



**JENNINGS**  
**REAL ESTATE**

# 2023 ANNUAL REPORT

15 & 17 Fitzgerald Road

Presented to: the Limited Partners of the Fitzgerald Road  
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](http://www.jenningsdevelopments.com)

# 2023 HIGHLIGHTS

Located in the Bell's Corner's node of  
Ottawa, only minutes away from  
Department of National Defence  
National Headquarters and Highway 417



**30,314**

Square Feet



**100%**

Occupancy



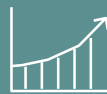
**5.9 YR**

Weighted Average  
Lease Term



**\$393K**

Net Operating Income



**14.16%**

Average Annual Cash  
Yield



**11.18%**

Average Annual Total  
Return

17 Fitzgerald Road  
Ottawa, ON



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## 1. Notice from the General Partner

2023 was a very active year for 15 and 17 Fitzgerald Road (the “Properties”). Despite the turbulent office leasing environment, we successfully entered into long-term lease extensions with office tenants representing 36% of the Properties’ above grade gross leasable area (GLA), thereby securing all office space in the Properties until at least 2029. This has increased the weighted average lease term (WALT) of all GLA from 3.68 years to 5.9 years. Further, all such extensions included rental rate increases (ranging from 6% - 16% as compared to the last year of the previous term).

In particular, Stryten, a tenant representing 24.1% of the GLA, proactively extended well in advance of their expiry date. While this solidified a high-quality tenant for the long-term and is an overall benefit to the Properties, the costs associated with this lease extension were previously projected for the 2025 budget. These expenses have been moved forward and are now incorporated into our 2023 and 2024 budgets.

In addition, we are currently working with an existing tenant occupying flex office and warehouse space representing 22% of the GLA, who has agreed to a conditional lease extension. As their space has the same layout and finish that has been in place for over 20 years, part of the extension includes an upgrade to their space, which will be partially funded by the landlord. Once the lease extension is unconditional, 58% of the GLA will have been extended in the past 12 months, and the Properties’ WALT will have extended to approximately 7 years.

To fund the costs related to the above-mentioned lease extensions, we have attempted to source additional financing from Scotiabank, the current lender of the Properties. However, in the current lending environment, Scotia declined to provide additional financing. While we are optimistic that we will obtain such financing upon completion of conditional lease extension, we are currently suspending distributions for the fourth quarter of 2023, and project no distributions throughout 2024. This strategy is aimed at conserving cash to supporting the costs related to the lease extensions. Should Scotiabank not provide additional financing, we will explore other options. It should be noted that the Properties continue to generate positive cash flow and such loan is solely required to fund deal costs related to leasing.

Please note that a temporary loan of \$100,000 has been provided to the Properties by an entity related to the general partner at an interest rate equal to Prime -0.25% (currently 7.2% -0.25% = 6.95%) to fund deal costs related to the leasing discussed above. This loan is accruing interest until it can be replaced. If any partner wishes to participate in such loan please let us know and we will accommodate.

Historic performance of the Properties has been very strong, with an Average Annual Cash Yield equaling 14.16% as of December 31, 2023. Further, as per an appraisal commissioned this year, the Estimated Market Value of the Properties is currently \$5.87 million, which represents a growth of over 15% compared to the initial purchase of \$5.1 million.

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
<b>NOI</b>	\$371,836	\$388,213	<b>\$393,373</b>	<b>\$5,159</b>	\$378,318	\$464,158
<b>FFO</b>	\$262,783	\$233,329	<b>\$253,792</b>	<b>\$20,463</b>	\$237,963	\$329,340
<b>FFO Payout Ratio</b>			<b>22.1%</b>			

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

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

In 2023, the Properties demonstrated positive growth, with both Net Operating Income (NOI) increasing 1.3% over 2022, and Funds From Operations (FFO) increasing 8.8% over 2022. This positive trend primarily stemmed from an increase in rental revenue.

Looking forward, a reduction in both NOI and FFO is anticipated. This forecasted reduction is a result from the unexpected departure of a tenant, accounting for 10% of the Properties' above grade GLA. The gap in occupancy, coupled with the necessary time for lease up will temporarily impact revenue, leading to a decrease in NOI and FFO. The forecast expects the Properties to achieve full occupancy by 2025 and return to historical levels of NOI and FFO. For further details on leasing, and how they influence the financial projection, please refer to the leasing section.

