CANADIAN APARTMENT PROPERTIES • REIT

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Financials, Insurance, and Real Estate Industry Team

Recommendation

CANADIAN APARTMENT PROPERTIES • REIT

March 2024	
March 28, 2024 Close	$46.51
Target Price	$55.95
Upside	20.3%
Total Return	23.4%
Recommendation	**BUY**

CANADIAN APARTMENT PROPERTIES • REIT

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Company Overview

CANADIAN APARTMENT PROPERTIES • REIT

Highlights

- CAPREIT, Canada's largest publicly traded provider of quality rental housing which have expanded internationally.
- Aiming to manage assets and operational processes systematically and investing in developing a healthy, supportive culture.
- Poised to become one of the most respected REITS in the world.

History

2020 — Added to the TSX 60 index on June 22

2012 — Purchased Montreal's Olympic Village for $176.5 million

2004 — Acquired Residential Equities REIT for $500 million

1997 — Went public with an Initial Public Offering (IPO)

1996 — Canadian Apartment Properties REIT established by Thomas Schwartz & Michael Stein

Executive Management

Mark Kenney, President and CEO since 1998 with over 30 years of experience in the multi family home sector. Oversees key divisions; property management, marketing, procurement, development, and acquisitions.

Stephen Co, CFO since 2011, previously served as Vice President, Accounting. Prior to CAPREIT, he was CFO of ERES and worked at PricewaterhouseCoopers LLP. BBA from the University of Toronto, CPA CFA Charterholder.

Julian Schonfeldt, CIO since 2022, previously served as Managing Director at RBC Capital Markets. Raised over $15 billion and advised on $10 billion of M&A transactions in real estate. CPA (CA), CFA, CBV, and US CPA designations.

Stock Performance

Ticker: TSE:CAR.UN **Market Cap:** 7.9B **Beta (5Y Monthly):** 0.96
52 Week Range: $40.52-$54.60 **Avg. Volume:** 400,481

Core Business

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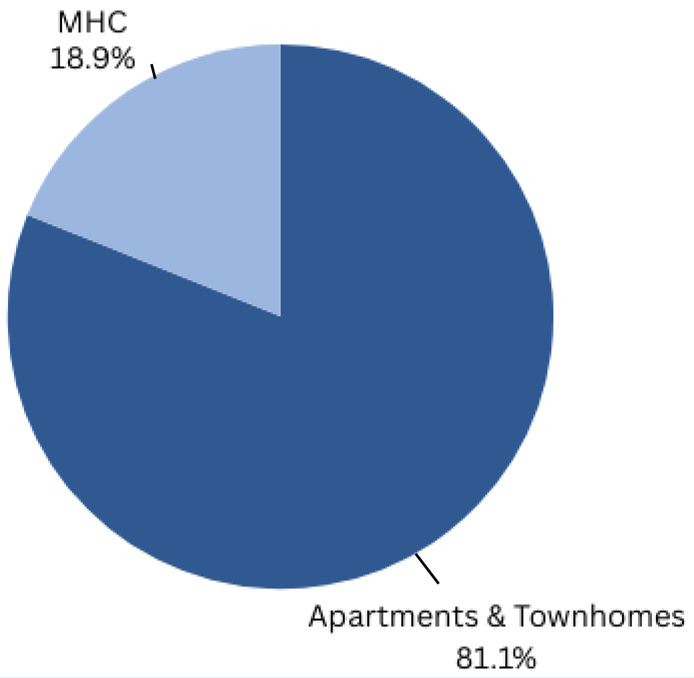
Business Performance

	FY2023	FY2022
Operating revenue ($thousands)	1,065,317 (+5.8%)	1,007,268
NOI ($thousands)	692,786 (+6.5%)	650,409
Occupied AMR ($)	1485 (+5.8%)	1403
FFO/unit - diluted ($)	2.396 (+2.9%)	2.328

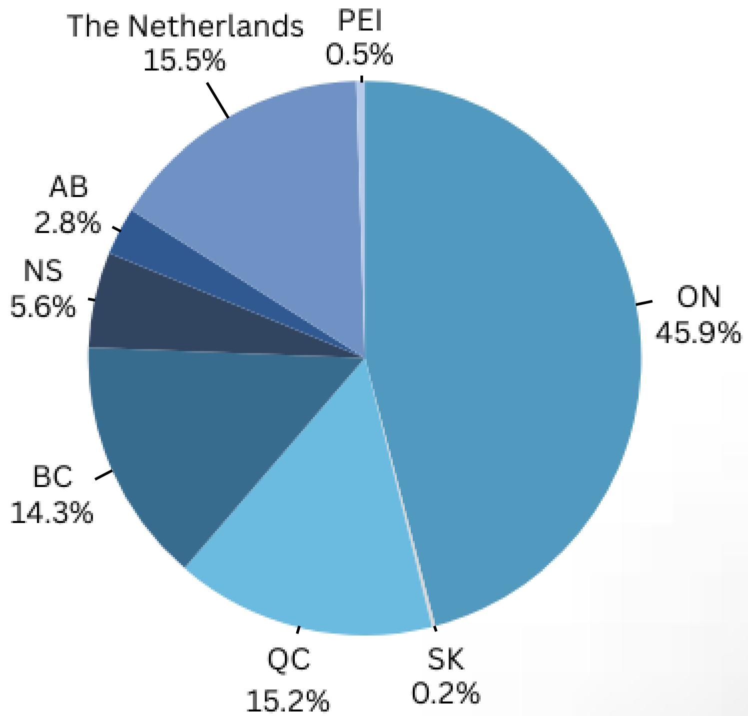
*note: NOI = rental income + ancillary income - direct operating expenses

Property Allocation by Type



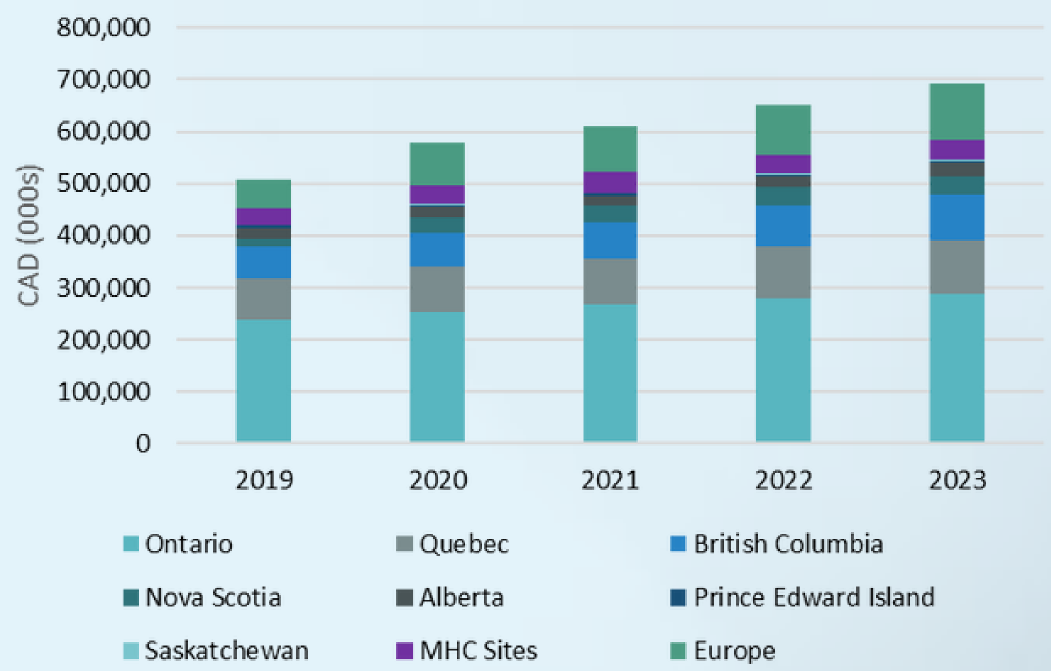
Property Allocation by Region

(Excluding MHC's)

