

REIT FORENSICS

INDEPENDENT DUE DILIGENCE & FORENSIC ANALYSIS

OWNER ECONOMICS

# The Harvest Pivot

*Killam’s properties compounded at 5.3% same-store NOI growth for a decade — but capital deployment captured 379 basis points less annual return than a do-nothing approach. Now is time to harvest the portfolio; the question is whether harvest mode can close the gap.*

REIT Forensics | June 2025 | TSX: KMP.UN | \$16.24

**-379**bps

AMPLIFICATION GAP  
(MAINTAIN-LEVERAGE VS ACTUAL)

**-31.0%**

DISCOUNT TO NAV

**\$0.53**

CFS-FCF / UNIT

**7.6%**

PROJECTED STRUCTURAL RETURN  
(NAV BASIS — EXCL. DISC. CLOSE)

**6.1%**

FY2025 SS NOI GROWTH

**LARGE DISCOUNT**

CURRENT MARKET SIGNAL — 31.0% DISCOUNT TO RF NAV

**Prioritize Buybacks / No Issuance**

Buy back units aggressively. Sell non-core assets. Do not acquire unless cap rate exceeds 6.2% buyback yield. Each \$1 of NCIB retires units carrying \$1.55 of NAV — immediate 55% value creation. DRIP issuance at current prices transfers \$8.95/unit from non-participants to participants.

INCOME STATEMENT (\$000S)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Total Revenue	175,269	187,377	215,959	241,749	261,690	290,917	328,847	348,150	364,000
Property Operating Expenses	(69,845)	(72,157)	(80,247)	(89,413)	(97,028)	(107,682)	(121,935)	(124,107)	(124,000)
Net Operating Income (NOI)	105,424	115,220	135,712	152,336	164,662	183,235	206,912	224,043	240,000
Other Income	1,227	847	965	6,059	641	1,059	1,797	1,810	2,000
Trust Expenses (G&A)	(12,733)	(12,958)	(14,201)	(14,881)	(14,745)	(15,988)	(17,153)	(19,302)	(20,000)
EBITDA	93,092	102,575	121,923	141,924	150,617	166,437	193,790	206,221	217,000

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Interest Expense	(87,070)	(84,840)	(82,040)	(77,440)	(80,717)	(81,821)	(81,777)	(87,070)	(77,440)
Net Income	71,439	104,761	175,171	283,525	146,039	285,527	122,532	266,333	667,000
NOI Margin (%)	60.1%	61.5%	62.8%	63.0%	62.9%	63.0%	62.9%	64.4%	65.0%
Revenue Growth YoY (%)	—	6.9%	15.3%	11.9%	8.2%	11.2%	13.0%	5.9%	4.0%
G&A as % of Revenue	7.3%	6.9%	6.6%	6.2%	5.6%	5.5%	5.2%	5.5%	5.1%

## FFO & RF-AFFO (\$000S)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
FFO (REALPAC)	58,886	69,873	81,808	93,884	104,678	119,235	132,603	139,755	144,914	152,776
Mgmt AFFO	52,347	55,982	66,275	76,768	86,816	100,438	111,557	117,800	121,728	129,882
RF-AFFO	23,366	32,851	38,149	44,311	51,599	60,756	66,186	68,130	62,439	71,726
WA Diluted Units (000s)	68,569	78,658	87,185	95,914	104,503	111,626	119,637	121,656	123,123	124,547
FFO per Unit (\$)	\$0.86	\$0.89	\$0.94	\$0.98	\$1.00	\$1.07	\$1.11	\$1.15	\$1.18	\$1.23
Mgmt AFFO/Unit (\$)	\$0.76	\$0.71	\$0.76	\$0.80	\$0.83	\$0.90	\$0.93	\$0.97	\$0.99	\$1.04
RF-AFFO per Unit (\$)	\$0.34	\$0.42	\$0.44	\$0.46	\$0.49	\$0.54	\$0.55	\$0.56	\$0.51	\$0.58
Distribution per Unit (\$)	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.69	\$0.70	\$0.70	\$0.72	\$0.72
Mgmt AFFO Payout (%)	79%	87%	84%	82%	82%	77%	75%	72%	73%	69%
RF-AFFO Payout (%)	176.1%	148.5%	146.3%	142.9%	137.7%	126.8%	126.5%	125.0%	142.0%	125.0%

## THREE-TIER CAPEX COMPARISON (\$000S)

Tier 1: Mgmt maintenance. Tier 2: RF-AFFO economic benchmark (30% of NOI). Tier 3: Total CFS-basis capex on existing portfolio.

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Tier 1: Mgmt Maintenance	6,539	13,891	15,236	16,237	16,860	18,023	20,318	21,587	22,722	22,437	22,420
Tier 2: RF-AFFO Economic Maint.	31,627	34,566	40,714	45,701	49,399	54,971	62,074	67,213	72,144	76,448	78,670
Tier 3: Total CFS-Basis Capex	33,460	31,172	47,814	73,419	69,651	76,812	93,920	98,386	93,908	79,608	82,610
Tier 1 as % of NOI	6.2%	12.1%	11.2%	10.7%	10.2%	9.8%	9.8%	9.6%	9.4%	8.8%	8.6%
Tier 2 as % of NOI	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tier 3 as % of NOI	31.7%	27.1%	35.2%	48.2%	42.3%	41.9%	45.4%	43.9%	39.1%	31.2%	31.5%
Per-Unit AFFO Overstatement (\$)	\$0.42	\$0.29	\$0.33	\$0.35	\$0.35	\$0.36	\$0.39	\$0.41	\$0.49	\$0.47	\$0.42
Classification Gap (\$000s)	25,088	20,675	25,478	29,464	32,539	36,948	41,756	45,626	49,422	54,011	56,280

## MANAGEMENT AFFO VS RF-AFFO COMPARISON (\$000S)

The spread between management's reported AFFO and the forensic RF-AFFO reveals systematic overstatement of distributable earnings.

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Management AFFO (\$000s)	52,347	55,982	66,572	77,647	87,818	101,212	112,285	118,168	122,192	130,339
Management AFFO/Unit (\$)	\$0.76	\$0.71	\$0.76	\$0.81	\$0.84	\$0.91	\$0.94	\$0.97	\$0.99	\$1.05
RF-AFFO/Unit (\$) [ref]	\$0.34	\$0.42	\$0.44	\$0.46	\$0.49	\$0.54	\$0.55	\$0.56	\$0.51	\$0.58

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Per-Unit AFFO Overstatement (\$)	\$0.42	\$0.29	\$0.33	\$0.35	\$0.35	\$0.36	\$0.39	\$0.41	\$0.49	\$0.47
Classification Gap (\$000s)	25,088	20,675	25,478	29,464	32,539	36,948	41,756	45,626	49,422	54,011

## CFS-FCF & DISTRIBUTIONS (\$000S)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Cash from Operations	63,584	82,916	89,738	95,208	123,514	140,860	125,331	139,734	160,140
Capital Investments	(33,460)	(31,172)	(47,814)	(73,419)	(69,651)	(76,812)	(93,920)	(98,386)	(93,908)
CFS-FCF	30,124	51,744	41,924	21,789	53,863	64,048	31,411	41,348	66,232
CFS-FCF per Unit (\$)	\$0.44	\$0.66	\$0.48	\$0.23	\$0.52	\$0.57	\$0.26	\$0.34	\$0.54
CFS-FCF Yield	3.7%	4.6%	3.2%	1.1%	3.0%	2.8%	1.5%	2.2%	2.5%
CFS-FCF Payout (%)	136.4%	94.4%	134.3%	292.8%	133.2%	121.7%	269.7%	208.3%	132.1%
Total Distributions Declared	41,101	48,832	56,321	63,805	71,731	77,925	84,722	86,114	87,510
Cash Distributions	31,515	36,711	41,618	45,041	49,633	51,455	59,094	57,197	60,487
CFS-FCF Surplus/(Deficit)	(10,977)	2,912	(14,397)	(42,016)	(17,868)	(13,877)	(53,311)	(44,766)	(21,278)

## BALANCE SHEET & LEVERAGE (\$000S)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Investment Properties	1,942,809	2,279,763	2,799,693	3,320,604	3,741,918	4,540,877	4,812,801	5,027,806
Total Assets	1,987,633	2,311,210	2,824,406	3,380,100	3,776,560	4,578,507	4,859,530	5,075,964
Mortgages Payable	997,514	1,088,507	1,292,476	1,438,270	1,631,689	1,915,334	1,979,442	2,104,443
Credit Facilities	—	—	53,350	—	7,029	61,730	121,014	40,877
Total Interest-Bearing Debt	997,514	1,088,507	1,345,826	1,438,270	1,638,718	1,977,064	2,100,456	2,145,320
Unitholders' Equity	750,450	967,722	1,168,814	1,602,254	1,768,129	2,111,327	2,273,169	2,482,600
Net Debt	972,862	1,076,507	1,342,037	1,425,469	1,636,162	1,976,629	2,091,306	2,131,233
ND / EBITDA (x)	10.5x	10.5x	11.0x	10.0x	10.9x	11.9x	10.8x	10.3x
Debt / GBV (%)	50.2%	47.1%	47.6%	42.6%	43.4%	43.2%	43.2%	42.3%

## NAV & VALUATION

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
NTM NOI (\$000s)	109,219	120,751	141,276	155,840	173,060	191,847	223,051	242,639
Applied Cap Rate (%)	5.5%	5.4%	4.9%	4.6%	4.7%	4.4%	4.3%	4.6%
NAV (\$000s)	797,063	936,573	1,282,032	1,676,851	1,731,987	1,920,723	2,647,604	2,787,510
Units Outstanding EoY (000s)	71,736	84,428	90,213	97,948	107,314	110,557	116,801	118,298
NAV/Unit — IFRS (\$)	\$11.11	\$11.09	\$14.21	\$17.12	\$16.14	\$17.37	\$22.67	\$23.56
NAV/Unit — RF (\$)	—	—	—	—	—	—	—	—
Market Price (\$)	\$11.94	\$14.22	\$14.95	\$19.90	\$17.10	\$20.80	\$17.78	\$15.78

Prem./(Disc.) to RF NAV (%)	—	—	—	—	—	—	—	—	—
Market-Implied Cap Rate (%)	6.0%	5.3%	5.3%	4.6%	5.0%	4.5%	5.4%	6.1%	
IFRS Implied Cap Rate (%)	5.62%	5.30%	5.05%	4.69%	4.62%	4.22%	4.63%	4.83%	

OPERATING METRICS

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Total Suites (Apt + MHC)	19,270	20,383	21,310	22,125	22,923	24,560	25,502	24,810	24,075	23,603
Occupancy (%)	95.8%	96.3%	96.3%	97.0%	96.5%	96.6%	97.3%	97.4%	96.8%	96.6%
Avg Monthly Rent (\$)	\$973	\$1,018	\$1,076	\$1,126	\$1,184	\$1,227	\$1,289	\$1,384	\$1,493	\$1,600
SS NOI Growth (%)	4.0%	3.6%	4.8%	4.1%	2.3%	5.1%	4.7%	7.8%	8.3%	6.1%

PER-UNIT SUMMARY

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E
Revenue/Unit	\$2.56	\$2.38	\$2.48	\$2.52	\$2.50	\$2.61	\$2.75	\$2.86	\$2.96	\$3.08	—
NOI/Unit	\$1.54	\$1.46	\$1.56	\$1.59	\$1.58	\$1.64	\$1.73	\$1.84	\$1.95	\$2.05	—
FFO/Unit	\$0.86	\$0.89	\$0.94	\$0.98	\$1.00	\$1.07	\$1.11	\$1.15	\$1.18	\$1.23	\$1.23
RF-AFFO/Unit	\$0.34	\$0.42	\$0.44	\$0.46	\$0.49	\$0.54	\$0.55	\$0.56	\$0.51	\$0.58	\$0.66
CFS-FCF/Unit	\$0.44	\$0.66	\$0.48	\$0.23	\$0.52	\$0.57	\$0.26	\$0.34	\$0.54	\$0.53	\$0.63
Distribution/Unit	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.69	\$0.70	\$0.70	\$0.72	\$0.72	\$0.72
NAV/Unit	\$11.11	\$11.09	\$14.21	\$17.12	\$16.14	\$17.37	\$22.67	\$23.56	\$26.98	\$23.54	\$23.96

AMPLIFICATION STORY — CAPITAL ALLOCATION VERDICT (FY2016–FY2025)



AMPLIFICATION VERDICT — THREE-COLUMN CAPITAL ALLOCATION TEST

What would unitholders have earned under alternative capital allocation paths? Deleverage = all FCF to debt. Maintain Leverage = same risk, no external growth.

