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FINAL TRANSCRIPT

PRO Real Estate Investment Trust

2021 Third Quarter Results

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PRESENTATION

Operator

Good morning and welcome to the PROREIT Third 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 Ms. Alison Schafer, Director of Finance, 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, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star then the number two.

For your convenience, the press release, along with the third 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 November 10, 2021, available at www.sedar.com.

Forward-looking statements represent management's expectation as of November 10, 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 third 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 third 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 would now like to turn the call over to Mr. James Beckerleg. Please go ahead, sir.

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

Thank you very much, Michelle, and good morning and welcome, everyone. Unfortunately, Gordie is not able to be with us this morning, but Alison Schafer, our Director of Finance, is here with me and will step in for him. I can assure you she knows our numbers very well and can certainly address any questions that you may put to us later with respect to the quarterly numbers.

2021 has been a busy year for PROREIT and the third quarter was no exception. In fact, it was a historical quarter for us, both in terms of acquisitions and on the capital raise front. We were enabled in part by the Canadian economy, which is also continuing to return to a much higher gear with the (inaudible) of the pandemic.

Keeping our focus on scaling up our presence in attractive Canadian markets with strong economies, we very successfully pursued our growth strategies with several transactions in the robust industrial sector. During the quarter we announced the accretive acquisition of 16 institutional-quality industrial assets for just over $163 million or $138 per square foot of acquired assets, all at an attractive 5.9% cap rate. The transactions, which closed a few days ago, were mainly financed by new first mortgages which again carried very attractive deal terms, specifically less than 3% for various terms on mortgage loans. The balance came from the public offering and (inaudible) private placement, which I will address in a moment.

The acquired assets are all strategically located. Fifteen are in Atlantic Canada with fourteen of those fifteen in Halifax's Burnside Industrial Park, the largest industrial park east of Montreal, where we are becoming a substantive player as time progresses. With a weighted average lease term of 3.3 years, we expect these assets to deliver solid organic growth as leases are renewed in future quarters.

Our sixteenth acquisition, also strategically located, is in Winnipeg at a very high-traffic intersection in one of the city's important industrial parks. This property is well positioned to generate rental revenue upside in future years as well. The industrial market rates are currently higher in the Winnipeg area than many other mid-sized cities and this will be an attractive addition to our portfolio in that city.

On the disposition front, we culled three non-strategic small retail properties during the quarter for gross proceeds of $8.1 million, marginally above the related carrying values on our balance sheet.

With $297 million of industrial market acquisitions now completed since the beginning of the year, I am pleased to report that our total portfolio is now comprised of 120 properties covering over 6.6 million square feet. And importantly, within that, our industrial exposure, where we expected the greatest same property growth, now generates fully 63% of base rent compared (inaudible) and comprises 75% of our gross leasable area. On a budget-forward basis those numbers will be even higher.

Another highlight of the quarter is our $69 million bought deal public offering, which was our tenth and largest capital raise to date. It closed just subsequent to quarter end and the deal, which included the full exercise of our overallotment option, generated strong interest and we had significant institutional participation, which is always something to be pleased with. Concurrently, we completed a non-brokered private placement with Collingwood Investments for $14.3 million. Perhaps you'll recall that we completed a $50 million private placement with the Bragg Group of Companies, which owns

Collingwood Investments, in the second quarter. With an approximately 19.5% ownership stake in PROREIT, we were very pleased to grow with this respected large Canadian investor (inaudible) continued (inaudible).

On the operational front, positive leasing momentum continued in our portfolio and during the quarter our occupancy rate remained firm at 98.5%. Substantially all rent was collected in the quarter as the residual pandemic effects have almost fully faded away. At quarter end we had renewed 92% of total square feet maturing in 2021 at approximately, this is a pretty accurate number actually, at 10.2% year-one positive spread to maturing leases. For leases expiring in 2022, approximately one-third has been renewed, and these will also deliver positive spreads affecting our 2022 same property sales numbers.

So I'll now turn it over to Alison to discuss our specific Q3 financial results in a little bit more detail.

Alison Schafer — Director, Finance, PRO Real Estate Investment Trust

Thank you, Jim, and good morning, everyone.

We recorded a strong financial performance in the third quarter. Revenues amounted to $19.6 million for the quarter, a 13.2% increase compared to the same period last year. Net operating income reached $12.1 million, an increase of 16.4% compared to Q3 2020. This growth reflects the favourable impact of the net property acquisitions in the last 12 months.

