Pro Real Estate Investment Trust (PROREIT)

PROREIT announces strong first quarter 2017 financial results.

PRO Real Estate Investment Trust ("PROREIT" or the "REIT") (TSXV: PRV.UN) is pleased to report financial and operating results for the three-months ended March 31, 2017 (or "first quarter").

"Our strong first quarter financial and operating results reflect the positive impact of our most recent acquisitions and development activities in 2016. The purchase of six properties in the fourth quarter of 2016, and a 50% interest in a seventh property in February, 2017, drove strong growth in property revenue, net operating income(1) and adjusted funds from operations(1)," said James W. Beckerleg, President and Chief Executive Officer.

"We are pleased that our growth efforts are starting to be noticed by a wider range of investors, both individuals and institutions. The growing recognition of our REIT has had, we believe, an important impact on the trading and liquidity of our units in financial markets. As a result, the valuation of our units has improved, and the discount to net asset value of our units has narrowed."

First Quarter 2017 Financial Results

For the three-months ended March 31, 2017, PROREIT delivered solid financial performance, with property revenues, net operating income ("NOI")(1) and adjusted funds from operations ("AFFO")(1) all growing strongly. This performance was built on the REIT's consistent operating performance, compared to the first three months of 2016. The acquisition of the 6 properties in 2016 and a 50% interest in a new property in the first quarter of 2017, all contributed to the improved results.

For the three months ended March 31, 2017, PROREIT recorded property revenue of $7.48 million compared to $5.67 million in the first quarter of 2016, an increase of 32%.

NOI increased 31.5% to $4.5 million in the first quarter compared to the three months ended March 31, 2016. The increase in NOI was driven mainly by the REIT's acquisitions in the fourth quarter of 2016 and the first quarter of 2017.

For the quarter, PROREIT generated AFFO of $2.57 million, a 39.5% increase over AFFO of $1.8 million for the same period last year. $0.0539 of AFFO per basic unit was unchanged from the previous year.

For the three months ended March 31, 2017, the REIT declared three distributions totalling $0.0525 per trust unit of the REIT. The AFFO payout ratio in the first quarter was 97.3%, unchanged from 97.3% in the first quarter of 2016.

The balance sheet also improved during the quarter. At March 31, 2017, total assets of the REIT stood at $263.2 million, an increase of 26.9% compared to total assets of $207.4 million at March 31, 2016.

At March 31, 2017, debt to gross book value(1) stood at 58.72%, compared to 61.46% on March 31, 2017. The weighted average interest rate on mortgage debt declined slightly to 3.70%, compared to 3.71% in the three months ended March 31, 2016.

At March 31, 2017, the basic weighted average of units outstanding stood at 47,564,959 units.

PROREIT's portfolio continues to perform well. At the end of the first quarter, the REIT's occupancy rate was 95.2%, up slightly from 95.0% at March 31, 2016, and 94.7% at the end of the previous quarter. Weighted average lease terms were stable at 6.4 years. This performance reflects the quality of the REIT's commercial properties, the majority of which are anchored by, and continue to attract, high quality tenants, with strong covenants.

At March 31, 2017, gross leasable area ("GLA") grew to 2,090,214 square feet, an increase of 24.6% year-over-year. At that date, the REIT's total portfolio consisted of 40 properties compared to 33 at the end of the first quarter of 2016. The REIT's portfolio now includes four office properties representing 154,357 square feet of GLA, 22 retail properties representing 810,028 square feet of GLA, ten industrial properties representing 851,536 square feet of GLA and three commercial mixed use properties representing 274,293 square feet of GLA. Government and national tenants represent 82.8% of base rent at the end of the first quarter. The REIT's top ten tenants, who are strong brand name companies or governments, represent approximately 49% of total base rent of the portfolio. The REIT's diverse tenant base has a staggered lease maturity profile with no more than 10.8% of base rent maturing in any given period.

Significant Events

On February 28, 2017, the REIT completed the previously announced acquisition of a 50% undivided interest in the property located at 1750 Jean-Berchmans-Michaud Street, Drummondville, Québec for a purchase price of $3.0 million, excluding closing costs. The property is a freestanding single-tenant industrial property built in 1997 and totalling 171,119 square feet of GLA on 10.75 acres of land. It is fully occupied under a long-term lease of 12 years with contracted annual rent steps, expiring in 2028. The purchase price of $3.0 million was satisfied by the assumption of 50% of a recently completed 4% ten-year mortgage of approximately $4.0 million and the issuance of 383,598 Class B limited partnership units ("Class B LP Units") of PRO REIT Limited Partnership, a subsidiary of the REIT, at a price of $2.25 per Class B LP Unit.

