ALIGNVEST
STUDENT HOUSING

## MARCH 31, 2019 – MANAGEMENT REPORT

### HIGHLIGHTS

ASH REIT is focused on consolidating the fragmented Canadian Purpose-Built Student Accommodation ("PBSA") market. As of March 31, 2019, ASH had acquired three of Canada's premier PBSA assets and announced the acquisition of four additional premium properties.

ASH closed the purchase of 265 Laurier Avenue East in March 2019 ("Laurier"). Laurier has a long-term management agreement with the University of Ottawa ("uOttawa") and is the newest addition to uOttawa's residence portfolio.

On March 31, 2019, the REIT announced and distributed $1.50 per Unit ($6.00 annualized distribution) and Fair Market Value ("FMV") per REIT Unit of $101.83 (an increase from $100.61).

### SUBSEQUENT TO QUARTER END

On March 28, 2019, the REIT announced its acquisition of a portfolio of four high-quality PBSA properties in Ontario (the "Ontario Portfolio") and closed on the transactions in late April. The acquisition has further diversified the REIT's portfolio across Ontario, increased its bed count to over 3,300 and its asset value to ~$400 million.

Management is focused on the roll-out of best practices across its entire portfolio and has commenced the integration of the newest portfolio into the operating company.

ASH remains in advanced discussions with vendors of PBSA assets worth over $500 million and expects to raise additional capital shortly given the quality and scale of the opportunities.

### MANAGEMENT OVERVIEW AND UPDATE

We remain excited about the progress we have made in consolidating the Canadian student housing sector over the past nine months. To date, we have purchased seven of the highest-quality PBSA assets in the country and our asset base has grown to almost $400 million, making us the largest owner/operator of PBSA beds servicing tier-1 universities in Canada. Additionally, we are in advanced discussions with owners of attractively priced PBSA assets across Canada totaling ~$500 million and we expect to be acquisitive for the foreseeable future. We continue to be focused on purchasing institutional-grade PBSA assets without compromising on quality and expect acquisition prices to remain at cap rates favourable to multi-family residential properties in each market.

For this quarterly report, we wanted to highlight our recent operational advancements and accomplishments, as the early results are encouraging; the tenant experience is improving and rolling-out best practices in revenue generation and cost management is yielding immediate results. Many of the properties we have acquired from developers or passive student housing operators have not been operating at peak efficiency, which has allowed the REIT to realize significant value accretion as we optimize each acquired asset.

We believe our investors will benefit from increasing our scale and expect to raise capital in Q2 2019 as part of the REIT's continuous offering given the attractiveness of our proprietary pipeline.

*Sanjil Shah*
*Managing Partner*

*Jonathan Turnbull*
*Managing Partner*

## Q1 2019 REIT PERFORMANCE

On March 31, 2019, the REIT distributed $1.50 per REIT Unit ($6.00 annualized distribution) payable to unitholders of record on January 1, 2019 (and a proportionate amount distributed to unitholders who subscribed subsequent to January 1, 2019) and the FMV per REIT Unit increased from $100.61 to $101.83.

Management believes the REIT's distributions to date, combined with the FMV per REIT Unit increase, is an attractive result for Unitholders relative to (a) the underlying risk of the investment portfolio and (b) the public markets. Since inception, Unitholders have earned an annualized 8.4% return on their Units, despite the REIT holding substantial amounts of cash for the period. Over the same period, the S&P/TSX Composite Index was down ~1.1%.

The REIT's cash balance increased in advance of the Laurier purchase in March and subsequently increased further given the known acquisition in April of the Ontario Portfolio. Despite the REIT's sizeable cash balance during the quarter, the value of the REIT Units increased, which was primarily driven by better than expected cash flow from operations and the purchase of Laurier at a discount to Fair Market Value. Management believes (a) the closing of Laurier, (b) the early Q2 closing of the Ontario portfolio, (c) the REIT's robust acquisition pipeline and (d) the increase in the REIT's real estate asset base relative to its typical 'acquisition-ready' cash balances will reduce the REIT's cash-drag impact on earnings going forward.

