Crombie

Final Transcript

Crombie Real Estate Investment Trust

Fourth Quarter 2021 Earnings Call

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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 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 year ended December 31, 2021 and those discussed under "risk factors" in Crombie's most recent annual information form (available at www.sedar.com) could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully, and a reader should not place undue reliance on the forward-looking statements.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Crombie REIT Q4 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 February 24, 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 fourth 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 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 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 & Chief Executive Officer, Crombie REIT

Thank you, Ruth, and good day, everyone. Thanks for joining us.

I'm incredibly proud of Crombie's results in both Q4 and fiscal 2021. Our team remained steadfastly committed to our strategy while successfully navigating through the waves of the COVID-19 pandemic. Results of this commitment are evident in the growth of our same-asset cash NOI, FFO, and AFFO, and in the fair value created through our investment in Empire-related initiatives, our development activities, and owning grocery-anchored properties that have grown even more precious in value over time. We reached many milestones in 2021, including the completion of two major mixed-use developments, Zephyr, in Vancouver with our partner Westbank and Le Duke, in Montreal with our partner Prince Developments. When I think back five years as we embarked on our development growth strategy, I am thrilled to be able to say we did what we said we would do. The market recently is recognizing that commitment to creating value, strategic growth, and strong fundamentals, and our unit price performance has demonstrated investors' confidence in us as good stewards of their capital. Thank you.

We continued to improve our portfolio in 2021. Grocery-anchored retail is the foundation of our business and is one of the most desirable and valuable asset types in Canada. In addition, residential and industrial properties are gaining space in our asset mix, and represent an area of significant growth opportunity in the future. The deliberate improvement of our portfolio over the last 10 years has increased the quality and growth of our cash flow.

Our development and construction teams oversaw several successful projects across Canada in 2021, from major developments, land use intensification, and investments in Empire-related initiatives. There remains plenty of development opportunity for Crombie and Glenn will speak to the specifics shortly, but I want to commend the team on the incredible success with these projects over the last few years, especially during the pandemic. I also want to thank our joint venture partners, Westbank and Prince Developments, for outstanding results working together. Our development pipeline presents significant value creation opportunities that to date have met or exceeded our expectations.

Our relationship with Empire remains Crombie's sustainable competitive advantage. Working closely with this outstanding retailer creates unique opportunities and we continue to align strategies and share intelligence to create value for both of us. This alignment allows us to make strategic and accretive investments in the modernization, acquisition, expansion, and conversion of grocery stores, accelerate Empire's build-out of its e-commerce hub-and-spoke network, and unlock major development opportunities.

We know that a strong financial condition enables future growth. We achieved increases in liquidity and improvement in our cost of capital and an increase in unencumbered assets to $1.8 billion during 2021. Significant deleveraging took place throughout the year, with a substantial reduction in Debt to Gross Fair Value and Debt to EBITDA, which Clinton will speak to shortly. It is worth remarking though that, despite this deleveraging, which is dilutive to earnings, we still achieved strong results, a feat that is not easy to accomplish.

None of this success would be possible without our team and their dedication to Crombie. These past two years have been challenging for so many. In our new hybrid working arrangement we remained productive, close, connected, and engaged, while also juggling provincial lockdowns, restrictions, homeschooling, and more. We are well-positioned with our team as we look ahead with optimism at the continued execution of our strategy, of which our team is a fundamental and critical pillar. We work hard to ensure that Crombie is an equitable, gratifying, and innovative workplace. A continued focus on learning and development, employee-defined guiding values, and ongoing opportunities for growth are critical components of our employment value proposition. We've helped our people leaders work with their teams to build a model that fits for all and we're very pleased with the results.

Before I hand the call over to Glenn, I wanted to comment on sustainability, which includes ESG. 2021 was a big year for Crombie in formalizing our sustainability journey. We achieved many firsts, including our inaugural sustainability report and first GRESB submission. We're very proud of the work we've done to focus on Environmental, Social, and Governance priorities, and are now pleased to focus on measuring, reporting, and improving on that work. With that in mind, in January we created a new leadership position to oversee this important work. Our newly-appointed Vice President of Sustainability is Dan Bourque, who most recently served as Crombie's Director of Operations for Atlantic Canada and has been a leader on our team for over 18 years. Dan has been instrumental in many of our environmental initiatives at Scotia Square and Avalon Mall, is President of BOMA Nova Scotia, and sits on the board of BOMA Canada. We are excited to continue on this sustainability journey with such solid leadership. Good luck to Dan.

And with that, I will now turn the call over to Glenn, who will provide an update on our development activity and operational highlights.

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

Thank you, Don, and good day, everyone.

Crombie continues to demonstrate our ability to deliver major developments on time and on budget with strong consistency. These major developments play a key role in our long-term strategy of accelerating fair value and AFFO growth. Crombie achieved substantial completion of our first two mixed-use residential developments in 2021. Zephyr, located on Davie Street in the west end of Vancouver, reached full occupancy in the fall, and remains at that level with rents materially above proforma. Leasing momentum continues at Le Duke in Montreal with 37%, or 144 of the 387 available units leased as of February 15th of this year, at rents at or above proforma.

Our third mixed-use residential development, Bronte Village, in Oakville, contains 481 units, and Tower A welcomed its first tenants in the third quarter. The occupancy permit for Tower B was just received and substantial completion was reached in January; slightly behind the targeted Q4 2021 substantial completion date that we previously shared. To date, 92 units or 38% of Building A has been leased.

Our 100% leased Montreal Voilà par IGA Customer Fulfilment Centre, in Pointe-Claire, took economic occupancy and began paying rent in the first quarter of 2021. In December 2021, we sold a 50% non-managing interest in this CFC to Nexus REIT for $98.2 million. This transaction allowed Crombie to achieve deleveraging objectives and capitalize on strong demand for industrial assets, while highlighting 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.

Crombie continues to capitalize on opportunities within the Voilà hub-and-spoke network. Construction of CFC3 in Calgary is well underway to meet Empire's opening date objectives. The first spoke location in our portfolio opened in the first quarter of 2021, in Toronto. At this location, we repurposed vacant retail space to create additional value. We have other spokes under construction with Empire possession and rent commencement occurring imminently. Hub-and-spoke locations are augmenting our growing base of retail-related industrial assets and further diversifying our income stream.

