

FINAL TRANSCRIPT

Minto Apartment Real Estate Investment Trust

Q3 2018 Conference Call

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PRESENTATION

Operator

Good morning. My name is Britney (phon), and I'll be your conference Operator today. At this time, I would like to welcome everyone to Minto Apartment REIT Q3 2018 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press the *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the *, followed by the 2.

Before we begin, I want to remind listeners that certain statements about the future events made on this conference call are forward-looking in nature. Any such information is subject to risk, uncertainties, and assumptions that could cause actual results to differ materially. Please refer to the cautionary statements on forward-looking information in the REIT's news release and MD&A dated November 12, 2018 for more information.

During the call, management will also reference certain non-IFRS financial measures. Although the REIT believes these measures provide useful supplemental information about its financial performance, they are not recognized measures and do not have standardized meaning under IFRS. Please see the REIT's MD&A for additional information regarding non-IFRS financial measures including four reconciliations to the nearest IFRS measures. Thank you.

Mr. Waters, you may begin your conference.

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Michael Waters — Chief Executive Officer, Minto Apartment Real Estate Investment Trust

Thank you, Britney, and good morning, everyone. My name is Michael Waters, and I am Minto Apartment REIT's Chief Executive Office. I'm joined this morning by Julie Morin, our Chief Financial Officer.

We're very pleased that you've joined us on our first earnings conference call as a publicly traded REIT. We're excited about the business opportunity in front of us, and we appreciate the opportunity to talk about it with you today and on future conference calls.

I'll begin the call with an overview of our third quarter results. Julie will discuss our financial and operating performance in greater detail. And I'll conclude with some brief comments on our business outlook. Then we'll be pleased to answer your questions.

I'm happy to say that Minto is off to a great start as a public entity with strong third quarter financial results. I highlight that our revenue, net operating income, funds from operations, and adjusted funds from operations all significantly exceeded the financial forecast in our IPO prospectus.

Occupancy of available unfurnished suites of 99 percent was also higher than the forecast. Suite turnover was high, allowing us to implement rent increases and make many strategic investments in suite upgrades. Overall, we met or exceeded every financial and operational metric we set out for ourselves prior to the closing of the IPO.

If you heard one of our presentations during the IPO marketing process, you'll recall that we said there is a significant organic growth opportunity due to the gap we saw between average in-

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place rent in our apartments and our estimate of monthly market rents; what we call gain-to-lease. We generate this growth by simply turning over suites. It doesn't reflect any of the additional value we generate from capital investments or repositioning our property.

We began to capitalize on this gain-to-lease opportunity during the third quarter as we signed 363 new leases in our portfolio, and we were able to increase the average monthly rent for new tenants in those apartments by 7.3 percent. This created an additional \$442,000 of annualized revenue that drops right to the bottom line. I should note here that the third quarter has historically been a good quarter, due to higher-than-average turnover.

Another key organic growth driver for the REIT is asset repositioning. Under our repositioning program, we improve suites and common areas to take advantage of market demand. We begin by renovating test suites to gauge market demand for improved suites. Once we determine the optimal mix of upgrades, we renovate all the suites as quickly as we can when tenants turn over.

In Q3 2018, we repositioned 74 suites at five properties in our portfolio. This included the completion of the repositioning program at Minto one80five. This drove significant rent increases in those suites that is accretive to both AFFO and NAV. More than 200 suites remain to be repositioned in the other four properties. We also plan to begin repositioning suites at two additional properties in Ottawa next year.

Intensification is the third leg of our organic growth program, which capitalizes on opportunities to develop vacant land and low-density sites within the portfolio. As many of you know,

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we have a fully zoned development pad for a new 225-suite tower at our Richgrove property in Toronto. Predevelopment work for this new tower continues.

I'm also pleased to report that we have developed and implemented a robust corporate governance framework, recognizing the importance of public company-level governance controls and transparency.

So overall, we're very pleased with our performance. Minto Apartment REIT has only been public for a little over four months, but keep in mind that Minto has been in business for more than six decades. We know our industry. We know our markets. And we know exactly how to build value through both organic growth and external acquisitions. We're confident that the REIT's strong third quarter is a sign of things to come.

