



Crombie

Final Transcript

Crombie Real Estate Investment Trust

Fourth Quarter 2022 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 year ended December 31, 2022 and those discussed under "risk factors" in Crombie's most recent annual information form (available at www.sedar.com) could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully, and a reader should not place undue reliance on the forward-looking statements.

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Crombie REIT Q4 Earnings Conference Call. At the 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, 0 for the Operator. This call is being recorded on February 23, 2023.

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

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

Thank you. Good day, everyone, and welcome to Crombie's fourth quarter 2022 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 Don Clow, 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 Don, 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 and then discuss our financial results, capital allocation, and approach to funding; and Don will conclude with a few final remarks.

Over to you, Don.

Don Clow — President and Chief Executive Officer, Crombie REIT

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

When we look back on 2022, our significantly improved financial condition with solid growth is really the story of the year. We have proven over many years that we are prepared to make hard decisions in the short term for success in the long term. We are proud of our strengthened balance sheet, lower debt levels, leading to improved debt to EBITDA and debt to gross fair value metrics, our ample liquidity, and an increase in our unencumbered asset pool. This significant improvement in our financial condition occurred at the same time as we delivered solid growth in AFFO and NAV by delivering on our strategy of outstanding operations, including record occupancy, and responsible investment in grocery-anchored retail in partnership with Empire, and into sustainable development with an award-winning and engaged workforce. We are proud of the fact that we've remained focused on our long-term sustainable growth despite the volatility of the capital markets and ongoing macroeconomic and geopolitical pressures.

One of our guiding values at Crombie is to embody integrity - we do what we say we will do. We are pleased to report that our adjusted same-asset cash NOI and AFFO are in line with our target annual increases and same-asset cash NOI of 2.0 to 3.0% and AFFO growth of 3.0 to 5.0%. Our major development projects have been largely completed on time and on budget. Our relationship with our strategic partner remains strong, and our fundamentals continue to improve year over year. Our team and culture have been recognized again this year for their fine work, and we were recently named one of Atlantic Canada's top employers for the seventh time. I'm also humbled to be a recipient of Waterstone's Most Admired CEO Awards this year, and for that, I give full credit to the culture of our team that's built at Crombie.

The stability of our organization has once again demonstrated over the last quarter, and year, through our high occupancy, healthy NOI growth, steady new leasing, and renewal activity. Our ability to be agile is underpinned by our intentionally curated portfolio, which consists of the most desirable asset types in Canada: grocery-anchored retail; industrial, and mixed-use residential. In 2022, multiple new tenants moved into our top 20, of which 60% is now investment grade, and demonstrating the attractiveness of our portfolio and the quality of our cash flow.

The relationship with our strategic partner, Empire, continues to be an important driver of our success. In 2022, Crombie spent \$191 million on Empire-related initiatives, and we are committed to spending between \$100 million to \$200 million annually. This spending will come in the form of modernizations, acquisitions, conversion to grocery stores, as well as the build-out of Empire's Voilà grocery e-commerce hub-and-spoke network. This commitment to Empire provides many attractive risk-adjusted opportunities, often with shorter project durations, and allows for stable growth and value creation for our Unitholders. As our largest tenant, Empire, also plays a significant part in supporting our sustainability growth as we move forward.

We have proven over the last few years that development, of all sizes, is a key component to our long-term strategy. In light of the current economic environment, we have adjusted our annual spending range to be \$100 million to \$250 million on developments, including non-major projects, from a previous range of \$150 million to \$250 million. Although our spending will likely be on the lower end this year, due to the ongoing uncertainty in the economic and geopolitical environment, we have steadfastly focused on unlocking the embedded value within our portfolio. The team continues the hard work of advancing projects through the entitlement process to create value and provide optionality of project size and timing of commencement in some of the most desirable locations across the country. At the end of 2022, four projects have zoning approval in place and two projects have zoning applications

submitted, with the potential to add approximately \$3.3 million square feet of GLA, including 3,700 residential units.

