FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust

Third Quarter Results Conference Call

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CORPORATE PARTICIPANTS

Kim Lee
Choice Properties Real Estate Investment Trust — Vice President, Investor Relations

John Morrison
Choice Properties Real Estate Investment Trust — President and Chief Executive Officer

Bart Munn
Choice Properties Real Estate Investment Trust — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Sumayya Hussain
CIBC — Analyst

Sam Damiani
TD Securities — Analyst

PRESENTATION

Operator

Operator

Good afternoon. My name is Tiffany, and I will be your conference Operator today. At this time, I would like to welcome everyone to the third quarter results conference call.

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 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.

Kim Lee, VP Investor Relations, you may begin your conference.

Kim Lee

Thank you, Tiffany. Good morning, and welcome to the Choice Properties REIT Third 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 Q3 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, outlook, 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 can impact our actual results, and the estimates and assumptions we applied in making these statements, can be found in the 2016 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.

And with that, I'll turn it over to John.

John Morrison

Thank you, Kim, and good morning, everyone, and thank you for joining us on our Q3 conference call. I'm going to begin with a brief overview of the quarter, and Bart will follow with a review of our financials, and then we'll open it up for questions.

The third quarter of 2017 was another successful quarter for Choice Properties. We continued to make progress on all fronts and delivered year-over-year growth in key performance metrics. During the quarter, we acquired new properties, developed new gross leasable area for our tenants, and maintained our high occupancy rate. We reported year-over-year growth in FFO per unit of 6 percent.

Let me now provide you with more details of our achievements. In the quarter, we successfully completed six acquisitions from third-party vendors. These properties included two retail sites in St-Raymond, Quebec and Uxbridge, Ontario, adding approximately 65,000 square feet of GLA, anchored by approximately 49,000 square feet of Loblaw leases.

These sites were immediately accretive at a combined purchase price of $13.3 million and an implied capitalization rate of approximately 6.9 percent. The remaining four properties were acquired for development purposes at a combined purchase price of $14.6 million. Two of these properties are located in Toronto, Ontario, and the other two are located in L'Ancienne- Lorette, Quebec and Spruce Grove, Alberta.

On Slide 5 of our summary information package, we highlighted the 66,000 square feet of new gross leasable area we constructed during the quarter for 26 new retail spaces for third-party tenants in Surrey, British Columbia. With this new GLA, we substantially achieved our 2017 development target of 347,000 square feet, with a weighted average yield of 8 percent.

Currently, construction is already underway for a number of retail intensification projects scheduled for completion in 2018, and we are in various stages of predevelopment for our initial mixed-use projects.

With respect to mixed-use projects. Recently we held our second open house for our redevelopment of 2280 Dundas Street West in the Bloor-Dundas West mobility hub in Toronto. We held this event in our new Community Idea Centre, a venue that we created at the site to maintain our connection with the neighbouring communities, to better understand and address local needs in our development plans. Design and development concepts are proceeding toward plans that we target submitting as part of our zoning application to the city in 2018.

Leasing activity during the third quarter resulted in binding commitments for approximately 193,000 square feet of GLA. This includes approximately 68,000 square feet of renewals and 61,000 square feet of GLA that we completed within our development program. Our renewal rate this quarter was 86.7 percent, with an average rent increase of 11.7 percent. Overall, we continue to maintain our total portfolio's high occupancy rate at 98.9 percent, essentially flat compared to last year and at the end of 2016.

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

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Bart Munn

Thanks, John, and good morning, everyone. I refer you to Slide 8 of our presentation material, where you will find selected financial results for the third quarter. As of September 30, 2017, Choice Properties' portfolio comprised 540 properties with a total gross leasable area of 43.8 million square feet. Under IFRS, Choice Properties investment properties were valued at approximately 9.4 billion based on a weighted average cap rate of 6.08 percent, compared to 6.12 percent at year-end 2016.

For the quarter, rental revenue was 206.8 million and net operating income was 145.4 million, representing increases of 5.3 percent and 5.5 percent over Q3 2016. On a same-property-same-GLA basis, NOI increased to 140.6 million or by 3.6 percent from Q3 2016. This increase was primarily attributed to higher revenue due to increases in base rent, net recoveries, and from capital recoveries.

Adjusted general and administrative expenses for the quarter were 4.5 million compared to 5.2 million in Q3 2016. Adjusted G&A excludes mark-to-market of unit-based compensation, related party property management fees, and internal expenses for leasing. The ratio of G&A expense to total revenue was 2.2 percent. We expect our annual run rate for G&A to be in the mid-2 percent range.

Funds from operations for the quarter were 108.9 million or $0.263 per diluted unit, compared to 101.9 million or $0.248 per diluted unit last year. The 6.9 percent year-over-year growth in FFO was primarily due to 7 million in higher net property income. Our adjusted cash flow from operations, ACFO, was 81.9 million compared to 88.4 million last year.

