Pro Real Estate Investment Trust (PROREIT)

PROREIT reports robust third quarter 2019 results

- **45.5% year-over-year increase in total assets from Q3 2018**
- **29.7% year-over-year increase in property revenue from Q3 2018**
- **28.3% year-over-year increase in net operating income [1] from Q3 2018**
- **45.6% year-over-year increase in net cash flows provided from operating activities from Q3 2018**
- **38.8% year-over-year increase in AFFO [1] from Q3 2018**
- **91% of leases maturing in 2019 renewed**

MONTRÉAL, Nov. 13, 2019 /CNW Telbec/ - PRO Real Estate Investment Trust ("PROREIT" or the "REIT") (TSX: PRV.UN) today reported its financial and operating results for the three-month period (or "third quarter") ended September 30, 2019.

"2019 has been an outstanding year for PROREIT so far, and I am pleased with our continued growth and our sound financial position," said Jim Beckerleg, President and CEO, PROREIT.

"In the third quarter of 2019, we generated a solid increase in net operating income, and same property net operating income and occupancy rates remained strong, reflecting the strength of our business fundamentals. The third quarter also marked the successful completion of our acquisition of seven high-quality assets on an accretive basis, and of our largest equity raise to-date. In line with our growth strategy, the timing and full deployment of the proceeds from our equity raise will have an accretive impact on our AFFO and payout ratio within the next few months," added Mr. Beckerleg.

"With our increased scale and a growing profile, we have access to properties within larger urban centres, with about one-third of our GLA now located in the attractive Montreal and Ottawa regions. During the quarter, we have also increased our exposure to the industrial and commercial mixed-used sectors, which account for more than 64% of our GLA," added Mr. Beckerleg

"Our asset and property management functions are now well integrated, resulting in operational synergies that will improve results over time to the benefit of unitholders. With TSX graduation and management internalization now behind us, our key operational metrics can reflect our strong momentum as we remain focused on pursuing our vision to build a high-quality, diversified mid-cap Canadian REIT," concluded Mr. Beckerleg.

TABLE 1- FINANCIAL HIGHLIGHTS

(CAD $ thousands except unit, per unit amounts and unless otherwise stated)	3 Months Ended September 30 2019	3 Months Ended September 30 2018	9 Months Ended September 30 2019	9 Months Ended September 30 2018
Financial data				
Property revenue	$13,241	$10,210	$40,312	$28,682
Net operating income (NOI) (1)	$8,525	$6,643	$25,431	$18,389
Total assets	$628,604	$432,176	$628,604	$432,176
Debt to Gross Book Value (1)	56.72%	51.05%	56.72%	51.05%
Interest Coverage Ratio (1)	2.8x	2.5x	2.7x	2.6x
Debt Service Coverage Ratio (1)	1.7x	1.6x	1.7x	1.6x
Weighted average interest rate on mortgage debt	3.74%	3.82%	3.74%	3.82%
Net cash flows provided from operating activities	$5,339	$3,666	$9,498	$9,024
Funds from Operations (FFO) (1)(3)	$4,410	$3,344	$10,279	$8,335
Basic FFO per unit (1)(2)	$0.1234	$0.1317	$0.3126	$0.3410
Diluted FFO per unit (1)(2)	$0.1205	$0.1288	$0.3050	$0.3345
Adjusted Funds from Operations (AFFO) (1)	$5,070	$3,652	$14,747	$10,107
Basic AFFO per unit (1)(2)	$0.1419	$0.1438	$0.4485	$0.4135
Diluted AFFO per unit (1)(2)	$0.1386	$0.1407	$0.4376	$0.4056
AFFO Payout Ratio – Basic (1)	111.0%	109.6%	105.4%	114.3%
AFFO Payout Ratio – Diluted (1)	113.6%	111.9%	108.0%	116.5%

(1) Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

(2) Total basic units consist of Units (as defined herein) and Class B LP Units (as defined herein). Total diluted units also include deferred trust units and restricted trust units issued under the REIT's long-term incentive plan.

