FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust

Fourth Quarter Results

Event Date/Time: February 18, 2014 — 10:00 a.m. E.T.

Length: 26 minutes

CORPORATE PARTICIPANTS

Kim Lee
Choice Properties Real Estate Investment Trust — Vice President, Investor Relations and Financial Planning & Analysis

John Morrison
Choice Properties Real Estate Investment Trust — President 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

Sam Damiani
TD Securities — Analyst

Alex Avery
CIBC — Analyst

PRESENTATION

Operator

Good morning. My name is Kirk, 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 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'd like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

Ms. Kim Lee, you may begin your conference.

Kim Lee — Vice President, Investor Relations and Financial Planning & Analysis, Choice Properties Real Estate Investment Trust

Thank you, Kirk. Good morning, and welcome to the Choice Properties REIT Fourth Quarter 2013 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; 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 then 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 uncertainty that could cause our 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 2013 Annual Report and Management's Discussion and Analysis related thereto, which is available on our website and on SEDAR.

I will now 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 welcome to Choice Properties' fourth quarter 2013 and inaugural year-end conference call.

I'm going to begin with a brief overview of the quarter. Bart Munn, our Chief Financial Officer, will review Q4 financials, and Jane Marshall, our Chief Operating Officer, will present operational highlights, and then we'll open it up for questions.

Since our initial public offering in July of 2013, we have been focused on a number of key initiatives. We have met key objectives and delivered financial and operational performance in line with our expectations. I am pleased with the excellent progress that we have made in our first six months of operations.

We closed the year with solid financial results. FFO is slightly ahead of plan, and our occupancy rate remains essentially unchanged at 97.7 percent.

Our financial position remains strong. We have a solid capital structure that was further strengthened with our debenture issuance subsequent to the quarter.

Aligned with our strategy during the fourth quarter, we acquired 12 properties for a total purchase price of $186 million, adding almost 1 million square feet of retail GLA to our portfolio. We previously announced 10 of these 12 properties in October 2013.

In December, we acquired an additional two properties from Loblaw: a parcel of land for future development and a small shopping centre in Toronto. The parcel of land is located in a prime retail node in Surrey, British Columbia, and has approximately 20 acres of development potential. We plan to build a 120,000 square foot Real Canadian Superstore for Loblaw on the property, together with an additional 125,000 square feet of prime retail space for ancillary tenants.

With respect to our ongoing development program, construction at two of our sites in Ontario are tracking to plan and remain on schedule for delivery in Q2 2014.

With that, I will now turn the call over to Bart to discuss fourth quarter financial results.

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

Thanks, John, and good morning, everyone. I am pleased to report on a solid quarter and year-end for the Trust.

As you know, we started operations on July 5th, and as a result, we compare actual performance to our forecast as published in our IPO prospectus, adjusted to reflect the period from July 5th to December 31st.

On Slide 5 of our presentation material are selected financial highlights for the fourth quarter compared to our adjusted forecast. As of December 31st, Choice Properties' portfolio comprised of 435 properties with a total growth leasable area of 36.3 million square feet.

Under IFRS, Choice Properties' investment properties were valued at 7.3 billion based on a weighted average cap rate of 6.18 percent, including the 186 million of properties acquired in Q4.

Rental revenue for the quarter was 164.9 million, 1.6 million higher—or 1.6 percent higher than the adjusted forecast of 162.3 million. The increase was primarily driven by 2.4 million in base rent from acquisitions during the quarter and improved recovery of operating expenses. For the operating year, rental revenue was 318.5 million, 0.4 percent higher than adjusted forecast.

For Q4, net operating income was 114.1 million. On a same property basis, NOI for the quarter was 112 million or 0.3 million lower than the adjusted forecast. The variance relates to the timing of non-recoverable operating expenses. For the operating year, NOI was 222.3 million.

Funds from operations, or FFO, for the quarter were 82.8 million or $0.225 per unit compared to adjusted forecast of 78.9 million or $0.223 per unit. The improvement over forecast for FFO was largely due to incremental NOI from acquisitions of 2.2 million and G&A savings of 1.3 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 that underwriters exercised in full.

