FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust

Second Quarter Results

Event Date/Time: July 22, 2014 — 10:00 a.m. E.T.

Length: 30 minutes

CORPORATE PARTICIPANTS

Kim Lee
Choice Properties Real Estate Investment Trust — VP of 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

Jane Marshall
Choice Properties Real Estate Investment Trust — Chief Operating Officer

CONFERENCE CALL PARTICIPANTS

Pammi Bir
Scotia Capital — Analyst

Troy MacLean
BMO Capital Markets — Analyst

Michael Smith
RBC Capital Markets — Analyst

Alex Avery
CIBC — Analyst

Sam Damiani
TD Securities — Analyst

Jimmy Shan
GMP Securities — Analyst

Keith Howlett
Desjardin Securities — Analyst

PRESENTATION

Operator

Good morning. My name is Steve (phon), 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 Second 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 that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

I'll now turn the conference over to Kim Lee, VP of Investor Relations. Please go ahead.

Kim Lee — VP of Investor Relations, Choice Properties Real Estate Investment Trust

Thank you, Steve. Good morning, and welcome to the Choice Properties REIT Second Quarter 2014 Conference Call. This call is also being webcast simultaneously on our website at choicereit.ca, where you will also find a copy of our Q2 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; Bart Munn, Chief Financial Officer; and Jane Marshall, Chief Operating 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, and intentions, 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 applied in making these statements can be found in the second quarter 2014 Report to Unitholders and Management's Discussion and Analysis related thereto, together with Choice Properties Annual Information Form that are available on our website and on SEDAR.

With that, I will now turn the call over to John.

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

Thank you, Kim, and let me also welcome you this morning and thank you for joining us on our second quarter 2014 conference call.

I'm going to begin with a brief overview of the quarter. Bart Munn, our Chief Financial Officer, will review Q2 financials, and he will be followed by Jane Marshall, our Chief Operating Officer, who will present operational highlights, and then we'll open up the call for questions.

For the second quarter of 2014, I'm pleased to report that Choice Properties executed and delivered as planned. During the quarter, we continued making strides on our growth strategy of delivering solid financial and operational results.

FFO and AFFO for the quarter continued to be in line with what we had forecasted at our IPO last year. Q2 FFO per unit was $0.228, excluding a noncash finance charge related to the replacement of the transfer notes. This compared to forecast of $0.221 and AFFO per unit was $0.184 compared to forecast of $0.179.

During the quarter, we completed our Toronto development project. Our tenants have taken possession of their respective units and are expected to open for business in Q3 of this year, and Jane will provide a more detailed update on our development program later on the call.

As for acquisitions during the quarter, we successfully completed the accretive acquisition of a portfolio of 20 retail properties from Loblaw for approximately $200 million. Operationally we maintained our high occupancy rate, closing the quarter at 97.7 percent occupied, which is flat compared to Q1.

And with that, I will now turn the call over to Bart to discuss the second quarter financial results.

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

Thanks, John, and good morning, everyone. I would like to refer you to Slide 5 of our presentation material where you will find selected financial highlights for the second quarter compared to our IPO forecast.

So as of June 30th, Choice Properties' portfolio comprised of 456 properties with a total gross leasable area of 37.6 million square feet. Under IFRS, Choice Properties’ investment properties were valued at 7.5 billion based on a weighted average cap rate of 6.18 percent, which is essentially unchanged from Q1, and includes approximately 200 million for the acquisition of the portfolio of 20 retail properties from Loblaw mentioned earlier.

For the quarter, rental revenue was 170.3 million and net operating income was 118.7 million, 3.9 percent and 6 percent higher than the forecast, respectively. The increases were largely due to acquisitions, which contributed 7.5 million in incremental revenue and 5.2 million in incremental NOI.

On a same property basis, rental revenue was 162.8 million compared with forecast of 164 million. This 1.2 million variance from forecast was primarily driven by lower-than-forecasted property tax recoveries, the result of lower property tax expense incurred.

Same property NOI for the quarter was 113.5 million, 1.5 million higher than forecast. This improvement was driven by a recovery rate of 96.8 percent compared to the forecast of 94.9 percent and also included a lease surrender payment of approximately $950,000.

