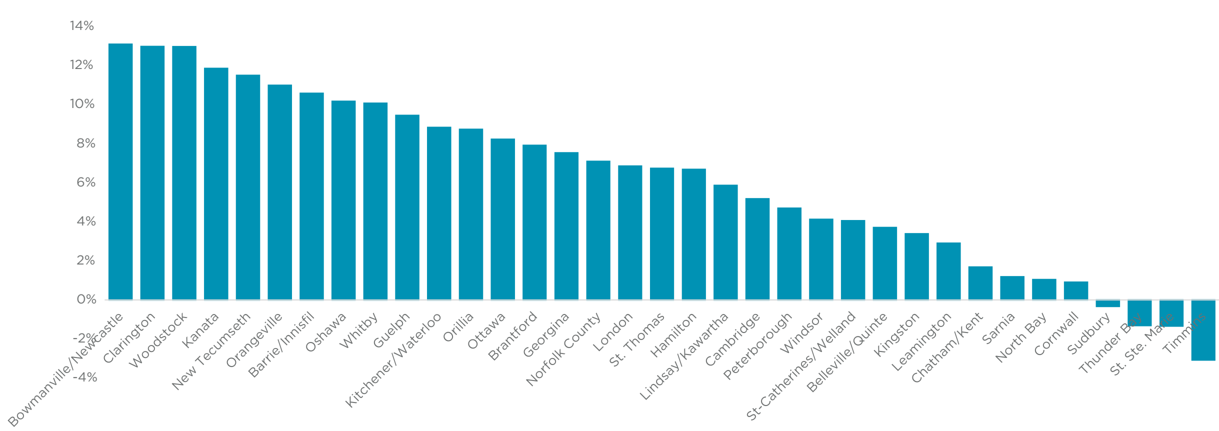
SFH PRICE-TO-INCOME RATIOS (PIR) (AFFORDABILITY)

Source: CREA and StatsCan



2022-2027 POPULATION GROWTH BY CITY

Source: Environics



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