



2020 Investor Update - Summary of Operations

November 24, 2020

Greetings investors, and thank you for reading our annual update of activities. This has been a very interesting year, with the combined adversity of a down real estate market since 2015, and the appearance of coronavirus in the spring, has created some enormous challenges but also opportunities. We have persevered and are plowing full speed ahead in 2021 and beyond.

As of this writing the stock market is seeing a strong rebound in November, with the TSX up almost 1700 points or 11% since Halloween after a large decline in September and October of 1120 points or 7%. Energy stocks have been leading the surge due to four new promising vaccines in the fight against coronavirus. Disney, Airlines, and cruise line companies shares are also surging. Oil prices have increased 25% in the past 3 weeks alone. I believe we are turning the corner in Western Canada, especially the economies of Saskatchewan and Alberta and the past 6 years of pain is finally over and an energy rebound could be on the horizon.

Our success is based on a proven methodology of smart acquisitions, value add improvements, stellar management, and eventual selling of our product into a stable and growing market. I have used this method quite successfully for over two decades, however have not been faced with an economic downturn that lasted in excess of 5 years. This has forced us to modify our strategy and hold some properties longer than expected (7-10 years as opposed to 5). Myself, or none of my investors has ever lost money on a piece of income producing property.

I have obtained new loan opinions on all projects based on very cheap long term CMHC insured financing that can be obtained today in the 1.75% range. We plan to sell projects as the mortgages are due if they are in the target exit range, and if they are not, we will take advantage of the inexpensive financing for select 5-year terms. This will decrease our risk by lowering our payments, and accelerating our principal reduction to greatly enhance our ROI down the road when market conditions are substantially better than they are today. Simply put, now is a very poor time to sell a property on the prairies.

The Saskatoon market in particular has improved dramatically in the past 6 months with higher rents, lower vacancies and a surge in residential property values. My mortgage broker has done more apartment deals in Saskatoon in the past 6 months than in Edmonton. The fundamentals have improved so much, and values still low, that I have been aggressively pursuing acquisitions placing offers on multiple properties in the past few months, with no accepted offers as of yet.

Based on 30-year trends of rents and vacancies in Saskatoon, I have forecasted my projections on a very conservative 2% rent increase per year, and a 5% vacancy rate. The next few pages are a more detailed update and analysis of individual projects.

Mansard Terrace Apartments - 710 8th Street East , Saskatoon SK (14 suites)

Purchased 2017 **\$1,470,000**

Cash invested **\$630,000**

Rent Roll November 2019 **\$10,420**

Rent Roll October 2020 **\$13,100 (+26%)**

Rent Roll April 2020 **\$13,750 (+32%)**

Occupancy (12 month to Oct 2019) **92.9 %**

Occupancy (12 month to Oct 2020) **92.3% (-0.7%)**

CMHC Lending Value (October 2020) **\$1,570,000 - Possibly refinance 5-year term (2026).**



Key Highlights since Fall 2019

- New Management effective February 1, 2020 - Improved market and improved manager.
- Rent increases handed out February 2020, and September 2020 of \$780/month.
- Value added in 1 year from income - \$3330/month or \$726,515 @5.5 CAP.
- Estimated Value April 2021 based on Rent Increases - \$1,570,000.
- Improvements made include spray foaming underground parking, and boiler upgrades.
- We had a lot of evictions and turnover in the first 6 months. Fully occupied now.
- Investigating efficacy of obtaining new CMHC financing to replace conventional loan. Doing so must reduce risk significantly by lowering payments and offering much higher ROI to investors to justify the associated costs.
- Mostly likely will sell for targeted ROI in October of 2024. (Will be a vote). 7-year hold.
- Minimal impact due to coronavirus. Property taxes were deferred as there were some initial late payments, however by December 2020 all taxes are up to date.
- We plan to appeal the property taxes in January of 2020 due to unjustified, low value appraisals in the area.
- There remain issues with electricity use. Discovered issues in make up air unit. In the process of a full audit.

Marsin Apartments - 2440 Louise Street, Saskatoon SK (12 suites)

Purchased 2016 **\$1,200,000**

Cash invested **\$420,000**

Rent Roll November 2019 **\$10,790**

Rent Roll October 2020 **\$11,920 (+10.5%)**

Rent Roll April 2020 **\$12,350 (+14.5%)**

Occupancy (12 month to Oct 2019) **97.9 %**

Occupancy (12 month to Oct 2020) **98.6 % (+0.7%)**

CMHC Lending Value (October 2020) **\$1,370,000 - Possibly refinance 5-year term.**