## 3. Distributions

Lease extensions have been concluded for 36% of the Properties' above grade GLA. As part of these extensions, renovations were required to be undertaken in the tenants' spaces. A proactive leasing approach secured a renewal with one tenant representing 24.1% of the GLA well in advance of their expiry date. The costs associated with this early renewal, and its related expenses, were initially projected in the 2025 budget. However, due to the deal materializing sooner than anticipated, these expenses are now incorporated into the 2024 budget.

A Tenant representing 22% of the GLA has agreed to a conditional lease extension. Presently, their space is flex office and manufacturing / warehouse, with the same layout and finish that has been in place for over 20 years. Upgrading the space to a modern market standard necessitates investment from both the landlord and the tenant. Once the lease extension is finalized without conditions the landlord will be responsible to upgrade part of the space, with the tenant responsible for the remainder of the renovations.

Finally, a warehouse Tenant representing 10% of the GLA unexpectedly departed. While we are very optimistic about replacing this tenant and achieving a significant increase in rent, this gap in

occupancy, coupled with the necessary time for securing a new tenant will temporarily impact revenue.

To fund the costs related to the above-mentioned lease extensions, we have attempted to source additional financing from Scotiabank, the current lender of the Properties. However, in the current lending environment, Scotiabank declined to provide additional financing. While we are optimistic that we will obtain such financing upon completion of the conditional lease extension, in the absence of such financing, we are suspending distributions for the fourth quarter of 2023, and project no distributions throughout 2024. This strategy is aimed at conserving cash to supporting the costs related to the lease extensions.

Full occupancy is forecasted by 2025, at which point regular distributions should occur. A summary of this year and prior year's distributions is set out below along with a projection for 2024.

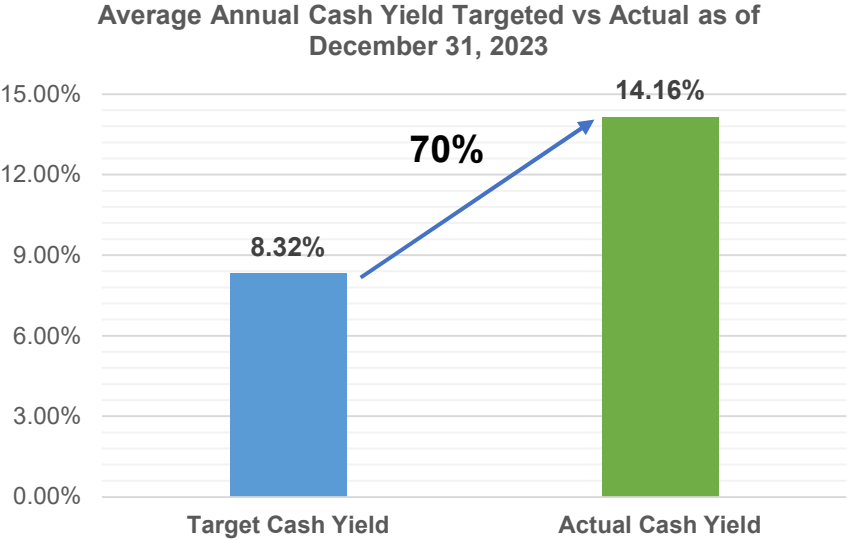
Year	Q1	Q2	Q3	Q4	Total	Cumulative Distributions (including refinancing)	% of investment Returned
<b>2018-2021</b>	\$20,000	\$90,000	\$67,360	\$567,174	\$660,784	\$744,534	36%
<b>2022</b>	\$955,000	\$20,000	\$20,000	\$72,000	\$1,067,000	\$1,811,534	87%
<b>2023</b>	<b>\$28,000</b>	<b>\$28,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$56,000</b>	<b>\$1,867,534</b>	<b>90%</b>
<b>2024 Outlook</b>	\$0	\$0	\$0	\$0	\$0	\$1,867,534	90%

The existing loan at the Properties is steadily reducing and currently sits at \$3.97M with an interest rate of 3.70%. The term of the loan extends until 2027, and as such, we believe we are well-positioned with the current volatile interest rate environment.

