



MORGUARD NORTH AMERICAN RESIDENTIAL REIT

INVITING

2016 ANNUAL REPORT

**Morguard**



OUR BUSINESS PHILOSOPHY: INVITING

An important consideration for anyone who's seeking a new residence is that it be inviting. The same can be said of anyone seeking to invest.

For us, that means finding effective ways to increase the portfolio's value while generating stable income through product quality, high occupancy and an expansive footprint.

Quality. Stability. Location. These driving concepts, along with solid operations and a keen eye for new acquisitions, work together to help ensure our portfolio performs consistently well for our unitholders. And that's very inviting indeed.

MORGUARD NORTH AMERICAN RESIDENTIAL REIT





2940 SOLANO AT MONTERRA
COOPER CITY, FL

AN INVITING PROPERTY OFFERS
FUNCTION, FEELING AND
BELONGING IN EQUAL MEASURE.

AT THE HEART OF
SUCCESSFUL RESIDENTIAL ARCHITECTURE
IS A DEFINITIVE SENSE OF PLACE.





VILLAGE CROSSING
APARTMENT HOMES
WEST PALM BEACH, FL



210 WATERMARK
BRADENTON, FL



2940 SOLANO AT MONTERRA
COOPER CITY, FL

A HOME IS A DESTINATION
WORTH RETURNING TO,
WHATEVER THE DISTANCE.

CONVENIENCE BALANCED WITH EASE:
THE VIRTUES OF A RESIDENCE WITH LONGEVITY.





FELLOW UNITHOLDERS

I'm delighted to report that 2016 was a year of exceptionally strong financial performance for Morguard North American Residential REIT.

The REIT recorded increased revenues in 2016, with record performance in our net operating income and funds from operations as a result of higher rental rates combined with reduced operating costs. In recognition of our performance, the Board of Trustees raised the annualized cash distribution per unit by 6.7%, effective for the November 2016 distribution.

A priority for us in 2016 was to increase liquidity, providing a springboard for future growth. At the outset of 2017, the REIT has access to cash reserves of approximately \$100 million and management is actively seeking acquisition opportunities to expand and enhance the REIT's portfolio.

Since our launch in 2012, we have been acquiring a high-quality, diverse portfolio of multi-suite residential rental properties in North American markets that demonstrate significant promise as their respective communities mature and grow. One such acquisition in 2016 is the 22-storey residential tower at 160 Chapel Street in Ottawa, a major addition to our expanding portfolio of properties.

With our strong financial capabilities and our high-quality portfolio, we will continue to create value in our properties and seek out opportunities for greater portfolio growth. Buoyed by the support of our highly capable team, as well as you, our valued unitholders, we will remain firmly committed to delivering sustainable returns well into the future.

Our goal: to make our properties as inviting to our investors as they are to our tenants.



Sincerely,

A handwritten signature in black ink, appearing to read 'K. Rai Sahi', written in a cursive style.

K. RAI SAHI
Chairman and
Chief Executive Officer



2016 HIGHLIGHTS



INVITING PERFORMANCE

FACTORS BEHIND THE PORTFOLIO'S SUCCESS

Expand our asset base. Enhance operations. Increase AFFO. These are the three pillars of our strategy. It's a strategy that continues to succeed for us as we remain focused on active asset and property management, in addition to strategic capital spending, to help maximize cash flow while increasing the value of the portfolio.

To help ensure this strategy continues to succeed, we seek ways to maintain high occupancy and increase average monthly rents ("AMR") while strictly managing operating expenses as a percentage of revenues, while allowing for local market conditions at each location.

In 2016, Morguard North American Residential REIT's (the "REIT") regionally diverse portfolio of 46 properties demonstrated superior financial performance in Canada and the United States alike. The reasons – efficient operations, stable occupancy levels, higher rents and our locations in economically strong markets.

In our Canadian properties, occupancy at December 31, 2016, was strong at 98.5%, with an AMR of \$1,296 per suite. At the same date, occupancy in our U.S. properties was 93.2%, with an AMR of US\$1,038 per suite.

At present, the REIT maintains more than 13,400 residential rental suites, and at December 31, 2016, overall occupancy was 95.2%.

