Solving Canada's Rental Housing Shortage Puzzle

Demand for rental housing across Canada is at record levels, driven by the country's stable political climate, a robust labour market, record and growing immigration and a high cost of home ownership. Despite this demand, existing supply remains constrained and new supply remains insufficient, resulting in a substantial market dislocation. Starlight's solution: creating new and improved rental supply in innovative ways, while generating attractive risk adjusted returns.

Canada in the Spotlight

Strong Economic Growth and Labour Market Attracting Foreign Investment

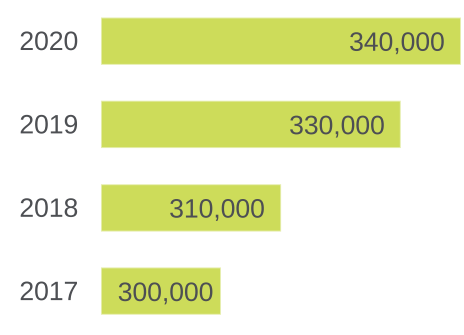
Canada remains an attractive destination for capital, commerce and immigration, due to it's stable political climate, solid and diversified economic landscape and strong labour market. Over the past decade, Canada has led G7 nations in GDP growth, with job growth driving unemployment to 40-year lows. Consequently, global publications such as the Economist continue to rank Canada as ***one of the best countries in the world for quality of life.***

Immigration at Highest Levels in 80 Years

Canada has historically been perceived as a safe, diverse and welcoming nation for immigrants, with that momentum only intensifying in recent years. These factors, along with "open door" immigration policies, have ***attracted over 300,000 new permanent residents in 2017, the highest level in 80 years. This influx is part of an overall government plan to accept over one million new immigrants by 2020.***

Canada attracts the highest number of highly skilled and well-educated immigrants in the OECD, and most seek rental accommodations upon arrival rather than purchasing a home. Not surprisingly, more than half settle in urban areas where jobs are located including Toronto, Vancouver and Montreal.

Plan to Accept Over 1M Immigrants by 2020



Source: Government of Canada

Canada's Home Ownership Market

Increasing Home Ownership Costs in Major Canadian Markets

Notwithstanding the recent decline in housing prices, home prices in Canada's largest cities have increased dramatically over the past decade, driven by improved economic strength, solid population growth and record low interest rates. This picture is particularly prominent in the economic hubs of Toronto and Vancouver, which are home to the bulk of the nation's jobs and attract the majority of immigrants. Housing price increases are also appearing in the next tier of markets such as Victoria, Ottawa and Montreal, creating further affordability tensions.

Gateway markets of Toronto and Vancouver are experiencing their worst-ever affordability levels relative to household income, with home prices increasing 65% and 75% respectively over the past five years, according to RBC Capital Markets.

In an effort to cool Canada's most heated markets, federal and provincial governments have enacted a variety of strict regulations on home ownership, with the aim to discourage speculative investment and encourage more responsible purchasing behaviour. In particular, with the implementation of more stringent qualifying mortgage rules and recent rise in interest rates, the threshold for approvals has further pushed home ownership out of reach.

Overview of the Canadian Rental Market

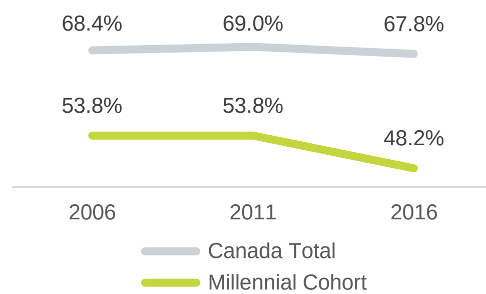
Rising Interest in Renting as a Housing Solution

In light of rising home ownership costs, ***renting in Canada is increasingly seen as a viable long-term alternative to owning a home, with ownership levels dropping to lowest levels nationally since 2001.*** This decline is particularly pronounced across the millennial cohort who are increasingly opting to rent. In 2016, 52% of Canadians aged 25 to 34 were renters, representing a significant increase from 46% in 2011.

> ***Globe and Mail: "Millennials are 'resigned to the fact' that they'll never own a home"***

While deteriorating affordability is forcing many to rent out of necessity, an increasing number of people are also choosing to rent as a lifestyle preference. These households are typically able and willing to pay a premium for modern apartments that are professionally managed and designed with high quality finishes and amenity offerings.

