



Crombie

Final Transcript

Crombie Real Estate Investment Trust

Third Quarter 2021 Earnings Call

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DISCLAIMER

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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 Empire 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 morning, ladies and gentlemen, and welcome to the Crombie REIT Q3 Earnings Conference Call. At this time, all lines are in a listen-only mode. 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 the operator. This call is being recorded on November 10, 2021.

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

Ruth Martin — Director, Investor Relations & 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 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 highlights. 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 & Chief Executive Officer, Crombie REIT

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

Over the last several years, including during the ongoing COVID-19 pandemic, our team has steadfastly executed on our long-term strategy. Our third quarter showcased the result that can be achieved with resolute focus and hard work. Our team remains focused on portfolio quality, delivering strong financial results and improving our financial condition, prioritizing our people and culture, and mitigating risk. We ground our every day work in these long-term strategic objectives, ensuring that we achieve solid results today while never taking our eyes off tomorrow. In a world where businesses report quarterly, it is easy to get excited about short-term results. While we are mindful of examining results through a long-term lens, I'm very pleased with our excellent performance this quarter.

Throughout the pandemic, the value of grocery-anchored real estate has been increasing and gaining further recognition for its stability. This real estate is the backbone of our business. We further optimized and diversified our grocery-anchored portfolio through modernizations and developments, acquisitions of grocery assets, and dispositions of low-growth assets while remaining committed to advancing the quality of our grocery-anchored properties. Our operations and leasing teams are highly skilled and experienced and their hard work drove outstanding fundamentals in AFFO and FFO, lease renewals, new leases, and all-time record occupancy levels this quarter.

Our grocery-anchored portfolio is underpinned by our strategic relationship with Empire. We recognize this as our sustainable competitive advantage and distinct opportunity to drive growth. Aligning our strategy with Empire enables Crombie to expand and diversify our real estate portfolio with solid risk adjusted returns. We are committed to investing \$100 million to \$200 million annually in Empire-related initiatives and another \$150 million to \$250 million annually on our major development projects. The third quarter saw the achievement of major milestones in a couple of these projects. I'm very pleased to share that our first major mixed-use residential project, Zephyr, at Davie Street in Vancouver reached full occupancy this quarter at strong rental rates above our original pro forma. We also reached substantial completion on Le Duke in Montreal. Glenn will go into further detail on this and other development updates shortly.

Achieving optimal portfolio quality requires an ongoing focus on strengthening our financial condition. It is critically important to maintain a strong balance sheet in order to successfully fulfill our strategic objectives. This quarter, our commitment to balance sheet improvement is evidenced by continued improvement in debt to EBITDA and debt to gross fair value metrics, our high levels of liquidity, and our continued access to multiple sources of capital. Clinton will share more specific information on these metrics later, but I wanted to recognize the excellent behind the scenes work of our finance and accounting teams. The work they do makes it possible for a real estate business to thrive.

In fact, it is our people in all areas across the organization who position us to continue the successful execution of our strategy. Our nimble culture has allowed us to adapt quickly and positively to the many changes we have faced over the last two years. Our team has remained productive while demonstrating inspiring resilience and we're very thankful for the work they've done to achieve great results this quarter. I'm even more excited for the work we'll continue to do together in the years ahead.

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 & Chief Operating Officer, Crombie REIT

Thank you, Don, and good day, everyone.

Crombie achieved record economic and committed occupancy in the third quarter at 95.8% and 96.5%, respectively. New leases and expansions increased occupancy by 653,000 feet while we experienced 261,000 square feet year to date of net lease expiries, vacancies, terminations, and space adjustments. The largest contributor to the new leasing activity in the quarter was 77,000 square feet of new leases at our Scotia Square Complex in Halifax, Nova Scotia. These leasing results were driven by the strong fundamentals in our 287-property portfolio, highlighting the resilient and stable nature of our grocery-anchored assets.

At the end of the quarter, 121,000 square feet was committed to new leases at an average first year rate of \$20.70 per square foot, which will boost future NOI growth throughout 2021 and into 2022. VECTOM and Major Markets represent 90,000 square feet of this committed space, including 47,000 square feet at our Scotia Square Complex.

Lease renewal activity continued in the third quarter with 187,000 square feet completed at an increase of 3.7% over expiring rental rates. Driving this growth was 157,000 square feet of renewals at retail plazas, with an increase of 4.1% over expiring rental rates. An increase of 5.7% was achieved for third quarter renewals when comparing expiring rental rates to the average rental rate for the renewal term. Year to date, Crombie demonstrated portfolio stability with approximately 48.5% of renewals occurring in VECTOM and Major Markets. Year-to-date renewal activity consisted of 808,000 square feet

with an increase of 3.2% over expiring rental rates, or growth of 6.4% when comparing the expiring rental rates to the average rental rate for the renewal term.

