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Global Research
Published by Raymond James & Associates

# Automotive Properties REIT

(APR.UN-TSX)

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**January 30, 2018 (5:14 a.m. EST)**

**Initiation of Coverage**

**Real Estate: Retail**

## Taking the Long (Duration) Road Home: Initiating on Automotive Properties REIT

**Recommendation:** We are initiating coverage on Automotive Properties REIT with a Market Perform rating.

**Analysis:**

- **Stable, Unique Pure-Play:** Auto Properties REIT is Canada's only public owner/operator of automotive dealership real estate. With a weighted average lease term of ~13 years and 1.5% contractual rent step-ups in 90% of leases, the fully leased 39 asset portfolio generates predictable and stable cash flows, sustaining a near sector-leading 7.6% yield.
- **Dilawri Partnership Helps in Fragmented Industry:** The top 10 groups in Canada comprise 10% of the nation's 3,500 dealerships. Furthermore, ~65% of all dealerships are individually owned or owned by dealership groups that own less than five locations. The largest dealership group in the country, the Dilawri Group, is both the lead investor and tenant (90% of NOI) of the REIT, and Auto Properties has a ROFO agreement in place on any properties acquired or developed by the group.
- **Following in the Footsteps of Industry Titans:** Two of North America's most renowned investor groups have significant interest in the sector. In 2014, Brookfield Property Partners acquired Capital Automotive REIT, the US's first and largest auto dealership REIT for US$4.3 billion (6.6% cap rate). A year later, Berkshire Hathaway acquired the Van Tuyl Group for US$4.1 billion. Warren Buffett commented that it was "the beginning of a journey that will have no end….The fun has just started."
- **Lease Duration Prohibitive in Rising Rate World:** The tradeoff for stability is the lack of turnover at a time when short duration works to a REIT's benefit. Auto Properties' portfolio is 100% occupied and has the sector's longest W.A. lease term. However, management won't be able to quickly raise rents to capture inflation, match rising debt costs and offset possible cap rate expansion now that we're in a rising rate environment.

**Valuation:** Auto Properties REIT trades at 11.3x and 10.8x our 2018 and 2019 AFFO estimates, largely in-line with the Canadian retail REIT group that trades at 15.0x and 14.6x 2018E and 2019E AFFO. On an NAV basis, the REIT trades at a -2% discount to NAV while retail peers trade at a -4% discount. We are initiating coverage with a Market Perform rating.

| FFO /Unit | Q1 Mar | Q2 Jun | Q3 Sep | Q4 Dec | Full Year | NOI (mln) |
|---|---|---|---|---|---|---|
| 2016A | C$0.28 | C$0.27 | C$0.27 | C$0.23 | C$1.04 | C$30 |
| 2017E | 0.24A | 0.25A | 0.24A | 0.25 | 0.98 | 36 |
| 2018E | 0.26 | 0.25 | 0.26 | 0.26 | 1.03 | 41 |
| 2019E | 0.26 | 0.26 | 0.27 | 0.27 | 1.06 | 45 |

Source: Raymond James Ltd., Thomson One

**Rating**

Market Perform 3

**Current and Target Price**

| | |
|---|---|
| Target Price: | NM |
| Current Price (Jan-26-18) | C$10.54 |
| Total Return to Target | NM |
| 52-Week Range | C$11.65 - C$10.46 |
| Suitability | High Risk/Income |

**Market Data**

| | |
|---|---|
| Market Cap. (mln) | C$278 |
| Current Net Debt (mln) | C$268 |
| Enterprise Value (mln) | C$545 |
| Units Outstanding (mln) | 26.2 |
| Avg. Daily Vol. (10 day) | 33,186 |
| Distribution/Yield | C$0.80/7.6% |
| Implied Cap Rate | 6.5% |
| D/GBV | 46% |
| D/EBITDA | 6.8x |

**Earnings & Valuation Metrics**

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| NAV | | | C$10.75 | |
| Prem./Disc. to NAV | | | -1.5% | |
| P/FFO | 10.3x | 11.1x | 10.3x | 10.0x |
| FFO Payout Ratio | 77% | 82% | 78% | 76% |
| AFFO | C$0.92 | C$0.87 | C$0.94 | C$0.98 |
| P/AFFO | 11.6x | 12.5x | 11.3x | 10.8x |
| AFFO Payout Ratio | 87% | 92% | 86% | 82% |

**Company Description**

Automotive Properties REIT focuses on investing in high-quality automotive dealership properties in strategic Canadian urban markets. Their properties are occupied by retail automotive dealerships, service centres and ancillary businesses.

Source: FactSet.

**Please read domestic and foreign disclosure/risk information beginning on page 24 and Analyst Certification on page 25.**

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## Investment Thesis

**A Unique Pure-Play with Reliable Cash Flows:** Automotive Properties REIT is Canada's only public company that owns and operates automotive dealership real estate. The 39 asset portfolio (1.4 million sf on 126 acres) is located largely in six major Canadian markets (with Regina filling in for Ottawa in the traditional VECTOM acronym). The cash flows are among the most predictable and stable in the Canadian real estate landscape. Fully leased, the average remaining lease term is ~13 years and 90% of leases have contractual 1.5% annual rent step-ups. All this sustains a healthy 7.6% yield.

**Strong Partnership in a Fragmented Market:** The Canadian auto dealership industry is one of the more fragmented assets classes in real estate, with the top 10 dealership groups comprising 10% of the country's 3,500 dealerships. Furthermore, ~65% of all dealerships are individually owned or owned by dealership groups that own less than five locations. An aging ownership base and higher capex requirements by manufacturers are leading to increased monetization of land by owners in order to grow their primary business of selling vehicles, and the REIT is in the driver's seat in pole position (pun intended). Canada's largest dealership group, the Dilawri Group, is both the lead investor and tenant (90% of NOI), and the REIT has a ROFO agreement in place on any properties acquired/developed by the group. Management has recently begun to add non-Dilawri Group assets to the mix, which in our opinion, creates long runway for growth.

**Following in the Footsteps of Industry Titans:** Two of the most renowned investor groups in North America have significant interest in the US space. Brookfield Property Partners acquired Capital Automotive REIT, the first and largest auto dealership REIT in the world, in 2014, for US$4.3 billion (6.6% cap rate). The REIT had grown to 300 properties (16 million sf) since its formation in 1988 when, coincidently, it was the exact same size as Automotive Properties is today (36 assets). A year after that transaction, Berkshire Hathaway acquired the Van Tuyl Group for US$4.1 billion, which at the time, was the fifth largest dealership group in the US (78 dealerships). Warren Buffett commented that the acquisition was "the beginning of a journey that will have no end….The fun has just started."

**Rising Rate Environment May Weigh on Growth:** As the only fully occupied portfolio and carrying the longest WALT in the space (13 years), we believe Auto Properties' portfolio is undoubtedly one of the most stable in the Canadian REIT space. As mentioned, we think this will help support its robust yield and may provide many investors with a safe place to park their capital. However, it appears Canada is finally in a rising rate environment, with the Bank of Canada raising its benchmark rate two weeks ago and likely to do so at least once if not twice more this year. In this type of backdrop, long duration REITs tend to underperform as they are not able to quickly hike rents to capture inflation, as debt costs rise and cap rates (possibly) expand. While the REIT has certain NAV-focused growth initiatives that they may partake in, management likely won't begin these endeavours for a number of years. Given all this, we believe it to be difficult to envision outsized FFO and NAV growth, or corresponding equity outperformance, from Auto Properties REIT in the near-term.

**Exhibit 1: Summary of Auto Properties' Financial and Valuation Metrics**

| Metric | APR.UN | CDN Retail Avg | US Retail Avg |
|---|---|---|---|
| Market Cap ($mln) | $278 | $3,530 | $4,130 |
| Implied Cap Rate | 6.5% | 6.0% | 6.4% |
| Distribution Yield | 7.6% | 5.5% | 4.6% |
| 2018E AFFO Payout | 86% | 82% | 77% |
| 2018E P/AFFO | 11.3x | 15.1x | 18.8x |
| Prem./Disc. To NAV | -1.5% | -4.0% | -17.7% |
| D/GBV | 46% | 44% | 34% |
| D/EBITDA | 6.8x | 8.0x | 6.1x |

Source: Raymond James Ltd.

## Company Overview

**Borne out of Canada's Largest Dealership Group:** Automotive Properties REIT went public in July 2015, largely in an effort for the Dilawri Group to monetize the value of their real estate holdings. Dilawri was the IPO sponsor and the largest unitholder. As such, the IPO involved Auto Properties' acquired 26 dealerships from Dilawri for $354 million (6.6% cap rate; $370 per sf), with the vendor receiving partial consideration of 9.9 million Class B LP units (55% ownership). The public received 8.1 million trust units, after the over-allotment, at $10.00 per unit (or $9.55 per unit net of underwriting/offering expenses), meaning an initial equity base of $172 million. Over the past two+ years, that stake has been diluted down to 38%.

## Portfolio Overview

**A Portfolio Concentrated on Major Markets:** The initial portfolio encompassed just shy of one million sf across four major markets (Calgary, Regina, Greater Toronto, and Greater Vancouver). Since then, the REIT has agreed to or completed 14 acquisitions (including a redevelopment asset and a service centre) aggregating 465,000 sq. ft. for $172 million (~6.7% cap rate; $371 per sf). Of these, four transactions ($71 million) have been from non-Dilawri entities.

