



Final Transcript

Crombie Real Estate Investment Trust
Third Quarter Results Conference Call

November 13, 2020

11:30 AM ET

DISCLAIMER

The information contained in this transcript is a textual representation of the Crombie Real Estate Investment Trust ("Crombie") Second Conference Call. While efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only. The information set out in this transcript is current only as of the date of the webcast and may be replaced by more current information. Crombie does not undertake to update the information, whether as a result of new information, future events or otherwise, except as may be required by law. Readers are advised to review the webcast (available at www.crombie.ca) itself and Crombie's regulatory filings before making any investment or other decisions.

Forward-Looking Information

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) asset 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 2020 and 2021, 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 and quarter ended December 31, 2019 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.

Non-GAAP Financial Measures

There are financial measures included in this transcript that do not have a standardized meaning under IFRS as prescribed by the IASB. These measures are property net operating income ("NOI"), same-asset property cash NOI, funds from operations ("FFO"), FFO as adjusted, adjusted funds from operations ("AFFO"), debt to gross book value, unencumbered assets, estimated yield on cost and net asset value ("NAV"). Management includes these measures as they represent key performance indicators to management and it believes certain investors use these measures as a means of assessing relative financial performance. These measures as computed by Crombie may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities. Readers are advised to refer to Crombie's Management's Discussion and Analysis for the year and quarter ended December 31, 2018 for additional information regarding Crombie's use of non-GAAP financial measures, including definitions and reconciliations to GAAP measures.

Corporate participants

Donald E. Clow

Crombie REIT — President and Chief Executive Officer

Glenn R. Hynes

Crombie REIT — Executive Vice President and Chief Operating Officer

Clinton D. Keay

Crombie REIT — Chief Financial Officer and Secretary

Ruth Martin

Crombie REIT — Director, Investor Relations and Financial Analysis

Conference Call Participants

Pammi Bir

RBC Capital Markets— Analyst

Sam Damiani

TD Securities— Analyst

Eric Kim

National Bank Financial — Associate

Howard Leung

VERITAS Investment Research — Analyst

PRESENTATION

PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the Crombie REIT Third Quarter 2020 Earnings Conference Call.

At this time, note that all lines are in a listen-only mode, but following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star, zero for an Operator. Also note that the call is being recorded on Friday, November 13, 2020.

I now would like to turn the conference over to 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 third 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 investors 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 review of Crombie's operating fundamentals and results. Clinton will 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 & Chief Executive Officer, Crombie REIT

Thank you, Ruth. Good day, everyone.

During the last few years, the world has experienced extraordinary economic, geopolitical, and technological disruption as a result of the COVID-19 pandemic, the recent U.S. election and the accelerating pace of technological change, including e-commerce. Throughout

these turbulent times, Crombie, as a retailer related REIT, has continued a strategy that has delivered stability and growth for the benefit of all of our stakeholders.

Over the last decade, Crombie strategy has strengthened our financial condition, grown and optimized the quality of our grocery-anchored real estate portfolio, and enhanced our relationship with Empire. We have become a significant developer of major mixed-use real estate in major urban markets in Canada, and we've built an entrepreneurial and talented team across the country. We have significantly de-risked our business by materially increasing liquidity and the weighted average term to maturity of our debt, increasing our multiple sources of capital, as well as taking advantage of low interest rates. We have demonstrated innovative capital recycling and favorable pricing over the last few years. We've provided important organic funding for our investments in Empire related initiatives, and importantly, our development pipeline.

As we continue to focus on improving our financial strength during these uncertain times, we're nevertheless also focused on prudently growing Crombie by generating solid risk adjusted returns from our investments in Empire related expansions, conversions, and industrial properties, as well as executing on our development commitments and unlocking significant value by entitling major urban market land for future development. To optimize our relationship with Empire, we have aligned our strategies over the next few years and capitalize on a wide range of opportunities initiatives and accretive transactions. We're building exciting new properties across Canada, including our first three VECTOM mixed use developments,

which are poised to create significant AFFO growth and NAV growth of approximately \$1 to \$2 per unit in the near term.

Grocery anchored retail continues to be one of the best forms of real estate in Canada, and our Sobeys' anchored core portfolio has proven to be very resilient during the challenges of 2020. Crombie benefits from both the strong and improving covenant of Empire and the lengthy weighted average lease term of approximately 10 years, influenced by Empire's remaining lease term of approximately 13 years. Covenant and term have historically been discounted during times of growth but during times of crisis like the last nine months, they are highly coveted by all stakeholders. Crombie's occupancy is stable with solid growth on lease renewals, and active pandemic support for impacted tenants thanks to the hard work and diligence of our committed team.