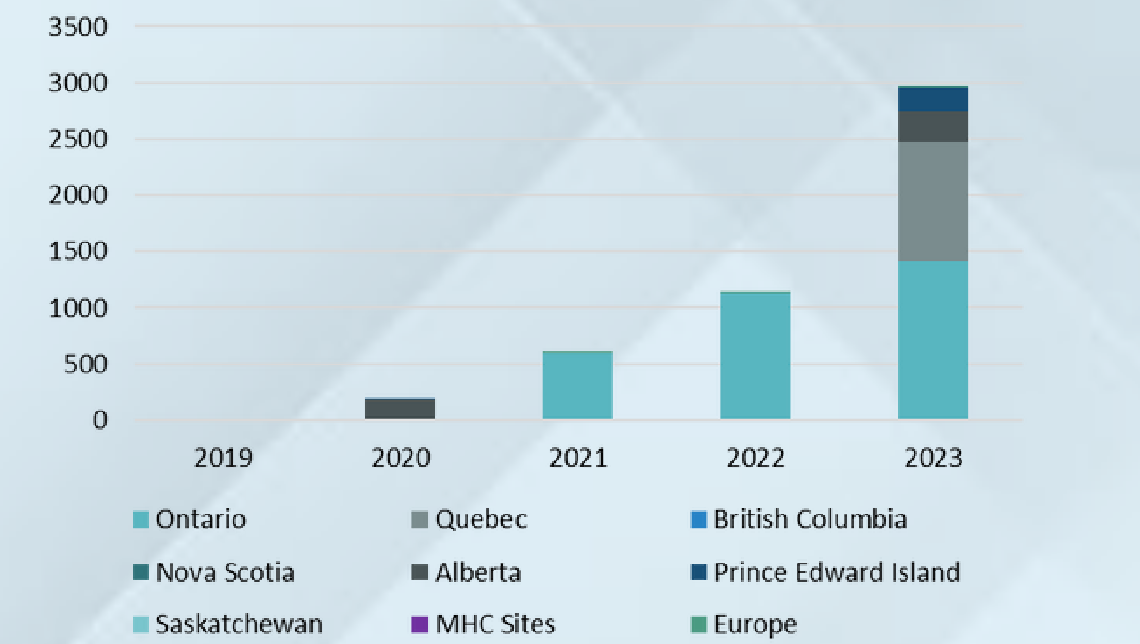


Core Business

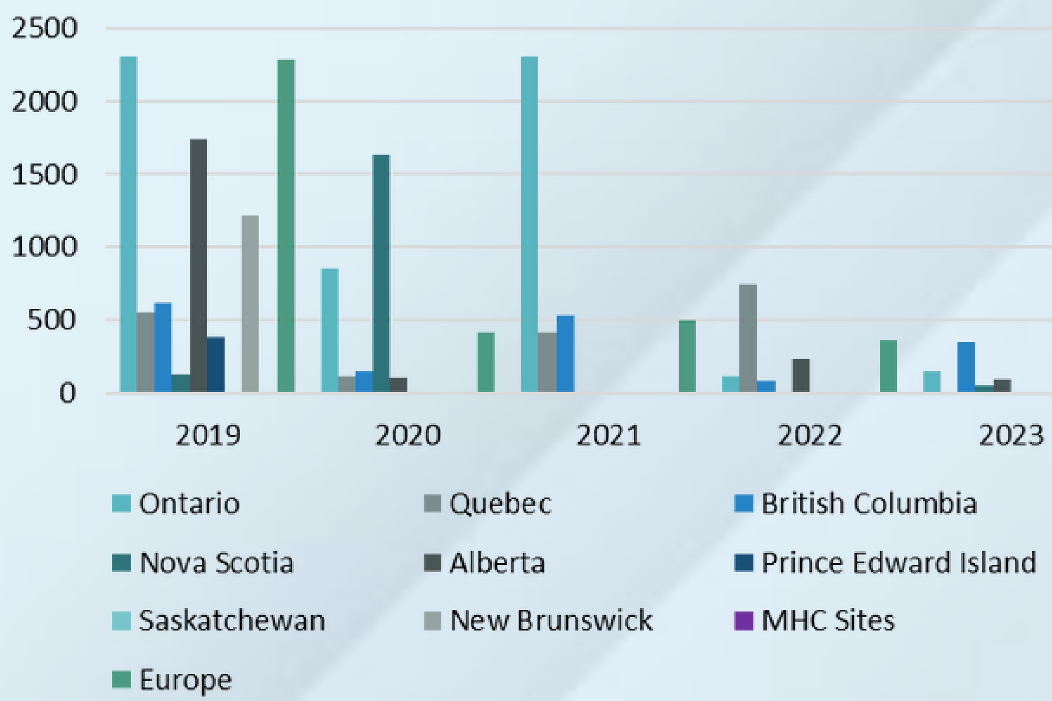
NOI By Region



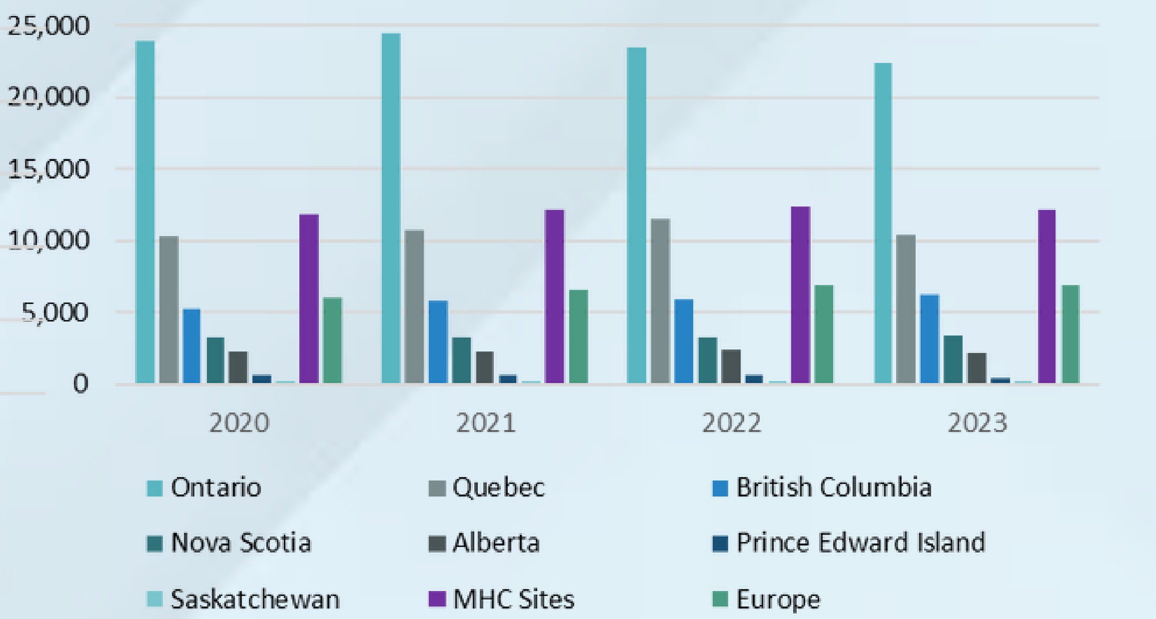
Disposition of Investment Properties



Acquisitions of Investment Properties



Number of Suites and Sites by Region



Investment Decisions

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Macroeconomic Outlook

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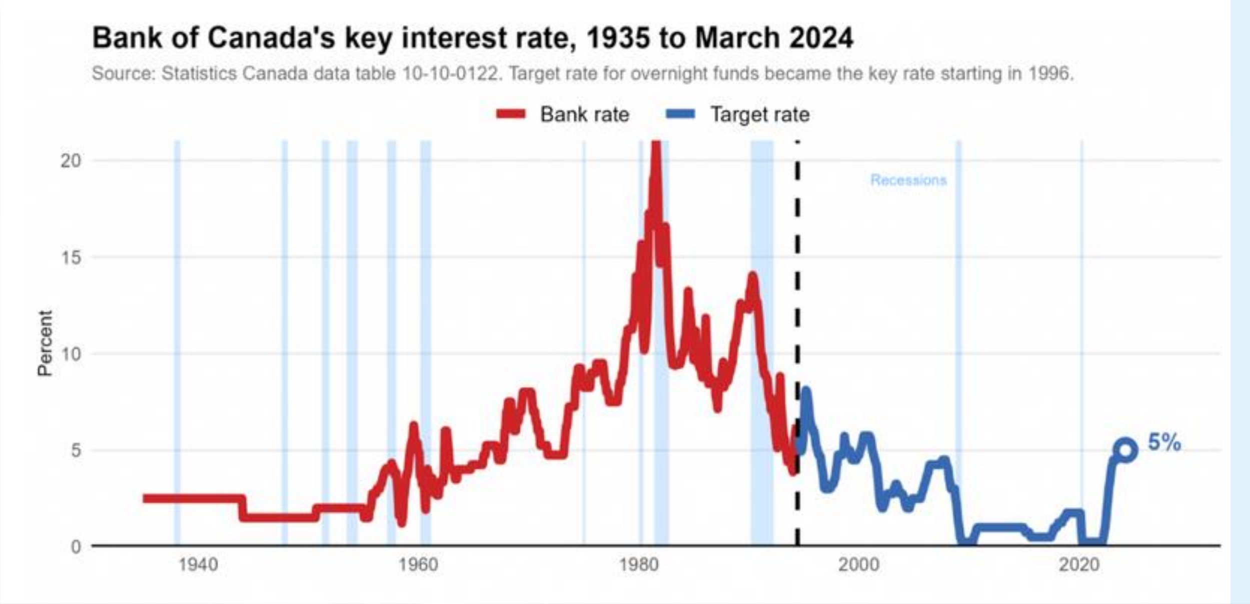
Interest Rates Trends Impact Canadian Housing Market

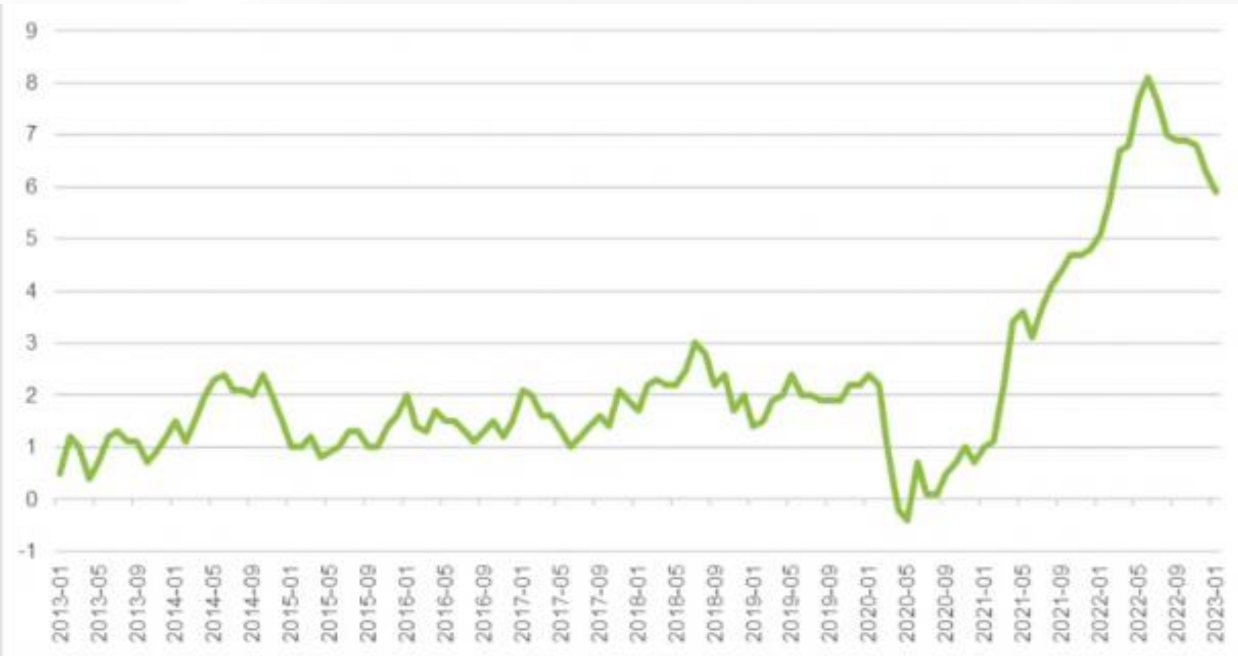


- Interest rates lead to increase in borrowing costs, higher mortgage costs, leads to increase in rent costs.
- Since 2022, interest rates have doubled, making variable-rate mortgages more expensive. Refinancing is an option but comes with costs and time delays.

Immigration Fuels Demand for Canadian Rental Properties

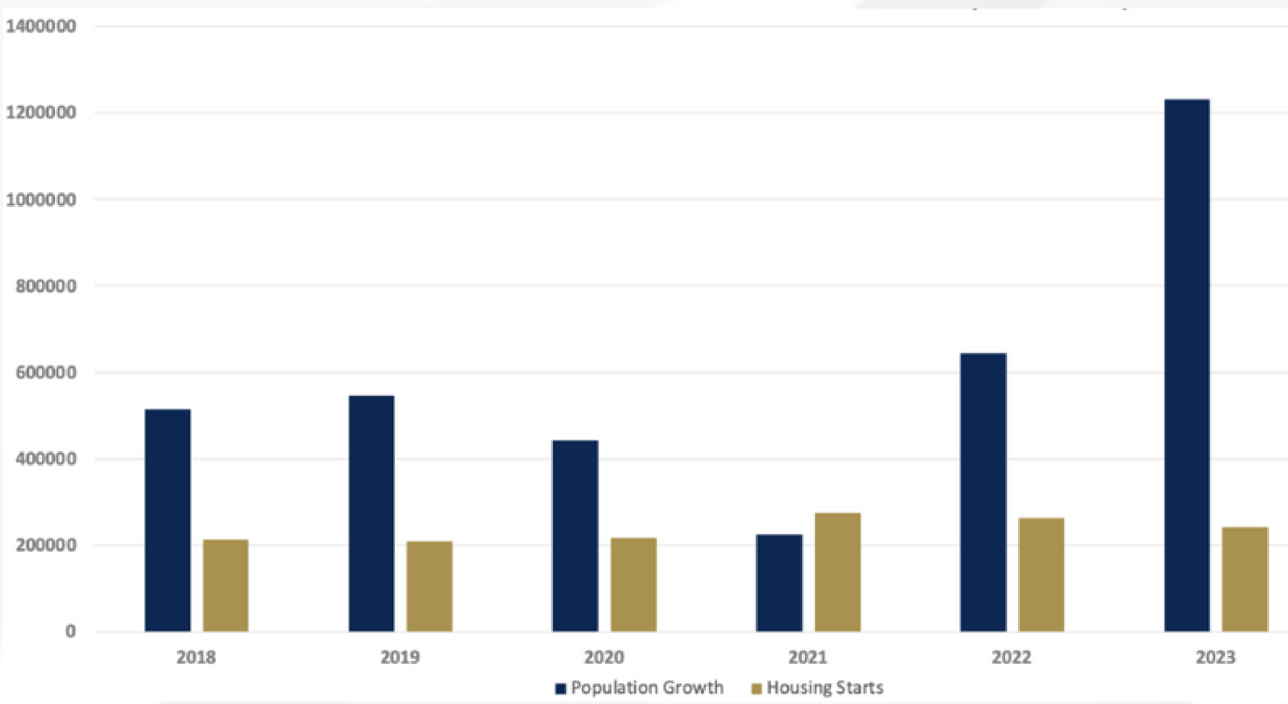
- Canada is experiencing a significant influx of permanent residents, welcoming over 471,000 new permanent residents in 2023, representing a 4.5 percent increase from the previous year.
- Toronto remains a preferred destination, attracting approximately 40.0 percent of new residents.
- Statistics Canada reports a notable population increase driven primarily by immigration. The surge in temporary residents, including international students and foreign workers, is further fueling demand for rental accommodations.
- Immigration policies, such as a 35% reduction in study permits, capped at 360,000 and changes to post-graduation work permits, may impact future demand dynamics.
- Despite efforts to tie immigration targets to housing supply, many experts believe it won't address housing affordability concerns.

Inflationary Pressure on Housing Market



- High interest rates and material cost, supply chain disruptions from COVID-19, and restrictive municipal zoning laws are all factors reducing housing starts.
- Inflation remains above the 2% target, with core inflation ranging from 3% to 3.5%. The central bank believes higher rates need more time to impact the economy.

Canada's Undersupply of Housing



- Canada's housing market is facing significant challenges, including an undersupply of housing units, high building costs, and regulatory hurdles that hinder construction.
- CAPREIT stands to benefit from reduced competition in the rental market due to fewer new properties entering, potentially leading to higher rental income and profitability.