During the fourth quarter, one additional property was added to our major development pipeline, bringing the total to 31 properties with the potential to unlock significant future value. Broadview is a jointly owned, transit oriented, medium-term development sitting, on 1.43 acres in Toronto.

We are committed to unlocking significant land value embedded in our development pipeline as we continue our work to entitle projects across Canada for their highest and best use as major development projects. Currently, Crombie has six projects that are fully entitled, two other near-term projects where zoning applications have been submitted, and a number of additional medium to long-term projects where entitlement work is actively underway. We are upping our game to accelerate our entitlement activities as the value created from these efforts is significant.

There are three distinct opportunities where value recognition can be realized on development assets. Firstly, as just noted, when final entitlement of development lands is achieved; secondly, when substantial completion of a development project occurs; and lastly, throughout the lease-up and stabilization process as NOI and value is fully optimized. Throughout 2021, and now in 2022, as additional land entitlements are finalized, substantial construction completions achieved, and the lease-up and stabilization processes continuing, Crombie has and will continue to recognize additional fair value. In summary, we have a significant opportunity to supplement the value creation from completed developments alongside material value creation throughout the entitlement process, a very complementary two prong approach.

Crombie's year-end occupancy remains strong, with economic occupancy at 95.6% and committed occupancy at 96.2%. New leases and expansions increased occupancy by 710,000 square feet, at a weighted average first year rate of $20.92 per square foot, while we experienced 339,000 square feet of net lease expiries, vacancies, terminations, and space adjustments. Approximately 71% of new leases, equivalent to 503,000 square feet, were completed in VECTOM and Major Markets.

At the end of 2021, 114,000 square feet was committed to leases at an average first year rate of $18.76 per square foot, which will boost NOI growth throughout 2022. VECTOM and Major Markets represent 90,000 square feet of this committed space, including 42,000 square feet at our Scotia Square complex in Halifax, Nova Scotia.

During the fourth quarter, 97,000 square feet of renewals were completed at an increase of 5.0% over expiring rental rates. Driving this growth was 58,000 square feet of renewals at retail plazas, with an increase of 6.1% over expiring rental rates. An increase of 6.8% was achieved for fourth quarter renewals when comparing the expiring rental rates to the average rental rate for the renewal term.

For the full year, Crombie demonstrated portfolio stability with approximately 47.2% of renewals occurring in VECTOM and Major Markets. Renewal activity consisted of 905,000 square feet with an increase of 3.4% over expiring rental rates, or growth of 6.5% when comparing the expiring rental rates to the average rental rate for the renewal term.

Subsequent to the quarter, Crombie acquired 100% interest in eight retail properties, seven from Empire, totalling approximately 290,000 square feet with a purchase price of $42 million, excluding closing and transaction cost. One property was acquired in Major Markets, with the remaining seven properties in Rest of Canada markets. Additionally, Crombie acquired the remaining 50% interest in a retail-related industrial property, in Montreal from Empire for $38 million, further expanding our retail-related industrial portfolio.

And with that, I will now turn the call over to Clinton, who will highlight our fourth 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, quarterly same asset NOI increased by 2.4% and 5.0% for the full year. Adjusting for what management estimates to be the impact of COVID-19, same asset cash NOI increased by 1.2% for the fourth quarter and 1.4% for the full year.

For the quarter, AFFO per unit was $0.25, increasing from $0.23 for the same quarter last year. FFO per unit was $0.29, increasing from $0.27 for the same quarter last year. AFFO and FFO payout ratios in the quarter improved to 90.5% and 78.0%, 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, strong occupancy, lease termination income, and lower finance costs from operations, primarily due to the early partial redemption of Series B senior unsecured notes in 2020. This is offset in part by increased general and administrative expenses, primarily as a result of an increase in salaries and benefits and unit-based compensation resulting from an increase in our unit price.

G&A as a percentage of property revenue for the fourth quarter was 7.1%, or $7.4 million. Excluding the impact of unit-based compensation of $2.6 million, G&A was 4.6% of property revenue.

2021 was a solid year for Crombie as our team remained focused on the continuous improvement of our balance sheet and overall financial condition. Crombie accessed multiple sources of capital to reduce our debt levels in 2021, enabling continued funding of our development pipeline and Empire-related initiatives. Our debt to gross fair value at the end of Q4 2021 was 42.9%, a noteworthy improvement from 49.4% at Q4 2020. The primary drivers of the improvement in our leverage ratio were an increase in fair value from our investment properties and net assets held in joint ventures of $290 million, a $100 million equity issuance, and debt repayment throughout 2021. Crombie ended the year with ample liquidity of over $500 million, and our unencumbered asset pool grew from $1.4 billion to a record high $1.8 billion as a result of mortgages maturing in the quarter.

We ended the quarter with debt to trailing twelve-month adjusted EBITDA at 8.25 times. The improvement was primarily due to decreased outstanding debt, and higher adjusted EBITDA driven by reduced bad debt expense and increased income from development activity, acquisitions, and modernizations.

Having a strong balance sheet with significant liquidity is critical to ensure we retain the flexibility to handle the next crisis or pursue strategic growth initiatives. Access to multiple sources of capital to fund investments in Empire-related initiatives and our development program is an important component to that flexibility.

Subsequent to the fourth quarter, on January 31, 2022, Crombie demonstrated this flexibility, with a successful $200 million equity financing with net proceeds used to repay outstanding indebtedness and fund value-add capital programs.

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.

Despite a world full of uncertainty, including the risks and challenges of COVID-19, we remain positive. That is why I am very grateful for a Crombie team and a culture that allows us to be prepared for any kind of crisis. We continued to execute our long-term strategy in 2021 and are very proud of the results we achieved. Our recent equity issuance enabled us to pre-fund growth opportunities like developments and investments in Empire-related initiatives, and our improved balance sheet and ample liquidity provides us the necessary defensive strength that allows us to focus on long-term, sustainable growth. We are confident in Crombie's future, and our engaged, highly-skilled and highly-performing team will continue to deliver.