Development Activities

The REIT continues to look at development opportunities on our existing portfolio. Densification of the properties is a low cost method of increasing assets and GLA, and such developments tend to generate high rates of return.

In addition to two projects we completed in 2016, our management team is now actively pursuing opportunities at our properties in Miramichi, New Brunswick, and at Upper Tantallon near Halifax, Nova Scotia.

On King George Highway in Miramichi, we are building two new pads that will add a total of 6,400 square feet of GLA. Lease agreements have been signed with Subway, Rogers and Cara. One of the pads, at 2466 King George Highway, is expected to be completed for the tenants in September 2017. It is expected to generate an estimated 18% return on invested capital ("ROIC"). The second pad, at 2485 King George Highway, will be delivered in December this year, and is expected to generate approximately 9% ROIC.

Subsequent Event – May 16, 2017

On May 16, 2017, PROREIT announced the conditional acquisition of four commercial properties for an aggregate purchase price of $40.4 million, representing an implied weighted average capitalization rate of approximately 7% and a weighted average lease term of approximately 6 years (collectively, the "May 16 Acquisitions"). The acquisitions will be partially financed by proceeds from the profitable sale of two industrial buildings in Etobicoke, Ontario for $22.3 million, representing a capitalization rate of approximately 6% upon exit.

The four properties being acquired include a retail property and a light industrial building totaling 90,600 square feet in Atlantic Canada and two industrial buildings totaling 456,000 square feet in Woodstock, Ontario.

Properties in Woodstock, Ontario

PROREIT has entered into a binding conditional agreement to acquire two high quality light industrial buildings in Woodstock, Ontario, for a total purchase price of $30.0 million (excluding closing costs). The properties, built in 2007 and 2009, are fully leased and enjoy 28 and 30 foot clear ceiling heights and are strategically located near major markets in both Canada and the United States. The properties are 100% leased to seven high quality, national or multi-national tenants with excellent covenants and leases ranging in size from 26,000 square feet to 132,000 square feet.

The properties will be financed by (i) the assumption of $16.7 million in mortgages, (ii) the issuance of $7.2 million of Class B LP Units at a price of $2.25 per unit, and (iii) the balance with cash from the net proceeds of the sale of the two industrial buildings denoted below. The Class B LP Units are economically equivalent to and exchangeable for trust units of the REIT ("Units") on a one-for-one basis, and are accompanied by special voting units that provide their holder with equivalent voting rights to holders of Units.

The vendor of the Woodstock properties is a limited partnership in which two trustees of the REIT, Peter Aghar and Shenoor Jadavji, have an aggregate economic interest of approximately 25%. As two corporations respectively controlled by Mr. Aghar and Ms. Jadavji control the vendor through their ownership of the general partner of the vendor, the transaction involving the acquisition of the Woodstock properties is expected to constitute a "related party transaction" under Multilateral Instrument 61-101 – Protection of Minority Shareholders in Special Transactions ("MI 61-101") (the "Woodstock Acquisition"). See "Transaction Matters" below.

Properties in Atlantic Canada

The REIT has entered into a binding conditional agreement to acquire a free-standing retail property located in Saint John, New Brunswick. The property, developed in 2016, is 100% occupied by a provincial crown corporation under a long term lease with a remaining term of approximately 15 years. The purchase price of approximately $4.8 million (excluding closing costs) is expected to be satisfied by approximately $3.7 million aggregate principal amount of new mortgage financing, and the balance to be paid from cash from the net proceeds of the sale of the two industrial buildings.

The REIT has also entered into a letter of intent and expects to sign a binding conditional agreement for the acquisition of a light industrial property for $5.7 million. The well located building is fully leased to a good quality tenant. Further details will be disclosed at a later date.

"These transactions fit perfectly with our strategy of acquiring high quality commercial real estate in stable suburban markets. With these four proposed acquisitions, we continue to expand our footprint in the Maritimes, while moving into strategic suburban markets in Southern Ontario," said Mr. Beckerleg. "The acquisitions also enable us to further diversify our portfolio by significantly adding to our GLA in the industrial segment of the market."

Sale of GTA Industrial Properties

The REIT has entered into a binding agreement for the sale of two industrial properties in Etobicoke, Ontario for gross proceeds of $22.3 million, representing a capitalization rate on sale of approximately 6% (the "Sale Transaction"). The two properties, which were acquired by PROREIT in June 2015 and had a total capital cost of $20.1 million, are being sold opportunistically, resulting in an approximately $2 million gain on their capital cost and a $0.6 million gain over the properties 2016 IFRS carrying values. The Sale Transaction will generate in excess of $10 million in free cash, all of which is expected to be used to settle the purchase price of the acquisitions described above. The two properties, which were 100% leased, represent approximately 298,000 square feet of GLA. The Sale Transaction is expected to be completed in June 2017 and is subject to customary closing conditions.

