CEO Address for RioCan Annual and Special Meeting
Wednesday, May 28, 2014 at 10:00 a.m.
SilverCity Theatres, RioCan Yonge Eglinton Centre

First, let me thank you all for attending RioCan's Annual and Special Meeting.

For some of you, this will be your 21st meeting, and I want to especially thank you for your support and for coming back to hear Paul and I speak so many years in a row.

Let me start my address by looking back to how we brought RioCan to what it is today... and then end with what we hope to achieve in the future.

When I reflect on RioCan's success over the last 20 years, I realize that one of the prime reasons for that success was being flexible enough to alter our basic strategies from time to time… and then, even more important, executing the new strategies very well -- and without a wonderful team led by Fred Waks and Rags Davloor, that execution simply would not have occurred.

We are now at the beginning of yet another strategic shift which involves urban development -- and even more so, redevelopment of many of our major market properties -- and I will focus more on where that is taking us in the latter part of my address.

But first let me quickly share with you what we have achieved over the last 5 years as, in addition to our U.S. venture, our strategic focus over that period was to continue to improve the financial foundation of RioCan… as we concluded that only with incredibly strong financial metrics could we afford to undertake the value creation activities that I will carry on about at length in a few minutes.

I think that a few charts might be best to illustrate what we have achieved since 2009:

1. Our revenue has increased by about 50% over that time period to almost $1.2 billion in 2013. A compounded annual growth rate of 12%.

If someone would have told me or any of our long serving executives -- like Danny Kissoon, our SVP of Operations, who is actually responsible for receivables – that we would be collecting $100 million per month in revenue, I would have thought they were spending too much time with Mayor Ford in some of his more notorious activities.

2. Our net operating income, determined after we pay all 3rd party costs such as realty taxes, has kept pace with revenue growth... one of the many benefits of having net leases.

In 2013, our NOI was $758 million, representing a compounded annual growth rate since 2009 of 12.9%.

3. The most important number to you, our unitholder, is our FFO per unit… which grew at a 7.5% CAGR during the same 5 years to $1.63 per unit.

4. One of the criticisms levelled at RioCan in the past was that our payout ratio was too high… and it is one of the few criticisms that was actually correct.

In the chart on the screen now, you will see how we have brought down this payout ratio to an extremely manageable figure without ever having to even seriously consider reducing the distribution.

In fact, we have been able to modestly increase it during this difficult economic period and certainly hope and expect to continue that program of modest increases… while at the same time continuing to reduce our payout ratio.

5. While achieving all of the financial metrics that I just described, we did not for a moment change our strategy of quality properties in the major markets…
…and in the chart on the screen now, you will see how we have increased our portfolio concentration over the last few years.

With essentially all of our development program and any acquisitions being in these major markets, I fully expect this concentration percentage to move to over 75% within the next couple of years and eventually to about 80%.

6. Financial metrics obviously include level of debt.

It has been extremely tempting over the last several years to grow using historically cheap debt as rocket fuel.

But we have avoided that temptation, while at the same time taking full advantage of the economic opportunities offered by the current interest rate environment.

In this slide, you will see that while the growth in our assets over the last 5 years was in excess of a 20% CAGR, the growth in debt was less than 13% per annum.

7. This results in the last slide where you will see a consistent growth over the last 5 years in our interest coverage ratio and a dramatic reduction in our leverage ratios from 2009 to 2013.

So now that I have been properly self-congratulatory about what we have achieved over the last 5 years, let me move on to what I see as the current state of our little world and where we would like to take it in the future.

In the economic environment that we find ourselves in
-- which seems to be one of slow growth and lower than historically normal interest rates – we feel that the differentiating factor amongst everyone in this business will be their success in continuing to achieve growth in operating funds from operations.

Growth by acquisition is not only quick, it provides instant gratification.

However, quality assets of the type we wish to own are rarely available, and certainly cannot be counted on for near term growth… notwithstanding the superb efforts of our investment team led by Jonathan Gitlin.

The hunger for quality real estate assets has driven asset prices to the point where even when they sometimes become available -- such as in the sale of Bayview Village Centre last year – the price that they eventually go at is certainly not one that provides immediate growth.

This is the case in Canada, and to a very large extent, it's the same in the U.S.A.

When we saw the real estate market starting to go this way over the last 2 years, we decided to expand our development and intensification initiatives starting with the significant portfolio that we already own.

This is nothing new for us -- and I am sure many of you in this room have driven by 1717 Avenue Road here in Toronto, which a few years back was simply a 23,000 square foot strip shopping centre, and now is a 7 storey building with an equivalent amount of retail and 6 floors of condominiums on top.

The basic change from what we have done in the past in this area is to understand that while transaction gains -- achieved by creating and selling air rights or condominiums, are very pleasant to receive – they do not directly contribute to our core mission of creating solid and reliable cash flows that will grow over time.

So we are embarking on adding rental residential in our mixed use developments, rather than condominiums, in locations where the economics will work.

Clearly, these will be urban and typically located at or near major transit facilities.

