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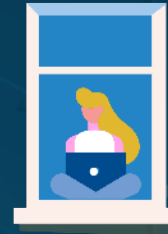
Altus Group

An Overview of the

WINNIPEG

Apartment Market

Valuation and Property Tax Considerations



Agenda



1. Market Overview



2. Winnipeg multi residential rental inventory analysis



3. Research, Valuation and Advisory Data



4. Property Tax Implication

Presenters



Peter Norman

Vice President &
Chief Economist

Altus Group



Sandra Kulchyski

Managing Director
Research, Valuation & Advisory

Altus Group



Rod Slaughter

Vice President
Property Tax / Research, Valuation & Advisory

Altus Group



Kerry Reimer

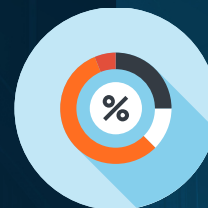
Senior Director
Property Tax

Altus Group



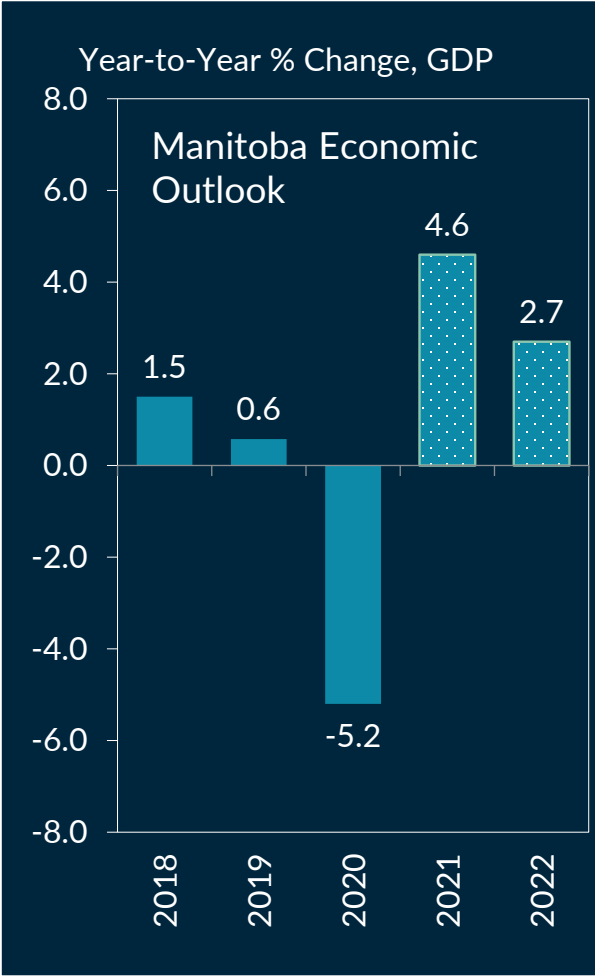
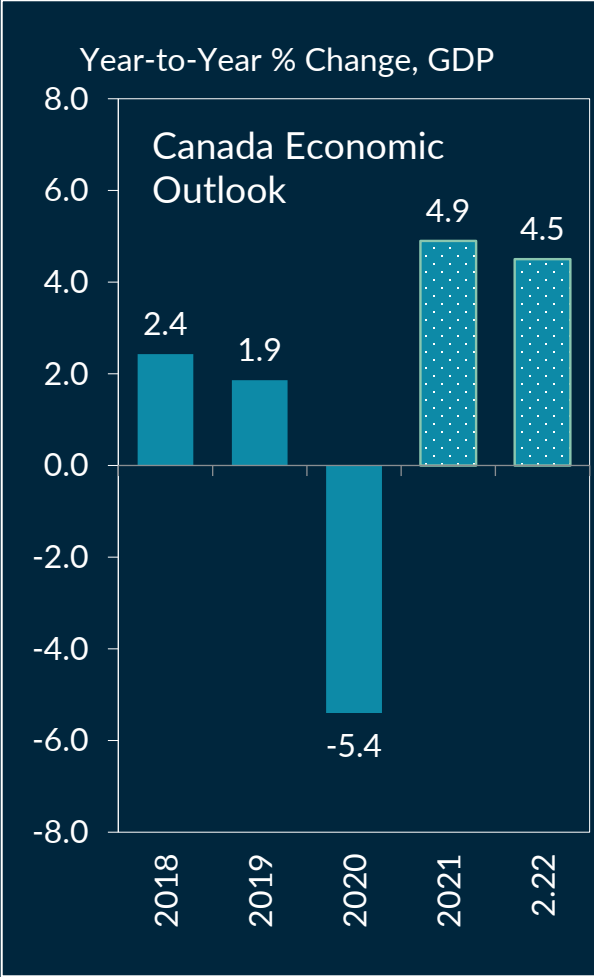
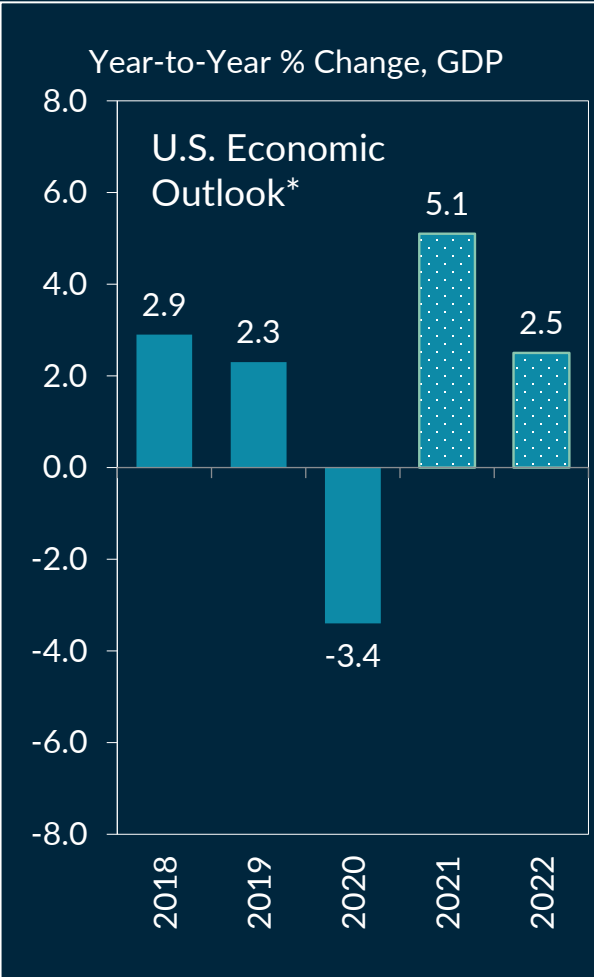
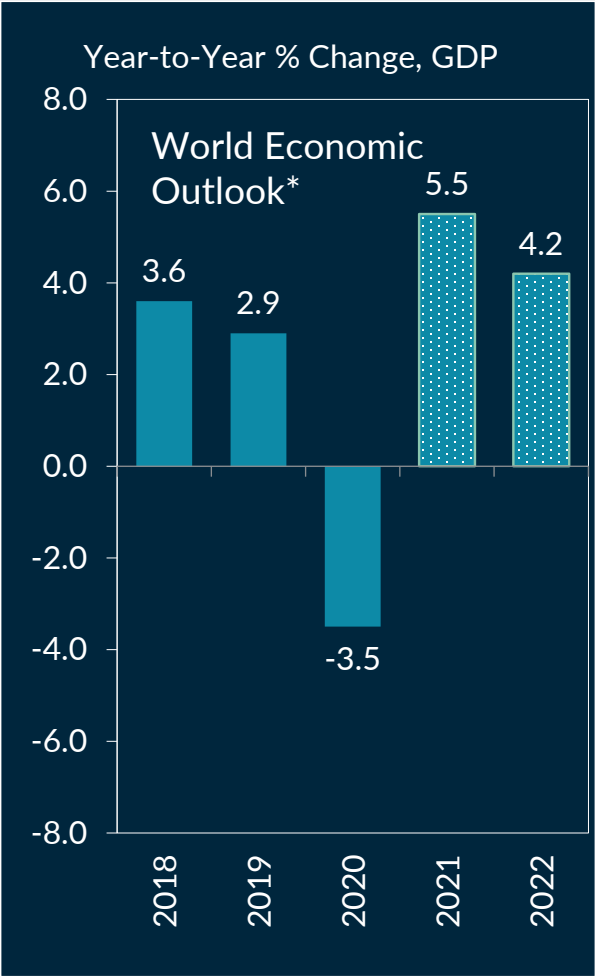
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Market Overview



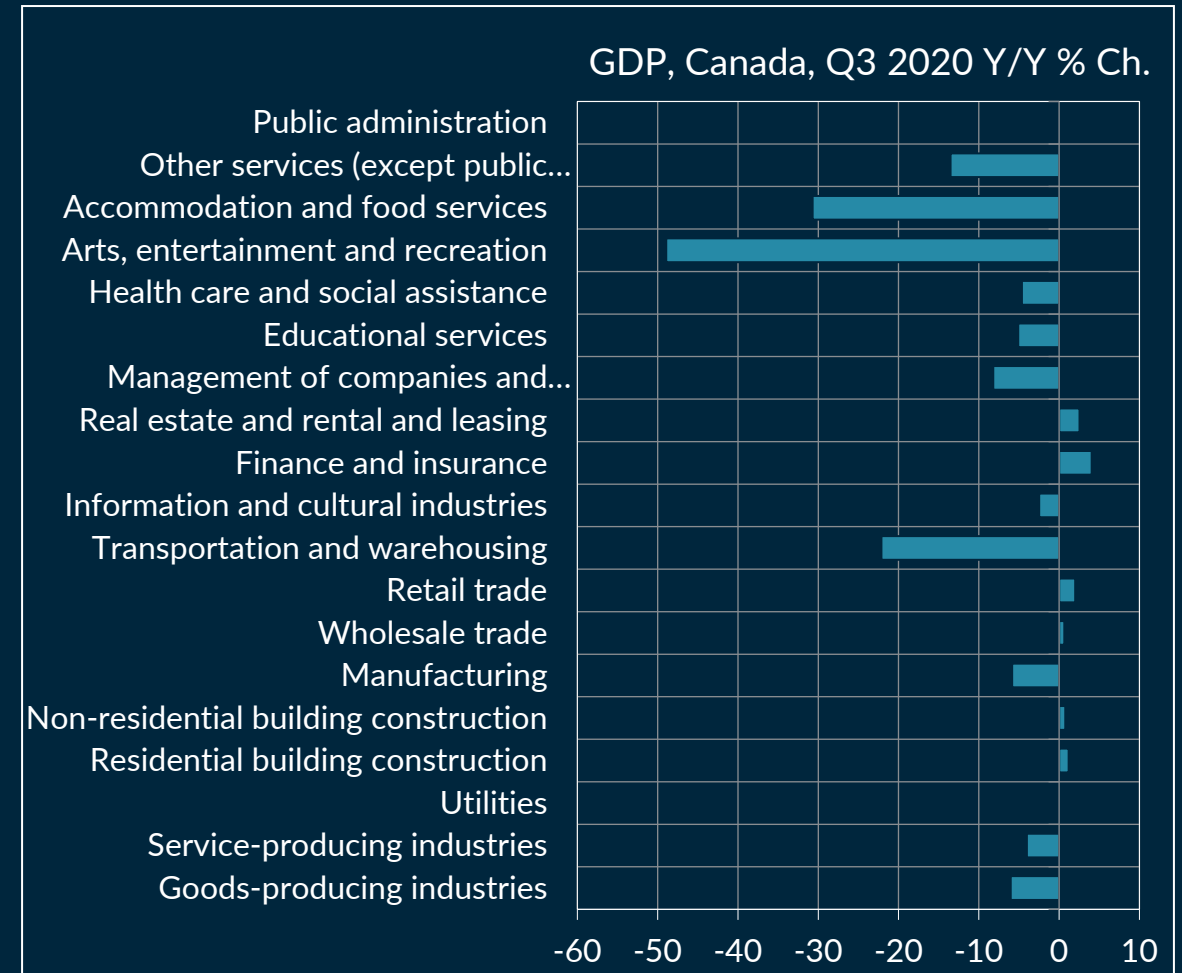
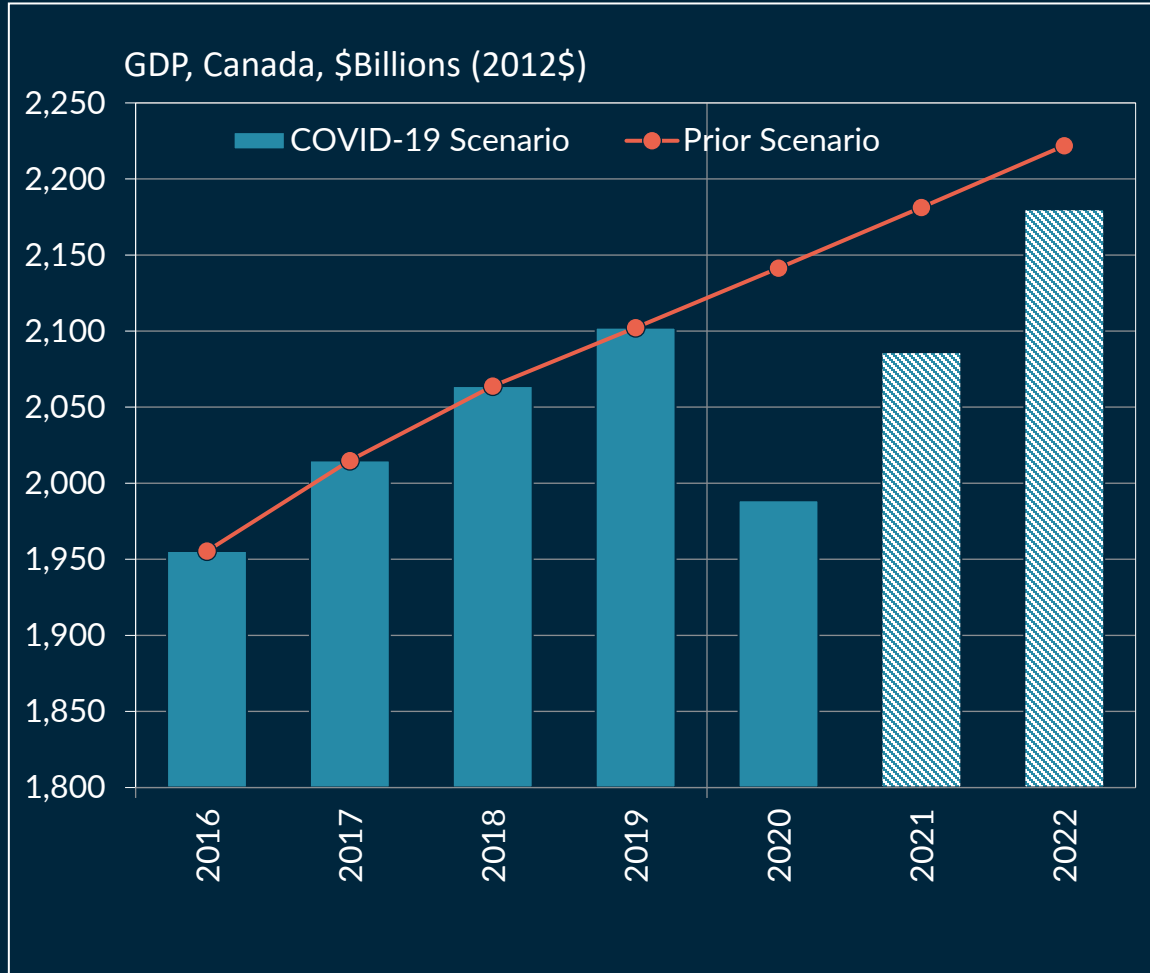
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Policy Support and Vaccines to Lift Activity - IMF



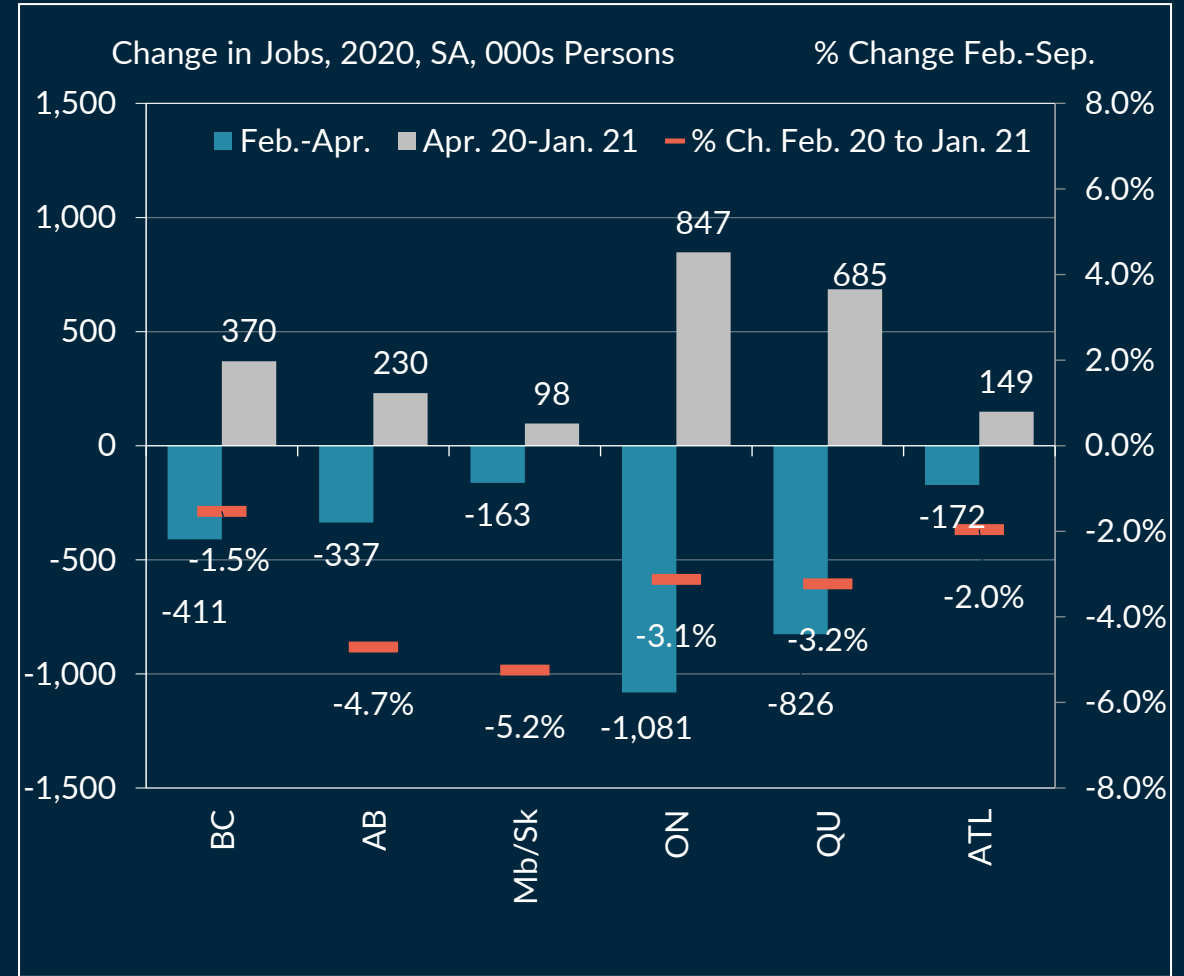
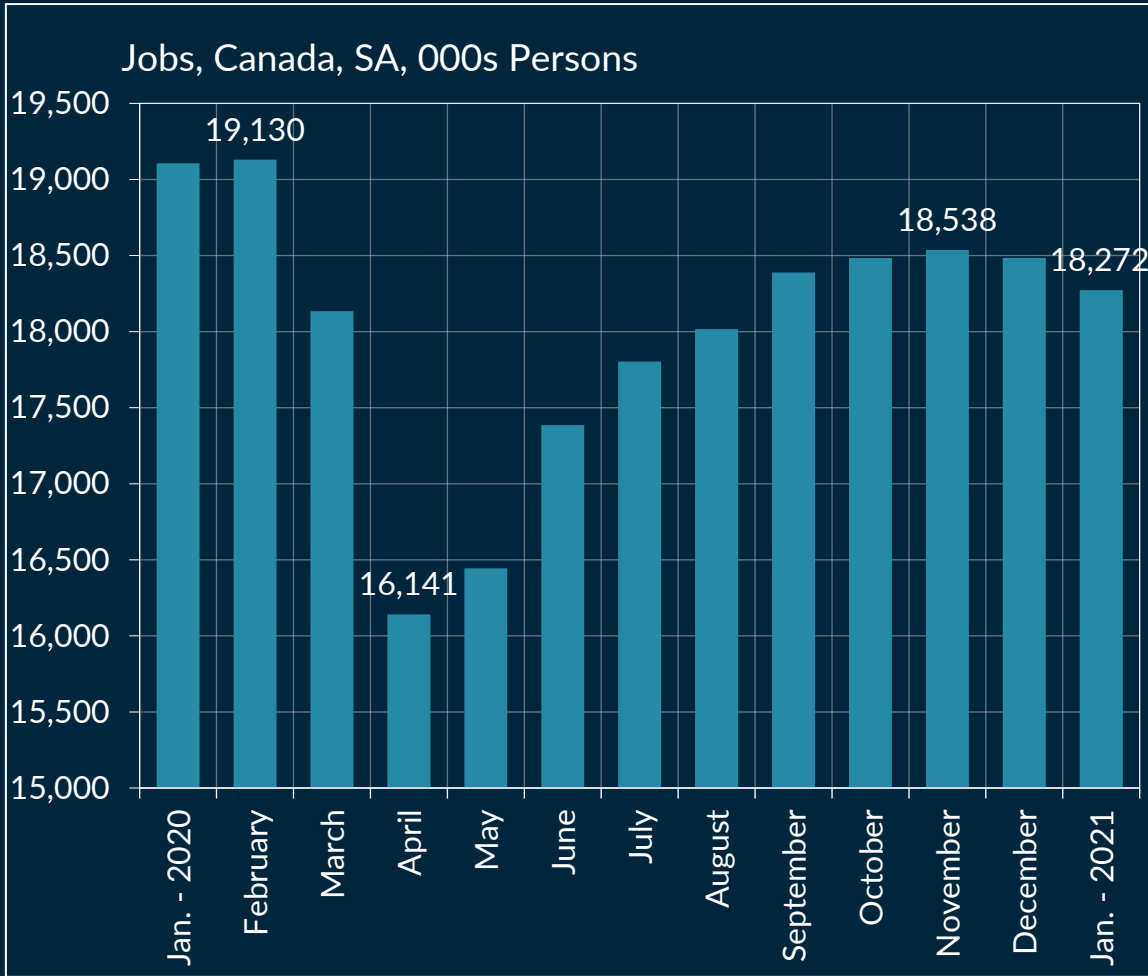
Source: Altus Group Economic Consulting based on data from Statistics Canada and (*) World and U.S. forecast by IMF (Jan 2021)

