

MORGUARD NORTH AMERICAN  
RESIDENTIAL REIT

# 2018 ANNUAL REPORT

ACTIVE PORTFOLIO MANAGEMENT.  
ENHANCED RETURNS.



**Morguard**



ON THE COVER  
(LEFT TO RIGHT)

210 WATERMARK  
BRADENTON, FL

RIDEAU TOWERS III  
TORONTO, ON

The selected annual financial information in the 2018 Annual Report highlights certain key metrics for the REIT. As a result, this report should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2018, related Management's Discussion and Analysis (MD&A) and the Annual Information Form (AIF). These documents are available on the REIT's website at [www.morguard.com](http://www.morguard.com). All continuous disclosure documents required by securities regulators are also filed on the System for Electronic Document Analysis and Retrieval (SEDAR) and can be accessed electronically at [www.sedar.com](http://www.sedar.com).

#### NON-IFRS MEASURES

The REIT's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The following measures, NOI, Same Property NOI, FFO, indebtedness, gross book value, indebtedness to gross book value ratio, interest coverage ratio and indebtedness coverage ratio (collectively, the "non-IFRS measures") as well as other measures discussed elsewhere in this 2018 Annual Report, do not have a standardized definition prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other reporting issuers. The REIT uses these measures to better assess the REIT's underlying performance and financial position and provides these additional measures so that investors may do the same. Details on non-IFRS measures are set out in the REIT's MD&A for the year ended December 31, 2018 and available on the REIT's profile on SEDAR at [www.sedar.com](http://www.sedar.com).



## FELLOW UNITHOLDERS

I am pleased to present the results we achieved for Morguard North American Residential REIT in 2018. It was a year of action, as we continued to enhance the REIT's performance by undertaking operational improvements, creating greater efficiencies, and maintaining high levels of service for our tenants.

Since our initial public offering (IPO) in 2012, Morguard North American Residential REIT has focused on managing and growing our portfolio of multi-suite residential rental properties in dominant markets across North America. Our total assets in 2012 were valued at \$1.0 billion, comprising 20 properties with 6,376 residential suites. Since then, total assets have tripled in value to \$3.0 billion, comprising 47 properties with a total of 13,430 residential suites. Funds From Operations have likewise grown, from a total of \$19.7 million in 2012 to \$61.1 million in 2018. Since IPO the REIT has outperformed the market with a 14% annualized total return. This growth is an indication of the concentrated effort to acquire quality properties over the past six years. Our strategy is to dispose of older assets in smaller markets and acquire newer assets in larger urban markets and to maintain a highly diversified portfolio across multiple regions, which insulates the REIT from fluctuations that may occur in an individual region.

We continue to focus our actions on creating value and returns for our Unitholders by enhancing the quality of our portfolio, leveraging our balance sheet for strategic growth, and delivering great service and experiences to our tenants. And we are always focused on growing net operating income to deliver financial results that support strong and stable distributions to our valued Unitholders.

In the coming year, we will continue to actively pursue opportunities that will further enhance our asset base, deliver robust financial results and strong, reliable value and returns. As always, I thank you for your support of Morguard North American Residential REIT, as we continue to take action in 2019.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Rai Sahi'.

**K. RAI SAHI**  
Chairman and Chief Executive Officer

# ACTIVELY MANAGING A DIVERSE PORTFOLIO OF MULTI-SUITE RESIDENTIAL PROPERTIES



It's a straightforward but effective philosophy: "Active management of the portfolio leads to consistent returns." By acquiring and enhancing the value of the REIT's portfolio of multi-suite residential properties throughout North America, we enable greater financial stability by insulating ourselves against regional market fluctuations. With our depth of experience in multi-suite residential properties, we are able to provide real value to our tenants and solid returns to our Unitholders year over year. The reason is that we oversee operating advancements that help ensure our properties are well maintained and continually upgraded. This not only increases their value, but also their potential for greater revenue.



COAST AT LAKESHORE EAST  
CHICAGO, IL





THE ELMWOODS  
MISSISSAUGA, ON



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## THE REIT'S PORTFOLIO CONTINUES TO BE STRENGTHENED BY OUR EXTERNAL GROWTH STRATEGY.

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### A DIVERSE PORTFOLIO DRIVEN BY PROVEN MANAGEMENT

Morguard North American Residential REIT enjoys two distinct advantages. First, a portfolio of diverse high-rise and garden-style multi-suite residences for a wide range of tenants located in economically buoyant markets throughout the United States and Canada. Second (and equally important), a management team with a proven ability to identify profitable, revenue-generating opportunities.

As of December 31, 2018, our property portfolio comprised 16 Canadian and 31 U.S. multi-suite residential properties – a total of 13,430 residential suites. The properties are primarily located in urban centres and major suburban regions in Alberta, Ontario, Colorado, Texas, Louisiana, Illinois, Georgia, Florida, North Carolina, Virginia and Maryland.

Our diverse portfolio continues to be strengthened by our ongoing commitment to actively evolve the portfolio by acquiring newly built properties in larger urban markets with a decreased need for capital. We take the view that to be successful, a multi-suite residential property must possess the right combination of attributes for its tenants. A balance between function, feeling, and sense of community. A good location that's conveniently accessible to local attractions and amenities. And a definitive sense of place.

Our internal growth strategy focuses on increasing cash flow from our portfolio. We have achieved this by maximizing occupancy and average monthly rent (AMR), examining regional market conditions, managing operating expenses as a percentage of revenues, and strengthening the asset base through building

infrastructure improvement and capital expenditure programs. At December 31, 2018, our overall occupancy was 96.5%, higher compared to 94.4% in 2017.

In our Canadian portfolio, AMR as of December 31, 2018 was \$1,373 – an increase of 3.5% over 2017, due mainly to rental rate increases. Strong demand, particularly in Ontario, enabled the REIT to raise rents to market levels as suites turned over. In 2018, the Canadian portfolio turned over 17% of its suites and achieved AMR growth of 11%.

Our U.S. portfolio's AMR was US\$1,236 as of December 31, 2018 – an increase of 2.7% over 2017. This was due mainly to increases in rental rates and higher tenant demand in the summer months where suite turnover is seasonally higher. In several U.S. regions, AMR also increased because of stabilizing market conditions, as well as the

use of sophisticated revenue management software providing real-time market trend analysis for management to adjust rents accordingly.