We are particularly pleased with our robust internal growth across asset classes, both in the third quarter and since the beginning of the year. The strongest performance was once again achieved in the industrial sector, where we recorded same property net operating income of $10 million. This represents a 5.6% increase compared to the prior year period. Excluding COVID-related expenses of $200,000 recorded in the third quarter of 2020, same property net operating income increased 3.4% overall. This favourable impact reflects increased occupancy, contracted rent steps, and higher net renewal rents in our portfolio. With our recent acquisitions and shorter average lease terms in the segment, we believe the positive trends will continue over the coming quarters.

Turning to AFFO for the third quarter of 2021, it totalled $6.6 million, an 11.8% increase compared to the same prior year period. We remain fully committed to maintaining a solid financial and liquidity position while gradually decreasing our leverage.

Excluding a $5.2 million deposit made towards the recent acquisitions, which closed subsequent to quarter end, our debt to gross book value ratio stood at 57.9% at quarter end compared to 58.7% the previous year.

Our target leverage near term is 55% and getting to 50% in the mid-term as opportunities present themselves. As an example, we received some excess proceeds in our recent equity raise that will allow us to pay down $7 million of a $13 million 6.45% term loan received at the height of the pandemic that increased our liquidity back then. Furthermore, we recently agreed with our lender to amend our credit facility by year end and increasing it by $15 million to $60 million on improved terms. This will enhance our operating liquidity and reduce contracted borrowing rates going forward.

At quarter end we had in excess of $20 million in operating liquidity that you will see increase by year end. Our weighted average interest on mortgage debt was 3.5% compared to 3.73% at the same date last year.

Distributions of $0.0375 were declared monthly throughout the third quarter of 2021.

Finally, our weighted average cap rate for the portfolio is approximately 6.3% or $138 per square foot. We anticipate seeing cap rate compressions materialize in future numbers as we are in the process of revaluing significant pieces of our industrial portfolio over Q4 2021 and Q1 2022.

I will now turn the call back to Jim for closing remarks.

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

Okay, great. Thanks very much, Alison.

We are now well into the fourth quarter, as everybody knows, and, looking ahead, our business outlook, from our perspective, remains very positive. We are well positioned, we believe, to pursue our growth and capitalize on the very significant potential embedded in our portfolio. We are also excited about the benefits available from a tightening real estate market in cities like Ottawa, Winnipeg, and Halifax, where we have a strong and growing presence.

In closing, I must recognize the entire PROREIT team. Our achievements continue to be made possible thanks to everyone’s outstanding performance and I can assure you we are all working towards the same goal in mind and that is creating more value for our unitholders as we go forward.

So, thanks very much. That wraps up our formal comments and I'll turn the call back to the operator to take any questions that any of the analysts participating may have. Thank you.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press the star followed by the one on your telephone keypad, and if you would like to withdraw your question, please press the star followed by the two. One moment please for your first question.

Your first question is from Mark Rothschild of Canaccord. Please go ahead.

Mark Rothschild — Analyst, Canaccord Genuity

Thanks and good morning, everyone.

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

Good morning, Mark.

Mark Rothschild — Analyst, Canaccord Genuity

Maybe just starting with some of the recent acquisitions and the markets you're looking at, obviously there's been increased focus on the industrial asset class. Should we look at any of the markets you're going into as areas you want to expand to target and is there any shift in that regard as well? Maybe just a few comments on the Winnipeg market, if you feel that that is a core market for growth.

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

Yeah, sure. I can start, Mark, and if there's any specific questions with respect to buildings or anything Alison can step in.

We see those three cities as ones that we have done very well in to date. Our properties are performing. Vacancy rates falling and rents are increasing. We believe that our portfolio has below-market rents in each of those cities.

Halifax and the Burnside Industrial Park, we're becoming, I think, quite a significant investor. Depending how you measure the Burnside Industrial Park, we have between 15% and 20% of the competitive, of the gross leasable area of the buildings. And that park is carrying a sub-3% vacancy rate right now and there's certainly not new building going on in the type of industrial assets that we have been purchasing. There's some modest expansion of major logistic centres and some of the smaller amount of available land there, so we see continued upward pressure.

Ottawa, quite frankly, don't like to use too strong language on these calls, but has been a bit of a homerun for us. I mean there has been, again, very substantial tightening of the Ottawa industrial market and a significant and growing demand and we easily see our renewal rates being substantially above maturities on that portfolio, including even the assets we just closed on earlier this year.

So, Winnipeg is a little more modest in size for us, but it’s, again, we see robust growth. And we would expand our presence in any of those cities as well as we would like cities sort of in Manitoba and east.

