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PROREIT

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CONFERENCE CALL PARTICIPANTS

Sam Damiani
TD Cowen — Analyst

Mark Rothschild
Canaccord — Analyst

Brad Sturges
Raymond James — Analyst

Sumayya Syed
CIBC — Analyst

PRESENTATION

Operator

Good morning and welcome to PROREIT's Second Quarter Results Conference Call for Fiscal 2024. 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. To ask a question, simply press the * key, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the * key, followed by number 2.

For your convenience, the results release, along with the second quarter financial statements and management's discussion and analysis for fiscal 2024 are available at proreit.com in the Investors 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, which (phon) 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 August 7, 2024, available at www.sedarplus.ca.

Forward-looking statements represent management's expectations as of August 7, 2024, 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.

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 second quarter earnings release for fiscal 2024 and Non-IFRS Measures section in the MD&A for the second quarter of fiscal 2024 for additional information.

I will now turn the call over to Mr. Gordon Lawlor, President and Chief Executive Officer of PROREIT.

Gordon Lawlor — President and Chief Executive Officer, PROREIT

Thank you, Joanna (phon). Good morning, everyone, and welcome.

Joining me today is Alison Schafer, our CFO and Corporate Secretary. Zach Aaron, Vice President of Investments and Asset Management, is also joining us for the Q&A period. I will start with an overview of our performance for the second quarter of 2024. Alison will then provide a more detailed review of our financial results.

In the second quarter, we continued to operate in a market that remains affected by economic uncertainty and high interest rates compared to recent years. In this context, we maintained our momentum and continued to optimize our portfolio through the sale of noncore assets. This enables us to further increase the relative weight of our footprint in the industrial sector and to further strengthen our balance sheet.

Since the start of the year, we've successfully disposed of six noncore properties for total gross proceeds of $39.6 million. This includes three noncore properties sold in the second quarter for gross proceeds of $13.5 million.

Let me provide some details on the Q2 transactions.

On May 15th, we sold a retail property located in Saskatchewan, totalling approximately 11,000 square feet, for gross proceeds of $4.8 million.

On May 27th, we sold a retail property located in Alberta, totalling approximately 8,500 square feet, for gross proceeds of $2.2 million.

The net proceeds for these two transactions were used for general business and working capital purposes.

Then in June, we sold a noncore industrial property located in Manitoba, totalling approximately 38,000 square feet, for gross proceeds of $6.5 million. The net proceeds were used to repay an unrelated $5.9 million mortgage and the balance for general and business and working capital purposes.

We, therefore, ended the second quarter with 117 investment properties corresponding to approximately 6.2 million square feet of GLA. At the same date last year, we owned 129 properties. Both periods include our 50 percent ownership interest in 42 properties.

In Q2, we also entered into binding agreements for the sale of three other noncore properties, which will generate an additional $31.6 million of gross proceeds. These transactions are expected to close in the third quarter of 2024.

Following these dispositions totalling $71.2 million year to date, our industrial footprint will represent 85.5 percent of total GLA and 79.5 percent of total base rent.

With only four office properties remaining in our portfolio valued at less than $30 million, our office segment will account for only 2.6 percent of total GLA on a pro forma basis.

Our portfolio is also well positioned in terms of geography, and thanks to our long-standing and intentional focus on strong secondary markets. Atlantic Canada, which currently represents 52 percent of our total GLA, is a great example of this, with Halifax experiencing the strongest rent growth in Canada for the second quarter of 2024, according to CBRE Q2 Canadian industrial market statistics.

The quality of our asset base is also reflected in our capacity to generate recurring Same Property NOI growth, mainly driven by robust leasing renewal spreads and rent steps.

In the second quarter of 2024, we achieved an 11.4 percent increase in Same Property NOI, or 6.4 percent when excluding a one-time revenue adjustment on the impact of a temporary property vacancy in 2023.

As I mentioned on the last call, this 102,000-square-foot industrial vacancy in Montreal was fully leased in September (sic) ‘24 at an average positive spread of 55 percent over the expiring leases.

It’s also worth noting that our Same Property NOI has increased over the last 14 consecutive quarters.

Let me now provide a brief operational update.

At June 30, 2024, the weighted average in-place rent of our industrial portfolio was $8.66 per square foot, an increase of 6.7 percent compared to the same date last year.