During 2018, net operating income (NOI) increased compared to 2017, as a result of strong residential rental markets in Canada and the U.S., enabling the REIT to garner greater returns through solid increases in AMR and higher overall occupancy. 2018 NOI from Canadian properties increased by 7.2%. In the U.S., NOI increased 7.3%.

As of December 31, 2018, our real estate properties were valued at \$2.9 billion, compared to \$2.6 billion as of December 31, 2017. Indebtedness to gross book value ratio was 47.9% as of December 31, 2018, lower compared to 51.4% on December 31, 2017.

# DIVERSIFICATION

With holdings in vibrant markets throughout North America, Morguard North American Residential REIT maintains a portfolio diversification strategy that helps provide consistent financial stability and strong financial performance.

## 1 COUNTRY AND REGION

\$2.9

BILLION IN REAL  
ESTATE ASSETS

16

CANADIAN  
PROPERTIES

31

U.S.  
PROPERTIES

40%

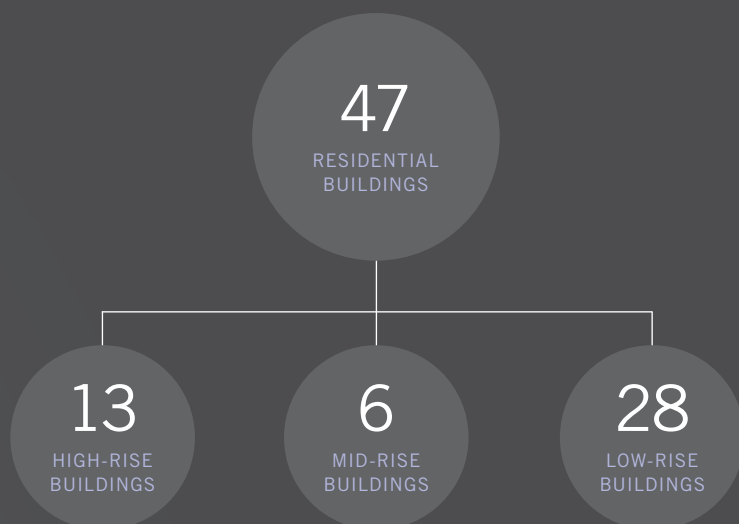
OF SUITES  
IN CANADA

60%

OF SUITES  
IN U.S.



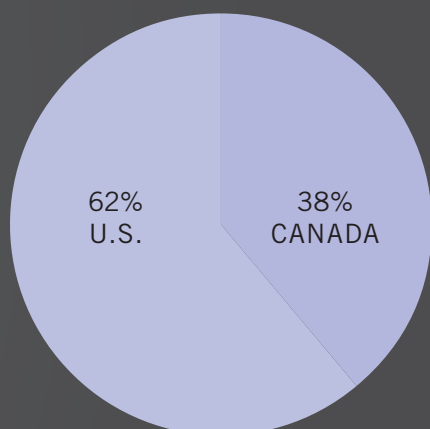
## 2 PROPERTY TYPE

3 AVERAGE MONTHLY RENT  
IN LOCAL CURRENCY

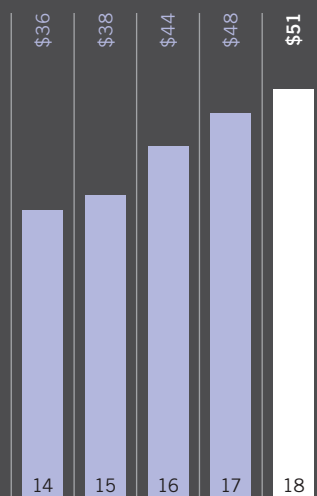
**\$1,373**  
CANADA

**\$1,236**  
U.S.

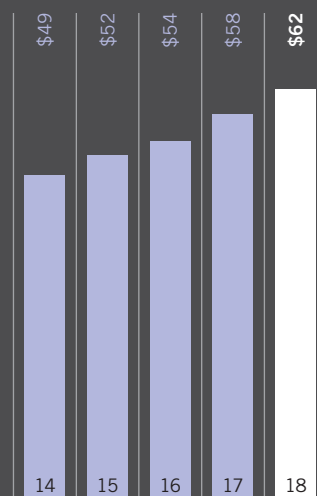
## 4 NET OPERATING INCOME BY COUNTRY



CANADA  
IN MILLIONS OF CANADIAN DOLLARS



U.S.  
IN MILLIONS OF U.S. DOLLARS



SINCE THE REIT'S INCEPTION, WE HAVE BEEN COMMITTED TO IMPROVING OUR OPERATING PERFORMANCE BY MAKING THE APPROPRIATE CAPITAL EXPENDITURES, HELPING ENSURE A PROPERTY REMAINS VIABLE, WITH A HIGHER RENTAL INCOME POTENTIAL.

#### NEW ACQUISITION AND CAPITAL IMPROVEMENT LEADS TO GREATER OPPORTUNITY FOR GROWTH

Our external growth strategy focuses on acquisition opportunities of multi-suite residential properties located in urban centres and major suburban regions in Canada and the United States, with a view to generate greater cash flow. Over the past two years, the REIT has acquired five properties for \$548 million which have resulted in enhancing the portfolio's overall quality and revenue potential. Working with Morguard Corporation, we have access to acquisition opportunities, and, subject to limited exceptions, we have the right of first opportunity to acquire the existing interests in Morguard's multi-suite residential properties, prior to any third-party disposition.

In the spring of 2018, the REIT acquired a 116-suite property in New Orleans, Louisiana, for US\$11.6 million including closing costs. The property is currently under development, with plans to complete capital upgrades during the first half of 2019

at which point initial lease-up will commence. The newly acquired property, located in the Garden District is within close proximity to The Georgian, the REIT's 135 suite mid-rise apartment complex and nearby Tulane and Loyola universities. The acquisition allows the REIT to increase its presence in the immediate area and to benefit from management efficiencies between the two properties.

Since the REIT's inception, we have been committed to improving our operating performance by making the appropriate capital expenditures, helping ensure a property remains viable, with a higher rental income potential.

Operationally, our management team focuses on ensuring each of our properties is well maintained, and that upgrades always are performed when required. Additionally, our management system, available throughout our U.S. and Canadian properties, enables tenants to log in, make rental payments, and request services, giving us the ability to better prioritize certain

initiatives, streamline work orders and help minimize maintenance costs. Our commitment to keeping our properties to a high standard while managing them cost-effectively has allowed us to keep operating costs low, occupancy rates high, and rental rates optimized to current market rates. Our active management approach means regular monitoring of each property's financial performance and capital investments when required. Capital expenditures in 2018 were \$28.9 million.

