



Crombie

Final Transcript

Crombie Real Estate Investment Trust

Fourth Quarter 2023 Earnings Call

February 22, 2024

12:00 p.m. E.T.

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) 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;
- (V) 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;
- (VI) Expected increase in revenue in 2024 and 2025, which could be impacted by timing of completion of development projects underway, ability to secure tenants and the effects of general economic conditions;

- (VII) Anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations;
- (VIII) 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, 2023 and those discussed under "risk factors" in Crombie's most recent Annual Information Form (available at www.sedarplus.ca) 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 morning, everyone, and welcome to Crombie REIT's 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 22, 2024.

I would now like to turn the conference over to Ruth Martin. Thank you. 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 fourth 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 & Events.

On the call today are Mark Holly, President and Chief Executive Officer; Clinton Keay, Chief Financial Officer and Secretary; and Kara Cameron, Vice President, Accounting and Financial Reporting and incoming Interim Chief Financial 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 Management's Discussion and Analysis, and Annual Information Form for a discussion of these risk factors. Our discussion will also include expected yield on cost for capital expenditures. Please refer to the development section of our Management's Discussion and Analysis for additional information on assumptions and risks.



I will now turn the call over to Mark, who will begin the discussion with comments on Crombie's strategy and outlook. 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

Thank you, Ruth. Good afternoon, everyone, and thanks for joining us for our fourth quarter and year-end call.

In the fourth quarter and throughout the year, Crombie continued to demonstrate its ability to drive growth and create value by consistently delivering solid operating and financial results and advancing key strategic initiatives. 2023 did, however, present our industry with several obstacles, most notable being inflation, construction cost variability, interest rates volatility, and a growing housing crisis. That said, 2023 was also a very strong year for necessity-based retailers due to the population growth and a low supply of new retail construction, a trend we believe will continue in 2024. Crombie's portfolio is well-positioned to thrive in this changing landscape, both now and well into the future.

Our portfolio of grocery-anchored retail, related-industrial, and residential spans coast to coast with assets in most cities, towns, and metro centres of Canada. In fact, approximately 20 million Canadians reside within a 10K radius of our 250 grocery-anchored properties. It is this coast-to-coast curated portfolio that provides resilience, stability, and growth.

Today, I'm going to focus my remarks on two of our three value-creation drivers that are key components of our growth strategy. Those drivers are optimization of our properties and strategic partnerships. Clinton will touch on our third value driver, being operational excellence, in his remarks.

First, portfolio optimization.

Entitlement, development, and reinvestment in our properties remains an important component of our long-term strategy to accelerate AFFO and NAV growth. We classify development into two categories: major development and non-major development. In 2023, we commenced construction of our next major residential development, The Marlstone, in Halifax; advanced lease-up of our Bronte residential property; added three additional sites to our entitlement process; and completed 24 non-major developments.

The Marlstone will add 291 residential rental units to our growing residential portfolio and will be a great addition to the city of Halifax, which is currently one of Canada's fastest-growing cities. This project has an estimated total cost of about \$134 million and has an expected yield on cost between 4.5% and 5.5%. Project completion is scheduled for the first half of 2026.

Leasing momentum grew quarter over quarter at our mixed-use residential property, The Village at Bronte Harbour, with committed residential occupancy reaching 91.9%, increasing from 50% at the beginning of 2023. Full occupancy and stabilization of NOI for this property is expected in the first half of 2024. I'm also very pleased to announce that, subsequent to the quarter, we secured CMHC financing at the site, which Clinton will speak to shortly.

To support the next wave of major development growth, our team continues to be active in advancing projects through the entitlement process. Entitlement creates value at a low cost of capital for properties we already own and provides optionality within our pipeline and capital. During the year, we submitted applications for rezoning on three projects, with the most recent being Toronto East during the fourth quarter. We currently have eight locations with zoning in place or rezoning applications submitted, and these sites have the potential to contribute approximately 4.6 million square feet of commercial and residential GLA, comprising of approximately 5,300 residential units.

