Final Transcript

Crombie Real Estate Investment Trust

Second Quarter 2023 Earnings Call

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DISCLAIMER

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Forward-Looking Information

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

(I) The disposition of properties, including properties under contract, and the anticipated reinvestment of net proceeds, which could be impacted by the availability of purchasers, the availability of accretive property acquisitions, requirements and timing for Empire investments, the timing of property development activities or other uses for net proceeds and real estate market conditions;

(II) Our development pipeline and diversification to mixed-use 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 "development" 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 2023 and 2024, 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, 2023 and those discussed under "risk factors" in Crombie's most recent Annual Information Form (available at www.sedarplus.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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Operator

Good afternoon, everyone, and welcome to Crombie REIT's Q2 Earnings Conference Call. At this time all lines are in 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 today, August 10, 2023.

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

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

Thank you. Good day, everyone, and welcome to Crombie REIT's second quarter 2023 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 and Events.

On the call today are Mark Holly, President and Chief Executive Officer, and Clinton Keay, Chief Financial Officer and Secretary.

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 Mark, who will begin our discussion with comments on Crombie's overall strategy and outlook, along with a development update, Clinton will review Crombie's operating fundamentals, discuss our financial results, capital allocation, and approach to funding, and Mark will conclude with a few final remarks. Over to you, Mark.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Crombie

Thank you, Ruth. Good day, everyone, and thank you for joining us today.

Crombie's well-curated portfolio, our solid financial position, and our experienced and accomplished team form an incredibly strong base. Couple that with a powerful strategic partnership, our robust development pipeline, and our persistent pursuit for operational excellence, we continue to generate value for our Unitholders, driving results in the near and long-term.

The hard work and dedication of our team continues to shine, and this quarter is no exception. We delivered stable committed occupancy of over 96%, same-asset NOI growth of 2.7%, adjusted FFO per unit growth of 7.0%, as well as renewal growth of 5.8% when comparing the weighted average rent during the renewal term. These results highlight Crombie's strong fundamentals of a well-curated portfolio and our focus on operational excellence.

Today, I'll comment on three notable drivers in the quarter: our Empire relationship, our development program, and ESG.

One of our strategic differentiators is our partnership with Empire. Through our strategic alignment, we are able to plan and deliver initiatives that create significant value for both organizations enhancing the quality of our portfolio from acquisitions, modernizations, conversions, and development management and construction of purpose-built project like the industrial customer fulfillment centers. The alignment in our real estate strategy allows us to leverage our strengths, including development expertise, to drive value on a sustainable basis. In the second quarter, we recognized revenue from development management services for the recently completed industrial customer fulfillment centers at the completion of those projects. We are pleased with this result and look forward to building on this synergistic platform across our portfolio as a trusted development partner.

Subsequent to the quarter, we closed on an agreement with a subsidiary of Empire in which Crombie will receive third-party leases at 24 retail fuel sites in Western Canada. Providing same-asset NOI growth and additional NAV creation.

With respect to our development program, it is expansive and provides AFFO and NAV growth, enhancing the quality of cash flows. At our mixed-use residential property, The Village at Bronte Harbour in Oakville, we continue to achieve month-over-month highs in leasing progress, with the residential portion of the property reaching 68% leased as of mid-July, with rents continuing to exceed proforma by over 10%. Tower one is expected to be fully leased by the end of the year with full occupancy of tower two and stabilization of NOI for the entire property, expected in the second quarter of 2024.

Last quarter, we announced the advancement of The Marlstone, a 291-unit residential rental development in Halifax, Nova Scotia. And within a month of that announcement, shovels were in the ground. This site is expected to be completed in the second quarter of 2026, and with Halifax vacancy rates around 1%, and little product coming online to meet demand, this project will be a welcome addition to the community and to the Crombie portfolio.

In June, Voilà CFC 3, our second industrial customer fulfillment center, commenced paying rent as Empire began grocery home delivery to customers in Calgary, Edmonton, and surrounding areas.

