

Pro Real Estate Investment Trust

First Quarter Results Conference Call

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CORPORATE PARTICIPANTS

James Beckerleg

Pro Real Estate Investment Trust — President and Chief Executive Officer

Gordie Lawlor

Pro Real Estate Investment Trust — Executive Vice President, CFO and Secretary

Alison Schafer

Pro Real Estate Investment Trust — Director of Finance

Mark O'Brien

Pro Real Estate Investment Trust — Managing Director Operations

CONFERENCE CALL PARTICIPANTS

Mark Rothschild

Canaccord — Analyst

Lorne Kalmar

TD Securities — Analyst

PRESENTATION

Operator

Good morning and welcome to the PROREIT 2022 First Quarter Results Conference Call.

At this time, all lines have been placed on mute to prevent any background noise.

Management will make a short presentation, which will be followed by a question-and-answer period open exclusively to financial analysts.

In order to ask a question, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, then the number 2.

For your convenience, the press release along with the first quarter financial statements and management's discussion and analysis are available at proreit.com in the Investor section and on SEDAR.

Before we start, I have been asked by PROREIT to read the following message regarding forward-looking statements and non-IFRS measures.

PROREIT's remarks today may contain forward-looking statements about its current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements, or other future events or developments.

Forward-looking statements are based on information currently available to management and on estimates and assumptions made based on factors that management believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Many factors could cause actual results, levels of activity, performance, achievements, future events, or developments to differ materially from those expressed or implied by these forward-looking

statements. As a result, PROREIT cannot guarantee that any forward-looking statement will materialize, and you are cautioned not to place undue reliance on these forward-looking statements.

For additional information on the assumptions and risks, please consult the cautionary statement regarding forward-looking statements contained in PROREIT's MD&A dated May 11, 2022, available at www.sedar.com.

Forward-looking statements represent management's expectations as at May 11, 2022, and except as may be required by law, PROREIT has no intention and undertakes no obligation to update or revise any forward-looking statement whether as a result of new information, future events, or otherwise.

The discussion today will include non-IFRS financial measures. These non-IFRS measures should be considered in addition to and not as a substitute for or in isolation from the REIT's IFRS results. For a description of these non-IFRS financial measures, please see the 2022 first quarter earnings release and MD&A.

A reconciliation of non-IFRS to IFRS results, as applicable, may be found in the earnings release and MD&A for the 2022 first quarter. Please refer to the Non-IFRS Measures section in the MD&A for the first quarter for additional information.

I will now turn the call over to Mr. James Beckerleg, President and Chief Executive Officer. Please go ahead.

James Beckerleg — President and Chief Executive Officer, Pro Real Estate Investment Trust

Thank you very much, Operator, and good morning and welcome, everyone, to our first quarter analyst call.

Joining me today on the call is Gordie Lawlor, our Executive Vice President and Chief Financial Officer. Also on the call joining us is Alison Schafer, our Senior Vice President of Finance, and Mark O'Brien, our Senior Vice President of the Leasing Operations and Sustainability.

Let me just begin this morning on my brief remarks by highlighting a significant milestone that PROREIT achieved in the first quarter of 2022.

At March 31st, we reported over \$1 billion in assets for the first time in our history. It's something that we, as a management team, are truly proud of, and we believe it reflects the disciplined execution of our strategy made possible by the strength and commitment of the entire PROREIT management team.

Our decision to fully focus on growth in the Industrial segment of our portfolio is bearing fruit and yielding attractive rewards, which you'll see in our financial statements.

Our properties in the industrial sector now account for over 63 percent of our base rent and 79 percent of our gross leasable area.

You will see that our industrial same-property net operating income is up a very robust 5.4 percent for the quarter when compared to the same period last year.

We're also pleased with our retail portfolio, which performed well during the quarter, recording a 4 percent same-property net operating income increase. This reflects what we believe is the both the high quality of our assets and their tenants performing well in the mid-market Canadian cities with strong economies where our investments are focused.

During the quarter, our Office segment, which now represents less than 10 percent of our base rent, was negatively impacted by a short-term vacancy on 29,000 square feet in a single-tenant building. However, all should note, and I'm pleased to advise that this space has been fully released as of April 1,

2022, to a new tenant on a 15-year term and at a higher base rent than the matured lease that was in place up until December 31st.

Excluding this single vacancy, which accounts for approximately \$200,000 of lost net operating income in the quarter, our same-property net operating income growth to all segments was 2.7 percent higher in the first quarter of 2022 when compared to the same period a year earlier.

Rental rates continue to be the key driver in all of our geographic markets. Mark-to-market net rent spread at the end of the first quarter was 21 percent for our total portfolio and 30 percent for our Industrial segment specifically. So we see a lot of upside across those sectors.

The cyclical review of our portfolio by independent appraisers continued with five of our industrial properties completed this quarter. This exercise resulted in a net fair value gain of just over \$40 million by the end of the quarter, raising our IFRS NAV to just under \$8, \$7.94 at quarter-end.

The occupancy rate of our portfolio remains strong at 98.5 percent at March 31st. And very importantly, we have already renewed or replace fully 68 percent of the 853,000 square feet of lease maturing in 2022 and achieving an average increase of just under 12 percent over the maturing rent.

