



Crombie

Final Transcript

Crombie Real Estate Investment Trust

Second Quarter 2021 Earnings Call

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This transcript contains forward-looking statements about expected future events and the financial and operating performance of Crombie. These statements include, but are not limited to, statements concerning management's beliefs, plans, estimates, intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical fact. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "estimate", "anticipate", "believe", "expect", "intend" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking information in this transcript includes statements regarding:

- (I) The disposition of properties, including properties under contract, and the anticipated reinvestment of net proceeds, which could be impacted by the availability of purchasers, the availability of accretive property acquisitions, requirements and timing for Sobeys investments, the timing of property development activities or other uses for net proceeds and real estate market conditions;
- (II) Our development pipeline and diversification to mixed-use and residential developments, including statements regarding the locations identified, timing, cost, development size and nature, anticipated yield on cost, and impact on net asset value and net asset value per unit, cash flow growth, unitholder value or other financial measures, all of which may be impacted by real estate market cycles, the availability of financing opportunities and labour, actual development costs, continuance of current market and capitalization rate conditions and general economic conditions and factors described under the "property development/redevelopment" section of our most recent management's discussion and analysis, and which assumes obtaining required municipal zoning and development approvals and successful agreements with existing tenants, and where applicable, successful execution of development activities undertaken by related parties not under the direct control of Crombie;
- (III) Set growth and reinvesting to develop or otherwise make improvements to existing properties, which could be impacted by the availability of labour, capital resource availability and allocation decisions as well as actual development costs;
- (IV) The accretive acquisition of properties, including the cost and timing of new properties under right of first offer agreements, and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in interest rates;
- (V) Overall indebtedness levels and terms and expectations relating to refinancing, which could be impacted by the level of acquisition and disposition activity that Crombie is able to achieve, levels of indebtedness, Crombie's ability to maintain and strengthen its investment grade credit rating, future financing opportunities, future interest rates, creditworthiness of major tenants, and market conditions;

- (VI) Generating improved rental income and occupancy levels, which could be impacted by changes in demand for Crombie's properties, tenant bankruptcies, the effects of general economic conditions and supply of competitive locations in proximity to Crombie locations;
- (VII) Expected increase in revenue in 2021 and 2022, which could be impacted by timing of completion of development projects underway, ability to secure tenants and the effects of general economic conditions;
- (VIII) Anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations;
- (IX) The anticipated rate of general and administrative expenses as a percentage of property revenue, which could be impacted by changes in property revenue and/or changes in general and administrative expenses; and
- (X) Anticipated distributions, distribution growth and payout ratios, which could be impacted by results of operations and capital resource allocation decisions. These forward-looking statements are presented for the purpose of assisting Crombie's unitholders and financial analysts in understanding Crombie's operating environment and may or may not be appropriate for other purposes. These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on Crombie's current estimates and assumptions. Crombie can give no assurance that actual results will be consistent with these forward-looking statements. A number of factors, including those discussed under "risk management" in Crombie's management's discussion and analysis for the year ended December 31, 2020 and those discussed under "risk factors" in Crombie's most recent annual information form (available at www.sedar.com) could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully, and a reader should not place undue reliance on the forward-looking statements.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Crombie REIT's Q2 Earnings Conference Call.

I would now like to turn the conference over to Ms. Ruth Martin. Please go ahead.

Ruth Martin — Director, Investor Relations and Financial Analysis, Crombie REIT

Thank you. Good day, everyone, and welcome to Crombie REIT's Second Quarter Conference Call and Webcast. Thank you for joining us.

This call is being recorded in live audio and is available on our website at www.crombiereit.com. Slides to accompany today's call are available on the Investor section of our website under Presentations and Events.

On the call today are Don Clow, President and Chief Executive Officer, Clinton Keay, Chief Financial Officer and Secretary, and Glenn Hynes, Executive Vice President and Chief Operating Officer.

Today's discussion includes forward-looking statements. As always, we want to caution you that such statements are based on Management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Please see our public filings, including our Annual Information Form, for a discussion of these risk factors.

I will now turn the call over to Don who will begin our discussion with comments on Crombie's overall strategy and outlook. Glenn will follow with a development update and a review of Crombie's

operating fundamentals and results. Clinton will then discuss our financial results, capital allocation, and approach to funding, and Don will conclude with a few final remarks.

Over to you, Don.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you, Ruth and good day, everyone, and thanks for joining us for our second quarter conference call.

We are very pleased with Crombie's performance during the second quarter. It is not possible to look at the last year without acknowledging the impact of the pandemic on our economic, business, and social environment. The retail REIT space has become more bifurcated over the course of the pandemic, with grocery-anchored retail emerging stronger than ever. Crombie's major tenants stayed open and mostly thrived, which allowed us to do the same. Our focus on curating an optimal asset mix of Empire-anchored retail, combined with mixed-use residential and retail-related industrial properties in Canada's top urban markets continues. In this quarter, we were fortunate to see significant cap rate compression due to evidence of transactions in the private real estate markets. During the second quarter, we saw a fair value increase of approximately \$176 million, or 3.6 percent, driven primarily by cap rate compression of grocery-anchored properties. This excludes fair value growth expectations from our first major developments, which we expect will continue to come online over the remainder of 2021 and throughout 2022. The strength of this asset class has been highlighted throughout the pandemic for several reasons, including the resilience of everyday needs' retailers, the importance of lease term and covenant, and the opportunity for growth. We're delighted by this value surge in grocery-anchored properties as it is a solid complement to the fair value growth we anticipate will come from our ongoing development activities.