We have become a significant developer of major mixed-use real estate in the country's top urban markets. These major developments play a key role in our long-term strategy of accelerating NAV and AFFO growth. As Don mentioned, we are thrilled with the lease-up results of our first major mixed-use development, Zephyr, located on Davie Street in the West End of Vancouver. Zephyr reached substantial completion in the first quarter of 2021 and full 100% occupancy in September, a remarkable achievement. We are grateful for the hard work and leasing effort of our joint venture partner, Westbank.

Our second major mixed-use development, Le Duke, located in Montreal, reached substantial completion in the third quarter. Le Duke contains 387 residential rental units and 26,000 square feet of commercial GLA anchored by an IGA grocery store, which opened in August. Residential lease-up is currently underway up to the 12th floor. To date, 28%, or 57 of the 207 available units, have been leased. The remaining floors, or 180 units, are expected to be available for occupancy later this quarter.

Construction continues at our Bronte Village development as we remain on track and on budget with substantial completion expected late in the fourth quarter of this year. Tower A, which represents half of the 480 units available, welcomed its first tenants in the third quarter. Interior finishing of suites continues in Tower B. In addition to the operating Farm Boy and Rexall, ground floor retail leasing negotiations are underway as the two buildings near completion.

In addition to the milestones mentioned previously, our development team continues to work hard to advance projects in our development pipeline. Construction of CFC 3 in Calgary is well underway. This 300,000 square foot customer fulfillment centre will house Empire's Voilà e-commerce home delivery service in Alberta with delivery to customers expected in 2023. We are working through the entitlement

process for our Broadway and Commercial mixed-use development project in Vancouver. Penhorn Lands, located in Halifax, is now classified as a near-term project. We continue to work with our development partner, Clayton Developments, to enable a 26-acre mixed-use development community at this prime location. Brunswick Place, also in the Halifax market, moved from long term to medium-term in Q3, in recognition of the strong market fundamentals in downtown Halifax. Brunswick Place is currently zoned for significant mixed-use and/or residential use. As Le Duke transitions in the pipeline as a result of reaching substantial completion, we added one additional project, Toronto East, a medium-term development, which maintains our total major development pipeline at 30 properties with the potential to unlock significant future value.

And 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 funding approach.

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Thank you, Glenn, and good day, everyone.

On a cash basis, same asset NOI increased by 8.2% for Q3. Primary drivers of this growth quarter-over-quarter are reduced bad debt expense, strong occupancy, and modernization income. Adjusting for what management estimates to be the impact of COVID-19, Q3 same-asset cash NOI increased by 2.0% compared to the same period in 2020. Strong collection rates continue with 99% collected in the third quarter of 2021, and 100% for October.

For the quarter, AFFO per unit was \$0.25 and FFO per unit was \$0.29. AFFO and FFO payout ratios improved to 89.1% and 76.5%, respectively. The increase in AFFO and FFO for the quarter is primarily a result of increased net property income due to income from completed developments and acquisitions,

strong occupancy, modernization income, and reduced bad debt expense. This is offset in part by a loss from equity accounted investments resulting from operating results from residential development projects as they move towards income stabilization and increased finance costs due to the addition of new unsecured debt and lower capitalized interest on developments.

G&A as a percentage of property revenue for the third quarter was 5.6%, or \$5.7 million. G&A excluding the impact of unit-based compensation of \$1.7 million is 4.0% of property revenue.

Crombie remains focused on continuously improving our balance sheet and overall financial condition. We have significantly de-risked our business through extending our weighted average term to maturity and maintaining ample liquidity with \$512 million of liquidity available at the end of Q3. Our unencumbered asset pool remained consistent at approximately \$1.5 billion or 29% of Crombie's total fair value of investment properties of \$5.1 billion. Debt to gross fair value at the end of Q3 was 45.5%, a significant improvement from 49.4% at Q4 2020. The primary drivers of the improvement in our leverage ratio were a material year-to-date increase in fair value of investment properties and joint ventures and significant debt repayments funded by the \$100 million equity issuance earlier in the year. Strong execution of our major development projects contributed to approximately \$140 million of fair value growth. We expect more value creation to be recognized as these projects reach stabilization over the remainder of 2021 and throughout 2022.

We ended the quarter with debt to trailing twelve months adjusted EBITDA at 8.95x. The increase in trailing twelve months EBITDA is driven by reduced bad debt expense and increased income from development activity, acquisitions, and modernizations.

While we are committed to balance sheet improvements, Crombie recognizes the importance of retaining flexibility to pursue strategic growth initiatives. A key component to that flexibility is access to

multiple sources of capital to fund investments in Empire-related initiatives and our development program. Throughout the course of the year, Crombie demonstrated its ability to access these different sources.