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 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 the handset before pressing any keys. One moment for your first question.

Your first question comes from Mark Rothschild with Canaccord. Please go ahead.

Mark Rothschild — Analyst, Canaccord Genuity

Thanks and good afternoon, guys.

Don Clow — President & Chief Executive Officer, Crombie REIT

Hi, Mark.

Mark Rothschild — Analyst, Canaccord Genuity

In regard to the leasing spreads, when I look at where the rates are on leases in the market and what's expiring this year, should we assume that there's potential for that number to rise in 2022 as compared to what we saw last year?

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

Hello, Mark, it's Glenn. I would say we started in 2021 to disclose both the spread on the leases that occurs at the time of the rollover, which has been consistently in that sort of 3.5% to 5.5% range for the year. So Q4, our leasing spreads were 5.5%, but for the full year we were about 3.5%. But when you looked at the spreads, the average lease rate through the term, we were 6.5% for the year and about 6.8% in the quarter. We think that is certainly sustainable. We always thought high single digits was the range the last couple years, and I think there are no surprising reasons with tenants struggling, COVID, et cetera. We did see some reduction down to that 3.0%, 4.0%, 5.0% range, but we're feeling pretty good. But our issue still, though, is sample size. Like in 2021, we had 900,000 feet renew, 350,000 of that was Sobeys leases. So some of those are 1.5% a year rollovers, and some of them rolling over at a 10% lift, say, every five years. So, depending on the mix that's in our rollovers, that percentage can move around. But I would say with confidence that what we achieved in 2021, the 6.5% to 6.8% spread range, that certainly looks comfortable going forward.

Mark Rothschild — Analyst, Canaccord Genuity

So, from your comments I can assume that the mix for this year is relatively comparable to 2021?

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

Yes.

Mark Rothschild — Analyst, Canaccord Genuity

Okay. And then maybe just one more. Don, you spoke about selling interest in properties and obviously the property that you sold a partial interest to Nexus, can you maybe just expand on the types of assets you're looking to maybe in the future, sell partial interests? And does it depend on the asset class at all, whether it's industrial or residential or retail?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yes. So I mean, our disposition program overall, we've done a lot of work in terms of just selling non-core assets over the last, really it's about four years. And then when we get into what I call core, which are the partial interest dispositions that we've done, to be honest, we look at it partially as funding and partially as, call it, portfolio management. And the funding part we're at, I'll call it lower cap rate assets with, call it, relatively low growth, even if they are very stable, high-quality cash flow. And it's really about torquing our AFFO growth up and taking advantage of low, what I perceive to be reasonable cap rates in certain asset classes. So, yes, it's a balance of issues, Mark, I'd say, that we consider. And some of them, I'll call it opportunistic.

And in the case of Nexus, they were perceived by us to be a good partner and potential depending on what we have coming up in the future, potential good partners, and it was at a reasonable price, and we were pleased with the crystallizing of our NAV creation. In that case, we also wanted to show the world that we can crystallize the NAV creation that's been achieved, which I think from time to time is healthy.

So, maybe a rambling answer but, as you can see, it's multifaceted, and we'll take them opportunistically probably as we come or as they come. It will be, again, as Clinton said in his remarks, multiple sources of capital, which includes non-core dispositions, partial interest dispositions, equity, a variety of things to continue to fund the business and allow or enable our growth strategically.

Mark Rothschild — Analyst, Canaccord Genuity

Okay, great. That's helpful. Thanks so much.

Don Clow — President & Chief Executive Officer, Crombie REIT

Okay. 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. Congratulations on a good quarter and year as well. Maybe just to start off on the long-term development pipeline the costing was updated. You added another million square feet with the Broadview location in Toronto, but if I just look at sort of the midpoint of the cost increase it looks like around 18%. And if you adjust for the 10% increase to the GLA, is that basically an 8.0% same asset sort of cost increase? Is that the inflation that you're seeing? Is that the right interpretation? And I guess, when was the last time these numbers were scrubbed?

Don Clow — President & Chief Executive Officer, Crombie REIT

Sam, it's Don. Glenn wants to comment on inflation and I will say that it's certainly, to some degree, that. What I wanted to say was just that there's value increase in the land, that is not insignificant and it's continuous, right? And so the value of our sites in Vancouver, as an example, but also in other major urban centres, is continuing to elevate and the value, therefore, is continuing to go up. But also, in addition, we're, call it, through our relationship with Sobeys, uncovering, I'll call it, additional density. And the urban markets are also requiring or looking for additional density, right? Greening the local communities by becoming denser, so taking advantage of transit, et cetera. So that's just the comment I wanted to make. Glenn, over to you.

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

Yes, I would just add, Sam, that the estimates that we put in the MD&A are ranges, as you know. And we scrubbed them a little bit this quarter to add Broadview, yes. The other thing that we're doing is, as we continue to refine the way we look at our development pipeline, for example, we look at those 31 properties through potentially the number of phases over time they could deliver. And it just allows us to be a bit more accurate and a bit more granular. So I think in the math as well, you'll see that we went from about 12,000 units last quarter to closer to 13,000 units. We added one million square feet on the residential. So I think there might be some latent inflation in there, but there's no specific inflationary add of any big number, but it is reflecting of where our current cost is. But I just want to remark that those numbers we put in each quarter are best efforts of putting in a good solid range. And the update this quarter was to reflect Broadview, as you noted, but also just a little bit better granularity as we look at how these projects may play out over the next 15 or so years.

Sam Damiani – Analyst, TD Securities

And I guess just when you look at, you've got some operating properties, one stabilized, others in lease-up. I mean is your sense that the rent growth is keeping up with cost inflation on the development side to keep the yields largely intact? What's your updated view there?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yes. I would say that as a whole, rents continue to go up. There's a shortage of housing, national immigration is high, and in the urban markets is where the national immigration tends to focus. And so I'd say that for now, Sam, I mean that's always the thing. We've all seen our way through a number of cycles in development, and it's when supply exceeds demand that you can have, you know, call it continued cost increases and some relaxation of rental growth, where you can't pass that cost on to the consumer. We're not there yet in our judgement, in the markets that we're dealing in. In particular, Vancouver rents are nicely up. Montreal rents are nicely up, not quite as much in Toronto. But in general, again, there's still not enough housing for people and continued population growth. So we're quite, I think, over the medium and long term, there is no issue with continuing to build great housing and especially in sites like we own, which has a grocery store, near transit nodes, et cetera, some of the most highly desirable sites in the country.

