



Avenue Living

# Valuation Policy Overview

Avenue Living (2014) LP ("**Avenue Living**") accounts for its investment properties using the fair value model, in accordance with International Accounting Standards ("**IAS**") IAS 40 – Investment Property ("**IAS 40**"). Investment properties are initially recorded at purchase cost, including any related transaction costs (such as commissions, land transfer tax, appraisals, legal fees, and third-party inspection reports) and capital improvements. Subsequent to this initial recognition at cost, investment properties are recorded at fair value, which is determined using a detailed valuation framework developed by Avenue Living's internal and external valuation teams and validated by third-party qualified appraisals.

## AVENUE LIVING VALUATION FAST FACTS

- Fair value of investment properties is determined in accordance with International Accounting Standards (IAS 40 – Investment Property), using the fair value model.
- Avenue Living engages qualified professionals to provide appraisals of its investment properties, each of which forms a significant input in the determination of fair value.
- Fair value gains (or losses) arise from differences between current period fair value and the sum of previously measured fair value and are reported in the calculation of net income.
- Fair value gains (or losses), in addition to the contribution of other components of net income, are ultimately translated into changes in net assets attributable to unitholders ("**NAV**").

## How are Avenue Living's Properties Appraised?

Avenue Living's investment properties are assessed (and re-assessed) by third-party qualified appraisers in the normal course of business and as part of Avenue Living's acquisition and re-financing strategies. The appraisers are independent valuation firms (not related to Avenue Living) that employ experts with the relevant professional designations who possess the appropriate qualifications and experience in the valuation of properties in the relevant locations. Avenue Living utilizes the services of a number of nationally recognized appraisal firms in both Canada and the United States to conduct valuations of its investment properties (including CBRE, JLL, Newmark, Avison Young, and Colliers, among others), without partiality to any one valuator or appraisal firm.

Avenue Living seeks to complete appraisals in a manner such that each property is appraised no less than once every 3 years (meaning, Avenue Living targets ~1/3 of its portfolio of investment properties for appraisal each year, on average). These appraisals are a significant input into the valuation model that Avenue Living uses to determine the fair value of its investment properties. This valuation model (alongside the third-party appraisals) is reviewed annually by **Ernst & Young LLP's Transaction Real Estate (TRE) team**, in conjunction with Avenue Living's annual audit process.

## How does Avenue Living Determine Fair Value?

Avenue Living primarily utilizes the industry-standard **direct capitalization approach** for its investment property assessments, which converts a given property's annual stabilized net operating income ("**SNOI**") into an indication of value by dividing SNOI by an appropriate capitalization rate ("**Cap Rate**").

SNOI is a measurement of optimal operating performance based on current asset and market conditions, while the Cap Rate may be interpreted as the stabilized rate of return for a given real estate investment (weighted average cost of capital adjusted for growth).

**Example 1:** The valuation of an investment property producing SNOI of \$1,000,000 with an established Cap Rate of 5.00%, using the direct capitalization approach.

$$\frac{SNOI}{Cap\ Rate} = Fair\ Value \quad \frac{\$1,000,000}{5.00\%} = \$20,000,000$$

In addition, Avenue Living utilizes an internal valuation model, which applies the estimated changes in market conditions to the underlying assumptions used since the last appraisal, based on new appraisals and other real estate transactions in the same markets (**comparable transaction approach**), to determine the fair value of its investment properties for subsequent reporting periods. Differences between SNOI and actual net operating income can be influenced by many factors, including (but not limited to): loss-to-lease (the average difference between market rents and achieved rents per month based on occupied units), renovation vacancy, and unpaid rent (bad debt).

Avenue Living actively monitors events that could indicate a change in an investment property's fair value, such as changes in economic conditions, market supply, sustained changes in occupancy or rental rates, recent transactions, appraisal trends, or long-term changes in a property's net operating income. However, fair values are most sensitive to changes in SNOI and Cap Rates. In general, when growth in SNOI exceeds any increase in Cap Rate, investment property valuations will increase. This produces a **fair value gain** and is included in net income, which is subsequently **translated into NAV**.

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JANUARY 2023



**Example 2:** How a 10% increase in SNOI and a 25bps decompression (increase) in Cap Rate may affect the fair value of an investment property, using the direct capitalization approach.

$$\frac{SNOI}{Cap Rate} = Fair Value \quad \frac{\$1,000,000 + 10\%}{5.00\% + 25bps} = \$20,952,380$$

In this example, where the percentage increase in SNOI exceeds the percentage increase in Cap Rate, a fair value gain of \$952,380 (4.76%) would be produced. Where the percentage increase in Cap Rate exceeds the percentage increase in SNOI, a fair value loss would be produced. In each case, the gain (or loss) attributable to the investment property would be subsequently translated in NAV.

Gains (or losses) arising from differences between current period fair value and the sum of previously measured fair value (which includes the capitalization of any costs associated with upgrading and extending the economic life of the investment property) are recorded in profit and loss in the period in which they arise. For investment properties less than one (1) year under ownership, management has instituted a conservative approach to valuation (as such properties are, generally, stabilized or near-stabilized on acquisition), such that fair value gains are voluntarily restrained in accordance with the following formula:

$$Fair Value (t_1) \leq Purchase Price (t_0) + CapEx + 10\%$$

Annual building improvement expenditures (capital expenditures) include a combination of maintenance capital and value enhancing upgrades. Maintenance building improvements extend the economic life of the building (such as parking, fire safety, roof, and boiler upgrades), while value enhancing upgrades are investments in building improvements that are expected to result in higher rents and/or increased efficiencies (these would include suite and common area upgrades and energy efficiency investments).

In connection with Avenue Living's annual audit procedure, Avenue Living's auditors will review the appraisals completed and will engage with the appraisal firms to understand the assumptions, inputs, and, consequently, the valuations concluded upon. Avenue Living engages Ernst & Young LLP's Transaction Real Estate (TRE) team, which possesses a wealth of experience advising real estate-focused firms on business best practices, to review the fair value model (including the underlying assumptions and accounting controls) prepared by Avenue Living for reasonableness, compliance with the valuation framework, and compliance with IAS 40.

THIS DOCUMENT IS ONLY A SUMMARY. FOR ADVISOR USE ONLY.

Please refer to the [offering memorandum](#), dated April 29, 2022, for additional information regarding the valuation policy applicable to the Avenue Living Real Estate Core Trust.

For additional information about Avenue Living, please visit us online at: [avenuelivingam.com](http://avenuelivingam.com)

OFFERING MEMORANDUM >>>



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