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L.TO - Loblaw Companies Ltd to Create One of the Largest Real Estate Investment Trusts in Canada - Conference Call

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CORPORATE PARTICIPANTS

Kim Lee *Loblaw Companies Ltd - VP of IR*

Galen Weston *Loblaw Companies Ltd - Executive Chairman*

Sarah Davis *Loblaw Companies Ltd - CFO*

Vicente Trius *Loblaw Companies Ltd - President*

Jane Marshall *Loblaw Companies Ltd - EVP, Loblaw Properties Limited*

CONFERENCE CALL PARTICIPANTS

Irene Nattel *RBC Capital Markets - Analyst*

Patricia Baker *Scotiabank - Analyst*

Chris Li *BofA Merrill Lynch - Analyst*

Peter Sklar *BMO Capital Markets - Analyst*

Perry Caicco *CIBC World Markets - Analyst*

Jim Durran *Barclays Capital - Analyst*

Vishal Shreedhar *National Bank - Analyst*

Michael Van Aelst *TD Newcrest/Waterhouse Securities - Analyst*

Keith Howlett *Desjardins Securities - Analyst*

David Hartley *Credit Suisse - Analyst*

PRESENTATION

Operator

Good morning, my name is Amanda, and I will be conference operator today. At this time, I would like to welcome everyone to the Loblaw Companies Limited announces Loblaw's Intent to Create a Real Estate Investment Trust 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.

(Operator Instructions)

Kim Lee, Vice President of Investor Relations, please go ahead.

Kim Lee - *Loblaw Companies Ltd - VP of IR*

Thanks, Amanda. Good morning and welcome to the Loblaw Companies Limited conference call. This call is also being webcast simultaneously on our website at Loblaw.ca. I'm joined here this morning by Galen Weston, Executive Chairman; Vicente Trius, President; Sarah Davis, Chief Financial Officer; and Jane Marshall, Executive Vice President, Loblaw Properties Limited.

Before we begin today's call, I want to remind you that the discussion will include forward-looking statements, including statements relating to the proposed REIT transaction and expected future attributes of the REIT following the transaction. The anticipated benefits of the transaction to Loblaw and its shareholders, the expected ratings impact to Loblaw, Loblaw's expected ownership level in the REIT, the timing of the potential transaction, and the applicable regulatory approvals will be obtained. These statements are based on certain assumptions and reflect and reflect management's current expectations, and they are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulators from time to time, including the Company's annual report and third quarter 2012 report. Any forward-looking statements speak only as of the date they are made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise other than as required by law.

Certain non-GAAP financial measures may be discussed or referred to today. Please refer to our third quarter report and other materials filed with the Canadian securities regulators from time to time for reconciliation of each of these measures to the most directly comparable GAAP financial measures. An archive of this conference call will be available on our website.

I'll now turn the call over to Galen.

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

Good morning everyone. Thank you for joining us. As you're aware, this morning we announced our intent to create one of Canada's largest real estate investment trusts, an exciting development for Loblaw. During the call, we'll be taking you through the strategic importance and benefits of the transaction to Loblaw, as well as some details on the REIT itself, and how, as a stand-alone business, we expect it to provide stable and long-term benefit. At Loblaw, we have always believed in controlling our real estate assets. We have a history of and in our view, a meaningful competitive advantage in owning and developing first class real estate assets. With the creation of a REIT as a publicly traded subsidiary, we remain true to that principle, while at the same time unlocking value for Loblaw shareholders, increasing our financial capacity to pay down debt and buy back shares, and creating a long-term source of capital as we invest to grow our business.

There's still a significant amount of work to be done before we bring this entity to market, but we'd like to share some details to help you understand what we plan to do. We intend to make an initial contribution of real estate with an estimated market value exceeding CAD7 billion to the REIT, and then sell units of the trust through an IPO. The business model for the REIT is fairly straightforward. We will use the initial Loblaw real estate assets as a base, and then drive growth in two ways -- through vending in the remaining Loblaw assets over time, and investing to build a diversified portfolio of non-Loblaw properties. A public REIT will provide a structural advantage to our real estate development strategy that is unavailable today, including a lower cost of capital.