Gross Domestic Product, Canada



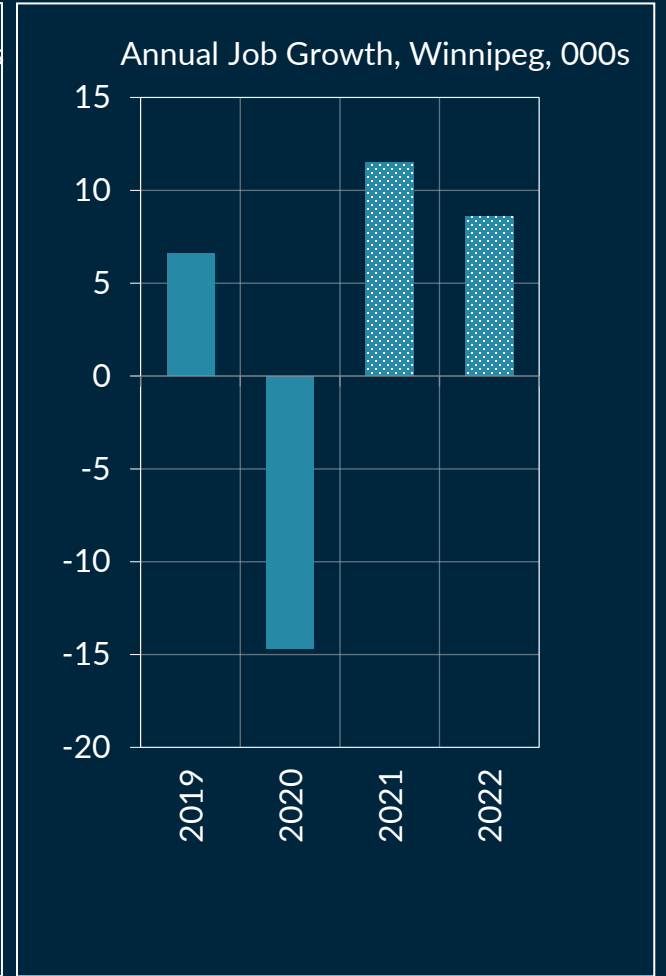
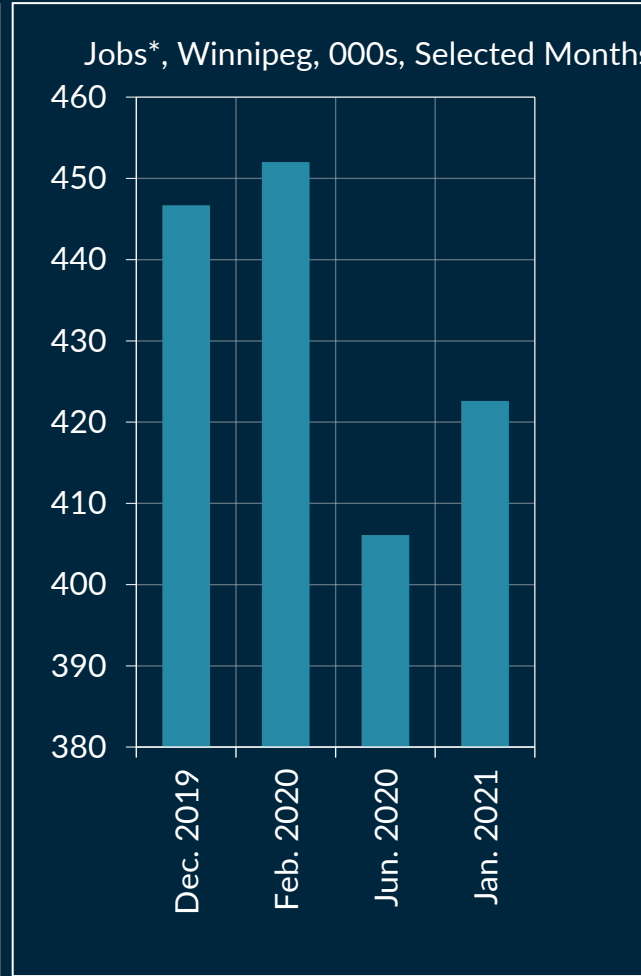
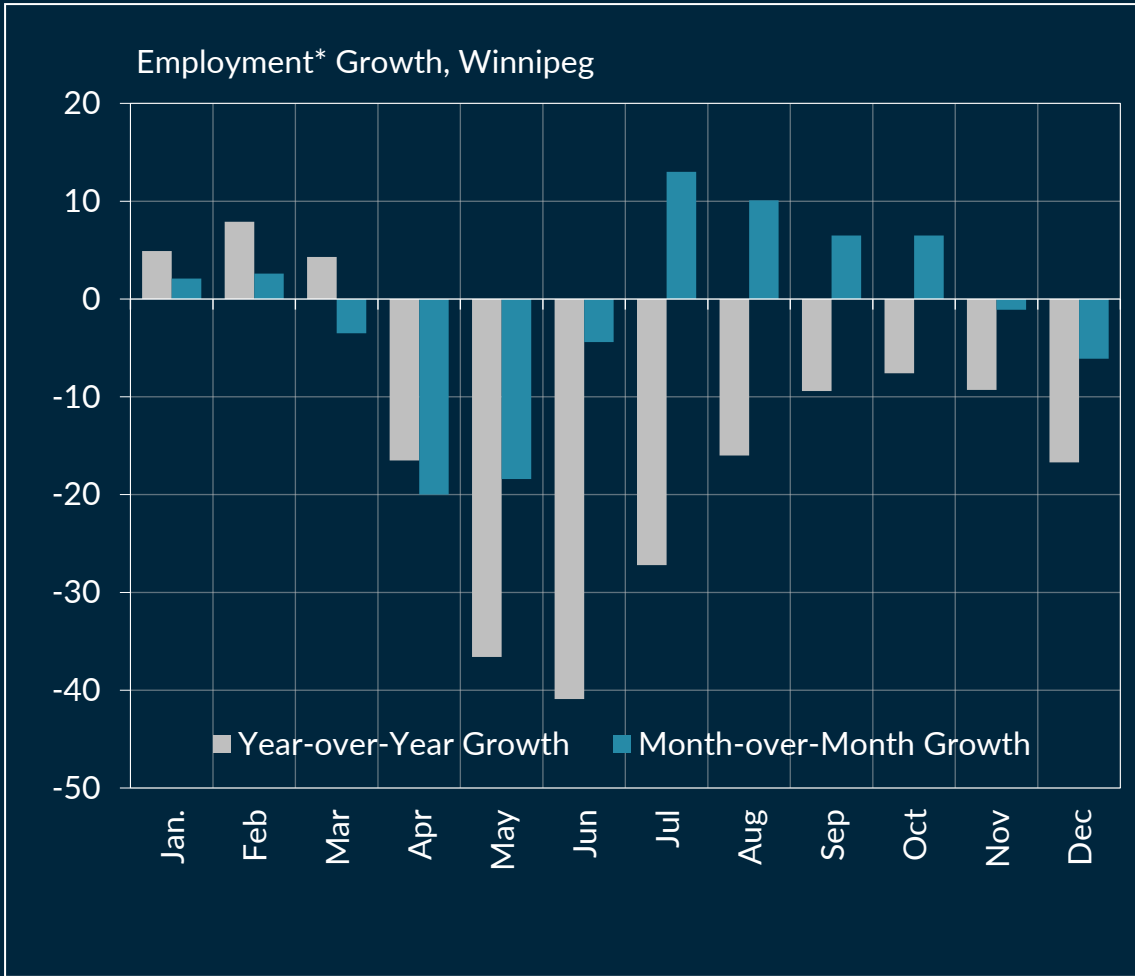
Source: Altus Group Economic Consulting based on Statistics Canada

Employment, Recent Changes, Canada and Regions



Source: Altus Group Economic Consulting based on Statistics Canada

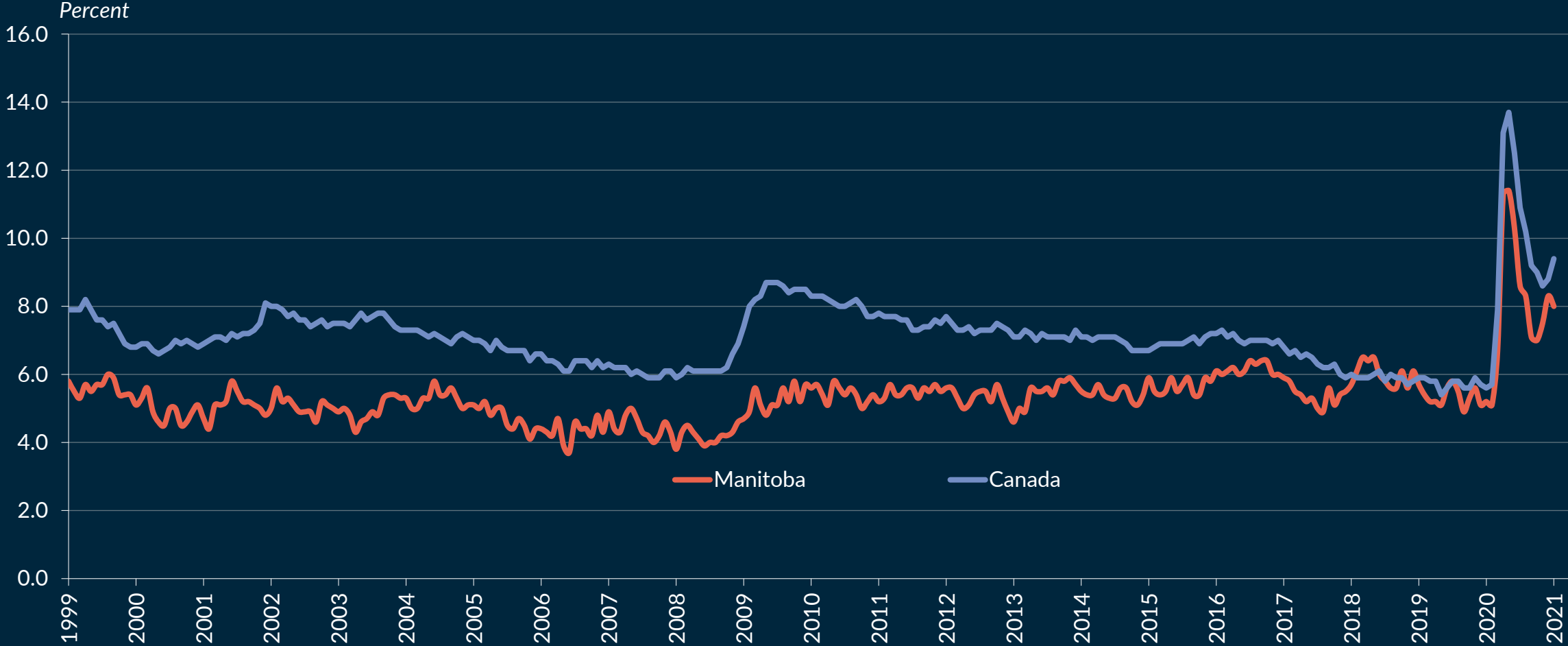
Employment, Winnipeg



* Seasonally Adjusted Data

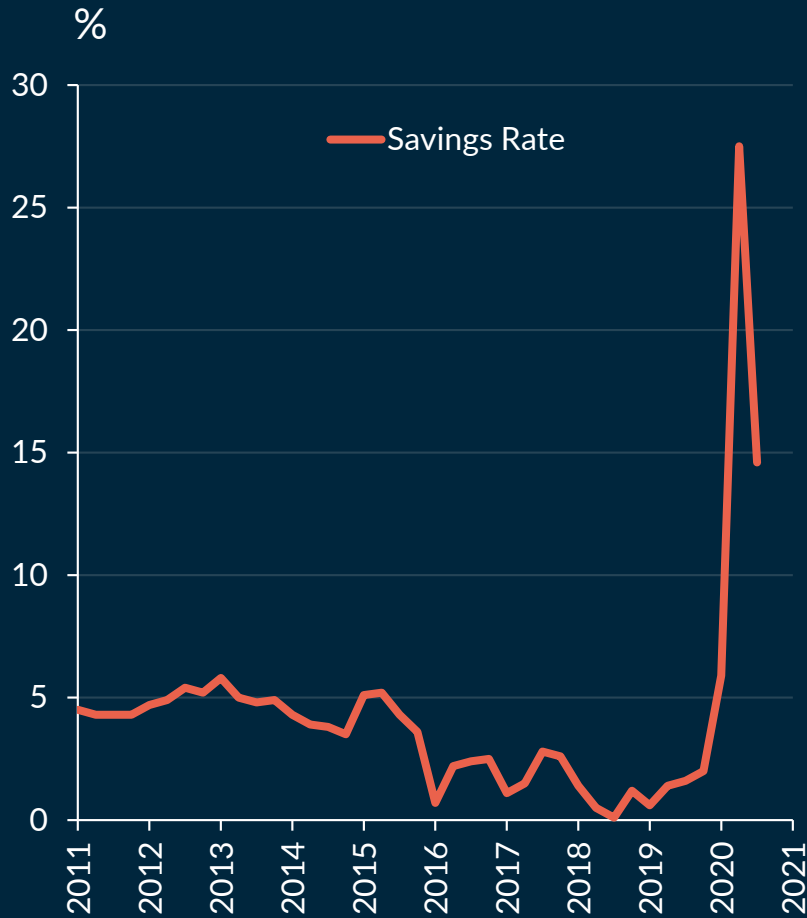
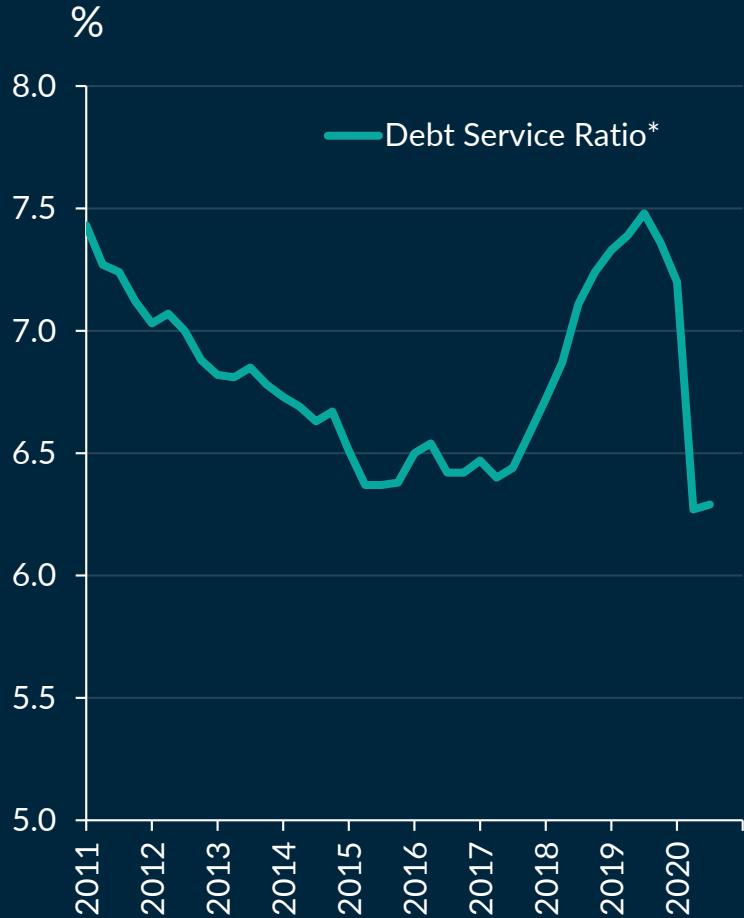
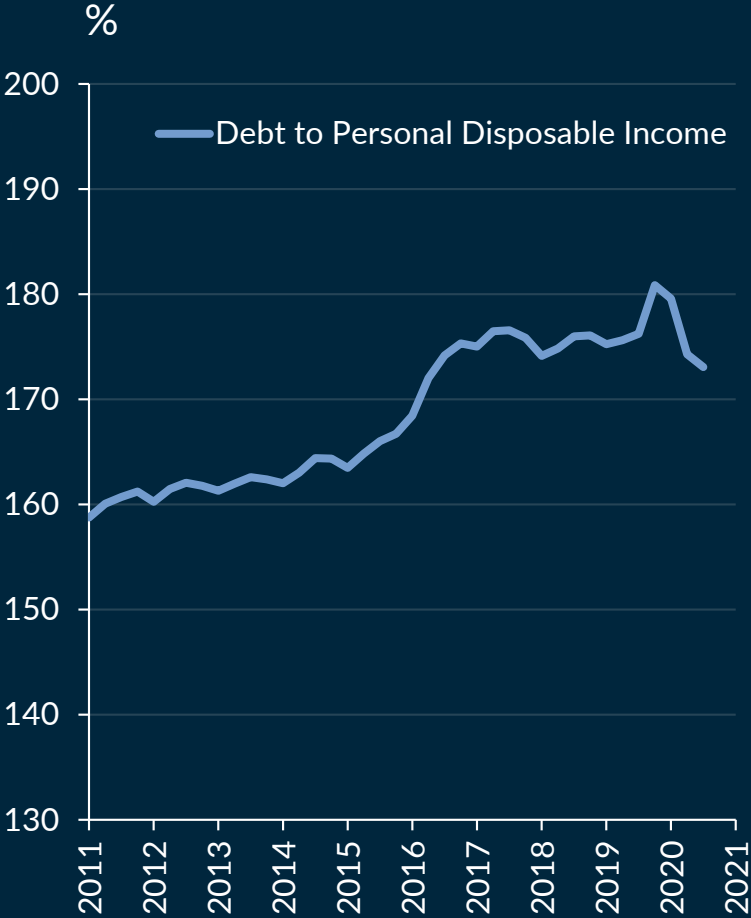
Source: Altus Group Economic Consulting based on Statistics Canada

Unemployment Improved but Remains High



Source: Altus Group Economic Consulting based on Statistics Canada

Household Financial Indicators Surprisingly Healthy



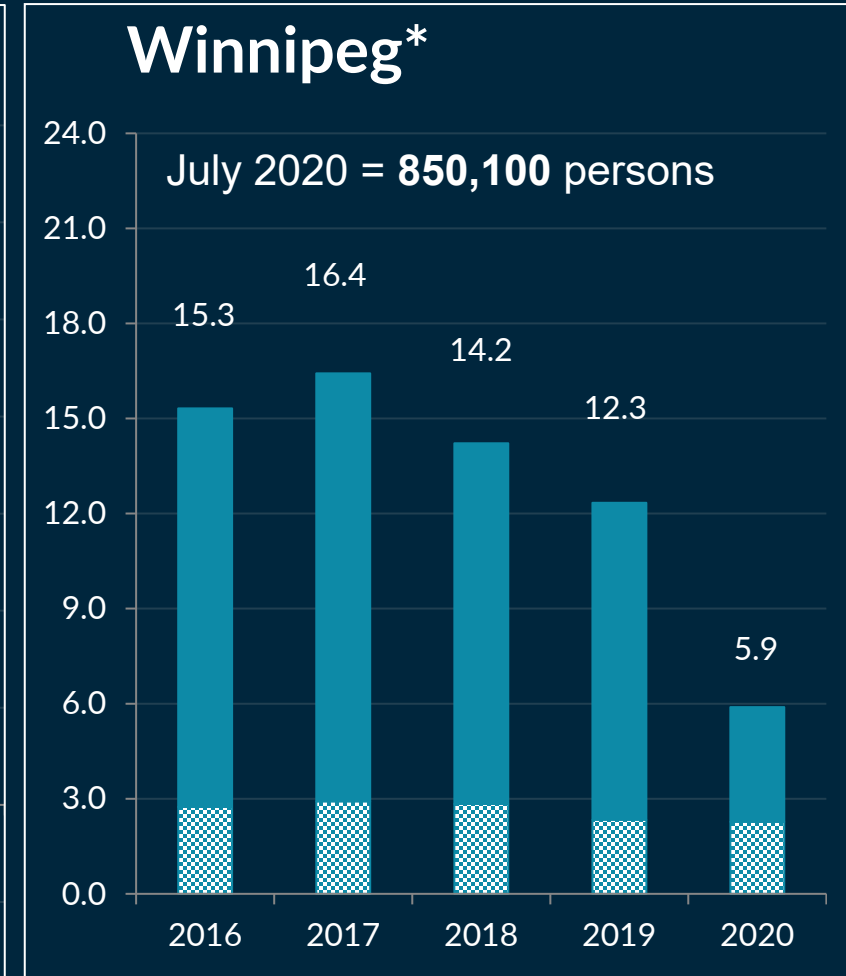
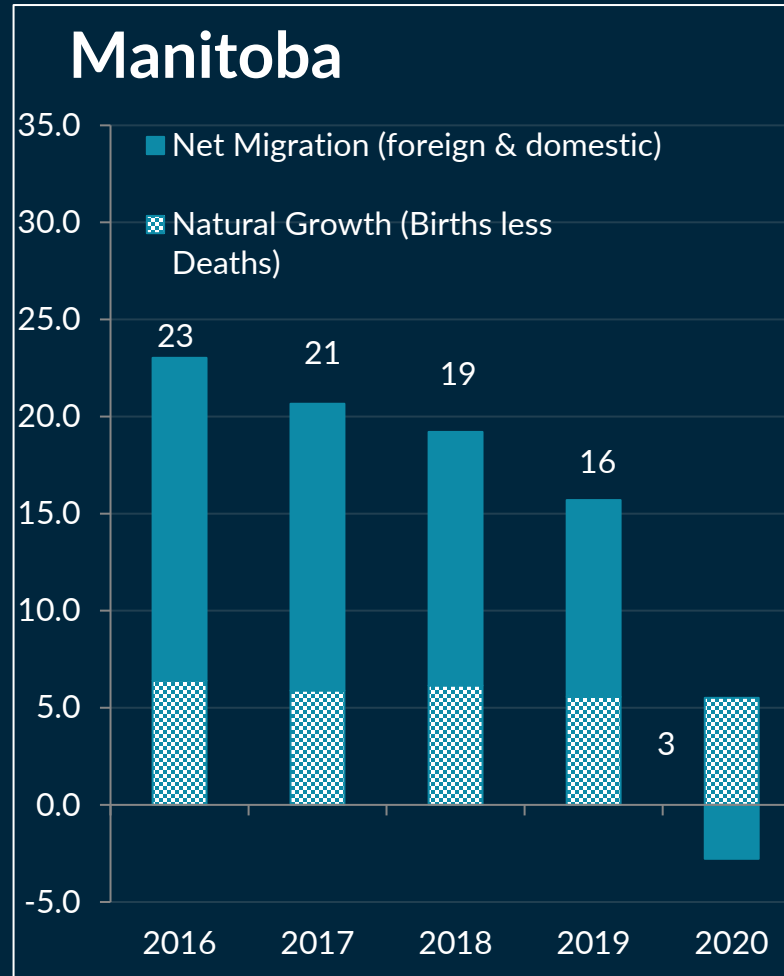
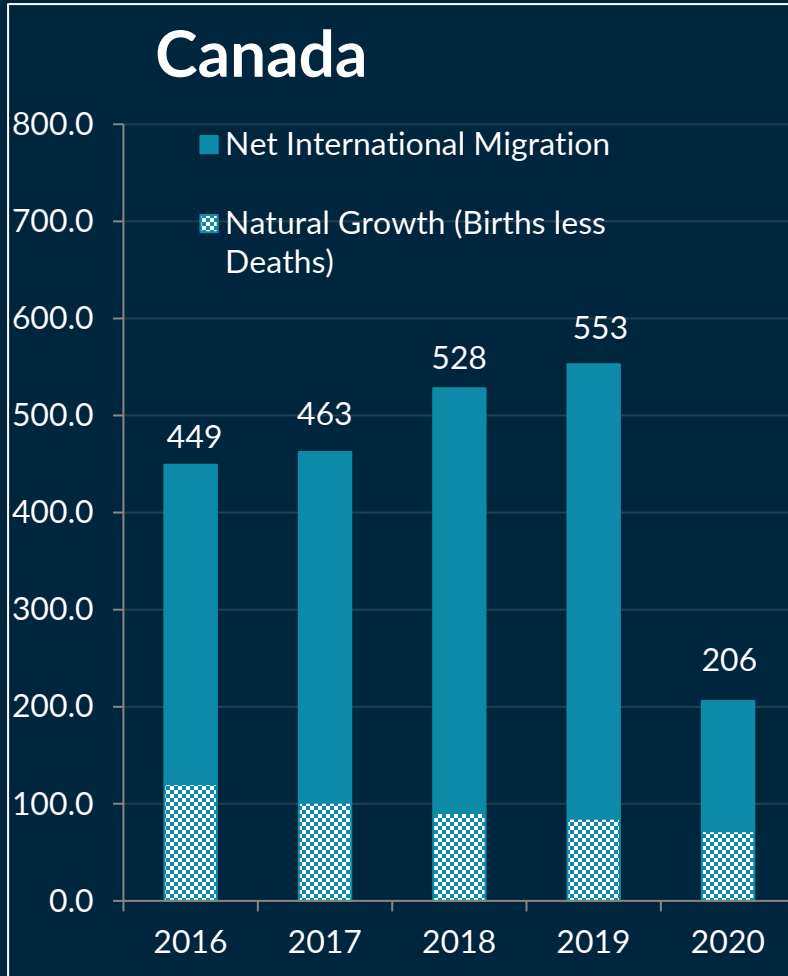
*Interest only

