

PRO Real Estate Investment Trust
Fiscal 2023 First Quarter Results Conference Call

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CORPORATE PARTICIPANTS

Gordon Lawlor

PRO Real Estate Investment Trust — President & Chief Executive Officer

Alison Schafer

PRO Real Estate Investment Trust — Chief Financial Officer & Corporate Secretary

CONFERENCE CALL PARTICIPANTS

Mark Rothschild

Canaccord Genuity — Analyst

Sam Damiani

TD Cowen — Analyst

George Huang

Raymond James — Analyst

PRESENTATION

Operator

Good morning and welcome to the PROREIT First Quarter Results Conference Call for Fiscal 2023. At this time, all lines have been placed on mute to prevent background noise. Management will make a short presentation, which will be followed by a question-and-answer period, open exclusively to financial analysts. 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 the star followed by the two.

For your convenience, the results released along with first 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, level 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 May 10, 2023, available at www.sedar.com. Forward-looking statements represent management's expectation as at May 10, 2023 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 first 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 first quarter. Please refer to the non-IFRS measures section in the MD&A for the first quarter for additional information.

I will now turn the call over to Mr. Gordon Lawlor, President and Chief Executive Officer. Please go ahead.

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

Thank you. Good morning, everyone, and welcome. Joining me today is Alison Schafer. Alison was appointed CFO and Corporate Secretary as of April 1st. Prior to discussing PROREIT's performance, I'd like to take a moment to thank Jim Beckerleg, who led us through substantial growth over the past

ten years as CEO and Co-Founder to build PROREIT into what it is today. We look forward to continuing to benefit from his real estate and capital markets expertise as a member of the board.

Let me begin with a high-level overview of our results from the first quarter of 2023. We delivered a good performance, both from an operational and financial standpoint. Our strong results reflect the quality of our portfolio and our sound strategic positioning in the industrial sector, which now accounts for 69.5% of base rent. Our high occupancy rate remained firm at 98.6% at March 31, 2023.

We continued to generate consistent organic growth, as reflected in our same property net operating income growth of 4.9% this quarter. Same property NOI in the industrial sector was strong at 4.7% while our retail same property NOI achieved 1.0% for the quarter. Our same property NOI for the office sector, which only accounts for 10.5% of total base rent, increased by 16.9% compared to 2022. This is due to higher occupancy in Q1 2023 compared to the previous year as a result of a 40,000 square foot property with a short-term vacancy during the first three months of 2022.

Continuing on with same property income, net operating income and, as discussed during our last call, in Q2 and Q3 of 2023, our industrial same property will be largely affected by a six-month vacancy for our 100,000 square foot property in Montreal. Effective September 1, 2023, the property will be fully leased and cash flowing and at a 40% leasing spread to its current rents.

On the renewal front, we continued to experience good momentum with 68.5% of gross leasable area maturing in 2023 successfully renewed at an average positive lease rate spread of 40.9%. 2024 renewals are also moving along well.

We remain focused on strengthening both our portfolio and balance sheet. After quarter end, we sold one non-core office property for \$2.1 million, excluding closing costs. We also have approximately \$36 million of office and retail properties under conditional sales contracts. Subject to market conditions, if the sales go through, they would close the end of July for net proceeds of approximately \$13 million. On that note, we will continue to recycle assets to maximize long-term value as we look for potential acquisitions in the industrial sector.

Last night, it was with great pride that we released our 2022 ESG report. We've made significant strides over the past year. We set out clear priorities with measurable goals and introduced new initiatives to increase our impact in all three areas of ESG. As an organization, we're excited to move forward on this journey, making further progress on the information we track and share with our stakeholders.

As many of you may be aware, in March we suffered a tragic loss of Mark O'Brien, our Senior Vice President, Leasing Operations and Sustainability and Head of our ESG Steering Committee. Mark made significant contributions to the ESG report and had enormous impact on our organization on a daily basis. The entire team greatly missed his friendship, leadership, and guidance.

I will now turn it over to Alison, who will provide more details on the results for the first quarter of fiscal 2023.

Alison Schafer — Chief Financial Officer & Corporate Secretary, PRO Real Estate Investment Trust

Thank you, Gordie, and good morning, everyone.

We started the year on solid footing. At March 31, 2023 we owned 130 investment properties, including a 50% ownership interest in 42 of the properties compared to 120 investment properties fully owned at March 31, 2022. At the end of Q1 we owned approximately 6.5 million square feet and managed approximately 8 million square feet.

Total assets amounted to \$1.05 billion at quarter end, up 1.9% year over year. Property revenue grew to almost \$25.3 million, a 3.9% increase compared to Q1 2022. The increase was mainly due to the impact in the number of properties and related ownership percentages during the last 12-month period.

