

# Morguard Sunstone Real Estate Income Fund

*“Real Estate Investing by Real Estate Operators”*

Spring 2010



**Morguard** | FINANCIAL



**SUNSTONE**  
REALTY ADVISORS

# Experienced Managers

*Morguard and Sunstone's background as professional real estate operators provides them with additional insight in selecting and overseeing the investments chosen for the Fund.*



- Recognized as one of Canada's premier fully integrated real estate investment managers
- Part of the Morguard group of companies
- Managed portfolio includes more than 45 million square feet of high-quality retail, office, industrial, and mixed-use properties in addition to 12,600 apartment suites
- Morguard is well-regarded within the Canadian real estate industry for its in-house research and valuations group, and its clear understanding of the markets and economic climates in which the firm does business



**SUNSTONE**  
REALTY ADVISORS

- Sunstone is a diversified Vancouver-based real estate investment, development and management company
- Since 2003, Sunstone has raised over \$280 million in private and public equity and acquired, managed and/or developed over \$600 million in commercial, residential and office properties in Canada and the United States



# Solid Team



## Charles Dillingham

- Vice President & Portfolio Manager
- Over 30 years of experience in managing real estate and income-producing investments
- Recently identified as one of the country's 50 TopGun Canadian Equity Portfolio Managers in a Brendan Wood International survey

## Derek Warren

- Assistant Portfolio Manager
- Over 10 years of experience working with the Investment Manager



## Darren Latoski

- President and indirect 50% owner of the shares in Sunstone
- Active role in the management of the business of Sunstone, with a focus on enhancing the value of the assets owned by such entities
- As a founder and trustee of Pure Industrial Real Estate Trust ("PIRET"), participated in the creation of a portfolio of 20 industrial properties having a total value of over \$100 million

## Steve Evans

- Chief Operating Officer and indirect 50% owner of the shares in Sunstone
- Active role in the management of the business of Sunstone, with a focus on enhancing the value of the assets owned by such entities
- As a founder and trustee of Pure Industrial Real Estate Trust ("PIRET"), participated in the creation of a portfolio of 20 industrial properties having a total value of over \$100 million

# Sunstone Realty Advisors

## Sunstone Opportunity Fund LP



**\$15,425,000**  
Investment Date Q2-04  
Exit Q4-05

## Sunstone Opportunity Fund (2004) LP



**\$13,075,000**  
Investment Date Q4-04

## Sunstone Opportunity Fund (2005) LP



**\$45,000,000**  
Investment Date Q4-05

## Sunstone Opportunity Fund (2006)



**\$50,000,000**  
Investment Date Q4-06

## Pure Industrial Real Estate Trust- IPO



**\$21,850,000**  
Investment Date Q3-07

## Sunstone Opportunity Fund (2007)



**\$55,000,000**  
Investment Date Q4-07

## Pure Industrial Real Estate Trust- Follow On Offering



**\$8,459,799**  
Investment Date Q4-07

## Sunstone US Opportunity Realty Trust



**\$35,675,000 USD**  
Investment Date Q3-08

## Sunstone Opportunity Fund (2008) Realty Trust



**\$30,166,250**  
Investment Date Q4-08

## Sunstone US Opportunity (No. 2) Realty Trust



**\$31,000,000 USD**  
Investment Date Q4-09

## Pure Industrial Real Estate Trust- Bought Deal Private Placement



**\$21,600,000.00**  
Investment Date Q1-10

# Investment Highlights

*Morguard and Sunstone are experienced real estate investors, owners and operators with significant investment and operational history in both the public and private real estate markets*

- **Tax-Efficient Monthly Distributions**

- Initial target distribution of 6.5% per year, paid monthly (pre-tax interest equivalent yield of approximately 8.0%)

- **Sustainable Dividend Yields**

- Changes in Canadian tax law in 2011 will eliminate the tax preferred treatment previously available to income trusts other than qualified Real Estate Investment Trusts (“REIT”)

- **Comparatively Strong 10 Year Average Returns**

- The Investment Manager expects the prices of publicly-listed REITs and Real Estate Operating Companies (“REOCs”) to continue to provide positive, stable returns

- **Experienced Real Estate Investors, Owners and Operators**

- Morguard and Sunstone are experienced real estate operators with an in-depth understanding of the public market real estate landscape

- **Exchange Option**

- Units can be purchased by cash payment or exchange of eligible Issuers
- Exchange deadline: May 25, 2010, 5:00pm (Toronto time)

# Investment Rationale

*The Investment Manager believes that real estate investments have the potential to provide attractive, stable income as well as the opportunity for long-term capital appreciation.*

