Pro Real Estate Investment Trust (PROREIT)

PROREIT reports third quarter 2017 financial and operating results

PRO Real Estate Investment Trust ("PROREIT" or the "REIT") (TSXV: PRV.UN) is pleased to report financial and operating results for the three-month and nine-month periods ended September 30, 2017. For the three-month period ended September 30, 2017 (or "third quarter"), the REIT reported further growth in property revenue, net operating income[1] ("NOI") and adjusted funds from operations1 ("AFFO") year over year. Five previously announced property acquisitions were closed during the third quarter.

"It has been a busy few months of transition since we reported our second quarter results. We are building a portfolio with high quality buildings and high quality tenants, which together are generating a consistent and growing stream of cash flow," said James W. Beckerleg, President and Chief Executive Officer. "During the third quarter, PROREIT successfully closed five property acquisitions. Then, subsequent to the end of the third quarter, we announced the proposed acquisition of 21 new properties, two of which have now closed. These deals will extend our footprint coast to coast, bring our property count to 64, increase our square footage to 2.7 million and expand our total assets to over $360 million, compared to just one $6 million property five years ago when we founded PROREIT. We are working hard to ensure that this trend continues. These 26 closed or announced acquisitions, all of which are accretive to unitholders, will provide significant additional NOI and ultimately AFFO per unit.

"The financing and asset sales that had been completed late in the second quarter generated the significant cash that was to be deployed on the acquisitions over the course of the third and fourth quarters. The timing gap between these events caused the AFFO per unit to decline and our payout ratio to increase, both temporarily. The assets in which we are investing, however, are high quality and generate significant cash flow, which will be reflected in our financial results in the fourth quarter of 2017 and through 2018," added Mr. Beckerleg.

On September 30, 2017, the portfolio was comprised of 43 properties, compared to 33 at the same date in 2016. The increase is the result of the closing of twelve acquisitions since September 30, 2016, offset in part by the profitable sale of two properties in Etobicoke, Ontario.

Gross leasable area increased 42.12% to 2,383,738 square feet at September 30, 2017 compared to 1,677,247 square feet at the end of the third quarter in 2016. The weighted average lease term was maintained at 6.1 years as a result of successful lease renewals and acquisitions with long average lease terms.

Importantly, at September 30, 2017, the occupancy rate increased to 95.2%, from 94.2% a year earlier. PROREIT pursues strong relationships with its tenants. In 2017 to date the REIT renewed 91% of its tenants whose leases were coming to term – the fourth straight year that PROREIT has achieved a renewal rate above 90%.

Financial Results for the Third Quarter Ended September 30, 2017

PROREIT reported significant corporate year-over-year advances in property revenues, NOI and AFFO compared to prior year periods.

As of September 30, 2017, total assets increased to $298.4 million, compared to $209.2 million on September 30, 2016.

For the third quarter of 2017, property revenues increased 24.46% to $6.96 million, compared to $5.59 million for the third quarter in 2016. Revenue increases were driven by incremental revenue from the 12 property acquisitions completed throughout the 12-months ended September 30, 2017, offset by the sale of two properties in June 2017. For the nine-month period ended September 30, 2017, property revenues grew 27.22% to $21.48 million, compared to year earlier period.

NOI1 grew 23.32% to $4.34 million in the third quarter, compared to $3.52 million for the same quarter in 2016, driven primarily by the 12 acquisitions completed in the previous 12 months. For the nine-month period ended September 30, 2016, NOI grew 27.31% to $13.31 million, compared to $10.46 million for the same period last year.

AFFO1 increased 31.8% to $2.43 million in the third quarter compared to $1.84 million in the third quarter of 2016. At $0.0407 per unit, AFFO per basic unit declined for the three-months ended September 30, 2017 compared to the same three months in 2016. As addressed above and in PROREIT's second quarter report, the decline is a short term occurrence driven entirely by cash and liquidity on the balance sheet at the end of the second quarter. The REIT raised net cash of more than $30 million in the second quarter of 2017 from an equity financing and profitable property sales. Deployment of this liquidity began on a stepped basis in the third quarter and will be completed by year-end. The REIT recorded nine month 2017 AFFO of $7.52 million compared to $5.52 million for the same nine months in 2016. Nine month AFFO per unit was $0.1436 compared to $0.1614 per unit in 2016.

Similarly to AFFO, the payout ratio per basic unit[1] was 129.0% for the third quarter, compared to 97.9% for the same quarter of 2016, and 109.7% versus 97.6% for the corresponding nine-month period in 2016. Distributions to unitholders totaling $0.0525 per unit were declared during the three-months ended September 30, 2017. Total distributions per unit were $0.1575 for the nine-month period.

Total debt to gross book value1 stood at 55.08% at September 30, 2017, compared to 62.82% on the same date in 2016. The weighted average interest rate on mortgage debt was 3.68% at the end of the quarter, down from 3.75% at September 30, 2016.