Source: Altus Group Economic Consulting based on Statistics Canada

Sharp Changes in Immigration in 2020

000s Persons, Annual Population Growth, 12 Months ending Sept. of Each Year

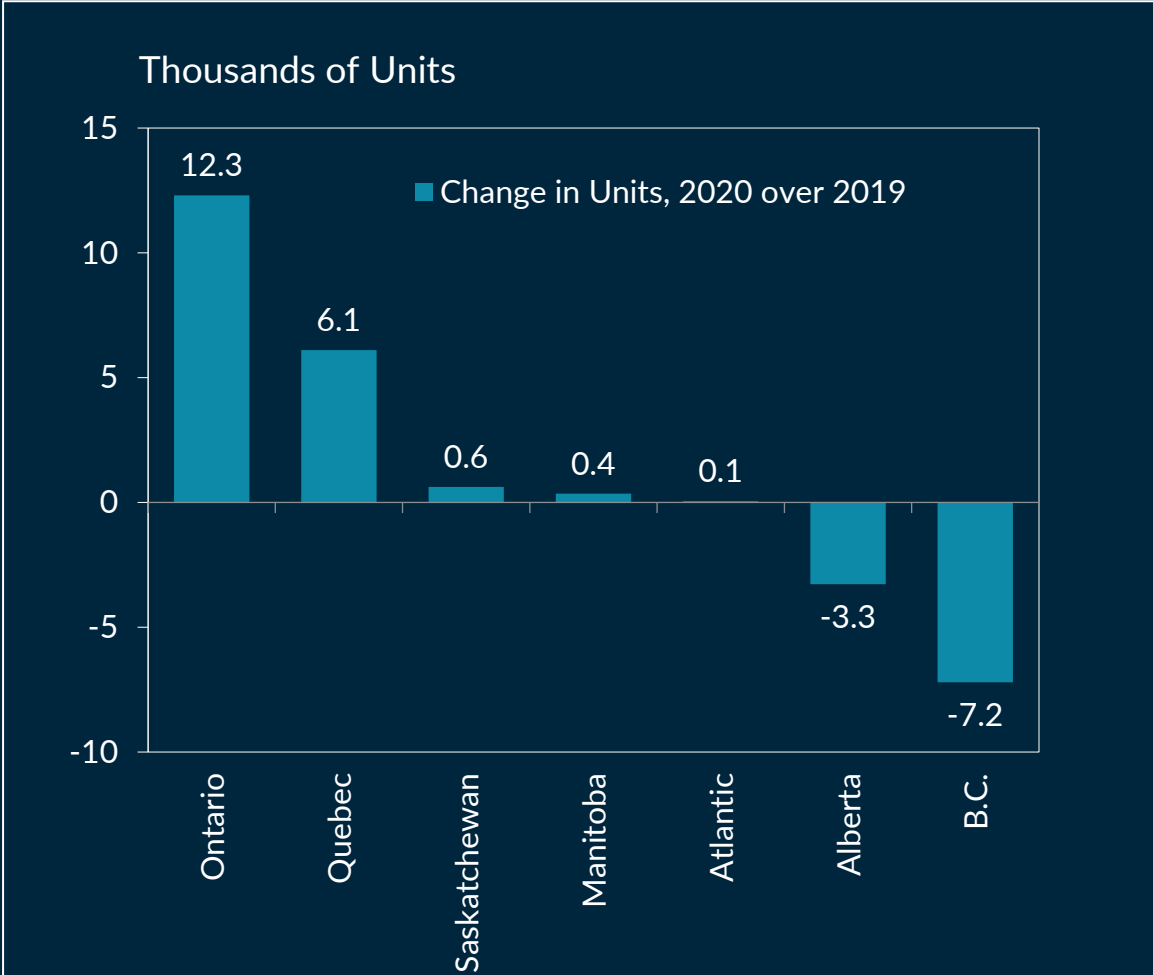
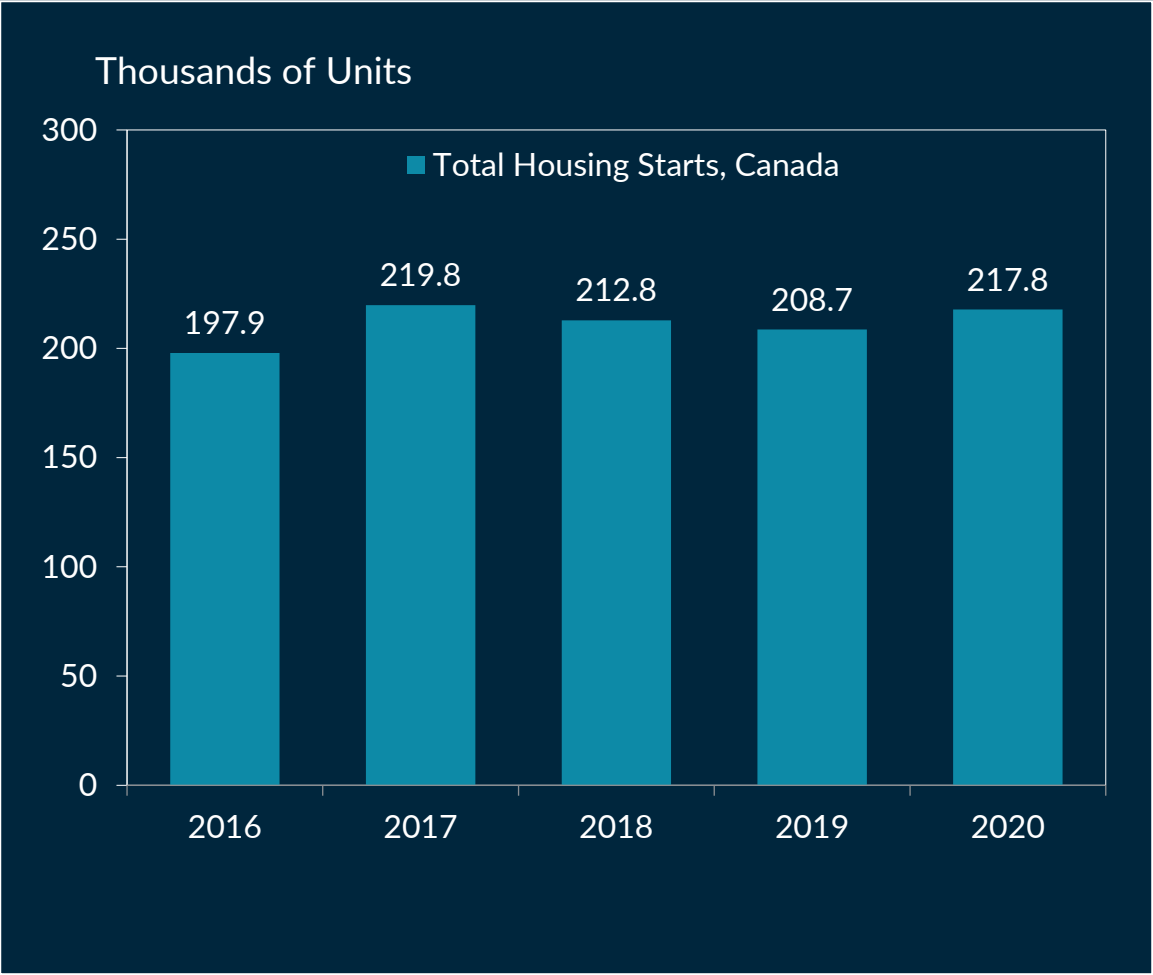
■ Net Migration (foreign & domestic)
 ■ Natural Growth (Births less Deaths)



* Winnipeg, mid-year to mid-year

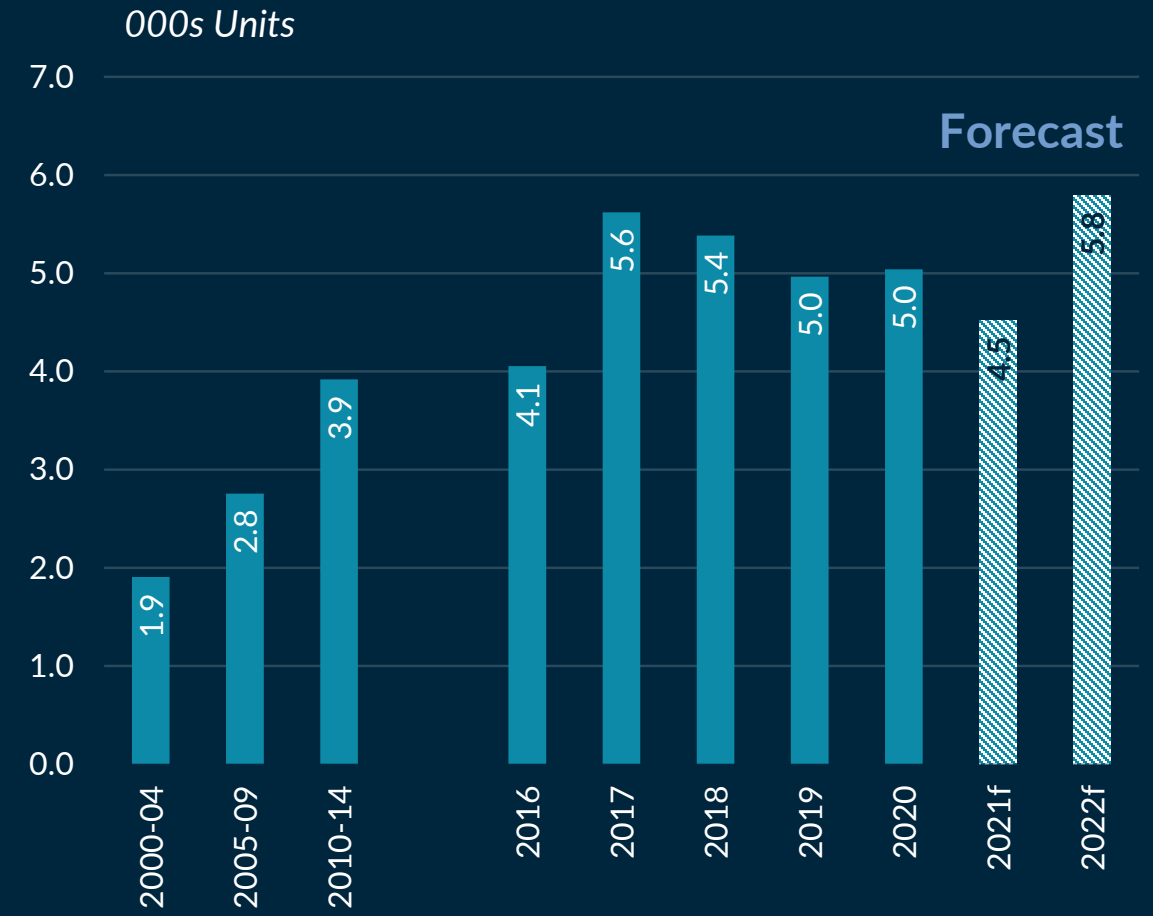
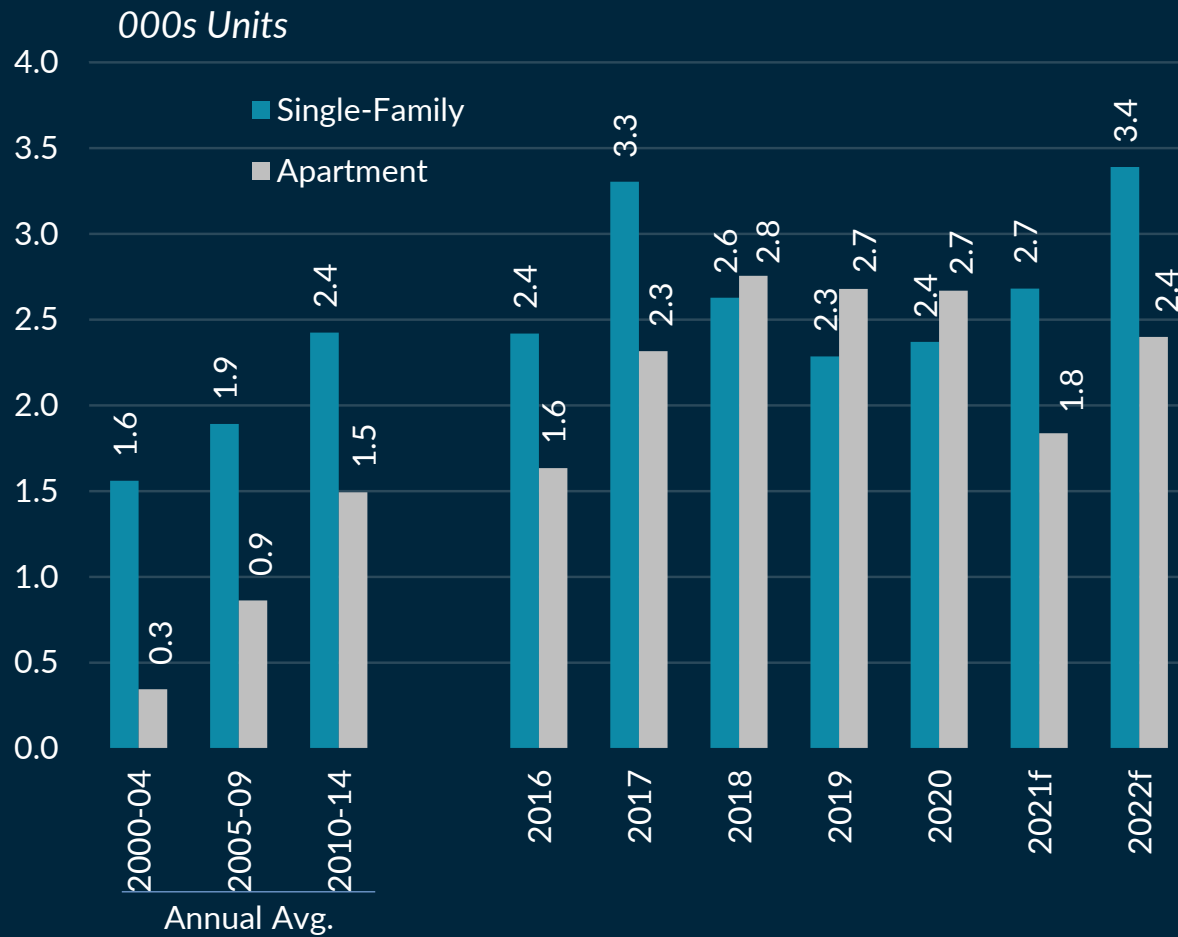
Source: Altus Group Economic Consulting based on Statistics Canada

Housing Starts Rise During a Turbulent Year



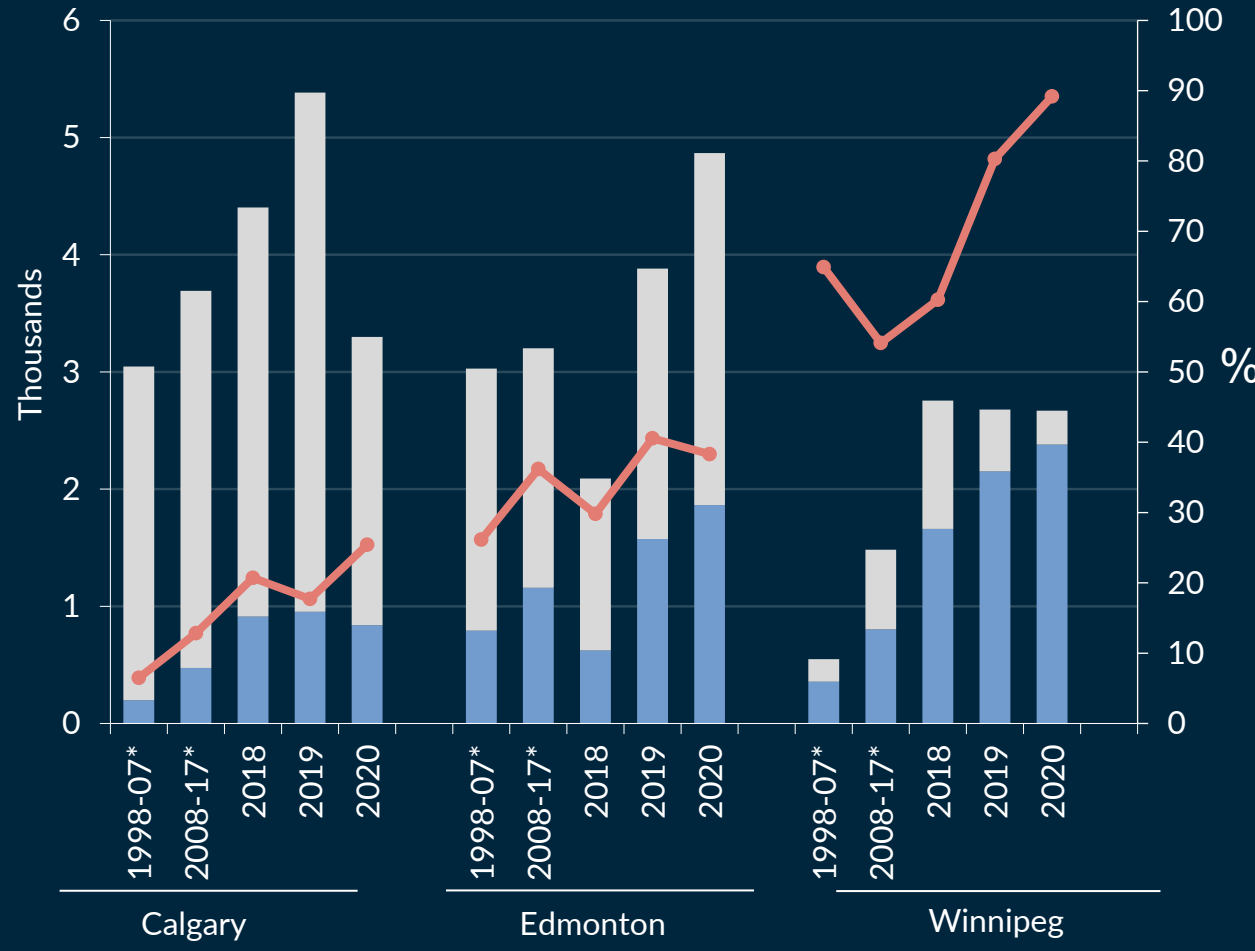
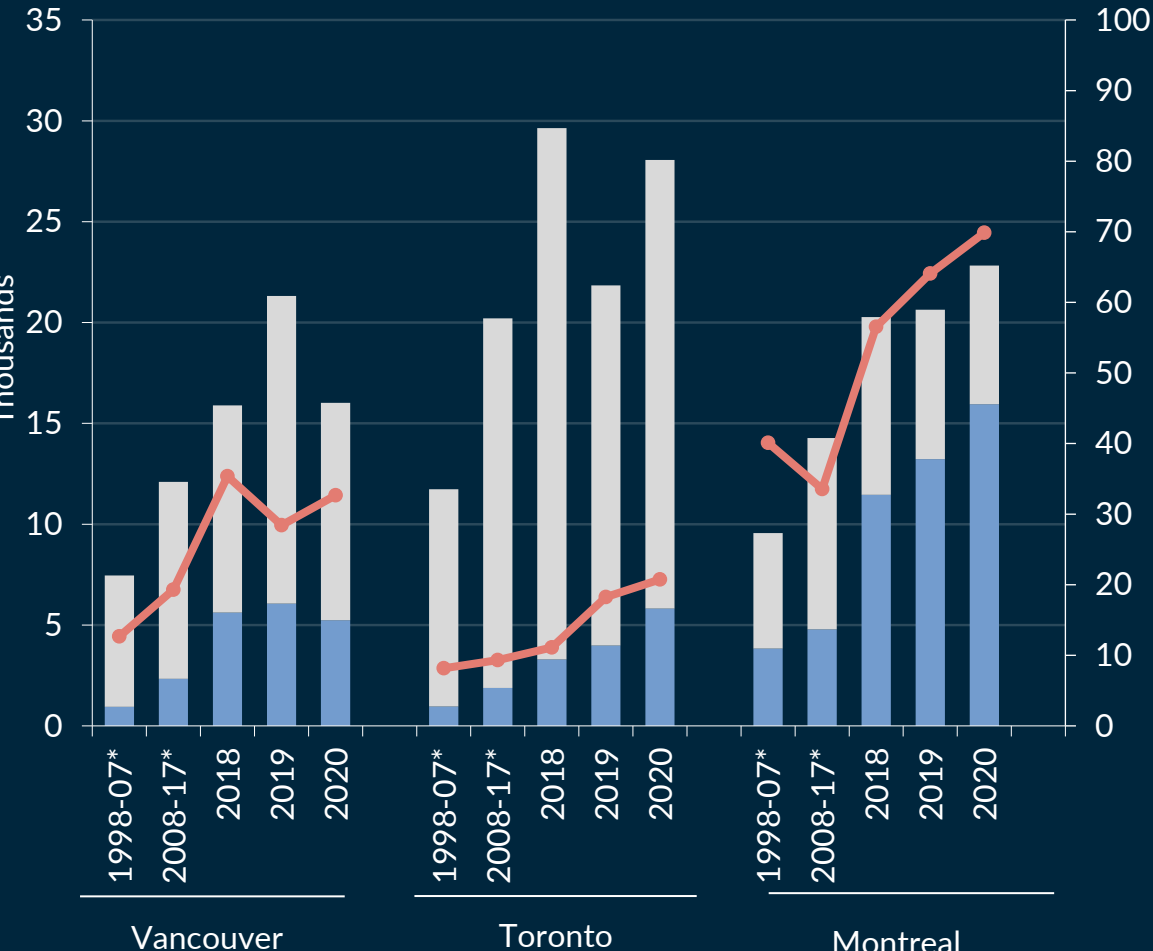
Source: Altus Group Economic Consulting based on CMHC data

