



May 6, 2020  
Halifax, Nova Scotia

## **KILLAM APARTMENT REIT ANNOUNCES STRONG Q1-2020 OPERATING PERFORMANCE AND FINANCIAL RESULTS, AND COVID-19 OPERATIONAL UPDATE**

Killam Apartment REIT (TSX: KMP.UN) ("Killam") today reported its results for the three months ended March 31, 2020.

"We are pleased to report strong operating and financial results for the first quarter of 2020" noted Philip Fraser, President and CEO. "Starting late in Q1, the COVID-19 pandemic began in Canada and our first priority was, and continues to be, the health and safety of our employees, residents, partners and communities. The COVID-19 pandemic did not have a material impact on our first quarter results. We adjusted our leasing and property management processes to adapt to physical distancing and increased safety requirements, and remain focused on business operations. We are confident in our long-term strategic priorities and our ability to weather this pandemic."

### **Q1-2020 Financial & Operating Highlights**

- Reported net income of \$38.5 million, an increase of \$11.4 million compared to \$27.1 million in Q1-2019, due to same property growth, recent acquisitions and fair value adjustments.
- Generated net operating income ("NOI") of \$38.0 million, a 13.4% increase from \$33.5 million in Q1-2019.
- Earned funds from operations ("FFO") per unit (diluted) of \$0.22, a 4.8% increase from Q1-2019.
- Increased adjusted funds from operations ("AFFO") per unit (diluted) by 12.5% to \$0.18, compared to \$0.16 in Q1-2019, and reduced the AFFO payout ratio 1,000 basis points (bps) to 92%, from 102% in Q1-2019.
- Achieved a 3.4% increase in the weighted average same property rental rate and a 10 bps improvement in apartment occupancy to 97.2%, compared to 97.1% in Q1-2019.
- Generated same property NOI growth of 6.1% over Q1-2019 and increased the NOI margin by 160 bps to 60.6%.

(000's)	<i>Three months ended March 31,</i>		
	2020	2019	Change
Property revenue	<b>\$63,294</b>	\$57,186	10.7%
Net operating income	<b>\$38,048</b>	\$33,545	13.4%
Net income	<b>\$38,502</b>	\$27,092	42.1%
FFO <sup>(1)</sup>	<b>\$23,013</b>	\$18,888	21.8%
FFO per unit (diluted) <sup>(1)</sup>	<b>\$0.22</b>	\$0.21	4.8%
AFFO per unit (diluted) <sup>(1)</sup>	<b>\$0.18</b>	\$0.16	12.5%
AFFO payout ratio (diluted) <sup>(1)(2)</sup>	<b>92%</b>	102%	(1,000) bps
Same property apartment occupancy <sup>(3)</sup>	<b>97.2%</b>	97.1%	10 bps
Same property revenue growth	<b>3.3%</b>		
Same property net operating income growth	<b>6.1%</b>		

(1) FFO and AFFO are defined in "Non-IFRS Measures" below. A reconciliation between net income and FFO is included on page 22 of the Q1-2020 Management Discussion and Analysis. A reconciliation from FFO to AFFO is included on page 23 of the Q1-2020 Management Discussion and Analysis.

(2) AFFO payout ratio calculation is based on the rolling 12-month period.

(3) Occupancy represents actual residential rental revenue, net of vacancy, as a percentage of gross potential residential rent.

<i>Debt Metrics As At</i>	March 31, 2020	December 31, 2019	Change
Debt to total assets	<b>44.4%</b>	43.4%	100 bps
Weighted average mortgage interest rate	<b>2.86%</b>	2.90%	(4) bps
Weighted average years to debt maturity	<b>4.8</b>	4.5	0.3 years
Interest coverage ratio	<b>3.27x</b>	3.20x	2.2 %

## Summary of Q1-2020 Results and Operations

### Achieved Net Income of \$38.5 Million

Killam achieved net income of \$38.5 million in Q1-2020 compared to \$27.1 million in Q1-2019. The increase in net income is primarily due to growth through acquisitions and increased earnings from the existing portfolio, offset by increased financing costs. Fair value adjustments in Q1-2020 were \$1.8 million higher compared to Q1-2019, as a result of fair value gains on Killam's exchangeable units in Q1-2020 more than offsetting the net of fair value gains on investment properties and fair value losses on exchangeable units and deferred unit-based compensation in Q1-2019.