We expect a stand-alone trust with a focused and experienced management team, access to capital to fund attractive projects, and a strong lead tenant and majority owner in Loblaw will become one of Canada's leading REITs. We are announcing this today because we feel the timing is right for both our business and the capital markets. REITs are recognized as an optimal vehicle to acquire and develop real estate, and the size and quality of our real estate assets should be appealing to investors.

And for the past few years, we have been focused on our core business. Recently, we have made significant progress by improving the customer proposition, driving the infrastructure program, and reducing costs. While we still have work to do, we are seeing clear momentum in key areas. This proposed REIT is an important part of Loblaw's strategic growth plan. Two weeks ago, we increased our dividend for the first time in several years. Today, we announced the intention to unlock the value of our real estate assets through a REIT. And moving forward, as our core business strengthens, we expect to continue this focus on long-term value creation.

With that, I'll hand the call over to Sarah for some more details on the proposal.

Sarah Davis - *Loblaw Companies Ltd - CFO*

Thank you, Galen, and good morning, everyone. As you can appreciate, we are in the early stages of the formal IPO process, and accordingly, somewhat limited in terms of the information we can share. However, I'll take this opportunity to share with you some key highlights of the proposed REIT. We are beginning to process the of preparing the properties for inclusion in the REIT. This will involve many months of work given the size of the portfolio as we need to complete environmental assessments, valuations, and prepare separate financial statements for each property. Loblaw's ownership position will be outlined in the prospectus.

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However, it is in our intention to retain a significant majority interest in the REIT, over 80%. While we expect to generate funds from the IPO, it is the anticipated long-term source of capital and the structural advantage of the REIT that are the real benefits. The additional capital will allow us to pay down debt, reinvest in our business, fund strategic growth, or look at other options like buying back shares. We plan to complete the IPO by mid-2013.

Our plan for the REIT is to continue approximately 35 million square feet of our estimated 47 million square feet of owned real estate to the REIT. This will be largely retail focused portfolio, with a geographically diverse mix of stores and shopping centers, but will also include warehouses and office buildings with an estimated current market value of over CAD7 billion. We expect that growth in the REIT will be supported by vending and in portions of the remaining portfolio and future store development projects. This should provide good support for the REIT's leasable area growth. In principle, the properties selected for the REIT would represent our stable, mature assets. In addition, as Galen mentioned, the REIT will have a mandate to explore opportunities outside of Loblaw as part of this growth strategy.

I will now provide some detail on the REIT as well as the impact on Loblaw's business and our financial reporting. Loblaw will provide support and services to the REIT and will consolidate the REIT's results for financial reporting purposes. For segmented reporting purposes, we expect to break out the REIT from our Retail and Financial Services businesses. The REIT will incur incremental SG&A costs and add a minority interest component. However, we anticipate that the transaction will have a minimal impact on Loblaw's consolidated profitability in the near-term.

Paying rent will reduce Loblaw retail EBITDA margins, but we expect distributions and interest payments made by the REIT to Loblaw to reduce the drag on earnings substantially. The precise impact will be known only when the property by property by property analysis and lease terms are finalized. Stores currently pay an internal rent that is, in aggregate, similar to our views on the market rent for the portfolio. So for the stores, we don't see a big change.

The REIT will be initially capitalized with inter-Company debt from Loblaw. We expect the maturities of this debt to closely match maturities of existing Loblaw debt. The initial impact on Loblaw's cash flow should be minimal, as we expect that the rent paid to the REIT will be largely offset by interest received by the inter-Company debt and distributions from the REIT. We don't expect the IPO to trigger a material tax event. With respect to our debt, we intend to maintain our solid investment grade rating. As a have already seen this morning, DBRS issued a press release summarizing their current assessment of the impact our plan has on our rating. The proposed transaction is not expected to affect Loblaw's investment grade credit rating.

With that, I'll pass it to Vicente.