Our dynamic and skilled team is focusing on advancing projects through the entitlement process, which grants us flexibility and choice in our development planning. Last quarter, we stated that we were focused on submitting four rezoning applications over the course of 2023. I'm pleased to say that in the second quarter, we submitted an application on a development in the GTA, and subsequent to the quarter, in late July, we submitted a revised rezoning application at our major development in Vancouver, Broadway and Commercial. There are currently 10 projects in various stages of having zoning in place, rezoning applications submitted, or will have applications submitted by the end of 2023. These projects hold the capacity to contribute approximately 5.3 million square feet of commercial and residential GLA, comprising of approximately 5,900 residential units.

Lastly, on our ESG program. In May, we announced our Climate Action Plan to achieve net zero by 2050 for scopes 1, 2 and 3 and set a 2030 near-term commitment of reducing scope 1 and 2 emissions by a minimum of 50% from a 2019 base year. I'm very pleased to report that last month, SBTi validated and approved our plan. In addition to this validation, we also submitted to GRESB for the third year and I look forward to sharing our ESG sustainability report later this year.

I'm pleased with the momentum in the business and our results this quarter. We are focusing in on the right strategies to drive value for our Unitholders, tenants, and team. With that, I'll turn the call over to Clinton, who will highlight our second quarter operational and financial results and discuss our capital funding approach.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thank you, Mark, and good day, everyone.

Solid occupancy continues in the second quarter with committed occupancy of 96.4% and economic occupancy at 95.9%. Year to date, new leases increased occupancy by 419,000 square feet at an average first year rate of $19.86 per square foot. Over 93% of new leases, equivalent to 390,000 square feet, were completed in VECTOM and Major Markets, increasing Crombie's presence in these markets. Notable new leases include Empire's Voilà CFC 3 in Calgary, Alberta, which commenced paying rent in June and two new Dollarama leases.

At the end of the quarter, 87,000 square feet was committed at an average first year rate of $26.84 per square foot, which will contribute to future NOI growth as tenants take possession.

Lease renewal activity during the quarter consisted of 245,000 square feet of renewals at a 3.3% increase over expiring rental rates. Driving the growth in the quarter were 71,000 square feet of renewals at retail plaza properties with a 4.6% increase over expiring rental rates. When comparing the expiring rental rates to the weighted average rate for the renewal term, Crombie achieved an increase of 5.8% for renewals in the quarter.

Year to date, Crombie completed 785,000 square feet of renewals at an increase of 5.0% over expiring rates.

Supported by solid operating fundamentals, same-asset NOI on a cash basis, increased 2.7% compared to the same quarter in 2022. Primary drivers are renewals and new leasing and higher supplemental rent from modernizations and capital improvements.

For the quarter, AFFO per unit was $0.22, down from $0.25 for the same quarter last year and FFO per unit was $0.26, down from $0.28 for the same quarter last year. Excluding the impact of employee transition costs in the quarter of $7.2 million, of which $4.6 million is related to unit-based compensation, AFFO and FFO would be $0.26 and $0.30, respectively, an increase of 4% and 7% over the same quarter of 2022. AFFO payout ratio for the quarter was 102.1% and FFO payout ratio was 86.7%. Adjusting for employee transition costs, AFFO and FFO payout ratios are 86.2% and 75.0%, respectively.

We have worked hard to improve our balance sheet and overall financial condition. We are well positioned to continue to reach our financial goals and proactively pursue the right opportunities at the right time. In the second quarter, DBRS confirmed our rating of BBB-low with a stable outlook and validated our plan to achieve an upgrade to BBB by reducing secured debt to total debt comfortably below 40% as mortgages mature over the next few years and maintaining our solid debt-to-EBITDA metrics.

The fair value of our unencumbered asset pool increased from $2.2 billion at year-end to a record high $2.5 billion in the second quarter, primarily due to mortgages maturing. We continue to maintain ample liquidity with $614 million available at the end of the quarter. Unencumbered assets as a percent of unsecured debt is 201%, an increase from 192% at December 31, 2022, providing Crombie with continued financing flexibility and optionality.

Our debt to gross fair value was 42.3% compared to 41.8% at Q4 2022. We ended the quarter with debt to trailing twelve-month adjusted EBITDA at 8.17x, up from 8.02x at December 31, 2022. The increase is mainly due to employee transition costs incurred in the quarter.

Crombie remains committed to reducing risk and upholding financial strength through prudently managing our balance sheet and overall financial condition, enabling us to pursue long-term growth strategies.