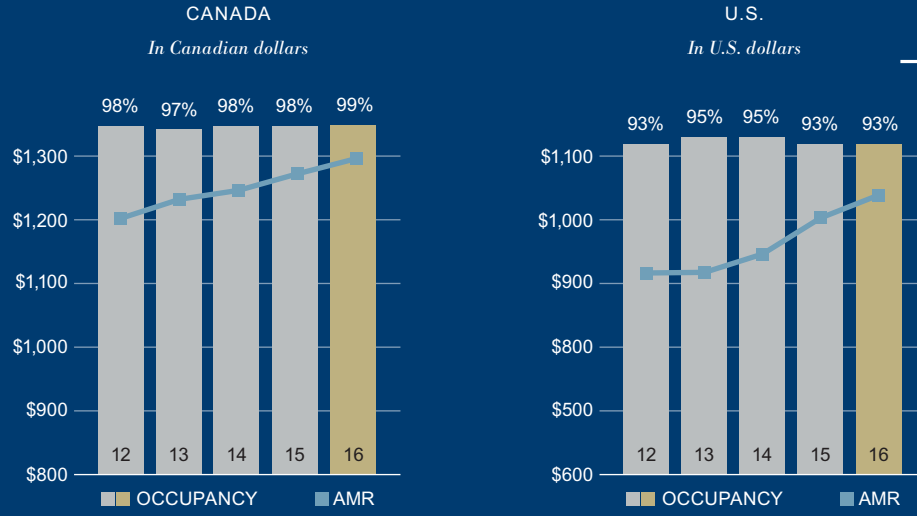
INVITING GROWTH

A SURGE IN REVENUE AND EARNINGS

In 2016, Morguard North American Residential REIT showed growth in revenues, assets and earnings.

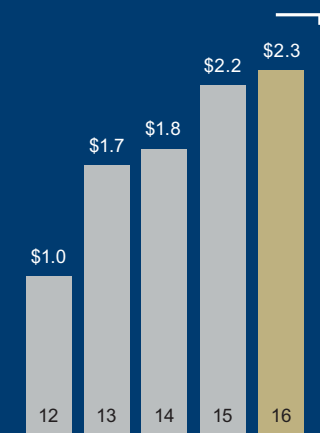
Our revenues from real estate properties rose by 10.1% to \$218.5 million. Total assets increased to \$2.3 billion, escalating by \$126 million.

AVERAGE MONTHLY RENT AND OCCUPANCY BY REGION



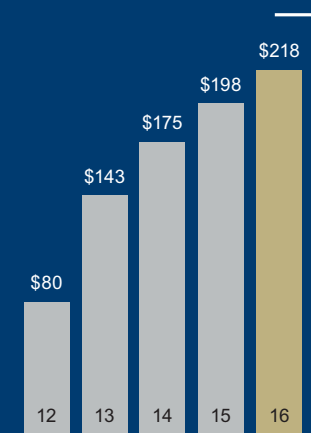
TOTAL ASSETS

In billions of dollars



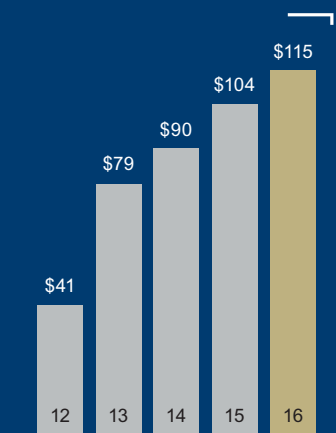
TOTAL REVENUE

In millions of dollars



NET OPERATING INCOME

In millions of dollars



OUR BUSINESS STRATEGY

Generate stable and growing cash distributions.

Maximize long-term unit value.

Focus on the acquisition of high-quality multi-suite residential properties in promising North American markets.

160 CHAPEL
OTTAWA, ON



Our basic funds from operations (“FFO”) increased 12.7% from 2015, while basic adjusted funds from operations (“AFFO”) rose 16.2%.

Net operating income (“NOI”) also rose in 2016. A significant measure of earnings, NOI comprises revenue from real estate properties, minus property operating costs, realty taxes and utilities. The overall NOI of the REIT increased by 10.7% to \$115.3 million. Same Property NOI, over the same period, increased 6.5%.

