



Crombie

Final Transcript

Crombie Real Estate Investment Trust

Second Quarter 2022 Earnings Call

August 11, 2022

11:30 a.m. E.T.

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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 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 2022 and 2023, 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 quarter ended June 30, 2022 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's Second Quarter 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 August 11, 2022.

I would now like to turn the conference call over to Ms. 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 second quarter conference call and webcast. Thank you for joining us. This call is being recorded in live audio and is available on our website at www.crombie.ca. Slides to accompany today's call are available on the Investors section of our website under Presentations & 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 & 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 MD&A and 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 and Chief Executive Officer, Crombie REIT

Thank you, Ruth, and good day, everyone. Thanks for joining us. I feel tremendous gratitude to be in the position we're in at Crombie. The last two years have been challenging, for everyone, as the strain of the pandemic and a host of other economic, geopolitical, and societal issues have, not surprisingly, had a big impact on Crombie and our stakeholders. We are unsure, globally, of what will happen over the next few years, which further stresses an already-weary society. I'm grateful for the resilience of our portfolio, our strong relationship with our strategic partner, Empire and, most importantly, our team. Both Crombie and Empire are built to withstand economic challenges, and our focus is on creating best-in-class results by executing on our sustainable long-term strategies.

With that in mind, our team has curated a portfolio that is defensive at its core yet poised for growth. We have deleveraged considerably over the past year, and we have maintained very strong fundamentals and operational performance; a feat that is not easy to accomplish in this volatile environment. Our strong balance sheet, ample liquidity, a record unencumbered asset pool and access to multiple sources of capital are the foundation that enable us to survive a crisis well and generate significant value creating opportunities. It is the execution of these world-class, value-creating opportunities that have delivered significant fair value growth for Crombie over the last few years, and we hope will continue to do so in the years to come.

We're proud of our resilient, grocery-anchored industrial and apartment portfolio. These properties are the most desirable types of real estate in the Canadian market today. As part of the curation of our portfolio, we work with Empire to meet evolving consumer trends, and our grocery-anchored properties comprise footprints that resonate well with consumer demands. We've recognized the elegance and strength that comes from owning a defensive portfolio with significant opportunities for

future growth. We've embarked on a successful major development program, maintained a focus on Empire-related development initiatives, and taken advantage of the land value that exists in our locations across Canada.

As we navigate a turbulent economic period, we remain committed to our major development program, which is a large part of our long-term strategy. In the short-term, however, we'll be purposeful in our spending due to elevated risks, and our team will focus their efforts on continuing to advance multiple projects through the entitlement process. Additionally, we're deliberately focusing greater investment on non-major developments in the near term, with retail developments, store conversions, modernizations, land use intensifications, and investment in the Voilà grocery e-commerce hub-and-spoke network. This work isn't as flashy as major developments, but it added approximately 100,000 square feet of GLA year to date and is accretive and important to the future strength of our portfolio.

As a result of turmoil in the markets, Crombie has recognized expansion in our cap rates for certain retail properties, however this has been more than offset by our development completions, strong NOI growth, healthy demand for grocery-anchored assets, and capital recycling, which all helped increase our fair value over the past year. Clinton will provide more details on this shortly.

When considering the long-term, we pay careful attention to the role we play on environmental, social, and governance issues. In the second quarter, we published our annual Sustainability Report, submitted to GRESB, and continued to advance initiatives on environmental stewardship. We are proud of the work we do to enhance the sustainability of our portfolio and our planet. Recently, Avalon Mall achieved BOMA BEST Gold certification for outstanding work on waste, energy, and water reduction. This latest accomplishment was added to an already long list of accolades, including the 2022 BOMA Newfoundland Earth Award and Certificate of Excellence in Retail. These awards highlight the hard work and focus of our operations team that have dedicated themselves to

sustainability. We're also excited about a new rooftop beehive program implemented at Scotia Square in Halifax and Bronte Village in Oakville. These Crombees, as we call them, are doing their part to pollinate urban greenery in these two cities and represent one of the everyday small changes we can implement to make a difference.

With that, I'll turn the call over to Glenn, who'll 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.

Bronte Village, our luxury mixed-use residential development, situated in one of Oakville's most desirable lakefront neighbourhoods, which reached substantial completion last quarter, continues leasing momentum, as 41% or 195 units have been leased as of July 29, 2022, at rents approximately 10% above proforma. Stabilization of NOI is expected to be reached in Q4 2023.

We are pleased with our lease up of Le Duke, located between the Griffintown neighbourhood and the old port in Montreal. Le Duke reached substantial completion in Q3 2021 and continues to demonstrate solid leasing results, with 78%, or 302 units, leased as of July 29th, at rents approximately 5.0% above proforma. Stabilization of NOI is expected in Q2 2023.