**Exhibit 2: Auto Properties' Historical Acquisitions**

| Date | Acquisition | GLA (sf) | Acres | Tenant | Location | Price ($mln) | Price per sf | Cap Rate |
|---|---|---|---|---|---|---|---|---|
| Jul-15 | Initial Portfolio | 958,000 | 88.4 | Dilawri | Various | $354.2 | $370 | 6.6% |
| Dec-15 | Toyota Woodland | 50,000 | 0.6 | Dilawri | Montreal, QC | $7.2 | $145 | 7.3% |
| Dec-15 | Porsche Centre & JLR | 45,000 | 5.2 | Go Auto | Edmonton, AB | $23.0 | $514 | 6.6% |
| Jan-16 | Audi Barrie | 25,000 | 3.1 | Dilawri | Innisfil, ON | $11.1 | $446 | 7.1% |
| Sep-16 | Pfaff Audi | 69,000 | 3.0 | Pfaff | Vaughan, ON | $17.2 | $249 | 6.9% |
| Dec-16 | St. Bruno Audi/Volkswagen | 63,000 | 4.3 | Dilawri | St. Bruno, QC | $14.3 | $228 | 7.0% |
| Dec-16 | Mercedes-Benz West Island | 61,000 | 3.7 | Dilawri | Montreal, QC | $20.3 | $333 | 7.0% |
| Mar-17 | Go Mazda | 17,000 | 2.3 | Go Auto | Edmonton, AB | $8.0 | $466 | 7.0% |
| Mar-17 | Volkswagen Barrie | 20,000 | 1.8 | Dilawri | Barrie, ON | $8.9 | $440 | 6.7% |
| Apr-17 | Heritage Honda | 59,000 | 4.2 | Dilawri | Calgary, AB | $23.6 | $401 | 7.0% |
| Dec-17 | Three Asset EDM Portfolio | 38,900 | 8.5 | Go Auto | Edmonton, AB | $23.2 | $597 | 7.0% |
| Dec-17 | Mazda des Sources | 16,700 | 1.7 | Dilawri | Montreal, QC | $8.0 | $479 | 6.7% |
| Feb-18 | Luxury Redevelopment | N/A | - | - | Kitchener, ON | $7.5* | N/A | 7.5% |
| | **Total/Average** | **1,423,000** | **126.8** | | | **$526.5** | **$370** | **6.8%** |

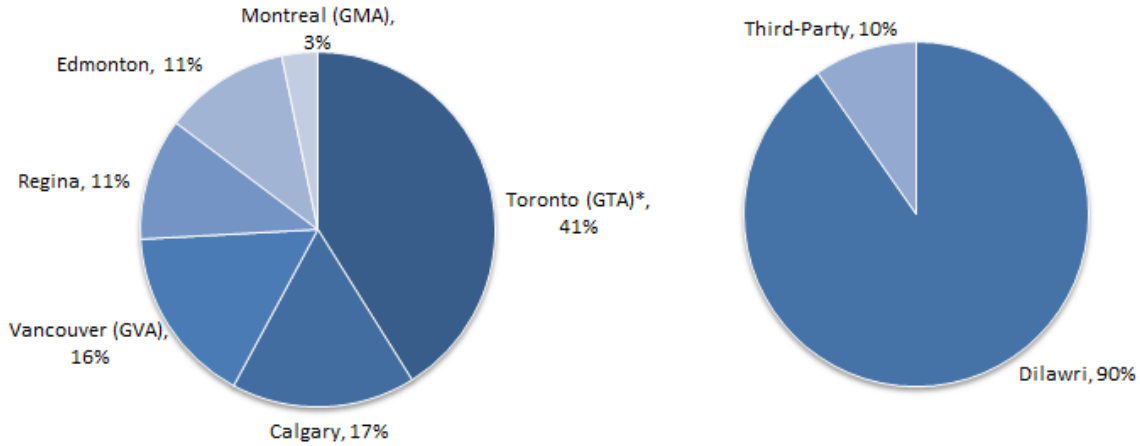
**Note: Includes purchase price and future redevelopment costs.*

Source: Automotive Properties REIT, Raymond James Ltd.

These acquisitions increased their exposure to the initial four markets, while also expanding into Barrie, Bolton, Edmonton and Montreal. As such, pro-forma for post-quarter acquisitions, almost half the portfolio (by NOI) is concentrated in Central Canada (41% in the GTA and 3% in Montreal), with the balance in Western Canada. The REIT currently has no exposure to the Atlantic markets.

**VECTOM Exposure Leads Single-Tenant REITs:** Auto Properties is, for all intents and purposes, a single-tenant REIT, much like a number of retail peers (see page 7 for more details). But the advantage it has is its exposure to the VECTOM markets. While the exposure of their peers ranges from 30%-50%, Auto Properties generates ~85% of NOI from the big six markets (with no Ottawa exposure). We think this insulates the REIT from an uptick in interest rates (and a corresponding rise in cap rates) better than most. It also means more of their properties could have a higher and better use down the road should the tenant not wish to renew upon maturity.

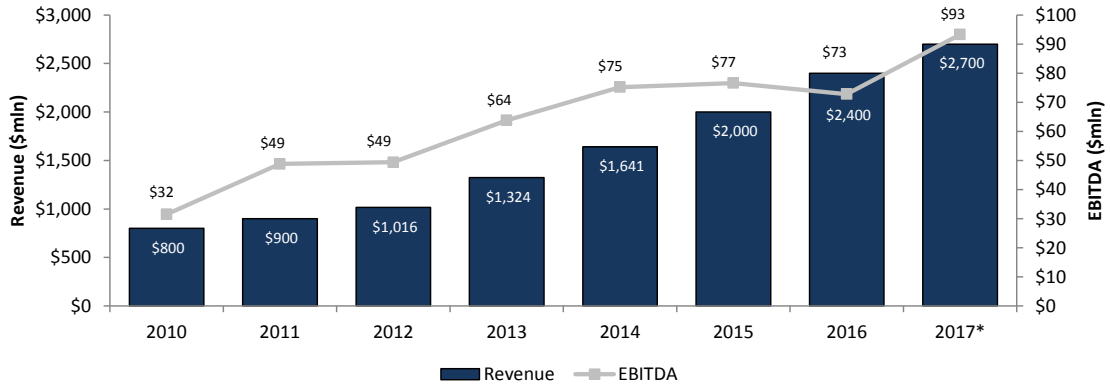
**Exhibit 3: Auto Properties' Geographic and Tenant Mix by NOI (Pro-Forma 4Q17)**




**Includes Barrie and Innisfil*
Source: Automotive Properties REIT, Raymond James Ltd.

**Largest Investor, Largest Tenant, Largest Dealership Group in Canada:** The Dilawri Group is Canada's largest auto dealership group, with 64 locations across all provinces except for Atlantic Canada and Manitoba. Of the REIT's 39 dealerships, the Dilawri Group occupies 35, contributing 90% of NOI annually.

**Exhibit 4: Dilawri Group's Revenue and EBITDA – 2010 to 2017***

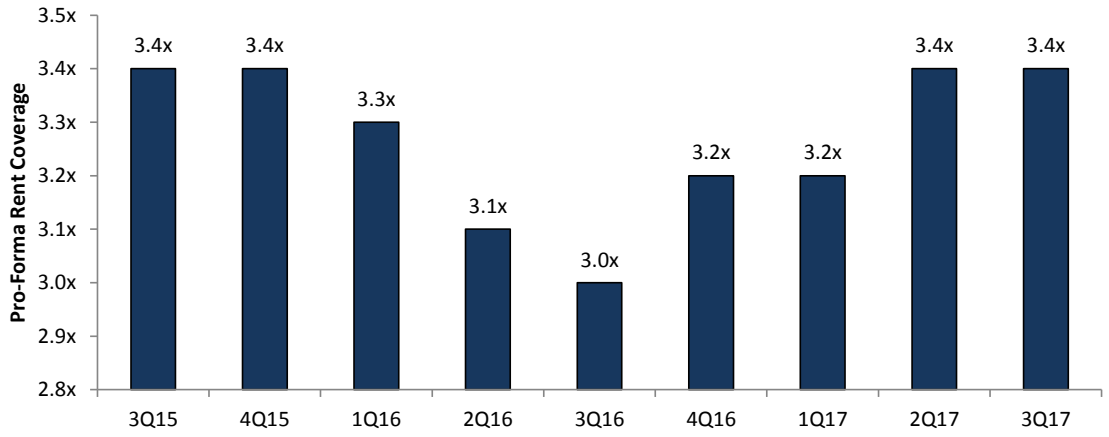



**2017 represents 4Q16-3Q17*
Source: Automotive Properties REIT, Raymond James Ltd.

Started in 1985 with a single dealership in Regina, the Dilawri Group has grown into the country's largest dealership group (64 locations). The company is still privately owned and operated by the Dilawri family and employs over 3,500 people today. As of 3Q17, the principal tenant had revenues of $2.7 billion (LTM) and EBITDA of $93 million, after enjoying 20% and 15% CAGRs since 2010, respectively. Their

adjusted rent coverage with respect is 3.4x, meaning it is extremely well positioned to cover their rent obligations, both to the REIT and third parties.

**Exhibit 5: Dilawri Group's Pro-Forma Rent Coverage**




Source: Automotive Properties REIT, Raymond James Ltd.

**Dilawri Group Lease Structure:** The Dilawri leases carry a weighted average lease term of just under 14 years (range of 9 to 18 years). As at 3Q17, the weighted average annual base rent paid by the group was $24.88 per sq. ft., with built-in effective annual rent escalations of 1.5%. Generally, the leases contain multiple renewal options that would extend the leases to a maximum of 50 years (with rental rates between 0%-10% higher than expiring). As long as they own 10% of the REIT, they have a ROFO to enter into a new lease on the same terms, should all extension options have been exercised. The leases are all "triple-net," whereby the tenant pays for capital improvements (non-structural), property insurance, realty taxes, repairs and maintenance, and utilities. The tenant can expand their premises up to 5% of existing GLA without additional rent required, so long as they fund it themselves. Lastly, a parent guarantee for the initial lease term has been provided by the Dilawri Group for individual dealership obligations.

**Setup Similar to Other Single-Tenant REITs:** Although the product might be different, the structure of the REIT is not dissimilar to the other single-tenant retail REITs – Choice Properties REIT, Crombie REIT, and CT REIT (although Crombie is much more diversified). All four have a lead tenant that accounts for 50%+ of their rent/NOI (~90% in the case of three) while also being the majority unitholder of the stock. These REITs come with high occupancy, long lease terms, and stable built-in rent escalations.