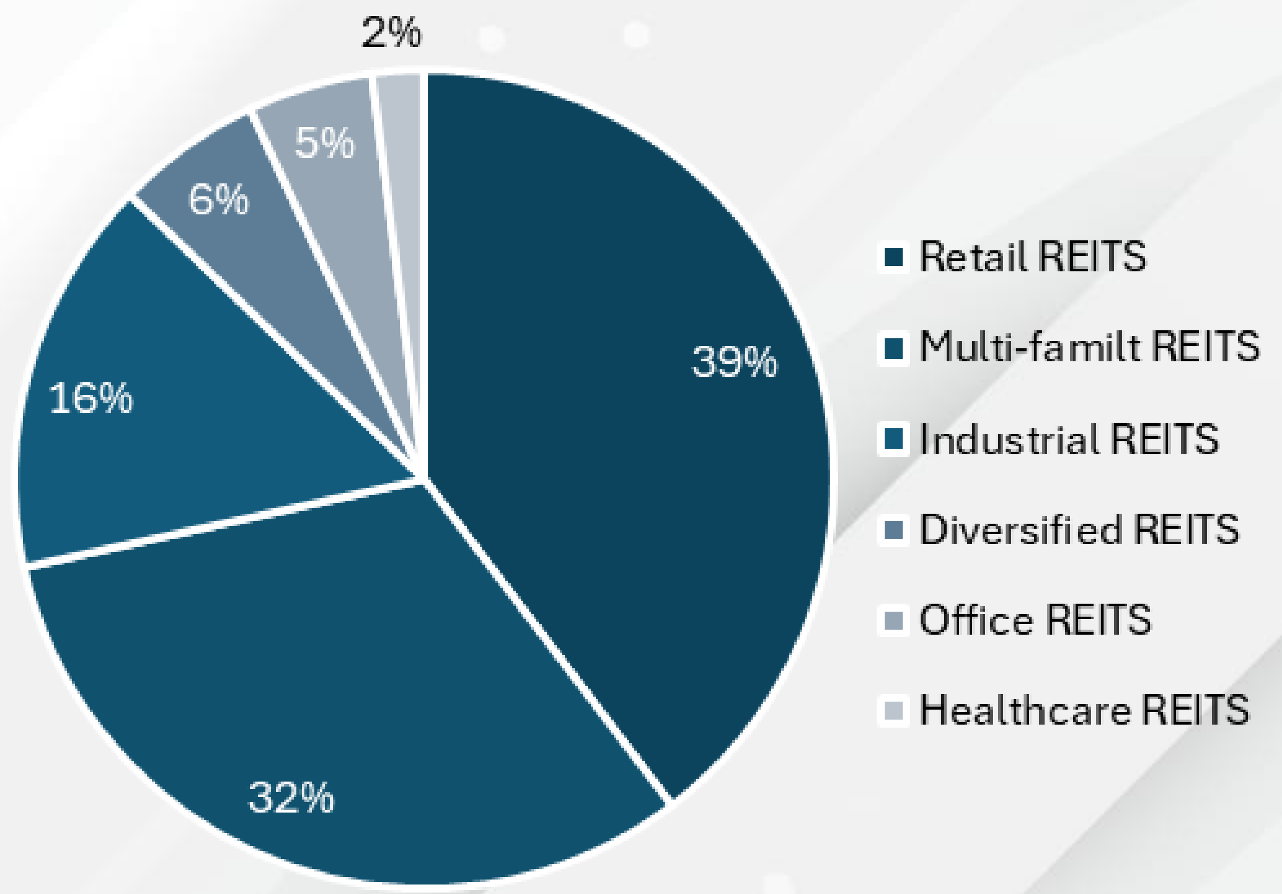
Industry Outlook

CANADIAN APARTMENT PROPERTIES • REIT

Top Canadian REITS Market Cap and Yield

TICKER	COMPANY	LAST PRICE	MARKET CAP	YIELD
CAR.UN	Canadian Apartment Properties REIT (CAPREIT)	$46.17	7.9B	3.1%
REI.UN	RioCan REIT	$18.20	5.5B	6.1%
GRT.UN	Granite Real Estate	$75.53	4.8B	4.4%
CHP.UN	Choice Properties REIT	$13.76	4.5B	5.5%
BEI.UN	Boardwalk REIT	$77.04	4.1B	1.9%
SRU.UN	SmartCentres REIT	$22.92	4.0B	8.1%
DIR.UN	Dream Industrial REIT	$12.75	3.6B	5.5%
CRT.UN	Canadian Tire (CT) REIT	$14.09	3.3B	6.4%
FCR.UN	First Capital Realty	$15.54	3.3B	5.6%
CRR.UN	Crombie REIT	$13.89	2.5B	6.4%
HR.UN	H&R REIT	$9.01	2.5B	7.8%
AP.UN	Allied Properties REIT	$17.42	2.4B	10.3%
KMP.UN	Killam Apartment REIT	$18.50	2.3B	3.8%

Sub-Industry Weights

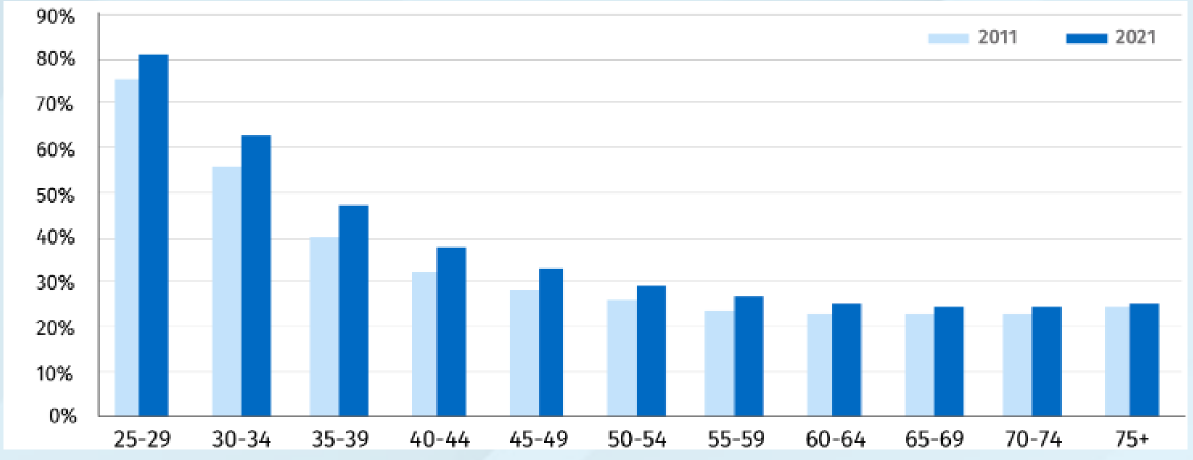


Insights into the Growth and Performance

- Expensive housing prices make homeownership less attainable, requiring 10 times the average income to buy an average home in the Greater Toronto Area (GTA). The same dynamic holds true in other major cities.
- Rental rates are significant in major cities like Toronto with 46% of Toronto households renting compared to 65% in San Francisco and 67.4% in New York.
- Canadian REITs are notably more affordable compared to U.S. REITs, which are already priced relatively low. The FFO multiples reflect this difference, with Canadian REITs averaging 9.9 times compared to 13.2 times for U.S. REITs.
- Canadian REITs trade at an average of 70.6% of their net asset value (NAV), while U.S. REITs trade at 82.5% of their NAV.
- Discount on Canadian REIT values compared to the US may be due to smaller size and higher leverage.

Canadian Households Opt for Renting Over Ownership

- The number of renters in Canada has reached a record high, with nearly 5 million households renting their homes in 2021, up from 4.1 million a decade earlier.
- Rent demand has grown significantly over the past 10 years, increasing by 22% or 876,000 households, compared to a rise of 8% or 770,000 owner households.



Competitor Analysis

CANADIAN APARTMENT PROPERTIES • REIT

Company	Description	Financial Statistics
CANADIAN APARTMENT PROPERTIES • REIT	Focused on residential properties valued at $17.0B. Specializing in multi-family housing, CAPREIT aims for long-term stability and growth. It competes with big names like Equity Residential and AvalonBay Communities. Founded in 1996 by Thomas H. Schwartz and Michael Leon Stein, CAPREIT manages interests in residential real estate across Canada and Europe, including apartments and townhomes, with its headquarters in Toronto.	**Total Revenues:** 1.07B **Dividend Yield:** 3.12% (Forward Annual) **Total Debt/Equity (mrq):** 76.65% **Quarterly Revenue Growth (yoy):** 5.90% **Market Cap:** 7.833B
boardwalk	Boardwalk REIT specializes in residential properties across Canada, managing 260 properties covering 31 million square feet. They prioritize stable finances by managing debt levels and ensuring liquidity. Focused on organic growth through attractive lease renewal terms and low-cost debts while reinvesting net income for improved returns and use an Acquisition and Disposition strategy. Founded in 1984 by Sam Kolias and Van Kolias, Boardwalk is headquartered in Calgary.	**Total Revenues:** 544.55M **Dividend Yield:** 1.62% (Dec'23) **Total Debt/Equity (mrq):** 44.01% **Quarterly Revenue Growth (yoy):** 9.60% **Market Cap:** 4.177B
Equity Residential	Equity Residential, founded in 1993 by Robert H. Lurie and Sam Zell and headquartered in Chicago, IL, specializes in rental apartment properties. Equity Residential's portfolio includes apartments, manufactured home communities, and commercial properties. They aim to increase revenue and portfolio value through acquisitions and operational efficiency.	**Total Revenues:** 2.87B **Dividend Yield:** 4.34% (Dec'23) **Total Debt/Equity (mrq):** 66.52% **Quarterly Revenue Growth (yoy):** 4.00% **Market Cap:** 23.6B
AvalonBay COMMUNITIES, INC.	AvalonBay Communities, Inc., founded in 1978 by Gilbert M. Meyer and headquartered in Arlington, VA, is a major REIT focusing on multifamily communities. It operates through three segments: Same Store (stable occupancy), Other Stabilized (other stable communities), and Development or Redevelopment (under construction). It delivers consistent returns to investors with a competitive dividend yield, focusing on profitability and operational excellence.	**Total Revenues:** 2.78B **Dividend Yield:** 3.71% (Dec'23) **Total Debt/Equity (mrq):** 69.03% **Quarterly Revenue Growth (yoy):** 10.7% **Market Cap:** 26.01B
UDR®	UDR, Inc. is a REIT focusing on multifamily apartment communities, founded in 1972 and headquartered in Highlands Ranch, CO. They acquire, develop, own, renovate, and manage these properties, operating through two segments: Same-Store Communities (stable occupancy) and Non-Mature Communities/Other (newly acquired or developed properties). Their competitive dividend yield attracts investors, although they manage substantial debt.	**Total Revenues:** 1.66B **Dividend Yield:** 3.71% (Dec'23) **Total Debt/Equity (mrq):** 120.84% **Quarterly Revenue Growth (yoy):** 4.57% **Market Cap:** 12.23B

Porter's Five Forces

CANADIAN APARTMENT PROPERTIES • REIT

New Entrants

Mid

- Barriers to entry in the real estate market include: High capital requirements, economies of scale favouring established players, regulatory hurdles.
- New competitors are unlikely due to barriers, which require substantial investment and scale to overcome.
- CAPREIT, with a significant market presence, faces limited impact from potential new entrants.

Buyers

Low Mid

- Tenant bargaining power in the rental market varies, falling within a spectrum from low to moderate.
- This variability is shaped by economic conditions and the dynamic nature of demand.
- Landlords hold considerable sway in Canada, where supply-demand imbalances favour property owners.
- CAPREIT differentiates itself through unique amenities, tailored leasing options, and targeted marketing campaigns, aiming to attract tenants despite market saturation.

Suppliers

Mid

- CAPREIT benefits from a large pool of suppliers, including property management firms like Jones Lang LaSalle and construction companies such as EllisDon Corporation.
- Factors affecting suppliers' bargaining power include concentration, switching costs, and the availability of alternatives, with moderately impactful influence, balanced by market conditions and industry dynamics.
- This has limited impact on CAPREIT due to its established presence, market position, and scale advantage.

Substitutes

Mid High

- Factors influencing bargaining power in the rental market include the availability of alternative options like homeownership, economic conditions affecting affordability, and tenant demand and preferences.
- Bargaining power is moderate to high, constrained by market dynamics and the balance of supply and demand.
- Tenants have some ability to negotiate rents and lease terms, but is tempered by prevailing market conditions. Unique value proposition offered by multifamily rental properties mitigates the impact of substitutes.

Competition

Mid

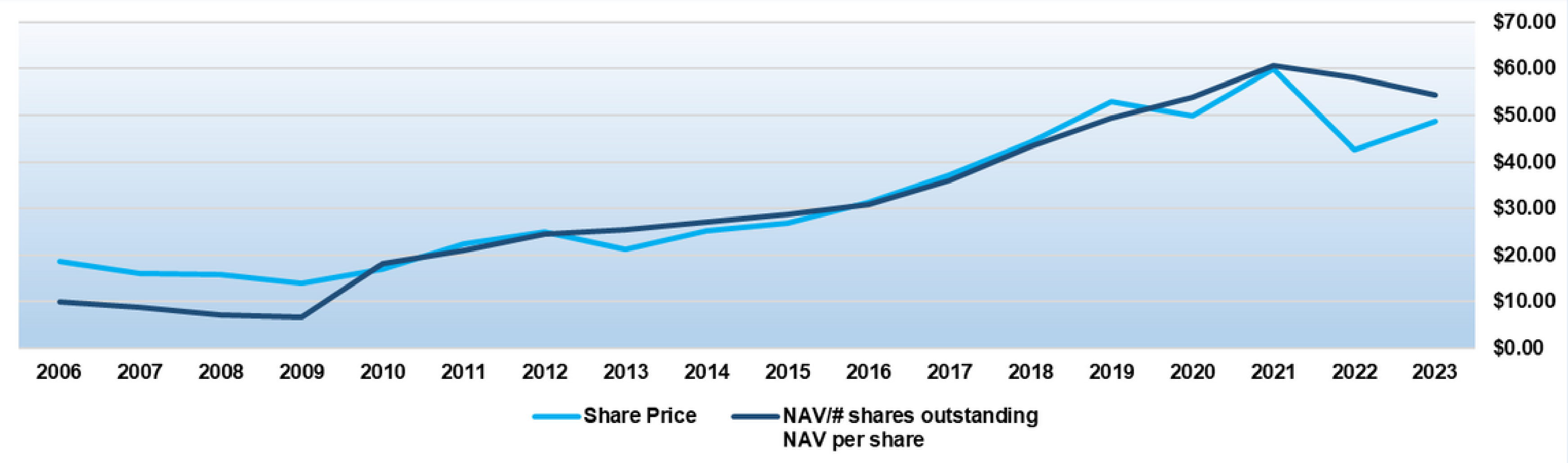
- CAPREIT's focus on developing and operating multi-family apartments, townhouses, condominiums, and mixed-use developments offers a diverse range of housing options for tenants.
- While this provides considerable appeal, there's a medium-level threat posed by alternatives like homeownership and co-living arrangements, as these serve as substitutes for leasing. The extent of this threat is influenced by consumer preferences and the trade-offs between price and performance.