In Canada, NOI for the year increased by 15.2%. Thanks to the REIT’s strong operational teams in Canada, we achieved increased AMR, higher occupancy rates and lower operating expenses. Additionally, the acquisition of 160 Chapel Street, Ottawa, Ontario, contributed 7.3% of the increase.

In the U.S., we experienced an increase in NOI as a result of higher rental rates, a reflection of the economic strength of our properties’ locations and our operational teams’ capabilities.

Additionally, the NOI was positively affected by the U.S. dollar rising against the Canadian dollar through the year.

With its significant liquidity and continued strong earnings, the REIT is well positioned to pursue opportunities as they become available in 2017. The REIT will continue to seek acquisition opportunities, focusing on properties that meet our investment criteria. In addition to acquisitions, the REIT also expects growth to come organically from within the existing portfolio.

INVITING RETURNS

INCREASING RETURNS FOR UNITHOLDERS

Since launching in 2012, our portfolio’s growth and earnings have paved the way for increased distributions to unitholders. In 2016, the Board of Trustees increased the REIT’s annual cash distribution by 6.7%, effective for the November distribution payable on December 15, 2016. The new monthly distribution was set at \$0.05333 per unit for a total annualized distribution of \$0.64.

Delivering positive returns for unitholders has been a key achievement for us, with a cumulative total return of 56% since inception in 2012.

Additionally, this growth has resulted in a reduction in our FFO payout ratio from 94% in our first year of operation to 49% in 2016.

INVITING QUALITY

EXECUTING THE REIT'S PORTFOLIO STRATEGY

For certain, diversification has proven central to the success of the REIT's portfolio strategy. In the event that a slowdown takes place in one or more markets, the portfolio's regional diversity provides stability as it earns revenue in Canadian and U.S. dollars. With its high-rise and garden-style properties, the portfolio is also diversified by product type and by the demographic profile of tenants.

Currently, the portfolio comprises 15 properties with 5,275 suites in Canada and 31 properties with 8,197 suites in the United States.

As part of our strategic focus on acquiring high-quality multi-suite residential properties in promising North American markets, the REIT acquired 160 Chapel in early 2016. Located in Ottawa, this 22-storey residential property offers furnished and unfurnished studio, one-bedroom and two-bedroom suites, providing tenants with dramatic views of the Parliament Buildings and the city skyline.

A smart investment strategy, however, does not mean acquisition alone; our management regularly reviews each property's performance and makes capital investments to maintain and improve properties or may divest those that are no longer in line with the REIT strategy. In 2015 and 2016, major projects included elevator modernizations, balcony restorations, parking garage and lot repairs and suite upgrade and repositioning. Capital expenditures in 2016 totalled \$19.1 million.

INVITING MANAGEMENT

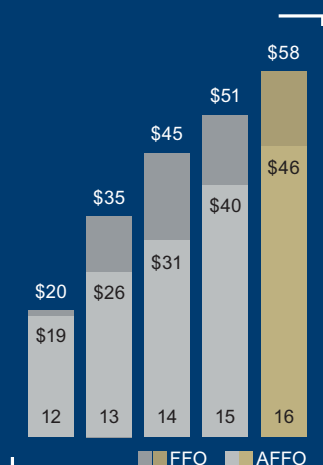
A PRUDENT APPROACH FOR INCREASED LIQUIDITY

Through a balanced approach and smart management of capital, we have achieved greater liquidity, enabling us to fund operations and invest in future growth.

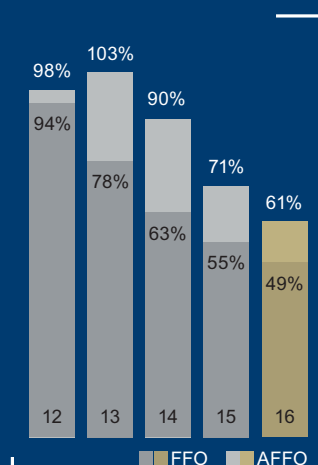
Reducing interest costs has been one of our key goals, and the refinancing of 10 multi-suite residential properties in Louisiana and Florida last September marked a significant achievement. This refinancing of US\$95.1 million was completed at a weighted average interest rate of 3.47% and a weighted average term to maturity of 8.7 years. In addition, the REIT received US\$19.4 million of additional mortgage proceeds on the maturing loans.