	DELEVERAGE	MAINTAIN LEVERAGE	ACTUAL
Full-Cycle IRR (%)	15.4%	18.6%	14.9%

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FFO/Unit CAGR (%)	7.7%	4.5%	4.0%
FFO/Unit CAGR vs Actual (bps)	+367	+48	-
Ending NAV/Unit (\$)	\$38.32	\$24.91	\$25.22
Ending ND/EBITDA (x)	4.1x	10.7x	9.7x
Classification	Comparable Return, Lower Risk	Material Value Erosion	-

## CAPITAL ALLOCATION HISTORY (\$000S)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Acquisitions	(46,897)	(181,459)	(229,349)	(133,426)	(206,274)	(338,068)	(103,338)	(13,153)
Dispositions	8	-	1,460	11,520	-	-	-	91,307
Development Investments	(25,324)	(53,313)	(60,477)	(38,390)	(81,975)	(77,962)	(80,077)	(49,947)
Capital Investments (Existing)	(33,460)	(31,172)	(47,814)	(73,419)	(69,651)	(76,812)	(93,920)	(98,386)
NCIB Buybacks (\$)	-	-	-	-	-	-	-	-
Equity Issued (\$)	93,491	147,285	54,852	191,729	65,782	104,361	93,471	-
Distributions Paid (Cash)	(31,515)	(36,711)	(41,618)	(45,041)	(49,633)	(51,455)	(59,094)	(57,197)
Net External Capital Activity	21,278	(87,487)	(233,514)	31,433	(222,467)	(311,669)	(89,944)	28,207
Cumulative Net Ext. Capital	21,278	(66,209)	(299,723)	(268,290)	(490,757)	(802,426)	(892,370)	(864,163)

## UNIT COUNT BRIDGE (000S)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Opening Units	61,736	71,736	84,428	90,213	97,948	107,314	110,557	116,801	118,298	119,621
+ DRIP Issuance	803	852	983	943	1,292	1,273	1,441	1,833	1,273	1,698
+ Equity Raises / Acq. Units	7,830	10,358	3,669	9,635	3,847	5,017	5,257	0	0	0
- NCIB Repurchases	0	0	0	0	0	0	0	0	13	153
Closing Units	71,736	84,428	90,213	97,948	107,314	110,557	116,801	118,298	119,621	121,458
WA Diluted Units	68,569	78,658	87,185	95,914	104,503	111,626	119,637	121,656	123,123	124,547
YoY Unit Growth (%)	-	17.7%	6.9%	8.6%	9.6%	3.0%	5.6%	1.3%	1.1%	1.5%
Net Unit Change	-	12,692	5,785	7,735	9,366	3,243	6,244	1,497	1,323	1,837

## MARKET SIGNAL — DISCOUNT/PREMIUM VS MANAGEMENT RESPONSE

Mapping the market's pricing signal against management's capital allocation behavior, year by year.

	FY16	FY17	FY18	FY19
Prem./(Disc.) to NAV (%)	7.5%	28.2%	5.2%	16.2%
Signal Tier	Modest Premium	Strong Premium	Modest Premium	Strong Premium
Implied Action	Selective Issue / Grow	Issue Equity / Grow Aggressively	Selective Issue / Grow	Issue Equity / Grow Aggressively
Capital Activity	Acq: \$47M; Eq: \$93M	Acq: \$181M; Eq: \$147M	Acq: \$229M; Eq: \$55M	Acq: \$133M; Eq: \$192M

Alignment	Aligned	Aligned	Aligned	Aligned
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STRUCTURAL RETURN & CAPITAL DEPLOYMENT HIERARCHY

STRUCTURAL RETURN (FY2026E FORWARD)

What the portfolio delivers on autopilot — before any external capital activity.

Analyst NAV/Unit — FY2026E Base	\$23.96
Distribution/Unit	\$0.72
Cash Yield on NAV	3.0%
NAV/Unit Growth (FY26E → FY27E)	4.6%
Structural Return = Yield + Growth	7.6%

ANNUAL CASH SURPLUS (FY2026E)

CFS-FCF (\$000s)	79,248
Less: Cash Distributions (\$000s)	(65,606)
Surplus for Deployment (\$000s)	13,642

KEY ARBITRAGE CALCULATIONS

NAV Accretion per Buyback \$	1.55x
Buyback Yield – Acq. Cap (bps)	+116
Disp.-to-Buyback Arb. (bps)	+116
DRIP Disc./Prem. to NAV	-36%
Dev. Spread to Applied Cap (bps)	62
Acq. Cap Needed to Match Buyback	6.2%

CAPITAL DEPLOYMENT HIERARCHY — USES RANKED BY IMPLIED RETURN

RANK	USE OF CAPITAL	IMPLIED RETURN	VALUE TEST
1	Suite Repositioning	18.0%	Highest return. Capacity-constrained: ~263 units/yr
2	NCIB Buybacks	6.2%	Accretive: mkt-implied cap (6.2%) > acq cap (5.0%)
3	Acquisitions (at recent cap rates)	5.0%	Dilutive: acq cap < buyback yield. Each \$ earns less
4	Development	5.3%	62bps spread to cap. Marginal — doesn't compensate
5	Debt Paydown	3.6%	Lowest return. De-risking. Improves coverage ratios

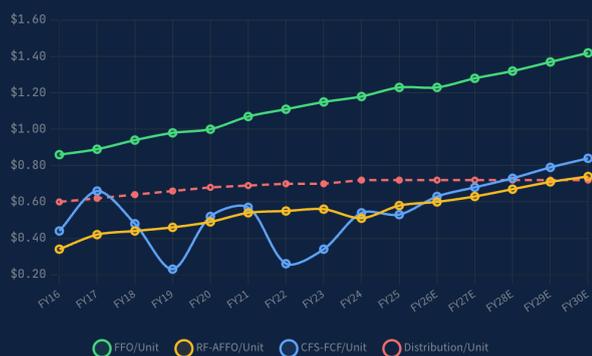
SOURCES OF CAPITAL — RANKED BY COST (CHEAPEST FIRST)

RANK	SOURCE OF CAPITAL	IMPLIED COST	NOTES
1	Internal FCF (CFS-FCF surplus)	0.0%	FY2025 surplus: (\$24,344K). Limited — CFS-FCF payout is 1
2	Disposition Proceeds	5.0%	Cost = foregone NOI yield. FY25: \$81.4M from 1,139 units.
3	Secured Debt (CMHC)	3.6%	ND/EBITDA already 9.7x. CMHC 100-200bps below conventiona
4	Equity Issuance	6.2%	Most expensive. At -35.5% disc., each \$1 issued buys \$1.5

CAP RATE	GROSS ASSET VALUE (\$000S)	NAV (\$000S)	NAV/UNIT	DISC./PREM. TO PRICE
4.25%	6,170,635	3,879,289	\$31.94	-49.1%
4.50%	5,827,822	3,536,476	\$29.12	-44.2%
4.75%	5,521,095	3,229,749	\$26.59	-38.9%
<b>5.00% (Applied)</b>	5,245,040	2,953,694	<b>\$24.32</b>	-33.2%
5.25%	4,995,276	2,703,930	\$22.26	-27.0%
5.50%	4,768,218	2,476,872	\$20.39	-20.4%
5.75%	4,560,904	2,269,558	\$18.69	-13.1%
6.00%	4,370,867	2,079,521	\$17.12	-5.2%
<b>6.16% (Mkt-Implied)</b>	4,257,338	1,965,992	<b>\$16.19</b>	≈0%
6.50%	4,034,646	1,743,300	\$14.35	+13.2%

PER-UNIT CASH FLOW VS DISTRIBUTION

FFO/unit, RF-AFFO/unit, CFS-FCF/unit, and Distribution/unit (FY16-FY30E)



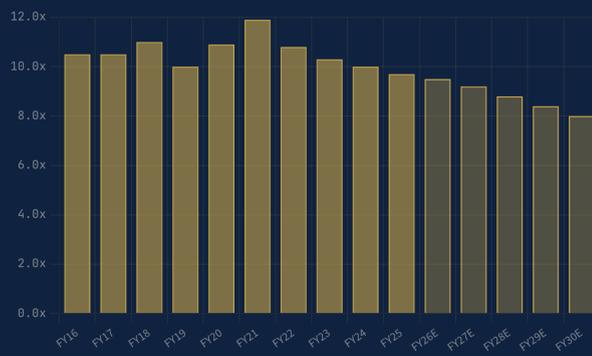
NAV/UNIT VS MARKET PRICE

IFRS NAV per unit (FY16-FY24), RF NAV per unit (FY25-FY30E), and market price



LEVERAGE TRAJECTORY

Net Debt / EBITDA (FY16-FY30E)



SAME-STORE NOI GROWTH

Annual SS NOI growth rate (FY16-FY25)



ENTRY VALUATION		STRUCTURAL RETURN		MARKET-ENTRY CAGR (5Y)	
Market Price	\$16.24	Cash Yield on NAV	3.0%	If Discount Persists	7.2%
RF NAV/Unit	\$23.54	NAV/Unit Growth	4.6%	If Full Disc. Closes	15.4%
Discount to RF NAV	-31.0%	Structural Return	7.6%	Fwd SS NOI Growth Assumed	2.9%
P/FFO (NTM)	13.2x	NAV Basis — Excl. Disc. Close	—	WA Mortgage Rate	3.6%
Distribution Yield	4.4%				
CFS-FCF Yield	3.3%				

Source: Killam Apartment REIT financial statements (FY2016–FY2025), REIT Forensics pro forma model (FY2026E–FY2030E). All operating metrics from company reports. Pro forma assumes 2.9% SS NOI growth, 3.6% WA mortgage rate, \$82.6M annual capex, \$0.72 distribution/unit (flat), no acquisitions, DRIP on at ~27% participation, \$67M annual mortgage amortization.