#### 4. Key Performance Metrics

##### The Average Annual Cash Yield

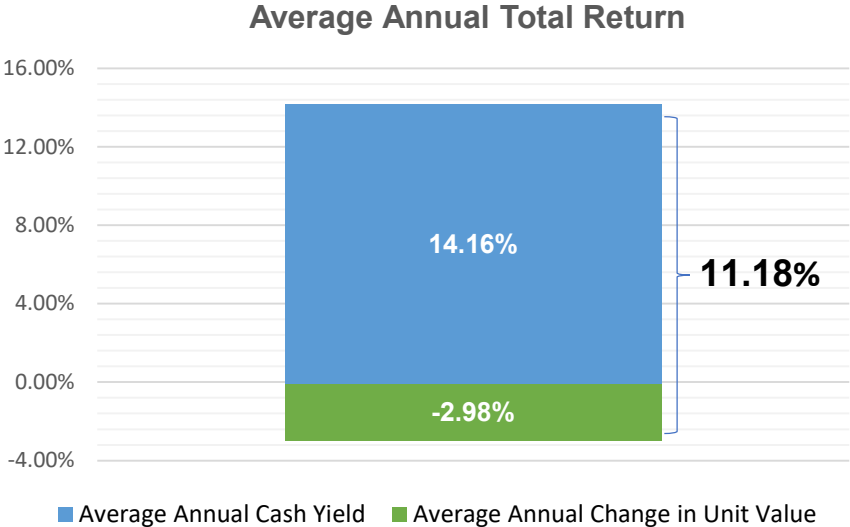
The graph below showcases the Average Annual Cash Yield as of December 31, 2023, compared to the targeted cash yield set out initially during acquisition. The initial target for Average Annual Cash Yield was 8.32% on this investment. Actual Average Annual Cash Yield to date is 14.16%. exceeding the target by 5.84% or 70%. This achievement is due to strategic leasing decisions, operational efficiencies, and seizing advantageous financing opportunities.



**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 Total Return

The Average Annual Total Return remains strong at 11.18%, even though the Average Annual Change in Unit Value is -2.98%. This decrease reflects the large repayment of capital that was made upon refinancing in 2021 (which drew down the equity), along with the valuation of the Properties decreasing since last year as a result of the current high interest rate environment and the expansion in capitalization rates. Further details related to the valuation is set out in the valuation section below.

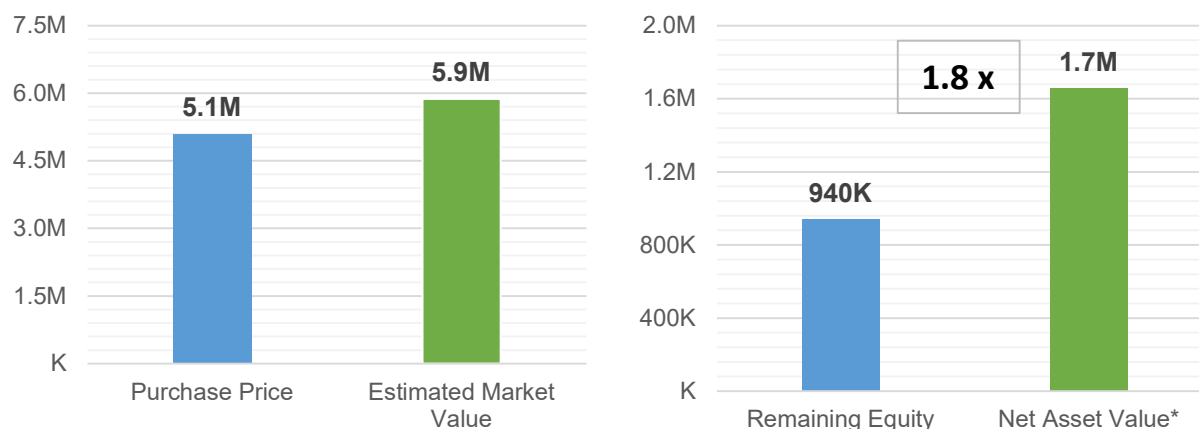


**Average Annual Change in Unit Value** is calculated by dividing Net Asset Value (NAV) by initial equity invested, which is further divided by the holding period (from acquisition to Dec 31, 2023).

**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 Properties in 2017. The Net Asset Value of the Partnership's assets (less liabilities) compared to remaining invested capital (equity):



**Estimated Market Value** On March 01, 2024, Juteau Johnson Comba Inc. issued an appraisal of the Properties which valued the Properties at \$5,870,000.