Development, and particularly urban redevelopment, pose a unique set of problems… ranging from zoning to construction to dealing with the existing tenants of the property.

But RioCan is singularly suited to deal with the maze of issues that arises on every single project of this sort.

As the frustrations inevitably mount, I have to keep reminding myself as well as Jordan Robins, our head of development, and Jeff Ross, our head of leasing, that if it were easy, then anyone could do it.

Because of the difficulties, timing of completion of these developments is completely uncertain.

The key to success for an entity such as ours in this type of program, besides having the best people and consultants, is having a large number of projects underway.

So what we have done, and continue to be in the process of doing, is to essentially build a development ladder, the same strategy we have for many years applied to debt and lease maturities.

It is obviously a far more subjective exercise when it comes to developments, due to the large number of variables I mentioned earlier…
…but we hope that for every project that gets delayed, another will go faster than we expected.

Needless to say, approaching our development program in this manner, provides several advantages as follows:

1. It allows us to manage our risk -- and enhanced risk is an inevitable part of this process -- by ensuring that our development exposure does not bulge up too high in any one year.

2. It allows us to plan for financing, mostly with equity, for this program, and;

3. It will provide on an annual basis, growth in our underlying cash flow as projects move from development status into income producing.

While this development ladder is a bit of a work in progress -- and will constantly be evolving due to its very nature – allow me to set out the basic program as we see it today, with the years indicating when the properties in question will become mostly income producing.

2014

Stockyards – Weston Road & St. Clair, Toronto

This urban format, large scale centre is one I have discussed in years past… …and in fact, I think a couple of years ago, I showed you a video of what we hoped it would look like.

It is now essentially complete and about 65% open, with the remaining tenants opening over the course of the next several months.

This 551,000 square foot asset in the middle of Toronto -- of which we now own 50% -- will, on full opening of all tenants, generate about $6.5 million of NOI to RioCan.

Tanger Outlet Mall Expansion – Cookstown

Anyone who has driven up to cottage country by way of Hwy 400, will be aware of the extensive construction that has been underway since late last year on the original outlet mall which we acquired a couple of years ago with our 50/50 partners, Tanger Factory Outlets.
By the end of this year, the 155,000 square foot addition will be complete... almost doubling the NOI from this property.

Tanger Outlet Mall – Ottawa

This 300,000 square foot outlet mall will be opening in October, and will include a Polo Outlet and a Saks Off Fifth…
-- We are certain as one can be that it will be a tremendous success.

Our share of the fully leased income from this property is in excess of $4.2 million annually.

Redevelopment of Blue Mountain Mall – Collingwood

We will be completing, prior to year-end, the complete redevelopment of the vacant Zellers store in this mall…
…and replacing Zellers with such tenants as Sports Check, Bed, Bath & Beyond, Winners and Dollarama…
-- realizing incremental income in excess of $1 million annually upon completion.

2015

Sage Hill Shopping Centre – Calgary, Alberta

Construction has commenced of this 383,000 square foot conventional centre anchored by Walmart, Loblaws and London Drugs.

On completion towards the end of 2015, we and our partners, Kingsett, will enjoy about $8 million per year of net income.

The Cube - RioCan Yonge Eglinton Centre, Toronto

We started working on the planning of this small addition to the building we are in, in late 2007.

It took us almost 5 years to design and then receive a controversial approval for the 42,000 square foot addition… which we expect to be complete and open by November 2015.

Although small in size, on completion, it will generate almost $3.3 million in annual income from tenants who are all signed up and ready to go.

Herongate Shopping Centre – Ottawa

This property is a complete redevelopment of what was an enclosed and essential obsolete community mall on an arterial road in Ottawa.

This redevelopment was complex in that the two major tenants, Metro and Pharma Plus, did not wish to ever be out of business… a theme which we encounter in virtually every redevelopment that we undertake.

However the heavy lifting part of this project has been completed… with the newly built Metro supermarket and Pharma Plus Drugstore being open for business… the old mall demolished… and construction commencing shortly on the new components of the center that we are constructing around these two tenants.

Whole Foods – Bayview, Toronto Ontario

This property is one that we are purchasing from Trinity and Kingsett, and therefore we will own 100% of this very urban building when it is completed in the middle of 2015.

It is expected to generate in excess of $3 million of annual income.

2016

Redevelopment & Expansion of Yonge Sheppard Centre – Toronto

We believe that this property will, over the next few years, mirror the enormous success that we have had with Yonge Eglinton Centre.

The area is becoming almost as dense, and it is the prime retail hub for an area encompassing thousands of apartments… as well as being at the intersection of the Yonge & Sheppard subway lines, with the main entrance to transit being part of the building.

We are still in the zoning process here, but we expect to receive approval in the not too distant future for the retail and office expansion… which should generate for ourselves and our partners, Kingsett, almost $9 million of incremental NOI per annum.

The residential tower which we hope to build at the north end of the site should follow a year or two later.

