FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust
Fourth Quarter Results

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PRESENTATION

Operator
Good morning. My name is Jonathan, and I will be your conference Operator today. At this time, I would like to welcome everyone to Choice Properties Real Estate Investment Trust Fourth 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, please press the # key. Thank you.

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

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

Thank you, Jonathan. Good morning, and welcome to the Choice Properties REIT fourth 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 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, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical fact.

These statements are based on our current estimates and assumptions, and are subject to risk 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 our 2014 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 the call over to John.

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

Thank you, Kim, and good morning, everyone, and thank you for joining our conference call. I'm going to start with an overview of the quarter and Bart will follow with a presentation of the financials, and then after that we'll open it up to questions.

With the close of Q4 and year-end 2014, we mark the end of our first full year in business. It was a year of operational and development achievements that were all accomplished in parallel with the execution of our initiative to establish a fully internalized property management platform.

I am pleased to announce that as of January 1st this year, as planned, Choice Properties is internally managed with leasing, property accounting, and property management functions all in place and fully functioning.

For the fourth quarter of 2014, Choice Properties performed well and achieved year-over-year growth in NOI and FFO, driven principally by acquisitions. We also established strategic relationships to fuel our development pipeline and completed our transition initiatives to internalize our property management platform.

Let me now provide you with more details of our investment and leasing activities in the final quarter of 2014. As we discussed on our last call, we completed the acquisition of a 16-property portfolio from Loblaw in Q4 for a purchase price of $211 million at an accretive capitalization rate of 6.57 percent.

In addition, we established two new strategic relationships to acquire land, enhancing our development pipeline. First, we acquired a 70 percent interest in a joint venture limited partnership with Penequity for approximately $18 million. The limited partnership holds a 21-acre parcel of land in Brampton, Ontario that will be developed into a Loblaw grocery-anchored centre of approximately 200,000 square feet.

We also acquired a 40 percent interest in a second limited partnership with Wittington Properties for a $6.2 million investment to redevelop the former Loblaw headquarters at 500 Lake Shore in Toronto. While it is still early days for the 500 Lake Shore project, our intention for the site is a Loblaw-grocery anchored mixed-use development consisting of retail, office, and residential.

As for ongoing development projects, the construction of a new Real Canadian Superstore in Surrey, British Columbia is underway, and we initiated predevelopment work for the 200,000 square foot expansion of a warehouse in Boucherville, Quebec, with construction to commence next month and completion scheduled in 2016.

With respect to future development, we continued to build our pipeline of projects. Over the next 24 to 36 months we expect to invest approximately $400 million to develop over 1.3 million square feet of incremental gross leasable area. At the end of Q4, we had approximately 1 million square feet of gross leasable area in various stages of predevelopment.

Subsequent to quarter-end, we acquired additional land for development, completed the acquisitions of a warehouse and a small shopping centre, and raised $250 million through the issuance of senior unsecured debentures.

We acquired two parcels of land. The first site is located in Barrie, Ontario, which is a 16-acre parcel that we purchased from Loblaw for $11.5 million. We intend to co-develop the Barrie site with PenEquity, who holds an adjacent 21-acre site to construct an integrated retail centre spanning approximately 350,000 square feet. Of that total, Choice Properties is planning to develop 150,000 square feet, which includes a 60,000 square foot Loblaw-bannered grocery store, which is expected to start construction this spring.

The second parcel is a site in Kanata, Ottawa. We have entered into a co-ownership agreement with PenEquity and another partner to acquire a 9-acre parcel of land for approximately $4 million. Our share is 50 percent, or $2 million. Our intention is to develop a grocery-anchored retail centre of approximately 90,000 square feet.

As for income properties, we completed the acquisition of a 921,000 square foot warehouse in Pickering, Ontario from Loblaw for a purchase price of $81.2 million, representing an accretive capitalization rate of 6.5 percent. And more recently we closed on the acquisition of a small shopping centre totalling 55,000 square feet in Porter's Lake, Nova Scotia from a third party for a purchase price of $5.2 million, representing an accretive capitalization rate of 9.5 percent based on in-place NOI of roughly $500,000.

