Q4 2022 Investor Newsletter

All Island Equity REIT

May 1, 2023

Message from the CEO

Dear Fellow All Island Equity REIT Unitholders

In 2022 and early 2023, the Board and Management of All Island Equity REIT ("**AIE REIT**") remained conservative and continued to focus on stabilizing the significant number of new assets added to the portfolio at the end of 2021. Due to macroeconomic factors impacting the real estate market during this time, there were fewer accretive acquisition opportunities presented that fit the REIT's strategic mandate. Rising interest rates are the most notable factor impacting the real estate market; however, other factors, such as inflation and the potential for rising capitalization rates, also exist, resulting in investor uncertainty overall.

AIE REIT's board and Management are bullish on the long-term growth potential of income properties in British Columbia as well as in AIE REIT's portfolio specifically, despite the challenges facing the real estate industry. AIE REIT's conservative approach will continue in 2023 for two main reasons: (1) to be prepared when accretive opportunities arise, and (2) to build internal capacity within AIE REIT to mine the significant value that remains unrealized in the existing portfolio.

Positive Trends

While certain negative factors have impacted the real estate market over the past year, there are positive factors that bode well for income properties in Canada, most notably, immigration, the low rental supply, and rental/vacancy rates.

Immigration: Canada welcomed 437,180 immigrants in 2022 and the number of non-permanent residents increased by a net 607,782 people. Canada's total population increased by more than a million people over the course of the year. The Government of Canada has set a target of granting permanent residency to 465,000 people in 2023, 485,000 in 2024, and 500,000 in 2025. These targets are in stark contrast to the United States that admitted 286,000 newcomers in 2022 and 245,000 in 2021. The federal government's plan also brings an increased focus to attracting newcomers to different regions of the country, including small towns and rural communities.

Low Rental Supply: A recent Royal Bank of Canada report stated that without a significant boost in rental stock, Canada's rental housing gap

$16.36
NAV per Unit

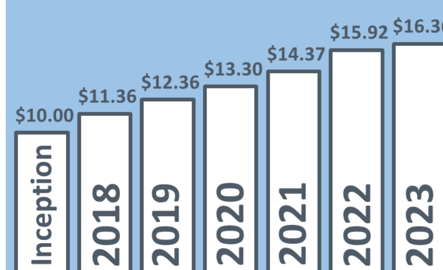
3%
Annual Distribution

11.94¢
Quarterly Payment Per Unit

June 30
Record Date

Early July
Next Distribution

NAV per Unit Growth



51%
Loan to Value[1]

$207M
Value of Investment Properties[1]

$2.06M
Q4 2022 Net Operating Income

123%
2022 AFFO Payout Ratio Estimate[2]

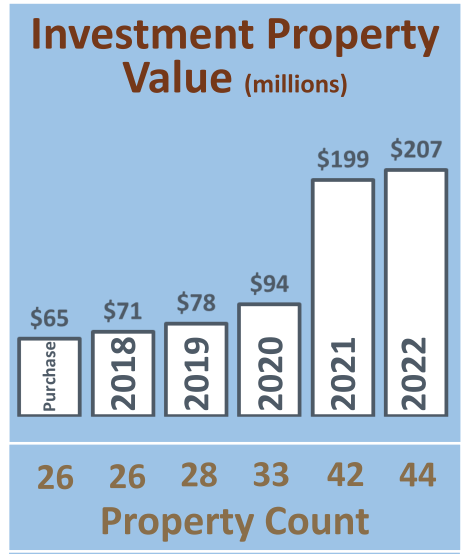
Annualized Return[3]

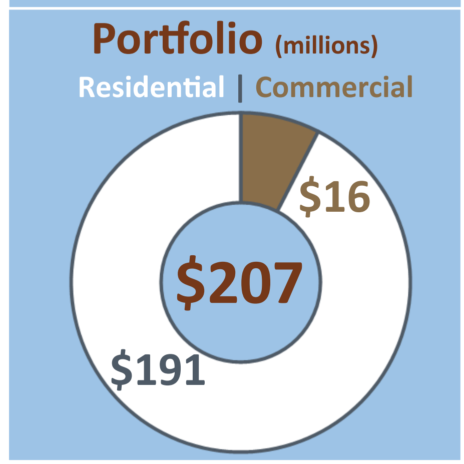
1 Year	5.2%
3 Years	9.4%
Inception	11.5%

could exceed 120,000 by 2026 – quadrupling the current deficit. Canada will need to add 332,000 units to its current rental stock between now and 2026 to achieve a balanced market and rent stability, representing an approximate 20% increase in the annual pace of construction achieved in 2022 (where 70,000 rental units were completed, the fastest pace of growth since 2014).

Rental & Vacancy Rates: The Royal Bank of Canada report also noted that despite the significant expansion of purpose-built rental housing construction in 2022, vacancy rates nevertheless fell to a two-decade low, as high levels of in-migration and the loss of housing affordability sparked a record surge in both demand and rents.

While the Board and Management of AIE REIT will work to grow revenue as a result of the above trends, we are committed to working with Canadian real estate partners and all levels of government to increase the supply of rental housing. A strong, healthy, and robust rental market is needed in Canada and is best for the communities we work and live within.





Net Asset Value and the Annual Distribution

In March, the **2022 Q4 Net Asset Value ("NAV") per Unit was increased from $15.92 to $16.36**. The Unit value calculation of $16.36 uses lower property values relative to those confirmed by AIE REIT's third-party auditor, MNP LLP, and appraiser, Cunningham & Rivard Appraisals Ltd. The Board of AIE REIT believed it prudent to utilize property values that reflect the current uncertainty in the real estate market, while allowing Management the opportunity to capture the latent value in the properties not currently reflected in the 2022 Q4 NAV per Unit.