Gordie will now take over and give some reports on our actual financial results in the period.

Gordie Lawlor — Executive Vice President, CFO and Secretary, Pro Real Estate Investment Trust

Thank you, Jim, and good morning, everyone. We recorded solid financial results in the first quarter.

Property revenue grew \$24.3 million, a 39.9 percent increase compared to the same period in 2021. This growth was mainly driven by net acquisition activity in the last 12 months.

Net operating income reached \$14.1 million, up 39.5 percent year over year.

AFFO totaled \$7.8 million for the first quarter of 2022, a 44.1 percent increase compared to the same prior period.

Both increases resulted from net acquisition activity in the last 12 months.

We successfully reduced our base AFFO payout ratio to 87 percent for the first quarter of 2022 compared to 91.5 percent for first quarter of 2021. Excluding the impact of temporary office vacancy Jim mentioned, payout ratio was approximately 85 percent in Q1 2022.

I'm also pleased to report that our balance sheet has continued to strengthen. Total debt amounted to \$529.9 million at the end of the quarter. And debt to gross book value amounted to 51.2 percent, down from 57.5 percent a year earlier.

Our debt-to-gross book value ratio was partly impacted by fair market value gains on investment properties of \$40.3 million recorded in the quarter, reflecting both cap rate compression and increased cash flow projections on the properties in question.

Last call, we discussed our target to bring our debt-to-gross book value ratio below 50 percent. We are pleased to confirm that we expect to reach this target before year-end.

Our liquidity position also remains healthy with \$38 million available under our credit facility at quarter-end.

Our weighted average interest rate on mortgage debt is 3.4 percent at the end of the quarter, compared to 3.66 percent at the same date last year.

Distribution of \$0.0375 per unit were declared monthly throughout the first quarter of 2022.

Finally, our weighted average cap rate for the portfolio was approximately 5.7 percent at the end of the quarter or \$154 per square foot, down from 6.5 percent at the end of the first quarter of 2021.

I'll now turn the call back to Jim for closing remarks.

James Beckerleg

Thanks, Gordie.

So to conclude, although we are operating in a challenging environment in many regards, actual economic activity in Canada has been robust since the beginning of the year.

Looking ahead, our growth outlook remains positive as we see demand, in the industrial sector especially, remaining historically high. We, along with everybody else, of course, are faced with a rising interest rate environment, but we do believe that we are appropriately positioned and have the time to adjust to this changing environment.

We have no significant mortgages that are coming due in 2022. And strategically, we have always maintained a diversity of debt maturities that are focused to the overall debt and weighted average lease term of our portfolio. And this means we took steps to extend our debt maturity profile in 2021 that's beginning to mediate shock from the rising rates.

We also benefit from a low-risk tenant base that we expect to withstand the impacts of the current inflation and any recessions ahead. Our tenant roster certainly demonstrated its resilience to the pressure of the pandemic over the last two years.

The entire team at PROREIT is focused on the future and we remain fully committed to pursuing strategies that are accretive to the REIT and to the benefit of all of our stakeholders.

So that wraps up our formal remarks this morning, and I'll turn the call back over to the Operator to take any questions from participating analysts. Thank you.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Mark Rothschild, Canaccord. Mark, please go ahead.

Mark Rothschild — Canaccord

Thanks and good morning, guys.

James Beckerleg

Hi.

Gordie Lawlor

Good morning.

Mark Rothschild

Hey. So obviously, there was some softness in the quarter in the office portfolio, though that space has been re-leased. As you progress on this strategy of growing in industrial, I know in the past you stated that you're very happy with the performance of the other asset classes, and for the most part, they continue to do well, if not very well. Have you changed your thoughts at all about that, whether it's because of volatility in other asset classes or with continued strength in industrial?

James Beckerleg

Well, Mark, I don't think we have changed our outlook in the last six weeks. I mean, this specific suburban office is a good-news story for us. I mean, we had known for some period of time that the tenant,

which was a full building tenant, part of Canada Post, was leaving. And it was our leasing team successfully set up, and we knew this was happening some period of months ago.

And the rest of our office portfolio is substantially—save for one building—substantially in suburban Ottawa and continues to perform pretty well. So I guess we have a handful of retail properties in the market right now, and we'll see how the bids work for them. But we would like to see some further transactions in any of those sectors outside of the industrial before we took any strategic decision.

So I mean we're comfortable with their performance. Retail is up like 4 percent year over year. And so we're glad just to see industrials slowly dominate in the portfolio. It's a long answer.

Mark Rothschild

No. No. That's helpful. But with the lease when that office portfolio being done, will you consider maybe selling that asset now as probably the value's easier to recognize? Or do you just want to own that asset because it is a good property?

James Beckerleg

Well, that specific asset, I guess we would always entertain bids on it. But it's now subject to a 15-year lease from a solid tenant. And so, certainly, if there's pressure in the markets, we wouldn't be in any rush to sell.