With that, I will now turn the call back to Mark for a few closing comments.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thank you, Clinton. Crombie's stable portfolio delivered solid and consistent results this quarter. There is momentum in the business, and the team remains focused on advancing our strategic initiatives throughout 2023 and beyond. We thank you for your time today. We are pleased to now answer any questions you may have.

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star followed by the number one on your telephone keypad. If your question has been answered and you would like to withdraw from the queue, please press star followed by the number two. And if you are using a speakerphone, please lift your handset before pressing any keys. One moment please for your first question.

Your first question will come from Tal Woolley at National Bank Financial. Please go ahead.

Tal Woolley – Analyst, National Bank Financial

Hi, good afternoon.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Hi, Tal.

Tal Woolley – Analyst, National Bank Financial

Just for The Marlstone development in Halifax, what's the sort of target demo, what sort of rents are you expecting in given that it's sort of like at the corner of Main & Main in Halifax?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes, Tal, great question. As we said last quarter, we're really excited about The Marlstone, our first self-developed project, as you called it, Main & Main. It really is Main & Main right beside our Scotia Square asset. At this time, we are not in a position to disclose rental rates. We are working on providing enhanced disclosure with the team. And I hope in the next few quarters, we'll be able to give a bit more color around yield on cost, etc., for that project.

What we can say is we are anticipating to spend between $130 million and $150 million. And when we worked on putting those performances together, we went through our very robust process including sensitivity analysis, scanned the market to find out what rental rates were today and using those as a proxy to kind of showcase what we thought we'd be in for the range when we deliver in 2026. Also at that time, we were really comfortable with the cost as we had 75% of the hard costs already under contract and talked about on the prepared remarks that we're already in the ground, advancing the project. And I know it's really early days, but as we started to get into the undergrounds, we're really pleased with what we're seeing. We're on time and on budget. So really happy with so far.

Tal Woolley – Analyst, National Bank Financial

I guess like where I'm sort of going on this is, it's not -- this will be more of a premium product in the market. Is fair to say?

Mark Holly — President and Chief Executive Officer, Crombie REIT

It's going to be a product reflective of the demographics that we're seeing in that community and sort of what the economic social fabrics are out there. It will be a product reflective of that area, yes.

Tal Woolley – Analyst, National Bank Financial

And then just on Bronte Village, like it's still a bit of an FFO drag for you guys this quarter, and I understand that because of where the occupancy currently sits. With your sort of language about when you expect stabilization, when would you expect sort of the FFO to flip from being a drag to a contributor to the bottom line?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Well, I think, Tal -- I'll answer that. We don't want to give forward guidance. But clearly, when we reach stabilized NOI, that's a good indicator when you can start to see the pivot. But just like with Davie, we saw that it takes a little time, and I guess, I don't want to give that forward-looking information at this time. But I still think that what we're seeing is very encouraging, as you said, with the current lease-ups and these things are long-term projects and Crombie's always thought long-term, and we're very happy with the long-term outlook for this product.

Mark Holly — President and Chief Executive Officer, Crombie REIT

So one thing that I'll just add on to that from Clinton's comments is the lease-up. We are getting month over month highs. And so while we have anticipation of reaching NOI stabilization in 2024, our leasing and ops teams are very much focused on leasing that up and getting month over month. I'm really pleased with some of the adjustments we've made over the last few months, and it's starting to show the results. We're also working very closely with CMHC and getting CMHC mortgage financing put on there. The team with Clinton's team are working to bring that online sometime late this year or early next year.

Tal Woolley – Analyst, National Bank Financial

Got it. And then I'm just wondering the Shell Canada transaction. So Empire is selling some of its retail fuel sites. And what exactly are you guys -- do you guys own the sites currently and you're making a payment on the transition? I'm just trying to understand what -- for the $16 million, $17 million, what investors should be expecting as the return on that?

Mark Holly — President and Chief Executive Officer, Crombie REIT

So the transaction that we do, they are assignment of subleases that Empire had on sites that we had the controlling rights to. Empire had announced earlier this year that they were getting out of the retail fuel business. And so we were able to get an assignment of those leases into Crombie's portfolio, and we were able to get an immediate increase in NAV value and growth in our same-asset NOI. The yield on that $16 million is going to be between 6% and 8%.