**Exhibit 6: Single-Tenant REIT Profiles (As at Sept 30, 2017)**

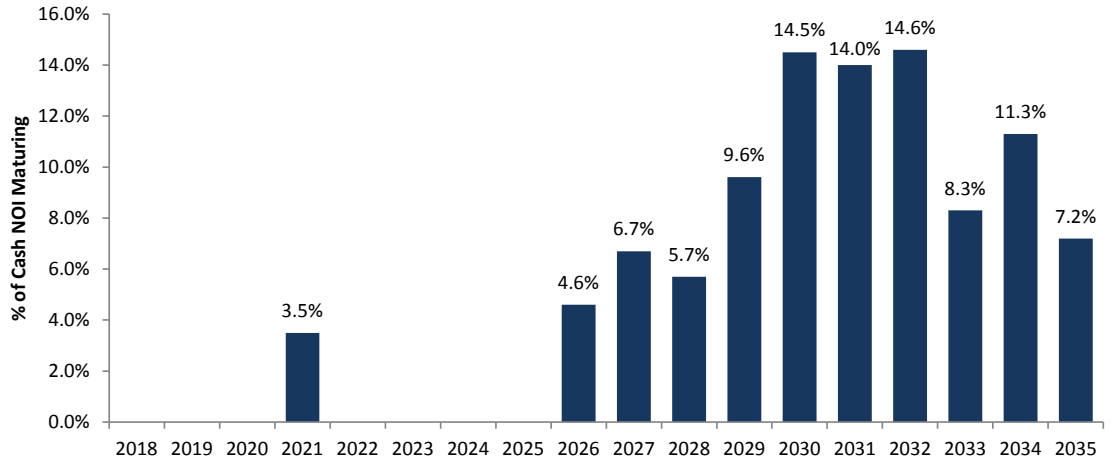
| Metric | APR.UN | CHP.UN | CRR.UN* | CRT.UN |
|---|---|---|---|---|
| Major Tenant | **Dilawri** | **Loblaw** | **Sobeys** | **Canadian Tire** |
| Major Tenant Concentration (BMR) | **90%** | **88%** | **53%** | **93%** |
| Major Tenant Unit Ownership | **38%** | **89%** | **42%** | **85%** |
| Total Portfolio Occupancy | **100%** | **98.9%** | **94.7%** | **99.6%** |
| Major Tenant W.A. Lease Term | **14 yrs** | **11 yrs** | **15 yrs** | **12 yrs** |
| Major Tenant Rent Escalations | **1.5%** | **1.5%** | **1.3%** | **1.5%** |
| IFRS Cap Rate | **6.5%** | **6.1%** | **5.8%** | **6.2%** |
| VECTOM Exposure | **85%** | **39%** | **32%** | **49%** |

**Note: Crombie REIT is not a single-tenant REIT; however, we include it for comparison purposes as Sobeys is both its largest tenant and investor.*

Source: Company Reports, Raymond James & Ltd.

**Non-Dilawri Leases:** The REIT has three properties that are occupied by other dealership groups: and Go Mazda (Edmonton), Pfaff Audi (GTA), and Porsche JLR (Edmonton). The two Edmonton assets have 17-year lease terms while Pfaff has five years left (with two five-year renewal options available to the tenant). One of the Go Auto leases has 1.0% annual rent escalations while the other has the same but only beginning in year five. The Pfaff lease will keep rent flat until 2021, and then get marked-to-market.

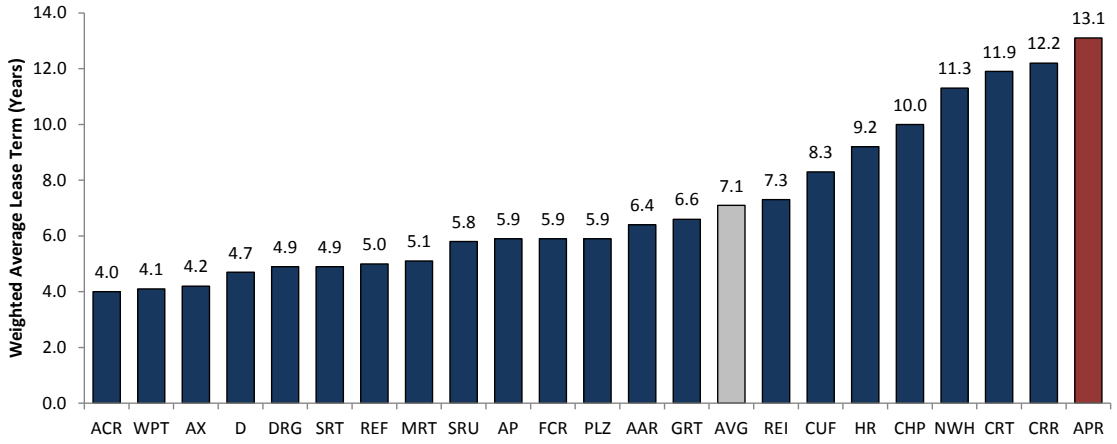
**Exhibit 7: Auto Properties' Lease Maturity Profile**




Source: Automotive Properties REIT, Raymond James Ltd.

**Lease Duration Longest in REIT Universe:** Auto Properties' 13-year weighted average lease term is the longest in the Canadian REIT space, almost double the average for the sector. In our view, this provides certainty and stability of cash flows and helps support the strong 7.6% distribution yield. However, in a rising rate environment, we think this may work against the REIT, as it may not be able to capture inflation to offset rising debt costs and possible cap rate expansion.

**Exhibit 8: Auto Properties' WALT vs. Retail Sector**

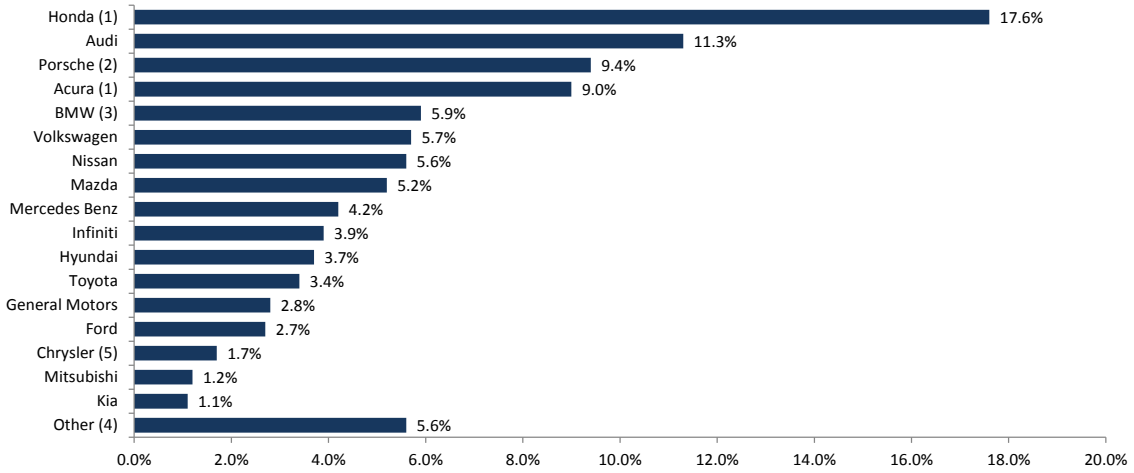



Source: Automotive Properties REIT, Raymond James Ltd.

**Large Diversification of Brands Represented:** In terms of auto brands, the Auto Properties' portfolio has exposure to 29, with 54% of the portfolio geared towards mass market brands (i.e., Honda, Nissan), 34% geared to luxury brands (i.e., Audi, BMW) and 12% geared towards ultra-luxury brands (i.e.: Aston Martin, Bentley). Generally, the purchasing of a vehicle is somewhat elastic in most of Auto Properties' markets, as there are enough suitable alternatives and the purchase can often be delayed. The demand for specific brands/models is highly elastic, because there are so many substitutes. As a result,

diversification is extremely important for a dealership landlord and we think Auto Properties has done a nice job mitigating this risk.

**Exhibit 9: Auto Properties' Brand Exposure (by % of Auto Dealership Rent as at Sept 30, 2017)**




*(1) Includes Honda Used Car and Regina Collison Centre, (2) Includes Porsche JLR Edmonton, (3) Includes MINI, (4) Includes Dilawri Distinctive Collection Calgary, (5) Includes Dodge, Fiat, Jeep and RAM.*

Source: Automotive Properties REIT, Raymond James Ltd.

## Auto Industry Overview

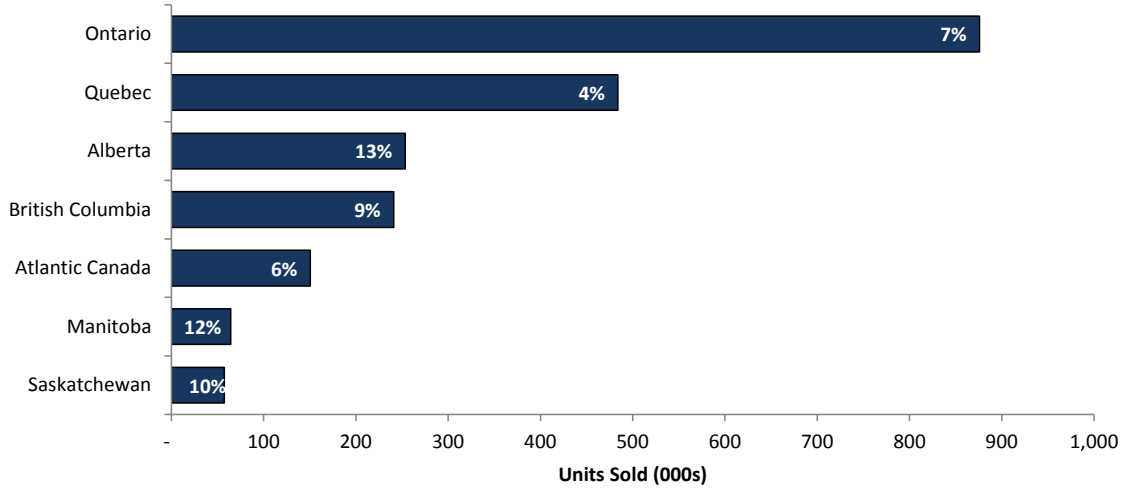
**Car Sales – Driving Canada's Economy:** According to Statistics Canada, the automotive retail industry is the single largest component of Canada's total retail sales, representing 26% of retail sales and merchandise and ~7% of annual GDP in 2016. The raw number of new vehicles sold (2.0 million) was an all-time high too. 2017 is on pace to beat both of those, tracking for 2.1 million units. While the units sold in a year has not always grown year-over-year and the number of dealerships has stayed largely flat, the rise in individual auto prices has led to a steady sales CAGR of ~5% over a 20-year period.

**Exhibit 10: Canadian Auto Industry New Sales and Units Sold – 1996 to 2017**


**Note: 2017 data is reported through November and projected for December*

Source: Statistics Canada, Raymond James Ltd.

**Exhibit 11: 2017 New Auto New Units Sold & Y/Y Growth by Province**




*Note: Percentages denote y/y growth vs. 2016.*
Source: Statistics Canada, Raymond James Ltd.

**Early Days of Industry Concentration:** The Canadian auto dealership industry is very fragmented, with the 3,500 dealerships owned by ~2,000 dealers. The 10 largest owners, as shown below, own 10% of the industry.