### FFO per Unit Growth of 4.8% and AFFO per Unit Growth of 12.5%

Killam generated FFO per unit of \$0.22 in Q1-2020, 4.8% higher than the \$0.21 per unit generated in Q1-2019. FFO growth was attributable to increased NOI from strong same property performance and incremental contributions from recent acquisitions and completed developments. This growth was partially offset by an 11.3% increase in the weighted average number of units outstanding from Killam's \$114.4 million equity issuance in November 2019 and \$86.3 million equity issuance in March 2019.

AFFO per unit increased 12.5% in Q1-2020 to \$0.18 compared to \$0.16 in Q1-2019. The increase in AFFO per unit is attributable to Killam's same property NOI growth, accretive acquisitions and developments, and the addition of newer, high-quality assets to the portfolio, which require lower maintenance capital.

### Same Property NOI Growth of 6.1%

Killam achieved 6.1% growth in same property consolidated NOI and a 160 bps improvement in its operating margin during the quarter. This improvement was driven by strong rental rate growth and lower operating expenses. Operating expenses decreased 0.7%, as higher property tax and general operating expenses were more

than offset by a reduction in utility costs, namely lower unit electricity and a decrease in natural gas consumption and pricing. Killam's same property apartment NOI increased 6.2% during the first quarter, with New Brunswick and Halifax leading the growth (12.1% and 8.7%).

#### **Rental Rate Growth of 3.4%**

Same property revenue increased 3.3%, compared to Q1-2019, as a result of a 3.4% increase in the average rental rate for the apartment portfolio, a 10 bps increase in average apartment occupancy, a decrease in rental incentives and 3.0% top-line growth within the MHC portfolio. Rental rate increases on unit turns and lease renewals averaged 6.1% and 2.1%, up from 5.1% and 1.9% in Q1-2019. Halifax and New Brunswick led the apartment performance, achieving year-over-year same property apartment revenue increases of 4.7% and 3.9%.

#### **Repositioning Program Continues to Generate Above Average Returns**

During Q1-2020, Killam invested \$3.1 million in repositionings, completing 95 units to date. The average return on investment ("ROI") on unit repositionings completed during the quarter was approximately 13%, based on an average renovation cost of \$25,000 per unit. These repositionings are expected to generate approximately \$0.3 million in additional NOI on an annualized basis, and approximately \$6.0 million in Net Asset Value ("NAV") growth.

#### **Completed \$70 million in Acquisitions Including Expansion into British Columbia Market**

During Q1-2020, Killam completed \$70.4 million of acquisitions adding 222 apartment units and 89 MHC sites to its portfolio. This included Killam's first apartment acquisition in British Columbia. Christie Point Apartments, a 161-unit property located in Victoria, BC, was acquired for \$54.0 million. The property has a development agreement in place, which allows for redevelopment of the 15.8 acre site in phases, for an additional 312 units. Killam also acquired a 54-unit building located in Halifax, NS, adjacent to other Killam buildings, for \$8.8 million, an 89-site MHC property located in Shediac, NB, for \$4.0 million and a future development site with in-place income for \$3.7 million.

#### **Development Activity Underway**

Killam continues to make progress on its current developments, investing \$6.9 million during the first quarter. Killam has four development projects underway, totaling 348 units. At the end of Q1, Killam had contributed its equity component in all of its active developments, and remaining construction costs are expected to be funded through construction facilities. Killam also holds a 10% interest in another active 233-unit development in Calgary.

#### **Refinancings at Low Rates Contributed to Earnings Growth**

Killam benefited from lower interest rates on mortgages refinanced in Q1-2020. In total, Killam refinanced \$66.5 million of maturing mortgages with \$72.4 million of new debt at a weighted average interest rate of 2.41%, 70 basis points lower than the weighted average rate of the maturing debt.

## **COVID-19 Update**

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. The duration and impact of the COVID-19 pandemic globally is unknown at this time. Since the onset of the pandemic, Killam has focused on ensuring the continued health and safety of its employees, tenants, partners and communities. Killam is executing on its Pandemic Illness Plan to lessen the spread of COVID-19.

Due to the inherent uncertainty surrounding disruption from the COVID-19 pandemic, it is not possible to forecast with certainty the duration and full scope of the economic impact and other consequential changes the pandemic may have on Killam's business and operations, both in the short term and medium term. As a result, Killam has withdrawn its 2020 and longer term strategic targets that were disclosed in the December 31, 2019, year-end MD&A and will continue to reassess these over the coming quarters.