Winnipeg Housing Starts Forecast



Source: Altus Group Economic Consulting based on CMHC data

Apartment starts by intended market segment | major markets

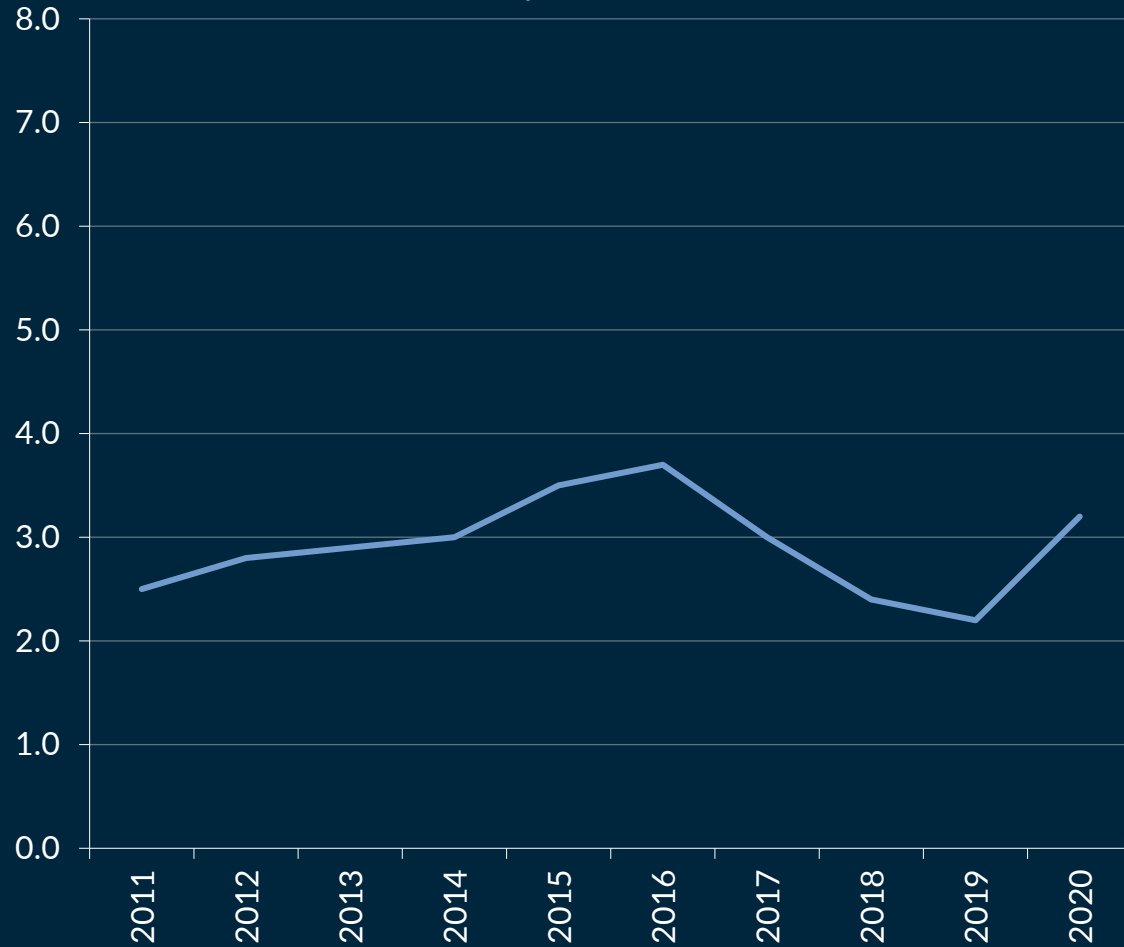


- Condominium
- Purpose-built rental
- Purpose-built rental as % of total apartment

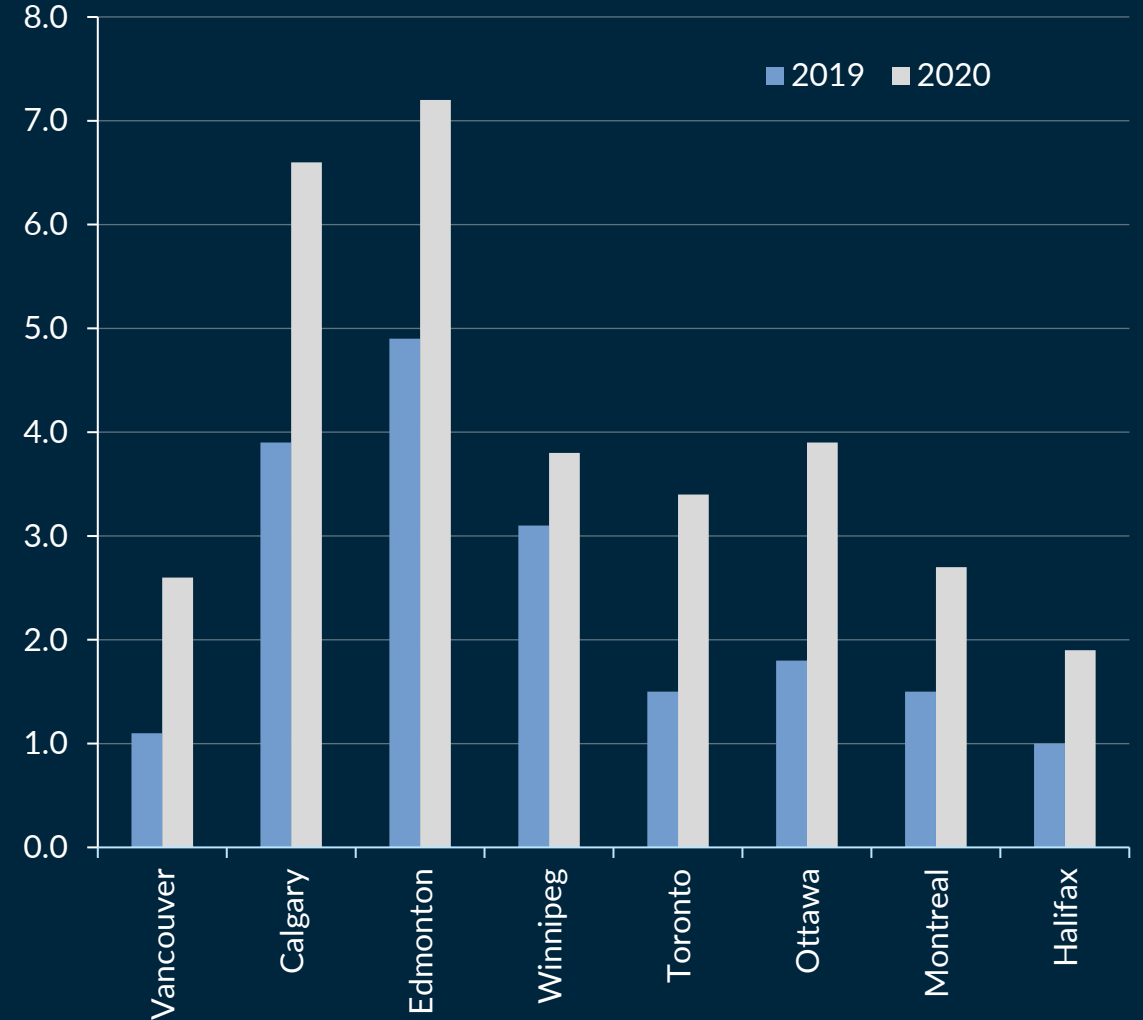
Source: Altus Group Economic Consulting based on CMHC data

Vacancy rates rise in 2020 after tumbling since 2016, Winnipeg with the most modest rise among the major markets

Vacancy Rates, %, Canada



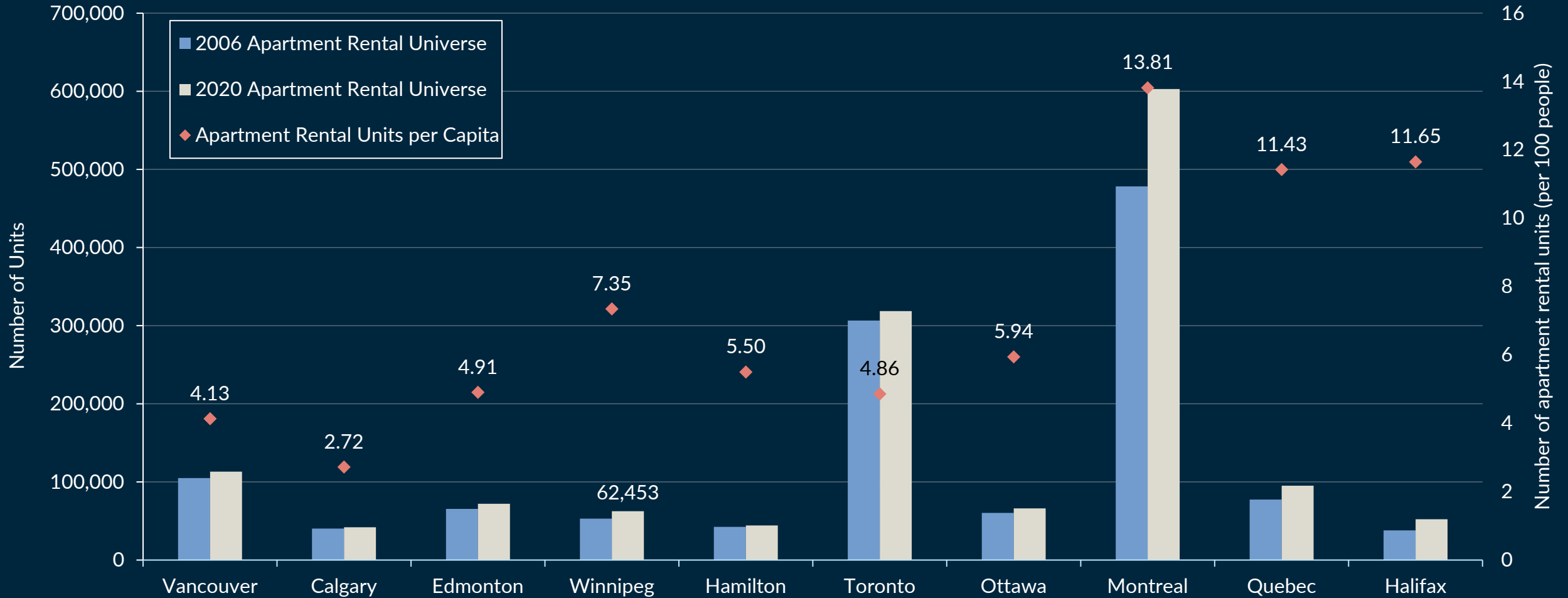
Vacancy Rates, %, Oct 2019 and 2020, Metropolitan Areas



Source: Altus Group Economic Consulting based on CMHC data

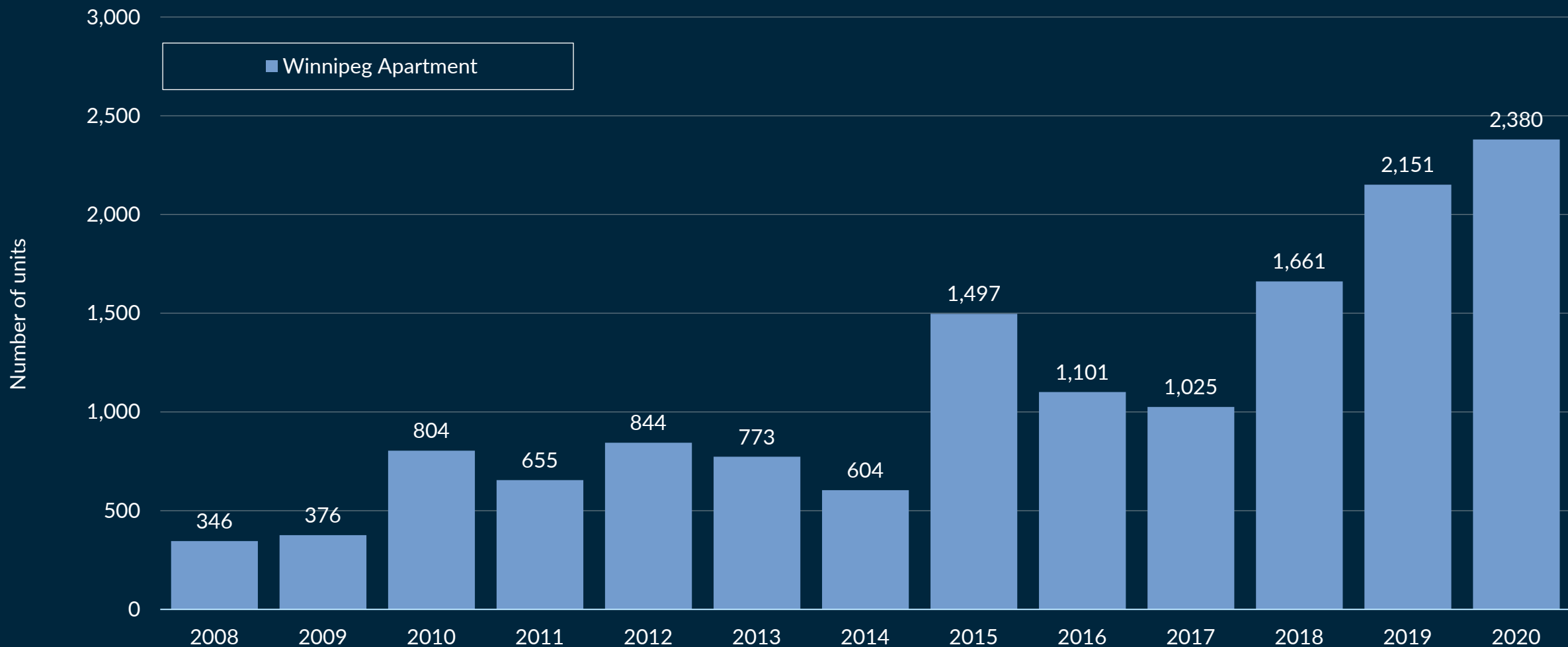
* Purpose-built rental, all ages of stock

Rental market universe comparison – Winnipeg Highest units / capita among the “central-west” cluster



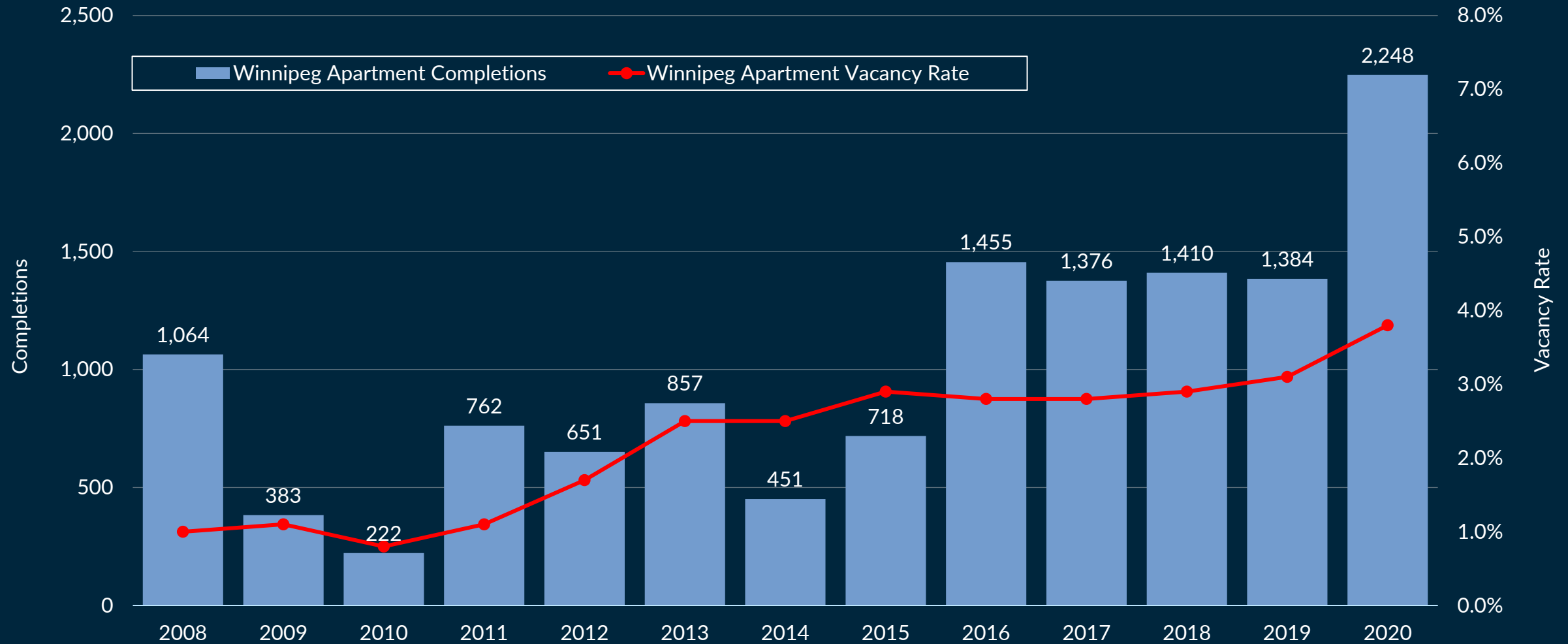
Source: Altus Group Economic Consulting based on CMHC data

Winnipeg purpose-built apartment rental starts continued their upward climb in 2020



Source: Altus Group Economic Consulting based on CMHC data

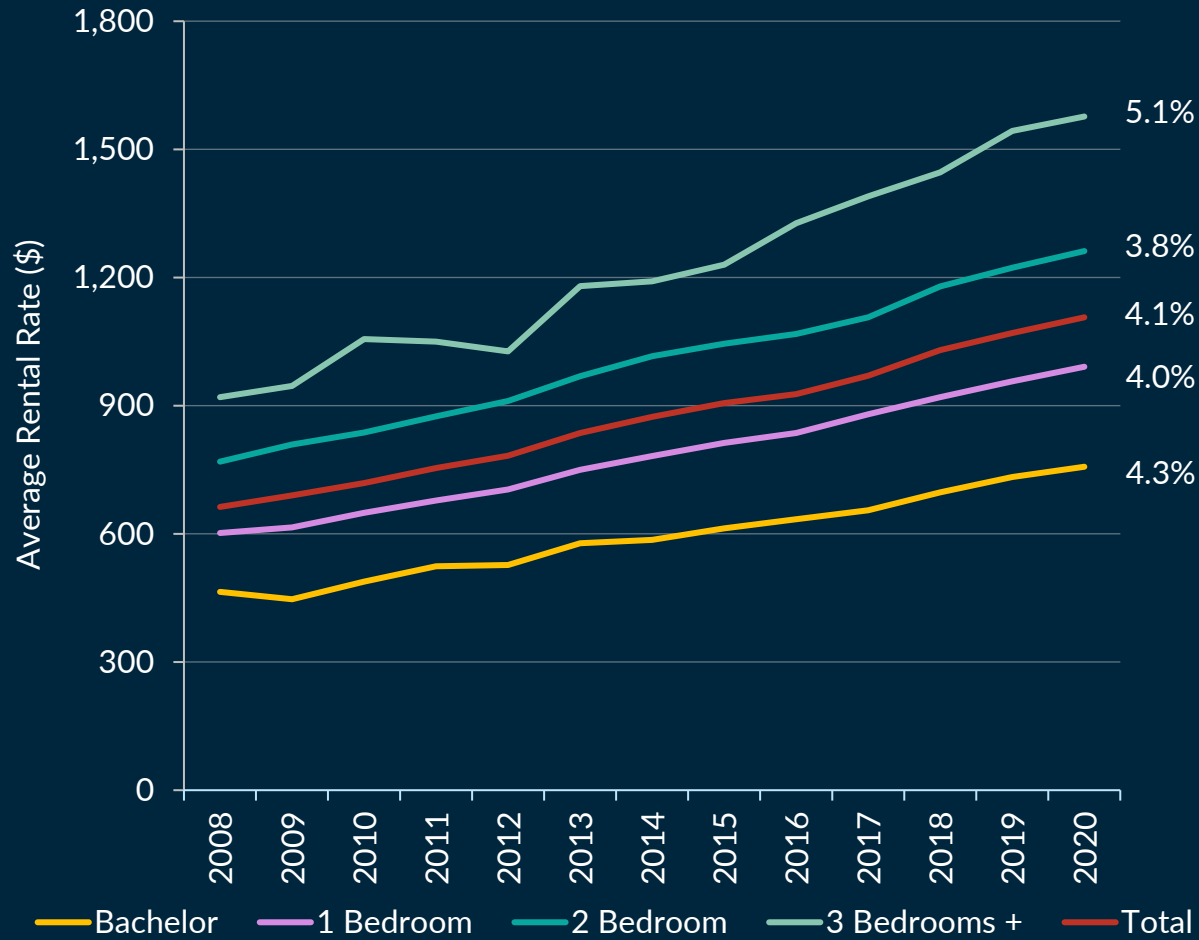
Winnipeg apartment rental vacancy rate up in 2020 along with new supply



