November 14, 2023

Unitholder Value - Fall 2023

ALL ISLAND EQUITY | REIT

CAPITAL RAISE - EARLY DECEMBER 2023

All Island Equity Real Estate Investment Trust ("**AIE REIT**") is targeting a $5 million capital raise by early-December 2023. The funds will be used for acquisition opportunities under contract and/or future accretive opportunities uncovered by Management.

AIE REIT currently has a high yield portfolio under contract, consisting of five Vancouver Island commercial assets, all under lease with healthcare tenants. Management is undertaking due diligence on the five assets and AIE REIT will close on the purchase provided the opportunity adds to the portfolio in an accretive manner.

Additionally, Management is reviewing several Vancouver Island multi-family opportunities, and the December capital raise will ensure AIE REIT is well-positioned to close on accretive acquisitions.

HAS THE VALUE OF COMMERCIAL REAL ESTATE IN CANADA PEAKED?

After leaving its overnight lending rate at 0.25 per cent for two years during the COVID-19 pandemic, the Bank of Canada raised interest rates 25 basis points to 0.50 per cent in March 2022. The decision to raise interest rates came from rising inflation amid higher oil and commodities prices. Following the March 2022 rate hike, the Bank of Canada raised interest rates nine subsequent times or stated differently, raised interest rates from 0.25 per cent to 5.00 per cent over a period of twenty-one months.

As with the general economy, the interest rate hikes created a level of uncertainty in the real estate market; however, it is important to note that not all real estate is impacted equally. For example, concerns that real estate is overvalued typically pertains to single family homes. It is important to separate the single-family home market from the multi-family apartment market as the two sectors react differently to economic changes. A downturn, or correction, in single-family home prices has minimal correlation to the performance of multi-family apartments.

While inflation appears to be trending downwards (note: at a greater rate for businesses than consumers), mortgage interest costs are still disproportionately adding to overall price growth according to the Royal Bank of Canada. The mortgage interest cost pressure negatively impacts consumer buying power and the price of single-family homes.

AIE REIT AND INTEREST RATES

AIE REIT's existing mortgage debt is well structured to mitigate the impacts of rising interest rates. AIE REIT possesses a Loan-to-Value ("**LTV**") of 50% and a weighted average interest rate across the portfolio of approximately 2.88%. A majority of AIE REIT's multi-family mortgage debt and 73% of AIE REIT's total mortgage debt is not due for renewal until 2028 or later. Overall, AIE REIT's next re-financing is not due until end of year 2026.

As the Bank of Canada hiked interest rates, upward pressure on capitalization rates for commercial real estate was inevitable. Although such movements can adversely affect property values, they present an opportunity to increase yields for buyers who know their markets well enough to identify accretive acquisition opportunities. Additionally, unlike in the single-family housing market, apartment property

AIE REIT AND INTEREST RATES CONTINUED

owners can counteract the impact of rising capitalization rates on property values by increasing net operating income. As the supply of rental units in Canada is well below demand and rental prices continue to reach historic highs, increases in net operating income can be achieved through the resulting revenue increases as suites turnover and annual rent increases are implemented.

AIE REIT is a Canada and Mortgage Housing Corporation ("**CMHC**") approved borrower for multi-family financing. CMHC mortgage insurance offers flexible tools to build, buy, and/or refinance standard multi-family rental housing, such as access to lower interest rates than conventional/market rates.

Finally, due to the strong fundamentals underpinning commercial real estate in Canada, a limited supply or lack of willing sellers has slowed asset sales in our core markets. Recent commercial real estate sales across the Canadian market have mainly consisted of private buyers acquiring smaller assets at stable capitalization rates. This is positive news for AIE REIT given the similar makeup of the assets in our portfolio.