Empire has been achieving great momentum with improved operating and financial performance and market share. They've recently announced their new three-year strategy, Project Horizon, which focuses on core business expansion and acceleration of their e-commerce network. Supporting this momentum is the recent launch of Voilà, by Sobeys In the Greater Toronto Area.

Aligning our strategy with Empire enables Crombie to expand and diversify our real estate portfolio with solid risk adjusted returns. We work closely with Empire with the expectation that we collectively drive high quality yet defensive growth through strategic and accretive transaction such as the modernization and expansion of grocery stores, store

conversions, including the FreshCo discount format in Western Canada, and Farm Boy in Ontario, accelerating Sobeys Voilà online grocery home delivery service through investments in the hub and spoke network, land use intensifications and the unlocking of major urban developments.

The value enhancing major development pipeline consists of 34 properties, including two substantially completed developments, and five active developments. Many of these sites are strategically located conveniently within walking distance of existing and future transit corridors. These major development projects play a key role in our long-term strategy of accelerating per unit NAV and AFFO growth.

Belmont Market and the retail portion of Davie Street, having reached substantial completion, Crombie only has approximately \$126 million remaining to invest or 21% of the total estimated cost of the approximately \$612 million to complete our first active mixed-use major developments. These active projects will have an estimated NOI yield on cost of 6% to 6.5% percent to Crombie's share. Upon completion, these five-active majors—the five active development projects will total 545,000 square feet of gross commercial leasable area and 961,000 square feet of residential rental GLA or 1,200 residential units in Vancouver, the GTA, Montreal and St. John's. In addition to creating significant NAV and AFFO growth, as the developments reach substantial completion over the next year, they will increase our presence in Canada's top urban markets and diversify and improve our overall portfolio quality.

Lastly, and most importantly, we remain focused on the health and safety of our tenants, our employees and our communities and are committed to delivering value through the execution of our long-term strategy. We are incredibly proud of our passionate team and the work they do. The vast majority of our office employees continue to work productively from home, while our on-site teams work very hard to maintain properties that are fully operational, clean, and most importantly, safe. Thank you to all of you.

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

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

Thank you, Don, and good day, everyone.

We've improved the quality of our portfolio by developing and acquiring assets in Canada's top markets, as well as recycling approximately \$800 million from sale of properties mostly in secondary and tertiary markets to reinvest in Empire related investments in Crombie's major urban development. Our defensive grocery anchored portfolio is positioned well as 75% of minimum rent is generated from grocery and pharmacy anchored properties, 68% of minimum rent comes from essential services, tenants, and only 8% of minimum rent comes from small business. The portfolio we have today is strong, resilient and improves our positioning for future periods of uncertainty, such as what we are experiencing today with COVID-19.

We are happy to say that close to 99% of our properties are open for business, and our October rent collection is 96% with steady improvement from prior months. Our tailored approach to rent relief further strengthened our relationships with tenants. Of our 286-property portfolio, 72 properties representing 286 tenant applications were filed for the CECRA program. Our defensive and internet resilient portfolio continues to have minimal exposure to the numerous declarations of store closures, ACAA applications, and or bankruptcies since the onset of the pandemic.

Avalon mall in St. John's, Newfoundland and Labrador was initially impacted negatively by the pandemic. Since the reopening of the mall in June, when provincial government restrictions were lifted. Performance has improved with 94% of tenants open for business, 75% of rent was collected in October, an increase from the 60% collected in July, and traffic counts are running at or ahead of pre-COVID levels, with sales quickly recovering.

Our office portfolio is primarily located in Halifax, Nova Scotia, with a small portion in Moncton, New Brunswick, both inside the Atlantic bubble. We are very pleased with our 100% rent collection for this segment in the month of October. We've experienced a decline in parking revenue due to COVID-19 restrictions and reduced traffic and approximately 30% of our office population has returned to the office at our Scotia Square complex in Halifax, which compares very favorably to other major urban markets in Canada.

Crombie's occupancy is stable and experienced only a slight decrease in Q3 at 95.3% compared to 95.6% at Q2 due to lease terminations and GLA additions for development spaces,

which are proactively being leased. New leases and expansions year-to-date increased occupancy by 142,000 square feet at an average first year rate of \$17.32 per square foot, while we experienced 174,000 square feet of year-to-date net lease expiries, vacancies, terminations, and space adjustments. We ended the quarter with 105,000 square feet of committed space at an average first year rent of \$23.81 per square foot, which will boost future NOI growth. During the quarter, 172,000 square feet of renewals were completed at a 3.9% increase over expiring rental rate. Year-to-date, our renewal program is on schedule, as we have renewed 558,000 square feet at an increase of 4% over expiring rent. Retail renewals were solid with 400,000 square feet renewed at rental increases of 4.6%.

