CENTURION
ASSET MANAGEMENT INC

Official Transcript
Winter 2022 Centurion Apartment REIT Advisor Update Webinar
Tuesday, December 13, 2022

Welcome and thank you for joining this Centurion Apartment REIT Advisor Webinar with Greg Romundt, President, and CEO of Centurion Asset Management.

My name is Paul Mayer, Head of Sales, and I will serve as moderator for this Webinar.

I should like to point out that this Webinar is prerecorded on the 13th of December, 2022.

This Webinar will cover our Q3 results and address some key areas of interest including market volatility, liquidity, interest rates, and our forward outlook.

The Centurion Apartment REIT now has over $6B in AUM with an annualized rate of return of over 14.56% Class F equivalent since its inception in 2009.

Greg, thank you so much for your participation in this Webinar.

Q. Let's jump right in – I understand that the Q3 results have been nothing short of spectacular. Do you have some brief highlights that you would like to share with us as it relates to the REIT?

Thanks Paul. This year we've continued to make incredible strides and have wrapped up Q3 on a strong note. Despite high inflation, and increasing interest rates, the Centurion Apartment REIT recorded very strong results through the first nine months of 2022. Since last fiscal year-end, the total assets of the Trust increased 34.6% from $4.1 billion as at December 31, 2021, to $5.5 billion as at September 30, 2022.

The twelve-month trailing returns for the Class A and Class F Units were 17.12% and 18.10% respectively. The Trust's returns continue to be very positive especially in relation to the overall global equity and bond markets which have taken a significant downturn in 2022.

Same Store Occupancies increased to 95.9% as at September 30, 2022, up from 90.3% at the same time last year. The portfolio occupancy rate of stabilized properties was 98.18% while unstablized properties (including lease up properties) had an occupancy rate of 85.93%. Average Stabilized Canadian Apartment Rents saw an average 9.66% increase on turnover. Even more interestingly, if you look at just apartments we've owned for more than 3 years, the average increase on unit turnover was 14.13% almost 4.5% higher than the total apartment portfolio average. Our experience has shown over the years, that it takes time for us to get newly acquired properties to the point where we can start moving rents in a meaningful way and it suggests that we have lots of room to move rents over the next few years as we stabilize our newer acquisitions. More on this later.

For the nine months ended September 30, 2022, Property Operating Revenues increased 58.5% (54.6% over same quarter last year) driven by the contribution of acquisitions over the last twelve months,

increased occupancies, and higher average rents. This led to a significant increase in Net Operating Income ("NOI"), where for the three and nine months ended September 30, 2022, NOI increased by 71.8% and 65.5% to $46.9 million and $126.3 million as compared to the same period in the prior year. That is the fastest rate we've seen our NOI grow. NOI Margin also increased to 63.6% and 62.9% for the three and nine months ended September 30, 2022.

Centurion's market rent gap in dollar terms increased from $13.0 million at September 30, 2021, to $23.3 million at September 30, 2022. The gap to market figure in percentage terms increased from 5.5% at September 30, 2021, to 6.5% at September 30, 2022. Furthermore, the market rent gap of properties owned for three or more years is 22% in comparison to properties owned for less than three years which has a rent to market rent gap of less than 3% a multiple of 7X gap. As I said earlier, it takes time for us to stabilize properties before we can start moving rents. As such, I believe that our true market rent gap, if all of our recently acquired properties were stabilized like our properties owned more than 3 years, that our market rent gap is closer to 18-20%, about triple what we show in our reports, because of the conservative way we account for what we consider market rents to be, until we have them stabilized. I expect market rents to be growing in the years ahead too, given the supply demand imbalance in housing so I'm expecting this gap to grow. In my opinion, there is a lot of gas in the tank for earnings growth, better than I've ever seen.

These are great accomplishments. I found especially the 71.8% increase in NOI to be astounding and we look forward to more exciting news to come ahead.

Q. What's happening on the Acquisitions Side?
We've had a very busy acquisitions year and we're working to stabilize these properties to drive revenue in the years ahead. We're closing on some transactions we've had been working on for a long time but are currently looking over the horizon for what we see is coming. We think that the floating interest rate exposure of some developers is going to give us the window to buy the kind of product we like at attractive prices. I do forecast that some are going to get themselves into trouble. We're building our war chest and waiting for the opportunities I am certain are coming.

Q. Moving on, some advisors have pointed out the disconnect between public and private REIT valuations, suggesting that perhaps private REITs may be overvalued, not fully pricing in the impact of rising interest rates. How would you respond?

This is a question I have been asked every year since I started Centurion almost 20 years ago.

