PRO Real Estate Investment Trust

Third Quarter Results Conference Call for Fiscal 2024

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CORPORATE PARTICIPANTS

Gordon Lawlor
PRO Real Estate Investment Trust — President, Chief Executive Officer and Trustee

Alison Schafer
PRO Real Estate Investment Trust — Chief Financial Officer and Secretary

Zach Aaron
PRO Real Estate Investment Trust — Vice President, Investments and Asset Management

CONFERENCE CALL PARTICIPANTS

Golden Nguyen-Halfyard
TD Securities — Analyst

Brad Sturges
Raymond James — Analyst

PRESENTATION

Operator

Good morning, and welcome to PROREIT’s third 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 session 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 released along with the third quarter financial statements and Management 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.

PROREIT’s remarks today may contain forward-looking statements about its current and future plans, expectations, intentions, results, levels of activity, performance. Those 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 [audio gap]. 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 13, 2024, available at www.sedarplus.ca.

Forward-looking statements represent management's expectations as at November 13, 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.

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

I'll now turn the call over to Mr. Gordon Lawler, President and Chief Executive Officer of PROREIT.

Gordon Lawlor — President, Chief Executive Officer and Trustee, PRO Real Estate Investment Trust

Thank you, Vincent. Good morning, everyone, and welcome. Joining me today is Alison Schafer, our CFO and Corporate Secretary, and Zach Aaron, our 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 third quarter of 2024. Alison will then provide a more detailed review of our financial results.

I'm pleased with our overall progress as we advanced our strategic priorities in line with our ambition to become a pure-play industrial REIT in Canada.

During the quarter, we continued to strengthen our portfolio through accretive opportunities, while managing our balance sheet soundly. In September, we disposed of two previously announced legacy office properties in Ottawa totalling approximately 163,000 square feet for gross proceeds of $26.6

million. Proceeds from these two dispositions were used to repay $18.7 million in related mortgages at a rate of 6.64 percent with the balance used for general business and working capital purposes.

In September, we also completed the previously announced acquisition of 100 percent interest in an industrial property strategically located next to the Montreal International Airport. The property, totalling approximately 134,000 square feet, was purchased for gross proceeds of $32.6 million. It was financed through a new $21.2 million mortgage at a rate of 5.1 percent with the remaining balance funded by proceeds from the sale of previous noncore properties and a draw on our operating facilities.

September 30, 2024, our portfolio included 116 properties compared to 126 at the same date last year. Both periods include our 50 percent ownership interest in 42 properties. Our industrial segment accounted for 85.6 percent of our GLA, up from 81.3 percent a year ago. With four office properties remaining in our portfolio valued at less than $30 million, our office segment accounted for only 2.5 percent of GLA.

In October, subsequent to quarter-end, we completed the sale of a noncore retail property located in Alberta, totalling 11,000 square feet, for gross proceeds of $5 million.

Net proceeds were used to repay $3.4 million of a related mortgage with the balance allocated to repaying a portion of our line of credit and general business purposes.

I'm pleased to highlight that we continue to benefit from steady organic growth. In the third quarter of 2024, we achieved an 8.1 percent increase in same property NOI, or an increase of 4.4 percent when excluding the impact of a temporary property vacancy in 2023. This marks 15 consecutive quarters of same property NOI growth with an average annual growth rate of over 3 percent.

From an operational standpoint, our strategic focus on small and mid-bay properties continues to demonstrate its value, consistent with market stats. For the third quarter of 2024, Canadian vacancy rates remained low at 2.5 percent for small bay and 3.5 percent for mid-bay spaces compared to an overall industrial vacancy rate of 4.3 percent for JLL Q3 stats.

In terms of geographic focus, Halifax, where we're one of the leading industrial landlords experienced the strongest rent growth in Canada again this quarter according to CBRE's Q3 Canadian Industrial Market stats. CBRE also reports that Halifax was the only market to see year-over-year decline in sublets with no sublet space available for Q3 '24.

At September 30, 2024, the weighted average in-place rent on our industrial portfolio was $9.05 per square foot, an increase of 10.2 percent compared to the same date last year. To date, we've successfully renewed or replaced 83.6 percent of our GLA maturing in '24, and 38.5 percent average spread across the entire portfolio, and a robust 50.4 percent for our industrial properties.

