CT REIT First Quarter 2017 Investor Conference Call
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FORWARD LOOKING INFORMATION

This document contains forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for CT Real Estate Investment Trust's ("CT REIT" or the "REIT") business and results of operations. Forward-looking statements are provided for the purposes of providing information about CT REIT's future outlook and anticipated events or results and may include statements regarding known and unknown risks and uncertainties and other factors that may cause the actual results to differ materially from those indicated. Such factors include, but are not limited to, general economic conditions, financial position, business strategy, availability of acquisition opportunities, budgets, capital expenditures, financial results including fair value adjustments and cash flow assumptions upon which they are based, cash, taxes, plans and objectives of or involving CT REIT. Particularly, statements regarding future acquisitions, developments, dispositions, results, performance, achievements, prospects or opportunities for CT REIT or the real estate industry are forward-looking statements. In some cases, forward-looking information can be identified by such terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts. Some of the specific forward-looking statements in this presentation include, but are not limited to, statements with respect to the following: CT REIT's relationship with Canadian Tire Corporation, Limited, ("CTC", which term refers to Canadian Tire Corporation, Limited and its subsidiaries unless the context otherwise requires); CT REIT's ability to execute, its growth strategies; CT REIT's capital expenditures to fund acquisitions and development activities; CT REIT's distribution policy and the distributions to be paid to its unitholders; CT REIT's capital strategy and its impact on the financial performance of the REIT and distributions to be paid to its unitholders; the expected tax treatment of CT REIT and its distributions to its unitholders; CT REIT's access to available sources of debt and/or equity financing; CT REIT's ability to expand its asset base, make accretive acquisitions, develop or intensify its property and participate with CTC in the development or intensification of the properties; interest rates and the future interest rate environment.

CT REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that the Canadian economy will remain stable over the next 12 months, that inflation will remain relatively low, that tax laws remain unchanged, that conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate, that the Canadian capital markets will provide CT REIT with access to equity and/or debt at reasonable rates when required and that CTC will continue its involvement with the REIT on the basis described in its Annual Information Form.

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For more information on the risks, uncertainties and assumptions that could cause CT REIT's actual results to differ from current expectations, please also refer to CT REIT's public filings available on SEDAR at www.sedar.com and at www.ctreit.com.

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PRESENTATION

Operator

Good afternoon. My name is Elena and I will be your Conference Operator today. At this time, I would like to welcome everyone to CT REIT's First Quarter Earnings 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 would like to ask a question during that time, simply press star, then the number one on your telephone keypad. To withdraw your question, please 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 2016 MD&A and AIF, which can be found on CT REIT's website and on SEDAR.

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

Ken Silver, Chief Executive Officer

Thank you, Operator, and good afternoon everyone. We're very pleased to welcome you to CT REIT's First Quarter 2017 Investor Conference Call. I'll lead off with a discussion of our investment and development activity, and Louis will then briefly review certain financial matters.

During the first quarter, CT REIT completed four previously announced vend-ins from CTC. Three are multi-tenant properties anchored by Canadian Tire and are located in Victoria, British Columbia; Cambridge, Ontario, and Sainte-Agathe, Quebec. The fourth is a single-tenant Canadian Tire store in Dartmouth, Nova Scotia. We also completed the development of a freestanding building on a Canadian Tire anchored site leased to Dollarama in Martinsville, Saskatchewan. In total, these investments added 291,000 square feet of GLA to the portfolio.

Subsequent to quarter end, CT REIT also completed the previously announced intensification of two Canadian Tires stores in Bradford, Ontario and Athabasca, Alberta. These two intensifications added approximately 22,000 square feet of GLA to the portfolio and were fully satisfied with cash.

This morning, we also announced four new upcoming investments including the acquisition and redevelopment of three redundant Canadian Tire stores in Calgary, Alberta; Sudbury, Ontario and Arnprior, Ontario, which are significantly preleased, in part to both Canadian Tire banners as well as third party tenants. The fourth investment is a third party purchase and redevelopment of an existing Canadian Tire store in Picton, Ontario. These new investments represent $42 million of capital, approximately 184,000 square feet of incremental gross leasable area and are expected to earn a weighted average cap rate of 6.4 percent when complete. We expect to acquire these assets in Q2 and Q3 of this year with redevelopment primarily completed in 2018.

