FINAL TRANSCRIPT

Choice Properties Real Estate Investment Trust
First Quarter Results Conference Call
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Sam Damiani
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Jimmy Shan
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PRESENTATION

Operator

Good morning. My name is Tiffany, 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 First Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

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

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

Thank you, Tiffany. Good morning, and welcome to the Choice Properties REIT First Quarter 2017 Conference Call.

This call is also being webcast simultaneously on our website at choicereit.ca, where you will also find a copy of our 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, and Bart Munn, Chief Financial Officer.

Before we begin today's call, I want to remind you that by discussing our financial and operating performance, and in responding to your questions, we may make forward-looking statements, including statements concerning Choice Properties' objectives, its strategies to achieve those objectives, as well as statements with respect to management's beliefs; plans; estimates; intentions; outlook; and similar statements concerning anticipated future events; results; circumstances; performance; or expectations that are not historical facts.

These statements are based on our current estimates and assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from the conclusions in these forward-looking statements.

Additional information on the material risks that could impact our actual results, and the estimates and assumptions we applied in making these statements, can be found in our 2016 annual report in Management's Discussion and Analysis related thereto, together with Choice Properties' Annual Information Form that are all available on our website and on SEDAR.

And now I'll turn it 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 pleased to report another solid quarter for Choice Properties. During the quarter, we remained on plan with acquisitions to expand our portfolio, and the development of new space as we continued to actively manage our portfolio.

We started the year on solid footing with Q1 results delivering an increase of 5.2 percent in FFO per unit, our 11th consecutive quarter of year-over-year growth.

With continued expectations for sustainable increases in cash flows, our Board of Trustees have approved a 4.2 percent increase to our annual distribution to $0.74 per unit from $0.71 per unit.

Let me now provide you with the quarter's highlights. During the quarter, we successfully completed the acquisition of two properties totalling approximately 92,000 square feet of gross leasable area in Manitoba from third-party vendors.

The combined purchase price was approximately $9.8 million with an accretive weighted capitalization rate of 7.6 percent. And both of these income-producing properties are consistent with our strategy.

As at the end of the quarter, we have constructed approximately 170,000 square feet of the 337,000 square feet of new GLA we target to complete in 2017. With approximately 80 percent of the remaining 167,000 square feet of GLA already pre-leased, we're on track to meet our GLA objective with development yields ranging from 7 percent to 9 percent.

Leasing activity during the first quarter resulted in binding commitments for approximately 92,000 square feet of gross leasable area. This includes approximately 35,000 square feet of renewals for which we obtained an average rent increase of 6.3 percent.

Leases executed this quarter resulted in an average base rent of $15.39 per square foot on a same-property basis, or $20.52 per square foot, including the higher rent from newly developed GLA. These compare our portfolio average of $13.23 per square foot.

Overall, we continued to maintain our total portfolio's high occupancy rate at 98.8 percent compared to 98.7 percent for Q1 2016.

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

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

Thanks, John, and good morning, everyone. I refer you to Slide 8 of our presentation material, where you'll find selected financial results for the first quarter.

As of March 31, 2017, Choice Properties' portfolio comprised 536 properties with a total gross leasable area of 43.7 million square feet. Under IFRS, our investment properties were valued at approximately 9.2 billion based on a weighted average cap rate of 6.1 percent.

For the quarter, rental revenue was 203.4 million and net operating income was 142.4 million, 5.8 percent and 7.5 percent higher than in Q1 2016.

On a same-property, same-GLA basis, NOI increased to 135.6 million, or by 2.7 percent from Q1 2016. This increase was primarily a result of higher average rents on new ancillary leases and rent steps in Loblaw leases, as well as revenue from capital recoveries. Other revenue and lower non-recoverable operating expenses also contributed to the increase in NOI.

Adjusted general and administrative expenses for the quarter were 4 million compared to 4.8 million for the comparative period in 2016. Adjusted G&A excludes mark-to-market of unit-based compensation, related-party property management fees, and internal expenses for leasing.

