FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust

Fourth Quarter Results Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Mike Markidis
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PRESENTATION

Operator

Good morning. My name is Christa, and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Choice Properties Real Estate Investment Trust Fourth Quarter Results. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press *, then the number 1 on your telephone keypad. And if you'd like to withdraw your question, press the # key. Thank you.

I will now turn the call over to your host, Kim Lee, Vice President, Investor Relations. You may begin.

Kim Lee

Thank you, Christa. Good morning, and welcome to the Choice Properties REIT Fourth Quarter 2017 Conference Call. This call is also being webcast simultaneously on our website at choicereit.ca, where you will also find a copy of our Q4 summary information package that we will be referring to on this call.

I'm joined here this morning by John Morrison, President and Chief Executive Officer, and Bart Munn, Chief Financial Officer.

Before we begin today's call, I want to remind you that by discussing our financial and operating performance, and in responding to your questions, we may make forward-looking statements, including statements concerning Choice Properties' objectives, its 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 risks and uncertainties that could cause our actual results to differ materially from the conclusions in these forward-looking statements.

Additional information on the material risks that could impact our actual results, and the estimates and assumptions we apply to making these statements, can be found in the 2017 annual report and management's discussion and analysis related thereto, together with Choice Properties' Annual Information Form, that are all available on our website and on SEDAR.

With that, I'll turn it over to John.

John Morrison

Thanks, Kim, and good morning, everyone. Thank you for joining us on our Q4 and year-end 2017 conference call. Let me begin with a brief overview of the quarter and the year.

With the close of the fourth quarter, we marked another successful year for Choice Properties. Throughout the year, we made progress on all fronts and achieved important goals in each of our core drivers—acquisitions, development, and active management—and delivered positive operational and financial results.

During the quarter, we acquired seven additional properties for a total value of $80 million before transaction costs. Two were retail income-producing properties purchased from third-party vendors, and five were part of a portfolio of properties we acquired from Loblaw. The properties from Loblaw included two parcels of land that provide future development potential of approximately 80,000 square feet of GLA in Hamilton and Toronto.

Acquisitions for the year total approximately $126 million in value and added over 500,000 square feet of GLA and six parcels of land for future development to our portfolio, with a weighted average capitalization rate of 6.4 percent per income-producing properties.

On Slide 5 of our summary information package, we highlight the 63,000 square feet of new gross leasable area we constructed during the quarter for 19 new retail spaces for third-party tenants in Nova Scotia, Quebec, Ontario, and Saskatchewan. Having met our target for 2017 project completions and achieving an approximate 8 percent yield on the development capital as of last quarter, this 63,000 square feet of GLA contributes up to 366,000 square feet we plan to complete this year, with expected yields ranging from 6 percent to 9 percent.

With respect to mixed-use projects, we are making good progress. Design and development concepts for our property in the Bloor-Dundas West mobility hub in Toronto are proceeding toward plans that we target submitting as part of our zoning application to the city later this year. In addition, we have initiated the preplanning process for our mixed-use project on North Road in Coquitlam, British Columbia.

Leasing activity during the fourth quarter resulted in binding commitments for approximately 140,000 square feet of GLA. This includes approximately 42,000 square feet of renewals and 56,000 square feet of GLA we completed within our development program. Our renewal rate this quarter was 58.2 percent with an average rent increase of 12.7 percent. Overall, we maintain our total portfolio’s high occupancy rate at 98.9 percent, flat compared to 2016.

And with that I will turn the call over to Bart to provide you with a review of the financials for the quarter.

Bart Munn

Thanks, John, and good morning, everyone. I refer you to Slide 9 of our presentation material, where you'll find selected financial results for the fourth quarter.

As of December 31, 2017, Choice Properties' portfolio comprised 546 properties with a total gross leasable area of 44.1 million square feet. Under IFRS, Choice Properties' investment properties were valued at approximately 9.6 billion, and that's based on a weighted average cap rate of 6.07 percent compared to 6.12 percent at year-end 2016.

For the quarter, rental revenue was 211 million and net operating income was 152.8 million, representing increases of 6.7 percent and 9.4 percent over Q4 2016 respectively. The growth in NOI was attributed to acquisitions, lease surrender revenue, and new developments.