In the fourth quarter of 2022, we reached substantial completion at our retail-related industrial development, Voilà CFC 3, in Calgary. This CFC is the third state-of-the-art Empire grocery e-commerce fulfillment hub in Canada, the second in Crombie's portfolio, and is powered by Ocado's industry-leading technology, including a robotic grid platform. The 304,000 square foot facility will service the majority of Alberta, with economic occupancy and rent expected to commence in mid 2023.

Lease-up continues at Le Duke, in Montreal and Bronte Village in Oakville. Le Duke is 93% leased as of February 10, 2023, at rents over 5% above proforma. Stabilization of NOI was achieved in December 2022, ahead of the previously expected timeline of March 2023. We are thrilled with the progress that has been made at Le Duke, with a special thanks to our partner, Prince Developments, for their hard work and leadership.

Bronte Village continues lease up as 52%, or 249 units, have been leased as of February 10, 2023, at rents 10% above proforma. Stabilization of NOI is expected to be reached in May of 2024.

We are always seeking ways to optimize the value of our development pipeline while balancing capital allocation priorities in line with our strategy. We are particularly proud of a milestone achieved in the fourth quarter, the sale of our King George site in Surrey, British Columbia. This transaction is a great example of the tremendous underlying land value held in our portfolio, and highlights one of the many value creation opportunities available to Crombie.

In consideration of our current opportunities, we have elected to monetize the remaining residential development parcels at our major development, Opal Ridge, in Dartmouth, Nova Scotia, rather than proceed with the residential development option. Given this direction, Opal Ridge was removed from our development pipeline in the fourth quarter.



Before handing the call over to Clinton, I want to take a moment to highlight Crombie's commitment to sustainability. Throughout 2022, we focused on and formalized our ESG policies and strategy, while continuing to improve and advance several important initiatives. We updated our Sustainable Development Policy, introduced portfolio-wide ESG risk assessments, set internal ESG targets to advance our impact, and have gathered an inventory of greenhouse gas emissions and identified reduction pathways. Leaders on our team have built relationships with our peers as well, and together, we are working to improve our industry's carbon footprint. We continue to uphold white-glove governance, and all of our board committees have mandates that include ESG oversight. On the social aspect of ESG, our Diversity, Equity, and Inclusion Committee continued its work on creating a more welcoming workplace for all, including inclusive communications training. We continue to accommodate flexible work options and encourage our teams to volunteer for community organizations across Canada. In 2022, our employees volunteered over 6,000 hours to volunteer organizations of their choosing. We are truly committed to doing our part to build a Canada where everyone can thrive. Measuring and tracking our progress on how we impact our environment and society takes time and energy - but it's absolutely worth it, and I'm proud of our team for their dedication to this work.

With that, I'll now turn the call over to Clinton, who will highlight our fourth quarter operational and financial results and discuss our capital funding approach.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thank you, Donnie, and good day, everyone.

Crombie ended the year with record committed occupancy of 96.9% and economic occupancy at 94.8%. Economic occupancy was negatively impacted by the addition of development GLA at the Voilà CFC 3, in Calgary, Alberta. Excluding this addition, economic occupancy would be 96.4%. In 2022, new leases increased occupancy by 349,000 square feet at a weighted average first year rate of \$21.59 per

square foot. At the end of 2022, 394,000 square feet of GLA was committed at an average first year rate of \$20.50 per square foot, which will boost future NOI growth as tenants take possession throughout 2023.

During the fourth quarter, 374,000 square feet of renewals were completed at an average increase of 12.9% over expiring rental rates. Included in this activity was a large office renewal at a significant increase over expiring rental rates. Excluding this lease, renewal spreads for the quarter would have been 3.3%. The primary drivers of renewal growth in the quarter were in our office and retail plaza portfolios.

For the full year, total renewal activity consisted of 1,056,000 square feet, with an increase of 7.0% over expiring rental rates, or 4.2% excluding the previously mentioned office renewal.