Construction continues at our approximately 300,000 square foot Voilà grocery e-commerce customer fulfillment centre in Calgary. The base building work is nearing completion, and full handover to Empire is scheduled for the end of September when Ocado will commence their buildout of the internal grid and robotics.

Development remains a strategic priority for Crombie, as these projects drive NAV and AFFO growth while increasing our presence in the country's top markets. Our team continues to work hard to entitle multiple properties in our development pipeline for their highest and best use. We are also excited

with the development potential we're creating along with partner Clayton Developments at our 26-acre, mixed-use development, Opal Ridge. Opal Ridge is a welcoming, inclusive, and accessible multi-residential community located in Dartmouth, Nova Scotia. The site is on an active transportation network with easy access to a major highway and is neighbouring Crombie's 145,000-square-foot Sobeys-anchored plaza. The entitlement and development agreements for over 900 new residential units were approved this quarter, allowing select land parcels to be sold, with initial closing scheduled for later this year, and third-party developers commencing residential buildings in 2023. We have the option to participate with Clayton in developing certain parcels.

Strong occupancy continues in the second quarter with committed occupancy at 96.3% and economic occupancy at 95.9%. New leases increased occupancy by 256,000 square feet at an average first year rate of \$20.72 per square foot. We experienced 160,000 square feet of net lease expiries, vacancies, terminations, and space adjustments. During the second quarter, four new Dollarama locations opened within our portfolio, making Dollarama our third largest tenant. Additionally, Halifax Regional Municipality, Pet Valu, and TD Bank moved into our top 20 tenants, demonstrating the strength within our portfolio.

At the end of the quarter, 78,000 square feet was committed at an average first year rate of \$23.55 per square foot, which will contribute to future NOI growth. Over 75% of committed space is in VECTOM and Major Markets.

Lease renewal activity during the quarter consisted of 275,000 square feet of renewals at a 6.4% increase over expiring rental rates. Driving this growth was 154,000 square feet of renewals at retail plazas with an increase of 7.6% over expiring rental rates. When comparing expiring rental rates to the average rental rate for the renewal term, Crombie achieved a 7.5% increase during the quarter. Year to date,

approximately 50% of the renewal activity occurred in the VECTOM and Major Markets, at an increase of 5.5% over expiring rates.

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

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thank you, Glenn, and good day, everyone.

On a cash basis, quarterly same-asset NOI increased by 1.9% compared to the same quarter in 2021. Primary drivers of this increase are strong occupancy, partially offset by a decrease in lease termination income, primarily in our office portfolio. Adjusting for the removal of lease termination income in 2021, same-asset NOI increased by 3.0%.

For the quarter, AFFO per unit was \$0.25, increasing from \$0.23 for the same quarter last year, while FFO per unit was \$0.28, increasing from \$0.27 for the same quarter last year. FFO and FFO payout ratios in the quarter were 90.5% and 79.0% respectively. The increase in AFFO and FFO for the quarter was primarily due to lower finance costs from operations, driven by significant deleveraging efforts and a decrease in G&A due to a reduction in Unit-based compensation costs resulting from a decrease in Crombie's unit price from June 30, 2021. AFFO and FFO growth is in part offset by a reduction in lease termination income, dispositions since the second quarter of 2021, and increased losses from joint ventures as they reach stabilization.

G&A as a percentage of property revenue for the second quarter was 4.8%, or \$4.9 million. Excluding the impact of unit-based compensation and a one-time payment in respect of an executive retirement arrangement, G&A was 3.7% of property revenue.

Despite pressure from rising interest rates and increased inflation, Crombie continues to reduce risk and maintain financial strength by improving our balance sheet and overall financial condition to allow for future growth activities. In June, DBRS confirmed our BBB low rating with a stable outlook.

Our unencumbered asset pool increased its fair value from \$1.8 billion at Q4 2021 to a record high \$2.2 billion this quarter. We continued to maintain ample liquidity with \$444 million available at the end of the second quarter. Unencumbered assets as a percentage of unsecured debt are 179%, an increase from 129% at December 31, 2021, providing Crombie with additional financing options and flexibility.

Debt to gross fair value, including Crombie's portion of debt and assets held in equity accounted joint ventures, was 42.6% at the end of Q2, improving from 45.2% at Q4 2021. The primary driver of the improvement in our leverage ratio was the increase in total gross fair value of investment properties of \$306 million in the first half of 2022 from acquisition activity, investment in developments, and the substantial completion of Bronte Village in the first quarter of 2022.

We ended the quarter with debt to trailing-12-month adjusted EBITDA at 8.73 times, down from 8.96 times at December 31, 2021. The improvement was primarily due to lower debt outstanding and higher adjusted EBITDA, driven by increased property revenue, mainly from acquisitions, strong occupancy, and continued lease-up of joint venture residential developments, and lower G&A.