Firstly, in many cases the comparisons between public REITs and their supposed private REIT counterparts are not accurate in that either the geographies or sub asset classes are different. Often, issues of public office REITs are somehow at times inaccurately deemed to be applicable to private apartment REITs. This occurs even when comparing private REITs. For example, we recently received some questions regarding the issues of other private US REITs and we were very mindful to make mention that those issues did not necessarily translate into a Canadian context. It is always important to note that in real estate, geographies and sub sectors matter very much. I made a very strong point almost 2.5 years ago in one of my whitepapers that the office market was in serious trouble as well as retail and some other select sectors.

I've been saying almost as long as I've been running Centurion, that real estate isn't homogenous. Office's aren't apartments. Single family homes aren't apartments either.

Second, public REITs are always subject to the vagaries of public markets, and I would argue that many, particularly day trading retail public market participants, are not necessarily the best people to pass judgement on the true value of apartment buildings or any large portfolio of real estate. In private markets, the net value of a property through a transaction, is the result of expert bidder and seller evaluations of the property. The valuations are a combination of forward-looking NOI and recent cap rates, so it is a hybrid and forward NOI/rents are responsive to real world real estate market conditions. More importantly, these owners own property, know what comparable neighbourhood rents are, trends and what can be done with a site, upgrading the asset, intensifying it or converting it to another use and can execute on a strategy to increase value. When we look at an opportunity we get detailed due diligence on that property, we may own the property next door, we know the neighbourhoods. We have inside knowledge that no member of the investing public could ever get their hands on. The retail public, has no possible way to discern what the potential of a portfolio is and frankly they don't do a very good job of pricing these stocks. A good recent example is Summit REIT sold last month at a huge 31.1% premium to not only its market price but a 19.5% premium to analysts consensus NAV to one of the smartest global sovereign wealth funds GSIC in partnership with Dream. This happens all the time, retail misprices the stock bad enough, and a sophisticated institution will relieve these investors of their investment. I'm sure the Government of Singapore would like to say a large thank you to the retail investors so willing to sell them this portfolio on the cheap. And just last week Blackstone purchased another large warehouse portfolio in Canada from TD. So these markets are trading up.

So, who do you think knows what this real estate is worth, highly trained institutional investors who have access to inside information on each property in the portfolio and the ability to execute on a strategy to make money on a multi-billion dollar investment or the average at home investor with limited resources, narrow industry knowledge and who has no ability, whether they are right or wrong to do anything to make that investment go up or create value?

Let me put this another way via a story. A highly skilled gem investor puts together a portfolio of precious gems, of varying sizes, colors, quantities, both raw and cut, set and unset. He then takes this portfolio and lists it as a public company. The investor does his best to convey the value of what is there, and the upside that exists in the portfolio. But the public doesn't understand. They aren't specialists in gems or the industry. So the stock drifts lower, tech stocks are hot, and now the stock loses even more value as capital flows elsewhere. Meanwhile, the underlying gem market is hot, and the founder, exasperated takes the portfolio to the top gem specialists in the world, whom he knows as colleagues, whom he gives access to come and inspect every gem, piece by piece, and they form a plan on what to do with each gem. Some will be polished, other set in jewelry, some cut, and all will be sold at their highest and best use and low and behold, the portfolio is worth way more in the eyes of the experts than the outside public market investors understand, so they decide to buy the whole company at the discount investors will happily sell it to them, and off they go to execute on their plan. And here is the issue in a nutshell. The valuation of this portfolio was always what experts were willing to pay because once they had control, they had all the power to effect a plan to create value. Even a public investor who loved gemology, maybe was a gemologist, would never have been given the chance to get into the vault to personally review the portfolio and even if he believed that the portfolio was worth far more than the market was paying now, buying the stock may not make any difference unless the market caught on or the company was sold.

That retail investor has zero ability to create value with the portfolio. He can only choose to buy, speculating that he is right, and the market will figure it out, or he can invest elsewhere or maybe he can go invest with the private investors that decide to buy out the portfolio with via a private equity fund.

It also bears repeating that our NAVs are approved by a majority independent board, with quarterly inputs from an independent valuations firm and our entire portfolio is audited by KPMG every year.

When looking back on historical events (GFC, Taper Tantrum, Repo Panic, Covid and now), Public markets have generally overreacted and then normalized. They do sometimes trade at premiums to NAV. Due to this volatility in public REITs, private real estate investment is a great opportunity to participate in multiple investments with low correlation to the public markets. Diversifying your investments into account types not correlated with the stock market can help hedge your investments in events of market fluctuations, and private real estate can be one of those non-correlated, nontraditional investment account types.

