FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust
Second Quarter 2018 Results
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PRESENTATION

Operator

Good morning. My name is Kelly, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Choice Properties Real Estate Investment Trust Third Quarter Results Conference Call. All participants are in a listen-only mode.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.
Archna Sharma, you may begin your conference.

Archna Sharma

Thank you, Kelly, and good morning, everyone. Welcome to the Choice Properties REIT third quarter 2018 conference call. This call is also being webcast simultaneously on our website at choicereit.ca.

Before we begin, we would like to advise you that some of the statements made this morning may contain forward-looking information, including statements concerning Choice Properties' objectives, strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, intentions, outlooks, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts.

These statements are based on our current estimates and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ. We refer you to the cautionary statements contained in our financial reports, including the MD&A for the quarter ending September 30, 2018 and other public documents for the full details. These forward-looking statements are made as of today's date, and Choice Properties REIT assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

On today's call, we have our Chief Executive Officer, Stephen Johnson; our Chief Operating Officer, Rael Diamond; and our Chief Financial Officer, Mario Barrafato.

I will now turn it over to Stephen.

Stephen Johnson

Thank you, Kelly, and thank you, Archna. Good morning, everyone. Thank you to all of you for taking the time to attend our Q3 conference call.

So the three-month period ending September 30th marks the first fiscal quarter for the merged entity of CREIT and Choice, and I'm very pleased to report that our financial results for the quarter matched our expectations. The combination of CREIT and Choice was a transformational transaction. The result was the creation of Canada's largest and preeminent Real Estate Investment Trust. Choice Properties now has an enterprise value of just under $16 billion.

Our business has for the most part now evolved into two functional areas—our income-producing property portfolio, or our IPP portfolio, and our development business. Our IPP portfolio generates a high-quality rental revenue stream. Net operating income on an annualized basis is just over $900 million and there are contractual rent escalations in a significant part of our IPP portfolio. We expect our IPP portfolio to provide income stability and net operating income growth over the next number of years.

Our development business is divided into five categories, including retail intensification, redevelopment, greenfield, major mixed use, and residential projects. In our current development program, we anticipate investing approximately $1.2 billion, of which 470 million is already invested in PUD or property under development. The bulk of the balance of the 1.2 billion will be invested to complete our high-quality residential projects now at various stages of development within the Greater Toronto Area.

It is also significant to note that beyond the current development program of approximately 1.2 billion, we have a pipeline of additional development opportunities on sites already owned. It's too early to credibly quantify the total extent of this opportunity but we expect it to be meaningful over the long term. Our development business is a very exciting part of our REIT. It will add high-quality assets to our portfolio and we anticipate will contribute to growth in our net asset value.

I would also like to mention that on November 1st, Loblaw and George Weston Limited completed a reorganization under which Loblaw spun out its 61.6 percent interest in Choice Properties to its majority shareholder, George Weston Limited, or GWL. This transaction results in our major shareholder becoming GWL, with a direct ownership of 65.4 percent in Choice. Although no approval was required from the Choice Board of Trustees or the Choice unitholders for the spinout, the board and management of Choice were supportive of the transaction. This reorganization improves clarity for all Choice investors as we continue to reposition and grow our business as a major property owner and developer. Through its direct ownership in Choice Properties, GWL is committed to support our growth as a long-term owner, manager, and developer of a high-quality diversified real estate portfolio.

This transaction will have no impact on our ongoing relationship with Loblaw. All current agreements with Loblaw including the strategic alliance agreement and leases will remain in place, and Loblaw will continue to be our largest tenant. And the Loblaw relationship will continue to create ongoing opportunities for our REIT.

Since closing the CREIT Choice transaction on May the 4th, our management team has spent a considerable amount of time working on the integration of the Choice and the CREIT businesses. This involves and continues to involve many important steps, each of which must be completed in the context of a long-term business model and strategy for the combined entity.