As of June 30, 2022, Crombie had three investment properties, including King George, with executed purchase and sale agreements, which all have been classified as held for sale. We expect to realize net proceeds of approximately \$110 million from these transactions, which will provide funding optionality for value-added initiatives, including Empire-related investments, our development program, and upcoming debt repayments.



Crombie has a robust and well-established process to support our cap rate. We are conservative in our methodology by utilizing a trailing-12-month NOI. Our valuation committee meets regularly, and we receive external appraisals quarterly, as well as external cap rate surveys.

For the second quarter, Crombie had a weighted average cap rate of 5.47%, inclusive of joint ventures. Crombie recognized cap rate expansion, averaging 20 basis points, on 150 retail assets, amounting to a \$30 million reduction in fair value. This was more than offset by the fair value markup on the three investment properties classified as held for sale. Acquisitions, non-major development completions, and major development spending in the quarter also contributed positively to our fair value.

With that, 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. This quarter, we've yet again experienced the strength that comes from carefully curating a resilient, grocery-anchored, industrial, and multi-residential portfolio, an attractive development program, and strong balance sheet, combined with a best-in-class platform. By maintaining a steadfast commitment to our strategy, Crombie is able to withstand uncertainty and volatility, while at the same time driving growth through value creation. While we cannot control the economy, geopolitics, pandemics, interest rates, inflation, and the like, we can control our resolute determination and commitment to do what's right for the long-term value of our business, our unitholders, our tenants, our communities, and our team.

On that note, we'll be saying farewell to our teammate, Glenn Hynes, at the end of October. Glenn, you will be deeply missed, both as a colleague and a mentor, to so many in the Crombie organization, including me. We've certainly come a long way together since our days in high school some 40 years ago. Everyone listening to these calls over the last 12 years have come to rely on your kind and sage responses to their sometimes-hard-hitting questions. And I know they join me in wishing you all the

best in your retirement. Lastly, Glenn, thank you for the impact you've made on Crombie. You played a powerful role in building our strategy, executing the strategy, and simply doing what we said we would do to enrich the long-term performance and sustainability of this organization.

That concludes our prepared remarks. We are 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 touch-tone 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. And if you're using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

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

Mario Saric — Analyst, Scotiabank

Hi. Good afternoon.

Clinton Key — Chief Financial Officer & Secretary, Crombie REIT

Hi, Mario.

Mario Saric — Analyst, Scotiabank

I just wanted to come back to Clinton's comment on the cap rate change, the IFRS cap rate change of 20 basis points on 150 retail assets. Did I hear correctly that, that was essentially offset by the markup on just the three assets held for sale?

Clinton Key — Chief Financial Officer & Secretary, Crombie REIT

Yes.

Mario Saric — Analyst, Scotiabank

The result in the growth quarter over quarter?

Clinton Key — Chief Financial Officer & Secretary, Crombie REIT

Well, it'd be that plus the—we're spending on the fair value side. Yes. So you're right. I would say that's a fair comment, just offset by that. Yeah.

Don Clow — President & Chief Executive Officer, Crombie REIT

For the most part, really, it's a combination. Sorry. It's a combination of those assets held for sale, but also NOI bumps, obviously, in the various other parts of the portfolio.

Mario Saric — Analyst, Scotiabank

Yeah.

Don Clow — President & Chief Executive Officer, Crombie REIT

A lot goes into the fair value of the organization, not just simply a capital change.

Mario Saric — Analyst, Scotiabank

So when we think about the NOI bump this quarter versus last quarter, can you give us a sense of what that looked like on a stabilized basis, the portfolio overall?

Clinton Key — Chief Financial Officer & Secretary, Crombie REIT

I would just say improving overall, Mario, and steady improvement, leave it at that.

Mario Saric — Analyst, Scotiabank

Okay. And then, without providing kind of specific numbers, can you give us a range in terms of the disposition price on those three assets held for sale in relation to IFRS? It seems like it's a sizeable uptick. And what it was about the three assets, in particular, that you were able to realize such a good valuation on them?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah. I mean, they're all at or above IFRS. And then, I mean, obviously, King George is the majority of those assets held for sale. And King George, it's a big asset. It's 5 acres in Surrey, at Main and Main, that community. It's a large project for us, would have been over \$1 billion to develop it, and we're selling it at a sub-2% cap rate.

So for us, it's a terrific source of capital. And we have, I think, signalled to the market in many occasions, many different conversations with investors, that we have 29 development opportunities. From time to time, we may sell one. We're working very hard on our entitled land program. I think we've indicated at times that we have \$500 million to \$1 billion of land value, once it's fully entitled. And this is an example. It's a proof of concept, a great source of capital. And we have plenty of other opportunities, and we have other opportunities to replenish our pipeline. So for us, it was that. And then the other opportunities, I don't really want to get into why. They're just opportunities that come along, and we are—and from time to time, we'll take some chips off the table and, other times, we'll continue to own or we'll develop them. I'll leave it at that, Mario, if I can.