For our overall GLA maturing in 2025, 27.3 percent has already been renewed at an overall positive spread of 26.7 percent. As mentioned on our last call, for 2025, we secured a lease for 128,000-square-foot space with a new quality international tenant for a 15-year term with annual rent steps and base rent in excess of 30 percent over the expiring lease. That lease starts in February 1st of 2025.

At September 30, 2024, our portfolio occupancy rate stood at 97.2 percent compared to 98.2 percent the same date last year. Decrease in occupancy is primarily due to three industrial spaces totaling approximately 100,000 square feet as transitional vacancy in Woodstock, Ontario, a property in Halifax, and one in Montreal. We continue to have leasing momentum on these spaces.

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 Secretary, PRO Real Estate Investment Trust

Thank you, Gordie, and good morning, everyone. We are pleased with our third quarter results achieved while owning 10 fewer properties compared to the same period last year.

Property revenue for the third quarter amounted to $24.0 million, comparable to the same period last year. This is due to the change in the number of properties in our portfolio, partially offset by contractual rent increases and higher rental rates on lease renewals and new leases.

Net operating income increased by 1.5 percent from $14.1 million to $14.3 million due to these same factors.

Net cash flows provided from operating activities decreased to $9.9 million compared with $11 million in the equivalent quarter of last year, largely as a result of the timing of cash receipts and the settlement of payables.

FFO reached $6.5 million for the quarter, relatively flat year over year as higher debt settlement costs related to the property sales were offset by general increases in contractual base rent, higher rates on renewals, and new leases. Our basic AFFO payout ratio was 97.7 percent in Q3 compared to 96.9 percent last year, resulting from an increase in stabilized leasing costs partially offset by general increases in contractual base rent and higher rates on renewals and new leases.

Since the start of the year, we continued to manage our balance sheet prudently. We efficiently recycled capital and increased our holdings in quality industrial properties. Our liquidity position remained healthy with $24 million available through our credit facility in addition to $10.7 million in cash at September 30, 2024.

Our total debt, including current and noncurrent portions, totalled $501.1 million at September 30, 2024, a reduction of $18 million compared to the same date last year. We maintained our debt-to-gross book value on target at approximately 50 percent at the end of the quarter, which is comparable to the same date in 2023.

Our weighted average interest rate on mortgage debt was 3.87 percent at September 30, 2024, compared to 3.76 percent at the same date last year. We had $2.4 million of remaining mortgage expiring in 2024 and that mortgage was renewed this week on market terms.

The weighted average cap rate for the portfolio was approximately 6.7 percent at September 30, 2024, up from 6.1 percent at the same date last year.

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

Gordie, back to you for closing comments.

Gordon Lawlor

Thank you, Alison. Although the Canadian industrial market continues to face some temporary headwinds, particularly in the larger metropolitan cities, our strategy to focus on light industrial and primary and secondary markets has proven beneficial. We remain actively engaged in seeking the right opportunities while managing our balance sheet with discipline.

As we approach 2025, we're well positioned and committed to advancing our long-term goal to reach 90 percent industrial base rent and creating additional value for our stakeholders.

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

That concludes our remarks. Vincent, over to you for the Q&A.

Q&A

Operator

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 prompt that your hand has been raised. Should you wish to decline from the polling process, please press *, followed by 2. If you're using a speakerphone, please lift the handset before pressing any keys.

First question comes from Golden Nguyen-Halfyard with TD Securities. Please go ahead.

Golden Nguyen-Halfyard — TD Securities

Good morning, everyone.

Gordon Lawlor

Good morning.

Zach Aaron — Vice President, Investments and Asset Management, PRO Real Estate Investment Trust

Morning.

Golden Nguyen-Halfyard

So in my first question, on capital recycling, nice to see more progress on the disposition front. I just wanted to ask what you're seeing today in the transaction market and maybe how that outlook has changed in recent months. And now that you've made good progress on deleveraging, do you expect to maybe be a bit more active on the acquisition front?

Gordon Lawlor

It's Gordie. I'll start and then maybe Zach can chime in. But as far as acquisitions, we sold $71 million this year. That gave us some room for the acquisition that we just did. We're trying to stay around our 50 percent leverage amount here and hoping to trend it down in the next couple of years. So unless we have some more acquisitions, which we've got a few discussions ongoing and that, we probably wouldn't, we'd only have some other acquisitions if we had other dispositions. Put it that way.

Zach, do you just want to comment on the market as far as buyers and sellers?

