



JENNINGS REAL ESTATE

2023 ANNUAL REPORT

302 LEGGET DRIVE

Presented to: The Limited Partners of 302 Legget Drive
Limited Partnership



Jennings Real Estate
Unlocking Potential, One Property at a Time

141 Laurier Avenue West, Suite 402
Ottawa, ON K1P 5J3
www.jenningsdevelopments.com

2023 HIGHLIGHTS

This large industrial building includes numerous dock and grade level loading doors, excellent highway access, ample parking and large turning radius for trucking access.



85,092

Sqft



100%

Occupancy



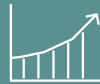
4.0 YR

Weighted Average
Lease Term



\$1.19M

Net Operating income



18.68%

Average Annual Cash
Yield



23.46%

Average Annual Total
Return



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1. Notice from the General Partner

302 Legget Drive (the “Property”) remained fully leased throughout 2023 and continued to yield strong financial results. The Net Operating Income (NOI) was approximately \$1.2 million, up by 4.18% from 2022, primarily due to increased rental revenue from existing leases. We anticipate further NOI growth in the near term, supported by contractual rental increases and effective leasing strategies.

The loan of \$11.18 million has a favourable interest rate of 3.208% until 2029. This financial stability, combined with effective management, positions the Property well in the current fluctuating interest rate environment.

Despite these positive developments, the Estimated Market Value of the Property decreased from \$19.4 million in 2023 to \$17.4 million in 2024, reflecting broader market trends influenced by rising interest rates and cap rate expansion. When compared to the initial purchase of approximately \$11.6 million, the Property's value has increased approximately 48.2%.

The industrial market in Kanata, where the Property is situated, continues to experience strong demand, even though there has been a small increase in vacancy rates. Because of the proactive leasing strategy, as well as favorable market conditions, we have continued to increase rental rates. Lease expirations are strategically staggered over the next 5 years, mitigating the risk of multiple vacancies.

In 2023, we undertook a substantial capital project and repaved the west parking lot. This enhancement not only improved the visual appearance and structural integrity of the parking area, but also addressed legacy issues with drainage and surface wear. Looking ahead, we plan to replace heating and air conditioning equipment and improve the building's front facade to enhance its appeal and functionality.

We will be making a distribution of **\$200,000** at this time, which when added to prior distributions since the acquisition of the Property now exceed the original investment, achieving 103% in Q4, with an Annual Average Cash Yield of 18.68%.

Sincerely,

Ken and Christian Jennings
Directors of the General Partner

2. Net Operating Income and Funds from Operations

The table below presents the Net Operating Income (NOI) and Funds from Operations (FFO) for the last three years and a projection for 2024 and 2025:

	2021	2022	2023	Change	Projection	
					2024	2025
NOI	\$1,007,821	\$1,143,965	\$1,191,835	\$47,869	\$1,257,238	\$1,297,779
FFO	\$566,887	\$810,701	\$935,502	\$124,801	\$961,653	\$1,001,258
FFO Payout Ratio			43.8%			

Funds From Operations (FFO) = net income + amortization + depreciation - capital gains from property sale

Net Operating Income (NOI): Total income generated by the Property subtracting its operating expenses, excluding capital expenditures and debt service.

In 2023, the Property experienced strong financial performance, as reflected in the Net Operating Income (NOI) of approximately \$1.2 million, marking an increase of \$47,869, or 4.18%, compared to the prior year.

Looking ahead to 2024 and 2025, an upward trajectory in NOI is forecasted through scheduled rental rate increases stipulated in current leases, and securing market-level rent increases at the time of either lease turnover or lease renewal.

3. Distributions

2023 was another successful year for the Property as it remained fully leased and in high demand. We will be making a distribution of \$200,000 at this time, which when combined with all previous distributions since the acquisition of the Property, results in an Annual Average Cash Yield of 18.68%.

A summary of this year's distributions is set out below along with a projection for 2024.

