Due Diligence, Recommendations and Valuation

123 Real Estate Road

Prepared for:

Date: July 16, 2018

Executive Summary

This draft Due Diligence report does not include a review of the phase 1 environmental report as, at this time, it has not yet been completed. This report will be revised once that study has been completed. Having toured the property, reviewed the offer to purchase, the leases and renewals, and all other pertinent documentation for 123 Real Estate Road, I have the following comments and recommendations.

This property has 90,000 sq. ft. situated on a site footprint of 2.01 acres, made up of three stories, with the ground level occupied by public facing businesses, and the upper stories by offices and other facilities.

The NOI in year 1 is estimated at some $ 1,216,000. **Assuming a cap rate of 6.0%, this suggests a current valuation of $20.26 M.**

The Net Present Value/Discounted Cashflow (NPV/DCF) model indicates a five year averaged valuation of $16.7 M, and the ten year, $17.8 M.

Beyond the valuation of cashflows and their growth, the local market is not expected to appreciate at a higher rate than other areas. We anticipate commercial real estate values will rise at a rate of 1.5% over the next ten years as compared with anticipated inflation of 2.2%. **The price appreciation in excess of the NPV valuation at the end of ten years, after discounting back to the present, is estimated at $230k, while the five year surplus is higher at $2.07M this is a questionable value, given the tenants lease durations and the dependency on renewals.**

The combined average valuation of NPV of $17,250,000 is a reasonably supported Fair Market Valuation.

All indications are that this a quality investment, however the duration of the leases and the question of renewals that fall heavily from year two through six, followed by the need for new tenants in years six and seven for a combined 39,000 sq. ft. (43% of the space) will require an aggressive marketing campaign and a supporting budget, which is not reflected in this projection. The WALE (Weighted Average Lease Expiry) based on area, is only 1.21 years, based on rent is 1.37 years, which are less than impressive commitments for lease terms. The leases for five tenants have been signed in the past two years, and only two of the tenants have renewal options for five years. There is not a visible long-term development potential on this 2.01 acre site.

Outstanding assumptions

There are a number of materials outstanding for which we have made assumptions that might modify the conclusions reached in this report.

As these outstanding items are resolved, we will remove them from this listing, eventually removing this entire section.

- The historical financial reports covering the buildings operations for the past three years have not yet been made available, meaning that the expense budget is simply information provided by the current owner. Further the scope and purpose of capital budgets expended is also not clear.
- Tenant TMI letters are complete, but for the software development tenant in unit 10, which negotiated an additional rent provision forgiving all such costs but realty taxes, in December of each year. The reconciliation for this is not yet available.
- We have no lease copy for the renewal of the accountancy practice in unit 4, despite having been assured that this tenant has renewed. WE do have the original lease however, but it is not clear what if any inducements have been provided by the landlord for the renewal.
- At date of writing, an Environmental Report is not available. Apart from the contents of such reports, there is NO provision for a capital budget for any required remediation made in the model or the reports we are providing.

Contents

Overview

Scope of Work

This work has been undertaken at the behest of the potential purchaser's agent and manager, to establish a Fair Market Valuation, considering the long term best and highest use, together with analysis of risks and possible opportunities for the target property. It is fundamentally based on a 10 year month-by-month projection methodology, with cashflows before finance and taxes discounted back to present date. It contains therefore, forward-oriented information and assumptions that are not completely vouched by current data on such things as tenant renewal exercises, future rental rates, inflation rates, and discount rates.

I have twice visited and toured the property, interviewed the commercial tenants, reviewed the Offer to Purchase, leases and renewal options, tax, water, hydro and other operating bills, Phase I Environmental Report (pending), Building Condition Report, and other pertinent documentation for the property; evaluated market conditions and prospects with five and ten-year spans to support a valuation estimate of the property.

Neighbourhood Data

The municipal location is an established Tier 3 community. As of 2017, there were some 185,000 people, with a lower than typical average age of 36 years. There are approximately 77,100 households, averaging 2.4 people each. Median household income is $79,000, which is at the Canadian average. In terms of demographics, 94.3% are Canadian citizens, and 98.7% are English speakers.

The community has access within 25 minutes to major highway arteries to the major centres of Toronto and London Ontario, and rail and GO service is available with a minor commute.

The Official Plan anticipates growth of some 18,200 residents concentrated primarily in three Plan I neighbourhoods. The timing is not fully clear, however.

Property Description

The property is a three storey brick over steel construction built in 1987. It is situated on a 2.01 acre parcel at a significant intersection. The grounds are well maintained, with good visibility for signage.

