

# STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND ANNOUNCES FOURTH QUARTER AND 2018 FINANCIAL RESULTS WITH IMPROVED OCCUPANCY DRIVING SAME PROPERTY REVENUE GROWTH OF 3.9%



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TORONTO, ON – **March 6, 2019** – Starlight U.S. Multi-Family (No. 5) Core Fund (TSXV: STUS.A) (TSXV: STUS.U) (the “Fund”) announced today its results of operations and financial condition for the three months ended December 31, 2018 (the “Fourth Quarter”) and for the year ended December 31, 2018 (“2018”).

All amounts in this press release are in thousands of United States (“U.S.”) dollars except for average monthly rent (“AMR”) or unless otherwise stated. All references to “C\$” are to Canadian dollars.

## Fourth Quarter Highlights

- Total portfolio revenue from property operations for the Fourth Quarter was \$27,987, a 9.8% increase over the same period in the prior year due to net acquisition activity and same property revenue growth of 3.9% driven primarily by a same property 140 basis point increase in economic occupancy (same property occupancy was 93.2% for the Fourth Quarter) as well as strong AMR and ancillary income growth.
- The Fund continued to realize increases in economic occupancy as a result of a continued focus on increasing renewals on existing leases, attracting new tenants to its properties and enhancing its lease expiration profile. For the Fourth Quarter, the Funds economic occupancy improved by 120 basis points to 92.8% (93.2% on same property basis) compared to the same period in 2017.
- Total portfolio net operating income (“NOI”) for the Fourth Quarter was \$16,162, a 7.5% increase over the same period in the prior year, primarily due to net acquisition activity and a 2.1% growth in same property NOI, reflecting improvements in occupancy and strong revenue growth offset by increases in property taxes and property operating costs.
- Adjusted Funds from Operations (“AFFO”) for the Fourth Quarter was \$4,425 (three months ended December 31, 2017 - \$6,632) resulting in an AFFO payout ratio of 139.9% (three months ended December 31, 2017 – 92.7%). The decrease in AFFO and the increase in the payout ratio was primarily related to higher interest on mortgages payable due to increases in the U.S. 30-day London Interbank Offered Rate (“LIBOR”) being partly offset by NOI growth. Excluding adjustments relating to prior year property taxes and normalizing finance costs assuming the refinancing of the Fund’s indebtedness occurred on October 1, 2018, the AFFO payout ratio for the Fourth Quarter would have been 126.8%.
- On October 31, 2018, the Fund refinanced all outstanding debt to strategically reposition the portfolio’s financing structure in order to fix the interest rate on the majority of the Fund’s indebtedness, significantly reducing the weighted average interest rate on the Fund’s mortgages payable and extending the weighted average term to maturity on the Fund’s mortgages payable. The refinancing of the Fund’s debt consisted of:
  - Entering into an agreement for a new portfolio mortgage secured by all 23 properties of the Fund for total proceeds of approximately \$800,450 being comprised of three tranches with a weighted average term to maturity of 6.1 years and a weighted average interest rate of approximately 3.84% (based on LIBOR at October 31, 2018). The refinancing resulted in the Fund fixing the interest rate on approximately 80% of its mortgages payable while reducing the Fund’s weighted average interest rate on its mortgages payable by approximately 52 basis points and extending the weighted average term to maturity to 6.1 years.
  - Amending the Funds credit facility which allows the Fund to borrow up to \$130,000;
  - Repaying a previously outstanding balances of mortgages payable totaling \$880,115 and the amounts outstanding under the Funds credit facility which resulted in net proceeds after transaction costs of \$4,973.
- The Fund entered into a new variable rate collar contract to provide protection from the impact of any potential weakening of the U.S. dollar on the Fund’s Canadian dollar distributions. The six-month contract

began in November 2018 and allows the Fund to exchange U.S. funds each month within a range of C\$1.3000 to C\$1.3535.