Mario Saric — Analyst, Scotiabank

Okay. And then in terms of the redeployment, Clinton, you mentioned debt repayment, development and then, potentially, some Empire-related investments. How should we think about the breakdown of those three uses of capital?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

I think in the short term, Mario, is mainly towards debt repayment. But then, as we get into the spends for the latter part of this year and next year, that's really where the proceeds will be used for.

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah. Mario, our capital allocation, we've been generally pretty clear with the market that we spent \$100 million to \$200 million on Sobeys, —that's Sobeys initiatives—and \$150 million to \$250 million

a year on development. But I would say, today, given a lot of elevated risk and volatility that we've, call it, moderated to some degree on the development spend a little bit, and it's our ability there to invest in not only major mixed-use projects, but also invest in Sobeys initiatives. We call some of them small-d development, like we've talked about before, the hub-and-spokes and modernizations. We just actually built three plazas, like I commented in the script, that add about 100,000 square feet at very strong yields. So again, the privilege of working with a related retailer in a strategic way gives us the ability to allocate capital. At times, it just is very sensible. But we're still within those broad ranges that we've given you and still expect to be there each and every year going forward. So I hope that's helpful.

Mario Saric — Analyst, Scotiabank

Great. Thank you. And then just maybe my last question. Pertaining to Bronte, the stabilization was pushed out a couple of quarters. I think, Glenn, you mentioned that the achieved rent so far is 10% above proforma. What's driving kind of the two-quarter delay in stabilization?

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

Being a suburban development, it's just going to take time. The two-bedroom—there's a lot of two-bedroom units in the Bronte development. There's a significant market there for people that are downsizing empty nesters. I think there's been a little bit of a slowdown in the real estate market here in GTA. And I think that's a factor that's caused us to see our velocity—it's still on pace. But to be conservative, we think that Q4 2023 is when we'll be stabilized. But we're seeing great sort of economics on this project. As you know, Mario, we're on time, on budget. And the 10% above proforma on rents is certainly holding. And there's just great value for money there, relative to condo and relative to the older stock in the marketplace. So we're still very bullish. That extra 10% will add another \$40 million of NAV on that project. So we're excited about that. And we're very confident that we can keep or even increase

that 10% favourable rental adjustment over proforma as we go forward. But for now, we're really focused on keeping the velocity going and getting it to stabilization.

Don Clow — President & Chief Executive Officer, Crombie REIT

Mario, I think we've been spoiled because, with Davie Street, we leased it up in record time for the west side of Vancouver and Duke, we're leasing it up in it feels like almost record time for that area as well. So Bronte is really—like Glenn said, it's basically on track, and we're pleased with it. The other, I think, important thing to note is our view is that this type of property, and I don't want to call it a suburban market—but this type of property and given the nature of the people who are leasing, we expect they'll be very sticky, if I can call it that. In other words, you shouldn't have as much turnover as you might otherwise in an inner-city-type property. And so we're patient. We're ahead of on some, and this one's on track. So we're still, net-net overall with the first three projects, extremely pleased with the pace.

Mario Saric — Analyst, Scotiabank

Okay. Thanks, guys.

Don Clow — President & Chief Executive Officer, Crombie REIT

Great. Thanks.

Operator

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

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.

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Hi, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

On the \$100 million to \$200 million of Sobeys initiatives that you typically do, I'm just wondering if you could let us know if there's been any noticeable increase in development costs? And remind us that when you negotiate with Sobeys on the rent, that you were able to preserve that 6.0% to 6.5% yield which, presumably, would be able to absorb some cost increases if that is the case?

Don Clow — President & Chief Executive Officer, Crombie REIT

Maybe I'll go just start and turn it over to Glenn. There's no question there is inflation in the market, and it varies by location. We are seeing it ebb and flow, been a lot of ups and downs over the last year-and-a-half, starting to see things come off and some availability of subcontractors that it wasn't there a number of months ago in different markets. So I think, net-net—and certainly, there is inflation. And certainly, it impacts how we proforma developments and even the small-d ones. And so it does impact returns. Generally, the margins have been solid for us, especially with Sobeys and in our LUI. So we have, certainly, some room to move to still achieve our hurdle rate, Jenny. But I'll turn it over to Glenn.