The ratio of G&A expense to total revenue was 2 percent, which was 50 basis points lower than last year due to timing of expenses. Given economies of scale with the growth of our portfolio, we expect our annual G&A run rate to approximate 2.75 percent of total revenue.

Funds from operations for the quarter were 108.8 million, or $0.264 per diluted unit compared to 102.8 million, or $0.251 per diluted unit in Q1 2016. The 5.2 percent year-over-year growth in FFO per unit was largely due to higher net property income, as well as lower G&A expenses, partially offset by increases in interest and other financing charges.

With respect to cash flows, our adjusted cash flow from operations—ACFO as defined by the recently issued REALpac white paper—was 90.8 million compared to 78.4 million last year. With total distributions declared of 72.9 million for Q1, our payout ratio for the quarter was 80.3 percent. This compares to 87.3 percent for Q1 2016.

With increasing cash flows, as John mentioned earlier, we announced a 4.2 percent increase in our annual distribution to $0.74 per unit which will be effective for our May distribution, payable on June 15, 2017.

While ACFO can vary across quarters due to timing of operational cash flows, we expect our annual ACFO payout ratio to range between 85 percent and 90 percent.

Our debt service coverage ratio of 3.6 times remains unchanged, and our weighted average term to maturity is 5.3 years.

We currently have approximately 260 million of available liquidity.

And with that, let me now turn it back to John to provide closing remarks.

John Morrison

Thanks, Bart. Q1 was another solid quarter for us and a clear indication of Choice Properties' capacity to consistently deliver operational and financial results.

I look forward to continuing to lead the team in maintaining our focus on execution and delivering results as we continue to broaden our growth opportunities, and expand our development program to include mixed-use developments projects.

I want to thank the Choice Properties team for their efforts and to congratulate them on another successful quarter.

And now, Tiffany, 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 *, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Mike Markidis with Desjardins. Your line is open.

Mike Markidis — Desjardins

Thank you, and good morning, everybody. Couple items here; Bart, just on the distribution did you say ACFO of 85 to 90? Or 80 to 90?

Bart Munn

Eight-five to ninety percent.

Mike Markidis

Eight-five to ninety percent. Okay. And now you guys have done I think it's three … Or implemented three distribution increases over a period of 18 months. Have you given any thought—I would suspect you review the distribution quarterly—but as to what the—setting a pattern of when you might actually announce distribution increases going forward might be?

Bart Munn

Well, we have. But as you say, we do review it quarterly, and so based on what our results are over that period of time will determine whether we increase it earlier than expected or—but our goal really is to increase the distribution annually. But it could be more frequent if performance justifies it.

Mike Markidis
Okay. Gotcha. Just with respect to the gas bars and the $35 million of it looks like chattels that have been now put as held for sale and being sold back to Loblaw, can you just give us a sense of how that's going to impact cash flow? Like will there be a yield associated with that disposition? And then maybe secondarily, how will the sale as conceived impact your leases going forward?

Bart Munn
Well, on the 35 million, that will not impact future cash flows. We're actually just selling assets that are on our book back, but there is no change in cash flow from what we have with respect to leases with Loblaw.

Mike Markidis
Okay. That's clear. Thank you. And then just finally a higher-level question here, but with the mixed-use development plans that you guys have going forward, I'm just curious if you had any thoughts on the recent rent control guideline adjustment in Ontario with respect to the building of new multifamily units?

John Morrison
We're obviously aware of it, Mike, but our view is that it's not going to have any kind of a material effect on our plans. We're taking a very long-term view on the residential opportunities, and so we don't see it affecting our decisions to go forward.

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

John Morrison
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. I wonder if you could just give us an update on Golden Mile and 2280 Dundas West. How are they progressing in terms of entitlement and planning?

John Morrison
Yeah. Certainly, Mike. Golden Mile, as you know, we announced back in January that we filed for an official plan amendment, and that is in process right now. So there's really nothing new to advise on that. It's in process. We are hopeful that we start construction on the new Loblaw store, which, call it, phase 1 of the site in 2018. So that time line hasn't changed.