We expect our development projects to contribute significant fair value growth, which we are in the midst of delivering as projects reach substantial completion and lease-up progresses to stabilization.

We often refer to the work we do in terms of the importance of a strong defense and a strong offense, and our strategy enables us to do both well. Our strong defense is rooted in our grocery-anchored portfolio, which has proven resilient during the toughest of crises like we have seen over the last 18 months, and the improvement of our financial condition over time, which Glenn and Clinton will speak to in detail. Before they do, though, I want to highlight our overall operating metrics, which are driven by our strong fundamentals, and the work our team continues to do on lowering our leverage as is evidenced by our declining debt to gross fair value ratio and the improvement in our debt to trailing 12-month adjusted EBITDA. Our results were solid this quarter, driven by a continued commitment on the part of our operations and leasing teams to high-quality, service-focused site management. Leasing renewal numbers remain consistent, thanks to the fine work of these teams to meet the needs of our tenants and their customers. This defense results in a high-quality operating cash flow, as well as a balance sheet and financial stability that positions us well for the long term.

Grocery-anchored real estate has historically been thought of as stable with slow growth, but we are determined to prove that Crombie cannot only be stable during crisis, but also strong during periods of higher economic growth. Going on offense includes operating well, maximizing the value of our strategic relationship with Empire, building a first-class development program, and strong asset management through select acquisitions and dispositions to improve our portfolio over time, and to help fund our strategy. Our relationship with Empire is our sustainable, competitive advantage, and this offers us continuing opportunity to drive growth. We remain committed to investing \$100 million to \$200 million annually with Empire on strategic and accretive investments in the modernization, acquisition, expansion,

and conversion of their grocery stores to improve their competitiveness, including the conversions to the FreshCo discount format in Western Canada and the Farm Boy banner in Ontario, accelerating Empire's build out of their online grocery home delivery service, Voilà, land use intensifications, and the unlocking of major developments. Our major development program is hitting its stride as we reach substantial completion on our first projects and continue to work on the next six near-term projects, while pushing forward ongoing entitlement work. I eagerly await the next stage of our development program where we continue to target to spend \$150 million to \$250 million annually to accelerate NAV and AFFO growth. Lastly, our asset management has been savvy and timely to support our portfolio improvement, and at time, helped fund our business.

Our success this quarter can be attributed to the outstanding work of the people on our Crombie team. Regardless of where they work; on site, at a kitchen table, or behind a desk, we know that we can rely on them to turn out incredible work for the team. The past 18 months have been difficult for employers and employees. I'm so grateful for the Crombie team who has risen to every challenge. We have increased our internal communications and ensured that our employees had the resources to cope with the physical and mental impacts of this extended public health crisis. We remain committed to the health and safety of our employees and visitors to our sites, in recognition that COVID-19 pandemic will be with us in some form for the months ahead. In response to that, we are one of the hundreds of Canadian companies participating in rapid testing consortium at our Scotia Square office in Halifax, Nova Scotia where all Crombie employees will complete twice-weekly COVID tests to ensure the ongoing safety of our team and on-site visitors.

The best teams work together offensively and defensively to succeed. We're a long-term company, and our team has remained committed to our strategy despite the challenges of COVID and an ever-changing economy. I'm proud of the work we do at Crombie and our continued pursuit of excellence.

With that, I'll now turn the call over to Glenn who will provide an update on our developments and operational highlights.

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Thank you, Don, and good day, everyone.

Occupancy levels remained high in the second quarter, with committed occupancy at 96.2 percent and economic occupancy at 95.6 percent. New leases and expansions increased occupancy by 510,000 square feet, while we experienced just 155,000 square feet of net lease expiries, vacancies, terminations, and space adjustments. Notable new lease activity in the quarter was 42,000 square feet of development leases opening at Avalon Mall; Halifax Regional municipality moving into our top 20 tenants, with new locations in our Halifax, Nova Scotia complex; and Dollarama becoming our third largest tenant, with their newest location at Loch Lomond Place in St. John, New Brunswick.

At the end of the quarter, 118,000 square feet was committed at an average first-year rate of \$17.83 per square foot, which will boost future NOI growth throughout 2021. VECTOM and major markets represent 57,000 square feet of committed space, including an additional 25,000 square feet at our Scotia Square complex in Halifax.

During the quarter, 234,000 square feet of renewals were completed at an increase of 3.4 percent over expiring rental rates. Driving this growth was 120,000 square feet of renewals at retail plazas, with

an increase of 4.6 percent over expiring rental rates. An increase of 6.3 percent was achieved for renewals in the quarter when comparing expiring rental rates to the average rental rate for the renewal term.

Year-to-date, Crombie demonstrated portfolio stability, with approximately 51.1 percent of renewals occurring in VECTOM and major markets. Renewal activity consisted of 621,000 square feet, with an increase of 3.1 percent over expiring rental rates, or growth of 6.7 percent when comparing the expiring rental rates to the average rental rate for the renewal term.

Property development is a strategic priority for Crombie as it drives NAV and AFFO growth while increasing our presence in the country's top urban markets and diversifying our overall portfolio.

With the majority of new tenants open, the grand reopening of Avalon Mall took place from June 24 to June 27, and included various community-oriented activities and celebrations to commemorate this great achievement. Overall, it was a great success, with high traffic counts and strong sales reported by our tenants. One highlight of the event was the donation made on behalf of Crombie, our tenants, and our customers to First Light's Centre of Performance and Creativity, a non-profit organization that serves the urban, indigenous, and non-indigenous community alike by providing programs and services rooted in the revitalization, strengthening, and celebration of indigenous cultures and languages.

