Killam APARTMENT REIT

November 6, 2024
Halifax, Nova Scotia

KILLAM APARTMENT REIT ANNOUNCES Q3-2024 OPERATING PERFORMANCE AND FINANCIAL RESULTS AND A 2.9% DISTRIBUTION INCREASE

Killam Apartment REIT (TSX: KMP.UN) ("Killam") today reported its results for the three and nine months ended September 30, 2024.

"Killam demonstrated continued strength and positive earnings growth in the third quarter of 2024. We are pleased to report funds from operations (FFO) of $0.33 per unit, a 3.1% increase from Q3-2023," noted Philip Fraser, President and CEO. "Killam's diverse portfolio delivered same property NOI growth of 7.4% and a 100 bps [basis point] same property operating margin expansion.[1]

"We remain committed to strengthening our balance sheet and are pleased with the progress achieved this year. We have successfully improved key debt metrics, including bringing down our debt to normalized EBITDA [earnings before interest, tax, depreciation and amortization] to 9.86x and reducing our debt as a percentage of total assets to a historic low of 40.7% as of September 30, 2024. In addition, with access to approximately $167.4 million through our credit facilities and cash on hand, an active disposition program, and access to construction financing, we have financial flexibility to fund our growth plans.

"With robust mark-to-market spreads across the portfolio, we are optimistic about our continued ability to drive earnings growth. Alongside anticipated strong top-line growth from our existing property portfolio, positive year-over-year contributions from our recently completed developments should grow our earnings."

Q3-2024 Financial & Operating Highlights

- Reported net income of $62.7 million compared to $68.3 million in Q3-2023. Killam recorded fair value gains on investment properties of $51.3 million in Q3-2024, compared to fair value gains of $38.5 million in Q3-2023. The fair value gains on investment properties in Q3-2024 were a direct result of strong NOI growth.
- Generated net operating income (NOI) of $64.4 million, a 6.4% increase from $60.5 million in Q3-2023.
- Achieved a 5.9% increase in same property revenue compared to Q3-2023 and generated 7.4% same property NOI growth compared to Q3-2023.[1]
- Earned FFO per unit of $0.33, a 3.1% increase from $0.32 earned in Q3-2023.[2]
- Earned adjusted funds from operations (AFFO) per unit of $0.28, consistent with $0.28 in Q3-2023[3], and reduced the rolling 12-month AFFO payout ratio by 100 basis points (bps) to 71%, from 72% in Q3-2023.[2]
- Increased the same property operating margin by 100 bps to 68.7%, from 67.7% in Q3-2023.
- Ended the third quarter with debt as a percentage of total assets of 40.7%, the lowest level in Killam's history.

[1] Same property NOI is a supplementary financial measure. An explanation of the composition of these measure can be found under the heading "Supplementary Financial Measures."
[2] FFO, AFFO, FFO per unit, AFFO per unit and AFFO payout ratio are non-International Financial Reporting Standards (IFRS) measures that do not have a standardized meaning according to IFRS and, therefore, may not be comparable to similar measures presented by other issuers. For information regarding non-IFRS measures, including reconciliations to the most comparable IFRS measure, see "Non-IFRS Measures."
[3] The maintenance capital expenditures used to calculate AFFO and AFFO payout ratio for the three and nine months ended September 30, 2023, were updated to reflect the maintenance capex reserve of $1,025 per apartment unit, $300 per manufactured home community (MHC) site and $1.00 per square foot (SF) for commercial properties that were used in the calculation for the 12 months ended December 31, 2023.

(000s)	Three months ended September 30, 2024	2023	Change	Nine months ended September 30, 2024	2023	Change
Property revenue	**$93,788**	$89,534	4.8%	**$272,069**	$261,292	4.1%
Net operating income	**$64,416**	$60,515	6.4%	**$179,361**	$167,555	7.0%
Net income	**$62,732**	$68,349	(8.2)%	**$304,425**	$266,345	14.3%
FFO (1)	**$40,468**	$39,234	3.1%	**$108,521**	$105,722	2.6%
FFO per unit (diluted) (1)	**$0.33**	$0.32	3.1%	**$0.88**	$0.87	1.1%
AFFO (1)	**$35,103**	$33,787	3.9%	**$92,293**	$89,218	3.4%
AFFO per unit (diluted) (1)(2)	**$0.28**	$0.28	—%	**$0.75**	$0.73	2.7%
AFFO payout ratio – diluted (1)(2)	**61%**	63%	(200) bps	**70%**	71%	(100) bps
AFFO payout ratio – rolling 12 months(1)(2)	**71%**	72%	(100) bps			
Same property apartment occupancy (3)	**97.9%**	98.4%	(50) bps			
Same property revenue growth (3)	**5.9%**			**6.0%**		
Same property NOI growth (3)	**7.4%**			**8.7%**		

