FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust

First Quarter Results

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PRESENTATION

Operator

Good morning. My name is Sally, and I will be your conference Operator today. At this time, I would like to welcome everyone to Choice Properties Real Estate Investment Trust first 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 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, Vice President, Investor Relations, you may begin your conference.

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

Thank you, Sally. Good morning, and welcome to the Choice Properties REIT First 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 Q1 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 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 applied in making these statements can be found in our first quarter 2014 report to unitholders and management's discussion and analysis related thereto that are all available on our website, choicereit.ca, and on SEDAR.

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 good morning, everyone. Welcome to Choice Properties' first quarter 2014 conference call.

I'm going to begin with a brief overview of the quarter. Bart Munn, our Chief Financial Officer, will review Q1 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 first quarter of 2014, I am pleased to report that Choice Properties executed and delivered as planned. During the quarter, we remained focused on building momentum for our growth initiatives while we delivered solid financial and operational performance.

FFO and AFFO for the quarter were in line with what we had forecasted at our IPO last year, which did not include acquisitions. Q1 FFO per unit was $0.233 compared to forecast of $0.223 and AFFO was $0.185 compared to forecast of $0.18.

On the development front, during the quarter our first two projects continued to make headway toward completion this year, and we have made significant strides for future projects, which Jane will speak to later.

As for acquisitions, during the quarter we successfully completed the purchase of a single-tenant industrial property for $15.5 million, excluding transaction costs, at an accretive one-year cap rate of 7.34 percent. With respect to leasing, we continue to maintain our high occupancy rate at 97.7 percent for the quarter.

With that, I'll now turn the call over to Bart to discuss the first quarter financial results.

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

Thanks, John, and good morning. I am pleased to report on a solid quarter for the Trust. On Slide 5 of our presentation material are selected financial highlights for the first quarter compared to our forecast.

As of March 31st, Choice Properties' portfolio comprised of 436 properties with a total gross leasable area of 36.4 million square feet. Under IFRS, investment properties were valued at 7.3 billion based on a weighted average cap rate of 6.18 percent, which is essentially unchanged from Q4, and includes 15.5 million for the acquisition of the industrial property John mentioned earlier.

Rental revenue for the quarter was 167 million, 1.9 percent higher than the forecast of 164 million. The increase was primarily driven by 4.1 million in incremental revenue from acquisitions. On a same property basis, rental revenue was 163 million compared with 164 million forecasted. The 1 million shortfall was the result of lower operating cost recovery due to lower-than-expected recoverable expenses during the quarter.

For Q1, net operating income was 115.3 million. On a same property basis, NOI for the quarter was 112.6, or 0.6 million higher than forecast. Despite lower operating cost recoveries on an absolute basis, the improvement in NOI was driven by a recovery rate of 97.3 percent, or 200 bps better than forecast.

Funds from operations, or FFO, for the quarter were 86.8 million, or $0.233 per unit compared to forecast of 79.1 million, or $0.223 per unit. If we exclude the gain of 3.3 million due to the accelerated amortization of debt premiums related to the early retirement of the series 3 and 4 transfer notes, FFO was 83.4 million, or $0.224 per unit.

The improvement over forecast for FFO was largely due to incremental NOI of 3.3 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 over-allotment option.

Adjusted funds from operations, or AFFO, for Q1 were 68.7 million, 4.8 million better than forecast. AFFO per unit was $0.185 compared to forecast of $0.18, and the AFFO payout ratio for the quarter was 87.8 percent compared to the forecasted ratio of 90.3.

We've also noted in our disclosures we have commenced our internalization of our property management platform and have provided an estimate of transitional costs of approximately 2.5 million.

As we previously reported in Q1, we did issue during the quarter 250 million principal amount of series C senior unsecured debenture with a seven-year term and a coupon rate of 3.498 percent per annum, and a 200 million principal amount of series D senior unsecured debentures with a 10-year term and a coupon of 4.293 percent per annum. The net proceeds of this offering were used to repay the series 3 and series 4 transfer notes, which totalled $440 million, and the balance was for general business purposes.

Also in our disclosures you'll see subsequent to the quarter the series 5 and 6 transfer notes held by Loblaw were replaced through the issuance of senior unsecured seniors series 5 and 6 debentures under a new master trust indenture. These new debentures, which are now held by unrelated parties, have the same principal amount, interest rate, and maturity date as the transfer notes they replaced. As a result of this transaction, 44.6 percent of our total debt in Class C units of 3.5 billion are held in the public domain.

We closed the first quarter in a solid financial position with a strong balance sheet and financial flexibility to meet ongoing obligations and invest for future growth. As at March 31st, Choice Properties has full availability of its $500 million committed credit facility.