The skilled team at Westbank continues to work hard in the lease-up of Zephyr, the residential component of our Davie Street property. As of July 31, approximately 90 percent of units have been leased at strong rental rates in the mid \$4 per square foot range, which were above our initial pro-forma. We are very pleased with the progress to date, and have a lot to be proud of, as Zephyr has leased up quickly, with stabilization expected before the end of this year.

Progress is being made at our Le Duke and Bronte Village projects, as they remain on track and on budget, with the first residential tenants taking occupancy at both locations in the third quarter. Substantial completion is expected to be achieved in the third quarter for Le Duke and in the fourth quarter for Bronte Village. In late June, the Sobeys store conversion was completed at Bronte Village, and Farm Boy opened for business.

In late 2020, Empire announced the expansion of their online grocery home delivery service, Voilà, to Western Canada. At the end of June, our development momentum continued with the acquisition of a 25-acre site in Calgary, Alberta which will be the home of Empire's third CFC. Construction is currently underway, with delivery to customers expected in 2023.

We are committed to unlocking significant land value embedded in our major urban market grocery stores as we continue our work to entitle upwards of 10 additional projects across Canada, generating opportunities to continue our development program.

With that, I will now turn the call over to Clinton who will highlight our second quarter financial results and discuss our capital and development funding approach.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thank you, Glenn, and good day, everyone.

Strong collection rates continue, with 99 percent collected in the second quarter of 2021 and 99 percent for July. Despite lockdowns and increased restrictions across the country for a large portion of the second quarter, our collections reached pre-pandemic levels, a true reflection of our stable portfolio.

On a cash basis, same-asset NOI increased by 7.2 percent for Q2. Primary drivers of this growth are a reduction in bad debt expense, strong occupancy, and modernization income. Adjusting for bad debt expense and parking revenue in 2020, same-asset cash NOI is flat compared to the same period in 2020.

For the quarter, AFFO per unit was \$0.23 and FFO per unit was \$0.27. AFFO and FFO payout ratios were 97.3 percent and 81.7 percent, respectively. AFFO and FFO in the quarter were impacted by improving net property income due to lower bad debt expense and income from completed developments and modernizations. This is offset in part by higher unit-based compensation costs, finance costs, continued reduce parking revenue primarily at Scotia Square, and the loss from equity accounted investments resulting from a drag in operating results at our Davie Street Residential development project of approximately \$500,000 for the quarter at a move towards stabilization.

Second quarter FFO and AFFO per unit metrics were diluted when compared to the first quarter of 2021 due to the equity issuance in May.

G&A as a percentage of property revenue for the second quarter was 7.4 percent, or \$7.4 million. Unit-based compensation, included in G&A, increased approximately \$800,000 from the same quarter last year. G&A, excluding unit-based compensation in the quarter, will be 5.1 percent of property revenue, and 4.0 percent on a year-to-date basis.

Crombie continues to reduce risk and maintain financial strength with a strong and flexible balance sheet supported by our improved financial condition and ample liquidity at the end of the quarter. Our unencumbered asset pool is approximately \$1.4 billion, or 27 percent of Crombie's total fair value of investment properties of \$5.1 billion. Our debt to gross fair value at the end of Q2 was 46 percent, a significant improvement from 49.4 percent at Q4 2020. The primary drivers of the improvement in our leverage ratio were a material year-to-date increase of \$291 million in fair value of investment properties

and joint ventures and significant debt repayment funded by the \$100 million equity issuance in May, 2021.

Crombie has always viewed grocery-anchored assets as strong, stable assets with the potential for growth, and our team has worked hard to build a top-quality portfolio. The pandemic highlighted the strength of grocery-anchored assets, and the strong desire for these assets is supported by an abundance of market activity driving cap rate compression. The cap rate movement was a primary contributor to the increase of approximately \$176 million, or 3.6 percent, in our fair value during the quarter.

On May 19, Crombie closed a \$100 million equity financing at a price of \$16.60 per unit, the highest issuance price in the organization's history. The issuance was very successful, with funds being utilized in the short term to reduce outstanding indebtedness, improving our debt metrics while supporting Empire-related initiatives and our development pipeline.

We ended the quarter with debt to trailing 12-month Adjusted EBITDA at 9.12 times. The increase in trailing 12-month adjusted EBITDA is driven by the sizable reduction in bad debt expense of approximately \$8.7 million included in Q2 2020.

Crombie remains committed to maintaining our investment-grade credit rating as evidenced by our equity raise in May and yesterday's announcement of the reintroduction of a 3 percent discount in our DRIP. We plan to be regular issuers of equity in the future. Crombie has access to multiple sources of capital to fund our development pipeline into the future. We have increased our communication with DBRS to re-establish our stable trend, and ultimately, move closer to our goal of achieving a DDD mid credit rating within the next three to five years. While external risks remain present given the recent pandemic, we will prudently manage the financial levers within our control.

Continued growth in development activity is important at Crombie, as we anticipate it will deliver strong NAV growth, and ultimately, achieve strong AFFO growth once these projects are stabilized.

I will now turn the call over to Don for a few closing comments.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you, Clinton.

In closing today, I'd like to thank our team for their ongoing commitment to Crombie's values and the work they do to deliver on our strategy every day. It is remarkable to step back and look at how our organization has evolved over the past 18 months.