Photo of Property

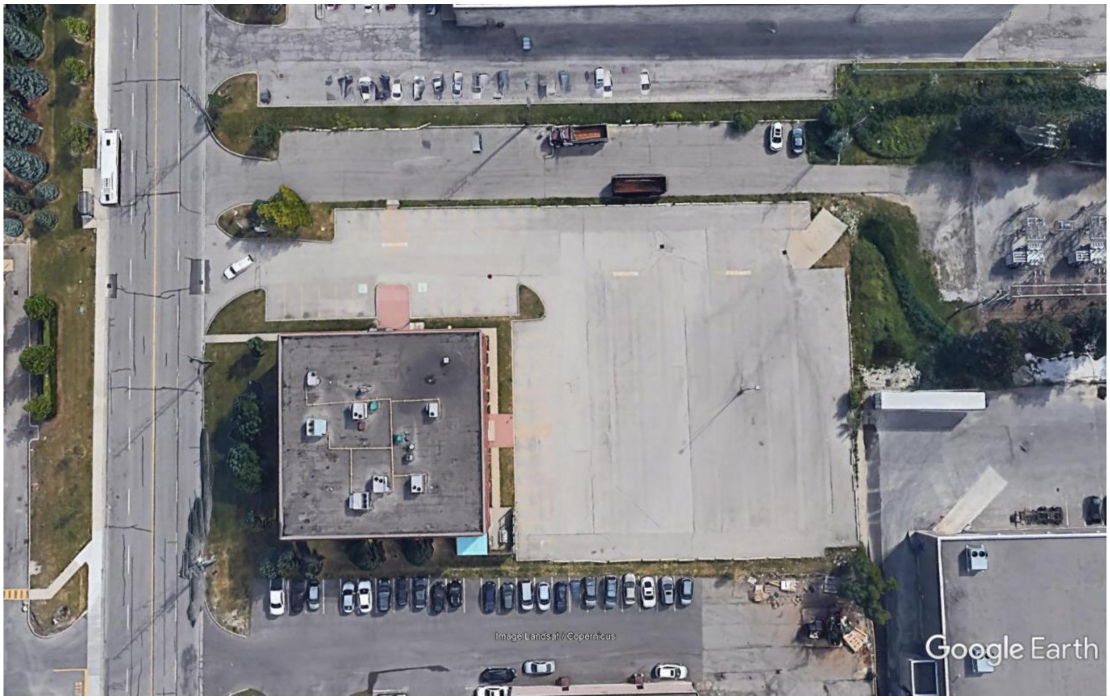

Figure 1: Photo of Property Facing North-East from Main Street

Figure 2 : East Entrance Face of building

Figure 3 : Aerial View Rear of Building

Legal Identification

Part of Lots 999,100,101

Sheet 99A,

Municipal Plan Registered as No 39

And Block 88, Plan 22 J - 1515

Local Municipality

Zoning

Mixed Commercial

Permits:

> Apartment Buildings, Block Townhouses, Business Services, Schools, Daycares, Convenience Stores, Dry Cleaning, Financial Institutions, Fitness Centres, Government Services, General Offices, Home for Aged, Hotels, Personal Services, Restaurants, Retirement Homes, Retailers, Studios, Veterinary Clinics

Not Permitted:

> Billiard Halls

Physical Description

The property is located

The property consists of some 90,000 square feet on a 2.01 acre parcel in a roughly square shape of some 336 feet E-W by 190 feet N-S. The frontages on XXXX St and YYYY Road are 195 feet and 328 feet respectively. The surrounding area along both streets is set-back single storey, with long lines of sight to the property. There is a subdivision of free-standing homes to the south and west.

The lot is slightly graded downward to the south.

It has Cooper Creek immediately to the west of the property, and a small 15 acre spring fed lake one kilometre to the east, with adjacent small park facilities.

General Comment

The site is clean and well maintained and shows well inside the tenant's space.

There are two elevators available for the upper stories, both in a center core.

Specific Issues

The roof was last reworked eight years ago and will likely need significant work done within two years, at an estimated cost of some $150,000.

Three of the rooftop air conditioning units are past their service life and should be replaced at the end of next years cooling season, at a cost of $20,000 per unit installed. These would carry a five year warranty.

The heat plant for the building is original to 1987, and the associated operating costs and maintenance are rising. This can be deferred for several more years, perhaps as long as four years. The cost of the overhaul and replacement will be approximately $250,000.

The parking lot has been patched repeatedly, and will need to be re-paved in 2024, at an anticipate cost of $75,000.

Give the age of the building, it is likely that electrical upgrades and plumbing work will be required, and has been tentatively provided for at some $250,000, in the ninth year of ownership.