- **The Fund will be primarily invested in a diversified portfolio of publicly traded real estate securities (“Eligible Securities”) including:**
  - Canadian and United States real estate investment trusts (“REITs”) and real estate companies (REOC’s)
- **The Fund may employ leverage to a maximum of 25% of Net Asset Value, determined at the time of issuance (including securities purchased with the amounts borrowed), initially targeted at 15%**

# Investment Objectives

*To invest in a Diversified portfolio of publicly traded real estate securities (“Eligible Securities”) including Canadian and United States REIT’s and real estate companies and, to a lesser extent, securities of foreign issuers.*

- **The Fund was created to provide Unitholders with the opportunity for:**
  - monthly distributions; and
  - long-term capital appreciation
  
- **Distributions are initially targeted to be**
  - 6.5% per annum on the Unit Price of \$10.00 per Unit
  - \$0.05417 per Unit per month or \$0.65 per Unit per annum

# Investment Environment

## Canada



- Well-established market with securities widely held by both private and institutional investors
- Perceived to be in better financial condition than real estate markets in other parts of the world
- Investment goals of aging population seeking stable cash distributions have created a strong market for income producing securities such as REITs and REOCs
- Changes in Canadian tax law will eliminate by 2011 the tax preferred treatment previously available to income trusts other than qualified REITs

## USA



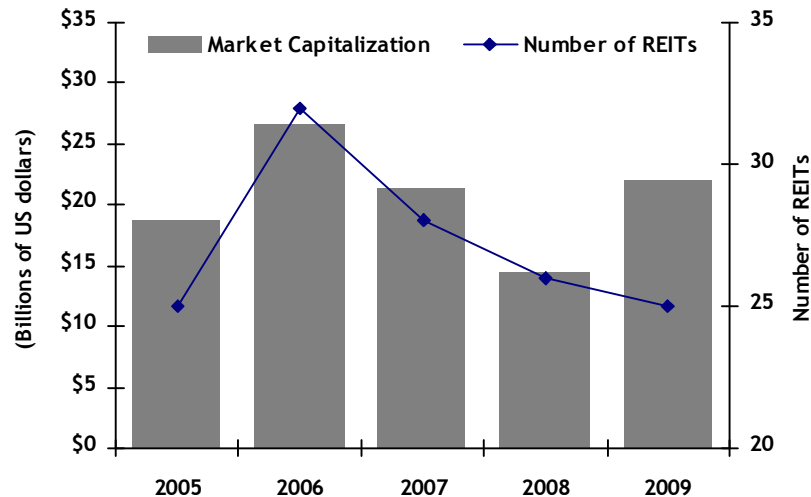
- The Investment Manager believes that the larger size and longer history of the United States public real estate market offers a great depth of opportunity, both in short term strategic positioning and in long term value creation strategies
- The Investment Manager believes that REITs and REOCs will be able to buy assets at very low prices as the U.S. economy begins to recover
- As the economy strengthens and occupancy and rental rates increase, assets purchased should increase in value benefiting the holders of the public companies
- Many economic forecasters have expressed concerns over accelerated inflation, and the Investment Manager believes that real estate's traditional role as a long-term inflation hedge will be increasingly valued

# Opportunity for Capital Appreciation

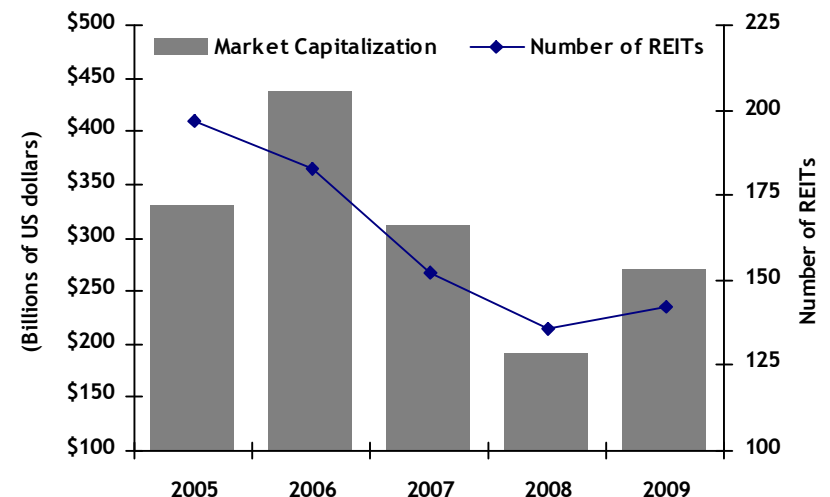
*The North American public real estate market is the world's most developed and offers a wide range of investment opportunities in every sector, geography and risk profile*

- While the market has begun to recover the investment manager believes there are opportunities in the public market based on the diversity of North American REITs