In addition to combining our real estate portfolios, the merger also included the joining together of two of Canada's leading real estate teams. Our focus has been on aligning the organizational structure to further enhance our operating platform, and we have organized and reorganized our groups to foster collaboration and teamwork and to strive for excellence. We are pleased right now with the progress made on the integration to date.

One additional point of interest is that we have initiated some capital recycling. This is an important step as we position our business for the long term, and Rael will provide some details in a few minutes.

In summary, and from a very macro perspective, we are building our business for stability and growth. Our focus will be to position both our IPP portfolio and our development business to grow net operating income, to grow cash flow, and to grow net asset value over a long-term horizon. Mario will now provide an overview of our financial results for Q3 and then Rael will provide an overview of some of the operational and investment highlights. Mario?

Mario Barrafato

Thank you, Stephen, and good morning, everyone. I'll begin with a brief overview of our results and then comment on our balance sheet. As Stephen mentioned, this quarter represents the first three-month reporting period of the combined operations of Choice Properties and the former CREIT business. Overall, our third quarter results were in line with our expectations and reflect the stability that is inherent in our portfolio.

Our reported funds from operations for the third quarter was 169.7 million or $0.253 per unit. With the exception of 267,000 in lease termination fees during the quarter, there were no other unusual items. On a comparative basis, FFO per unit is consistent with last quarter after adjusting for an additional month of contribution from the CREIT operations and nonrecurring items we noted last quarter. On a year-over-year basis, FFO per unit declined $0.01 per unit compared to the third quarter of last year, primarily due to the change in capital structure resulting from the CREIT acquisition.

Looking at adjusted funds from operations for the third quarter, we reported 137.5 million or $0.205 per unit diluted. The AFFO payout ratio for the quarter was approximately 90 percent. This payout ratio was consistent with what would be our annual expectation. However, in this year of transition, we expect an increased amount of capital spending to be skewed to the fourth quarter, which will result in a corresponding decline in AFFO when compared to the third quarter of 2018.

Included in our results was a stable quarter-over-quarter growth in our same property cash NOI. For the quarter, same property cash NOI, excluding development activities, increased by 1.6 percent to 146.2 million from 144 million in the third quarter of 2017.

Furthermore, our overall period-end occupancy was 97.7 percent, up 10 basis points over the second quarter of 2018. This is primarily due to positive absorption in the industrial and office portfolios. At period-end, retail occupancy was 98 percent, industrial occupancy was 97.8 percent, and office was 92.9 percent. Overall, very solid operating results.

Now turning to our balance sheet. Our book net asset value was effectively flat quarter over quarter, as our net earnings for the quarter were offset by cash distributions and an adjustment to the fair value of our investment properties. The adjustment to our fair value properties was a loss of 38 million and was attributable to slight changes in property-specific leasing assumptions and an alignment of cap rates within the portfolio.

During the quarter, we closed on the sale of a portfolio of older-generation industrial property in Halifax for $17 million. Subsequent to quarter-end, we entered into agreements to acquire five income-producing properties for approximately $105 million, and to dispose of a 50 percent interest in an office property for approximately $100 million. Rael will provide more colour on these transactions.

We continue to be active on the development front with ongoing investment through additional spending of 75 million in the quarter, and the transfer of 96 million of development properties to income-producing status.

From a financing perspective, we completed approximately $40 million in new mortgages, with a weighted average interest rate of 3.8 percent and a term of 14 years. As well, we did $8 million in new construction loans. We also had $125 million senior unsecured debenture mature during the quarter which was repaid with funds drawn on our credit facility.
Overall our financial metrics remain solid. Using amounts from our proportionate balance sheet, our debt to gross book value is approximately 47 percent, and normalized leverage and interest coverage ratios are 8 and 3.1 times respectively. These metrics are further backed by $1.2 billion of liquidity on our credit facility and $11.8 billion pool of unencumbered assets.

So once again, we're very pleased with the first full quarter reporting of the combined entity.

I'll now turn the call over to Rael.

Rael Diamond

Thank you, Mario, and good morning, everyone. As Stephen mentioned, I'll provide a brief overview of our portfolio and an update on transaction activities.