With total distributions declared of 76.1 million for Q3, our payout ratio for the quarter was 92.9 percent. This compares to 82.2 percent for Q3 2016. The year-over-year change in payout ratio is attributed to timing of operational cash flows. While we recognize these fluctuations in cash flow throughout the year, we continue to expect our annual ACFO payout ratio to be in the 85 percent range.

Our debt service coverage ratio of 3.6 times remains unchanged, and our weighted average term to maturity on our senior unsecured debentures is 4.8 years. We currently have approximately 230 million of liquidity available on our credit facility.

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

John Morrison

Thank you, Bart. Q3 was another solid quarter for us, and a clear indication of Choice Properties' capacity to consistently deliver operational and financial results. The team continues to execute on plan and create value for all stakeholders. Excuse me. We expect to continue to leverage our strong core business, benefit from the stability and consistency of our portfolio, and to capitalize on our pipeline of growth opportunities, including acquisitions from Loblaw, retail intensification, and mixed-use development.

I'd like to take this opportunity to thank the entire Choice Properties crew for their efforts and to congratulate them on another successful quarter.

And now, Operator, we would be pleased to take questions.

Q&A

Operator

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 Sumayya Hussain with CIBC. Your line is open.

Sumayya Hussain - CIBC

Thanks. Good morning, guys.

John Morrison

Good morning.

Sumayya Hussain

Just on ancillary assets. How comfortable are you guys being around the 90 percent occupied range? And would you want to see it go higher at all? Or are you okay at these levels?

John Morrison

We're in pretty good shape at these levels. We have taken some space off the market recently as a result of the fact that we're demolishing space that's not leasable and we can create density from resetting the space. We don't see the number moving that much higher, but we're—so we're—to answer your question, we're in a comfortable range at roughly 90 percent.

Sumayya Hussain

Okay. In terms of targeted acquisitions for 2017, are you still expecting to meet the planned 100 million to 150 million for this year? And do you have a sense at all of how that will look for 2018 at this point in time?

Bart Munn

Yeah. From an acquisition point of view, I think we probably will be—well, we will be a bit light on the 2017. We'll be sort of under—sort of between sort of 50 million and 75 million is probably where we'll land. It's just timing, and we expect to see sort of the acquisitions in 2018 to move up in sort of the first half of the year.

Sumayya Hussain

Okay. That’s it from me. I’ll turn it back. Thank you.

Operator

As a reminder, to ask a question, that is *, 1 on your telephone keypad.

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

Sam Damiani – TD Securities

Thank you. Good morning. I was wondering if I could get an update on the Golden Mile and 2280 Dundas projects?

John Morrison

Certainly, Sam. Golden Mile, we have filed an official plan amendment with the City of Toronto; we did that earlier this year. And we have received comments back from the city, which we’re working through, obviously, with the city. We have a full contingency of consultants working with us on the project. And once the review is complete, then we’re expecting to file site plan submission for phase—what we’re calling phase one, which is really the retail component, and we hope that construction will commence in 2019. So the retail component would make up a new retail offering, if you will. And then following that, the construction of that, then we would demolish the existing retail. So it’s a phased development.

With respect to 2280, as we’ve articulated, we’ve held a couple of open houses with our community. We’ve opened an Idea Centre at the site that we welcome anybody to visit. And so we’re in the process of—not only have we taken feedback from the community and working with various stakeholders—we’re working on our plans in terms of putting forward an application to the city next year.

Sam Damiani

Okay. That’s helpful. And just back to Golden Mile. It’ll be a phased development. Do you see kind of building most of the residential kind of all at once? Or do you envision building one or two portions of it?

John Morrison

Yeah. Difficult to say at this point. I imagine we’ll be building it in phases because of the size of the site and the amount of residential that’ll be built, and the different types of residential that’ll be built. So I don’t see that it’ll be all construction all at once. I think it’ll be phased over a period of time.

Sam Damiani

Okay. And just switching over to 500 Lake Shore. What's the status there? Is there any vacancies still to lease up?

John Morrison

No. We're virtually leased, both the office and the retail. The contractor's obviously been on site for a number of months now, and the below-grade parking has been poured, and we're pretty much up to—almost up the grade now. And the condos—the condominium project that's adjacent to us, I think, for all intents and purposes, is sold out.

Sam Damiani

Right. Thank you—

John Morrison

So we're on track—we're on track for sort of a mid '19 opening.

Sam Damiani

Yeah. Perfect. Perfect. Okay. Thanks very much.

John Morrison

Okay.

Operator

There are no further questions in queue at this time. I turn the conference back over to our presenters.

John Morrison

Thank you, Operator, and thank you, all, for calling in this morning. We appreciate your time, and we look forward to our next call in February of 2018 when we discuss our Q4 results. Thank you.

Operator

This concludes today's conference call. You may now disconnect.