Market Capitalization and Number of Canadian REITs<sup>(2)</sup>



Market Capitalization and Number of U.S. REITs<sup>(1)</sup>



(1) National Association of Real Estate Investment Trusts website

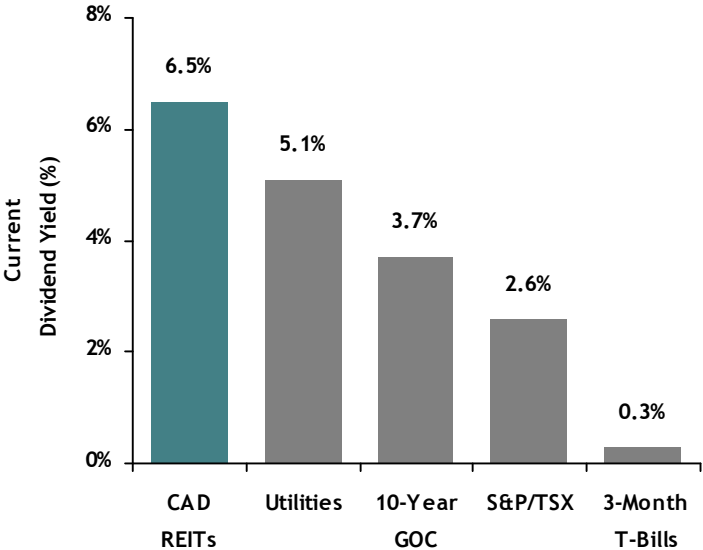
(2) S&P

# Strong Yields and Absolute Return

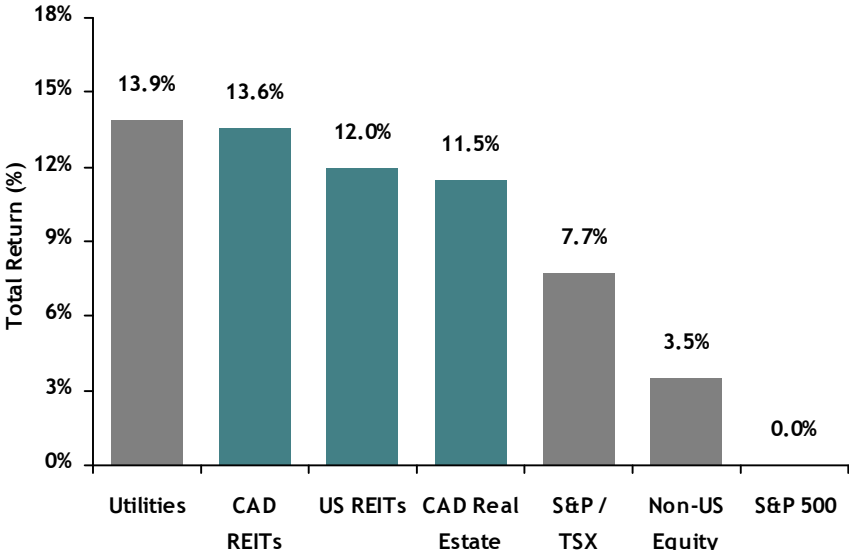
*Opportunity to Invest in REITs and Real Estate Securities at Attractive Valuations.*

- The Investment Manager expects the prices of publicly-listed REITs and Real Estate Operating Companies (“REOCs”) to continue to provide positive, stable returns
- Changes in Canadian tax law in 2011 will eliminate the tax preferred treatment previously available to income trusts other than qualified Real Estate Investment Trusts (“REIT”)

Comparative Dividend Yields<sup>(1)</sup>



Comparison of 10 Year Average Returns<sup>(1)</sup>



(1) Bloomberg 10 year total returns and current yield as of April 15, 2010

# Allocation Strategy



## Multifamily:

- Properties such as apartment buildings and other multiple unit residential properties tend to be a relatively stable investment
- Owners benefit from enhanced financial leverage and this advantage is more pronounced in times of financial strain



## Retail:

- In light of the general economic downturn, the portfolio will focus on community shopping centres providing basic needs such as groceries
- A focus on companies with a diversified tenant base and will be cautious on centres whose tenant base reflects discretionary spending



## Real estate services:

- Many of these companies are benefiting from increased government stimulus and an overall return to health of the real estate sector
- Most have contracts for services which provide a level of confidence as to the security of their future cash flows



## Office:

- Due primarily to the increased supply of new office buildings in Calgary and Toronto, there is negative pressure on occupancy rates
- The Investment Manager will focus any investment in office market-related securities in large global financial centres



## Hotel:

- The global hotel industry is, the most economically sensitive component of the real estate sector
- The global economic downturn has resulted in great volatility for the industry; this has been reflected in pricing and opportunities exist