Lease Reviews

Space Plan

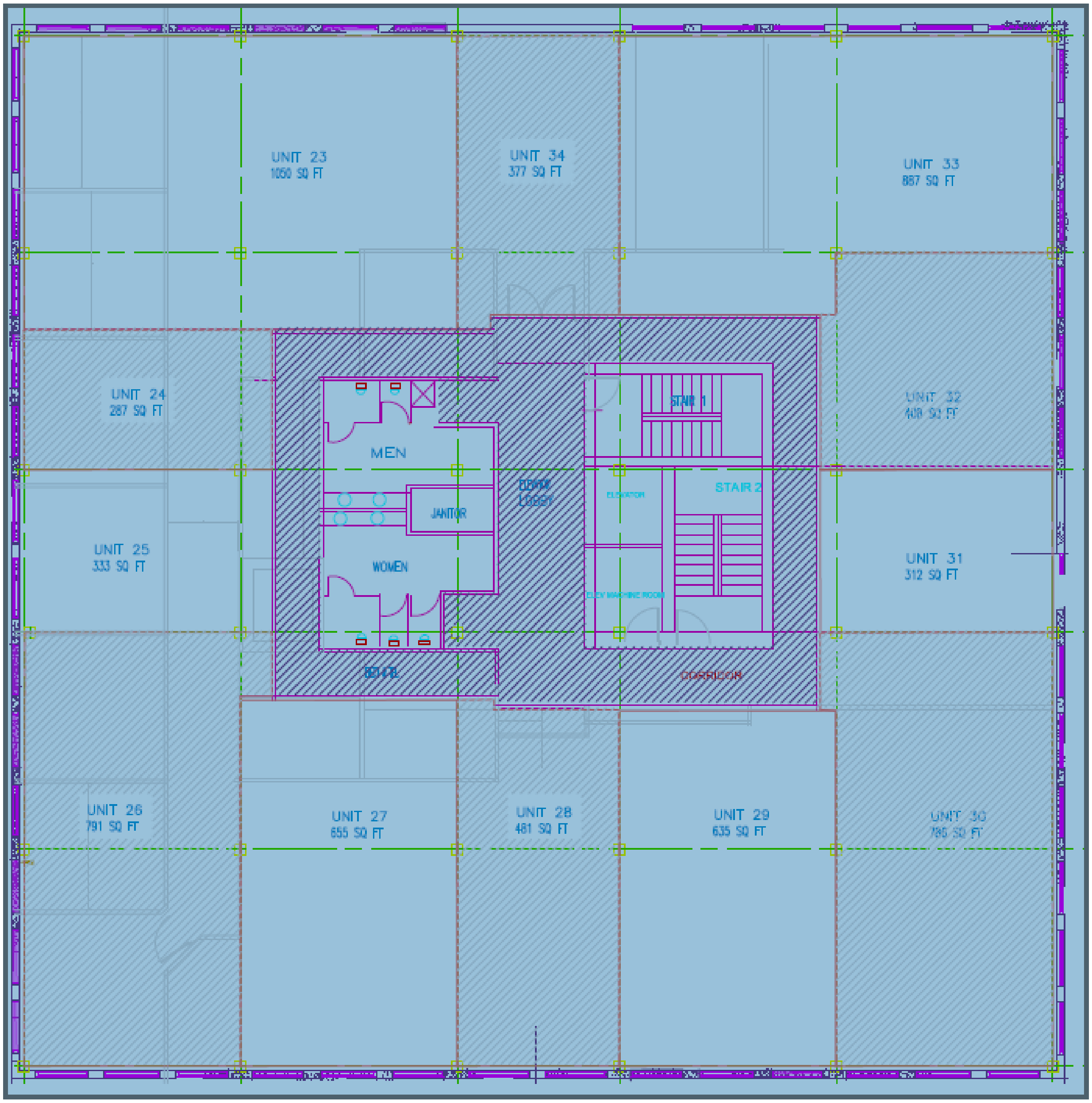

Figure 4: Second Storey Floor Plan

Rent Roll Summary

Level	Unit #	Tenant	Sq. Ft. Rent	Tenant Since	Term End	Renew 1 (yrs)	Renew 2 (yrs)	Current Annual Rent	Rental Rate/Sq Ft	CAM %
main	1	national chain restaurant	8,000	8-Jun-18	30-Apr-21	5	5	$128,000.	$ 16.00.	8.9%
main	2	national chain sports retailer	16,000	1-May-18	30-Apr-21	3	3	$240,000.	$ 15.00.	17.8%
main	3	chain convenience	6,000	1-Sep-16	30-Aug-24	4	4	$108,000.	$ 18.00.	6.7%
2nd	4	chain accountancy practice	12,000	1-Dec-13	30-Nov-18	3	3	$144,000.	$ 12.00.	13.3%
2nd	5	legal practice	8,000	1-Aug-14	31-Jul-19	5		$112,000.	$ 14.00.	8.9%
2nd	6	education support services	6,000	1-Jun-09	30-Nov-22	2	3	$90,000.	$ 15.00.	6.7%
2nd	7	chiropractor offices	4,000	1-Sep-10	31-Aug-20	5	5	$72,000.	$ 18.00.	4.4%
3rd	8	martial arts studio	12,000	1-Jan-18	31-Dec-20	3	3	$144,000.	$ 12.00.	13.3%
3rd	9	software development	13,000	1-Nov-17	31-Oct-22	2	2	$182,000.	$ 14.00.	14.4%
3rd	10	vacant	5,000							
			90,000			if no vacancy		$1,220,000.		94.4%
						current occupied		$1,038,000.		

current leasing rents, main	$476,000.	30,000	$15.87
current leasing rents, 2nd & third	$744,000.	60,000	$12.40

Figure 5: Tenancy List as of June 25, 2018

Vacancy Timelines and Lease Status

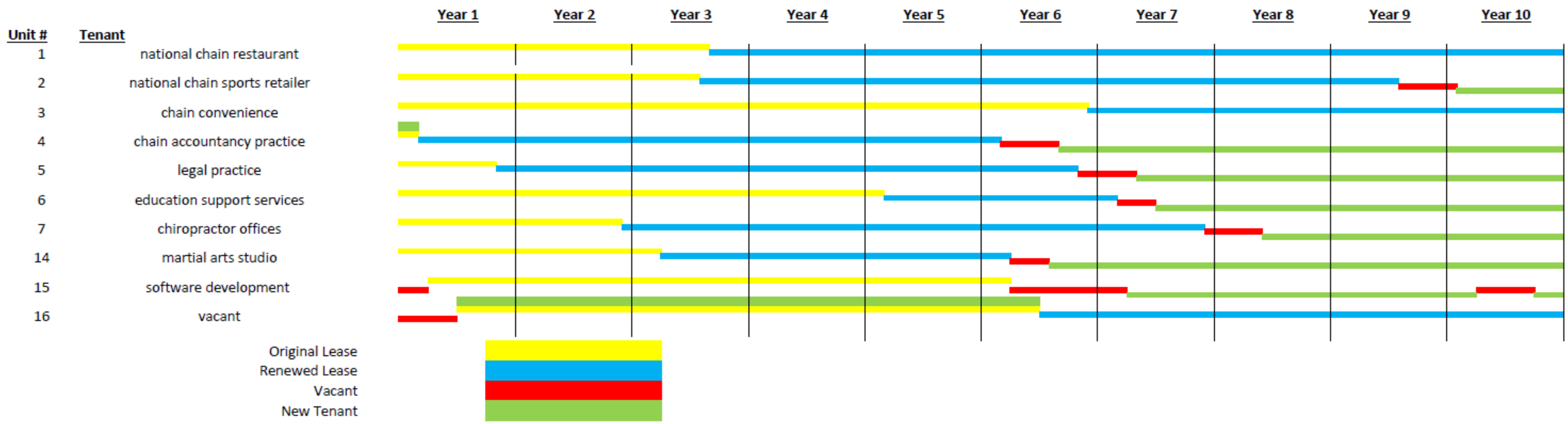

Figure 6 : Vacancy Timelines and Lease Status

Rental Increases and Changes to Income Stream

One of the issues that arose from the review of comparable sales, reflects on the rent rate levels currently charged.

While we do not have access to data on comparable rent rates specifically per unit in the comparable, we do have a working proxy for this question. Since we have the NOI data, and the square footage, we are able to develop an NOI per sq. ft. for each building. Assuming that the operating expenses and recoveries are reasonably in line with these other buildings, the NOI becomes a function of the rent charged. For example, if a tenant occupies 10,000 sq. ft. and is paying $20.00 per, then revenue to the landlord is also $20.00 per sq. ft., assuming a high 90% recovery of expenses.

At this time, the target property is realizing an NOI of some $13.17 per square foot ($1,185,000 on 90,000 sq. ft.). Yet, the comparatives are averaging nearly $17.00 per square foot. The most direct comparatives available are the two Whitby properties, comparatives # 7 and #9. Their NOI per sq. ft. are $21.90 (2018) and $19.50 (2016) per sq. ft. Both of these comparators are 100% leased, so the market is accepting such rates, however this is for single storey retail, not mixed retail and office. This property leases at $18.30 per sq. ft. for ground floor retail, which is a fair market rate. The upper storey offices earn a rate of $13.52 per sq. ft., which is low, with the major contributor being the accountancy practice in unit 4, and the martial arts studio in unit 8, both of which enjoy a rate of $12.00 per sq. ft.

This might be gradually corrected, with rental rates rising between 3% and 3.9% annually as the opportunity arises. This is illustrated I the following tables.