(3) Includes one-time transaction costs relating to management internalization and graduation to the TSX (as defined herein) of $nil and $3,076 respectively for the three and nine months ended September 30, 2019.

PROREIT owned 91 investment properties at September 30, 2019, compared to 76 properties at the same time last year. Total assets amounted to $628.6 million at September 30, 2019, representing an increase of $196.4 million, or 45.5%, compared to $432.2 million at September 30, 2018. The increase is mainly due to the acquisition of 15 investment properties in the twelve-month period ended September 30, 2019.

During the quarter, PROREIT acquired seven properties for $97.8 million, representing a total of 696,000 square feet of gross leasable area ("GLA"). The properties include a boutique office tower in the central business district in Ottawa and a Class-A mixed-used industrial property located in Kanata, Ontario, in addition to a five-property light industrial portfolio in Halifax, Nova Scotia.

PROREIT closed, on August 16, 2019, its previously announced public offering of trust units of the REIT ("Units"), on a bought-deal basis, at a price of $7.00 per Unit, resulting in 8,222,500 Units being issued for total gross proceeds of $57.6 million, including 1,072,500 Units issued pursuant to the full exercise of the over-allotment option.

For the third quarter ended September 30, 2019:

- Property revenue amounted to $13.2 million. The increase of $3.0 million, or 29.7%, compared to the same period last year, is primarily due to incremental revenues from the property acquisitions completed in the twelve-month period ended September 30, 2019.
- Same property net operating income[2] amounted to $6.5 million, an increase of $0.1 million, or 1.4%, compared to the same period last year. This increase is primarily driven by higher rental rates, property management synergies and higher occupancy rates compared to the same period in 2018.
- Net operating income1 was $8.5 million, an increase of $1.9 million, or 28.3%, compared to $6.6 million for the same period last year. This increase results primarily from the favourable impact of property acquisitions completed in the twelve-month period ended September 30, 2019.
- AFFO[1] totalled $5.1 million, a $1.4 million increase compared to $3.7 million last year, or a 38.8% increase year-over-year. This increase is mainly due to the property acquisitions completed in the twelve-month period ended September 30, 2019.
- AFFO payout ratio[1] stood at 111.0% compared to 109.6% for the same period last year. The difference mainly relates to the impact of the lag between the deployment of funds from the mid-August 2019 equity offering and the acquisitions of properties at the end of September 2019 when the majority of funds were deployed. The current participation level under the REIT's distribution reinvestment plan ("DRIP") is approximately 10%, which reduces the cash requirements of the REIT to pay distributions and is not reflected in the AFFO payout ratio.
- Total debt to gross book value[1] stood at 56.72% at September 30, 2019, compared to 51.05% at the same date in 2018. The weighted average interest rate on mortgage debt was 3.74% at the end of the third quarter, down from 3.82% at September 30, 2018.

For the nine-month period ended September 30, 2019:

- Property revenue amounted to $40.3 million. The increase of $11.6 million, or 40.5%, compared to the same period last year, is primarily due to incremental revenues from property acquisitions completed in the twelve-month period ended September 30, 2019.
- Same property net operating income1 amounted to $17.7 million, an increase of $0.8 million, or 4.8%, compared to the same period last year. This increase is primarily driven by higher rental rates, property management synergies and higher occupancy rates compared to the same period in 2018.
- Net operating income1 was $25.4 million, an increase of $7.0 million, or 38.3%, compared to $18.4 million for the same period last year. This increase results primarily from the favourable impact of property acquisitions completed in the twelve-month period ended September 30, 2019.
- AFFO[1] totalled $14.7 million, a $4.6 million increase compared to $10.1 million last year, or a 45.9% increase year-over-year. This increase is mainly due to property acquisitions completed in the twelve-month period ended September 30, 2019.
- AFFO payout ratio[1] stood at 105.4% compared to 114.3% for the same period last year. The improvement mainly relates to the impact of the funds raised in September 2018 from a public offering being fully

deployed in the first quarter of 2019, partially offset by the impact of the lag between the deployment of funds from the mid-August 2019 equity offering and the acquisitions of properties at the end of September 2019 when the majority of funds were deployed. The current participation level under the DRIP is approximately 10%, which reduces the cash requirements of the REIT to pay distributions and is not reflected in the AFFO payout ratio.