As we navigate through these uncharted times, our team is dedicated to ensuring our underlying business fundamentals and core portfolio remain resilient and strong. Property development is a strategic priority for Crombie as it improves net asset value, cash flow growth and unit holder value. We are excited to see continuing progress on our active developments and have reached substantial completion of the retail component at Davie Street in Vancouver and Belmont Market in Langford near Victoria, B.C. Prior to the end of 2020, we expect to reach substantial completion on Davie Street residential, our first joint venture and residential development, and Avalon mall phase two. We continue to invest in our remaining three projects with Duke in Montreal and the Voilà par IGA CFC, also in Montreal, and Bronte Village in the GTA, with substantial completion expected for all three in 2021. This is truly a transformational time for Crombie as a material amount of development projects reach completion over the next year.

At Davie Street in Vancouver, the commercial portion, as mentioned, of the development has reached substantial completion as the new Safeway store opened in Q2 with Scotiabank now open and the government liquor store scheduled to open this quarter. Subsequent to the quarter, the final CRU space was leased, bringing the retail portion to 100% occupancy. Pre-leasing is underway on the 330 residential rental units totaling approximately 254,000 square feet in two towers, with initial tenant move in starting next week.

Our 160,000 square foot Belmont Market on Vancouver Island recently reached substantial completion, with the final phase of the development consisting of three small buildings totaling 23,000 square feet, coming online in 2021. Construction commenced on the first of these three buildings during the second quarter and is expected to be complete in Q1 2021. The remaining two buildings are slated to begin construction in 2021 subject to pre-leasing success. Avalon mall is the only regional mall in all of Newfoundland and Labrador, and as the economy continues to stabilize, we are pleased to see signs of its dominant performance re-emerge with increased traffic counts and climbing sales. Newfoundland and Labrador is also in the Atlantic bubble, and thus has had a low number of COVID-19 cases relative to the rest of Canada, and a relatively strong return to normal economic and social conditions.

Construction of our expansion area will be completed in Q4 with the grand reopening scheduled for spring 2021. Numerous tenants are in possession of their space, preparing to open, with some tenants opening prior to Christmas. Leasing activity continues with the total leasable square footage in this redevelopment space being 90% leased. In Montreal at our Le Duke project, the residential structure is complete with interior framing up to the 15th floor

and drywall up to the fifth floor. Le Duke will include a 25-story mixed use tower with 387 residential rental units. On ground level there is a 25,000 square foot IGA grocery store, and 1,000 square feet of additional retail space with 200 underground parking stalls. The project is 89% tendered with the estimated substantial completion in Q3 2021 with initial leasing commencing in Q2 2021.

Crombie remains on track with the Montreal CFC and is expected to be substantially complete with rent commencement in 2021. Foundations, the steel superstructure and the precast building panels are all in place, and interior flooring and mezzanine are underway. Voilà para IGA, Empires online grocery home delivery service to be made available in Quebec and the Ottawa area, is expected to launch in early 2022.

Finally, Bronte village in the GTA is 96% tendered with the structure and precast complete on both buildings. Placing installation is up to level 14 on building A and level nine on building B, with interior finishing work progressing well on the lower residential level. Sobeys grocery stores remained operational throughout the development, but closed on October 21, as it converts to a Farm Boy, the first such Farm Boy conversion in our portfolio. Each project increases our presence in the country's top urban markets, while diversifying and improving our overall portfolio quality and income stream.

As our active developments approach completion, we continue our work to entitle an additional seven projects across Canada. Three of these developments are in Vancouver, three in Halifax, and one in Victoria. We continue to make progress to unlock significant land value

embedded in our major urban market grocery stores and generate opportunities to continue our development program. To date, two projects have zoning approval, two projects that zoning applications submitted, and three projects are in various stages of design and consultation.

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

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Thank you, Glenn, and good day, everyone.

During these challenging times Crombie remains in good financial health with a strong and flexible balance sheet, ample liquidity and an ability to prudently allocate and creatively source capital. We are very pleased with our 95% collection rate in Q3, which improved to 96% in October, a steady improvement from our 90% collection rate in the second quarter. It is no doubt that the pandemic created increased risk, particularly around the collection of tenant receivables. Bad debt expense and rent abatements of approximately \$1.7 million were recorded in the quarter inclusive of amounts relating to the CECRA program.