I'd now like to invite Julie to review our Q3 2018 financial results in more detail. Julie?

Julie Morin — Chief Financial Officer, Minto Apartment Real Estate Investment Trust

Thanks, Michael. To start off, I want to remind people that the REIT acquired the initial portfolio on July 2, 2018 and completed the IPO on the Toronto Stock Exchange on the following day. Accordingly, the results for the third quarter comprise the 91-day period from July 2 to September 30, 2018, as opposed to the full 92 days from July 1st. However, the one-day difference was not material to our results.

Turning to Slide 4. We reported revenue of \$21.1 million for the three months ended September 30, 2018, which exceeded our IPO guidance by \$700,000 or 3.4 percent. The

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outperformance was driven by organic rental growth due to higher rents achieved on the turnover suites as well as higher occupancy. We also achieved higher revenue from furnished suites, which tends to be seasonally higher during the third quarter.

NOI in Q3 2018 was \$13.1 million compared to our forecast of \$12.3 million. So we exceeded the forecast by 6.5 percent. This result was attributable to positive operating leverage, as we had higher-than-forecast revenue and lower than expected property operating expenses in the quarter. As a percentage of revenue, NOI was 62 percent compared to our forecast of 60.2 percent.

Average monthly rent for occupied, unfurnished suites in the third quarter was \$1,388 per unit, \$6 above our forecast. And occupancies available unfurnished suites was approximately 99 percent or 226 basis points above our forecast of 96.7 percent.

FFO was \$8 million in Q3 2018 compared to our forecast of \$7.2 million. The 11.7 percent increase over forecast reflects the positive NOI variance I just discussed. AFFO was \$6.8 million or \$0.184 per unit, 14.2 percent above the forecast of \$5.9 million or \$0.162 per unit. And we declared cash distribution of \$0.1003 per unit, meaning our AFFO payout ratio was 54.3 percent.

Slide 5 illustrates how we generated significant rental growth from gain-to-lease opportunities across our portfolio. During the third quarter, we signed 363 new leases in our portfolio. And as you can see, we generated an average monthly rental gain of 7.3 percent on these suites, led by 11.7 percent gain in Toronto. As Michael highlighted, these rental increases provided annualized incremental revenue of over \$400,000.

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The Q3 gain-to-lease points to the much bigger opportunity that remains in our portfolio as a whole. We believe we can generate monthly rental revenue growth of 8.5 percent from simply bringing rents up to the market level as tenants turn over. This would lead to annualized revenue growth of approximately \$5.7 million.

It is also important to note that at the time of our initial public offering, we estimated the total gain-to-lease opportunity was \$5.1 million in annualized revenue. It has now increased to \$5.7 million, even though we signed 363 new leases in the third quarter.

I mentioned earlier that our operating expenses were lower than forecast in Q3 2018. On Slide 6, you can see a breakdown of our expenses versus the forecast. Property operating costs were 1.9 percent lower than expected, primarily due to lower advertising and employee costs. Property taxes and utilities were largely in line with forecast.

This cost discipline and tight control on expenses combined with a positive variance in revenue resulted in property operating expenses representing 19 percent of revenue in Q3 2018 compared to our forecast of 20 percent. We are committed to continuing to manage our costs prudently.

I'll now turn to our other key organic growth driver, our asset repositioning program. Of course, the rate at which we can make these suite improvements is dependent on tenant turnover. We experienced strong Q3 turnover in the buildings we're repositioning, allowing us to make significant progress on our program.

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As Michael noted earlier, we repositioned a total of 74 suites in the third quarter, which included the completion of the repositioning program at Minto one80five in Ottawa. At Minto Yorkville and in Edmonton, we have now repositioned about 50 percent of the total suites, with an additional 78 suites remaining at Yorkville and 140 suites remaining in Edmonton. And in 2019, we plan to initiate repositioning programs on the Carlisle and Castle Hill properties in Ottawa.

So overall, we have a lot of organic rental growth that we can continue to derive from our repositioning program. We target an average simple return on investment from our repositioning program of 8 to 15 percent, depending on the suite type. As a result, these investments are highly accretive to both AFFO and net asset value.