Our debt to total asset ratio was 46.9 percent, which is well within our maximum threshold, as per our indenture of 60 percent, or 65 percent if we include convertible and Class C LP units. Our debt service coverage ratio was 3.5 times, and our debt to EBITDA ratio was 7.3 times.

So with that said, let me 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 first quarter we executed leases representing approximately 50,200 square feet, of which 94.5 percent were renewals. The weighted average base rent of renewals was $14.11 per square foot and an increase of 5.1 percent over the original rent those tenants were previously paying.

With respect to development, earlier this month we commenced work on our Surrey property in British Columbia with the site work and excavation for the construction of a 120,000 square foot Real Canadian Superstore is now underway.

As John mentioned earlier, we have made progress with additional projects within our development program. During the quarter, we filed a number of applications with local municipalities across the country, and remain on track for projected construction start dates before the year-end.

On Slide 8 are images of 580 Secretariat, an industrial property in Mississauga which we successfully purchased from a third party vendor during the quarter. This is a single-tenant property of approximately 150,000 square feet of which we have leased to ACE Bakery, a subsidiary of George Weston Limited, for an initial term of 15 years with multiple renewal options.

With that, I would like to turn it over to John.

John Morrison

Thanks, Jane. Thank you. With the close of a solid Q1, we began 2014 on strong footing. In the fiscal year ahead, our priority is to maintain our focus on advancing our growth strategy to drive results. This means acting on the opportunities available to us, including the development potential in our portfolio, our acquisition pipeline, and effective leasing strategies.

To that end, we believe that Loblaw's acquisition of Shoppers Drug Mart presents another avenue to expand our leasing strategies to include our principal tenant's newest division.

In addition, we continue to forge ahead with our transition to a fully internalized property management platform. To achieve this we are establishing best-in-class processes and systems and are well on our way to implement our information technology solution in advance of internalization.

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

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question 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 Alex Avery with CIBC. Your line is open.

Alex Avery — CIBC

Thank you. Just on the internalization of property management, could you just run through, I guess, the onetime expense, how that'll show up on the financial statements, and then what the ongoing impact might be and how the timing will play out on that?

Bart Munn

Yeah. Alex, it's Bart. Yeah. So the number we're showing you there is really the onetime dip that we'll see flow through in the latter part of this year.

Alex Avery

Okay.

Bart Munn

We do have other amounts that will be charged back to properties, and so that has already been netted out. So this is a true G&A impact.

Alex Avery

Okay. And you think that'll be Q3 or Q4?

Bart Munn

I think it will be in both; probably heaviest in Q4.

Alex Avery

Okay. And then the ongoing impact, is there—I mean primarily an NOI, I guess, it would be a positive impact?

Bart Munn

We believe at the NOI level that there are some efficiencies, but because most of our costs are recoverable costs, it will flow back to the tenants. But where there is vacancies or gross rents, it will flow back to the bottom line.

Alex Avery

So nothing to put a number on at this point?

Bart Munn

No. And it would not be material.

Alex Avery

Okay. And then on the acquisition that you completed during the quarter, very attractive cap rate; certainly a new build; can you just talk about how that came about? It seems like it was from a third party vendor, but you've structured a lease with effectively a related party?

Bart Munn

Sorry. Go ahead, Jane.

Jane Marshall

Okay. It's Jane Marshall, Alex. We came in contact with Weston Bakeries. An individual who works in Choice Properties in his former role was servicing Weston Bakeries and all of the supply chain group. So it was a normalized event for them to contact him to be able to look for additional space. The individual is a member of our team and he worked with—to find the location with Weston and negotiate the lease terms as well.

Alex Avery

And so is the building vacant when you acquired it?

Jane Marshall

It was vacant when we acquired it, and when we closed, we closed and commenced the lease with ACE Bakery.

Alex Avery

That's great. That's, I guess, leveraging the relationship that you have with Weston.

John Morrison

Exactly. Yeah.

Alex Avery

Okay. That's great. And then just one other thing; in the NOI discussion you noted that it was ahead of the forecast because of higher recoveries, but lower base rents. I was just wondering how the lower base rents came about? I think the leasing spreads on ancillary were positive. I was just wondering where the lower base rents came out of? It wasn't a big number. It was, I think, 600,000, but just curious about how that comes about.

Bart Munn

Just one second.

Alex Avery

Sure.

Bart Munn

Alex?

Alex Avery

Yeah.

Bart Munn

The lower amount is on our property taxes. You're saying that—are you saying it's lower base rent?