Vicente Trius - *Loblaw Companies Ltd - President*

Good morning. Overall, this is a very positive event for the whole Company and our Retail business. I am confident that this development will facilitate our ability to deliver our plan to strengthen our competitive position for the long-term. We will hold over 80% of the REIT. We will be establishing long-term stable leases, and we will maintain our core property selection and development function while gaining a partner that will enable bringing store development projects to market faster. There will be no impact on store operations. Rather, the transaction will enable us to focus on our core competency and our customers to drive the Retail business.

In addition, we maintain a steadfast focus on driving our SAP deployment to completion which remains on track. Last month and as I mentioned on our Q3 call, we linked our first VC to SAP. This past week weekend, we went live with our first store, an important milestone in our SAP rollout plan and a big achievement for the whole team. I believe this relationship will be great for business. The REIT will help to drive new store development. Over time, I would expect this partnership to improve the retail dynamics for our stores with more attractive shopping experiences.

We will now open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Irene Nattel, RBC Capital.

Irene Nattel - *RBC Capital Markets - Analyst*

Just wondering, clearly you have owned your real estate for a very long time and it's always been perceived to be a significant competitive advantage for Loblaw. And this is -- it's not the first time where REITs have been high profile in the marketplace. So wondering I guess essentially, why now? And, how you're feeling about your ability to do all the work on the REIT creation side while simultaneously executing on the SAP rollout to stores? And I know in theory, one should have nothing to do with the other. But in practice, could you walk us through why you're confident that will in fact be the case?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

Yes, I'd be happy to. One, we start with why now? We absolutely believe in the long-term value of our real estate. We absolutely believe in long-term control of our real estate. And nothing has changed on that basis. We've tried to indicate a willingness and an enthusiasm for what we call balance sheet optimization when we felt that the business was in a stable position and on the verge of moving forward. And we feel that way now. This particular construction, a REIT as a subsidiary of Loblaw's Retail company, gives us the ability over the long-term and over the short-term to control our real estate and unlock value the way the market is currently thinking about real estate assets. So in our view it's the best of both worlds.

In terms of managing the workload, I may ask Jane to comment a little bit on this. But it is very -- these are very distinct groups. The Loblaw Properties group is operated internally, almost as a separate entity. And they will be responsible for doing -- leading all of this work. And then we'll be using considerable external resources to help both with environmental assessment and also obviously striking individual lease agreements with each store. I think it's also worth mentioning that we completed the implementation of SAP in the real estate group about 18 months ago.

Irene Nattel - *RBC Capital Markets - Analyst*

Thank you.

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

Do you want to hear from Jane or is that all right?

Irene Nattel - *RBC Capital Markets - Analyst*

No, I think that's all right. Thank you, Galen.

Operator

Patricia Baker, Scotiabank.

Patricia Baker - *Scotiabank - Analyst*

Galen, in your remarks, you referenced the fact that this positions Loblaw's core business very well for the future. And I'm just curious about whether there's some element of this -- the actual permit -- make it easier or permit Loblaw to actually start to spend to grow again? It's been a while since there's been much investment on the real estate side. Is there something intrinsic to this that will permit the Company to actually get back into adding square footage over time?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

It certainly does make things easier. The cost of capital in a REIT is significantly lower than the cost of capital to a retail company. So that lowers hurdle rates and that would enable us to put more stores and different stores in the market. Is it going to fundamentally change our real estate square footage growth rate? Over the course of five years, I don't believe it will. Our issue is not one of resources available to us. It's more about how much incremental square footage can a retailer of our size put into one country. Having said that, we definitely believe that this is going to allow us to accelerate real estate site development in core markets and areas where we think, more quickly, we need to develop our site density.

Operator

Chris Li, Bank of America-Merrill Lynch.

Chris Li - *BofA Merrill Lynch - Analyst*

I want to drill down a little bit on the numbers first. In terms of the valuation that you've had so far on the portfolio, can you share with us what are some of the implied assumptions with respect to your cap rate and rents per square foot and metrics like this?