(1) FFO, FFO per unit, AFFO, AFFO per unit, and AFFO payout ratio are non-IFRS measures. A reconciliation from net income to FFO and a reconciliation from FFO to AFFO can be found under the heading "Non-IFRS Reconciliation."

(2) The maintenance capital expenditures used to calculate AFFO and AFFO payout ratio for the three and nine months ended September 30, 2023, were updated to reflect the maintenance capex reserve of $1,025 per apartment unit, $300 per MHC site and $1.00 per SF for commercial properties that were used in the calculation for the 12 months ended December 31, 2023.

(3) Same property apartment occupancy, same property revenue, and same property NOI are supplementary financial measures. An explanation of the composition of these measures can be found under the heading "Supplementary Financial Measures."

Debt Metrics as at	**September 30, 2024**	December 31, 2023	Change
Debt to total assets	**40.7%**	42.9%	(220) bps
Weighted average mortgage interest rate	**3.45%**	3.22%	23 bps
Weighted average years to debt maturity	**4.0**	3.9	0.1 years
Interest coverage ratio(1)	**2.97x**	3.10x	(4.2)%
Debt to normalized EBITDA (1)	**9.86x**	10.29x	(4.2)%

(1) Interest coverage ratio and debt to normalized earnings before interest, tax, depreciation and amortization (EBITDA) ratio are non-IFRS ratios. An explanation of the composition of these measures can be found under the heading "Non-IFRS Ratios."

Summary of Q3-2024 Results and Operations

Generated Same Property NOI Growth of 7.4%

Killam generated same property NOI growth of 7.4% during Q3-2024, along with a same property operating margin increase of 100 bps. This growth was driven by a 5.9% increase in same property revenue and only a modest 2.6% increase in same property operating expenses. Same property revenue growth is the result of a 7.2% increase in apartment rental rates year-over-year, coupled with increased ancillary revenue and offset slightly by a 50 bps increase in vacancy. Killam's turnover levels remain healthy, and in the third quarter, the average rental rate increase on unit turns exceeded 20% for the second consecutive quarter; with wide mark-to-market spreads, Killam has generated the largest rental gains on unit turns in its operating history. The weighted average rental rate increase on units that renewed and turned in Q3-2024 was 7.7%. Killam is positioned to meet its 8% same property NOI growth target for 2024.

The 2.6% increase in total same property operating expenses is attributable to a 5.2% increase in property tax expenses due to higher assessments across the portfolio, coupled with a 3.6% increase in general operating expenses. This was partially offset by a 4.0% reduction in utility and fuel expenses in Q3-2024, mainly the result of lower electricity costs in Alberta.

Achieved Net Income of $62.7 Million

During the quarter, Killam achieved net income of $62.7 million, compared to $68.3 million in Q3-2023. Killam recorded fair value gains on investment properties of $51.3 million during Q3-2024, compared to fair value gains of $38.5 million in Q3-2023. The fair value gains on investment properties in Q3-2024 were a direct result of strong NOI growth ($3.9 million quarter-over-quarter) and 100 bps operating margin expansion.

Delivered 3.1% FFO per Unit Growth

Killam generated FFO per unit of $0.33 in Q3-2024, a 3.1% increase from $0.32 in Q3-2023. AFFO per unit remained stable at $0.28 per unit, consistent with Q3-2023, though AFFO increased 3.9%, up $1.3 million. The growth in FFO and AFFO is attributable to strong NOI growth from Killam's same property portfolio, partially offset by higher interest costs, lower capitalized interest and the short-term impact of vacancy during the lease-up of recently completed developments. In Q3-2024, these projects contributed to positive earnings growth, and this growth is expected to accelerate during the fourth quarter and throughout 2025.