For the operating year, FFO was 158.9 million, 5 percent higher than adjusted forecast. On a per unit basis, FFO was $0.437, $0.01 higher than adjusted forecast.

Adjusted funds from operations, or AFFO, for Q4 were 64.7 million, 1 million better than the adjusted forecast. AFFO was impacted by higher property capital expenditures of 2.3 million and higher leasing capital expenditures of 208,000 as compared to the adjusted forecast. The higher property capital expenditures during the quarter were due to projects carried over from the third quarter. For the operating year, AFFO was 130.9 million, 5 percent better than the adjusted forecast.

AFFO per unit was $0.176 compared to adjusted forecast of $0.18, and impacted by the timing of capital expenditures and leasing costs. For the operating year, AFFO per unit was $0.36 compared with adjusted forecast of $0.352. The AFFO payout ratio for the operating year was 88.6 percent, slightly ahead of adjusted forecast.

As at December 31st, our debt to total assets ratio was 47 percent, which is well within our maximum threshold as per our indenture of 60 percent or 65 percent when we include convertibles and Class C LT units. Our debt service coverage ratio was 3.4 times, and our debt to EBITDA ratio was 7.4 times.

As John mentioned, subsequent to the quarter we issued 450 million in senior unsecured debentures with a weighted average term of 8.3 years and a weighted average coupon rate of 3.85 percent per annum. DBRS and S&P have each provided debentures with a credit rating of BBB. The net proceeds of the offerings were used to repay the Series 3 and Series 4 transfer notes, which totalled 440 million, and the balance was used for general business purposes.

With this transaction we have raised more 1 billion in public debt in just over seven months since IPO, reduced our transfer note obligations, and increased our weighted average term to maturity to be more in line with our weighted average lease maturities. While the deal has increased our weighted average interest rate by 0.2 to 3.6 percent, it has effectively mitigated refinancing risk in the near term, as our next debt maturity is not until 2016.

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

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 fourth quarter we executed leases representing approximately 236,500 square feet, of which 76.2 percent were renewals.

The weighted average base rent of the renewals was $9.71 per square foot, a decrease of 0.6 percent. Excluding the one large format tenant of more than 20,000 square feet that we mentioned in the last quarter, the weighted average base rent on renewals increased 10.1 percent.

In December, we acquired two properties from Loblaw. Including those that we announced in October of 2013, we acquired a total of 12 properties in Q4 for an aggregate purchase price of 186 million and an average cap rate of 6.64 percent, including development costs. The 12 properties are listed on Slide 9.

As John mentioned earlier, the two properties we purchased in December include a shopping centre located in Toronto and a parcel of land in Surrey, British Columbia. The shopping centre is 100 percent occupied, anchored by a 38,000 square foot No Frills grocery store, and includes one ancillary tenant occupying 9,000 square feet for a total of approximately 47,000 square feet.

On Slide 10, we illustrate a conceptual site plan for development of the Loblaw Real Canadian Superstore on our newly acquired land in Surrey, which we are scheduled to start construction in Q2 of 2014. As you can see, there is excess density on the site for complementary retail, which we have commenced marketing to potential tenants.

As for the ongoing development in the quarter, we commenced construction on two sites that we acquired in Q4: 3730 Lakeshore Boulevard in Etobicoke and 102 Highway 8 in Stoney Creek, Ontario. We are investing approximately 20.5 million in these two projects with an expected blended yield of 7.1 percent.

The two projects are tracking to plan, and expected to deliver 95,000 square feet of GLA on schedule in Q2 of 2014.

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

John Morrison

Thanks, Jane. Our first six months of operations have been very productive. I'm proud of what we have accomplished so far. As we look ahead to 2014, Choice Properties is well on its way to creating value for all its stakeholders.

With two projects on schedule to deliver 95,000 square feet and a third project due to start, our development program will continue to gain momentum through the year. We will continue to contemplate acquisitions in the year ahead, both from the remaining real estate held by Loblaw and from other vendors.

In addition, we plan to build out our business platform in order to internalize leasing and property management from a third party manager. With our own dedicated leasing and property management team, we will build stronger tenant relationships and gain greater market intelligence, which will enable stronger performance and improved results.