On a same property, same GLA basis, organic NOI increased to 140.1 million or by 3.4 percent from Q4 2016. This increase was driven by step rents in Loblaw leases and higher average rents per square foot on ancillary leases. For the full year, rental revenue was 829.8 million and NOI was 584.7 million, 5.9 percent and 6.9 percent better than 2016 respectively. Organic NOI increased 3.2 percent to 545.2 million for the reasons I mentioned earlier, as well as higher recovery of capital expenditures compared to last year.

Adjusted general and administrative expenses for the quarter were 5.5 million compared to 5.9 million in Q4 2016. The ratio of G&A expenses to total revenue was 2.6 percent compared to 3 percent of revenue for Q4 2016. We target G&A expenses spending to be approximately 2.5 percent of total revenue.

G&A expenses on a similar basis for the full year were 19.3 million, or 2.3 percent of revenue, compared to 21.7 million, or 2.8 percent of revenue, last year. We target annual G&A expense spending to be approximately 2.5 percent of total revenue.

Funds from operations for the quarter were 116.8 million, or $0.282 per diluted unit, compared to 103.1 million, or $0.251 per diluted unit, last year. The 13.3 percent year-over-year growth in FFO was primarily due to an increase of 12 million in net property income.

For 2017, FFO was 442.9 million or $1.072 per diluted unit, 8 percent and 7.2 percent year-over-year increases respectively. Similar to the quarter, the main driver of FFO growth for the year was higher net property income.

Our adjusted cash flow from operations, ACFO, was 102.6 million compared to 92.4 million for the fourth quarter of 2016. With total distributions declared of 76.3 million, or $0.185 per unit for Q4, our payout ratio for the quarter was 74.4 percent. This compares to 78.9 percent for Q4 2016. Excluding lease surrender payments and transactional fee, our payout ratio was 79.6 percent, in line with Q4 2016.

For the year, ACFO was 363.1 million, with a payout ratio of 82.7 percent, compared to 339.2 million, and a payout ratio of 83.2 percent, for 2016. We anticipate the annual ACFO payout ratio to be approximately 85 percent.

At year-end, our debt service coverage ratio was 3.7 times, and our weighted average term to maturity on our senior, unsecured debentures was 4.5 years. In January, we started the year with a successful debt offering, raising 650 million in senior, unsecured debentures, improving our financial flexibility and reducing our refinancing risk. We currently have approximately 210 million of liquidity available on our credit facility.

Let me now turn it over to John to provide closing remarks.

John Morrison

Thanks, Bart. 2017 was another solid year for Choice Properties. Since day one, we have established a track record of strong performance. In less than five years, the Choice Properties crew has built a high-quality real estate business while consistently delivering results in growth and cash flows.

We look forward to 2018 and another successful year of generating solid, stable, and secure cash flows, while driving our growth through acquisitions and active management as well as our development program. We are excited with our mixed-use development projects and expect to share more progress with you in the year.

I'd like to take this opportunity to thank the entire Choice Properties crew for all their efforts and to congratulate them on another successful year. And now, Operator, we would be pleased to take questions.

Q&A

Operator

And as a reminder, if you would like to ask a question, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Mike Markidis from Desjardins. Please go ahead. Your line is open.

Mike Markidis — Desjardins Capital

Hi, everybody. Good morning. Just trying to think of the timing of the potential mixed-use projects. It sounds like you're making or going to be submitting zoning applications on

Bloor-Dundas and also on the Golden Mile. John, maybe just given where the municipal processes have evolved with the OMB and what your project entails, is it possible at this juncture to kind of think of a potential delivery date for either of those properties, roughly?

John Morrison

Yeah. I can give you—I'll give you a bit of a highlight on both of them. So if you recall, with Golden Mile we filed an OPA with the city in January of last year. We received comments back and our application was more or less—was approved by them in sort of March. Back in June last year, the city held the first public meeting for the secondary plan for the Golden Mile area, and we had about 200 people show up, and so we were able to take the community through the plan. And then we've had some other meetings, obviously, with the city going forward.

So in terms of timing, we're projecting to start construction on what we call Phase 1 next year. And Phase 1 will entail building the new retail component first, and then we would go back and demolish the existing retail and start building out the balance of the project. So we expect that this schedule that we have today is going to continue because all the indications we have from the city and the communities thus far have been very positive. So that's sort of the time line around Golden Mile.