**K**illam Apartment REIT owns 17,853 apartment units and 5,750 manufactured housing sites stretched across Canada's most supply-constrained rental markets, from Halifax to Calgary, generating \$255 million in net operating income from a portfolio appraised at \$5.4 billion. The properties are excellent. Same-store NOI growth averaged 5.3% annually over the past decade, occupancy sits at 96.6%, and NOI margins have expanded from 60.1% to 66.5% as management extracted operating leverage from a platform that nearly tripled in size. At the property level, Killam is a well-run apartment company doing exactly what Canadian multifamily should do in an era of structural housing undersupply.

The problem is not the buildings. It is what happened between the buildings and the unitholders. Over the FY2016–2025 observation period, management's capital allocation decisions — \$1.1 billion in acquisitions, \$540 million in development, \$751 million in equity raised, and a unit count that grew from 62 million to 121 million — eroded per-unit returns by 379 basis points annually relative to a counterfactual in which management simply ran the existing portfolio at equivalent leverage. The actual 14.9% IRR was not a bad return; it was an attractive one by most measures. But the properties themselves, left alone, would have delivered 18.6%. That gap — compounding year after year for a decade — cost unitholders approximately \$3.31 per unit of foregone NAV by FY2025. The value was created at the property line and dissipated between there and the balance sheet.

activated, and management has publicly elevated buybacks and debt reduction to “first bucket” priority. The strategic pivot is real. The question now is whether it arrived in time, and whether the forward return profile rewards patience. Today’s \$16.24 unit price buys \$23.54 of analyst NAV — a 31% discount — implying a structural return of 7.6% annually (3.1% cash yield plus 4.5% NAV/unit growth) before any discount closure. If the market eventually reprices to NAV, the five-year CAGR reaches 15.4%. Between those two numbers lies the full range of outcomes, and the distance between them depends almost entirely on whether management’s newfound discipline proves durable or circumstantial. What follows is a forensic examination of the evidence on both sides.

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I.

## The Operating Machine

Canadian multifamily real estate occupies a distinctive corner of the income-property universe that shapes everything about how a Killam investment should perform and how it should be evaluated. Apartment buildings in Canada trade at low cap rates — typically 4.0% to 5.5% — reflecting constrained housing supply, favourable immigration-driven demand, and rent regulation that limits downside but also caps near-term upside in many provinces. At these cap rates, each dollar of NOI supports a large asset value, meaning the equity base is thick and the income yield is thin. Returns depend primarily on NOI growth — rental escalation through tenant turnover and mark-to-market — rather than current yield. Simultaneously, the asset class carries one of the highest capex burdens in real estate: institutional investors routinely budget 15% to 30% of NOI for ongoing maintenance and capital reinvestment. Roofs, elevators, plumbing, windows — the physical plant of a mid-rise apartment building demands constant renewal. This combination — low cap rates requiring growth to generate returns, high capex consuming a significant share of NOI before it reaches unitholders — means that high distribution payouts are structurally problematic for Canadian apartment REITs. A payout ratio that works for a net-lease REIT with contractual escalators and tenant-funded maintenance will starve a multifamily platform of the reinvestment capital it needs to grow per-unit value. This is why U.S. apartment REITs maintain far lower payout ratios, and why the

Against this structural backdrop, Killam's operating performance is genuinely impressive. Same-store NOI growth of 5.3% annually from FY2016 through FY2025 — including 7.8% in FY2023, 8.3% in FY2024, and 6.1% in FY2025 — reflects pricing power that few Canadian landlords can match outside of purpose-built rental in supply-constrained urban cores. Occupancy remained pinned between 95.8% and 97.4% throughout the entire decade, never dipping below levels that would suggest demand softness. Average monthly rent grew from \$973 in FY2016 to \$1,600 in FY2025, a 5.6% compound annual growth rate that significantly outpaced both CPI and wage growth over the period. Revenue per suite rose from \$5,471 to \$10,796 annually, reflecting density-driven productivity gains as the portfolio was upgraded and repositioned within existing markets.

NOI margins expanded 640 basis points over the observation period, from 60.1% to 66.5%, as property operating expenses grew more slowly than revenue through a combination of scale efficiencies, operating leverage from a larger platform, and disciplined expense management. G&A as a percentage of revenue declined from 7.3% to 5.7%, validating the internal management structure — there are no external management fees siphoning value to a sponsor, and the trust expenses that do exist have been held in reasonable proportion to portfolio growth. Total revenue grew from \$175 million to \$383 million, a 9.1% CAGR, while property operating expenses grew at only 7.0% annually. The operating platform genuinely benefits from scale.

Geographic diversification has been a deliberate strategic objective. Management has repositioned the portfolio from its historic concentration in Atlantic Canada — Nova Scotia and New Brunswick primarily — toward a more balanced footprint that now generates 40.3% of NOI outside the Maritimes, with meaningful exposure to Ontario and Alberta rental markets. This repositioning provides both growth characteristics (exposure to stronger urban rental markets with immigration-driven demand) and defensive characteristics (Maritime markets remain supply-constrained with limited new construction). On the FY2022 earnings call, management described itself as “pretty bullish” on the rental market outlook, citing immigration, housing starts deficits, and rent growth visibility across its core markets. By FY2025, the tone had shifted to confidence tempered by caution — “at least 3%” same-store growth guidance with qualifying language about regulatory headwinds in

but no longer accelerating.

### What Should Investors Be Getting?

A Canadian apartment REIT operating at 4.7% IFRS cap rates with 30% capex intensity, 9.7× ND/EBITDA leverage, and 5%+ same-store NOI growth should be a **growth compounder**: delivering 12–15% total returns driven by levered per-unit NOI growth, with modest current yield and meaningful NAV/unit appreciation. The return composition should weight heavily toward growth rather than income — perhaps 3% from distributions and 10–12% from NAV appreciation — with leverage amplifying strong property-level fundamentals into per-unit wealth creation. The low cap rate means each incremental dollar of NOI is capitalized at a high multiple, making operating improvements exceptionally valuable if they reach unitholders undiluted.

What investors actually received over the past decade was something different: a 14.9% IRR with most of the value creation occurring at the property level and a significant share dissipated through capital allocation decisions before reaching the per-unit line. The entity functioned less as a growth compounder and more as an **overequitized yield vehicle with a persistent discount** — distributing capital it didn't fully earn on a CFS-FCF basis, issuing equity at prices below NAV, and deploying the proceeds into acquisitions and development at cap rates that failed to clear the market's required return. The gap between “should” and “is” — 379 basis points annually — is the cost of capital allocation decisions that prioritized portfolio growth over per-unit value creation.

What would it take to close this gap going forward? The capital allocation hierarchy is unambiguous: prioritize suite repositioning (18.0% ROI, capacity-constrained), deploy surplus into NCIB buybacks (6.2% yield, 1.55× NAV accretion per dollar), fund activity through asset dispositions (5.0% cost), and avoid equity issuance (6.2% cost at current discount) and acquisitions (5.0% cap rate, below the 6.2% buyback yield) until the discount narrows. Management's stated priorities — NCIB and debt paydown as “first bucket,” dispositions as a funding source, acquisitions deprioritized — align with this hierarchy. Whether they execute with sufficient scale and persistence to close the gap is the central investment question.

AVERAGE SS NOI GROWTH  
(FY2016–2025)

NOI MARGIN (FY2025)

OCCUPANCY (FY2025)

II.

## Per-Unit Economics — The Only Line That Matters

Enterprise growth and per-unit growth tell fundamentally different stories at Killam, and the divergence between them is the most important financial fact about this trust over the past decade. Total revenue grew from \$175 million to \$383 million — a 9.1% CAGR. Total NOI grew from \$105 million to \$255 million — a 10.3% CAGR. But the weighted-average diluted unit count grew from 68.6 million to 124.5 million — an 81.6% increase that absorbed most of the enterprise-level gains before they reached the per-unit line.

FFO per unit grew from **\$0.86** to **\$1.23** over the decade, a 4.0% CAGR — respectable but a fraction of the 11.2% CAGR in total FFO. RF-AFFO per unit — the REIT Forensics independently calculated Adjusted FFO, which differs from management's reported AFFO by deducting the institutional economic maintenance benchmark of 30% of NOI rather than management's narrower maintenance classification (8.8% of NOI in FY2025) — grew from **\$0.34** to **\$0.58**, a 6.1% CAGR. CFS-FCF per unit, derived directly from audited cash flow statements with no classification discretion, grew from **\$0.44** to **\$0.53**, a modest 2.1% CAGR that reflects the volatility of actual capital spending year to year. The range across these three per-unit metrics — 2.1% to 6.1% CAGR — underscores the importance of capex classification to the reported earnings narrative, a topic explored in depth in Section III.

The unit count bridge tells a precise story of where the units came from. Between FY2016 and FY2025, Killam issued approximately 10.6 million units through its DRIP program and 39.1 million units through equity raises and acquisition-related issuance. NCIB repurchases totaled just 153,000 units — a rounding error against the issuance total. Net unit growth of 49.7 million units expanded the denominator by 69.4% from the opening 71.7 million to the closing 121.5 million. This issuance occurred in two distinct phases that correspond to different strategic eras and carry sharply different per-unit consequences.

equity/acquisition). Unit count grew from 61.7 million to 116.8 million — an 89% increase in six years. Equity capital raised totaled \$751 million across seven separate issuances. This era corresponded with acquisitions totaling \$1.14 billion and development investments of \$417 million, funding the portfolio's expansion from \$1.9 billion to \$4.8 billion in investment properties. Per-unit FFO grew from \$0.86 to \$1.11 — a 4.4% CAGR — while the unit count grew at 11.2% annually. Enterprise growth was running roughly 2.5× faster than per-unit growth, meaning more than half the operating gains were absorbed by the expanding denominator. The capital deployment earned less per incremental dollar than the existing portfolio generated, creating a structural drag on per-unit compounding.

**The Harvest Era (FY2023–FY2025):** Management ceased equity issuance entirely. No new equity was raised in FY2023, FY2024, or FY2025. Acquisitions dropped to \$106 million over three years combined, funded from internal cash and dispositions (\$212 million in asset sales over the same period). NCIB buybacks were initiated in FY2024 (13,000 units, \$276,000) and scaled modestly in FY2025 (153,000 units, \$2.5 million). Unit count growth slowed to 1.1–1.5% annually, driven solely by DRIP issuance. FFO per unit grew from \$1.15 to \$1.23 — faster per-unit growth with minimal unit expansion, precisely the dynamic the earlier era lacked. The strategic pivot was visible in the numbers within a single year of implementation.

#### PER-UNIT EARNINGS CASCADE: FFO, RF-AFFO, CFS-FCF & DISTRIBUTION (FY2016–FY2025)

All metrics per weighted-average diluted unit. Distribution line shows declared per unit.

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The chart reveals the structural challenge facing Killam's unitholders. The distribution line of \$0.60–\$0.72 per unit sits comfortably below FFO per unit throughout the series — management's reported payout ratio

distribution exceeded what the properties generated after economic maintenance in virtually every year. This is the foundational tension that flows through the rest of the analysis: what appears covered on FFO metrics is not covered on economic cash flow metrics, and the gap between the two is the capex classification question.

*The properties tripled in value. NOI nearly tripled. But the per-unit earnings line — the only one that matters to the unitholder holding a single certificate — grew at less than half the rate of the enterprise. The unit count absorbed the rest.*

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III.