Tal Woolley – Analyst, National Bank Financial

Got it. And just lastly on the CFC Calgary development. So there's very modest contribution to FFO this quarter for the new DC. So next quarter, we should expect like a full run rate contribution from that development being finished?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes. So Tal, so we had basically the month of June, so one month, so we expect a full three months run rate in Q3.

Tal Woolley – Analyst, National Bank Financial

Okay. That's perfect. Thanks very much, gentlemen.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thank you, Tal.

Operator

Your next question will come from Lorne Kalmar at Desjardins. Please go ahead.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Thank you. Good afternoon, everybody. Maybe on occupancy, it's kind of -- it's obviously not a big tick down, but tick down a little bit over the last couple of quarters, and you guys are hovering time around 97%. I think you said you kind of wanted to be in that 97% range. What's sort of been driving that downtick? And do you think you can get back to 97%? And if so, when?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Hi, Lorne. As far as the occupancy rate goes, we're happy where we are. So full occupancy for us is in that 98% range. So between 96%, 97% is essentially at full occupancy. You've got a little bit of ebbs and flows. There was one location with one tenant that did vacate. We were anticipating that and expecting it. We're actively working to backfill it. And so as far as occupancy goes, we're happy.

And then if we sort of look at the renewals and sort of what's happening, we've got renewal growth of 5.8% when you look at the steps on those renewals, which we're pleased with. What we're even more pleased with is the new leasing and committed leasing activity that we've got going on. And so our in-place rental rate is about $17.80, the new leases that came online are just shy of $20, and the committed leases are in the $26 range. So you can see the growth that we have available in the portfolio. And our leasing and ops teams are focused on ensuring that we maintain a healthy occupancy, but just as importantly, making sure that we maintain a healthy economic occupancy.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Fair enough. I guess, like the hotel, you never want to be 100% full. On the industrial portfolio, I know it's not a huge chunk, but if I read correctly, that same property was down about 3% in the quarter. Could you maybe give some color around what happened there and what your sort of outlook is for the balance of the year?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

You know what, I'm going to have to get back to you on that, Lorne. I'll just -- I don't have a note on that. I'll get back to you.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Fair enough. And then just last one, ticky-tacky one on the Shell deal or on the gas station deal. That $16 million or $17 million, that won't hit FFO, it will be kind of treated as an acquisition, correct?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Correct.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay, perfect. Thank you so much. That's all for me.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thanks, Lorne.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thanks, Lorne.

Operator

Your next question will come from Sumayya Syed at CIBC. Please go ahead.

Sumayya Syed – Analyst, CIBC Capital Markets

Thanks. And hi, everybody. I just wanted to first touch on the renewal growth rates across your, I guess, three market segments. And wondering if that's a long-term trend, should we be seeing higher spreads in VECTOM than Major Market and then low-end Rest of Canada. I just want to figure out how much geographic differences would be influencing your rent growth?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Hi, Sumayya. The outlook is, yes, VECTOM is driving higher rental than the Rest of Canada, although we're getting good renewal lifts in the Rest of Canada, the dollar value difference is noted in our MD&A. And so yes, there is -- VECTOM does have a healthier spread. There's just greater competition in VECTOM. And so there's more appetite for competition there. While the Rest of Canada may not have those high numbers of growth rate, they are exceptionally stable. And so most of our Rest of Canada assets are really Main & Main. And they are grocery-anchored with very healthy, stable CRUs that support the community. So we're happy with the portfolio mix. It is allowing us for that stable, consistent delivery quarter-over-quarter.

Sumayya Syed – Analyst, CIBC Capital Markets

Okay. Thank you for that. And then just to touch on your non-major developments, I'm wondering what will be the range of yields you expect for those smaller projects?

Mark Holly — President and Chief Executive Officer, Crombie REIT

So the non-major developments are -- have really good risk adjusted returns. We haven't disclosed what they are. Again, we'll be enhancing some of our disclosure over the coming quarters. They are very much well-known projects where you can get in and get out, Sumayya, in about 18 to 24 months. They are predominantly LUI. So intensification of existing sites, they are expansions and conversions with grocery-anchored and really well supporting through our development platform supporting Empire. So I don't believe we've given disclosure on those yields, but that is something that we're working to bring forward over the next couple of quarters. I'm really looking forward to being able to share more of that with you and the others.