Positive Progress on Killam's Disposition Strategy

During Q3-2024, Killam completed the disposition of three properties totaling 144 units, for combined gross proceeds of $17.9 million, bringing the total year-to-date dispositions completed to $39.5 million. Killam's capital recycling program is focused on non-core and slower-growth properties, or those that may be more capital or carbon intensive. With a continued focus on geographic diversification, the majority of dispositions completed year-to-date are in Atlantic Canada. Year-to-date, 39% of Killam's NOI was earned outside Atlantic Canada, exceeding its 38% target for 2024. Killam expects to complete a minimum of $50 million of dispositions in 2024, with proceeds used to reduce the balance on Killam's credit facility, fund future development activity, support strategic acquisitions and potentially buy back Trust Units through Killam's normal-course issuer bid (NCIB) program.

Interest Rates Declining from the Peak

The maturity dates of Killam's mortgages are staggered to mitigate interest rate risk. During Q3-2024, Killam refinanced $102.4 million of maturing mortgages with $128.7 million of new debt at a weighted average interest rate of 4.34%, 176 bps higher than the weighted average interest rate of the maturing debt. Overall, Killam's weighted average mortgage interest rate increased 23 bps at the end of Q3-2024 to 3.45%, compared to 3.22% as at December 31, 2023. Killam's focus on strengthening its balance sheet has resulted in its debt to normalized EBITDA being reduced to 9.86x as at September 30, 2024, from 9.98x as at June 30, 2024. Killam's debt as a percentage of total assets also improved during Q3-2024, achieving a record low level of 40.7% as at September 30, 2024.

ESG Update

During the quarter, Killam invested $2.0 million in energy initiatives, including the installation of photovoltaic (PV) solar panels, new boilers and heat pumps, and roofing upgrades across the portfolio. This brings Killam's total investment in energy initiatives to $4.4 million year-to-date. At the end of Q3-2024, Killam had 22 PV solar arrays producing power, with an expected 2,100 MWh of annual energy production. Additionally, during the quarter, Killam achieved certification for Civic 66 through the Certified Rental Building Program and successfully certified 100 and 200 Eagle Street, as well as Saginaw Park and Saginaw Gardens (a total of 611 units), reinforcing its commitment to quality and sustainability. Killam was also recognized as one of Canada's Most Responsible Companies for 2025 by Statista, reflecting its commitment to corporate responsibility and sustainable practices.

Additional Dispositions Subsequent to Quarter End

On October 10, 2024, Killam completed the disposition of 9 Bruce St., a 60-unit apartment building located in Halifax, NS, for a sale price of $8.2 million and net cash proceeds of $4.5 million.

Proposed Internal Reorganization Subsequent to Quarter End

On October 15, 2024, Killam announced that its Board of Trustees approved a proposed internal reorganization that will be accomplished by way of a plan of arrangement (the "Arrangement"). The Arrangement will be subject to unitholder approval at a special meeting of Killam's unitholders to be held on November 21, 2024. The Arrangement will simplify Killam's organizational structure and is expected to reduce or eliminate potential corporate taxation and to reduce the complexity of accounting, legal reporting and income tax compliance inherent in Killam's existing structure. Killam has received an advance income tax ruling of the Canada Revenue Agency in connection with the Arrangement.

Distribution Increase Subsequent to Quarter End

On November 6, 2024, the Board of Trustees approved a 2.9% increase to Killam's annual distribution, to $0.72 per unit from $0.70 per unit. The monthly distribution will be $0.06000 per unit, up from $0.05833 per unit. The increase will apply to the November 2024 distribution, to be paid in December 2024.

Financial Statements

Killam's condensed consolidated interim Financial Statements and Management's Discussion and Analysis (MD&A) for the three and nine months ended September 30, 2024, are posted under Financial Reports in the Investor Relations section of Killam's website at www.killamreit.com, and are available on SEDAR+ at www.sedarplus.ca. 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 on Thursday, November 7, 2024, 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 of the webcast will be available at the same link for one year after the event.

The dial-in numbers for the conference call are as follows:
North America (toll free): 1-888-699-1199
Overseas or local (Toronto): 1-416-945-7677

Profile

Killam Apartment REIT, based in Halifax, Nova Scotia, is one of Canada's largest residential real estate investment trusts, owning, operating, managing and developing a $5.3 billion portfolio of apartments and manufactured home communities. Killam's strategy to enhance value and profitability focuses on three priorities: 1) increase earnings from existing operations; 2) expand the portfolio and diversify geographically through accretive acquisitions, targeting newer properties and dispositions of non-core assets; and 3) develop high-quality properties in its core markets.

