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RESILIENCE IN AVENUE LIVING'S MULTIFAMILY PROPERTIES

Avenue Living is a principal owner and operator of multifamily workforce housing properties with \$1.6 billion in assets under management. Avenue Living's properties are home to more than 20,000 residents across 19 markets in the Canadian Prairie provinces. The resident base includes the new immigrant and essential working population that makes up the backbone of the Canadian heartland.

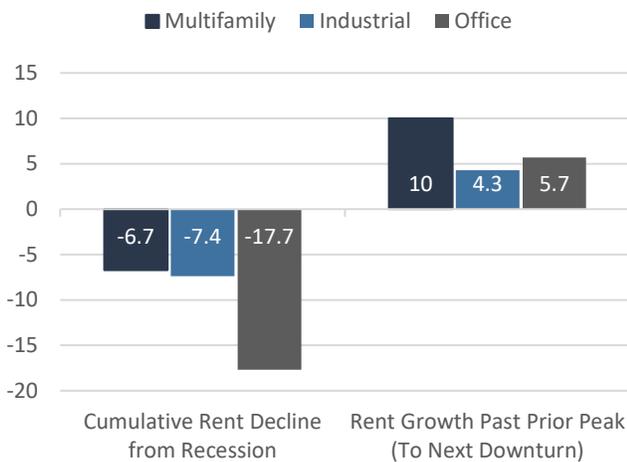
The current economic volatility triggered by the evolving COVID-19 pandemic has highlighted challenges in the real estate sector and the relative performance of asset classes during recessionary periods. The multifamily sector has historically exhibited strong fundamentals, and throughout previous recessionary periods, multifamily properties have outperformed all other real estate asset classes (commercial, retail, industrial). Within the multifamily sector, Class B and C properties have demonstrated the greatest resiliency throughout recessions due to continued affordability and tenant movement trends.

Avenue Living's Stability Driven by Resident Base

Avenue Living's multifamily portfolio has been assembled over a 15-year period in markets that are supported by stable occupancy and rental rates. This stability is credited towards Avenue Living's resident base of essential community employees: merchandisers, assemblers, store clerks, drivers, telecommunication workers, University Students and logistics personnel. Avenue Living's tenant base is the lifeline to Canada's economy; their incomes are relatively inelastic and stem from essential services and are therefore likely to remain during a downturn. Those that are affected are the first and most likely to receive emergency aid, thus ensuring a healthy and consistent cashflow stream. Our tenant base reaps the added benefit of minimum Employment Insurance (EI) support from the Government such as EI Shift Premiums, EI Supplementary Unemployment Benefits, and EI Self-Employment. This guarantees a minimum threshold income that can easily cover rental rates offered by Class B and C properties.

Multifamily Sector Outperforms Other Real Estate Asset Classes During Recessions

Figure 1 – Cumulative effects on rent during and after 2001 recession

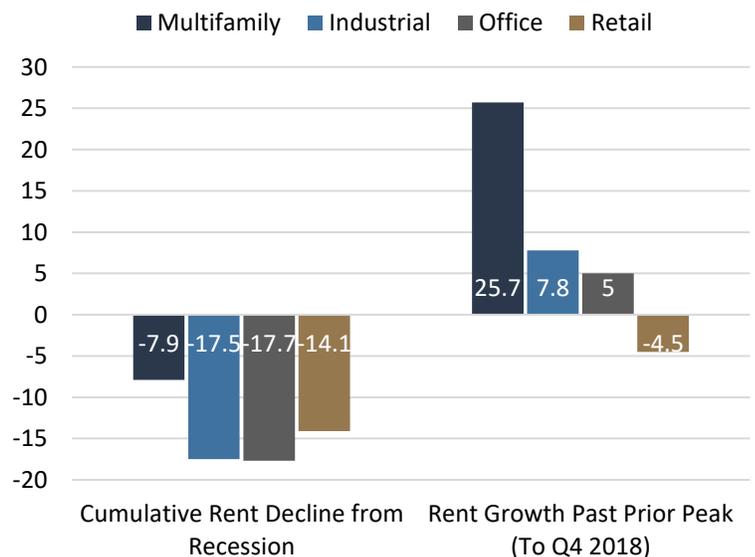


The full ramifications of COVID-19 on real estate performance is unfolding and has highlighted research comparing asset class performance during recessionary periods. As illustrated, the multifamily asset class has demonstrated strength relative to commercial, retail and industrial asset classes during and after the 2001 and 2008 global recessions. This is attributed to the stable, inelastic underlying demand for shelter, regardless of economic conditions, whereas demand for office, industrial, and retail real estate is more correlated to economic growth.

Furthermore, multifamily residential rents tend to rebound stronger than other commercial real estate classes post-recession. Drawing parallels from U.S. property sectors, multifamily property rents during and after both the 2001 recession and the 2008-2009 recession displays this relationship.

As was highlighted in the 2008-2009 recession, forced selling of homes during major recessions can increase multifamily demand as individuals move from single-family homes to rentals. Inflated prices and highly leveraged positions could lead to increasing default rates and foreclosures, as individuals struggle to make mortgage payments in the wake of decreasing income levels and reduced economic activity. During this uncertainty there are many individuals hesitant to make a large fiscal decision such as purchasing a home and instead choosing to remain in the rental market longer.

Figure 2 – Cumulative effects on Rents during and after 2008 – 2009 recession



Class B and C Multifamily Assets Most Resilient During Recessions

The multifamily asset class is divided into Class A, B and C property types, separated by age, tenant base and rent profiles. Class A properties are newly built and command high rents to justify the high cost of development. Class B and C properties are characterized by older construction (1970s – 1980s) with two to three story garden style layouts. In addition to low density apartment buildings Avenue Living’s portfolio also includes large townhome complexes that attract long term family renters and a few choice concrete high-rises.



Class A	Class B & C
New Build	Older Stock
High Rent PSF	Low Rent PSF
Business Cycle Risk	Defensive During Recession
Institutionally Owned	Privately Owned
Low Yields	Higher Relative Yields



According to the Forbes Real Estate Council (“Forbes REC”), while the multifamily sector performs well during recessions, the Class A property market is usually hit the hardest.



As illustrated, the performance of occupancy rates in the US Class B market have been higher than the Class A market during the last two significant U.S. recessions.

The reason that Class B and C properties are well positioned during a recession is because renters in these properties will stay put, whereas renters in the Class A market will find more affordable accommodations in the Class B and C market.

As Forbes Real Estate Council notes, this additional demand within Class B and C properties compounds on the regular demand increase from renters that were renting in this sector prior to the recession.

Conclusion

The multifamily sector's fundamentals provide support for overall performance during a recessionary period. Data available on the U.S. market has illustrated that within the multifamily sector, the Class B and C market will be best positioned to benefit from tenant preferences and affordability factors during challenging times. Similarly, Avenue Living expects more demand across its Class B and C properties, as is evident by the surge in new leases and renewals over the last few weeks. Avenue Living is poised to receive an overwhelming demand from our workforce clientele and are equally grateful to reciprocate support toward Canada's essential workers, who are the backbone of the Canadian economy.