

PRO Real Estate Investment Trust

2021 Second Quarter Results

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CORPORATE PARTICIPANTS

James Beckerleg

PRO Real Estate Investment Trust — President & Chief Executive Officer

Gordon Lawlor

PRO Real Estate Investment Trust — Executive Vice President, Chief Financial Officer & Secretary

CONFERENCE CALL PARTICIPANTS

Colin Healey

Haywood Securities — Analyst

Yash Sankpal

Laurentian Bank Securities — Analyst

Jenny Ma

BMO Capital Markets — Analyst

PRESENTATION

Operator

Good morning and welcome to the PROREIT Second Quarter Results Conference Call. At this time, all lines have been placed on mute to prevent background noise. Mr. James Beckerleg, President and Chief Executive Officer, and Mr. Gordon Lawlor, Executive Vice President, Chief Financial Officer, and Secretary, will make a short presentation, which will be followed by a question-and-answer period open exclusively to financial analysts. In order to ask a question, press star then the number one on your telephone keypad. If you'd like to withdraw your question, please press star followed by two.

For your convenience, the press release, along with the second quarter financial statements and management's discussion and analysis, are available at proreit.com in the Investor Section and on SEDAR.

Before we start, I have been asked by PROREIT to read the following message regarding forward-looking statements and non-IFRS measures:

PROREIT's remarks today may contain forward-looking statements about its current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements, or other future events or developments. Forward-looking statements are based on information currently available to management and on estimates and assumptions made based on factors that management believes are appropriate and reasonable in the circumstances; however, there can be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause actual results, levels of activity, performance, achievements, future events or developments to differ materially from those expressed or implied by the forward-looking statements. As a result, PROREIT cannot guarantee that any forward-

looking statement will materialize and you are cautioned not to place undue reliance on these forward-looking statements.

For additional information on the assumptions and risks, please consult the cautionary statement regarding forward-looking statements contained in PROREIT's MD&A dated August 11, 2021, available at www.sedar.com. Forward-looking statements represent management's expectation as of August 11, 2021 and, except as may be required by law, PROREIT has no intention and undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

The discussion today will include non-IFRS financial measures. These non-IFRS measures should be considered in addition to and not as a substitute for or in isolation from the REIT's IFRS results. For a description of these non-IFRS financial measures, please see the 2021 second quarter earnings release and MD&A.

A reconciliation of non-IFRS to IFRS results, as applicable, may be found in the earnings release and MD&A for the second quarter of 2021. Please refer to the non-IFRS and operational key performance indicators section in the MD&A for the second quarter for additional information.

I will now turn the call over to Mr. James Beckerleg. Please go ahead.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Thanks very much, Colin, and good morning, everyone, and welcome again this quarter.

I guess while many of you may still be working remotely and tuning in from home, I must say that for me it's great to be getting back to the office gradually and I think safely.

As we are all together moving towards the so-called new normal, it's nice to feel the confidence of our many stakeholders now and the communities where we operate restored after a long period of uncertainty, but it's against this backdrop that I am pleased to report that PROREIT delivered what we are very confident is a solid performance for the second quarter of 2021. Those of you following us may recall we actively returned to growth in the first quarter of this year and we have maintained this momentum going through the second quarter, as is reflected across our key operational and financial metrics, which were all announced in our press release yesterday evening.

During the quarter we completed the acquisition of 18 industrial properties for \$133.7 million. They were financed in part from new first mortgages which we believe history will show are carrying very attractive deal terms. We sold but one non-strategic retail property in Fredericton, New Brunswick during the quarter for just a shade under \$5 million but still marginally above our IFRS carrying value. Therefore, on a net basis, our total portfolio is comprised of 107 properties now covering 5.5 million square feet.

The accretive acquisitions made over the last year have further diversified our tenant base, which we believe important, and increased our concentration in stronger asset classes and very desirable locations. Of special note, our exposure to the very robust industrial sector now represents 56.5% of our portfolio base rent compared to just 48.2% a year ago. These purchases have also increased our presence in Winnipeg and Ottawa, two markets that have shown remarkable resilience over the mid to long term and we now own 15 properties in Winnipeg, 10 in Ottawa, and look forward to further growth in those

cities in the future. We believe both of the factors, industrial concentration and the geographical markets that we're in, will contribute to improved operating results in the quarters going forward.