## The Capex Question

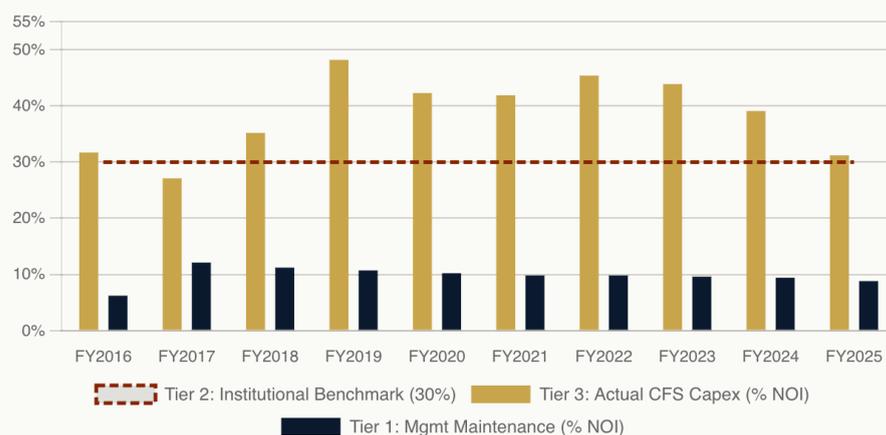
Every apartment building ages. Roofs wear out on 20-year cycles, elevators require modernization after 25 years, plumbing corrodes, windows lose their seal, common areas date. The question for any apartment REIT is not whether this reinvestment is necessary — it always is — but how much of it gets deducted before management declares the earnings number it uses to justify the distribution. Institutional investors underwriting Canadian multifamily buildings budget 15% to 30% of NOI for economic maintenance, depending on age, vintage, and market. The benchmark sources — Green Street Advisors, NAREIT/EY, and CBRE Econometric Advisors — converge on 30% of NOI as the appropriate rate for a diversified Canadian apartment portfolio of Killam's age and composition, reflecting both routine annual maintenance and the amortized cost of larger cyclical programs.

Killam deducts **\$22.4 million** in FY2025 — 8.8% of NOI — before arriving at its management-defined AFFO. The economic benchmark, applied at 30% of NOI, would deduct **\$76.4 million**. The difference is \$54.0 million annually, or **\$0.43** per unit — a per-unit AFFO overstatement that has persisted throughout the entire observation period. Management AFFO per unit of **\$1.05** in FY2025 overstates RF-AFFO per unit of **\$0.58** by 81%. This is not a rounding error. It is the difference between a distribution that appears 69% covered and one that is 125% covered — the difference between comfort and stress.

from the cash flow statement — totaled **\$79.6 million** in FY2025, or 31.2% of NOI. This closely matches the 30% economic benchmark, confirming that the institutional budget is appropriately calibrated for this portfolio. The spending is real; management simply classifies most of it as “value-enhancing” rather than “maintenance,” allowing it to be excluded from the AFFO calculation. Over the full FY2016–2025 period, Tier 3 capex averaged 35.5% of NOI — above the benchmark in most years, with peaks of 48.2% (FY2019) and 45.4% (FY2022) reflecting major repositioning programs. Recent moderation to 31.2% may reflect the portfolio reaching a more stabilized reinvestment rate, or it may reflect deferred spending that will eventually recur. The trend deserves monitoring.

#### THREE-TIER CAPEX COMPARISON: MANAGEMENT VS. INSTITUTIONAL VS. ACTUAL (% OF NOI)

Tier 1 = Management maintenance deduction; Tier 2 = RF-AFFO economic benchmark (30%); Tier 3 = Total CFS capex, FY2016–FY2025



The chart makes the structural pattern unmistakable. Management’s Tier 1 maintenance deduction (dark bars) sits well below both the institutional benchmark (dashed line) and actual spending (gold bars) in every single year. The gap is not an artefact of one unusual year — it is embedded in the AFFO methodology. Management has not publicly provided a detailed rationale for the 8.8% maintenance assumption or addressed why it sits at roughly one-third of what institutional underwriters budget for the same asset class. In the FY2022 earnings call, management provided a capex budget of “\$85–90 million” for capital investments, confirming awareness of the total spending magnitude even as the AFFO deduction captured only a fraction of it. By FY2025, with total capex moderating to \$79.6 million, the gap between declared maintenance (\$22.4 million) and actual spending remained more than three-to-one.

The practical consequence flows directly to distribution sustainability. When an investor reads that Killam’s AFFO payout ratio is 69% — a

the payout ratio is 125%. When measured against CFS-FCF, it is 137%. All three numbers are correct; they simply answer different questions. The management metric asks: “Is the distribution covered by FFO less what we classify as maintenance?” The economic metric asks: “Is the distribution covered by FFO less what it actually costs to maintain these buildings?” The cash metric asks: “Did the portfolio generate enough cash to pay the distribution after all capital spending?” The answer to the first question is an emphatic yes. The answer to the second and third is no — not in most years, though the trajectory is improving.

IV.

## The Capital Allocation Record

This section delivers the central finding of the analysis: management’s cumulative capital allocation decisions over FY2016–2025 left significant value on the table for unitholders. The evidence comes from a three-way amplification comparison that tests actual outcomes against two counterfactual scenarios — both assuming identical property-level performance, identical same-store NOI growth, and identical operating margins. Only the capital allocation decisions differ.

The **Maintain Leverage scenario** assumes management kept the same risk profile (same ND/EBITDA ratio) as the actual outcome but deployed zero external capital — no acquisitions, no development, no equity raises. Capital generated by the portfolio was distributed to unitholders rather than reinvested. This scenario produced an **18.6%** IRR, ending NAV of **\$24.91** per unit, and 10.7× ND/EBITDA — essentially the same terminal leverage as the actual outcome. The **Deleverage scenario** assumes all free cash flow was directed to debt paydown with zero distributions. This produced a **15.4%** IRR with ending NAV of **\$38.32** per unit and a dramatically lower 4.1× ND/EBITDA. The **Actual outcome**: **14.9%** IRR, **\$25.22** ending NAV per unit, 9.7× ND/EBITDA.

METRIC	DELEVERAGE	MAINTAIN LEVERAGE	ACTUAL
Full-Cycle IRR	15.4%	18.6%	14.9%
IRR vs. Actual (bps)	+55	+379	—
FFO/Unit CAGR	7.7%	4.5%	4.0%

FFO/Unit CAGR vs. Actual (bps)	+367	+48	–
Ending NAV/Unit	\$38.32	\$24.91	\$25.22
Ending ND/EBITDA	4.1×	10.7×	9.7×
Classification	Comparable Return, Lower Risk	Material Value Erosion	–

The classification is **TREADMILL – Relative Value Erosion**.

Management's actual returns were positive and potentially attractive in absolute terms – 14.9% IRR exceeds any reasonable estimate of the cost of equity capital in Canadian real estate. This was not value destruction. It was value erosion – the properties created substantial wealth, and management's deployment decisions captured less of it for unitholders than a simpler strategy would have. The 379 basis point gap, compounding over a decade, represents material opportunity cost.



At approximately 10.7× ND/EBITDA (the maintain-leverage level), every 1% of same-store NOI growth should amplify into roughly 2.6× AFFO/unit growth and 2.4× NAV/unit growth through the leverage multiplier effect. The actual amplification achieved only 1.8× and 1.9× respectively, confirming that capital allocation decisions consumed leverage efficiency rather than enhancing it. The maintain-leverage scenario did not require superior operating performance – it assumed identical property-level results. It simply avoided the dilutive equity issuance, below-threshold acquisitions, and marginal development investments that expanded the unit base without proportionally expanding per-unit value.

The parallel deleverage scenario provides an important risk-adjusted comparison. At 15.4% IRR, it delivered returns within 55 basis points of the actual outcome – but at 4.1× ND/EBITDA versus 9.7×. A portfolio carrying less than half the leverage generated nearly identical returns. An investor in the deleverage scenario would have owned a fortress balance sheet with capacity for offensive deployment when market dislocations created compelling opportunities. Instead, the actual portfolio entered a

have rewarded aggressive buybacks funded from a position of strength.

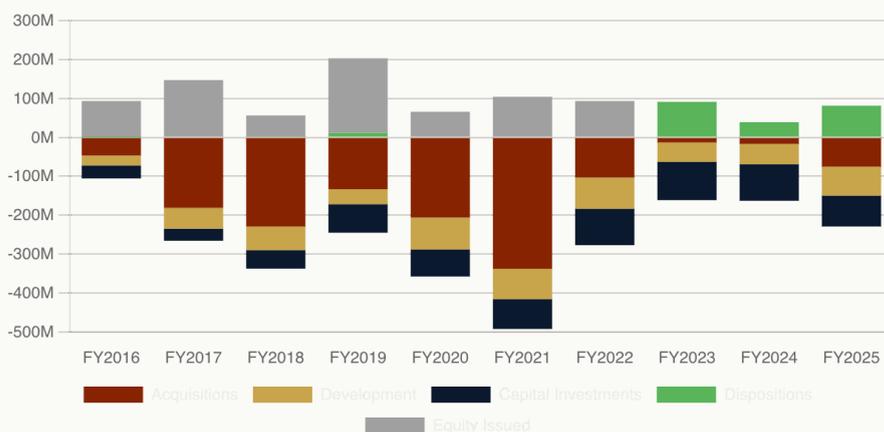
## The Capital Allocation Timeline

The narrative of Killam's capital deployment reads as a two-act story. In the Growth Era (FY2016–2022), management invested aggressively: \$1.14 billion in acquisitions, \$417 million in development, and \$694 million in portfolio capex. This was funded by \$751 million in equity issuance, substantial DRIP-driven unit growth, and incremental debt. Cumulative net external capital activity reached –\$892 million by FY2022, meaning the trust consumed nearly \$900 million more in external capital than it generated in operating cash flow after distributions. The portfolio grew from \$1.9 billion to \$4.8 billion, but the unit count grew from 62 million to 117 million – an 89% increase that diluted per-unit claims on the larger asset base.

In the Harvest Era (FY2023–2025), the posture reversed. Equity issuance ceased. Acquisitions dropped to \$106 million over three years. Dispositions totaled \$212 million – more than double the acquisitions. The NCIB was initiated, albeit at modest scale (\$2.8 million cumulative). Cumulative net external capital deepened to –\$965 million by FY2025, but the annual trajectory shifted from net consumption to approximate balance. Management's FY2025 earnings call language confirmed the strategic pivot: “not a lot of concentration on acquisition side” and characterization of NCIB and debt paydown as “first bucket” priorities. This represented a 180-degree reversal from the FY2022 posture, when management described acquisitions as “an important component” of forward strategy.

### CAPITAL ALLOCATION BY CATEGORY (FY2016–FY2025, \$000S)

Negative values = capital deployed outward; positive values = capital received. Includes acquisitions, dispositions, development, portfolio capex, equity raised, and cash distributions paid.

