



2015 Annual Portfolio Manager Commentary

Acquisition activity in 2015 was modest even though the market was extremely active. The market has been very aggressive in paying premium prices to buy properties. As a result, very few deals met our acquisition criteria. This led to the Centurion Apartment Real Estate Investment Trust (the "REIT") capping the acceptance of new equity until some capital excess has been deployed. This cap remains in place for the time being. The Centurion Real Estate Opportunities Trust (the "REOT") on the other hand has seen very strong deal flow that has resulted in a significant growth of the portfolio. We expect that REOT will soon reach \$150 million in deployed capital, up from the \$58.9 million it had at its launch in the fall of 2014 and \$85.7 million at December 31, 2014. Notably, Centurion reached a new milestone in 2015 with \$1 billion in assets under management. We signed new contracts for third party management and ended the year with ownership interests in 5,473 rental units (including pending closings) and management over another 1,501 units for a total managed portfolio of 6,974 units.

Markets in Canada notably diverged this year with Western Canada softening and Ontario eastwards doing quite well. Given the REIT's small relative allocation to Western Canada, and that prices are definitely softening as vendors reduce their expectations, we anticipate that the REIT will see significant opportunities to further diversify the portfolio in the next 12 to 18 months in Western Canada. We have been messaging to our investors for about a year that we anticipated there would be opportunities and we believe we are close to executing on some of these soon. The acquisitions team is working on a number of transactions that seem likely to bear fruit.

In 2015, the REIT bought or contracted to buy five properties:

- 3707 & 3711 Whitelaw Lane NW in Edmonton, that was negotiated in 2014 completed in January;
- 515 St Catherine St in Montreal, that was negotiated in 2014 completed in January;
- 205 Oxford Street East in London, Ontario is a 14-storey high-rise with 135 units for \$20.25 million. The purchase closed in September. This increased the REIT's holdings in London to 950 rental units;
- 46-56 College Street and 58 & 64 Weber Street West in Kitchener, a portfolio of 74 units was purchased from a mortgage originating in REOT. This increased the REIT's holdings in Kitchener to 662 rental units; and
- A 96 unit apartment property in Cambridge Ontario purchased for \$9,100,000. The transaction is expected to close in January 2016 and will bring the REIT's holdings in Cambridge to 679 rental units.

The REIT completed one disposition in 2015:

- The previously announced sale of 118 St Joseph's Drive in Hamilton, Ontario for \$2.375 million closed in April 2015. It was originally purchased in 2007 for \$925,000. This decreased the REIT's holdings in Hamilton to zero.

The REIT's strategy was and still is to increase the number of opportunities to purchase newly built properties upon completion by bringing in additional third party capital through investment in REOT. REOT's capital base has grown considerably with strong interest from investors in this strategy. Investments by external investors in REOT now account for approximately 39% of REOT capital with the balance held by the REIT. The REIT has now purchased three properties from its REOT program with another expected to complete in the next few months. Up to this point, the REIT has purchase options on nearly \$566 million of apartment and student properties currently in various stages of development. The REIT may not purchase all of the properties on which it has options, but this is still a strong pipeline of potential opportunities for the REIT.



The REIT made significant progress in moving properties along the stabilization process with occupancies on repositioning properties at 96.6% and stabilized properties at 97.9% with an average of 97.4% for these two combined categories at year end. The REIT did however have a number of acquisitions in the year that had vacancies when we bought them and required lease up that has dragged on overall portfolio occupancy such that unstabilized properties were at 56.2% occupancy at year end. The unstabilized properties which comprise 14% of rental units thus dragged overall occupancy at year end down to 91.5%. Management is executing on its plans to fill these properties and stabilize them over the next year to get overall occupancy on the existing portfolio to its target of 97%.

Given exceptionally low interest rates, refinancing properties has been a significant area of focus. In September, the REIT completed a 5 year financing at fixed rate of 1.33%, the lowest in its history. The REIT also completed \$50.4 million in refinancings on 12 properties in December at a weighted average rate of 1.83%. The total portfolio weighted average mortgage liability interest rate is 3.49% at 2015 year end down from 3.95% at 2014 year end. Management believes that it has significant savings between in place and market rates, estimated at around \$5 million at today's rates, to be realized as it rolls over its maturing mortgages in the coming years. With significant market turbulence and a slowing global economy dragging down interest rates, we feel confident that these savings will be realized and that this will provide numerous opportunities for us in 2016 and beyond.

The REIT and REOT internalized their asset and property management teams as of January 1, 2015 as expected. Management believes that this move saved approximately \$2.5 million in costs in 2015 as a result and that these savings will increase in time as both these funds continue to grow.

With Ontario opening the exempt market in January to investment by non-accredited investors, we anticipate strong demand for both the REIT and REOT but there may be challenges to accommodating the incremental demand from investors for capacity. Management is resolute in not taking money that the funds do not require as has been our practice over the years. Both funds have surplus liquidity. Leverage in the REIT is around 40% and leverage in the REOT is 0% but we are looking to add some leverage to REOT to increase flexibility, liquidity and cash management efficiency.

We believe that the financial markets in 2016 will be volatile, but that interest rates will plumb to new depths, likely going negative in Canada at some point this year. We believe that for our core businesses that this environment will be very supportive of existing operations (in keeping occupancies high), supporting valuations and make borrowing cheaper thus increasing margins. Low rates however, will continue to make it challenging to find opportunities to deploy capital into acquisitions although demand for loans seems to be extremely robust and we are focusing on cultivating this area.

Wishing you and your loved ones all the best for 2016.

A handwritten signature in blue ink, appearing to read "Greg Romundt", is written over a light blue horizontal line.

Greg Romundt