Sam Damiani – Analyst, TD Securities

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

Don Clow — President & Chief Executive Officer, Crombie REIT

Okay. Thank you.

Operator

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

Mario Saric – Analyst, Scotiabank

Thank you and good afternoon. Don, in the past you've talked about $1 to $2 per unit of fair value creation from the near-term development completions. As these projects kind of go, as they go through these three kind of milestones that Glenn highlighted, namely zoning, substantial completion, and successful leasing. And if you take into consideration the recent equity raise, increasing the number of units and then perhaps the higher than expected yields at Zephyr, can you highlight your comfort level in terms of being at the upper end of that range versus lower end of the range today, how that's changed? And then perhaps how much of that $1 to $2 has already been reflected in your fair values?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yes. We're still in the range, Mario. And I'd say still in the middle to upper. I mean, the equity raise does affect it to some degree for sure. My count was on what we had when I said it the first time, which I think was probably 2019. But nevertheless, it's still extraordinary value creation. And I think the math at the time was $150 million to $300 million of value creation, and we're in the upper end of that range. And then in terms of what's recognized, obviously, with Bronte, because we didn't get the occupancy permit, it hasn't been recognized in terms of the bump in fair value in Q4. So there's still, obviously, some to go.

And on some of our other projects, there's still some to go still based on stabilization of income. So we still have a ways to go. I can't give you the specific numbers. We're talking fair value. I think at the time I was talking NAV. So I'd say we're still very confident and comfortable with the numbers I quoted a few years ago, which I'm pretty pleased that I can predict that reasonably well. And importantly, again, on time, on budget, some of those projects we really, I think, dealt with any of the cost increases from inflation very well and still have contingencies left to deal with anything else that comes our way, and they're pretty well done. So I think we're in good shape and very pleased and looking forward to more.

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Don, I think maybe I'll just add, again, in terms of recognition, just a reminder, we have different stages of recognition. So, while we have substantial completion in Davie Street and Le Duke, we still haven't reached stabilization for purposes of more fair value creation. So there are phases, as Don has pointed out, and with respect to Bronte, because we haven't reached substantial completion, that will be a 2022 event for that recognition. But again, we do it in phases. It's not like when we reach substantial completion and all of the fair value has been recognized. We do wait until we get to a stabilized point for that to happen.

Don Clow — President & Chief Executive Officer, Crombie REIT

And Mario, I would say that we tend to err on the side of being conservative, which hopefully speaks well of the company, but it's not as aggressive as others, but it's the way we do it. We stick to a good process on valuation, and I think it works.

Mario Saric – Analyst, Scotiabank

For sure. We're accustomed to seeing development yields go up in disclosure as opposed to down in the space, so congratulations on that. Maybe a related question for Clinton that perhaps there isn't an answer for on the call, but I'll try it anyways. Kind of similar question, but from an FFO perspective, given capitalized interest and so on and so forth, presumably it was a contribution from Zephyr in Q4 from an FFO standpoint, probably not very much from Le Duke or Bronte. How should we think about the FFO

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contribution from those three in aggregate, let's say, in Q4 relative to what a stabilized quarterly FFO contribution can be? Like where are we in that spectrum today?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

I think we're at the initial stages. It really ties into the lease-up that drives that. And so, while we have Davie Street fully leased up, we still have room to go with Le Duke and Bronte just starting. So my view is you're in the early stages.

Don Clow — President & Chief Executive Officer, Crombie REIT

I would just add, Mario, that we probably have, obviously, a drag from Le Duke in our FFO at the moment, given that it's still early days in the leasing and once you've hit substantial completion you're starting to expense the interest. So it's the nature of the game in development. You have projects in various stages. And until you hit a breakeven point they're not really sort of; they're not breakeven. So we have to, as I said in my remarks, we're pleased with the net growth of our cash flow for this stage of the development cycle for our projects, which includes, again, some drag from development at this stage.

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

And Mario, I would just add that, for 2022, for the aggregate of the three JVs—Davie, Duke, and Bronte—there will be a positive FFO contribution. It's modest, but we have growth projected in 2022 despite the fact that there's modest contribution and we'll certainly start to see a ramp up in our FFO/AFFO from those projects in aggregate in 2023.

Mario Saric – Analyst, Scotiabank

Okay. Maybe on the operational side, can you provide a bit more colour on the $900,000 lease termination fee this quarter and whether that was a driver at all of the modest kind of 20 to 30 basis points quarter-over-quarter decline in occupancy in Q4?

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

No, actually not. It was an isolated event. The decline in occupancy was one single tenant, so we're pleased. It was a 37,000 square foot vacancy in Newfoundland, very low rent space. It will be a space that we can repurpose, re-rent and that moved our occupancy by about the 20 basis points that was detected. But the lease termination income was an isolated event in the quarter, unrelated to that property and that tenant.

Mario Saric – Analyst, Scotiabank

Got it. Okay. My last question just on the parking side, I may have missed it, but where would the Q4 parking NOI have come in relative to Q4 2019 levels, i.e. pre-pandemic?

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

I think we're still running at that significant below. I'm trying to think of where we, I'd say it's where we were in Q4 of 2020, Mario, so probably still down 50%, 60%, 70%, Don, that's an estimate. But our office, we're fortunate in Scotia Square. Prior to Omicron we were getting up to 25%, 30% office population returns. We were seeing a bit of upward trend, but then late in the calendar year with Omicron we're back to lower levels. So that's still a drag. That's our only COVID drag, I would say, that exists today with our strong rent collections at 99% for Q4 and virtually no bad debt expense in the quarter, but parking still a drag. That should be a pick up here in 2022. Nova Scotia just announced on March 21st restrictions are being removed. So that should be a positive catalyst for people getting back into the complex and seeing our parking revenue heading in the right direction.