Sarah Davis - *Loblaw Companies Ltd - CFO*

Hi Chris, it's Sarah. At this point, we're not prepared to give a lot of the numbers. We're still in the early stages of that. This will all, of course, be outlined in the IPO. We are putting out there that we estimate that the value of the total real estate is in the CAD9 billion to CAD10 billion, the market value in the CAD9 billion to CAD 10 billion range. And the 35 million square feet that we're putting in, the value is about CAD7 billion. So from that you're going to have to do some of the math associated with that until we provide more detail as we go through the IPO process.

Chris Li - *BofA Merrill Lynch - Analyst*

Okay. Is there any sort of tax implications from a gains perspective as you do this structure?

Sarah Davis - *Loblaw Companies Ltd - CFO*

We don't expect a material impact from a tax perspective.

Chris Li - *BofA Merrill Lynch - Analyst*

Okay. And you mentioned from an earnings perspective, I appreciate you can't give a lot of numbers. But is it the way you think about it, I just want to make sure I understand is that the increase in the rents expense you expect will be largely offset by the interest and the distributions that you will get from the REITs on a net basis? They will be roughly earnings neutral? Is that the way to think about this?

Sarah Davis - *Loblaw Companies Ltd - CFO*

That's right. So I would say if you look at the consolidated P&L of Loblaw, we will be consolidating the REIT into those numbers. So from a consolidated perspective what you will have is a bit of a drag from an incremental SG&A of the cost of having the additional public company and the small management team associated with that, as well as there is the some minority interest component. So there will be a small decrease, but we don't expect it to be material. When you look at the way that the results -- we'll have three segments. We'll have the real estate segment being the REIT, we'll have the Retail segment as we do today, and we'll have the President's Choice Financial Services segment as well. And there will be transactions between those. So when you look at retail, they will be paying rent to the REIT, but in exchange they will be getting some interest on the inter-Company debt, as well as distributions from being a unit holder in the REIT.

Chris Li - *BofA Merrill Lynch - Analyst*

Okay, great. And just in terms of the timing, can you just remind -- you might have mentioned in the beginning -- in terms of the next milestone, when would the prospectus be filed? And then what is the next key date that the investors should be watching for?

Sarah Davis - *Loblaw Companies Ltd - CFO*

We plan to have it done in mid-2013. We don't think we'll be able to do it any sooner than that.

Chris Li - *BofA Merrill Lynch - Analyst*

Okay. And just lastly, in terms of the use of cash proceeds, you mentioned there's a few options, debt reduction and share buyback. If you were to rank the order, what would be your first priority and then second and the third in that way?

Sarah Davis - *Loblaw Companies Ltd - CFO*

I think the way that we worded it, we said pay down some debt, invest in the business growth, look for growth opportunities, and buy back shares. But it can be in any combination I think right now. It will be any combination of those.

Operator

Peter Sklar, BMO Capital Markets.

Peter Sklar - *BMO Capital Markets - Analyst*

Sarah, I'm a little -- it's not quite clear to me what's happening with Loblaw's current debt. I understand that your current debt is largely unsecured. So assuming that the properties that you're transferring into the REIT or vending into the REIT, you will be attaching some of the debt? Can you talk about where Loblaw's debt is going? How much is going to remain an Loblaw and how much is going to go into the REIT?

Sarah Davis - *Loblaw Companies Ltd - CFO*

Okay, so there's -- the debt is not being transferred into the REIT. What's going to happen is the debt will stay with Loblaw. And what will happen in the REIT is that it will be capitalized at the time of the IPO with an inter-Company note that with Loblaw which will be done at market rates. Over time, we expect that inter-Company debt to be repaid and then the REIT will find -- get its own capital from the markets. But at the time, there will be no incremental debt, as a result of this transaction. That will just be an inter-Company debt between Loblaw and the REIT.

Peter Sklar - *BMO Capital Markets - Analyst*

And what is the amount of the inter-Company note? Is it the CAD7 billion, the value of the real estate?

Sarah Davis - *Loblaw Companies Ltd - CFO*

No, it won't be the CAD7 billion. I'm not going to get into specifics. But basically what we're planning on doing is financing setting up the leverage in the REIT. It's about 50/50 which is on par with what we would expect in the REIT industry. So 50 debt, 50 equity. And it will be -- so Loblaw will take it back in the form of inter-Company note as well as units in the REIT -- share units.