This shopping centre is currently 85 percent occupied with lease maturities ranging from 2015 to 2022, and is anchored by a 47,000 square foot Loblaw grocery store on an adjacent Choice Properties-owned site. Upon closing on the purchase of the shopping centre, we combined the two adjacent properties into one, bringing our total property count to date to 475, spanning 39.9 million square feet, including five parcels of land for development.

Operationally, including those negotiated in Q4, we entered into leases or offers to lease totalling 637,000 square feet in 2014. Of these leases, renewals accounted for 384,000 square feet, representing a renewal retention rate of 84.3 percent for the year.

The average base rent of renewals in 2014 increased 6.5 percent to $12.98 per square foot. Leasing activity over the year increased the occupancy rate for ancillary GLA to 83.6 percent from 80.1 percent at the end of 2013.

Overall, we continue to maintain our total portfolio's high occupancy rate at 98.1 percent as at December 31, 2014, compared to 97.7 percent at the end of 2013.

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

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

Thanks, John, and good morning. I refer you to Slide 5 of the presentation material, where you will find selected financial results for the fourth quarter.

So as at December 31st, our portfolio comprised 472 properties with a total gross leasable area of 38.9 million square feet. Under IFRS, Choice Properties' investment properties were valued at 7.9 billion based on a weighted average cap rate of 6.18 percent, which is essentially unchanged from year-end 2013.

As John mentioned, in the first two months of 2015, we completed the acquisition of 16 acres of land in Barrie, Ontario; a 50 percent interest in 9 acres of land in Kanata, Ontario; a warehouse in Pickering, Ontario; and a small shopping centre in Porter’s Lake, Nova Scotia. As we will be considering the Porter’s Lake shopping centre as part of our adjacent standalone grocery store property, our portfolio count today stands at 475 properties with a total gross leasable area of 39.9 million square feet.

For the quarter, rental revenue was 175.2 million and net operating income was 123.2 million, 6.3 percent and 7.9 percent higher than in Q4 2013, respectively. The increases were largely due to acquisitions, which contributed 13.8 million in incremental revenue and 7.7 million in incremental NOI, offset by a 309,000 decline in NOI due to dispositions.

The 1.5 percent increase in same property NOI for the quarter was primarily driven by higher CapEx and interest recoveries relative to Q4 2013. For the full year, which we don't have direct comparables, rental revenue was 682.9 million and NOI was 475.7 million. On a same property basis, rental revenue was 647.1 million and NOI was 450.9 million for 2014.

General and administrative expenses for the quarter, excluding internalization costs in 2014 and start-up costs in 2013, totalled 5.7 million, an increase of 7.9 percent compared to 5.2 million in Q4 of 2013. This increase was largely due to higher public entity costs and professional fees, partially offset by a decrease in our service agreement expense as a result of functions that Choice Properties has assumed directly.

G&A expenses for 2014 were 23.3 million, excluding the onetime internalization cost of 2.6 million.

FFO for the quarter, excluding the impact of internalization costs, was 90.9 million, or $0.23 per unit compared to the comparative period of 82.3 million, or $0.22 per unit, which excludes the impact of start-up costs. The improvement of FFO over the comparative period was largely due to incremental net property income of 9.5 million, partially offset by G&A expenses of 1.1 million and other financing charges of 0.5 million.

For 2014, FFO was 349 million, or $0.912 per unit, excluding a financing charge of 48.9 million and internalization costs of 2.6 million. AFFO for Q4 was 74.1 million, an increase of 9.4 million over the comparative period. AFFO per unit was $0.188 compared to the comparative period of $0.176. For the year, AFFO was 285.2 million, or $0.745 per unit, and the AFFO payout ratio for 2014 was 87.2 percent compared to 88.6 percent in 2013.