FFO AND AFFO

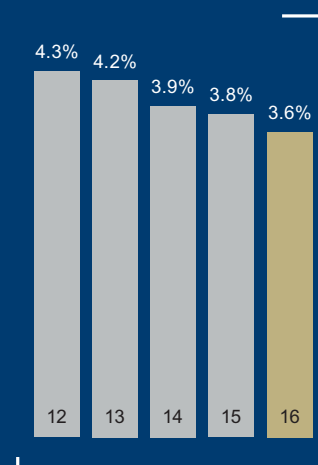
In millions of dollars



FFO PAYOUT RATIO AND AFFO PAYOUT RATIO



WEIGHTED AVERAGE INTEREST RATE



At the 2016 year end, Morguard North American Residential REIT's overall leverage, measured by total debt against gross book value, was 54% and our mortgages and retained debt had a weighted average interest rate of 3.6% and weighted average term to maturity of 5.7 years.

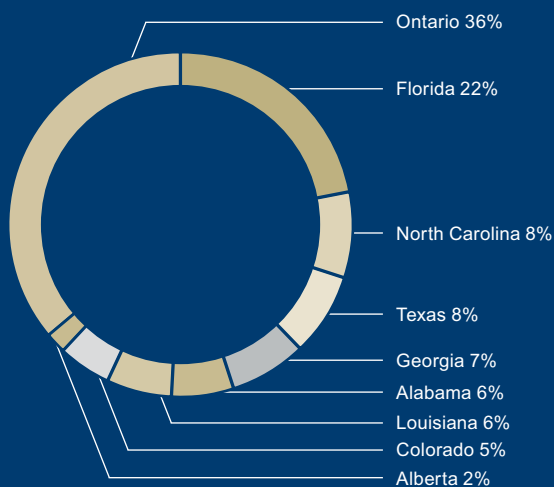
The REIT also closed, on January 9, 2017, a significant public offering of units, the net proceeds of which will be used to fund future acquisitions and repay debt, as well as for general trust purposes. The offering resulted in the issuing to the public of 4.37 million units at a price of \$13.75 per unit. In total, the offering raised gross proceeds of almost \$60.1 million.

In connection with the offering, Morguard Corporation purchased 1.23 million of the new units, worth approximately \$16.7 million. Upon closing of the offering, Morguard Corporation holds an approximately 47% effective interest in the REIT through ownership of units and Class B LP units.

RESIDENTIAL RENTAL PROPERTIES HAVE PROVEN DEPENDABLE SOURCES OF INCOME OVER THE LONG-TERM.

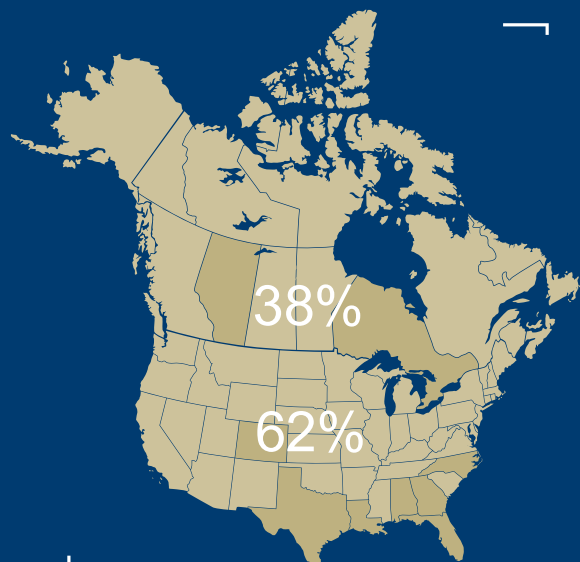
NET OPERATING INCOME BY REGION

Year ended December 31, 2016



NET OPERATING INCOME BY COUNTRY

Year ended December 31, 2016





GOVERNORS GATE
PENSACOLA, FL

TAX INFORMATION

The REIT has determined the distributions paid to unitholders are characterized for income tax purposes as follows:

