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## **CORPORATE PARTICIPANTS**

Ken Silver Chief Executive Officer

**Louis Forbes**Chief Financial Officer

#### **CONFERENCE CALL PARTICIPANTS**

Michael Smith RBC Capital Markets

Sam Damiani TD Securities

#### **PRESENTATION**

#### Operator

Good morning. My name is Wayne and I will be your conference operator today. At this time, I would like to welcome everyone to CT REIT's second quarter results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you wish to ask a question during that time, simply press star then the number one on your telephone keypad. To withdraw your question, press the pound key.

The speakers on the call today are Ken Silver, Chief Executive Officer of CT REIT, and Louis Forbes, Chief Financial Officer of CT REIT. Today's discussion may include forward-looking statements. Such statements are based on management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Please see CT REIT's public filings for a discussion of these risk factors, which are included in their Q2 MD&A, which can be found on the CT REIT website and on SEDAR.

I will now turn the call over to Ken Silver. Ken?

## Ken Silver, Chief Executive Officer, CT REIT

Thank you Wayne. Good morning everyone and thank you for joining us so bright and early. We're very pleased to welcome you to CT REIT's second quarter investor conference call. I'll lead off with a discussion of our recent investment activity and Louis will then briefly review the financial results for the quarter.

Yesterday, we announced two additional property acquisitions, each completed after June 30<sup>th</sup>. First, CT REIT and Oxford Properties have each acquired a one-third leasehold interest in Canada Square, a mixed-use commercial development located at the intersection of Yonge and Eglinton in Toronto. The complex, which includes the head office of Canadian Tire Corporation, comprises 844,000 square feet of gross leasable area in three interconnected office towers, a retail concourse, and with direct access to the Eglinton subway station. The final one-third interest in Canada Square was retained by the existing owner. Each co-owner has assumed its pro rata share of an existing mortgage



secured by Canada Square and CT REIT has funded the remaining portion of the purchase price from cash on hand and our credit facility. The transaction closed on July 17<sup>th</sup>.

We have acquired our interest in the property on the basis of its existing configuration and income in place, and we're really pleased to own part of such a great location at such an important intersection in Toronto. We're delighted with our co-owners and look forward to working with them in exploring the redevelopment opportunities this property may present.

Second, on July 30<sup>th</sup>, CT REIT completed the purchase of a 201,000 square foot distribution centre in Calgary located on Dufferin Place in the southeast quadrant of the city. The property is extremely well located, adjacent to the CP rail yards, an existing CTC distribution centre, and between two major highways. The purchase price was satisfied by the assumption of a mortgage and by a draw on CT REIT's credit facility. CTC has agreed to a new lease with CT REIT for terms to commence early in 2015 following expiry of the existing tenancy.

Combined, the Canada Square and Dufferin Place investments represent approximately \$90 million. This includes transaction costs to CT REIT and debt of \$39 million, which was assumed on both properties, which has a weighted average interest rate of 4.1 percent and a weighted average term to maturity of 3.3 years. One of the two loans bears interest at a floating rate. The two investments together are expected to earn a weighted average going-in capitalization rate of 7.3 percent.

During the quarter, the REIT also completed seven previously announced property acquisitions from CTC at a total cost of \$94 million. Three of these acquisitions closed in late April and the remaining four closed in late June. Altogether, these properties will generate an average going-in cap rate of 6.7 percent. The purchase was funded by \$34 million in cash, the issuance of \$19 million of Class B LP units to CTC, and the issuance of \$40 million of Class C LP units to CTC. The Class B LP units were issued at \$11.20 per unit. The Class C LP units bear a weighted average fixed interest rate of 2.21 percent and are scheduled to have either the rate reset or be redeemed in May of 2017.

Looking forward, we remain committed to an additional \$31 million of known investment activity this year and early into next year related to new store construction, intensifications, and store expansions. The new

acquisitions announced today together with the previously announced transactions completed in the quarter and the projects still to be completed are examples of the benefits to CT REIT of the ongoing relationship with Canadian Tire.

On top of the large portfolio of long-term leases with attractive built-in rental growth, the REIT has access to a variety of acquisition and development opportunities, and we will continue to work with Canadian Tire to realize on these value creation strategies.