We see a bright future ahead of us and are confident in our plans to create value through development opportunities inherent in our properties, acquisitions that will grow our asset base, and effective leasing strategies and property management that will improve the bottom line.

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

Q&A

Operator

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.

Your first question comes from the line of Pammi Bir from Scotia Capital. Your line's open.

Pammi Bir — Scotia Capital

Thanks, and good morning. Just on the South Surrey project. What are the budgeted costs and yield? And maybe the expected timing for completion on this one?

Jane Marshall

Okay. It's Jane Marshall responding to your call. At this point in time, we just have the costs for the Real Canadian Superstore, which is in the $20 million range. The timing for the balance of the project and our costing we are putting together as we speak as we are determining our tenant mix for the remaining 125,000 square feet.

And we'd be able to give you more details on that, although we are tracking to a yield on this—combined yield on the project for both the Real Canada Superstore and the remaining 125,000 square feet of north of 7.

Pammi Bir

Okay. So I guess in terms of timing we should be thinking perhaps more of a 2015 or later?

Jane Marshall

Yeah. That would be right.

Pammi Bir

Yeah.

Jane Marshall

I think that that would be very reasonable. I think that we—we intend to begin construction of the store in Q2, and then we see ourself rolling to the ancillary space in late '14, early '15, or in mid '15, depending on how the lease-up occurs.

Pammi Bir

And sorry, what was the cost of the land?

Jane Marshall

The…

John Morrison

Well, it was included—Pammi, it's John. It was included in the 186 million, so we didn't break it out.

Pammi Bir

Okay. Can you break out the cost of the Toronto centre?

Kim Lee

Together Surrey and Jane and Wilson is approximately 30 million.

Pammi Bir

Okay. All right. Just going back to maybe the 25 intensification sites that you identified last quarter, can you provide us maybe a bit more colour around the scope of some of these larger projects and maybe the timing and again expected costs? And how we should sort of think about that for the next couple years?

Jane Marshall

I'll take the first part of the question, and then I'll pass it over to John. The 25 sites have been identified through the work. As you know, when we were in the IPO process and marketing, we were speaking about 3.5 million square feet of developable space for intensification.

We've honed that down to 1 million square feet on approximately 25 sites. You're seeing some of that now by the development on Brown's Line and Fiesta Mall. We feel that we would be able to bring forward the other sites with a ramping—hitting a high point in '016 and '017 of development.

Pammi Bir

Okay. All right. And maybe just—maybe a question for Bart. Just given some of the recent unsecured financings that you've just finished, can you perhaps—would you perhaps maybe look to repay the 2016 or 2017 maturities a little early just to capitalize on where rates are and further reduce some of that refi and rate risk?

Bart Munn

Yeah. Hi, Pammi. We're certainly looking at it. Obviously there's two sides to that transaction, right? I can't raise that money today unless I have a reason to deploy it. So we are obviously on an ongoing basis discussing these things with Loblaw. And at this point we don't see that happening, but certainly if the opportunity presented itself with the anticipation of our interest rates moving upwards, we would certainly consider it.

Pammi Bir

Okay. Great. Thank you.

Operator

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

Sam Damiani — TD Securities

Thank you, and good morning. Just to continue on the refinancing discussion, was there a prepayment penalty incurred on the repayment of those Series 3 and Series 4 notes?

Bart Munn

There was not.

Sam Damiani

Okay. Fantastic. The Fiesta Mall in Stoney Creek, I believe there was some ancillary retail there as part of a development plan. How's the leasing going on that?

Jane Marshall

We have tenant interest in a vacant unit and we are marketing the balance of the new development as we speak, and we are—we should be able to report on that more fully in our next quarter.

Sam Damiani

Do you anticipate full lease up and stabilization of that property during this year?

Jane Marshall

During '014? Not...

Sam Damiani

Yeah.

Jane Marshall

Not stabilization of the property in '014. Lease-up we're hoping—we're anticipating '014 being under construction later in the year for the balance of the intensification and into '015.

Sam Damiani

Okay. So it's just the Fortinos that will open up in the second...

Jane Marshall

That will open this year. Yes. That's correct.