Rent Level Changes Year by Year

Tenant	Lease Expiry	Base Rate sq ft	Year 1 Oct-18 Sep-19	Year 2 Oct-19 Sep-20	Year 3 Sep-20 Sep-21	Year 4 Sep-21 Sep-22	Year 5 Sep-22 Sep-23	Year 6 Sep-23 Sep-24	Year 7 Sep-24 Sep-25	Year 8 Sep-25 Sep-26	Year 9 Sep-26 Sep-27	Year 10 Sep-27 Sep-28
Average Rent/ Sq. Ft over year, reflecting lease rates, vacancy periods, and projected renewals and replacement tenants												
national chain restaurant	Apr-21	$16.00.	$ 16.00	$ 16.04	$ 16.50	$ 16.54	$ 17.00	$ 17.00	$ 18.00	$ 18.08	$ 19.00	$ 19.08
national chain sports retailer	Apr-21	$15.00.	$ 15.00	$ 15.04	$ 15.50	$ 15.56	$ 16.25	$ 16.25	$ 17.00	$ 17.08	$ 10.50	$ 16.58
chain convenience	Aug-24	$18.00.	$ 18.00	$ 18.08	$ 19.00	$ 19.08	$ 20.00	$ 20.00	$ 21.00	$ 21.08	$ 22.00	$ 22.00
chain accountancy practice	Nov-18	$12.00.	$ 12.00	$ 12.06	$ 12.75	$ 12.81	$ 13.50	$ 6.75	$ 14.00	$ 14.08	$ 15.00	$ 15.08
legal practice	Jul-19	$14.00.	$ 14.00	$ 14.10	$ 15.25	$ 15.31	$ 16.00	$ 13.33	$ 11.00	$ 16.58	$ 17.50	$ 17.58
education support services	Nov-22	$15.00.	$ 15.00	$ 15.04	$ 15.50	$ 15.54	$ 16.00	$ 16.00	$ 11.33	$ 17.04	$ 17.50	$ 17.54
chiropractor offices	Aug-20	$18.00.	$ 18.00	$ 18.00	$ 18.00	$ 18.08	$ 19.00	$ 19.00	$ 17.88	$ 11.42	$ 20.00	$ 20.08
martial arts studio	Dec-20	$12.00.	$ 12.00	$ 12.08	$ 13.00	$ 13.08	$ 14.00	$ 9.33	$ 14.50	$ 14.54	$ 15.00	$ 15.04
software development	Apr-21	$14.00.	$ 10.50	$ 14.17	$ 16.00	$ 16.08	$ 17.00	$ 4.25	$ 13.50	$ 18.08	$ 19.00	$ 9.58
vacant	Jan-00	$0.00.	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Figure 7 : Rent Level Changes Year by Year

Percent Change in Rents over Prior Year	An Equiv	Over 10 Yrs	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
			Year by Year Realized Rent Changes									
national chain restaurant	1.8%	119.3%	100%	100%	103%	100%	103%	100%	106%	100%	105%	100%
national chain sports retailer	1.0%	110.6%	100%	100%	103%	100%	104%	100%	105%	100%	61%	158%
chain convenience	2.0%	122.2%	100%	100%	105%	100%	105%	100%	105%	100%	104%	100%
chain accountancy practice	-1.8%	83.3%	100%	101%	106%	50%	210%	100%	104%	101%	107%	67%
legal practice	2.3%	125.6%	100%	101%	108%	100%	104%	83%	83%	151%	106%	100%
education support services	1.6%	116.9%	100%	100%	103%	100%	103%	100%	71%	150%	103%	100%
chiropractor offices	1.1%	111.6%	100%	100%	100%	100%	105%	100%	94%	64%	175%	100%
martial arts studio	2.3%	125.3%	100%	101%	108%	101%	107%	67%	155%	100%	103%	100%
software development		136.3%	100%	101%	113%	101%	9%	1100%	116%	100%	53%	201%
vacant	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Figure 8: Rental Increase Percentages year by year

Discussion By tenant

- **Units 1 : National Chain Restaurant**

  This tenant occupies a total of 8,000 sq. ft. With over 30 Ontario locations, this chain enjoys great market recognition, and currently averages 45 minute wait times 3 days a week. They are provided 4 / 1000 sq. ft. parking stalls, which is ample parking; I visited the sit many times at lunch and dinner hours, and always noticed vacant parking stalls. There is a deposit on account equal to two month's gross rental which represents a 1 month security deposit and last month's gross rental. The current rental is at $16 net, which is $4 below the average comparable restaurant leases. There should be a net rental increase of $3 escalating to $6 over a 10 year renewal term. We recommend asking for a percentage rent and accept a lower net rental. This is a quality tenant with a reasonably priced family friendly menu which should have continued success for many years.

- **Units 2 : National Chain Sports Retailer**

  They lease 16,000 sq. ft. situated on the ground floor of this building. This location is a large traffic provider. This franchise appears to be very successful and is usually very busy. They have a 2 month gross rental deposit representing last months rent and a 1 month security deposit.

- **Unit 3 : Chain Convenience**

  This tenant occupies 6,000 sq. ft. This operation appears to be too large for their product offering. Consideration should be given to downsize them upon renewal. Perhaps a hair salon could lease the, approximately 2,000 sq. ft. of extra space. They are operating a truck rental company from this store, with 12 trucks parked at the back of the property. There is no mention of truck parking in their lease. They have a 2 month gross rental deposit representing a 1 month gross rental security deposit and last months rental. Their sign is-in-need-of some repair showing rust and some paint chipping. Consideration should be given to replacing or repairing this sign in the next budget.

- **Units 4 : Chain Accountancy Practice**

  Their space has a-number-of meeting rooms/small offices and a large open group area. It is definitely-custom to their needs and appears to suit them very well. The occupy 12,000 sq. ft. Their lease commenced 5 years ago, and I expect them to be a tenant for another two or three 5 year terms. There lease was recently renewed for another 5 years, awaiting the final documentation from legal. There is a 2 month gross rental deposit representing last month's rent and a security deposit.