To date, we've successfully renewed or replaced 66 percent of our GLA maturing in 2024, at a 34.6 percent average spread for the entire portfolio and a robust 49.5 percent for industrial properties.

Given the significant upcoming lease renewal spreads materializing in our portfolio in the next few months, this leasing upside will be fully reflected in our results through the second half of the year and into 2025.

Regarding the portfolio's occupancy rate, it stood at 91.7 percent as of June 30th, compared to 99 percent the same date last year. This decrease in occupancy is primarily due to two larger vacancies in industrial properties. Our vacant space in Montreal is in advanced stages of negotiation, and we see positive momentum in leasing activity on our Woodstock, Ontario property.

I'll now turn the call over to Alison for a more detailed review of our financial results. Alison, over to you.

Alison Schafer — Chief Financial Officer and Corporate Secretary, PROREIT

Thank you, Gordie, and good morning, everyone.

Property revenue for the second quarter decreased slightly by 1.4 percent from $24.9 million in Q2 2023 to $24.6 million in Q2 2024. This mainly results from the change in the number of properties in the portfolio during the last 12-month period ended June 30, 2024, partially offset by contractual rent increases and higher rental rates on lease renewals and new leases.

Net operating income increased by 2.3 percent from $14.5 million to $14.8 million. This growth was mainly driven by contractual rent increases and higher rental rates on lease renewals and new leases,

partially offset by the decrease in the number of properties. We are pleased to have achieved this growth despite having 12 fewer properties in our portfolio compared to last year.

General and administrative expenses for Q2 2024 were down slightly compared to the same period last year. For the first six months of the year, these expenses decreased by $2.1 million, mainly reflecting one-time retirement and CEO succession costs in 2023.

Net cash flows provided from operating activities decreased slightly in the second quarter of 2024, largely as a result of the timing of cash receipts and the prepayment of property taxes and insurance.

FFO reached $7.4 million for the quarter, an increase of 1.5 percent, also achieved with 12 fewer properties in our portfolio compared to last year.

Of note, FFO reached $15.1 million for the first half of 2024, an increase of 23.6 percent. This was primarily driven by a general increase in contractual-based rent, higher rates on renewals and new leases, and a reduction of one-time costs, including CEO succession costs. This was partially offset by an increase in interest rate expense.

Our basic AFFO payout ratio was 93.1 percent for Q2 2024, compared to 97.3 percent last year. This improvement is primarily due to the general increases in contractual-based rent and higher rates on renewals and new leases, offset by an increase in interest expense.

Now turning to the balance sheet.

Our liquidity position remained healthy with $38 million available through our credit facility, in addition to $8.9 million in cash at June 30, 2024.

Our total debt, including current and noncurrent portions, totalled $486.6 million at June 30, 2024, a reduction of $47.7 million compared to the same date last year, mainly as a result of property dispositions over the last 12 months.

As planned, we maintained our debt-to-gross book value below 50 percent. It stood at 49.5 percent as at June 30, 2024.

Our weighted average interest rate on mortgage debt was 3.94 percent at June 30, 2024, compared to 3.75 percent at the same date last year. We are pleased to highlight that we only have $4.1 million of remaining mortgages expiring in 2024, and that only 4 percent of our total debt is at a variable rate.

The weighted average cap rate for the portfolio was approximately 6.7 percent at June 30, 2024, up from 6 percent at the same date last year and 10 basis points higher from last quarter.

Finally, we maintained our distributions of $0.0375 per unit for each month in the second quarter of 2024.

Gordie, back to you for closing comments.

Gordon Lawlor

Thanks, Alison.

The Canadian industrial market continues to experience some temporary cooling market conditions, especially in larger metropolitan cities that have witnessed the most pronounced shift in market dynamics. Most smaller markets where we are strategically located have shown relatively steady market conditions.

There is also a noticeable bifurcation of vacancy and rental pressure with respect to large-bay industrial assets versus mid to small-bay industrial assets across Canada, with the mid to small-bay assets proving more resilient to date.

Against this backdrop, we continue to manage our balance sheet prudently and maintain our financial flexibility.

On the investment side, we will continue to focus on opportunities in the industrial sector, remain prepared to act on the right deals as we look forward to the remainder of the year.

We remain steadfast on our top priorities, aiming to deliver NOI, FFO, and AFFO growth to the benefit of our unitholders and, ultimately, all of our stakeholders.