| | Total Value | Per REIT Unit | | | |
|---|---|---|---|---|---|
| | | 30-Jun-18 | 30-Sep-18 | 31-Dec-18 | 31-Mar-19 |
| Investments in Real Properties | $202,500,000 | | | | |
| Cash & Cash Equivalents | 28,003,869 | | | | |
| Other Assets | 479,030 | | | | |
| Debt Obligations | (121,081,998) | | | | |
| Other Liabilities and Performance | (3,060,391) | | | | |
| **Total Fair Market Valuation (Pre-Distribution)** | **$106,840,510** | **$100.00** | **$102.15** | **$102.61** | **$103.83** |
| Less - Distribution to REIT Unit Holders | (1,159,076) | | (1.50) | (1.50) | (1.50) |
| Less - Distribution to General Partner | (386,359) | | (0.50) | (0.50) | (0.50) |
| **Ending Fair Market Value** | **$105,295,075** | **$100.00** | **$100.15** | **$100.61** | **$101.83** |
| Less: Non-controlling Interest | (10,196,878) | | | | |
| **Fair Market Value to REIT Unit Holders** | **$95,098,197** | | | | |
| REIT Units Outstanding | 933,886 | | | | |

## CAPITALIZATION

As of March 31, 2019, the REIT held over $200 million in assets. Subsequent to the acquisition of the Ontario Portfolio, the REIT's assets have grown to almost $400 million. The quick growth since launch has positioned the REIT as the logical buyer for potential vendors/developers and provides Management with the ability to consider multiple acquisitions in the near-term and to capitalize on local and national operating synergies.

The REIT expects to raise additional capital in Q2 2019 as part of its continuous offering to increase the REIT's capacity to accelerate the pace of acquisitions.

# PROPERTIES

As of March 31, 2019, the REIT owned three properties – 181 Lester Street in Waterloo, Ontario; 111 Cooper Street in Ottawa, Ontario; and 265 Laurier Avenue East in Ottawa, Ontario. The REIT has also announced the purchase of 333 & 339 King Street North in Waterloo, Ontario; 1700 Simcoe Street North in Oshawa, Ontario; and 1686 Main Street West in Hamilton, Ontario, which closed on April 29, 2019.

Management is currently evaluating several acquisition opportunities and expects to increase its property and bed count substantially over the next few quarters.

| Property | Market | Targeted University | Units | Beds | Occupancy | Close |
|---|---|---|---|---|---|---|
| 181 Lester St. | Waterloo, ON | University of Waterloo & Wilfrid Laurier University | 91 | 455 | 100% | Aug 2018 |
| 111 Cooper St. | Ottawa, ON | University of Ottawa | 224 | 357 | 100% | Nov 2018 |
| 265 Laurier Ave. | Ottawa, ON | University of Ottawa | 159 | 503 | 100% | Mar 2019 |
| 333 King St. | Waterloo, ON | University of Waterloo & Wilfrid Laurier University | 126 | 536 | 100% | Apr 2019 |
| 339 King St. | Waterloo, ON | University of Waterloo & Wilfrid Laurier University | 80 | 419 | 100% | Apr 2019 |
| 1686 Main St. | Hamilton, ON | McMaster University | 107 | 449 | 100% | Apr 2019 |
| 1700 Simcoe St. | Oshawa, ON | University of Ontario Institute of Technology & Durham College | 133 | 588 | 95% | Apr 2019 |
| **Total** | | | **920** | **3,307** | **99%** | |

### 181 Lester Street ("Lester")

| | |
|---|---|
| Property Name: | MyRez |
| Year Built: | 2014 |
| Property Manager: | Campus Living Centres |
| Proximity to Campus: | 0.4km |
| Investment Date: | August 2018 |
| Purchase Price: | $45,500,000 |
| Ownership: | 100.0% |
| Property Website: | www.offcampusrez.com |

Waterloo, Ontario is a very attractive student housing market due to the two large and growing universities (Wilfrid Laurier University and the University of Waterloo) located within one kilometer of each other, which has ~60,000 total students. Currently, both of the universities offer guaranteed housing to first year students and only have enough beds to accommodate 14% of their total students (~2,800 on-campus beds at Wilfrid Laurier and ~5,700 on-campus beds at the University of Waterloo). Student population growth of 25% since 2010 (including a 161% increase in international students), combined with limited 'on-campus' residences, has resulted in substantial development of new PBSA assets in the market over the past seven years.