But yeah. As we said before, I mean, if specific instances of opportunity for selling some assets in these other sectors outside of industrial comes along, we may take advantage of them. But it's not something we're totally focused on. This is now stable income as far as we can see in the future. And there's steps in renting.

Mark Rothschild

I understand. Okay. That's helpful.

And maybe just one more question on the high flying for acquisitions and what you're seeing deal flow and as far as any changing in pricing over the last little while. It's been a little quiet of late. Just curious what you're seeing.

James Beckerleg

I guess I would answer a little bit yes.

Mark Rothschild

Yeah.

James Beckerleg

I mean, there are some good opportunities in market, but we've seen deal flows slow. I don't think we've seen any specific pressure on cap rates as yet. I mean our independent appraisals, which are market transacted and supported, certainly aren't showing any of that. But I think the market's in—I mean, all markets are in just a little bit of a pause trying to assess what's happening and see a little bit of stability before transacting. But we're looking at some different opportunities right now, which still provide increasing to the REIT.

Mark Rothschild

Okay. That's helpful. Thank you so much.

Operator

Thank you. Ladies and gentlemen, as a reminder should you have a question, please press *, 1 on your touch-tone phone.

Your next question comes from Lorne Kalmar, TD Securities. Lorne, please go ahead.

Lorne Kalmar — TD Securities

Thanks. Good morning, everyone. Maybe just following up on Mark's question, does the change in the debt financing environment impact your acquisition strategy at all or your outlook for acquisitions at all?

Gordie Lawlor

It's Gordie here. I mean no, not really. I mean, we play in a bit of a different market than the three-cap GTAs and new GTMAs and all of those types of things. So, obviously, there's pressure on just the bond rate now and spread. So we're seeing that.

But, again, when we look at it that way, we still, the way we look at things, we're like to put fixed-rate debt on things. We don't like to leave things open, and a floating rate environment is not probably the way to be in the next year and a half. So all of those things have to work for us.

And as you know, when we underwrite acquisitions, I mean, we underwrite them and leave room in our debt numbers so that we can actually queue it and close. So nothing has changed from that standpoint. We're just watching the market and seeing what's going on. And every day has been different. This week and last week.

So, eventually, this will settle down in the next few months we think to the positive or negative, and then we'll move on from there. Right?

Lorne Kalmar

Yeah. It's definitely been exhausting. So I guess it's fair to say as acquisition opportunities come up, you guys still expect to be active.

Gordie Lawlor

Yeah. We expect to be active. We buy \$300 million this year like we did in 2021. We're just watching the market and seeing where it goes. It's only May 11th or 12th, so we've still got a half a year to go.

Lorne Kalmar

Fair enough. And you guys kind of touched on the disposition. I think you said you had about 30 million homes for sale when we spoke about I guess 6 weeks ago. Any material updates there or still just being impacted by sort of the broader volatility?

James Beckerleg

There's negotiations occurring on those transactions, but we have nothing specific to announce yet.

Lorne Kalmar

All right.

James Beckerleg

I mean, I can say they're within our target expectations.

Lorne Kalmar

Okay. Fair. Hopefully that changes for you guys. The retail SP NOI was pretty solid. Was there anything one-time in there? Or was it lapping some bad debt? Just wondering because it was a pretty good number.

Alison Schafer — Director of Finance, Pro Real Estate Investment Trust

It's Alison speaking. There was no significant one-time in the quarter results. It's just mainly driven by the increase in occupancy in the sector and increases in rates on renewal. And there was some rent bumps in there as well.

Lorne Kalmar

So you think you can keep it going for the balance of the year in that 4 percent range? Or is that a little bit lofty?

Gordie Lawlor

It's Gordie. So we have to look at what rolls in the next six months, but that's a good number. But we've seen 2 percent to 4 percent over the quarter. So I think that's not unusual for us in the retail piece.

Lorne Kalmar

Okay. And then just last one from me. There's been chatter about that Valero site that's come up right, I think, pretty much next to Burnside Park. Any thoughts on that? What it could mean for the area? And if it's something you guys would look at or JV on or something like that.

Gordie Lawlor

So the Halifax guy will take this answer. It may be right next to Burnside, but it's a bit different. So it's a good—it's got rail out there. It doesn't have pure highway access. And it's certainly got shipping. But I mean I think that piece of real estate was on the market last year. Was it not, Mark?

Mark O'Brien — Managing Director Operations, Pro Real Estate Investment Trust

It's been on the market for 12 months.

Gordie Lawlor

Yeah. So it kind of went no bid. So people are thinking about that. I mean, but I read an interesting article and maybe others have read as well, this is prime location for a 7,000 to 8,000 square foot building.

So the only thing is, me as the Halifax guy, I haven't seen too many 700,000 or 800,000 square foot buildings in Halifax yet. Not to say that it won't happen. So we're monitoring it, but it's an interesting model to see what goes on there basically.

James Beckerleg

As a former refinery property, there's got to be some environmental challenges.

Lorne Kalmar

Oh, yes. Fair. Fair. Fair. Okay. Everyone. Thank you so much.

James Beckerleg

Welcome.

Operator

Thank you. There are no further questions at this time. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

James Beckerleg

Thanks very much.

Gordie Lawlor

Thanks very much.