Non-IFRS Measures

Management believes the following non-IFRS financial measures, ratios and supplementary information are relevant measures of the ability of Killam to earn revenue and to evaluate Killam's financial performance. 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 the 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.

Non-IFRS Financial Measures

- FFO is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for 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, depreciation on an owner-occupied building, interest expense related to lease liabilities, and non-controlling interest. FFO is calculated in accordance with the REALPAC definition. A reconciliation between net income and FFO is included below.

- AFFO is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALPAC. 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 investment to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO is calculated in accordance with the REALPAC definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included below.
- Adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA") is a non-IFRS financial measure calculated by Killam as net income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization. A reconciliation between net income and adjusted EBITDA is included below.
- Normalized adjusted EBITDA is a non-IFRS financial measure calculated by Killam as adjusted EBITDA that has been normalized for a full year of stabilized earnings from recently completed acquisitions and developments, on a forward-looking basis. In addition, adjustments have been made to eliminate earnings associated with properties sold in the last twelve months. A reconciliation between adjusted EBITDA and normalized adjusted EBITDA is included below.
- Net debt is a non-IFRS financial measure used by Management in the computation of debt to normalized adjusted EBITDA. Net debt is calculated as the sum of mortgages and loans payable, credit facilities and construction loans (total debt) reduced by the cash balances at the end of the period. The most directly comparable IFRS measure to net debt is debt. A reconciliation between debt and net debt is included below.

Non-IFRS Ratios

- Interest coverage is calculated by dividing adjusted EBITDA by mortgage, loan and construction loan interest and interest on credit facilities.
- Per unit calculations are calculated using the applicable non-IFRS financial measures noted above, i.e. FFO and AFFO, divided by the diluted number of units outstanding at the end of the relevant period.
- Payout ratios are calculated using the distribution rate for the applicable period divided by the applicable per unit amount, i.e. AFFO per unit.
- Debt to normalized adjusted EBITDA is calculated by dividing net debt by normalized adjusted EBITDA.

Supplementary Financial Measures

- Same property NOI is a supplementary financial measure defined as NOI for stabilized properties that Killam has owned for equivalent periods in 2024 and 2023. Similarly, same property revenue is a supplementary financial measure defined as revenue for stabilized properties that Killam has owned for equivalent periods in 2024 and 2023.
- Same property apartment occupancy is a supplemental financial measure defined as actual residential rental revenue, net of vacancy, as a percentage of gross potential residential rent for stabilized properties that Killam has owned for equivalent periods in 2024 and 2023. Same property results represent 95% of the fair value of Killam's investment property portfolio as at September 30, 2024. Excluded from same property results in 2024 are acquisitions, dispositions and developments completed in 2023 and 2024, and non-stabilized commercial properties linked to development projects.

Non-IFRS Reconciliation (in thousands, except per unit amounts)

Reconciliation of Net Income to FFO	***Three months ended September 30,***		***Nine months ended September 30,***	
	2024	2023	**2024**	2023
Net income	**$62,732**	$68,349	**$304,425**	$266,345
Fair value adjustments	**(35,627)**	(39,392)	**(241,396)**	(196,604)
Non-controlling interest	**—**	(3)	**—**	(10)
Internal commercial leasing costs	**60**	90	**195**	270
Deferred tax expense	**11,272**	9,176	**40,930**	32,134
Interest expense on Exchangeable Units	**682**	682	**2,046**	2,046
Loss on disposition	**1,319**	301	**2,232**	1,380
Unrealized loss on derivative liability	**—**	—	**—**	68
Depreciation on owner-occupied building	**24**	25	**72**	76
Change in principal related to lease liabilities	**6**	6	**17**	17
FFO	**$40,468**	$39,234	**$108,521**	$105,722
FFO per unit – diluted	**$0.33**	$0.32	**$0.88**	$0.87

Reconciliation of FFO to AFFO	***Three months ended September 30,***		***Nine months ended September 30,***	
	2024	2023 [1]	**2024**	2023 [1]
FFO	**$40,468**	$39,234	**$108,521**	$105,722
Maintenance capital expenditures	**(5,290)**	(5,387)	**(15,928)**	(16,309)
Commercial straight-line rent adjustment	**(21)**	31	**(72)**	83
Internal and external commercial leasing costs	**(54)**	(91)	**(228)**	(278)
AFFO	**$35,103**	$33,787	**$92,293**	$89,218
AFFO per unit – diluted	**$0.28**	$0.28	**$0.75**	$0.73
AFFO payout ratio – diluted	**61%**	63%	**70%**	71%
AFFO payout ratio – rolling 12 months [2]	**71%**	72%		
Weighted average number of units – diluted (000s)	**123,294**	121,848	**122,963**	121,466

(1) The maintenance capital expenditures used to calculate AFFO and AFFO per unit (diluted) for the three and nine months ended September 30, 2023, were updated to reflect the maintenance capex reserve of $1,025 per apartment unit, $300 per MHC site and $1.00 per SF for commercial properties that were used in the calculation for the 12 months ended December 31, 2023.

