REDVERS
Commercial Real Estate

LETTER OF OPINION

OF

370 LAKESHORE ROAD EAST
OAKVILLE ONTARIO

PREPARED FOR:
WILGILOR LIMITED

PREPARED BY:
JOHN REDVERS
Sales Representative
Commercial Sales Manager
Royal LePage Real Estate Services Ltd., Brokerage*

April 8, 2020

Wilgilor Limited
C/O Imperra General Management
2751 Bloor Street W

Etobicoke On M8X 1A6

Attn. Dr. Annette Lorenz:

Re: 370 Lakeshore Road East, Oakville Ontario

In accordance with your request, I have completed an opinion of value of 370 Lakeshore Road East, Oakville, Ontario.

Legally described as: Lt 2,3 Pl 19 Romain Survey; Oakville

The purpose of this opinion of value is to estimate the market value, of the leased fee interest, of the subject property on April 8, 2020. As result of the analysis and interpretation of the accumulated data in this report, my estimate of the market value of the subject property is:

Four million and One Hundred Thousand Dollars

($4,100,000.00)

This estimate is subject to the limiting conditions attached to this letter of opinion and to which the reader's attention is specifically directed. This report report is prepared specifically for Wilgilor Limited. to estimate the Market Value for the potential of a transfer of the asset to an existing shareholder or family member.

Sincerely,

John Redvers
Sales Representative
Royal LePage Real Estate Services Ltd.

EXECUTIVE SUMMARY

Client:	Wilgilor Limited
Property:	370 Lakeshore Road East, Oakville On
Letter of Opinion:	April 8, 2020 with effective date of April 8, 2020
Existing Use:	18-unit multi-residential building
2020 Assessment:	$3,237,000
2019 Taxes:	$42,484.18
Official Plan:	Multi Residential
Highest and Best Use:	Existing use
Value Indicated by the Income Approach:	$4,300,000
Value Indicated by Direct Comparison Approach:	$4,327,794
Final Estimate of Market Value:	$4,100,000

DEFINITION OF MARKET VALUE

Market Value is defined as:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimuli. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. the buyer and seller are typically motivated;
2. both parties are well informed or well advised and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.[1]

INTENDED USE OF THE LETTER OF OPINION

This report is intended solely for the use of Wilgilor limited. to estimate the market value for the potential transfer of this asset.

1 Appraisal Institute of Canada, The Standards, pg. 48

SCOPE OF THE REPORT

The scope of this report encompasses the necessary research and analysis to prepare a report in accordance with normal valuation of investment properties. In regard to the subject property this involved the following:

1. The property was inspected on March 6, 2020 by John Redvers. The exterior of the building was inspected except for the roof. Two units and the common area was inspected.

2. A review of the Town of Oakville's zoning bylaws was inspected and it was determined that the current use was the highest and best use.

3. Conducted market research in accordance with recognized valuation practices. Public, private and commercial sources supplied the sources for property sales data. Not all sales have been verified with parties to the transactions.

4. The following approaches to value were utilized – Direct comparison approach and income approach.

5. After assembling and analyzing the data defined in this scope of the valuation, an estimate of market value was made.

6. The extent of research and analysis is further detailed within the Assumptions and Limiting Conditions included in this report.

ASSUPTIONS AND LIMITING CONDITIONS

This valuation is subject to the following limiting conditions.

1. The legal description of the subject property as stated herein is recorded by the Registrar of the Lands Title Office and assumed correct.

2. The subject property is valuated as though free and clear of all liens and encumbrances except as noted within the report and on the assumption that normal financing would be available.

3. Market conditions, including economic, social and political factors change rapidly and, on occasion, without warning, consequently the Market Value estimate expressed as of the date of this valuation cannot be relied upon as of any other date.

Note: At the time this report was prepared, we were in the middle of a global pandemic. The general feeling among the industry experts was that there would be short term (12-24 months) negative influences on market value but should be fully rebounded after 24 months. This could influence rental rates, higher defaults and longer lease up times.