With that, I'll turn it over to Louis for a review of our financial results.

# Louis Forbes, Chief Financial Officer, CT REIT

Thanks Ken. Our second quarter results are positive and at a high level we expect to meet our forecast for the year. In addition, operations are going very well and our expense recovery rate is above forecast.

In Q2, we reported FFO per unit of \$0.238 as compared to the forecast of \$0.241 per unit. AFFO per unit was reported at \$0.179 as compared to \$0.18 in our forecast. I'd like to point out that when looking at our results this quarter, there are a number of small variances to the forecast that warrant mention.

First, the exercise of the over-allotment option at IPO increased our unit count, and that has had a dilutive effect on our per-unit results. In addition, the proceeds received from the over-allotment did not get fully invested until very recently in late June. Second, there was a positive variance of \$1.1 million in NOI. Approximately \$725,000 of this variance is the result of acquisitions completed but not included in the forecast. importantly, approximately \$240,000 relates to an improved recovery rate of certain property operating expenses, and this variance is expected to recur throughout the remainder of 2014. Third, there was a negative variance in G&A as compared to forecast. Part of this relates to timing as suggested on our Q1 call. Part of the negative variance also relates to higher filing fees, reporting costs, legal fees, and certain due diligence costs. Finally, the positive variance in interest income of \$133,000 is the consequence of the cash balances resulting from both the exercise of the over-allotment option, as I just mentioned, and from a normal increase in working capital.



As we execute our investment strategy, the cash balances have diminished and we do not expect further meaningful interest income during the balance of the year. Further, there is a small negative variance in interest expense that will grow through the balance of the year. Debt used to fund investment activity not included in the forecast will generate a negative interest expense variance.

With respect to the balance sheet, the financial position is strong and liquid. At June 30<sup>th</sup>, the REIT's indebtedness ratio was 48.1 percent. There was a small amount of cash and over \$200 million of undrawn credit on our facility. In addition, interest coverage for the quarter was a strong 3.1 times. Our AFFO payout ratio was a solid 91 percent and is poised to improve as the benefits of our investing activity are realized in future operating results.

On an operating basis, our portfolio continues to be 99.9 percent occupied, and as such there was no leasing activity during the quarter. Canadian Tire represents 94.7 percent of our annualized base minimum rent, and when combined with other CTC banners represents 97.1 percent of our annualized base minimum rent.

With that, I will turn it back to Ken.

## Ken Silver, Chief Executive Officer, CT REIT

Thanks Louis. As you would expect, we're delighted with our performance to-date and are enthusiastic about the opportunities ahead of us. The initial portfolio is performing as expected and we're executing on our growth strategies. We believe it will become increasingly apparent to investors that the CT REIT investment proposition is a highly rated, predictable investment with attractive baseline growth in AFFO per unit combined with growth strategies that together deliver growth that is supportable and superior to the sector average.

Now Operator, I will turn the call back to you for any questions from our listeners.

#### QUESTION AND ANSWER SESSION

## Operator

Thank you. At this time, I would like to remind everyone in order to ask a question, please press star then the

number one on your telephone keypad. We ask that you please pick up the handset or step close to your speakerphone system when asking your question to provide maximum audio clarity. We'll pause for just a moment to compile the Q&A roster.

Our first question is from Michael Smith from RBC Capital Markets. Please go ahead.

## Michael Smith, RBC Capital Markets

Thank you and good morning. My first question is I just want to confirm—so the lease is with the TTC, the land lease for Canada Square?

## Ken Silver, Chief Executive Officer, CT REIT

Yes, that's right, Michael. Canada Square is predominantly on a land lease from the TTC.

# Michael Smith, RBC Capital Markets

The part that's not, is that just freehold?

## Ken Silver, Chief Executive Officer, CT REIT

That's right.

### Michael Smith, RBC Capital Markets

Okay, and what's the expiry date?

## Ken Silver, Chief Executive Officer, CT REIT

Well, I should probably preface any of our comments about Canada Square just to let you know that we're subject to confidentiality agreements, so I apologize if there's any details you'd like me to share with you that I can't. Suffice it to say that there is a significant term plus renewal options remaining on the existing ground leases.