Finally, I'd like to conclude by thanking the entire PROREIT team for another quarter of solid execution.

That concludes our remarks. Joanna, over to you and the Q&A.

Q&A

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press *, then the number 1.

First question comes from Sam Damiani at TD Cowen. Please go ahead.

Sam Damiani — TD Cowen

Thanks, and good morning, everyone. Just on the disposition activity, it's really picked up nicely. With the closings that are going to happen in in Q3, how should we think about that additional balance sheet capacity being utilized? Like basically, what I'm wondering is how anxious you are to resume acquisitions.

Or are you really going to prioritize getting that balance sheet leverage down to that 45 percent target?

Gordon Lawlor

Hey, Sam. It's Gordie. I mean, we're comfortable at the 50 percent level now. I mean, we've indicated, longer term, we'd be moving towards 45 percent. But when we look at us now, we've sold $71 million of assets for '24 and another '26 (phon). So we're down $100 million in investment.

So we are extremely interested in increasing industrial exposure through acquisitions here, at least to a modest level, as we see some opportunities come up.

Sam Damiani

And as you look at opportunities, are there markets that you're preferring to expand into?

And perhaps, other existing markets that you're not so much looking to add to your exposure?

Gordon Lawlor

We always work around our platform. So I mean, Halifax, we control 40 percent of the Burnside industrial market with our partner there. So we're pretty full up there, so to speak. I mean, we like Ottawa, we like Winnipeg, we like Southwestern Ontario. We've looked at assets on the island in Montreal. That could pencil out for us. That'd be the first time in five years that we've seen Montreal Island assets that we could actually get our hands on. So that's interesting as well.

And then Moncton is just this sleeper of 100 percent occupancy and proving itself to be a distribution hub that we'd be happy to buy some more assets there and just (unintelligible).

Sam Damiani

Okay. Great. Thank you. And last one for me. Just on the occupancy decline in Q2. I wonder if you could speak to what drove that 60-basis-points decline.

Gordon Lawlor

Yeah. Zach's here. He can touch on it. But I think there was a 20,000-odd in transitional in Halifax added there, and then there's a few bits and pieces. But he can give you some—enlighten you on some of the stuff that he's working on and where we see the next two quarters, I think. So go ahead, Zach.

Zach Aaron — Vice President, Investments and Asset Management, PROREIT

Yeah. Sure. So I mean, the difference from last quarter, I think, is about 35,000 square feet of vacancy. And I would describe most of it as smaller segments within our portfolio across Winnipeg, Ottawa, and our Burnside portfolio. And it's just the typical small-bay tenants churning and time to backfill those tenants, so nothing of real kind of noise there.

But kind of where we sit today is we're currently in various stages of either negotiation or a trading paper on approximately 90,000 to 100,000 square feet; of that, about 180,000 square feet of current vacancy, including those two larger vacancies we noted in the opening statements.

Gordon Lawlor

But that said, Sam, things take time. So I don't think you'd see any of that in Q3, cash flow-wise, but hopefully Q4.

Sam Damiani

All right. That's great. Thank you both. I'll turn it back.

Gordon Lawlor

Thanks.

Operator

Thank you. Next question comes from Mark Rothschild at Canaccord. Please go ahead.

Mark Rothschild — Canaccord

Thanks, and good morning, guys. In regards to—

Gordon Lawlor

Hi, Mark.

Mark Rothschild

Hey. In regards to 2025, you've already addressed one sizeable lease. For that lease, is there going to be a free rent period? Is there—like is that just going to continue straight through?

And maybe you can just give some more colour on if there was any cost to that lease. And you obviously got a rent uplift, how that worked.

Gordon Lawlor

Yeah. I'll let Zach, who worked tirelessly on that deal, talk some good things about it, the 500 Palladium lease for—

Zach Aaron

The 500 Palladium lease—

Gordon Lawlor

— for '25.

Zach Aaron

Yeah. So the existing tenant expires at the end of January. And what's really exciting about this new lease is that the new tenant is going to be paying rent February 1, so we have zero downtime on that deal. It'll be a 15-year deal at a positive rent spread from where the deal we had before.

The previous tenant actually had a semi-gross rent structure, whereas this new tenant will be fully triple-net leased with 3 percent annual rent escalations over the 15-year period.

So obviously, there was a TI involved in all that. But we're just excited that we have this really phenomenal national, international defence contractor tenant, long term, at this building and no downtime impacting '25 cash flow.