**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 Properties' Estimated Market Value experienced a slight decrease from \$5.96 million in 2022 to \$5.87 million in 2023. This 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 Properties.

Compared to the initial purchase of \$5.1 million, the Properties' value has experienced an approximate 15% increase to \$5.87 million.

## 6. Properties Summary

### The Properties

15 Fitzgerald Road and 17 Fitzgerald Road are two flex office buildings with a combined 30,314 square feet of space in the community of Bells Corners in the City of Ottawa.

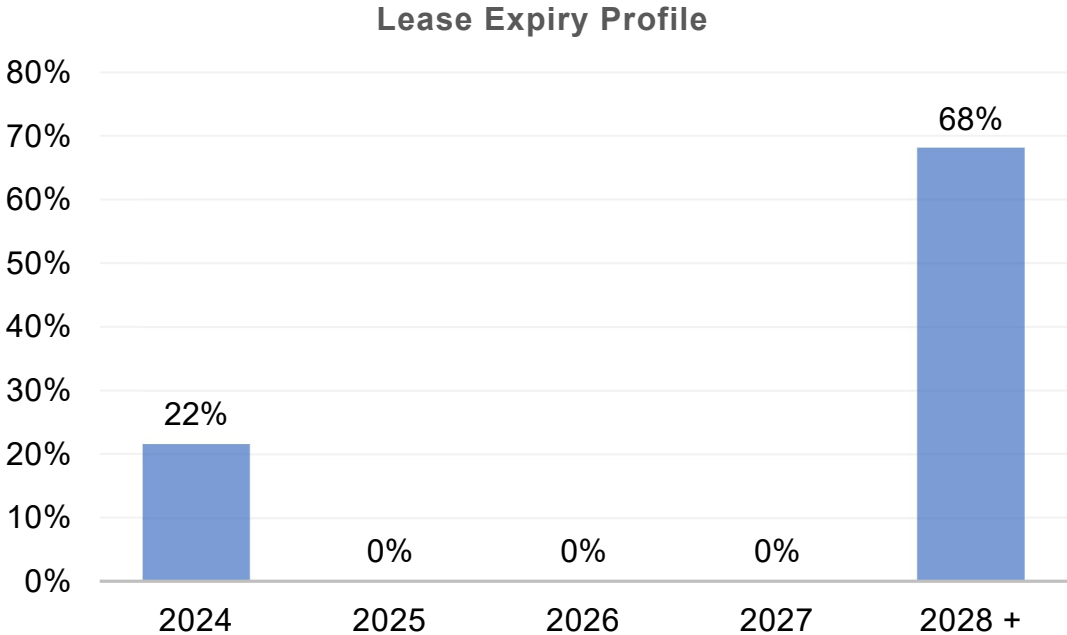
### Leasing

The office space market in Ottawa West has experienced a softening, as indicated by a rise in the vacancy rate from 6.4% in Q4, 2019 to 10.5% in Q4, 2023 (CBRE Office Market Report Q4, 2019 and Q4, 2023). Despite this trend, rental rates have remained relatively stable. The Properties maintain their attractiveness due to its proximity to key locations such as the Department of National Defence headquarters, highway 417, and the Kanata technology park.

Additionally, the Properties adaptability allows for the conversion of 56% of its above-grade gross leasable area into warehouse/industrial space, which is in high demand, evidenced by a significantly lower vacancy rate of 1.4%, when compared to the 10.5% vacancy rate for office space.

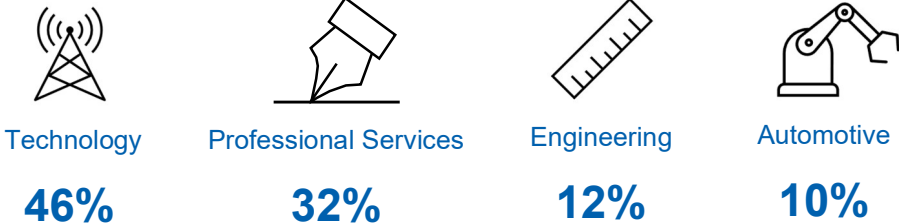
Despite the market softening for office space, the Properties achieved success in renewing 36% of its above-grade leasable area (GLA), which was office space. These long-term lease extensions increased the weighted average lease term (WALT), which is the average remaining duration of all leases, from 3.68 years to 5.9 years. Rental rate increases achieved ranged from 6% - 16%.