Crombie had a successful issuance of \$150 million, 10-year unsecured notes at an interest rate of 3.133% during the quarter. The unsecured notes issuance is aligned with a goal of increasing weighted average term to maturity, harvesting interest rate savings, and repaying indebtedness, as well as funding growth activities.

We have improved and optimized the quality and asset mix of our portfolio by developing and acquiring assets in Canada's top markets as well as recycling assets through traditional and partial dispositions. On October 19th, Crombie announced that we have entered into an agreement to sell a 50% non-managing interest in our Pointe-Claire CFC to Nexus REIT. The total price of the sale is \$98.2 million including the purchaser's assumption of \$61.5 million mortgage related to the property. This transaction allows Crombie to capitalize on the strong demand for industrial assets, while speaking to the quality of our retail-related industrial portfolio and our attractiveness as a partner in completing joint arrangements where Crombie retains both an ownership interest and ongoing property management with Empire.

Continued growth in development activity is important to 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 to Don for a few closing comments.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you, Clinton.

I'll be frank with you - I'm excited about this quarter's results. We are committed to our long-term strategy, and I'm confident our strategy will continue to work in the years ahead. Before the pandemic hit, I believed our team was well-positioned to adapt to conditions that are outside of our control. I now know this to be true. One reason we work to maintain an adaptable and engaged culture is that we know we must remain vigilant about potential risks and opportunities. Our industry today is facing several risks. COVID-19 is still with us, government supports are changing, inflation is evident and supply chain shortages are significant. However, at Crombie, I know we are backed by a strong foundation. We are a long-term company that continues to push our investments in Empire and developments forward. We are laser focused on improving our financial metrics and deleveraging our balance sheet, to position us for the ongoing successful execution of our strategy. Over the last few years, we have embarked on important work around enhancing our organizational culture through a lens of diversity, equity, and inclusion. We know that it is this focus on who we are and how we show up every day that keeps our team engaged and committed to our values. This, in turn, enables us to deliver on our strategy well into the future.

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

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

Your first question comes from Sumayya Syed with CIBC. Please go ahead.

Sumayya Syed — Analyst, CIBC World Markets

Thanks. Just firstly starting with Le Duke, now that's in substantial completion. Can you give us an update on how the development yields on that asset are compared to, say, market cap rates for similar stabilized assets?

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

Hi, Sumayya. It's Glenn. Our yield estimate for Le Duke is in the 5.5% yield on cost range. In terms of market caps today for an asset like that in Montreal, I'd be venturing a guess but it's probably sub-4%, that's in the range I would say, Sumayya. So there's a very nice development pick-up on that project, but it's probably in the range of 3.75% to 4% cap, probably more in the 3.75% range. So certainly Le Duke, when stabilized, will give us a very nice development return.

Sumayya Syed — Analyst, CIBC World Markets

Nice spread there. And I wanted to touch on occupancy by your, I guess, different market types. It looks like Rest of Canada is a little lower than VECTOM and Major Markets. What do you see are the prospects for leasing gains and in that slice of your portfolio?

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

It's a little bit interesting, because Rest of Canada is actually very strong. We have a few properties from the days of Zellers, from the days when Target didn't take Zellers small market properties that have higher vacancy but basically are de minimis to our portfolio, like less than 1%. So there is a bit of sort of latent vacancy there that drives Rest of Canada down a little bit, but I would say our leasing prospects in Atlantic Canada been very strong, and all over the country, Sumayya, been very strong. We've done a lot of deals in the past year with pet, with discount, with QSR restaurants. The leasing environment in our

portfolio has been very strong, as witnessed by a record 96.5% occupancy this quarter. So I would say that there's a little bit of an anomaly that Rest of Canada that looks like it's weaker.

Now we're still picking away and doing great leasing, the team is doing good work in those individual markets, three or four markets where we've got those individual properties, and we're working hard to make those stronger, but our general leasing has been very strong, whether it's Major Market, VECTOM, or Rest of Canada.

Sumayya Syed — Analyst, CIBC World Markets

Okay. And then maybe, Don, if you can give some background to the Pointe-Claire sale, if that's an outcome you had thought about from the start and if we should expect a similar strategy for more down the line industrial developments?

Don Clow — President & Chief Executive Officer, Crombie REIT

Sure, Sumayya. I think we said over the last three, four, five years, as we embarked on this development plan and strategy, that we would sell one of the first whatever three or four or whatever two of the first six, seven, eight just to, number one, prove concept, prove value creation and also, as Clinton's often said, multiple sources of capital. It's a very good source of capital and in this case we're very pleased with our partner. We think they're going to be a very strong partner for us and potential with future deals, hopefully, with strong shareholder backing and strong management. So we're pleased with that. And it's on terms that please both our partner, Empire, and ourselves. So, I think it's something that could happen in the future. Again, we have a predisposition to own long term, but from time to time we will sell the odd development asset. And then, importantly, also that'll include land entitlements, as we've often said, where you have a big land bank that has a lot of excess value that's not recognized under IFRS.