Lester is one of the premier PBSA buildings in Waterloo and is located directly in-between the two universities. The property consists of 455 beds in 91 units and is 100% occupied for the 2018/19 school year, realizing an average monthly rent (inclusive of utility surcharges) of over $740 per bed. As of May 15, 2019, Lester is over 91% pre-leased for the 2019/20 school year. The four-year-old building offers high-end amenities to its tenants such as in-suite laundry, a fitness studio, study lounges, games and social lounges, fully-furnished units, on-site parking and bike storage, controlled and secured access and on-site maintenance and management teams.

The purchase of King I and King II, as part of the Ontario Portfolio, has allowed Management to commence the rationalization of our local in-market operations. In anticipation for the acquisition of the Ontario Portfolio, Management transferred all on-site property management functions from Canadian Campus Communities to Campus Living Centres, which has allowed the REIT to operate the Waterloo portfolio as single entity. One of the key elements that differentiates student housing from the multi-family sector is the magnitude of property-level operating expenses, specifically human capital needed to manage the student/tenant experience. High-quality operators have the ability to rationalize these operating expenses as they build-up market share positions. Management expects to realize unique local property management synergies immediately with the integration of the three Waterloo properties, which will position the REIT's product offering more effectively in the market and de-risk its local portfolio.

### 111 Cooper Street ("Cooper")


| | |
|---|---|
| Property Name: | 1Eleven |
| Year Built: | 2014/15 |
| Property Manager: | Campus Living Centres |
| Proximity to Campus: | 0.4km |
| Investment Date: | November 2018 |
| Purchase Price: | $55,000,000 |
| Ownership: | 100.0% |
| Property Website: | www.1eleven.ca |

Ottawa is a top-tier student housing market given the city's current population of 60,000 university students (37,000 at University of Ottawa and 25,000 at Carleton University), its consistently higher-than-average enrollment growth and the lack of on and off-campus PBSA assets that service the universities. The two universities currently have ~8,500 residence beds available for their students, accommodating only 14% of their enrollment. Additionally, there are only ~2,000 off-campus PBSA beds in the market that service the two universities, which represents only 3% of enrollment. Enrollment at the universities have increased 6% over the past five years and in 2018, the number of applicants to the University of Ottawa grew by 15% year-over-year – the largest increase of all major Ontario-based universities by a factor of almost 2x – ultimately amplifying the already significant demand/supply imbalance.

Cooper is a 16-storey building that opened its doors to students on September 1, 2015 as the premier, off-campus, PBSA property in the Ottawa market. The property accommodates 357 students in 224 fully-furnished studios, doubles and quad-units and is 100% occupied for the 2018/19 school year, realizing rent of over $1,000 per bed per month. Cooper is located approximately 400 meters from the center of the University of Ottawa campus and is approximately a 10-minute commute to Carleton University. The property offers an attractive set of high-end amenities to its tenants, including a unique modern lobby, study lounges, a high-end gym, a yoga studio, games and social lounges, on-site laundry facilities, on-site parking, secure bike storage, high-speed internet, security and controlled access, and on-site maintenance and management teams.

The REIT acquired Cooper for $55 million in November 2018 and has started to implement certain revenue enhancing and operational improvement strategies into the day-to-day management of the property. The REIT has reduced the headcount at the building, is in the process of shifting certain operating expenses from being outsourced to being executed internally in order to improve control and service while lowering operating costs and implementing a monthly in-suite cleaning service to enhance the student experience. The REIT has also begun to reduce its exposure to utility expenses by upgrading the thermostats, installing energy efficient shower heads and toilets and has engaged consultants to replace the older HVAC systems, which are expected to have an attractive return on investment. The building announced its new pricing for 2019/20, which includes rate increases of 3-7% for the various unit configurations.