The graph below illustrates the proportion of Properties' above grade GLA set to expire over the next five years:



In addition to its main tenancies, above grade, the Properties also boasts several tenants utilizing below-grade space for storage purposes. Over the course of 2023, 100% occupancy was maintained on the below-grade space.

**7. Asset Management and Leasing Forecast**



**Leasing Forecast**

A Tenant representing 10% of the GLA unexpectedly departed and vacated. The space is currently a modern showroom, and warehouse space. Current market dynamics favor warehouse space, evidenced by a significantly lower vacancy rate of 1.4% compared to a 10.5% vacancy rate for office space (CBRE Office and Industrial Market Report, Q4, 2023).

The transition between tenants, along with the necessary time for lease up will lead to a temporary vacancy. The period between occupancies, combined with the time needed for leasing, is likely to create a temporary vacancy. However, this vacant phase is not expected to last long, as new tenants are anticipated to fill the space promptly.



Warehouse Space for Lease at 17 Fitzgerald

**Capital Expenditure and Improvements**

**17 Fitzgerald:**

This year, 17 Fitzgerald has seen several significant upgrades enhancing both its functionality and appeal. A noteworthy change is the upgrade of all second-floor lighting to LED as part of a lease extension. This enhancement not only improves the quality and ambiance of the office space but also contributes to a reduction in operational costs, offering long-term financial benefits.

Additionally, we have successfully complied with the City of Ottawa's regulations by installing a back-flow preventer.

Another major improvement is the extension of fiber-optic internet connectivity from the street directly into the building. This upgrade substantially boosts the quality of internet services available to our tenants, thereby improving the overall office experience and keeping the Properties competitive in today's tech-driven market.

## 15 Fitzgerald

Similarly, 15 Fitzgerald has undergone many upgrades. All lighting fixtures in the building were replaced with LED lights in connection with the lease extensions at the Properties. This not only elevates the visual appeal of the office spaces, but also plays a crucial role in reducing the building's energy consumption and operational costs.

In line with city regulations, a back-flow preventer was installed at 15 Fitzgerald.

## Future Capital Expenditure and Improvements

Looking ahead to 2024, capital expenditures planned for 15 and 17 Fitzgerald will center around completing the remaining capital improvement connected with the previously mentioned lease extension these include: modernized washroom and office space, and additional LED lighting.

## 8. Financial Statements

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

## 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 it’s 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.

**FITZGERALD ROAD LIMITED PARTNERSHIP**  
**FINANCIAL STATEMENTS**  
**(Unaudited - see Compilation Engagement Report)**  
**for the year ended December 31, 2023**

FITZGERALD ROAD LIMITED PARTNERSHIP  
for the year ended December 31, 2023  
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## COMPILATION ENGAGEMENT REPORT

To Management of Fitzgerald Road Limited Partnership,

On the basis of information provided by management, we have compiled the balance sheet of Fitzgerald Road Limited Partnership as at December 31, 2023 and the statement of earnings and, statement of partner's 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.

200 - 2618 St-Joseph Blvd | Ottawa | Ontario | K1C 1G3 | T 613 424 1101 | F 613 424 5299

W [bookkeepingbureau.ca](http://bookkeepingbureau.ca) | E [info@bookkeepingbureau.ca](mailto:info@bookkeepingbureau.ca)

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

	2023	2022
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 109,347	\$ 261,324
Accounts receivable	3,913	13,937
	<u>113,260</u>	<u>275,261</u>
<b>LONG-TERM</b>		
Security deposits	9,341	1,897
Deferred finance charges (note 6)	12,662	16,882
Deferred leasing commission (note 5)	147,872	74,654
Deferred tenant inducements (note 4)	347	2,429
Property, plant and equipment (note 2)	4,631,403	4,667,065
	<u>4,801,625</u>	<u>4,762,927</u>
	<u>\$ 4,914,885</u>	<u>\$ 5,038,188</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 36,813	\$ 54,579
Current portion of long-term-debt	140,347	131,000
Loan from General Partner (note 7)	100,449	-
Government remittances payable	3,682	18,073
Deferred revenue	38,052	37,814
	<u>319,343</u>	<u>241,466</u>
<b>LONG-TERM</b>		
Deposits	39,899	39,899
Long-term debt (note 3)	3,833,801	3,974,133
	<u>3,873,700</u>	<u>4,014,032</u>
	<u>4,193,043</u>	<u>4,255,498</u>
<b>PARTNERS' EQUITY</b>		
	<u>721,842</u>	<u>782,690</u>
	<u>\$ 4,914,885</u>	<u>\$ 5,038,188</u>