As at December 31st, our debt to total assets ratio was 44 percent, which is well within our maximum threshold. Our debt service coverage ratio was 3.5 times, and our debt to EBITDA ratio was 7.3 times.

Subsequent to the quarter we issued an additional 250 million in senior unsecured debentures with a coupon rate of 2.297 percent per annum that matures September 14, 2020. The net proceeds of the offerings were used to repay existing indebtedness and for general business purposes.

Combined with strong cash flow from operations and access to a $500 million senior unsecured committed credit facility, we have the financial capacity to meet ongoing obligations and to invest for future growth.

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

John Morrison

Thank you, Bart. 2014 was a very productive year that resulted in solid operational and financial performance for Choice Properties.

In addition to the solid performance metrics, we successfully built a fully internalized operating business, implemented new systems, and established a new head office location. We are very pleased with the achievements that we have accomplished thus far.

We've already started to execute and deliver on our strategy in 2015. We will continue to build on this momentum, and will remain focused on delivering results throughout the year.

We will continue to pursue accretive acquisitions, and expect to invest approximately $100 million in development opportunities. And with our expanded team of real estate professionals, we plan to focus on our existing portfolio to accelerate our leasing activity for projects and development and to retain tenants for the long term.

Now, Operator, we would be pleased to take any questions.

Q&A

Operator
And at this time, I would like to remind everyone in order to ask a question, please press *, then the number 1 on your telephone keypad. Again, that's *, 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 Troy MacLean with BMO. Please go ahead.

Troy MacLean — *BMO*
Good morning.

John Morrison
Morning.

Troy MacLean
On the 500 Lake Shore development, just to be clear, is that a project that you could see getting underway in the next couple years? Or is it more of a longer-term project?

John Morrison
No. We can see it starting within the next couple of years. The project went before community council last week, and is now scheduled to go before city council sometime later this spring.

Troy MacLean
And then do you have kind of a ballpark on what the project costs would be for that? Just trying to get a sense of how large the project could be.

John Morrison
Let me tell you this, Troy. The commercial component is about 235,000 square feet…

Troy MacLean
Mm-hmm.

John Morrison
But we're not—at this stage we're not at liberty to disclose the total cost of the project, but there will be further announcements coming out on this project. It's obviously something we're very excited about; it's a great piece of real estate, as I'm sure you know.

It's an iconic, historic building down at Lake Shore and Bathurst. There's a lot of heritage and history with this building, and working together with our partner we're pretty excited about what this is going to evolve into. So there will be further public announcements about the project certainly in due course.

Troy MacLean
Same property NOI was up. If I back out the lease surrender income it was up about 1.3 percent in Q4. Is that a good run rate for 2015?

Bart Munn
For net property income, Troy?

Troy MacLean
Yeah. Yeah.

Bart Munn
Yeah. That would be a reasonable run rate.

Troy MacLean
And then just on the fair value gain in the quarter. The MD&A mentions the change was due to a refinement in assumptions. I know the cap rate didn't change. I was wondering kind of what other changes—what changed with your assumptions that drove the change in fair value?

Bart Munn
So in this last quarter because of the internalization we also brought all of the valuations in-house. In the past half was being done by our third party property manager. So we did quite an extensive review of underlying assumptions, and the areas we focused on were changes in lease assumptions; basically occupancy as well as rate.

We also did a bit of work with adjustments on the renewal rate upon termination or expiry of the first lease term, and those things were basically the areas that resulted in that slight uptick in valuations.

Troy MacLean
Thank you. I'll turn it back.

Operator
Your next question comes from the line of Sam Damiani with TD Securities. Please go ahead.

Sam Damiani — TD Securities
Thank you. Good morning.

John Morrison
Good morning.

Sam Damiani
Just back to 500 Lake Shore, is your 40 percent interest in the entire site? Or just the commercial component of the project?