Financial Summary

CANADIAN APARTMENT PROPERTIES • REIT

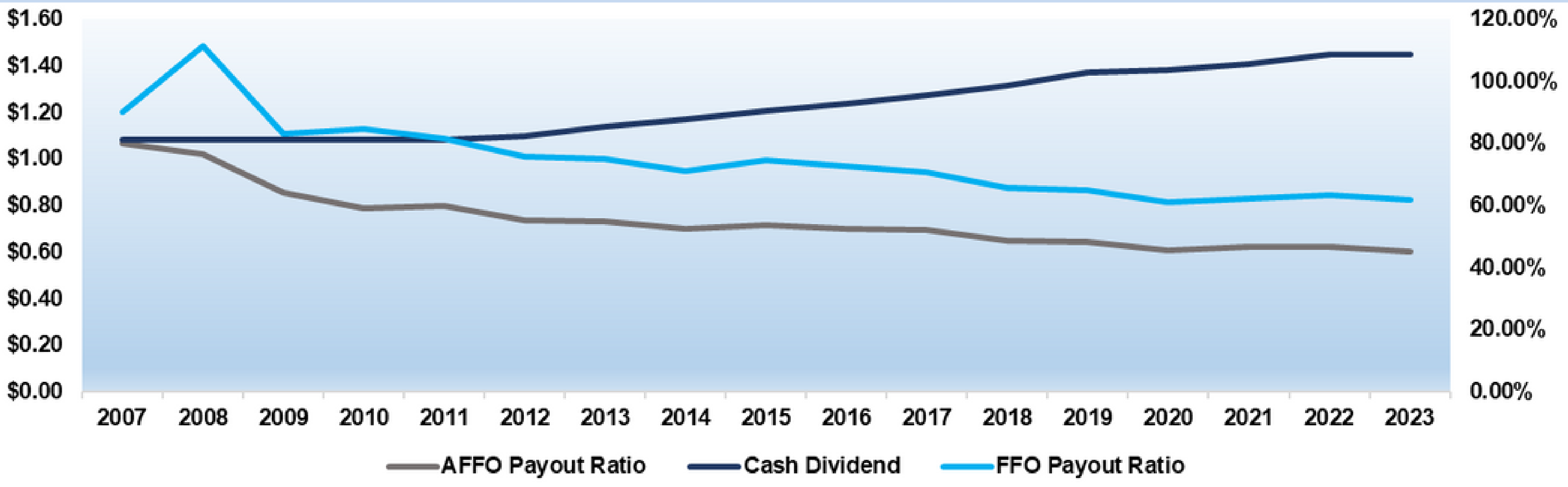
Historical Share Price to NAV Per Share

- NAV reflects the intrinsic value of CAPREIT to its unitholders on an ongoing basis and is therefore used by management on both an aggregate and per unit basis.

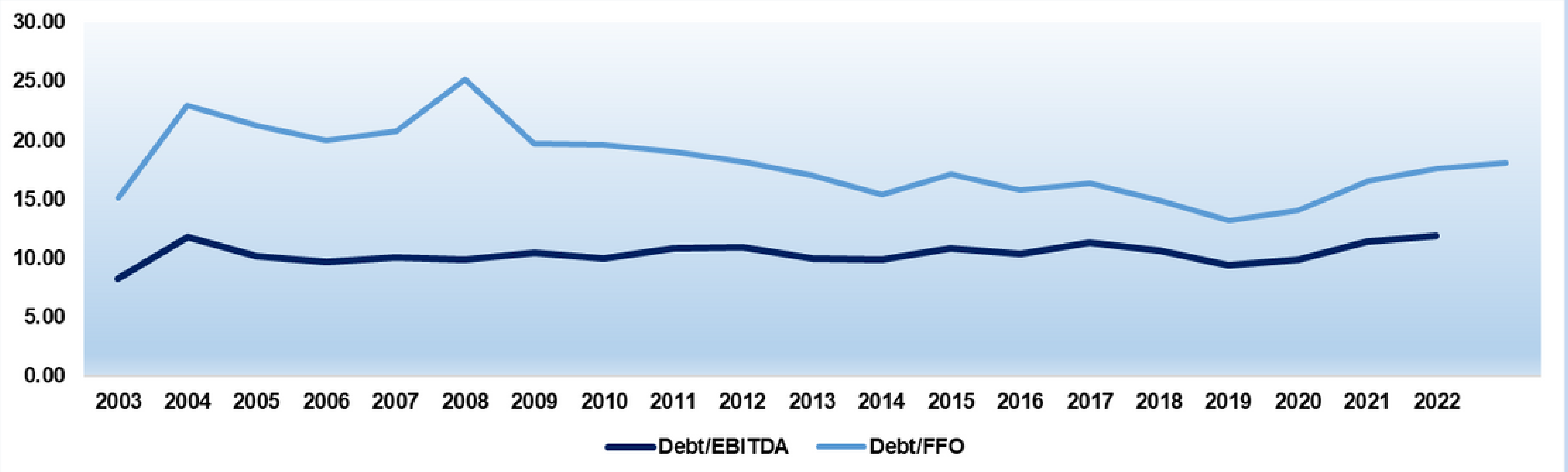


Dividend Analysis

- Over the past decade dividends have reliably increased, including during 2008 and 2021.
- FFO & AFFO payout ratios have steadily declined, indicating the company is able to payout a smaller proportion of dividends to FFO while simultaneously increasing dividends.

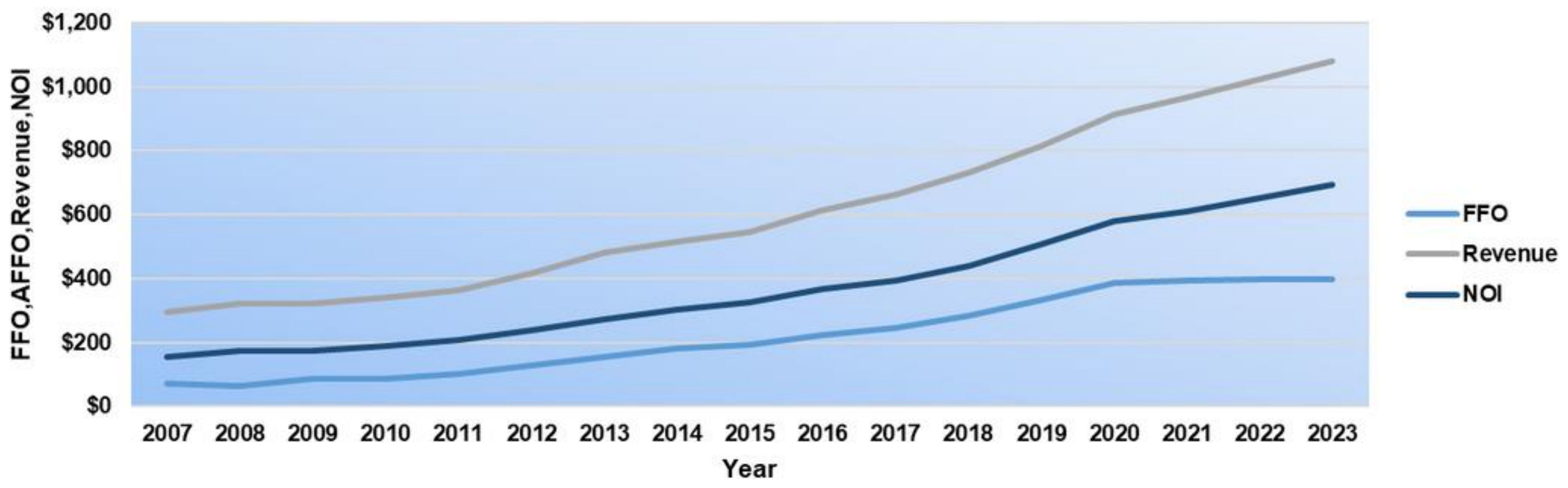


Debt Analysis



- CAP REIT maintained stable debt levels over the past twenty years.
- Even during periods of economic shocks, CAPREIT has maintained consistent debt levels.

Cash Flow Analysis



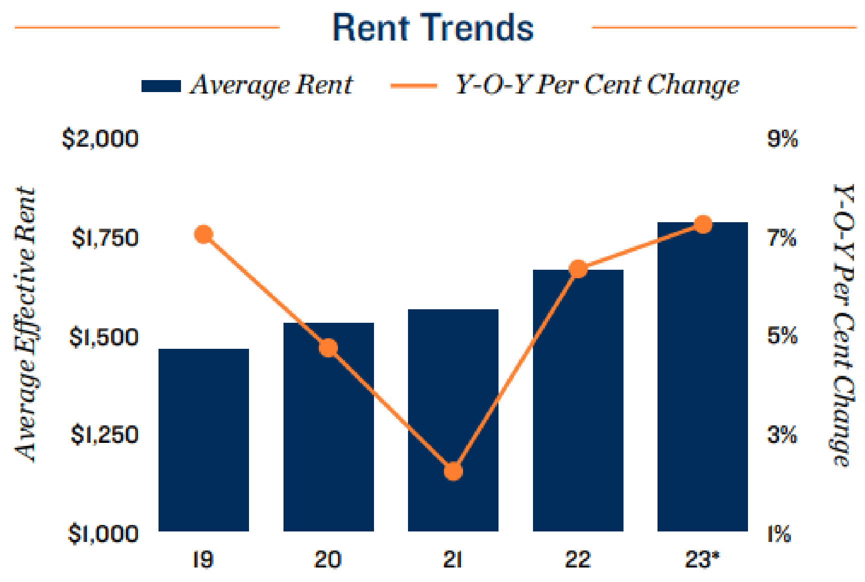
- FFO, revenue and net operating income have all gradually risen over the past decade.
- The company has historically demonstrated strong earnings potential which is expected to continue. Driving growth factors include increased immigration and a lack of housing.

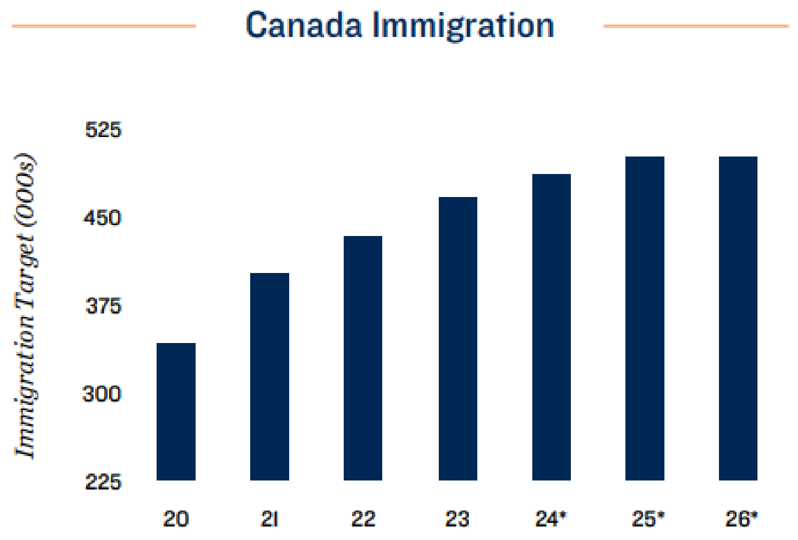
Investment Thesis

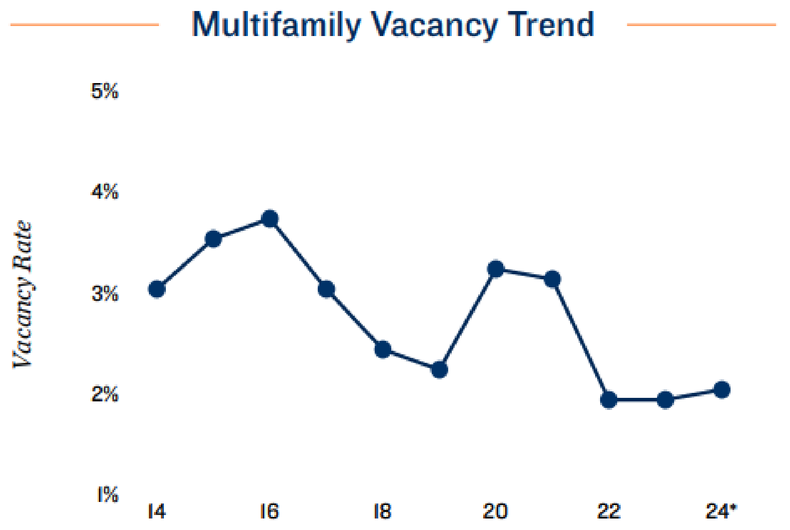
CANADIAN APARTMENT PROPERTIES • REIT

Macro Thesis:

- Canadian Apartment REIT presents a strong investment opportunity fueled by Canada's robust immigration trends and increasing demand for rental properties, particularly in Toronto.
- The influx of immigrants and international students drives steady rental demand, while Toronto's resilient rental sector, with low vacancy rates and rising rents, indicates promising growth.
- The market imbalance between demand and new supply further supports Canadian Apartment REIT's potential for significant expansion