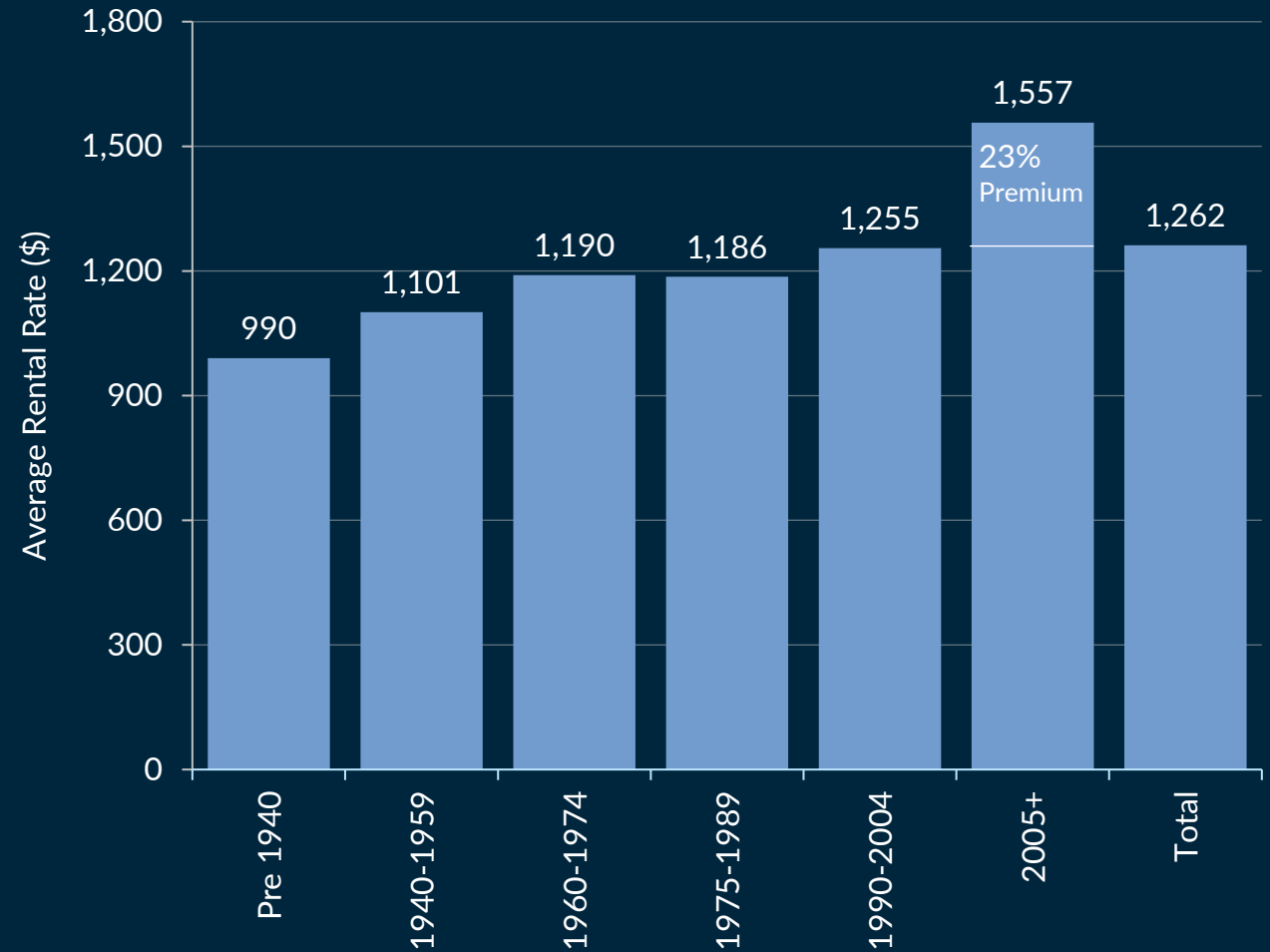
Source: Altus Group Economic Consulting based on CMHC data

Winnipeg rents by bedroom type – apartments

2015-2020 average annual change in rent



Winnipeg 2-bedroom apartment rents by year of construction, Oct 2020



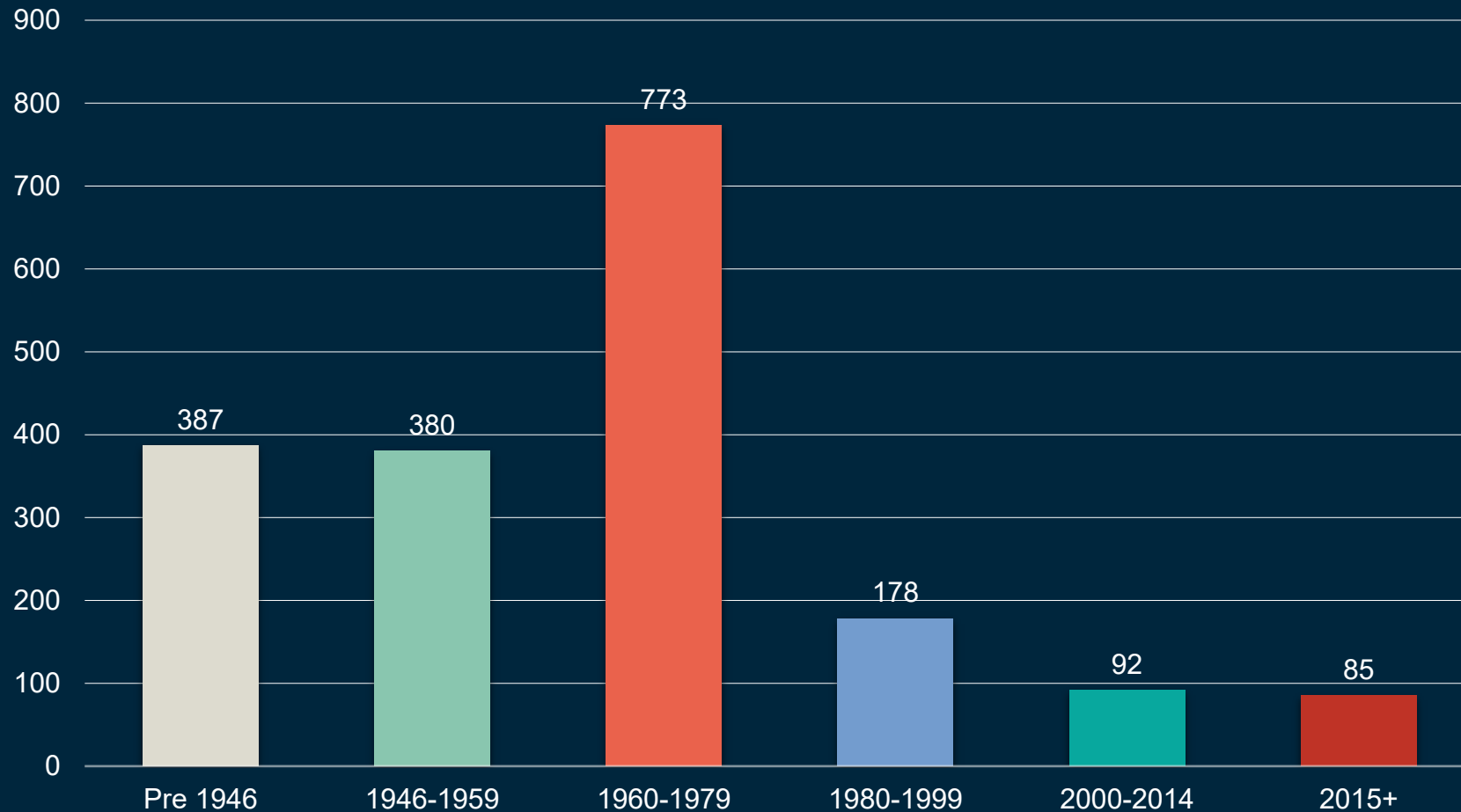
Source: Altus Group Economic Consulting based on CMHC data

Winnipeg multi residential rental inventory analysis



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Multi-Residential Rental Properties by Age - Winnipeg



AGE CATEGORY

| | |
|-----------|-----|
| Pre 1946 | 387 |
| 1946-1959 | 380 |
| 1960-1979 | 773 |
| 1980-1999 | 178 |
| 2000-2014 | 92 |
| 2015+ | 85 |

Winnipeg **1,895**

Statistics provided are based on a combined total of 1,895 properties where the use codes are RESAP and RESAM as of January 15, 2021

Statistics provided include all properties, including those properties that are subsidized

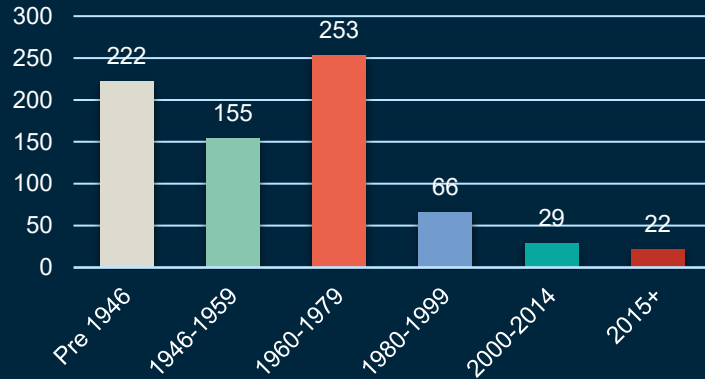
Ages shown above are typically original age of construction, in some case the effective age determined by the City of Winnipeg Assessment & Taxation Department has been used

Winnipeg Regions

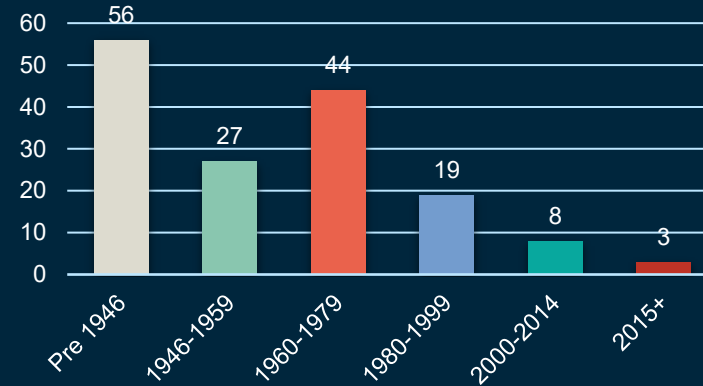


Multi-Residential Rental Properties by Age - Regions

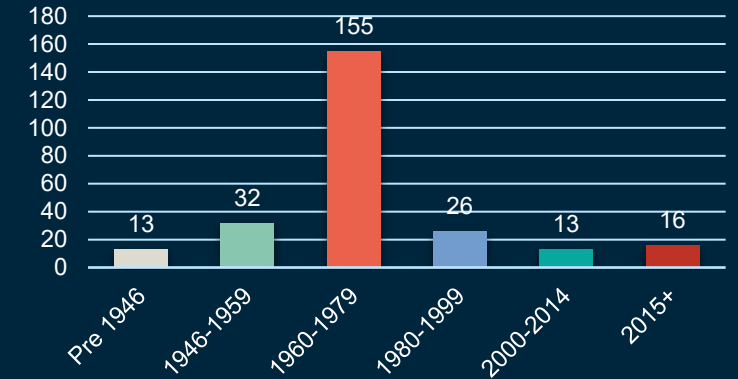
Northwest - 747



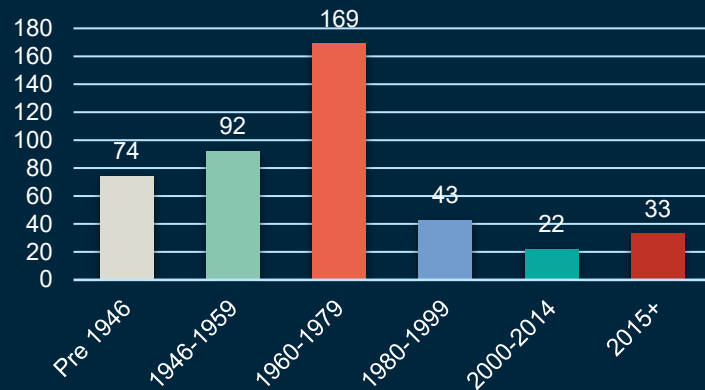
Centre - 157



Northeast - 255



Southwest - 433

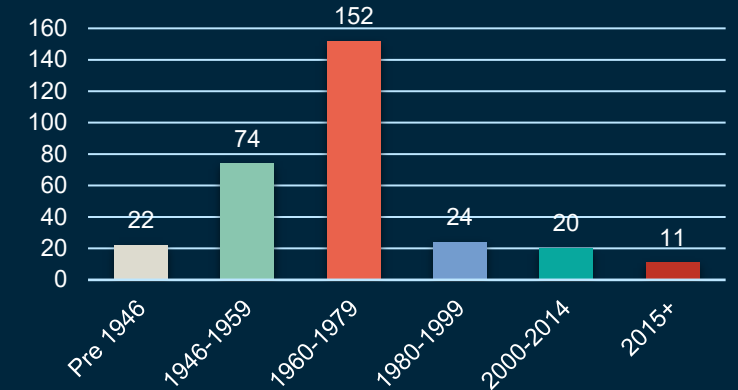


Statistics provided are based on a combined total of 1,895 properties where the use codes are RESAP and RESAM as of January 15, 2021

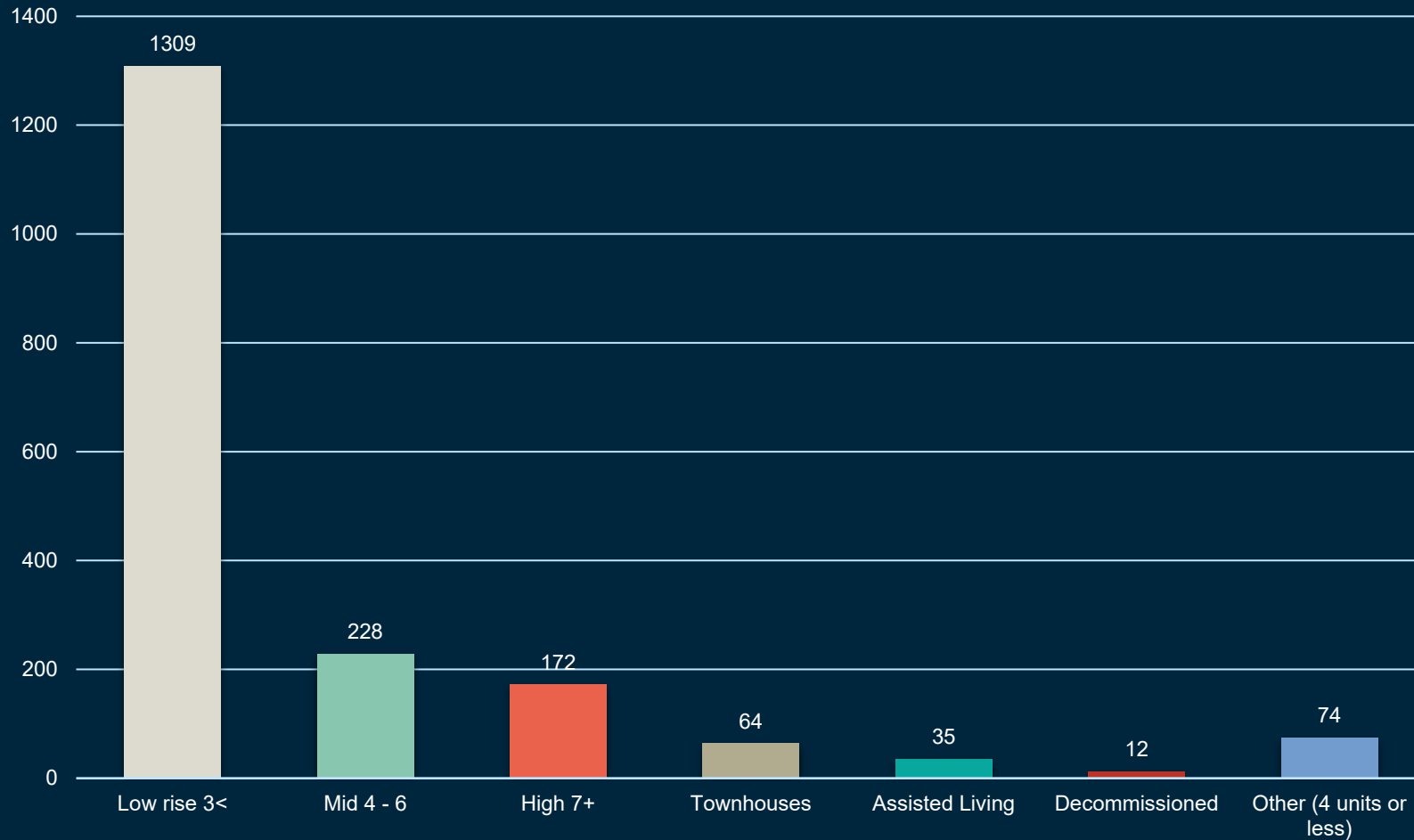
Statistics provided includes all properties, including those properties that are subsidized

Ages shown above are typically original age of construction, in some case the effective age determined by the City of Winnipeg Assessment & Taxation Department has been used

Southeast - 303



Multi-Residential Rental Properties by Property Type - Winnipeg



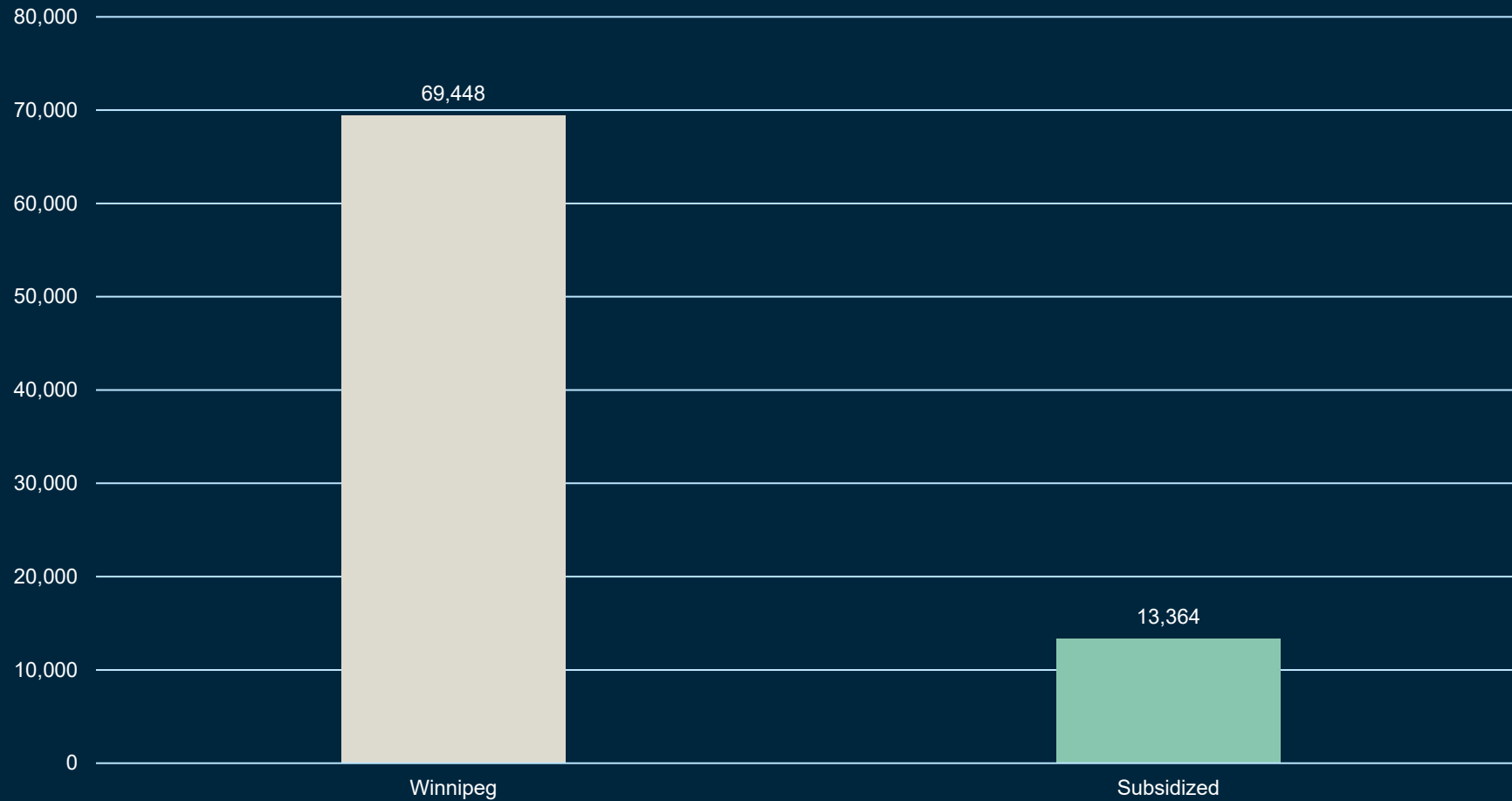
PROPERTY TYPE

| | |
|-------------------------|---------------------|
| Low rise 3< | 1,309 |
| Mid 4 - 6 | 228 |
| High 7+ | 172 |
| Townhouses | 64 |
| Assisted Living | 35 |
| Decommissioned | 12 |
| Other (4 units or less) | 74 |
| Student Dorm | 1 |
| Total | <u>1,895</u> |

Statistics provided are based on a combined total of 1,895 properties where the use codes are RESAP and RESAM as of January 15, 2021

Statistics provided include all properties, including those properties that are subsidized