Our consolidated portfolio includes 751 properties, comprising 67 million square feet of GLA. The portfolio is located across Canada, with a concentration in Canada's largest markets.

Our retail portfolio is primarily focused on necessity-based retail tenants. This portion of our portfolio is the foundation of our reliable cash flow. One of our key competitive advantages is our strategic relationship with Loblaw, Canada's largest retailer. This relationship provides Choice with an exceptionally strong anchor tenant at many of its retail sites with long-term leases that provide us with stable, secure, and growing cash flows. We continue to add to our retail portfolio through development, including a mix of greenfield development, redevelopment, and intensifications.

In Q3, we completed and transferred a total of 290,000 square feet of retail development at a total cost of 84 million. This includes 108,000 square feet of intensification projects which are focused on adding F-grade retail density to our existing portfolio of retail assets at a cost of $31 million. In addition, it includes 82,000 square feet of redevelopment projects which are focused on repositioning older assets in key markets at a cost of $23 million. And finally, it includes 100,000 square feet of greenfield development at a cost of $30 million, including our Overlea project, which is a recently completed, stand-alone Costco site in Toronto on a long-term land lease.

Our industrial portfolio includes 112 properties and approximately 16.3 million square feet of GLA. The portfolio includes Loblaw distribution facilities on long-term leases and high-quality distribution and warehouse facilities in key industrial markets across Canada that readily accommodate a broad range of tenants.

In terms of industrial development, Choice owns 85 percent of a recently constructed 665,000-square-foot modern distribution facility on Peddie Road in Milton, Ontario. We have finalized a long-term lease for approximately 515,000 square feet with Kimberly-Clark, a multinational consumer products company. The lease will be income-producing in January 2019 at rents that are higher than our original pro forma. We are speaking with multiple prospective tenants on the balance of the space. This asset will be a great addition to our industrial portfolio as it is in the GTA west submarket of Milton, one of the strongest industrial markets in the country.

Our residential platform provides an opportunity to further diversify our portfolio. Choice has been working on expanding our residential platform. Currently, we have three residential rental assets that are income-producing, and another seven residential rental assets that are currently in various stages of development. And we are also under contract to acquire another rental residential development site located between Grosvenor Street and Grenville Street in Toronto. When complete, these residential projects will represent approximately 1,500 units of Choice's share, including 800 units located in the GTA. We're excited about the prospect of our residential initiative.

The performance of our office portfolio continues to vary in our two largest markets. The office leasing market in the GTA remains strong. There is currently significant tenant demand and limited availability. Our portfolio is almost fully occupied when considering all committed leasing.

Conditions in the Calgary office market remain difficult. Imbalance between supply and demand persist, and the market vacancy levels remain high. With this in mind, we decided to sell our 50 percent interest in Sun Life Plaza in Calgary. This decision was based on several factors, including the current market conditions and the lease expiry profile of the asset. Ultimately, we believe there are better uses of our capital, including new acquisitions like the Loblaw vend-ins and funding our ongoing development program. Subsequent to the quarter-end, conditions were waived on the sale of our interest in the asset for proceeds of approximately 100 million. This disposition is expected to close in Q4 2018, at which time we'll have more to disclose.

Keeping with transaction activities. During the quarter, we acquired a 75 percent interest in a six-acre parcel of retail development land in Sainte-Julie, a suburb of Montreal. The development plans envision 73,000 square feet of retail GLA anchored by Loblaw grocery store, Dollarama, and a liquor store. This project is currently under development and is expected to be complete by the end of 2019.

Subsequent to quarter-end, we also agreed to acquire four grocery-anchored, income-producing retail properties from Loblaw for total proceeds of $85 million. These properties are located in strong retail nodes of Ottawa, Calgary, Halifax, and the GTA, and total approximately 335,000 square feet of GLA.

Finally, we agreed to acquire a 130,000-square-foot industrial building from Weston Foods for approximately $20 million. The asset is located in the Greater Vancouver area and is subject to a long-term lease. These transactions are expected to close in the fourth quarter of 2018, and we'll have more to disclose at that time.

