

PRESS RELEASE



FIRM CAPITAL APARTMENT REIT REPORTS Q2/2022 RESULTS

All figures in \$USD unless otherwise noted.

Toronto, Ontario, August 18, 2022. Firm Capital Apartment Real Estate Investment Trust (“the “Trust”), (TSXV: FCA.U), (TSXV: FCA.UN) is pleased to report its financial results for the three months ended June 30, 2022:

EARNINGS

- For the three months ended June 30, 2022, net loss was approximately \$10.3 million, in comparison to the \$0.3 million net loss reported for the three months ended March 31, 2022 and the \$0.8 million net income reported for the three months ended June 30, 2021. For the six months ended June 30, 2022, net loss was \$10.6 million in comparison to the \$2.2 million net loss reported for the six months ended June 30, 2021;
- Excluding non-cash fair value adjustments, net income was \$0.8 million for the three months ended June 30, 2022, in comparison to the \$0.5 million reported for the three months ended March 31, 2022 and the \$0.6 million reported for the three months ended June 30, 2021. Excluding non cash fair value adjustments, net income was \$1.3 million in comparison to the \$1.1 million reported for the six months ended June 30, 2021;
- For the three months ended June 30, 2022, AFFO was approximately \$0.7 million, in comparison to the \$0.4 million reported for the three months ended March 31, 2022 and the \$0.6 million reported for the six months ended June 30, 2021. For the six months ended June 30, 2022, AFFO was \$1.1 million in comparison to the \$1.1 million reported for the six months ended June 30, 2021. Excluding a one-time adjustment to asset management fees, AFFO was approximately \$0.4 million, in line with the \$0.4 million reported for the quarter ended March 31, 2022;

	Three Months Ended			Six Months Ended	
	Jun 30, 2022	Mar 31, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
Net Income/(Loss)	\$ (10,303,122)	\$ (345,345)	\$ 753,511	\$ (10,648,467)	\$ (2,192,406)
Net Income Before Fair Value Adjustments					
FFO	\$ 806,599	\$ 532,100	\$ 590,600	\$ 1,338,699	\$ 1,099,548
AFFO	\$ 971,866	\$ 290,189	\$ (393,047)	\$ 1,262,054	\$ (2,507,407)
Distributions	\$ 687,960	\$ 446,351	\$ 585,498	\$ 1,134,311	\$ 1,093,450
AFFO Per Unit	\$ 467,669	\$ 448,658	\$ 452,624	\$ 916,327	\$ 907,790
Distributions Per Unit	\$ 0.09	\$ 0.06	\$ 0.08	\$ 0.15	\$ 0.14
AFFO Payout Ratio	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12
	68%	101%	77%	81%	83%

- **NAV AT \$8.63 PER TRUST UNIT (CAD \$11.12):**

For the three months ended June 30, 2022, the Trust reported NAV at \$8.63 per Trust Unit (CAD \$11.12);

- **AVERAGE RENT INCREASES ACROSS INVESTMENT PORTOFLIO:**

Wholly-Owned Real Estate Investments Portfolio: For the three months ended June 30, 2022, average rents increased by 3% to \$1,136 per unit from the \$1,104 per unit reported for the three months ended March 31, 2022 and 10% from the \$1,034 reported for the three months ended June 30, 2021;

Joint Venture Real Estate Investments Portfolio: For the three months ended June 30, 2022, average rents increased by 1% to \$1,443 per unit from the \$1,427 per unit reported for the three months ended March 31, 2022 and 4% from the \$1,388 reported for the three months ended June 30, 2021;

- **CAD \$13 MILLION BRIDGE LOAN:**

On April 18, 2022, the Trust entered into an agreement with an entity related to the Asset Manager of the Trust, to borrow CAD\$13 million to be used for the Houston, TX Transaction and Preferred Capital Investment. Summarized terms of the Bridge Loan are (i) interest rate the greater of 6.0% per annum or the Canadian Chartered Bank Prime Rate plus a spread; (ii) two year term; (iii) fully open for repayment at any time prior to maturity;

- **\$3.5 MILLION, 12% PREFERRED CAPITAL INVESTMENT:**

On April 22, 2022, The Trust provided a \$3.5 million preferred capital loan (“South Dakota Preferred Capital Loan”) for the recapitalization of a multi-residential portfolio located in Sioux Falls, South Dakota. The preferred capital loan earns 12% interest during the initial three year term; and

- **HOUSTON, TX ACQUISITION:**

On April 29, 2022, the Trust acquired the remaining 50% interest in the Houston, TX Equity Accounted and Preferred Investment for \$5.3 million. The Trust now owns 100% of this investment and now reports it as an investment property on the Trust’s financial statements.

STRATEGIC OUTLOOK:

The current macro environment of rapidly increasing interest rates and persistent inflation is presenting a challenging environment in how to address valuations, particularly in certain geographies. In the current context, capitalization rates on apartment buildings are below the cost of five- and ten-year mortgage debt, resulting in a negative investing spread scenario for the first time in many years. Specifically, mortgage bond yields have increased more than capitalization rates. This inversion has caused, in the opinion of the Board of Trustees and Management, the REIT’s valuation model to reduce fair values on certain properties, resulting in negative fair value adjustments and a decline in reported earnings for the quarter and year to date. As a result, Net Asset Value (“NAV”) has decreased to US\$8.63 per Unit, down from US\$10.04/Unit in Q1/2022.