Beyond what was completed in Q1, we are continuing to make progress as expected on the balance of our development projects and pipeline. Last week, Oxford Properties, our co-owner and development manager at our Canada Square property at Yonge and Eglinton in Toronto hosted the first public consultation meeting in support of our redevelopment of the property. While it is early days and the timing of the redevelopment is connected to the timing of the Eglinton crosstown LRT, we are pleased with the progress Oxford is making. At nearly 99 percent occupancy, we are also pleased with the holding income we have on the property.

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

Louis Forbes, Chief Financial Officer

Thanks, Ken. Our first quarter results represent vert solid growth in AFFO per unit over the reported results for Q1 2016. In the first quarter of 2017 we reported FFO per unit of $0.279 as compared to $0.260 per unit in Q1 of 2016. AFFO per unit was $0.227 as compared to $0.206 in the comparable period, representing a healthy 10.2 percent growth rate. This rate of growth deserves some additional commentary.

The big contributor was interest savings. In this second quarter of 2016 we issued two series of unsecured debentures which together had a weighted average interest rate of just under 2.4 percent. We also redeemed Series 2 of the Class C LP units which had a distribution rate or interest coupon of 3.5 percent. This rolldown in interest rates together with a heavier use of our low-cost line of credit in Q1 of this year were significant contributors to our higher than typical run rate per unit growth this quarter. Our investing activity during the last 15 months also contributed to the strong growth. All of these positive contributing factors were partially offset by some financial de-leveraging.

Net operating income was $79.2 million, an 14.5 percent increase over the $69.1 million of NOI reported for Q1 2016. Our MD&A breaks this headline growth into its components: 2.3 percent growth on a same store basis, 2.5 percent growth on a same property basis, and the balance as a result of acquisition and development activity, of which the most significant contribution came from the Bolton distribution centre. The same-store growth is the result of the approximate 1.5 percent average annual increase in minimum rent contained within the Canadian Tire store and CTC's DC leases, which are generally effective January 1st; also from the recovery of capital expenditures and interest earned on the unrecovered balance of capital expenditures, and the recovery of operating expenses and property taxes.

G&A expenses as a percentage of property revenue were slightly lower at 3.4 percent compared to 3.5 percent in first quarter of 2016. G&A expenses increased 10.1 percent versus Q1 2016, primarily due to increased compensation costs as the result of higher headcount and variable compensation awards. Increased income tax expense reported in 2017 in connection with CT REIT GP Corp's activities partially offset by decreased land transfer tax expenses.

With respect to the balance sheet, the financial position continues to be strong and liquid. At March 31, the REIT's indebtedness ratio was 46.9 percent, 60 basis points lower than last quarter. The indebtedness ratio decreased primarily due to CT REIT's 2017 acquisitions, intensification and development activities and fair value adjustments made to the investment property portfolio, partially offset by an increase related to CT REIT's mortgages payable and borrowings drawn on the bank credit facility during 2017. We also have approximately $184 million available on our credit facility.

Debt as compared to earnings before interest, taxes and fair value adjustments was a solid 7.32 times. This ratio has improved notably since December 31, 2016 as the Bolton DC has begun to produce EBIT.

Three hundred and two of the REIT's assets are not encumbered, representing in excess of $4.9 billion of assets, or said another way, approximately 97 percent of our assets.

In addition, interest coverage for the quarter continues to be strong at 3.43 times. Along with the debt as compared to EBIT, you will note that this metric has changed as compared to prior quarters as we have stopped capitalizing interest on the Bolton DC as rent commenced on this asset in late December.

Our AFFO payout ratio was a solid 77 percent, a decrease of approximately 600 basis points as compared to the 83 percent ratio in Q1 of 2016. The change in the payout ratio from Q1 of last year reflects the strong growth in our AFFO per unit partially offset by the increase in our distribution rate in January of this year.

Our disclosure documents this quarter include a new metric, adjusted cash flow from operations. ACFO was $44.5 million in Q1 2017, an increase of 6 percent from the same period in 2016. ACFO is a non-GAAP financial measure developed by REALPAC and management at CT REIT believes that it is a sustainable economic cash flow metric that when compared period-over-period reflects the impact of cash flow generated from operating activities after providing for net interest and other financing charges and operating capital requirements. We think this new metric may grow in meaning over time.