That concludes my comments. I would like to pass it back to the Operator for questions. Thank you.

Q&A

Operator

And at this time, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Mark Rothschild from Canaccord Genuity. Your line is open.

Mark Rothschild — Canaccord Genuity
Thanks, and good morning guys.

Stephen Johnson
Good morning.

Mark Rothschild
In regard to the asset sales, you sold some industrial properties in Atlantic Canada. To what extent was that unique to those assets? Or are you going to be trimming some of these portfolios? Is that part of the strategy to reduce leverage? Or will you be looking to actually grow the industrial portfolio?

Stephen Johnson

It's Stephen. These assets basically were older-generation assets that were in the CREIT portfolio for many, many years, and just don't suit kind of our long-term plans for the industrial platform. We're still reviewing what we're going to do on industrial, but I think our sense is that we will try to grow our industrial platform to be a meaningful part of our business over time. But at this stage, basically, we're just not committed to that. The acquisition in Vancouver, a very, very high-quality industrial property, long-term lease, and it just fits in with the industrial platform we have now quite nicely.

Mark Rothschild

And maybe just the second part of that question was, as far as reducing leverage, it was something you guys spoke about throughout the merger with Choice. Will asset sales be a source of lowering leverage? Or should we expect you to operate at this level over time, and then at some point down the road do something else?

Stephen Johnson

We don't have a definitive answer to that now, but we certainly are looking at the potential for some asset sales, and the proceeds from that would be potentially used to pay down debt, potentially used to fund our development program. So, but we're just—we haven't put a pin in it exactly at this stage. Again, keep in mind it's early days. We've just finished our first three months of, our first full quarter of activities. And some of these things, basically, as we go into future meetings, we'll be able to provide more colour and more narrative.

Mark Rothschild

Okay. Great. And just one more question. Is it possible to provide a little bit more information on what you're seeing from the CREIT portfolio as far as maybe the industrial portfolio and the office portfolio as far as changes, and the same-store NOI as far as what we can expect over the next year?

Rael Diamond

Sure, Mark. It's Rael. So, on the industrial portfolio, it's really operating at very healthy fundamentals, particularly in Toronto, Calgary, and Halifax. I don't have the exact growth percentage numbers but it's probably around 2.5 percent. In Edmonton, industrial still remains challenging but our portfolios are very high quality in Edmonton. On the office side, again we're not going to see significant growth from the portfolio, given in Toronto we largely fall with limited rollover and then any growth over there would be offset by some further declines in Calgary, as we mentioned were very challenging, so.

Mark Rothschild
Okay. Great. Thank you so much.

Operator
Your next question comes from the line of Sumayya Hussain from CIBC world Markets. Your line is open

Sumayya Hussain — CIBC World Markets
Thanks. Good morning. So just keeping on with the capital recycling theme. When you guys are I guess evaluating the portfolio for potential sales, is there any sort of preference or priority to selling the old CREIT assets versus the old Choice assets? Or do you just kind of look at the portfolio in its entirety?

Stephen Johnson
We would be agnostic to where they came from. Basically, do they fit into our long-term plan. So whether it's CRIET or Choice, doesn't really matter.

Sumayya Hussain
Yeah

Stephen Johnson
It would just be overall quality of assets is the – will be the defining criteria.

Sumayya Hussain
Right. Okay. And then just moving on to the major mixed-use developments and knowing the slightly new disclosures this quarter and the predevelopment timeline of two to five years. So just

of the three projects listed, can you remind us which ones are the most advanced? And if you could just give a status update there?

Stephen Johnson

All three, basically, we're moving through kind of an entitlement process. And the timeline that we disclosed basically is realistic, but I mean these things can change as you get into hurdles or changes in potential design.

Sumayya Hussain

Kind of at the same timeline there? And then just following up on the 60 sites identified previously. Just how static is this number? And are you continuing to review the portfolio? And is there possibility that that number could grow with time?