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

Yeah. Jenny, it's a great question. I would say this. If you look at the current data set of development we're doing for Sobeys, we've been very fortunate. CFC3, for example, because we just built CFC2, we were able to pre-order a lot of the inputs well in advance; steel, for example, which not only saved us probably 20%, 25% cost increase avoidance, but also just supply chain issues with steel. So we're on time, on budget, in fact, maybe even under budget on CFC3 in Calgary. And that's obviously a \$100 million-plus project, 300,000 square feet.

Another example is in Grand Prairie, where we completed a retail plaza development. Don spoke of the three plaza developments. But Grand Prairie was a new FreshCo store, plus about 15,000

thousand feet of CRU space. We contemplated waiting there until we had more lease-up on the CRU. We decided to proceed last year. We avoided significant inflation. And we're now leased up on the CRU, actually, at about \$7.00 ahead of proforma.

So we've had some examples of spokes that we completed in Ottawa, Quebec City. Those are smaller capital investments, but we were fortunate there to be able to stay on budget. So as Don mentioned, we've been able to maintain the yields in that 6.0%, 6.5% plus range. And we've been very fortunate at this point with a number of these projects. In fact, there's no project that I can think of that's had any significant cost creep on the Sobeys side, so we're very fortunate. There's some good timing and good luck and good management, I would suggest.

Jenny Ma — Analyst, BMO Capital Markets

So going forward, do you have a good portion of these costs locked up? Or just flexibility in negotiating with Sobeys? I'm just trying to think of, is this going to be a growing pressure point going forward?

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

No. See, the big advantage of the small-d development, if you will, is that the time fuse is so much more efficient than a big mixed-use development. If we're sitting talking to Sobeys about a retail development today, when we're ready to go and we set those costs in place and we established the rents, we are in position to lock it. This is not a three-year, mixed-use development where you're really exposed for that risk of what the future may unfold. So on all these retail developments, including the CFCs and the spokes, the timeline for development is very precise, very efficient. And we're able to set the costs and set the rents that basically mitigates any risk to Crombie of losing that yield that you referenced. So this type of development, as Don mentioned, is super efficient, much quicker from beginning to end, but still with very compelling returns.

Jenny Ma — Analyst, BMO Capital Markets

Great. That's helpful. Wanted to ask about the Series D coming up in November. It's a relatively small piece at \$150 million. But I'm wondering what your thoughts are there, if the unsecured market continues to be unfavourable in terms of rolling that over. And if you might—I guess, you'd possibly use some of the sales proceeds to pay that down and lay down some liquidity. Or would you look to maybe tap your unencumbered asset pool to pay up that series?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

I think the answer is multiple options available to us. Clearly, we're watching the unsecured markets. It has been volatile. We've seen some encouraging signs in the last month in terms of the trends on the all-in yields from unsecured notes. But we're keeping our options open. As you said, we have our unencumbered asset pool has grown. We have multiple options there on a secured front to look at locking in longer duration debt as well. But we're also very fortunate, plenty of liquidity. So, if, in the short term, we think it's the right thing to do, we'll also look at utilizing our unutilized line of credit with the banks to help us make a decision later. So I'd say just very fortunate and be in a great position to have that flexibility.

Jenny Ma — Analyst, BMO Capital Markets

What are some of the indicated all-in costs you're seeing on the unsecured and secured side for, let's say, a five-year piece?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

I don't like to be specific because it is actually completely volatile. I think, at this point, I'd rather leave that open. Honestly, it's something that'll—when we get to it in November, we'll monitor the markets. You get lots of quotes, but they really vary, and I don't want to pin myself to a specific number.

Jenny Ma — Analyst, BMO Capital Markets

What about on the spread side? Like, could you comment on spread?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah. That's what I was going to jump in on—

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Yeah. Okay.

Don Clow — President & Chief Executive Officer, Crombie REIT

—is that the spreads have moved. We've all seen the bond yields go up, with the 10-year bond up over 3.0%, 6.0%, and now back down to 6.0%-ish range.

Jenny Ma — Analyst, BMO Capital Markets

Sure.

Don Clow — President & Chief Executive Officer, Crombie REIT

Spreads have moved, too. Right?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Yeah.

Don Clow — President & Chief Executive Officer, Crombie REIT

Spreads have moved, too. People's risk tolerance changes and so—anyway, we're patient. We have a lot of options. And one thing I will say is that we've always been very conservative in our approach. So we have long term to maturity on our debt ladder, and so we're in a great place. We have a lot of different flexibility in terms of trying to find spots in our debt ladder to keep our risk low, and I think that's paying off now when times are volatile. So we'll see, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

Okay. I'll wait until we get close to that. Congrats, Glenn, on your retirement. I hope you enjoy it. And I'll turn it back.

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

Thanks, Jenny.

Operator

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

Tal Woolley — Analyst, National Bank Financial

Hey. Good afternoon, everyone.

Don Clow — President & Chief Executive Officer, Crombie REIT

Hi, Tal.