Peter Sklar - *BMO Capital Markets - Analyst*

But will the REIT have time to finance the properties with that capital structure by the time of the IPO?

Sarah Davis - *Loblaw Companies Ltd - CFO*

No, it will be done through inter-Company debt. So it will be set up, the capital structure will be set up at the time of the IPO with an inter-Company debt with Loblaw. After that, we expect the REIT to go out into the market and get it's own financing, but it won't be for the full amount of debt. It will be over time. It will start to go into the markets and get third party debt and pay down the inter-Company debt with Loblaw.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. So as they finance the properties, they will then repay the Loblaw note?

Sarah Davis - *Loblaw Companies Ltd - CFO*

That's right.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. And then just to be clear, the IPO, is there any secondary component or it's all treasury from the REIT?

Sarah Davis - *Loblaw Companies Ltd - CFO*

All treasury.

Operator

Perry Caicco, CIBC World Markets.

Perry Caicco - *CIBC World Markets - Analyst*

What properties are not going into the REIT and why?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

I will start with I guess a pretty simple statement. It was our view that if we were going to bring something like this to market it would need to be substantial and represent us -- the large majority of our real estate portfolio. So we went through quite an exercise to think about what went in and what didn't. REITs are typically best suited to either shopping centers, of which we have 93, and also to retail sites that have mature and stable cash flows. So those would be the bulk of the property going into this. Jane, maybe you can share a little bit about how we went through the process?

Jane Marshall - *Loblaw Companies Ltd - EVP, Loblaw Properties Limited*

Sure, good morning. At this time, I can tell you that we're going through a fairly methodical process and looking at our mature and stable locations for initial inclusion into the REIT. And it's a pretty good representation of all of our retail stand-alone stores that may or may not have other associated retail with it, our 93 shopping centers, as Galen mentioned, and some warehouses and offices. The 12 million remaining square feet are made up of properties and various stages of development. And some will be vended into the REIT over a period of time, and some will be excluded because of their unique characteristics. But that would be a fair assessment.

Perry Caicco - *CIBC World Markets - Analyst*

Would the quality of the properties not in the REIT be of the same quality of the properties that are going into the REIT?

Jane Marshall - *Loblaw Companies Ltd - EVP, Loblaw Properties Limited*

Definitely. Yes, definitely they would be of the same quality.

Perry Caicco - *CIBC World Markets - Analyst*

Okay. And the plan is to vend them into the REIT over the course of time?

Jane Marshall - *Loblaw Companies Ltd - EVP, Loblaw Properties Limited*

Certainly, yes. Because they're at various stages of development right now. And so it would be better to vend them in at a later date.

Perry Caicco - *CIBC World Markets - Analyst*

Okay. And as to the REIT itself, what types of new real estate or non- Loblaw real estate would the REIT pursue?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

I think it's a little bit to early to tell -- to tell you that. But imagine we are going to have an independent management, an independent strategy, and an independent plan for growth. And I think it's fair to say that this will always be, from a substantial majority perspective, a retail REIT. And it stands to reason on that basis that some portion of the incremental growth is going to come from retail space as well.

Perry Caicco - *CIBC World Markets - Analyst*

And just want to be clear, is Loblaw Properties operating the REIT themselves?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

No.

Perry Caicco - *CIBC World Markets - Analyst*

And how would then the REIT react with the real estate department or Loblaw Properties?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

Again, I'm going to ask Jane to comment on that. But just in terms of setting it up, imagine that Loblaw remains primarily a development Company and will maintain all responsibility for developing the Retail network. And then they'll vend in that property when it reaches a certain level of maturity into the REIT itself. And as the REIT develops it's own growth strategy, and as it starts to build momentum as an entity on its own, you're likely to see a shifting of management resource over to the REIT to pursue some of the non-Loblaw related opportunities.

Perry Caicco - *CIBC World Markets - Analyst*

So just to be clear, all new Loblaw properties would be developed by Loblaw Companies, and over time, possibly vended into the REIT. All non-Loblaw developments would be developed by the REIT specifically. Is that fair --?