Mark Rothschild — Analyst, Canaccord Genuity

Okay, great. Thanks. And maybe just one more. On the lease maturities you have over the next year looking into 2022, is it possible just to give some more information on how we should think about that by asset class and the leasing spreads we can expect? I would assume in some of the industrial properties you might be getting better lease growth than possibly in some of the other properties.

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

Yeah, I don’t know if I have specific numbers here. Do you have, Alison, some specific numbers on what is maturing next year by asset class? So we have—

Alison Schafer — Director, Finance, PRO Real Estate Investment Trust

840,000 square feet maturing in 2022.

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

By far the largest weighting in that, I just, I don’t have that number, Mark, we could get it to you, is in the industrial sector. We have done, as of this morning we’ve done about 34% of our renewals for next year, and those are at increased spreads. I mean the year is still young, but probably won’t be the 10.2% that we reported for the most recent quarter just because we had a couple of very significant lifts in those numbers, but they'll be well ahead. And again, most of the growth is in the industrial sector. There may be some improvement in the retail sector, but some of that's mitigated by, I mean there is probably some anticipated step-backs in rents in some big-box stores that are maturing. Not that we'll have a major impact or a significant impact on our results, because they're totally dominated by the industrial (inaudible).

So that's only a bit of a general answer. If you want a specific square footage, we can certainly get back to you on it.

Mark Rothschild — Analyst, Canaccord Genuity

Okay, great. Thank you so much. That's helpful.

Operator

Your next question comes from Jenny Ma of BMO Capital Markets. Please go ahead.

Jenny Ma — Analyst, BMO Capital Markets

Thanks. Good morning.

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

Hi, Jenny.

Jenny Ma — Analyst, BMO Capital Markets

Jim, when you think strategically about your portfolio asset management, you've been able to get a good amount of industrial property. How do you think about the retail portfolio? I mean it's performed extremely well throughout the pandemic and with strong evidence of high demand for this asset class would you consider selling any of those at this point?

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

We're considering culling or selling some of our smaller properties in smaller cities, the ones that we're becoming more dominant in, and we'll probably use the proceeds of those sales toward debt reduction. But I don't want to go as far as to say that it's like a major strategic move on our part, Jenny. Our retail, grocery-anchored retail, drugstore-anchored retail is performing very well and we see some modest rental growth in that sector. Not the same percentage increases as we see going forward in the industrial sector, but we certainly still can see good performance and growth. I'm repeating myself, but I expect there will be some modest culling there and in the office properties as we go forward.

Jenny Ma — Analyst, BMO Capital Markets

Are you getting any inbounds on any of your retail properties, or industrial properties for that matter?

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

Some of the properties that we've sold so far this year have been based on inbound calls, yes.

Jenny Ma — Analyst, BMO Capital Markets

Okay. When I think about your sort of portfolio balance, is there still a desire to continue growing the industrial asset class as a slice of the pie or you feel like you guys are approaching the balance you want to be as a diversified REIT?

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

No, we see our focus in the next, well, let's call it the foreseeable future, continuing in the industrial sector. And the specific reason for that is we see that sector having the most clear and greatest opportunity for rental growth in the properties. And it's just, while we see some rental growth, it's just a little less clear in the other two sectors. So I see, most probably, the industrial sector continuing to increase as a percentage of the portfolio, but we have not taken a decision, like some competitors, indicating we're exiting any of the other areas. I think our grocery-anchored retail in many ways complements much of the type of small-bay industrial properties we have in some of these cities. So they're able to be very efficiently managed, ah, from a property management side, by the same folks.

Jenny Ma — Analyst, BMO Capital Markets

Okay, great. Last one for me. We see some very strong cap rate compression in the industrial space and happening fairly quickly, so I think I asked this question last quarter, but have you seen any compression in some of your recent acquisitions? Not the one that closed this week, per se, but maybe some of the ones from the last few months?

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

Yes, we believe there has been, ah, I guess I'd maybe use the word significant, cap rate compression that will affect even the Ottawa properties that we bought earlier this year. And I think, as Alison mentioned in her remarks, we're having independent appraisal reports done on a very significant portion of our portfolio and we believe that those appraisal reports will bring about significant changes in our fair value numbers as a result of increasing rents and the cap rate compressions in the market. That would be all three markets and affecting assets right up to what we acquired just prior to these. Yes. I think we have requests out for over 30 property reappraisals.