As I've mentioned, entitlements and unencumbered sites create optionality for Crombie, and from time to time, we may elect to sell an asset in our pipeline to crystallize the value and recycle the proceeds into other growth initiatives. In 2023, we sold the remaining land parcels at our joint venture, Opal Ridge, in Dartmouth, Nova Scotia, contributing \$7 million to FFO, of which \$1.3 million was recognized in the fourth quarter. Also in the quarter, we removed our Broadview site in Toronto from our development pipeline, as we are no longer planning to develop this site and are seeking to monetize the entitled value through a sale in 2024.

We also focused on non-major development activity in 2023. These projects have shorter durations, typically 12 months or less, and include modernizations, land use intensification, repurposing of existing space, and smaller new developments such as related-industrial. These projects carry lower overall risk given the relatively short timelines, lower capital requirements, and are currently delivering yields between 5.3% and 7.0%. These projects are a great way to strengthen our portfolio, and over the course of 2023, we expanded our portfolio by 83,000 square feet of necessity-based retailers such as grocery, dollar stores, pet, and QSR.

Our second value driver is partnerships.

We recognize the power of leveraging partnerships to drive growth while protecting our top-quality balance sheet. Our strategic partner, Empire, enables us to plan and deliver on programs that enhance the quality of our portfolio, including acquisitions, modernizations, banner conversions, development management services, and construction of purpose-built projects.

During the year, Crombie provided Empire with development and construction management expertise, unlocking a new stream of revenue. Revenue from management and development services contributed \$3.4 million in 2023, and we plan on continuing this synergistic service to create a consistent source of revenue.

In the second half of 2023, we paid approximately \$16 million in connection with the assignment of 24 subleases to Crombie for Shell fuel sites in Western Canada, providing same-asset property cash NOI growth and additional NAV creation. We also signed two right-to-development agreements for our Lynn Valley and Kingsway and Tyne sites in Vancouver, investing approximately \$34 million to unencumber these very strategic assets. We will continue to receive rental income at these sites, as well as additional revenue for development services during the entitlement phase. These arrangements provide Crombie with the necessary flexibility as we move through the entitlement process to secure the highest and best use possible. It also provides Crombie with the greatest optionality for the development and selecting of partners and, from time to time, selling the asset and monetizing the embedded value.

Before I hand it over to Clinton, I want to highlight the advancements we made throughout 2023 to our ESG program. In the second quarter, we announced our Climate Action Plan, including our commitment to reach 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. Our reduction targets were validated and approved by the Science Based Target Initiatives.

An example of our commitment to our Climate Action Plan was a modernization, funded by Crombie, of the Aberdeen Sobeys in New Glasgow, Nova Scotia, in the fourth quarter. This modernization included industry-leading efficiencies and carbon reduction features, highlighting the ways Crombie and Empire can work together to achieve each of our sustainability climate action objectives, while also improving the quality of our portfolio, and enhancing our retail assets.

I will now hand the call over to Clinton, who will highlight our operational excellence, our financial results, and the strength of our balance sheet.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT



Thank you, Mark, and good day, everyone.

Our intentionally curated, grocery-anchored portfolio continues to demonstrate its strength. There is strong demand in all market classes, supported by population growth and necessity-based tenants looking to expand, as Mark noted. Retailers have aggressive plans to expand their physical store footprints during 2024, particularly QSR, pet, and discount categories, aligning well with our desired asset mix.

Our 2023 operational results reflect this sentiment, as occupancy remains stable, ending the year with committed occupancy of 96.5% and economic occupancy at 96.0%. We view our leasing program in three streams: new leases, committed leases, and renewals. The team has worked hard to attract tenants as new leasing increased occupancy by 477,000 square feet, at an average first-year rate of \$22.71 per square foot.

