

**PRO Real Estate Investment Trust**

**Third 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 and Chief Financial Officer*

**Mark O'Brien**

*PRO Real Estate Investment Trust — Senior Vice President, Leasing, Operations and Sustainability*

## **CONFERENCE CALL PARTICIPANTS**

**Brad Sturges**

*Raymond James — Analyst*

## PRESENTATION

### Operator

Good morning and welcome to the PROREIT Third Quarter Results Conference Call. At this time, all lines have been placed on mute to prevent 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 the # key.

For your convenience, the press release, along with the third quarter financial statements and Management Discussion & Analysis are available at [proreit.com](http://proreit.com) in the Investors section and on SEDAR.

Before we start, I've 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 the 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 November 9, 2022, available at [www.sedar.com](http://www.sedar.com).

Forward-looking statements represent management's expectations as at November 9, 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, either as a result of new information, future events, or otherwise.

The discussion today will include non-IFRS financial measures. These non-IFRS financial 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 third 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 third quarter. Please refer to the non-IFRS measures section in the MD&A for the third quarter for additional information.

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

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

Thank you, Jeff, and good morning, everybody, and welcome to our third quarter call.

As always, joining me today is Gordie Lawlor, our Executive Vice President and Chief Financial Officer. And also on the call this morning and glad to address any questions the analysts have a little later are Alison Schafer, our Senior Vice President of Finance; and Mark O'Brien, Senior Vice President of our Leasing Operations and Sustainability Functions.

Firstly, this morning I want to say that we are very pleased with our operating performance in the third quarter. Our results highlight the strength of our business and the significant imbedded value in

our portfolio, especially in our industrial properties, which now account for over 80 percent of our total GLA, gross leasable area.

Increases in almost all of our key metrics demonstrate that we are improving our operating efficiency. I am particularly pleased with our ability to consistently generate recurring organic growth from our portfolio.

Our overall same property NOI increased by a full 3.6 percent in Q3 of 2022 compared to the same prior-year period. And specifically, our industrial sector generated a solid 7.2 percent increase in same property NOI during the quarter.

However, it should also be noted that our retail portfolio, mainly composed of necessity-based properties, also continues to perform very well. Same property NOI was up 3.3 percent in the third quarter in this sector.

Our office segment, which now comprises 6.6 percent of our total G&A, lagged a bit and reported a decrease in occupancy performance for two of our eight buildings. However, even this sector should improve in our next quarter due to a new six-year term lease effective this month that will provide an additional \$90,000 of gross income on a quarterly basis going forward.

During these uncertain times, we are not only maintaining our focus on the defensive aspects of our portfolio but also in exploiting the mark-to-market opportunities, most especially in the industrial properties.

Despite the higher interest rate environment in which we find ourselves, increased rental rates and our maturing and new leases are offsetting some upward movement in the valuation capitalization rates and discount rates that we use in assessing our portfolio on a quarterly basis.

During the quarter, we also continued to strengthen our balance sheet. We maintained financial discipline with \$32.5 million in available credit facilities at quarter-end, and, very importantly, we also successfully reduced our debt-to-gross-book-value ratio to below 50 percent for the first time, thereby achieving a previously stated key objective for the REIT this year.

Based on capital allocation and risk management decisions, we also completed the disposition of ten core retail assets in the year-to-date period moving our portfolio weighting more heavily again into the industrial sector. These referenced dispositions included selling of portfolio of nine nonstrategic retail properties in Western Canada, which provided us with \$18.8 million, excluding closing costs, entering the third quarter.

Subsequent to quarter-end on November the 3rd, we completed the sale of a further nonstrategic retail property in Alberta, which delivered \$5.4 million before closing costs.

We remain engaged in that exercise of optimizing our portfolio by increasing our performance in the highest-performing assets while still considering a disposition of some smaller nonstrategic ones going forward.