On a cash basis, quarterly same-asset NOI increased 0.9% and 1.6% for the full year. Primary drivers are strong occupancy, higher supplemental rent from modernizations and capital improvements, and increased parking revenue. This was partially offset by a decrease in lease termination income. Excluding lease termination income, same-asset cash NOI increased by 2.4% for the fourth quarter and 2.6% for the full year.

For the quarter, AFFO and FFO per unit were \$0.25 and \$0.29 respectively, both consistent with the same quarter last year. AFFO and FFO on a per unit basis were diluted by the equity issuance in January 2022. On a dollar basis, AFFO increased \$4.6 million and FFO increased \$5.2 million. The increase in AFFO and FFO for the quarter is primarily due to lower finance costs from operations, increases in income from acquisitions, modernizations, and capital improvements, a higher contribution from our equity accounted investments, and a decrease in G&A expenses due to a reduction in unit-based compensation costs. AFFO and FFO payout ratios in the quarter were 88.1% and 76.2% respectively.

For the fourth quarter, G&A was \$6.1 million or 5.6% as a percentage of property revenue. Excluding the impact of unit-based compensation of \$1.4 million, G&A was 4.3% of property revenue.

Crombie continued to reduce risk and build financial strength in 2022 through a disciplined approach to financial management and responsible capital allocation providing significant financial flexibility. These actions have led to our strengthened balance sheet, having ample liquidity, notable deleveraging, well-laddered debt maturities with balanced near-term expiries, and a healthy weighted average term to maturity, all of which are extremely important, especially during the current challenging macro-economic environment.

We ended the year with available liquidity of \$583 million and our unencumbered asset pool reached \$2.2 billion, increasing from \$1.8 billion in Q4 2021, primarily due to acquisitions, mortgage maturities, and development completions, and partially offset by dispositions. As a percentage of unsecured debt, unencumbered assets represent 192%, up from 129% in the fourth quarter of 2021, providing Crombie with additional financing optionality.

Debt to gross fair value was 41.8% at the end of Q4, a significant improvement from 45.3% at Q4 2021. The improvement in our leverage ratio was primarily the result of lower debt outstanding, resulting primarily from mortgage repayments, as well as an increase in total gross fair value of \$95 million from the substantial completion of Bronte Village in early 2022, acquisition, activity, and investment in developments.

We ended the quarter with debt-to-trailing twelve-month adjusted EBITDA at 8.02 times, down from 8.99 times at December 31, 2021. The improvement is primarily due to lower outstanding debt as a result of mortgage repayments and higher adjusted EBITDA driven by increased operating income and higher net property income from joint ventures.

In the fourth quarter of 2022, Crombie entered into a credit agreement for an unsecured non-revolving credit facility. The credit facility has a maximum principal amount of up to \$200 million, with a maturity date of November 2025. \$150 million was used to fund the redemption of Series D senior unsecured notes. The credit facility allows us to maintain ample liquidity while also providing maximum flexibility with respect to the timing of obtaining longer term unsecured debt.

Crombie had a weighted average cap rate of 5.74%, inclusive of joint ventures, at the end of the fourth quarter compared to 5.54% at the end of the third quarter and Q4 2021. The recent expansion in our weighted average cap rate has been partially offset by development completions and a continued strong demand for grocery-anchored assets.

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

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you, Clinton.

Today is a bittersweet one for me as I take my last analyst call for Crombie. For almost 14 years, I've met with you approximately 55 times on a quarterly basis to share our team's results, and I've enjoyed our time together, despite your sometimes hard-hitting questions. A CEO's primary objective is to leave an organization better than they found it. And I feel immense pride in the Crombie from which I'm retiring.

We've achieved incredible success over the years, and I'm proud to say, with top quartile total Unitholder return. We've evolved from a regional landlord into a national owner, operator, and developer of great properties across Canada. We've curated a portfolio that is largely comprised of the three most highly-sought-after asset classes in the market, grocery-anchored retail, retail-related industrial, and residential properties from coast to coast. Our strategic relationship with Empire has become a more impactful driver of growth over the last five years, and has empowered many mutually beneficial opportunities. Our balance sheet is strong, as are our fundamentals, and we are well positioned to

weather any economic storms we may face over the next few years. We've strengthened our team substantially over the last decade and a half, and employ well-educated, highly skilled people who are as resilient as they are smart. And it is this team who, together, have made everything possible.