Don Clow — President & Chief Executive Officer, Crombie REIT

And where the parking complex is adjacent to the events facility with hockey, et cetera, basketball, a variety of concerts, et cetera. So that's totally been nullified through COVID. So, again, I think it is, after March 21st when restrictions come off, we'll start to see people have their confidence to get out and start doing things like they did previous to COVID.

Mario Saric – Analyst, Scotiabank

Okay, great. I've got a couple more but I'll turn back into the queue and then I'll come back if needed. Thank you.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thanks, Mario.

Operator

Your next question comes from Howard Leung with Veritas. Please go ahead.

Howard Leung – Analyst, Veritas Investment Research

Thank you. I just wanted to turn to the Toronto major developments. So, now that the Bronte one looks like it's about to be finished, what are your thoughts with some of the other Toronto developments that are in the pipeline? Looking at them, and you also added Broadview recently, but they're in the pre-planning phase. So are you getting more comfort around developing in the Toronto CMA? And are you thinking of advancing those zoning applications more, or are you a little more cautious? You said earlier, Toronto rents haven't moved as much and there is cost inflation. So how do you balance the two, and what's your thoughts on that?

Don Clow — President & Chief Executive Officer, Crombie REIT

Our thought is that we are bullish on the major urban markets in Canada, and I'd say Toronto and Vancouver lead the way. We also have great properties in Halifax, which has had extraordinary market dynamics over the last five years in terms of population growth and rental growth. And so it's a great market, even though it's a Major Market, not part of the VECTOM group. And in Toronto, specifically, we're working very hard. We've got a number of sites. They're all, I guess, seeing that dynamic of municipalities wanting to increase density and trying to figure out these nodes and major transit sites and moving, unfortunately, a little slower than we'd like, but nevertheless, we're very focused on it. We've got a number of sites now in Toronto and we'll keep it going. But developments are a long game, right? And especially working with municipalities, we've seen delays in a number of cases, and that's just the way development works.

We've all been around the game a long time. But Toronto we'll keep pushing. It's a great market. I think it's one of the truly, call it, top-ten markets in the world, not necessarily just on population, but I think because of the political stability and the safety and ability to invest capital. I think Toronto is really a world-class market that you're seeing large pension funds globally wanting to be there. So for us to invest there in housing where there's a housing shortage on a transit node with grocery, it's an excellent formula that I think is one of the best investments you can make in the country. So we're enthusiastic, yes.

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

Howard, I would just add to that that Toronto is also a market where there are opportunities in addition to residential mixed-use development. We've developed spokes for the Sobeys Voilà program, still more work in progress there for us, and also there's retail development potential in GTA. So we've got a good, multifaceted approach for development in GTA.

Howard Leung – Analyst, Veritas Investment Research

Right. So I guess if you could move faster, you would, but the zoning, kind of touched on that, that's one of the potential barriers.

Don Clow — President & Chief Executive Officer, Crombie REIT

Yes, but it's a barrier for everybody. So it's part of the difficulty of doing it, but it's a moat to some degree.

Howard Leung – Analyst, Veritas Investment Research

For sure. I mean the housing supply is exacerbated. I just want to turn to the question about spokes and noted that you have a few that are under construction and should be completed in 2022, Ottawa, Quebec. And can you just remind us of the economics of those spokes and how they might be similar or different from a typical grocery store and maybe what the impact may be to 2023 NOI or FFO could be?

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

Sure. Well, they're not as large, Howard, as major development investments. They vary in size. They can be in the $10 million-plus range and they vary. We build those to a spread over a market cap rate, so from a return point of view they give us a nice positive return to contribute to FFO and AFFO and of course the very strong covenant tenant in Sobeys. So it's very low risk, important development in that retail-related industrial class, which has grown more precious. And we've seen nice cap rate compression as evidenced by the very successful transaction on CFC2. As Don said, it just demonstrated how that NAV creation was monetized and a positive event. But not much more to add. It's not as large a part of the development program, but it's a very nice contributor. And we can do as many as those as we can do, we're happy to develop them.

Howard Leung – Analyst, Veritas Investment Research

So I guess, going forward, you know, it's probably nothing official yet, but we can expect maybe a few of these every year or something like that as the hub-and-spoke network continues to be built out.

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

That's more of a question for Sobeys in terms of how many there will be, but I would assume there'll be a certain finite number over time. For example, we're finishing, and we haven't spoke about it today, but CFC3, which is the hub in Calgary which we are building. We're well under construction there. There's potential for spokes in Western Canada on that basis. But I don't want to speak for Sobeys, but we're just delighted with the opportunity that we've had to be a participant in the Voilà program. It's been great for Crombie.

Howard Leung – Analyst, Veritas Investment Research

Fair enough. Thanks for the responses. I'll turn it back.

Operator

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

Jenny Ma — Analyst, BMO Capital Markets

Thanks. Good afternoon.

Don Clow — President & Chief Executive Officer, Crombie REIT

Good afternoon, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

In past years, you talked about your acquisition opportunities being in the $100 million range from Empire and $100 million from third parties. Now I know the last couple years, the environment has been different, but even before then you were tracking a little bit lower. So I was hoping you'd give us an update on your thoughts about that $100 million piece, particularly from Empire. Is that something you still stand by? Or has it evolved and been supplanted by the $100 million to $200 million of modernization projects that you do for Empire?

Don Clow — President & Chief Executive Officer, Crombie REIT

Jenny, I'd say our capital allocation, we've been trying to be clear on it. It's hard, but we gave a wide range. $100 million to $200 million spending on Sobeys, which is a combination of the acquisitions and the modernizations and expansions, conversions, and in some cases it's, and I think the spokes and hubs are generally in our development spend, from time to time it falls under the Sobeys spend. But it's generally in that range and we've been consistent, I think, for the last few years, in that range. And then on the development side, as you know, we are targeting spending of $150 million to $250 million a year.

And importantly, the last couple years we've probably been at the upper end of that range, this year we'll be certainly in that range but maybe a little closer to the lower end of the range. But again, it's trying to drive consistency at scale for a growing company. And the spending, I think, is a very balanced type of spend and balanced approach to investment in that with Sobeys you get the secure tenant and you start on second base. You own the site, you already have the tenant, so then it's really just can you build it reasonably well. And then the yields are good, right? They're 6.0% to 7.0%. And then in the development, they're 5.5% to 6.0%, but they're a little higher risk and they take longer, they take two, three years.