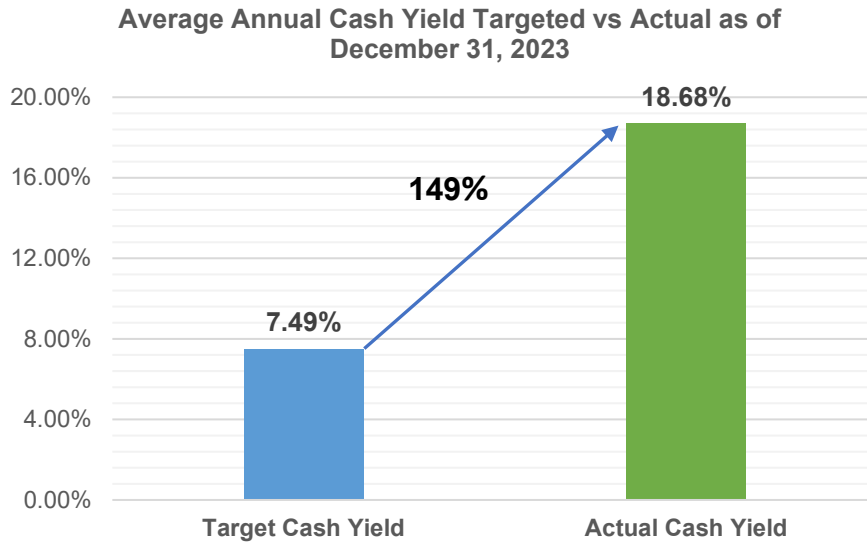
Year	Q1	Q2	Q3	Q4	Total	Cumulative Distributions (including refinancing)	% of investment Returned
2018-2021	\$15,000	\$165,000	\$117,669	\$433,301	\$730,970	\$4,018,612	86%
2022	\$50,000	\$50,000	\$50,000	\$250,000	\$400,000	\$4,418,612	94%
2023	\$70,000	\$70,000	\$70,000	\$200,000	\$410,000	\$4,828,612	103%
2024 Outlook	<i>\$75,000</i>	<i>\$75,000</i>	<i>\$75,000</i>	<i>\$225,000</i>	<i>\$450,000</i>	<i>\$5,278,612</i>	<i>112%</i>

The loan at the Property currently sits at \$11.18M with an interest rate of 3.208%. The term of the loan extends until 2029, and as such, the Property is well-positioned with the current interest rate environment.

4. Key Performance Metrics

The Average Annual Cash Yield

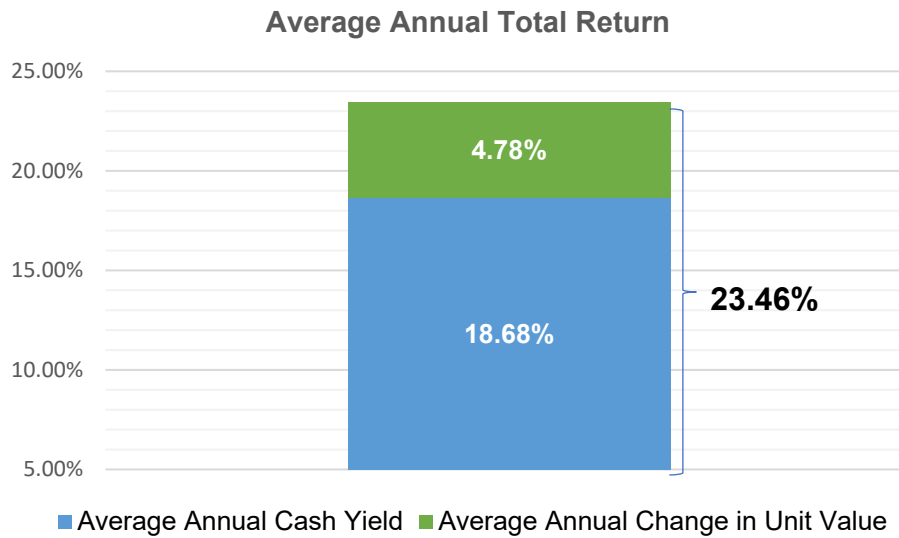
The below graph showcases the Average Annual Cash Yield as of December 31, 2023, compared to the targeted cash yield set out initially during acquisition. The target for the Average Annual Cash Yield was 7.49%. The actual Average Annual Cash Yield to date reached 18.68%, exceeding the target by 11.19% or 149%. This achievement can be attributed to a combination of strategic leasing decisions that capitalized on favorable market conditions to increase revenue, diligent management efforts to keep expenses in check, and seizing opportunities for advantageous financing.



Average Annual Cash Yield is calculated by dividing total cash distributed (which includes income, refinancing and capital distributions) by the initial equity investment and then further divided by the holding period (from acquisition to Dec 31, 2023).