Peter Drucker once said that culture eats strategy for breakfast, and Crombie is proof of this statement. Next week, I'm humbled to be receiving an award as one of Canada's most admired CEOs. While this award's being presented to me, it is primarily a testament to the culture that we've built at Crombie. At a time when attrition is at an all-time high, when every business journalist is writing of the "war on talent", Crombie's engagement scores have risen. We've doubled down on the importance of our people and together reconfirmed our guiding values. We embody integrity, we care passionately, we deliver excellence together, we outperform expectations, and empower one another. Every day, I see our team employ these values to guide decision-making and the way we work together. And I know that this team will continue to enhance neighbourhoods across Canada through long-term sustainable growth.

I am so pleased to introduce my successor, Mark Holly, who will lead this team to ongoing growth and success and take it to the next level. Mark is a strategic leader with a proven track record of more than 20 years in real estate development, operations, and capital management, and he is recognized within the industry as an exceptional communicator, collaborator, and relationship builder with deep expertise across the entire real estate development cycle. Mark joins us from Empire where he led the firm's real estate business and had the opportunity to collaborate closely with the Crombie executive leadership team on a range of successful initiatives that have generated substantial value for both companies.

I sincerely thank you for the respectful discourse we've enjoyed over the last 14 years, and now proudly hand things over to Mark.

Mark Holly — Incoming President and CEO, Crombie REIT

Thank you, Don, for the kind words and congratulations on your retirement, a truly amazing career. After five years of working as a partner to Crombie, I'm thrilled to be joining this amazing organization. I'm looking forward to carrying the successes that have made Crombie one of the top-performing REITs in Canada, and I look forward to meeting all of you in the near future.

Thank you.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

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 the 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 the star, followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

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

Mario Saric — Analyst, Scotiabank

Hi. Good afternoon.

Don Clow — President and Chief Executive Officer, Crombie REIT

Good afternoon, Mario.

Mario Saric — Analyst, Scotiabank

I just wanted to start off by congratulating you, Don, on the news and welcoming Mark as well. I'm sure a lot of people would echo the view that you've achieved your initiatives and your goals that you set out. So congratulations on the move and good luck going forward.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Mario Saric — Analyst, Scotiabank

With that said, I wanted to focus a bit on the same store NOI growth in 2023. I think you mentioned kind of a target 2.0 to 3.0%, which is your traditional target. Outside of a potential substantial economic deceleration, which we can't control, is there anything notable from a leasing perspective in 2023 that could drive that number either higher or lower than the 2.0 to 3.0% traditional number?

Don Clow — President and Chief Executive Officer, Crombie REIT

You know what? No, Mario. I think generally things will be steady course. You know we continue to lease-up our residential properties, which we think in the future is, if we do consolidate those results for people, we'll end up showing, call it, maybe an increasing range of expected growth or guidance. But in general, our portfolio has been doing that for a long time on the retail side. And it's been ... I'll call it, we've been up covenanting the portfolio, I think through COVID and continue to see that trend. And I think to the downside, we're quite pleased with where we stand. And to the upside, we think it's probably more to that end of the spectrum just because, again, we don't really consolidate our residential properties. And we're trying to figure out a way in the future to show the growth from that, which is quite interesting and proving to be, as we thought, which is seeing solid growth in the various residential markets.

So I'd say generally steady course with a little more opportunity, hopefully to the upside, as we move forward.

Mario Saric — Analyst, Scotiabank

Got it. So just in terms of tenant watch lists and things like that, or notable leases that are set to expire in 2023, there isn't anything of note?

Don Clow — President and Chief Executive Officer, Crombie REIT

No.