As mentioned in our last call, during the quarter we completed the \$50 million private placement with the Bragg Group of Companies which provided equity support for the transactions I have been speaking to. We welcome them, I must say, as major new shareholders and look forward to our future together.

On the operational front, we have consistently maintained firm rent collections during the pandemic with substantially all rent collected again in this quarter. This highlights, we believe, the strength of our well-diversified tenant base across all sectors of the real estate that we're invested in.

Leasing activity continued to be robust in the second quarter and our occupancy rate actually increased slightly to 98.5% at June 30th compared to 98.1% a year ago. We have renewed approximately 80% of the total square feet maturing in 2021 at positive spreads to the maturing leases of 4% and we are actively engaged with the balance of the space in real time as we speak this morning. Attention, of course, at this time of the year has already turned to 2022 renewals and many negotiations with the maturing leaseholders are already underway. To date we have renewed 17% of leases maturing next year and average spreads there again of positive 3% across what we have renewed.

I'll now turn it over to Gordie and Gordie will discuss our second quarter financial results in a little more detail.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Thank you, Jim, and good morning, everyone.

We delivered a strong financial performance in the second quarter. Revenues amounted to \$17.8 million for the quarter, a 3.2% growth compared to the same period last year.

Net operating income reached \$10.7 million, an increase of 9.8% compared to Q2 2020. These increases are as a result of the favourable impact of net property acquisitions in the last 12 months. We're particularly pleased with the growth achieved across our three sectors of activity with 6.2% increase in same property net operating income compared to the prior period. Excluding COVID-related expenses of \$200,000 recorded in the second quarter of 2020, same property net operating income increased 4.3%. The favourable (inaudible) reflects increased occupancy, contracted rent steps, and higher net renewal rents in our portfolio.

AFFO totalled \$5.7 million, a 10% increase compared to the same prior period. Due to timing, our AFFO payout ratio increased to 92.3% in the second quarter of 2021. This is because of the lag between the deployment of the funds from the private placement and incremental monthly distributions paid in the current quarter on the newly-issued units from the private placement. This number is expected to stabilize in the third quarter.

We continued to make meaningful strides strengthening our financial position, which is a key component of our strategy. As Jim mentioned, we closed our \$50 million private placement in the quarter.

We now have in excess of \$20 million in operating liquidity. We've also entered into a new \$24.8 million mortgage financing at a better rate and extended term for six of our retail assets, bringing the total amount of 2021 and 2022 mortgages refinanced to \$50.6 million year to date. Our debt to gross book value was 58.2% at the end of the second quarter. Weighted average interest on mortgage debt was 3.5%, down from 3.72% in the same quarter last year. The benefits of our financings and acquisition activity will be more fully reflected in our third quarter results.

Turning to distributions, \$0.037 per unit were declared monthly throughout the second quarter of 2021. Our weighted average cap rate for the portfolio is approximately 6.3% or \$137 per square foot.

I'll now turn it back to Jim for closing remarks.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Thanks for that, Gordie.

I'll just conclude by saying, with vaccination programs progressing well across Canada and the strong restart we're seeing in the economy, our business outlook at PROREIT has become very positive. We believe we are poised to benefit from what is a solid position and we are staying committed to our strategic goals. These include strengthening the value of our portfolio and optimizing our debt profile, which we've spoken to somewhat this morning, as well as broader growth. Our current focus is mainly on the robust industrial sector and scaling up our presence in attractive mid-sized Canadian cities.

In closing, I want to extend a special thank you to all of our employees. They have successfully navigated an unprecedented period and I'm really truly gratified by the perseverance of the entire

PROREIT team. I also want to recognize, of course, my fellow board members for their continued support and counsel. And I truly look forward to seeing everyone, including the people on this call, as we gradually and safely return to the office over the next few months.

We believe, with the economic expansion, many new opportunities will present themselves going forward. We are all motivated and committed to creating long-term value for our unitholders in this changing atmosphere.

So that wraps up our formal comments and I'm glad to turn it back to the operator, who can manage any questions that the analysts may have for us this morning. Thanks very much for your attention.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Your first question comes from Colin Healey from Haywood Securities. Colin, please go ahead.

Colin Healey — Analyst, Haywood Securities

Good morning, guys. Congrats on a solid looking quarter. I was just wondering if you can give us an idea, and I'm not sure if you can, on the Q2 kind of exit run rate revenue here with the 17 net new properties now fully integrated.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Gordie, you can...