Turning now to our balance sheet. We have a conservative debt maturity schedule with a weighted average term to maturity of six years and a weighted average interest rate of 3.18 percent. A total of 74 percent of our debt is insured by CMHC, which is lower cost. At quarter-end, we had a debt-to-gross book value ratio of 45.8 percent and current available liquidity of approximately \$128 million. We are in a strong financial position through both internal and external growth opportunities.

I'll now turn it back to Michael for some closing comments. Michael?

Michael Waters

Thanks, Julie. As you can tell, we're in an outstanding competitive position. We are meeting or exceeding our financial and operating targets. The fundamentals of our business are highly

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attractive. And we are confident that we can continue to grow the REIT in a strategic and disciplined manner.

Internally, we'll continue to capitalize on gain-to-lease opportunities in our portfolio. As Julie noted, we have embedded gain-to-lease opportunities that can boost annualized revenue by \$5.7 million.

We will also continue to drive organic growth from our asset repositioning program with further improvements to come at Minto Yorkville and in our Edmonton portfolio as well as the Castle Hill and Carlisle properties in Ottawa. Combined, we have 570 suites to reposition at these properties, and we'll also continue to advance the potential rich growth intensification initiative.

Externally, we are continuing to evaluate a strong pipeline of acquisition opportunities. As we've previously noted, the Canadian multi-residential sector is highly fragmented. Our management team has a strong track record of creating value from acquisitions, and the IPO has put us in a stronger position to pursue transactions. Our focus is on urban locations close to transit and community amenities

Our relationship with the Minto Group is a major advantage for us as we pursue growth for the REIT. Working with the Minto Group, we can identify intensification opportunities at existing sites to add more rental suites, and we can access the Minto Group's transaction pipeline. The REIT has a right of first opportunity on multi-residential investment opportunities the Minto Group identifies in

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Canada and potential access to the Minto Group's interest in multi-residential assets it owns in joint ventures and funds with institutional clients.

The intention is that, over time, the REIT will become Minto's exclusive vehicle for its Canadian multi-residential holdings. We are confident that we can continue to grow our business while maintaining a solid sheet and a conservative payout ratio. I would like to thank the many team members who worked so hard this quarter to generate the success.

That concludes my remarks this morning. Julie and I would now be pleased to answer any questions you may have. Operator, please open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press the *, followed by the 2. If you're using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Jonathan Kelcher from TD Securities. Please go ahead.

Jonathan Kelcher — TD Securities

Thanks. Good morning.

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**Julie Morin**

Good morning.

Jonathan Kelcher

First off, on the occupancy at 99 percent, do you guys think you have any room to maybe push rental rates a little bit more at the expense of some of that occupancy?

Michael Waters

Well, yield management is something that we look at carefully. I guess I would point everyone back to Slide 5 in the deck where we show that there is significant gain to lease in the portfolio. That percentage is about 8.5 percent between current sitting rents and our estimate of market rents for those properties. We are very much dependent on the turnover to realize those rent increases.

Jonathan Kelcher

And how has—I guess Q3 was a pretty strong turnover quarter, but how has turnover generally been trending?

Michael Waters

Three hundred and sixty-three suites is strong turnover, but Q3, as we cautioned, is a quarter with seasonally very high turnover. So I don't think it is a guide that you could use to extrapolate across the whole year, Jonathan. I think that what we had seen is that turnover in our

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portfolio in Toronto is trended a little bit lower. Ottawa has stayed relatively constant, and we have seen Alberta's turnover remain relatively constant as well.

Jonathan Kelcher

Okay. And then just secondly on the suite reno program, and I know it is dependent on turnover, but how many suites do you think you can renovate in 2019?

Michael Waters

Again, it's a difficult question to answer because it's so dependent on tenant turnover. So we look to the turnover at those properties as a guide, but it is somewhat variable. Q3 was a high turnover quarter, not necessarily something that would continue through the year. So we'd like to deploy the capital as quickly as we could to reposition those suites, but we have to wait until those units turn.

Jonathan Kelcher

Okay. And what, on average, are you spending on the renos?