And so from time to time you'll see over the next number of years that we will sell the odd piece of land.

And when you have 30 properties, it's okay to do that and generate some value and some liquidity.

And lastly, importantly, we have to respect our balance sheet throughout good times and bad. Your balance sheet, especially in the crisis like we've seen over the last 20 months, is critically important. It really saves you in a crisis and then it enables you to have a higher paced growth. And not only higher paced, but a consistent pace of growth. And so I think the optionality is there for almost all of our assets, pretty well, you know, grocery-anchored, the residential, the industrial are all highly sought after, the most highly sought after in the country, and at pricing that we think is very good. From time to time we'll take some chips off the table, but in this asset in particular, a very strategic asset for us, for Empire, and we wanted to find a good partner and at a reasonable price and I think we've done that and I think it's a good source of equity capital for us.

Sumayya Syed — Analyst, CIBC World Markets

Yeah, for sure. Great to see the progress there. Thank you. That's all for me. I'll turn it back.

Don Clow — President & Chief Executive Officer, Crombie REIT

Great. Thank you.

Operator

Your next question comes from Mike Markidis with Desjardins. Please go ahead.

Mike Markidis — Analyst, Desjardins Capital Markets

Good afternoon, team Crombie. I may have missed this earlier, and I haven't had a chance to read the MD&A admittedly at this point in great detail, but I think Penhorn Lands you moved into near term. I

was wondering if you could just give us a little bit more colour on that site and then in terms of the mix of how that project will look in terms of single family home sales or if that's even included in that project and potentially long-term income properties for Crombie. Thank you.

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

Sure, Mike. It's Glenn. This is very interesting site. Long ago it was an enclosed mall. It got torn down 10, 20 years ago. We developed on the front portion of the site a grocery-anchored open-air traditional centre that you would see from Crombie that's very successful, a nice Sobeys store. There's 26-acres in the back that is the subject of this development. We're working with a partner, Clayton Developments, a very strong local partner that's been in the HRM market for decades and a very prolific developer, so we're proud to work with them. And we're looking at developing upwards of 900 units on that site. So we're currently working through the municipal approval process with the Halifax municipality, public consultation meetings were just held, and we're working at a good pace to get all the entitlements in place.

The interesting part is what our ultimate outcome might be. We could, for example, just sell off these 900 units. The vast majority will be multi res. There's going to be about less than 100 townhomes, but the rest will be a medium-density multi-residential rental. But there's a possibility that we could, in concert with our partner, also be a developer and buy and hold some of these units. So we've got a lot of optionality on this site. As you know, we've got a lot of great projects in Halifax, but this gives us additional optionality.

So we're optimistic to get our entitlements completed early in 2022 and then we've got servicing to install all the lights and the street infrastructure, water, sewer, et cetera, and then development will be taking place late 2022, probably into 2023 will be the commencement. So we're pleased to move that

a little bit further up the ladder and that project proposes some very interesting long-term hold for us. Or it could be simply selling the lands off to other builders and we'll sort that out as we move through the time.

Mike Markidis — Analyst, Desjardins Capital Markets

Okay. Thanks for that. And then just, so would the mix mostly be rental stock or is it a mix of for sale and rental?

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

That's to be determined. I think our bias is more towards residential rental, but it's possible that there could be some condo on that site. So that is one detail to be finalized. But I think our going in bias would be that it's a very strong residential rental node, great amenities, great transit there, aligned with a strong community, so our hope/expectation is probably more rental, but that hasn't been 100% nailed down.

Mike Markidis — Analyst, Desjardins Capital Markets

Okay. And then presumably, if we just assume that there is a good component of it that would be rental, what would be the desire on that site in particular to perhaps not want to participate and develop and hold versus the other sites that you've been working on?

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

I think it's a matter of value creation and it's a matter of managing risk. We have a number of great projects and Halifax, and Don may want to weigh in on this as well. We like the Penhorn, love the Penhorn development. It will just come down to when it's ready for development, what other projects

are in the queue at that point in time, and the relative value creation opportunity. We have a very strong and deep pipeline, so it's not for shortage of product that will be part of the decision, it'll be more just about getting to our consistency at scale of our development program and, when those lots are ready for development, how that project lines up against other Halifax projects and, for that matter, other projects across the country.

Mike Markidis — Analyst, Desjardins Capital Markets

Okay. I've got it. Thank you very much. I'll turn it back.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thanks, Michael.

Operator

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

Jenny Ma — Analyst, BMO Capital Markets

Hi. Good afternoon.

Don Clow — President & Chief Executive Officer, Crombie REIT

Hi, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

Don, you talked a lot about the multiple sources of capital, particularly through this pandemic. I'm just wondering, from your perspective, given that your cost of equity is as good as it's ever been,

coupled with the disposition opportunities and also land density, how would you rank the preference of using these sources of capital?