Q. What's happening on cap rates?
Apartment cap rates have barely budged, in large part because rents are moving up so quickly. This is exactly as I said was likely in my paper "Interest Rates, Inflation, Capitalization Rates and Returns" which was published in May of this year. This isn't the case in office or retail and some other sectors whose long term lease terms are being eroded by inflation and who face serious headwinds in addition to inflation, higher interest rates and covid aftermath, unlike the positive tail winds of the residential market. That doesn't mean that apartment cap rates can't or won't go up but if they do, I think that it won't be by much. There is just too much need for housing for there to be a material change here, and frankly if there was, we'd use that as an opportunity to buy. More likely is that cap rates rise marginally because 1) appraisers feel the heat if they don't raise them when other sectors do and 2) the large gap between public REIT's stock prices and their NAV's means they can't raise capital and have to sit the market out just like they always have to when NAV discounts appear, and so the market becomes less competitive. If I can get to buy properties with a discount or at least not have to overbid to win, I think that will be a good thing as these situations present opportunities for us and our long-term investors.

Q. Thank you Greg for the great insight. We have also been getting a number of questions as to what percentage our mortgages are fixed and what percentage are variable. Do you mind elaborating on that?

Currently, less than 10% of our mortgages are floating and the rest are fixed. Almost all the floating are construction loans and/or loans we assumed on purchase which we're refinancing when lease up is complete. Offsetting this, we have an investment mortgage portfolio, the vast majority of which is floating, so we benefit from increased rates. In fact, our in-place mortgage investment rate is just short of 12% where 10-year rates today are around 3.7%. Combining our floating rate liability exposure and our float rate mortgage assets, our net exposure to floating rates is negligible. We are a net earner of interest in our variable rates books. I should like to point out that the REIT's maturity mortgage schedule is in the financial statements, and we generally borrow 10 year CMHC when we can and when the price is right.

Just as important is that current 10 year mortgage rates are about 3.75%, which is ONLY about 1% more than the current portfolio rate. People are concerned about rate increases BUT fail to appreciate that interest rates ARE NOT a single number, it is a curve and long term rates are not that high, and only back to where they were 4 years ago and have been on the decline for a while now given that the bond market

is already pricing the pivot and the policy error of the BOC. You can't just focus on the overnight rate as that's not where we borrow.

Q. How is the mortgage investment portfolio doing?
At the end of Q3 we had zero mortgage investments in default. We have one today which we are well secured on and we expect no losses on. I'm very pleased with how the portfolio is performing, but we've always been active managers of this part of the portfolio. When covid struck in 2020, we significantly pulled the portfolio back from lending and since that point the book has shrunk by almost 2/3rds in absolute dollar terms as we rotated capital towards equity and acquisitions as we saw more opportunities there particularly with our expectations that inflation was going to take off, which it did, and would benefit real estate equity over debt. The results we've seen this year and last are testament to that rotation and us getting positioned ahead of inflation. As such the mortgage book today is less than 5% of the portfolio. This is down from about 25% at YE 2019. Active management matters. The ability to reallocate capital as risk emerge in one area and opportunities is another has been advantage that we've taken advantage of that single silo funds just can't capitalize on. Having the ability to allocate capital where we see the best risk reward at any point in time is a real advantage for us. Today we're getting about a 12% yield on our mortgage investment portfolio and we're seeing some really good mortgage lending opportunities now as some borrowers are getting squeezed. We've been very active in the new development lending space over the years, and we're anticipating that there is some pain to come in this area for overleveraged and undercapitalized development groups, just like we saw in early stages of covid. New apartments were complete, but the mortgage market for empty buildings was tight. It opened up a flood of acquisition opportunities for us in the last two years. And I see a potential flood of opportunities coming in Q1 and Q2 of next year as I said, for which we are building capital and waiting excitedly.

Q. Thank you for expanding on that. Another topic that I wanted to cover in this webinar today is liquidity. Centurion posted a very robust liquidity position of $300.6 million back in Q2 2022, consisting of $150.9 million in cash and cash equivalents and $149.7 million available on its credit facilities. Can you give us an update on where we stand as at September 30?