Stephen Johnson

This is the places for future development, on the sites for future development. Yeah, I mean, it could grow over time. I mean, we're – basically, it's a large enough number, and there are a significant number of opportunities. It could quite easily move up or down by a few, so.

Sumayya Hussain

Okay. Thanks. I'll turn it back.

Stephen Johnson

Okay.

Operator

Your next question comes from the line of Mike Markidis of Desjardins Securities. Your line is open.

Mike Markidis – Desjardins Capital

Thank you. I know the number relative to the size of your portfolio's pretty small, but just touching on the roughly $38 million fair value decline that you took this quarter, was that isolated, i.e., was it limited to maybe a handful of assets? Or was it a very small tweak that was specific to certain markets?

Mario Barrafato

Hi, Mike. There's a few parts to it. There was a handful that were property-specific, just a change in leasing assumptions, timing. The second part was, there was a small change in cap rates. Properties in Toronto and Vancouver, you've seen compression and you've seen expansion in some of the tertiary markets. But I think the bigger issue, too, is also just an alignment where we would have a cap rate on a property that'd be in certain range. As we put the portfolio together, we noticed that other cap rates of similar properties were in a different range, and so we just tried to align those a bit. So really a little bit of all those pieces.

Mike Markidis

Okay. That makes sense. On the sale of Sun Life Plaza, is the $100 million, is that gross proceeds? Or is that net of debt that's attached to the property?

Rael Diamond

It's gross proceeds. There is existing financing on the asset which we have moved to other assets, so it's gross proceeds.

Mike Markidis

Okay. So gross proceeds. And you may not have this off the top of your head, Mario, but do you know what the NOI contribution for Q3 was from that asset?

Mario Barrafato

Q3 would have been—I don't have it offhand, Mike.

Mike Markidis

Okay. No problem.

Mario Barrafato

I will have to get back to you.

Mike Markidis

Last question. Just a higher-level question. Now with the CREIT merger, over the past several months being completed and the change now in the ownership from Loblaw to Weston in terms of where your majority position sits, obviously, Loblaw is very important to the organization strategically going forward. But is there any high-level thought in terms of where the concentration of or exposure on the revenue side would be going forward? Is it something that you would expect to try and maintain here? Or is the goal to push it down over time?

Stephen Johnson

Sorry is your question basically would we try to push the Loblaw total percentage down over time?

Mike Markidis

Yes.

Stephen Johnson

Yeah. It will come down by definition, given the current development program we have with the – if you look at the concentration on rental residential, by definition that'll push that down over time. And really, going forward, if you look at your development program generally, it will, again, by definition, push that concentration lower.

Mike Markidis

So sufficient to say it's just a by-product of your development efforts, and not necessarily a broader strategic goal to reduce the concentration?

Stephen Johnson

That's correct, I mean basically. So whether that's good, bad, or indifferent, I mean it's really going to happen as a result of our development initiative, our development business.

Mike Markidis

Thank you. I'll turn it back.

Operator

Your next question comes from Pammi Bir with Scotia Capital. Your line is open.

Pammi Bir – Scotia Capital

Thanks. Good morning. Just on the Sun Life Plaza sale, can you maybe just provide some colour on the cap rate, or even a range on that transaction? And was the buyer your partner? Or another party?

Rael Diamond

I mean so we've never disclosed cap rates, and assets in Calgary at the moment aren't really trading on cap rates, just given the flux of the market. It's really trading on a price er foot, and which you can easily calculate, it's around $200 for our share. The purchaser we can't disclose, but it was not our partner.

Pammi Bir

And then just I guess if you maybe look, I know you made some comments on the outlook for capital recycling, but would some of the additional Calgary office assets that are left, would they be perhaps considered for sale as well?

Rael Diamond

So, at this time, we are not considering selling them.

Pammi Bir

Okay. As you look at you sort of continue the whole sort of portfolio review, how much would you estimate is perhaps noncore? And I realize that it is early at this stage, but just trying to get a gauge of what we could see down the pipe.