On an operating basis, our portfolio continues to be 99.7 percent occupied. Canadian Tire represents 91.1 percent of our annualized base minimum rent, and when combined with other CTC banners represents 93.6 percent of our annualized base minimum rent. All metrics are largely unchanged from a year ago.

Again, I would like to take a minute to speak to the trend in our book value per unit. At March 31, 2017, the book value per unit was $12.73, representing 7.5 percent growth over the book value of $11.84 a year ago. A number of factors contribute to this growth in book value: a higher value for the income producing properties due to ongoing growth in cash flow resulting from the annual rent increases, and again, I'll remind you that the valuation metrics have not changed; in addition, retained cash flow, a higher receivable balance due to the recoverable Capex spend, and accretive investing activity financed in part by equity issuance that is accretive to this book value per unit.

On a trailing basis, combining distributions and book value per unit growth, CT REIT has since IPO consistently delivered a total annual return in excess of 10 percent.

In January 2017, CT REIT delivered a Notice of Redemption to CTC for the Series 10 to 15 Class C LP units, which allows for the series to either be redeemed or reset at CTC's discretion. These Class C LP units have a face value of $70.4 million and a rate reset date of May 31, 2017. If redeemed, it is expected to be funded subject to TSX approval by approximately $23 million of cash and the issuance to CTC of approximately $47 million of Class B LP units.

With that, I will turn it back to Ken.

Ken Silver, Chief Executive Officer

Thanks, Louis. We're delighted with the strong start to the year but not the least bit surprised by it. That goes to the heart of the CT REIT investment proposition: solid growth, conservative financial management and an attractive and predictable performance. The REIT's prospects continue to be reliable, durable growing and enhance our promise of delivering long-term value to our unit holders.

Now Operator, I'll 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 speaker phone 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 Sam Damiani with TD Securities. Please go ahead.

Sam Damiani, TD Securities

Thank you. Good afternoon.

Ken Silver, Chief Executive Officer

Good afternoon.

Sam Damiani, TD Securities

Just on Canada Square, Ken, I just want be clear. When you talk about sort of the development there obviously tied in with the TTC work, is the redevelopment of your asset going to be only starting after that crosstown Eglinton LRT is complete, or is the intent to have something underway while that's under construction?

Ken Silver, Chief Executive Officer

Sam, it's not yet clear yet exactly what the development plan will be or the timetable for the development plan. It is possible that subject to all the pieces falling into place that we could start redevelopment before the crosstown LRT is completed, but that's not a certainty at this point.

Sam Damiani, TD Securities

Okay. Just secondly, I recall back at the time of the IPO there was an appraisal that included about $50 million for excess land within the REIT's portfolio and I think the appraiser had estimated there was a million square feet of developable density on those lands. Just wondering if there's any update to that group of properties. Maybe something has been advanced already, and if the estimate of developable density on those lands is still a million square feet or if it's increased.

Ken Silver, Chief Executive Officer

Sure, Sam. You're right. At the time we had identified that there was some surplus density, at the time of the IPO, identified that there was surplus density in the portfolio, and we had described that opportunity that we would realize that density in basically one of two ways: either through the expansion of Canadian Tire stores and we would build out some of that density that way, or we might build some pads in front of the Canadian Tire stores.

We have been executing against that, pretty much from Day 1. In fact, we probably have announced something pretty much every quarter, what we call intensifications, and to date we have built out over 300,000 square feet of incremental density as part of that intensification program. As well, there's been a number of ground leases that while they don't roll up into GLA they certainly roll up into NOI.

So, we're making progress. We have a pipeline of additional deals with various retailers that we'll be executing on this year and next. It's a program that's well underway. I would say it's well advanced. I don't know that we have recently re-evaluated what the ultimate potential of that space would be relative to the original million square feet, to be honest.

Sam Damiani, TD Securities

Thank you. That's very helpful. That's kind of what I was wondering about, if you see any maybe high rise, mixed use opportunities that maybe weren't contemplated four or five years ago.

