SHARE
SHAREHOLDER ASSOCIATION
for RESEARCH & EDUCATION

May 13, 2020

Daniel Drimmer
CEO & President, Starlight Investments
1400 - 3280 Bloor Street West
Centre Tower
Toronto, ON M8X 2X3

Todd Cook
President and CEO
Northview REIT
1400 - 3280 Bloor Street West
Centre Tower
Toronto, ON M8X 2X3

RE: <u>Investor questions regarding acquisition of Northview REIT</u>

Dear Mr. Drimmer and Mr. Cook:

I am writing to discuss the offer that is currently on the table for Starlight Investments to purchase Northview REIT. The offer will be voted at Northview's annual shareholder meeting on May 21, 2020.

SHARE is a leading Canadian non-profit, offering responsible investment services to our clients, including proxy advisory, voting, and engagement services. Together, our client network represents $23 billion in assets under management. We will be called on by clients to vote and issue recommendations regarding your proposal.

Prior to voting and making recommendations, we would like to raise some areas of concern regarding Starlight's strategy as a residential property investor and the future direction of the company. Specifically, we would like to address potential impacts on economic inequality, and the compatibility of financialization of housing with responsible investment practices.

Economic inequality in Canada is a long-standing concern for responsible investors, and has been further highlighted by the recent Covid-19 pandemic, which has exposed the fragility of our economy and social safety net. The rising cost of housing, gentrification, and destabilized communities are important factors in addressing inequality.

Various public reports have raised concerns about Starlight and the property management firms that act on their behalf and the effects of certain practices on lower- and middle-income tenants. While we are not in a position to independently evaluate the specifics of each allegation, the presence of these allegations does raise questions, articulated below, about the direction of the organization and its overall business conduct. We hope that you will be able to provide clarity on those questions prior to the vote.

In major Canadian jurisdictions, including both British Columbia and Ontario, tenancy laws restrict rent increases for occupied units, but are more liberal about rent increases for vacant units (often referred to as "Vacancy Decontrol"). This, combined with a tight housing market, has led to significantly increased market rents. The combination provides an incentive for some landlords to push out longer-term tenants through "renovictions" and other predatory methods, in order to increase rents.

"Renovictions" are a predatory strategy of evicting tenants under the guise of doing necessary renovations. According to the British Columbia government, renoviction is a term used:

> *To describe an eviction that is carried out to renovate or repair a rental unit.*
>
> *Most renovations or repairs can be carried out without ending tenancies, and with only minor disruption to tenants.*
>
> *For example, cosmetic renovations such as repainting, replacing flooring, installing new kitchen cabinets and counter tops can almost always be done without ending a tenancy. Sometimes however, renovations or repairs are so extensive it would not be possible to carry them out while the rental unit is occupied.*[1]

Responsible landlords accommodate tenants during renovations, either in their own units, in the same building, or in comparable off-site locations, with a right to return at the same rent. Responsible owners and property managers also make ongoing investments in property maintenance, repairs, and building systems for a long term return through fair rents.

Another predatory strategy is the use of "above guideline" rent increases (AGIs) in occupied units to drive out long term tenants. In jurisdictions such as Ontario where rents are regulated for occupied units, landlords are permitted a maximum "guideline" for inflationary rent increases. This amount is set annually by the Landlord Tenant Board (LTB) in Ontario.[2] Similar systems exist in other Canadian jurisdictions. Landlords are permitted to apply to the LTB for "above guideline" increases under limited circumstances – including significant capital expenditure, beyond normal maintenance, to a building's systems.

In some cases, AGIs may be justifiable for major investments in building systems. However, predatory landlords and property managers have been known to neglect maintenance and allow systems to fail, in order to justify system replacements and AGIs. Large landlords are better equipped to argue their case for above-guideline increases before the LTB than individual tenants.

The former United Nations Special Rapporteur for Housing, Leilani Farah, has written extensively about the "financialization" of housing. Ms. Farah and others have documented how certain real estate investment trusts benefit from and drive "financialization," in search of short-term return for investors. She has been critical of a

[1] https://www2.gov.bc.ca/gov/content/housing-tenancy/residential-tenancies/ending-a-tenancy/renovictions
[2] http://www.sjto.gov.on.ca/documents/ltb/Brochures/2020%20Rent%20Increase%20Guideline%20(EN).html

business model based on purchasing older buildings in disrepair, often in rapidly gentrifying neighbourhoods, spending on needed repairs and recovering the costs in the short term through substantially increased rents.[3]

Investing with the objective of displacing low-income tenants would be directly at odds with UN Sustainable Development Goals 1 (No Poverty), 10 (Reduced Inequalities) and 11 (Sustainable Cities and Communities.)

The Sustainable Development Goals are a broadly agreed framework, and an important guide for responsible investors, particularly for signatories of the Principles for Responsible Investment (PRI).4

Prior to voting and making any recommendations, we are seeking clarity from the acquirer on the following points:

1.) Can Starlight provide Northview unitholders with information on the substance and cost of major capital expenditures claimed to rationalize any AGIs in the past three years, and the expenditures on regular maintenance at those same properties?
2.) Does Starlight track the number and ratio of resolved tenant repair requests in a given period, and can it provide those numbers to us?
3.) What guarantees can Starlight offer to current and future tenants at residential properties owned by Northview REIT that the organization will not seek AGIs based on maintenance costs rather than major capital expenses?
4.) What guarantees can Starlight offer to current and future tenants at residential properties owned by Northview REIT regarding protections and alternative arrangements for current tenants when major renovations are undertaken? For example, will Starlight pledge to accommodate tenants during renovations, either in their own units, in the same building, or in comparable off-site locations, with a right to return at the same rent?
5.) How will Starlight prioritize maintenance and repair of properties to limit the need for demolition, and if demolition is unavoidable, will Starlight offer the same tenant protections outlined above?

I look forward to an opportunity to discuss these questions prior to advising clients on the proposed acquisition.

Sincerely,

Anthony Schein

Anthony Schein
Director of Shareholder Advocacy

[3] https://www.theguardian.com/cities/2020/jan/14/my-parkdale-is-gone-how-gentrification-reached-the-one-place-that-seemed-immune
[4] https://www.unpri.org/sdgs/the-sdg-investment-case/303.article