AIE REIT'S APPROACH TO GROWING UNITHOLDER VALUE

AIE REIT's Board and Management ascribe to a conservative investment approach that is focused on providing a stable, passive investment with a targeted annual return between 8 and 12 per cent.[1] AIE REIT's primary investment region is Vancouver Island, and Management intends to leverage its knowledge of the region to cultivate multiple options to grow unitholder value.

AIE REIT's gross assets under ownership are now at a scale that enables Management to better balance how unitholder value is achieved:

1. Distribution Growth
    - In Q3 2023, the annual distribution was increased from 3% to 3.5%.
    - Since inception, the annual distribution has increased by 91% based on the original Net Asset Value per Unit price of $10.00, or by an average of 15.5% per year.
    - The annual distribution changes in line with the Net Asset Value per Unit. In other words, as the Unit value increases so does the annual distribution.
    - A Real Estate Investment Trust ("**REIT**") is a tax efficient investment. REIT Units generally qualify for non-registered and registered (e.g. RRSP, TFSA, etc.) plans. Distributions are generally taxed as Return of Capital, allowing unitholders to defer all taxes until they sell the investment. Cost capital allowance reduces income tax in most instances.[2]
    - Management is focused on increasing cash flow from operations to produce a steady income stream for unitholders.
2. Increased Property Value Appreciation of the Current Assets Under Ownership
    - Rental rates continue to reach historic highs. AIE REIT can realize significant revenue growth as suites turnover and are re-rented at market rents.
    - The demand for rental suites remains strong and AIE REIT's in-place rents are approximately 30% below market across our portfolio.
    - The maximum allowable rent increase set by the provincial government for 2024 is 3.5%. On February 1st, 2024, approximately $21,800 in additional monthly rent increases will take effect across the portfolio, equating to approximately $260,000 in additional rent annually.

AIE REIT'S APPROACH TO GROWING UNITHOLDER VALUE CONTINUED

3. Accretive Acquisitions, Joint Partnerships, and Internal Value-Added Projects
   - By expanding options for how AIE REIT will grow unitholder value, leverage is gained. Leverage is an important element of power when sourcing potential acquisitions, as the party that really has the leverage in negotiations is the party who needs to close on the acquisition the least. The goal is for accretive acquisitions to be a product of our internal performance, not the focal point or key driver of unitholder annual returns. Under these conditions, AIE REIT will be in a better position to negotiate the best terms and/or close on the most accretive acquisition opportunities.
   - From inception, AIE REIT has focused on British Columbian communities that offer significant lifestyle benefits, with a focus on assets in central locations, in-place below market rents, and long-term infill or development potential.
   - Management is in the process of examining development partnership opportunities to add value through infill development projects on existing vacant land and through forward purchase opportunities. AIE REIT will remain conservative and limit risk by developing new assets on existing land already under ownership or acting as the end buyer (i.e. not a development partner) on external development projects.
   - Management continues to work on internal value-added projects such as unearthing cash flow and equity increases from our leasehold assets. AIE REIT is (a) buying back lessee "rights to occupy" to convert to pure rental suites at higher than market capitalization rates,[3] (b) benefiting from steady land value growth in our high value Victoria locations, and (c) exploring opportunities to reposition equity in the assets that would allow AIE REIT to purchase new apartment buildings without raising additional capital. Internal value-added projects provide high value to existing unitholders through direct increases in the Net Asset Value per Unit.

Ultimately, the options for growing unitholder value expressed above gives AIE REIT power in the market, and Management intends to create a level of optionality that will enhance AIE REIT's ability to control its own destiny, mitigate its reliance on the external real estate market, and yield consistent returns for our unitholders.

Endnotes

1 For Class F Units.

2 Tax efficiencies are dependent on individual circumstances. Prospective investors should obtain independent advice from their own tax and legal advisors.

3 In other words, AIE REIT is generally buying rental units at a lower price relative to an equivalent purchase on the open market.

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: www.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.

Capitalization Rate (Cap Rate): Estimate of the rate of return on an investment property. Cap Rate = Net Operating Income / Property Value.

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.