Stephen Johnson

Pammi, it's Stephen. It's really just too early to tell. As you can tell from our comments this morning and our financial disclosure, it's been a busy quarter. And as Rael mentioned, approximately 750 assets plus our development program is very significant, and so it's just too early to tell. You have to go through it on an asset-by-asset basis, and it will take us some time.

Pammi Bir

Okay. Last one maybe. Just coming back to the comments around cap rates. What are you seeing at this stage from a retail perspective on stuff that comes across your desk? Are you seeing pressure in any of your particular markets more specifically than others? Or has it been fairly stable?

Rael Dimond

Pammi, again, it starts with the quality of the asset. Grocery-anchored retail continues to trade well, continues to be a bid for it, given they're generally small. But what we are seeing just given some of the retail volume on the market, there appears to be some softness, particularly in secondary and tertiary markets, but very few data points to truly point to.

Pammi Bir

Great. Thanks very much.

Operator

Your next question comes from the line of Sam Damiani of TD Securities. Your line is open.

Sam Damiani – TD Securities

Thank you, and good morning. Most of my questions have been answered. But just on the major mixed-use projects, a couple questions. When do you think that one of those might be at the stage of being kicked off in terms of serious money being spent? And also, would you consider adding a fourth project to that pipeline in the near term?

Stephen Johnson

So, it's Stephen, Sam. Good morning. We don't have a date for when we may have shovels in the ground on any of these projects at this stage, so again, they're in the preliminary planning and entitlement stages. And as we work our way through that, basically, we'll be able to give more clarity on start dates. Would we add a fourth on to it I mean, it depends on the quality of the opportunity and where it comes down to a capital allocation decision? So, it would depend on the opportunity, Sam.

Sam Damiani

Okay. So-sorry?

Stephen Johnson

Do you have one for us?

Sam Damiani

I'll take a look. I'll take a look and let you know.

Stephen Johnson

Okay

Sam Damiani

Maybe just over to capital recycling. Your comment, Stephen, where basically messaging that specific sort of plans in that regards haven't been completely finalized. I guess some sort of strategy is being formulated on that front. And just wondering, when do you think you'd be in a position to message out that strategy?

Stephen Johnson

Yeah, again, in terms of the comments I made earlier in answer to a question, it's early days in terms of the merged entity. And so we're between the integration of the two businesses and our development program, and some of the things we're doing on the IPP portfolio, it'll just take time. So we'll update you from quarter to quarter as we have progress, but I really don't have a date at this stage where I can say something definitive in terms of what our specific plan will be in terms of recycling.

Sam Damiani

Okay. And just lastly, on the rental residential pipeline. Do you have appetite today to add more projects as well there?

Stephen Johnson

The short answer is yes. The short answer is yes, in terms of again, dependent upon the opportunity. I mean, we've been very fortunate. We were into the Toronto or GTA rental residential market a number of years ago and we have, based on - you can see from our disclosure, we have a handful of very high-quality rental residential assets that are in various stages of development, and so we come in at a good time. We're going to add some very high-quality assets in that category over the next few years. But if something else comes along, we would certainly take a look at it.

Sam Damiani
Wonderful. Thank you.

Stephen Johnson
Thank you, Sam.

Operator
And again, to ask a question, it's *, 1 from your telephone keypad. Your next question comes from the line of Tal Woolley from National Bank Financial. Your line is open.

Tal Woolley – National Bank Financial
Hi. Good morning. I just wanted to ask a couple questions about the office leasing. You had occupancy tick up a couple hundred basis points this quarter. Can you give any colour on where that leasing was signed?

Rael Diamond
The leasing was across the board. It was – in Toronto we are almost full, and then in Calgary we have continued to chip away at some of the vacancy, particularly on smaller spaces, particularly in Altius and Calgary Place.

Tal Woolley
Okay. And I apologize if I'm not fully up to speed on some of the buildings in the CREIT portfolio but, I was aware that I think you had a lease with Suncor that was coming up that you would have to replace this year or upcoming 2019. Does the sale of Sun Life Place (sic) [Plaza] take care f that problem for you?