Although all of Killam's apartment properties, MHCs and the essential retail tenants remain operational with low vacancy rates, COVID-19 may impact financial results during 2020 and beyond as outlined below.

### **Waiving of Rental Rate Increases**

Due to the economic uncertainty facing many Canadians during the emergency measures associated with the pandemic, Killam has waived the collection of rental increases beginning with the April 2020 rental payment and has suspended the collection of further rental increases during the public health crisis. This will result in less rental rate growth than originally expected for 2020. Management is uncertain at this time when rental increases on lease renewals will resume.

### **Rent Collection**

Killam's rent collection experience since the onset of the pandemic has remained strong. As of May 6, 2020, Killam has collected 96.9% of total rents for April, including 98.6% of apartment, 97.7% of MHC and 72% of commercial rents. Killam is actively following up with those accounts in arrears. May rent collection is generally in line with the average rent collected by the sixth day of the month.

Killam is continuing to collect monthly rents but may face higher than normal exposure to uncollectable rents during the pandemic. In compliance with many provincial directives, Killam will not evict tenants who have arrears during this period. Historically, Killam has had less than 0.4% of revenue uncollected.

Killam has a rent deferral program to assist residential tenants who are facing financial hardship due to COVID-19 and is working with residents on a case-by-case basis regarding rent deferral arrangements. Currently less than 50 residential tenants have requested or been granted rent deferrals. For commercial tenants, Killam is also working with qualifying small businesses and independent tenants on a case-by-case basis, and in certain cases has agreed to temporary rent deferrals for 60 to 90 days. Revenue from Killam's commercial properties represent approximately 6% of total revenue and includes a diversified tenant base, including over 40% of revenue from strong anchor tenants.

### **Leasing**

Leasing activity has continued following the onset of the pandemic as leasing agents were readily able to work remotely. Unit showing procedures have been adjusted to adhere to physical distancing guidelines using Killam's online operating platform and the use of virtual showings (video tours, FaceTime, etc.). Killam's April and May apartment occupancy remains comparable to 2019. Apartment occupancy for April was 97.2%, and MHC occupancy was 97.6%. Turnover has decreased in May by approximately 15-20% of anticipated levels, and Killam has also experienced a corresponding decrease in leasing traffic from pre-COVID-19 levels. Killam's leasing teams are closely monitoring traffic and turnover levels and are focused on maintaining strong leasing performance.

### **Investment Activity**

Construction at Killam's four current development projects has been experiencing slowdowns since the beginning of April due to the reduced number of labourers reporting to work. Killam expects this slowdown to continue until provincial state of emergency orders are lifted. Killam does not anticipate commencing any additional development projects until the crisis is over.

Physical distancing protocols are also delaying other capital projects. Delays in certain capital projects may lead to a reduction in Killam's capital spend in 2020 compared to the original estimate of between \$70.0 and \$75.0 million. Killam's suite repositioning program is continuing where it is deemed safe; however, Killam's original target of 500 renovated units in 2020 may be affected due to the pandemic.

### **Liquidity**

To-date, mortgage financings and renewals have progressed on schedule with no mortgage financing delays noted as a result of COVID-19. Interest rates on mortgage renewals completed during April and May and locked in for June have averaged 1.58%, 30 bps lower than the weighted average rate of the maturing debt. Killam has \$154.4 million of additional mortgage renewals scheduled for the remainder of 2020, \$45.0 million which has already been completed or locked in during the second quarter, with total upfinancing estimated to be approximately \$40.0 million. At this time, Management does not anticipate delays on these mortgage renewals. In addition to mortgage refinancings, Killam has access to \$69.0 million of additional capital through its credit facilities, as well as approximately \$75.0 million of unencumbered assets.

## Further Information

Killam is committed to providing updates to its unitholders and other stakeholders during the course of the COVID-19 pandemic. Many stakeholders' questions have been addressed through a question and answer (Q&A) document on Killam's website, and Management will continue to update the Q&A on the website regularly.