During the quarter, Choice Properties also entered into a master trust indenture agreement with Computershare Trust Company and created separate supplemental indentures in order to facilitate the replacement of the Series 5 through Series 10 transfer notes held by Loblaw, which had a total principal amount of 1.5 billion. These unsecured debentures contain the same principal amounts, interest rates, maturity dates, and the remaining terms and conditions are substantially similar to the original transfer notes.

Choice incurred a noncash financial charge of approximately 52 million as a result of the transaction, which is considered to be extinguishment of debt for accounting purposes. Loblaw subsequently sold the replacement debentures to unrelated parties in two separate transactions.

Funds from operations, or FFO, for the quarter excluded the impact of the onetime $52 million finance charge, was 86.7 million, or $0.228 per unit, compared to forecast of 78.1 million, or $0.221 per unit. The improvement of FFO over forecast was largely due to incremental NOI of 7.3 million and G&A savings of $1 million. On a per unit basis, these positive variances were partially offset by the impact of 6 million incremental units issued as a result of the overallotment option at the time of the IPO.

Adjusted funds from operations, or AFFO, for Q2 were 69.8 million, 6.5 million better than forecasted. AFFO per unit was $0.184 compared to forecast of $0.18. The AFFO payout ratio for the quarter was 88.3 percent compared to the forecasted payout ratio of 90.8 percent.

So we closed the second quarter in a solid financial position with a strong balance sheet and financial flexibility to meet ongoing obligations and invest in future growth. At the end of Q2, our total debt and Class C LP units stood at 3.5 billion and included $92 million drawn from our $500 million revolving credit facility.

Our debt-to-total-asset ratio was 46.3 percent, which is well within our maximum threshold. Our debt service coverage ratio was 3.4 times, and our debt-to-EBITDA was 7.4 times.

So with that, let me now pass it over to Jane to provide an overview of operating results.

Jane Marshall — Chief Operating Officer, Choice Properties Real Estate Investment Trust

Thanks, Bart, and good morning. During the second quarter, we entered into binding leases, or offers to lease totalling 167,000 square feet, including lease renewals of approximately 78,000 square feet, which represents a renewal rate of 96.4 percent.

Benefiting from opportunities for rent growth as our leases roll over, the weighted average base rent of renewals increased 7.4 percent to $12.36 per square foot.

With respect to development, as John mentioned earlier, we have completed construction at our Toronto development project. Dollarama and LCBO are currently in their fixturing periods and are expected to open for business in the latter half of the summer.

Our construction of a Fortinos in Stoney Creek is complete, and the grand opening of this new store is this Friday. The development project in Surrey, BC to construct 120,000-square-foot Real Canadian Superstore remains on plan to be completed in the first half of 2015.

Looking ahead, we are currently building momentum for our development program, and have almost 0.5 million square feet at various stages of predevelopment. We look forward to discussing our development plans as they reach final building approvals.

As John mentioned earlier, we successfully completed the acquisition of 1.2 million square feet in our portfolio, 20 retail properties from Loblaw, at the purchase price of 200 million and a going-in cap rate of 6.5 percent. The portfolio, which has an occupancy rate of 97.9 percent, is well located across Canada and consists of 14 Loblaw-bannered standalone supermarkets and six Loblaw-anchored multi-tenant sites.

Along with the accretive returns we will immediately enjoy, this portfolio provides intensification potential in the 20,000 to 40,000-square-foot range.

With that, I would like to turn it back to John for his closing remarks.

John Morrison

Thanks, Jane. With the close of a solid Q2, we mark the completion of our first 12 months of operations since our IPO on July 5, 2013.

In the year since our IPO, we have grown our portfolio by 2.3 million square feet, adding approximately $400 million in value with an estimated annual NOI contribution of approximately $25.5 million.

The economic fundamentals of the retail sector which forms the majority of our tenant base is stable. More importantly, the fundamentals of our business remain strong.

We benefit from secure and reliable income as a result of the long-term leases in our portfolio, and have growth opportunities, including existing development and redevelopment potential, and a dedicated acquisition pipeline from Loblaw.