4. Unless otherwise stated in the valuation report, there are no known unapparent or hidden conditions of the property (including but not limited to its soils, physical structure, mechanical and other operating system, its foundation etc.) or adverse environmental conditions (on it or a neighbouring property, including the presence of hazardous wastes, toxic substances etc.) that would make the property more or less valuable. It has been assumed that there are no such conditions unless observed at the time of inspection or they became apparent during the normal research involved in completing the report. The attached report should not be construed as an environmental audit or a detailed property condition report, as such reporting is beyond the scope of this report and/or the qualifications of the evaluator Responsibility is not accepted for any such unapparent or hidden conditions that do exist, or for any research, testing or engineering that might be required to discover whether such conditions exist. If the party relying on this report requires information about environmental issues, then that party is cautioned to retain an expert qualified in such issues. We expressly deny any legal liability relating to the effect of environmental issues on fair market value of the property evaluated.

5. Information, estimates, and opinions that have been expressed in this report are obtained from sources considered reliable and they are believed to be true and correct. A concerted effort has been made to verify the accuracy of the information contained herein, and the information is believed to be reliable and correct.

6. No responsibility is assumed for the accuracy of such items that were furnished by other parties.
Unless otherwise stated it is assumed no major changes have been made to the subject property between the date of inspection and the effective date of this report.

7. No responsibility is assumed for matters of a legal nature that affect either the property being evaluated or the title to it. It has been assumed that the title is good and marketable and, therefore, no opinion is rendered about the title. The subject property must comply with government regulations, including zoning, building code and health regulations and, if it doesn't comply, its noncompliance may affect market value. To be certain of compliance, further investigation may be necessary. The property is appraised based on it being under responsible ownership.

8. This report is intended solely for the use of Wilgilor Limited. to estimate the market value for a potential transfer of the property. Any other use is not authorized. This report must not be used in part but must be viewed in its entirety

9. Unless otherwise noted, there are assumed to be no patent or latent defects in the improvements and no objectionable materials present. Mechanical systems are assumed to be in good working order for a property of this age.

10. The value conclusion reported herein is in Canadian dollars.

11. This value estimate does not include any consideration for the value of chattels or personal property existing as at the effective date.

12. The validity of this report requires the original signature of the evaluator.

13. A reconstructed income and expense statement have been prepared to determine a more realistic net income.

ANALYSIS AND CONCLUSIONS: PREAMBLE TO THE THREE APPROACHES TO VALUE

Cost Approach

Inherent in this test of value is the principle of substitution, which affirms that when a property is replaceable, its value tends to be set by the cost of acquiring an equally desirable substitute property, assuming no costly or unnecessary delay is encountered when making the substitution. The method of the cost approach is to employ the technique of estimating the value of the land and adding to that the estimated depreciated reproduction cost of the improvements. The inaccuracies inherent in the estimation of accrued depreciation reduce the reliability of this approach to value. The current subject improvements are estimated to be approximately 40+ years old and were in good condition as of the date of inspection. The building has 18 residential units. While the cost approach could be completed, typically this approach is only utilized as a secondary indicator of value. For this reason, coupled with the fact that emphasis will be placed upon the other two approaches, this approach has not been completed.

Income Approach

This approach involves an estimate of the present value of the future benefits accruing to the property. It is based on the underlying principle that there is a relationship between the income (specifically the net income) that a property is capable of earning and its value at any given moment in time.
The owner has provided the evaluator with a lease schedule for the subject property as well as an income and expense statement for the past 12-month period. We have completed a restructured income statement to more accurately calculate the real net income.

Direct Comparison Approach

This approach is based on the principle of substitution which maintains that a prudent purchaser will not pay more for a property than it would cost to buy an equally desirable substitute property provided there is no delay in making the acquisition.