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Hi, Tal.

Tal Woolley — Analyst, National Bank Financial

Just wanted to dive into the same property numbers a little bit. In your breakdown in the MD&A, it was just interesting. You were showing like your VECTOM same property performance was roughly flat, whereas your major markets in the rest of Canada were slightly higher. Is that largely a function of the term fee from last year?

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

I'd say it's a combination of things. I think part of the reason why major markets is so strong is that we picked up a lot on parking in Halifax, which helped us in that sort of major market space. Also, probably lease term like there's really no trends that would describe the same-asset NOI dispersion, per se. The biggest sort of thing impacting our numbers here in the short, short term is just how the parking income is coming back. We're still probably a penny a unit below steady state in terms of where parking will be, but we're making really solid progress, as you saw. And we're certainly seeing that in the major market.

But beyond that, Tal, there's no other trends per se in terms of same asset.

Tal Woolley — Analyst, National Bank Financial

Okay. And then, I apologize. I had to jump on late. But with respect to sort of like your—I guess we'll call it, maybe, shifting priorities a little bit in the short run on development. Should we be rethinking the quantum of CapEx and where it's being spent when we're thinking about modelling for the next couple years? And how long do you sort of see this phase here lasting? Is it a year? Is it a couple years? What's your sort of planning that you're doing right now around that?

Don Clow — President & Chief Executive Officer, Crombie REIT

You know, if you had the answer to that question, Tal, you'd be a very, very wealthy person. I mean, who knows how the volatility, and I'll call it elevated risk, last? We're in an unprecedented time with three existential risks at play, being climate, a pandemic, and nuclear kind of all facing the globe, let alone inflation, interest rates, and others that come directly home to roost with real estate.

I did say it earlier, that our spending ranges haven't really changed. We're still \$100 million to \$200 million of Sobeys, and \$150 million to \$250 million on development. But we may end up moderating on the development side just temporarily, and it's moderating to the low end there. But it likely is up to the higher end, more, on Sobeys. And again, it's just because we have ample opportunity to spend money that, on a risk-adjusted basis, is a terrific investment. And in the development, it may be some what we call small-d development. It's not all major mixed-use. We've got one major development in CFC3. But we have a number of others, as we said in our script. We just built some plazas, where we already had Sobeys in hand prior to doing the development so you're starting, effectively, at second base. The spokes, modernizations, conversions, et cetera, are really solid returns on a risk-adjusted basis. So we're very comfortable there. How long it lasts, we don't know. We have a number of projects that are—or one that's ready to go, a major project in Westhill. I won't say we've paused for very long on it, but it's basically

ready to go, and we're looking very hard at it, in a great market in Halifax, but, Broadway and Commercial got delayed not due to our doing. It was really a situation with the city. And so we're actually revisiting the density there to look at potentially increasing it to increase the amount of affordable housing in that project, too.

So development's not an easy game and, especially, the large projects are hard and take a long time to get through the approval process. But we're working, the other thing we're doing in this time is working on accelerating our entitlement projects, where we're entitling land. And you can just see, I think, from the sale of King George, the potential. It's proof of concept on—Glenn and the team have worked very hard on—they're working on 10 projects now, where the value of the land underlying the stores is significant. And King George is multiples of what we would have paid for the project. So it's proof that, that concept's real. So just able to work on a lot of fronts but generally staying within those ranges and just being a little more cautious, temporarily, and I won't give you a timeline. I'd say we're monitoring the situations, and I think everybody's anxious to grow. And that's really the key, I think, in our business, is growing our cash flow. But it's also important to preserve your balance sheet and be responsible with it. So we're doing both at the same time, just like we've always done.

Tal Woolley — Analyst, National Bank Financial

Okay. And then, just on the new developments at Bronte, Le Duke, and Davie, looking at the commercial pieces of those redevelopments, specifically, the Farm Boy, the IGA, the Safeway. What's sort of the sense that you're getting from Empire about the performance of those stores now that they're starting to ramp up? Are they seeing the kind of productivity improvement and things like that, that they would want to see? Because, obviously, like redeveloping these properties aren't just a benefit to you, but they're also a benefit to them, as the stores draw more traffic afterwards. Are they—and is it your sense that that's what they're seeing?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah. I can't give you detailed, call it, increase in performance, but I would say they're very pleased. Western Canada, I mean, all of their conversions, they do a lot of homework. Their data analytics is really strong in analyzing the micro markets. And so the conversions are done with a lot of thought and effort by their real estate team and ours. But the proof of the pudding's in the eating, and the sales performance is certainly better, much better as a whole. I mean, I can't get into specific sites and that type of thing. But our conversations with them is that they're very pleased, so. And the program is continuing through project horizon. That was one of the major parts of that plan, was to improve their store network and, importantly utilizing Crombie's balance sheet and our team and our real estate development expertise to make it happen. And so we're pleased to be part of it, and it's a key part of going forward.