## Long-Term Care:

- The demographic trends in North America are supportive of an investment in long-term care properties
- Pricing in long-term care has been negative for an extended period of time, thus there are opportunities resulting from cash flow stability



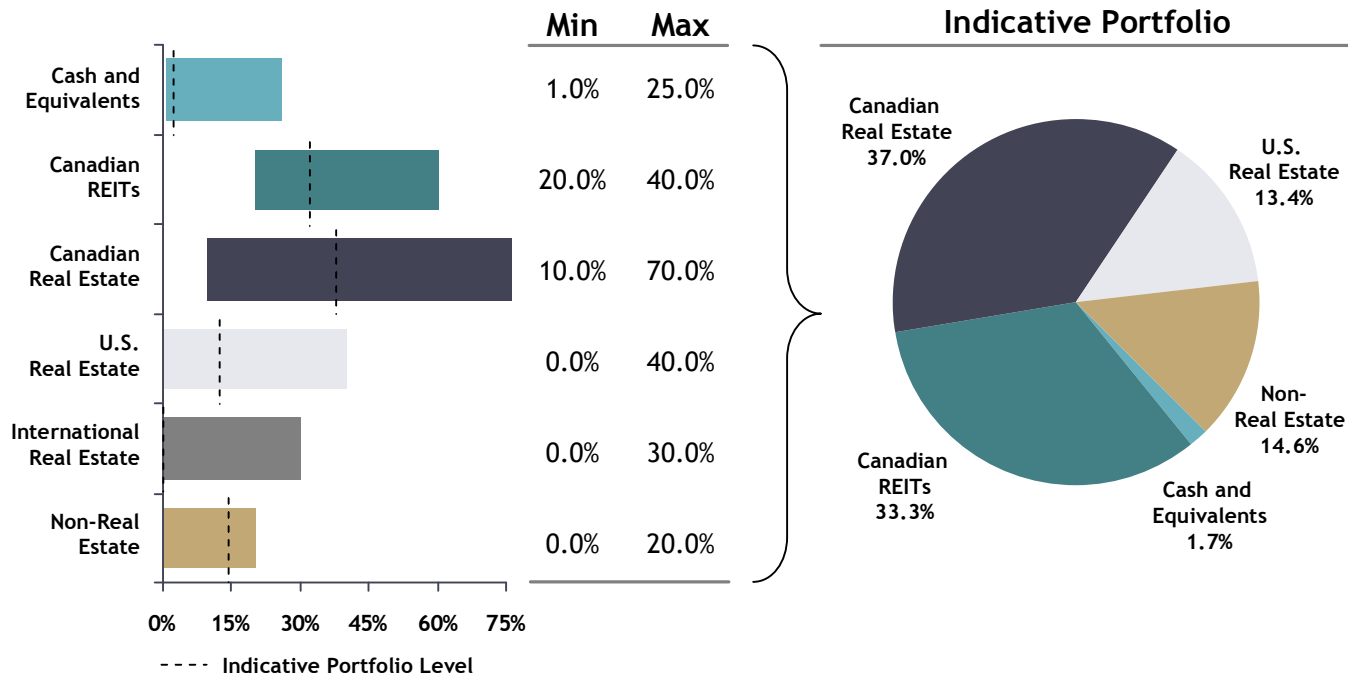
## Diversified:

- The sector includes some of North America's best companies that are structured and managed to reduce the impact of economic downturn
- These companies tend to be diversified both by sector and geography, providing lower risk, and will be a key portion of the Portfolio

# Balanced Portfolio

*Focus on yield and capital appreciation in the real estate and real estate services sector.*

- The Morguard Sunstone Real Estate Income Fund will invest primarily in a tax efficient portfolio of REITs and REOCs
- The Indicative Portfolio has a weighted average current cash yield of 8.0%<sup>(1)</sup>



(1) As at April 15<sup>th</sup>, 2010

# Indicative Portfolio

*Stable income with the opportunity for long-term capital appreciation...*

## Canadian REITS



## Canadian Real Estate



## US Real Estate



# Summary of Offering

Summary Terms	
<b>Issuers:</b>	Morguard Sunstone Real Estate Income Fund (the “Fund”) is an investment trust established under, and governed by, the laws of the Province of British Columbia.
<b>Offering:</b>	The Offering consists of two Classes of redeemable Units of the Fund - Class A Units & Class F Units
<b>Price</b>	\$10.00 per Class A Unit & \$10.00 per Class F Unit (the “Unit Price”). Units may be subscribed for pursuant to an Exchange Option or by Cash Subscription
<b>Minimum Subscription:</b>	Class A Units - \$2,000 (200 Class A units) Class F Units - \$10,000 (1,000 Class F Units)