## Q2-2020 Acquisition in British Columbia

On April 30, 2020, Killam acquired the Crossing at Belmont, a new two-building apartment property with 156 units for \$60 million (\$385,000 per unit) in Langford, British Columbia. Killam continues to diversify geographically with this second apartment purchase in the greater Victoria market. Leasing commenced in late 2019 and this property is currently 88% leased with an average rent of \$1,868 per unit (\$2.61 per square foot). These buildings are well located and adjacent to Belmont Market, a new grocery-anchored retail centre with a bank, coffee shops, restaurants and other amenities. The purchase was funded with a \$35.0 million mortgage and Killam's credit facility.

## Financial Summary (in thousands, except per unit amounts)

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition except for the deduction of income recorded for accounting purposes related to insurance proceeds. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies.

<b>Consolidated Financial Highlights</b> (unaudited) (000's)	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Property revenue	<b>\$63,294</b>	\$57,186
Net operating income	<b>38,048</b>	33,545
Fair value adjustments	<b>13,633</b>	11,784
Net income	<b>38,502</b>	27,092
Net income attributable to unitholders	<b>38,499</b>	27,089

  

<b>Reconciliation of Net Income to FFO</b>	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net income	<b>\$38,502</b>	\$27,092
Fair value adjustments	<b>(13,633)</b>	(11,784)
Non-controlling interest	<b>(3)</b>	(3)
Internal commercial leasing costs	<b>81</b>	79
Deferred tax expense	<b>(3,119)</b>	2,572
Interest expense related to exchangeable units	<b>692</b>	671
Unrealized loss on derivative liability	<b>443</b>	195
Depreciation on owner-occupied building	<b>42</b>	34
Change in principal related to lease liabilities	<b>8</b>	32
FFO	<b>\$23,013</b>	\$18,888
FFO unit - diluted	<b>\$0.22</b>	\$0.21

## Financial Statements

Killam's condensed consolidated interim Financial Statements and Management's Discussion and Analysis for the three months ended March 31, 2020, are posted under Financial Reports in the Investor Relations section of

Killam's website at [www.killamreit.com](http://www.killamreit.com). Readers are directed to these documents for financial details and a discussion of Killam's results.

## Results Conference Call

Management will host a webcast and conference call to discuss these results and current business initiatives during this COVID-19 pandemic on Thursday, May 7, 2020, at 9:00 AM eastern time. The webcast will be accessible on Killam's website at the following link <http://www.killamreit.com/investor-relations/events-and-presentations>. A replay will be available for 7 days after the webcast at the same link.

The dial-in numbers for the conference call are as follows:

North America (toll free): 1-888-390-0605

Overseas or local (Toronto): 1-416-764-8609

## Profile

Killam Apartment REIT, based in Halifax, Nova Scotia, is one of Canada's largest residential landlords, owning, operating, managing and developing a \$3.4 billion portfolio of apartments and manufactured home communities. Killam's strategy to enhance value and profitability focuses on three priorities: 1) increasing earnings from existing operations, 2) expanding the portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer properties, and 3) developing high-quality properties in its core markets.

## Non-IFRS Measures

Management believes these non-IFRS financial measures are relevant measures of the ability of the REIT to earn revenue and to evaluate Killam's financial performance. The non-IFRS measures should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS, as indicators of Killam's performance, or sustainability of Killam's distributions. These measures do not have standardized meanings under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded organizations.

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, interest expense related to lease liabilities, insurance proceeds and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of insurance proceeds as noted above; REALpac does not address this adjustment.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital spend to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO are calculated in accordance with the REALpac definition. Management considers AFFO an earnings metric.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2020 and 2019. Same property results represent 91% of the fair value of Killam's investment property portfolio as at March 31, 2020. Excluded from same property results in 2020 are acquisitions, dispositions and developments completed in 2019 and 2020, non-stabilized commercial properties linked to development projects, and other adjustments to normalize for revenue or expense items that relate to prior periods or are not operational.
- Interest coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units.

See the Q1-2020 Management's Discussion and Analysis for further details on these non-IFRS measures.

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*Note: The Toronto Stock Exchange has neither approved nor disapproved of the information contained herein. Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors including risks and uncertainties relating to the COVID-19 pandemic, which may cause actual results, performance or achievements of Killam to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. For more exhaustive information on these risks and uncertainties, you should refer to Killam's most recently filed annual information form which is available at [www.sedar.com](http://www.sedar.com). Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made and should not be relied upon as of any other date. Other than as required by law, Killam does not undertake to update any of such forward-looking statement.*