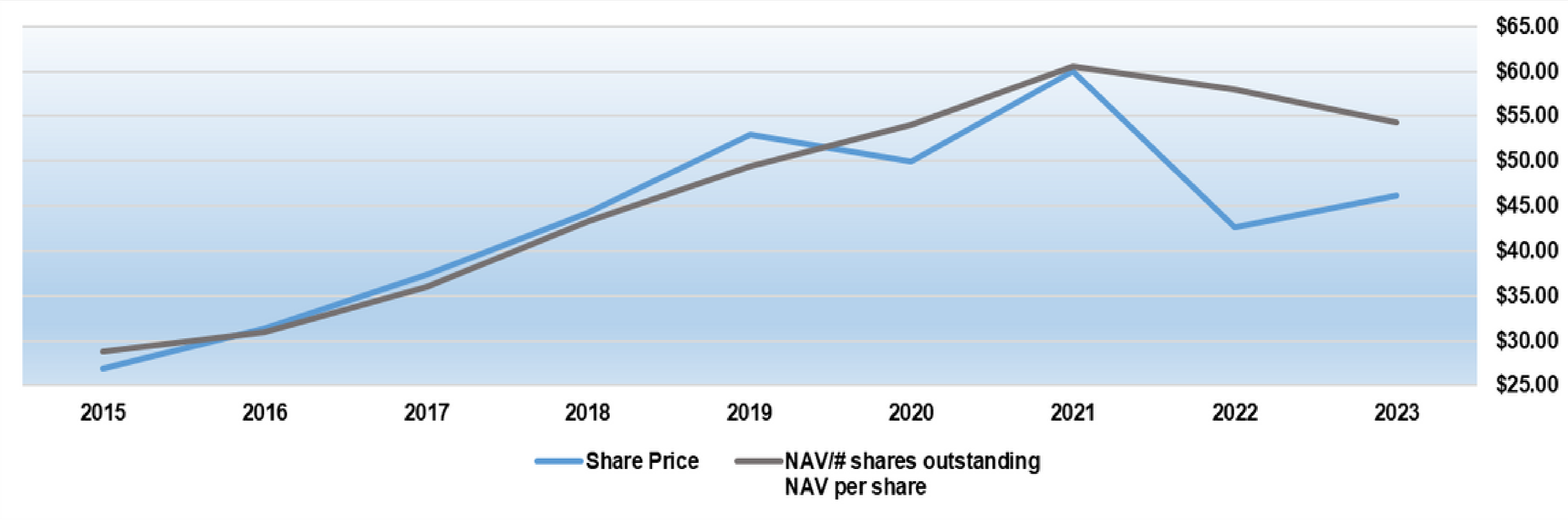






Company Thesis:

- Disproportionally benefit from property geography
- Short Term mispricing due to unfavourable property valuations from high-interest rates
  - Trading at between a 10%-20% discount to NAV over the past 2 years compared to the historical average of about 98% Price to NAV.
  - Historical trends suggest corrections typically occur within 1-3 years, with potential catalysts including interest rate cuts.
  - Aggressive share repurchase programs have been implemented due to the discount to NAV, with over $350 million spent to cancel 5.5 million shares over 2 years.
- Despite unfavourable terms operational performance remains strong, with strong cash flows and 99% of debt locked in fixed-rate mortgages, likely mitigating the impact of high-interest rates.
- The company is shifting focus on quality, with dispositions in non-core areas and acquisitions in high-growth regions like British Columbia and Alberta indicating an opportunity for growth.



Valuation Summary - DCF

CANADIAN APARTMENT PROPERTIES • REIT

Football Field Analysis

Assumptions

Upside
Implied price: $67.54
Upside: 45.2%

- 0.5% higher rent growth
- 0.25% higher occupancy rate
- 66% Operating income margin

Base
Implied price: $59.28
Upside: 27.5%

- Rent growth & occupancy by region
- 65% Operating Income Margin

Downside
Implied price: $50.4
Upside: 8.4%

- 0.5% lower rent growth
- 0.25% lower occupancy rate
- 64% Operating income margin

Sensitivity Analysis

Implied Share Price

	Exit Multiple				
WACC \ $59.1	18.5x	19.5x	20.5x	21.5x	22.5x
7.5%	$36.20	$39.60	$43.00	$46.41	$49.81
6.5%	$43.18	$46.92	$50.65	$54.39	$58.13
5.5%	$50.90	$55.00	$59.11	$63.22	$67.33
4.5%	$59.44	$63.96	$68.47	$72.99	$77.51
3.5%	$68.90	$73.88	$78.85	$83.82	$88.80

Implied Share Price

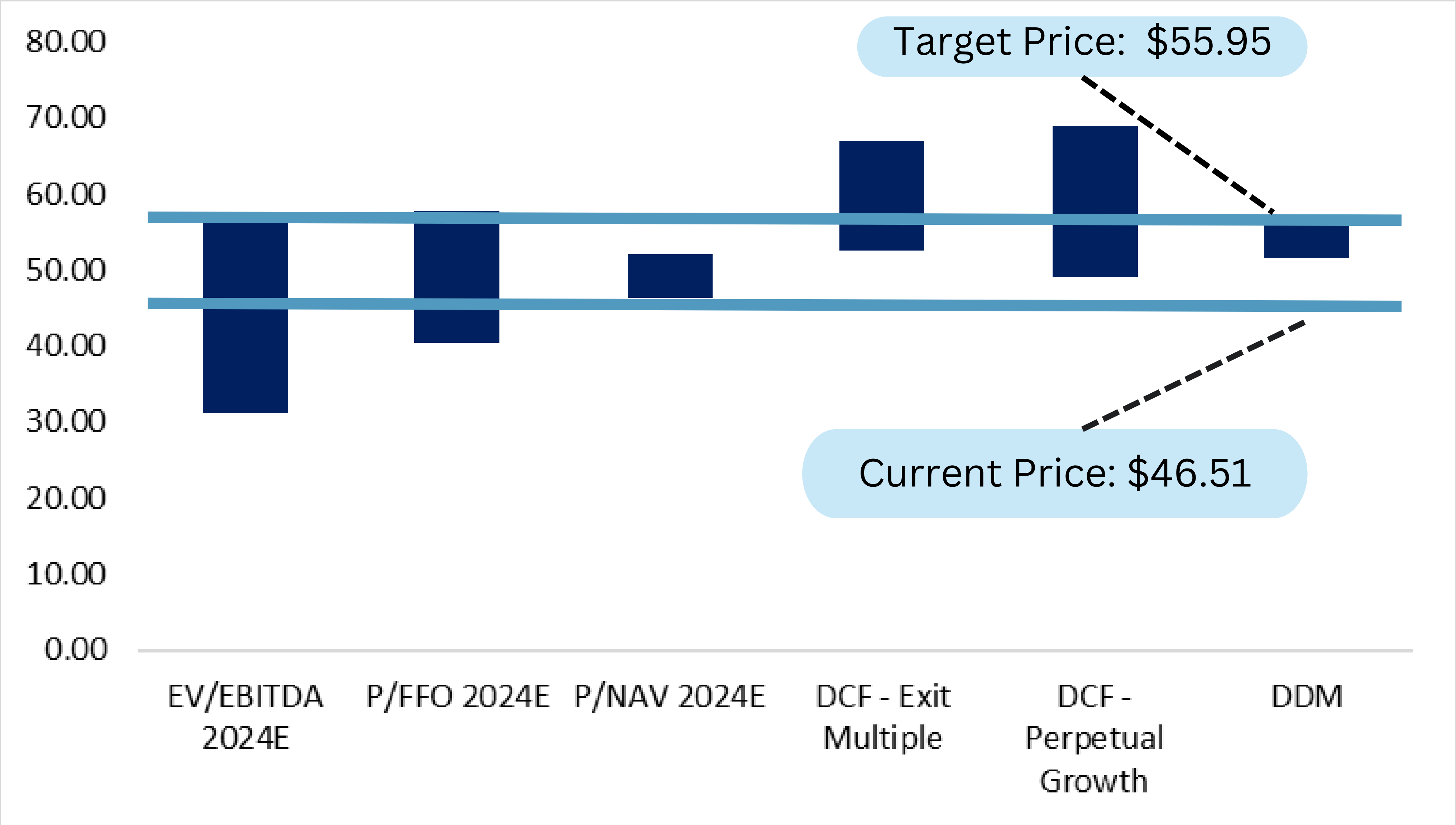
	Perpetual Growth Rate				
WACC	2.00%	2.25%	2.50%	2.75%	3.00%
7.5%	$10.98	$12.77	$14.75	$16.93	$19.35
6.5%	$24.69	$27.66	$31.01	$34.80	$39.14
5.5%	$46.46	$51.95	$58.36	$65.93	$75.01
4.5%	$85.96	$98.16	$113.40	$132.98	$159.07
3.5%	$178.59	$218.73	$278.83	$378.68	$577.20

- Segmented revenue by region and assumed rental growth for each region
  - Premium over rent caps due to tenant turnover
- WACC of 5.5%
  - Very low cost of debt (2.80%)
- 20.5x exit multiple and 2.5% perpetual growth rate

Valuation Summary

CANADIAN APARTMENT PROPERTIES • REIT

Football Field Analysis



Comps:

- Ev/EBITDA, P/NAV, and P/FFO
- Currently trading on the low to mid-end of comps

DDM:

- Extended DCF assumptions to get FFO
- Assumed a payout ratio relative to FFO

Target Price

DCF
Implied Price: $59.28
Weight: 50%

COMPS
Implied Price: $49.81
Weight: 20%

DDM
Implied Price: $54.49
Weight: 30%

Target Price
$55.95
Upside: 20.3%

101.2% of current NAV

Risk and Mitigants

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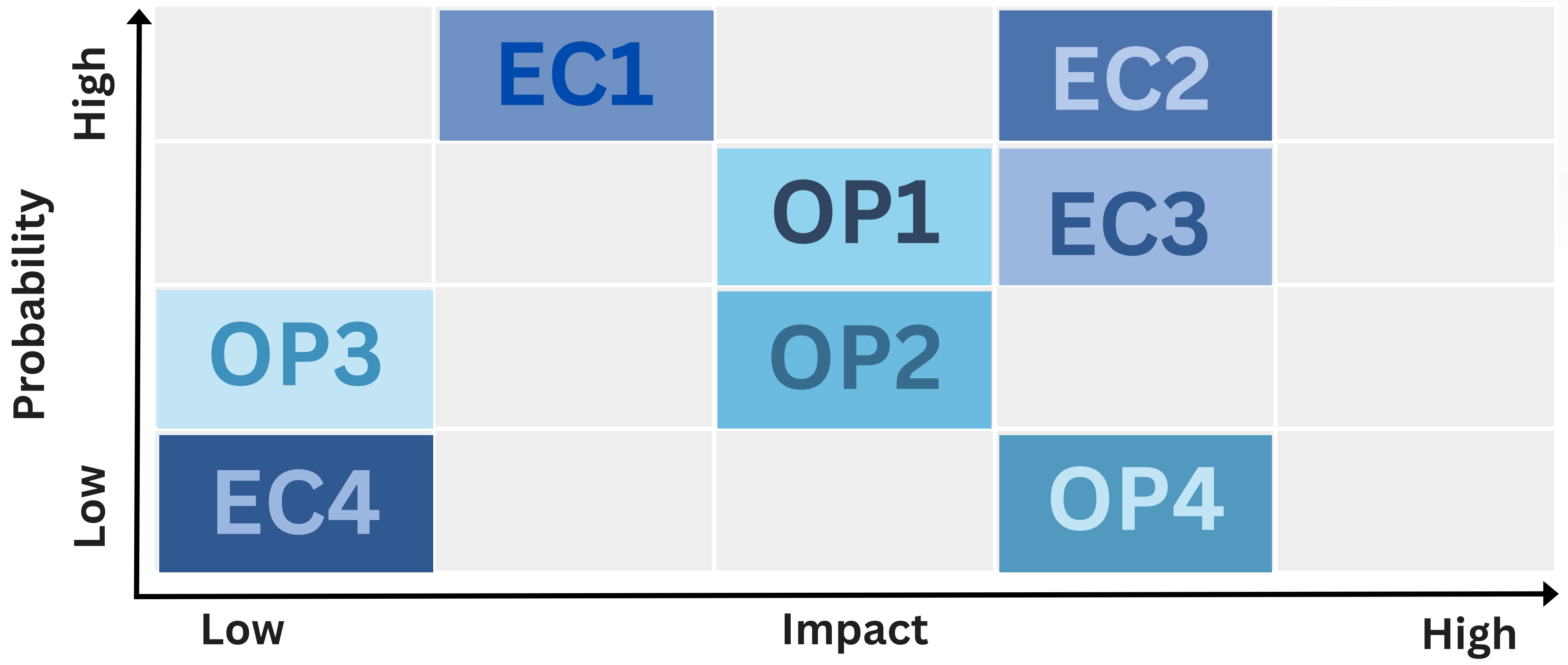
Risks



Main Risks

OP1	Failure to generate rental income resulting from poor quality of properties, their perceived premiums, or lack of amenities
OP2	Increased competiton in multifamily industry due to increased demand and government incentive programs for apartment buildings
EC1	Cap on International Students as well as increasing the financial requirement by more than double decreases consumer base
EC2	Declining interest rates decrease the cost of borrowing, which will shift renters away from rent ownership towards purchasing their own properties

Additional Risks

OP	Human resource issues are reflected in high employee turnover, potentially caused by inadequate employee retention practices
OP	Increase in the duration and magnitude of natural disasters such as wind/ice storms, floods, fires
EC3	Potential changes in regulations such as new tax laws, alterations to landlord/tenant rights or new zoning laws
EC4	Fluctuations in occupancy levels is a risk that could occur as an inherent part of the property industry

Mitigants

OP1	Regularly maintain and update properties as well as monitor for opportunities of enhancements to cater to tenant preferences and stay up to date on market trends
OP2	CAPREIT remains proactive by disposing old properties and constantly investing in recently built buildings in major Canadian cities
OP3	Employ rigorous HR policies and alter current policies to successfully retain employees. Examples of measures include sufficient pay, career development programs, generous compensations/benefits
OP4	Ensure acquisitions have the necessary durability to withstand to a certain degree such disasters. Diversify location of new acquisitions to reduce risk from region specific natural disasters. Purchase insurance
EC1	CAPREIT has a diverse tenant base to include various demographics with inelastic demands for rental housing. Most of their apartments cater to individuals who are willing to pay a higher price for a quality apartment
EC2	On a historical basis, decreasing interest rates have led to an insignificant decrease to occupancy levels that always end up increasing the following year
EC3	CAPREIT would need to keep a stay up to date on the changing dynamics of regulations and account for additions/alternations to ensure effective compliance
EC4	Price negotiations with tenants for increased satisfaction and an inclination to stay. Diversify with various industries and sectors inhabiting rental spaces to reduce loss of income in the face of economic downturns.