Net operating income reached \$14.5 million, up 3.3% year over year, also due to the impact in the number of properties and ownership percentages. In Q1 2023, net cash flows provided from operating activities reached \$10.6 million compared to \$6.7 million last year, an increase of 57.3%. This increase is mainly related to the timing of cash receipts and [inaudible] payable.

For Q1 2023, AFFO was \$7.8 million and basic AFFO payout ratio was 87.0%, both flat compared to the same quarter last year. FFO for Q1 was down \$3.2 million compared to Q1 2022, mostly because of a one-time retirement fee of approximately \$1.6 million plus other one-time costs associated with the CEO succession of approximately \$0.6 million, both included in G&A expenses. Also in connection with the CEO succession, long-term incentive plan expense includes an additional \$1.0 million in Q1 this year related to accelerated vesting of certain LTIP units. These one-time costs increased our G&A during the first quarter. For the remainder of the year, we expect to have a G&A run rate of approximately \$1.2 million a quarter. At \$8.31 per unit at March 31, 2023, our NAV per unit continues its upward trend.

Moving to financing, we further reduced our debt to gross book value ratio from 49.7% at year end to 49.2% at March 31, 2023. Subsequent to quarter end, we received a commitment letter to refinance six industrial properties located in Winnipeg for \$20.5 million. The rate on these new mortgages was fixed at 5.07% with a seven-year term. The refinancing is expected to close in June 2023. Proceeds will be used to repay approximately \$16.6 million of mortgages maturing in July 2023 with the balance to be used for general corporate purposes. We have another \$32 million in mortgages coming due in 2023 that we expect to refinance on market terms. In addition, we signed a \$10 million term sheet with a current lender to bolster our liquidity as we capitalize on the increased cash flows provided by some lower levered industrial assets.

I will turn the call back to Gordie for some closing remarks before we open the call for financial analysts to ask questions.

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

Thank you, Alison.

We are mindful that the current macroeconomic factors, including the high interest rate environment, present certain challenges; however, we remain committed to execute on our growth plan to reach \$2 billion in assets within three to five years and to increase our industrial base rent to 90% over the same period. We will do so while remaining focused on strengthening our balance sheet and disciplined on capital allocation. I look forward to continuing to work with the talented PROREIT team to build our strong foundation and to create sustainable value for all of our stakeholders.

This concludes our formal remarks. I'll now turn the call back over to the operator to take questions from participating financial analysts. Thank you.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your telephone keypad. You will hear a three-tone prompt acknowledging your request. Questions will be taken in the order received. Should you wish to cancel your request, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from the line of Mark Rothschild from Canaccord. Your line is open.

Mark Rothschild — Analyst, Canaccord Genuity

Thanks and good morning, everyone. Maybe starting with the leasing spreads, which were quite strong, if you could just talk about, in industrial in particular, was there any specific leases that drove that and how we should think about that going forward if numbers like that are sustainable?

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

Yeah, it's Gordie here. I can give a couple of examples. And interesting, while I've mentioned already the Montreal property, so 3200 Guénette, which is in the Saint-Laurent area out by the airport.

We had \$10 and \$11 rents on that property and renewed for 10-year deals for two tenants for the entire building, which originally was only 90% leased, for \$15.50 and \$15.75 a square foot. So 40% rate there. Another example is in Southwestern Ontario. We have a Woodstock property, 66,000 feet, \$5.35 rent moved to \$10.50 towards the end of November on another five-year renewal with no tenant inducements. And then for Halifax, we're just seeing all the time rents of \$6 and \$7 being renewed at \$10 to \$13. So we're seeing solid leasing spreads across our areas. Winnipeg, we did a few deals there and they were 17% to 20% spreads as well.

Mark Rothschild — Analyst, Canaccord Genuity

Okay, great. Thanks. And maybe just one more question in regards to the office properties. Fundamentals haven't shown signs of strength of late while your industrial performance has been doing extremely well. Any changing thoughts or new thoughts as far as do you want to maintain your office assets or would you be looking to maybe sell those in the next year?

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

Yeah, no, I think definitely, speaking to our investors and the market, the preference is for us to increase our industrial exposure. So we have three office assets under conditional contract right now. We only have nine in total in our portfolio. So yes, I'd say over the next two years we'd see a reduction of the office exposure for sure. We're just being mindful of our values and pricing and, you know, they're well performing, so there's no need for a fire sale on any of these assets. These are just opportunities that are coming to fruition and we're capitalizing on them. That said, it's a very

complicated debt market, as everybody knows right now, so we'll see if we can get all of those assets closed towards the end of July.

Mark Rothschild — Analyst, Canaccord Genuity

Okay, great. Thanks so much.

Operator

Thank you. And your next question comes from the line of Sam Damiani from TD Cowen. Please go ahead.