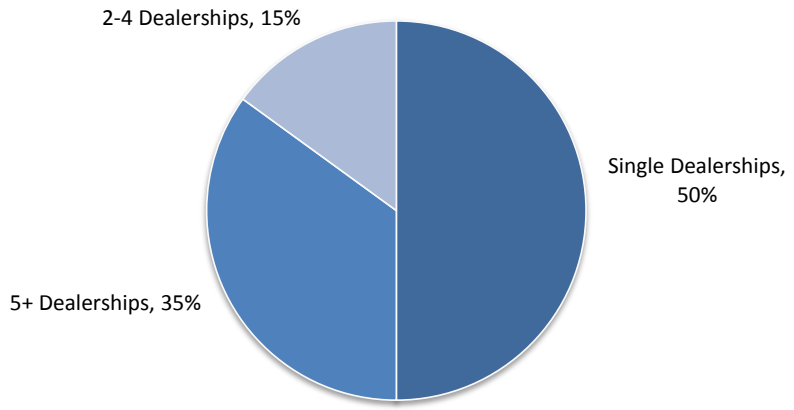
**Exhibit 12: Top 10 Dealerships in Canada (As at Dec 31, 2017)**

| Dealership Group | # of Dealerships | % of Total |
|---|---|---|
| Dilawri Group | 64 | 1.8% |
| Auto Canada | 59 | 1.6% |
| Go Auto | 40 | 1.1% |
| Performance Group | 33 | 0.9% |
| Albi Group | 29 | 0.8% |
| Zanchin Automotive Group | 27 | 0.7% |
| Steele Automotive Group | 26 | 0.7% |
| Gabriel-Prestige President Group | 26 | 0.7% |
| O'Reagan's Automotive Group | 26 | 0.7% |
| Murray Auto Group | 25 | 0.7% |
| **Top 10 Total** | **355** | **9.8%** |
| Other | 3,157 | 90.2% |
| **Total** | **3,512** | **100.0%** |

Source: Company Reports, DesRosiers Automotive Consultants, Raymond James Ltd.

**Single Dealership Owners in Decline:** Consolidation is happening. The number of ownership groups with five or more dealerships has increased by almost 25% over the last decade, largely as a result of succession planning for family-run dealerships and the monetization of real estate in order to fund growth of their primary business. As a result, single dealership owners have declined from 81% in 2000 to 50% today.

**Exhibit 13: Canadian Auto Dealership Ownership**




Source: DesRosiers Automotive Consultants, Raymond James Ltd.

**CARS – A Blueprint to Follow:** Auto Properties REIT is not the first mover in the space, but rather it is following a roadmap that was created by Capital Automotive REIT (CARS). CARS completed its IPO in early 1998, raising US$345 million (US$15.00 per unit) with a portfolio of 36 dealerships. Management rapidly grew the company and within two years, the portfolio had grown to 230 assets. By the time it was privatized in 2005, CARS had ~350 properties, comprising 15 million sq. ft.

Towards the end of 2005, CARS was acquired for US$38.75 per unit (5.5% implied cap rate), or US$3.4 billion. Almost a decade later, in 2014, Brookfield Property Partners acquired Capital Automotive LP, which had grown to 16 million sq. ft. across 300 properties, for US$4.3 billion (6.6% implied cap rate). We think the ~20% annualized return that CARS generated for unitholders – up until it was privatized in 2005 – is something to which Auto Properties' management team could aspire.

## Management Team and Governance Overview

**Milton Lamb – President and Chief Executive Officer**
With over 26 years of experience in the Canadian commercial real estate industry, Milton Lamb has worked on commercial real estate transactions, development projects, and joint ventures totaling over $2.5 billion. Mr. Lamb has worked with CBRE, JLL and, most recently, Colliers International as Senior Vice President, a position he held from 2007 until joining Dilawri Real Estate Group as President in 2015.

**Andrew Kalra – Chief Financial Officer and Corporate Secretary**
Andrew Kalra has over two decades of experience in finance, including 13 years related to the automotive industry. Mr. Kalra joined the Dilawri Group in 2014 as the Vice President, Finance. Prior to this, he worked with Mazda Canada as Senior Director of Finance and Business Strategy for 12 years. Mr. Kalra's previous experience includes senior financial positions at Nortel Networks and Walt Disney Canada, as well as at a Canadian chartered accounting firm.

**Board of Trustees and Management Ownership**
The Auto Properties Board of Trustees currently has five members, three of which are independent. In aggregate, management and trustees own ~39% of the REIT's outstanding units, with Kapil Dilawri owning 38%, via the Dilawri Group. Exhibit 10 details last published ownership at the REIT. Mr. Lamb and Mr. Kalra are expected to accumulate and maintain 5x and 3x their base annual salaries in units by April 2020 and 2021, respectively.

**Exhibit 14: Auto Properties' Management and Board Ownership (As at January 1, 2018)**

| Executive | Title | Ownership |
|---|---|---|
| Milton Lamb | **President and CEO** | **0.629%** |
| Andrew Kalra | **CFO** | **0.019%** |
| Kapil Dilawri | **Chairman and Trustee** | **37.884%*** |
| Louis Forbes | **Trustee** | **-%** |
| John Morrison | **Trustee** | **0.012%** |
| James Matthews | **Trustee** | **0.038%** |
| Stuart Lazier | **Trustee** | **0.133%** |

**Note: Kapil Dilawri's ownership is split with his two brothers via the Dilawri Group's ownership interest.*
Source: Capital IQ, Raymond James Ltd.

**Agreement with Dilawri Group:** The Dilawri Group provides external management for Auto Properties REIT on a cost-recovery basis under the terms of the Administration Agreement. For a five-year period, the REIT reimburses Dilawri for costs incurred so long as there are identified in the annual budget (or approved by the REIT).

While there is no internalization clause set out in the Agreement, we believe it's likely that the Board internalizes management upon reaching a certain size. To this effect, there is no termination fee so long as 90 days' notice is given. Conversely, Dilawri may terminate the Agreement once the REIT's market cap reaches $500 million (with 180 days' notice). Otherwise, the Agreement is subject to automatic one-year renewals after the initial five year period.

**What Does Auto Properties Get?** As part of the Agreement, the REIT is provided with the CEO and CFO, administrative and support services – financial reporting, investor relations, conference calls, disclosure obligations, unitholder correspondence, annual and special meetings and office space. The REIT is set to incur $1.0 million in fees for administrative services in 2017, up from $0.8 million in 2016.

**Strategic Alliance Agreement Benefits REIT:** As is the case with other single-tenant REITs, Auto Properties also has a Strategic Alliance Agreement with the Dilawri Group, intended to provide an interdependent relationship between the two parties. The SAA stipulates that:

1) Sale ROFO – the REIT has a ROFO on any properties held for sale by Dilawri
2) Acquisition ROFO – the REIT has a 90-day ROFO on any properties acquired or developed by Dilawri
3) Reverse ROFO – Dilawri has a ROFO on properties to be sold by the REIT, if Dilawri is the tenant or the property was originally acquired by the REIT from Dilawri
4) Non-Compete – Dilawri cannot create, or engage with another real estate entity with a similar investment mandate
5) Trustee Nomination – Dilawri can nominate two trustees if it maintains a 33%+ interest in the REIT, or one trustee if it maintains 10%-33% ownership in the REIT

**Fees are Very Reasonable:** The cost-recovery agreement means that Dilawri charges no asset management, acquisition/disposition, property management, incentive or construction fees. In aggregate, the REIT's 2017 G&A expense equates to 5.4% of revenue, which is in-line with the broader industry's G&A run-rate. We think that as the REIT gains scale, this percentage should drop to be more in-line with other single-tenant, large-cap peers (2%-3%).

**Path to Internalization:** The current stated plan is to internalize management after five years or when the REIT hits a $500 million market cap (whichever comes first). Management believes that the REIT is likely to internalize prior to either of those, given that the Dilawri Group generates no revenue from the Agreement as it exists today. There is no termination fee upon internalization.

## Growth Overview

**Steady Organic Growth:** As discussed, the REIT has 1.5% annual rent escalations built into all their Dilawri leases (90% of revenue). The remaining three non-Dilawri leases have different clauses, but still include built-in rent bumps (albeit, with varying timelines). Given this, we'd expect fairly consistent SPNOI growth of +1.0-1.5% annually from the portfolio.

**External Growth, Diversification the Focus:** The more exciting component, to us, for the REIT is their opportunity to consolidate the highly-fragmented sector. The previously mentioned ROFO agreement on properties owned, acquired or developed by the Dilawri Group should provide the REIT with the opportunity to add four or five properties per year.

Management would like to diversify away from the high concentration of Dilawri assets it owns. We would think, much like with the Dilawri Group, other dealership groups would be open to selling their real estate in order to source capital with which they can grow their primary business. As branding and updated showrooms become more important, capital is required to fund these initiatives and real estate monetization is the most obvious capital raising method. And in the case of individual dealers, those situations are often driven by succession planning or retirement.

**Units Provide Buying Advantage:** Auto Properties' ability to offer units as part of the purchase price, and help defer taxable gains, is a significant advantage when attempting to acquire assets. That said, the REIT faces very little competition in the space, with Capital Automotive being the only other large player consolidating dealerships.

The opportunity remains, with 3,500 dealerships across the country and 65% of these individually owned or owned by dealership groups with <5 locations. However, the pace of consolidation has picked up and the number of groups with five or more locations has grown by 24% from 2009 to 2016. The driving factors behind consolidation have been a lack of viable succession plans for family-run dealerships and the desire to monetize the underlying real estate (a large majority of dealers own the underlying property).

## Capital Structure Overview

**Funded with Facilities:** The majority of Auto Properties REIT's balance sheet is funded using credit facilities instead of traditional mortgage debt. The reason for this is because it offers management more flexibility should they wish to change or make improvements to the assets, and this flexibility offers more value than the slim interest rate savings that mortgage debt would offer. That said, the REIT will steadily increase their mortgage debt as they evaluate the long-term potential of each property. Most of the facilities are fixed-rate. As at 3Q17, the REIT's D/GBV was 46%, down from 52% at IPO. Their D/EBITDA is 6.8x, down from 9.8x at IPO. The REIT's facilities are listed below:

**Exhibit 15: Auto Properties' Capital Structure (As at Sept 30, 2017)**

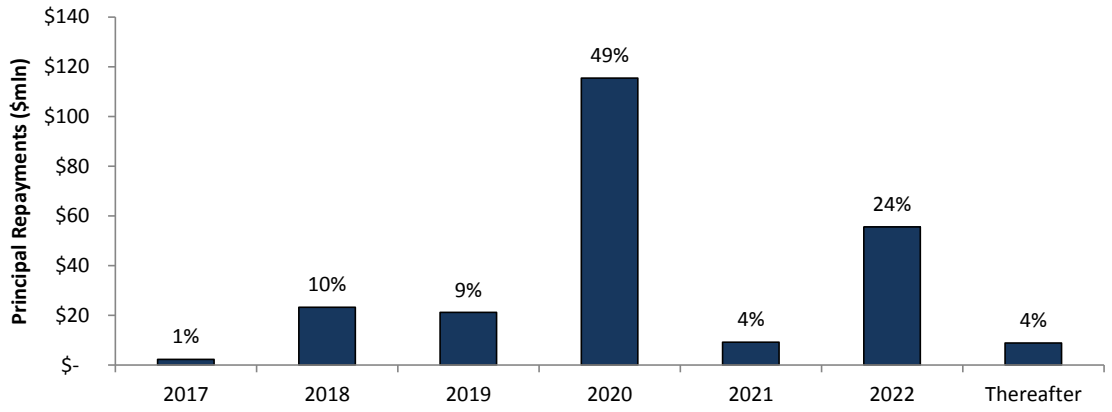
| Debt | Term (Years) | Hedged Term (Years) | Interest Rate | Balance ($mln) |
|---|---|---|---|---|
| Facility 1 | **2.5/3.0** | **2.8-7.8** | **BA + 150 bp, Prime + 25 bp** | **$137.8** |
| Facility 2 | **4.7** | **2.8-8.7** | **BA + 150 bp, Prime + 25 bp** | **$68.1** |
| Facility 3 | **1.9** | **N/A** | **BA + 150 bp, Prime + 50 bp** | **$-** |
| Mortgages | **1.3-9.7** | **N/A** | **Fixed 3.22-3.72%** | **$29.7** |
| Total | **3.6** | **5.6** | **3.35%** | **$235.6*** |

**Note: Includes financing fees of $0.8 million.*

Source: Automotive Properties REIT, Raymond James Ltd.