TABLE 2- RECONCILIATION OF NET OPERATING INCOME TO NET COMPREHENSIVE INCOME

(CAD $ thousands)	3 Months Ended September 30 2019	3 Months Ended September 30 2018	9 Months Ended September 30 2019	9 Months Ended September 30 2018
Property revenue	$ 13,241	$ 10,210	$ 40,312	$ 28,682
Property operating expenses	4,716	3,567	14,881	10,293
Net operating income (NOI) [(1)]	8,525	6,643	25,431	18,389
General and administrative expenses	623	458	1,720	1,332
Long-term incentive plan expense	662	335	2,329	708
Depreciation of property and equipment	65	13	137	34
Amortization of intangible assets	93	-	279	-
Interest and financing costs	3,094	2,636	9,644	6,905
Distributions - Class B LP Units	407	438	1,255	1,167
Fair value adjustment - Class B LP Units	155	(107)	4,081	(260)
Fair value adjustment - investment properties	(3,255)	(6,767)	(9,983)	(4,825)
Other income	(599)	(553)	(1,944)	(553)
Other expenses	370	368	1,180	368
Transaction costs	-	26	3,076	501
Debt settlement costs	-	-	-	719
Net comprehensive income	$ 6,910	$ 9,796	$ 13,657	$ 12,293

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

For the three months ended September 30, 2019, net comprehensive income amounted to $6.9 million, compared to $9.8 million for the same period last year. The $2.9 million decrease mainly relates to the $3.5 million difference in non-cash fair value gain on investment properties for the third quarter of 2019 compared to the same period last year, partially offset by the impact of property acquisitions completed in the twelve-month period ended September 30, 2019.

For the nine months ended September 30, 2019, net comprehensive income amounted to $13.7 million, an increase of $1.4 million compared to $12.3 million for the same period last year, mainly as a result of the impact of property acquisitions completed in the twelve-month period ended September 30, 2019, combined with a $5.2 million increase in the non-cash fair value gain on investment properties, partially offset by one-time transaction costs of $3.1 million relating to the internalization of PROREIT's asset management function and the graduation to the Toronto Stock Exchange ("TSX").

TABLE 3- TOTAL PORTFOLIO BASE RENT

BY ASSET CLASS

	September 30, 2019		September 30, 2018	
	Number of properties	**% Base Rent**	Number of properties	% Base Rent
Retail	49	37.8	**49**	54.2
Commercial Mixed Use	8	17.9	**7**	12.5
Office	10	16.2	**4**	7.4
Industrial	24	28.2	**16**	25.9
TOTAL	91	100.0	**76**	100.0

BY PROVINCE

BY PROVINCE

	September 30, 2019		September 30, 2018	
	Number of properties	**% Base Rent**	Number of properties	% Base Rent
Maritime Provinces	37	40.6	**32**	51.1
Quebec	16	15.3	**15**	20.1
Western Canada	26	14.8	**26**	21.5
Ontario	12	29.4	**3**	7.3
TOTAL	91	100.0	**76**	100.0

Acquisitions made during the last twelve-month period contributed to the diversification of PROREIT's asset portfolio. PROREIT's industrial exposure rose to 28.2% while commercial mixed-used and office exposure increased to 17.9% and 16.2% respectively at the end of the third quarter of 2019. The acquisitions also increased exposure to the Ontario market to 29.4% at the end of the three-month period ended September 30, 2019.