On a cash basis, same asset NOI decreased by 3.4% compared to the third quarter of 2019. Excluding COVID-19 related adjustments such as bad debt expense, rent abatements, and the decline in parking revenue, Q3 same asset NOI would have increased by 2.2%.

AFFO per unit was \$0.22, decreasing from \$0.24 for the same quarter last year. Our AFFO payout ratio was 99.2% versus the same quarter last year at 92.7%. FFO for the quarter decreased to \$0.27 per unit from \$0.29 cents for Q3 2019 and our FFF payout ratio was at 81.2% versus 77.8% in the same quarter last year. The decline in AFFO and FFO is primarily due to the significant increase in bad debt expense, rent abatement and parking revenue impact as previously noted. Adjusting for the impact of COVID-19 on Crombie's operating performance, AFFO per unit would be \$0.25, and FFO per unit would be \$0.29, on par with Q3 2019.

Additionally, we continue to feel the dilutive effects of approximately \$500 million in property dispositions executed in 2019, with the primary reinvestment of these proceeds to major developments with no initial return until completion of developments this year and in 2021.

G&A as percentage of property revenue for Q3 was 5.4%, or \$5 million, a decrease of \$1 million compared to the same quarter in 2019. The decrease from Q3 2019 is primarily driven by reduced salaries from the organizational realignment completed in Q2 2020, as well as decreased travel and office expenses as a result of COVID-19.

Subsequent to the quarter end, Crombie had successful issuances of two \$150 million unsecured notes. Proceeds were used to partially redeem \$100 million of unsecured notes due June 1, 2021 and the remainder applied against short-term bank debt, leaving our liquidity at approximately \$500 million. The issuance and partial redemption aligned with Crombie's focus on increasing the weighted average term to maturity of its debt with an inaugural 10-year

offering and harvesting interest rate savings for the lowest coupon rate to date on a 7.5-year Crombie bond offering 2.69%.

Crombie remains focused on continuous improvement of the balance sheet while also retaining the flexibility to pursue strategic growth initiatives. Approximately 34 million mortgages will mature in the fourth quarter of 2020 and approximately 80% of 2021 mortgages will mature in December 2021.

Our unencumbered asset pool remained consistent at approximately \$1.5 billion of Crombie's total assets of \$4.8 billion. Our debt to gross book value on a fair value basis was 49.8% at the end of Q3, compared to 49.2% for Q2 2020. We ended the quarter with debt to trailing 12-month EBITDA at 9.34 times, versus 9.12 times at Q2 '20. This increase is primarily impacted by COVID-19 and spending on development with no income until project completion.

Crombie remains committed to its long-term strategy to effectively allocate capital to accelerate NAV and AFFO growth per unit, delivering value while supporting our tenants, employees and communities during these difficult times.

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

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you, Clinton.

In conclusion, our strategy has evolved significantly over the last 10 years, as our relationship with Empire evolves strategically, and we develop large scale urban developments that scale. We're very excited at the prospect of completing over \$600 million of major mixed-use developments in the next year, which we believe will generate approximately \$1 to \$2 of NAV per unit, as well as significant AFFO growth in time. We believe this real estate strategy, when combined with our strong financial condition, our access to capital, and our entrepreneurial talent, will generate solid total unit holder returns for our stakeholders for years to come.

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

Q & A

Operator

Thank you. Ladies and gentlemen, if you do have any questions, please press star, followed by one on your touchtone phone. You will hear a three tone prompt acknowledging your request and should you wish to withdraw your question, simply press star, followed by two. If you're using a speakerphone, we do ask you that you please lift the handset before pressing any key. Please go ahead and press star, one now if you have any questions.

Your first question will be from Pammi Bir at RBC Capital. Please go ahead.

Pammi Bir – Analyst, RBC Capital Markets

Hi, everyone, and good afternoon.

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Good afternoon, Pammi.

Pammi Bir – Analyst, RBC

Hey, Donnie.

Just with respect to Davie Street, can you provide an update on pre-leasing there? What are your thoughts on reaching stabilized levels from an occupancy standpoint, just obviously, with the ongoing pandemic?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

We're actually very pleased with our beginning stages of the lease up. Obviously West Bank has a lot of experience in the Vancouver market and they have what I consider to be their 18 Davie Street, so leasing the property and importantly, this 18 recently leased a property down the street that West Bank owned on their own, did so very successfully. That said, it's early stages at Davie Street and we have expected it will take some time without COVID and with COVID and the current shutdowns that exist in Vancouver, obviously fewer people are out in the markets on a daily basis, but nevertheless, we believe we're progressing well. It's too early to really give you a detailed comment, Pammi. I'd rather report out in February and May as we progress along the track of lease up.