This quarter, we published our inaugural sustainability report, which highlights much of the good work we do to achieve our vision of enriching communities sustainably through tangible actions and an ethical and diverse culture. While this was the first year we formally reported, sustainability has been core to Crombie's business practices since our inception.

From an environmental perspective, our properties have always been located at what we refer to as Main and Main, which provides convenient access to our tenants' customers, and minimizes the need for, and impact of, transportation in those communities. Our Scotia Square complex in Halifax is a shining example of the work we've done to set, invest in, and achieve environmental goals for over a decade.

From a governance perspective, we believe, as we always have, in white glove governance, with strict policies that ensure high standards and strong risk management. We ask all employees and trustees to adhere to a comprehensive code of conduct and business ethics to commit to doing what's right in the long term, even if it's hard in the short term.

From a social perspective, we have worked incredibly hard to attract, develop, and retain a diverse team, and provide a safe, inclusive space for those employees. This work we've done to build a strong culture paid off greatly over the course of the pandemic. People leaders at Crombie knew we could depend on our teams to work hard and do what was right for themselves, their families, and Crombie, while also keeping their communities safe and healthy, and the results speak for themselves.

We're excited by our future opportunities, and confident in the sustainable future we are building at Crombie.

That concludes our prepared remarks. We're now happy to answer any of your questions.

Q & A

Operator

Thank you.

Your first question comes from Mario Saric with Scotiabank. Please go ahead.

Mario Saric — Analyst, Scotiabank

Hi. Good afternoon.

Don Clow — President and Chief Executive Officer, Crombie REIT

Good afternoon.

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Good afternoon

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Hi, Mario.

Mario Saric — Analyst, Scotiabank

I just wanted to focus some of the initial questions on the fair value gain this quarter. I think you provided in your disclosure on Page 8 of the MD&A in terms of arriving to a size 0.68 percent cap rate broken down by major market, VECTOM, and other. Do you have that breakdown handy for Q1 of this quarter just to see how that 18 basis point decline kind of varied across the various characterizations?

Don Clow — President and Chief Executive Officer, Crombie REIT

Sorry. I mean, I just have to say, Mario, it was pretty level across the board. As you know, our portfolio's primarily grocery-anchored, and in my mind, let's be clear, this was a minimal change in fair value—or there was a minimal change in fair value from development, so it was primarily a portfolio, and so, hopefully, we have a continued fair value recognition coming from development over the next few quarters as properties are completed or reach substantial completion, and then also reach income stabilization. It's a bit staggered, and so both the completed developments and the ones that are about to be complete have some fair value bumps to come.

The other thing I'd like to say is that I think this is just an indicator that grocery-anchored retail separated itself from the rest of retail, to some degree, as an asset class, because anecdotally, we've seen some grocery transactions that we know pretty well reflect cap rate compression of over 100 basis points versus two years ago, and so the cap rate compression we've reflected in that 18 to 22 basis points is pretty reasonable, and so I think it's an ongoing evolution of the space that's happening, and we're pretty

pleased with our asset management decisions over the last—really, over the last decade to transition to greater investment in grocery, and then the urban mixed-use development.

Mario Saric – Analyst, Scotiabank

Got it. Do you have any sense in private market activity that you referred to, what the quantum of total private market grocery-anchored activity was maybe year-to-date?

Don Clow — President and Chief Executive Officer, Crombie REIT

I don't have the total. What I do know is there's a number of transactions, and I know of one that's nine figures, so there's—it's into the nine figures. I don't have the total off the top of my head, Mario. We can try to gather that for you, but I know there's at least one transaction well over—it's over \$100 million. It's in the hundreds of millions of dollars, and so it's strong evidence.

Mario Saric – Analyst, Scotiabank

I think you mentioned that very little of the \$176 million fair value gain related to ongoing developments or just recently-completed developments when we talk about Zephyr, and you've also kind of highlighted the \$1 to \$2 of fair value per unit upside from these developments in the past. How comfortable are you with that range today, and do you have more or less conviction in perhaps hitting the upper part of that range as time passes and as you lease up to these assets?

Don Clow — President and Chief Executive Officer, Crombie REIT

Yes, so let's be clear. We did recognize some in Q4 from one of our developments, some more in Q1 from another, and then we've still got a ways to go in the remainder of those first six, and I'm actually—

from what I'm seeing in the market, it feels like it's closer to the upper end of that range than the lower end, for sure, just because rents—especially in Zephyr, as Glenn said, our rents are mid to higher \$4 a square foot, and we're 90 percent leased, and cap rates, very strong, I mean ultra strong. So, there's more potential fair value appreciation to be recognized there, but—so I'm feeling very comfortable with the range, and I'm very—I feel comfortable it should, at the end of the day, be in that upper end of the range.

Mario Saric — Analyst, Scotiabank

Got it. Okay, and then maybe one clarification for Clinton just on Zephyr. Did you indicate that it resulted in about a half a million of negative FFO during the quarter?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, it would have been in our notes to the—the financial note 4 for joint ventures, yes, \$562,000 was our share.

Mario Saric — Analyst, Scotiabank

Okay. That's it for me. Thanks, everyone.

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Thanks, Mario.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thanks, Mario.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Operator

Thank you. Your next question comes from Tal Woolley with National Bank. Please go ahead.

Tal Woolley — Analyst, National Bank Financial

Hi. Good afternoon.

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Hi, Tal.