Ken Silver, Chief Executive Officer

Clearly we see, as everybody does, that urban intensification is a much more important and stronger theme than it was four or five years ago, and there have been a lot of—certainly in the largest markets in the country a lot of momentum behind that.

We certainly have sites that we think are potential redevelopment sites, and I would describe it simply as in the long run. I mean if they're subject to longer term Canadian Tire leases then one of two things needs to happen is we need to work with Canadian Tire to understand how we would redevelop the property and what would happen to the Canadian Tire store, and obviously we would need to have Canadian Tire willing to open up the leases.

At the same time though, we are comfortable with a notion of seeing how this theme evolves and understanding the economics of the urban intensification program. Clearly we have a high degree of comfort with our investment in Canada Square. If we were going to intensify anything the corner of Yonge and Eglinton seems like a good place to be. But, we are interested in seeing how people do handling the development risk and seeing what the returns are on some of the purpose-built residential, for example.

Sam Damiani, TD Securities

Very good. Thank you very much. That's helpful.

Ken Silver, Chief Executive Officer

Thanks.

Operator

Thank you. Once again, please press star, then the number one on your telephone keypad if you have a question. The next question is from Pammi Bir with Scotia Capital. Please go ahead.

Pammi Bir, Scotia Capital

Thanks. Good afternoon. Just looking at the redundant, I guess, stores that were dropped into the REIT as part of the new investments, can you just give us some sort of context as to how long have these stores been closed and how much of the space is now pre-leased?

Ken Silver, Chief Executive Officer

Hi Pammi, it's Ken. I'll go very quickly through them. The store in Arnprior we relocated the existing Canadian Tire store which was adjacent to Arnprior Mall which we had bought, so that one only became vacant fairly recently as we relocated the Canadian Tire store. In Calgary, the Canadian Tire store was relocated out of the existing building less than six months ago, and the store in Sudbury was actually a store that was relocated into an adjacent Target box. So they're fairly recent vintage.

Part of the process that we've gone through is to do a pretty thorough job of redevelopment due diligence as well as pre-leasing. So, about 90 percent of the space is subject to a committed or a conditional deal at this point, so that's kind of where we're at on the pre-leasing front.

Pammi Bir, Scotia Capital

That's helpful. It sounds like these are I guess relocations of prior stores, not necessarily just shutting down stores within the Canadian Tire platform.

How many more of these …

Ken Silver, Chief Executive Officer

Pammi, just if I can interject there, we've talked about some of the real estate that Canadian Tire continues to own and we had identified that there were a number of stores that did not go into the REIT because Canadian Tire knew that they would like to have a bigger or newer facility somewhere. Not that these locations were bad, they were just too small for Canadian Tire's requirement on an ongoing basis. So, all of these were relocations and we had identified them in terms of when we talked about redundant or retained properties of Canadian Tire. We referenced that some of these are redevelopment opportunities in which we would re-tenant with, in some cases, some of the other Canadian Tire banners or third parties.

Pammi Bir, Scotia Capital

Right. That is helpful. How many more of these I guess redundant stores do you think there are in the portfolio that could make their way into the REIT over the next little while?

Ken Silver, Chief Executive Officer

Well, I wouldn't put a specific number on them because in some cases—there is one, for example, recently that we were considering where, frankly, highest and best use was as residential land. We chose to pass on that opportunity and allow Canadian Tire to sell that to a third party.

So, there are a number of properties that we would like to see go into the REIT and we'll have those, but I don't have a specific number I could give you at this point but it's still part of that roughly, I guess it would be 30-ish odd properties that Canadian Tire still retains.

Pammi Bir, Scotia Capital

Okay. Then just thinking about the balance of this year, you did just over $50 million in terms of spending this quarter in acquisitions and intensification, so how do you see the year shaping up between those two? Between acquisitions and completed developments.

Ken Silver, Chief Executive Officer

Well, we're continuing to pursue our growth program. In some cases with respect to third party acquisitions, obviously it depends either what we generate on our own or what comes to market. I'd say generally the market is pretty good in the sense that there's a fair bit of product that we had looked at, and sometimes it's just a question of seeing whether either we feel there's a good strategic fit for the portfolio or we're comfortable with the level of investment.

