

# Lanesborough Real Estate Investment Trust

## ANALYTICAL CONTACT

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## SECTOR

**Real Estate  
Investment Trust**

## COUNTRY

**Canada**

## STABILITY RATING

**N/R**

## OUTLOOK

**N/R**

## BUSINESS PROFILE ESTIMATE

**Speculative**

## FINANCIAL POSITION

**Aggressive**

## DATE

**May 1, 2003**

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## Business Profile and Governance Review

The business profile of Lanesborough REIT reflects the below-average operational stability of a single commercial property. The 25-year-old property is below-average quality in comparison with the property portfolio of the other diversified REITs in Canada.

The property owned by Lanesborough is a 94,400 square foot property consisting of two buildings built in 1978/1979. The property is located in the southwest quadrant of Winnipeg, Man. One building (Kenaston Place) is a three-storey office building of 42,900 square feet (sq. ft.), and the other building (Kenaston Village Mall) is a retail plaza of 51,500 sq. ft. The retail portion contains 21

tenants of whom the two largest are Harvest Bakery (6,596 sq. ft.) and Rogers Video (6,000 sq. ft.).

The governance of the trust differs from that of its peers on a number of attributes. Property and asset management is external with related entities, and the declaration of trust investing and operating limitations are less stringent than those of its peers. Management has been paid initially with trust unit options that expire three years from the IPO closing. The single-property nature of the trust significantly influences the greater flexibility in its operating and investment activities and its reliance on external management.

## Key Financial Statistics

### Key Financial Statistics: Lanesborough REIT—Ticker: LRT.un

(Thou. C\$)	2002 sector average	2002	2001	2000	1999
Distributions	53,257	124	N.A.	N.A.	N.A.
Adj. funds from operations (AFFO)*	55,833	88	N.A.	N.A.	N.A.
Distribution growth (year-over-year; %)	10.7	N.A.	N.A.	N.A.	N.A.
AFFO growth (year-over-year; %)	16.8	N.A.	N.A.	N.A.	N.A.
Dist. growth/AFFO growth (%)	63.7	N.A.	N.A.	N.A.	N.A.
Distribution payout ratio (AFFO basis; %)	95.4	140.8	N.A.	N.A.	N.A.
Distribution coverage (AFFO basis; x)	1.05	0.71	N.A.	N.A.	N.A.
Distribution coverage (CAD basis; x)†	1.02	N.A.	N.A.	N.A.	N.A.
EBITDA/total int. (x)§	2.48	1.13	N.A.	N.A.	N.A.
Debt service coverage ratio (x)	1.89	1.00	N.A.	N.A.	N.A.
Real estate assets, at cost	990,877	11,988	N.A.	N.A.	N.A.
Total debt**	559,208	11,883	N.A.	N.A.	N.A.
Equity (book value)**	418,020	252	N.A.	N.A.	N.A.
Total capital (book value)	977,228	12,135	N.A.	N.A.	N.A.
Debt/capital (book value; %)**	57.2	97.9	N.A.	N.A.	N.A.
Debt/capital (stock market value; %)**	53.5	84.7	N.A.	N.A.	N.A.
Debt/EBITDA (x)**	6.69	N.M.	N.A.	N.A.	N.A.
EBITDA/capital (book value; %)	8.6	N.M.	N.A.	N.A.	N.A.
EBITDA/total revenues (%)	41.4	50.0	N.A.	N.A.	N.A.

\*AFFO=FFO less convertible debenture interest and less capital charges. †Cash available for distribution (CAD)=AFFO plus working capital.

§Total interest=interest expense plus convertible interest plus capitalized interest. \*\*Debt and equity figures adjusted for convertible debentures.

N.A.—Not available. N.M.—Not meaningful.

# Lanesborough Real Estate Investment Trust

## Financial and Distribution Review

Lanesborough financial results represent the period from April 23, 2002, to Dec. 31, 2002. Based on the period reported, it appears that Lanesborough has an aggressive financial posture. The use of convertible debentures to capitalize the REIT, which Standard & Poor's views as debt, has resulted in a 98% ratio of total debt (including converts) to the book value of capital. Debt service coverage is low at 1.0x and interest coverage is also low at 1.1x. The trust has made two quarterly distributions since its IPO. The first distribution in fourth-quarter 2002 included the stub period from Aug. 30 to Sept. 30.

## Strengths

- Management has been active in real estate for 25 years
- Management company operates 7,700 multifamily suites and about 2 million sq. ft. of commercial space
- Property is 96.6% leased

## Vulnerabilities

- Trust cash flows based on a single property
- Debt levels (including converts) exceptionally high
- Low interest coverage

## Descriptive Attributes of Trust

- Unincorporated closed-end investment trust
- Governed by laws of Manitoba
- Intends to focus on diversified properties across Canada
- Had Trust IPO in August 2002

- Key revenue source is a retail and office property known as Kenaston Place and Kenaston Village Mall
- Pays quarterly distributions

## Key Governance Attributes

- External asset management
- External property management
- Restrictions on guaranteeing third-party debt
- Distributions that can be reduced by trustees
- Requirement of two-thirds approval for declaration amendments

## Key Trust Declaration Attributes

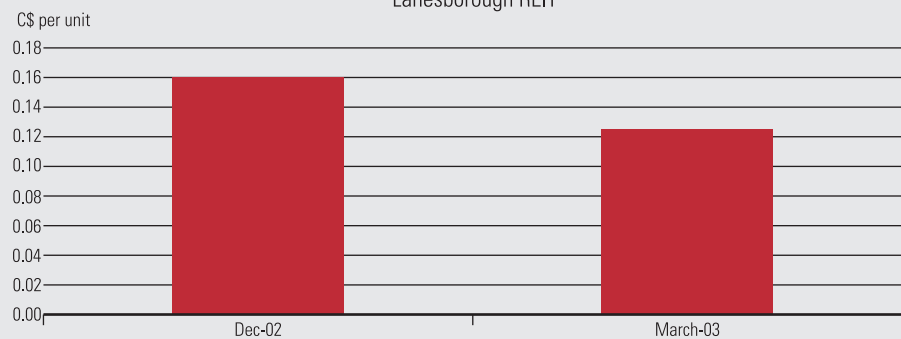
- Single-property investment unrestricted
- Raw land investment allowed for existing properties and new income-producing properties
- Noncompliant investments unrestricted
- Development allowed for renovations, additions, and adjacent properties, and new income-producing facilities
- Lease concentration unrestricted
- Leverage capped at 75% of appraised value (excludes converts)
- Floating-rate debt unrestricted

## Outlook

Lanesborough is expected to increase its property holdings in the future. The REIT's current exposure to a single property is a fundamental barrier in achieving a level of cash flow stability commensurate with that of its peers. ■

## Distribution History

Quarterly Distributions Since IPO  
Lanesborough REIT



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