- **Units 5 : Legal Practice**

  This legal practise offers both family law and criminal law services. They occupy 8,000 sq. ft. and appear to be growing. It is possible that they may take all or most of the current 5,000 sq. ft. vacant space. They are currently in the fourth year of a five year lease, expiry is July 31, 2019.There is a 2 month gross rental deposit representing last month and a security deposit. They are entitled to 3.5 parking stalls per 1,000 sq. ft.

- **Unit 6 : Education Support Services**

This private sector training facility occupies 6,000 sq. ft. They operate with only a few staff members during business hours. The majority of their classes are after business hours which is less taxing on the parking stalls. Some classes have up to 40 students. They are one of the original tenants having occupied the space since June 1, 2009. The current tern expires on Nov. 30, 2022. There is a 2 month gross rental on deposit for last month's rent and a security deposit.

- **Unit 7 : Chiropractor Services**

This practitioner recently expanded and now occupies 4,000 sq. ft. The operation offers a number of different services including massage therapy and acupuncture as well as chiropractic. They appear to be a secure tenant, with a mid-term lease that expires on Feb. 28, 2021. I would expect this tenant to be a model tenant who will renew the lease. This should be a worry-free long-term tenant. There is only a last month gross rental deposit. Upon renewal, as a general practise, it would be wise to negotiate a security deposit, although they appear to be very solid.

- **Unit 8 : Martial Arts Studio**

The studio occupies 12,000 Sq. ft. of basement space. The majority of their classes are before and after work hours, which helps with the parking load. Some of the clients that use the chiropractor services. They are a new tenant, and the original lease was only a 2 year term expiring Dec. 31, 2020; they received no leasehold allowance. We have been in discussions with them regarding their renewal and they are so successful that they have requested a 10 year renewal term. There is a 1 month security deposit on account. Consideration should be given to adding a last month gross rental deposit upon renewal.

- **Unit 9 : Software Development**

This website development office has 13,000 sq. ft. Their employees work from home as well as the office. Their lease is a 5 year term and expires Oct.21,2022. They appear to be successful and we anticipate that the will renew for an additional 5 years. They have a 2 month gross rental deposit on account.

- **Unit 10 : Vacant**

  This 5,000 sq. ft. space with a western exposure is currently empty. We anticipate that the law firm will lease this for their additional requirements. They are currently negotiating for this expansion space. We will most likely negotiate a co-terminus expansion with the existing lease which expires July 31,2019. They have a 2 month gross rental on deposit.

Cost to Re-Lease

The assumption is that new tenants will require the landlord to pay commission of 3% of the five year rent to the mandated real estate agent of the tenant, assuming the landlord will handle their own selling work.

Renewals would incur a $2.00 per sq. ft. commission to the originating broker as well.

When a vacancy arises, the space is likely to require some modification and upgrading from previous wear and tear. While the new tenant is primarily expected to cover these costs, as it has specific needs and is in control of the space, it is typical for the landlord to be asked to make some contribution to such costs. This inducement, to facilitate selling the space, varies with the extent of the work that is likely to be undertaken. It is anticipated that $10.00 per sq. ft. for Main level office and retail space would be required and Lower level space, would require $5.00 per sq. ft. As discussed under the Ministry above, their renewal leaseholds are set at $3.00 per sq. ft.

Parking

There is ample parking for this building which has 3.5 stalls per 1,000 sq. ft. of rentable space. There are currently 20 additional stalls which have not been assigned to tenants. However, occasionally the lot appears full. Once the truck rental operation from the convenience store is terminated, there will be 12 additional vacant stalls.

Environmental Assessment

One consideration we are aware of might be the existence of asbestos

Lastly, a gas service station operated on the north-west edge of the property and was decommissioned some 18 years ago. Given the relatively lax environmental laws at that time, it is unknown what steps were taken during it's decommission. This might be investigated further.

Highest and Best Use

Official Development Plan

The Official Plan, updated in January of 2016, brings the Plan into alignment with the provincial and regional objectives. They need to deal with Greenfields designations to the north and east. It must also simultaneously address a need for intensification in its downtown core. There are a series of Plan areas that are a key focus of the Plan, most of which lie towards the south and west. None of these impinge on the property in question.

Clearly the planning department is open to intensification of its properties, which they measure as a combination of both residents, and jobs provided. This provides a favourable environment for redevelopment.

Zoning Under the Plan

The permitted use of Mixed Commercial is set out under “Zoning” above. The Plan has further clarification.

Section 2.2.5.2 reads in part,

> “Generally, the gross retail and personal service use components of Mixed Commercial developments shall not exceed 1,400 square metres (15,070 sq. ft.) of floor space.”

Taking “component” to mean a single specific tenant, then certainly there is no problem here. However, it might act to limit potential replacement tenants.

Significant Properties

It is worth noting that the **super-regional** mall is about 2.8 kilometres away to the north and is specifically protected in the Plan. It consists of 700 thousand sq. ft. of retail, and a further 270,000 square feet of office space. It has just lost one of its anchor tenants as Sears ceased operations. The vacancy implications of the September 2016 expansion of this facility, together with the Sears vacancy are worth noting.

Secondly, under the Plan,

> “7.2.8 The City shall encourage the location or re-location of Regional, Provincial or Federal offices to the City. The Downtown Urban Growth Centre shall be the preferred location for such governmental offices.”

“The Centre appears to be within this Urban Growth Center, this target property is not.

A major development project`s first 320,000 sq. ft. of commercial offerings began construction in summer of 2018 with substantial completion in 2019. By the winter of 2021, the retail and commercial space will reach its target of 670,000 sq. ft. This will have a substantial competitive pressure, although in part, this is justified by the growth of some 37,000 in population, primarily focused in the south

Window to Redevelopment

Referring to the Vacancy and Lease Timeline chart (see Figure 6 under Lease Review), fully 47,000 sq. ft. has been leased in the past 12 months. Of interest to this question is that each of these leases are either for short initial terms, or carry short renewal options, or both. The implication is that the tenants have reduced their risk for longer commitments and increased the landlord`s risk for high churn and the associated costs of brokerage and leasehold inducements.

While most of the tenants' leases expire or are due for renewal between years 5 and 7 (with the exception of the restaurant tenant in unit 1), this simply present the question of what better or higher use can be made of this 2 acre parcel.