Sam Damiani — Analyst, TD Cowen

Thanks. Good morning, everyone. I guess just to continue on Mark's last question there, I think you mentioned you have, I think, \$36 million conditional sale that could close at the end of July. How much of that is office? And I think you mentioned the \$13 million net cash proceeds there. Is it contemplated that the REIT will provide a VTB loan to the buyer in this case?

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

No. Two of the four assets have financing on them, so they're subject to loan [inaudible], so we'll be working through that. The other two assets don't. There's been no contemplation of a VTB on any of those assets. The \$13 million, if achieved, would be cash flow free and clear to the REIT.

Sam Damiani — Analyst, TD Cowen

Okay, great. And I guess as you think about future asset sales, just to confirm what you'd answered, how you answered Mark, I mean you're committed to exiting the office space. Are you somewhat price agnostic? It's a difficult question to ask maybe, but how do, you know, do you view the current environment as a reason to sort of slow down on exiting office properties?

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

Well, office is, as we all know, very difficult. So there's the cloud about, you know, what does office look like in the next five years. We're not really commenting or having a view on that. I mean I still think that office will be around here, it's just in a dip and a three-year head scratching to see what happens here. But that said, it hasn't been our focus for a long time, so we don't have a need to sell right now. It's not ideal timing right now. Because if you look at a standard sale that doesn't have financing on it, if it's three months from bidding to closing, you have no idea what your cost of your debt is going to be. So certainly these assets that we have under contract already have fixed-rate financing on them. So I think that's probably the opportunity that we're getting reasonable pricing for these assets right now and the other items were just going to have to watch the market and see what goes on here.

Sam Damiani — Analyst, TD Cowen

Okay. Last one for me, just on the mortgages that are left to mature in the current year, which I believe you said were \$32 million. Are you seeing a change in the sort of loan to values that are

achievable in the mortgage market today on those specific assets and what kind of rate do you see being achieved on those re-financings?

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

So the deal we just did, \$16 million, refinanced it back up to 65%, so we achieved an extra \$4 million there. The spread on that, it was based on a cost of funds of that bank, but the spread on that would be equivalent to about 210 over on the seven years, so that's still very reasonable for us at this point. Certainly, there's no 160 or 170 over. We're not seeing that right now on five year or seven or ten, obviously. The real estate coming due at the end of the year, some of it is office and then there's a bit of industrial as well. That may tie into what we're going to do with the assets, whether there's refinancing opportunities or, if indeed we're going to sell over the next couple of years, we might put short-term financing on it on rather locking in rate. So that's just kind of up in the air as we sit here in May and look to December.

Sam Damiani — Analyst, TD Cowen

Okay, that's great. That's all. Thank you.

Operator

Thank you. Once again, should you have a question, please press the star followed by the number one.

Your next question comes from the line of George Huang from Raymond James. Please go ahead.

George Huang — Analyst, Raymond James

Good morning, team, and thanks for taking the question. Just quickly on the divestiture front. Is there a preference for the sale of lower levered assets as you try to maximize proceeds or is the divestiture process right now really centred around how each asset fits within the portfolio?

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

It's Gordie. It's really a combination of both. We get unsolicited bids all the time, which is interesting. On industrial as well, by the way, significant bids that makes you pause for a second, but our focus is in industrial.

The assets that are for sale, like I said, two of them have a longer-term financing on them right now with under market debt, so that's really attractive on a sale basis to achieve close to your IFRS values. And then, as we started out with zero assets ten years ago, some of our financings are a little bit more complex in that we've got several assets in uncertain mortgages and that, so really we're kind of looking at one-off assets that has the standalone financing that would be an easier sale. So it's not really about net proceeds per se, it's about does the asset fit. Certainly we have assets in Western Canada here, standalone pharmacies that are smaller, \$2 million to \$3 million. We're looking to divest of those as well. So it's really a combination of all of them. But I mean our retail is still performing very well and strong but, that said, we are getting interesting bids and offers unsolicited on some of these that makes you do the math.

George Huang — Analyst, Raymond James

Fantastic. Thanks for all that colour. Just one more from me on the leasing side. I know it's a smaller piece of the pie, but I did notice the strong retail rent spreads realized in the quarter. I'm curious, is that just the mark-to-market opportunity on those leases given what's rolling or is there something like conversion from gross rents to net rents that we should be noting there?

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

No. It's just really, you know, a lot of our retail is in Atlantic Canada as well, so if you recall, the net rents there are a lot lower than the rest of the country, but to some extent are catching up. So we're just capitalizing on that. It's not gross rent to net or anything like that. Basically our whole portfolio is largely net rent. We don't have much gross or semi-gross rents in the mix at all. So it's just really market driven.

George Huang — Analyst, Raymond James

Fantastic. That's all for me today. I'll turn it back.

Operator

Thank you. There are no further questions at this time. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may all disconnect.

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

Thank you very much.

Alison Schafer — Chief Financial Officer & Corporate Secretary, PRO Real Estate Investment Trust

Thank you.