430 Bathurst Street – Toronto

While I am not at liberty to reveal the final tenancies here, I can tell you that the property known as the Kromer site will not be anchored by Walmart.

Our new plan received unanimous City Council approval and we are hopeful of commencing construction before the end of this year for completion in late 2016.

547 – 555 College Street – Toronto

This joint venture with Allied Properties is expected to commence actual physical development by early 2015… and will include 78 rental units that will be the first fruit of our residential rental program.

Redevelopment & Expansion of Colossus Shopping Centre – Vaughan, Toronto

We are proceeding with the demolition of the space formerly occupied by RONA fairly soon.

The new build will be approximately 30,000 square feet larger than the RONA building and we expect to receive final approvals sometime this year.

2017

East Village – Calgary, Alberta

This is a site that internally we refer to as the CPA site, having purchased it from the Calgary Police Association.

It is kiddie-corner to Calgary City Hall and will form the centerpiece of the municipally led redevelopment adjacent to Calgary's downtown.

We expect this building -- which is also being done in partnership with Kingsett -- to consist of about 215,000 square feet of retail area below two residential towers… totalling approximately 600,000 square feet.

While it is too early to get into details, I can tell you that the second floor of the retail facility -- totalling over 100,000 square feet -- has already been preleased to Loblaws.

East Hills Power Centre – Calgary, Alberta

This large scale retail development -- of which RioCan now owns 50% and where our main partner is CPPIB -- will be built in phases over the next several years.

In fact, the first phase anchored by a Walmart land lease, will be opening this year with the remaining phases filling in the centre over the next three years.

When complete, it will total almost a million square feet.

King Street West & Portland Redevelopment – Toronto

This joint venture with Allied Properties is currently in its zoning process, but we are hopeful of securing approval sometime next year with completion about two years later.

This will be a mixed use development where we will be adding retail and residential components to the current primarily office development.

North East Corner of Yonge & Eglinton – Toronto

Demolition has commenced on what will be a significant redoing of this property at the hub of two main transit lines... and which will be connected underground to RioCan Yonge Eglinton Centre.

I look forward to seeing it start rising out of the ground next year and I will literally see it as it is directly across the street from my office.

The southerly tower that you see in the rendering is a condominium building containing 630 units.
It is already 92% pre-sold. With our partners, Metropia and Bazis, we are taking the opportunity of this superb location to build the north building as a 450 unit rental residential tower.

In addition, there will be almost 100,000 square feet of prime retail and commercial space… a big chunk of which has already been leased to T-D Bank.

2018

At this point in time, we are getting into the completion of the first of our intensification program of existing properties and each involves much still to be done, including zoning and relocation of existing tenants.

However we are confident in the completion by no later than 2018 of at least three rental projects.

The ones I am about to highlight here have been chosen as they are located in three of the major markets in Canada...
-- and of course we aleady own them... in each case, for quite some time.

The Brentwood shopping centre is already a proven residential location… with Metropia having successfully marketed and built several condominium towers on what was a portion of the original centre.

We expect to be able to receive zoning to build about 180 units on a portion of the center currently occupied by a carwash.

Eglinton and Laird in Toronto is an existing shopping centre anchored by Canadian Tire and comprises a land area of over eight acres.

Metrolinks has already approached us to locate the LRT stop and entrance at the corner of our property… thus making it even more attractive and inevitable as a major residential intensification site.

We are not ignoring our nation's capital, as we are actively working on a portion of our Silver City Gloucester Centre, which happens to be adjacent to a transit station on the new LRT system in Ottawa.

Obviously the further out we go, the more uncertain the timing and the net income that we expect to achieve from an individual project.

But when you add up some of the numbers I set out today -- and include some other projects that we feel are likely to come on stream by 2020 – we expect to be able to add over the next 5 to 6 years, in excess of $250 million at RioCan's interest per year of net income.

Obviously there is a cost to that… but all of these developments will yield well in excess of what they will be worth on completion… so that in addition to creating all of this income, we will be creating significant value.

I would like to conclude by previewing with you with what is our largest development undertaking, The Well.

This site, formerly known as the Globe & Mail lands, consists of about 7 ¾ acres of land just west of Toronto's core.

With our partners, Allied Properties and Diamond Corp., we have applied for zoning to permit a development aggregating in excess of 3 million square feet… of what I believe will be the finest mixed use project Toronto has ever seen.

The foundation will be about 600,000 square feet of unique urban oriented retail space.

On top of this retail component will be approximately 1 million square feet of office space and about 1.5 million square feet of residential, which itself will be a mix of condominiums and rental units.

If everything is working correctly, you are now seeing images of what we expect The Well to look like upon completion which will probably be in 2020.

If the name seems odd, think shop well, live well and work well.

I started a practice many years ago of providing you with the annual return that an investor would've achieved had they purchased a RioCan unit on the day of last year's Annual Meeting, and held it until the day prior to this year's.

You know I think 20 years of doing this is enough... so for the last time, the return for that period of time was 9%

Thank you very much for your attention and attendance, and I would now like to open the floor to questions.