The Average Annual Total Return

In addition to generating an Average Annual Cash Yield, this investment has also experienced an Average Annual Appreciation in Unit Value of 4.68%. The growth has resulted in an Annual Average Total Return of 23.46%.

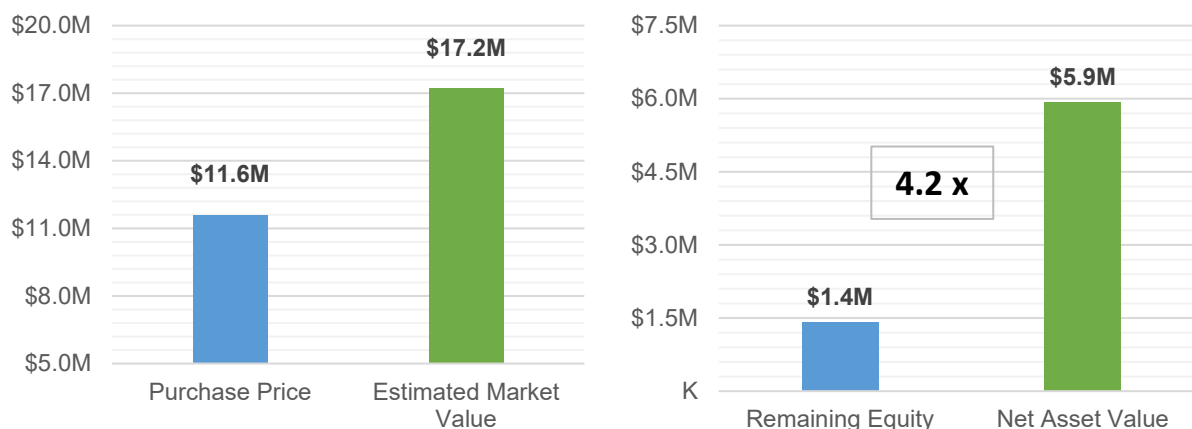


Average Annual Change in Unit Value is calculated by dividing Net Asset Value (NAV) by initial equity invested, which is further divided by the holding period (from acquisition to Dec 31, 2023).

Average Annual Total Return is calculated by adding the Average Annual Cash Yield and the Average Annual Change in Unit Value.

5. Valuation

The Estimated Market Value was completed by Juteau Johnson Comba Inc, an independent third party appraisal firm. The valuation concluded by the appraiser is compared to the purchase price paid for the property in 2018. The Net Asset Value of the Partnership's assets (less liabilities) compared to remaining invested capital (equity):



Estimated Market Value On March 1, 2024, Juteau Johnson Comba Inc. issued an appraisal of the Property which valued the Property at \$17,220,000.

The Net Asset Value (NAV) has been calculated using the Estimated Market Value and subtracting (i) the outstanding principal amounts of all loans as of December 31, 2023, and (ii) all current liabilities as of December 31, 2023. Any cash on hand as of December 31, 2023 was added. Note that these figures do not reflect any future capital expenditures, nor do they incorporate any tax attributes of the units. NAV is an estimated value and should not be perceived as the actual value of the property and may not be reflective of future values

The Estimated Market Value of the Property experienced a decrease, moving from \$19.4 million in 2022 to \$17.2 million in 2023. The reduction can be attributed to the impact of rising interest rates which have led to an increase in the capitalization rate (cap rate) applied to the income of the Property.

The Property remains fully occupied. Compared to the initial purchase of approximately \$11.6 million, the Property's value has increased approximately 48.2%.