Mario Saric — Analyst, Scotiabank

All right. Okay. And in terms of parking revenue in the portfolio, is it now back to pre-pandemic levels? Or is there still some upside to achieve there?

Don Clow — President and Chief Executive Officer, Crombie REIT

We're getting close to pre-pandemic level, but we still do have some upside on a full-year basis. So yeah, I'd leave it at that.

Mario Saric — Analyst, Scotiabank

Okay. My second question, just in terms of capital deployment, I can appreciate that the development cycle may be a little bit slower or the spend may be a bit lower than what you've achieved the past couple of years. I'm curious in terms of how that impacts the expectable spend on the Empire-driven initiatives, that \$100 million to \$200 million per year. Like is there a governor in place on that range? Why not \$200 million to \$300 million, for example, in a year where development spend is coming up?

Don Clow — President and Chief Executive Officer, Crombie REIT

What I'd say is that the relationship's never been better and never more creative. And the initiatives I see coming forward I think are exceptional in terms of their quality for both driving results for Empire and driving results for Crombie. So we did show, call it, closer to the \$200 million level of spending in 2022, and our forecast this year and next would be, call it, at the higher end of that spectrum. There is

a possibility you can go over, but just because the relationship is so good and Empire is continuing with Project Horizon and continuing to look for an evolution of their network plan and continued efficiencies in that network plan, and we just, I think, are well positioned to work with them to create opportunities for Crombie to invest.

So I'd say higher end of that range is probably in the next year or two, is likely. And again, those types of projects have solid risk-adjusted returns and shorter durations in general. So for us it's more, it's faster activation of AFFO growth for Crombie in that part of our capital allocation. So yes, I'd say that that's probably where we land.

Mario Saric — Analyst, Scotiabank

Okay. And just my last question. Just on the 20 basis point cap rate. IFRS cap rate jumped quarter over quarter. It was a bit higher than what we would have anticipated and a bit higher than what the peers recorded this quarter. How much of the increase would you say is supported by actual transactions versus something else driving that conviction?

Don Clow — President and Chief Executive Officer, Crombie REIT

They're not. And I'd say on the year, have a look at the year because I think if you look at ourselves and our peers, we're all right around the same number. And so, some of them might've adjusted second quarter or third quarter, and we just happened to adjust a little bit in the fourth quarter more. But on the total for 2022, the numbers appear to us to be roughly the same. And again, they're not really substantiated by significant transactions. There just aren't a lot of transactions when you're considering grocery-anchored retail, industrial, or apartments.

And so for us, we're quite comfortable and feel like our numbers are conservative. And at the end of the day, we have a good process where our valuation committee has a very robust discussion and evaluation and lots of opinion, but not a lot of, call it, evidence underneath it. So we're kind of reaching a

little bit, but at the end of the day, we're comfortable with it. The good news for us is that our NOI keeps growing and we are entitling projects, et cetera. So I noticed our debt-to-GBV fair value actually stayed the same despite a reduction in the value of the portfolio by a couple hundred million bucks. So it shows you how things do balance out in general.

Mario Saric — Analyst, Scotiabank

Right. And I guess what we've been hearing is from the transaction perspective, the bigger deals seem to be on pause within the retail landscape, but smaller assets are very much in demand, especially by private equity or private groups. Is it your sense that we could see a decent amount of deal flow in the first half of this year to better substantiate where transactions or valuations could be?

Don Clow — President and Chief Executive Officer, Crombie REIT

I think it's a difficult question to answer. Honestly, the people who own it are well funded and it's generally fairly consolidated, especially for grocery-anchored retail. You are seeing a large deal, obviously, at Summit. We want to congratulate our friend Paul Dykeman and Lou Maroun on an amazing transaction, and that's a large portfolio, and obviously, folks at Dream Industrial for doing that deal. And I think really, that pricing was totally disconnected from the market and industrial.