Don Clow — President & Chief Executive Officer, Crombie REIT

It's a good question. I'd say we continue to want to have all sources of capital open and each of those, I'll call it markets, if I can call it that, change from time to time. Right now, honestly, they're all wide open for Crombie and all at good pricing. We're very pleased, you know, whatever, unsecured debentures, mortgage markets, partial dispositions, whether it's industrial, apartments, or grocery, you know, CMHC-insured mortgages and/or issuing equity are all great choices and/or multiples and/or spreads today. So we're being very mindful of our balance sheet, our growth rate, and how we fund it will be determined in the future, Jenny.

I think we've always said we'd be a regular issuer of equity. We've had a couple of years over the last 15 that we've taken a year off because of deep discounts to NAV. But I'd say historically we've been regular issuers of equity and we hopefully will continue do that, especially when we've got a nice multiple like this. But these sources and, in this case, sale of an industrial property, was very attractive as well and it opened up channel with a potential new partner that, at some point, we like to do fewer deals with stronger partners and hopefully do multiple deals with one or two partners or a few partners. So, hopefully that works out here. But it just, I think, creates legitimacy for the asset sale of an industrial property that people have been wondering what it's worth. Well, now you know, right, and it's very significant and very powerful potential future source as we look forward, but we don't like selling strategic assets, so we'll mix and match is all I can tell you.

Jenny Ma — Analyst, BMO Capital Markets

Okay. Well, it's a good position to be in. I mean I guess it would be a function to some extent of the volume of capital needs so, to that end, can you remind us what your expected capital spend would be for 2022 and possibly 2023? In addition to that \$100 million to \$200 million that you spend on the store modernizations, but how does the pipeline or the spend look for the next pipeline of major projects?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah and so, I mean our real goal is to have the pipeline of both development and Sobeys mature, I'll call it, if I can. We've shown, I'll call it, increasing maturity over the last five years as we've developed, since Michael joined on in January 2017, we have a great relationship and significantly more productive relationship with Sobeys that not only delivers a lot of potential spending opportunities to help them drive their strategy, including Project Horizon. And then on our development, again, increasing maturity to try and lay a long-term plan that unlocks the land values to drive development. But ultimately, both of those, trying to get the consistency at scale for Crombie. And so for me, the opportunities to spend capital are very significant and very productive, if I can call it that, and accretive.

It's an interesting thing for us. A lot of people have trouble spending money. We have very good strategy that's not complicated, it's focused, but the opportunities are very strong in our view. And so we're still, you know, stay within the ranges we've highlighted, and you mentioned it, \$100 million to \$200 million on Sobeys and \$150 million to \$250 million a year is our plan on development. And the beauty in our development pipeline is, even though we've have, call it, the last of the first six being, being Bronte, hopefully reaching substantial completion in the fourth quarter, there's a lag on when we recognize the value creation, which will continue into 2022. And then we've got one project beyond that that we're actually working, on CFC 3. But we have a number of other projects we're working on and including some that don't fit quite the major development category where there's things like spokes in the hub-and-spoke

network that are \$10 million to \$15 million that also add up and are strategic for Sobeys and strategic for us in that they're in the e-commerce category. And so it's not just the major developments, it's development in general that would add up to that, I think \$150 million to \$250 million range. And so we're really adapting to the needs of Sobeys and also the timelines of development, which, the good news is our development pipeline has two types of profiles really. One is projects that take a long time, three, five years, like we're working at Broadway and Commercial in Vancouver or the projects we've just completed, the major mixed use, but it also has these, call it, shorter timeline projects, 12 months to 18 months to do either a hub or spokes. And that also but, you know, nevertheless still creates significant value and especially on a risk-adjusted basis where you have 100% occupancy guaranteed through the lease.

So for us that mix and match allows us, in my view to drive consistency. It's still a little immature and therefore can have a little bit more volatility than we'd like, but we're working very hard at land entitlement, we're working very hard at getting the big projects and these shorter-term projects to come on in a sequencing that fits that \$150 million to \$250 million spend on an annual basis. And so I don't know if that helps you with some colour, Jenny, but it's a lot more complex than it sounds.

Jenny Ma — Analyst, BMO Capital Markets

Right. So, assuming some of the small projects run at a pretty consistent level, when I just look at the next pipeline, is it fair to say that development spend is likely to be weighted towards 2023 versus 2022 when we look over the next 24 months?