**New Facility Post-Quarter:** In December, the REIT announced that it had replaced Facility 3 with a new $34 million credit facility that matures in December 2022. The new facility comprises a $20 million non-revolving loan and a $14 million revolving credit facility. Both bear interest at the same rate as the old facility, BA + 150 bp or Prime + 50 bp.

**Exhibit 16: Auto Properties' Principal Repayment Schedule (As at Sept 30, 2017)**




Source: Automotive Properties REIT, Raymond James Ltd.

**Ample Liquidity for Acquisitions:** The REIT ended 3Q17 with $161k of cash and $31 million in undrawn facilities (plus $20 million extra as a result of their post-quarter facility). With only one mortgage maturing in the near-term ($13 million in February 2019) and minor capex requirements, management believes the company has capacity for $75 million in acquisitions.

## Forecast Overview

**NOI Growth and Margin Assumptions**

We assume that Auto Properties should be able to generate SPNOI growth of 1.5% per year, given rent step-ups and margin expansion. We have forecasted NOI margins of 85.0% and 85.5% for 2018 and 2019, respectively. This is up from 84.8% in 2017.

**G&A Assumptions**

We assume G&A expenses of $2.5 million and $2.7 million in 2018 and 2019, respectively, or ~5.2% of revenue. This is down slightly from 5.4% in 2017.

**Capital Expenditure Assumptions**

The REIT eliminated accruing a structural reserve in 2017 as a result of REALPAC/IFRS' requirement that companies utilize actual maintenance capex figures in their AFFO calculations. Because of the age of the properties and the triple-net structure of the leases, the REIT currently does not spend anything on maintenance capex (this is not to say they won't in the future). However, we continue to forecast 1% of NOI for capex purposes, to keep our AFFO calculation in-line with peers.

**External Growth Assumptions**

We have forecast $60 million in acquisitions in each year, at a weighted average cap rate of 6.75%.

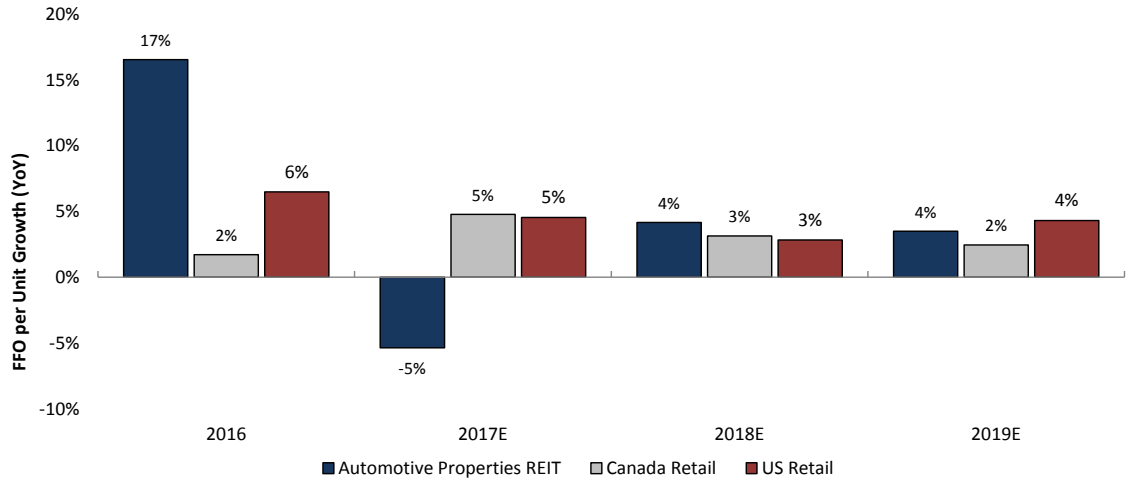
**Funding Assumptions**

In order to maintain current leverage levels while funding acquisitions, we have forecast two $20 million equity issuances in the second quarter of both 2018 and 2019. The balance of the funding is via debt on their facilities, at a rate of BA + 150 bp, or 3.25% in 2018 and 3.50% in 2019.

**Earnings Forecast**

Given the above assumptions, we have forecast diluted FFO of $1.03 in 2018 and $1.06 in 2019. This implies FFO growth of 4% in each year. This is largely in-line with the peer set of Canadian retail REITs/REOCs, which are set to grow by 3% and 2% in 2018 and 2019, respectively, by our estimates. The US retail REIT sector is also more or less growing at the same pace, 3% and 4%, respectively.

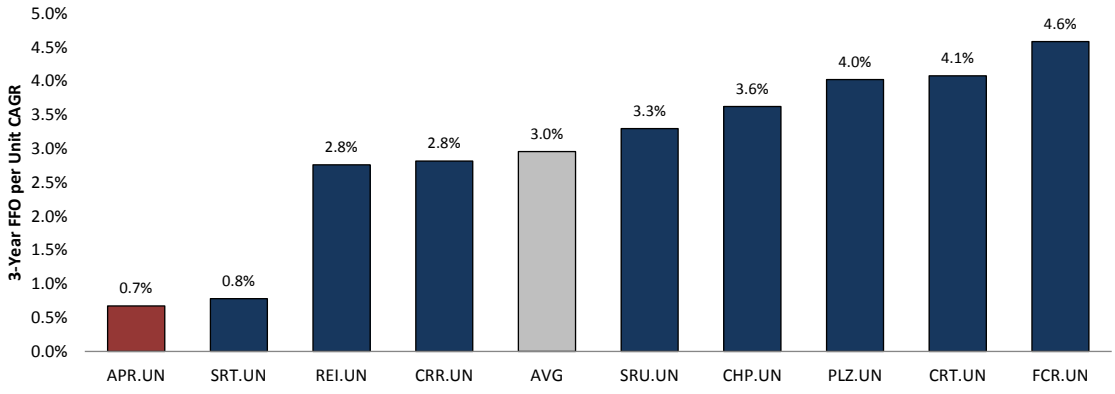
**Exhibit 17: Auto Properties' FFO Growth vs. Canadian and US Retail Sector**




Source: SNL Financial, Raymond James Ltd.

**FFO Growth Lags Peer Group:** While the next two years should see Auto Properties generate fairly robust FFO growth, the REIT's per unit growth has not kept up to the pace of peers thus far in its history. Since its first full year, Auto Properties has grown FFO per unit at a ~1% CAGR, roughly a third of the rate the broader retail peer group has grown FFO over the three years ending in 2019. While SPNOI has been roughly in-line with retail peers, we believe Auto Properties has thus far lacked the value creation/redevelopment opportunities that have helped other REITs deliver outpaced growth.

**Exhibit 18: Auto Properties' 3-Year FFO per Unit CAGR vs. Retail Sector (2016-2019E)**




Source: Raymond James Ltd.

## Valuation Overview

**NAV per Unit:** Utilizing a 6.5% cap rate (in-line with their IFRS cap rate), our Auto Properties NAV per unit equates to $10.75, meaning the REIT currently trades at -2% discount to our NAV. This compares to the retail REITs/REOCs we cover which are trading at a -4% discount to NAV. In fact, given the tough

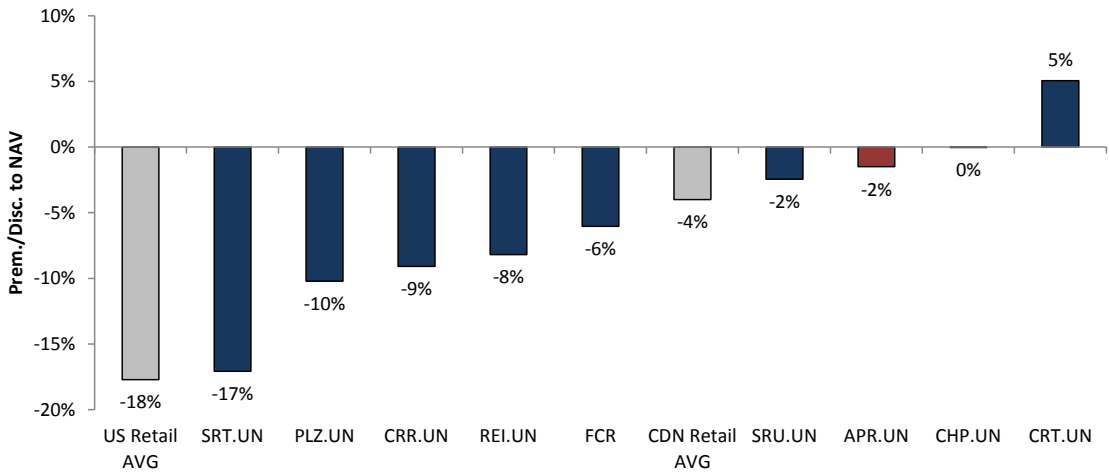
year that retail REITs/REOCs had in 2017, most trade at discounts today, and Auto Properties' discount is the third tightest, behind two other single-tenant REITs (Choice Properties and CT REIT).

**Exhibit 19: Auto Properties' Net Asset Value Calculation ($mln)**

| | Amount |
|---|---|
| **In-Place Cash NOI** | **$35.4** |
| **Cap Rate** | **6.5%** |
| **Estimated Value of Properties** | **545.0** |
| **+Value of Other Assets** | **4.3** |
| **=Total Assets** | **549.4** |
| **-Net Debt** | **(267.6)** |
| **=NAV** | **281.8** |
| **Units** | **26.2** |
| **NAV per Unit** | **$10.75** |
| **Current Unit Price** | **$10.59** |
| **Premium/(Discount) to NAV** | **(1.5%)** |

Source: Raymond James Ltd.