### 265 Laurier Avenue East (“Laurier”)

| | |
|---|---|
| Property Name: | The Annex |
| Year Built: | 2018 |
| Property Manager: | University of Ottawa |
| Proximity to Campus: | 0.3km |
| Investment Date: | March 2019 |
| Purchase Price: | $92,000,000 |
| Ownership: | 100.0% |
| Property Website: | www.uottawa.ca/housing/ |

Laurier is a nine-storey PBSA asset that opened in September 2018 as the newest addition to the University of Ottawa's residence portfolio. The property is located approximately 300 meters from uOttawa and is arguably the premier PBSA property in the country. Laurier is highly-amenitized with a lobby fireplace lounge, a free membership to the on-site Anytime Fitness facility, a games room, quiet study spaces, high-speed Wi-Fi, a communal terrace with picnic tables, 24-hour on-site maintenance, controlled and secured access, interior bike parking and underground parking. The building has 503 beds in 159 fully-furnished studios, 2-bedroom, 3-bedroom, 4-bedroom and 5-bedroom units, all of which have full kitchens with stainless steel appliances, individual locking private bedrooms with en-suite bathrooms and in-suite laundry and is 100% occupied for the 2018/19 school year. Additionally, the property is equipped with ~16,000 square feet of commercial space with tenants that specifically target the student demographic.

The affiliation/partnership with uOttawa significantly de-risks the REIT’s operations from a top-line, occupancy and expense management perspective. As a result of the underlying agreement, uOttawa leases the beds to its students, guaranteeing a high-level of occupancy at Laurier year-over-year. Furthermore, Laurier is not subject to the same terms under Ontario’s Landlord and Tenant Act as a private owner with respect to rent control and does not provide tenants with the ability to extend their leases on a month-to-month basis. Additionally, uOttawa capitalizes on its economies of scale to receive attractively priced service contracts, which significantly enhances the properties NOI margin.

The REIT closed on Laurier on March 4, 2019. Since close, several of the commercial tenants have initiated operations and Management was able to negotiate and secure a lease with Starbucks for one of the premier retail spaces. Recently, Laurier went to market with new rates, increasing the 2019/20 weighted average rent per bed by ~4.0% across 100% of the beds (not subject to rent control). Additionally, ASH has identified several bedrooms with enough square footage to accommodate double occupancy; as a result, Management expects the bed count at Laurier to increase from 503 to ~520 for the 2019/20 school year, with the potential to increase the bed count from 520 to ~560 for the 2020/21 school year. Management worked directly with the university to help fulfill their guarantee of accommodating first-year students in uOttawa affiliated residence beds, while also significantly increasing the property's net operating income.

**333 King Street North ("King I")**

| | |
|---|---|
| Property Name: | King Street Tower I |
| Year Built: | 2011 |
| Property Manager: | Campus Living Centres |
| Proximity to Campus: | 0.4km |
| Investment Date: | April 2019 |
| Purchase Price: | $53,319,372 |
| Ownership: | 100.0% |
| Property Website: | www.kingstreettowers.ca |

**339 King Street North ("King II")**

| | |
|---|---|
| Property Name: | King Street Tower II |
| Year Built: | 2013 |
| Property Manager: | Campus Living Centres |
| Proximity to Campus: | 0.4km |
| Investment Date: | April 2019 |
| Purchase Price: | $41,680,628 |
| Ownership: | 100.0% |
| Property Website: | www.kingstreettowers.ca |

King I is a purpose-built student housing property located approximately 400 meters from Wilfrid Laurier University and 800 meters from the University of Waterloo. The 17-storey modern building was built in 2011 with 536 beds in 126 fully-furnished units, is 100% occupied as of March 2019 and is 100% pre-leased for the 2019/20 school year.

King II is a purpose-built student housing property adjacent to King I. The 22-storey modern building was built in 2013 with 419 beds in 80 fully-furnished units, is 100% occupied as of March 2019 and is 100% pre-leased for the 2019/20 school year.

The two properties offer the highest-quality amenities in the Waterloo market, including exercise facilities, games rooms, study rooms, conference/boardrooms, a computer center, a theatre room, a rooftop patio with a fire pit, tanning beds, saunas and several other attractive offerings. The two buildings currently operate as a single entity and consist of an optimal mix of suite configurations ranging from 3 to 5-bedroom units.