Sarah Davis - *Loblaw Companies Ltd - CFO*

That's a fair assessment, Perry. I think what we can say now is that Loblaw Properties will continue to develop the real estate and vend it into the REIT through either our land bank or other acquired assets that Loblaw properties would undertake. Eventually, the REIT could become the developer and could possibly, at a future date, build for Loblaw Companies -- build the store. But at this stage, that's not in our thought process. What will always remain proprietary to Loblaw will be the site selection, the network analysis, and the store development in [Cida]. Those will remain all proprietary to Loblaw Companies.

Perry Caicco - *CIBC World Markets - Analyst*

Okay. Just one last question, how will you determine exactly the amount of rent that each store should pay into the REIT?

Sarah Davis - *Loblaw Companies Ltd - CFO*

At this stage of the game, the internal rent on the aggregate is very similar, our internal rent to market rent for this portfolio. So we actually don't see a big change or big shift.

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

And Perry, I think this is a key question. You can imagine it was a key part of the discussion as we went through the process to figure out exactly how to do this. And the idea is that it's a mutually beneficial arrangement. So we're not going to maximize the rent on the Retail company to its long-term disadvantage. At the same time, we're not going to give unusual subsidies to the Retail real estate to the disadvantage of the REIT. Vicente, I don't know if you want to comment on that?

Vicente Trius - *Loblaw Companies Ltd - President*

No, I think your pretty much said it all. The only thing that I would add to that is that today 30% of our portfolio is leased. We are charging to the other stores competitive internal leases, and we're going to set up long-term competitive stable leases through this process. And I see no impact to operations.

Operator

Jim Durran, Barclays.

Jim Durran - *Barclays Capital - Analyst*

Just in the interest of crystallization of value to enhance the Loblaw outlook in terms of value, what consideration has been given to the credit card business?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

No, I think you're combining two ideas here. This is really focused on real estate and a specific opportunity to crystallize value in real estate. It doesn't send any signals about other pieces of Loblaw's portfolio that we might be thinking differently about.

Operator

(Operator Instructions)

Vishal Shreedhar, National Bank.

Vishal Shreedhar - *National Bank - Analyst*

Congratulations. On this initiative, I'm just trying to understand, was this initiative to recognize value given the disparity perhaps that you're looking at the share price? So was it an opportunistic initiative? Or wasn't it an initiative to get cash to finance something down the pipe?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

I think it was a little bit of both. We obviously believe we have an enormous amount of unrecognized value in our real estate portfolio. And we've looked at this opportunity many times over the years. People have come forward, investment bankers and financial people, and pitched this idea. As we look at the circumstances over the last six to nine months, we felt that this was the right thing to do. But we wouldn't be doing it if we didn't feel that it also represented a great opportunity to enhance the core strategic plan for Loblaw. And part of that is long-term access to funds that we can put against growth. And that growth could be organic growth. It could be growth through acquisition. All of the things that we've always maintained represented the fundamental elements of growing the Retail business over the years.

Vishal Shreedhar - *National Bank - Analyst*

Okay. So if you look at Loblaw's balance sheet right now, I think the cash position is very strong, and it will become stronger looking into the future as your CapEx goes down, your earnings go higher, and as you get cash from the proceeds of this IPO. So how should we think about your plans to use the cash? Do have plans in place right now among the options that you've articulated? Will you come up with plans? Is there a possibility that you could hold this cash for an extended period of time?

Sarah Davis - *Loblaw Companies Ltd - CFO*

Okay. I'll take that, it's Sarah. Our plan, as we wrote it in our press release and as we spoke to it. Our plan would be to pay down some debt, to invest in our business, to look for opportunities to grow, and to buy back some shares. We don't plan on sitting on the money for five years or an extended period of time.

Operator

Michael Van Aelst, TD Securities.

Michael Van Aelst - *TD Newcrest/Waterhouse Securities - Analyst*

Just starting on that last comment, do you have a preference to gradual return of capital to shareholders, or do you see the potential for lump sums like a Dutch auction or a special dividend at some point?