At the end of the year, 97,000 square feet of GLA was committed at an average first-year rate of \$23.07 per square foot, significantly above our in-place portfolio average rate of \$17.58 per square foot. This will boost future NOI growth as tenants take possession throughout 2024.

Lease renewal activity in the fourth quarter consisted of 246,000 square feet of renewals at an 8.4% increase for year one compared to expiring rental rates, or an 8.9% increase when comparing expiring rental rates to the weighted-average rental rate for the renewal term, further contributing to our long-term NOI growth.

Lease termination income primarily relates to one tenant, totalling \$1.7 million for the year, of which \$500,000 was included in the fourth quarter. In 2023, an arrangement was negotiated with the tenant and Crombie will continue to recognize lease termination income until early 2025. We are currently reviewing various options for the space and are focused on securing high-quality tenancy that fits well into our necessity-based offering.

Same-asset property cash NOI increased 4.0% compared to the fourth quarter of 2022. Leasing-related activity, including renewals and new leasing, are the primary drivers of this growth, as well as the lease termination income previously mentioned. Retail, office, and retail-related industrial assets all contributed to our same-asset property cash NOI growth in the quarter and the year. Looking ahead, we still expect to achieve same-asset property cash NOI growth in the range of 2% to 3%, as we have previously communicated.

For the quarter, AFFO per unit was \$0.26, increasing 4.0% from the same quarter last year; and FFO per unit was \$0.30, an increase of 3.4% from Q4 2022. AFFO and FFO payout ratios were 87.3% and 73.7% respectively. The improvement in AFFO and FFO for the quarter was driven by higher property revenue from developments, leasing activity, and revenue from management and development services. This was partially offset by an increase in interest expense.

Switching to our balance sheet and overall financial condition, we remain committed to upholding a strong balance sheet and disciplined approach to capital allocation. Amidst a challenging macro-economic environment, we maintain ample liquidity of \$584 million and healthy leverage ratios with debt-to-trailing 12-month adjusted EBITDA at 8.03x and debt to gross fair value at 43.0%, further supported by approximately \$2.6 billion of unencumbered investment properties.

We continuously monitor our debt maturity ladder with particular attention on our upcoming maturities, as well as near-term capital requirements. We remain committed to achieving an upgrade to BBB from our current BBB-low stable trend from Morningstar DBRS. In the fourth quarter, spreads between secured and unsecured debt widened significantly to 80 to 100 bps from a historical norm of 40 to 50 bps. Crombie opportunistically closed on a seven-year mortgage for a retail-related industrial property and completed 15 mortgage renewals on retail assets. Together, these mortgages represented



\$187 million and have a weighted-average interest rate of 5.07%. Currently, spreads between secured and unsecured debt have reverted to more normal levels.

As Mark mentioned, subsequent to the quarter, at our joint venture property, The Village at Bronte Harbour, we closed on a \$243 million mortgage loan, equivalent to \$121.5 million at Crombie's share. The mortgage has an interest rate of 4.35%, harvesting significant interest savings through an approximate 275 bps improvement over the floating construction loan debt that was previously in-place.

With access to multiple sources of capital and plenty of liquidity, we will continue to have flexibility to meet our financing needs throughout 2024.

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

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thanks, Clinton.

Our team is firing on all cylinders against each pillar of our strategy. We will continue to build this business with consistent and measured focus on our objectives, remaining nimble and adaptable when economic conditions change, to deliver stable and consistent results.

Before we open to questions, I want to acknowledge and thank Clinton, as tomorrow will be his last day with us at Crombie. Clinton has been with Crombie for over five years, and over this time, has been a driving force in making our financial position amongst the strongest in the industry and has built a great team. We're fortunate to have a deep bench on the accounting and finance team, and Kara Cameron, who is with us today, will be stepping in as interim CFO.

And with that, we are pleased to answer any questions you may have.

Operator

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If at any time during this, if you wish to ask a question, please press star, followed by the number one on your

touchphone. And if you wish to cancel your request, please press star, two. Please ensure to lift the handset if you're using a speakerphone before pressing any keys.