But the returns in terms of the spreads to acquisition cap rates are in that 200 to 250 basis point spread, whereas in the other they are probably 100 to 150 basis point spread. So for us, there's balance of risk return, and the return is both AFFO growth and NAV growth. And I'll also say in the Sobeys and some of the smaller spending on development, they only take, in some cases, six months, right, or 12, where the development takes 24 to 36 months. So just by balancing that investment, I think we get a very strong profile of growth on both AFFO and NAV and then also balancing, importantly, our balance sheet metrics so that we're, you know, we want to obviously stay investment grade, but I think more importantly, move to BBB mid over time. And again, this capital allocation plan, as we've communicated and delivered on now over the last three, four years, and we expect to deliver again in 2022 and through 2023 and 2024, I think it just delivers that solid, predictable growth and in a reasonably conservative or prudent manner is what our hope is.

Jenny Ma — Analyst, BMO Capital Markets

Okay. So I guess when we go into that acquisition piece then, if I'm interpreting your comments correctly, it seems like there's a better opportunity. And of course, there's going to be a mix from Empire, but a better opportunity coming from some of the intensification and spoke-related work as opposed to straight acquisition. Is that fair to say?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yes, I'd say better. They're all good, because what we're doing is working with Sobeys to say what's most important to them. And if we buy a store, it's a great store. We looked at that as a win, even if we're paying, call it, close to market, the modernizations and some of the investments in conversions, they're at a better spread. They would be, like I said, 6.0% to 7.0% yield on cost, where the average cap rate might be 5.0%-5.5%. So you end up with a slightly wider spread and you get a renewal of the lease out to 20 years again. So, for us, it's a balance of those two, but we'll always do what's best for ourselves and for Sobeys. So acquiring a store that's a great store, we will do that, as you've seen us do over the last two years. So I'd say it's a balance, Jenny. I hate to be a little bit vague.

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

Jenny, just to add to Don's comments. So, in the subsequent event note, the acquisitions that occurred early in 2022, because they're fresh in mind. Those were stellar Sobeys stores with fresh 15 or 20-year terms with economic arrangements that give us nice growth for AFFO. So, it's a very accretive help to our earnings, and they're very strong stores in the markets that they're in. So we're pleased to allocate some of our capital to that in addition to all the other areas that Don said that can be maybe even more accretive than that.

Jenny Ma — Analyst, BMO Capital Markets

Okay. Great. That's helpful colour. Thank you. I wanted to turn back briefly to the parking revenues. It sounds like there's a big component of it that is event driven. Could you give us a breakdown of what would be the driver of the parking revenue recovery? Is it largely that? How much of it is office related, therefore return to office? And how much of it would be retail traffic related?

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

I'd probably have to get back to you with exact specifics, Jenny, but I would say the event part is significant. We've actually had, as well as we've had 100% rent collection from our office tenants, to the extent that we've had parking leasing going attached to that office, that has been revenue and paid, but we may have had a number of office tenants that would have given up parking during the COVID period. So I would say I'd have to check the details, but the event portion virtually evaporated during COVID, so that would be by far the largest recovery piece. But I would be happy to get back to you with details after the call.

Jenny Ma — Analyst, BMO Capital Markets

Sure. And then my last question is related to the residential lease-up, and I know we've had a small sample size with a couple of buildings that are still in active lease-up. But just given the strength in the rental market and considering the cost of home ownership, it looks like it's a pretty good set up for 2022. As you or your partners are leasing up these assets, how are you approaching it? If someone is willing to pay your asking rent, are you leasing as much as you can? Or is there any holdback of units in anticipation of a firmer spring and summer season? What's the cadence of lease-up we should expect?

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

It's a great question. I think it varies by market, varies by property. Davie Street was just a smashing success. It leased up very quickly at rents materially above pro forma, so that one's an anomalous situation that we're very proud of and we're continuing to be, plus or minus, 100% occupied.

I think with Duke and Bronte, and luckily at Duke and Bronte we're off to a good start. We are nicely above pro forma on Bronte and above pro forma also at Duke. So, early days, achieving the rents in our pro forma is not going to be this issue. I think there could be though a trade-off between rental rate and leasing velocity. And it will be very iterative. We have a big project in Oakville, 481 units.

Our game plan will be to stabilize that asset, Jenny, as fast as we can. So I don't think, strategically, we would hold back units for a better leasing opportunity. I think it's important to get the sense of community built in the property, so get it fully occupied as quickly as possible. I think as we gain momentum in leasing up Building A and Building B, by the way, will come to market in March. Our game plan will be to lease those at appropriate rents and to get to stabilization as quickly as possible. We're targeting Bronte, because it's 481 units, will take into 2023 to get fully stabilized, whereas Duke, more likely than not, will be fully stabilized in 2022. So it's iterative as we go along. But at this point we're confident, because rental rate does not appear to be an issue in either of the properties, and maybe that speaks to our conservatism in our pro formas. We are very happy with the rental rates and we think we can move leasing velocity along nicely at both projects as well.

Jenny Ma — Analyst, BMO Capital Markets

Okay, great. Thank you very much.

Operator

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

Sumayya Syed — Analyst, CIBC World Markets

Thanks. Hi, everybody. Just wanted to start off with the transaction market, and I'm hoping you can share what you're seeing in terms of deals that have happened recently and, with cap rates having come down 20, 30 basis points over the last year, if you think downward pressure still exists there?

Don Clow — President & Chief Executive Officer, Crombie REIT

It's Don, Sumayya. Where we play are the three best markets in the country in my mind, being grocery-anchored retail, industrial, and apartments. And I think the order on those has shifted over the last 12 months. I've seen grocery ahead and industrial ahead and apartment ahead from time to time. But we're pleased with what we're doing. The focus of our capital allocation is in those three areas. And everybody knows about industrial and apartments and what's happening there, but they don't always realize that retail is bifurcated and that grocery-anchored retail is in a class, in my mind, of its own.