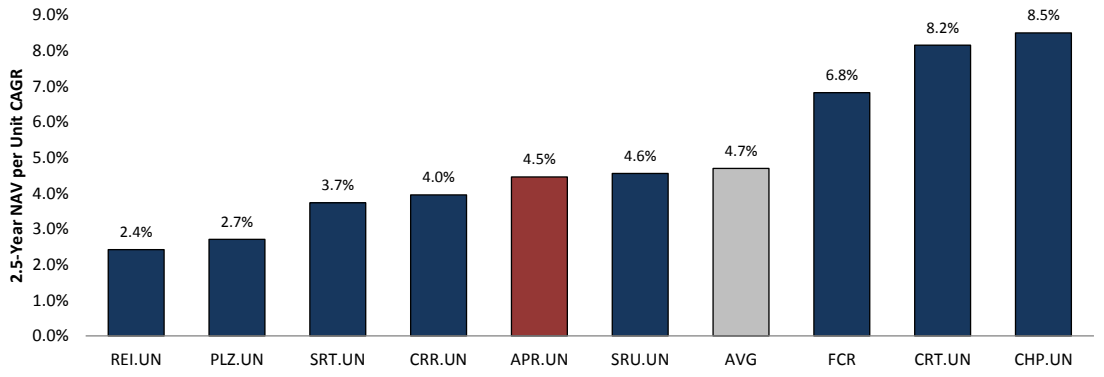
**Exhibit 20: Auto Properties' Premium/Discount to Net Asset Value vs. Sector**




Source: SNL Financial, Raymond James Ltd.

**Historical NAV per Unit Growth Robust:** Since inception, Auto Properties has been able to grow NAV per unit at a 4.5% CAGR, roughly in-line with the broader retail peer set. Interestingly, over the two and a half year period, the two major single-tenant REITs (Choice and CT) have outpaced the peer group, in large part due to accretive acquisitions and healthy cap rate compression. Going forward, we'd expect Auto Properties to keep pace with the sector average.

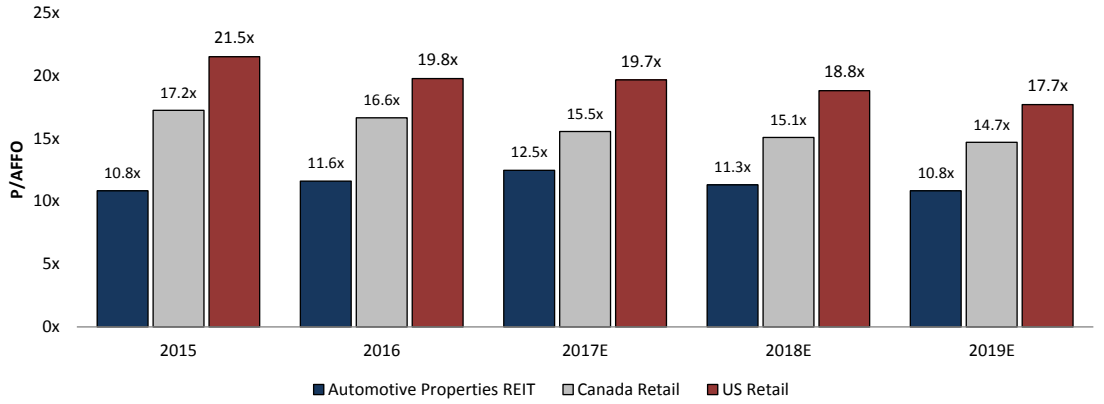
**Exhibit 21: Auto Properties' NAV per Unit CAGR since Inception vs. Retail Sector**




Source: SNL Financial, Raymond James Ltd.

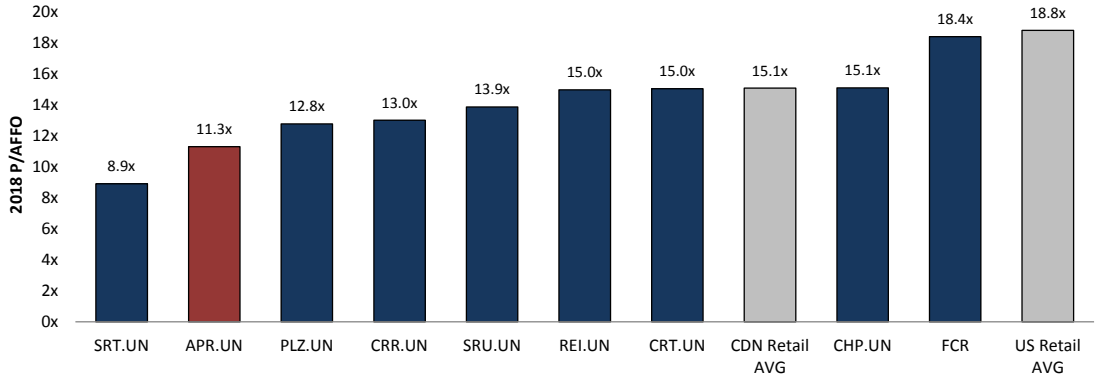
**AFFO Multiple:** On an AFFO multiple basis, Auto Properties' units are trading at 11.3x and 10.8x our 2018 and 2019 AFFO per unit estimates, respectively, vs. the Canadian retail REIT/REOC peer set at 15.1x and 14.7x. Also of note is the US retail REIT sector, which trades at 18.8x and 17.9x 2018 and 2019 AFFO.

**Exhibit 22: Auto Properties' AFFO Multiples vs. Canadian and US Retail Sector**




Source: Raymond James Ltd.

**Exhibit 23: Auto Properties' 2018 AFFO Multiple vs. Retail Peers**

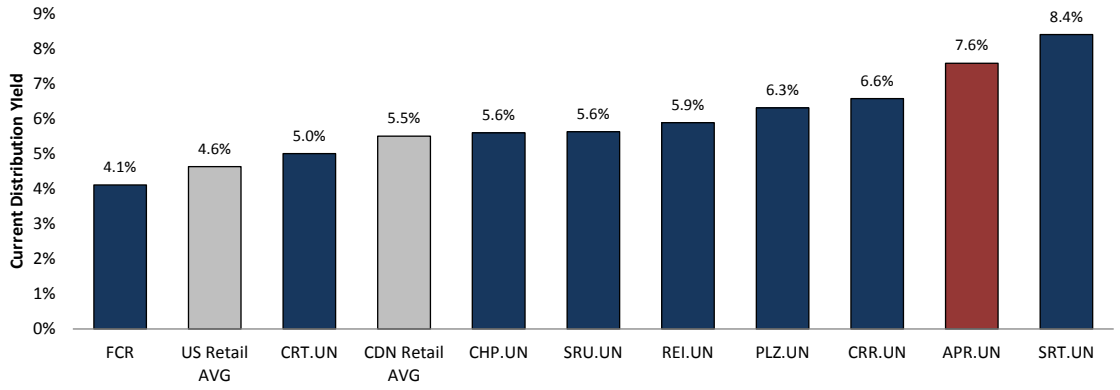



Source: Raymond James Ltd.

**Distribution Yield Nearly Tops Sector, but Payout Manageable:** The REIT pays a monthly distribution of $0.067 per unit ($0.804 annualized), which equates to a distribution yield of 7.6% and a +530 bp spread

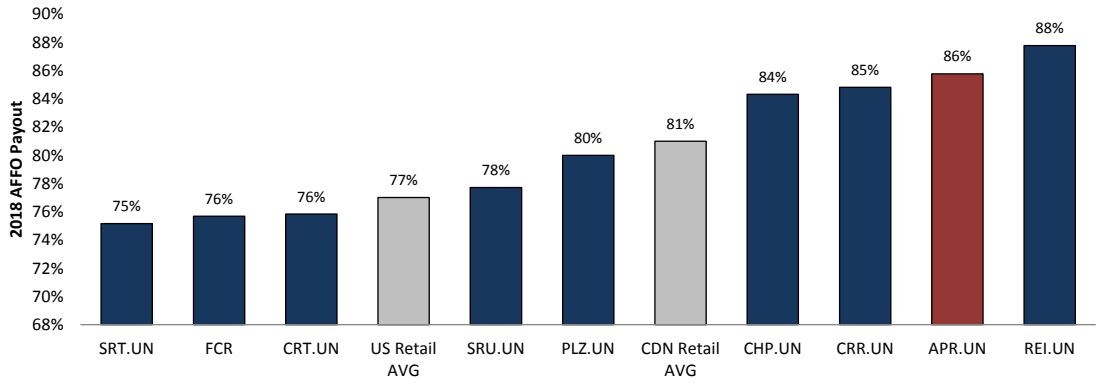
over the 10-year GoC. As a result, the REIT has among the highest yield in the retail REIT/REOC group. Their AFFO payout is still manageable (86% in 2018), especially given the stability of cash flows.

**Exhibit 24: Auto Properties' Distribution Yield vs. Retail Peers**




Source: Raymond James Ltd.

**Exhibit 25: Auto Properties' 2018 AFFO Payout vs. Retail Peers**




Source: Raymond James Ltd.

## Conclusion

Automotive Properties REIT is Canada's only public owner and operator of automotive dealership real estate. The REIT's portfolio is heavily geared towards the major six Canadian markets (85%), much more so than other single-tenant REITs. With a WALT of ~13 years and contractual rent step-ups (1.0%-1.5%) in their triple-net leases, the portfolio generates stable cash flows to support its near sector-leading (retail) 7.6% yield. Furthermore, Canada's largest dealership group, the Dilawri Group, is both the lead investor (38% ownership) and tenant (90% of NOI), and the REIT has a ROFO agreement in place on any properties acquired/developed by the group. The Canadian auto dealership industry one of the more fragmented assets classes in real estate, meaning the space is ripe for consolidation. With a strong balance sheet and ample capacity ($75 million, as per management), we believe the REIT is in pole position to consolidate the asset class

That said, we seem to have entered a rising rate environment, something Canada has not seen for well over a decade. Generally speaking, investors perceive a rising rate environment to be detrimental to the performance of real estate equities. While we believe that after an initial period of shock where all "boats sink with a falling tide," certain REITs/REOCs can outperform despite the headwind of an upward trajectory in rates. However, those that outperform tend to be REITs/REOCs with shorter duration lease

terms, which are focused on NAV creation. For the most part, REITs/REOCs with long lease terms generally underperform as they cannot raise rents quickly enough to match inflation. Furthermore, the REIT trades in-line with NAV while the majority of its peers trade at sizable discounts. Auto Properties REIT has the longest weighted average lease term in Canada, and while they have certain NAV-focused growth initiatives that they may partake in, management likely won't begin these endeavours for a number of years. Given all this, we are initiating on Auto Properties REIT with a Market Perform rating.