Michael Waters

It's quite variable. It's variable building by building, and it's very much variable within a building. For example, a 600-square-foot, one-bedroom unit or suite as compared to a 1,200-square-foot three-bedroom suite would represent very different amount of expenditure. And so, it's difficult to give you a concise number. It is variable, as well, based on the turnover we see in the unit mix that quarter.

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**Jonathan Kelcher**

Okay. Fair enough. I'll turn it back.

Michael Waters

Thanks, Jonathan.

Operator

Your next question comes from Brad Sturges from Industrial Alliance. Please go ahead.

Brad Sturges — Industrial Alliance

Hi. Good morning.

Julie Morin

Good morning.

Brad Sturges

Just continuing on the renovation program. I think as part of the IPO you did identify another four buildings, 1,000 suites of future opportunity. Would any of those assets be near-term opportunities to do more market testing on potential for renovations?

Michael Waters

Thanks, Brad. Our process, as we've talked about, is that we first take properties through a fairly rigorous test suite program. We will take units offline. We will then work out different mixes of upgrades to those units. Then we expose them in a controlled fashion to the market to ascertain the

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market demand for those units at different spec level and finish level upgrade packages. And then, with that data in hand, we determine the optimal mix of upgrades.

And at that point we go through a process to both schedule and cost out the work to a much greater extent and then would seek to roll out those programs across the building as quickly as those suites turn and we can deploy the capital. At this stage, those four properties would be entering into a test suite program in the near term.

Brad Sturges

Okay. Okay. And in terms of your Richgrove development site, is that still on a timeline for construction to start early next year?

Michael Waters

So the project predevelopment work is proceeding according to plan, including advancing the building design. To be clear though, the project construction start has not yet been approved by the REIT's trustees. Our hope is that we would be able to begin construction sometime in late 2019 or early 2020, but there is still a lot of predevelopment steps that need to be worked through.

Brad Sturges

And maybe just lastly, you're talking about a fairly robust pipeline of acquisition opportunities. Maybe give a little bit more context in terms of the types of opportunities you're seeing, whether it's portfolios or regions that is jumping out to you as more significant opportunity right now?

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**Michael Waters**

So our strategy around acquisitions is really quite focused and disciplined, and what we're really seeking are acquisitions that are well-located properties in major urban markets. We've been working hard to surface high-quality external acquisition opportunities that represent one of four strategies. One, they're stabilized properties with a gap to market, stabilized properties with intensification potential, undermanaged properties with value-add potential, and lastly, development.

We are not seeking to grow for growth's sake. We want to ensure that we are maintaining our strategy and are growing in a disciplined way. We're confident that our efforts will produce some opportunities that meet these criteria in the near term. I can say that the team has been working very hard in a number of markets. And as I say, I'm optimistic that we will see something that meets these criteria.

Brad Sturges

All right. Thank you. I'll turn it back. Thanks.

Michael Waters

Thanks, Brad.

Operator

Your next question comes from Mike Markidis from Desjardins. Please go ahead.

Mike Markidis — Desjardins

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Good morning. Maybe just expanding on Brad's question there with respect to acquisitions.

Michael, I was wondering if you could characterize the opportunity set out there in the market today vis-a-vis what might have been the case, call it, 12 to 24 months ago?

Michael Waters

Thanks, Mike. So as we talked about in our IPO marketing process, Minto has traditionally pursued I'd say off-market deals rather than more broadly marketed deals, not exclusively, but to great extent.

We have seen opportunities arise. We continue to be very choosy. There is deal flow. You see it out in the market, and we underwrite deals. We look at them, but in many cases, we chose not to bid. We are very, very careful about where we're going to deploy our capital. And the off-market deals tend to take more time to bring to fruition. Often, they're in private hands or families, and the process to bring an asset or pool of assets to an acquisition often just takes more time because of the decision-making dynamic by the vendor.

Mike Markidis

Okay. And last one for me before I turn it back, just with respect to the Minto's partial interest in the JVs, is that something where you think we might see at least some partial activity in 2019? Or it would be something that would be longer dated?

Michael Waters

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Thanks, Mike. We've had several productive discussions with our institutional partners on several of the properties in the Minto Group portfolio. Those conversations will continue. We reiterate that our long-term objective for the REIT is to be Minto's sole multi-residential investment vehicle.