Year	Distribution	Return of Capital	Capital Gain	Other Income
2016	\$0.60666	100.00%	—	—
2015	\$0.60	100.00%	—	—
2014	\$0.60	88.54%	11.46%	—
2013	\$0.60	83.66%	8.86%	7.48%
2012	\$0.42	69.40%	—	30.60%

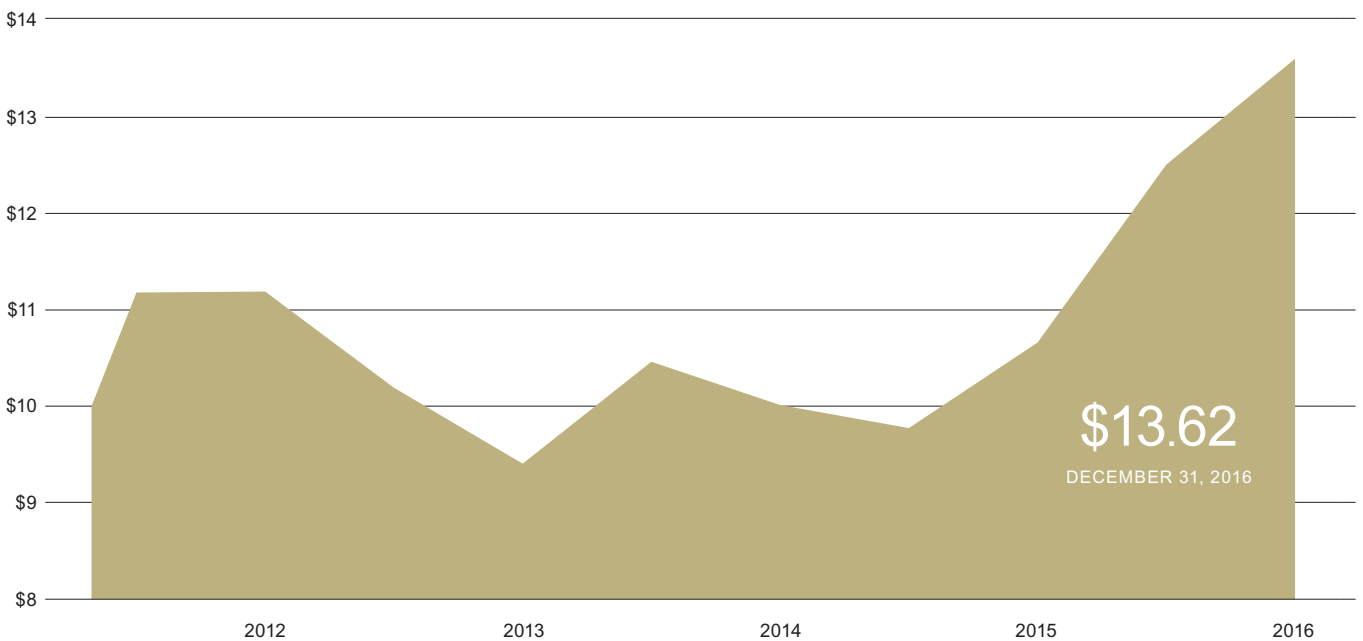
DISTRIBUTION REINVESTMENT PLAN

Unitholders may automatically purchase additional units by reinvesting all or a portion of the cash distributions at the average five-day market trading price of the Morguard North American Residential REIT units without paying any service or brokerage fees. Unitholders should contact their brokers in order to participate.



THE LONG-TERM GROWTH IN THE VALUE OF MORGUARD NORTH AMERICAN RESIDENTIAL REIT UNITS

As at December 31



BALANCE SHEETS

In thousands of Canadian dollars

As at December 31,

	2016	2015
ASSETS		
Non-current assets		
Income producing properties	\$2,224,670	\$2,105,254
Amounts receivable	—	260
	2,224,670	2,105,514
Current assets		
Morguard Facility	35,706	24,748
Amounts receivable	3,219	5,107
Prepaid expenses	2,837	6,285
Restricted cash	11,708	9,762
Cash	7,587	8,599
	61,057	54,501
	\$2,285,727	\$2,160,015
LIABILITIES AND EQUITY		
Non-current liabilities		
Mortgages payable and Class C LP Units	\$1,027,588	\$1,056,869
Convertible debentures	59,779	58,677
Class B LP Units	234,578	183,770
Deferred income tax liabilities	109,852	78,831
	1,431,797	1,378,147
Current liabilities		
Mortgages payable and Class C LP Units	136,594	64,775
Accounts payable and accrued liabilities	33,310	32,126
	169,904	96,901
Total liabilities	1,601,701	1,475,048
EQUITY		
Unitholders' equity	652,616	656,117
Non-controlling interest	31,410	28,850
Total equity	684,026	684,967
	\$2,285,727	\$2,160,015