Subsequent Events – May 23, 2017

Offering of Units

On May 23, 2017 the REIT announced that it has entered into an agreement to sell to a syndicate of underwriters co-led by Canaccord Genuity Corp. and TD Securities Inc. as joint bookrunners and Scotia Capital Inc. (collectively, the "Underwriters"), on a bought deal basis, 8,900,000 Units at a price of $2.25 per Unit (the "Offering Price") for gross proceeds to the REIT of approximately $20 million (the "Offering").

The REIT also granted the Underwriters an over-allotment option to purchase up to an additional 1,335,000 Units on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the Offering. The Offering is expected to close on or about June 13, 2017 and is subject to customary conditions, including regulatory approval. The Units will be offered by way of a short form prospectus to be filed with the securities commissions and other similar regulatory authorities in each of the provinces of Canada, pursuant to National Instrument 44-101 - Short Form Prospectus Distributions.

The REIT intends to use the net proceeds from the Offering to partially fund announced and future acquisitions, to fund expansion and redevelopment initiatives at new and existing properties, to repay certain indebtedness and for general business and working capital purposes.

Additional Property Acquisitions

The REIT announced that it has entered into a binding conditional agreement in respect of four of its previously announced acquisitions (collectively with the May 16 Acquisitions, the "Acquisitions"). The agreement provides that the REIT will acquire four retail properties in the province of Québec for an aggregate purchase price of $9.0 million, representing a capitalization rate of approximately 6.9%. The REIT previously announced that it had entered into a letter of intent for the acquisition of these properties. The properties are four free standing retail and convenience properties totalling approximately 13,800 square feet of gross leasable area. They are 100% occupied with a weighted average remaining lease term of 7.6 years and include quality tenants such as McDonald's, Tim Hortons and Couche-Tard. The purchase price of $9.0 million (excluding closing costs) is expected to be satisfied by (i) the assumption of $5.9 million in mortgages with a weighted average interest rate of 3.65% and a weighted average term to maturity of 2.6 years, (ii) the issuance of approximately $2.5 million of Class B LP Units at the Offering Price, and (iii) a cash payment of $600,000. These acquisitions are subject to customary due diligence and closing conditions, including applicable regulatory approvals, and are expected to close in the second half of 2017.

The vendors of these four retail properties are corporations in which Vincent Chiara, a trustee of the REIT, currently has an interest. The transaction is therefore expected to constitute a "related party transaction" under MI 61-101. If required, the REIT intends to rely on applicable exemptions from the minority approval and valuation requirements of MI 61-101 for related party transactions on the basis that the transaction has a value of less than 25% of the REIT's market capitalization. The transaction was unanimously approved by the independent trustees of the REIT subject to the purchase price being supported by an independent estimate of the fair market value of the properties prepared by an independent appraiser under the supervision of the independent trustees of the REIT.

In addition, the REIT intends to use the net proceeds from the Offering to, among other things, fund $2.5 million of construction costs associated with the square foot optimization of four projects identified by the REIT that upon completion, will generate a weighted average return on invested capital of more than 11% and repay approximately $13.4 million of amounts outstanding under the REIT's credit facilities, which may be subsequently redrawn and applied as needed to fund future acquisitions and for general trust purposes. Following the closing of the Offering, the Acquisitions, the Sale Transaction and the repayment of certain indebtedness, PROREIT estimates that its ratio of debt to gross book value will decline.

Outlook

Management expects that fiscal 2017 will be an active year for PROREIT. Commercial real estate markets in many of Canada's largest cities appear to be heating up, especially in very large markets like the Greater Toronto Area. However, medium and smaller sized markets, where PROREIT has focused its strategy, remain stable and continue to offer attractive investment opportunities. The pipeline for acquisitions continues to provide new opportunities in the REIT's target markets.

Management believes that its target real estate markets will continue to offer attractive acquisition opportunities, especially in the retail and industrial sectors of the commercial real estate market. While interest rates have been rising slightly, Management believes the increases are unlikely to be significant and that further increases may in fact already be discounted in the market. The commercial real estate market where PROREIT operates should not be overly affected by rising rates.

PROREIT will increasingly focus on acquisitions that offer some internal growth opportunities, and Management intends to take advantage of such opportunities to grow the portfolio and increase returns.