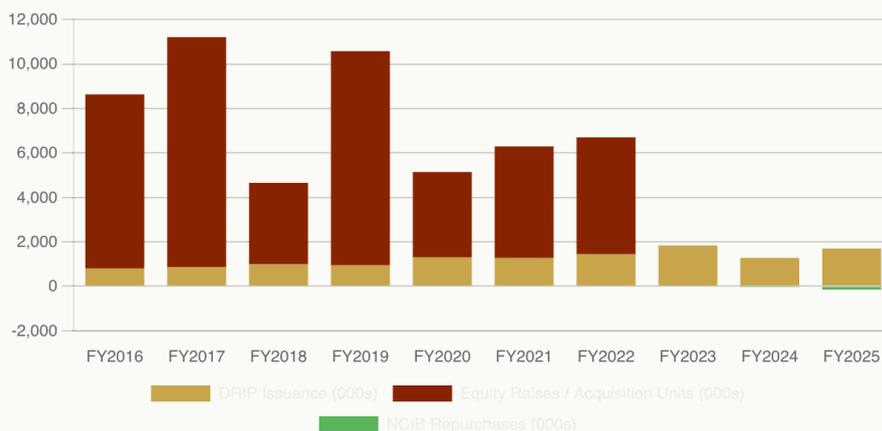


funded by waves of equity issuance (grey bars). From FY2023 onward, equity issuance disappeared entirely and dispositions (green bars) began to offset capital deployment. The shift is directionally correct — the question is whether it arrived before or after the damage was done.

## The Unit Count Bridge

### UNIT COUNT EVOLUTION: DRIP, EQUITY RAISES & NCIB (FY2016–FY2025, 000S)

Stacked area shows cumulative issuance by source. NCIB repurchases shown as negative overlay.



The unit count bridge is stark. In the Growth Era, equity raises (dark bars) dwarfed DRIP issuance, with peak years of 10.4 million units (FY2017) and 9.6 million units (FY2019). The DRIP ran throughout at 800–1,800 units annually — a persistent, smaller-scale dilution engine. NCIB repurchases (green) are barely visible on the chart: 13,000 units in FY2024 and 153,000 in FY2025, against cumulative issuance exceeding 49.7 million units. The ratio of units retired to units issued is 0.3% — for every 300 units created, one was retired. From the perspective of a long-term unitholder, their proportional claim on the portfolio's NOI declined by roughly 41% over the decade as new units were issued.

## Development Yields and the Vanishing Spread

Killam invested \$540 million in development over FY2016–2025, with \$377 million in completions transferred to the stabilized portfolio. The disclosed development yields of 5.0% to 5.6% provide context for whether this capital created or consumed value. Against Killam's IFRS applied cap rate of 4.68% (FY2025), the development spread ranges from 30 to 90 basis points.

A decade ago, Canadian apartment developers routinely earned 200+ basis points above prevailing cap rates — sufficient compensation for construction risk (2–4 years of illiquid capital), lease-up uncertainty, and cost overrun exposure. As cap rates compressed through the 2015–2022

still requires execution. What changed was the denominator: cap rates fell, narrowing the spread while the absolute risks of ground-up construction remained constant. By the time the spread compresses to 30–90 basis points, the entity is taking ground-up construction risk for what amounts to an acquisition-level return — the risk premium has effectively evaporated.

The classification under the spread adequacy framework is **MARGINAL**: sufficient to compensate for base-case execution but providing no cushion for disappointment. A single quarter of construction delay or a 5% cost overrun eliminates the spread entirely. Management’s own language on the FY2025 earnings call acknowledged the deterioration directly, stating that development now requires “all the current government-assisted funding to make these things work.” This candid admission — that unsubsidized development returns have fallen below acceptable levels — represents management’s clearest acknowledgment that the development growth strategy that consumed \$540 million over the decade is no longer viable at market pricing. The recognition came late, but it came.

### The Capital Allocation Hierarchy — From Backward to Forward

The historical record establishes the problem. The capital allocation hierarchy establishes the solution — the ranked set of options available to management from here, ordered by implied return per dollar deployed.

USE OF CAPITAL	IMPLIED RETURN	VALUE TEST
1. Suite Repositioning	18.0%	Highest-return use. Capacity-constrained: ~263 units/year at declining volumes. 15+ yr pipeline.
2. NCIB Buybacks	6.2%	Market-implied cap rate. 1.55× NAV accretion per dollar. Dominates acquisitions.
3. Development	5.3%	MARGINAL spread to applied cap. Requires government subsidy for viability.
4. Acquisitions	5.0%	Below buyback yield by 116 bps. Dilutive relative value test.
5. Debt Paydown	3.6%	Lowest return. De-risking activity. Accretive to coverage and credit metrics.

1. Internal FCF (CFS-FCF surplus)	0.0%	Limited: CFS-FCF payout 136.7%. Surplus negative in FY2025.
2. Disposition Proceeds	5.0%	Cost = foregone NOI yield. FY2025: \$81M from ~1,139 units.
3. Secured Debt (CMHC)	3.6%	ND/EBITDA already 9.7*. Additional debt increases risk.
4. Equity Issuance	6.2%	Most expensive source. At 35.5% discount, off the table.

The key arbitrage calculations crystallize the hierarchy's implications. Each dollar deployed into NCIB buybacks at current prices retires units carrying **\$1.55** of NAV — a 55.1% immediate value creation for remaining unitholders. The buyback yield of 6.2% exceeds the acquisition cap rate of 5.0% by 116 basis points, meaning every acquisition dollar deployed into external assets earns less than the same dollar deployed into retiring the trust's own units. The disposition-to-buyback arbitrage is equally compelling: sell a building at a 5.0% cap rate and redeploy the proceeds into buybacks at a 6.2% implied yield, capturing 116 basis points of arbitrage while reducing the unit count.

Meanwhile, the DRIP continues to issue units at \$16.24 — each carrying a \$25.19 NAV claim — creating a \$8.95-per-unit wealth transfer from non-participating unitholders to DRIP participants every distribution cycle. At the current 27% DRIP participation rate, this produces approximately 1,500–1,700 new units annually (thousands), a persistent dilution engine that operates silently beneath the headline numbers. Suspending the DRIP — or converting to a market-purchase DRIP — would eliminate this wealth transfer at no cost to the trust's cash position.

Management's stated priorities on the FY2025 earnings call align with the hierarchy's optimal sequence: NCIB and debt paydown as “first bucket,” dispositions as a funding source, acquisitions deprioritized. The match is encouraging. But the scale of NCIB activity — \$2.5 million in FY2025, representing 153,000 units against an outstanding base of 121 million — is insufficient to meaningfully move per-unit metrics. At the current pace, it would take over 200 years to retire the units issued since FY2016. The question is not whether management has identified the right priorities but whether they will execute at the scale the hierarchy demands.

## What the Market Is Telling Management

ignored for most of the decade, acknowledged belatedly, and remains only partially acted upon today.

YEAR	PREMIUM / (DISCOUNT)	SIGNAL TIER	SIGNAL MESSAGE	MANAGEMENT RESPONSE	ALIGNMENT
FY2016	7.5%	Near NAV	Flexible. All options on merit.	\$93M equity raised, \$47M acquisitions	ALIGNED
FY2017	28.2%	Strong Premium	Issue equity. Grow aggressively.	\$147M equity raised, \$181M acquisitions	ALIGNED
FY2018	5.2%	Near NAV	Flexible. Proceed with organic growth.	\$55M equity raised, \$229M acquisitions	ALIGNED
FY2019	16.2%	Strong Premium	Issue equity. Grow aggressively.	\$192M equity raised, \$133M acquisitions	ALIGNED
FY2020	6.0%	Near NAV	Flexible.	\$66M equity raised, \$206M acquisitions	ALIGNED
FY2021	19.7%	Strong Premium	Issue equity. Grow aggressively.	\$104M equity raised, \$338M acquisitions	ALIGNED
FY2022	-21.6%	Large Discount	Prioritize buybacks. No issuance.	\$93M equity raised, \$103M acquisitions. No buybacks.	MISALIGNED
FY2023	-33.0%	Deep Discount	Buy back aggressively. Sell assets.	No equity. \$91M dispositions. No NCIB. \$13M acquisitions.	PARTIAL
FY2024	-21.4%	Large Discount	Prioritize buybacks. No issuance.	No equity. \$39M dispositions. NCIB initiated: \$276K.	PARTIAL
FY2025	-35.5%	Deep Discount	Buy back aggressively. Sell assets.	No equity. \$81M dispositions. NCIB: \$2.5M. \$76M acquisitions.	PARTIAL

The signal history divides cleanly into two periods. From FY2016 through FY2021, Killam traded at or above NAV — premiums ranging from 5.2% to 28.2% — and management's response was fully aligned: issue equity at premiums to NAV, deploy into acquisitions, and grow the platform. This

claim. The problem was not the issuance during premium periods but what happened next.

FY2022 marked the inflection. The unit price collapsed below NAV to a 21.6% discount, and the signal flipped to “STOP.” Management did not stop. It raised \$93 million in equity at the deepest discount of the series to that point, deployed \$103 million into acquisitions at cap rates below the market-implied buyback yield, and initiated zero buybacks. This single year of misalignment — issuing equity at a 22% discount to NAV while the capital allocation hierarchy unambiguously favoured buybacks — represents the most concentrated episode of value erosion in the series. Every dollar of that \$93 million equity raise purchased only \$0.78 of asset value per dollar of NAV claim created.

From FY2023 onward, management’s response improved to **PARTIAL** alignment. Equity issuance ceased — the right call. Dispositions began, generating \$212 million over three years — the right direction. But the NCIB remained at token scale (\$2.8 million cumulative against a base of 121 million units), and management continued acquiring assets (\$76 million in FY2025) at cap rates that the hierarchy identifies as inferior to the buyback alternative. The signal says “buy back aggressively”; management is buying back tentatively. The signal says “sell assets to fund buybacks”; management is selling assets but directing most proceeds to debt service and general purposes. Alignment requires not just ceasing the destructive activity but actively pursuing the constructive alternative at meaningful scale.

The **current signal** is unambiguous. At a 35.5% discount to IFRS NAV (31.0% to analyst NAV), Killam sits in **DEEP DISCOUNT** territory — the strongest possible capital allocation signal. The market is telling management: buy back units aggressively, sell non-core assets to fund the buybacks, do not acquire unless the cap rate exceeds 6.2% (the buyback yield), and do not issue equity under any circumstances. Management’s stated strategy directionally aligns with this signal. Execution scale does not.

*At a 31% discount to NAV, every dollar deployed into buybacks creates \$1.55 of per-unit value. Every dollar deployed into acquisitions at a*

## Persistence or Change?

The evidence for durable change is meaningful. Management's public language has shifted decisively: "not a lot of concentration on acquisition side" (FY2025), NCIB characterized as "first bucket" priority, dispositions with a minimum \$50 million annual target, and development conditioned explicitly on government assistance. These are not hedged statements — they represent a clear departure from the growth-at-all-costs posture of FY2016–2022. More importantly, the actions match the words: three consecutive years of zero equity issuance, declining acquisition volumes, meaningful disposition activity, and NCIB initiation.

The evidence for circumstantial caution is also meaningful. The strategic pivot coincided exactly with capital market conditions that made external growth impractical regardless of strategic preference — elevated interest rates, compressed REIT multiples, and a discount to NAV that made equity issuance prohibitively expensive. A management team that stopped acquiring because they chose discipline looks identical to one that stopped because the market forced them to — until the market reopens and the choice becomes voluntary again. The true test arrives when cap rates stabilize, the discount narrows, and management faces the option of returning to external growth. Whether they resist that option — or seize it — will reveal whether the pivot was conviction or circumstance.

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v.

## Where Value Was Gained or Lost

The amplification verdict delivers the aggregate score. This section decomposes it — attributing per-unit value creation or destruction to each major category of management activity over the decade.