6. Property Summary

The Property

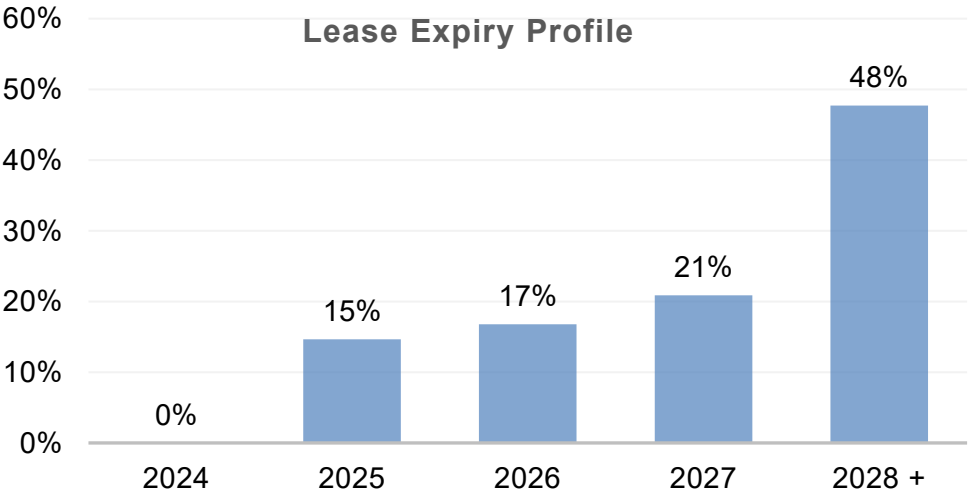
302 Legget Drive is an 85,092 square foot industrial building located in Kanata, Ontario, a suburb located in the west end of Ottawa.

Leasing




Throughout 2023, the industrial market in Kanata continued to be in demand, propelled by local economic growth and limited leasing opportunities. The vacancy rate saw a modest increase of 0.8%, rising from 1.0% in Q4 2022 to 1.8% in Q4 2023 (CBRE Industrial Market Report Q4 2022 and Q4 2023). Despite this uptick, average rental rates increased by \$1.39 per square foot, an increase from \$14.21 to \$15.60 per square foot.

These market dynamics led to higher rental rates upon lease renewals with tenants. In 2023, we successfully secured a 3-year lease extension with a tenant representing 14% of the total leasable area. The renewal involved a 57% increase in rental rates, with subsequent annual escalations of 2%. This renewal also strategically staggers lease expirations over the next 5 years, mitigating the risk of multiple vacancies at the same time.

Below is the breakdown of lease expirations as a percentage of total area over the next 5 years:



Upon completion of the lease renewal our weighted average lease term was: 4 years, with an average weighted rent of \$13.56 per square feet, with tenants in the following industries:

 Space Technology 48%	 Technology 31%	 Distribution 21%
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7. Asset Management and Leasing Forecast

Leasing Forecast

There is an expected delivery of 1,400,000 square feet of newly constructed industrial space to the marketplace in 2024.

Most of the newly constructed space slated for completion in 2024 is situated in peripheral locations compared to the Property. Due to high construction costs, developers of these new industrial buildings typically offer market rents for unit sizes of approximately 20,000 square feet or larger. In contrast, the Property offers smaller unit sizes, catering to the demand from a majority of Ottawa's strong covenant industrial tenants, who typically require spaces ranging from 5,000 to 20,000 square feet.

Additionally, the property's unit sizes generally attract more established businesses compared to smaller industrial properties with unit bays ranging from 1,000 to 5,000 square feet.

We anticipate that we will be well positioned in the upcoming years to raise rental rates from their current levels when tenants renew their leases, or spaces turnover.

Capital Expenditure and Improvements

The major capital expenditure completed in 2023 was the repaving of the west parking lot and drive lane. The previous surface was at the end of its useful life, and the asphalt had lost its structure. The parking lot was excavated, a geo textile, and new granular material was added. Once the sub grade repairs were complete, the parking lot was graded to improve drainage, and a layer of asphalt was applied to create a smooth, and durable surface. Striping and marking was completed to designate parking spaces, traffic lanes and bike parking. Other smaller improvements at the Property were completed to enhance the tenant experience such as re-laying a new level patio area, and adding new furniture.



Future Capital Expenditure and Improvements

In 2024, the capital work plan for the Property includes several projects aimed at enhancing functionality and aesthetics. One initiative involves the replacement of aging rooftop HVAC units. Upgrading such units will contribute to energy efficiency and cost savings over time.

Additionally, the process of planning a new design for the front facade of the building has begun. This is intended to revitalize the property's exterior appearance, creating a modern and welcoming ambiance that aligns with evolving tenant preferences, and enhances general curb appeal. By investing in these key upgrades, we are proactively positioning the Property to meet the evolving needs of tenants and maintain a competitive edge in the market for the long term.

8. Financial Statements

Enclosed you will find the notice to reader package prepared by the Bookkeeping Bureau.