The building is only about 50% through its expected useful life. The parking facilities are adequate to current tenant traffic requirements, but a footprint that might be larger than the current 30,000 sq. ft. of improvement (35% coverage) would entail underground parking to compensate.

Eventual Best Use

Over time, given population growth and increasing density, the site and the local market could reasonably expect to be able lease a larger space, perhaps rising to five stories on a slightly larger footprint – perhaps 50% bigger. A 45,000 sq. ft. footprint would increase coverage to nearly 50%, which would probably require 2 levels of underground parking.

At present outside the traditional low rise downtown core which the municipality wishes to preserve, retail and office spaces are reached by car, in part due to limited transit and widely distributed sub-development single residence housing stock. This calls into question the viability of a redevelopment project when a new project would be less costly and have greater design flexibility.

Present Best Use

At present, this target property is not a candidate for redevelopment. The building has at least 30 more years of useful life, the parcel size and existing coverage percentage limits the scope of such a project, and the communities' growth rate suggests that it will be decades before it is likely to reasonably support a more than doubling of square footage, particularly since much of that would be office space and not public-facing businesses.

In light of the above discussion, the property is at its highest and best use, and this will continue for ta least the next 2 decades.

Possible future redevelopment is distant enough in time that there is little significance for the property`s current value (as any such premium would be discounted to near zero levels). There are no implications for ascribing higher terminal values in this analysis.

Capitalization Rate

Capitalization Rates for Canada from CBRE 2018 indicate that neighbourhood retail is experiencing a 6.2% Cap Rate, while for office space, downtown is 5.9% while Suburban Class A and B is 6.83%.

Having regard to the tenant mix, some 46% of the tenants are branches of a national chain . Such tenants would attract a Cap Rate of 5.7%. A further 20% of the tenants have some history and past duration, having been tenants for between 5 and ten years. We consider this segment as stable. The balance of the tenants, on the third floor, some 28% would imply a higher Cap Rate of 6.8% given their nature and the short time they have been tenants. Blended this suggests a Cap Rate of 5.8% at present – **we are benchmarking a Cap Rate of 6.0%.** Of note, the Comparative Analysis shows a Whitby property purchased by RioCan in 2018 that carried a Cap Rate of 6.2%, although other comparables range from 4.5% to 5.2%. Note that the relatively short WALE of below 2 years suggests higher risk than these comparables as they are largely single storey with limited vertical office space. As the tenant mix changes and leases expire, we are expecting that the appropriate Cap Rate would rise to 6.5%, which we use as the ten year Cap Rate for Terminal Valuations.

These values are broadly in line with Waterloo, with a somewhat similar population base in its CMA.

Net Present Value and Discounted Cash Flow Valuation

Net Present Value and DCF Valuation

	Five Year Period	Ten Year Period
Average Annual Performance		
Total Effective Rent	$ 1,638,450	$ 1,721,407
Net Operating Income	$ 1,171,040	$ 1,215,583
Cashflow, before finance and income taxes	$ 1,007,113	$ 977,381
Average Discount Rate	6.7%	7.1%
Calculated NPV, using averages	$ 4,162,746	$ 6,833,098
Derived NPV from Monthly NOI Projections	**4,440,000**	**7,330,000**
Terminal Value Derivation, based on Cap Rate		
Last Year Cashflow	$ 1,016,195	$ 1,079,108
Cap Rate	6.35%	6.50%
Projected Terminal Value	$ 16,003,075	$ 16,601,654
Derived NPV from Terminal Projections	**12,270,000**	**10,450,000**
Total DCF Value	**$ 16,710,000**	**$ 17,780,000**

Figure 9: Net Present Value and Discounted Cash Valuation

Surplus Appreciation

Income related valuations from Cap Rate and NPV analysis do not encompass all aspects of a Fair Market Value. There can also be a **Surplus Appreciation** in various markets. In part, this is because of the effect of "**rent lag**", where the property appreciates, but the rents are locked into leases and it takes time for these to adjust, as leases expire and are renewed/replaced.

We anticipate the rate of appreciation of real estate in this location to be 1.6% year over year, for both the five and ten year windows (8.2% and 17.2% appreciation respectively), primarily on the base of limited growth pressure. The undiscounted values projected are

Five year	$20.03 M	vs	NPV $27.1 M
Ten Year	$21.68 M	vs	NPV $21.2 M

The discounted appreciated values to current are 5 year $18.8 M, a reduction of $2.07 M, and a 10 year $18.01M, a surplus of $ 230 k.

Notwithstanding this evaluation, we have not included these amounts in our valuation, in reflection of the lower growth anticipated over the time window, and the possible new supply in the local market that may provide fresh competition.

Comparative Sales

There are not any sales comparisons that exactly match this investment, in part because of the high percentage of upper storey office space, and the lot size. However, from a list of 11 GTA investment sales, we chose these 5 to compare. At the negotiated purchase price, the subject investment represents $206/ sq. ft. The comparables range from $179/ sq. ft. for the property in Whitby to $343/ sq. ft., averaging $279/sq. ft. These are on a factor adjusted basis. The cap rates for these investments ranged from 4.5% - 6.16%. The subject property enjoys a higher cap rate at 6.4%, than all the comparables and is the second least expensive on a per sq. ft. basis.

Sales Comparison

Comparative Reference #	**1**	**2**	**7**	**8**	**9**
City/Town :	**Aurora**	**Etobicoke**	**Whitby**	**Oshawa**	**Whitby**
Address :	**14800 Yonge St**	**201 Lloyd Manor**	**1751 Victoria St E**	**843 King St w.,**	**70-80 Thickson Rd S.,**
Intersection Nearby :			Thickson s. of 401	King & Thornton	Thickson & Dundas
Name :	**Aurora Promenade**	**Etobicoke**	**Thickson Centre**		**Thickson Place**
Status	Final	Final	Final	Final	Final
Title	Fee Simple	Fee Simple	Fee Simple	Fee Simple	**50% Transfer**
Date of Sale	22-Aug-17	10-Oct-17	9-Jan-18	20-May-15	29-Sep-16
Lot Acres	10.4	6.0	9.3	1.9	10.4
Zoning	C4(202) commercial	CR comm/resid	Spec Node comm	Planned Comm Strip	C1 commercial
Occupancy %	94.4%	97.4%	100.0%	80.0%	100.0%
Vacancy %	5.6%	2.6%	0.0%	20.0%	0.0%
Total Footage Improved	123,150	73,204	87,359	30,049	104,808
Improvement % (coverage)	27%	25%	22%	37%	23%
# of Buildings	2	2	1	1	1
Age of Building	1964	1984	2004	1990	1986
Type of Construction	Steel behind Block	Steel Behind Precast Brick	steel behind block	steel behind brick	steel behind concrete panel