John Morrison
It's the entire site.

Bart Munn
Yeah. What we're doing is 40 percent is—the intentions are is to anything that has to do with the condo development, those lands will be sold to a condo developer yet to be finalized, and the balance will be the part that we have the 40 percent interest in.

Sam Damiani
Okay. And the $15.5 million purchase price, does that include the full site at this point?

Bart Munn
Yes.

Sam Damiani
Okay. And just back to the same property NOI growth, and you said that the 2015 run rate is going to be in that sort of same 1.3 percent range. What are the key drivers going to be to that? And then sorry, is that actually same property, same space? Or does that include expansions?

Bart Munn

It does not include expansions. For the current year we had a bit of an adjustment at the—on our—a bit of income was recorded to adjust for 2013. That basically moved us up somewhat, but what we see happening in the current year is it will be reduction in vacant space, along with improved rents on renewals.

Sam Damiani

I see. Great. Thank you.

Operator

And as a reminder, if you would like to ask a question, please press *, 1 on your telephone keypad.

Your next question comes from the line of Jimmy Shan with GMP Securities. Please go ahead.

Jimmy Shan — GMP Securities

Thanks. So just on the Barrie and the Kanata transaction, what would be the rough total development cost per square foot on those two properties?

John Morrison

Yeah. We're still working through the pro formas, Jimmy. As we've indicated, we have secured the land. We do have—as we've indicated they're intended to be Loblaw-anchored properties, and we're working through the final predevelopment and pro formas for both those properties right now.

Jimmy Shan

Would it be fair to say it's in the range—like if I just take a rough, maybe not on those two specific properties, but development costs would be in the range of $250 a foot. Is that—would that be fair?

John Morrison

I don't have that information in front of me, so I don't want to say it's right or it's wrong.

Jimmy Shan

So really I guess I'm just trying to get a sense of more of a more philosophical question, I suppose, but like if I look at the acquisitions that were done this year, they were roughly at $160-ish range and presumably rents in the low teens. And then if I look at development, I assume it's probably north of 200 with rents in the higher—in kind of mid-to-high teens, I would imagine. So I'm just kind of thinking about—be interested in sort of when you think about how you allocate between those two buckets what would be your preference and what would be your thinking behind that?

John Morrison

Well for both these sites, in Kanata it would be a little more long term, and Barrie is obviously more—it's certainly more imminent. And we're just looking at some numbers in front of us here. So Barrie right now we're looking at roughly $71 million in total capital costs for that project for us.
And so I think as we've said all along, we're looking at yields of 7 to 8 percent on some of these new development projects, and the yield on this would fall within that range.

Jimmy Shan

Okay. Okay. And then just a technical question; on the CapEx reserve I think you indicated $0.87 a square foot is what you'd expect, but also you indicated $0.11 per unit. And I'm just wondering in total dollar amount what would that be? Because we come up with two different numbers using $0.80 a foot. So $0.87 a foot will get 34 million and then $0.11 per unit will get 44 million.

Bart Munn
Yeah. The number that is the one that calculates it is really on the square footage. The other one is basically going to be impacted by number of units, et cetera.
So you're really looking at sort of roughly 0.85 to $0.90 per square foot of the portfolio. So if you took just for ease the $0.90 and were looking today at 40 million square feet, you're sort of in that $35 million range of CapEx. And as you know, we incur that cost and then recover it over the economic life of the improvement being made.

Jimmy Shan
Okay. All right. So 35 is the...

Bart Munn
That's a good number, yeah.

Jimmy Shan
Okay. Great. Thanks.

Operator
Your next question comes from the line of Alex Avery with CIBC. Please go ahead.