**Same-Store Operations (+):** The unambiguous source of value creation. Same-store NOI growth of 5.3% annually, margin expansion of 640 basis points, and suite repositioning returns of 18.0% on invested capital all created genuine economic value at the property level. If one could isolate the operating decisions from the capital deployment decisions, Killam's management team would rate among the strongest apartment operators in Canada. The operational engine was never the problem.

increase, approximately 65% was driven by NOI growth — genuine operational value creation as rents rose, expenses were controlled, and the portfolio generated progressively more income. The remaining 35% was driven by cap rate compression — from 5.5% (FY2016) to 4.7% (FY2025) — a macro gift that had nothing to do with management's operating skill. This distinction matters: NOI-driven appreciation is durable and repeatable; cap rate-driven appreciation is cyclical and can reverse. With the RF applied cap rate set at 5.0% for projections (above the FY2025 IFRS rate of 4.7%), the model assumes a partial giveback of cap rate compression, representing a conservative forward posture.

**Acquisitions (-):** Killam deployed \$1.14 billion into acquisitions over FY2016–2025 at cap rates that, by the model's hierarchy analysis, failed to clear the market-implied buyback yield for most of the period. Each acquisition dollar earned approximately 5.0% — less than the 6.2% available through buybacks at current prices. The acquisitions expanded the portfolio and diversified geographic concentration, valid strategic objectives — but they were funded by equity issuance that expanded the unit count faster than the acquired NOI expanded per-unit earnings. The result: enterprise-level success that diluted per-unit value.

**Development (-):** The \$540 million development program created buildings that yielded 5.0%–5.6% — only 30–90 basis points above applied cap rates, an inadequate spread for construction risk. Development capital was systematically allocated into projects that earned acquisition-level returns while bearing construction-level risks. The program's value creation was marginal at best, and the capital's opportunity cost — what it could have earned in buybacks or debt reduction — was material.

**Equity Issuance (-/+):** Issuance during premium periods (FY2016–2021) was accretive to per-unit value by definition — each unit issued at \$14.22–\$20.80 against NAV of \$11.09–\$17.37 brought in more capital than its proportional NAV claim. The FY2022 issuance at a 21.6% discount was the concentrated episode of per-unit value destruction: \$93 million raised at prices well below intrinsic value, directly transferring wealth from existing unitholders to new entrants. The DRIP operated as a continuous small-scale dilution engine throughout, issuing 10.6 million units at prices that fluctuated around NAV in early years and fell well below NAV in later years.

was insufficient to offset even a single month of DRIP issuance, let alone the cumulative 49.7 million units issued over the decade. Every unit retired at current prices creates 55.1% of immediate per-unit value — this is the single highest-return activity available to management, and it remains almost entirely unexploited.

#### NAV PER UNIT: ACTUAL VS. MAINTAIN-LEVERAGE COUNTERFACTUAL (FY2016-FY2025)

Both series assume identical property-level operating performance. Only capital allocation decisions differ.

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+ ctx.parsed.y.toFixed(2); } } } }, scales: { x: { grid: { color: '#D4D0C8' }, ticks:
{ font: { family: "Source Sans 3", sans-serif", size: 11 } } }, y: { grid: { color:
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callback: function(v){ return ' ' }
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#### ABOUT THIS ANALYSIS

This forensic analysis covers a 15-period financial model spanning FY2016 through FY2030E, incorporating 10 years of historical performance data and 5 years of forward projections. The model includes detailed amplification testing (Mode 3, three-way counterfactual), cash flow sustainability analysis, capital allocation hierarchy assessment, and return profile projections. All historical financial data sourced from Killam Apartment REIT's audited financial statements filed on SEDAR+. Forward projections represent REIT Forensics estimates and are not endorsed by Killam management.

RF-AFFO applies a 30% of NOI economic maintenance benchmark derived from Green Street Advisors, NAREIT/EY, and CBRE Econometric Advisors sector-level capex studies for Canadian multifamily apartments. This rate may overstate or understate actual reinvestment requirements for any individual portfolio depending on asset age, climate, and capital program timing. CFS-FCF is derived from the audited cash flow statement and represents cash available for distributions after all existing-portfolio capital investments.

This analysis is for informational purposes only and does not constitute investment advice. Past performance does not guarantee future results. All forward projections involve uncertainty. The discount to NAV may persist, widen, or narrow for reasons unrelated to fundamental performance.

#### REIT FORENSICS

REIT Forensics provides independent forensic due diligence on Canadian private and public REITs. The full model — including 58-field disclosure scorecard, amplification analysis, value leakage decomposition, multi-

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+v.toFixed(0); } }, beginAtZero: false } } } }); }());
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The chart's convergence at FY2025 — actual NAV of \$25.22 versus counterfactual \$24.91 — might appear to vindicate management's capital allocation. The terminal NAV values are similar. But the maintain-leverage scenario achieved this terminal value while distributing substantially more cash to unitholders along the way — \$1.01 to \$1.96 per unit annually versus actual distributions of \$0.62–\$0.72. The 379 basis point IRR gap is almost entirely composed of this higher distribution capacity, not terminal value difference. Management's growth strategy produced a larger portfolio and a similar NAV per unit, but it achieved this by reinvesting cash that could have been distributed — and the reinvested cash earned less than the portfolio's organic return would have generated.

vi.

## Distribution Sustainability

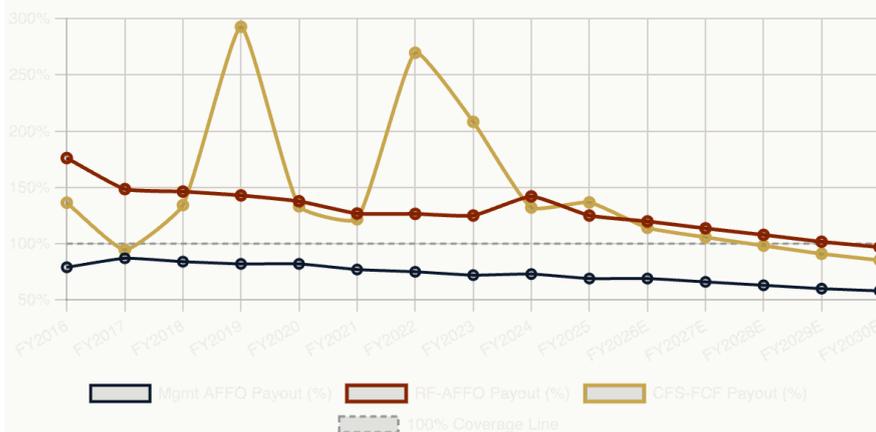
Killam's \$0.72 annual distribution per unit provides a 4.4% yield at the current \$16.24 market price. Whether this distribution is sustainable depends entirely on which earnings metric you trust to define "covered." On management's reported AFFO, the payout ratio improved from 79% (FY2016) to 69% (FY2025) — a comfortably covered distribution with improving headroom. On RF-AFFO, which deducts economic maintenance at the institutional 30% benchmark, the payout ratio is 125% — meaning the distribution exceeds what the portfolio earns after true reinvestment requirements by 25%. On CFS-FCF — cash from operations less all capital investments, the hardest metric to game — the payout ratio is 137%, reflecting actual capital spending that exceeds the economic benchmark in most years due to repositioning and major renovation programs. The cash surplus waterfall makes the structural deficit visible. CFS-FCF of \$66.3 million in FY2025 fell short of declared distributions of \$90.7 million by \$24.3 million, a deficit that was absorbed by the credit facility. Cash distributions (after DRIP reinvestment) were \$63.1 million — closer to CFS-FCF but still requiring credit facility support when scheduled mortgage amortization (\$67.0 million annually) is included. The waterfall runs: CFS-FCF of \$66.3 million, less cash distributions of \$63.1 million, leaves \$3.2 million — against mortgage amortization of \$67.0 million, forcing \$63.8 million of credit facility draw. Net debt declines only by the \$3.2 million surplus, not by the full amortization schedule, because the credit facility absorbs the difference. Over the full FY2016–2025 period, cumulative CFS-FCF totaled \$468.8 million while cumulative distributions declared reached \$708.7 million — a cumulative deficit of \$239.9 million. The distribution has not been self-funded over the observation period. The shortfall was financed through equity issuance, DRIP reinvestment, and credit facility draws — external sources that either dilute unitholders or increase leverage.

EBITDA growth at 2.9% annually outpaces the fixed \$0.72 distribution obligation. Sustainability is achieved by approximately FY2028E under base case assumptions — the first year in the projected series where the distribution is fully covered by CFS-FCF. This trajectory is mechanically sound but execution-dependent: it requires uninterrupted same-store NOI growth at the assumed rate with no margin for operational disappointment, regulatory intervention, or economic stress.

Management has systematically avoided direct discussion of distribution sustainability in both the FY2022 and FY2025 earnings calls analyzed, despite this being a sector-critical metric and the most commonly asked question by retail-facing analysts. The silence is notable: management provides specific quantitative guidance on same-store growth (“at least 3%” in FY2025), capex budgets (\$85–\$90 million in FY2022), and disposition targets (\$50 million minimum in FY2025), but offers no forward guidance on distribution policy, coverage targets, or the trajectory toward self-funding. This communication gap — precision on operating topics and silence on distribution sustainability — suggests awareness that the coverage story is uncomfortable when examined through economic lenses rather than reported metrics.

#### DISTRIBUTION COVERAGE: THREE METRICS (FY2016–FY2030E)

Payout ratio = Declared Distribution ÷ Metric per Unit. Below 100% = covered. RF-AFFO applies 30% of NOI economic maintenance.



The chart tells the distribution story in one frame. Management’s AFFO payout (dark blue) comfortably resides below 100% throughout — the only metric that does. RF-AFFO (accent red) and CFS-FCF (gold) both exceed 100% for most of the historical period, with the CFS-FCF line showing extreme volatility driven by lumpy capital spending (peaking at 293% in FY2019 and 270% in FY2022 during major renovation programs). The convergence toward 100% in the forward years represents the model’s base case trajectory, where organic EBITDA growth gradually catches the fixed distribution. The gap between the three metrics is the capex classification question — the distance between what management reports as maintenance and what the buildings actually consume.

## VII.

### The Market

Canadian multifamily real estate operates in a structural undersupply environment that distinguishes it from most other global apartment markets. Canada’s population grew by approximately 1.3 million in 2023 alone,

Corporation (CMHC) estimated in 2021 that Canada needed to build 0.6 million additional homes by 2030 to restore affordability, a pace roughly double the current construction rate.<sup>2</sup> This gap between population growth and housing supply creates structural rent escalation in the markets where Killam operates — Halifax, Moncton, Saint John, Fredericton, Ottawa, and Calgary — providing a favourable backdrop for same-store revenue growth.

Killam's core Atlantic Canadian markets exhibit particularly acute supply constraints. Halifax, the trust's largest market, saw apartment vacancy rates below 1.5% through 2023 and 2024, with limited development pipeline relative to population growth driven by interprovincial migration and international students.<sup>3</sup> New Brunswick's apartment markets similarly benefit from population growth that has outstripped new construction for five consecutive years. These Maritime markets offer defensive characteristics — stable demand, limited supply response, and below-national-average rents that provide room for growth without affordability ceiling risk. The Ontario and Alberta markets provide growth exposure. Ottawa's rental market benefits from federal government employment stability and immigration inflows, while Calgary's energy-driven economy has produced strong rent growth as population surged following pandemic-era interprovincial migration. Management characterized the market environment in FY2025 as supportive of "at least 3%" same-store growth, a notable moderation from the FY2022 call where the tone was "pretty bullish" on rental market fundamentals. The deceleration in guidance language reflects both base effects (it is harder to grow 6–8% from a higher base) and regulatory headwinds in several provinces that have introduced or tightened rent increase guidelines.