## 2018 Highlights

- The Fund completed its program to strategically recycle capital into newer properties further enhancing the vintage and geographical diversification of its portfolio while disposing of smaller assets including:
  - Two properties in Texas with an average vintage of 2011 with the proceeds reinvested on a partially tax-deferred basis into Alexander Village, a 320-suite property in Charlotte, North Carolina (2015 vintage); and
  - Reused the proceeds from the refinancing of five properties during the first quarter of 2018 to acquire Altis at Sand Lake, a 315-suite property in Orlando, Florida (2016 vintage).
- Total portfolio revenue from property operations in 2018 was \$110,354, representing a 10.5% increase over the same period in the prior year (year ended December 31, 2017 - \$99,872), reflecting growth from net acquisition activity, AMR growth of 3.0%, a 10 basis point increase in economic occupancy (92.4% for 2018), and strong ancillary income growth.
- Total portfolio NOI for 2018 was \$63,080, a 10.3% increase over the same period in the prior year, primarily due to new properties acquired as part of the Fund's capital recycling program and same property NOI growth of 0.6% excluding adjustments relating to prior year property taxes.
- The Fund recognized a \$42,653 fair value increase on its properties for 2018, driven by capitalization rate compression and NOI increases across the portfolio.
- Net (loss) income and comprehensive (loss) income for 2018 was (\$9,944), in comparison to income of \$93,860 for the same period in the prior year. Net loss and comprehensive loss for 2018 was primarily driven by a \$18,561 deferred tax expense and \$19,983 of loss on early extinguishment of debt resulting from the refinancing of the entire portfolio on October 31, 2018.
- AFFO for 2018 was \$19,093 (year ended December 31, 2017 - \$26,816) representing an AFFO payout ratio of 130.7% (year ended December 31, 2017 - 91.6%). The decrease in AFFO and the increase in the payout ratio was primarily related to higher interest on mortgages payable due to increases in LIBOR being partly offset by NOI growth. Excluding adjustments relating to prior year property taxes and normalizing finance costs assuming the refinancing of the Fund's indebtedness occurred on October 1, 2018, the AFFO payout ratio would have been 126.7% for 2018.
- Portfolio AMR as at December 31, 2018 was \$1,232, representing an increase of 3.0% from \$1,196 at December 31, 2017. AMR growth was particularly strong in Orlando/Tampa (6.2%), Las Vegas (3.7%), Phoenix (3.7%) and Houston (3.1%). Same property AMR as at December 31, 2018 was \$1,220, representing a 2.0% increase from \$1,196 at December 31, 2017. Same property AMR growth was particularly strong in Orlando/Tampa (3.7%), Las Vegas (3.7%), Phoenix (3.7%) and Dallas (2.7%).

## Financial Condition and Operating Results

|                                                                                                                                                                                                                                                                       |            | As at December 31,<br>2018           | As at December 31,<br>2017 |                    |                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------------------------|----------------------------|--------------------|-------------------|
| <b>Operational Information</b>                                                                                                                                                                                                                                        |            |                                      |                            |                    |                   |
| Number of properties                                                                                                                                                                                                                                                  |            | 23                                   | 23                         |                    |                   |
| Total suites                                                                                                                                                                                                                                                          |            | 7,289                                | 7,127                      |                    |                   |
| Economic occupancy <sup>(1)</sup>                                                                                                                                                                                                                                     |            | 92.4%                                | 92.3%                      |                    |                   |
| AMR (in actual dollars)                                                                                                                                                                                                                                               | \$         | 1,232                                | \$ 1,196                   |                    |                   |
| AMR per square foot (in actual dollars)                                                                                                                                                                                                                               | \$         | 1.28                                 | \$ 1.25                    |                    |                   |
| <b>Summary of Financial Information</b>                                                                                                                                                                                                                               |            |                                      |                            |                    |                   |
| Gross book value <sup>(2)</sup>                                                                                                                                                                                                                                       |            | \$1,389,255                          | \$1,267,840                |                    |                   |
| Indebtedness <sup>(2)</sup>                                                                                                                                                                                                                                           |            | \$920,265                            | \$809,015                  |                    |                   |
| Indebtedness to gross book value                                                                                                                                                                                                                                      |            | 66.24%                               | 63.81%                     |                    |                   |
| Weighted average mortgage interest rate                                                                                                                                                                                                                               |            | 3.88%                                | 3.60%                      |                    |                   |
| Weighted average mortgage term to maturity                                                                                                                                                                                                                            |            | 6.00 years                           | 4.16 years                 |                    |                   |
|                                                                                                                                                                                                                                                                       |            | Three months ended<br>Fourth Quarter | December 31, 2017          | Year ended<br>2018 | December 31, 2017 |
| <b>Summary of Financial Information</b>                                                                                                                                                                                                                               |            |                                      |                            |                    |                   |
| Revenue from property operations                                                                                                                                                                                                                                      | \$27,987   | \$25,486                             | \$110,354                  | \$99,872           |                   |
| Property operating costs                                                                                                                                                                                                                                              | (\$7,331)  | (\$6,997)                            | (\$29,219)                 | (\$26,760)         |                   |
| Property taxes <sup>(3)</sup>                                                                                                                                                                                                                                         | (\$4,494)  | (\$3,459)                            | (\$18,055)                 | (\$15,899)         |                   |
| NOI                                                                                                                                                                                                                                                                   | \$16,162   | \$15,030                             | \$63,080                   | \$57,213           |                   |
| Net (loss) income and comprehensive (loss) income                                                                                                                                                                                                                     | (\$18,790) | \$45,307                             | (\$9,944)                  | \$93,860           |                   |
| FFO                                                                                                                                                                                                                                                                   | (\$12,821) | \$6,602                              | (\$3,393)                  | \$23,250           |                   |
| FFO per unit - basic and diluted                                                                                                                                                                                                                                      | (\$0.26)   | \$0.13                               | (\$0.07)                   | \$0.34             |                   |
| AFFO                                                                                                                                                                                                                                                                  | \$4,425    | \$6,632                              | \$19,093                   | \$26,816           |                   |
| AFFO per unit - basic and diluted                                                                                                                                                                                                                                     | \$0.09     | \$0.13                               | \$0.39                     | \$0.55             |                   |
| Interest Coverage Ratio                                                                                                                                                                                                                                               | 1.58 x     | 2.06 x                               | 1.54 x                     | 2.19 x             |                   |
| Indebtness Coverage Ratio                                                                                                                                                                                                                                             | 1.58 x     | 1.89 x                               | 1.52 x                     | 2.00 x             |                   |
| FFO payout ratio                                                                                                                                                                                                                                                      | n/a        | 93.2%                                | n/a                        | 105.6%             |                   |
| AFFO payout ratio                                                                                                                                                                                                                                                     | 139.9%     | 92.7%                                | 130.7%                     | 91.6%              |                   |
| Weighted average units Outstanding (000s)                                                                                                                                                                                                                             |            |                                      |                            |                    |                   |
| - basic and diluted                                                                                                                                                                                                                                                   | 48,968     | 49,024                               | 48,994                     | 49,101             |                   |
| <b>Notes:</b>                                                                                                                                                                                                                                                         |            |                                      |                            |                    |                   |
| (1) Economic occupancy for the year-ended December 31, 2018 and 2017.                                                                                                                                                                                                 |            |                                      |                            |                    |                   |
| (2) The December 31, 2017 gross book value and Indebtedness includes the Villages at Sunset Ridge w hich w as classified as held for sale.                                                                                                                            |            |                                      |                            |                    |                   |
| (3) Property taxes w ere adjusted to exclude the International Financial Reporting Interpretations Committee 21 - Levies ("IFRIC 21") adjustment and treat property taxes as an expense that is amortized during the fiscal year for the purposes of calculating NOI. |            |                                      |                            |                    |                   |