Gordon Lawlor

And that TI, if you look at it, it's spread over 15 years, it's like 10 bucks or something lower—

Zach Aaron

Yeah. It was about that—

Gordon Lawlor

—give or take but—

Zach Aaron

—yeah.

Gordon Lawlor

—yeah. So yeah, give or take a 10-buck TI with no downtime, Mark, for a 15-year deal.

Mark Rothschild

Respect that. Great. Thanks. Maybe just one more from me. You've previously spoken about some of next year as being able to achieve 5 percent annual organic growth. With some softening in industrial fundamentals, would you still stick with that?

Or maybe want to temper that somewhat?

Gordon Lawlor

No. I think we keep proving it quarterly. I mean, we're a little annoyed at this temporary vacancy because we'd be in a more interesting spot than we are on the quarters. But we really haven't seen that

weakness. I mean, we're beating our budgets on these renewals, Halifax and Winnipeg, if you look at the CBRE report of the strongest rent growth, I think, in Canada, including the last two quarters.

So we haven't—we're not thinking to temper that yet, that's for sure. We're really looking forward to '25 and '26 here. And I'm sure you're on calls with larger industrial leads (phon) than us who have seen some modest increase in vacancy the last couple quarters, but they're still very confident that, in the next 6 to 12 months, that they'll pull out of that and see additional rent growth. So we're hopeful for that too.

Mark Rothschild

Okay. Great. Thanks so much.

Gordon Lawlor

Thanks.

Operator

Thank you. Next question comes from Brad Sturges at Raymond James. Please go ahead.

Brad Sturges — Raymond James

Hey. Good morning.

Gordon Lawlor

Good morning, Brad.

Brad Sturges

Maybe starting—or going back to the asset sales completed. Congrats on those deals. Just, I guess, curious, on average, on what's been recently announced. Can you give a little bit of guidance on how we should think about the NOI contribution or the cap rate on those deals?

Gordon Lawlor

Yeah. So the asset sales, they were in the—the office was about 160 bucks a foot. It was, give or take, 8 percent cap sale price. We had some upcoming renewals on that, so. And we paid down just under 7 percent debt with them. So I'd say those asset sales, actually, were based on the debt that we had on them. Holding them for a couple years is flat to slightly accretive to us. So I don't think we lose any on that.

And then the other smaller retail, those were 8 percent-cap sales, so some modest loss on those assets but, longer term, better opportunity for other growth assets.

Brad Sturges

Okay. That's helpful. Just on the balance sheet, I guess there's not much left to do in terms of refi, and I guess there's a little bit more to do in '25. I guess, in terms of the maturities in '25, is that fairly equally weighted throughout the year?

Or is that weighted to any particular part of the year in terms of the upcoming maturities?

And where would cost of debt be today, given where, I guess, bond rates have pulled back and where credit spreads would be today?

Gordon Lawlor

Yeah. I'll just pull out that page on the split. But the $66 million, when you look at that, $18 million of it is taken care of in the two office asset sales. So you'll see, next quarter, the $66 million goes down below $50 million.

Alison is just pulling out the page on … I don't have that with me. We can get that for you, Brad—

Brad Sturges

Okay.

Gordon Lawlor

—on the breakdown.

Brad Sturges

Yeah.

Gordon Lawlor

But as we split it up, some of it's $18 million of assets to be sold or confirmed. And there's some other things there that we probably plan to sell as well, so we won't have to deal with that. So I think we're down to, in back of my head, $20 million to $30 million of just regular stuff flowing through.

As far as cost of debt, we were priced on a deal for a separate reasonable 1.75 percent over for five-year. But I mean, we think—when we talk to the team, we think our new debt rate, when we look at 5-, 7-, and 10-year spreads, is going to be 4.75 percent to 5.25 percent. Maybe, we get down to 4.50 percent. I liked when the fiver was below 3 percent there for a little while, so we'll see if it gets back there again. But that's the ballpark we're playing in.

Brad Sturges

And how does that change the calculus in terms of the stabilized cap rate you would look to achieve on an acquisition if you're looking to redeploy some of the balance sheet capacity into growth opportunities?