Significant and Subsequent Events

The period since we reported our second quarter results has been very active. During the third quarter, PROREIT successfully closed five property acquisitions. Then, subsequent to the end of the third quarter, we announced the proposed acquisition of 21 new properties, two of which have now closed. As previously mentioned, these deals will extend our footprint coast to coast, and expand our total assets to over $360 million.

Acquisitions Closed During the Quarter

On August 1, 2017, the REIT closed a previously announced transaction to acquire a free-standing retail property located in the core of downtown Saint John, New Brunswick. The 9,647 square foot property, developed in 2016, is 100% occupied by a provincial crown corporation under a long term lease with a remaining term of approximately 15 years. The purchase price of approximately $4.8 million (excluding closing costs) was financed by a $3.7 million mortgage at a fixed interest rate of 3.27%, maturing in August, 2022. The balance of the purchase price was paid from cash on hand.

Also on August 1, 2017, the REIT closed the previously announced acquisition of an 81,600 square foot light industrial property in Moncton, New Brunswick, for $5.7 million. The well located building is fully leased to a good quality, publicly traded tenant. The property is located in the Moncton Industrial Park, which has direct access to the Trans-Canada Highway, and to a four-lane boulevard. With 28 feet of clearance, the building sits on a 5.7 acre site. The acquisition was financed by a $3.3 million mortgage at a fixed interest rate of 3.60%, maturing in August, 2021. The balance of the purchase price was paid from cash on hand.

On August 9, 2017, the REIT closed on the previously announced acquisition of two high-quality light industrial buildings in Woodstock, Ontario, for a total purchase price of $30.0 million (excluding closing costs). The properties are 100% leased to seven high quality, national or multi-national tenants with excellent covenants and leases ranging in size from 26,000 square feet to 132,000 square feet. The purchase price for the Woodstock properties was satisfied by (i) the assumption of $16.5 million in mortgages with an average weighted interest rate of 3.29%; (ii) the issuance of $7.25 million of Class B limited partnership units of PROREIT Limited Partnership (each a “Class B LP Unit”), a subsidiary of the REIT, at a price of $2.25 per unit, resulting in 3,222,222 Class B LP Units being issued, and (iii) cash on hand.

On September 22, 2017, the REIT closed on the previously announced acquisition of a 44,720 square foot retail property at 165 Chain Lake Drive, in Halifax, Nova Scotia, for a purchase price of $8.2 million, representing a going-in capitalization rate of 7.0%, rising to 7.6% in 2018. The property is 100% leased to a single national retail tenant on a long-term lease. The purchase price of approximately $8.2 million (excluding closing costs) was financed by a $5.3 million mortgage at a fixed interest rate of 3.92%, maturing in September 2027. The balance of the purchase price was paid from cash on hand.

Full cash flows for these five acquisitions will begin to be reflected on the REIT’s fourth quarter 2017 operating results.

Ongoing Development Projects

The $2.5 million for development opportunities denoted in the June 2017 equity raise, has been put to work. Construction is almost completed for four projects, including two new pad buildings in Miramichi, N.B. The REIT expects incremental cash flow with respect to all of the projects by the first quarter of 2018. Together, they are expected to generate a weighted average return on capital of over 11%.

Subsequent Events

On November 1, 2017, the REIT closed a previously announced transaction to acquire a two-building high-quality commercial mixed-use complex of 126,482 square feet at 8150-8210 Trans-Canada Highway in suburban Montreal, for a total purchase price of $8.65 million. The purchase price represents a going-in capitalization rate of 6.3%, with the potential for further increases once the property is fully leased and further developed. The purchase price of approximately $8.65 million (excluding closing costs) was financed by a $5.6 million mortgage at a fixed interest rate of 3.3%, maturing in November 2022. The balance of the purchase price was paid from cash on hand.

On November 9, 2017, the REIT announced that it has entered into a binding agreement to acquire 19 properties (the “portfolio”) in British Columbia, Alberta, Saskatchewan and Ontario, the majority of which are anchored by Rexall pharmacies. The properties comprise stand-alone drug stores and community service centres. The purchase price of the portfolio is $51.6 million, representing a going-in capitalization rate of 7.1%. Rent steps will improve this rate going forward.

This transaction, which will be accretive to unitholders, will bring year-to-date acquisitions to more than $110 million, and total assets to over $360 million. The transaction will add 172,677 square feet to gross leasable area. The weighted average lease term of the total portfolio is 9.2 years overall, and 10.7 years for the Rexall drug stores, increasing the weighted average lease term of the entire PROREIT portfolio once the Rexall transaction is closed.

The occupancy rate of the Rexall portfolio is 99.25%, a figure significantly higher than the REIT’s 95.2% occupancy rate at September 30, 2017.