This quarter also marked the completion of our strategic partnership agreement with Crestpoint Real Estate. Together, we now jointly own an industrial-focused portfolio of 42 properties, almost exclusively located in Halifax's Burnside Industrial Park, which is one of Canada's strongest industrial nodes. We are pleased with the performance of this accretive transaction, which makes us one of the largest landlords in the Halifax industrial market. This is an achievement for which I believe our entire team should be very proud.

With this significant presence, we believe we are uniquely positioned to further capture rent growth in this strategic location and also have the flexibility to continue to grow externally in this key market.

Turning now to operations. On the operational front, we continue to benefit from a strong demand environment in our sectors. We have successfully renewed 85.5 percent of our leases maturing in 2022 at quarter-end and a positive average spread of 14.9 percent.

As well, fully 21 percent of the leases maturing in 2023 have already been renewed and, again, at very positive average spreads. These numbers have continued to increase, by the way, since quarter-end.

And finally, the occupancy rate of our portfolio remains firm at 97.9 percent at September 30th, unchanged from the previous quarter.

So I'll now turn over the remarks to Gordie who will provide some more details on our financial results.

**Gordie Lawlor** — Executive Vice President and Chief Financial Officer, PRO Real Estate Investment Trust

Thank you, Jim, and good morning, everyone.

We recorded a solid financial performance in the third quarter. We ended the quarter with 132 properties in our portfolio, including a 50 percent ownership interest in 42 of those properties, compared to 104 properties owned at 100 percent at the same time last year.

Total assets amounted to \$1.04 billion at quarter-end. Property revenue amounted to \$24.1 million in the third quarter, a 23 percent increase compared to the same period in 2021.

Net operating income was \$14.8 million, up 22 percent year over year.

These increases were mainly driven by the impact of the net acquisition activity over the last 12-month period.

FFO was negatively affected this quarter by approximately \$1 million in nonrecurring charges for deferred financing and debt settlement costs tied to asset sales, partial asset sales, and paying out an expensive term loan.

AFFO, which has been increasing over the last three quarters, totalled \$7.9 million, a 21 percent increase compared to the same prior-year period.

In the third quarter, we recorded fair market value gains on investment properties of \$11.6 million and \$52.7 million year to date.

Basic AFFO payout ratios stood at 85.7 percent compared to 86.4 percent for the second quarter of 2022 and 82.8 percent for the same prior period.

During the quarter, we kept focus on maintaining our strong financial discipline and liquidity position. Debt to gross book value was 49.8 percent at September 30, 2022, down from 58.2 percent at the same date last year, achieving our goal of reducing our ratio below 50 percent.

We have approximately \$30 million in mortgage renewals maturing in the next 12 months.

Our liquidity position remains healthy. At September 30th, we had \$32.5 million available under our credit facility.

Our weighted average cap rate for the portfolio was approximately 5.7 percent at the end of the quarter or \$155 per square foot, down from 6.3 percent at the end of the third quarter of 2021.

The biggest driver of the lower portfolio cap rate is our industrial segment, which went from 6 percent to 5.4 percent last year, with our office and retail cap rate averages around 6.7 percent. By region, our lowest cap rates are in Woodstock, Ottawa, and Montreal industrial markets.



We saw a modest cap rate expansion in a few areas of our industrial and office portfolios and, for almost all of our discounted cash flow models, we've increased the discount and terminal rates to reflect the interest rate risk in the market. In general, valuations are holding due to increased cash flow in our models.

Finally, distributions of \$0.0375 per unit were declared monthly through the third quarter of 2022.

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

**James Beckerleg**

Thanks, Gordie.

Just speaking to the current environment, we, of course, remain mindful of the heightened macroeconomic uncertainties, market volatility, and high interest rate period that we find ourselves in. We believe, however, we are adequately positioned and view this as a time to focus on operational performance. We have the liquidity, investment capacity, and lower leverage to perform sustainably and to ultimately put ourselves into a position to create new value with all of our stakeholders.