Your first question comes from Mike Markidis from BMO Capital Markets. Your line is now open.

Mike Markidis — BMO Capital Markets

Thanks, Operator. Good afternoon, everybody. And, Clinton, sorry to see you go, but good luck in your new role with Empire.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thanks, Mike.

Mike Markidis — BMO Capital Markets

Just a couple of questions for me, I guess just starting off with Broadview. Mark, could you just remind us? I mean, I know where the property is, but sort of what that development entailed and maybe what the driver decision was to not include that anymore in the major development pipeline?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Hi, Mike. Yes, that property, you're familiar with that, Broadview, we made the application for the entitlement in Q2 of 2023. And when we kind of look at the stack on our ladder, it was a property that management felt would have better use for proceeds to look to monetize and crystallize the value that we're already able to create on that application. And we're focused in on, as you could see in 2023, advancing our one major project, The Marlstone, and more focused in on the non-major developments, what we call small D. We were very active in that space, and we want to be active in that space again in 2024.

We think the macro conditions, while we're very hopeful for where it's trending, it's still volatile. And for us, minor development is really quick in and out. It's a good use of capital. The yields have good returns between 5.5% and 7%. And that's sort of where our focus was in 2023. It's likely where we want

to be in 2024. And so we think the time is right to look to crystallize some value in our pipeline. And that one there made sense for where it stood in that pipeline.

Mike Markidis — BMO Capital Markets

Okay. Great. So, small D has been the focus, and will continue to be the focus outside of The Marlstone this year, it sounds. I think the exception there is maybe Broadway and one in Victoria, Belmont. What are the chances that either of those get going this year, the latter two?

Mark Holly — President and Chief Executive Officer, Crombie REIT

So, you're referring to sort of our near-term project. So, we have The Marlstone, which we greenlit, as you know, in 2023. Belmont is already zoned and it's one that, you know, we're watching. We haven't decided which direction we want to go with that asset. And there are two other projects that are zoned as well out in Halifax, they're Brunswick and Barrington, which is right in close proximity to The Marlstone. And out of the three, we greenlit The Marlstone.

So, for now, we're very comfortable on sort of those zoned projects and when conditions are right, or if we need to look to monetize one, we can do so.

Mike Markidis — BMO Capital Markets

Okay. And I guess just with it's been a while since—I mean I'm back on the Crombie name, but I did have a period of hiatus there. So just with respect to your view on condo development, is that something that you're open to in the future? Or is that sort of something that doesn't have a place with condo? I guess condo or for sale resi?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes. So condo development, yes, we're open to it. In fact, the Broadway and Commercial project at one point had one condo tower and two residential rental towers. We did convert to three rental towers because we think the conditions in that market are keener to rental at this point in time. But yes, we're

not shying away from condo. We think they are opportunistic for us to kind of go in and out quickly, but it's not our primary focus.

Mike Markidis — BMO Capital Markets

Got that. Last one before I hand it back. You guys had a strong end of the year on a full year basis, your SANOI growth of 3%. Just wondering if that's your base case for next year. Or do you see that moderating at all in 2024?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes, the team did an excellent job, Mike; 4% in the fourth quarter was on the upper end of our range. We've consistently given guidance that same-asset NOI should be in the 2% to 3% range. If you look at the full year, we are at 3%. We're sticking to our guidance, as Clinton mentioned in his prepared remarks, of the 2% to 3% range. But the fourth quarter was a great quarter by the team.

Mike Markidis — BMO Capital Markets

Got it. Thanks so much.

Operator

Your next question comes from Lorne Kalmar from Desjardins. Your line is now open.

Lorne Kalmar — Desjardins Capital Markets

Thank you. Good afternoon and echoing Mike's comments to Clinton and also a congrats to Kara. On the development side, I think you mentioned a couple times considering monetization. Would you say you're more open to monetizing density than you had been previously?