Equity markets for REITs are currently performing well and the REIT's unit price has improved considerably. As PROREIT continues to grow, Management is confident that the REIT will continue to experience success in the year ahead.

Transaction Matters

The Acquisitions remain subject to satisfactory due diligence review in accordance with the REIT's standard operating procedures, and the acquisition agreements contain or will contain closing conditions, including with respect to financing and any required regulatory approvals, and representations and warranties typical of those contained in acquisition agreements negotiated between sophisticated purchasers and vendors acting at arm's length.

A special committee of independent trustees of the REIT is responsible for supervising the process to be carried out by the REIT and its advisors in connection with the Woodstock Acquisition. The key terms of the Woodstock Acquisition have unanimously been approved by the independent trustees of the REIT. The closing of the Woodstock Acquisition is subject to the satisfaction of certain additional conditions, including among others: (i) satisfactory due diligence by the REIT of the Woodstock properties, including receipt of an independent estimate of the fair market value of the properties prepared by an independent appraiser under the supervision of the Special Committee, (ii) receipt of certain regulatory approvals, including of the TSX Venture Exchange, and (iii) receipt of any required unitholder approval under MI 61-101.

Additional Financial Information

Information appearing in this news release is a select summary of results. The condensed consolidated financial statements and management's discussion and analysis of PROREIT for the three months ended March 31, 2017 will be available under PROREIT's profile on SEDAR at www.sedar.com and on PROREIT's website at www.proreit.com.

About PROREIT

PROREIT is an unincorporated open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario. PROREIT was established in March 2013 to own a portfolio of diversified commercial real estate properties in Canada, with a focus on primary and secondary markets in Québec, Atlantic Canada and Ontario with selective expansion into Western Canada.

Non-IFRS and Operational Key Performance Indicators

PROREIT's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). In this press release, as a complement to results provided in accordance with IFRS, PROREIT discloses and discusses certain non-IFRS financial measures, including Adjusted Funds From Operations ("AFFO"), Funds From Operations ("FFO"), Net Operating Income ("NOI"), debt to gross book value, interest coverage ratio, debt service coverage ratio, and payout ratios as well as other measures discussed elsewhere in this release. These non-IFRS measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other issuers. PROREIT has presented such non-IFRS measures as Management believes they are relevant measures of PROREIT's underlying operating performance and debt management. Non-IFRS measures should not be considered as alternatives to net income, cash generated from (utilized in) operating activities or comparable metrics determined in accordance with IFRS as indicators of PROREIT's performance, liquidity, cash flow, and profitability.

For a full description of these measures and, where applicable, a reconciliation to the most directly comparable measure calculated in accordance with IFRS, please refer to the "Non-IFRS and Operational Key Performance Indicators" section in PROREIT's Management's Discussion and Analysis for the three and twelve months ended March 31, 2017, available on SEDAR at www.sedar.com.

Forward-Looking Statements

This news release contains forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond PROREIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking statements.

Forward-looking statements contained in this press release includes, without limitation, statements pertaining to the ability of the REIT to execute its growth strategies; the performance of the capital markets in the future; the REIT's future financial performance; the development activities of the REIT and their impact on the REIT's results; the expected timing and completion of the Acquisitions, the Sale Transaction and the Offering; the effect of the Acquisitions and the Sale Transaction on the financial performance of the REIT; the REIT's ability to enter into a binding agreement for the acquisition of the property in Moncton, New Brunswick; the use of the net proceeds of the Sale Transaction and the Offering; and the ability of PROREIT to execute its business and growth strategies. PROREIT's objectives and forward-looking statements are based on certain assumptions, including that (i) PROREIT will receive financing on favourable terms; (ii) the future level of indebtedness of PROREIT and its future growth potential will remain consistent with REIT's current expectations; (iii) there will be no changes to tax laws adversely affecting PROREIT's financing capacity or operations; (iv) the impact of the current economic climate and the current global financial conditions on PROREIT's operations, including its financing capacity and asset value, will remain consistent with PROREIT's current expectations; (v) the performance of PROREIT's investments in Canada will proceed on a basis consistent with PROREIT's current expectations; and (vi) capital markets will provide PROREIT with readily available access to equity and/or debt.

The forward-looking statements contained in this news release are expressly qualified in their entirety by this cautionary statement. All forward-looking statements in this press release are made as of the date of this press release. PROREIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by law.

Additional information about these assumptions and risks and uncertainties is contained under "Risk Factors" in PROREIT's latest annual information form, which is available on SEDAR at www.sedar.com.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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