We have found this active management approach also drives our ability to maintain a consistent stream of revenue that grows year over year. Our operating teams put great effort into attracting and retaining tenants, and in keeping operational expenses in check. Additionally, our online tenant services enables management to be more responsive, which in turn contributes to higher tenant retention rates.



VILLAGE CROSSING APARTMENT HOMES  
WEST PALM BEACH, FL





# ACQUISITION & CAPITAL IMPROVEMENTS

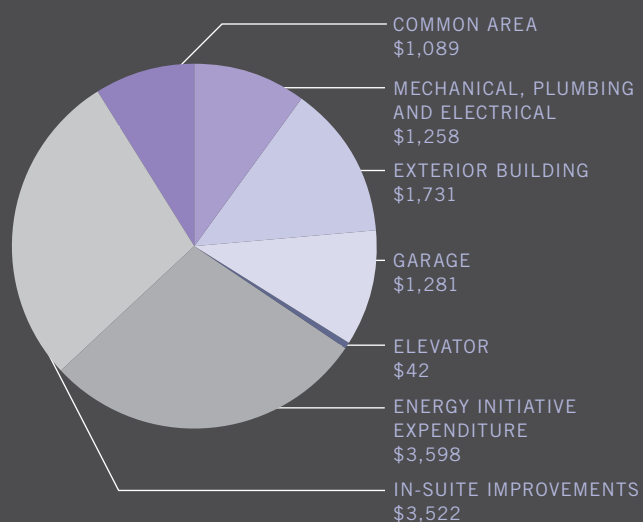
## 1 2018 ACQUISITION

| ASSET/LOCATION                    | ASSET CLASS | PRICE            | DESCRIPTION  |
|-----------------------------------|-------------|------------------|--|
| 1643 Josephine<br>New Orleans, LA | Residential | US\$11.6 million | A 116-suite residential property in the city's Garden District, the property is located close to The Georgian, Morguard's 135-suite mid-rise apartment complex, as well as Tulane and Loyola universities. The property is currently under development, with plans to complete capital upgrades during the first half of 2019. |

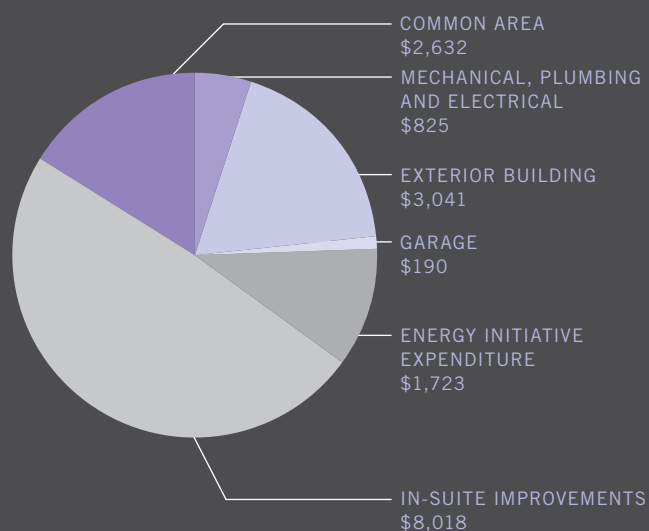


## 2 CAPITAL EXPENDITURE BY REGION

CANADA  
\$12.5 MILLION  
IN CANADIAN DOLLARS



U.S.  
\$16.4 MILLION  
IN CANADIAN DOLLARS

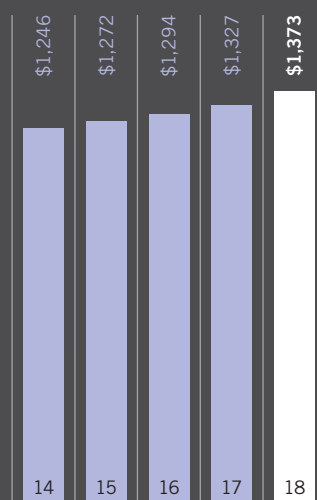


## 3 OPERATIONAL STRENGTH

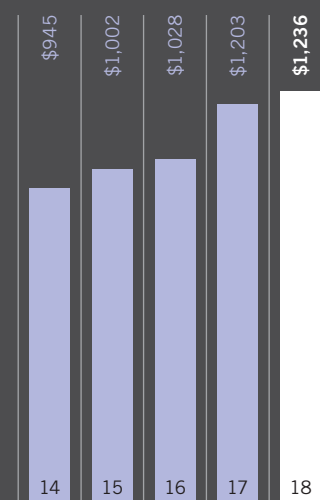
99%  
OCCUPANCY CANADA

95%  
OCCUPANCY U.S.

AVERAGE MONTHLY RENT  
CANADA  
IN CANADIAN DOLLARS



AVERAGE MONTHLY RENT  
U.S.  
IN U.S. DOLLARS





160 CHAPEL  
OTTAWA, ON





# MULTI-SUITE RESIDENTIAL

## CANADA

| PROPERTY                 | CITY        | PROV. | OWNERSHIP<br>INTEREST<br>(%) | TOTAL<br>SUITES | OWNERSHIP<br>SUITES | OCCUPANCY<br>(%) |
|--------------------------|-------------|-------|------------------------------|-----------------|---------------------|------------------|
| Square 104               | Edmonton    | AB    | 100                          | 277             | 277                 | 99               |
| Margaret Place ❶         | Kitchener   | ON    | 100                          | 472             | 472                 | 99               |
| Meadowvale Gardens ❶     | Mississauga | ON    | 100                          | 325             | 325                 | 97               |
| The Arista ❶             | Mississauga | ON    | 100                          | 458             | 458                 | 100              |
| The Elmwoods ❶           | Mississauga | ON    | 100                          | 321             | 321                 | 100              |
| The Forestwoods ❶        | Mississauga | ON    | 89                           | 300             | 267                 | 98               |
| The Maplewoods ❶         | Mississauga | ON    | 87                           | 300             | 261                 | 98               |
| The Valleywoods ❶        | Mississauga | ON    | 91                           | 373             | 339                 | 100              |
| Tomken Place ❶           | Mississauga | ON    | 100                          | 142             | 142                 | 100              |
| 160 Chapel ❶             | Ottawa      | ON    | 100                          | 370             | 370                 | 100              |
| Downsview Park Townhomes | Toronto     | ON    | 100                          | 60              | 60                  | 100              |
| Rideau Towers I ❶        | Toronto     | ON    | 90                           | 287             | 258                 | 99               |
| Rideau Towers II ❶       | Toronto     | ON    | 100                          | 380             | 380                 | 99               |
| Rideau Towers III ❶      | Toronto     | ON    | 100                          | 474             | 474                 | 98               |
| Rideau Towers IV ❶       | Toronto     | ON    | 100                          | 400             | 400                 | 100              |
| Rouge Valley Residence ❶ | Toronto     | ON    | 100                          | 396             | 396                 | 100              |
| <b>SUBTOTAL</b>          |             |       |                              | <b>5,335</b>    | <b>5,200</b>        | <b>99</b>        |