2280, as you may recall, we've been engaging with the community in advance of any official applications with the city because we feel that this project's a little bit different in terms of where it's located and the fact that there's so much—it's an integral transit hub for the City of Toronto. And so we just feel that it's kind of a different situation, if you will, and it's more of a larger type community that we're going to be building there.

So we've been working through the city or with the city on the master planning aspect of it and getting comments back on an unofficial basis. And so we expect to file an application for official plan and some zoning bylaw amendments late spring this year. And so we're not anticipating any delays on that project of any significance as well. So those two big projects are proceeding, and obviously there's a lot of work going on behind the scenes.

Mike Markidis — Desjardins Capital

Okay. So it would seem then, in terms of your CapEx schedule that you put on, perhaps you're going to start incurring capital more meaningfully in 2019, specifically as Golden Mile starts construction. But reality is, in terms of actually delivery of space, 2020, 2021, 2022 is more realistic for this project?

John Morrison

Yeah. Exactly, Mike, and I would think that realistically, the capital spend will be later in ‘19 as opposed to earlier in ‘19.

Mike Markidis — Desjardins Capital

Right. Okay. So then just thinking about the—you guys have, it seems, gotten up to a—if we just look at intensification and other greenfield developments, not necessarily the mixed-use side of things. Kind of the $100 million in terms of deliveries—maybe call it 70 million to $100 million would be sort of where you guys have gotten to, in terms of development activity.

John Morrison

Right.

Mike Markidis — Desjardins Capital

Is that a level that you think you can sustain over the medium term, in terms of an annual—so I guess where I’m going is, three years, four years from now when your mixed-use deliveries come onstream, can we still count on that sort of 75 million to $100 million of other activity as well?

John Morrison

So your definition of medium term might be different than mine—

Mike Markidis — Desjardins Capital

Okay.

John Morrison

—but here’s what I would say on that: That we still do have a pipeline of intensification opportunities, which we’re going to continue to execute on. But what you will see over time—and let’s call it the short to medium term, whatever that means, and you and I can talk about timelines—they will start to diminish because we will start to run out of opportunities. But as that is happening, we will be ramping up our capital spend on the mixed-use residential projects. So you’ll see, ideally, a consistent spend more or less, but as we get deeper into the residential projects and some of the bigger ones, then obviously that’ll get a little bit more lumpy as we get further down the road.

Mike Markidis — Desjardins Capital

Okay. As you guys go down this path, and you look at the potential—I would assume rental residential's maybe part of your thought process. Have you guys had any discussions with operators at this juncture? Not necessarily naming them, but are you at that path where you're starting to consider who you might strategically partner with?

John Morrison

The answer is yes, and we have been—it's not recent. So we've been in discussions for a bit of time now.

Mike Markidis — Desjardins Capital

Okay. And would that be something you expect to have news on in the relatively near future? Or something that's sort of further down the road?

John Morrison

No, in the relatively near future on a couple projects.

Mike Markidis — Desjardins Capital

Okay. Last one from me before I turn it back. Bart, can you refresh me just on the same property NOI growth? Obviously, the contribution from the CapEx recoveries is still positive. Is there a point in time where that will plateau, just given the nature of where the lease has started and where you'll have sort of an annual CapEx number, but the amortization will sort of level out?

Bart Munn

Yeah. I mean, right now we've been in this program for five years. Our average amortization period for the various projects probably somewhere is around 15 years. And so if you say we've got another 10 years to get there, assuming the status quo, and we're spending about 45 million to 50 million. So by year 15, year 16, we should be, sorry, flatlining at around 45 million to 50 million bucks.

Mike Markidis — Desjardins Capital

Forty-five million to fifty million. So anyways, so for the next 7 to 8 to 10 years, keep counting on that 1 percent contribution, roughly, every year?

Bart Munn

That's right. That's right.

Mike Markidis — Desjardins Capital

Okay. That's it for me. Thanks so much.

John Morrison

Great.

Operator

And again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

We have no further questions in the queue at this time. I would now turn the call over to John Morrison, President and CEO, for closing remarks

John Morrison

Thank you, Operator, and thank you all for joining our call today, and have a great day.

Operator

This does conclude today's conference call. Thank you for your participation, and you may now disconnect.

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