In terms of Dundas and Bloor, again, we're working behind the scenes, if you will. There's been no public disclosure on that site. We are working behind the scenes on a master plan, and when we're ready to announce it we obviously will.

Michael Smith
Okay. Anything new on the West Block?

John Morrison
West Block we have completed excavation, we have now finalized pricing for construction, and we expect construction to start within the next couple of weeks.

Michael Smith
Okay. Fine. And just lastly, are you looking at any major like significant transactions; game-changing transactions; acquisitions?

John Morrison
Not that I can comment on.

Michael Smith
Okay. All right. Thank you.

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

Sam Damiani — TD Securities
Thank you, and good morning. Bart, just on the comment on the payout ratio on ACFO, is that a 2017 statement? Or was that a sort of future goal?

Bart Munn
It was just a 2017 statement where we expect to end up during … for this year.

Sam Damiani
Okay. And where would you like to see that go in future years? Static or lower?

Bart Munn
No, I think we'd like to see it trend down, but I would think it would be in sort of the lower to mid-80s, so 80 to 85 is where we see it over the long term.

Sam Damiani
Okay.

Bart Munn
But as you know, as you put these distributions in it'll pop above the 85, which is what's happening here. And then as time goes along our cash flow grows, and it'll move back down.

Sam Damiani
And then just on the revolving facility, it's up close to 500 million. Just wondering what your plans are on the financing front, if any, in the near term?

Bart Munn
Well, at this point we continue to access our operating lines. As we said, we still have 250 million, 260 million left. And we would expect to come to the market sometime this year, but we continue just to monitor the markets at this point.

Sam Damiani
And, John, just on the mixed-use strategy which has now sort of been put in the MD&A a little bit more explicitly, how much do you see that forming a part of the asset base over time?

John Morrison
Well, over time, Sam, it'll continue to grow. As we develop it out we'll obviously find ourselves in a situation where we can add more residential, or add residential and then add more residential as we continue to go forward.

At this point we're not in a position to disclose what the diversification would look like, but suffice to say that our early indications are that it can be … it will be quite substantial as it's built out over time, particularly as we look at the sites that we have in both Toronto and Vancouver.

Sam Damiani
And sorry, I just don't recall offhand, was the plan on Golden Mile to do all rental? Or was there any condo?

John Morrison
We haven't determined whether—

Sam Damiani
Okay.

John Morrison
—or what the combination will be at this point.

Sam Damiani
But just high level, I mean are you thinking of emphasizing—

John Morrison
It would be more purpose-built rental than condominium.

Sam Damiani
Generally.

John Morrison
So I can at least tell you that.

Sam Damiani
That applies to most sites? Or just Golden—

John Morrison
Most sites, yes, most sites. Yeah.

Sam Damiani
Okay.

John Morrison
Yeah. No, the focus would be more purpose-built rental as opposed to condominium.

Sam Damiani
Absolutely. All right. Thanks very much.

John Morrison
Okay.

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

Jimmy Shan — GMP Securities
Thanks. Just one question for me; if the average rent on the overall portfolio is around 13.25, I was wondering what you would say the market rent would be for that … for the portfolio of comparable quality?

John Morrison
Well, you have to assume that that—where the rent is now is the rent we're collecting—you'd have to assume that that's market rent. Yeah. And so we're only kind of three years into it. The rent will move higher, obviously, as we continue to build new space, to renew tenants at higher rents—which we've been doing obviously, and we've demonstrated that—and as we've been able to lease up the vacancy that we've had in the portfolio.
So that number will move higher, but I can't tell you what the market rent is today.

Jimmy Shan
Mm-hmm. Well, let's say the ancillary space, I think the rent there is around 14 and change, but you have been doing leases comfortably north of that. Like would your answer defer on the ancillary space?

John Morrison
Sorry, would I …

Jimmy Shan
Like I mean in terms of what you think the market rent would be on the ancillary space versus what's the in-place rent today?

Bart Munn
Yeah. Jimmy, what we've been seeing, as we've shown in our press releases over the last few years, is that we're kind of averaging increases on leases that are rolling in the neighbourhood of 7 to 8 percent.