Mark Holly — President and Chief Executive Officer, Crombie REIT

No, Lorne. So, if you sort of look back on the history of the organization, we monetized Surrey, I guess that was about two years ago, and got tremendous value out of that, monetizing, crystallizing the entitled value. We did a 50% sale of the industrial asset in Montreal and taking out some value.

So, for us, we look at our sources and uses and we use the development ladder as an opportunity to kind of look at what is the near-term requirements and what are the long-term requirements. We're always long-term in mind, but we also appreciate and realize the market conditions in the near term.

So, from time to time, we will crystallize. And so this year, we looked at the ladder and Broadview sort of is one that we looked at and thought, it's an opportunity to crystallize the value. We're in for the application. If you recall, in 2023, we sold our 50% interest in Opal Ridge. And so it's a part of the makeup of how we look at the pipeline.

Lorne Kalmar — Desjardins Capital Markets

Okay. And then on Broadview, can you just remind me what the application was for in terms of zone density?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Good question. I'd have to go into the development ladder. It's about 600 units that we were moving forward on. I can get you the density.

Lorne Kalmar — Desjardins Capital Markets

No, that does it. That's more than fine.

And I guess maybe just staying on that, would the idea be to—like are you still going to move it through the zoning process and then sell? Or is the idea, the application's in and let somebody else shepherd that through, but you can still create value by having started the application process?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Could be either one but definitely, the fact that we were able to get an application in and get good support for the application by the municipality is helping in the value that we're creating there. So we don't see a reason to pause. We're going to continue to push it through the process while we seek to monetize it.

Lorne Kalmar — Desjardins Capital Markets

Okay. And then just on the non-major developments, you kind of mentioned yield targets. What are sort of the scope of the program for 2024?

Mark Holly — President and Chief Executive Officer, Crombie REIT

A lot more of the same, Lorne. So it's modernizations, LUIs. It's LUIs with the necessity-based retailers. We're seeing a lot of activity and where we can make them pencil, we're proceeding. A lot of the work has been with Empire in modernizations. We've actually built new stores for Empire. The one that we called out was in Mount Forest. So it's very much more of the same when you sort of look at the breadth of what we invested in. We talked about 2024. We're probably somewhere in that range again this year.

Lorne Kalmar — Desjardins Capital Markets

Okay. Perfect. And then I'm not letting Clinton get away that easy. Maybe just on the lease termination income that you expect to continue realizing. How much do you expect that to kind of be per quarter? And how far into 2025 does that go?

Clinton Key — Chief Financial Officer and Secretary, Crombie REIT

So early 2025, so first half of 2025.

Lorne Kalmar — Desjardins Capital Markets

And what would the amount be per quarter? Would it be similar to what you guys did this quarter?

Clinton Key — Chief Financial Officer and Secretary, Crombie REIT

Correct. Yes, that'd be a good assumption.

Lorne Kalmar — Desjardins Capital Markets

Okay. Thank you very much. I will turn it back.

Clinton Key — Chief Financial Officer and Secretary, Crombie REIT

Thanks, Lorne.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thanks, Lorne.

Operator

Your next question comes from Matt Kornack from National Bank Financial. Your line is now open.

Matt Kornack — National Bank Financial

Hey, guys. Just a few modelling-related questions on The Duke JV. Is there anything one-time in the property operating expenses this quarter? I saw that they spiked up and you had negative NOI.

Clinton Key — Chief Financial Officer and Secretary, Crombie REIT

Yes. The property had a one-time, it was an assessment/reassessment of property taxes in the quarter. It's \$2.5 million approximately for 100%, our share being \$1.25 million. So if you take that, just assume that it was for two years approximately, so on a run rate go-forward, think of it about half of that being an annual run rate go-forward.

Matt Kornack — National Bank Financial

Okay. Perfect. That's very helpful. And then with regards to just straight-line rent versus tenant incentives, it's been a little bit volatile this year. Should we think of it as kind of the average of the total year is a good run rate for those items? Or?