Pammi Bir, Scotia Capital

Okay. Louis, just going back to your comments on the use of the credit line, just curious as to is the expectation that you kind of keep it running where it is, or is there a plan to just term that out with perhaps an unsecured? I'm just curious about your thoughts on this.

Louis Forbes, Chief Financial Officer

Pammi, we view ourselves as having access to multiple sources of capital, whether it's Class B or C or public debt or public equity, or the line of credit as you're focusing on. We're very comfortable with our liquidity position today and we're not feeling any pressure. Certainly the uses of capital that we've disclosed that will happen in the near term don't push us to act under any kind of pressure. So, I guess it's very noncommittal.

Pammi Bir, Scotia Capital

Okay. So I guess you're comfortable with the $100 million draw on it and no immediate rush to term that out.
Louis Forbes, Chief Financial Officer

No. There's about $185 million of liquidity available at the quarter end and the facility has term until April of 2021, so we're pretty comfortable with that.

Pammi Bir, Scotia Capital

Right. Just on the comments around the Class C unit redemption, this $70 million, you've indicated what you would do if they are redeemed, but is your expectation that they will be or will they be reset?

Louis Forbes, Chief Financial Officer

No, our expectation is that they will be redeemed.

Pammi Bir, Scotia Capital

Okay. Great, thanks very much.

Ken Silver, Chief Executive Officer

Thank you.

Operator

Thank you. The next question is a follow up question from Sam Damiani with TD Securities. Please go ahead.

Sam Damiani, TD Securities

Thanks. I was just wondering in your various leasing strategies and discussions if you're having any discussions with a retailer that's not currently in Canada, like for any sizable number of locations.

Ken Silver, Chief Executive Officer

No.

Sam Damiani, TD Securities

Thank you.

Operator

Thank you. The next question is from Michael Smith with RBC Capital Markets. Please go ahead.

Michael Smith, RBC Capital Markets

Thank you and good afternoon. Just on your head office at Yonge Eglinton, I know it's early on but I'm just curious how did the meeting go and was there any rough presentations made, or was it just sort of like here's five different possibilities, all loose kind of concepts?

Ken Silver, Chief Executive Officer

Hi Michael, it's Ken. I think you're referring to in my comments I talked about a public consultation meeting.

Michael Smith, RBC Capital Markets

Yes.

Ken Silver, Chief Executive Officer

With respect to Canada Square. It was the first public meeting so it was an introductory session. It wasn't specific to any specific designs or plans. It was really designed to get feedback from the community as to their priorities, as to their interests in terms of what they would like to see as part of a redeveloped Canada Square. It was not at all a contentious meeting or anything like that.

Michael Smith, RBC Capital Markets

Okay, great. That's it for me. Thanks.

Ken Silver, Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Jenny Mah with Canaccord Genuity. Please go ahead.

Jenny Mah, Canaccord Genuity

Hi. Good afternoon. It seems like valuation for retail properties have been holding up pretty well. I'm just wondering if you've gone through the exercise of contemplating whether or not there would be some assets you'd look at selling or if you've received any sort of unsolicited inquiries on certain of your properties in the portfolio.

Ken Silver, Chief Executive Officer

Hi Jenny, it's Ken. I mean obviously we haven't owned these properties that long and we're very happy to own them, and don't have any kind of requirement for capital recycling. So, we have not contemplating dispositions of any of the properties.

Having said that, I can't tell you we've had a lot in the way of incoming calls, but I'm sure that if we were interested in selling some of these properties we wouldn't have any trouble doing so.

Jenny Mah, Canaccord Genuity

Okay. Does CTC factor into the decision at all or is it entirely an independent decision on the REIT for a one-off property sale, for example?

Ken Silver, Chief Executive Officer

No, that would be up to the REIT, but subject to some terms and conditions in the lease with Canadian Tire, but we're free to manage the portfolio as we see fit.

Jenny Mah, Canaccord Genuity

Great. That's helpful. Thank you.

Ken Silver, Chief Executive Officer

Thank you.

Operator

Thank you. As there are no further questions at this time, I will turn the call over to Ken Silver, CEO, for any closing remarks.

Ken Silver, Chief Executive Officer

Thank you, Operator, and thank you all for joining us today. We expect our second quarter results will be released the first week of August, and we look forward to speaking with you then. Thanks. Have a good afternoon.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.