Alex Avery — CIBC
Thank you. You've clearly been executing on a lot of interesting initiatives and growing the portfolio, surfacing value through the developments and intensifications. I was just wondering if you could maybe provide a little bit of insight into your capital markets strategy. The capital market environment today seems to be pretty ideal for the type of security that Choice represents: highly stable growing cash flow with a very strong covenant. One of the few pushbacks that we get on the stock is, I guess, the availability of stock, the float, and I was just wondering if from a capital markets strategy perspective you could give us a sense of your appetite to acquire third party properties and perhaps increase the float available for investors?

Bart Munn
Sure, Alex. Well, we constantly are looking at acquisitions in the marketplace. What we're finding on that side of the business is products are very aggressively priced, and so returns are marginal. And as you can see from the announcements and discussions John has just given is we certainly have been focusing on the development side.

So if we have $1 to invest, from our point of view it makes a lot more sense to invest in developments, especially within the portfolio we have. And we can get anywhere between, let's say, 7 percent to north of 9 percent return versus what we're seeing for acquisitions, products most likely in secondary markets kind of priced in the low 6s.

So you haven't seen us step up on that. We did that one small one that we talked about, and that was a unique situation where by combining it with the store that we already own it makes sense to own that. And then from that point of view we're able to grow that income.

So I would say going forward what you're going to see is third party acquisitions probably more in the line of the Porter's Lake where it's adjacent to our existing store, and by putting it together we can add to that return and not just accept a 6 or a 6.25 return.

As far as on the capital side because of when we do our vend-ins there's usually a component of equity north of 50 percent as part of the consideration. That's sort of curtailed our need to go to the market for equity. The development program as it ramps up will be funded purely by our operating line, and I can see as that starts to move into high gear there will be a need for us to go to the market for a combination of unsecured debt and equity.

So we're probably—from the equity side, as I see it today, we're probably a year to a year and a half away from doing major raises in the equity market. I mean that could change if an opportunity does come by, but that's our thinking.

And then on the unsecured side we'll continue to access that market. We do have our '16s of next year, or the April '16s coming due, and we continue to monitor that one to see if what our strategy is as far as addressing that $300 million balloon.

Alex Avery
Okay. So no immediate plans, but over time you expect the float to grow?

Bart Munn
I do. I do.

Alex Avery
Okay. That's great. Thank you very much.

Bart Munn
Okay.

Operator
Your next question comes from the line of Pammi Bir with Scotia Capital. Please go ahead.

Pammi Bir — Scotia Capital
Thanks. Good morning. Just going back to 500 Lake Shore, would there be any contemplation of perhaps keeping some of that residential capacity as rental units, or even across some of the other projects in the portfolio?

John Morrison
Particularly with that project, Pammi, that's not the plan, but we're looking at other obviously urban sites that we have in both the GTA and Vancouver. And rental housing is one of the considerations we're looking at.

Pammi Bir
And in that context, any sense of initial thoughts on the quantum of units you could be looking at?

John Morrison
No, it's still early days for us in terms of the number of units. We've got—obviously we're in predevelopment on a number of sites. We have a rough estimate for each site, but it's still a work in progress, so I don't want to give you a number that will probably change.

Pammi Bir
Okay. And then just one last one; with the development pipeline that you've outlined in your MD&A, just what was your—what's your sort of outlook in terms of completions for the year in 2015 and 2016? And what do you expect to bring on line?

John Morrison
Well, we've got about 10 to 12—well, we've got roughly 12 projects underway this year. We expect that there's going to be about 11 of them that'll be completed this year, and they're in various stages of process right now.

So our plan is to have them completed this year, and some of them—one of them will hold over into next year, and we actually have a project that we thought we were going to complete in 2016. We might get it advanced into this year, and we're just looking at the timing right now.

Pammi Bir
Okay. All right. That's helpful. Thank you.

Operator
And there are no further questions at this time. I will now turn the call over to Mr. Morrison.

John Morrison
Thank you, Operator, and thank you, all, for joining our conference call today. And we certainly look forward to speaking with you for our next quarter call.

So have a great day. Thank you.

Operator
And, ladies and gentlemen, this concludes today's conference call. You may now disconnect.