Jimmy Shan
Mm-hmm.

Bart Munn
What we're seeing happening is in sort of some of the—in the stronger markets like Ontario and BC that we're getting double digits, but in some of the markets like the Maritimes that will mute that increase. And as a result, if we look at the total portfolio you're probably looking somewhere in that 7 to 8 percent increase over current market—current contract.

Jimmy Shan
Okay. Okay. Thank you.

John Morrison
Okay.

Operator
Your next question comes from the line of Pammi Bir with Scotia Capital. Your line is open.

Pammi Bir — Scotia Capital
Thanks. Good morning. Just going back to your comments on the future of mixed-use developments, it sounds like the focus here continues to grow. So are there other opportunities in the portfolio where you've maybe advanced planning? Or are seeking approvals?

John Morrison
We're working on a couple of sites right now, which we hope to announce this year. One of them is in Ottawa. The other one I can't disclose at this point in time. So the answer to your question is yes, we are working behind the scenes on two more immediate sites.

And the ones that I described earlier, Golden Mile, Dundas and Bloor, et cetera, et cetera, are longer term. So we do see launching ideally this year. If not, it'll be early next year, but we do have activity underway. And once all the t's are crossed and the i's are dotted then we'll certainly announce the projects that we're going ahead with and how we're going about them.

Pammi Bir
And for these two other projects, would they be smaller in scope than Golden Mile? Or—

John Morrison
Smaller in scope, yes, smaller in scope.

Pammi Bir
Okay. On Golden Mile, I mean it's obviously a substantial … could be a substantial undertaking. Just what are your thoughts here with respect to perhaps bringing in partners? And how do you look at that across the rest of the opportunities in the portfolio?

John Morrison
So that's something that we're considering. We haven't landed specifically on who or how, but that is something that we're considering. And I think really as we continue to evolve the planning; the positioning; the scheduling; et cetera, and we look at whether it's a combination of purpose-built rental—there may be a condo building or may not—we're going to determine whether we bring in a joint venture partner for some, for all.

We haven't landed on that yet, but it's certainly something that we're contemplating.

Pammi Bir
And at Golden Mile is there sort of a range of the total possible cost of that site? Is it 700 million? One billion? I'm just curious. It's obviously quite a large—3 million square feet, I think.

John Morrison
Yeah. No, we don't have—let's put it this way, Pammi: we don't have a number that we can talk about yet. We're still working through the cost side of it.

Pammi Bir
Okay. And then just on, I guess, the initial phase for the relocation of the Loblaw store, is any of these costs at all reflected in the development schedule in the MD&A?

John Morrison
Not for '17, no.

Pammi Bir
Or I mean—

Bart Munn
But there's some predevelopment dollars in there, but they're not material.

John Morrison
Right.

Pammi Bir

Got it. And the just lastly just looking at the outlook for the year and your comments regarding acquisitions, can you provide some context around the potential volume of deals from or vend-ins from Loblaw? And whether you're seeing additional third-party opportunities out there?

John Morrison

Well, first of all, the vend-ins from Loblaws, yes, we are looking to do further acquisitions from Loblaws this year in the range of 150 million to 200 million, depending on what is offered to us. We are also seeing third-party acquisition opportunities. We just completed two, which were our first acquisitions from a third-party vendor, and we're seeing more.

We certainly look at these opportunities with a strategic view in terms of is there value-add opportunities? Are they in markets that make sense for us? And we are seeing some opportunities, and it is a focus for us as well.

Pammi Bir

Got it. Thanks very much.

Operator

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

Sam Damiani

Thank you. My questions have been answered.

John Morrison

Okay.

Operator

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

John Morrison

Thank you very much, Tiffany, and thank you all for joining our conference call this morning. We're actually speaking to you from the St. Andrew's Conference Centre in downtown Toronto where we're going to now move on to our Annual General Meeting of Unitholders, which is scheduled to start at 11:00 a.m., and you're all welcome to attend. And we certainly hope to see you there.

Thank you very much.

Operator

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