The regulatory environment represents the primary market risk. Nova Scotia introduced temporary rent caps in 2020 that have been extended repeatedly, limiting annual rent increases to a fixed percentage for existing tenants. Ontario's guideline increase for 2025 was set at 2.5% for pre-1991 buildings under its long-standing rent control framework.<sup>4</sup> These caps do not prevent mark-to-market rent increases on turnover, but they slow the pace at which below-market rents can be brought to current levels. Killam's turnover-driven rent growth strategy — achieving mark-to-market on approximately 20–25% of units annually through natural attrition — partially mitigates regulatory constraints, but the caps reduce the annual compounding rate relative to an unregulated environment.

Transaction market evidence provides mixed signals on NAV credibility. CBRE reported Canadian multifamily cap rates in the 4.0%–5.5% range through 2024, with significant variation by market and building age.<sup>5</sup> Killam's IFRS applied cap rate of 4.7% (FY2025) sits within this range but at the lower end, implying premium building quality or market positioning relative to a diversified benchmark. The model's forward cap rate assumption of 5.0% incorporates modest cap rate expansion from the IFRS level, providing a conservative anchor for NAV projections. The market-implied cap rate of 6.2% — what the stock market is pricing — sits outside the transaction range, suggesting either market skepticism about appraisal accuracy or a liquidity/risk premium that distinguishes REIT units from direct property ownership.

Among publicly traded Canadian apartment REITs, the discount to NAV has become widespread since 2022, reflecting the rate environment's impact on leveraged real estate valuations. Killam's 35.5% IFRS discount is at the deeper end of the peer group but not an outlier — several Canadian apartment trusts trade at 20–30% discounts. The distinction is whether the discount reflects warranted skepticism about NAV accuracy (cap rates are too low) or an opportunity for investors (the properties are genuinely worth more than the market price

scale. The \$50 million minimum annual disposition target provides an ongoing test of NAV credibility.

VIII.

## The Return Profile from Here

The forward base case assumes the current structure continues: \$0.72 annual distribution, DRIP on at 27% participation, no acquisitions, no equity raises, and flat cap rates at 5.0%. This is what the portfolio delivers on autopilot – the structural return from simply running the existing buildings without any capital allocation intervention by management.

### Entry Valuation

An investor entering at **\$16.24** buys units carrying **\$23.54** of analyst NAV (the RF-applied value using a 5.0% cap rate, modestly more conservative than the 4.7% IFRS rate). The 31.0% discount implies the market demands a 6.2% cap rate on Killam's NOI – materially above transaction evidence in the 4.0%–5.5% range, but consistent with a public-market risk premium for a leveraged vehicle in a rising-rate environment. IFRS NAV per unit is **\$25.19**, placing the IFRS discount at 35.5%.

### Forward Base Case Drivers

DRIVER	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
SS NOI Growth	2.9%	2.9%	2.9%	2.9%	2.9%
DRIP Unit Growth	4.0%	1.2%	1.2%	1.2%	1.2%
WA Mortgage Rate	3.6%	3.6%	3.6%	3.6%	3.6%
ND/EBITDA	9.5×	9.2×	8.8×	8.4×	8.0×
RF Applied Cap Rate	5.0%	5.0%	5.0%	5.0%	5.0%

The 2.9% same-store NOI growth assumption represents significant deceleration from recent performance (6.1% in FY2025, 8.3% in FY2024). Management's FY2025 guidance of "at least 3%" suggests the assumption is slightly conservative relative to near-term expectations but realistic over a five-year horizon that includes potential regulatory tightening, economic cycles, and base effects. Management's evolving language – from "pretty bullish" (FY2022) to cautiously constructive (FY2025) – aligns with this deceleration assumption rather than contradicting it.

### Per-Unit Earnings Waterfall (Forward)

METRIC	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E
FFO/Unit	\$1.23	\$1.28	\$1.32	\$1.37	\$1.42
RF-AFFO/Unit	\$0.60	\$0.63	\$0.67	\$0.71	\$0.74
CFS-FCF/Unit	\$0.63	\$0.68	\$0.73	\$0.79	\$0.84
Distribution/Unit	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72

NAV/Unit	\$23.96	\$25.07	\$26.23	\$27.46	\$29.01
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The waterfall shows gradual per-unit improvement across all metrics, driven by organic NOI growth flowing through a stabilizing capital structure. CFS-FCF per unit surpasses the distribution in FY2028E (\$0.73 vs. \$0.72), marking the first projected year of full cash coverage. NAV per unit grows from \$23.96 to \$29.01 over five years, a 3.9% CAGR reflecting the reinvestment of operating gains net of distributions and DRIP dilution.

## Structural Return Decomposition

The structural return — what the portfolio delivers on its equity base without market pricing assumptions — decomposes as follows:

**3.1%**

CASH YIELD ON NAV  
\$0.72 ÷ \$23.96

**4.5%**

NAV/UNIT GROWTH  
ORGANIC NOI COMPOUNDING + DELEVERAGING

**7.6%**

STRUCTURAL RETURN  
YIELD + GROWTH, NO DISCOUNT CLOSURE ASSUMED

The 7.6% structural return is the headline forward metric. It requires no assumption about market pricing reversion — this is what the assets generate through the capital structure on a per-unit basis. An investor who buys at NAV and the discount persists forever earns 7.6%. An investor who buys at the current 31% discount earns more, because the same \$0.72 distribution represents a 4.4% yield on their \$16.24 entry price rather than 3.1% on NAV. The question is whether — and when — the discount closes.

If the discount closes entirely over five years (exit at NAV), the market-entry CAGR is **15.4%** — assuming full discount closure to NAV at exit. This scenario assumes the market reprices Killam units from \$16.24 to approximately \$29.01 (projected FY2030E NAV), capturing both organic NAV growth and the elimination of the 31% discount. If the discount persists (exit at current market price), the five-year CAGR is approximately **7.2%**, representing the distribution yield on entry price plus zero capital appreciation from repricing.

The range between 7.2% and 15.4% is wide. The entire difference is the discount compression component — a market pricing bet, not an asset return. The structural return of 7.6% sits between these scenarios and represents the economic reality the portfolio produces regardless of market sentiment.

## Sensitivity Matrix

5-YEAR IRR	EXIT 4.50%	EXIT 4.75%	EXIT 5.00%	EXIT 5.25%	EXIT 5.50%
SS NOI 1.5%	17.8%	15.4%	13.2%	11.2%	9.4%
SS NOI 2.0%	18.6%	16.2%	14.0%	12.0%	10.2%
SS NOI 2.9% (base)	19.9%	17.5%	<b>15.4%</b>	13.4%	11.6%
SS NOI 4.0%	21.5%	19.2%	17.0%	15.1%	13.3%
SS NOI 5.0%	22.9%	20.6%	18.5%	16.6%	14.8%

Matrix assumes entry at \$16.24 and full discount closure to NAV at the applicable exit cap rate. Base case bolded: 2.9% SS NOI growth, 5.0% exit cap rate. Figures are illustrative five-year IRRs calculated from the model's base case structure.

returns are more sensitive to exit cap rate than to same-store growth, reflecting the mathematical leverage of cap rate changes on a low-yielding asset class. Each 25 basis points of cap rate compression adds approximately 2.0–2.5 percentage points of IRR. The risk asymmetry is clear: the entry discount provides substantial margin of safety against cap rate expansion, but cap rate compression on top of the discount creates outsized upside.

### Historical Return Decomposition

For context, the FY2016–2025 actual returns decompose as: 2.8% average cash yield on NAV, plus 10.1% NOI-driven NAV growth, plus 1.6% from other effects (cap rate compression, leverage). Market-price returns averaged only 7.6% over the period due to the multiple compression from a 7.5% premium (FY2016) to a 35.5% discount (FY2025). The forward case projects substantially lower returns than the historical average on a NAV basis (7.6% vs. 14.5%) due to decelerated NOI growth assumptions and the absence of cap rate compression tailwinds.

### Credit Facility Constraint Timeline

The forward projections reveal a mathematical constraint that forces strategic decisions. Under the base case, the credit facility balance grows from \$74.8 million (FY2025) to \$128.1 million (FY2026E), \$174.9 million (FY2027E), and \$214.9 million (FY2028E) — breaching the \$200 million capacity in FY2028E. By FY2030E, the projected balance reaches \$271.4 million, well beyond current capacity. This creates a forced decision timeline: by FY2028E at the latest, management must either (a) sell assets to generate cash, (b) expand the credit facility, or (c) issue equity. Management's stated minimum \$50 million annual disposition target addresses this constraint directionally, but the timing and pricing of dispositions in a soft transaction market remain uncertain. The credit facility constraint is the binding strategic variable — it determines when management's capital discipline will be tested by necessity rather than choice.

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ix.

## Risks

**1. Interest Rate Sensitivity and Refinancing Concentration:** Killam carries \$301.8 million of mortgage debt maturing in FY2026 at a 2.7% weighted-average rate. Refinancing at the projected 4.0% rate adds approximately \$4 million in annual interest expense. At stress rates — +100 basis points above assumption, or 5.0% — the incremental interest cost rises to \$7 million, reducing FFO per unit by approximately \$0.06 and further pressuring distribution coverage. The broader refinancing profile shows 21.2% of total debt maturing by FY2028, coinciding with the credit facility capacity constraint. A simultaneous rate spike and credit market tightening could force suboptimal decisions during the FY2026–2028 refinancing window. Mitigant: CMHC-insured mortgage access provides a 100–200 basis point rate advantage over conventional financing, and historically low default rates in CMHC-insured multifamily lending suggest continued lender appetite.

**2. Rent Regulation Escalation:** Nova Scotia's rent cap, initially temporary, has been extended repeatedly. Ontario's guideline increase constrains rent growth on the majority of Killam's Ontario portfolio. If additional provinces adopt similar measures, or if existing caps are tightened, same-store revenue growth could decelerate below the 2.9% assumption. A scenario in which regulatory constraints reduce same-store growth to

caps, and Killam's natural attrition rate of 20–25% annually provides annual mark-to-market opportunities on a meaningful share of the portfolio.

**3. Credit Facility Breach and Forced Capital Decisions:** The mathematical certainty of credit facility capacity breach by FY2028E under current assumptions creates a timeline for forced decisions that may not align with optimal capital allocation. If disposition markets are soft when the breach approaches, management may face a choice between selling assets below NAV or issuing equity at a deep discount — both value-destructive outcomes. The \$50 million annual disposition target may prove insufficient if capital markets remain challenging. This is the single largest execution risk in the forward case, because it converts a discretionary capital allocation decision into a forced one. Mitigant: management has demonstrated willingness to sell assets (\$212 million in FY2023–2025), and credit facility expansion remains an option if bank relationships support it.