Alex Avery

Well, in the press release it says lower base rents. The net operating income was ahead of forecast because of higher recoveries, but lower base rents, which is why I had—I was scratching my head.

Bart Munn

Yeah. Yeah. Okay. Why don't we get back to you on that one because people—we should be able to get the answer in this meeting. So we'll get back to you once we have the discrepancy sorted out.

Alex Avery

Okay. It's on Page 14 of the first quarter report.

Bart Munn

Okay. Thanks.

Operator

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

Michael Smith — RBC Capital Markets

Thank you, and good morning. John, I was just wondering if you could expand on the type of opportunities that you might see with Shoppers Drug Mart now that that deal is closed, that transaction.

John Morrison

Certainly, Michael. As you can appreciate, going into this we didn't really have a lot of Shoppers Drug Mart, if any, on our sites, and really there was a reason for that that there would have been restrictions in terms of pharmacy use. You can assume that that restriction will now be lifted, and we will able to—between Loblaw and Shoppers in terms of their merchandising strategies, we're going to find ourselves with opportunities to now put Shoppers Drugs Marts on our sites where we have either re-merchandising opportunities or intensification opportunities.

And so whether it's a new store or a relocation of an existing store in a market, it's going to be a new dynamic for us. And certainly I think that it's going to create an opportunity for us to strengthen our properties by including that brand, as well as an existing Loblaw banner. So that's the plan going forward, and we're already in discussion with Shoppers on a number of sites.

Michael Smith

Great. Thank you. And just I guess the competition rule that a number of properties, 18 I think had to be sold, four of which is owned by Choice.

John Morrison

Correct.

Michael Smith

Any comments on that?

John Morrison

Well, it's a process that obviously has to be undertaken, and I think the one thing I would say about it is that Loblaw will, if it's a situation where the store is either closed or—let's put it this way, Michael: we're going to be held whole, regardless of the outcome.

Michael Smith

Right.

John Morrison

I guess that's the way to describe it.

Michael Smith

So either you'll just keep collecting the same rent as you expected or you'll get another tenant.

John Morrison

Or we'll get another tenant. Yeah.

Michael Smith

Okay. Okay. And then just switching back to acquisitions, so for the Mississauga acquisition, are there any bumps in the rent in the 15-year term?

Jane Marshall

Yes, there are. Every five years.

Michael Smith

Every five years.

John Morrison

Yeah.

Michael Smith

Okay. And how is your pipeline looking, acquisition pipeline?

John Morrison

Well, as you can imagine, we do have the opportunity to acquire more assets from Loblaw's existing or remaining portfolio. We are actively looking in the market for real estate that would be a good strategic fit for our portfolio.

We have taken a close look at a number of properties. We haven't landed on anything yet, but we will remain active in terms of looking for opportunities, and those, either that what we described as properties we can—that we can acquire from Loblaw or properties from other vendors is really where the pipeline is for us.

Michael Smith

Okay. Good. And last question. You have two developments that are expected to come on this year. Can you just give us a sense of the timing just for modelling purposes?

John Morrison

Yeah. The one at Lake Shore and Browns Line, I believe we're turning the space over to the tenants next month, and the Fortinos store we're turning over to the tenant in the third quarter this year.

Michael Smith

Great. Thank you.

Operator

Your next question comes from the line of Derrick Lau with TD Securities. Your line is open.

Derrick Lau — TD Securities

I just wanted to follow up on Alex's earlier question, but this relates to the group recovery rate and whether you expect it to be higher going forward in the next few quarters as well?

Bart Munn

Yes. We see this higher rate remaining throughout '14.

Derrick Lau

And then on the—I believe in the last quarter you mentioned that there was—you narrowed down the near-term intensification opportunities to about 25 million—sorry 25 sites or 1 million square feet. Just wanted to know if you had any—could provide any additional colour on that?

John Morrison

Not at this point, Derrick. I mean I think as Jane mentioned in her comments, we've got activity underway on quite a few sites. They're all at different degrees of progress, but as we've said in the past, we're not going to—once we have a bona fide project that's been—has all the approvals in place and what have you then we'll announce them.

So expect that you're going to hear more from us in the future in terms of some of the development projects that will now—that will then get started.

Derrick Lau

And then just on the, I guess it's the Surrey property with the Real Canadian Superstore, any update on the 105,000 square feet of the ancillary space? Have there been any new lease commitments?

Jane Marshall

It's a little bit—the update we have on that is we do have tenant interest. We are—our Vice President of Real Estate and Operations out west is receiving calls and interest on the space. We expect that to accelerate once the store is under construction.