Don Clow — President and Chief Executive Officer, Crombie REIT

Hi, Tal.

Tal Woolley — Analyst, National Bank Financial

Just to talk a bit about the industrial portfolio, can you remind me again how many CFCs that Empire is targeting over—for a national rollout of Voilà?

Don Clow — President and Chief Executive Officer, Crombie REIT

Yes, what we've heard publicly from the leadership at Empire is that they're targeting four CFCs, and there's obviously one that's open in Toronto, another about to open in Montreal, one we're building in Calgary, and then the fourth is in a city to be named later, but likely in British Columbia, so that's what we've heard, and then, obviously, spokes built around them.

Tal Woolley – Analyst, National Bank Financial

The Toronto CFC has not been dropped down to you, correct?

Don Clow — President and Chief Executive Officer, Crombie REIT

It has not. No, no. It's owned by private developers.

Tal Woolley – Analyst, National Bank Financial

Okay, so that's not owned by Empire?

Don Clow — President and Chief Executive Officer, Crombie REIT

It is not.

Tal Woolley – Analyst, National Bank Financial

Okay. Got it, and then I was just wondering with Empire's acquisition of Longo's, they also have the Grocery Gateway business. Do they have any of those types of asset that would make sense for Crombie to acquire?

Don Clow — President and Chief Executive Officer, Crombie REIT

I can't really speak to that. At this stage, we don't have ongoing conversations about those types of opportunities, so we do have strategic discussions with Empire about all of their real estate, but it's—I don't think that's a big opportunity for us, to be truthful.

Tal Woolley – Analyst, National Bank Financial

Okay, and then for the Calgary site, do you have an estimate of what you think construction costs might look like?

Don Clow — President and Chief Executive Officer, Crombie REIT

Well, I'll turn it over to Glenn, but my gut tells me it's roughly the same as the last CFC, but we can't honestly disclose the detail, but Glenn, maybe, any additional comment?

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Yes, we're very pleased. As you know, Tal, there's been both reality and worry about cost inflation. We were early out of the gate in ordering key inputs like steel, both for supply—guaranteeing supply, but also guaranteeing price, so we're off to a great start. We learned a lot from building CFC2 in Montreal. We've taken a ton of those learnings that will both allow us to build this building on a faster timeline, but also on a competitive cost, so I can't give any more specifics, but we're very pleased with where we're at. We've got a budget that's been set some months ago, and we believe we'll actually beat that budget, so we're very optimistic, because we, as you know, started this project in the midst of some fairly worrisome cost inflation, but so far, so good, and we're well along.

Tal Woolley — Analyst, National Bank Financial

Okay, and then for the resi assets that are completing this year, I was—I drove by the Oakville property, I don't know, it was probably about six, seven weeks ago, and Farm Boy was just getting completed, and it looked like maybe you were starting pre-leasing on the residential part. Can you speak at all to pre-leasing activity at both Bronte and Le Duke?

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Sure, but I really want to emphasize, these are still both construction sites. We have some real trooper tenants that are starting to move in in Q3 at both buildings. Our expectation is that we will be substantially complete in Le Duke in Montreal in Q3, and that'll likely be sort of a two-phased occupancy; the lower-half floors first, and then the upper-half floors, so we will be pushing substantial completion in Q3, but we have a small number of tenants already in occupancy, which allows us to work out the kinks, etc., but really, we're just very early days.

Bronte, we're expecting to have substantial completion in Q4, and same situation, so we actually think timing-wise it's encouraging, because COVID hopefully is getting to the end where there's much more mobility, much more people out and about wanting to see the units, and also we're getting towards substantial completion, but it's too early to be talking about occupancy levels, but we're really delighted with Zephyr, with just the pace, etc. We're over 90 percent leased, and Don mentioned the rents in that mid \$4 range. That's tracking extremely well, and we're optimistic for both Le Duke and Bronte. More units at Le Duke and Bronte, so there's probably going to be a longer stabilization period. There's 480 units at Bronte, 390 at Le Duke, so it's going to be a little bit longer than the 330 units in Vancouver, but all in all, we're very satisfied with where we're at.

Tal Woolley – Analyst, National Bank Financial

Can you give us an estimate of average asking rent at both sites for now?

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

I would say, ballpark, we are in the mid \$3 range starting point in the Oakville market, and in the Montreal market, we're very high in the \$2 range would be sort of the starting point for those, and those are clearly market rents for the quality of building and the neighbourhoods where they're located.

Tal Woolley – Analyst, National Bank Financial

Okay, and then just my last question, you guys want to keep your foot down on the gas with respect to development. You did the equity raise this year. The stock's had a really good run, and you talked about you feel you've got access to several channels of capital to help fund you. Prior to this point, you have really relied on dispositions in a big way to raise capital in the past. How should we think about going forward?

Don Clow — President and Chief Executive Officer, Crombie REIT

Any time you introduce new growth platforms like Crombie did four to five years ago, namely, the accelerated investment in Sobeys and our major mixed-use development, you can occasionally have a little bit of stress on the balance sheet, and takes time, I think, for investors to understand it. It takes time for rating agencies to understand it, and honestly, everybody requires proof of execution, so for us, the good news is we've proved the execution, and we've funded it, again, using those multiple sources of capital that are still all available to us, and continue to be, I think, pressed very well at a low cost of capital.