Don Clow — President & Chief Executive Officer, Crombie REIT

No. I'd say, you know, our goal, again, is to hit that \$150 million to \$250 million range and \$100 million to \$200 million on Sobeys, \$150 million to \$250 million on development and \$100 million to \$200

million on Sobeys, and I honestly believe we'll be able to hit that over the next few years, each year. So it's just where it's going to be spent. I believe we have significant projects to do that, it's just, it's hard for you folks to necessarily see it, because it may not only be a mixed-use project. It may be a large mixed-use project. It may also include smaller scale quick hitters that are nevertheless quite value creating. If you spend, whatever, you build a \$10 million industrial facility or you're building three or four of them and they're suddenly worth \$15 million at the end of the day, that's good value creation even though it's much smaller scale. But it fills the pipeline, so to speak, is what I would say to you.

Jenny Ma — Analyst, BMO Capital Markets

Great. Last question for me is your industrial assets, I know it's a small component of the portfolio, but I'm wondering if there's any opportunity to capture upside over the near term. Maybe if you could share what the weighted average lease term would be for those assets and whether not there are any rent steps embedded?

Don Clow — President & Chief Executive Officer, Crombie REIT

Well, they are all similar leases, lease structures, in that when they're signed they're basically, they have a lease step-up after five years of 7.5%, and so that is very consistent. And importantly, they're long-term leases. And as we build them you end up with, I'll call it, a smoothing of, you know, you built some three years ago, you built some two years ago, built some this year, etcetera. Going forward, you end up with a smoothing of the rental growth is what happens.

So, I don't know if that's helpful or quite answered to your question, but...

Jenny Ma — Analyst, BMO Capital Markets

I'm just wondering, just given how quickly industrial rents are growing, whether or not there's any near-term opportunity for Crombie capture some of that?

Don Clow — President & Chief Executive Officer, Crombie REIT

You know what? It's going to be, whatever, a 20-year-type lease and so, for us, it will be 7.5%. We won't end up with the large growth you're seeing some of the industrial REITs until those first certain terms renew and then you might see it, but that's a ways off given how recently we've built our industrial developments, right.

Jenny Ma — Analyst, BMO Capital Markets

Right. Okay, great. Well, that's helpful. Thank you very much.

Don Clow — President & Chief Executive Officer, Crombie REIT

Okay. Very good. Thank you.

Operator

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

Sam Damiani – Analyst, TD Securities

Thanks and good afternoon, everyone. Congrats on a great quarter and nice to see the occupancy up and, yeah, getting through the pandemic hopefully here.

Just when you look at these subsidies turning over, what are you seeing in terms of the impact on the tenants that have been receiving subsidies on rent collections and bad debt expense? What's the evidence that you have so far?

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

It's anecdotal, Sam. We had about 286 tenants on CECRA. You'll recall CECRA was that initial program that the landlord had to participate in. So we assumed that when CERS came along we probably had 286 tenants participating in CERS. But these new programs, the hospitality program that's more for hotels and restaurants, and the hardest hit program, which is for the more the fitness and entertainment area, we expect that more than half of that 286 tenants are not currently on a government program, and that would be some of the fashion, some of the service type tenants. But our view is it has minimal impact on us. Our tenants seem to be getting on fine. Achieving 100% rent collection in October, I think, is proof positive of that. So our guess would be there might be 150 tenants in our roster that are still on some type of program. And it's good that these two last programs are there, because there are certain sectors that are still struggling, but from our portfolio it's very small and we think it's been managed very well.

Sam Damiani – Analyst, TD Securities

That's great. So, not much impact. And then when we look at the fair value that you guys reported this quarter, did you reflect the pricing on the sale of the Pointe-Claire Voilà facility?

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

Not all of it, Sam. The transaction closes in Q4. So there is some fair value reflected in Q3, but not the full fair value impact yet reflected.

Sam Damiani – Analyst, TD Securities

And are you extrapolating from that transaction across the rest of your industrial square footage in the portfolio?

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

I would say we use normal traditional fair value techniques throughout our total portfolio, Sam, of getting regular appraisals to monitor market cap rate. So, no, we wouldn't use a transaction per se to mark to market. We would use our regular process along the way, which—

Don Clow — President & Chief Executive Officer, Crombie REIT

Sam, It's Don. I mean you've seen tremendous cap rate compression, as you've seen with the Artis deal and others, so for me it's happening out there. And the appraisal process, as Glenn mentioned, will pick that up over time for our industrial assets as well.