Our priority is to maintain our focus on advancing our growth strategies to drive results. A key component of our strategy is our transition to an internationalized property management platform. Internalization will allow for a strong focus on improving, repositioning, and strengthening the current tenant mix and merchandising of our existing properties.

On this front we are making good progress, and remain on track to complete our transition by year-end.

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

Q&A

Operator

Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press *, then 1 on your telephone keypad.

And your first question comes from the line of Pammi Bir from Scotia Capital. Your line is now open.

Pammi Bir — Scotia Capital

Thanks, and good morning. Just it's certainly nice to see the acquisitions continue to come through, but can you maybe talk about the potential pipeline for the balance of this year from both Loblaw and any third party opportunities that might also be considered?

John Morrison

Yeah. Thank you, Pammi, for that question. We continue to look at the market in terms of any potential third party opportunities. We're in constant contact with the brokerage community in terms of properties that are either scheduled to come to the market or have come to the market.

We have during the year taken a look at a few properties that we thought would be a good fit. Unfortunately we weren't successful in terms of the pricing, but nonetheless we're actively looking.

In terms of Loblaw, yes, we continue to look down at the pipeline of available properties that are within the Loblaw remaining portfolio, and we have an expectation to do another acquisition later this year, which would be roughly the same size as the one we just recently completed.

Pammi Bir

And sorry, in terms of pricing, would that be in the similar range?

John Morrison

Yeah. Similar range.

Pammi Bir

Okay. Okay. And then just on that topic in terms of leverage, this recent acquisition pushed it down further with the Class B units issued to Loblaw. And part of that might be driven, I guess, by their own tax needs. But directionally what should we expect for leverage over the next 18 months or so? And can you remind us what you're targeting from a debt-to-gross book value or debt-to-EBITDA basis?

Bart Munn

Yeah. Pammi, you're correct on your assumption that the proceeds that we used to close these acquisitions with Loblaw is really driven based on sort of their tax base for the properties. And so each deal will be somewhat unique based on the properties, the age of the properties that are rolled in, but I would say we target a 50/50, but in the last couple of deals it's been 60 or higher. So I would expect future deals will probably be closer to 60 than sort of closer to 50.

As far as our targeted range—so if we take a look right now we're at 46 percent—we've indicated we're sort of looking in a range over time of 48 to 52, but I would say we'll probably be below 50 for some time.

Pammi Bir

Okay. And maybe just looking at the G&A; again, a bit lower than the IPO forecast. In terms of the outlook for the rest of the year, what are your thoughts for total costs versus say a normalized run rate? And then going back to that 2.5 million of transition costs that have yet to be incurred, will you be treating those as onetime for FFO and AFFO purposes?

Bart Munn

Yeah. So it has taken us sort of—our plans were to commence hiring, I would say, earlier than this point, but those hirings are happening now. And, therefore, we will see our G&A move higher on a quarter-over-quarter basis.

I would say that to be fair we're probably looking at a normalized for this year of about 5.5 million per quarter, and then you would add on the extra 2.5 million that we disclosed. And you are correct, we see that as being a onetime transitional amount, and then in 2015 we still are working on those numbers because of the significant change in the entity as we internalize property management. But third quarter I should have a better handle on a go-forward subsequent to '14.

Pammi Bir

Okay. That's helpful. Thanks very much.

Bart Munn

Okay.

Operator

Your next question comes from the line of Troy MacLean from BMO Capital Markets. Your line is now open.

Troy MacLean — BMO Capital Markets

Good morning.

Bart Munn

Good morning.

Troy MacLean

For the lease surrender income in the quarter, was that all from one tenant?

Jane Marshall

Yes. It's Jane Marshall speaking, and yes it was from one tenant.

Troy MacLean

And how many square feet was vacated?

Jane Marshall

Yeah. So the tenant is Big Lots, and as you know, Big Lots recently announced that it is ceasing operations in Canada. And Big Lots operated in three our sites, Guelph Line, our shopping centre at Upper Middle and Guelph Line, Leamington Mall and 173 Lakeshore in Oakville. All three units combined total 82,000 square feet, and they vacated on April the 1st.

Troy MacLean

And then how much NOI—what kind of NOI impact will there be in Q3 from the departed tenant?

John Morrison

Troy, there won't be any because we've negotiated their surrender for them...