## Investment Risks

**Acquisition Risk**
A large part of Auto Properties' strategy is dependent upon its ability to identify suitable acquisition targets in both new and existing markets. Apart from capital markets/financing risk (discussed below), management must also successfully integrate the acquired dealerships into existing operations. While management believes that the fragmentation of the sector provides for significant consolidation opportunities, there is no guarantee that opportunities will be properly identified or acquired. This could impair the growth trajectory of the REIT.

**Capital Markets Risk**
Access to the capital markets is crucial to the growth prospects of any company and REITs are no exception. If the ability to execute deals involving the issuance of debt or equity securities becomes impaired, the end result could be minimal or no growth for the companies. Management attempts to mitigate this risk by providing ample capacity and low leverage.

**Concentration Risk**
While the relationship with the Dilawri Group provides the REIT with several benefits, including a high quality lead tenant and access to further acquisitions, any relationship of this magnitude can lead to the potential for concentration risk. With 90% of base rent generated by Dilawri, the portfolio is one of the least diversified in our universe. Management is trying to diversify the portfolio in order to mitigate this risk.

**Economic Risk**
An extended downturn in the national economy could negatively affect consumers' disposable income and spending patterns, job growth, travel expenditures, interest rates, and subsequently, the stock price of REITs in any sector. In addition, fluctuations in certain local or regional markets throughout the country could impact key properties in a REIT's portfolio, which could be located anywhere in the nation geographically. In a depressed economic environment, access to equity capital may also be restricted or costly, to the point of becoming impractical. It is important to note that the performance of the real estate industry in general typically trails that of the national economy.

**External Management Risk**
Auto Properties REIT is asset managed by the Dilawri Group on a cost-recovery basis. The REIT's CEO and CFO are employees of the Dilawri Group, not the REIT. While we prefer an internal management structure, the external management structure offers a platform and investment opportunities that would otherwise be inaccessible to the REIT, especially given its current size. The REIT's management will be internalized when the REIT reaches a certain size, with no termination fee. Until then, we feel that any potential conflict of interest is mitigated by the Dilawri Group being the largest unitholder.

**Interest Rate Risk**
The REIT industry has historically been negatively correlated with changes in interest rates. In addition, many REITs are exposed to variable interest rates, which could lead to increased interest expense during times of rising interest rates and could ultimately impair net income. Certain parts of a REIT's business may be dependent upon achieving a spread between its cost of financing and the yield achieved on acquisitions. In an environment with high or rising interest rates, a REIT's ability to attain this spread may be diminished.

**Regulatory Risk**
The real estate industry is subject to extensive and complex regulations. There is a risk that unforeseen future regulations may adversely affect a company's development schedule, net income, or competitive position. REITs also enjoy the benefit of tax exemption at the corporate level on certain parts of income; any regulatory change to this status may make REIT units relatively less attractive.

# Appendix A: Forecasted Financial Statements

**Exhibit 26: Auto Properties' Income Statement**

| Income Statement ($000s) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Rental Revenue | 34,274 | 42,063 | 47,848 | 53,082 |
| Property Operating Expenses | (4,788) | (6,406) | (7,178) | (7,729) |
| Net Operating Income | 29,486 | 35,657 | 40,670 | 45,353 |
| | - | - | - | - |
| General and Administrative | (2,409) | (2,287) | (2,497) | (2,646) |
| Interest Expense | (7,177) | (8,028) | (9,754) | (11,369) |
| Fair Value Adjustment of Interest Rate Swaps | 1,522 | 4,444 | - | - |
| Distribution Expense on Class B LP Units | (7,986) | (5,991) | - | - |
| Fair Value Adjustment of Class B LP and Deferred Units | (24,139) | (3,280) | - | - |
| Fair Value Adjustment of Investment Properties | 5,316 | 5,600 | - | - |
| **Net Income (Loss)** | **(5,387)** | **26,115** | **28,420** | **31,339** |

Source: Automotive Properties REIT, Raymond James Ltd.

**Exhibit 27: Auto Properties' Funds from Operations and Adjusted Funds from Operations**

| Funds from Operations ($000s) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Net Income | (5,387) | 26,115 | 28,420 | 31,339 |
| Changes in Fair Values of Interest Rate Swaps | (1,522) | (4,444) | - | - |
| Distributions on Class B LP Units | 7,986 | 5,991 | - | - |
| Changes in Fair Values of Class B LP and Deferred Units | 24,139 | 3,280 | - | - |
| Changes in Fair Values of Investment Properties | (5,316) | (5,600) | - | - |
| **Funds From Operations** | **19,900** | **25,342** | **28,420** | **31,339** |
| | | | | |
| **FFO per Unit** | **$ 1.04** | **$ 0.98** | **$ 1.03** | **$ 1.06** |
| **FFO Payout Ratio** | **77%** | **82%** | **78%** | **76%** |

| Adjusted Funds from Operations ($000s) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Funds from Operations | 19,900 | 25,342 | 28,420 | 31,339 |
| Straight-Line Rent | (2,715) | (2,941) | (2,959) | (2,978) |
| Non-Cash Compensation Expense | 439 | 480 | 522 | 525 |
| Amortization of Deferred Financing Costs and Indemnity Fee | 274 | - | - | - |
| Structural Reserve | (294) | (357) | (390) | (433) |
| **Adjusted Funds From Operations** | **17,604** | **22,525** | **25,592** | **28,453** |
| | | | | |
| **AFFO per Unit** | **$ 0.92** | **$ 0.87** | **$ 0.94** | **$ 0.98** |
| **AFFO Payout Ratio** | **87%** | **92%** | **86%** | **82%** |

Source: Automotive Properties REIT, Raymond James Ltd.

**Exhibit 28: Auto Properties' Balance Sheet**

| Balance Sheet ($000s) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment Properties | 461,809 | 541,539 | 594,039 | 654,039 |
| Prepaid Expenses and Other Assets | 2,272 | 2,324 | 2,324 | 2,324 |
| Interest Rate Swaps | - | 1,794 | 1,794 | 1,794 |
| Cash and Cash Equivalents | 257 | 664 | 1,998 | 3,299 |
| **Total Assets** | **464,338** | **546,321** | **600,155** | **661,456** |
| | | | | |
| **Liabilities** | | | | |
| Accounts Payable and Accrued Liabilities | 4,200 | 2,967 | 2,967 | 2,967 |
| Credit Facilities | 238,541 | 266,019 | 295,428 | 332,267 |
| Interest Rate Swaps | 2,650 | - | - | - |
| Deferred Units and Income Deferred Units | 79 | 591 | 591 | 591 |
| Clas B LP Units | 106,087 | 109,365 | 109,365 | 109,365 |
| **Total Liabilties** | **351,557** | **378,942** | **408,351** | **445,190** |
| | | | | |
| Unitholders' Equity | 112,781 | 167,379 | 191,804 | 216,266 |
| **Total Liabilities & Unitholders' Equity** | **464,338** | **546,321** | **600,155** | **661,456** |

Source: Automotive Properties REIT, Raymond James Ltd.

**Exhibit 29: Auto Properties' Cash Flow Statement**

| Cash Flow Statement ($000s) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net Income | (5,387) | 26,115 | 28,420 | 31,339 |
| Changes in Operating Cash Flows | 22,515 | 664 | (2,828) | (2,453) |
| **Net Cash Provided by Operating Activities** | **17,128** | **26,779** | **25,592** | **28,886** |
| | | | | |
| **Investing Activities** | | | | |
| Changes in Investing Cash Flows | (64,129) | (71,913) | (52,500) | (60,000) |
| **Net Cash Provided by Investing Activities** | **(64,129)** | **(71,913)** | **(52,500)** | **(60,000)** |
| | | | | |
| **Financing Activities** | | | | |
| Changes in Financing Cash Flows | 45,489 | 45,541 | 28,242 | 32,415 |
| **Net Cash Provided by Financing Activities** | **45,489** | **45,541** | **28,242** | **32,415** |
| | | | | |
| **Change in Cash - Continuing Operations** | **(1,512)** | **407** | **1,334** | **1,301** |
| Cash, Beginning of Period | 1,769 | 257 | 664 | 1,998 |
| **Cash at End of Period** | **257** | **664** | **1,998** | **3,299** |

Source: Automotive Properties REIT, Raymond James Ltd.

## Appendix B: Pictures of Select Properties


Source: Automotive Properties REIT, Raymond James Ltd.