Millennials: Lowest Home Ownership Rate



Source: Statistics Canada

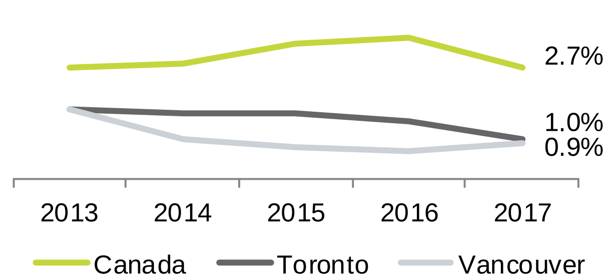
Insufficient and Constrained Rental Supply in Canada

According to Canada Mortgage and Housing Corporation, only 1.2% of the total national rental supply was added in 2017. This trend is not expected to materially increase as supply in many markets is limited by physical land constraints, development-hindering policies and increasing costs associated with construction. ***Instead of rental housing being a natural off-ramp for pent up demand due to rising home ownership costs, the insufficient level of supply is also exacerbating the dislocation between rental supply and demand.***

The Rise of the Shadow Condominium Market is Not a Complete Solution

As the current number of rental units under construction is not sufficient to meet the rising rental demand, Canada is increasingly relying on the secondary condominium rental market, which currently comprises approximately 15% of Canada's total rental inventory. While this provides some relief to the housing problem, condominiums do not solve the supply and demand imbalance entirely. The spread between apartment and condominium rental rates is significant. With an average difference of 35% or $375 per month according to Canada Mortgage and Housing Corporation, the issue of affordability creeps up again. Further, rental units are typically larger and offer greater value per square foot as compared to condominiums.

Limited Vacancy in Gateway Markets



Source: CMHC

Stable and Tightening Rental Fundamentals

Given the strong demand drivers for rental housing and insufficient levels of supply, it is no surprise that rental fundamentals are strong and continue to tighten.

> ***Apartments in Canada's gateway markets are currently witnessing very limited vacancy of approximately 1%, with rents increasing significantly upon turnover, according to Jones Lang LaSalle Incorporated.***

Capitalizing on the Housing Shortfall

Starlight has identified a significant demand and supply dislocation for rental properties across Canada and believes that this dislocation has created enticing investment opportunities. Starlight is actively pursuing a number of innovative projects to help alleviate some of the pressure and generate attractive risk adjusted returns.

Starlight's Solution: Creating New Rental Stock in Innovative Ways

1. **Repositioning and Infill Development**
2. **Repurposing**
3. **Student Centric Housing**
4. **Unlocking Density Through Real Estate Assembly**

As one of Canada's largest privately owned multi-family asset managers and owners, Starlight is able to access a number of opportunities that allows it to creatively address the market dislocation.

A unique strategy Starlight has pursued is the repurposing of other types of real estate into rental stock. One example is presented below, where it converted a dated hotel into loft-style rental units and also created new units from underused common areas and by splitting larger units. Through this process, Starlight effectively created 100 apartment units.

Illustrative Conversion of a Three Star Hotel Into Loft-Style Rentals

Another example of innovatively addressing the supply pressure is by assembling underutilized real estate and conducting rezoning work to allow for future higher-density development, adding a significant number of new rental units in the process.

In addition to these innovative projects, Starlight continues to execute on opportunities to create new rental supply within its existing apartment portfolio. One example is to create rental units from underused common areas and underutilized land located on existing real estate. This is evidenced in the example below where Starlight created 16 townhomes in a prime neighbourhood of a Canadian gateway market on a previously underutilized parking lot of an apartment complex it already owned.

Illustrative Townhome Development on Underutilized Apartment Complex

<u>Significant Dislocation in the Canadian Rental Market Creates Strong Investment Opportunities</u>

Strong employment growth, high costs of home ownership and a rise in millennial renters support strong demand for apartments, with record and growing immigration levels expected to drive demand even higher. Coupled with insufficient and constrained rental supply, housing challenges are expected to only intensify, particularly in Canada's gateway markets.

This set of circumstances has created strong opportunities for real estate investment and asset managers willing and able to be innovative in creating new supply and for those investors supporting them.

About Starlight Investments

Starlight is a Toronto-based, privately held, full service, real estate investment and asset management company driven by an experienced team comprised of over 140 professionals. Starlight currently manages $8.5 billion of multi-family and commercial properties through funds, joint ventures and club deals. Starlight's portfolio consists of approximately 36,000 multi-family units across Canada and the U.S. and over 5.0 million square feet of commercial properties. Visit www.starlightinvest.com and connect at www.linkedin.com/company/starlight-investments-ltd-.

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