I'm very optimistic, but these are complex transactions. They involve counterparties with whom we have a fiduciary obligation. They are subject to complex partnership and JV agreements that we need to work through. But I am very comforted by the tone of the conversations we've had to date. Beyond that, I can't really say too much more at this point.

Mike Markidis

Okay. That's it for me. Great quarter. Thank you.

Michael Waters

Thanks, Mike.

Operator

Your next question comes from Matt Logan from RBC. Please ahead.

Matt Logan — RBC Capital Markets

And good morning.

Michael Waters

Hi, Matt.

Matt Logan

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Can you talk a little bit about how the portfolio performed on a same-store basis and what stood out to you during the quarter?

Julie Morin

Yeah. So on the same-store basis, it's a little bit difficult because we're not necessarily comparing apples-to-apples. The portfolio was carved out of a larger business, and we had to make a number of assumptions and allocations, especially on the expense side. But certainly, from a revenue perspective it's a little bit more comparable.

And when you look at our rental revenue, growth there was 4.7 year over year. A lot of that, as we mentioned, has to do with some of the repositioning projects that were put in place as well as our ability to capitalize on the gain-to-lease as well. We had higher furnished suites revenue as well this quarter as compared to last year.

Matt Logan

That's good colour. Maybe just on the topic of gain-to-lease, would you be able to maybe compare and contrast the rental markets in Ottawa compared to Toronto and Edmonton?

Michael Waters

So I'll take a stab at this and then Julie can fill in with any colour. I think the Ottawa market is a healthy market. It is a market that is in balance, and I think what we've seen there is relatively steady turnover and solid demand for housing. And it's a market we know very well, having been in it for 64 years.

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The Alberta markets, Edmonton and Calgary, are markets that we saw bottom out in 2017. The REIT's exposure to Alberta is quite low, comprising just 7 percent of the portfolio. But our performance there has been favourable to forecast in occupancy revenue and NOI, and that's been driven by a sharp increase in lead traffic. The rental market in both cities has shown improvement in 2018 following that stabilization I mentioned in 2017.

Incentives are burning off on turnover and rent growth in core areas, particularly between say April 2018 and the present, has been fairly meaningful. We continue to believe that Calgary and Edmonton present really good growth opportunities as their underlying economic fundamentals for rentals are quite positive.

Julie Morin

Maybe I'll just add to that. On the Toronto side, the turnover during the quarter was a little bit lower than usual, and as you can imagine, the market there is really, really tight. But we are able to realize on significant gain-to-lease when we do turn it over. We realized 11.7 percent in the quarter on those leases, and we expect we can do even a little bit better than that on a go-forward basis.

Matt Logan

And would you say you're seeing any spillover effects from the strength in Toronto moving into Ottawa?

Michael Waters

I can't say that on the rental side. I couldn't make that connection. No.

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**Matt Logan**

Okay. Fair enough. Just changing gears. On the forecast in property NOI growth of 3.8 percent in the IPO forecast, can you remind us how much of that was driven by your asset repositioning program, if any?

Julie Morin

I don't have that number off hand, Matt. I'll have to get back to you on that.

Matt Logan

Okay. Maybe just taking a step back, Michael, can you talk a little bit your blue-sky view for the business and how you see the REIT evolving over the next two or three years?

Michael Waters

Yeah. I'd be happy to take a stab at that. I think that we have a strategy, which is major urban market focus, more of a value-add growth orientation. That comes out in a number of ways. You see that in our capitalization. You see it in our distribution policy. I think that the strategic alliance with Minto is an advantage that we will seek to exploit over the next several years and into the future. Not only access to the Minto pipeline of deals, but also access to Minto's construction and development skill set, which I think will lend itself very well to our strategy, which is to be an operator, developer orientation.

Matt Logan

Excellent.

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**Michael Waters**

I think that we'll will continue to play in the markets that we're in, and we will look at other high-quality markets. But again, the focus, urban locations, well-located, proximate to community amenities and transit.

Matt Logan

And potentially, over the next two or three years, we might see you expand into other major urban markets as well?