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Yeah. So, are you talking about what the acquisitions would be on a go-forward basis type thing?

Colin Healey — Analyst, Haywood Securities

Yeah, sure. That would fill in that blank for sure.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

With the 18, I mean we've given the estimated cap rates and whatnot, but with the 18 acquisitions it's about \$8 million of incremental NOI to the REIT. There's only about \$500,000 of that reflected in this quarter. Obviously, the new interest rates of the new debt is not reflected in this quarter from an expense standpoint. It is from the balance sheet standpoint. So about \$8 million. And then you'll see the

incremental interest rate on all this stuff is between 2.87% and 3.03%, so we're pretty happy with all of that.

Colin Healey — Analyst, Haywood Securities

Okay, great. And do you have any update on the property that was acquired and designated for improvement, when that might be complete and hitting the revenue?

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Geez, like you're tough. We just closed on it May 25th, Colin. And we had a two-year development plan for it.

Colin Healey — Analyst, Haywood Securities

Two-year development plan.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Yeah. But that said, we have one RFP we're working on right now with a tenant and we'll see in the next little while if that comes to fruition or not. It's an interesting property in that it's 82,000 square feet. It can be a single-tenant property and it can be split up into 40,000 square foot bays, or actually 20,000 square foot bays. So we're running this first opportunity to the ground and we'll see where that goes, but we're pretty confident in this property over the next couple years for sure.

Colin Healey — Analyst, Haywood Securities

Yeah, that's great. That's kind of the timeline that we had, but that's good colour. I guess just last from me, you know, I'm really comfortable with the occupancy levels and it's great to see them even improving, but do you have any comment on the unoccupied space and kind of where is it, what is it, and do you anticipate having that rented out or leased out at any point soon?

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Yeah. So, I mean our unoccupied space of 5.5 million feet is about 80,000, I think, square feet, so we have ebbs and flows quarter over quarter, bits and pieces there, but it's pretty, it's fluid that way. But as you see, we've maintained basically the 98.2% to 98.5% go forward. I mean we just purchased these industrial properties in Ottawa and Winnipeg. They're both 96%, 97% occupied and I think Mark's got them both 100% occupied now. It's hard to say there's significant upside when you have a 98.5% occupancy rate, but that's (inaudible) there.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

I think we're comfortable with what's being backfilled and the vacant space is being rented at attractive rates above where we would have expected them to have maybe leased up even a year ago. But having said that, as Gordie said, I mean there's always going to be some modest and planned vacancies because, as we upgrade some of our tenancies in different buildings, there can be times of a quarter or something between tenancies.

Colin Healey — Analyst, Haywood Securities

Yeah, for sure. That's the way I see it too, just it's a very stable business and portfolio so I'm just looking for colour wherever I can get it. That's it for me. Thanks, guys.

Operator

Your next question comes from Yash Sankpal from Laurentian Bank. Yash, please go ahead.

Yash Sankpal — Analyst, Laurentian Bank Securities

Good morning.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Good morning.

Yash Sankpal — Analyst, Laurentian Bank Securities

Your Compass EBITDA was down a bit this quarter. Was there anything abnormal?

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

There's about \$170,000 of bonuses in there. Compass accrues their bonuses on six-month period, so Q2 and Q4 you'll see Compass generally down a little bit. So there's about \$170,000 in there. So

Compass is on target, budget wise, of about just over \$1 million, so we expect they'll achieve that by the end of the year.

Yash Sankpal — Analyst, Laurentian Bank Securities

\$1 million of EBITDA?

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Yeah. In the third-party line, yeah.

Yash Sankpal — Analyst, Laurentian Bank Securities

Right. And your corporate G&A, how should we model it going forward given all these acquisitions and all? What is a good run rate for that figure?

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

I think if you look the last two quarters we've been pretty stable there, so if you look at that, I mean the acquisitions didn't affect our G&A significantly. We have the ability to take these properties in with their current structure that we had. Property management might have needed a bit of people, but that's reflected in the Compass line. So I think if you multiple that by four it's \$4 million to \$4.2 million for the year, I think.