STATEMENTS OF INCOME

In thousands of Canadian dollars

For the Years Ended December 31,

	2016	2015
Revenue from income producing properties	\$218,472	\$198,442
Property operating expenses		
Property operating costs	58,774	55,068
Realty taxes	25,338	22,162
Utilities	19,066	17,030
Net operating income	115,294	104,182
Other expenses (income)		
Interest expense	56,012	51,291
Trust expenses	11,983	10,160
Foreign exchange loss (gain)	540	(2,882)
Other expense (income)	(676)	183
Income before fair value changes and income taxes	47,435	45,430
Fair value gain on income producing properties, net	68,270	38,804
Fair value loss on Class B LP Units	(50,808)	(11,195)
Income before income taxes	64,897	73,039
Provision for income taxes		
Current	112	166
Deferred	32,807	33,193
	32,919	33,359
Net income for the year	\$31,978	\$39,680
Net income attributable to:		
Unitholders	\$29,263	\$38,784
Non-controlling interest	2,715	896
	\$31,978	\$39,680

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the Years Ended December 31,

	2016	2015
Net income for the year	\$31,978	\$39,680
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to net income:		
Unrealized foreign currency translation gain (loss)	(14,021)	74,424
Amortization of cash flow hedge	—	284
Other comprehensive income (loss)	(14,021)	74,708
Total comprehensive income for the year	\$17,957	\$114,388
Total comprehensive income attributable to:		
Unitholders	\$14,670	\$112,615
Non-controlling interest	3,287	1,773
	\$17,957	\$114,388

STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

In thousands of Canadian dollars

	UNITS	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL UNITHOLDERS' EQUITY	NON-CONTROLLING INTEREST	TOTAL EQUITY
Unitholders' equity, December 31, 2014	\$309,950	\$48,762	\$161,271	\$40,852	\$560,835	\$12,766	\$573,601
Changes during the year:							
Net income	—	—	38,784	—	38,784	896	39,680
Other comprehensive income	—	—	—	73,831	73,831	877	74,708
Contribution from non-controlling interest	—	—	—	—	—	17,354	17,354
Issue of units – DRIP	261	—	(261)	—	—	—	—
Distributions	—	—	(17,333)	—	(17,333)	(3,043)	(20,376)
Unitholders' equity, December 31, 2015	\$310,211	\$48,762	\$182,461	\$114,683	\$656,117	\$28,850	\$684,967
Changes during the year:							
Net income	—	—	29,263	—	29,263	2,715	31,978
Other comprehensive income (loss)	—	—	—	(14,593)	(14,593)	572	(14,021)
Issue of units – DRIP	326	—	(326)	—	—	—	—
Repurchase of units	(734)	—	—	—	(734)	—	(734)
Distributions	—	—	(17,437)	—	(17,437)	(727)	(18,164)
Unitholders' equity, December 31, 2016	\$309,803	\$48,762	\$193,961	\$100,090	\$652,616	\$31,410	\$684,026

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the Years Ended December 31,