Since waving conditions on the Ontario Portfolio, the REIT has been focused on the integration of King I, King II and Lester. Management has already been successful in optimizing the headcount for the Waterloo portfolio, decreasing full-time employees from 9 to 6. Management has also been successful in leveraging the REIT's scale to renegotiate contracts at more favourable terms. Additionally, Management has started to itemize additional expenses that can be more effectively managed. Management is also in the process of completely retrofitting the common areas of the building with LED lights, as well as considering the introduction of an Unattended Market retail store in a previously non-revenue generating space, as well as other ancillary revenue generating initiatives.

### 1686 Main Street West ("Main")

| | |
|---|---|
| Property Name: | West Village Suites |
| Year Built: | 2008 |
| Property Manager: | Campus Living Centres |
| Proximity to Campus: | 0.9km |
| Investment Date: | April 2019 |
| Purchase Price: | $45,000,000 |
| Ownership: | 100.0% |
| Property Website: | www.westvillagesuites.ca |

ASH believes Hamilton is one of the most attractive student housing markets in Canada given the university's robust enrollment statistics, coupled with a lack of off-campus PBSA beds available to students. McMaster University has experienced a 31% increase in student enrollment from 2008/09 (22,239 students) to 2017/18 (29,331 students) and Ontario based undergraduate applications to McMaster University grew by 9% for the 2019/20 school year. Although enrollment has continuously increased, there are only 3,578 on-campus residence beds to support their first-year students, as well as their upper-classmen needs, accommodating only 12% of total enrollment, compared to 14% at Waterloo/Laurier and 20% at Western University. Additionally, there are currently only 449 off-campus PBSA beds in Hamilton (2% of total enrollment) compared to 23% at Waterloo/Laurier and 11% at Western University.

Main is a LEED Platinum certified property and is the only PBSA in Hamilton servicing McMaster University's ~31,000 students. The property was built in 2008 and has established itself as the "go-to" off-campus housing in the market. Main is located close to campus and is adjacent to many shops and restaurants that are targeted to McMaster students. The 9-storey building has high-end amenities for its tenants, including a fitness studio, various study rooms, student lounges, games rooms, a yoga studio and ~12,000 sq. ft. of ancillary ground floor commercial space. The building offers a mix of 2 to 5-bedroom units with a total of 449 beds in 107 units, is 100% occupied as of March 2019 and 100% pre-leased for the 2019/20 school year.

Main's operations, year-over-year, have been outstanding. As the only PBSA asset in the market, the building has been able to achieve 100% occupancy on a consistent basis, while increasing the rental rates by 13% from 2016 to 2019. Since waiving conditions on the property, Management has planned the LED lighting retrofit of all suites and common spaces, secured an Unattended Market retail store to occupy a previously non-revenue generating space and engaged an interior designer to completely renovate the main lobby and amenity spaces throughout the building. The lobby renovation will modernize the building and provides Management with the ability to reduce student staff hours, as the new plans have open office space in the main lobby. Additionally, Management will be furnishing all suites with premium furniture for the next leasing cycle, which will have a significant impact on top-line revenue growth.

### 1700 Simcoe Street North ("Simcoe")

| | |
|---|---|
| Property Name: | Village Suites Oshawa |
| Year Built: | 2010 |
| Property Manager: | Campus Living Centres |
| Proximity to Campus: | 0.6km |
| Investment Date: | April 2019 |
| Purchase Price: | $30,000,000 |
| Ownership: | 100.0% |
| Property Website: | www.villagesuitesoshawa.ca |

Simcoe is a LEED Gold certified purpose-built student accommodation located approximately 600 meters from the main campus of the University of Ontario Institute of Technology ("UOIT"). UOIT has ~10,000 students, which has grown from ~5,000 students only 10 years ago. UOIT shares its campus with approximately 8,000 students enrolled at Durham College, creating a total targeted tenant base of close to 17,000 full time students. The property consists of one modern 6-storey building and an attached modern 4-storey building, which were both built in 2010. There is a total of 588 beds in 133 units with a mix of 3 to 5-bedroom configurations and over 4,000 sq. ft. of ancillary ground floor commercial space. The building offers its tenants high-end student-oriented amenities, including a fitness studio, various study spaces, student lounges, games rooms, a yoga studio and is 95% occupied as of March 2019 and is well ahead of last year's September occupancy targets.