### CERTIFICATIONS

❶ Certified Rental Building Program

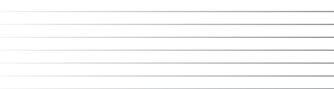
## U.S.

| PROPERTY                           | CITY         | STATE | OWNERSHIP<br>INTEREST<br>(%) | TOTAL<br>SUITES | OWNERSHIP<br>SUITES | OCCUPANCY<br>(%) |
|------------------------------------|--------------|-------|------------------------------|-----------------|---------------------|------------------|
| Retreat at City Center ❶           | Aurora       | CO    | 100                          | 225             | 225                 | 96               |
| Settlers' Creek ❶                  | Fort Collins | CO    | 100                          | 229             | 229                 | 97               |
| The Retreat at Spring Park ❶       | Garland      | TX    | 100                          | 188             | 188                 | 97               |
| Grand Venetian at Las Colinas ❶    | Irving       | TX    | 100                          | 514             | 514                 | 95               |
| Verandah at Valley Ranch ❶         | Irving       | TX    | 100                          | 319             | 319                 | 97               |
| Garden Lane ❶                      | Gretna       | LA    | 100                          | 261             | 261                 | 97               |
| Colonial Manor Apartment Homes ❶   | Harahan      | LA    | 100                          | 48              | 48                  | 92               |
| Steeplechase Apartment Homes ❶     | Lafayette    | LA    | 100                          | 192             | 192                 | 94               |
| Magnolia Place Apartment Homes ❶   | New Iberia   | LA    | 100                          | 148             | 148                 | 81               |
| 1643 Josephine (Under Development) | New Orleans  | LA    | 100                          | 116             | 116                 | –                |
| The Georgian Apartments ❶          | New Orleans  | LA    | 100                          | 135             | 135                 | 96               |
| Villages of Williamsburg ❶         | Shreveport   | LA    | 100                          | 194             | 194                 | 90               |
| Greenbrier Estates ❶               | Slidell      | LA    | 100                          | 144             | 144                 | 88               |
| Coast at Lakeshore East ❶ ❷        | Chicago      | IL    | 51                           | 515             | 263                 | 94               |
| Briarhill Apartments ❶             | Atlanta      | GA    | 100                          | 292             | 292                 | 95               |
| The Savoy Luxury Apartments ❶      | Atlanta      | GA    | 100                          | 232             | 232                 | 97               |

Continued on next page

### CERTIFICATIONS

❶ Equal Housing Opportunity    ❷ LEED Silver



THE FENESTRA AT  
ROCKVILLE TOWN SQUARE  
ROCKVILLE, MD



# MULTI-SUITE RESIDENTIAL

Continued

## U.S.

| PROPERTY                                | CITY            | STATE | OWNERSHIP<br>INTEREST<br>(%) | TOTAL<br>SUITES | OWNERSHIP<br>SUITES | OCCUPANCY<br>(%) |
|---|-----------------|-------|------------------------------|-----------------|---------------------|------------------|
| Barrett Walk Luxury Apartment Homes ❶   | Kennesaw        | GA    | 100                          | 290             | 290                 | 95               |
| 210 Watermark ❶                         | Bradenton       | FL    | 100                          | 216             | 216                 | 98               |
| Blue Isle Apartment Homes ❶             | Coconut Creek   | FL    | 100                          | 340             | 340                 | 94               |
| 2940 Solano at Monterra ❶               | Cooper City     | FL    | 51                           | 252             | 129                 | 95               |
| Governors Gate I ❶                      | Pensacola       | FL    | 100                          | 240             | 240                 | 97               |
| Governors Gate II ❶                     | Pensacola       | FL    | 100                          | 204             | 204                 | 98               |
| Jamestown Estates ❶                     | Pensacola       | FL    | 100                          | 177             | 177                 | 95               |
| Woodcliff Apartment Homes ❶             | Pensacola       | FL    | 100                          | 184             | 184                 | 93               |
| Woodbine Apartment Homes ❶              | Riviera Beach   | FL    | 100                          | 408             | 408                 | 97               |
| Mallory Square ❶                        | Tampa           | FL    | 100                          | 383             | 383                 | 94               |
| Village Crossing Apartment Homes ❶      | West Palm Beach | FL    | 100                          | 189             | 189                 | 95               |
| The Lodge at Crossroads ❶               | Cary            | NC    | 100                          | 432             | 432                 | 95               |
| Perry Point Ultimate Apartments ❶       | Raleigh         | NC    | 100                          | 432             | 432                 | 97               |
| Northgate at Falls Church ❶             | Falls Church    | VA    | 100                          | 104             | 104                 | 90               |
| The Fenestra at Rockville Town Square ❶ | Rockville       | MD    | 50                           | 492             | 246                 | 88               |
| <b>SUBTOTAL</b>                         |                 |       |                              | <b>8,095</b>    | <b>7,474</b>        | <b>95</b>        |
| <b>TOTAL MULTI-SUITE RESIDENTIAL</b>    |                 |       |                              | <b>13,430</b>   | <b>12,674</b>       | <b>97</b>        |

### CERTIFICATIONS

❶ Equal Housing Opportunity    ❷ LEED Silver

# RETAIL

## U.S.

| PROPERTY                  | CITY         | STATE | OWNERSHIP<br>INTEREST<br>(%) | TOTAL<br>AREA<br>(SF) | OWNERSHIP<br>AREA<br>(SF) | OCCUPANCY<br>(%) |
|---------------------------|--------------|-------|------------------------------|-----------------------|---------------------------|------------------|
| Northgate at Falls Church | Falls Church | VA    | 100                          | 20,500                | 20,500                    | 90               |
| <b>TOTAL RETAIL</b>       |              |       |                              | <b>20,500</b>         | <b>20,500</b>             | <b>90</b>        |