TABLE 4- OPERATIONAL HIGHLIGHTS

	September 30 2019	September 30 2018
Operational data		
Number of properties	91	76
Gross leasable area (square feet)	4,396,004	3,041,030
Occupancy rate [(1)]	98.2%	98.1%
Weighted average lease term to maturity (years)	5.6	6.5

[(1)] Occupancy rate includes lease contracts for future occupancy of currently vacant space. Management believes the inclusion of this committed space provides a more balanced reporting. The committed space at September 30, 2019 was approximately 30,327 square feet of GLA (79,989 square feet of GLA at September 30, 2018).

GLA increased 44.6% to 4,396,004 square feet at September 30, 2019, compared to 3,041,030 square feet at September 30, 2018. The increase of 1,354,974 square feet in GLA is a result of the acquisition of 15 investment properties in the twelve-month period ended September 30, 2019.

Occupancy rate remained firm at 98.2% as at September 30, 2019, compared to 98.1% a year earlier. The solid, high profile 10 largest tenants in PROREIT's portfolio accounted for approximately 34.9% of annualized in-place and committed base rent at September 30, 2019 and comprise approximately 7.5 years of remaining lease term, while credit quality tenants represent 45.5% of in-place annualized base rent.

Weighted average lease term to maturity stood at 5.6 years for the three months ended September 30, 2019, compared to 6.5 years for the same period in 2018. Over 91% of PROREIT's leases maturing in 2019 have been renewed as of September 30, 2019.

Distributions

Distributions to unitholders totaling $0.0525 per Unit were declared monthly during the three months ended September 30, 2019, representing distributions of $0.63 per Unit on an annual basis. Equivalent distributions are paid on the Class B limited partnership units ("Class B LP Units") of PRO REIT Limited Partnership, a subsidiary of the REIT.

On October 22, 2019, PROREIT announced a cash distribution of $0.0525 per Unit for the month of October 2019. The distribution is payable on November 15, 2019 to unitholders of record as at October 31, 2019.

STRATEGY AND OUTLOOK

Given the current economic fundamentals in Canada, management expects the low-interest rate and high liquidity context to prevail. The real estate market outlook should also remain favourable, with demand for properties remaining solid and rental rates firming up.

Management continues to seek opportunities to strategically grow, diversify and improve its asset portfolio both in high-demand asset classes as well as in provinces with a sound and resilient economy, while achieving additional economies of scale.

Investor Conference Call and Webcast Details

PROREIT will hold a conference call to discuss its third quarter 2019 results on November 14, 2019, at 11:00 a.m. EDT. There will be a question period reserved for financial analysts. To access the conference call, please dial 888-390-0605 or 416-764-8609 or 514-225-7341. A recording of the call will be available from November 14 to February 14, 2020 by dialing 888-390-0541 or 416-764-8677, access code for participants 545796#. The conference call will also be accessible via live webcast on PROREIT's website at www.proreit.com.

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 same property net operating income (or same property NOI), adjusted funds from operations or AFFO, AFFO payout ratio, net operating income or NOI, debt to gross book value, gross book value, interest coverage ratio, debt service coverage ratio, and funds from operations or FFO. 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 of the REIT 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 months ended September 30, 2019, 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 are 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 include, without limitation, statements pertaining to the impact of the recently completed acquisitions on the REIT's future financial performance, the impact of recent transactions on the REIT's AFFO per unit and AFFO payout ratio, the ability of the REIT to executive its growth strategy, the performance of the real estate markets and the payment and level of future distributions. PROREIT's objectives and forward-looking statements are based on certain assumptions, including management's perceptions of historical trends, current conditions and expected future developments.

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 nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility for the adequacy or accuracy of this release.

About PROREIT

PROREIT (www.proreit.com) is an unincorporated open-ended real estate investment trust owning a diversified portfolio of 91 commercial properties across Canada representing over 4.4 million square feet of GLA. Established in March 2013, PROREIT is mainly focused on strong primary and secondary markets in Québec, Atlantic Canada and Ontario, with selective exposure in Western Canada.

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

SOURCE PROREIT

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https://proreit.mediaroom.com/2019-11-13-PROREIT-reports-robust-third-quarter-2019-results