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123 Real Estate Road

Comparative Reference #	1	2	7	8	9
Name :	Aurora Promenade	Etobicoke	Thickson Centre	0	Thickson Place
Sale Price	**$42,240,000**	**$25,750,000**	**$31,100,000**	**$5,150,000**	**$19,750,000**
Purchaser	Fiera - Private	CREIT - Public	RioCan REIT	Private	Firm Capital
NOI	$ 2,112,000.	$ 1,153,000.	$ 1,915,760.	$ 261,448.	$ 2,050,000.
NOI per sq ft	$ 17.15.	$ 15.75.	$ 21.93.	$ 8.70.	$ 19.56.
NOI Grss'd Up for Vac/ sq. ft.	$ 18.17.	$ 16.17.	$ 21.93.	$ 10.88.	$ 19.56.
Price per Sq Ft Improved	**$ 343.**	**$ 352.**	**$ 356.**	**$ 171.**	**$ 377.**
Price per Acre	$ 4,061,148.	$ 4,280,964.	$ 3,342,648.	$ 2,737,905.	$ 3,799,173.
Cap Rate	5.00%	4.50%	6.16%	5.08%	5.19%
Adjustment Factors					
Date of Transaction - Inflate	2.5%	2.5%	0.0%	7.7%	5.1%
Comp - Coverage Adjust	0.0%	0.0%	0.0%	0.0%	0.0%
Comp - Lot Size larger	-5.0%	-2.0%	-5.0%	10.0%	-5.0%
Comp Tenant Mix	0.0%	0.0%	0.0%	0.0%	0.0%
Comp Demographics	0.0%	0.0%	0.0%	0.0%	0.0%
Comp - NOI Low (High)/ sq. ft.	0.0%	0.0%	0.0%	0.0%	0.0%
Comp Building 20 yrs older	-2.0%	0.0%	0.0%	0.0%	0.0%
Comp - Financing Favourable	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Up for Low Occupancy	0.0%	0.0%	0.0%	20.0%	0.0%
Adjusted Price	$ 39,072,000.	$ 25,106,250.	$ 27,990,000.	$ 7,090,987.	$ 18,774,844.
Adjusted Metrics					
Price per sq ft Improved	**$ 317.**	**$ 343.**	**$ 320.**	**$ 236.**	**$ 179.**
Price per Acre	$ 3,760,000.	$ 4,170,000.	$ 3,010,000.	$ 3,770,000.	$ 1,810,000.

Average Price per sq ft	**$279.15**
Average Price per Acre	**$ 4,130,000.**

Combined Valuation

The NPV values are $16,710,000 for a five year window, and $17,780,000 for the ten year window. For comparison purposes, the negotiated price provides a going-in Cap Rate of 6.4%, and the first year NOI yields a value of $ 19,750,000 at a 6.0% Cap Rate.

While the appreciation of real estate in this community is anticipated to range about 1.6% year over year, the amounts are not significantly in excess of the NPV valuations, and so are neglected.

The comparative analysis illustrates that the NOI per sq. ft. of the property is approximately $13.00, while the matching metric for the comparatives average $17.34 and range as high as $22. This is largely because the comparables have a high percentage of public facing tenants in single storey spaces. It is worth noting that the lease rental rates for the third floor may represent pressure to lease up space given the recent dates of leasing. As such, they may not fully reflect market rates.

From the comparative analysis, the average price per sq. ft. of improved space is $279 while this target property is only $206. Again, a function of higher office space offerings. The suggested valuations on this comparable basis would be on the order of $25,000,000. However, these comparables have tenants that are primarily national accounts which generate higher traffic, and often pay slightly higher rental rates than government or quasi-governmental tenants. We are not considering this, as it is an artifact of deficiencies in the comparables available.

The Cash-on-Cash metric is a low 2.6%. Contrasting this with the IRR (6.0% to 8.6%), and notably the MIRR,(5.7% to 8.0%), it is clear that this property is governed by its cashflow returns, rather than capital appreciation.

Valuation Comparisons

Cap Rate Based			**First Year**	**Five Year**	**Ten Year**
Net Operating Income (NOI), av'gd			$ 1,185,280	$ 1,171,040	$ 1,215,583
Cap Rates		6.0%	**$ 19,750,000**	$ 19,520,000	$ 20,260,000
		6.2%	$ 19,120,000	**$ 18,890,000**	$ 19,610,000
		6.5%	$ 18,240,000	$ 18,020,000	**$ 18,700,000**
Actual Offer, Cap Rates Derived					
	based on negotiated price		$ 18,500,000		
	Derived Cap Rate		**6.41%**	**6.3%**	**6.6%**
NPV Discounted Cash Flow Analysis				**Five Year**	**Ten Year**
Average Net Cash Flow, before interest and income taxes				$ 1,007,113	$ 977,381
NPV of Cash Flows				$ 4,440,000	$ 7,330,000
NPV of Terminal Value				$ 12,270,000	$ 10,450,000
Total NPV				**$16,710,000.**	**$17,780,000.**
Property Appreciation Beyond NOI growth				**Five Year**	**Ten Year**
Terminal Property Valuation based on DCF				$ 17,138,354	$ 21,213,475
Discounting to Present				28.4%	50.7%
NPV of DCF Terminal Valuations				$ 12,271,261	$ 10,451,491
Expected Appreciation of Real Estate					
	general inflation projected			2.2%	2.2%
	general real property appreciation			2.4%	2.4%
	suburban property			**1.6%**	**1.6%**
Projected Appreciated Property Value					
based on initial value of			$ 18,500,000	**$ 20,030,000**	**$ 21,680,000**
Surplus Appreciation over DCF				$ 2,891,646	$ 466,525
Surplus Discounted to NPV				$ 1,424,661	$ 229,848
Discounted Future Appreciated Value				**$ 14,341,712**	**$ 10,681,340**
Discounted Appreciation Gain				$ 2,070,452	$ 229,848
DCF Valuation, plus Surplus Appreciation				**$18,780,000.**	**$18,010,000.**