# OFFICE


## U.S.

| PROPERTY                  | CITY         | STATE | OWNERSHIP<br>INTEREST<br>(%) | TOTAL<br>AREA<br>(SF) | OWNERSHIP<br>AREA<br>(SF) | OCCUPANCY<br>(%) |
|---------------------------|--------------|-------|------------------------------|-----------------------|---------------------------|------------------|
| Coast at Lakeshore East ❷ | Chicago      | IL    | 51                           | 20,000                | 10,200                    | 71               |
| Northgate at Falls Church | Falls Church | VA    | 100                          | 12,500                | 12,500                    | 78               |
| <b>TOTAL OFFICE</b>       |              |       |                              | <b>32,500</b>         | <b>22,700</b>             | <b>75</b>        |

### CERTIFICATIONS

❷ LEED Silver





# GREATER PERFORMANCE FROM FOCUSED MANAGEMENT

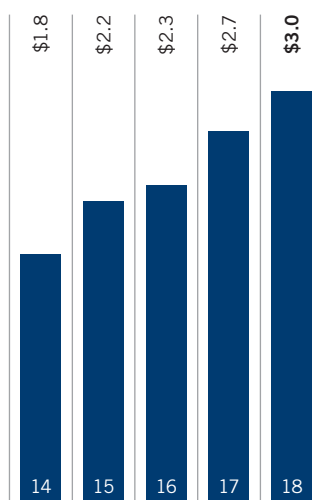
Consistency is key when profitably managing and maintaining rental properties, but of course, it starts with the desirability of the rental properties themselves. By maintaining a diversified portfolio of multi-suite residences in desirable locations throughout Canada and the United States, we have been able to create value for our tenants and our Unitholders alike.

## SECTION 2

### FINANCIAL HIGHLIGHTS

## THE REIT'S PORTFOLIO CONTINUES TO GROW AND GENERATE STABLE INCOME AND ENHANCED RETURNS.

### GROSS BOOK VALUE IN BILLIONS OF DOLLARS



### HIGHER RETURNS, GREATER VALUE

During 2018, the REIT's NOI was \$131.7 million, an increase of \$9.0 million (or 7.3%) compared to 2017. The increase in NOI is due to an increase in Same Property NOI of \$4.5 million (or 4.0%), and an increase from acquisitions, net of dispositions of properties of \$4.5 million. The Same Property increase of \$4.5 million is due to an increase in Canada of \$2.7 million (or 5.7%), an increase in the U.S. of US\$1.5 million (or 3.0%), and the change in foreign exchange rates which increased NOI by \$0.3 million.

During 2018, the REIT's total interest expense was \$66.1 million, an increase of \$7.6 million, compared to

\$58.5 million in 2017.

This is due predominantly to an increase in interest on mortgages of \$3.0 million, the result of mortgage financing on properties acquired during 2017; an increase in convertible debenture interest of \$1.0 million and higher non-cash interest of \$3.1 million, mainly from lower amortization of mark-to-market adjustments.

The REIT's net income for 2018 was \$174.7 million, an increase of \$1.6 million over 2017. The main reason was the NOI increase, partially offset by an increase in interest expense and trust expenses.

Basic FFO for the year ended December 31, 2018, increased by \$1.4 million (or 2.4%), to \$61.1 million (\$1.20 per Unit),

compared to \$59.7 million (\$1.18 per Unit) in 2017.

The increase is mainly due to higher NOI of \$9.0 million and an increase in other income of \$0.6 million, partially offset by an increase in interest expense of \$7.6 million and an increase in trust expenses of \$1.1 million. The increase in interest expense of \$7.6 million reflects lower amortization of mark-to-market adjustments of \$1.8 million from the refinancing of mortgages that were assumed on properties acquired during 2013.

# FINANCIAL HIGHLIGHTS

IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER UNIT AMOUNTS

| AS AT DECEMBER 31                             | 2014        | 2015        | 2016        | 2017        | 2018        |
|---|-------------|-------------|-------------|-------------|-------------|
| Total suites                                  | 12,850      | 13,102      | 13,472      | 13,314      | 13,430      |
| Gross book value                              | \$1,832,287 | \$2,160,015 | \$2,285,727 | \$2,651,097 | \$3,011,469 |
| Indebtedness                                  | \$1,022,555 | \$1,186,131 | \$1,237,613 | \$1,363,228 | \$1,442,607 |
| Indebtedness to gross book value              | 55.8%       | 54.9%       | 54.1%       | 51.4%       | 47.9%       |
| Weighted average mortgage interest rate       | 3.9%        | 3.8%        | 3.6%        | 3.5%        | 3.5%        |
| Units outstanding (in thousands) <sup>1</sup> | 46,533      | 46,558      | 46,514      | 50,914      | 50,946      |
| 4 Unitholders' equity <sup>1</sup>            | \$733,410   | \$839,887   | \$887,194   | \$1,073,205 | \$1,313,799 |
| Equity market capitalization <sup>1</sup>     | \$466,259   | \$496,777   | \$633,524   | \$765,233   | \$873,723   |
| 5 Unit price                                  | \$10.02     | \$10.67     | \$13.62     | \$15.03     | \$17.15     |

| FOR THE YEARS ENDED DECEMBER 31        | 2014      | 2015      | 2016      | 2017      | 2018      |
|--|-----------|-----------|-----------|-----------|-----------|
| 1 Revenue from real estate properties  | \$174,815 | \$198,442 | \$218,472 | \$226,495 | \$241,368 |
| 2 Net operating income                 | \$90,217  | \$104,182 | \$115,294 | \$122,736 | \$131,693 |
| Net income                             | \$39,207  | \$39,680  | \$31,978  | \$173,131 | \$174,710 |
| Interest coverage ratio                | 1.85      | 1.96      | 2.04      | 2.19      | 2.20      |
| 3 Funds from operations – basic        | \$44,726  | \$51,112  | \$57,591  | \$59,725  | \$61,161  |
| Funds from operations per Unit – basic | \$0.96    | \$1.10    | \$1.24    | \$1.18    | \$1.20    |
| Funds from operations payout ratio     | 62.5%     | 54.6%     | 49.0%     | 54.7%     | 55.2%     |
| 6 Distributions per Unit               | \$0.60    | \$0.60    | \$0.61    | \$0.64    | \$0.66    |