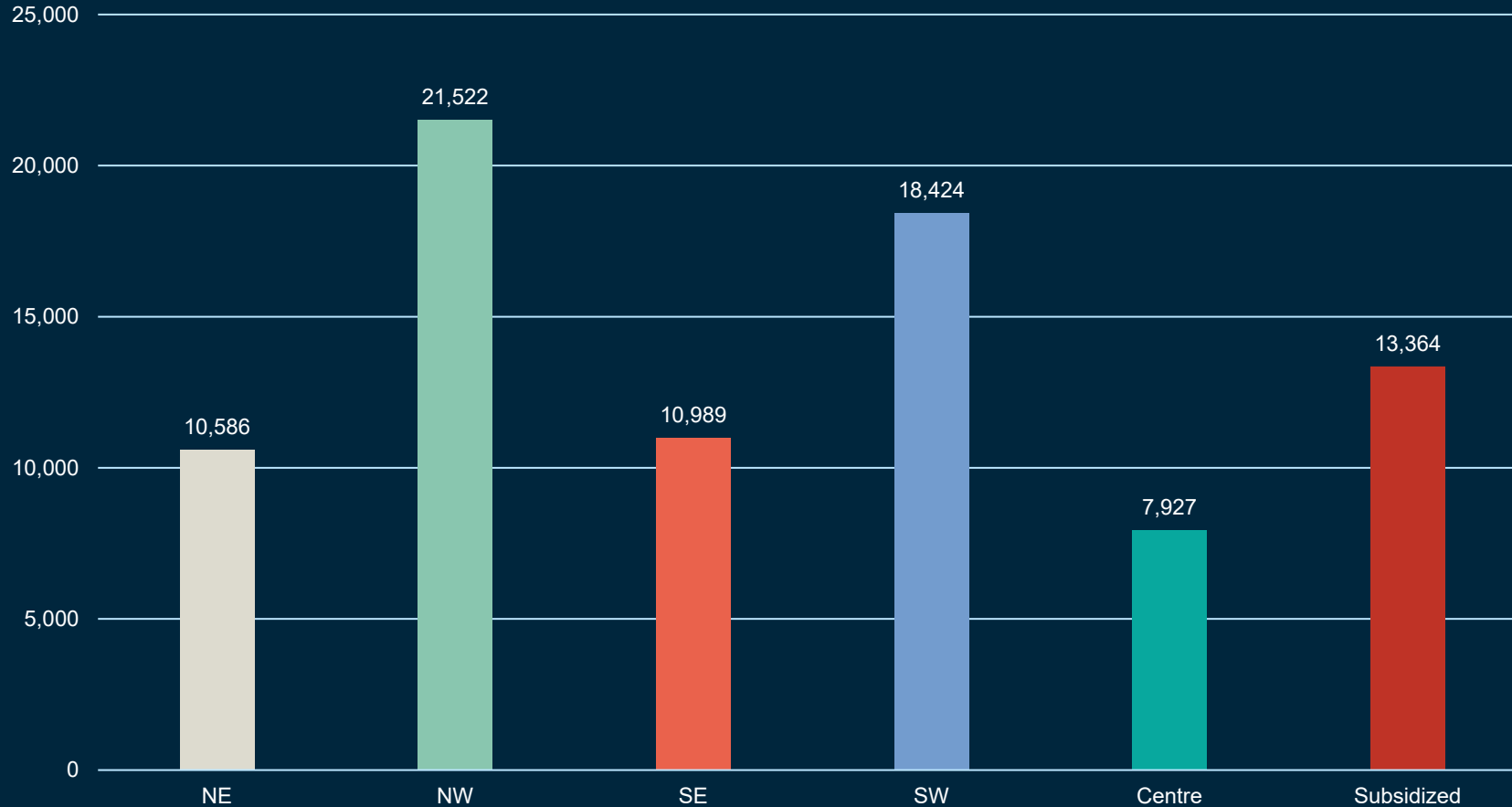
No. of Rental Suites in Winnipeg



Winnipeg = 69,448
Subsidized = 13,364

Winnipeg total based on 1,703 properties
do not include subsidized properties

No. of Private Rental Suites by Region

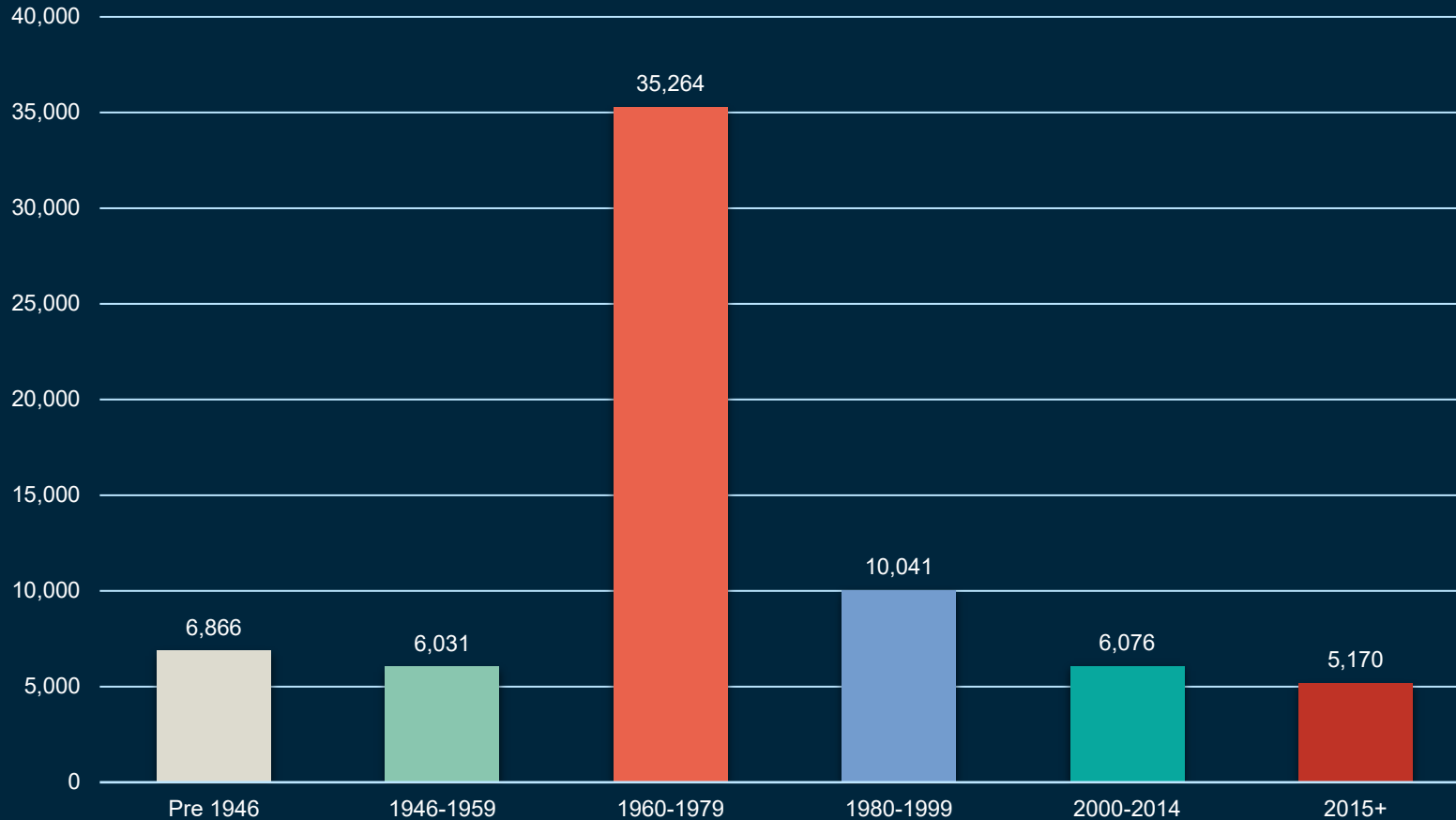


REGION

| | |
|------------------------|----------------------|
| Northeast | 10,586 |
| Northwest | 21,522 |
| Southeast | 10,989 |
| Southwest | 18,424 |
| Centre | 7,927 |
| <u>Winnipeg</u> | <u>69,448</u> |

Regional totals based on 1,703 properties do not include subsidized properties

No. of Private Rental Suites by Age - Winnipeg



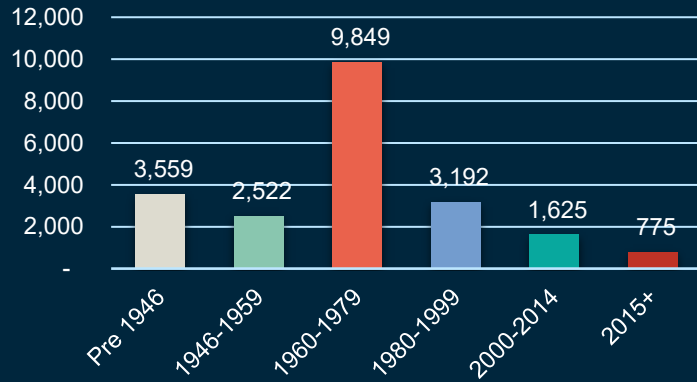
AGE CATEGORY

| | |
|---------------------|----------------------|
| Pre 1946 | 6,866 |
| 1946-1959 | 6,031 |
| 1960-1979 | 35,264 |
| 1980-1999 | 10,041 |
| 2000-2014 | 6,076 |
| 2015+ | 5,170 |
| <u>Total</u> | <u>69,448</u> |

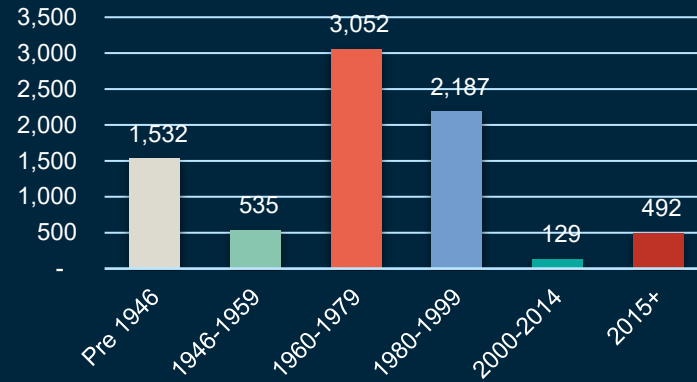
Totals based on 1,703 properties do not include subsidized properties

No. of Suites by Age - Region

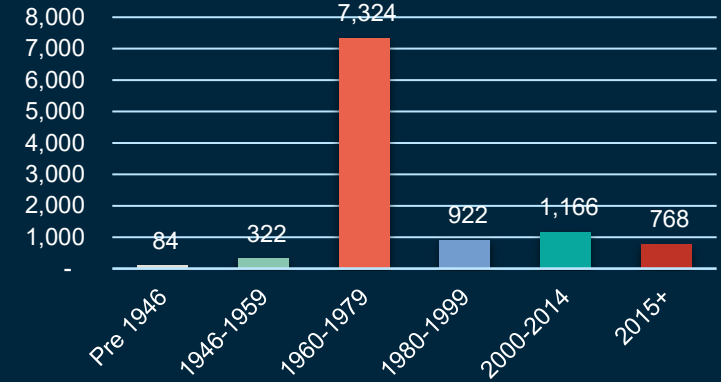
Northwest



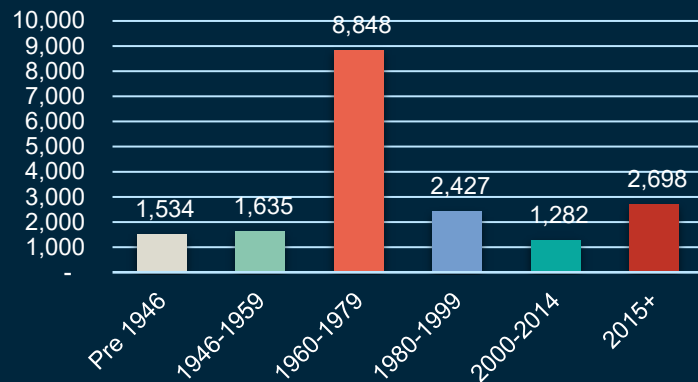
Centre



Northeast

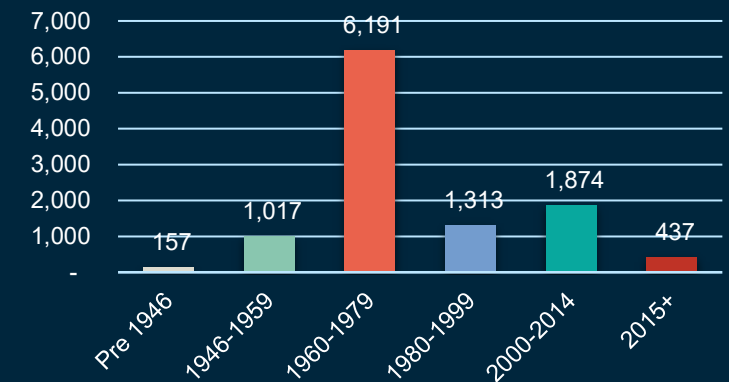


Southwest

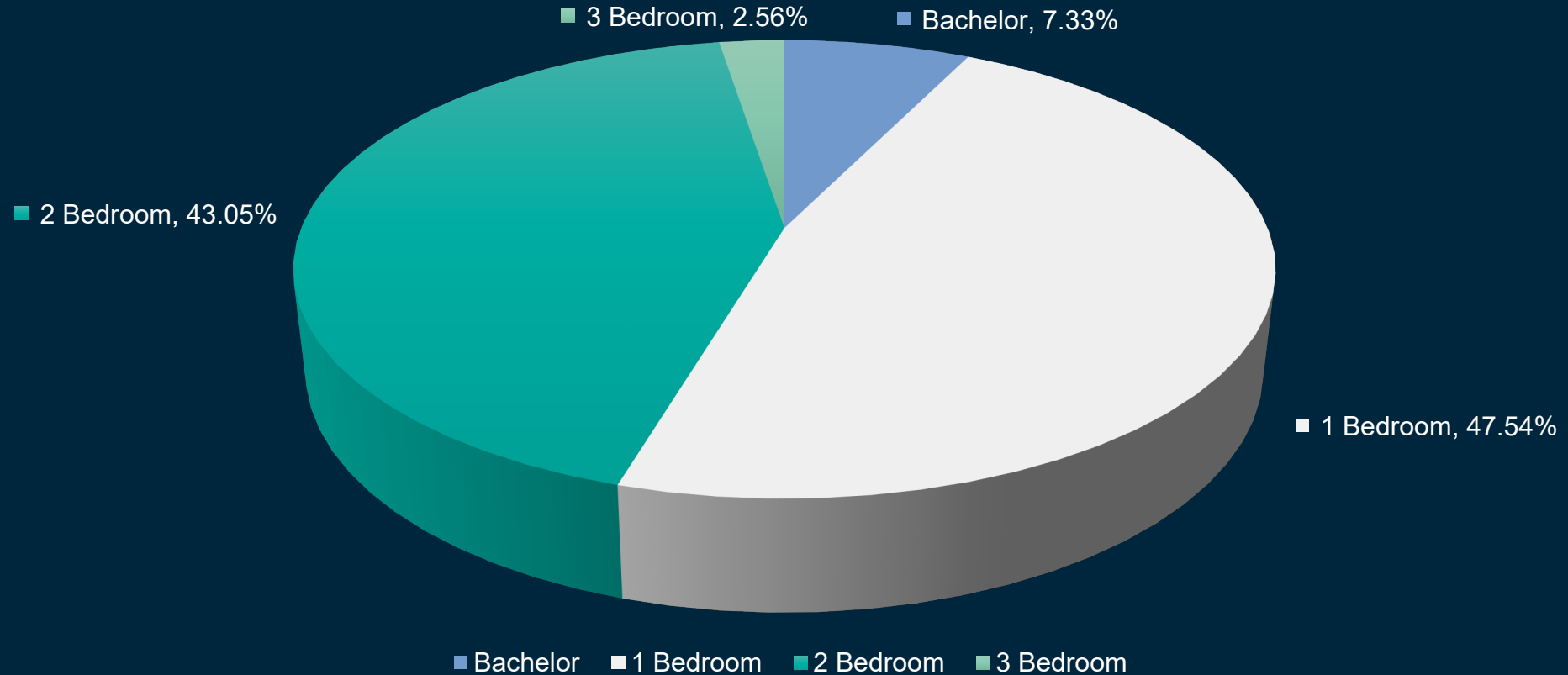


Regional totals based on 1,703 properties do not include subsidized properties

Southeast

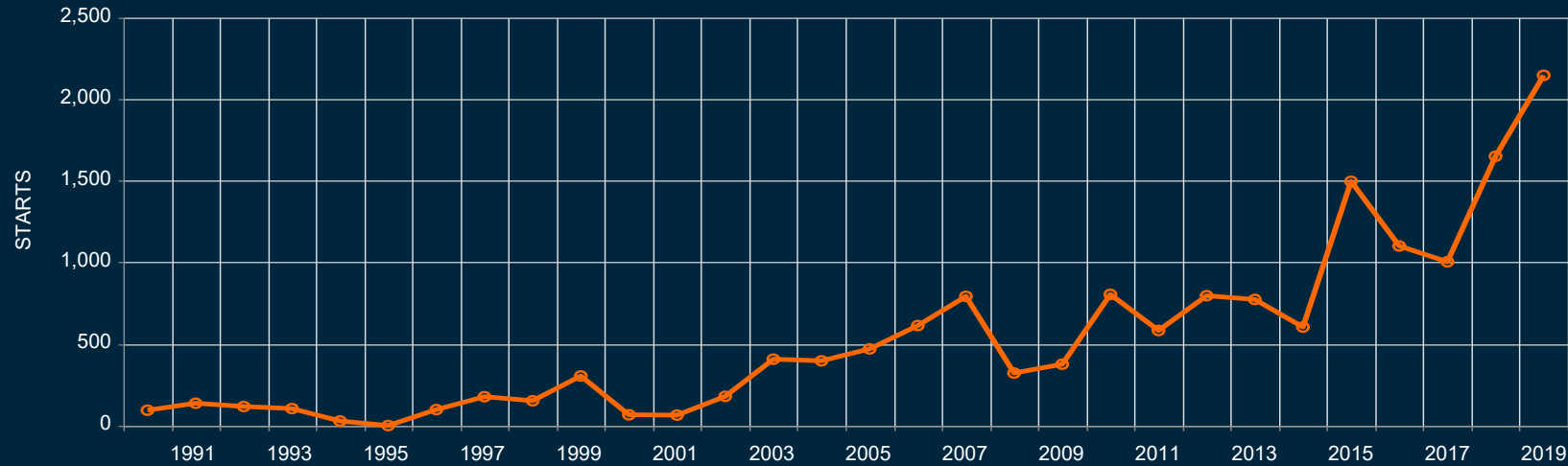


Winnipeg Private Apartment % by Unit Mix

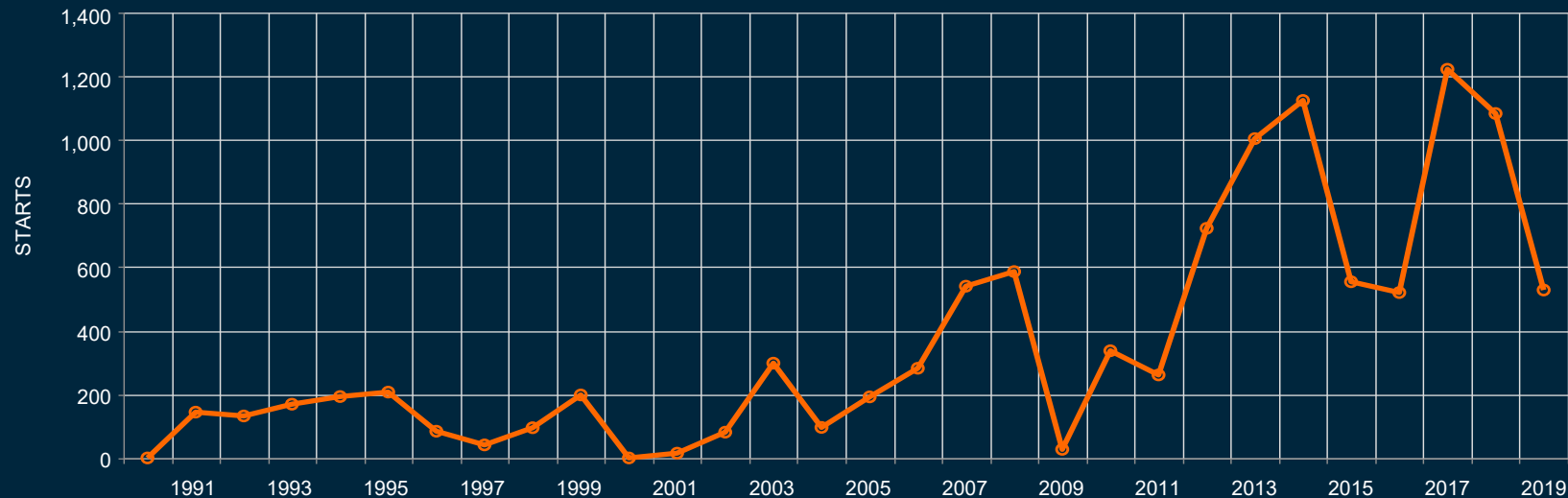


Unit mix percentages are based on properties where suite counts have been identified

Historical Starts by Dwelling Type: Rental Apartment

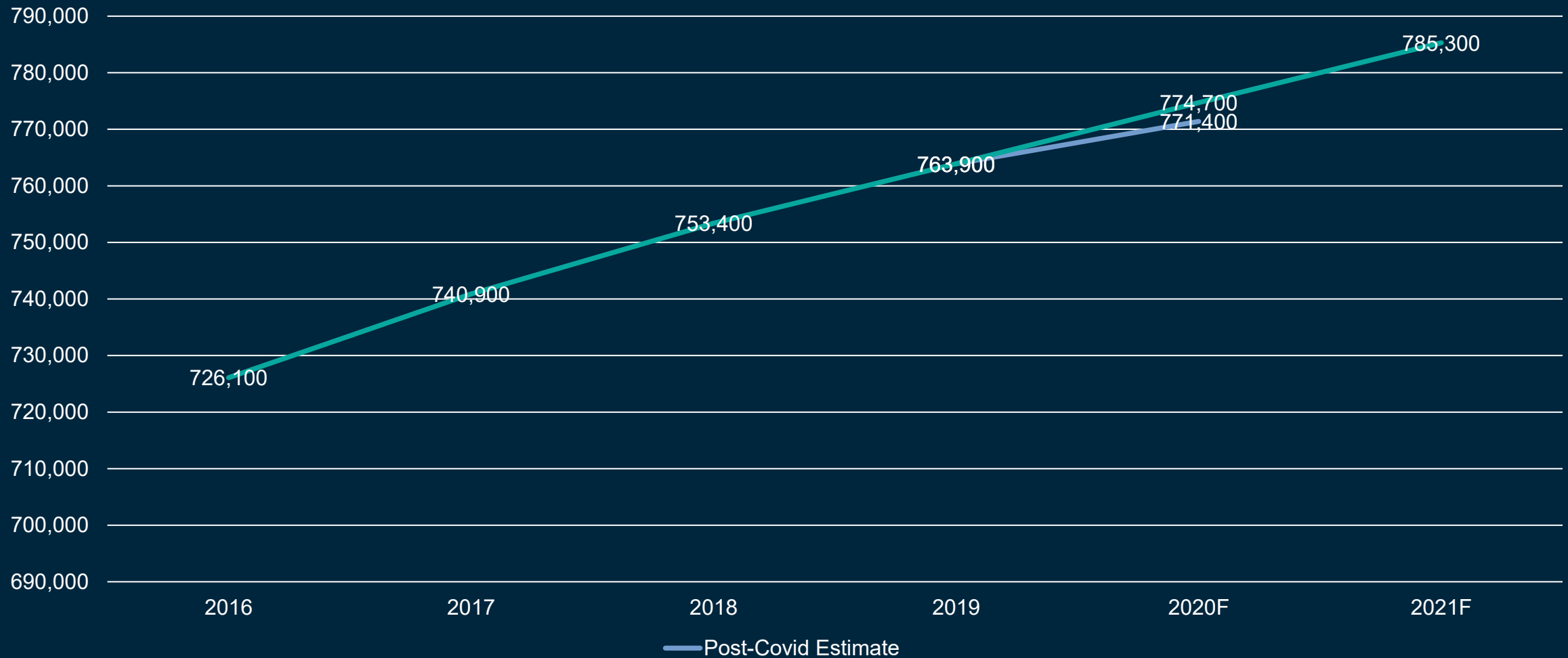


Historical Starts by Dwelling Type: Condominium Apartment



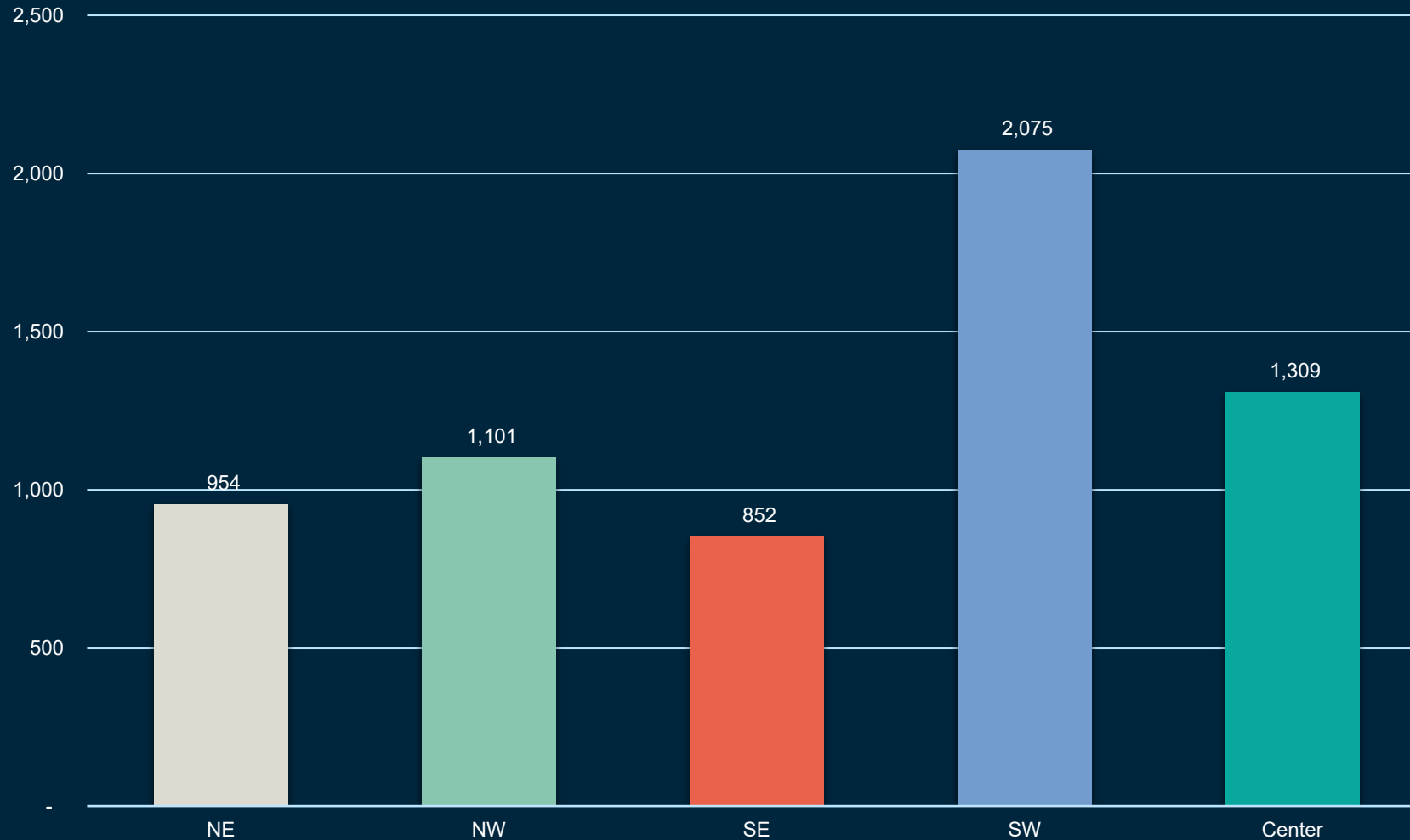
Data Source: CMHC Winnipeg New Housing Construction

City of Winnipeg Population Forecast



Data Source: <https://winnipeg.ca/cao/pdfs/population.pdf> & City of Winnipeg Economic Research

No. of New Suites & Suites Pending Construction



REGION

| | |
|---------------------|---------------------|
| Northeast | 954 |
| Northwest | 1,101 |
| Southeast | 852 |
| Southwest | 2,075 |
| Centre | 1,309 |
| <u>Total</u> | <u>6,291</u> |

Research, Valuation and Advisory Data



AltusGroup

Altus Group Winnipeg RVA Office

As Altus Group, and previously as Hoffer Wilkinson & Associates Ltd, we have been delivering professional and expert valuation services to Winnipeg and the surrounding region since 1986.