Sumayya Syed – Analyst, CIBC Capital Markets

Thank you. We'll stay tuned. And I'll turn it back with that.

Operator

Your next question will come from Mario Saric at Scotiabank. Please go ahead.

Mario Saric – Analyst, Scotiabank

Hi. Good afternoon. Just maybe a couple of clarification questions. The $2 million of revenue from management and development services during the quarter, should we think about that as being kind of a one-time item? Or is that something that you think can become more recurring than it has been in the past?

Mark Holly — President and Chief Executive Officer, Crombie REIT

It's both. So if we look at what's happened on behalf of Empire, we were able to manage the fixturing leaseholds on a few CFC projects. And through that, they are a one-year fixturing period. So they are a long fixturing period, and we're able to use the expertise that we've built up in our construction and development team and navigate that on their behalf and we're looking to continue to leverage that skill set in the future as we provide those services and oversights to other Empire projects. It's building on a bit of a synergistic platform through conversions, modernizations, new stores and industrial. So we are looking to build upon that.

Mario Saric – Analyst, Scotiabank

Okay. But the revenue is generally recognized upon completion as opposed to like a percentage of completion over time. So like we shouldn't expect to see a similar $2 million revenue item in Q3 or Q4, for example?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes, I would not expect that for the back half of this year. The $2 million that we brought in was at the completion of the project. But that's not to say that that's the formula we're going to use going forward. I think there's a great opportunity to leverage that as we kind of leverage the synergistic platform that we're trying to create here, that you can start to bring them in at a consistent basis and rely on them.

Mario Saric – Analyst, Scotiabank

Okay. Mark, just coming back to Bronte. You mentioned that you made some adjustments in the past couple of months, and it apparently resulted in some pretty strong occupancy gains. Can you just give a bit more color in terms of what adjustments you made and the implications?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes, absolutely. All the credit goes to our leasing team. They were hands-on, on-site. We made an adjustment to the on-site leasing team that was there. We made adjustments to how we marketed the asset so very much getting focused in on the local community and very focused in on a view of who were the renters and who was coming into the asset and really targeting more of that design. We built in some dynamic rental modeling so that we understood sort of what was ebbing and flowing.

I'm really, really pleased with the momentum that we built up over the last three or four months. The team has just done an exceptional job. We're still running 10% above proforma. So we're really happy with how we've been able to maintain that. And so really looking forward to hopefully being able to share the continued momentum in the quarters to come. But so far, so good, Mario. I'm very happy.

Mario Saric – Analyst, Scotiabank

Okay. And maybe for Clinton, I'm not sure if you can answer this. But if we just step back and just coming back to Tal's question on the FFO, not so much timing, but if we step back and if we look at the invested capital, at the end of the day, for Bronte, Le Duke, and Davie, the interest environment has changed quite a bit in the past six to 12 months. What's a reasonable FFO yield that one could expect on that invested capital at the end of the day upon stabilization?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes. So I think what you referred, yes. So I'd say Bronte's the one that has the floating rate debt, Mario. And I'm looking forward to getting the CMHC finalized. We've submitted, we're in the process to get fixed rate financing, and that right now is floating. So it is hurting in the near term, but we'll certainly with the CMHC financing, bringing more cost-effective funding. And all of these are residential, Mario, so they do get CMHC funding. I think when you think long-term CMHC financing, I think the original assumptions on our yield on cost, that we would have disclosed previously, I still believe are reasonable assumptions.

Mario Saric – Analyst, Scotiabank

Okay. Sorry, on a levered basis or unlevered basis?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

On a -- well, on a levered basis. I'd say on a non-levered basis, the same, and on a levered basis, you look at the long-term rates where they are today, and we've already locked in two of the major developments. So it's just the Bronte one that has some volatility to it. But I would say -- I don't want to answer futuristically because I don't know where interest rates will land, Mario. But I think we'll be overall very happy with these projects.