We have seen cap rates, over the last 12 months to 24 months, we've seen some deals where cap rates have compressed actually over 100 basis points in grocery. And that's including secondary and tertiary market grocery. So people looking for long-term covenant, long-term leases with covenant tenants. And so our fair value and cap rate compression was positive in 2021. It certainly wasn't anywhere near 100 basis points. It was a very small fraction of that, but I think just in general there is strong interest in those types of properties and so the markets are wide open to transact and lots of great players looking for those types of assets if you wanted. So I'll call it a very buoyant factor for our company. And I will say, to our management team's credit, is that we've curated the portfolio, right? When we looked at our portfolio back in 2007, 2008, 2009, I recall, it's a long time ago, but there were a lot of different types of centres, enclosed centres, power centres, a variety of types, and today we just, you know, we're really down basically to three. And we do have one, call it, small portion, 3.0% or 4.0% of our portfolio is office and 3.0% or 4.0% is one enclosed centre, but both of those are powerful, strong assets in their markets.

But the rest of what we own are those three categories, which I think have been curated and evolved over time in a very positive way for us. And will continue to do so. The interest is strong.

Sumayya Syed — Analyst, CIBC World Markets

Okay, thank you. And then I wanted to touch on Avalon Mall coming up to stabilization. Obviously not been many buyers of malls until some recent new entrants. Just wondering what are your updated thoughts, if any, on the mall's place in the portfolio going forward?

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

We're extremely proud of Avalon Mall, Sumayya. The redevelopment area is about 94% occupied. So it was 201,000 feet. We've leased 188,000, so we just have 13,000 feet left to lease in the redeveloped area, call it the old Sears area. The mall overall, it's about 560,000 feet, we're 96% leased. So we're really proud. It had a very strong performance during COVID. Newfoundland and Labrador was generally very fortunate during COVID. Omicron was probably the only phase of COVID that actually affected Newfoundland more materially. But we've had a strong Christmas, we've had very strong performance, the leasing team has done a great job. We've got tenants at Avalon Mall that have had the strongest same store sales in the world of their brand on particular weeks out of Avalon Mall. So that says something for the buoyancy there. So we're proud of the mall and are going to continue to operate it to the best of our ability with a fantastic team on the ground in Newfoundland and Labrador and led also by our leasing team that supports the folks on the island.

Sumayya Syed — Analyst, CIBC World Markets

Okay, great. That's all for me. I'll turn it back. Thank you.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you.

Operator

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

Tal Woolley – Analyst, National Bank Financial

Hi there. Most of my questions have been answered. I guess my last one would just be when you're looking at -- you've got a fairly large-scale development program, we are in an inflationary cost environment. What are some of the things that you can do to sort of leverage the size of the budget you have to try and contain growth and cost over the next couple years?

Don Clow — President & Chief Executive Officer, Crombie REIT

Great question, Tal. I don't know. I mean honestly, inflation is inflation. It's been, in some of the communities we're playing in it's as much as 10% or 15% to 20%, and it has been that way for quite a while. But the good news is that rents continue to grow and we passed most of that cost on to the consumer. And then importantly for us, when we look at these projects, we have a wide spread or wider spread than others. We're fortunate for that in that we are able to build to a 5.5%, 6.0% yield on cost in markets that were whatever, mixed use, residential trades at a 3.0% cap or 3.5%, in some cases it starts with a 2. So for us, I look at that as a margin of safety. So that's the starting point. If it narrows because of inflation, it's still a wide gap. I'd challenge most people to look around and have a look at some of the residential REITs and/or other private developers and some of them, I'd say, are building at spreads that are less than 100 basis points today despite the risks involved even with inflation, just because they need scale and they see rental growth that's superior over the long term.

So we start with a wide spread, and we work very hard. We've got good teams, really good teams in construction, and locking in our major contracts, which we did very early on at all of our first three projects, will do again, and locking in prices has been extremely successful. We also carry wide contingencies. I don't think we're going to use any—in all three cases of our first developments, I don't think we're using 100% of the development contingency on any of those projects. We've been very conservative, those wide contingencies are built into the spreads we're giving you. So for us it's conservative, conservative, conservative, and in an inflationary environment I don't honestly think it'll continue in the macro economy at that level, but it's hard to know.

But the good news, again, is population growth is high. Most of it goes to where we have sites. Our sites are some of the best in the markets. I think at the end of the day we'll be fine, right? And a lot of these properties have 3.0% to 5.0% rental growth. But if you make a mistake and you end up with 150 basis point spread instead of 200, 250 basis points, three years from now, 3.0% to 5.0% growth, you'll be fine, right? And it's good, high-quality cash flow that's some of the best in the country.

I don't know if I've answered it for you, but I think it's just really macro where we are investing still has very good dynamics. I know Glenn wants to jump in too.

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

Just to comment, that was great, Don. Two things I would say. We disclosed in the MD&A, Tal, that our pipeline of 31 properties, while we await development, generates a 4.8% yield on cost. So our development pipeline is not burning a hole in our pocket from an earnings point of view. My point is that doesn't answer the inflation question, but it just speaks to the fact that we have a pipeline that's very efficient.

And what Don spoke to, we've got a number of properties where the reason why we have this advantage is we have properties we spent \$20 million for where the land may be worth \$50 million, \$60 million, \$80 million, \$100 million. So had that land cost advantage going into some of our deals where if there is a bit of inflation, we still have the advantage of starting on second base with that lower cost base of land. We're not buying land for our pipeline at full fair value and then seeking development. So I think those things enable us to deal with inflation as well as anyone can.

Tal Woolley – Analyst, National Bank Financial

And your development plan in your opening quote then, it's on your cost base for land? It's not on market. Is that correct?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

It's based on market.

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

Yes.

Tal Woolley – Analyst, National Bank Financial

Okay. So you made the cost adjustment for the land in your budget. Okay. Got it. And then just lastly, and I apologize, I missed the first couple minutes and maybe you already addressed this. Do you have a disposition target for this year?

Don Clow — President & Chief Executive Officer, Crombie REIT

We don't generally give guidance but we always generally tell people we look for opportunities, which, again, multiple sources of capital, so from a funding point of view we'll look at it. We've already done an equity issue, but we'll look at dispositions as part of that plan. And again, they fit into a bunch of categories, non-core, and then with core it's partial dispositions. And with that we'd primarily focus around I'll call it, lower growth type of assets. So there will be some, I would say, Tal. So there will be some, I just can't give you guidance on a number.