(2) Based on Killam's annual distribution of $0.69996 for both the 12-month period ended September 30, 2024, and the 12-month period ended September 30, 2023.

Normalized Adjusted EBITDA	***Twelve months ended,***		
	September 30, 2024	December 31, 2023	% Change
Net income	**$304,412**	$266,333	14.3%
Deferred tax expense	**41,955**	33,158	26.5%
Financing costs	**77,662**	69,398	11.9%
Depreciation	**1,056**	669	57.8%
Loss on disposition	**4,872**	4,021	21.2%
Fair value adjustment on unit-based compensation	**605**	330	83.3%
Fair value adjustment on Exchangeable Units	**13,331**	6,821	95.4%
Fair value adjustment on investment properties	**(225,755)**	(174,179)	29.6%
Adjusted EBITDA	**218,138**	206,551	5.6%
Normalizing adjustment (1)	**3,825**	3,480	9.9%
Normalized adjusted EBITDA	**221,963**	210,031	5.7%
Total interest-bearing debt	**$2,201,154**	$2,174,995	
Cash and cash equivalents	**(11,598)**	(14,087)	
Net debt	**$2,189,556**	$2,160,908	1.3%
Debt to normalized adjusted EBITDA	**9.86x**	10.29x	(4.2)%

(1) Killam's normalizing adjustment includes NOI adjustments for recently completed acquisitions, dispositions and developments to account for the difference between NOI booked in the period and stabilized NOI over the next 12 months.

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Note: The Toronto Stock Exchange has neither approved nor disapproved of the information contained herein. Certain statements in this press release may constitute forward-looking statements. In some cases, forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "commit," "estimate," "potential," "continue," "remain," "forecast," "opportunity," "future", "proposed" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Such forward-looking statements may include, among other things, statements regarding: strengthening Killam's balance sheet; Killam's ability to fund its growth plans; same property NOI growth rate and the timing thereof; the occupancy rate of Killam's properties; FFO and earnings growth and the timing thereof; rental rates and lease renewals and the timing thereof; the effects of acquisitions and development projects on Killam's earnings and financial condition; Killam's weighted average mortgage interest rate; the expected amount and use of proceeds from dispositions and the timing thereof; unit repurchases under Killam's normal course issuer bid; the continued expansion of Killam's portfolio, including through developments, and the timing thereof; Killam's capital recycling program and its impact on Killam's portfolio and long-term value creation; the progress, completion, costs, capacity, total investment and timing of development projects; the anticipated energy production from Killam's photovoltaic (PV) solar arrays; Killam's commitment to corporate responsibility and sustainable practices; the Arrangement and the timing and benefits thereof; the special unitholder meeting in respect of the Arrangement and the timing thereof; the effect of the Arrangement; the approvals required for the completion of the Arrangement; and Killam's priorities.

Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward-looking statements, including: Killam's ability to obtain the necessary regulatory and third-party *approvals in respect of the Arrangement, including, among others unitholder approval; risks related to tax legislation and the interpretation and application thereof; the effects and duration of local, international and global events, any government responses thereto and the effectiveness of measures intended to mitigate any impacts thereof; competition; government legislation and the interpretation and enforcement thereof; litigation to which Killam may be subject; global, national and regional economic conditions (including interest rates and inflation); and the availability of capital to fund further investments in Killam's business. For more exhaustive information on these risks and uncertainties, readers should refer to Killam's most recently filed annual information form, as well as Killam's most recently filed MD&A, each of which are available on SEDAR+ at www.sedarplus.ca. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained in this press release. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. 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. While Killam anticipates that subsequent events and developments may cause its views to change, Killam does not intend to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors that affect this information, except as required by law. The forward-looking statements in this press release are provided for the limited purpose of enabling current and potential investors to evaluate an investment in Killam. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.*