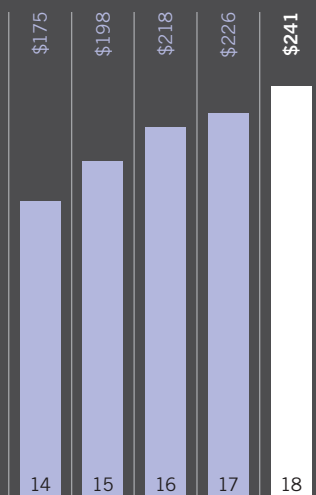
1. Includes Class B LP Units



1

## REVENUE FROM REAL ESTATE PROPERTIES

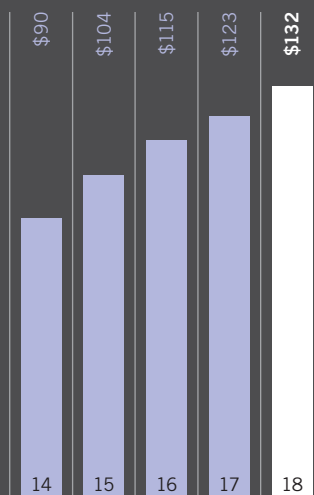
IN MILLIONS OF DOLLARS



2

## NET OPERATING INCOME

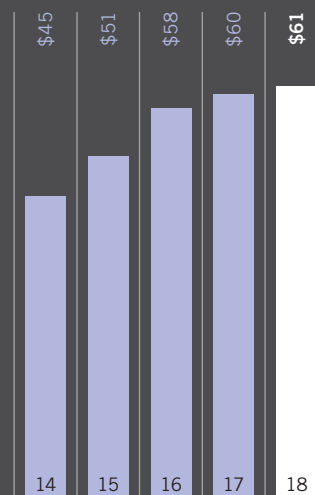
IN MILLIONS OF DOLLARS



3

## FUNDS FROM OPERATIONS – BASIC

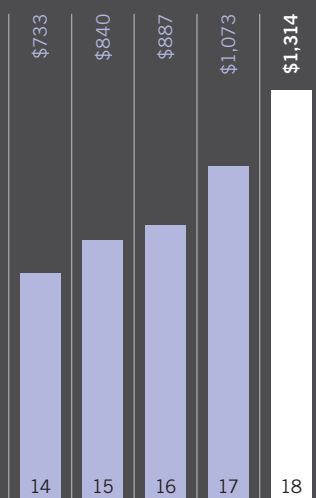
IN MILLIONS OF DOLLARS



4

## UNITHOLDERS' EQUITY

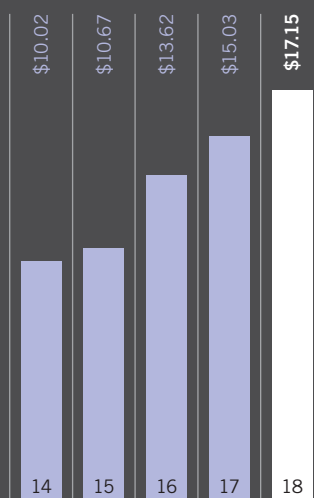
IN MILLIONS OF DOLLARS



5

## UNIT PRICE

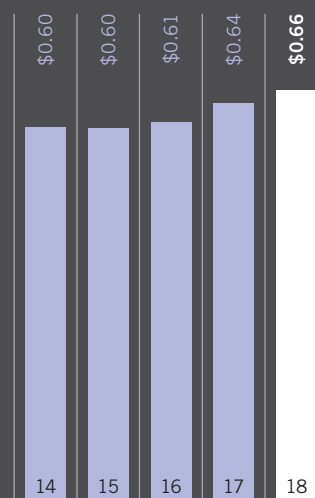
IN DOLLARS



6

## DISTRIBUTIONS

PER UNIT IN DOLLARS



Morguard North American Residential REIT is primarily focused on generating stable, growing, tax-efficient cash distributions to our Unitholders.

We met this objective again in 2018, raising the monthly distribution amount once again.

In 2018, the Board of Trustees announced it increased the REIT's annual cash distribution by \$0.02 per Unit (3.03%), effective for the November 2018 distribution. This brought the distributions to \$0.68 per Unit on an annualized basis from the current level of \$0.66 per Unit.

Since our 2012 inception, we have delivered a cumulative total return of 142% (14% annualized) to Unitholders.

Through the same period, our FFO payout ratio has declined to 55.2% in 2018, from 94% in our first year.

On February 13, 2018, the REIT issued \$75.0 million principal amount of 4.50% convertible unsecured subordinated debentures maturing on March 31, 2023.

On February 21, 2018, an additional principal amount of \$10.5 million was issued pursuant to the exercise of the over-allotment option.

On February 26, 2018, the REIT redeemed the remaining \$60 million of its outstanding 4.65% convertible unsecured subordinated debentures in advance of their March 30, 2018 maturity date.

**SINCE THE REIT'S  
2012 INCEPTION,  
WE HAVE DELIVERED  
A CUMULATIVE TOTAL  
RETURN OF 142%,  
14% ANNUALIZED  
TO UNITHOLDERS.**

## TAX INFORMATION

The REIT has determined the distributions paid to Unitholders are characterized for income tax purposes as follows:

| YEAR | DISTRIBUTION | RETURN OF CAPITAL | CAPITAL GAIN | OTHER INCOME |
|------|--------------|-------------------|--------------|--------------|
| 2018 | \$0.6632     | 66.90%            | 8.20%        | 24.90%       |
| 2017 | \$0.6433     | 91.02%            | —            | 8.98%        |
| 2016 | \$0.6067     | 100.00%           | —            | —            |
| 2015 | \$0.6000     | 100.00%           | —            | —            |
| 2014 | \$0.6000     | 88.54%            | 11.46%       | —            |
| 2013 | \$0.6000     | 83.66%            | 8.86%        | 7.48%        |
| 2012 | \$0.4216     | 69.40%            | —            | 30.60%       |