Approved on Behalf of the partners:

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

	2023	2022
<b>REVENUE</b>		
Rental income	\$ 859,591	\$ 843,982
Interest income	7,033	5,003
	<u>866,624</u>	<u>848,985</u>
<b>EXPENSES</b>		
Amortization of deferred finance charges	4,221	4,637
Amortization of leasing commissions	16,041	55,115
Amortization of tenant inducements	1,041	2,082
Bad debts	4,975	-
Bank charges	3,412	2,957
Depreciation	165,338	166,484
General and administrative expenses	101,337	97,679
Insurance	8,733	8,088
Interest on long-term debt	137,489	154,500
Property management	37,218	37,218
Professional fees	1,954	5,565
Property taxes	101,455	101,870
Repairs and maintenance	113,780	103,370
Telecommunication	509	867
Utilities	101,969	103,541
	<u>799,472</u>	<u>843,973</u>
<b>NET EARNINGS</b>	<u>\$ 67,152</u>	<u>\$ 5,012</u>

FITZGERALD ROAD 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
A.M. Realty Corp Ltd.	90,769	6,715	(12,800)	84,684
1394804 Ontario Inc.	90,769	6,715	(12,800)	84,684
2490626 Ontario Inc,	90,769	6,715	(12,800)	84,684
B. Holmes Holdings Ltd.	90,769	6,715	(12,800)	84,684
BC Bockstael Holdings Ltd.	65,619	4,855	(9,253)	61,221
2540583 Ontario Inc.	25,148	1,860	(3,547)	23,461
AYM Real Estate Inc.	90,769	6,715	(12,800)	84,684
Walker Family Wealth Ltd.	90,769	6,715	(12,800)	84,684
Adam Mills Holdings Inc.	90,769	6,715	(12,800)	84,684
Chrisken Realty Investments Inc.	28,269	6,715	(12,800)	22,184
TH (Ottawa) Investments Inc.	14,135	3,358	(6,400)	11,093
DH (Ottawa) Investments Inc.	14,135	3,358	(6,400)	11,093
10875767 Canada Inc.	0.59	0.07	(0.07)	0.58
<b>Limited Partners' Equity</b>	<b>\$ 782,690</b>	<b>\$ 67,152</b>	<b>(128,000)</b>	<b>\$ 721,842</b>

FITZGERALD ROAD 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 May 5, 2017 pursuant to laws of Ontario and is managed by its General partner, 10875767 Canada Inc.. It manages a commercial rental property in Nepean, 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
Information systems	55% diminishing balance

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Land	\$ 798,408	\$ -	\$ 798,408	\$ 798,408
Building	4,524,309	(1,030,139)	3,494,171	3,640,283
Building improvements	376,296	(37,471)	338,825	228,375
	<u>\$ 5,699,013</u>	<u>\$ (1,067,610)</u>	<u>\$ 4,631,403</u>	<u>\$ 4,667,065</u>

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

3. LONG-TERM DEBT

BANK LOAN

The Partnership refinanced the real property in February 2022 with a credit facility of \$4,220,583 at fixed annual interest rate of 3.70% for a term of 5 years amortized over 22 years with blended monthly principal and interest payments in the amount of \$23,390.23. The mortgage is secured with a first priority fixed charge over the land & building, and general security agreement.

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

4. DEFERRED TENANT INDUCEMENTS

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Tenant inducements	\$ 8,850	\$ (8,503)	\$ 347	\$ 2,429

Deferred tenant inducements are amortized on a straight line basis over the term of corresponding leases.

5. DEFERRED LEASING COMMISSIONS

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Leasing commissions	\$ 201,737	\$ (53,865)	\$ 147,872	\$ 74,654

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

6. DEFERRED FINANCE CHARGES

	2023			2022
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Financing fees	\$ 21,103	\$ (8,441)	\$ 12,662	\$ 16,882

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

7. RELATED PARTY LOAN

An entity related to the General Partner advanced \$100,000 of funds to the partnership on Dec 12, 2023 at prime minus 0.25%.