The annual distribution rose in line with the NAV per Unit to maintain a 3% annual distribution of the current NAV per Unit. The annual distribution has increased by 64% since inception.

Moving Forward – Focus on Cash Flow and Distribution Growth

Over the past six years, AIE REIT has achieved consistent Net Operating Income ("**NOI**") growth and prospered from increased asset value appreciation. Now that AIE REIT has achieved reasonable scale, it is important that the Board and Management focus on actions that increase NOI and cash flow. Increased cash flow will potentially allow AIE REIT to raise the annual distribution over the long-term as AIE REIT transitions from a growth phase to an ongoing management phase, allowing AIE REIT to produce a steady income stream for unitholders.

In Place Rents

Management will continue to focus on achieving market rents when suites turnover, as well as continue to issue annual rent increases (2% provincial government limit for 2023) and additional rent increases for capital expenditures (3% provincial government limit for three years on applicable capital expenditures incurred by AIE REIT). The annual rent increase can provide an excellent hedge against inflation.

Overall, the weighted average of AIE REIT's in place rents remain well below market levels. Based on the December 2022 appraisals, the majority of AIE REIT's portfolio rents are between 25% and 38% below market (e.g. Comox Valley range is 19% - 37% below market; Victoria range is 27% - 38% below market; Okanagan range is 30% - 33% below market).

An example of the above potential is Okanagan Place 2, a 108-unit property in Kelowna. The stabilized rent in January 2022 was approximately $120,000 per month, while the stabilized rent is now approximately $130,000 per month as of April 2023, representing a $120,000 increase in annual rent since the property was purchased sixteen months ago. The weighted average rents for Okanagan Place 2 are still approximately 30% below market as of April 2023.

Acquisitions

In terms of acquisitions completed in 2022 and early 2023, the Board and Management focused on higher yield opportunities. In Victoria, AIE REIT bought out two lessees in one of the Victoria leasehold properties, buying back the lessee's right to occupy the suite and converting the suite into a pure rental. The capitalization rate on those two purchases exceeded 5%; the typical capitalization rate for Victoria is between 3.5% and 4%. In February 2023, AIE REIT purchased a 31-suite multifamily building in Penticton at a stabilized capitalization rate of 4.7% with below market rents of 20%, and an assumed 8-year mortgage with a 1.89% interest rate.

Mortgage Debt

AIE REIT is in a strong position with respect to rising interest rates, with a Loan-to-Value ("**LTV**") of 51% and a weighted average interest rate across the portfolio of approximately 2.88%. A significant portion of our multifamily assets and 73% of AIE REIT's total mortgage debt is not due for renewal until 2028 or later (i.e. 10% of mortgage debt is due for renewal in 2028 and 63% of mortgage debt is due for renewal between 2030 – 2032).

The remainder of the mortgage debt is almost exclusively on the commercial properties and three of the Victoria leasehold properties, and is due for renewal in 2026 (21%) and 2027 (6%). The 2026 and 2027 renewals were structured this way intentionally to provide the opportunity for potential cash flow events at the time of renewal. These renewals represent an opportunity to increase AIE REIT's annual cash flow by approximately $900,000 by paying off $7.42 million in mortgage debt.

Final Thoughts

Management continues to believe in the fundamentals of investing in our core communities and will continue to grow the portfolio in an accretive manner. As discussed above, management intends to focus on growing cash flow and annual distribution potential. While multifamily will continue to be our priority, AIE REIT is investigating self-storage opportunities as self-storage income properties serve as a strong complimentary asset class to multifamily, typically providing higher cash flow, with lower building costs and capital expenditures. **If you are aware of a larger real estate acquisition opportunity on Vancouver Island or in the Okanagan region – please let us know**.

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About All Island Equity REIT

AIE REIT is a diversified real estate investment trust with the primary mandate of owning income producing properties in British Columbia with over $200 million of assets in Vancouver Island and the interior. The portfolio consists of 868 apartment units and 58,035 square feet of commercial space.

The REIT is a tax-efficient investment vehicle that aims to pay a steady stream of distributions primarily generated through rental income on stabilized real estate assets. In addition to distributions, the value of REIT units is directly linked to the underlying value of the portfolio, which is independently appraised annually.

To contact us and find out more visit: http://allislandequityreit.com/

Glossary of Terms

Available Funds from Operation (AFFO): Net Operating Income less General and Administrative Expenses, Net Interest, and Maintenance Capital Expenditure.

AFFO Payout Ratio: Estimated full year AFFO as a percentage of estimated full year distributions made to unitholders.

Inception: AIE REIT was established in May 2017 with the acquisition of a $65 million portfolio in the Comox Valley, excluding two commercial properties that were sold shortly after completion.

Loan to value (LTV): Aggregate of outstanding mortgage balances, plus amounts drawn on the line of credit, divided by carrying value of investment properties, based on IFRS accounting standards.

Management: Management of All Island Equity REIT.

Net Asset Value (NAV): Aggregate value of the trust Property, less the aggregate value of the trust's liabilities, subject to valuation rules set and estimates made by the Trust from time to time.

Trust or AIE REIT: All Island Equity REIT, a Real Estate Investment Trust.

(1) As of December 31, 2022. The investment property values exclude the IFRS revaluation component.
(2) AFFO Payout ratio is a subjective non-IFRS measure used to evaluate the Trust's ability to cover its distributions.
(3) An annualized return based on a single unit investment in the AIE REIT, inclusive of unit price changes and distributions.