Jenny Ma — Analyst, BMO Capital Markets

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

Operator

Your next question comes from Yash Sankpal of Laurentian Bank. Please go ahead.

Yash Sankpal — Analyst, Laurentian Bank Securities

Good morning.

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

Hi, Yash.

Yash Sankpal — Analyst, Laurentian Bank Securities

The G&A line was a tad higher this quarter. How should we think about that item going forward?

Alison Schafer — Director, Finance, PRO Real Estate Investment Trust

In terms of G&A, I think Q3 is representative of a good run rate going forward. We anticipate closing G&A at around $4.2 million for the year and going forward I would use a $4.2 million run rate for 2022.

Yash Sankpal — Analyst, Laurentian Bank Securities

Okay. That’s good. The office vacancy rate increased a bit. Could you talk about your office portfolio in particular and the office sector in general? (Inaudible)

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

Are you asking what our strategic review of the office market is right now, Yash? I just didn’t hear you clearly.

Yash Sankpal — Analyst, Laurentian Bank Securities

Yeah, if you could talk about the office market in general and then about your portfolio, like how it is fairing.

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

Our office investments are concentrated in the Ottawa market. Our specific office properties are performing well. I mean we have, as an example, a 15,000 square foot building which the post office occupied which they're going to leave at the end of the year and we have re-leased that entire building at a higher rate commencing towards the end of the first quarter. So I just mean our specific properties are performing pretty well. And suburban properties of that type have generally been performing better than core properties. But we don't have, along with much of the rest of the market, we don't have a confident and clear view just exactly where (inaudible) rental rates will be for some of these properties and demand, so our focus is elsewhere. We're comfortable. I mean there may be some culling, as I've talked about, but our properties continue to give us some, on the whole, give us some comfort (inaudible) performance. Are you looking for something more specific? I mean our office properties at the end of the quarter comprise about 10% of our NOI.

Yash Sankpal — Analyst, Laurentian Bank Securities

Right. Okay, that's good colour. And just going back to this diversified asset group discussion, many of your large cap peers have been reorganizing their portfolios around one or two asset classes. How do you think about that and what's your view about your portfolio?

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

Well, I think, you know, this is certainly something being actively discussed at our board meeting as recently as yesterday. I think I'm comfortable saying what I said to Jenny just a little earlier. So, we see our growth focused on the industrial sector right now, because we see the greatest opportunities on property performance in that sector. It's still an area, despite the enormous cap rate compression that's happened and in markets we're active in we can still buy below replacement cost, which is important, and we see good economies favouring those areas. But culling out from the other sectors right now might be modest but we have to remember those properties are performing well and providing us cash returns that are higher than what we would get by redeploying the modest amounts of money we would derive from reinvesting them in the industrial sector.

So we're comfortable, especially with our assets which are grocery and retail anchor, and we see those performing well and providing us rental growth in the future. But right now we're focusing on the industrial sector, so the pie chart will probably show increases in that sector going forward, but we haven't taken a strategic decision to exit the other sectors. They provide good (inaudible).

Yash Sankpal — Analyst, Laurentian Bank Securities

Okay. That's good. What kind of leasing spreads did you achieve on your year-to-date leasing and your 2022 leases you have addressed so far?

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

We just announced on leases in the third quarter of the year were 10% above year earlier numbers and we expect to see positive spreads but a lower number than that. A lower number than that, but positive spreads going forward. Our industrial properties especially will have, I hesitate to give you forward-looking number here, but will be stronger than what we've been reporting for the nine-month period.

Yash Sankpal — Analyst, Laurentian Bank Securities

Okay. And one last question: How should we think about your same property NOI growth given all the information you have in terms of leasing spreads now? What would be a good, reasonable assumption for 2022?

Alison Schafer — Director, Finance, PRO Real Estate Investment Trust

In terms of growth over same property?

Yash Sankpal — Analyst, Laurentian Bank Securities

Yes.

Alison Schafer — Director, Finance, PRO Real Estate Investment Trust

I think, you know, this quarter we reported an increase of 5% for the three months and 3% for the nine months. I think going forward we anticipate anywhere between 2% and 5%. It will be weighted differently within the classes. I think the biggest growth we'll see is in the industrial sector, as we keep talking about.

Yash Sankpal — Analyst, Laurentian Bank Securities

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

Operator

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

Ladies and gentlemen, as there are no further questions, this will conclude today's conference call. We would like to thank everyone for participating and you may now disconnect your lines.

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

Thank you all.

Alison Schafer — Director, Finance, PRO Real Estate Investment Trust

Thank you.