Clinton Key — Chief Financial Officer and Secretary, Crombie REIT

Yes. The Shell transaction certainly caused a blip in that. But I think if you look in the quarter, what we had this quarter, I'd use that as your run rate go-forward.

Matt Kornack — National Bank Financial

Okay. And then we also noticed for the variable rate interest expense in the quarter; I think it was it was up substantially. But we didn't see any change in the amount outstanding on the line and you've hedged most of your variable rate exposure. So I don't know what would have driven that. Is it something one-time in that as well?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, Matt. Yes, so let me have a look at that. I'll get back to you. But I know we had some adjustments in the quarter that might be a contributor. But I'll get back to you offline. Okay?

Matt Kornack — National Bank Financial

Okay. No, that's fair enough. And then the last one for me is just on the fee income. Is this quarter a good proxy for what we should expect on an ongoing basis? Again, there's development and other fees in there and there's some lumpiness. But any colour on that stream of income going forward would be helpful.

Mark Holly — President and Chief Executive Officer, Crombie REIT

So, Matt, as we've talked about it, it's early innings for management fees for services, but it is one that we're looking to make more of a consistent part of our business. I would look at the full year of 2023 as a good proxy for what we think the full year of 2024 and beyond could be.

Matt Kornack — National Bank Financial

Okay. That's very helpful. Thanks, and appreciate the colour.

Operator

Your next question comes from Sam Damiani from TD. Your line is now open.

Sam Damiani — TD Cowen

Thanks. Congratulations, Clinton and Kara.

First question, just on small-D developments, completed 83,000 square feet last year; and 28,000 square feet currently under construction. Is that a pipeline, an active pipeline that could build throughout the years such that the completions sort of match what you completed last year, around the 80,000-square foot mark?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes. It'll vary from year to year, Sam. But it is definitely a focus for us. I talked a lot about small-D development, especially in this market. And it is one of the advantages that we're able to take up with our partnership with Empire.

And so as we look at where we're investing our money, if you kind of look at how we invested capital in 2023, about \$50 million of it came into small-D development; 24 projects. It was a mix between LUI intensifications with necessity-based tenants. It was building out modernizations on grocery stores. It was actually building out some new stores, which you don't hear a whole lot of, but we're able to do that because of our partnership with Empire. So yeah, we are very active in this space and we're continuing to push on small-D development.

Sam Damiani – TD Cowen

And sorry, that 83,000 feet last year and the 28,000 feet under construction, sorry, is that all new space? Or is some of that I guess just upgrading existing spaces? I'm just curious to get a sense of how material this is and what's the tenant activity that's driving it.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes. The 83,000 is all new space. And so, what is driving that? It's Dollarama's at approximately 10,000 feet; it's QSR between McDonald's and A&Ws; you've got some pet in there; and then you've got Empire. And we are able to build out a new store for Empire in Mount Forest. And then we built out an industrial asset for them of 20,000 square feet. So that is all new GLA to Crombie.

Sam Damiani – TD Cowen

And do you have a sense as to how much capacity is on all of the land that the REIT owns to build out more of these types of single-level retail intensifications?

Mark Holly — President and Chief Executive Officer, Crombie REIT

We do. We just don't disclose it. So our development and construction team, in connection with our ops and leasing teams, have looked at all 300 properties that we have and where we think we can fit in a pad or where we think we can do a bolt-on, if you'll even look at the partnerships we have with Empire, they look at their portfolio and where they want to expand or contract, we're able to take advantage of that. So we do have a sense of what's out there and what's available.

The challenge in 2023 and probably into 2024 and maybe a bit beyond is making some of the brand-new pads pencil. And so working with the retailers, it's just taking longer. But because there is so much pent-up demand for more retail, the intensification, we were able to deliver 83,000 square feet, which we're really pleased with. That's something that we want to try and push again in 2024. But it's not as easy as it once was.