Recommendation

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Appendix

CANADIAN APARTMENT
PROPERTIES • REIT

Appendix – DCF (Base Case)

CANADIAN APARTMENT PROPERTIES • REIT

CAP REIT (CAR.UN)

Discounted Cash Flow Analysis

(Millions of Dollars)	Historical						Projected									
Calculation of FCFF	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Scenario 1 Base																
Revenue	688.6	780.8	882.6	933.1	1,007.3	1,065.3	$1,066	$1,135	$1,222	$1,329	$1,445	$1,531	$1,619	$1,712	$1,809	$1,912
% Growth	*7.8%*	*13.4%*	*13.0%*	*5.7%*	*8.0%*	*5.8%*	*0.0%*	*6.5%*	*7.6%*	*8.7%*	*8.8%*	*5.9%*	*5.7%*	*5.8%*	*5.7%*	*5.7%*
Operating expense	(249.5)	(272.6)	(304.5)	(323.1)	(356.9)	(372.5)	373.0	397.3	427.7	465.0	505.8	535.7	566.5	599.1	633.3	669.2
Operating Income	439.1	508.2	578.1	610.0	650.4	692.8	692.8	737.9	794.2	863.5	939.4	994.9	1,052.0	1,112.6	1,176.1	1,242.7
% Margin	*63.8%*	*65.1%*	*65.5%*	*65.4%*	*64.6%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*
Other Income	*42.3*	*34.9*	*30*	*31.7*	*16.5*	*13.6*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*
Other Expense	(39.5)	(46.2)	(43.3)	(51.4)	(65.3)	(70.2)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)
EBITDA	442	497	565	590	602	636	643	688	744	814	889	945	1,002	1,063	1,126	1,193
% Margin	*64.2%*	*63.6%*	*64.0%*	*63.3%*	*59.7%*	*59.7%*	*60.3%*	*60.6%*	*60.9%*	*61.2%*	*61.5%*	*61.7%*	*61.9%*	*62.1%*	*62.2%*	*62.4%*
Interest Expense	(135.2)	(135.2)	(164.6)	(160.5)	(180.4)	(211.7)	(222.3)	(233.4)	(245.1)	(257.3)	(270.2)	(283.7)	(297.9)	(312.8)	(328.4)	(344.8)
Amortization	(14.1)	(18.7)	(34.0)	(25.2)	(7.5)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
EBT	293	343	366	405	414	418	414	448	493	550	613	655	698	744	791	842
% Margin	*42.5%*	*43.9%*	*41.5%*	*43.4%*	*41.1%*	*39.3%*	*38.9%*	*39.5%*	*40.3%*	*41.4%*	*42.4%*	*42.8%*	*43.1%*	*43.4%*	*43.7%*	*44.0%*
Net Income	293	343	366	405	414	418	414	448	493	550	613	655	698	744	791	842
(+) Amortization	14.1	18.7	34.0	25.2	7.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
FFO	307	362	400	430	421	425	420	455	499	556	619	661	704	750	798	848
Free Cash Flow Adjustments:																
(-) Capital Expenditures	(203.8)	(242.4)	(244.9)	(299.4)	(336.5)	(307.8)	(298.4)	(317.9)	(342.1)	(332.1)	(361.3)	(382.6)	(404.6)	(427.9)	(452.3)	(478.0)
(+) Growth CAPex adjustment							223.8	238.4	256.6	249.1	271.0	287.0	303.5	320.9	339.3	358.5
AFFO							345.9	375.0	413.6	473.2	528.9	565.5	603.0	642.8	684.6	728.4
(-/+) Acquisitions / Dispositions	(400.3)	(1,327.4)	(652.1)	(810.8)	(232.7)	131.3	(100.0)	(100.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)
(-/+) Change in NWC							(20.0)	(8.2)	(10.2)	(12.6)	(13.8)	(10.1)	(10.4)	(11.0)	(11.5)	(12.1)
Free Cash Flow to Firm	(297.4)	(1,208.1)	(496.8)	(680.4)	(148.0)	248.0	225.9	266.8	253.4	310.6	365.1	405.5	442.6	481.8	523.1	566.3
Weighted Average Cost of Capital	5.48%															
Discount Period							1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount Factor							0.95	0.90	0.85	0.81	0.77	0.73	0.69	0.65	0.62	0.59
Present Value of FCF							$214.1	$239.8	$215.9	$250.9	$279.6	$294.4	$304.6	$314.4	$323.6	$332.1

Appendix – DCF (Upside Case)

CANADIAN APARTMENT PROPERTIES • REIT

CAP REIT (CAR.UN)																
Discounted Cash Flow Analysis																
(Millions of Dollars)	Historical						Projected									
Calculation of FCFF	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Scenario 2 Upside																
Revenue	688.6	780.8	882.6	933.1	1,007.3	1,065.3	$1,073	$1,149	$1,242	$1,357	$1,482	$1,577	$1,675	$1,779	$1,889	$2,005
% Growth	*7.8%*	*13.4%*	*13.0%*	*5.7%*	*8.0%*	*5.8%*	*0.8%*	*7.0%*	*8.1%*	*9.2%*	*9.3%*	*6.4%*	*6.2%*	*6.2%*	*6.2%*	*6.1%*
Operating expense	(249.5)	(272.6)	(304.5)	(323.1)	(356.9)	(372.5)	365.0	390.6	422.3	461.2	504.0	536.1	569.4	604.9	642.3	681.6
Operating Income	439.1	508.2	578.1	610.0	650.4	692.8	708.5	758.2	819.8	895.3	978.3	1,040.7	1,105.4	1,174.2	1,246.7	1,323.2
% Margin	*63.8%*	*65.1%*	*65.5%*	*65.4%*	*64.6%*	*65.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*
Other Income	*42.3*	*34.9*	*30*	*31.7*	*16.5*	*13.6*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*
Other Expense	(39.5)	(46.2)	(43.3)	(51.4)	(65.3)	(70.2)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)
EBITDA	442	497	565	590	602	636	659	708	770	845	928	991	1,055	1,124	1,197	1,273
% Margin	*64.2%*	*63.6%*	*64.0%*	*63.3%*	*59.7%*	*59.7%*	*61.3%*	*61.6%*	*62.0%*	*62.3%*	*62.6%*	*62.8%*	*63.0%*	*63.2%*	*63.4%*	*63.5%*
Interest Expense	(135.2)	(135.2)	(164.6)	(160.5)	(180.4)	(211.7)	(222.3)	(233.4)	(245.1)	(257.3)	(270.2)	(283.7)	(297.9)	(312.8)	(328.4)	(344.8)
Amortization	(14.1)	(18.7)	(34.0)	(25.2)	(7.5)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
EBT	293	343	366	405	414	418	430	469	519	582	652	701	751	805	862	922
% Margin	*42.5%*	*43.9%*	*41.5%*	*43.4%*	*41.1%*	*39.3%*	*40.1%*	*40.8%*	*41.7%*	*42.9%*	*44.0%*	*44.4%*	*44.9%*	*45.3%*	*45.6%*	*46.0%*
Net Income	293	343	366	405	414	418	430	469	519	582	652	701	751	805	862	922
(+) Amortization	14.1	18.7	34.0	25.2	7.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
FFO	307	362	400	430	421	425	436	475	525	588	658	707	758	811	868	928
Free Cash Flow Adjustments:																
(-) Capital Expenditures	(203.8)	(242.4)	(244.9)	(299.4)	(336.5)	(307.8)	(300.6)	(321.7)	(347.8)	(339.1)	(370.6)	(394.2)	(418.7)	(444.8)	(472.2)	(501.2)
(+) Growth CAPex adjustment							225.4	241.2	260.9	254.4	277.9	295.7	314.0	333.6	354.2	375.9
AFFO							361.1	394.4	437.8	503.2	565.4	608.4	652.8	700.2	750.3	803.1
(-/+) Acquisitions / Dispositions	(400.3)	(1,327.4)	(652.1)	(810.8)	(232.7)	131.3	(100.0)	(100.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)
(-/+) Change in NWC							(20.0)	(8.6)	(10.7)	(13.1)	(14.3)	(10.8)	(11.2)	(11.9)	(12.5)	(13.2)
Free Cash Flow to Firm	(297.4)	(1,208.1)	(496.8)	(680.4)	(148.0)	248.0	241.1	285.8	277.1	340.2	401.1	447.6	491.6	538.3	587.7	639.8
Weighted Average Cost of Capital	5.48%															
Discount Period							1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount Factor							0.95	0.90	0.85	0.81	0.77	0.73	0.69	0.65	0.62	0.59
Present Value of FCF							$228.5	$256.9	$236.1	$274.8	$307.2	$325.0	$338.4	$351.3	$363.5	$375.2

Appendix – DCF (Downside Case)

CANADIAN APARTMENT PROPERTIES • REIT

CAP REIT (CAR.UN) Discounted Cash Flow Analysis (Millions of Dollars)	Historical						Projected									
Calculation of FCFF	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Scenario 3 Downside																
Revenue	688.6	780.8	882.6	933.1	1,007.3	1,065.3	$1,058	$1,122	$1,202	$1,301	$1,409	$1,486	$1,564	$1,647	$1,733	$1,823
% Growth	*7.8%*	*13.4%*	*13.0%*	*5.7%*	*8.0%*	*5.8%*	*-0.7%*	*6.0%*	*7.1%*	*8.2%*	*8.3%*	*5.4%*	*5.3%*	*5.3%*	*5.2%*	*5.2%*
Operating expense	(249.5)	(272.6)	(304.5)	(323.1)	(356.9)	(372.5)	380.9	403.8	432.7	468.3	507.2	534.8	563.0	592.8	623.9	656.3
Operating Income	439.1	508.2	578.1	610.0	650.4	692.8	677.2	717.9	769.2	832.6	901.8	950.8	1,000.9	1,053.8	1,109.1	1,166.8
% Margin	*63.8%*	*65.1%*	*65.5%*	*65.4%*	*64.6%*	*65.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*
Other Income	*42.3*	*34.9*	*30*	*31.7*	*16.5*	*13.6*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*	*25*
Other Expense	(39.5)	(46.2)	(43.3)	(51.4)	(65.3)	(70.2)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)
EBITDA	442	497	565	590	602	636	627	668	719	783	852	901	951	1,004	1,059	1,117
% Margin	*64.2%*	*63.6%*	*64.0%*	*63.3%*	*59.7%*	*59.7%*	*59.3%*	*59.5%*	*59.8%*	*60.2%*	*60.5%*	*60.6%*	*60.8%*	*61.0%*	*61.1%*	*61.3%*
Interest Expense	(135.2)	(135.2)	(164.6)	(160.5)	(180.4)	(211.7)	(222.3)	(233.4)	(245.1)	(257.3)	(270.2)	(283.7)	(297.9)	(312.8)	(328.4)	(344.8)
Amortization	(14.1)	(18.7)	(34.0)	(25.2)	(7.5)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
EBT	293	343	366	405	414	418	399	428	468	519	575	611	647	685	724	766
% Margin	*42.5%*	*43.9%*	*41.5%*	*43.4%*	*41.1%*	*39.3%*	*37.7%*	*38.2%*	*38.9%*	*39.9%*	*40.8%*	*41.1%*	*41.4%*	*41.6%*	*41.8%*	*42.0%*
Net Income	293	343	366	405	414	418	399	428	468	519	575	611	647	685	724	766
(+) Amortization	14.1	18.7	34.0	25.2	7.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
FFO	307	362	400	430	421	425	405	435	474	525	582	617	653	691	731	772
Free Cash Flow Adjustments:																
(-) Capital Expenditures	(203.8)	(242.4)	(244.9)	(299.4)	(336.5)	(307.8)	(296.3)	(314.1)	(336.5)	(325.2)	(352.2)	(371.4)	(391.0)	(411.6)	(433.2)	(455.8)
(+) Growth CAPex adjustment							222.2	235.6	252.4	243.9	264.2	278.5	293.2	308.7	324.9	341.8
AFFO							330.8	356.0	390.0	444.0	493.5	524.2	555.3	588.1	622.4	658.0
(-/+) Acquisitions / Dispositions	(400.3)	(1,327.4)	(652.1)	(810.8)	(232.7)	131.3	(100.0)	(100.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)
(-/+) Change in NWC							(20.0)	(7.8)	(9.8)	(12.1)	(13.2)	(9.3)	(9.5)	(10.1)	(10.5)	(11.0)
Free Cash Flow to Firm	(297.4)	(1,208.1)	(496.8)	(680.4)	(148.0)	248.0	210.8	248.3	230.2	281.9	330.3	364.9	395.7	428.1	461.8	497.0
Weighted Average Cost of Capital	5.48%															
Discount Period							1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount Factor							0.95	0.90	0.85	0.81	0.77	0.73	0.69	0.65	0.62	0.59
Present Value of FCF							$199.9	$223.1	$196.2	$227.7	$253.0	$264.9	$272.4	$279.3	$285.7	$291.5