Overall, our financing, or sort of, overall, our strategy hasn't changed, and our financing strategy is really, first and foremost, working with our ratings agency to help them understand the significant changes in our business, which takes some time, but then just continuing on to issue equity on a regular basis, we'll continue with—which includes the DRIP, as you know, which we just implemented yesterday, or re-implemented the discount on yesterday, as well as dispositions, as well as continuing to tap the markets in all forms of debt, so I won't—I can't give you any guidance other than we're in good shape.

As you see, our balance sheet metrics have improved as we've come through the 12-month trailing from Q2, and we see our debt-to-EBITDA coming down, so those—all those things are, really, what

was intended to happen before COVID, and that caused a little bit of stress in the short term, but we think, overall, we're fine, and the strategy hasn't changed either from an overall real estate strategy or a financing strategy perspective.

We're in very strong condition, and I think we have, again, that unique, sustainable, competitive advantage, which is the relationship with Sobeys, gives Crombie an opportunity to allocate capital very well in very good places, and so our strategy isn't as much about how we allocate capital, which we've been very clear about. It's just how you continue to fund it at a good, solid pace, and do so well so people understand and respect, which I think we're doing, and have done very well over the last number of years as we've evolved.

Tal Woolley – Analyst, National Bank Financial

What was the take-up on the DRIP prior to it being taken off?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, it would have—I probably recall we were in the high 20 percent range.

Tal Woolley – Analyst, National Bank Financial

Obviously, Empire was not participating on the DRIP.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

They will share proportionately in terms of the DRIP.

Tal Woolley – Analyst, National Bank Financial

Okay, got it.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

They're still making their 41.5 percent.

Tal Woolley — Analyst, National Bank Financial

Got it. Okay. Thank you.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thanks, Tal.

Operator

Thank you. Your next question comes from Sumayya Syed with CIBC. Please go ahead.

Sumayya Syed — Analyst, CIBC World Markets, Inc.

Thanks. Good afternoon.

Don Clow — President and Chief Executive Officer, Crombie REIT

Good afternoon, Sumayya.

Sumayya Syed — Analyst, CIBC World Markets, Inc.

Don, you spoke about having multiple sources of capital available, but given the cap rate compression you've observed, could we see the REIT take advantage and be a bit more active on dispositions?

Don Clow — President and Chief Executive Officer, Crombie REIT

What we've always said is we've got multiple sources, and we will dabble from time to time. I would say when you're in doubt, dabble, and it's a line I've heard from our former Chair, Frank Sobey, give him credit for the line, but it's basically that you're using a mix of options and you're picking your spots, and so yes, we've done dispositions almost every year, some years a little higher than others.

The interesting part is that our dispositions are now taking different forms, and so we now have, obviously, income-producing properties that are, as we're seeing with grocery, much more easily sold, and at values that are much higher than we purchased them for, but also, importantly, people have to realize, we have entitled land that's starting to come into our potential sale pipeline, and even though it may be trading off a little bit of future growth to fund the development business or to fund current developments, whatever, it's—that is an opportunity too.

We bought a lot of land in—as you know, in Vancouver and other major cities across the country, and some of those are, call it, low value because they're single-story grocery stores, but they're—sorry, high-value, but low-density, and if they transition to high-density, the values are very high. So, for us, that's another option that's coming on-stream as we get entitled land. We will, potentially, take our shot at selling one of those just to prove the concept, but to also help fund the business going forward, and we think about it as giving up growth from year 10 to 15 or further out rather than growth that's really current

at times, but anyway, the bottom line, Sumayya, is that we have multiple sources, and some new ones, and we'll take advantage of them as we see the opportunities come up.

Sumayya Syed – Analyst, CIBC World Markets, Inc.

All right. I'm sure lots of interest on the land there. Then just wondering on the cap rate side, where do cap rates for the industrial in your portfolio sit, and have there been any movements there that you can speak to?

Don Clow — President and Chief Executive Officer, Crombie REIT

I think industrial, in general, is highly desirable. It's arguably number one, two, or three. I think, of industrial, apartments, and grocery, and not necessarily in that order. It changes as the most—three most desirable types of real estate in Canada today, or maybe development land as well, and so the cap rates on that have generally been compressing, and so—and it's primarily because of rental growth and shortage of supply, and that condition hasn't changed dramatically, so I suspect it's—there's continuing compression. So, I can't speak to specifically our assets, because I don't want to get that detailed. I apologize, but it's a good situation for us. We like the asset mix where we're transitioning to, 5 percent to 10 percent of our portfolio being industrial, because it's a strategic fit, but also that further cap rate compression will help us ultimately over time on a fair value basis.

Sumayya Syed – Analyst, CIBC World Markets, Inc.

All right, and then just as a reminder for me, what kind of rent escalations are in the retail industrial, and then would it be the same structure for the Voilà spokes?

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Yes, Sumayya, the typical rental lifts are in the 7.5 percent to 10 percent range over five years. That's the typical retail-related industrial rental growth. I anticipate very similar, if not the same, for CFC3.

Sumayya Syed – Analyst, CIBC World Markets, Inc.

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

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Operator

Thank you. Your next question comes from Kyle Stanley with Desjardins. Please go ahead.

Kyle Stanley – Associate, Desjardins Capital Markets

Thanks. Good afternoon.

Most of my questions have been addressed at this point, so just one kind of quick housekeeping item for Clinton. I'm just wondering, were there any one-time or non-recurring items within interest expense this quarter?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Not that we would have had in the past, I would say no. The only thing that would be happening is as these projects come to completion, we're no longer capitalizing interest. That's normal course.