Michael Waters

That's the hope. Certainly, we see potential in other markets and we've spent time, a lot of time, working in those markets, researching them, and I'm hopeful that we will be able to bring something forward in the near term.

Matt Logan

That's all for me. I'll turn the call back. Thank you very much.

Michael Waters

Thanks, Matt.

Operator

Your next question comes from Troy McLean from BMO Capital Markets. Please go ahead.

Troy MacLean — BMO Capital Markets

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Good morning. Just curious, Michael, on the potential tower at Richgrove, how do you look at returns versus buying income-producing properties? Is there a target return that you're hurdling—or a hurdle rate that you're targeting on that?

Michael Waters

So we would typically evaluate a development deal using a number of metrics traditionally as a private developer. We would have looked at a levered IRR. And that levered IRR would be in the high teens, low 20s. I think from—to supplement that measure, we would also look at ROI, wanting to see a spread over a market cap rate of 75 to 125 basis points.

And then of course in the REIT context, we look to see a deal that will accretive to NAV and ultimately, accretive to AFFO as well. And so it's sort of a combination of those things, Troy, that we would look at. It's no one single metric but a combination of metrics and against which we have to balance risk as well and impact on the surrounding community.

Troy MacLean

Could that project, could any of that become affordable? Or would it all be at market rates like as the plan stands right now?

Michael Waters

We are evaluating affordable and market and of course some combination of the two.

Troy MacLean

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And again, I know it's early days, but is there anything you could provide on like a cost-per-door or total cost for that project?

Michael Waters

Not at this stage. The work hasn't been tendered. So I'd be giving only very rough numbers, and I'd be reluctant to do that at this point.

Troy MacLean

And then just finally, on the Edmonton portfolio, you've owned that for just about two years. Just kind of wonder how the return has been relative to your expectations when you brought that.

Michael Waters

So we did a detailed underwriting, obviously pre-IPO, pre-REIT, and we've achieved that underwriting and action favourable to that underwriting. So we're very pleased. We bought at the right time, and I think it actually proves out our hypothesis. All three properties are very located. They have great access to transit. Well located relative to amenities and demand drivers, and I think anyone that's toured those properties from the call would know that. It just comes out when you see those locations. They are tremendously well located.

I think, as well, that we've done a good job executing on the repositioning program in those properties and doing a critical view of management work inside the rent rule that we inherited. So I think it's been a number of factors right from the initial acquisition underwriting through the operation, the repositioning.

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**Troy MacLean**

And then just one quick follow-up. You mentioned looking at acquisitions like both stabilized and value-add, would you look at another value-add of the type of opportunities large as Edmonton?

Michael Waters

Absolutely. That would be our dream acquisition if we could. I mean that is our strength. That's our DNA is a value-add investor. So if we could find another opportunity that met those criteria it would be right in our strike zone. I think we'd want to balance geographic exposure and capital outlay to make sure that we're adhering to our portfolio strategy, Troy. But that's essentially right down the strike zone of what we're seeking.

Troy MacLean

And then just one follow-up on Richgrove. How would your cost base for the land that you're going to build on compare to what market would be today for like a similar plot of land?

Michael Waters

It would compare well because I think we've got a zero-cost basis. Hard to beat that.

Troy MacLean

Yeah. Fair enough. I'll turn it back.

Michael Waters

Thanks, Troy.

Operator

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Your next question comes from Matt Kornack from National Bank Financial. Please go ahead.

Matt Kornack — National Bank Financial

Hi, guys. Just quickly, on the year-over-year figures, the 4.7 percent I see, and is that a function of the 3.5 percent increase in rents on suites and the 100 basis points of occupancy you've seen from an increase standpoint? And then just wondering if, and I think you've answered it, but your other property income figures as well as your operating costs, it sounds like that was just an allocation issue and that we shouldn't be looking at those as real same property figures. Is that fair?

Julie Morin

Yeah, that is fair. I mean, on the other property income we had some onetime items in there in 2017 that didn't repeat themselves in '18. And then you're right on the expense side. I think we were a different business in 2017, and we certainly restructured before doing the IPO. So our cost structure is significantly different pre and post-IPO. So those numbers are not comparable.