The Board and Senior Management have taken the view that it is of utmost importance to protect the safety of the balance sheet and take a highly conservative approach in the

coming quarters. Operating costs have risen rapidly, and in some cases, we are experiencing double digit cost increases, which is greater than the levels of inflation reported by various governmental authorities. Senior Management is monitoring costs closely and taking steps where it can minimize the impact from cost escalations.

Certain geographies are presenting additional operating challenges for a portion of the Trust's portfolio. These geographies include New York, New Jersey, Connecticut, and Maryland where rent controls and the eviction moratorium have created significant rental arrears and non-collection. Management is actively working through the back logged court systems to gain evictions, and ultimately re-lease the apartment units. As we turn apartment units, we are seeing large rent increases. It is our view that by year end we will have addressed most of the eviction issues. Notwithstanding, senior management has already accounted for these rental arrears in the form of bad debt provisions. We have six properties in these states.

Conversely, the portion of the Trust's portfolio in Texas, Georgia, and Florida, where there is little or no rent control and no eviction moratorium, is experiencing large rental rate increases, strong rent growth, strong collections and very little in the way of eviction issues. This portion of the portfolio is performing well, and we believe these assets can serve as a hedge against inflation. We have five properties in these states.

The Board and Senior Management will not attempt to grow for the sake of growth and does not believe we should hold onto real estate properties in a rising interest rate environment with no corresponding increase to capitalization rates and no near-term strong rental rate growth. As a result of this negative investing spread scenario, combined with the current inflationary environment, the Board and Senior Management take the view that, it could look to dispose of certain properties. This option should be explored, with a view that net proceeds be returned to Unitholders or re-invested in other investments that generate higher rates of return.

Furthermore, Management has made it a priority to reduce and eliminate all non-registered mortgage debt and is taking immediate steps in this regard. As of June 30, 2022, the REIT's total debt compared to the value of our assets stands at approximately 56% (including convertible debentures).

The Board and Management will assess these matters on a quarterly basis and determine if the Trust should: (i) distribute excess income; (ii) distribute net proceeds from asset sales, after debt repayment; (iii) reinvest net proceeds into other investments; (iv) distribute proceeds as a return of capital or special distribution; and/or (v) use excess proceeds to repurchase Trust Units in the marketplace.

To demonstrate the external manager's alignment of interests in these unprecedented times, the manager has agreed, at its option, subject to each payment being approved by the independent trustees and taking into account the NAV calculation, to accept payments for services in Trust Units, calculated at the greater of: (i) the price of Trust Units issued within six months prior to payment; or (ii) 95% of NAV as reported in the prior quarter. Such Trust Units will be issued in exchangeable B units, and pending Unitholder approval at the next Annual General Meeting, the asset manager will accrue the fee for services due. Furthermore, for any real estate properties that are provisioned by way of write downs or preferred investments that are classified as non-performing, the asset manager will not charge a fee for asset management services until such time as those assets return to performing status.

As stated previously, the prudent approach during these unprecedented times is to assess direction each quarter with the principal focus of securing a strong balance sheet and either returning capital or deploying it opportunistically into the best yielding investments. That may include avoiding equity investments, and instead invest in higher yielding preferred / debt investments.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS:

Certain information in this news release constitutes forward-looking statements under applicable securities law. Any statements that are contained in this news release that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements are often identified by terms such as "may", "should", "anticipate", "expect", "intend" and similar expressions.

Forward-looking statements necessarily involve known and unknown risks, including, without limitation, risks associated with general economic conditions; adverse factors affecting the U.S. real estate market generally or those specific markets in which the Trust holds properties; volatility of real estate prices; inability to access sufficient capital from internal and external sources, and/or inability to access sufficient capital on favourable terms; industry and government regulation; changes in legislation, income tax and regulatory matters; the ability of the Trust to implement its business strategies; competition; currency and interest rate fluctuations and other risks. Additional risk factors that may impact the Trust or cause actual results and performance to differ from the forward looking statements contained herein are set forth in the Trust's Annual Information form under the heading Risk Factors (a copy of which can be obtained under the Trust's profile on www.sedar.com).

Readers are cautioned that the foregoing list is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Such information, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated. Forward-looking statements contained in this news release are expressly qualified by this cautionary statement. Except as required by applicable law, the Trust undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise

Certain financial information presented in this press release reflect certain non-International Financial Reporting Standards ("**IFRS**") financial measures, which include, but not limited to NOI, FFO and AFFO. These measures are commonly used by real estate investment companies as useful metrics for measuring performance, however, they do not have standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other real estate investment companies. These terms are defined in the Trust's Management Discussion and Analysis for the three months ended June 30, 2022 filed on www.sedar.com.

Neither the Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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