But we're not expecting to see large chunks of grocery-anchored retail or apartments. I don't feel that it might happen. But I don't think it's going to happen too much because the people who own it, want, in general, long-term cash flow growth and solid cash flow that's resilient in the face of a lot of economic uncertainty right at the moment.

I will tell you that there's significant interest in those types of real estate. So if we did want to sell, we could, but we just don't, in general. And I suspect most of the owners that we know deal in a similar way. I hope that's helpful.

Mario Saric — Analyst, Scotiabank

No, that's great. Thanks, Don, and congratulations again for not having to do our 56th analyst call.

Don Clow — President and Chief Executive Officer, Crombie REIT

And that's a large number, Mario, but thanks very much for everything. We really appreciate it.

Mario Saric — Analyst, Scotiabank

Okay. That's it for me. Thank you.

Don Clow — President and Chief Executive Officer, Crombie REIT

Cheers.

Operator

Your next question comes from Lorne Kalmar with Desjardins. Please go ahead.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Thanks. Good afternoon and congrats to Don and Mark.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Just on occupancy, you guys seem to be hitting record quarter after quarter. Now close to 97%, starting to look pretty full. How much further do you think you can take it? Are you kind of comfortable with that 97% occupancy range and then you can kind of start pushing rents a little bit more?

Don Clow — President and Chief Executive Officer, Crombie REIT

We often get asked what is, call it, full occupancy and we've generally told people 1.0 to 2.0% has some structural issue to it and we're working on it. So I'd say that's still roughly the case. So we're pretty close to full occupancy. We are pushing rents, I would say at the moment. You saw some in office and you saw otherwise in the retail portfolio. So for us, it's an ongoing process. It's not easy. The economy

has challenges for everybody. So I'd say it's more of a balanced marketplace today than something that people can really push it. So for us, it's steady as she goes is probably the more apt description if I can put it that way.

Lorne Kalmar — Analyst, Desjardins Capital Markets

I'm noticing a theme with the steadiness.

On the Opal Ridge, any idea on timing or expected proceeds? I know it's probably still a little bit early, but figured I would put that out there.

Don Clow — President and Chief Executive Officer, Crombie REIT

Yeah. No, I'd say over 2023.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay. Easy enough. And then just on the office, which you mentioned, obviously, you did a pretty good lease there in the quarter. What's the thought on holding onto those or maybe looking to dispose of them as time allows?

Don Clow — President and Chief Executive Officer, Crombie REIT

Well, we own the best office in Halifax in my mind and we've outperformed the market. We have an outstanding team at Halifax Developments at Scotia Square. And so it's a key part of our portfolio and performing very well. Roughly 94%, 95% occupancy in a market that's got roughly now 86% occupancy, so we've outperformed the market. We've just renewed a number of leases as you see with strong uplift. And so for us, it's a strong, strong performer.

So yeah, so I will just leave it at that. We don't have any plans to sell office now, even though it is a smaller part of our portfolio, just because it's so well managed, so strong, such a strong performer.

Lorne Kalmar — Analyst, Desjardins Capital Markets

It's nice to hear some positive commentary on office for once.

And then just the last quick one, any idea on the expected yield on the Westhill on Duke?

Don Clow — President and Chief Executive Officer, Crombie REIT

You know, what we've said is call it in the high fives. We won't get into much more than that. And so historically, when we say those numbers, we've been able to deliver it. And that's roughly where we're working as we look forward on the project.

Lorne Kalmar — Analyst, Desjardins Capital Markets

That's great. Congrats to you both again, and I'll turn it back.

Don Clow — President and Chief Executive Officer, Crombie REIT

Okay. Thanks so much.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thanks.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the star, followed by the one.

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

Sam Damiani — Analyst, TD Securities

Thank you. Congratulations to both of you, Donnie and Mark, as well.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thanks, Sam.

Sam Damiani — Analyst, TD Securities

Look forward to meeting you, Mark, at the nearest opportunity. I apologize for the background noise, if you can hear it. I guess my first question would be on the residential developments. It's an evolving program, and based on the good success that the REIT has achieved on its first projects, what

would be the most important lesson learned that would inform the go or no-go decision on our future projects?