Our team includes eight AACI designated appraisers and three candidate members, as well as our administrative team, and have a combined experience of almost 200 years.



In addition to traditional appraisal and valuation services, our team is also able to provide the following services:

- *Market rent studies*
- *Replacement cost new estimates for insurance purposes*
- *Feasibility studies*
- *Highest and best use studies*
- *Quantification of loss and damages from expropriation*
- *Bankruptcy and restructuring*
- *Due diligence*



AltusGroup

Key Assumptions Survey Results

June 2020

Survey sample & methodology



A team of 50 Altus Group practitioners surveyed their contacts from *May 28th - June 12th*, and a total of 136 unique respondents across the country took part in the survey

- *6 provincial markets covered: B.C., Alberta, Saskatchewan-Manitoba, Ontario Quebec and Atlantic*
- *25% of participants expressed opinion from a national portfolio perspective*

Survey topics include:

Market conditions

- *Economic, social, political*

Industry response to crisis

- *Strategic operational changes*
- *Investment plans*
- *Transaction activity*
- *Cap rate expectations*

Key assumptions supporting valuation of income properties

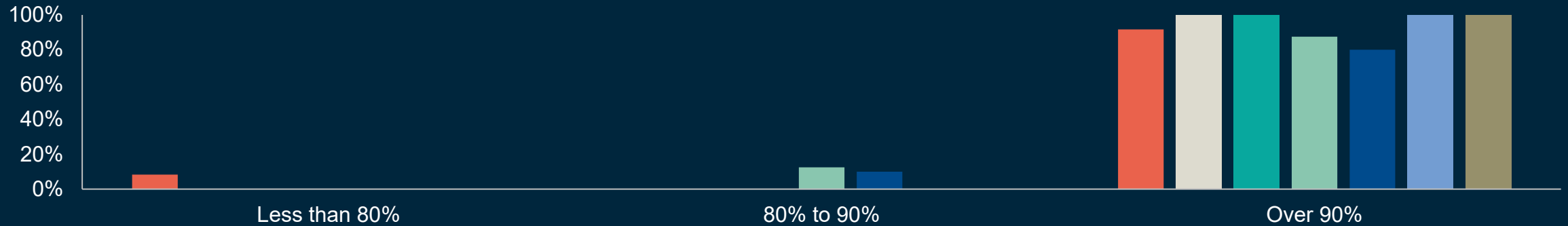
- *Rental rates forecasts*
- *Lag vacancy*
- *Vacancy and credit allowance*
- *Tenant retention / probability of renewals*

| Respondent profile | Percent |
|--------------------------------------|---------|
| Pension funds & life companies | 25% |
| Publicly traded corporations (REITs) | 14% |
| Private companies | 49% |
| Consultants / brokers | 11% |

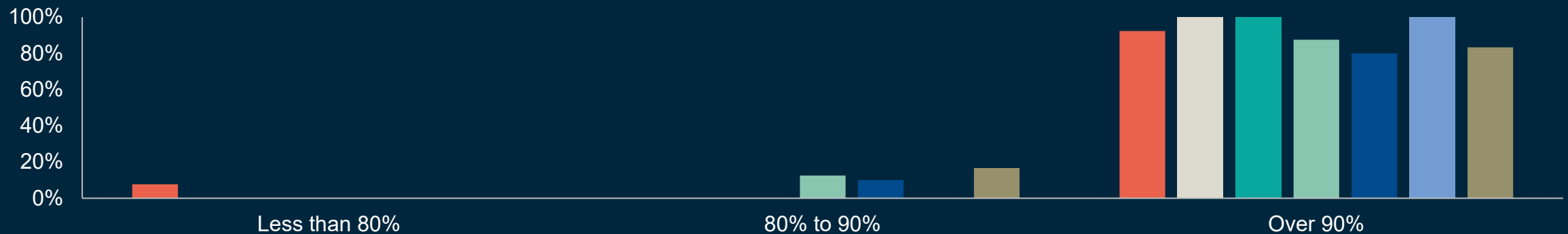
| Property types selected by respondents | | |
|--|-----|-----|
| Office | 95 | 65% |
| Retail | 100 | 68% |
| Industrial | 75 | 51% |
| Multiresidential | 66 | 51% |
| Most participants selected more than one property type | | |

Multi-Residential | Rent collection rates by region

What percentage of your total rent did you collect in April ?



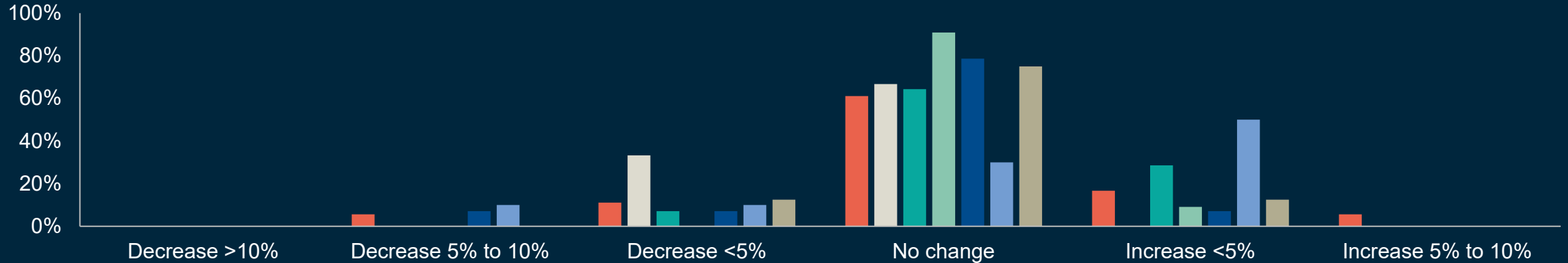
What percentage of your total rent do you expect to collect for May?



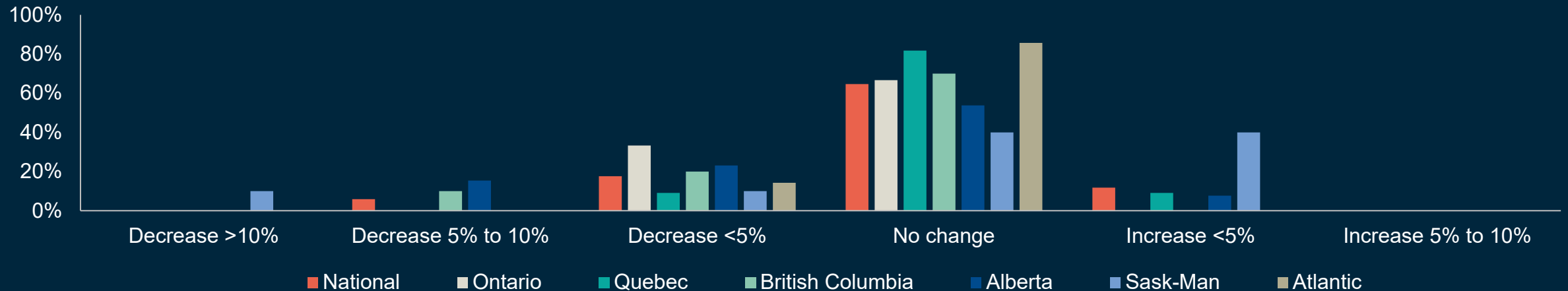
■ National
 ■ Ontario
 ■ Quebec
 ■ British Columbia
 ■ Alberta
 ■ Sask-Man
 ■ Atlantic

Multi-Residential | Market rents (face rates) –by region

Top quality

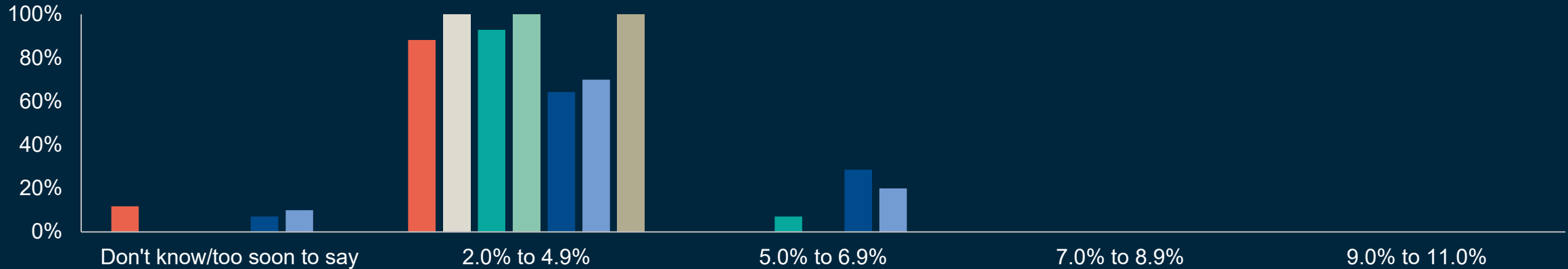


Lower quality

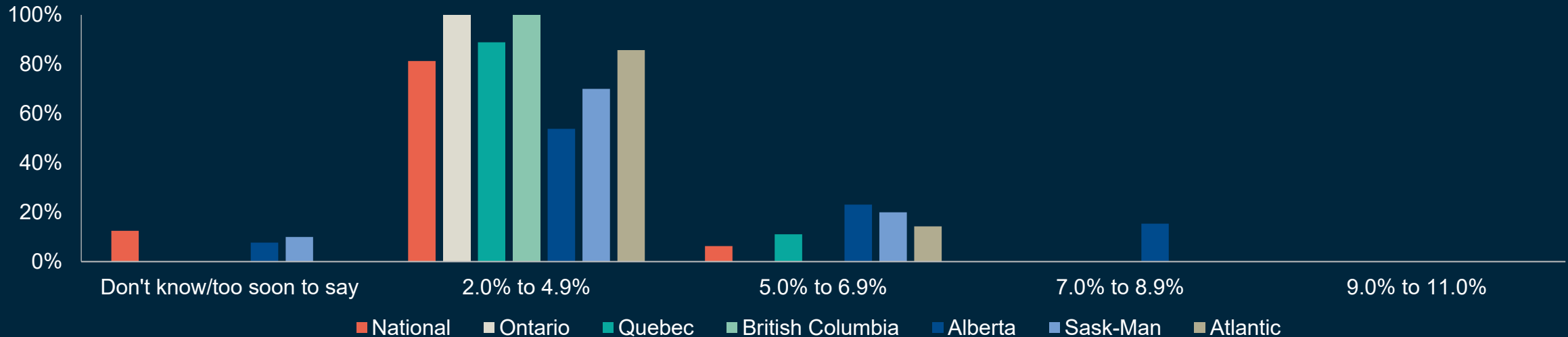


Multi-Residential | Vacancy & credit allowance –by region

Top quality

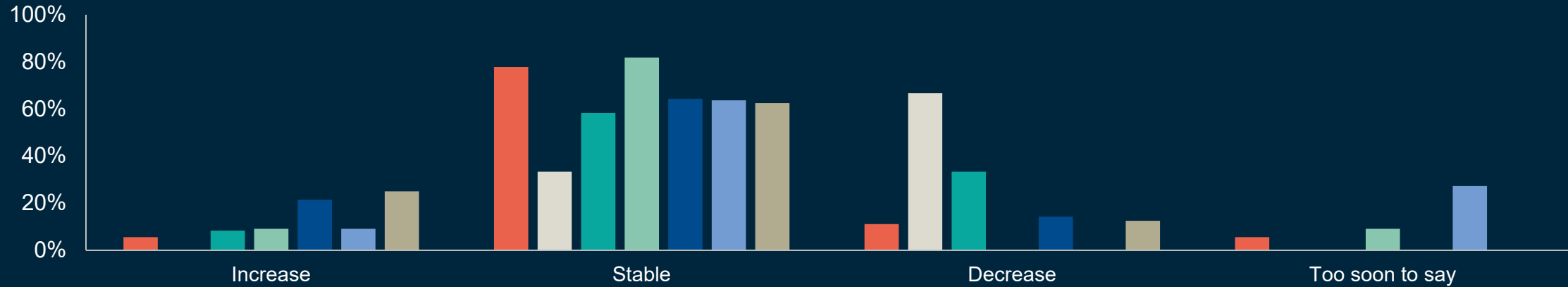


Lower quality

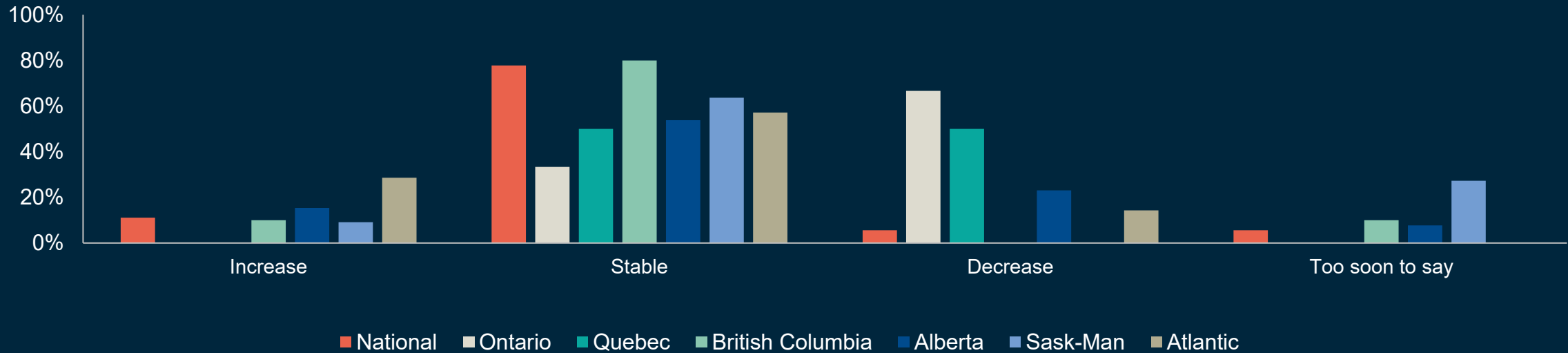


Multi-Residential | Cap rate trends expectations

Top quality (n: 77)



Lower quality (n: 72)



■ National
 ■ Ontario
 ■ Quebec
 ■ British Columbia
 ■ Alberta
 ■ Sask-Man
 ■ Atlantic

Impacts of COVID-19



Will demand return to recently high levels?



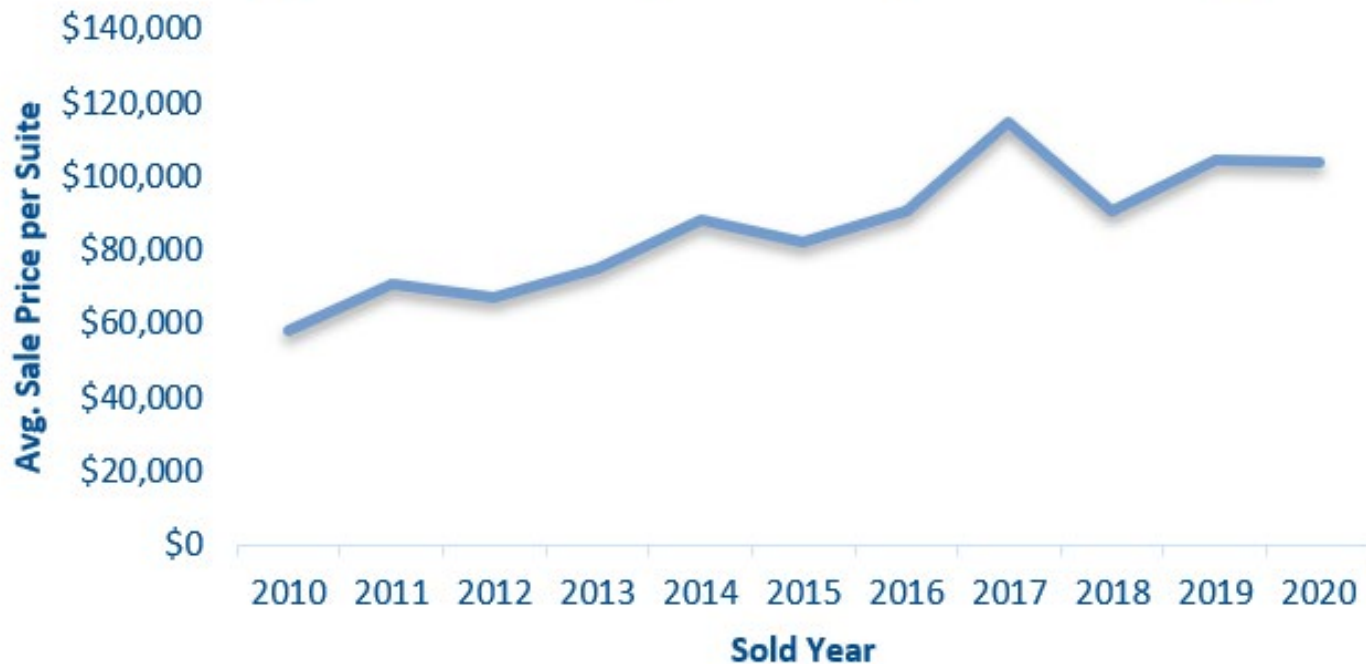
What will the impact of working from home be on renter preferences?



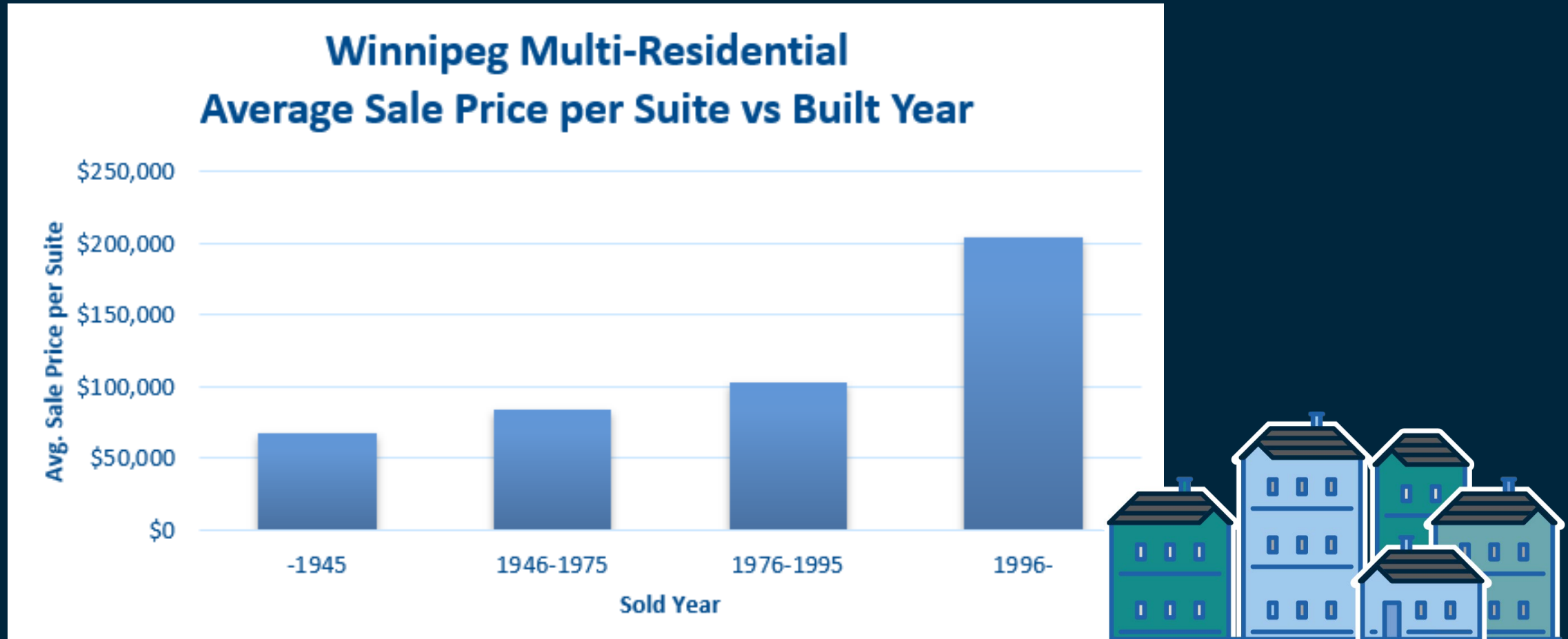
How will the rental market be impacted?