9. Disclaimer

Certain statements contained in this report may contain forward-looking statements and forward-looking information (collectively, "forward-looking statements"). In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue", "target", "committed", "priority", "remain", "strategy", or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Such forward-looking statements contained in this report may include, among other things, statements regarding: the general partner's expectations with regard to market demand and rent growth; the partnership's growth strategy; planned growth of the property portfolio; future acquisitions; including the amount expected to be invested in such acquisitions, the location of such acquisitions, improvements in profitability or rent growth of the portfolio, property developments, including cost and timing of completion thereof, and the general partner's expectations regarding capital improvement costs; portfolio growth, debt maintenance or reductions, and return on investment; maintenance costs; the effect of completed developments on the portfolio; uncertainties and risks arising as a result of the spread of the COVID-19 pandemic, including uncertainty surrounding disruptions to financial markets, regional economies and the world economy; interest rate fluctuations; credit availability; financing costs; market values; pace and scope on future acquisitions, construction, development and renovation, renewals and leasing. Readers should be aware that these forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward-looking statements. Given these uncertainties, readers are cautioned not to rely upon any forward-looking statements contained, or incorporated by reference, in this report. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events contained therein may not occur. Although the general partner believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. While the general partner anticipates that subsequent events and developments may cause its view to change, the general partner does not intend to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors that affect this information.

The general partner makes commercially reasonable efforts to ensure the information presented in this report is accurate, but it is not responsible for any errors and omissions contained in the information included in this report.

302 LEGGET DRIVE LIMITED PARTNERSHIP
FINANCIAL STATEMENTS
(Unaudited - see Compilation Engagement Report)
for the year ended December 31, 2023

302 LEGGET DRIVE LIMITED PARTNERSHIP
for the year ended December 31, 2023
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COMPILATION ENGAGEMENT REPORT

To Management of 302 Legget Drive Limited Partnership,

On the basis of information provided by management, we have compiled the balance sheet of 302 Legget Drive Limited Partnership as at December 31, 2023 and the statement of earnings and, statement of partners' capital for the year then ended. The accrual basis of accounting was applied in the preparation of the compiled financial information.

Management is responsible for the accompanying financial information, including the accuracy and completeness of the underlying information used to compile it and the selection of the basis of accounting.

We performed this engagement in accordance with the Canadian Standard on Related Services (CSRS) 4200, Compilation Engagements, which requires us to comply with relevant ethical requirements. Our responsibility is to assist management in the preparation of the financial information.

We have not performed an audit engagement or a review engagement, nor were we required to perform procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an audit opinion or a review conclusion, or provide any form of assurance on the financial information.

Readers are cautioned that the financial information may not be appropriate for their purposes.

The Bookkeeping Bureau Ltd.

The Bookkeeping Bureau Ltd.
Ottawa, March 8, 2024

The Bookkeeping Bureau Ltd.

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302 LEGGET DRIVE LIMITED PARTNERSHIP
BALANCE SHEET
for the year ended December 31, 2023
(Unaudited - see Compilation Engagement Report)

	2023	2022
ASSETS		
CURRENT		
Cash	\$ 828,086	\$ 762,607
Accounts receivable	1,604	24,439
Prepaid expenses	19,027	773
	<u>848,717</u>	<u>787,819</u>
LONG-TERM		
Deferred finance charges (note 5)	121,854	162,472
Deferred leasing commission (note 4)	340,122	382,587
Property, plant and equipment (note 2)	11,142,316	11,279,591
Security deposits	16,600	18,633
	<u>11,620,892</u>	<u>11,843,283</u>
	<u>\$ 12,469,609</u>	<u>\$ 12,631,102</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 391,022	\$ 249,772
Construction holdback	25,881	-
Current portion of long-term debt	250,355	242,512
Government remittances payable	11,950	11,239
Deposits	31,127	31,127
	<u>710,335</u>	<u>534,650</u>
LONG-TERM		
Long-term debt (note 3)	10,931,508	11,181,864
	<u>11,641,843</u>	<u>11,716,514</u>
PARTNERS' EQUITY		
	<u>827,766</u>	<u>914,588</u>
	<u>\$ 12,469,609</u>	<u>\$ 12,631,102</u>

Approved on Behalf of the partners:

302 LEGGET DRIVE LIMITED PARTNERSHIP
STATEMENT OF EARNINGS
for the year ended December 31, 2023
(Unaudited - see Compilation Engagement Report)