I'm also going to take this opportunity this morning to formally recognize and congratulate Gordie. He was named, most of you know, as my successor on October the 4th, 2022. He will be the new President and CEO of the REIT and will join our board effective on April 1st of next year.

At the same time, I will assume the position of Vice Chair of the Board and Co-Founder. And, in addition, Alison Schafer, with us this morning, will be appointed Chief Financial Officer and Secretary of the REIT.

I have every confidence in this new management team. They have the experience and acumen to lead the REIT into the future.

In the meantime, I can assure you all we remain steadfast in our execution and our strategy of improved operating efficiencies and focusing on our growing high-quality portfolio concentrated now in the industrial sector. Not only has this strategy proven to be successful to date, but also, we believe it will continue to generate growth and stability for the future. The Halifax market, where I am this morning, has been especially strong for us, and we can expect that to continue.

So that wraps up our formal remarks, and I'll turn the call back to the Operator so we can take any questions from any of the participating analysts that you'd like to ask us. Thanks very much, everybody.

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## Q&A

### Operator

Thank you, Jim. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the \*, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you would like to withdraw your request, please the \*, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

First question comes from Brad Sturges from Raymond James. Please go ahead.

**Brad Sturges — Raymond James**

Hi. Good morning.

**James Beckerleg**

Good morning.

**Brad Sturges**

Just on the leasing activity, your comment is that you're seeing pretty decent spreads that you've already reported, actually, continue to strengthen. Can you just expand on the leasing activity you're seeing and the type of red spreads you're expecting for your maturities for the rest of this year but in 2023 as well?

**Mark O'Brien** — Senior Vice President, Leasing, Operations and Sustainability, PRO Real Estate Investment Trust

Yeah. So Mark O'Brien here, Senior Vice President Leasing, Operations and Sustainability. I can answer that on 2023. So we're almost through 2022 expiries and we're focused on 2023 now. It's about 1 million square feet for that year. And 90 percent of that GLA is actually industrial. So all the acceleration will likely—will come from the industrial sector.

We're 20 percent through the GLA for 2023. And portfolio-wide, on a year-one leasing spread, we're actually 50 percent. I know that's really outside of our norm of 15 percent, which we just reported. That's just very heavily weighted to two very large transactions that we just did recently—one industrial in Moncton, New Brunswick and one industrial renewal in Woodstock, Ontario. The Moncton, we did a 40 percent leasing spread and then the Ontario with a 90 percent leasing spread.

So those are a little bit outside of the box, and we probably will see those normalize closer to the 25 percent that we see in our industrial. But again, a great start to 2023.

**Brad Sturges**

Okay. That's quite helpful.

Just on the asset sales side, is there anything else you're looking to market right now?

And do you have a kind of a budget or plan in place for 2023 in terms of any other asset sales contemplated?

**Gordie Lawlor**

It's Gordie. I mean, we've got another small retail asset. I think we signalled about \$10 million in total last quarter, getting us close to \$30 million for the year. We're always looking at calling some of the smaller assets and, as you know, we're tied to some of the mortgages on those related assets.

We don't have any significant view for 2003 (sic) [2023] yet. We just finished our budget and went through the budget process, so we know where we are in 2023. So we'll keep reviewing the portfolio and seeing if there's opportunities there. Just from a calling-wise or even strategically in the next little while, but we don't really have anything to say right now.

**Brad Sturges**

Okay. And if there are asset sales, the initial use of cash would be repay debt?

**Gordie Lawlor**

Yeah. Repay debt. Potentially buy back units. But it would likely be to repay debt at this point in time.

**Brad Sturges**

Yeah. Okay. Thanks. I'll turn it back.

**Operator**

Thank you. There are no further questions at this time. Please proceed.

**James Beckerleg**

Okay. Well, that's it, everybody. And I think everybody knows if there's any questions you want to present to management subsequent to the meeting, all of us are always available to chat. And thank you very much for being with us this morning. And thank you, Operator.

**Operator**

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.