This approach is a method often used by prospective purchasers and vendors. It reflects market conditions and provides a reliable estimate of market value where sufficient sales data is available.

In summary, the direct comparison approach and income approach will be completed in this valuation.

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INCOME APPROACH

The income approach involves an estimate of the present value of the future benefits accruing to the property. It is based on the underlying principle that there is a relationship between the income (specifically the net income) that a property is capable of earning and its value at any given moment in time.

In estimating the market value of income producing real estate, the three traditional methods of Capitalization are: Direct Capitalization Method, the Discounted Cash Flow Analysis and the Gross Income Multiplier (GIM).

The Direct Capitalization Method converts current earnings into an expression of capital value. The current net operating income is capitalized by an overall rate, which represents typical market expectations for the property being analyzed. This is the most commonly used approach for this type of property and will be utilized for the purpose of this report.

The steps in the income approach to value

1. Estimate gross annual potential income at 100 per cent occupancy. Deduct from the gross potential income an allowance for vacancy and bad debts, and add other income (i.e., concessions, parking, laundry, etc.). The result is the Effective Gross Income (EGI).

2. Estimate the annual operating expenses, which include all the normal expenditures that must be made to generate and protect the income stream.

3. Determine the Net Operating Income (NOI), which is that income remaining after deducting operating expenses from the effective gross income, but before debt service (mortgage payments) and/or depreciation (Capital Cost Allowance (CCA) per federal income tax).

4. Select the appropriate method of capitalization.

5. Select the appropriate capitalization rate.

6. Using the appropriate mathematical technique, convert the income into an indication of the market value.

RE-CONSTRUCTED INCOME AND EXPENSE STATEMENT

Income: (based on rent roll supplied February 7, 2020)

Income-rent	588,098
Less- Superintendent/owner unit	-46,169
Vacancy allowance	-25,000
Total Income	**516,929**
Expenses:	
Direct expenses	
Realty Tax	45,000
Insurance	14,000
Hydro & water	80,000
Repair and maintenance	50,000
Cleaning and cleaning supplies	10,500
Elevator maintenance	16,000
Fire protection	8,750
Landscaping/snow removal	5,750
Structural repairs	5,000
General and Administrative	
Wages- janitorial	35,000
CPP, Income tax, E.I.	900
Group insurance	1,750
Worker's Compensation Board	682
Telephone, postage courier	652
Legal/accounting	12,000
Prof fee date pro	11,000
Advertising & promotion	3,000
Interest on deposits	800
Administration fees	29,000
Misc	2,000
Total Expenses	**331,784**
Net Income:	**$185,145**

Notes to Reconstructed Income and expense statement

1. Income is based on current rent roll

2. I have deducted the current rent of the super and owner's unit.

3. We have allowed a higher than normal vacancy rate based on the recent turnover situation, the time to renovate and lease up units and the possible short-term effects of covid-19.

OVERALL CAPITALIZATION RATE – DIRECT CAPITALIZATION METHOD

As previously mentioned, this approach is based on the underlying principle that there is a relationship between the net income a property is capable of earning and value. In order to determine this indication of value the potential net income must be capitalized with an appropriate market indicated capitalization rate. The best way to determine an appropriate rate for the subject is to observe the market for comparable rates of real estate investment. The table on the following page represents capitalization rates in the region.

Oakville

There were three sales of multi unit residential buildings reported in the past year. No cap rates were given. The unit prices ranged from $198,000 to $573,427 per unit. The properties sold at 83 Wilson Street and 80 South Forster Park Drive were older building and are best comparable to the subject property,

Burlington

There were four sales of multi unit residential buildings reported in the past year. Cap rates were from 3.04 to 4.3%. The unit prices ranged from $231,00 to $566,670 per unit. The properties sold at 1050 Highland Street and 468 Lorne Street were older building and are best comparable to the subject property with Highland Street the best comparison.