Pammi Bir – Analyst, RBC

Sure, understood. I guess, maybe just looking at it another way then, what were you initially—what was your, I guess, underwriting in terms of the timeline to reach stabilized?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Historically, we would have said it would have been six to 12 months, and importantly, we'll make sure everyone is clear, we're leasing, in our view, at above our pro forma number which we would have set a number of years ago and so we're very comfortable with the pro forma the way it stands, but it typically would take six to 12 months. It may take longer with COVID but at this point we're—again, it's too early to tell.

Pammi Bir — Analyst, RBC

Got it.

Donald Clow — Crombie, REIT, President and Chief Executive Officer

We open our door and our first tenant moves in on Monday is really also important to know.

Pammi Bir — Analyst, RBC

Just maybe switching gears (audio interference)

Donald Clow — Crombie, REIT, President and Chief Executive Officer

I can't hear Pammi? I lost you Pammi.

Operator

Mr. Bir, it looks like your line—I'm sorry, your line—his line disconnected. While we wait for him to reconnect, we will go to the next question, which is from Sam Damiani at TD. Please go ahead.

Sam Damiani – Analyst, TD

Thank you. Good afternoon, everyone.

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Hi, Sam.

Sam Damiani – Analyst, TD

It's great to see the development pipeline progress along the way in recent years. With cost largely intact and that \$1 to \$2 of NAV guidance, 100% intact along the way. Just great to see and well done, everybody.

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Thank you.

Sam Damiani – Analyst, TD

As these projects do reach completion, as you say, a meaningful amount over the next year or so, do you expect to have another one or two meaningful major projects in that active bucket within the next 12 months, and be able to feed that continual staggering of completions in the future years? Which projects might those be?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Sorry, Sam. We have always said, the goal of the Company is to get to consistency at scale in our development program and we continue to work hard on that. Clearly and most importantly is working with Sobeys to unlock these development sites that are really tied up with long term leases on grocery stores that occupy large land parcels in the middle of major cities. It's a unique advantage. Development takes time. We're working on seven developments at this point in time and on the entitlement of those land parcels at this time. Organically, we don't have, I'll call it, an approval of the next one until probably early to mid 2021, and then even with that approval, we really won't be fully committed to it until probably late '21.

We have our spending to complete, as I think we said in our prepared remarks, which is about another \$125 million in 2021. But I don't expect much more in terms of spending next year on development, although in 2022 what we will be hopefully improving will start setting the stage for additional spending in 2022. It is important that we want to preserve our balance sheet and preserve our liquidity during the second wave of COVID. We're cautious when we look at those commitments but at this stage, we don't have any. We are working hard on them, and importantly, we plan to continue to do more. It's just that we don't have any at this time.

In addition to that, I will say that the entitlement process by unlocking the land also creates capital sources. With stock prices trading off the way they have, in addition to offering us opportunities for significant growth, they also offer us opportunities to fund future development. We'll be considering both as we move forward and part of it will be dependent on the nature of each project and in those local micro markets and it will also depend on the

capital market situation and where we are in terms of fund availability. We're being very cautious on all fronts at this point.

Sam Damiani – Analyst, TD

That's great. You've touched on my next question, which is dispositions. We've seen the market open up for shopping center transactions, particularly for the most stable product out there, which Crombie owns. Is there a desire and an expectation of pursuing that avenue to, as you say, keep the liquidity and leverage within your target range in the near term?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Yes, we've got—for grocery anchored strips or grocery stores, there is a big market. As we said, I think on our last call, we've had incoming inquiries about purchasing either hundred percent or partial interest shares in grocery stores or grocery anchored strips of over a billion dollars. Lots of interest. We've chosen not to do that. We don't need the capital. We did a good equity raise in January. We did a good bond offering in October so we're quite comfortable with where we are in terms of liquidity. But I think over time, if the share prices stay in this significant discount to NAV then we will, I'll call it, dabble with some dispositions and to a small amount, but just continuously funding. I don't think we'll do large transactions in the near term because we just don't need the capital and we don't—it's very hard to grow our business by selling assets. We like to continue the growth of Crombie and we're about to start recognizing, don't forget, getting a lot of cash flow coming in from our development. The completions are a big deal over the next 12 months. We're quite enthusiastic about that starting to pay off.