Troy MacLean

Yeah.

John Morrison

Or with them, so that'll carry through this year.

Troy MacLean

Okay. And then just on the 500,000 square feet in predevelopment, how much of that space do you expect to begin construction on in 2014 and 2015?

Jane Marshall

So our sense, later this year we will have about two or three sites under construction, and then the balance, a larger majority of the 500,000 square feet will come in in '15 and '16.

Troy MacLean

Okay. And then do you expect similar development yields as the project's undertaken so far?

Jane Marshall

Yes. Indeed, we do.

Troy MacLean

And then just on leasing volume, it picked up in the quarter. Do you expect to kind of maintain that momentum for the rest of the year?

Jane Marshall

Well, certainly that is our hope, and as you can see that the higher renewal rate occurred and we had a number of larger tenants renew in that quarter, and we indeed hope that that continues on.

Troy MacLean

Okay. And then just on the two properties held for sale, are they single-tenant properties?

John Morrison

Yes.

Troy MacLean

And then has Loblaw sold those stores to another retailer? Or are they vacating?

Bart Munn

They've sold them to another retailer.

Troy MacLean

Okay. Thank you. I'll turn it back.

Bart Munn

Okay.

Operator

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

Michael Smith — RBC Capital Markets

Thank you, and good morning. Just on the two developments that you have going now, the Fortinos, which I guess opens next week, and the Surrey project for next year, when will the revenue start hitting the P&L statement? What quarter?

Jane Marshall

For the Fortinos store, which opens this Friday, as you realize, it's incremental footage that we are—even though it's a brand-new store we were already receiving revenue from the Fortinos that closes the same day, which is this Friday, and will be demolished. So the incremental is approximately 25,000 square feet of additional space, and it will begin immediately.

And then with respect to Surrey, the 120,000-square-foot Real Canadian Superstore, that will occur in the second half of '15.

Michael Smith

Okay.

Jane Marshall

And we're still uncertain of the date.

Michael Smith

Okay. And just on your IFRS valuation, there was a slight change in your discount rate and your terminal cap rate. I'm just wondering, was that just due to averaging with the new acquisitions? Or was there an actual change in assumptions?

Bart Munn

It was a result of the new acquisitions.

Michael Smith

Okay. Thank you.

Bart Munn

Okay.

Operator

Your next question comes from the line of Alex Avery from CIBC. Your line is now open.

Alex Avery — CIBC

Thank you. I'm not sure if it was mentioned or if I just missed it, but on the internalization you noted about $2.5 million of cost; can you just describe how that's going to show up in, I guess, the various quarters? And how it's going to be treated?

Bart Munn

Yeah. Alex, it's Bart. Yeah. So we expect that to be spent probably evenly over the next two quarters. And the way we're going to treat it is it is a onetime cost associated with sort of adding extra staffing to allow us to transition from Arcturus system into our system.

Also, as you know, we've got a new computer system being installed, so we have all the issues of training, implementation, et cetera. So those costs are one time, and we will show them separately, and they should not be factored into any run rate on a go-forward basis.

Alex Avery

But they will show up in G&A, I would presume, and…

Bart Munn

They will.

Alex Avery

And included in FFO?

Bart Munn

They will be shown in both and then shown with that excluded. So you'll see two numbers.

Alex Avery

Okay. That's great. That's great. And then when you describe the, I guess, the development strategy and the outlook for the future, you notably included the description at grade. And I was just wondering if at this point Choice is exclusively looking at grade intensification? Or if there's prospects for more, I guess, multi-storey density and perhaps even the thought of maybe doing some apartments on some existing properties?

John Morrison

Alex, it's John. The answer to your question is you're seeing at grade right now because that is the type of development that we can deliver on in the near term. But we are also focusing our development efforts towards looking at some of these more urban, what we describe as more urban sites and, to your point, that have vertical density available to them. They obviously take longer to not only bring to fruition, but they take longer in terms of planning and understanding as well. So we are looking at those types of sites at the same time.

And so you'll see as we move forward we'll be able to discuss what our plans are with those sites, but it's still early days on those. But suffice to say that we are spending time looking at those sites as well.