# BALANCE SHEETS

IN THOUSANDS OF CANADIAN DOLLARS

| AS AT DECEMBER 31                        | 2018               | 2017               |
|--|--------------------|--------------------|
| <b>ASSETS</b>                            |                    |                    |
| <b>Non-current assets</b>                |                    |                    |
| Real estate properties                   | \$2,932,835        | \$2,570,589        |
| Equity-accounted investment              | 40,859             | 37,295             |
|  | 2,973,694          | 2,607,884          |
| <b>Current assets</b>                    |                    |                    |
| Amounts receivable                       | 3,652              | 4,541              |
| Prepaid expenses                         | 4,164              | 3,754              |
| Restricted cash                          | 13,173             | 9,797              |
| Cash                                     | 16,786             | 25,121             |
|  | 37,775             | 43,213             |
|  | \$3,011,469        | \$2,651,097        |
| <b>LIABILITIES AND EQUITY</b>            |                    |                    |
| <b>Non-current liabilities</b>           |                    |                    |
| Mortgages payable and Class C LP Units   | \$1,195,709        | \$1,173,049        |
| Convertible debentures                   | 84,769             | —                  |
| Class B LP Units                         | 295,376            | 258,863            |
| Deferred income tax liabilities          | 114,351            | 82,482             |
| Accounts payable and accrued liabilities | 9,754              | 8,970              |
|  | 1,699,959          | 1,523,364          |
| <b>Current liabilities</b>               |                    |                    |
| Mortgages payable and Class C LP Units   | 124,418            | 84,000             |
| Convertible debentures                   | —                  | 60,466             |
| Morguard Facility                        | 12,803             | 21,799             |
| Accounts payable and accrued liabilities | 46,428             | 43,762             |
|  | 183,649            | 210,027            |
| <b>Total liabilities</b>                 | <b>1,883,608</b>   | <b>1,733,391</b>   |
| <b>EQUITY</b>                            |                    |                    |
| Unitholders' equity                      | 1,018,423          | 814,342            |
| Non-controlling interest                 | 109,438            | 103,364            |
| <b>Total equity</b>                      | <b>1,127,861</b>   | <b>917,706</b>     |
|  | <b>\$3,011,469</b> | <b>\$2,651,097</b> |



# STATEMENTS OF INCOME

IN THOUSANDS OF CANADIAN DOLLARS

| FOR THE YEARS ENDED DECEMBER 31                          | 2018             | 2017      |
|--|------------------|-----------|
| Revenue from real estate properties                      | <b>\$241,368</b> | \$226,495 |
| Property operating expenses                              |                  |           |
| Property operating costs                                 | <b>(61,099)</b>  | (59,370)  |
| Realty taxes   | <b>(30,199)</b>  | (26,370)  |
| Utilities  | <b>(18,377)</b>  | (18,019)  |
| <b>Net operating income</b>                              | <b>131,693</b>   | 122,736   |
| Other expenses (income)                                  |                  |           |
| Interest expense   | <b>66,083</b>    | 58,497    |
| Trust expenses   | <b>13,765</b>    | 12,618    |
| Equity loss (income) from investment                     | <b>(271)</b>     | 1,169     |
| Foreign exchange loss (gain)                             | <b>(2,280)</b>   | 1,570     |
| Other expense (income)                                   | <b>(65)</b>      | 529       |
| <b>Income before fair value changes and income taxes</b> | <b>54,461</b>    | 48,353    |
| Fair value gain on real estate properties, net           | <b>180,283</b>   | 129,543   |
| Fair value loss on Class B LP Units                      | <b>(36,513)</b>  | (24,285)  |
| <b>Income before income taxes</b>                        | <b>198,231</b>   | 153,611   |
| Provision for (recovery of) income taxes                 |                  |           |
| Current  | <b>233</b>       | 826       |
| Deferred   | <b>23,288</b>    | (20,346)  |
|  | <b>23,521</b>    | (19,520)  |
| <b>Net income for the year</b>                           | <b>\$174,710</b> | \$173,131 |
| <b>Net income attributable to:</b>                       |                  |           |
| Unitholders  | <b>\$172,225</b> | \$160,437 |
| Non-controlling interest                                 | <b>2,485</b>     | 12,694    |
|  | <b>\$174,710</b> | \$173,131 |

# STATEMENTS OF COMPREHENSIVE INCOME

IN THOUSANDS OF CANADIAN DOLLARS

| FOR THE YEARS ENDED DECEMBER 31                                  | 2018             | 2017             |
|--|------------------|------------------|
| <b>Net income for the year</b>                                   | <b>\$174,710</b> | <b>\$173,131</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                         |                  |                  |
| <b>Item that may be reclassified subsequently to net income:</b> |                  |                  |
| Unrealized foreign currency translation gain (loss)              | 61,345           | (37,471)         |
| Other comprehensive income (loss)                                | 61,345           | (37,471)         |
| <b>Total comprehensive income for the year</b>                   | <b>\$236,055</b> | <b>\$135,660</b> |
| <b>Total comprehensive income attributable to:</b>               |                  |                  |
| Unitholders  | \$225,933        | \$125,264        |
| Non-controlling interest   | 10,122           | 10,396           |
|  | <b>\$236,055</b> | <b>\$135,660</b> |

# STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

IN THOUSANDS OF CANADIAN DOLLARS

|   | UNITS            | CONTRIBUTED<br>SURPLUS | RETAINED<br>EARNINGS | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME | TOTAL<br>UNITHOLDERS'<br>EQUITY | NON-<br>CONTROLLING<br>INTEREST | TOTAL<br>EQUITY    |
|---|------------------|------------------------|----------------------|---|---------------------------------|---------------------------------|--------------------|
| Unitholders' equity, December 31, 2016        | \$309,803        | \$48,762               | \$193,961            | \$100,090                                       | \$652,616                       | \$31,410                        | \$684,026          |
| Changes during the year:                      |                  |                        |                      |   |                                 |                                 |                    |
| Net income                                    | —                | —                      | 160,437              | —   | 160,437                         | 12,694                          | 173,131            |
| Other comprehensive loss                      | —                | —                      | —                    | (35,173)  | (35,173)                        | (2,298)                         | (37,471)           |
| Decrease in subsidiary ownership interest     | —                | —                      | —                    | —   | —                               | 63,410                          | 63,410             |
| Issue of Units                                | 57,686           | —                      | —                    | —   | 57,686                          | —                               | 57,686             |
| Issue of Units – DRIP                         | 439              | —                      | (439)                | —   | —                               | —                               | —                  |
| Distributions                                 | —                | —                      | (21,224)             | —   | (21,224)                        | (1,852)                         | (23,076)           |
| <b>Unitholders' equity, December 31, 2017</b> | <b>\$367,928</b> | <b>\$48,762</b>        | <b>\$332,735</b>     | <b>\$64,917</b>                                 | <b>\$814,342</b>                | <b>\$103,364</b>                | <b>\$917,706</b>   |
| Changes during the year:                      |                  |                        |                      |   |                                 |                                 |                    |
| Net income                                    | —                | —                      | 172,225              | —   | 172,225                         | 2,485                           | 174,710            |
| Other comprehensive income                    | —                | —                      | —                    | 53,708  | 53,708                          | 7,637                           | 61,345             |
| Issue of Units – DRIP                         | 480              | —                      | (480)                | —   | —                               | —                               | —                  |
| Issue of Units – debentures converted         | 23               | —                      | —                    | —   | 23                              | —                               | 23                 |
| Distributions                                 | —                | —                      | (21,875)             | —   | (21,875)                        | (4,048)                         | (25,923)           |
| <b>Unitholders' equity, December 31, 2018</b> | <b>\$368,431</b> | <b>\$48,762</b>        | <b>\$482,605</b>     | <b>\$118,625</b>                                | <b>\$1,018,423</b>              | <b>\$109,438</b>                | <b>\$1,127,861</b> |