Key Highlights since Fall 2019

- New Management effective March 1, 2020.
- Rent increases handed out March 2020, and September 2020 of \$975/month.
- Value added in 1 year from income - \$1560/month or \$340,364 @5.5 CAP.
- Estimated Value April 2021 based on Rent Increases - \$1,500,000.
- Improvements made include new roof for \$30,000, unit 12 had to be remediated due to mold issues caused by leaking roof.
- We had very little turnover or vacancy in this building.
- Investigating efficacy of obtaining new CMHC financing to replace conventional loan. Doing so must reduce risk significantly by lowering payments and offering much higher ROI to investors to justify the associated costs. (Extend venture to 10 years).
- Mostly likely will sell for targeted ROI in October of 2021. (Will be a vote in April 2021).
- Minimal impact due to coronavirus. Property taxes were deferred as there were some initial late payments, however by December 2020 all taxes are up to date.
- We plan to appeal the property taxes in January of 2020.

Chaben Place - 3609 Chaben Place , Saskatoon, SK (24 suites)

Purchased 2016 **\$2,710,000**

Cash invested **\$840,000**

Rent Roll November 2019 **\$19,745**

Rent Roll October 2020 **\$22,770 (+15.3%)**

Rent Roll April 2020 **\$24,350 (+23.3%)**

Occupancy (12 month to Oct 2019) **93.8 %**

Occupancy (12 month to Oct 2020) **93.4 % (-0.4%)**

CMHC Lending Value (October 2020) **\$2,700,000 - Will refinance 5-year term (2026).**



Key Highlights since Fall 2019

- New Management effective March 1, 2020.
- Rent increases handed out March 2020, and September 2020 of \$1210/month.
- Value added in 1 year from income - \$4605/month or \$1,004,727 @5.5 CAP.
- Estimated Value April 2021 based on Rent Increases - \$2,915,018.
- Many improvements in 5 years including new windows. Complete makeover. Owner injected \$160,000 in personal funds for upgrades hence longer hold (2026).
- Few tenants left due to rent increases, moderate turnover and higher than normal vacancy over the summer. Fully occupied now.
- The only option is to obtain CMHC financing to replace conventional loan. Our mortgage is up in April 2021 and the market is still too weak to achieve our target exit ROI.
- Moderate impact due to coronavirus. We had trouble collecting rent in the spring but this has been resolved. Property taxes were deferred as there were some initial late payments, however by December 2020 all taxes are up to date.
- We plan to appeal the property taxes in January of 2020.

Beaumont Place - 4902 50th Ave, Beaumont AB - 3 story concrete mixed res/commercial

Purchased 2014 **\$2,900,000**

Cash invested **\$900,000**

Rent Roll November 2019 **\$30,666**

Rent Roll October 2020 **\$26,229 (-14.5%)**

Occupancy (12 month to Oct 2019) **98.3 %**

Occupancy (12 month to Oct 2020) **96.9 % (-1.4%)**

CMHC Lending Value (October 2020) **\$4,600,000 - Possibly refinance 5-year term (2026).**



Key Highlights since Fall 2019

- We have already grossly exceeded the high range of our target ROI back in 2014, however currently have two commercial vacancies.
- Mortgage is due December 2022 (2 years). Plan to sell if building is fully occupied including commercial units on long term leases. Start to finish for this venture would be a total of 8 years with a likely sale price exceeding \$5,000,000.
- Major impact due to coronavirus. Commercial vacancy, and rent abatements given to three commercial tenants, has hurt our cash flow. 32% of our commercial space is currently vacant and there is intense competition for office/retail space. It could take us several months to fill these units.
- Our commercial space is much more attractive than competing 'shell' spaces that rent on a triple net lease basis. We are centrally located, with an improved property on a gross lease basis hence we will be considered first amongst our competition.
- 6 of our 8 commercial spaces have 5-year leases in place, with three of them just being signed in February of 2020. The federal commercial rent assistance program that came into effect November 24, 2020 should help our tenants that qualify and are struggling.
- Residential rents fairly flat, up 1.3% or \$200/month over November 2019.
- Investigating efficacy of obtaining new CMHC financing to replace conventional loan. Doing so must reduce risk significantly by lowering payments and offering much higher ROI to investors to justify the associated costs.

Final Thoughts

2020 has been an interesting year however we have persevered and are coming out of the pandemic and economic slump in an extremely strong position. The Saskatchewan party has just been re-elected for another 4-year business friendly, low tax, conservative government. With any luck the Trudeau Liberals will also be defeated in the near future.

We would like to encourage our battle worn investors to reflect on history. Once the economy turns upwards all owners start to raise rents to recapture lost revenue caused by high vacancy. Values and cash flows will normally exceed previous highs reached before the current down cycle. Patience will eventually bring its rewards.

Cory Sperle, November 24th 2020