### Cash Provided by Operating Activities to AFFO

AFFO for the Fourth Quarter was \$4,425 (2017 - \$6,632) and for 2018 was \$19,093 (2017 - \$26,816). AFFO payout ratio was 139.9% for the Fourth Quarter (three months ended December 31, 2017 – 92.7%) and 130.7% for 2018 (year ended December 31, 2017 – 91.6%). The decrease in AFFO and the increase in the payout ratio was primarily related to higher interest on mortgages payable due to increases in LIBOR being partly offset by NOI growth across the portfolio. Excluding adjustments relating to prior year property taxes and normalizing finance costs assuming the refinancing of the Fund's indebtedness occurred on October 1, 2018, the AFFO payout ratio would have been 126.8% and 126.7% for the Fourth Quarter and 2018, respectively.

The Fund was formed as a closed-end, limited partnership with an initial term of three years, a target yield of 6.5% and a targeted minimum 12% pre-tax investor internal rate of return across all classes of units. Although the payout ratio was in excess of 100%, distributions have been maintained at 6.5% while interest costs have increased as a result of increases in LIBOR since the Fund's inception. The Fund refinanced all of its outstanding indebtedness and continues to focus on its active management strategy which the manager of the Fund expects will yield improvements in the AFFO payout ratio in future periods. The Fund believes that maintaining the targeted

distributions is in the best interests of investors based on the Fund's terminal nature as compared to a perpetual real-estate investment trust and the Fund's investment objectives and strategy.

Reconciliation of cash provided by operating activities determined in accordance with International Financial Reporting Standards ("IFRS") to AFFO for the Fourth Quarter and 2018 along with the comparative 2017 periods was as follows:

|                                                                        | Fourth Quarter |              | Three months ended<br>December 31, 2017 |              | Year ended<br>December 31, 2017 |                  |
|------------------------------------------------------------------------|----------------|--------------|-----------------------------------------|--------------|---------------------------------|------------------|
| <b>Cash provided by operating activities</b>                           | \$             | 20,280       | \$                                      | 11,222       | \$                              | 57,546           |
| Less: interest paid                                                    |                | (9,713)      |                                         | (6,721)      |                                 | (36,110)         |
| <b>Cash provided by operating activities - including interest paid</b> |                | 10,567       |                                         | 4,501        |                                 | 21,436           |
| Add / (Deduct):                                                        |                |              |                                         |              |                                 |                  |
| Change in non-cash operating working capital                           |                | (7,693)      |                                         | 925          |                                 | (3,871)          |
| Change in restricted cash                                              |                | (1,088)      |                                         | 158          |                                 | (1,336)          |
| One-time Plan of Arrangement costs                                     |                | 113          |                                         | -            |                                 | 1,050            |
| Fair value adjustment of investment properties (including IFRIC 21)    |                | 3,560        |                                         | 1,354        |                                 | 3,094            |
| Realized foreign exchange (gain) loss                                  |                | (638)        |                                         | 114          |                                 | (430)            |
| Current taxes - U.S. withholding taxes and tax on dispositions         |                | -            |                                         | 12           |                                 | 734              |
| Service fees related to class A and class U units                      |                | 151          |                                         | 154          |                                 | 603              |
| Sustaining capital expenditures and suite renovation reserve           |                | (547)        |                                         | (586)        |                                 | (2,187)          |
| <b>AFFO</b>                                                            | <b>\$</b>      | <b>4,425</b> | <b>\$</b>                               | <b>6,632</b> | <b>\$</b>                       | <b>19,093</b>    |
|                                                                        |                |              |                                         |              |                                 | <b>\$ 26,816</b> |

## About Starlight U.S. Multi-Family (No. 5) Core Fund

The Fund is a limited partnership formed under the *Limited Partnerships Act* (Ontario) for the primary purpose of indirectly acquiring, owning and operating a portfolio of diversified income producing rental properties in the U.S. multi-family real estate market. The Fund currently owns 23 properties, consisting of 7,289 suites with an average year of completion of 2012.

For the Fund's complete consolidated financial statements and management's discussion and analysis ("MD&A") for the Fourth Quarter and any other information relating to the Fund, please visit [www.sedar.com](http://www.sedar.com). Further details regarding the Fund's unit performance and distributions, market conditions where the Fund's properties are located, performance by the Fund's properties and a capital investment update are also available in the Fund's March 2019 Newsletter which is available on the Fund's profile at [www.starlightus.com](http://www.starlightus.com).

## Non-IFRS Financial Measures

The Fund's consolidated financial statements are prepared in accordance with IFRS. Certain terms which may be used in this press release including AFFO, AFFO payout ratio, AMR, economic occupancy, Funds from Operations ("FFO"), FFO payout ratio, gross book value, indebtedness, indebtedness coverage ratio, indebtedness to gross book value, interest coverage ratio, NOI, same property AMR, same property economic occupancy, same property NOI and same property NOI margin (collectively, the "non-IFRS measures") as well as other measures discussed elsewhere in this press release, 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 Fund uses these measures to better assess the Fund'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 Fund's Management Discussion & Analysis for the Fourth Quarter and are available on the Fund's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## Forward-looking Statements

Certain statements contained in this press release constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information is provided for the purposes of assisting the reader in understanding the Fund's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, acquisitions, performance, achievements, events, prospects or opportunities for the Fund or the real estate industry and may include statements regarding the financial position, business strategy, acquisitions, budgets, litigation, projected costs, capital expenditures, financial results, occupancy levels, AMR, taxes and plans and objectives of or involving the Fund. In some cases, forward-looking information can be identified by terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast",

“potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking information necessarily involves known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the Fund's control, affect the operations, performance and results of the Fund and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results.

Information contained in forward-looking information is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the inventory of multi-family real estate properties; the availability of properties for acquisition and the price at which such properties may be acquired; the availability of mortgage financing and current interest rates; the extent of competition for properties; the population of multi-family real estate market participants; assumptions about the markets in which the Fund operates; the ability of Starlight Investments US AM Group LP, the manager of the Fund, to manage and operate the properties; the global and North American economic environment; foreign currency exchange rates; and governmental regulations or tax laws.

Although the Fund believes the expectations reflected in such forward-looking information are reasonable and represent the Fund's projections, expectations and beliefs at this time, such information involves known and unknown risks and uncertainties which may cause the Fund's actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking information.

Important factors that could cause actual results to differ materially from the Fund's expectations include, among other things, the availability of suitable properties for purchase by the Fund, the availability of mortgage financing for such properties, and general economic and market factors, including interest rates, business competition and changes in government regulations or in tax laws. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking information as there can be no assurance that actual results will be consistent with such forward-looking information.

The forward-looking information included in this press release relate only to events or information as of the date on which the statements are made in this press release. Except as specifically required by applicable Canadian law, the Fund undertakes no obligation to update or revise publicly any forward-looking information, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

To learn more about Starlight U.S. Multi-Family (No. 5) Core Fund, visit [www.starlightus.com](http://www.starlightus.com) or contact:

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