Tal Woolley — Analyst, National Bank Financial

Okay.

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

Just a quick one, Tal. I think you're point is correct. I think there's mutual alignment. You think of Davie Street in Vancouver, they had a very tired non-prototypical store, and they replaced it with a 40,000-square-foot, brand-new store. So I think that was just very symbiotic for both parties.

Bronte, prior to the development, they had an older Sobeys store there that was in a tougher state of condition. With the rejuvenation, through the 480 units we built there, they converted to a Farm Boy, a beautiful store, extremely beneficial for us in our leasing efforts at Bronte, and Farm Boy's been a successful banner for them.

And in Montreal, the IGA, it's a brand-new store for them in the ground floor of our building, 387 neighbours above. So I think the story line is slightly different for each, but it's clearly, as you point

out, a very symbiotic relationship that's, so far, working great for, I think, both entities. But we're obviously not here to speak for them.

Tal Woolley — Analyst, National Bank Financial

Okay. And then my last question just on the development side. We've seen, as more of the retail REITs have gotten into mixed-use development and have gained some experience and had some successes delivering properties. They're looking, maybe, to keep more of the ownership economics for themselves. And then some of them are also even, maybe, broadening the investor base and looking to do stuff more on a kind of GP/LP kind of structure, where they have less capital invested in a project, and are more interested in collecting fees and retaining a piece of the equity.

You guys have been going very market to market with local partners. Is there going to be an evolution, you think, in your partnership strategy over time?

Don Clow — President & Chief Executive Officer, Crombie REIT

It's something you actually have to do, Tal. In my mind is, the REIT structure's not built perfectly for doing development. So all of us have to be careful in terms of how we allocate capital, and how we structure our balance sheet. And then, importantly, I think we've become real, real estate teams over the last decade. I know when REITs were first started, they were basically triple-net-type vehicles. And Crombie prides itself today in being a triple-net REIT plus growth, right, and the growth is driven from this type of activity. And so for us, we'll be doing, I think I've said for years that our plan would be to do one out of three, or one out of four on our own. And then when we do that, importantly, some of them, we'll just do on our own, use our own balance sheet. But in addition, we are working hard, like many of our peers, in terms of alternate structures is what we call them. And that's having capital partners where we can do a development, charge fees, et cetera. And we've got a lengthy list of people that have inquired,

and we're working hard with number of them to see whether we can put a deal together we like, where we lead the development process and ultimately operate them.

So it's a combination. There's no developer in Canada that does it in every market. No REIT is in every market and doing development. It's a very local game. So I think you have to have a combination where you feel comfortable doing it yourself, together with, obviously, like we've done, partnering with great developers like Westbank or Prince Developments, who know the markets, know the local politicians, et cetera, and can do things we can't. So it'll continue to be a combination of all of the above.

Tal Woolley — Analyst, National Bank Financial

And sorry, just one last one. You have focused very much on these initial stages with purpose-built rental. Given the shifting in the markets, do you think there's maybe some thought to doing condos, too, as well?

Don Clow — President & Chief Executive Officer, Crombie REIT

You know we've said it for years, is that it's a micro market decision. Crombie, we have a very strong predisposition to purpose-built rental. It's a family-owned business. Crombie and the predecessors—our predecessor's been around for 65, 70 years. And as a family-owned business, families are interested in long-term cash flow growth. And a condo development, generally, is a one-time, nice profit, generally, but it's not our primary interest.

But in some areas, as an example, Broadway and Commercial, we're doing three towers. One of them is condominium, and two are purpose-built rental. And part of the rationale is you just don't want to have too many units on the market at any one time, plus there's a good market for the condos. And it can possibly act as a way to self-fund the project. So it's a nice combination, been done by developers for decades is do multiple buildings with one or two as condos and one or two as purpose-built rental. It's not really ideal for REITs to do condos, quite frankly. But if a market is strong for condos, we will look at it

and consider it and, in some cases, do it. But our predisposition is to stay with the purpose-built rental for the long-term cash flow growth.

Tal Woolley — Analyst, National Bank Financial

All right. That's it for me. Congratulations, Glenn. Best of luck.

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

Thank you, Tal.

Operator

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

Sam, you might have us on mute.

Sam Damiani — Analyst, TD Securities

Good morning, everyone. And, Glenn, congrats again on your pending retirement, or whatever you choose to do to have some fun for the next few years.

So just wanted to maybe get back into the residential mixed-use projects and the outlook there. Don, you had mentioned the Broadway and Commercial. So that's still very much a focus project for the REIT, it appears. But there is going to be a little bit of downtime between completions, with the ones just completed and when the next one is. Is there like a lesser sort of appetite for the complexity and long duration nature of projects like this going forward?