Sam Damiani – Analyst, TD Securities

And just finally, the hub-and-spoke strategy, how is the strategy with the smaller facilities kind of in the cities, how is that rolling out since you first announced it, I guess, a couple quarters ago?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah, we're very pleased again. Again, it's a product of the strategic intelligence sharing with Sobeys. We're fully, in my mind, embedded with working with the team. Sobeys is led by Mark Holly, a very strong team. And through that process we're aware of—they have artificial intelligence that's determining the optimal locations of those spokes. At the end of the day, these e-commerce home delivery processes have to be profitable, right? And Ocado has proven itself to be profitable. So the locations are critical. And so we're working with them to identify sites. One of the first ones, we actually had a site where we had an empty building and we turned it into spoke, we had others where we'd just gone greenfield, and then we had others where we've had a store that had room to expand that we could turn it into a spoke because it had a lot of parking. So the maturity of it is coming and we believe there's

still ample opportunity, but they're going to take a variety of forms, but all good investments for us and then all, in my mind, state-of-the-art type of uses, which people would be envious of to have that kind of access to those types of uses. So the scale is still to be determined. I think as Sobeys continues to roll out the Sobeys Voilà, I think that, I'm of the view personally that the spokes will continue as they roll out the system and it becomes increasingly profitable, which is going to take a little bit of time, I believe, but it's still getting there and they're working very hard at it. But these are integral parts of that system and we're thrilled to be having the opportunity. It's a great opportunity to spend money and good investment for Crombie and Crombie unitholders.

Sam Damiani – Analyst, TD Securities

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

Don Clow — President & Chief Executive Officer, Crombie REIT

Thanks, Sam.

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

Sam, I misspoke. We did pick up all the full fair value of CFC 2 in the quarter. I had a note to myself, but I'm mistaken on that. So, yes, we did pick up the fair value in Q3.

Sam Damiani – Analyst, TD Securities

Thanks, Glenn.

Operator

Ladies and gentlemen, as a reminder, should you have any questions, please press star one.

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

Tal Woolley – Analyst, National Bank Financial

Hi. Good afternoon.

Don Clow — President & Chief Executive Officer, Crombie REIT

Hi, Tal. How're you doing?

Tal Woolley – Analyst, National Bank Financial

I'm good. The Calgary CFC, so you're under construction right now. Do we have an estimated delivery date and yields and cost budget for that project?

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

I would say the following, Tal. We're expecting to complete our full part of the action by mid next year, end of Q2, and then we turn it over for the heavy duty work that goes inside the building with the automation, et cetera. No particular direction on the yield. We have a formulaic approach in terms of a certain basis point spread over market cap rate which drives those transactions, so that is uniform, very similar to what we've done on the other CFC project with Sobeys. And you may have asked about cost. We're in the range of, obviously, with the last building we built, CFC 2 in Montreal. A lot of synergies, by the way, in terms of the expertise that we've created working with Ocado, working with a lot of the specific experts in this field, so we've been able to leverage that expertise to really work hard to have costs be constrained in a very inflationary environment. As you know, there's a lot of inflation out there, and we've been working well to manage costs despite that inflation and part of that availability to do that it's just the knowledge we had from building CFC 2. And of course we're, for that matter, dealing with supplies

chain issues on key inputs, but despite those pressures we're still optimistic of having substantial completion of our part by the end of Q2 of next year.

Tal Woolley – Analyst, National Bank Financial

You guys had done a great job of disclosing all of this stuff on your first initial tranche of projects. Is there any reason we're holding these numbers back now?

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

No particular reason. We can certainly check and see what's changed. I think we had some advice just to be careful about over disclosing, but I think we try to be transparent in terms of cost and yield ranges. But if there's been some movement away from, call it, better practice, we'll certainly take advice, but there's no particular motivation for us to be other than fully transparent.

Don Clow — President & Chief Executive Officer, Crombie REIT

And so, Glenn, just for clarity, I mean if we're the same range as the last one, whatever, it's \$100 million plus of spend and the yield on cost of somewhere in that 5.5% to, whatever, 5.5% to 6% range, which is, Tal, if that's helpful.

Tal Woolley – Analyst, National Bank Financial

Yeah, that's very helpful. Okay. And then just on the remaining residential projects there too, obviously the world's different from where we were like four, five years ago. Again, you'd similarly been getting like these nice sort of high five yields. Should we be expecting similar yields going forward or possibly something a little bit lower just reflecting the reality of where we are today?

Don Clow — President & Chief Executive Officer, Crombie REIT

I've told people at times, you know, we should be looking at, call it, 5% to 6% yield on cost on a residential. I know competitors are building in the high fours, quite frankly. And so for us, there are cost increases, but to date there's been rental increases that match it. Rental growth that we think over time will be strong. So the cap rates have been, I think, compressing for the most part across the major markets across Canada and the yields, for us, especially given the transition of a Sobeys store to this type of product, have been maintained in that 5.5-ish range. So we're able to still, I think, going forward, maintain a little wider spread than maybe some of our competitors. At least were hopeful.

But we're mindful that inflation is real, supply chain issues are real, labour is major problem, so we're very mindful of that as we forecast and have a lot of contingencies built into our budgets and our yield projections. That's why we give you such a wide range, Tal, is because it's hard to, a friend of mine said it's hard to invest right now. Right? There's a lot of uncertainty out there. And the good news for us is that we plan it out over the long term, do it very systematically, try to drive that consistency we talked about, and fortunately have product where to date we've able to pass cost increases on to the consumer and therefore maintain our yields. But it's looking like it could be more challenging for everybody as we go forward.