Appendix – DCF (Projections)

CANADIAN APARTMENT PROPERTIES • REIT

Base Case

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rent Growth									
Ontario	5.5%	6.0%	7.0%	7.5%	7.5%	5.0%	5.0%	5.0%	5.0%
Quebec	4.2%	5.2%	6.2%	7.2%	7.5%	4.0%	4.0%	4.0%	4.0%
BC	5.5%	6.5%	7.5%	8.0%	8.3%	5.0%	5.0%	5.0%	5.0%
Other - Praires	7.1%	8.1%	9.1%	10.1%	11.1%	7.0%	7.0%	7.0%	7.0%
Other - Atlantic	7.0%	8.0%	9.0%	10.0%	11.0%	7.0%	7.0%	7.0%	7.0%
MHC Sites	6.8%	7.8%	8.8%	9.0%	9.5%	7.5%	7.5%	7.5%	7.5%
Netherlands	6.0%	6.8%	6.8%	6.8%	7.0%	5.2%	5.2%	5.2%	5.2%
Occupancy									
Ontario	99.1%	99.3%	99.4%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%
Quebec	97.9%	98.2%	98.5%	98.8%	99.0%	99.0%	99.0%	99.0%	99.0%
BC	99.1%	99.3%	99.4%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%
Other - Praires	98.9%	98.6%	98.3%	98.0%	97.7%	97.7%	97.7%	97.7%	97.7%
Other - Atlantic	99.8%	99.8%	99.8%	99.8%	99.8%	99.6%	99.6%	99.6%	99.6%
MHC Sites	96.5%	96.9%	97.3%	97.7%	98.0%	98.0%	98.0%	98.0%	98.0%
Netherlands	98.5%	98.5%	98.6%	98.7%	98.8%	99.0%	99.0%	99.0%	99.0%
Operating Income Margin	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%

*Upside/Downside Projections:

- Rent Growth +/- 0.5%
- Occupancy rate +/- 0.25%
- Operating Income Margin +/- 1%

Appendix - WACC

CAP REIT (CAR.UN)
Capital Structure

Common Equity	
Share Price	$47.01
Common Shares	169.9
Market Capitalization	**$7,987**
Debt	
Short-Term Debt	$651.0
Long-Term Debt	$6,408.0
Total Debt	**$7,059**
Preferred Equity	
Preferrence Shares ($ Millions)	**$0**
Debt-to-Total Capitalization	46.9%
Common Equity-to-Total Capitalization	53.1%
Preferred Equity-to-Total Capitalization	0.0%

CAP REIT (CAR.UN)
WACC Calculation

Cost of Debt	
Pre-Tax Cost of Debt	2.80%
Income Tax Rate	0.00%
After Tax Cost of Debt	**2.80%**
Cost of Common Equity	
Risk-Free Interest Rate	3.43%
Levered Beta	0.96
Market Risk Premium	4.60%
Cost of Common Equity	**7.85%**
Cost of Preferred Equity	
Preferred Dividend	$0.00
Preferred Equity	$0
Cost of Preferred Equity	**0.00%**
WACC	**5.48%**

Appendix - DDM

CANADIAN APARTMENT PROPERTIES • REIT

CAP REIT (CAR.UN)																	
Dividend Discount Model																	
(Millions of Dollars)			Historical						Projected								
			2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Scenario	1	Base																
FFO			**306.7**	**361.7**	**400.2**	**429.8**	**421.2**	**424.5**	**420.5**	**454.5**	**499.2**	**556.2**	**619.2**	**661.2**	**704.1**	**749.8**	**797.7**	**847.9**
FFO Payout Ratio			66.70%	65.50%	61.40%	62.60%	62.10%	60.40%	62.00%	62.00%	62.00%	62.00%	62.00%	64.00%	66.00%	68.00%	70.00%	70.00%
Dividend Payout			**204.6**	**236.9**	**245.7**	**269.1**	**261.6**	**256.4**	**260.7**	**281.8**	**309.5**	**344.9**	**383.9**	**423.2**	**464.7**	**509.9**	**558.4**	**593.5**
Cost of Equity			7.85%															
Discount Period									1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount Factor									0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51	0.47
Present Value of CF									$241.7	$242.3	$246.7	$254.9	$263.1	$268.9	$273.8	$278.5	$282.8	$278.7

Equity Value	
Present Value of Projected FCF	$2,631.2
Terminal Value	
Growth	3.5%
Cost of Equity	7.85%
Terminal Value	$6,627.1
% of Equity Value	72%
Equity Value	$9,258.3
Shares Outstanding	169.9
Implied Share Price	$54.49

Appendix - Comps

CANADIAN APARTMENT PROPERTIES • REIT

CAP REIT (CAR.UN)

Comparable Companies Analysis

CAP REIT (CAR.UN) Comparable Companies Analysis		Current Share Price	% of 52-Week. High	Equity Value (M)	Enterprise Value (M)	Enterprise Value			Price					
Company	Ticker					LTM EBITDA	2024E EBITDA	2025E EBITDA	LTM FFO	2024E FFO	2025E FFO	LTM NAV	2024E NAV	2025E NAV
CAP REIT (CAR.UN)	CAR	$47.74	87.4%	$8,081	$15,357	24.3x	22.2x	20.8x	20.4x	18.6x	17.4x	0.9x	0.8x	0.8x
Boardwalk REIT	BEI	$76.95	98%	$4,145	$7,225	22.0x	19.6x	18.0x	19.8x	18.8x	17.6x	1.0x	0.9x	0.9x
Equity Residential (US)	EQR	$61.40	88%	$24,067	$31,819	18.7x	17.8x	17.1x	16.2x	15.9x	15.2x	N/A	N/A	N/A
AvalonBay Communities (US)	AVB	$181.46	91%	$25,850	$33,631	18.9x	18.7x	17.7x	17.6x	16.7x	15.9x	N/A	N/A	N/A
Killam Apartment REIT	KMP	$19.00	94%	$2,324	$4,504	21.4x	20.5x	19.0x	15.6x	15.8x	14.8x	0.8x	0.9x	0.9x
InterRent REIT	IIP	$14.15	98%	$2,152	$3,842	25.5x	24.2x	22.4x	24.0x	22.6x	20.7x	0.9x	0.8x	0.8x

	LTM EBITDA	2024E EBITDA	2025E EBITDA	LTM FFO	2024E FFO	2025E FFO	LTM NAV	2024E NAV	2025E NAV
Mean	21.8x	20.5x	19.2x	18.9x	18.1x	16.9x	0.9x	0.9x	0.9x
Median	21.7x	20.1x	18.5x	18.7x	17.7x	16.7x	0.9x	0.9x	0.9x
High	25.5x	24.2x	22.4x	24.0x	22.6x	20.7x	1.0x	0.9x	0.9x
Low	18.7x	17.8x	17.1x	15.6x	15.8x	14.8x	0.8x	0.8x	0.8x

Implied Enterprise Value

Mean	$13,952.0	$14,186.0	$14,164.17	$7,705.87	$7,859.00	$7,823.20	$8,112.51	$8,360.18	$8,231.66
Median	$13,888.0	$13,874.6	$13,671.5	$7,610.9	$7,677.8	$7,692.3	$8,044.3	$8,360.2	$8,231.7
High	$16,320.0	$16,746.4	$16,553.6	$9,768.0	$9,831.0	$9,563.4	$9,089.7	$8,852.0	$8,715.9
Low	$11,968.0	$12,317.6	$12,636.9	$6,349.2	$6,873.0	$6,837.6	$7,271.7	$7,868.4	$7,747.4

Implied Equity Value

Mean	$6,923.0	$7,157.0	$7,135.2	$7,705.9	$7,859.0	$7,823.2	$8,112.5	$8,360.2	$8,231.7
Median	$6,859.0	$6,845.6	$6,642.5	$7,610.9	$7,677.8	$7,692.3	$8,044.3	$8,360.2	$8,231.7
High	$9,291.0	$9,717.4	$9,524.6	$9,768.0	$9,831.0	$9,563.4	$9,089.7	$8,852.0	$8,715.9
Low	$4,939.0	$5,288.6	$5,607.9	$6,349.2	$6,873.0	$6,837.6	$7,271.7	$7,868.4	$7,747.4

Implied Share Price

Mean	$40.75	$42.12	$42.00	$45.36	$46.26	$46.05	$47.75	$49.21	$48.45
Median	$40.37	$40.29	$39.10	$44.80	$45.19	$45.28	$47.35	$49.21	$48.45
High	$54.69	$57.19	$56.06	$57.49	$57.86	$56.29	$53.50	$52.10	$51.30
Low	$29.07	$31.13	$33.01	$37.37	$40.45	$40.24	$42.80	$46.31	$45.60

Whatever Company Metrics

Company	LTM EBITDA	2019E EBITDA	2020E EBITDA	LTM FFO	2019E FFO	2020E FFO	LTM BV	2020E BV	2021E BV
CAP REIT (CAR.UN)	$640.0	$692.0	$739.0	$407.0	$435.0	$462.0	$9,089.7	$9,835.5	$9,684.3

Appendix - Top Industry Players

CANADIAN APARTMENT PROPERTIES • REIT

Company	Last Price	7D Return	1Y Return	Market Cap	Analysts Target	Valuation	Growth	Div Yield
CAR.UN Canadian Apar...	CA$46.17	-4.6%	-0.7%	CA$7.9b	CA$57.49	PB 0.8x	E 81.2%	3.1%
REI.UN RioCan Real Es...	CA$18.20	1.1%	-8.5%	CA$5.5b	CA$21.53	PB 0.7x	E 72.0%	6.1%
GRT.UN Granite Real Es...	CA$75.53	-0.08%	-5.2%	CA$4.8b	CA$88.45	PB 0.9x	E 39.4%	4.4%
CHP.UN Choice Propert...	CA$13.76	0.9%	-3.0%	CA$4.5b	CA$14.88	PB 1x	S 3.3%	5.5%
BEI.UN Boardwalk Rea...	CA$77.04	-2.7%	43.7%	CA$4.1b	CA$85.25	PB 0.9x	S 9.3%	1.9%
SRU.UN SmartCentres ...	CA$22.92	0.3%	-12.0%	CA$4.0b	CA$25.84	PB 0.6x	S -1.3%	8.1%
DIR.UN Dream Industri...	CA$12.75	0.6%	-9.6%	CA$3.6b	CA$15.98	PB 0.8x	E 43.9%	5.5%
CRT.UN CT Real Estate ...	CA$14.09	-0.5%	-9.4%	CA$3.3b	CA$15.50	PB 1.9x	S 3.9%	6.4%
FCR.UN First Capital Re...	CA$15.54	-0.6%	3.1%	CA$3.3b	CA$17.97	PB 0.8x	S -2.0%	5.6%
CRR.UN Crombie Real E...	CA$13.89	-0.4%	-3.5%	CA$2.5b	CA$15.56	PB 1.4x	S 4.5%	6.4%

Appendix - Property Dispostions

CANADIAN APARTMENT PROPERTIES • REIT

($ Thousands) Disposition Date	Suite or Site Count	Region	Sale Price	Fair Value of Investment Properties and Assets Held for Sale	Fair Value Adjustments on Mortgages Assumed by Purchasers	Fair Value of Mortgages Assumed by Purchasers[1]
January 25, 2023[2]	1,150	Ottawa, ON	$ 136,250	$ 132,342	$ 3,908	$ 34,798
March 1, 2023[3]	46	Wingham, ON	250	250	–	–
March 6, 2023[4]	–	Montréal, QC	17,250	17,250	–	–
April 6, 2023[5]	1	The Netherlands	588	588	–	–
May 11, 2023	180	Longueuil, QC	27,787	27,787	–	–
May 16, 2023	60	Charlottetown, PEI	9,400	9,400	–	–
June 5, 2023	162	Longueuil, QC	25,000	24,048	952	5,490
June 8, 2023	393	Montréal, QC	68,900	68,900	–	–
June 30, 2023[3]	217	Windsor, ON	8,250	8,250	–	–
July 17, 2023[5]	1	The Netherlands	564	564	–	–
August 15, 2023	111	Charlottetown, PEI	11,963	11,963	–	–
August 15, 2023	73	Montréal, QC	12,600	12,600	–	–
August 21, 2023	12	Charlottetown, PEI	1,300	1,300	–	–
August 22, 2023	180	Montréal, QC	32,500	32,500	–	–
August 28, 2023[5]	1	The Netherlands	529	529	–	–
August 30, 2023	9	Charlottetown, PEI	950	950	–	–
September 29, 2023[5]	1	The Netherlands	393	393	–	–
November 8, 2023	263	Calgary, AB	53,880	53,880	–	–
November 9, 2023	78	Québec City, QC	8,640	8,640	–	–
November 30, 2023	21	Charlottetown, PEI	1,650	1,650	–	–
November 2023[6]	2	The Netherlands	1,047	1,047	–	–
December 2023[6]	8	The Netherlands	4,382	4,382	–	–
Total	2,969		$ 424,073	$ 419,213	$ 4,860	$ 40,288