Figure 10: Comparison of Valuation Method Results

Other Metrics

Metrics Generally	123 Real Estate Road	Comparative	Real Estate Road Factors	Suggested Value
Price per sq ft Improved	$ 206.	$279	90,000	**$ 25,123,551.**
Price per Acre	$ 3,297,683.	$4,130,000.00	2.01	**$ 8,301,300.**
NOI / sq. ft.	$ 13.17.	$ 17.34.	attributable to higher % of office space	

Cash on Cash Evaluation

Cash Outlay	$ 7,400,000.	neglecting acquisition costs
NOI Year 1	$ 1,185,280.	
Non Operating Expenses	$ 220,000.	
Debt Servicing	$ 774,720.	
Total Cash Inflow, after Finance	$ 190,560.	
Cash-on-Cash	**2.6%**	

Internal Rate of Return (IRR)

	IRR	MIRR
Five Year IRR	6.0%	5.7%
Ten Year IRR	8.6%	8.0%

Note : the IRR assumes cashflows are re-invested at the IRR return, the MIRR assumes cashflows are re-invested at the most likely risk-free rate of return, in this case 10 year gov't bonds yielding 2.3%

For Comparison, at time of writing	High Quality US Corporate Bonds yield	4.0%
	High Yield US Corporate Bonds yield	5.8%

Figure 11 : Other Metrics - $/sq. ft. Cash-on-Cash, IRR & MIRR

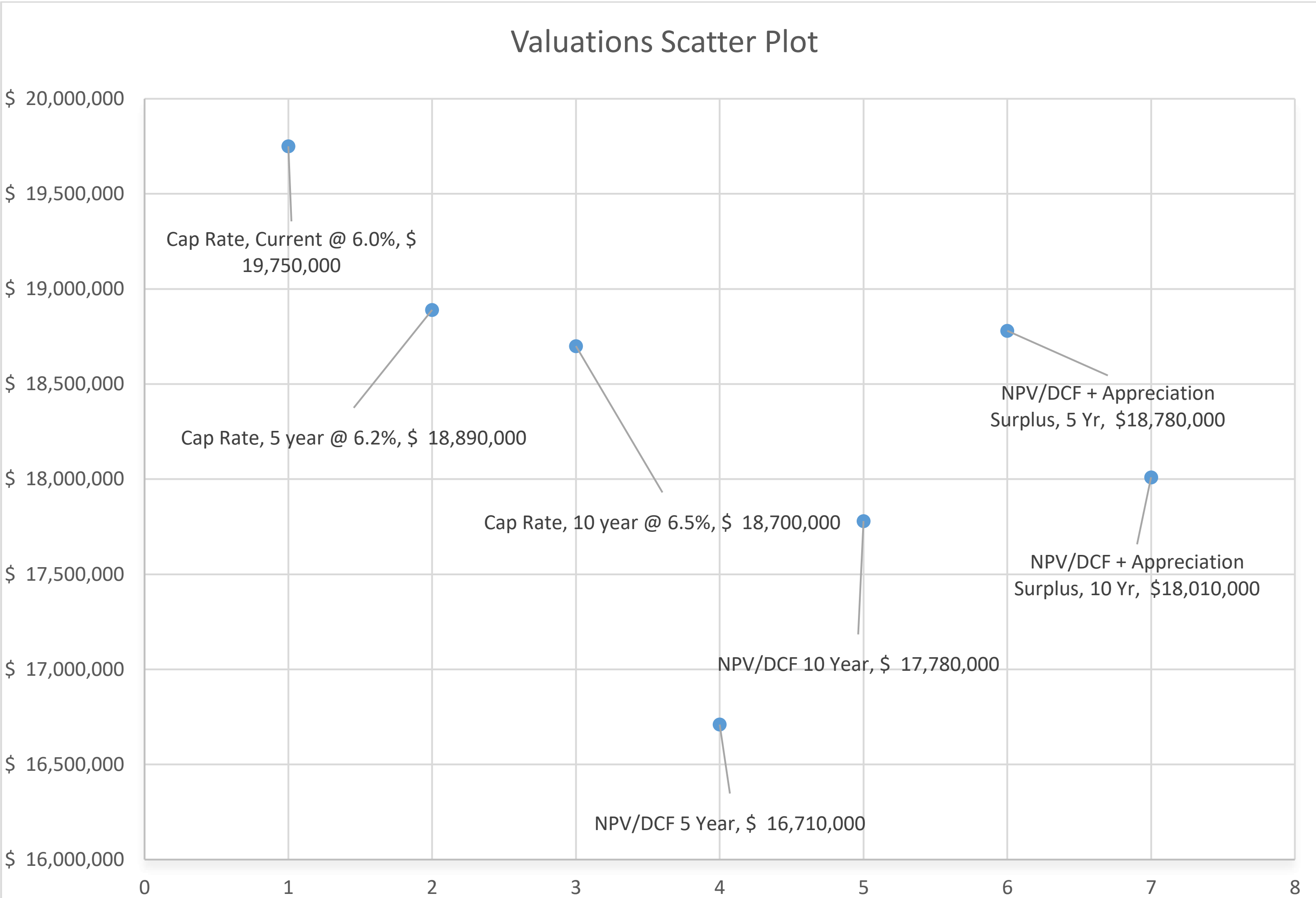

Figure 12: Valuation Comparisons Scatter Graph

Conclusion

My evaluation is that the Fair Market Value of the property is $17,250,000, based on the average of the five year and ten year NPV determination.

It is our view that the asking price should be revisited, as the short WALE and the likely tenant turnover over the investment window suggests considerable vacancy periods and the associated re-leasing costs. This is compounded by the relatively small parcel size of 2.0 acres, and the limited redevelopment possibilities.

We urge any likely investor to consider a significant re-branding and re-marketing program to address attracting new longer duration tenants, together with correcting the below market lease rental rates on the third floor. There is sufficient space to eventually attract a more stable tenant, perhaps an insurance processing centre or similar financial sector usage.

Please note that Ecommercial Realty Inc. has not provided professional tax, legal, accounting, environmental, or brokerage services.