# STATEMENTS OF CASH FLOWS

IN THOUSANDS OF CANADIAN DOLLARS

| FOR THE YEARS ENDED DECEMBER 31                                | 2018            | 2017             |
|--|-----------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                    |                 |                  |
| Net income   | \$174,710       | \$173,131        |
| Add (deduct) items not affecting cash                          | (114,607)       | (123,054)        |
| Additions to tenant incentives                                 | (2,120)         | (250)            |
| Distributions from equity-accounted investment                 | —               | 1,276            |
| Net change in non-cash operating assets and liabilities        | 1,964           | 8,373            |
| <b>Cash provided by operating activities</b>                   | <b>59,947</b>   | <b>59,476</b>    |
| <b>INVESTING ACTIVITIES</b>                                    |                 |                  |
| Acquisition of income producing properties                     | —               | (365,990)        |
| Acquisition of property under development                      | (14,866)        | —                |
| Additions to income producing properties                       | (28,950)        | (21,577)         |
| Additions to property under development                        | (1,165)         | —                |
| Proceeds from sale of income producing properties              | —               | 88,685           |
| Investment in equity-accounted investment                      | —               | (40,080)         |
| <b>Cash used in investing activities</b>                       | <b>(44,981)</b> | <b>(338,962)</b> |
| <b>FINANCING ACTIVITIES</b>                                    |                 |                  |
| Proceeds from issuance of Units, net of costs                  | —               | 57,686           |
| Proceeds from issuance of convertible debentures, net of costs | 82,125          | —                |
| Redemption of convertible debentures                           | (59,977)        | —                |
| Proceeds from new mortgages                                    | 80,000          | 309,899          |
| Financing cost on new mortgages                                | (905)           | (3,253)          |
| Repayment of mortgages and Class C LP Units                    |                 |                  |
| Repayments on maturity   | (67,892)        | (144,849)        |
| Principal instalment repayments                                | (21,364)        | (21,099)         |
| Contributions from non-controlling interest                    | —               | 63,410           |
| Repayment of Morguard Facility                                 | (103,297)       | (215,742)        |
| Proceeds from Morguard Facility                                | 96,293          | 274,279          |
| Distributions to Unitholders                                   | (21,818)        | (20,934)         |
| Distributions to non-controlling interest                      | (4,048)         | (1,852)          |
| Decrease (increase) in restricted cash                         | (2,539)         | 1,161            |
| <b>Cash provided by (used in) financing activities</b>         | <b>(23,422)</b> | <b>298,706</b>   |
| <b>Net increase (decrease) in cash during the year</b>         | <b>(8,456)</b>  | <b>19,220</b>    |
| Net effect of foreign currency translation on cash balance     | 121             | (1,686)          |
| Cash, beginning of year  | 25,121          | 7,587            |
| <b>Cash, end of year</b>                                       | <b>\$16,786</b> | <b>\$25,121</b>  |

# CORPORATE INFORMATION

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## BOARD OF TRUSTEES

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**K. Rai Sahi**<sup>3</sup>

Chairman and  
Chief Executive Officer

**Avtar T. Bains**<sup>2, 3</sup>

Real Estate Adviser  
and Investor

**Dino Chiesa**<sup>1, 3</sup>

Principal, Chiesa Group

**Mel Leiderman**<sup>1</sup>

Senior Consultant, Lipton LLP

**Frank Munsters**<sup>2</sup>

Corporate Director

**Bruce K. Robertson**<sup>1, 3</sup>

Vice President, Investments  
The Woodbridge Company Limited

**William O. Wallace**<sup>2</sup>

President,  
Wallace Automotive Inc.

1 Audit Committee

2 Compensation and Governance  
Committee

3 Investment Committee

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## EXECUTIVE DIRECTORY

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**K. Rai Sahi**

Chairman and  
Chief Executive Officer

**Christopher A. Newman**

Chief Financial Officer

**Beverley G. Flynn**

Senior Vice President,  
General Counsel  
and Secretary

**Paul Miatello**

Senior Vice President

**Angela Sahi**

Senior Vice President

**John Talano**

Vice President, Operations (U.S.)

**Sanjay Rateja**

Vice President, Operations  
(Canada)

**Brian Athey**

Vice President

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## INVESTOR INFORMATION

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**Registered Office**

55 City Centre Drive  
Suite 1000  
Mississauga, ON  
L5B 1M3  
T 905-281-3800  
info@morguard.com

**Eligibility**

RESP

RRSP

RRIF

DPSP

RPP

TFSA

**Unit Listing**

Toronto Stock Exchange  
Symbol  
MRG.UN  
MRG.DB.A

**Auditors**

Ernst & Young LLP

**Principal Bankers**

Royal Bank of Canada,  
Toronto-Dominion Bank

**Transfer Agent**

Computershare Trust  
Company of Canada  
1-800-564-6253  
www.computershare.com

**Investor Relations**

Visit our website at  
www.morguard.com or  
view our filings on SEDAR  
at www.sedar.com.

**Annual Meeting**

Wednesday May 8, 2019  
at 9:00 a.m.  
Rattlesnake Point Golf Club  
5407 Regional Road 25  
Milton, ON  
L9T 2X5

**For additional information, contact****Christopher A. Newman**

Chief Financial Officer

**Beverley G. Flynn**

Senior Vice President,  
General Counsel and Secretary

T 905-281-3800

info@morguard.com

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MORGUARD NORTH AMERICAN  
RESIDENTIAL REIT

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