That individual's in with applications on that particular site as well in order to be able to respond to some of our initial interest that we have on that site. But indeed we—and we have interest from national tenants.

Derrick Lau

Yeah. Okay. But no firm commitments as of now?

Jane Marshall

We're having a little trouble hearing…

John Morrison

Sorry, Derrick, could you just repeat that?

Derrick Lau

Sorry. No firm commitments for any (unintelligible). Hello?

John Morrison

Yeah.

Jane Marshall

That's better.

Derrick Lau

Sorry. Sorry about that. Just so no firm commitments currently?

John Morrison

We're out pre-leasing right now.

Derrick Lau

Okay.

John Morrison

We have interest from a number of tenants, which we're not in a position to announce...

Derrick Lau

Okay. I gotcha.

John Morrison

For obvious reasons, but yeah.

Derrick Lau

Right. Right. Okay. And then just lastly, on the first quarter I guess you renewed about 43 percent of space expiring, and this was lower than I guess the 70 in Q4. Just wanted to know if there's anything—if you provide any colour on that or why it was—it's not higher.

Jane Marshall

Sure. Certainly, yes we can. We had a national tenant of around 30,000 square feet expire, and in addition to that we initiated terminations on an additional 30,000 square feet of our own, and if we—at the renewal rate in the quarter if you netted those activities out would be closer to 88 percent, but we did buy that out in the quarter and take those initiations in that quarter.

Derrick Lau

Gotcha. Okay. Great. That's all for me. Thank you very much.

John Morrison

Okay. Thanks, Derrick

Operator

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

Jimmy Shan — GMP Securities

Thanks. Just a couple of debt-related questions; so first can you explain again what happened to the series 5 and 6 notes? I didn't fully quite understand the transaction there. And then secondly on the fair market value of the debt, we noticed it picked up quite a bit from Q4 to Q1, and is that just a function of the bond yield having come down over the quarter? And maybe some explanation there would be great.

Bart Munn

Okay. On the first question, the 5 and 6 series transfer notes, what we—Loblaw held those, and we actually ended up cancelling them and reissuing them in a debenture form. And this allowed these to become liquid instruments.

And as we disclosed in the material, that Loblaw then sold these—this paper into the market, and from the REIT's point of view the only change is that this is now a not a related party debt, it allows us to have more public market debt out there, and we're kind of building up the curve on our debt maturities with the institutions. But as far as interest expense, term, and amount, it remains identical. So that's what the transaction was from Choice's point of view.

And then on the valuation of debt, I believe your biggest—the biggest shift in that is on our B units under IFRS, these are considered to be debt and not equity. And so when we mark to market that we actually use the unit price of the REIT, and as a result the unit price went up quarter over quarter, and therefore it had an increasing effect on our debt.

Jimmy Shan

Right. So that's the C unit, so if it wasn't for that that fair value of the debt would have been more or less the same. Is that fair?

Bart Munn

That's fair.

Jimmy Shan

Okay. And then on the 5 and 6 notes, now that it's in third party hands, what does it mean? Like if you were to—in the series 3 and 4 I think there was no prepayment penalty. How does that work in this situation?

Bart Munn

So under part of the approval to allowing them to—for us issuing the new debentures, we actually introduced a yield maintenance. And so in both of those series we have the ability to prepay with yield maintenance, and we did put in sort of a 90-day prepayment at par on those two series.

Jimmy Shan

Okay.

Bart Munn

So now we have total control over the timing of paying off those two series on a go-forward basis.

Jimmy Shan

Okay. Okay. That's great. Thanks.

Bart Munn

Okay.

Operator

There are no further questions at this time. Mr. Morrison, I turn the call back over to you.

John Morrison

Thank you, Operator. Alex, if you're still there, we would like to respond to your question that we wanted to just double check on, so if we could do that?

Bart Munn

Yeah, Alex, so we did find the reference here referring to there where we say there is a decline in base rent. That is really the result of we have a number of gross leases, especially in Atlantic Canada, and in order to report our information on a clear basis as it relates to true recoveries, we actually moved—in the current period we moved some of the gross revenue amount down into our recovery numbers. And as a result, when you compare base to forecast base, we're seeing a shortfall.

But the true picture is if you looked at both on a gross lease basis there would be no impact. So hopefully that clarifies the confusion there. Okay. If you need clarification, Alex, give me a shout and I'll show the numbers.

John Morrison

Okay. Thank you, Bart, and thank you, everyone, for your interest in Choice Properties REIT. Our AGM is being held tomorrow at St. Andrew's Club & Conference Centre starting at 11:00 a.m., and we hope to see you there. Thank you.

Operator

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