### Michael Smith, RBC Capital Markets

Okay, I understand. So I guess one—you know, I could see why you, or I think I could see why you would buy a third interest with Oxford and with Northam, but nonetheless I'd still like to hear your broad thoughts, your rationale for bringing in or for investing jointly with Oxford in this property.

### Ken Silver, Chief Executive Officer, CT REIT

Well you know, the basis of our acquisition of the property was really the existing configuration of the properties and the income in place. Nevertheless, it's obviously a fantastic corner in the City of Toronto. It is a site that we look forward to exploring what the redevelopment opportunities might be with our coowners, and are delighted to have Oxford as part of the ownership group and helping with that initiative.

## Michael Smith, RBC Capital Markets

So is it fair to think that this is definitely a significant redevelopment opportunity, albeit longer term?

## Ken Silver, Chief Executive Officer, CT REIT

Well, I would certainly say it's longer term. We're very pleased with the asset as it is and the terms upon which we acquired it, but clearly with the intensification and the infrastructure investment that we're seeing at Yonge and Eglinton, we would definitely be interested in seeing what redevelopment opportunities might exist.

## Michael Smith, RBC Capital Markets

Okay, thank you. Can you discuss your acquisition pipeline, what's in your pipeline now? Is it full, or is it—how does it look?

# Ken Silver, Chief Executive Officer, CT REIT

Well, we're busy. There are a number of things that we're working on, as you would expect. I wouldn't want to speculate too much about what will come together and when we might be doing it.

## Michael Smith, RBC Capital Markets

Okay, thank you.

#### Ken Silver, Chief Executive Officer, CT REIT

Thanks Michael.

#### Operator

Thank you. The following question is from Sam Damiani from TD Securities. Please go ahead.

### Sam Damiani, TD Securities

Thank you. Good morning everyone. I just wanted to follow up on the Canada Square. Is the site including the full sort of former bus terminal there to the west, which would imply a total site area of around eight acres, I believe? Is that correct?

## Ken Silver, Chief Executive Officer, CT REIT

The existing Canada Square sits on about 7.2 acres. That does not include those bus barn lands, bus terminal lands that Metrolinx is going to be using as part of the—for the construction of the crosstown LRT.

#### Sam Damiani, TD Securities

So the portion not included would be kind of the northwesterly—

## Ken Silver, Chief Executive Officer, CT REIT

That's right, the land at the corner, that you would see at the corner of Eglinton and Duplex.

#### Sam Damiani, TD Securities

Duplex—exactly. Okay. Okay. Within that property, the Canadian Tire head office lease would represent roughly half, or the vast majority of the income on the property?



### Ken Silver, Chief Executive Officer, CT REIT

Well, Canadian Tire is clearly the major tenant at Canada Square and has been since, I think, 1973. It's not the vast majority of the income, but it's a significant component of the income.

## Sam Damiani, TD Securities

Is there a new lease in place with your involvement, or is it just sort of an existing lease that might be relatively short compared to your existing lease with the parent company?

## Ken Silver, Chief Executive Officer, CT REIT

There remains an existing lease. It is shorter than the leases on the retail properties that the REIT acquired, but there is a fair bit of term plus renewal options in that lease.

### Sam Damiani, TD Securities

Just looking at the valuation, clearly this property formed, I would think, the majority of the \$90 million announced today, or yesterday. At a 7.3 cap and give or take \$250 a foot for this asset alone, it certainly doesn't seem to imply much value was attributed to any excess density. Just curious how you'd respond to those kind of conclusions.

#### Ken Silver, Chief Executive Officer, CT REIT

Well as I said, we bought the property based on its existing configuration and income, and are pleased with the acquisition that we've made. Where we go from here, we'll be exploring with our co-owners.

## Sam Damiani, TD Securities

Fantastic. Thanks very much.

### Ken Silver, Chief Executive Officer, CT REIT

Thank you, Sam.

#### Operator

Thank you. Once again, please press star, one if you have a question.

As there are no following questions registered at this time, I would like to return the meeting to Mr. Ken Silver, CEO, for any closing remarks.

### Ken Silver, Chief Executive Officer, CT REIT

Well, thank you, Wayne, and thank you all for joining us today. We expect our third quarter results will be released the week of November 3<sup>rd</sup> and we look forward to speaking with you then. Have a good day.

### Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.