Kyle Stanley – Associate, Desjardins Capital Markets

Okay. Okay. No, that's helpful. That's it for me. Thanks.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thanks, Kyle.

Operator

Thank you. Your next question comes from Jenny Ma with BMO. Please go ahead.

Jenny Ma — Analyst, BMO Capital Markets

Hi. Good afternoon.

Don Clow — President and Chief Executive Officer, Crombie REIT

Hi, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

We've seen some of your peers get a little bit more creative in terms of financing some resi development. I'm just wondering, when you see that out in the market, balanced with your more attractive cost of capital, has there been any change in terms of how you approach partnerships or financing your condo or rental apartment projects going forward?

Don Clow — President and Chief Executive Officer, Crombie REIT

I'd say the answer is no, even though it may look like a yes. I think everybody is seeing, I'll call it—we've seen it for a number of years, but there's been a wall of capital looking for a home in real estate, and so these large, mixed-use developments lend themselves well to large purveyors of capital who don't necessarily have the talent to develop it, or don't have the sites and/or the relationship with the tenants to unlock the value, and so as we've worked through our first three developments, we've done it with partners that have capital and the talent to actually execute on both the development and the operations.

We've said, I think publicly on a number of occasions, that we will not only consider those types of developments going forward or development partners going forward, but we will look at capital partners to take some of that pressure off the balance sheet that we—I talked about a few minutes ago, and it's—so we have been in discussions with a number of partners, primarily looking at long-term partners, people who want to do multiple of deals. We just haven't pulled the trigger on any at this stage, but we have had some good discussions and detailed discussions with a number of players, and I think it's a real option that we now, as Crombie's, got a great team of development people.

Glenn and his team, and Trevor Lee, our Senior Vice President of Development and Construction out west in Calgary, has developed a strong development team where we feel comfortable with 30 people that have good experience in development that we, in time, will take on our own development, but also take it on for partners, and that optimizes our cost of capital, de-stresses the balance sheet from time to time, makes the rating agencies and our debt investors quite happy, so we're going to look at all those options, Jenny, and I think, over time, we'll be—like a number of our other peers, we will be looking forward to having some of those types of partners work with us, and hopefully develop a good, long-term strategy for development.

Jenny Ma – Analyst, BMO Capital Markets

Great. Would you say that the volume of conversations you've been having or inbounds have shifted at all in the last few quarters, or is it really just part of the normal course discussions you've been having over the last few years?

Don Clow — President and Chief Executive Officer, Crombie REIT

I'd say it's increased over the last two years as we've become more comfortable with our developments reaching completion, and ultimately, being very successful. I think as I've used a sports analogy, as I've always said, we want to start out hitting doubles or triples, and don't necessarily have to hit a home run, but definitely don't want to have a strikeout, and all of our six first developments are very strong. They're at least doubles, and I think I'm now going to say a number are home runs. So, for us, getting to the—near the end of that process allows us confidence that we can execute, shows the market we can execute in a multiple of ways, and then I think over the last two years, we've been in active discussions with these types of capital partners, and we can legitimately say we can do these developments, and—but because they have proof that we can, and so yes—so it's a nice evolution of the Company, and it's good, solid proof of the concept of mixed-use development works for this Company well.

Jenny Ma – Analyst, BMO Capital Markets

That's great to hear. Thank you.

Turning over to the Calgary CFC, could you remind me if there is an agreement already in place with Empire, or is it kind of like a memorandum of understanding, and when you're thinking about the return on this asset, could you expand on whether or not that is—should we look at it as a yield-based

return and not so much based on the cost, or how should we think about the potential return from this development?

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

Sure. So yes, we have full documentation in place with Sobeys in terms of the development agreement and the lease for the property. I'm not sure the lease is fully signed and finalized, but certainly, all the development construction agreements and the letters of understanding on the economics are all in place. I'm not going to give you much detail other than to say that it is, in fact, a spread-based arrangement based on a spread over what would be a market cap rate, so that is the essence of how we do that so it's a fair proposition for both organizations.

Jenny Ma – Analyst, BMO Capital Markets

Okay, great, and then lastly, just back on the reinstatement of the DRIP premium, just wondering what the rationale for that was. Is it tied simply to where the unit price is, or is it just looking at opportunity to return to tapping that source of capital in a small way, and whether or not you're aware if Empire intends to sort of reinitiate their participation to the same extent they did before the premium was removed a few years ago?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, so let's be—the DRIP itself has never gone away, Jenny. It's just that the 3 percent discount...

Jenny Ma – Analyst, BMO Capital Markets

Right.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

...was removed, so—but from a standpoint of the rationale, it really comes down to just emphasizing multiple sources of capital. We've always said we want to be regular issuers of equity, and so this just emphasizes that point, and we think the timing's right to access the markets on a more steady basis, as well as to your point about Empire, they will proportionately—they have their 41.5 percent ownership, so they will maintain that throughout—on a monthly basis.

Jenny Ma – Analyst, BMO Capital Markets

Okay, great. Thank you very much. I'll turn it back.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thanks.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thanks, Jenny.

Operator

Thank you. Your next question comes from Sam Damiani with TD. Please go ahead.

Sam Damiani – Analyst, TD Securities

Thanks, and good afternoon.

Just wanted to start off on the leverage side. With your recent equity offering and the DRIP discount reinstated and your comments earlier on the call, is there a lowered target leverage ratio, either on a debt-to-assets or debt-to-EBITDA that you're thinking about now, perhaps, versus earlier this year, or earlier than pre-COVID?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

No, I think the targets that we have with the rating agents has been to be below 10 times using their methodology on a sustained basis, so that's been the target, and so I'd say there's been no change in that.