Don Clow — President and Chief Executive Officer, Crombie REIT

You know, today it's probably managing costs in a higher inflationary environment and doing so in a market where you still have growing rents where you can, call it, pass those costs on to a consumer in the form of higher rents. And we're very fortunate to have the bulk of our property development portfolio in Vancouver and also in places like Halifax, where there's significant rise in population and increasing rents on a continuous basis at relatively high levels.

So for us, that is a learning. We built our first three projects through a relatively low inflationary environment and dealt with still, nevertheless, a fair amount of uncertainty, which is normal in development, but this inflation has added an additional layer. And then also, obviously, interest rates, just planning the financing of these projects. But in general, Sam, we're continuing to work on entitlements, continuing to give ourselves options and the delays, if I can say it, in terms of approving the next project, it's really been more of a macro issue in looking for things to normalize or just at least show stronger signals of normalization in my mind. And it's probably me. So with Mark taking on the leadership, he'll bring some fresh thinking to that. But again, I think the good news is that development's been very well done by our team and our partners, and we're very enthusiastic about how it matches the profile of investment in Sobeys in terms of increasing our growth, diversifying to some degree our income stream, and increasing the quality of our portfolio and increasing the percentage that's in the major market. So it's got a lot of attributes that are really positive.

And again, as we said in our remarks, we are prepared to do, in the short term, we'll sacrifice to some degree to do what's right in the long term. And so maybe a short, I'll call it, slowdown is okay. And in the meantime, again, we are also continuing to invest in stuff that's under the \$50 million that adds

up to over \$100 million in total on development, which is still very profitable for us. So it's a nice combination, a balanced approach.

Sam Damiani — Analyst, TD Securities

That makes sense. Appreciate that. And just looking maybe, Clinton, over to you on the excess density inclusion in your fair-value disclosure, is there anything there now? And what do you see maybe over the next year or two as sites get approved or including some fair-value bumps going forward?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, I would say that you're right about the accounting treatment that's required. As we get the entitlements at a spot where we get fully entitled from the municipalities, we're in a position to take the fair-value bumps. But I can't give any guidance at this time other than to say obviously, as we get to those milestones, there will be bumps in the fair value in the quarters.

Don Clow — President and Chief Executive Officer, Crombie REIT

Sam, I'll jump in. I've said it for many quarters. I think we have \$500 million to \$1 billion worth of excess land value that's not recognized under IFRS, and rightfully so. We have lots of debates internally about the timing and/or amounts, but it's real value, and we were, I think, quite thoughtful in terms of executing on King George that it's proof of that concept. And so we're proud of that effort and the transaction with Wes Group, but it is important to show that it's proof of concept, and we have a large number of other properties like that.

So, it is just a matter of time, but it's something where we have to respect the accounting rules and the process, and we continue to be, I'll call it, relatively conservative, so it is the way it is.

Sam Damiani — Analyst, TD Securities

Appreciate that. And last one for me, it's great to see Crombie fully participating in the strong retail leasing environment that we're in, but when we just look at some of the turnover, and I recognize

it's rather low these days, but when tenants are deciding to not renew, what would be the biggest one or two reasons that you're seeing out there? And is there any read-throughs into your expectations for 2023 and 2024 as a result of those departures?

Don Clow — President and Chief Executive Officer, Crombie REIT

We haven't seen any big credit-type issues. We've seen maybe a couple of small ones. We've seen more, I'll call it, people moving to different parts of the market. But importantly for us, as you'll see in our occupancy rate, we backfilled quickly and generally with better quality covenants and at higher rents. So we've been good and lucky, I think, at the same time in our leasing, and that's always a healthy combination. And so our turnover hasn't bothered us, to be frank. We've not had a lot, but it hasn't bothered us at all.

Grocery-anchored still, honestly, is very popular, and Sobeys is very successful, and the traffic they generate is very desirable for our tenants. So, yeah, we're super pleased with our portfolio, and that performance in that regard.