Sarah Davis - *Loblaw Companies Ltd - CFO*

We're not planning to do a special dividend at this time.

Michael Van Aelst - *TD Newcrest/Waterhouse Securities - Analyst*

Okay. And in the CAD9 billion to CAD10 billion of real estate that you discussed, does that include the land that's being held for sale -- or sorry, being held for development?

Sarah Davis - *Loblaw Companies Ltd - CFO*

No, it doesn't.

Michael Van Aelst - *TD Newcrest/Waterhouse Securities - Analyst*

Okay. When you talked about there not being much in the way of gains -- sorry, taxes on this transaction, is that just because it's only -- it's less than 20% that you're spinning off? Would it be significantly different if you're doing -- if you were selling off almost 50%?

Sarah Davis - *Loblaw Companies Ltd - CFO*

I think based on the plan that we have now that we don't expect a material impact on our taxes. So it's just based on the structure of the plan that we've got. We weren't looking at a higher than 50% spinoff. So I can't talk to you about that.

Michael Van Aelst - *TD Newcrest/Waterhouse Securities - Analyst*

But if you were to spin off 49%, would the taxable gain be any different -- any meaningfully different?

Sarah Davis - *Loblaw Companies Ltd - CFO*

I can't comment on that.

Michael Van Aelst - *TD Newcrest/Waterhouse Securities - Analyst*

And then just finally, will the tax rate of the consolidated Company change for any reason?

Sarah Davis - *Loblaw Companies Ltd - CFO*

I don't expect so, but we will provide more details as we get closer and put all those details in the IPO.

Operator

Keith Howlett, Desjardins Securities.

Keith Howlett - *Desjardins Securities - Analyst*

I just wanted some clarification. I didn't understand the proceeds here vending in the real estate for a note from the REIT and for units in the REIT. Where are you getting the money from the REIT so to speak, the cash?

Sarah Davis - *Loblaw Companies Ltd - CFO*

The cash will come from the minority interest that will be part of a float at the time of the IPO.

Keith Howlett - *Desjardins Securities - Analyst*

So does that mean it's a secondary issue, does is not?

Sarah Davis - *Loblaw Companies Ltd - CFO*

No.

Keith Howlett - *Desjardins Securities - Analyst*

Is Loblaw selling some units in the REIT to the investors?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

It's all being done at the same time.

Keith Howlett - *Desjardins Securities - Analyst*

I see, so you're selling down -- so the proceeds are going to Loblaw Companies is all I'm trying to figure out?

Sarah Davis - *Loblaw Companies Ltd - CFO*

That's right.

Keith Howlett - *Desjardins Securities - Analyst*

Thanks. And just in terms of the 35 million square feet, what proportion of that would the covenant be from one of the Loblaw stores versus a covenant from somebody else in a shopping center or whatever?

Jane Marshall - *Loblaw Companies Ltd - EVP, Loblaw Properties Limited*

Keith, it's Jane Marshall. We estimate at this point in time that it would be approximately 6 million feet from others and the remainder from ourself.

Keith Howlett - *Desjardins Securities - Analyst*

And, in terms of the decisions on, say, a future renovation of the store, or a re-bannering from Loblaw to no frills or whatever might the, how is that going to be handled between Loblaw and the REIT?

Sarah Davis - *Loblaw Companies Ltd - CFO*

In our current arrangement, we have our lease structures even with either other REITs or other landlords allow us those opportunities. So that would be no different than what it would be between Loblaw Companies and the REIT. We would be able to re-banner stores, renovate stores, downsize. There would be that level of flexibility that currently exists for us.

Keith Howlett - *Desjardins Securities - Analyst*

And who will be the managers of the REIT?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

I tried to speak to that a little bit about earlier. It's too early to say, but we do believe this is going to be a substantial entity. Obviously and as such, it will have a management team that is appropriate for something of that size and scale and opportunity. And we'll be looking outside for the appropriate talent and we'll also be looking inside.

Keith Howlett - *Desjardins Securities - Analyst*

And maybe just finally, on the non-retail parts of it, is the Brampton head office going to go into the REIT or any substantial new distribution centers or what non-retail components might there be in there?