Yash Sankpal — Analyst, Laurentian Bank Securities

Okay. And just wanted to get a bit more colour about your office and retail leasing. What are you hearing from your tenants? Any colour would be helpful.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Our renewal rates across the portfolio are staying very high, the retail and office sectors included. We're not getting the same increases in rent maturities in office and retail that we are in the industrial sector. But having said that, we've many of our leases with rent steps in place and so we continue to see improve, you will see same property improvements in both the retail and office sector.

We've only had two. We have two retail properties that we're probably having to negotiate a modest rent reduction reflecting the market, but they won't, I'm just giving you colour on the market, they won't have any significant impact on any of the numbers you're looking at. But we have seen a couple of national retailers come back at us. Our office—

Yash Sankpal — Analyst, Laurentian Bank Securities

Okay. Yeah, go ahead.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

No, I was just going to say our office is a pretty diversified portfolio and we're seeing good renewals there.

Yash Sankpal — Analyst, Laurentian Bank Securities

And Jim, if you recall, in the past year had said that for some time at least you want to see the office market, you know, how it recovers from this before you look at buying any office properties. Has your view changed since then given what has happened between now and then?

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Our view of the office market really is the part that's most challenged is the downtown core markets and the big cities where protocols aren't fully in place yet for the return to work and there's still all kinds of discussion about the new style of working and so on. We haven't seen that impact as much as our suburban office areas and, from our talking to tenants, most of our suburban office space is back to being utilized by the tenants on a fairly broad basis.

For example, in Ottawa we have a couple of tenancies coming up, new tenants coming in that were looking at taking less space than they originally planned and now returned to taking the same space that they originally planned, if you know what I mean, because they're not seeing the same degradation.

So, I guess to answer your question, we've been focused on looking at industrial opportunities, but we are looking now, if we got the right cap rates, at some office investments, if they are supported by long-term leases with rent steps and strong covenants. So if we see some at some very attractive cap rates, we would look at those, but that's about all I can say on that.

Yash Sankpal — Analyst, Laurentian Bank Securities

Right. And one last question if I may. You had an active year so far in terms of acquisitions. Do you have any appetite left for the rest of the year? Do you think you'll do anything before year end?

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Well, the financial description that Gordie provided would indicate that we have some liquidity for modest acquisitions, and we are looking at a couple right now, but essentially we've invested the balance of the equity that we raised in the first quarter and I guess, like all REITs, if we can find accretive opportunities, we're definitely looking at them.

I mean the market went through, it seemed to us, in much of the second quarter, a pretty quiet period with not a lot of property. I guess the vendors were assessing the market and so not a lot of stuff being offered. We're seeing that change and there are a lot more attractive properties in the market right now, most of them being very competitively bid, but we're watching it closely.

Yash Sankpal — Analyst, Laurentian Bank Securities

That's it for me. Thank you.

Operator

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

Your next question comes from Jenny Ma from BMO Capital Markets. Jenny, please go ahead.

Jenny Ma — Analyst, BMO Capital Markets

Thank you and good morning. I want to follow up on your answer about a couple of national retailers who'd come to you for rent reduction. Can you share with us what the motivation for that was? Like was it a particular type of retailer? Was it location specific? And is there any read through to the category or to the same retailer within your portfolio?

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

I don't think so. Gordie can provide some more colour if he likes, but I don't want to disclose the specific tenants. We only have one or two locations with each of them. They would be people who are represented by national or international brokerages who are managing their real estate and lease maturities on a North American wide basis, like in our cases, and they would just be seeing an opportunity here across the market to try and put some pressure on landlords. And we happen to be in a couple of locations where we're probably going to negotiate with them to some degree, but I don't, I was just trying to give colour to the market. And maybe that's what you're seeking, Jenny, but these aren't having any significant impact on us, I'm just giving some colour on the market.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

And just to put it in context, these are rents, you know, \$20 to \$25 rents, \$30 to \$35 rents where we're talking a couple of dollars, right? We're not talking \$30 going to \$15 or anything like that. So it's just

a typical, you know, taking an opportunity there to see what goes on. So I mean the asks with us have been between \$2 and \$5, which we've settled on a couple here and there. And it's both sides, you know? And still with rent steps, even it's just, well, if you come with a five-year lease and you only want to renew for a year and they say, well, to get me to five I need X. So I mean it's just the to-and-fros in that, right? I wouldn't call it systemic at all. I mean our other retail, the strip malls, that type of thing, we're not seeing anything like that there at all. These are just a couple of actually, if you will, single-tenant buildings. So that's more prone to happen in those situations.