Don Clow — President & Chief Executive Officer, Crombie REIT

I'd say no. I mean, right now, obviously, with external factors being at an extreme level in terms of volatility and risk, I think everybody, many of our peers just put pens down or pushed pause. There's no question that's happened in our industry. For companies like Crombie and many of our peers, we have programs that are ongoing and in multi-years. So for us, we're continuing to work hard on, and like I said earlier, on entitlements. We're continuing to get projects ready to go. We have Westhill ready to go now.

And we just want to just have a little more visibility into a number of factors, and then we're hopeful that we'll get the go-ahead from our board and proceed.

But it's clearly an appetite to build that, I call it complementary cash flow. Residential, right now, there's a shortage of housing in Canada. It's a big deal. In my mind, the golden goose is population growth and undersupply. And so you see people able to raise rents in the residential business, and people generally can build developments even with inflation factors. In certain markets, they're able to build them profitably and establish that cash flow for higher cash flow growth. Right? We've seen higher cash flow growth in residential for some time, and I expect that'll continue, given the market supply and demand.

So I think we're very enthusiastic about it. And there's maybe a short pause, but it's not a long pause, Sam. And it's a great part of our business, especially where it's strategic, right? I think the most strategic thing you can do for a multi-residential building is put a grocery store at the base. And the most strategic thing you can do for a grocery store is put 1,000 people above it, right, so they want to shop there every day and buy high-margin prepared foods, et cetera.

So it's a great program. I think it's an elegant strategy for Crombie and Sobeys and Empire. So it's no question, we're fine and we'll keep going. It's just there's a lot of risk right now, and so I don't think it's unfair for people to be thinking pause. But for us, again, it's still within the ranges we've always articulated. That's the key message, and that's our plan and our target.

Sam Damiani — Analyst, TD Securities

That's a great answer. And just on Broadway and Commercial, how should we think about the city's deferral of the entitlement process there in terms of the, I guess, expectation and, I guess, timeline and ultimately getting that across the finish line?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah. It's always complicated when you're dealing with municipalities, and Vancouver's no exception—great city, amazing city, I mean, arguably the best market in Canada, if not North America. So we're quite enthusiastic about Broadway and Commercial. We have a great partner, I think, and we have a great vision for that property. It's the number one transit node in western Canada. It's, I think, in the top five in Canada. So honestly, in my view, it should have significant density on the site. That is a very green use of the land. And so what we're doing there, I think, is a very sustainable approach to housing, much-needed housing, and including a significant chunk that's affordable housing. The process, it's complicated. It's difficult. I won't get into why it was deferred, but we do have a little bit of time. And as part of what I said, I think, publicly at the time was that we'll take the time, have a look. We may be able to add a number of floors of density. We've seen the Broadway plan approved nearby with towers with significantly more density or height than what we have on this site, even though it's got that superior transit location. So we're going to explore that and explore it with the city as our partner and looking at—and our partner Westbank, importantly, and their team has a great relationship with the city to see whether it makes sense. Right? If we can add more density and a good chunk of that being affordable, we'd be pleased to do it and, I think, in a city that really needs housing.

But I can't tell you timelines. That's the other thing. Right? It's a process. The city is in control of that. We're hopeful it'll be obviously, the election is in October, so we're hopeful it'll be probably January, into the winter. But we don't think it's a long-term delay. It's more of a short-term delay, I believe, and hopefully, that'll come to bear.

Sam Damiani — Analyst, TD Securities

Excellent. And just finally, I apologize, I got on the call a little late, so if you've addressed this already. But just curious if you're able to share the rationale for monetizing the King George site?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah, I did say it earlier. I mean it's—we have a lot of sites. We've told, I think, people over the years that we will sell one from time to time, one of our development sites. We realize it's precious land, but that it's hard to come by, but we do have opportunities through working with Sobeys to replenish our pipeline, so we're selling one of 29. It was a large project. It would've been over a billion dollars for us to develop, and we're selling it at a sub-2.0% cap rate. So it's a great source of capital, especially where we're trading at such a big discount to NAV, currently.

So I think it proves concept, Sam. I think it's good to show the market that what we're saying, where we have \$500 million to \$1 billion worth of land, once it was fully entitled, that it's real. I believe in that number, those numbers, and this is just one component of that. So we're going to, from time to time, keep doing it. But it's not the majority. Obviously, we're going to develop the majority, so. Yeah.

Sam Damiani — Analyst, TD Securities

Excellent. Thank you and I'll turn it back.

Don Clow — President & Chief Executive Officer, Crombie REIT

Okay. Thanks.

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 third quarter call in November.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you, everybody.

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

Thanks, everybody.



Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Thank you.

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.