	2023	2022
REVENUE		
Rental income	\$ 1,971,374	\$ 1,864,711
Interest income	65,799	31,271
	<u>2,037,173</u>	<u>1,895,982</u>
EXPENSES		
Amortization of deferred finance charges	40,618	47,108
Amortization of leasing commissions	70,314	68,571
Bank charges	1,566	795
Depreciation	451,391	411,771
General and administrative expenses	134,235	128,794
Insurance	17,824	17,114
Interest on long-term debt	330,208	367,519
Property management	73,725	73,725
Professional fees	10,888	4,192
Property taxes	252,981	245,150
Repairs and maintenance	105,657	71,771
Utilities	174,588	176,221
	<u>1,663,995</u>	<u>1,612,731</u>
NET EARNINGS	<u>\$ 373,178</u>	<u>\$ 283,251</u>

302 LEGGET DRIVE LIMITED PARTNERSHIP
STATEMENT OF PARTNERS' EQUITY
for the year ended December 31, 2023
(Unaudited - see Compilation Engagement Report)

Name	Balance, beginning of year	Net earnings	Withdrawals	Balance, end of year
Chrisken Realty Investments Inc.	(42,802)	31,678	(39,049)	(50,172)
DH (Ottawa) Investments Inc.	(44,940)	8,542	(10,529)	(46,928)
TH (Ottawa) Investments Inc.	(53,918)	5,761	(7,101)	(55,258)
AYM Real Estate Inc.	90,694	28,109	(34,649)	84,154
BC Bockstael Holdings Ltd.	71,014	22,009	(27,130)	65,893
B. Holmes Holdings Ltd.	71,014	22,009	(27,130)	65,893
Adam Mills Holdings Inc.	71,014	22,009	(27,130)	65,893
Walker Family Wealth Ltd.	79,753	24,718	(30,469)	74,002
1394804 Ontario Inc.	79,753	24,718	(30,469)	74,002
2490626 Ontario Inc,	79,753	24,718	(30,469)	74,002
Grant Castle Properties Inc.	145,282	45,031	(55,507)	134,805
Maissonneuve Investments Inc.	79,753	24,718	(30,469)	74,002
Carol Holmes	71,014	22,009	(27,130)	65,893
McLarty Family Holdings Inc	79,753	24,718	(30,469)	74,002
A.M. Food Services Ltd.	137,454	42,430	(52,301)	127,583
11189450 CANADA Inc.	0.71	0.37		1.08
Limited Partners' Equity	\$ 914,588	\$ 373,178	(460,000)	\$ 827,766

302 LEGGET DRIVE LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 2023
(Unaudited - see Compilation Engagement Report)

1. LIMITED PARTNERSHIP AND NATURE OF ACTIVITIES

The limited partnership came into agreement on June 5, 2018 pursuant to laws of Ontario and is managed by its General partner, 11189450 Canada Inc. It manages a commercial rental property in Kanata, ON.

2. PROPERTY, PLANT AND EQUIPMENT

Fixed assets are accounted at cost. Amortization of fixed assets is calculated using the following rates and methods:

Land	NIL
Building	4% diminishing balance
Building improvements	4% diminishing balance

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Land	\$ 1,826,045	\$ -	\$ 1,826,045	\$ 1,826,045
Building	10,347,586	(1,992,500)	8,355,086	8,702,485
Building improvements	1,122,001	(160,816)	961,186	751,061
	\$ 13,295,632	\$ (2,153,316)	\$ 11,142,316	\$ 11,279,591

Amortization of fixed assets is pro-rated on a monthly basis

3. LONG-TERM DEBT

BANK LOANS

The Partnership refinanced its first mortgage with CMLS Financial on December 31, 2021 with principal of \$11,640,000 over a term of 84 months at current interest rate of 3.208%, repayable in blended monthly instalments of \$50,255, amortized over 30 years. This mortgage is secured with a first priority fixed charge over the land and building, and general security agreement.

302 LEGGET DRIVE LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 2023
(Unaudited - see Compilation Engagement Report)

4. DEFERRED LEASING COMMISSIONS

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Leasing commissions	\$ 509,345	\$ (169,223)	\$ 340,122	\$ 382,587

Deferred leasing commissions are amortized on a straight line basis over the term of corresponding leases.

5. DEFERRED FINANCE CHARGES

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Financing fees	\$ 203,090	\$ (81,236)	\$ 121,854	\$ 162,472

Finance charges were incurred at the time of the mortgage refinancing and are amortized on a straight line basis over the seven year term.