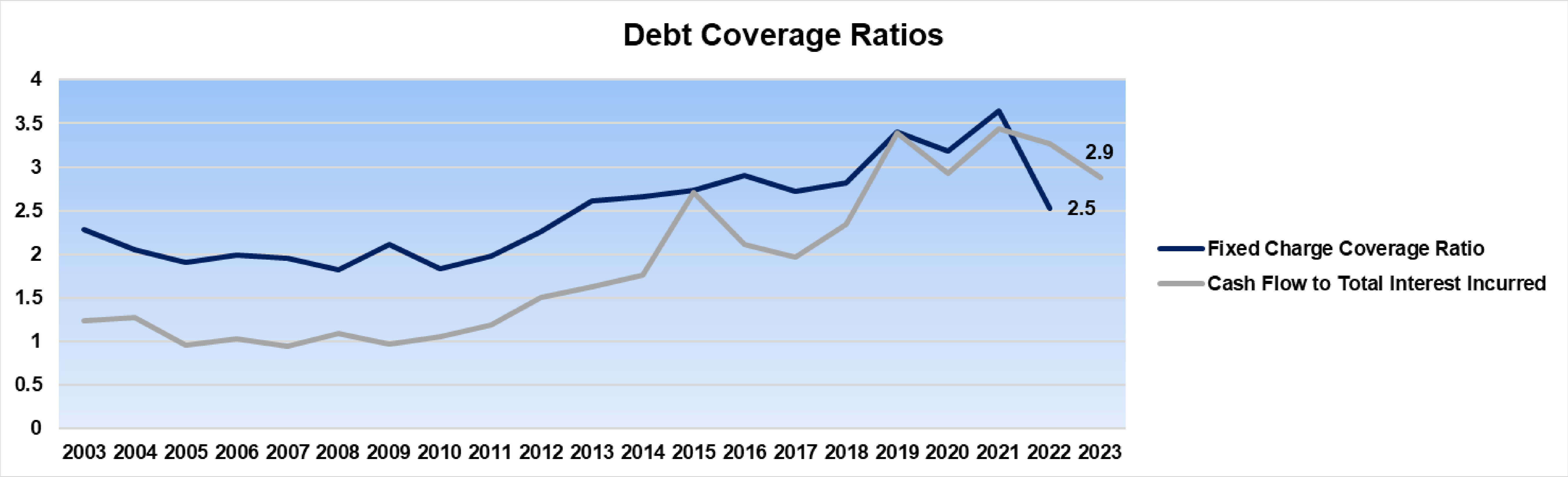
Appendix - Property Acquisitions

($ Thousands) Acquisition Date	Suite or Site Count	Region	Total Acquisition Costs	Assumed Mortgages Payable	Subsequent Acquisition Financing	Stated Interest Rate (%)[1]	Term to Maturity (Years)[2]
February 27, 2023	143	Ottawa, ON	$ 56,627[3]	$ 39,064	$ –	3.25	9.50
April 12, 2023	89	Edmonton, AB	25,780[4]	18,763	–	2.59	8.58
May 16, 2023	93	Langley, BC	53,910[5]	–	31,353	4.94	10.00
June 1, 2023	52	Dartmouth, NS	20,821[5]	–	12,280	4.94	10.00
June 22, 2023	92	Langley, BC	51,115[5]	–	38,394	4.81	10.00
November 27, 2023	48	Esquimalt, BC	22,616[5]	–	–	–	–
December 19, 2023	114	Vancouver, BC	68,579[5]	–	–	–	–
Total	631		$ 299,448	$ 57,827	$ 82,027		
2022 Acquisition Financing[6]					$ 28,119	4.39	5.56

Appendix - Debt Coverage Ratios

CANADIAN APARTMENT PROPERTIES • REIT

Debt Coverage Analysis



- Fixed Charge Coverage Ratio FCCR: Measures how many times a company can cover its fixed costs with its earnings EBIT. A higher ratio typically indicates that a company can better fulfill its fixed debt obligations.
- Operating Cash Flow to Total Interest Incurred is a metric measuring how many times a company can cover its debt interest obligations using its operating cash flow.
- Currently both metrics are higher than their historical averages, indicating the firm is in a better position to pay off its fixed debt obligations

Appendix - Macro

CANADIAN APARTMENT PROPERTIES • REIT

Why has Canada's Inflation Target Been Set at 2 Per Cent?

Why not zero inflation?

Why does the Bank aim for a moderate amount of inflation rather than no inflation? The reasons usually given for not targeting an inflation rate closer to zero focus on three issues: (i) problems caused by the constraint that interest rates cannot fall below zero; (ii) difficulties in measuring inflation accurately; and (iii) downward wage rigidities that could affect labour market adjustment.

Downward nominal wage rigidity

Some analysts believe that there is a psychological 'floor' to nominal (money) wages, such that wages are unlikely to decline even when there is considerable slack in the labour market. So they argue that a positive rate of inflation—preferably higher than 2 per cent—is needed to "grease the wheels" of the economy and encourage workers in struggling industries to accept a cut in "real" (inflation-adjusted) wages, rather than lose their jobs.[3]

While there is evidence of limited downward wage rigidity in Canada, this does not appear to have prevented labour market adjustment and to have raised the unemployment rate.

Nominal interest rates cannot fall below zero (the zero lower bound on interest rates)

The main argument against a zero inflation target has to do with the inability of interest rates to fall below zero, known as the zero lower bound on interest rates (ZLB).

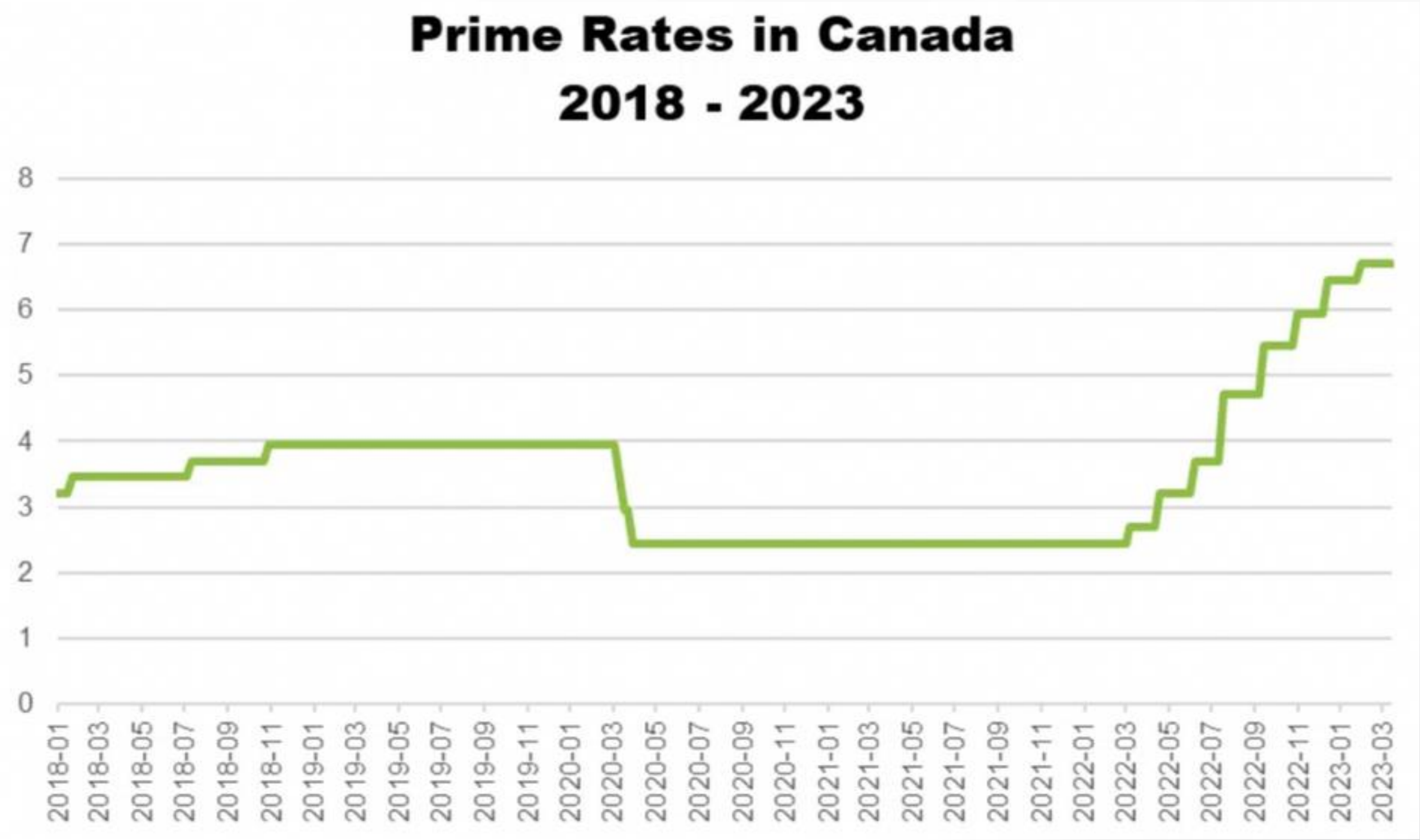
When interest rates are at or close to zero, the ability of the central bank to use its traditional tool, the policy interest rate, to stimulate the economy is limited since actual (nominal) interest rates charged by banks cannot be negative. However, *real* (inflation-adjusted) interest rates can still be negative, if the inflation rate is higher than the actual interest rate.

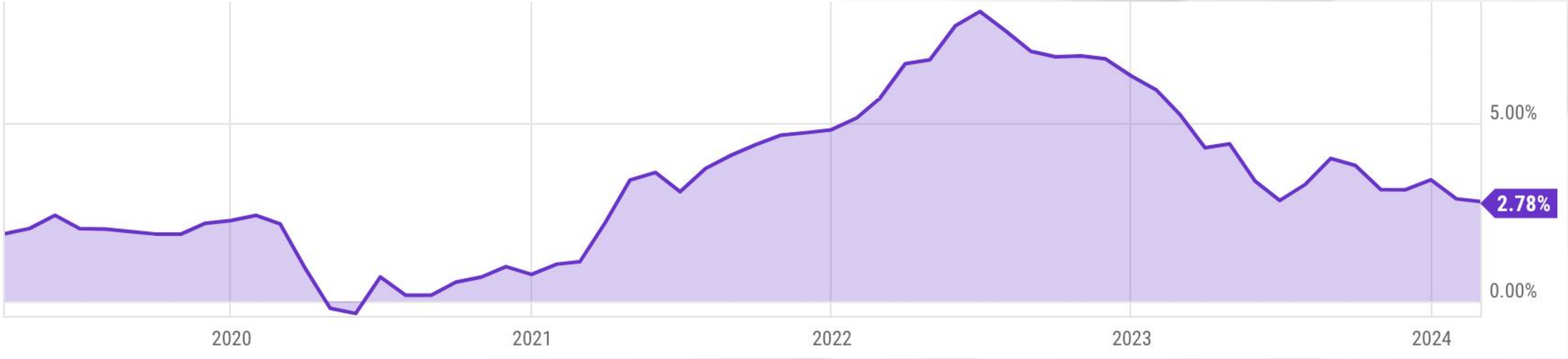
A brief history of inflation targeting in Canada

In February 1991, the Government and the Bank of Canada agreed to adopt inflation targets. The initial objective was to gradually reduce inflation, as measured by the total consumer price index (CPI), from about 5 per cent in late 1990 to 2 per cent by the end of 1995, and then continue reducing it until price stability (which remained to be defined) was reached.

When the 2 per cent target was extended to 1998, it was judged important to see how the Canadian economy would perform through a full cycle, including a period of operating at or near capacity, before deciding on a long-run inflation target. Because the 2 per cent target was successful in delivering good overall economic performance, and because some questions remained about the net additional benefits from lowering it, the target was kept at 2 per cent

Appendix - Macro





SWOT Analysis

CANADIAN APARTMENT PROPERTIES • REIT

S

Strengths:
- Market leadership and brand recognition.
- Diversified portfolio of properties across different regions.
- Strong financial performance and consistent dividend payments.

W

Weaknesses:
- Exposure to economic downturns and fluctuations in the real estate market.
- Dependence on interest rates and financing conditions.
- Concentration risk in certain geographic markets.

O

Opportunities:
- Growth potential through strategic acquisitions and development projects.
- Expansion into new markets or property sectors.
- Increasing demand for rental housing due to demographic trends.

T

Threats:
- Competition from other REITs and real estate developers.
- Regulatory changes affecting the real estate industry.