Although the Oshawa market is relatively developed in terms of available off-campus PBSA beds, Simcoe has been able to differentiate its product offering, as it is the only PBSA in market that is equipped with several attractive amenities; ultimately, this has led to a significant increase in occupancy to 95% in 2019 and rental rate growth of 13% from 2016 to 2019. To further differentiate Simcoe, Management will be renovating the lobby and all the amenity spaces during the summer to further de-risk the property from an occupancy perspective, while also reducing student staff hours due to the new configuration of the lobby. Additionally, Management has secured an Unattended Market retail store to occupy a previously non-revenue generating space, planned the LED lighting retrofit of all suites and common spaces, internalized common area and in-suite cleaning and is rolling out a mandatory premium furniture package at $25 per bed per month for all new leases.

## M & A ENVIRONMENT

Management is pleased with the progress made on sourcing acquisition opportunities as well as closing the transactions it believes are the most attractive. Management's ongoing discussions with potential PBSA vendors/developers have exceeded expectations with respect to the quality of assets available, as well as the scale of the roll-up opportunity. Management remains in ongoing discussions with owners of high-quality assets valued at over $500 million and valuation discussions remain at cap rates 100-200bp higher than local multi-family residential properties in each market.

In addition to the acquisition/consolidation strategy, Management has developed relationships with high-quality local and national developers to fuel the REIT's long-term acquisition pipeline with attractive high-quality product.

## FINANCING ENVIRONMENT

The REIT has recently entered the market to finance its purchases of the Laurier property as well as the Ontario Portfolio. The response by traditional lenders has been extremely positive and multiple financing proposals were received for each asset.

The recent decline in Government of Canada 5-year treasury bond rates from ~2.3% at the end of September to ~1.5% as of the end of March has had a positive impact on available terms in the fixed-rate financing market. Management continues to believe that traditional lenders' understanding and appetite for the sector is improving. The recent acquisitions by the REIT have been debt financed at 65% loan-to-purchase-price with high-quality institutions with 5 to 7-year fixed-rate first mortgages at 3.6 to 3.8%.

Additionally, Management is having advanced discussions with Canada Mortgage and Housing Corporation ("CMHC") to discuss their student housing strategy; Management plans to work with CMHC on select financings in the near future, which will substantially lower the REIT's cost of debt.

Management continues to have advanced discussions with various lenders to provide acquisition facilities as a possible strategy to increase the REIT's consolidation flexibility and speed to close.

## REIT OPERATIONS

In tandem with ASH's acquisition/growth strategy, Management has been focused on optimizing property operations. As discussed in the Annual 2018 Management Report, the student housing industry requires detailed operational focus as the sector experiences higher operating expenses than the multi-family sector from salaries and wages, marketing, maintenance, etc. The operating business component of student housing presents a great opportunity to realize higher income yields when professionally managed, helps bolster barriers to entry in the sector and creates a unique and sizeable synergy opportunity from consolidation; however, it generates additional work for the management team that is not experienced in the multi-family sector.

The REIT's long-term value-creation strategies include (a) optimizing property-level operations and (b) maximizing operating synergies that can be realized from the consolidation of the fragmented market. Management believes that it has made great strides in establishing the infrastructure to manage the REIT's properties to their greatest potential.

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## Improved Operating Professionalism & Executing on Best Practices Roll-out

ASH has established a robust internal management system to oversee our portfolio's operations in partnership with our best-in-class property manager, Campus Living Centres ("CLC").

To maximize the long-term effectiveness of operations at of our properties, ASH and CLC have created a master property management agreement that will cover the REIT's entire portfolio (with the exception of Laurier due to its affiliation with uOttawa). The aggregation of property management into a single contract has allowed Management to negotiate a substantial reduction in the projected cost of service; Management is excited about the increased NOI across its portfolio from the integration, the realignment of interests and the long-term benefit of having ASH's partners act like owners. As part of negotiating the contract, ASH ensured that CLC was incentivized based on budgeted net operating income, rather than gross revenues, to further align the REIT and its Unitholders with the property manager. In addition to CLC's incentive, Management has altered the bonus structure of on-site staff, which is now linked to several levers including occupancy, expense management, net operating income, tenant experience, etc.