On your revenue question, so sorry, you asked about the 4.7 percent being comparable to the 3.5?

Matt Kornack

Well, sorry. I think you gave the average rent per suite in each of those periods. And I don't know if this is an allocation issue because obviously that suite's come off and on, and so I don't know what's in that. It was 13.88 versus 13.41, but it was about 3.5 percent rent increases. Would those be

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comparable? Or was there a movement of some units into the redevelopment buckets that would have been—

Julie Morin

No, I think those would be comparable. And you're right, the remaining difference would really be on occupancy.

Matt Kornack

Okay. And going forward, I guess, if we're looking to model the potential rent growth, is it fair to sort of take 80 percent of the portfolio as rent controlled, outside of Alberta obviously, but it's a smaller component, and then the reminder we can mark-to-market at the spread that you've provided? And just wondering how you see the ability to maybe push above that level. Is it all turnover driven? Or are there other opportunities? And how do you see the suites coming online that are being redeveloped versus those that will come off?

Julie Morin

I mean, it's a good question on your modelling because the 80 percent is difficult because a lot of that depends on overall turnover. So a little bit hard to figure out if it would be that high.

Matt Kornack

Sorry. I was just assuming 80 percent doesn't turnover at—

Julie Morin

Eighty doesn't turn over?

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Matt Kornack

And then you'd have 20 percent or so turning over at market?

Julie Morin

Yeah. I think that's fair because in terms of turnover, we assume sort of mid to high teens for Toronto, around 25 percent for Ottawa, and low 30s for Alberta. So using a 20 percent is properly a good measure.

Matt Kornack

Okay. And this was a seasonally strong quarter for your furnished apartments. Was it still around 7 percent of the overall rent? Or was it higher this quarter?

Julie Morin

Yeah. No. it was still around 7 percent. So revenue overall grew but the furnished suite grew in line with the rest of the growth of the portfolio.

Matt Kornack

Okay. Perfect. Thanks, guys.

Michael Waters

Thanks, Matt.

Operator

Your next question comes from Johann Rodrigues from Raymond James. Please go ahead.

Johann Rodrigues — Raymond James

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Hey, guys. First off, Julie, I just wanted to understand Page 5. That bottom table, does that include recent repositioning work or not?

Julie Morin

No. It does not.

Johann Rodrigues

Okay. So like Alberta, for instance, you think there's 10 percent rent upside plus the incremental on the work that you've done/are still doing?

Julie Morin

Yeah. That's correct.

Johann Rodrigues

Okay. And then what do we think is the margin upside here? It's quite a bit lower than peers and obviously there's repositioning work. But if we're talking three years out or two years out when you guys are done the bulk of the repositioning stuff, where do you see that going to?

Julie Morin

It's interesting because the margin is dependent on what you do with your R&M. I think historically as a company we've typically expensed more than capitalized. So I think from a position perspective, we're probably lagging on the margin side because of that.

When you look at how much we've spent in R&M over time and how much was in our forecast, I think we forecasted about 1,275 a door. And when we compared to our closest peer, I think

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the closest one to us was about 1,000 a door. So I think that explains the difference in our margin with respect to our peers.

I don't see us moving significantly with respect to our capitalization policy so would assume that it would remain in line with what we're forecasting now.

Johann Rodrigues

Okay. And then the last one maybe for Michael. You guys are towards the tail end of earnings season. It's been another very strong season in Ontario apartments. Is there anything that worries you right now that would maybe curve this 3 to 5 percent rent growth that we seem to be getting fairly, I don't want to say easily, but fairly consistently?

Michael Waters

Thanks, Johann. I mean I think when we look in our four markets, Ontario in particular, I don't see anything on the horizon in the near term that causes me any sleepless nights around demand. The drivers for demand that we highlighted in our marketing process for the IPO remain very much in force and, if anything, perhaps strengthened.

I think the comparison on housing affordability to purchasing a home remains very solid. I see continued policy changes at the federal level to drive immigration. And we know a significant proportion of new Canadian's will chose to settle in Ontario, and a lot of that, in fact, will settle in Ottawa and Toronto, two of our core markets. And look at the underlying economic job growth and other factors and I, again, I feel like the fundamentals for our sector, very strong.