## Appendix C: Retail Comp Table

### Exhibit 30: Retail REIT/REOC Comp Table

RAYMOND JAMES - CANADIAN RETAIL REIT/REOC VALUATION TABLE
25-Jan-18

| RETAIL | Analyst | Ticker | Price | Market Cap | Rating* | Target Price | Current Yield | 2018E AFFO Payout | AFFO Multiple 16A | 17E | 18E | 19E | FFO/Unit Growth 16A | 17E | 18E | 19E | NAV Est. | Prem./ Disc. to NAV | Implied Cap. | Debt/ GBV | Debt/ EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Automotive Properties REIT** | **JR** | APR.UN | $ 10.59 | 278 | MP | NA | 7.6% | 86% | 11.5x | 12.1x | 11.3x | 10.8x | 17% | -5% | 4% | 4% | $ 10.75 | -1.5% | 6.5% | 46% | 6.8x |
| **Choice Properties REIT** | **KA** | CHP.UN | $ 13.24 | 6,678 | MP | NA | 5.6% | 84% | 16.5x | 15.6x | 15.1x | 14.6x | 4% | 5% | 3% | 3% | $ 13.25 | 0.0% | 6.0% | 44% | 7.1x |
| **Crombie REIT** | **KA** | CRR.UN | $ 13.64 | 2,040 | MP | NA | 6.6% | 85% | 13.6x | 13.8x | 13.0x | 12.5x | 4% | 1% | 4% | 3% | $ 15.00 | -9.1% | 6.4% | 52% | 8.5x |
| **CT REIT** | **KA** | CRT.UN | $ 14.44 | 3,131 | MP | NA | 5.0% | 76% | 16.8x | 15.8x | 15.0x | 14.6x | 3% | 5% | 5% | 3% | $ 13.75 | 5.1% | 5.7% | 45% | 7.6x |
| **First Capital Realty** | **KA** | FCR | $ 20.91 | 5,111 | SB | $ 23.00 | 4.1% | 76% | 19.6x | 18.7x | 18.4x | 17.4x | 5% | 4% | 3% | 6% | $ 22.25 | -6.0% | 5.4% | 43% | 9.5x |
| **Plaza Retail REIT** | **JR** | PLZ.UN | $ 4.31 | 441 | MP | NA | 6.3% | 80% | 13.2x | 13.2x | 12.8x | 12.2x | 1% | 6% | 2% | 4% | $ 4.80 | -10.2% | 7.5% | 53% | 9.5x |
| **RioCan REIT** | **KA** | REI.UN | $ 24.56 | 7,991 | OP | $ 27.00 | 5.9% | 88% | 16.0x | 15.1x | 15.0x | 15.0x | -4% | 8% | 1% | 0% | $ 26.75 | -8.2% | 5.9% | 42% | 7.5x |
| **SmartCentres REIT** | **KA** | SRU.UN | $ 31.22 | 5,685 | OP | $ 33.00 | 5.6% | 78% | 15.1x | 14.6x | 13.9x | 13.6x | 3% | 3% | 5% | 2% | $ 32.00 | -2.4% | 6.2% | 45% | 8.4x |
| **Slate Retail REIT** | **JR** | SRT.U | $ 9.95 | 542 | OP | $ 11.00 | 8.4% | 75% | 9.7x | 9.6x | 8.9x | 8.6x | 0% | -5% | 5% | 2% | $ 12.00 | -17.1% | 7.8% | 57% | 9.0x |
| **Canada Group Average** | | | | | | | **5.5%** | **82%** | **16.3x** | **15.5x** | **15.1x** | **14.7x** | **2%** | **5%** | **3%** | **2%** | | **-4.0%** | **6.0%** | **44%** | **8.0x** |
| **US Group Average** | | | | | | | **4.6%** | **77%** | **19.8x** | **19.7x** | **18.8x** | **17.7x** | **7%** | **5%** | **3%** | **4%** | | **-17.7%** | **6.4%** | **34%** | **6.1x** |

Note: Bolded companies indicate current Raymond James coverage. Ratings: SB – Strong Buy, OP – Outperform, MP – Market Perform, NC – Not Covered, R – Restricted
Source: Raymond James & Associates, Raymond James Ltd.

Source: Raymond James Ltd., Raymond James

Company Citations

| Company Name | Ticker | Exchange | Currency | Closing Price | RJ Rating | RJ Entity |
|---|---|---|---|---|---|---|
| Allied Properties REIT | AP.UN | TSX | C$ | 41.75 | 2 | RJ & Associates |
| Artis REIT | AX.UN | TSX | C$ | 14.21 | 3 | RJ & Associates |
| Canadian Real Estate Investment Trust | REF.UN | TSX | C$ | 45.20 | 2 | RJ Ltd. |
| Canadian Tire Corporation | CTC.A | TSX | C$ | 174.00 | 2 | RJ Ltd. |
| Choice Properties REIT | CHP.UN | TSX | C$ | 13.18 | 3 | RJ & Associates |
| Colliers International Group Inc. | CIGI | NASDAQ | US$ | 62.20 | 2 | RJ Ltd. |
| Crombie Real Estate Investment Trust | CRR.UN | TSX | C$ | 13.58 | 3 | RJ & Associates |
| CT Real Estate Investment Trust | CRT.UN | TSX | C$ | 14.45 | 3 | RJ & Associates |
| Empire Company Limited | EMP.A | TSX | C$ | 25.00 | 3 | RJ Ltd. |
| First Capital Realty | FCR | TSX | C$ | 20.91 | 1 | RJ & Associates |
| H&R Real Estate Investment Trust | HR.UN | TSX | C$ | 21.18 | 3 | RJ & Associates |
| Plaza Retail REIT | PLZ.UN | TSX | C$ | 4.30 | 3 | RJ Ltd. |
| Pure Industrial Real Estate Trust | AAR.UN | TSX | C$ | 8.10 | 3 | RJ & Associates |
| RioCan Real Estate Investment Trust | REI.UN | TSX | C$ | 24.64 | 2 | RJ & Associates |
| Senior | SNR.L | LSE | p | 275.40 | 1 | RJEE/RJFI |
| Slate Retail REIT | SRT.U | TSX | $ | 9.95 | 2 | RJ Ltd. |
| SmartCentres Real Estate Investment Trust | SRU.UN | TSX | C$ | 31.17 | 2 | RJ & Associates |
| Total | TOTF.PA | EPA | € | 47.52 | 2 | RJEE/RJFI |

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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**Strong Buy (SB1)** Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.
**Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
**Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

**Raymond James Ltd. (Canada) definitions**

**Strong Buy (SB1)** The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.
**Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.
**Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
**Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

**Raymond James Europe (Raymond James Euro Equities SAS & Raymond James Financial International Limited) rating definitions**

**Strong Buy (1)** Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.
**Outperform (2)** Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
**Market Perform (3)** Expected to perform generally in line with the Stoxx 600 over the next 12 months.
**Underperform (4)** Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
**Suspended (S)** The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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| | Coverage Universe Rating Distribution* | | | Investment Banking Distribution | | |
|---|---|---|---|---|---|---|
| | RJA | RJL | RJEE/RJFI | RJA | RJL | RJEE/RJFI |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Strong Buy and Outperform (Buy)** | 53% | 65% | 51% | 24% | 44% | 0% |
| **Market Perform (Hold)** | 42% | 30% | 34% | 13% | 26% | 0% |
| **Underperform (Sell)** | 5% | 5% | 15% | 4% | 22% | 0% |

* Columns may not add to 100% due to rounding.

**Suitability Ratings (SR)**

**Medium Risk/Income (M/INC)** Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

**Medium Risk/Growth (M/GRW)** Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

**High Risk/Income (H/INC)** Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

**High Risk/Growth (H/GRW)** Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

**High Risk/Speculation (H/SPEC)** High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

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| Company Name | Disclosure |
|---|---|
| Automotive Properties REIT | Raymond James Ltd - the analyst and/or associate has viewed the material operations of Automotive Properties REIT. |
| | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Automotive Properties REIT. |

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**Target Prices:** The information below indicates our target price and rating changes for APR.UN stock over the past three years.

**Valuation Methodology:** We value Automotive Properties REIT using AFFO on a comparable basis to the sector.

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**Specific Investment Risks Related to the Industry or Issuer**

**Risks - Real Estate**

Economic Risk

An extended downturn in the national economy could negatively affect consumers' disposable income and spending patterns, job growth, travel expenditures, interest rates, and subsequently, the stock price of REITs in any sector. In addition, fluctuations in certain local or regional markets throughout the country could impact key properties in a REIT's portfolio, which could be located anywhere in the nation geographically. In a depressed economic environment, access to equity capital may also be restricted or costly, to the point of becoming impractical. It is important to note that the performance of the real estate industry in general typically trails that of the national economy.

Interest Rate Risk

The REIT industry has historically been negatively correlated with changes in interest rates. In addition, many REITs are exposed to variable interest rates, which could lead to increased interest expense during times of rising interest rates and could ultimately impair net income. Certain parts of a REIT's business may be dependent upon achieving a spread between its cost of financing and the yield achieved on acquisitions. In an environment with high or rising interest rates, a REIT's ability to attain this spread may be diminished.

Capital Markets Risk

Access to the capital markets is crucial to the growth prospects of any company and REITs are no exception. If the ability to execute deals involving the issuance of debt or equity securities becomes impaired, the end result could be minimal or no growth for the companies. The loss of capital market access could be caused by a level of financial leverage through mortgage financing of properties that is too high, an increased tenant credit risk, or any other factor that might be seen to significantly impede REIT operations.

Tenant Credit Risk

Any REIT may have significant tenant risk, related to the credit-worthiness and/or concentration of tenants in the portfolio. Any negative change to a tenant may negatively affect a REIT's revenue, profits, and subsequently, the stock price.

**Risks - Real Estate**

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**Risks - Automotive Properties REIT**

Acquisition Risk

A large part of Auto Properties' strategy is dependent upon its ability to identify suitable acquisition targets in both new and existing markets. Apart from capital markets/financing risk (discussed below), management must also successfully integrate the acquired dealerships into existing operations. While management believes that the fragmentation of the sector provides for significant consolidation opportunities, there is no guarantee that opportunities will be properly identified or acquired. This could impair the growth trajectory of the REIT.

Capital Markets Risk

Access to the capital markets is crucial to the growth prospects of any company and REITs are no exception. If the ability to execute deals involving the issuance of debt or equity securities becomes impaired, the end result could be minimal or no growth for the companies. Management attempts to mitigate this risk by providing ample capacity and low leverage.

Concentration Risk

While the relationship with the Dilawri Group provides the REIT with several benefits, including a high quality lead tenant and access to further acquisitions, any relationship of this magnitude can lead to the potential for concentration risk. With 90% of base rent generated by Dilawri, the portfolio is one of the least diversified in our universe. Management is trying to diversify the portfolio in order to mitigate this risk.

Economic Risk

An extended downturn in the national economy could negatively affect consumers' disposable income and spending patterns, job growth, travel expenditures, interest rates, and subsequently, the stock price of REITs in any sector. In addition, fluctuations in certain local or regional markets throughout the country could impact key properties in a REIT's portfolio, which could be located anywhere in the nation geographically. In a depressed economic environment, access to equity capital may also be restricted or costly, to the point of becoming impractical. It is important to note that the performance of the real estate industry in general typically trails that of the national economy.

External Management Risk

Auto Properties REIT is asset managed by the Dilawri Group on a cost-recovery basis. The REIT's CEO and CFO are employees of the Dilawri Group, not the REIT. While we prefer an internal management structure, the external management structure offers a platform and investment opportunities that would otherwise be inaccessible to the REIT, especially given its current size. The REIT's management will be internalized when the REIT reaches a certain size, with no termination fee. Until then, we feel that any potential conflict of interest is mitigated by the Dilawri Group being the largest unitholder.

Interest Rate Risk

The REIT industry has historically been negatively correlated with changes in interest rates. In addition, many REITs are exposed to variable interest rates, which could lead to increased interest expense during times of rising interest rates and could ultimately impair net income. Certain parts of a REIT's business may be dependent upon achieving a spread between its cost of financing and the yield achieved on acquisitions. In an environment with high or rising interest rates, a REIT's ability to attain this spread may be diminished.

Regulatory Risk

The real estate industry is subject to extensive and complex regulations. There is a risk that unforeseen future regulations may adversely affect a company's development schedule, net income, or competitive position. REITs also enjoy the benefit of tax exemption at the corporate level on certain parts of income; any regulatory change to this status may make REIT units relatively less attractive.

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