Sam Damiani – TD Cowen

That's great colour and appreciated. I guess just on The Duke, with the property tax reassessment, I mean, it sounds like a pretty significant amount. Was this anticipated? Did it impact your fair value of the asset? Just want to get a sense as to what was behind it and was it expected.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Fair enough. I'd say it was anticipated. So yes, it would not impact the fair value, in my opinion.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yes. So 2022 assessment and then 2023, and so yes, it was anticipated. We were expecting it. We just didn't know what quarter it was going to show up in.

Sam Damiani – TD Cowen

Fair enough. Okay. Thank you, and I'll turn it back.

Mark Holly — President and Chief Executive Officer, Crombie REIT

Thanks, Sam.

Operator

Your next question comes from Sumayya Syed from CIBC. Your line is now open.

Sumayya Syed — CIBC

Hey, good afternoon. Just firstly to touch on maybe get your outlook for leasing spreads. They were pretty strong in the quarter. And do you see this level continuing?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Yeah, there's been a lot of talk around leasing spreads, Sumayya, and it's a good question. The team led by Arie on our leasing & ops, did a tremendous job in 2023 and you could see, quarter over quarter, a good build-up.

We've always given guidance to be sort of in that mid-single-digit range. We definitely outsized it and I think the conditions allowed us to outsize it. The team is focused on it for 2024. While we're not changing our guidance, the team is working with the retailers and appreciates the merch mix that we have. And where the occupancy rate allows us to make some changes, we're going to make those changes, and we're going to look at market changes, as Clinton mentioned in his prepared remarks.

Sumayya Syed — CIBC

Okay. Thanks for that. And then moving to the financing side of things. You did the mortgage on the industrial at 5.3% and you have about \$180 million of mortgages rolling this year. So would you expect the financing terms be similar when you renew your grocery-anchor retail stuff?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

When you say renew, renew in terms of the rates?

Sumayya Syed — CIBC

Yes.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

I just want to get clarification on the question. So, obviously, the mortgages that are coming due, our intent in the short-term would be we have a non-revolving facility that allows us to basically put into a floating bank loan that we have. And then we'll pick the time that's right and be opportunist of when to go to the market, and obviously, preference being in the unsecured market. So when that comes, I guess we'll know whether or not, what the delta is between the mortgages maturing.

But our short-term plan will be to put it into our floating rate bank loan and then subsequently have long-term financing put in place.

Sumayya Syed — CIBC

Okay. And then lastly, just wanted to confirm that the lease termination income you have, it does show up in your same property NOI numbers?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Yes, it does. Yes.

Sumayya Syed — CIBC

Okay. That was all from me. And congrats to Kara and Clinton.

Operator

Your next question comes from Pammi Bir from RBC. Your line is now open.

Pammi Bir — RBC Capital Markets

Thanks. Hi, everyone. Just coming back to the same property NOI outlook. What are some of the assumptions that you've baked in from an occupancy standpoint?

Mark Holly — President and Chief Executive Officer, Crombie REIT

At this point, we've baked in to be flat.

Pammi Bir — RBC Capital Markets

Any tenants at all on the watch list, or any known vacancies, larger ones that might be coming up at all? Or?

Mark Holly — President and Chief Executive Officer, Crombie REIT

Nothing that is material. We're hopeful that there is a little bit more than what we have on the watch list. But at this point, it's very stable.

Pammi Bir — RBC Capital Markets

Okay. And then just the last one for me, just with respect to Opal Ridge. All of the gains that were anticipated on that site, have they been effectively realized now? I think you mentioned \$1.3 million, Clinton, in Q4. Is that correct?

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

In Q4, correct. And that's the last of what we'd anticipate for that property.

Pammi Bir — RBC Capital Markets

Thanks very much. I'll turn it back.

Clinton Keay — Chief Financial Officer and Secretary, Crombie REIT

Thank you.

Operator

There are no further questions at this time. Madam Ruth, please continue.

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 first quarter call in May.



Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for joining. You may now disconnect.