Mario Saric – Analyst, Scotiabank

Okay. And then just last question, another clarification on the 6% to 8% return on the Shell stations. I just want to clarify that was an unlevered return as opposed to levered. Effectively, we should think about it as a 6% to 8% cap rate acquisition.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, that's fair. Yes.

Mario Saric – Analyst, Scotiabank

Okay. Great. Thank you.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one now.

Your next question will come from Jenny Ma at BMO Capital Markets. Please go ahead.

Jenny Ma — Analyst, BMO Capital Markets

Thanks. Good afternoon.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Welcome back, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

Thank you. Most of my questions have been answered, but I just wanted to follow up on the management development services fee income. Was that related to mostly CFC 3 or the CFCs across Empire's entire portfolio?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Hi, Jenny, that is related to CFC 2 and CFC 3 only.

Jenny Ma — Analyst, BMO Capital Markets

Okay. So if we think about the opportunity, could you apply these services to the other properties within Sobeys' portfolio and earn fees from it? And then maybe as an extension, is this something that you would contemplate for assets that are outside of the Crombie's Empire network? I'm just trying to think of the opportunity of what this fee income could become over the longer-term?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes. And we're absolutely in the early innings of this. The platform we're trying to build on is with Empire. And it starts with the CFC 2, CFC 3 and absolutely can be extended to the entire platform that we have with Empire as we look at modernizations, conversions, new store builds, enhancements to other CFCs, or extensions of their industrial platform. Beyond that, we're just focused in on what we can offer to the Empire partnership. Can it stretch beyond that, time will tell. But for now, we're pretty happy with where we're going with it. And we do anticipate and are working towards making sure that we can offer this on a continuous basis.

Jenny Ma — Analyst, BMO Capital Markets

Okay. And if I heard you correctly in terms of how to think about this cash flow, the two is probably a high watermark over the near term, right? And then it's just going to be kind of chunky here and there coming in, but not to the same extent as we saw in Q2?

Mark Holly — President and Chief Executive Officer, Crombie REIT

That's right. That's exactly right.

Jenny Ma — Analyst, BMO Capital Markets

Okay, great. I want to turn to the Sobeys initiative that you guys do every year. I know a while ago, you sort of guided to doing about $100 million every year at a 6.0% to 6.5% return. Is that something that you're still committed to in the current interest rate environment? I presume there's still plenty of opportunities within the Sobeys portfolio for these improvements.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes. So it sort of comes back to our deployment of capital and where we focus our efforts. And for us, we have a great advantage in that we invest into major developments and non-major developments. Most of the items that you're referring to would be non-major. They're in that 12- to 18-

month range. It's modernizations, conversions, new stores, and we will absolutely continue to invest in that.

Empire had announced as part of their growth strategy to continue to renovate and enhance 25% of their assets. And so we're going to be a part of that program with them. And so non-major is a part of the total envelope of capital that we look at and the returns are in that range. Some might be higher, some might be on the low end, but they're always working on the range, and they're always working on what's in the environment today, what are we up against in each market.

Jenny Ma — Analyst, BMO Capital Markets

Okay, great. That's very helpful. Thank you.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thank you.

Operator

Your next question will come from Pammi Bir at RBC Capital Markets. Please go ahead.

Pammi Bir — Analyst, RBC Capital Markets

Thanks. Hi, everyone. Just really one question for me, and I do apologize if this was answered earlier. I just -- not sure I caught it. But can you maybe just expand on the employee transition costs that were -- that hit the quarter? And then just wanted to confirm that all of that was fully captured in Q2 and that there's nothing else beyond that. Thanks.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes, I will confirm that it was fully captured in the quarter. And as Clinton mentioned in the prepared remarks, of the $7.2 million of the employee transition costs, $4.6 million of it relates to Unit-based compensation. I just want to add on to that when we've given color on our overall G&A on an annual basis, and we're in that 4% range, which is what we've given guidance on historically, excluding Unit-based comp, and we're expecting that we'll fall in that range again this fiscal year.

Pammi Bir — Analyst, RBC Capital Markets

Thanks very much.

Operator

At this time, we have no further questions. So I will turn the conference back to Ruth Martin for any closing remarks.

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

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

Operator

Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank you all for participating and ask you to please disconnect your lines.