**4. DRIP Dilution as a Persistent Headwind:** The DRIP currently issues approximately 1,500–1,700 thousand new units annually at \$16.24, each carrying \$25.19 of NAV claim. At a 36% discount to IFRS NAV, this represents an ongoing \$8.95-per-unit wealth transfer from non-participants to participants. The forward model projects DRIP unit growth of 1.2% annually — enough to consume roughly one-third of the per-unit NAV growth generated by operations. Suspending the DRIP or converting to a market-purchase structure would eliminate this drag at no cash cost to the trust, yet management has not signaled any intention to do so. Mitigant: DRIP participation is voluntary, and the \$0.72 distribution provides sufficient yield to reduce the need for reinvestment-driven returns.

**5. Economic Recession and Vacancy Risk:** While Canadian apartment markets are structurally undersupplied, a sharp economic downturn — particularly one affecting employment in Killam's Maritime and Alberta markets — could increase vacancy above the 96.6% current level and reduce turnover-driven rent growth. A 200 basis point increase in vacancy reduces NOI by approximately \$5 million annually, equivalent to \$0.04 per unit of FFO impact. More significantly, a recessionary environment typically coincides with interest rate declines, which would partially offset via lower refinancing costs. Mitigant: geographic diversification across six provinces provides portfolio-level resilience, and the essential nature of housing limits downside relative to discretionary real estate sectors.

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x.

## The Investment Decision

The case for Killam rests on three pillars: operational excellence at the property level, a meaningful discount to credible asset values, and a management team that has demonstrably learned from past mistakes. The buildings generate 5%+ same-store NOI growth in supply-constrained markets, margins continue to expand, and the geographic diversification provides both growth and defensive characteristics. The 31% discount to analyst NAV implies a 6.2% market cap rate against transaction evidence in the 4.0–5.5% range, creating entry-point margin of safety. Management's pivot from growth-at-all-costs to capital discipline — cessation of equity issuance, initiation of the NCIB, deprioritization of acquisitions, and activation of a disposition program — aligns directionally with the capital allocation hierarchy's optimal sequence.

self-funded until FY2028E at the earliest. The credit facility breach timeline creates forced decision points that could result in value-destructive asset sales or equity issuance precisely when the discount is widest. The NCIB operates at token scale — \$2.5 million against a universe of \$2.0 billion in market capitalization — and the DRIP continues to issue units below NAV, creating a persistent headwind to per-unit value creation. Management's track record of responding to market signals shows a 2–3 year lag between signal and action, and the strategic pivot coincides exactly with market conditions that would have forced the same behaviour regardless of conviction. Whether the discipline is chosen or imposed remains untested.

What determines the outcome is whether management executes the harvest strategy with sufficient scale and persistence to translate operational excellence into per-unit value creation. The autopilot return of 7.6% is what the portfolio delivers with no management intervention. The capital allocation hierarchy shows management could enhance this significantly through aggressive buybacks funded by dispositions — each buyback dollar creates 55% of immediate per-unit value, and the 116 basis point spread between buyback yield and acquisition cap rate defines a clear, executable arbitrage. The historical amplification verdict shows management has not historically beaten the autopilot baseline — they trailed it by 379 basis points annually. The tension between these three findings — the autopilot return, the opportunity set, and the track record — is the investment question in its most distilled form.

Management's credibility profile is nuanced and topic-dependent. On operating performance, the record is strong: same-store guidance has been met or exceeded, capex budgets have been directionally accurate, and margin expansion has been delivered consistently. On strategic commitments, the record is mixed: the pivot from growth to harvesting was delayed relative to when the market signal demanded it, and the NCIB was initiated at a scale that suggests caution rather than conviction. On distribution policy, transparency has been poor: systematic avoidance of coverage discussions despite operating at 125%+ economic payout ratios suggests management is aware the numbers are uncomfortable but unwilling to address them publicly. The forward projections depend primarily on operational execution (where management has earned credibility) and capital discipline (where the track record is improving but unproven at scale). The reader should weight operating confidence high and capital allocation confidence cautiously.

*The properties deserve a better capital allocator than they have historically received. The question is whether the current management team — chastened by a decade of evidence — has become that allocator, or merely looks like one because the market has temporarily removed all the wrong options.*

The investment resolves favourably if three conditions hold: same-store NOI growth remains above 2.5%, management executes dispositions at prices validating NAV, and the NCIB scales meaningfully relative to DRIP issuance. It resolves unfavourably if the credit facility breach forces dilutive equity issuance, if rent regulation constrains growth below assumptions, or if management reverts to external growth when market conditions permit. The 31% discount provides meaningful margin of safety for patient capital — but patience alone does not create value. Someone must do the work.

## Peer Comparison

Total Suites (approx.)	23,603	~67,000	~33,000	~7,500	~12,800
Discount to NAV (approx.)	(35.5%)	(20-25%)	(15-20%)	(25-30%)	(20-25%)
FFO Payout Ratio	59%	~55%	~45%	~55%	~60%
ND/EBITDA	9.7x	~8.5x	~7.0x	~10.0x	~10.5x
SS NOI Growth (recent)	6.1%	~7-8%	~8-10%	~4-5%	~5-7%
NOI Margin	66.5%	~65%	~68%	~62%	~64%
Avg Monthly Rent	\$1,600	~\$1,400	~\$1,450	~\$1,700	~\$1,550
Distribution Yield	4.4%	~2.5%	~2.0%	~2.5%	~3.0%

Peer metrics are approximate based on most recently available public filings and may not be directly comparable across reporting periods. Killam metrics from model FY2025.

Killam trades at the deepest discount in the peer group, offers the highest distribution yield, but carries leverage at the higher end. Boardwalk's lower leverage (7.0x) and lower payout ratio (45%) reflect a more conservatively capitalized platform with greater financial flexibility — the contrast illustrates what Killam's deleverage counterfactual would have produced had management chosen that path a decade ago. Canadian Apartment Properties (CAPREIT) benefits from the largest scale and most diversified geographic footprint, commanding a narrower discount. Among the mid-cap peers, Killam's operating margins and same-store growth are competitive, but the balance sheet and distribution burden create structural headwinds that the narrower-discount peers do not face to the same degree.

#### NAV PER UNIT VS. MARKET PRICE (FY2016-FY2025)

IFRS NAV per unit (FY2016-FY2024) transitions to RF NAV per unit (FY2025). Market price at year-end.

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#### ABOUT THIS ANALYSIS

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RF-AFFO applies a 30% of NOI economic maintenance benchmark derived from Green Street Advisors, NAREIT/EY, and CBRE Econometric Advisors sector-level capex studies for Canadian multifamily apartments. This rate may overstate or understate actual reinvestment requirements for any individual portfolio depending on asset age, climate, and capital program timing. CFS-FCF is derived from the audited cash flow statement and represents cash available for distributions after all existing-portfolio capital investments.

This analysis is for informational purposes only and does not constitute investment advice. Past performance does not guarantee future results. All forward projections involve uncertainty. The discount to NAV may persist, widen, or narrow for reasons unrelated to fundamental performance.

**REIT FORENSICS**

REIT Forensics provides independent forensic due diligence on Canadian private and public REITs. The full model — including 58-field disclosure scorecard, amplification analysis, value leakage decomposition, multi-scenario return profiles, and private buyer math — is available to subscribers.

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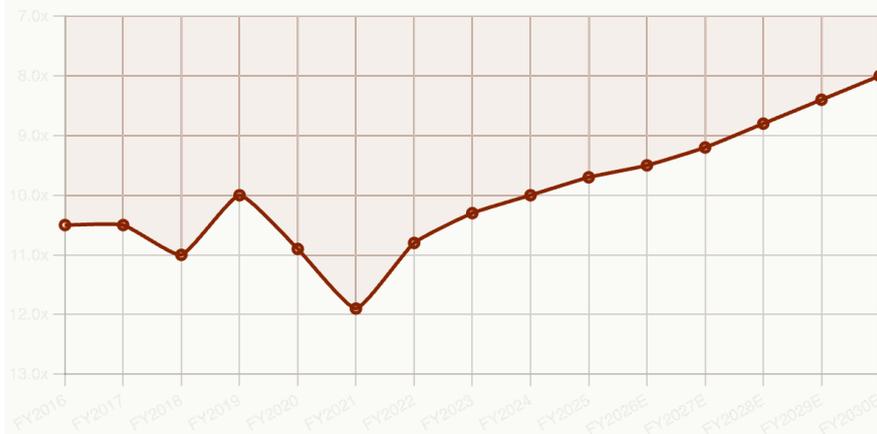
REIT FORENSICS FRAMEWORK V5 · MODEL: FY2016–FY2030E (15 PERIODS) · BENCHMARK: DEFERRED · TSX: KMP.UN · \$16.24 · JUNE 2025

+v; } }, beginAtZero: false } } } ); }());

The chart captures the full narrative arc. Through FY2021, the market price tracked at or above NAV — the cost-of-capital advantage era when equity issuance was accretive. The crossover in FY2022 marked the structural break: NAV continued rising (driven by appraisal appreciation and NOI growth) while the market price collapsed, opening a discount that has persisted and widened. The gap between the two lines at FY2025 — \$23.54 NAV versus \$16.24 market — is the 31% discount that defines the current opportunity. Whether these lines converge or continue diverging is the investment question.

**LEVERAGE TRAJECTORY: ND/EBITDA (FY2016–FY2030E)**

Historical (FY2016–FY2025) and projected (FY2026E–FY2030E) net debt to EBITDA



The leverage trajectory confirms the deleveraging story embedded in the base case. ND/EBITDA declined from a peak of 11.9× (FY2021) to 9.7× (FY2025) and is projected to reach 8.0× by FY2030E — a meaningful improvement that reduces refinancing risk and enhances financial flexibility. The deleveraging is driven by organic EBITDA growth and scheduled mortgage amortization rather than equity issuance, making it

of increasing revolver dependency.

*The structural return is 7.6% — what you earn if the market never changes its mind. The market-entry CAGR is 15.4% — what you earn if it does. The distance between those numbers is a bet on whether Canada's deepest apartment discount narrows. It is not a bet on the buildings.*

## Endnotes

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Killam Apartment REIT, FY2025 Annual Report and Management's Discussion & Analysis, filed on SEDAR+. Portfolio composition, operating metrics, and financial statements. <https://www.sedarplus.ca/landingpage/>

Killam Apartment REIT, FY2022 Q4 Earnings Conference Call Transcript. Management commentary on rental market outlook, acquisition strategy, and capex guidance of \$85–\$90 million. <https://www.killamreit.com/investors>

Killam Apartment REIT, FY2025 Q4 Earnings Conference Call Transcript. Management commentary on NCIB priorities, disposition targets of minimum \$50 million, development funding requirements, and same-store growth guidance of "at least 3%." <https://www.killamreit.com/investors>

Green Street Advisors, "Canadian Apartment Sector Update," 2024. Institutional maintenance capex benchmarks for Canadian multifamily real estate. Referenced for Tier 2 economic maintenance rate of 30% of NOI.

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JLL Canada, "Canadian Multifamily Investment Activity Report H2 2024." Transaction volumes and cap rate evidence for Canadian apartment assets. <https://www.jll.ca/en/trends-and-insights/research>

Statistics Canada, "Consumer Price Index, annual review, 2024," The Daily. Rent component of CPI for reference against Killam's same-store revenue growth. <https://www150.statcan.gc.ca/n1/daily-quotidien/en>

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