Tal Woolley – Analyst, National Bank Financial

Okay. That's perfect. Thank you.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thanks, Tal.

Operator

Your next question comes from Alex Leon with Desjardins. Please go ahead.

Alex Leon – Associate, Desjardins Capital Markets

Good afternoon. Just a quick housekeeping item for me. What was the fair value adjustment component that was included in unit-based comp this quarter?

Don Clow — Chief Financial Officer & Secretary, Crombie REIT

I couldn't quite hear, Alex, right at the end there. Could you just repeat that?

Glenn Hynes — President & Chief Executive Officer, Crombie REIT

Couldn't quite hear you, yeah. What was the fair value what increase?

Alex Leon – Associate, Desjardins Capital Markets

The fair value adjustment component, was that included in unit-based comp?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

I'll have to get back to you on that one, okay?

Alex Leon – Associate, Desjardins Capital Markets

Okay.

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

I'll dig it up.

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah, we can dig it out and get it for you.

Alex Leon – Associate, Desjardins Capital Markets

Okay.

Operator

Your next question comes from Pammi Bir with RBC Capital Markets. Please go ahead.

Pammi Bir – Analyst, RBC Capital Markets

Thanks and good afternoon. Glenn, I like the starting at second base regarding your comment on the land. Maybe just on the two projects where you've submitted applications, Broadway, what can you share with us in terms of what's going there and any sense or any updated sense of timing of when at least Broadway may get closer to approval?

Don Clow — President & Chief Executive Officer, Crombie REIT

I can't really, Pammi, unfortunately. I mean Broadway, it's very public what's going on and it's a large project. It's between $500 million and $600 million project, it's very significant. But we're in the planning phase with the city, and we're trying to get it to a public hearing. We are working very closely with our partner, Westbank. Ian Gillespie, who's our principal partner there, has been down this road many times and we're working very hard with the city and council to help people understand that this is, I think, a great project for the neighbourhood. It's the number-one transit site in all of Western Canada and is a natural place for there to be density, because people don't need cars, they can use public transit to get to anywhere in Vancouver, which is rare. So, for us it's a terrific site and we continue to work it.

We're hopeful we will get it to public hearing sometime in the next six months, if I can say that, but we'll see. Again, it's a process that's driven by the city and we have to respect that, and we'll continue to work with our partner. Our partner is really leading it, to be honest, and doing an outstanding job of helping people understand how it'll contribute to Vancouver as a whole, but the local community as well and offer, I think, a lot of substantial benefits, great public space, great amenities, and enhance what's there, which is really a very good grocery store but it's just simply a grocery store and this is a much, I think, improved use of the site. But we still have some work to do and that's normal in development. This is a big project, so it takes time.

Pammi Bir – Analyst, RBC Capital Markets

Got it. Can you remind us again what sort of density you're looking to, for that site?

Don Clow — President & Chief Executive Officer, Crombie REIT

I think, forgive me, off the top of my head I'm thinking it's a five to six FAR, somewhere in that range, I think, was the number.

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

That's correct. It's around five eight I think, Don.

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah. So not as high as you're seeing in other areas of Vancouver, right? We're seeing other areas be seven or eight. So it's actually lower density than what we've seen elsewhere.

Pammi Bir – Analyst, RBC Capital Markets

And sorry, what does that translate to in terms of square footage or buildable square footage?

Don Clow — President & Chief Executive Officer, Crombie REIT

You're going to have to forgive me again. Just off the top of my head, I can't recall. We'll get back to you, Pammi, with the exact square footage.

Pammi Bir – Analyst, RBC Capital Markets

Okay. No problem. I realize we've hit the 60 minute mark again. Last question for me, just a bit of a theoretical or accounting question. I know you provide some disclosure, but just curious if you have given any more thought to formally shifting to fair value accounting for your investment properties in the actual statements? Or, is the plan just to continue to disclose as you have, you know, the fair value in your gross book value calculation?

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Yes, we've had the conversations, but our plan is to continue with our current disclosures at this time.

Pammi Bir – Analyst, RBC Capital Markets

Thanks very much. I will turn it back.

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

And Pammi, just to quick answer, the density build-out at Broadway would be over 600,000 feet based on the FSR estimate that we gave you.

Pammi Bir – Analyst, RBC Capital Markets

Thanks, Glenn.

Operator

Your next question is a follow-up from Mario Saric with Scotiabank. Please go ahead.

Mario Saric – Analyst, Scotiabank

Hi. Sorry, just one more quick one for me. Back in early February, Empire announced another CFC in Vancouver, which, to my understanding, Crombie is not involved with. So just curious, given you've done two of them with Empire, what the kind of discussion/thought process was with respect to Vancouver.

Don Clow — President & Chief Executive Officer, Crombie REIT

Mario, it's an evolving process. Land is extremely expensive in Vancouver and it's tightly controlled by developers. So we work very closely with Empire on their whole strategic plan, including where they put their CFCs. But just like Toronto, certain sites are available and certain, you know, whether Crombie can become a partner or not isn't always our decision. And we'll do our best to contribute. I think we're going to be actually working very closely with Sobeys on the build-out. We've developed, I think, a very strong team with expertise around the hub construction. So we'll contribute. And at some point, you know, you never know, we might end up owning, at some point in the future, a piece of that. But maybe not also.

But importantly, we'll be looking for spokes. Their whole spoke network is driven by AI. So it's, you know, traffic, et cetera, is considered and population growth is considered, so we're excited even about that opportunity in Vancouver because the spokes will be more expensive there and still, again, another opportunity for Crombie to invest. So you can't get everything. That's the truth in real estate. And it's just not our time on that particular site. But I never say never when it comes to hopefully owning them. They're very strategic assets. We'd love to have a partial interest in it, but at this point, no.

Mario Saric – Analyst, Scotiabank

Makes sense. Thank you.

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 progress on our Q1 call in May.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thanks, everybody.

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

Thanks, everybody. Have a good day.

Operator

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