Gordon Lawlor

A 6.75 percent cap rate and a 5 percent debt pencils out pretty good on accretion for us, marginally accretive, day one, and then with the growth in steps in rents, which now, since the past five years, are kind of standard in industrial leases, go forward. That's the kind of ballpark we'll be playing in, 6.5 percent to 7 percent. And like I said, the debt level there in that range.

So there are some floors coming in on deals, too, so you don't get total benefit of watching the page every day, but yeah, that's kind of where we are.

But if you think that we can buy 6.75 percent assets—and those are stabilized assets, so. But the 3 percent- and 4 percent- and 5 percent-cap days are gone, but for significant under-market rents. But if you think you've got at-market rents—and Zach's seeing it all across the country, including GTA—if you've got an at-market rent, then you know a 6.25 percent to 7 percent asset, depending on the location, is—at a 6.25 percent to 7 percent cap rate asset—is kind of where the market's going to be. We just haven't seen many of those deals yet.

Brad Sturges

Okay. I'll turn it back. Thank you.

Gordon Lawlor

Thanks.

Operator

Thank you. Next question comes from Sumayya Syed at CIBC. Please go ahead.

Sumayya Syed — CIBC

Thanks. Good morning.

Gordon Lawlor

Good morning.

Sumayya Syed

And following up on the two, I guess, larger vacancies in Montreal and Woodstock, wondering, where are you seeing rents coming in relative to your expectations?

And are you seeing them roll down at all?

Zach Aaron

Sure. Hi, there. It's Zach speaking. So on the Montreal asset we're—like Gordie said earlier, we're in some advanced negotiations with some tenants on that, about a 30,000-square-foot vacancy. Market rent-wise, we're kind of talking about in the $13 to $14 net rent range, which has kind of held steady in terms of our expectation, given that it's not kind of that brand-new, class A space where, in Montreal, they're kind of focusing on $16, $17 net rents. So the tenant who was in there previously was paying about $6.25. So whether it ends up being $13, $14, or somewhere in that ballpark, we'll be pretty happy there.

In terms of the Woodstock property, which is the 40,000-square-foot tenant, we've had some more activity there with some showings. We responded to an RFP recently. In kind of negotiations with another tenant potentially speaking there.

There in Woodstock, we're kind of in the, I would say, high $10 to low $11 range in terms of market rent. If you look at some of the new construction going up in Woodstock right now, industrial-wise, they're looking at high $11 to low to mid-$12, is what they seem to be asking. I know there are some deals there completed in the high-$11 range.

Again, we have a great building and a great space there. It's a bit older than the brand-new stuff, obviously. But again, previous tenant there was also paying about $6.25 per square foot so whether it ends up being $10.50 or $11.50, again, both pretty good outcomes there. So hopefully, we'll have those both locked up by the end of the year.

Sumayya Syed

Okay. So we'll see nice lifts there as well.

Zach Aaron

Yes.

Sumayya Syed

And then, secondly, just wanted to touch on the noncore sales and office specifically. Just wondering, are they different buyer groups?

And what are you seeing there in terms of their access to capital?

Gordon Lawlor

Yeah. So no, both of those deals are—so we've sold four assets now in Ottawa, I mean, counting these two. They're all private folks or syndicated people. They're usually office players, suburban office, that have these portfolios and hold them for a longer term. So they're comfortable with where the market rents are in the suburban office with good parking and all that.

I mean, one of our buildings was kind of a medical office building next to a RioCan major redevelopment. So that's great land and space there for a long term.

The other one would be, we'd consider, like a class A suburban office asset. So they'll do very well with that as well because you've got $12 and $13 rents in those areas.

Financing, their financing is always the question mark. We would have announced one of these a lot earlier, except one of their lenders went away in the middle of it, but they were successful in getting a new one, so. But I think it's really the guys that have some history and experience with the suburban office and that are comfortable with these, that are getting deals done.

And the market, whether one likes it or not, seems to be about $160 a square foot, and that's really—I think we sold ours at $160 or $162 or something like that. So that leaves us with, basically, three single-tenant assets in Atlantic Canada and then one downtown Ottawa office asset that's got a 2.94 percent debt on it until 2029. So we're not giving that away for the debt. There's no need to do that.

Sumayya Syed

Okay. Good progress there. That's all from me. Thank you.

Gordon Lawlor

Great. Thanks.

Alison Schafer

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's Q&A session and the conference call. We thank you for participating, and we ask that you please disconnect your lines at this time.

Gordon Lawlor

Thank you.