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

And, Tal, to the shorter term, if you look at Davie Street, which, as you know, we're celebrating 100% lease up, announcing that today, but on Duke and Bronte, for example, Duke we achieved substantial completion in Q3 despite COVID, on budget, on time essentially, Bronte expecting substantial completion at the end of this calendar year, again on budget, on time. I think with COVID the only remaining question marks of just the lease-up timeframe. We were very pleased with Davie Street, how quickly it leased up, but there are risks, just with return to office, immigration, people returning to urban

cores, et cetera, there are some question marks just about how long the lease-up. We did share the initial lease up on Le Duke, the lower twelve floors, in our reporting today, and we'll be reporting, obviously, on Bronte as it starts to lease up. But for those first three projects we've had no surprises and yields, costs, rents, all at or above where we expected them to be.

Tal Woolley – Analyst, National Bank Financial

And just on the Zephyr site, can you speak at all just about the performance of the commercial underneath? I think this is probably the first Safeway store that's kind of had this dramatic a revamp and I'm curious if the commercial performance is what everyone was hoping for.

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

We certainly can't speak to the Sobeys sales. We understand that the Safeway store is doing very well. But the ground floor space is relatively small. There's a Scotiabank, there's a liquor store, and there's a dental office that's opening any day. So those are very strong covenant tenants that will do very well and provides direct and indirect amenities. Obviously the grocery store is a huge amenity to the building. But the ground floor commercial there is very solid and we're certainly not aware that Safeway is doing anything but good business. And there's been other buildings opening in that marketplace, so we think the Safeway store should bode quite well because it's a beautiful store.

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah, Tal, I was actually in the store a few weeks ago and it's a dynamite store. And talking on the ground with the local manager that they are very, very pleased with their sales, as Glenn said. And it really does nicely fit with the local community, it's very tailored to that community, and so their expectation is only positive, whether it be short, medium, or long term.

Tal Woolley – Analyst, National Bank Financial

And the willingness to continue to sort of work around the Greater Vancouver Area and revamp most of those locations looks probable then?

Don Clow — President & Chief Executive Officer, Crombie REIT

Oh, absolutely. Yeah. When you've got as many sites as we do, I've told the story so many times where you have sites that you bought for \$20 million to \$30 million that are now worth over \$100 million each, you know, unlocking that land is a very significant opportunity for Crombie in value creation, just unlocking the land, let alone building great sites on those projects. And Vancouver is a great market, whether it be rental or condo, as we all know, but extraordinary value, right, in that type of real estate. So for us, continuing down that path, it's our biggest market. We have a very heavy weighting in our development pipeline to Vancouver and we're thrilled with it. Yeah, there's challenges, but, as we saw with Zephyr, our partner Westbank did an outstanding job. When leasing happened, I think it's the fastest leasing project on the west side of Vancouver in its history. And at rates well above our pro forma, let's be honest, in mid to high 4s. So for us, that's outstanding work, great evidence of a great partner who gets the market, and we have more opportunities. They may not quite all be Davies, but there are many others that we think will be. So, yeah, absolutely. Glenn and his team are working, Trevor Lee, his team, our development lead, Senior Vice President, are working very hard to unlock that value and to continuously drive the consistency of investment at scale. So it's a great opportunity. A great opportunity.

Tal Woolley – Analyst, National Bank Financial

I think if you're looking at it from the Empire side, like you've got to be happy with how this initial process has gone, because those stores are not the youngest stores on the face of the planet and that's, you know, they're the number-one player in that market, so I would hope that it would be more to come.

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah, well, I can't speak for Empire, but I mean obviously the proof of the pudding is in the eating. And have spoken with Michael Medline, the CEO of Empire, who did a tour in the last few weeks of a number of stores and was very complementary of both our project at Zephyr and also our new project on Vancouver Island in Langford, the Thrifty store there that we've done. Both of those have been great outcomes. And then he also spoke highly of the new project that in Le Duke in Montreal where he'd recently visited. So, you know, we've been doing good solid work.

One thing about us is that when your partners with a retailer, you understand the retailer, and not every residential developer does. They have columns that don't quite fit the retail grid. In our case, when we're working from the ground up, we're trying to build something that really works well and are more incented to make it better for the retailer. So I think it's a really nice combination and it's a win-win. Because it also, by the way, talking to a number of residential tenants in Vancouver, it was a big part of why they located there, because there's a grocery store there on the ground floor. So I think, all in all, it's pretty complementary.

Tal Woolley – Analyst, National Bank Financial

Okay. That's great. Thanks, gentlemen.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you.

Operator

There are no further questions at this time. Please proceed.

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

Thank you for your time today and we look forward to updating you on our progress on our Q4 call in February. Thank you.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thanks everybody. Bye-bye.

Operator

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