	2016	2015
OPERATING ACTIVITIES		
Net income	\$31,978	\$39,680
Add (deduct) items not affecting cash	14,228	3,323
Additions to tenant incentives	(99)	(259)
Net change in non-cash operating assets and liabilities	6,495	(160)
Cash provided by operating activities	52,602	42,584
INVESTING ACTIVITIES		
Acquisition of income producing properties	(68,684)	(73,862)
Additions to income producing properties	(19,117)	(17,842)
Cash used in investing activities	(87,801)	(91,704)
FINANCING ACTIVITIES		
Repayment of Morguard Facility	(85,913)	(100,651)
Proceeds from Morguard Facility	75,264	77,363
Proceeds from new mortgages	239,384	128,706
Financing cost on new mortgages	(5,408)	(2,880)
Repayment of mortgages and Class C LP Units		
Repayments on maturity	(36,789)	(48,881)
Repayments due to mortgage extinguishments	(108,144)	—
Principal instalment repayments	(23,812)	(22,627)
Contributions from non-controlling interest	—	15,762
Distributions to unitholders	(17,341)	(17,333)
Distributions to non-controlling interest	(727)	(3,043)
Units repurchased for cancellation	(734)	—
Increase in restricted cash	(2,227)	(2,459)
Cash provided by financing activities	33,553	23,957
Net decrease in cash during the year	(1,646)	(25,163)
Net effect of foreign currency translation on cash balance	634	1,209
Cash, beginning of year	8,599	32,553
Cash, end of year	\$7,587	\$8,599

PORTFOLIO SUMMARY



\$2.2B

REAL ESTATE PROPERTIES

13,472

TOTAL SUITES

95.2%

TOTAL OCCUPANCY

As at December 31, 2016

MULTI-SUITE RESIDENTIAL PORTFOLIO

Property	City	Prov./ State	Ownership Interest (%)	Total Suites	Ownership Suites	Occupancy (%)
CANADA						
Square 104	Edmonton	AB	100	277	277	82
Margaret Place ●	Kitchener	ON	100	472	472	100
Meadowvale Gardens ●	Mississauga	ON	100	325	325	99
The Arista ●	Mississauga	ON	100	458	458	100
The Elmwoods ●	Mississauga	ON	100	321	321	100
The Forestwoods ●	Mississauga	ON	89	300	267	100
The Maplewoods ●	Mississauga	ON	87	300	261	100
The Valleywoods ●	Mississauga	ON	91	373	340	100
Tomken Place ●	Mississauga	ON	100	142	142	100
160 Chapel ●	Ottawa	ON	100	370	370	100
Rideau Towers I ●	Toronto	ON	90	287	258	98
Rideau Towers II ●	Toronto	ON	100	380	380	98
Rideau Towers III ●	Toronto	ON	100	474	474	100
Rideau Towers IV ●	Toronto	ON	100	400	400	100
Rouge Valley Residence ●	Toronto	ON	100	396	396	99
SUBTOTAL				5,275	5,141	98.5
U.S.						
Retreat at City Center ●	Aurora	CO	100	225	225	91
Settlers' Creek ●	Fort Collins	CO	100	229	229	90
The Retreat at Spring Park ●	Garland	TX	100	188	188	94
Grand Venetian at Las Colinas ●	Irving	TX	100	514	514	93
Verandah at Valley Ranch ●	Irving	TX	100	319	319	93
Garden Lane ●	Gretna	LA	100	261	261	92
Colonial Manor Apartment Homes ●	Harahan	LA	100	48	48	98
Steeplechase Apartment Homes ●	Lafayette	LA	100	192	192	94
Magnolia Place Apartment Homes ●	New Iberia	LA	100	148	148	87
The Georgian Apartments ●	New Orleans	LA	100	135	135	92
Villages of Williamsburg ●	Shreveport	LA	100	194	194	91
Greenbrier Estates ●	Slidell	LA	100	144	144	94
Bel Air Apartment Homes ●	Mobile	AL	100	202	202	91
Hampton Park ●	Mobile	AL	100	300	300	92
Pine Bend ●	Mobile	AL	100	152	152	93
The Estates at Lafayette Square ●	Mobile	AL	100	675	675	93
Briarhill Apartments ●	Atlanta	GA	100	292	292	94
The Savoy Luxury Apartments ●	Atlanta	GA	100	232	232	93
Barrett Walk Luxury Apartment Homes ●	Kennesaw	GA	100	290	290	96
210 Watermark ●	Bradenton	FL	100	216	216	98
Blue Isle Apartment Homes ●	Coconut Creek	FL	100	340	340	89
2940 Solano at Monterra ●	Cooper City	FL	51	252	130	93
Governors Gate I ●	Pensacola	FL	100	240	240	91
Governors Gate II ●	Pensacola	FL	100	204	204	90
Jamestown Estates ●	Pensacola	FL	100	177	177	93
Woodcliff Apartment Homes ●	Pensacola	FL	100	184	184	95
Woodbine Apartment Homes ●	Riviera Beach	FL	100	408	408	96
Mallory Square ●	Tampa	FL	100	383	383	95
Village Crossing Apartment Homes ●	West Palm Beach	FL	100	189	189	95
The Lodge at Crossroads ●	Cary	NC	100	432	432	94
Perry Point Ultimate Apartments ●	Raleigh	NC	100	432	432	95
SUBTOTAL				8,197	8,074	93.2
TOTAL MULTI-SUITE RESIDENTIAL				13,472	13,215	95.2