Jenny Ma — Analyst, BMO Capital Markets

Okay. So is it fair, I'm not trying to get caught up on the specific assets, but is it fair to say that this is just a one-off case of the tenant sort of pushing the landlord as opposed to them running into financial trouble and needing a bit of rent relief.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Absolutely.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Yes, absolutely.

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

As we're talking about, (inaudible) much stronger than we are.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

The Bank of Montreal, who's not a tenant in our building, may try to get a couple of bucks off of all of their standalone properties across Canada, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

Okay.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

And I think they're good for the couple bucks, but they're going to try to get it off, right?

Jenny Ma — Analyst, BMO Capital Markets

Well, you can't get it if you don't ask, so...

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

That's right.

Jenny Ma — Analyst, BMO Capital Markets

Okay. I had a question about sort of how you view your office portfolio, and I think you sort of touched on it with Yash's last question about still looking at office, but with that being the smallest component of the portfolio, is it somewhere you could continue to spend the same amount of effort looking to grow or is it something that you'd be okay with shrinking as a proportion of the portfolio as you seek growth particularly from the industrial side? Or do you still care to maintain PRO more as a balanced REIT amongst the three different asset classes?

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

That's an active discussion that our board and management engages with. There's no doubt that we are more focused right now on the industrial sector, because we see greater rent growth there, and so when you're underwriting the properties it's easier to rationalize some of these lower cap rates if you speculate that you're getting, three, four, five, six, or higher rent increases as short-term leases mature. So that certainly focuses.

We haven't taken a decision, like some REITs have talked about, becoming exclusively, I mean we're staying a diversified REIT. I think, with respect to office, what I was trying to signal to Yash is we are opportunistically looking at options where if we think something is superbly attractive to us we would still be looking at it, but most of our efforts are focused on the competitive industrial space.

Does that clear it up?

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

And Jenny, if I can give you an example, it's just about which is hotter right now. I mean the two portfolios we just bought in Winnipeg and Ottawa, I mean you've seen the cap rates that we paid for them. I think in six months, when some other deals come across, you'll think that we did very well with those acquisitions.

And as a couple of examples, we just closed on these a couple months ago, but we had \$9 rents going to \$11 in Ottawa, we had several examples of that. We had some vacant space, industrial space with a new tenant coming in at \$13. So it's just when you see those opportunities for growth, at least at this time, why wouldn't you focus on that a little bit more, right?

Jenny Ma — Analyst, BMO Capital Markets

Right. Right. Well, that's great to hear. My last question is more broad based, but traditionally you guys have always been very focused on the secondary markets and enjoyed a bit of a cap rate advantage on that front. Without asking you to give away any trade secrets, I'm just wondering if you're starting to see greater interest in some of the smaller markets as a result of more significant compression in the larger markets. And what's the balance between getting a superior cap rate and having value recognized in these markets and is there still much of an opportunity left for you guys and the other incumbent players?

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

Look, the markets in some of the larger secondary cities, and that certainly includes Halifax, Winnipeg, and Ottawa, where we are, have become much more competitive as well, but there are still investment spreads between those cities and the GTA, Montreal, and Vancouver. And with current mortgage rates, you know, with five- and ten-year money where it is, we think there are still opportunities in those markets. And there's certainly, when you underwrite the properties, with the kind of growth, like Gordie was just speaking to an example basis, providing us comfort that we can see future growth, I think that there's still good opportunities, competitive opportunities available. But that's (inaudible), we're going to see that a little bit more in the quarter or two ahead.

Jenny Ma — Analyst, BMO Capital Markets

Okay. Have you seen any (inaudible) of new players coming into the secondary markets because they've been priced out of the larger markets?

James Beckerleg — President & Chief Executive Officer, PRO Real Estate Investment Trust

No. No, I think, and I never know exactly who bids on these properties, or we don't, but I would say that we run into new, I think new private money, I mean there's so much liquidity in the system, but we're not finding, I'm just using a silly example of what you're asking about, we're not finding Brookfield is leaving Toronto and coming into Halifax.

Jenny Ma — Analyst, BMO Capital Markets

Okay. Okay. Thank you very much. I'll turn it back.

Gordon Lawlor — Executive Vice President, Chief Financial Officer & Secretary, PRO Real Estate Investment Trust

Thanks very much.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.