Sam Damiani — Analyst, TD Securities

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

Don Clow — President and Chief Executive Officer, Crombie REIT

Okay, Sam. Thanks so much.

Operator

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

Pammi Bir — Analyst, RBC Capital Markets

Thanks. Hi, everyone. Donnie, Mark, congratulations again.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Pammi Bir — Analyst, RBC Capital Markets

And unfortunately, I missed the early part of the call, so I do apologize if this has been addressed. But just coming back to Opal Ridge, can you just maybe expand on the comments on the decision to monetize it versus building it?

And then just secondly, it looks like Broadway and Commercial, the rezoning expectation, is being pushed to 2024, so just curious what you can share with us on those two.

Don Clow — President and Chief Executive Officer, Crombie REIT

Yeah, Opal Ridge, let's call it a smaller development, opportunity for us in many ways, and we had a good partner, and these are tough decisions. I mean, we're honestly ... We have a predisposition for building things and ultimately gathering solid cash flow and good cash flow growth over time, and so that project is going to be a good one. It was just on the smaller end, I think, at the end of the day for us, and we felt it was better done by someone else.

Broadway and Commercial, on the other hand, is an amazing opportunity, the number one transit node in Western Canada, number three-ish in all of Canada, and a great partner in Westbank, and we had an opportunity to increase the density there as we were essentially deferred last July by the municipal process. And for us, that's an opportunity to give some increased affordable housing in the marketplace, and again, for us, is extra density. And so for us, it's a natural part of development. These things occur. We couldn't control it. It's an external factor. But we're going to hopefully be able to work with it and work with the city, and delays us by a bit, but at the end of the day, we think we'll end up with a more profitable project that's going to really serve the community a lot better too, so everybody wins, hopefully.

Pammi Bir — Analyst, RBC Capital Markets

Got it. And then just maybe on Opal Ridge, did you disclose what the estimated proceeds would be? And then secondly, has the fair value mark on that, because I think it was already zoned, is that already reflected in your IFRS fair value?

Don Clow — President and Chief Executive Officer, Crombie REIT

Yeah. We can't disclose the number, unfortunately, but it was at or above IFRS, yeah.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yeah.

Pammi Bir — Analyst, RBC Capital Markets

Okay. Just lastly, on Bronte Village, just any update there in terms of the leasing? It seems to be going still a bit slow, but Le Duke has done better. So what can you share just in terms of the lease-up at Bronte Village and where you think it may end or get to by the end of this year?

Don Clow — President and Chief Executive Officer, Crombie REIT

Yes, well we're pleased, actually, with our leasing overall. With Davie Street, we were well ahead of schedule and, call it, record performance in that part of the marketplace in Vancouver. And at Le Duke, we're ahead of schedule by a quarter and at 5% above proforma. Bronte, call it a little slow, but it's a large project in a, I'll call it, a sub-market of Toronto. And it just takes extra time. Our view is that once it's fully leased, it'll be, call it, stickier and people will generally stay longer.

And then I'll remind people that inflation, when you've already built the asset, inflation is actually your friend in that competitors will have to pay 20% or 30% more to build a competing project and, therefore, have to come out at higher rents. So for us, yeah, it's taking just a little extra time. As we said in our remarks, we're coming still at 10% above proforma and we're confident in those numbers. And we think the project has a really good community feel. Largest part of that tenant base is people who are downsizers. And so for us, it's having a solid community for those people that really works for them in

that type of transition in their lives. And so I think it works. It's just a matter of getting through marketing. Hopefully, the leasing is completed in the next twelve months.

Pammi Bir — Analyst, RBC Capital Markets

That's great. Thanks very much. I'll turn it back.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thank you.

Operator

There are no further questions at this time. I will now turn the call over to Ruth Martin for closing remarks.

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

Thank you for your time today and we look forward to updating you on our first quarter call in May.

Don Clow — President and Chief Executive Officer, Crombie REIT

Thanks, everyone.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thank you.

Operator

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