Sam Damiani – Analyst, TD

Absolutely, and that makes sense. One last question, and then I'll turn it back, is just on the new government rent subsidy program, CERS. How do you contrast it or compare it to CECRA? Do you expect it to result in meaningfully higher overall rent collections for the REIT going forward?

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

Sam, that's a great question. It's Glenn. It's early days. The first reading of the legislation's taken place. There's been some information circulated on the bands for support based on how much disaffection businesses have had in terms of lost revenue. We're cautiously optimistic, especially with the potential for a fairly substantial second wave. On the one hand, we've been maybe critical of the delay in getting CERS in place because CECRA did expire at the end of September; here we are six weeks later. But our view is, the program will be quite helpful. It's still unclear whether it might be a bit broader in its application than CECRA was. There may be some tenants that weren't eligible for CECRA that may be eligible for this, and as you know, from a landlord's point of view, that doesn't appear that there's a 25% cost. In fact, there's not a 25% cost to the landlord as there was with CECRA.

All things considered, we're very optimistic for the program, still don't have full visibility into its application. But I think anything that supports tenants through this difficult time can only be good for our ongoing rent collection, which, as we said in our comments, we're quite

satisfied to be at 96% for October, and we believe we're on a steady trajectory. Back to normal, assuming we don't have any major second wave and the CERS program will only help that.

Sam Damiani – Analyst, TD

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

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Thanks, Sam.

Operator

Thank you. We now return to Pammi Bir Please go ahead.

Pammi Bir – Analyst, RBC

Oh, hi. Sorry about that.

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Welcome back.

Pammi Bir – Analyst, RBC

Thank you. I think my phone has been infected.

Just maybe looking at occupancy, it's holding up fairly well, I guess all things considered. But at the other properties in the rest of Canada segment, it did put a bit more than I guess the other markets. Is that really maybe Avalon mall or other areas or maybe just speak to what's driving that?

Clinton Keay – Crombie REIT, Chief Financial Officer and Secretary

Sure. Yes, absolutely, Pammi, it would be Avalon would be impacting that in the rest of Canada's segment. But just to give you a bit of a little extra data, if you look at our occupancy, it slipped by, depending on committed versus economic, 30 to 40 bps, 10 beeps of that which is bringing some additional GLA on actually at Avalon that's currently vacant. That's the development state. We're 90% occupied or 90% leased, I should say, for the expansion wing. We brought on some additional square footage into GLA. That was 10 beeps of impact on vacancy because that's not currently leased. Also, another 10 beeps with one lease that we just executed in New Brunswick for space that went vacant in Q2 and that's 10 beeps, so in Q4 that space will be leased.

We've been very successful and looking at that 30 to 40 bps change in occupancy; 10 beeps is just offensive leasing and we're bullish on getting Avalon leased and that other deal being done. The other data point that I'm pleased about is we've had only 22 leases across our entire portfolio, only 22 leases have been disaffected by CCAA. Of those 22 leases, only four were disclaimed, i.e., only four locations were closed. The other 18 remained. In other words, the tenants obviously with difficulties but wanting to be in our centers. As they come through CCAA, 18 of those 22 will remain. We're quite confident with our occupancy, we're pleased to have 105,000 square feet in the committed category. One of those deals, actually, The Brick, opens next week in St. John's, Newfoundland and Labrador, 46,500 square foot store, first brick store in Newfoundland, really excited about that. Leon's came out with results the other day, fantastic results so that's great. Announced today, actually, in Newfoundland, Five Guys

Burgers, small deal. But Five Guys is coming to Avalon Mall and it's a big buzz over there that that tenancy is coming to Newfoundland and Labrador. Occupancy overall is quite, quite solid.

Pammi Bir – Analyst, RBC

Yes, no, that's great to hear. Thanks for the color, Glenn. Just I guess along the same lines, what you can say with respect to rent for leasing in terms of new space. The renewal spreads seem to be holding in fairly steady. But do you get a sense that tenants, with respect to new space, are looking for maybe some form of larger inducements or any color you can provide there as well?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Sure, we don't have a huge data set to provide because our occupancy is quite strong. But I've got a couple of points. One thing we are seeing, which is interesting, is the tenants that are more aggressive now in growing their business are the strong covenant tenants. The leasing that we're doing, for example, this New Brunswick deal I mentioned that was 10 beeps of our occupancy, the strong investment grade covenant taking the place of a weaker covenant that vacated. On the rental side, I think we're going to be fine. I do think it's a market that might be, generally speaking, a buyer's market or a tenant's market, but in our grocery anchored centers, not the case. I think it's very clear that grocery anchored centers have only emerged as a stronger retail vehicle through the pandemic and the attraction and traffic draw that they provide to the CRU tenants continues to be very positive.