Certifications: ● Certified Rental Building Program ● Equal Housing Opportunity

CORPORATE INFORMATION

BOARD OF TRUSTEES

K. Rai Sahi³
Chairman and
Chief Executive Officer

Avtar T. Bains^{2,3}
Real Estate Adviser
and Investor

Dino Chiesa^{1,3}
Principal, Chiesa Group

Mel Leiderman¹
Senior Partner, Lipton LLP

Frank Munsters²
Corporate Director

Bruce K. Robertson^{1,3}
Vice President, Investments
The Woodbridge Company
Limited

William O. Wallace²
President,
Wallace Automotive Inc.

- 1 Audit Committee
- 2 Compensation and Governance Committee
- 3 Investment Committee

EXECUTIVE DIRECTORY

K. Rai Sahi
Chairman and
Chief Executive Officer

Robert Wright
Chief Financial Officer

Beverley G. Flynn
Vice President,
General Counsel
and Secretary

Paul Miatello
Vice President

John Talano
Vice President, Operations
(U.S.)

Sanjay Rateja
Vice President, Operations
(Canada)

Brian Athey
Vice President

INVESTOR INFORMATION

Registered Office
55 City Centre Drive
Suite 1000
Mississauga, ON
L5B 1M3
T 905-281-3800
info@morguard.com

Eligibility
RESP
RRSP
RRIF
DPSP
RPP
TFSA

Unit Listing
Toronto Stock Exchange

Symbol
MRG.UN
MRG.DB

Auditors
Ernst & Young LLP

Principal Bankers
Royal Bank of Canada
Toronto-Dominion Bank

Transfer Agent
Computershare Trust
Company of Canada
1-800-564-6253
www.computershare.com

Investor Relations
Visit our website at
www.morguard.com or
view our filings on SEDAR
at www.sedar.com.

Annual Meeting
Wednesday, May 10, 2017
at 9:00 a.m.
Rattlesnake Point Golf Club
5407 Regional Road 25
Milton, ON
L9T 2X5

**For additional information,
please contact:**
Robert Wright
Chief Financial Officer

Beverley G. Flynn
Vice President,
General Counsel
and Secretary

T 905-281-3800
info@morguard.com

The selected annual financial information in the 2016 Annual Report highlights certain key metrics for the REIT. As a result, this report should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2016, related Management's Discussion and Analysis (MD&A) and the Annual Information Form (AIF). These documents are available on the REIT's website at www.morguard.com. All continuous disclosure documents required by securities regulators are also filed on the System for Electronic Document Analysis and Retrieval (SEDAR) and can be accessed electronically at www.sedar.com.




MORGUARD NORTH AMERICAN RESIDENTIAL REIT AT A GLANCE

Morguard North American Residential REIT is an unincorporated open-ended real estate investment trust listed on the Toronto Stock Exchange under the symbol MRG.UN.

The REIT owns a diversified portfolio of multi-suite residential rental properties in key markets in Canada and the United States. Its primary objectives:

- generate stable, growing and tax-efficient cash distributions to Unitholders;
- enhance the value of the portfolio and the long-term value of the units through active asset and property management; and
- expand the asset base, primarily through acquisitions and property improvements.

The REIT owns interests in a portfolio of 15 Canadian residential apartment communities located in Alberta and Ontario and 31 U.S. low-rise and mid-rise, garden-style apartment communities located in Alabama, Colorado, Florida, Georgia, Louisiana, North Carolina and Texas. Together the REIT's North American properties include more than 13,400 residential rental suites, valued at \$2.2 billion.



55 CITY CENTRE DRIVE
SUITE 1000
MISSISSAUGA, ON L5B 1M3
905-281-3800

MORGUARD.COM