Sam Damiani — Analyst, TD Securities

Okay, and then the next sort of major development, could that get kicked off in 2022, or is that too early?

Don Clow — President and Chief Executive Officer, Crombie REIT

The next major development has already been kicked off, Sam, in the Calgary CFC, right?

Sam Damiani — Analyst, TD Securities

Sorry. I meant the mixed-use. I meant on mixed-use.

Don Clow — President and Chief Executive Officer, Crombie REIT

Oh, on mixed-use. So, we have a number of projects. They're all in the normal course of both the evolution and municipal approvals, and working on costing, etc. There's a number of, we would call it,

conditions that we want to see in the markets to move forward, so we haven't actually set a date on a number of developments, but there's some at the very end of the development approval process and some we still have a little ways to go. So, it's a constant process to develop a pipeline that has a continuous action, and we're still in the early stages of that pipeline, but I still—I would say there are a number that are close. The real goal is ultimately to achieve consistent spending of \$150 million to \$250 million a year on development, and ultimately reach consistent completions at cost of those dollar values, because that's what ultimately drives your NAV growth, I think, on a consistent basis that investors understand, and it ultimately drives long-term cash flow growth. So, I'm sorry I can't give you specifics on the projects. It is development, and it is—there's uncertainty all the way through until you actually pull the trigger and sign contracts with construction. We'll announce it when we're at that point.

Sam Damiani – Analyst, TD Securities

Yes, we'll all be staying tuned and—oh, sorry. Go ahead.

Glenn Hynes — Executive Vice President and Chief Operating Officer, Crombie REIT

...near-term projects are disclosed. A number of those are fully entitled and could start in 2022 as well.

Sam Damiani – Analyst, TD Securities

Yes, I was just going to say you're in the unfortunate position of having lots to choose from.

Maybe finally just for Clinton, on the sort of bad debt provision side, is your outlook for Q3 and Q4 a moderation in that respect, and how do you think about the burn off of government assistance in that regard?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, we've been consistent with our bad debt over the last number of quarters. I don't see any real change coming out of that for the rest of this year, subject to, of course, anything—you never say never in the world of pandemics, but from what we're seeing at this point in time, Sam, I don't see much changing.

Sam Damiani – Analyst, TD Securities

Great. Thank you.

Don Clow — President and Chief Executive Officer, Crombie REIT

No, I'll just jump in. I would say, for us, we've said if there's risk, it's at the corporate level. We generally progress through. Our properties, have done very well, including Avalon Mall, which stayed open most of the pandemic, and has performed, probably, one of the top five malls in the country just because it's been open almost the whole time, and our tenant sales have been good. Many of the reports we're getting, they're back to 2019 levels and/or better, so we're feeling cautiously optimistic, but nevertheless, it's at the corporate level. You never know when there's going to be a surprise, so—but at this point, we're feeling, again, cautiously optimistic.

Sam Damiani – Analyst, TD Securities

Good colour. Thanks very much.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Operator

Thank you. Your next question comes from Pammi Bir with RBC. Please go ahead.

Pammi Bir – Analyst, RBC Capital Markets

Thanks, and hi, everyone.

Just maybe one question for me. On Broadway and Commercial, can you provide an update on where that is in the entitlement process, and then secondly, more of a general question, once it is—once it or other projects are successfully rezoned, would you typically, then, record that or mark that value up for fair value purposes?

Don Clow — President and Chief Executive Officer, Crombie REIT

Maybe I'll comment on the first part of it, and turn over the second part of it to Clinton, but it's currently in the rezoning process, and we've still got a public hearing to go this fall, and Westbank is very capably leading that, so we're working closely with the City of Vancouver. It's a very difficult area in which to get approvals, but we really—I think Westbank's done an exceptional job in a very tough area. The complexity of it is high, and I think Westbank's specialty is working through the most complex challenges in development in Vancouver, and delivering very special projects that, at the end of the day, the local communities are very proud of, and so I'm confident that we'll continue on in the timeline that we've targeted.

In terms of once the land is—the zoning's done, I'll turn that over to Clinton, because I believe there is some recognition at that point.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

The accounting rules are that we will book a recognition of the land increase, so usually the entitlement does have a bump in value, but just for the land.

Pammi Bir – Analyst, RBC Capital Markets

Got it, and just, can you remind us again what is the amount of density that you're seeking there?

Don Clow — President and Chief Executive Officer, Crombie REIT

Off the top of my head, I know the dollars. In terms of square footage, it is about 640,000 square feet.

Pammi Bir – Analyst, RBC Capital Markets

Most of that would be residential, Donnie?

Don Clow — President and Chief Executive Officer, Crombie REIT

Most of it's residential, yes. There's 60,000 square feet of retail, 50,000 of office, and then the rest is residential. There's one tower of condo, two towers of purpose-built rental.

Pammi Bir – Analyst, RBC Capital Markets

Perfect. Got it. Thanks very much, guys. Thank you.

Don Clow — President and Chief Executive Officer, Crombie REIT

Okay. Thank you.

Operator



Thank you. There are no further questions at this time. Ms. Martin, you may proceed.

Ruth Martin — Director, Investor Relations and Financial Analysis, Crombie REIT

Thank you for your time today, and we look forward to updating you on our progress on our Q3 call in November.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thanks, everybody.

Operator

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