Mississauga

There were four sales of multi unit residential buildings reported in the past year. No cap rates were given. The unit prices ranged from $250,000 to $329,980 per unit. The property sold at 2353 Hurontario Street was an older building and is the best comparable to the subject property,

OVERALL CAPITALIZATION RATE ANALYSIS AND CONCLUSION

The subject property is located in a popular location in downtown Oakville. All of the units are very large in comparison with building built today and are very expensive to manage.
After reviewing the size, location and quality of the tenancy in the subject building and having compared it with recent sales in the west end of the GTA, I feel that a capitalization rate of around 4.3% would be applicable.

Direct Capitalization

The process of capitalizing the estimated net income of the subject property is reflected in a single equation, V=I/R. Where V is the indicated market value, I is the estimated net income and R is the overall capitalization rate. The property value estimate is as follows:

$$\text{Value} = \frac{\text{Net Operating Income}}{\text{Capitalization Rate}}$$

$$= \frac{185145}{4.3}$$

= $4,305,697

= **$4,300,000 (Rounded)**

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DIRECT COMPARISON APPROACH

This approach is based on the Principle of Substitution which maintains that a prudent purchaser will not pay more for a property than it would cost to buy an equally desirable substitute property provided there is no delay in making the acquisition.

The Direct Comparison Approach follows a logical, rational process, as outlined below. The steps are:

1. Survey the area to locate comparable properties that have sold recently, that are listed for sale, on which offers have been made, that are rented, that are offered for rent, that are vacant, or that are being constructed.

2. Gather and validate all pertinent information about each comparable property.

3. Analyze sales, listing, offers and leases; the length of time the property was listed for sale; the advertising and sales effort involved; the terms of sale; and the motivations of both buyer and seller.

4. Compare each benchmark sale to the subject property in detail and make the necessary adjustments.

Reconcile the data and arrive at an indicated value.

COMPARABLE SALES SUMMARY

Five sales of properties similar to the subject property were examined. The properties are in Oakville, Burlington and Mississauga. Each of the sales been analyzed on the basis of unit count, location, age. The comparable sales are shown below and a report of each of the properties are included on the following pages.

The best comparables are as follows:

1050 Highland Street	Burlington	$4,400,000	18 units	$244,444 p/u
468 Lorne Street	Burlington	$8,900,000	34 units	$261,765 p/u
80 South Forster Park	Oakville	$7,680,000	31 units	$247,742 p/u
83 Wilson Street	Oakville	$2,775,000	14 units	$198,214 p/u
2353 Hurontario Street	Mississauga	$7,500,000	30 units	$250,000 p/u

Conclusions

In conclusion, a total of five comparable sales were examined in this approach. All the comparable sales feature older buildings with similar unit counts.

The average price per unit for these five comparables is $240,433

Subject property value 18 x 240,433 $4,327,794

RECONCILIATION AND FINAL ESTIMATE OF VALUE

The three approaches to value generally encountered were discussed under their appropriate headings. All three approaches were considered but only the Income Approach and Direct Comparison Approach were completed in the valuation of the Subject Property.

Income Approach	$4,300,000
Direct Comparison Approach	$4,327,794

The estimates of value are less than 1 percent apart. The valuator has decided to place slightly lower value based on the current pandemic crisis. As a result, the final estimate of value as of April 8, 2020, is:

Four Million One Hundred Thousand Dollars

$4,100,000

JOHN REDVERS
Commercial Sales Representative
416.804.2732
jredvers@royallepage.ca

STEPHANIE REDVERS
Commercial Sales Representative
647.669.6730
sredvers@royallepage.ca

REDVERS
Commercial Real Estate

ROYAL LEPAGE REAL ESTATE SERVICES LTD., BROKERAGE*
5055 Plantation Place, Mississauga, ON L5M 6J3
O 905.828.1122 | F 905.828.7925
www.redverscommercial.ca

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