Sam Damiani

Okay. The fourth quarter appeared to include a fair value gain on investment properties. Just curious if you could provide a little bit of colour on so how that was driven, given that it looks like your discount rate and cap rate assumptions ticked up slightly.

Bart Munn

Yeah. Sam, it’s Bart. Yeah. It was really as a result of cash flow changes and assumptions within the cash flow cap rates, as we disclosed, that basically remained unchanged. And so it was just the assumptions in the model that on lease renewals, et cetera, going forward, as well as deals that have sort of transpired since IPO.

Sam Damiani

Is it fair to say a little more, I guess, confidence or slightly higher outlook in terms of run rate of cash flows on the existing properties?

Bart Munn

I think that's fair. That's right.

Sam Damiani

Okay. Just over to Surrey. I believe the individual acquisition prices for Surrey and Wilson Avenue were disclosed in the notes, and it looks like it's about $26.3 million for the land in Surrey, which is about—just over $100 a square foot buildable. Is that based on sort of an appraisal? And is that what your view of sort of market value is for retail land in the area there?

Jane Marshall

Yes. It is.

Sam Damiani

So the all-in costs here will be well north of 300, I would think?

Jane Marshall

That's right. That is correct.

Sam Damiani

Pushing 400 do you think, Jane, on...

Jane Marshall

No.

Sam Damiani

No?

Jane Marshall

No they won't be pushing 400…

Sam Damiani

Okay.

Jane Marshall

Because in the case of Surrey, in the 26 million were predevelopment costs that were spent by the previous owner. And we purchased that property with certain investments in the land.

Sam Damiani

Okay. That's it for me. Thank you.

Operator

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

Alex Avery — CIBC

Thank you. I just wanted to touch on, I guess, the leasing situation you've got. I think you reported 350,000 square feet of leases in the year, and I was just wondering if that 97.7 percent occupancy rate that you quoted is economic or if that is leased occupancy?

John Morrison

It's leased, Alex.

Alex Avery

And I guess just wanted to, I guess, understand how much of that 350,000 square feet would be progress on leasing some of the third party vacant space that you have and what we should expect over the course of 2014 in terms of progress on that?

Jane Marshall

Yes. It is related to leasing the third party. In the quarter are you asking, Alex, as well as for the year?

Alex Avery

Yeah.

Jane Marshall

Yes. So we made considerable progress with respect to signing new leases on existing ancillary. Well over 50,000 square feet of new releases were in the quarter in addition to the renewals that took place in the quarter.

Alex Avery

So net of, I guess, expiries and departures you were up 50,000 square feet? Or close to that?

Jane Marshall

Over 50,000 feet.

Alex Avery

Fifty thousand square feet. And what do you think you can do in 2014?

John Morrison

Well, we've set targets for ourselves, Alex. That's where our focus is, and we're starting to gain some momentum in terms of dealing with this space.

We still have a fair amount of vacancy that we want to lease up. As I mentioned in my earlier comments, right now we're using a third party property manager, and they're very busy dealing with this space. We're going to internalize that aspect of our business during the year, but that shouldn't stop us or slow us down from what we're trying to accomplish.

So as you can appreciate, the leasing focus is on that space.

Alex Avery

Okay. That's good colour. Thank you.

Operator

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

Sam Damiani

Thanks. Just on the internalization of the management of the properties currently outsourced to Arcturus. Will there be any cost savings to the REIT starting in 2015 as a result of that?

John Morrison

No. We expect it'll be—sorry, go ahead, Bart.

Bart Munn

Yeah. I was going to say, Sam, we're still assessing it. But I would say at this point we think that the impact on the bottom line will sort of be consistent with what we're paying in fees right now.

The biggest piece that changes for us is as we internalize our leasing that it actually flows through our bottom line. But we do believe that there are savings within our costs that will offset that. So we're at this point making the assumption that it will be neutral to FFO or AFFO.

Sam Damiani

Okay. Great. Thank you.

Bart Munn

Okay.

Operator

We have no further questions at this time. I'll turn the call back over to the presenters.

John Morrison

Thank you, Operator, and thank you, everyone, for your interest in Choice Properties REIT. And we certainly look forward to sharing our first quarter 2014 results and seeing you at our AGM in April.

Operator

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

*****