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And there's nothing right now that I look at that, as I say, that sort of causes me any anxiety in the near term, especially given the fact that we are an urban-oriented portfolio and those locations are strong locations, close to community amenities, close to transit, I think tend to outperform in a market that does see decline. And as I say, I don't see decline on the horizon but, if it were, I think we would tend to outperform in that scenario.

Johann Rodrigues

Okay. And nothing on the supply side, maybe the condo supply side?

Michael Waters

I think you look at our portfolio and you look at new condo supply coming online, frankly the expansion of rent controls in Ontario on product built after '91, frankly is going to, I think, push demand in a lot of projects to end users. And we'll see that. And we see it in our condo business that that supply of small, I'll say, investor-oriented product will tend to decline because those investor buyers of condos that drive the presales, that drive new supply coming online, are now constrained by rent control and restrictions, which they hadn't heretofore had to deal with. So.

Johann Rodrigues

Right.

Michael Waters

I look at other markets like Ottawa where there just simply isn't significant new supply of condo. Calgary would be the same. Edmonton would be the same as well.

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So those investor buyers, while they're not sophisticated, they do run the math, and they do look at rent controls and the impact of rent controls on what they think they can achieve. And analysis by many players looks at what an investor buyer would need to cash subsidize an investor unit and that number only grows in a rent-controlled expansion scenario.

Johann Rodrigues

Okay. Perfect. I appreciate the colour. Thanks very much, guys. Good quarter.

Michael Waters

Thanks, Johann.

Operator

Your next question comes from Brendon Adams from Canaccord. Please go ahead.

Brendon Adams — Canaccord

Hi. Good morning, everyone.

Michael Waters

Hi, Brendon. How are you?

Brendon Adams

Just taking a look at Slide 5 and the gain-to-lease where you guys quote the estimate for monthly market rent, perhaps you can just walk us through on how you get there or what methodology do you use. I mean is it based on specific properties such as most recent lease signed,

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CMHC data? Is it your own kind of market analysis of comparable properties in the neighbourhood? I think just some colour on that would be helpful.

Michael Waters

Sure. I mean I'm looking at the bottom table on Slide 5 so we're measuring potential, I guess. And what we're doing there is we're comparing in place sitting rents and existing tenancy. And then we are comparing that to the last rent we signed for a comparable suite within that building. And so we would compare an existing one-bedroom unit and the rents that are in the existing tenancy and compare it to the last rent achieved in the quarter for a comparable unit.

So it's not comparing to a market average or CMHC or other third-party data. It's looking at what we achieved on the 363 suites that we churned over.

Brendon Adams

Okay. That's very helpful. And returning to the furnished suites, I'm not sure if you disclosed this, but what would kind of an average occupancy be during Q3? Or if you don't have that granularity, perhaps you can just provide some colour on that segment and how it performed in terms of performance versus your expectations during the quarter.

Michael Waters

Sure. So first let me say that furnished suites is a very small component of our revenue stream. In the quarter—and it tends to be very, very variable quarter to quarter, period to period. It's a yield enhancement tool, which we use to mitigate risk by capitalizing on different demand streams,

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which could be entertainment driven, corporate relos, and we scale our furnished suite offerings in response to market demand.

So at the end of the quarter, we had 241 furnished suites in our inventory, and we want to cap that revenue to a certain extent because it is non-qualifying or bad income for the REIT test. In the forecast in the IPO, we had forecast 87 percent occupancy for furnished suite in the quarter, we actually came in a little bit higher, we were around 95 percent. It's quite variable. It is somewhat difficult to forecast. But again, I would say it's a real revenue yield enhancement tool, not a core part of our revenue. It is a tiny component.

I hope that helps.

Brendon Adams

Yes. No. That is helpful. That's it from me. I'll turn it over. Thanks.

Michael Waters

Thanks, Brendon.

Operator

Ladies and gentlemen, as a reminder, should you have a question please press the *, followed by the 1.

There are no further questions at this time. Please proceed.

Michael Waters

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Okay. Thanks, everybody. That concludes our call this morning. Thank you for your interest in Minto Apartment REIT. We look forward to speaking with you again after our Q4 reporting.

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