Sarah Davis - *Loblaw Companies Ltd - CFO*

We're in the process of doing that analysis at this time. And it would be fair to think about warehouses and offices in the range of about 10% to 15% of the overall portfolio.

Operator

Irene Nattel, RBC Capital.

Irene Nattel - *RBC Capital Markets - Analyst*

And just a couple of follow-up questions if I may. If we think about your CapEx -- of a Loblaw CapEx currently running at around CAD1 billion, what do you think the cash CapEx at Loblaw's would be once we get through the creation of the REIT?

Galen Weston - *Loblaw Companies Ltd - Executive Chairman*

I think that's to be determined. The best guidance that we can give you is my guidance from earlier that it's not going to substantially change the growth rate over three or four years. It may have an impact in a specific year. We have an example which many of you might be familiar with in terms of what makes this so attractive for us from a Loblaw perspective. We got a great site in downtown Toronto at Lakeshore and Bathurst. It's a huge property, and something that's quite difficult and quite uneconomical for a retail company looking to build, say, a 50,000 foot store to put all of that capital into maximizing the economic value in the site. And that's the type of thing that we have some significant opportunity to get after with the different financial structure.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great, but -- and that's very helpful, Galen, thank you. I think what I was really trying to get at is of the CAD1 billion in CapEx that you're currently spending right now, presumably a portion is going to land banking or similar. Now, I'm trying to, again, understand the mechanics. If Loblaw Properties is going to continue to develop, does that mean that the LCL CapEx including development will remain unchanged and only once properties are fully executed, will they be transferred? What I'm really saying is should this have an impact on your annual cash CapEx at Loblaw's?

Sarah Davis - *Loblaw Companies Ltd - CFO*

I think some of these details are going to be determined later, but I think it's fair to say that the CapEx is going to remain virtually the same. We're still going to -- Loblaw is still going to be the retail company. We'll still be developing the projects, still doing the renovations, still have the infrastructure project that it has today. And what will happen that will be a little bit different, is once the project has been developed, we'll vend it into the REIT and have distributions and cash related to that. But the actual CapEx -- growth CapEx of the Company should remain virtually the same.

Irene Nattel - *RBC Capital Markets - Analyst*

Right, okay, fair enough. But ultimately, it should result in lower net net CapEx if you will, Sarah, right? Because if you then vend the property in, you're getting some of it back.

Sarah Davis - *Loblaw Companies Ltd - CFO*

That's right, yes.

Operator

David Hartley, Credit Suisse.

David Hartley - *Credit Suisse - Analyst*

Thank you, congratulations, but all my questions have been answered.

Kim Lee - *Loblaw Companies Ltd - VP of IR*

And then is that our last question?

Operator

We do have two additional questions.

Kim Lee - *Loblaw Companies Ltd - VP of IR*

We'll take one last question, please.

Operator

Keith Howlett, Desjardins Securities.

Keith Howlett - *Desjardins Securities - Analyst*

Wondered if you could amplify on the example of the Bathurst and Lakeshore site. It's my understanding there that over time when the REIT is more fully formed, that that's something that they might develop in a much broader way than you, is that the idea? Than you would want to do as a retail company?

Jane Marshall - *Loblaw Companies Ltd - EVP, Loblaw Properties Limited*

Keith, yes, that is a possibility. So as you're probably aware, that property has been inactive and on our books for about eight years. And while it is a great retail location, it's size is suited for multi-tenanted retail complex of what Loblaw supermarket would occupy probably a 50,000 square foot store in that complex. So inside a REIT, Bathurst and Lakeshore could be developed at a lower cost of capital than our current structure at LCL. And the REIT in our mind would be more suited at that stage to deal with the other tenants and the other marketing of that particular development which would be probably in the order of 250,000 feet.

Operator

Thank you. Kim Lee, I return the call back to you.

Kim Lee - *Loblaw Companies Ltd - VP of IR*

Thank you, Amanda. Thank you, everyone, for joining us. We look forward to speaking to you on our Q4 call. Thanks.

Operator

And this concludes our conference call. You may now disconnect.