I don't see any risk of rates going anywhere but same or higher. But I think in some places, some markets, there could be more of a tenant's market for getting better rent. But our data points so far are quite encouraging, and as you mentioned, the 4% bump in renewal rates overall is pretty good. In a tough year, I think you would have predicted through the pandemic that renewal rents wouldn't have stayed positive, but they have. On the retail side, they're 4.6; for overall portfolio, they're plus 4.0 year-to-date. We're very satisfied with that.

Pammi Bir – Analyst, RBC

Thanks very much. I will turn it back.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you do have any questions, please press star, followed by one on your touchtone phone.

Your next question will be from Eric Kim at National Bank. Please go ahead.

Eric Kim – Analyst, National Bank

Hi, good afternoon, everybody. I just want to follow up on Pammi's question on the separate project in Vancouver. It's good to hear that it sounds like it's going on track. Looking at the leasing, I see you guys are offering six months of grocery credits which is something new. Could you provide some other about just how that works, and the traction you're seeing with potential tenants and how that's been received?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

It's, again, early days. It's an innovative program that West Bank and obviously Crombie and Sobeys have worked together on. There's clearly a strategic benefit on the leasing of the residential to having a grocery store downstairs, and vice versa, as we've all known for a very long time. This is a small thing, but it's an important thing, hopefully for residential lease up in time, and it's a program that we're having a look at, and we'll see what the outcomes are as to whether it's something that we then unfold into future projects, which almost all of our major mixed-use projects have a grocery store at the ground floor and residential above. Hopefully it works and we have good take up but at this stage, again, it's too early.

Eric Kim – Analyst, National Bank

Okay, no, that makes a lot of sense for future projects. I know this is early given that residents haven't moved in yet, but do you have any insight into how the Safeway anchoring that project has been performing? Is it going well, is Empire happy with that? Do you have any metrics that you could share in terms of performance?

Donald Clow — Crombie, REIT, President and Chief Executive Officer

It's certainly not something we're going to share on a detailed store-by-store basis. They have a very competitive market there. Our understanding, nevertheless, is that it's open strong and open, I'll call it, ahead of pro forma, but it's something that we're—it's, again, early stages. They've only opened a short while ago, but it's so far, so good. It's a great piece of dirt. The grocery store, there for a long time, the store is a prototypical store for that type of market and so obviously it's going to meet the market a lot better than the older store was there for a long

time. We're quite optimistic about it being very successful, and so far Sobeys has indicated they're very pleased with it. That's really all I can tell you. I can't get the data, unfortunately.

Eric Kim – Analyst, National Bank

Yes, I understand. Then just my last question is, have there been any further discussions with Empire in terms of where and when the Western Canada CFC will be started?

Donald Clow – Crombie, REIT, President and Chief Executive Officer

We're in constant discussion. Again, we're working on a three-year plan with Sobeys and Empire to develop over time across the country, and really looking and picking our spots. Importantly, Sobeys and Empire announced Project Horizon a couple of months ago and part of that was the acceleration of their e-commerce home delivery platform, powered by Ocado, Voila by Sobeys and IGA, including two distribution centers in Western Canada, and we're actively working with them and hopeful that we'll be part of one or hopefully both of those DCs or CFCs.

But at this point, we don't have anything to offer the market and we'll certainly let them make announcements in due course on their own timeframe and we're very excited. We continue to work not only on the CFCs, but it's a hub and spoke network importantly, which, as we've said before, includes not only these 300,000 or 400,000 square foot CFCs, which we think there'll be four across the country. There will also be spokes which are 15,000 to 30,000 square foot small distribution centers where they break down the large trucks into cube vans and deliver it to people's homes. As an example, our center in Montreal has the hub and it has

spokes that we're looking at in Ottawa and Quebec City, as an example, which would be indicative of what they will do around Toronto and then around any of the major centers that they choose in Western Canada and we'll participate in those. They can take the form of being a small industrial facility, or they can be a portion of an existing store that's going to be cut down inside, let's say 60,000 square feet reduced by 20,000 per spoke, and then maintaining a 40,000 square foot store, which will be optimized for the market.

All of those types of scenarios, I think, are very exciting for us and allow us to build out that retail related industrial part of our portfolio very well over time.