Zach Aaron

Yeah. Sure. Thank you. I would describe it as still quite choppy in terms of the transaction market. I think we had a period, perhaps over the summer, end of summer, where things started to stabilize, and bid-ask spreads started to kind of narrow a little bit.

And then since kind of the election noise and interest rate noise, bonds have kind of jumped up again and there feels to be more uncertainty out there where I think vendors have perhaps now retreated once again with the hopes of kind of just waiting it out to '25 at this point. So there's still deals out there being marketed on and off market, but we're still really not seeing any larger, sizable portfolio deals on the market coming from institutional vendors right now.

Golden Nguyen-Halfyard

Perfect. Thank you both for the colour. I'll turn it back now.

Gordon Lawlor

Thanks.

Operator

Next question comes from Brad Sturges with Raymond James. Please go ahead.

Brad Sturges — Raymond James

Hey, good morning.

Alison Schafer

Morning.

Gordon Lawlor

Hello, Brad.

Brad Sturges

Maybe just starting on the transaction discussion there. Just from a disposition point of view, is there anything else we should expect in terms of what you're planning to get done this year? Or is it more about thinking about dispositions for next year?

Gordon Lawlor

Yeah. I think you probably wouldn't see any more at the end of the year. We've got a couple of smaller deals that we're working on, but they wouldn't close until the new year. Is that right, Zach?

Zach Aaron

Yeah.

Gordon Lawlor

Yeah. And as far as next year, I mean, we don't have a need to dispose of well-performing assets or anything like that. As you know, we've been calling some of our single-tenant pharmacy stuff that we had out West that was part of a 19-asset portfolio. We've been doing that.

Got some one-off deals here and there. A couple of potential sales with our JV partner in our JV that we have with Crestpoint, although they're small assets. There's still an office asset left in that group and a small, like very small retail asset. So those kinds of things we're looking at.

Zach and the group, we identified 40-plus million of potential sales for next year, but that'll depend on pricing and just the sense of the market. So we'll just be cognizant of that. But I mean we did 71 million this year.

When we look at the portfolio, I think we're like 110 million left in retail and under 30 million in office. So I kind of get a kick out of this rewriting to get to 90 percent cash flow or whatever. But at the end of the day, we'll sell assets when we're happy with the price and then go from there, being mindful of our payout, obviously, as well.

Brad Sturges

I guess with those retail assets, there's still some debt term on those assets, too. So I guess it's also a function of when debt maturities come up, too. Correct?

Gordon Lawlor

Yeah. Exactly. Like there's about 25 million of assets that are retail that the debt's due in '25. So, obviously, we're going to look at those rather than renew or renew on a short-term basis or something like that rather than put long-term money on them. So that's really what's driving the 40 is the two or three smaller assets and then about 25 million of bigger assets that the debt's coming due.

Brad Sturges

Okay. Maybe switching over to leasing. Just looking at your lease maturity schedule, is there anything that stands out at the moment in terms of nonrenewals you're expecting?

Gordon Lawlor

As far as in the next two quarters, no. We haven't—I mean Zach's been working on renewals for '25. So there's nothing there other than like we've got 100,000 square feet this quarter in three spaces. So that's … it's we've talked about it before, 39,000 square feet in Woodstock, Ontario, one of our better buildings down there. We've got another 29,000 square feet here on the Island of Montreal. Zach's got a couple offers on that space right now, so we'll probably have something for the next time we chat on that.

And then in Halifax, there's 30,000 came up this quarter, which is half of the 60,000 square foot building we own jointly with Crestpoint. That building we bought ourselves back in 2021. It's about a—10 Vidito Drive actually is the address but in Burnside. We only put three-year money on it back then because when we bought it, the tenant, the single-tenant occupier, was interested in buying it. So they actually left in July, and we didn't negotiate a deal with them to buy.

But another tenant came in, an owner-user came in. So we've got a tentative offer on that building. So, that'll likely be sold in, probably closed Q1. Like I said it's in our JV. We only own half of it, but that was kind of one that we always had targeted that potential sale. And that would be a significant premium to what we bought it at back in '21.

And then looking out, we don't see anything until–I mean there's still some things we're working on for Q3 of 2025. But Q1 and Q2 are pretty solid.

Brad Sturges

Okay. That's a lot of great colour. I'll turn it back. Thank you.

Operator

There are no further questions. Please continue.

Gordon Lawlor

Okay. Well, thanks, everybody, that did attend. And we'll be talking to you, I guess, next quarter, everybody. Happy holidays. Thanks very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.