The properties are to be financed by $38.7 million of first mortgage debt from a Tier 1 Canadian Chartered Bank at an estimated interest rate of 4.00% comprised of a mix of 5, 10 and 15 year terms, proceeds from the REIT’s recent equity financing, and lines of credit. The transaction is planned to close prior to year-end and closing is subject to customary closing conditions.

Strategy and Outlook

Many of Canada’s largest REITs focus increasingly on acquiring commercial real estate in only the largest urban centres. This trend therefore dovetails nicely with PROREIT’s strategy of focusing on markets mainly outside these centres in Canada, and provides the REIT with numerous and significant opportunities to acquire good quality real estate in markets across the country. PROREIT has been served well by its strategy of acquiring properties leased to high quality tenants with strong covenants. PROREIT has expanded its geographic horizons, but the REIT will remain focused on the quality of the real estate and the quality of the tenant. One example is its retail focus, which is to acquire community service centres usually anchored by nationally branded grocery or pharmacy chains. Another is the REIT’s industrial properties, which are strategically located in regions next to major highways in Ontario, Quebec and the Maritimes. The REIT’s recent Woodstock Ontario, Moncton New Brunswick and Montreal acquisitions are all good examples of the types of industrial properties the REIT is buying.

Commercial real estate markets in Canada continue to perform well. The Montreal industrial market is robust right now with increasing occupancy and rates. Management sees upside opportunities for its recent acquisitions there. While interest rates may continue to increase over the next few quarters, PROREIT’s team has been successful at managing the weighted average interest rate on the REIT’s debt, and the balance sheet is structured so that expected increases should not have a significant negative impact on cash flows.

Recent acquisitions, all of which are accretive to unitholders, will provide significant additional net operating income to the REIT beginning in the fourth quarter, and more so in 2018. Management will continue to respond to new opportunities and build out the REIT’s portfolio to the benefit of unitholders.

Additional Financial Information

Information appearing in this news release is a select summary of results. The condensed consolidated financial statements and management’s discussion and analysis of PROREIT for the three and nine months ended September 30, 2017 are available under PROREIT’s profile on SEDAR at www.sedar.com and on PROREIT’s website at www.proreit.com.

About PROREIT

PROREIT is an unincorporated open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario. PROREIT was established in March 2013 to own a portfolio of diversified commercial real estate properties in Canada, with a focus on primary and secondary markets in Québec, Atlantic Canada and Ontario with selective expansion into Western Canada.

Non-IFRS and Operational Key Performance Indicators

PROREIT's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). In this press release, as a complement to results provided in accordance with IFRS, PROREIT discloses and discusses certain non-IFRS financial measures, including Adjusted Funds From Operations ("AFFO"), Funds From Operations ("FFO"), Net Operating Income ("NOI"), debt to gross book value, interest coverage ratio, debt service coverage ratio, and payout ratios as well as other measures discussed elsewhere in this release. These non-IFRS measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other issuers. PROREIT has presented such non-IFRS measures as Management believes they are relevant measures of PROREIT's underlying operating performance and debt management. Non-IFRS measures should not be considered as alternatives to net income, cash generated from (utilized in) operating activities or comparable metrics determined in accordance with IFRS as indicators of PROREIT's performance, liquidity, cash flow, and profitability.

For a full description of these measures and, where applicable, a reconciliation to the most directly comparable measure calculated in accordance with IFRS, please refer to the "Non-IFRS and Operational Key Performance Indicators" section in PROREIT's Management's Discussion and Analysis for the three and nine months ended September 30, 2017, available under PROREIT's profile on SEDAR at www.sedar.com.

Forward-Looking Statements

This news release contains forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond PROREIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking statements.

Forward-looking statements contained in this press release includes, without limitation, statements pertaining to the ability of the REIT to execute its growth strategies; the performance of the capital markets in the future; the REIT's future financial performance; the development activities of the REIT and their impact on the REIT's results; the expected timing and completion of the proposed acquisitions; the effect of the acquisitions on the financial performance of the REIT; and the ability of PROREIT to execute its business and growth strategies. PROREIT's objectives and forward-looking statements are based on certain assumptions, including that (i) PROREIT will receive financing on favourable terms; (ii) the future level of indebtedness of PROREIT and its future growth potential will remain consistent with REIT's current expectations; (iii) there will be no changes to tax laws adversely affecting PROREIT's financing capacity or operations; (iv) the impact of the current economic climate and the current global financial conditions on PROREIT's operations, including its financing capacity and asset value, will remain consistent with PROREIT's current expectations; (v) the performance of PROREIT's investments in Canada will proceed on a basis consistent with PROREIT's current expectations; and (vi) capital markets will provide PROREIT with readily available access to equity and/or debt.

The forward-looking statements contained in this news release are expressly qualified in their entirety by this cautionary statement. All forward-looking statements in this press release are made as of the date of this press release. PROREIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by law.

Additional information about these assumptions and risks and uncertainties is contained under "Risk Factors" in PROREIT's latest annual information form, which is available on SEDAR at www.sedar.com.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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[1] Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

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