Eric Kim – Analyst, National Bank

Okay, great. Thanks a lot, I'll turn it back.

Operator

Thank you. Next question will be from Howard Leung at VERITAS. Please go ahead.

Howard Leung – Analyst, VERITAS

Thank you. I want to discuss the bad debt write off this quarter, looks like it's moderated significantly from Q2. I think you only took about a million. Can you say whether most of that or all of that is CECRA? Or is it abatements outside of CECRA? Or is it additional expected credit losses? Because I saw you break that down for the year-to-date. I just want to know for the quarter, if that makes sense.

Clinton Keay – Crombie REIT, Chief Financial Officer and Secretary

Howard. It's Clinton, I think I can give the color. It's primarily CECRA.

Howard Leung – Analyst, VERITAS

Okay, right, because I think CECRA expired within Q3, so you had some. Okay, no, that makes sense. Of the bad debt that you took in Q2 for those negotiated rental payments and expected credit losses, how much of that actually were you able to collect? Or you can reverse it, I guess, but how much were you able to collect from that \$8 million that you took as a write off?

Clinton Keay – Crombie REIT, Chief Financial Officer and Secretary

I think you've got to look at that debt differently, Howard. It's really an estimate at a point in time. Like last year we made our estimate of what we felt was a provision for the allowance for doubtful accounts and we did this everything in order. I don't want to get into the details of that, other than to say we're comfortable with our provision at the end of the quarter.

Howard Leung – Analyst, VERITAS

Okay, no, that's fine. Then just on the 4% renewal, can you maybe give some color about if the renewals—if you notice the stronger renewals, maybe with your larger tenants, or smaller wins or what the all across the board?

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

Howard, it was pretty balanced. We continue to have great balance by geography and by size of renewal. We have a reasonable number of renewals that are flat. We keep anecdotal stats of how many renewals are flat, how many renewals are at a lower rent, and how many renewals are positive, good indication of the general health of the marketplace. While there were a number of renewals that were done at a flat rent, there were other renewals done at 10% lifts or higher. I would say it's a good healthy balance. The beauty of Crombie, of course, is with a long lease term, we don't have a huge amount for each year of renewal risk or renewal turnover. But across the country, I would say it's been a good healthy balance, whether it's a grocery store renewal, or whether it's a CRU or even office. Office has been extraordinary for us. We'll be excited to even improve our occupants in the office side, but we've had a lot of renewals. Our weighted average lease term in our office product right now is probably the longest it's been in a long time and we had really good renewal work there.

As you know, our overall 4.6% for retail, our office renewal rate is slightly lower to average out at 4.0%. But we've done a lot of renewals in the office space which are typically either government deals or private sector deals. We just actually, in the last short while, have done a lease that will improve our occupancy in Halifax by approximately 40,000 square feet early next year. That lease is just being consummated. Both renewals and new leasing activity, very well balanced and we're very satisfied.

Howard Leung – Analyst, VERITAS

Okay, no, that's great. On the topic of renewals and leases, I guess the lease terms or lease terms for more discretionary tenants like the theatres and the gym, based on your disclosures, they look pretty long. Is there not much coming up due for the rest of this year or next year? For those tenants?

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

I don't believe so. In fact, as part of our discussions with some of those specific tenants, some of those four F tenants, particularly fitness and film, part of our discussions had been to get term extensions in certain locations, as part of being a good citizen, a good landlord, to help them through the pandemic. We don't have any specific, significant renewal risk in the coming short term, at least, the next couple of years. But through the process of supporting those specific types of tenants, we have been able to get an extension of our weighted average lease term.

Howard Leung – Analyst, VERITAS

Okay, no, that's great. My last question just is about the credit rating. Obviously, you're very much tied to Empire, but any recent discussions with DBRS and any central movement there?

Clinton Keay – Crombie REIT, Chief Financial Officer and Secretary

It's Clinton, again. We have constant conversations with our rating agencies, and we're very happy with the relationship we have today and just leave it at that.

Howard Leung – Analyst, VERITAS

Okay, sounds good. Thanks, guys, I'll turn it back.

Operator

Thank you. Once again, ladies and gentlemen, if you do have any questions at this time, please press star, followed by one on your touchtone phone. Currently, we have no other questions registered. I would like to turn the call back over to Ms. Martin. Please go ahead.

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

Thank you for your time today, and we look forward to updating you on our progress on our Q4 call in the new year.

Donald Clow — Crombie, REIT, President and Chief Executive Officer

Thanks, everybody.

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

Thank you.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we do ask you to please disconnect your lines. Have a good weekend.