Average Sale Price Per Suite

Winnipeg Multi-Residential Average Sale Price per Suite (2010 - 2020)

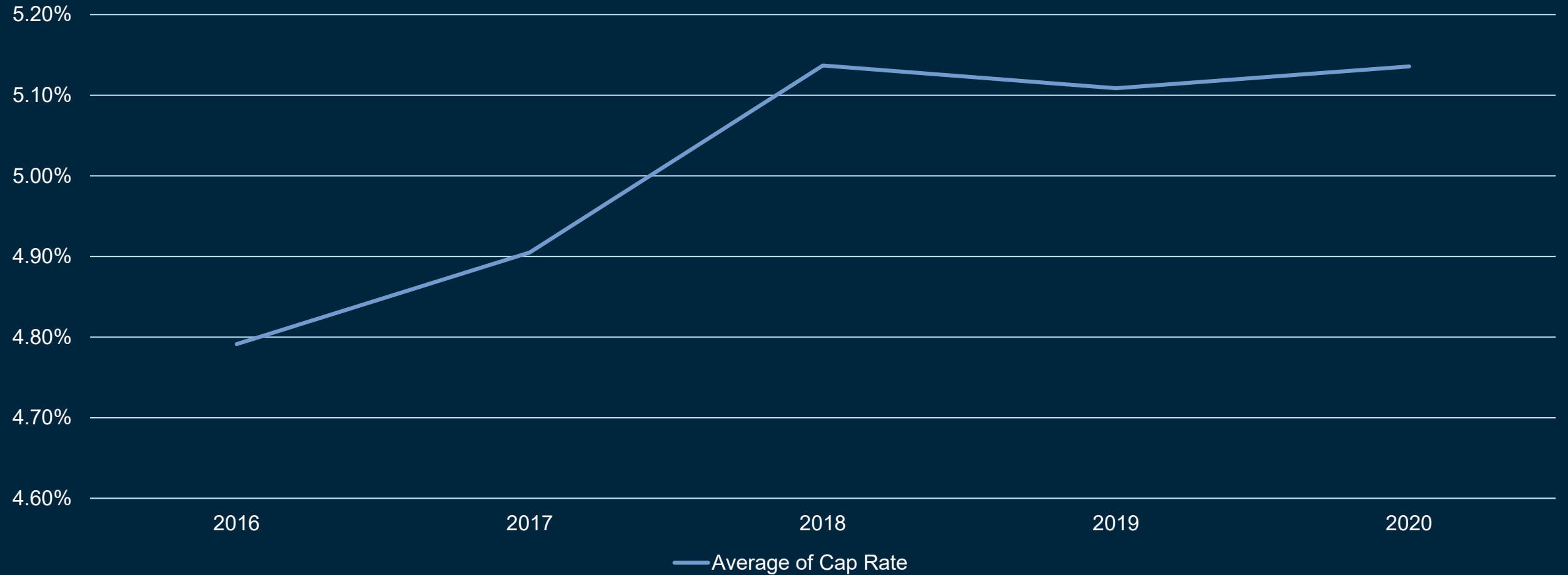


Average Sale Price Per Suite vs Year Built



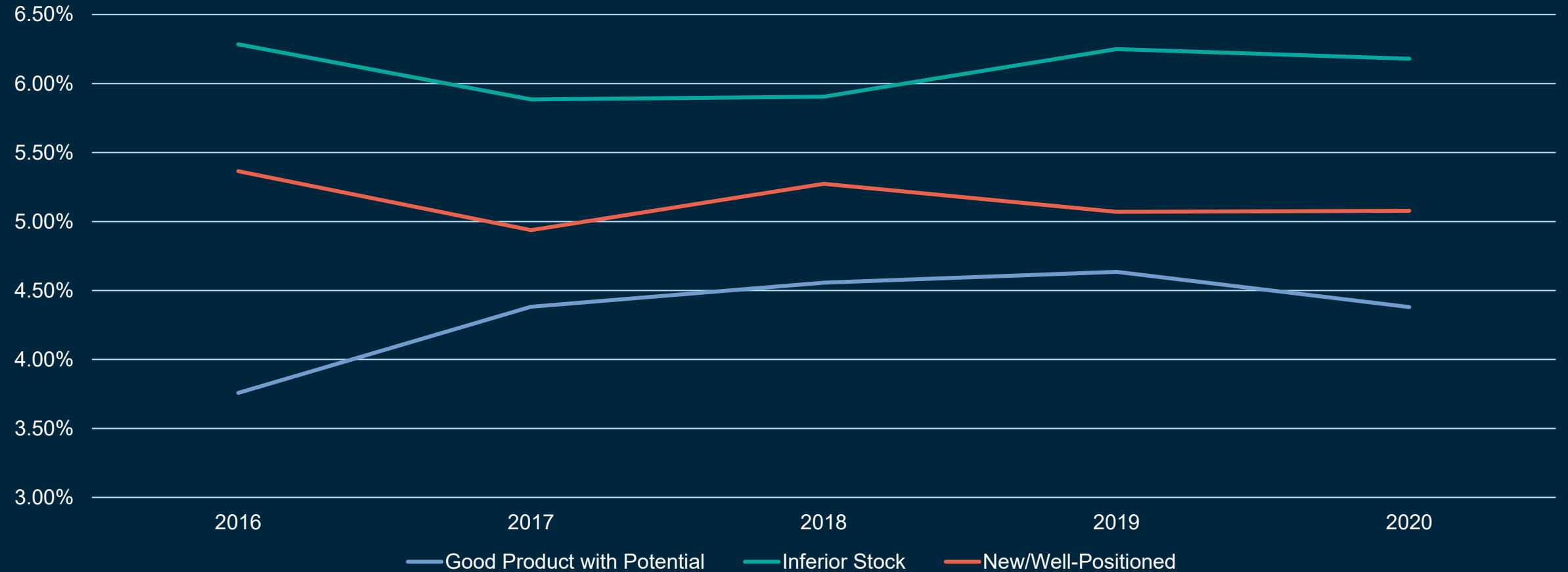
Average Capitalization Rate Trend

Winnipeg Multi-Residential Average of Cap Rate Trend



Average Cap Rate Trend by Property Category

Winnipeg Multi-Residential Average Cap Rate Trend by Category



Appraising Multi-Residential Properties: Revenues and Expenses

Revenues:

- Rents in place as of the effective date
- Comparison of rents to market levels for similar properties
- Current, historical and market vacancy levels
- Discounts/inducements
- Additional Revenue – parking, storage, laundry, etc.

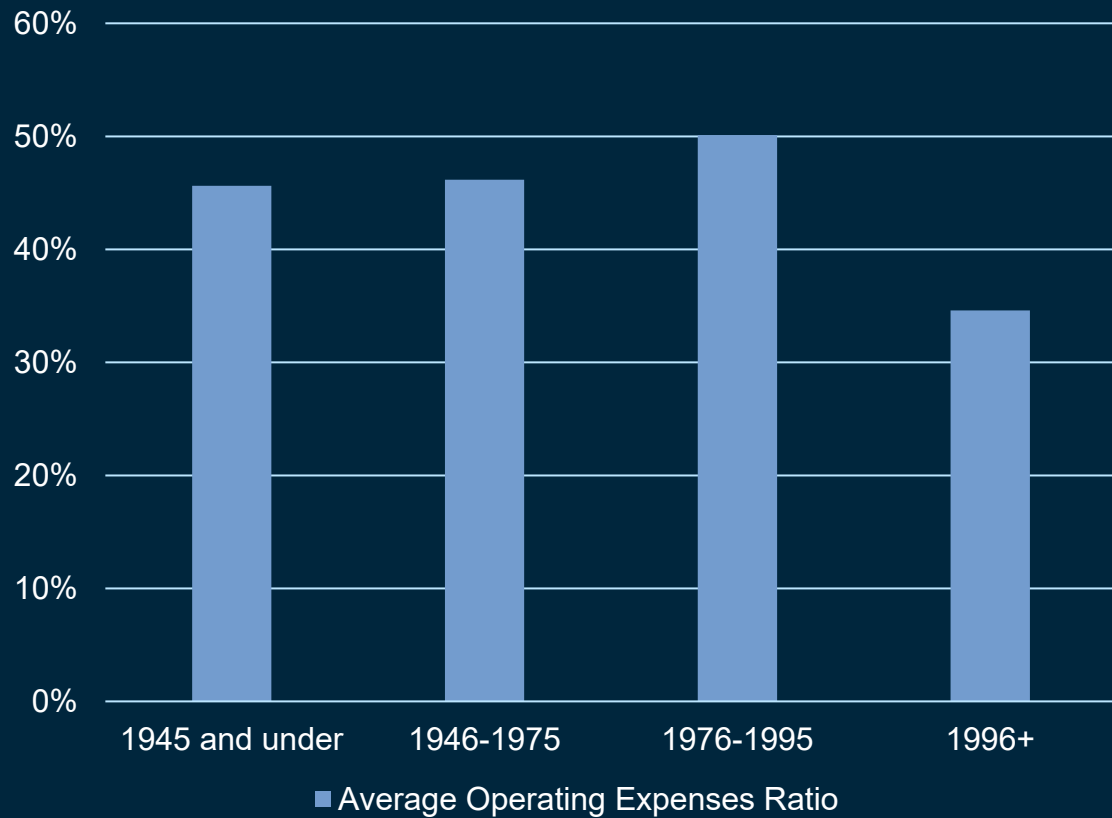
Expenses:

- Current, historical and budgeted expenses
- Comparison to market norms –per suite and %EGR
- Exclude capital and one-time expenditures

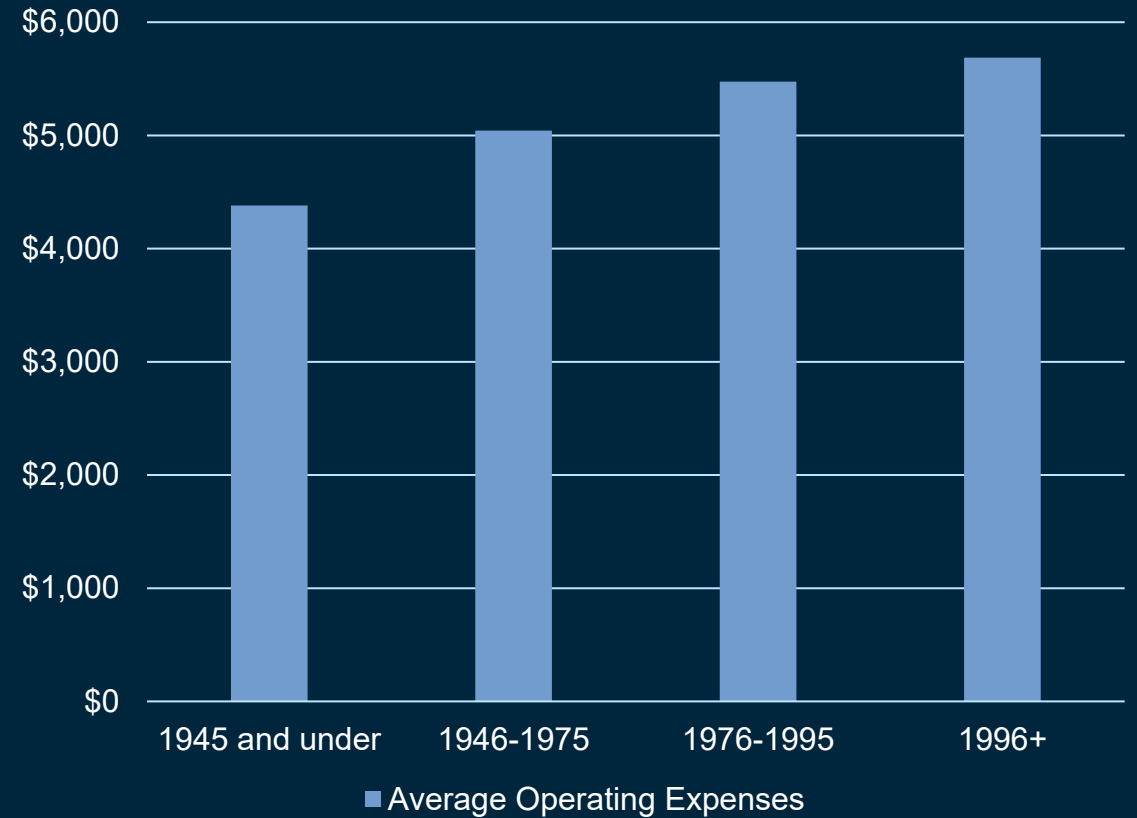


Average Operating Expenses

Winnipeg Multi-Residential Average of Operating Expenses Ratio

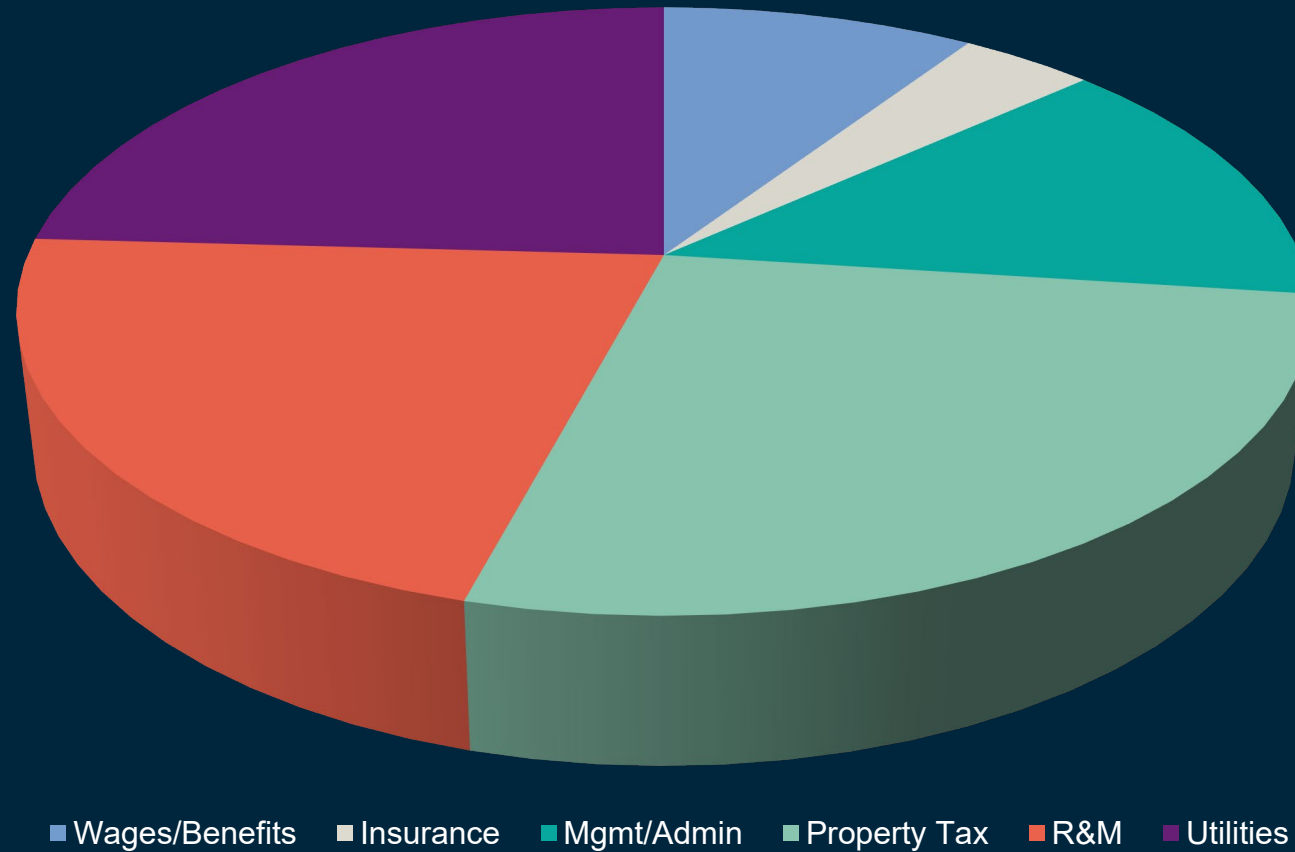


Winnipeg Multi-Residential Average of Total Operating Expenses



Operating Expense Categories

Winnipeg Multi-Residential Expense Type



Property Tax Implication



Altus Group

Introduction to Property Assessment



Assessment cycle is generally 2 years in length



Current cycle is 3 years (2020 – 2023)



Valuation date for current assessment cycle is April 1, 2018



The property assessment is based on the present physical condition of the asset

Multi-Residential Assessment Base

| Total | 2019 | 2020 | % change |
|-----------------|-----------------|------------------|----------|
| Assessment Base | \$8,049,005,892 | \$9,118,727,001 | 13.3% |
| Taxes | \$99,307,739.73 | \$108,744,745.78 | 9.5% |

*Valuation date for 2019 assessments is April 1, 2016

**Valuation date for 2020 assessments is April 1, 2018

Totals are for Residential 1, 2, & 3 property classes where the use codes are RESAP, RESAM, CMCMU, or CMRRH.

Winnipeg Tax Year Over Year Comparison

| Taxes Per Rental Suite Category | 2019 | 2020 | % change |
|---------------------------------|---------|---------|----------|
| High rise (6+ storeys) | \$1,376 | \$1,483 | 7.8% |
| Low rise (1-5 storeys) | \$1,153 | \$1,278 | 10.8% |

Rental statistics are derived from group averages and vary depending on individual properties. Averages are taken from a sampling of 1727 multi-residential properties.

Winnipeg Tax Year Over Year Comparison

| Taxes Per Rental Suite Category | 2019 | 2020 | % change |
|---------------------------------|---------|---------|----------|
| Year build pre 1946 | \$878 | \$936 | 6.6% |
| Year built 1946-1959 | \$904 | \$1,059 | 17.1% |
| Year built 1960-1979 | \$1,095 | \$1,196 | 9.2% |
| Year built 1980-1999 | \$1,511 | \$1,645 | 8.9% |
| Year built 2000-2014 | \$2,712 | \$2,952 | 8.8% |
| Year built 2015+ | \$2,917 | \$3,078 | 5.5% |

Rental statistics are derived from group averages and vary depending on individual properties. Averages are taken from a sampling of 1702 multi-residential properties.

Capitalization Rate

Assessment cap rates derived using model-generated NOIs divided by time adjusted sale prices

Assessed 2018 cap rates

ranged from

5% to 6.75%

Valuation date: April 1, 2016



Assessed 2020 cap rates

ranged from

4% to 7.3%

(most between 4.9% to 5.3%)

Valuation date: April 1, 2018

Grouped by age and size

Tax Implications - Capitalization Rate

Site specific calculations

- Actual stabilized NOI when calculating cap rate
- Adjustments to base cap rate to reflect specific characteristics of subject property

Exclusion of properties purchased with intent to renovate or convert to condominium

- Purchased for prospective use or NOI
- Should not use the in place NOI to determine cap rate

Age range

- Assessor cutoff between 1974 & 1975
- Largest group of apartments were built in 1970s and the apartments constructed in this decade are very similar, so Altus did not accept an age cutoff of 1974, but rather applied a cutoff of 1980 instead
- New stock puts pressure on older properties relating to rents, vacancy, and level of R&M



Capitalization Rate Adjustments

Several adjustments to capitalization rates have been made for 2012 and subsequent assessment cycles

- Municipal Board increased several capitalization rates between 75 and 100 bps for the 2012 assessment cycle
- Altus Group and Assessor have agreed to several adjustments in subsequent assessment cycles, with increases in capitalization rates of between 25 bps and 50 bps for a number of asset classes



Repair & Maintenance versus Capital Expenditures

What factors typically influence what is considered an expense versus a capital expenditure?

- Quantum of the expenditure
- Recurrence of the expenditure/expected life of the expenditure
- Does the expense genuinely improve the asset beyond its condition prior to the work? If so, then it would be considered capital
- An expenditure that is much higher in a particular year for certain types of work that would otherwise be R&M may be an indicator of capital for that year



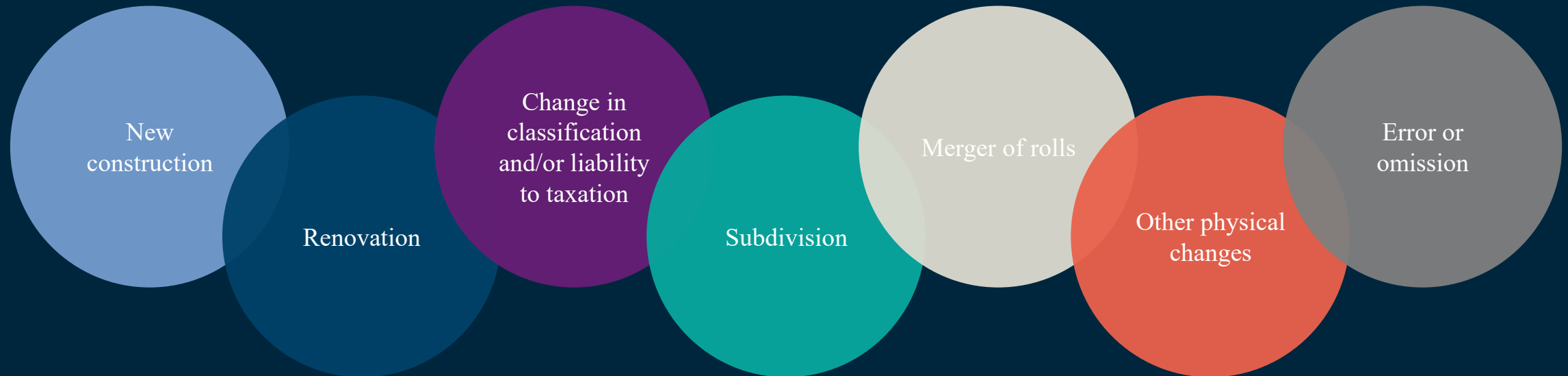
Tax Implications – Repair & Maintenance



- R&M accounts for a large portion of a property's expenses
 - Want to ensure accurately represented on a site specific basis
- Within a given age category, higher R&M per suite tends to be associated with higher rents
- For each R&M expense category, the expense amount is stabilized based upon data over several years to provide a more accurate indication of the most likely long-term costs related to that item
- That stabilized amount is applied in the valuation as the expense that will be required to maintain the rental income

Supplementary Assessments

Reasons for issue:



- 20 day appeal window
- The Assessor may amend the current assessment roll for the purpose of correcting an “error or omission,” but this does not include a change of opinion concerning the assessed value



- Application of revised assessment can be retroactive to the previous calendar year via section 341(1) of the City of Winnipeg Charter

Example: renovated apartments

- Potential for increase in property’s effective age – impact on applied cap rate
- Potential for above-guideline rental increases – impact on effective gross income & NOI
- Potential for decreased expenses – impact on NOI
- These lead to a higher assessed value, which results in higher taxes

Requests for Information



Income & Expense
Questionnaires



Sales
Questionnaires



Property
inspections



Cost letters for
new construction



Other special requests
for information

Failure to Respond

- If the Board finds non-compliance with the Assessor's request for income and expense information under section 16(1)(c) of the *Municipal Assessment Act*, then any reduction in assessment that is ordered will only take effect in the year following the year to which the application relates
- This is the harshest penalty, resulting in the forfeiture of one full year's tax savings
- Other penalties include the shifting of the burden of proof from the Assessor to the owner at the hearing
- Owners and managers should ensure that full and complete responses are provided within the legislated timeframe to minimize risk of application of penalties on appeal



Takeaway



Altus Group

Thank you



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