Alex Avery

So for something like Bloor and Dundas you would have plans for more density than just at grade?

John Morrison

Bloor—yeah. That would be a good example.

Alex Avery

Okay. That's great. Thank you.

John Morrison

Okay.

Operator

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

Sam Damiani — TD Securities

Thanks, and good morning, everyone.

John Morrison

Good morning.

Sam Damiani

Just on the build-out that you talked about on the at grade sites over the next 18 months, I guess, or so, is it mostly retail? And if you could also clarify if it's going to be mostly Loblaw stores being built on there or mostly third party tenants you're targeting to lease that space to?

John Morrison

Sam, it's John. It's mostly retail. So what we're experiencing right now, as you can appreciate, and this is part of the reason we exist, there was pent-up demand on a lot of these sites for additional retail uses. And so we're working feverishly to make sure that we can meet the demand that's been put on these sites in terms of creating opportunities for retailers to colocate on them with an existing Loblaw-bannered store.

There are some store expansions that Loblaw is undertaking that we're obviously part of as well as part of that. So to answer your question, yeah, most of it is retail at this point. But as I mentioned earlier, we're going to be looking at other potential uses on and more particularly on more urban sites. And most of them are obviously in the GTA.

Sam Damiani

So most of the 0.5 million feet you're looking at is in the…

John Morrison

Yeah.

Sam Damiani

GTA?

John Morrison

No, sorry, no. It's all over. It's in Alberta, Saskatchewan, Quebec, Ontario, and that's retail right now.

Sam Damiani

Okay. Okay. Thank you. And so just looking at the G&A outlook, I know you haven't finalized that for 2015, but with the increase in G&A, will there be somewhat of an offset and a reduction in operating costs as a result of the third party fees not being paid?

Bart Munn

There will certainly be savings on that side. As you say, we would no longer pay a property manager, but my intentions would be that most of the additional costs related to that would actually move into direct charge to the real estate.

So we are starting to work through those numbers, and as I say, it's a bit early to sort of start giving you a direction because it could end up being totally incorrect.

Sam Damiani

Got it. And just on the Shoppers Drug Mart side with a few months now in the background, any update as to how you see that playing into your leasing strategies going forward?

John Morrison

Well, we clearly now have the opportunity to locate Shoppers Drug Mart stores on our sites, and we're in discussion with Shoppers on a number of locations. We haven't finalized any terms yet, but it's very positive.

Sam Damiani

Thank you very much.

Operator

Your next question comes from the line of Jimmy Shan from GMP Securities. Your line is now open.

Jimmy Shan — GMP Securities

Thanks. Just one question; I was just wondering how you think the recent leadership change at Loblaw going to impact the REIT at all, if at all? And I'm thinking specifically in terms of sort of their timing or motivation to sell the remaining pipeline of assets that they have to the REIT, and in terms of their view—if there's been any change in their view of the level of equity interest that they have in the REIT?

John Morrison

Jimmy, it's John. We don't see any change whatsoever as a result of those management changes in terms of our business.

Jimmy Shan

Okay. Okay. Great. Thanks.

John Morrison

Okay.

Operator

Your next question comes from the line of Keith Howlett from Desjardin Securities. Your line is now open.

Keith Howlett — Desjardin Securities

Yes. I was wondering if the replacement ventures for the transfer notes if there's any recourse to Loblaw on those.

Bart Munn

There would be no recourse. I mean these are basically debentures issued by Choice structured with—it's similar to any of our other unsecured paper. There's a trustee and these are liquid instruments, so there would be no recourse to Loblaw.

Keith Howlett

Then I was just wondering in terms of your pipeline would you be in discussions or be looking at properties owned by George Weston Limited or Wittington Investments?

John Morrison

No. There may be an opportunity—we've done a deal this year where we actually bought a facility and leased it to George Weston Limited for one of their bakery operations. If something that was—if there was something within their real estate portfolio that became available that made sense for us we would look at it, but it's not part of our core focus.

Keith Howlett

Thank you.

Operator

This concludes the Q&A session for today's call. I'll turn it back for any closing comments.

John Morrison

Thank you, Operator, and thank you all for joining us on our conference call today, and we certainly look forward to speaking with you for our next quarter results.

Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.