Much like our liquidity position back in June 30, 2022, the Trust continues to maintain a strong liquidity position of $257 million as at September 30, 2022, consisting of $109.7 million in cash and cash equivalents and $147.3 million available on its credit facilities. This strong liquidity position combined with our capital raising activities will continue to support the Trust's ongoing acquisition activities. The four main sources of liquidity include:

1) Lines of credit which we've recently managed to increase from $200 to $300 million
2) The mortgage book, now at about $ 300 million with an average term of maturity of 7 months which means that monies from paid back principal can be redirected into more liquidity if need be.
3) Ability to refinance or take loans out against our buildings and marginally increase leverage
4) Robust inflows into the fund via the Sales team

Q. Could you provide us a little bit of outlook for the REIT for remaining year, as well as for 2023?
As we're in Q4, generally this is when rent pressures taper a bit and residents settle in for the winter, so while I think we'll still grow NOI it will be a standard quieter Q4. We're working to stabilize newer properties and positioning to be ready for the spring leasing season. We've talked a lot about the supply/demand imbalance in housing and things are getting even tighter than they were and I expect that

to continue for the foreseeable future. 1) With an immigration target of 500k for 2023 and beyond, there just isn't anyplace for them to go already driving up demand 2) with interest rates up, fewer people can afford to buy, so they will have to rent, increasing demand 3) with interest rates up, the costs of construction are going up, meaning fewer projects will actually be profitable, reducing supply 4) with inflation running high for materials and labour, many projects are being delayed or cancelled because the risks have gone up and returns have gone down, reducing supply. Literally every force is working to increase the squeeze on housing availability so I think for owners of apartments, this is a good environment.

We think not only are general market rents going to continue to advance quickly, but that we'll see us stabilize more properties which will then start to see higher rents themselves.

Q. What are your thoughts on the recently announced Ontario proposals to increase housing supply?
I'm glad that these things are starting to happen and it will, in time make a difference. But offsetting this of course, is that cities like Toronto are increasing development charges, in some cases by about 40%, meaning even less can get built because it won't make financial sense to do so. Add onto this that we as a country don't have the labour force to build anywhere near the number of houses required. In fact it has been said that the population has grown at about 3 times the rate as the number of skilled building trades. Further, with an aging population, it has been suggested that for every 5 trades people retiring, only 2 are joining the trades. So this skills shortage, on the current path will get worse. IMO, this means that the housing market shortage will persist for a long time but I'm glad that something positive has finally happened.

Q. You absolutely nailed the turning point in inflation in the summer of 2020 when not a central banker anywhere saw the risks or was taking action (fortunately for investors, you took action), you called BS in 2021 when those same central bankers said inflation was transitory and sat on their hands (and you continued to position the portfolio for the inflation genie they had released) and when they started to hike earlier this year, you said that they would not be able to get inflation under control, even though they talk as if they are determined to do so. What are you thinking now?

As I have written, the world is deglobalizing and re-militarizing and both of these trends are inflationary for a long time. If we add on top of that, the green transition fantasy that will cost 100's of trillions for which money must be printed to build, we add to structural inflation as well. Add in massive fiscal deficits and staggering individual, corporate and government debts that can't be financed at high rates, and it doesn't take a genius to figure out that the central banks will hike until they break things, and then will have no choice but to print money on a massive scale, and inflation will go up again. After WW2, central banks pegged bond rates much lower than inflation, to allow the government to inflate away the war debt and to finance the reconstruction of the world that was destroyed by war. They have no choice but to do the same now. Just one example, in Canada it has been said that 13% of mortgage holders are now through threshold rates where the banks are having to extend amortizations or allow negative amortizations to keep these borrowers afloat. I would say that the more correct term is that these 13% are technically in default. Think about that for a minute and after last weeks 50 bps, it's now going to be higher. I think if the market was to fully grasp this, the banks would be in serious trouble, but that's not what's going to be allowed to happen. The bond markets are already screaming that the central banks have again made a giant policy error with yield curves so inverted that you need to go back more than 30 years to see the same in Canada and 40 years in the US and 10 year bonds of both countries have been

rallying strongly because the market already knows that there is a hard landing coming and are fleeing to the safety of bonds (for now). While I don't know what breaks, or even when it happens, I suspect we're very close.

Q. Any closing thoughts?

As we look forward to the remaining months of 2022 and into 2023, we see very positive tailwinds, including portfolio growth and stabilization, higher rents and increased immigration, that will continue to generate strong and growing returns for Unitholders over the long term. In particular, the massive supply/demand imbalance of the Canadian real estate market makes for a compelling case for the Canadian multi-residential real estate sector in these inflationary times. For additional information, you can view this in the Q3 REIT Quarterly Report that can be found on our website.

Closing Remarks

Thank you so much Greg, for your all insights into the REIT

On behalf of Greg and your Sales Team, we would like to thank you for your time and continued support.

Should you have any follow-up questions, please do not hesitate to contact myself or your wholesaling team.

Have a great day.