Rael Diamond
Yes. That's one of the main reasons we decided to dispose of Sun Life Plaza.

Tal Woolley

Got it. And then just lastly. Again, you've had a lot going on in the first couple of quarters, particularly with the corporate reorg, too as well. I was just wondering, in your conversations with Loblaw and Weston, it could – there were benefits potentially in terms of accelerating the pipeline or diversification? Can you give any insights into what the conversations were with the key stakeholders there?

Stephen Johnson
It's Stephen. Certainly, the industrial asset that we announced this morning or announced—that Rael spoke about fell out of a discussion with the Weston organization. So that's an area of opportunity for us going forward in terms of possibly growing our industrial portfolio from the Weston Bakery side of the business. And of course, we've talked about what other opportunities there might be, not only from an acquisition perspective but also from a leasing perspective and so on. So, I mean they're committed to support the success of our business and the long-term growth of our business, so all of those opportunities are now open for discussion and we'll see as the next few years unfold basically, how many of those can be pursued for the benefit of both or all three parties.

Tal Woolley
Okay. Thank you very much.

Operator
Your next question comes from the line of Michael Smith from RBC Capital Markets. Your line is open.

Michael Smith – RBC Capital Markets
Thank you, and good morning. Stephen, I know it's early days, but as you said in your prepared remarks, you're working very hard on the integration of the two businesses, trying to align the organization. Just trying to get a sense of where we are. If you use a baseball analogy, is it closer to the first inning or to the seventh inning?

Stephen Johnson
I'm a baseball fan, Michael but in terms – so I think basically you made the comment about the first inning. Look as you know from our CREIT days, we view this as a very, very long-term

business. And as I said earlier kind of in the opening comments, we are really trying to – we've broken the business into two main functional areas. And our IPP portfolio, which has its opportunities for primarily for stability and embedded NOI growth with the escalations in the Loblaw leases. And then the other main part of our business is the development business, so and with our current program of approximately 1.2 billion, it's not small, and so we're not in the first inning. We're got a $16 billion entity, we've got a wonderful platform. But I guess if you want to keep with the baseball analogy, now we're in the majors, now we're in the big leagues. And so maybe it's the first inning from that perspective, but as we go through, we have a long-term perspective and basically, we're bulling it from that viewpoint.

But right now, we have certainly plenty on the way basically that is moving along and in progress as we speak sort of thing.

Michael Smith

No, I can appreciate it. It's a big task and obviously, you're looking at it from a long-term point of view. Has there—one of your key, sort of more longer-term—I mean you've got a lot on the go right now with development—1.2 billion, and you've got a lot of very big projects coming in the future, very exciting. I think one of the initiatives or one of the objectives at the start of the merger is to beef up your development team, and I'm just wondering where are you on that? Have there been any new hires? Are you thinking about it? Or are you still trying to merge the cultures of the two entities before you go into hiring mode, so to speak?

Stephen Johnson

Yes. Basically, we're thinking about how that—how we can continue to improve our development capability. A lot of the remaining spending that we have to do in the Toronto GTA rental residential program, we're doing with joint venture partners. So, from that perspective, we're very well-equipped to complete those developments. But as we go forward, as we crystalize our plan for what we're doing on development, we'll continue to build and enhance, or improve and enhance our development capability. It's going to be an important part of our business going forward, just like the IPP portfolio will be an important part of our business. Those are the two things we focus on—property management and leasing in our IPP portfolio, and development capability in our development business.

Michael Smith

Great, thank you. That's it for me.

Stephen Johnson

Thank you, Michael.

Operator

And there are no further questions. I now pass the call back over to Stephen Johnson, CEO.

Stephen Johnson

Again, thank you, everyone, for attending this morning, and thank you for your patience. I know there's some questions you would like to have answers to sooner rather than later, but stay tuned. I think we've made great progress in the few months that we've—since the merger date in May, and we look forward to future calls. Thank you, everyone. Have a great day. Have a great weekend.

Operator

And this concludes today's conference call. You may now disconnect.

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