There are many other operational levers for Management to increase the portfolio's cash flow from operations. In the near-term, as Management has been rolling-up the fragmented market, it has observed unique opportunities to leverage best practices at various buildings across the newly acquired portfolio to benefit the REIT. As mentioned, newly acquired properties typically do not operate at their peak potential; many local builders/owners do not have Management's experience in the PBSA market and are missing out on opportunities to enhance their product offering, while cutting costs.

Management's focus on rolling out best-practices within the portfolio to date has included the following initiatives:

- LED lighting retrofit across the entire portfolio, which will reduce energy usage and result in a return on investment of under two years;
- Installing energy efficient shower heads, toilets and thermostats throughout the buildings;
- Dramatically improving the internet service to tenants and offering a tiered service package, which differentiates the REIT's buildings relative to its peers in the most critical service offering and creates an additional revenue stream by offering a premium product for additional monthly fees;
- Incorporating Unattended Markets retail stores to provide an attractive and unique service to tenants and generate additional rental income in spaces that were previously not generating revenue;
- Improving the utilization rate of employees – internalizing certain outsourced services to reduce operating expenses, while increasing control/quality of the offering;
- Rationalizing the headcount at properties and managing student staff hours when appropriate (peak and off-peak months);
- Rolling out in-suite cleaning services (mandatory and voluntary) to increase revenues, improve the tenant experience and lowering annual turnover expenses; and
- Leveraging scale to renegotiate favourable contract terms

In addition to the aforementioned operational initiatives, ASH has initiated certain capital investment programs to improve revenue generation and/or expense management. For example, during Management's due diligence on Cooper, it determined that a modernization of the mechanicals would offer a very attractive ROI to Unitholders. Management has pushed forward with an energy audit and are likely to proceed with a complete retrofit that will generate a six-to-seven-year payback to the REIT. Additionally, Management has launched programs to furnish the suites of Simcoe and Main that will not only generate additional monthly revenue for the properties, but it will also (a) reduce the tenant turnover damage and (b) elevate the position of the property with tenants, which is expected to attract a higher credit quality clientele over the long-term. Management has also launched capital improvement programs to the common areas at Simcoe and Main to improve the value delivered to tenants, which it believes will translate in the near and long-term into higher rental rates and occupancy.

### Local Market Integration / Synergies

Management has been focused on integrating our properties in the Waterloo market since the REIT waived conditions on the purchase of King I & II. The ability of Management to capitalize on local synergies is one of the major pillars to its investment thesis and differentiates the REIT from other real estate consolidation strategies. To date, Management has been successful in reducing operating expenses by leveraging local operations across the platform and in de-risking the top-line growth of the buildings by managing the leasing functions in a centralized manner.

***Expense Savings:*** The expense savings derived from integrating operations from a single asset to a larger portfolio are substantial. For example, prior to the recent acquisitions in Waterloo, Lester had four employees and King I & II had five employees. Since closing on the King I & II, Management has integrated operations across these three properties and have been able to reduce the combined headcount by three, saving ~$165k per year. Additionally, because of the REIT's in-market scale, Management has identified several contracts to renegotiate at favourable terms (in some cases, Management has already been successful), including fire protection/monitoring, insurance, garbage, fiber, internet, cleaning, roof anchor inspections, etc., which maximizes potential savings.

***Revenue Synergies.*** Management has already started to witness top-line advantages in Waterloo by having a larger leasing footprint. As mentioned above, Management immediately integrated the property management (including leasing, management and maintenance) into a single team once the REIT closed on King I & II. At the time of close, King I & II were 100% pre-leased for the 2019/2020 school year, which allowed the leasing team to leverage its database of leads; to date, Management has been successful in converting the leads into 20 new leases at Lester at rate-card pricing. Lester is on-track with its leasing program for the 2019/20 school year; however, the ability to leverage the additional interest from King I & II allowed Management to accelerate the lease-up at attractive pricing with less effort.

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## CONFERENCE CALL DETAILS

Management will host a conference call to discuss the REIT's Q1 2019 operating performance and the REIT's longer-term strategy on May 22, 2019 at 2:00PM EST. Please register for the call using the following hyperlink.

https://attendee.gotowebinar.com/register/4547607979127355403

## STANDARD DISCLOSURE



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