FINAL TRANSCRIPT

H&R Real Estate Investment Trust

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PRESENTATION

Operator

Good morning, and welcome to H&R Real Estate Investment Trust's 2020 third quarter earnings conference call.

Before beginning the call, H&R would like to remind listeners that certain statements which may include predictions, conclusions, forecasts, or projections in the remarks that follow may contain forward-looking information, which reflect the current expectations of management regarding future events and performance and speak only as of today's date.

Forward-looking information requires management to make assumptions, or rely on certain material factors and is subject to inherent risks and uncertainties, and actual results could differ materially from the statements in the forward-looking information.

In discussing H&R's financial and operating performance and in responding to your questions, we may reference certain financial measures which do not have a meaning recognized or standardized under IFRS or Canadian Generally Accepted Accounting Principles and, therefore, unlikely to be comparable to similar measures presented by other reporting issuers.

Non-GAAP measures should not be considered as alternatives to net income, or comparable metrics determined in accordance with IFRS as indicators of H&R's performance, liquidity, cash flows, and profitability. H&R's management uses the measures to aid in assessing the REIT's underlying performance and provides these additional measures so that investors can do the same.

Additional information about the material factors, assumptions, risks, and uncertainties that could cause actual results to differ materially from the statements in the forward-looking information and the material factors or assumptions that may have been applied in the making of such statements, together with details on H&R's use of non-GAAP financial measures, are described in more detail in H&R's public filings, which can be found on our website and www.sedar.com.

I would now like to introduce Mr. Tom Hofstedter, Chief Executive Officer of H&R REIT. Please go ahead, Mr. Hofstedter.

Tom Hofstedter — Chief Executive Officer, H&R Real Estate Investment Trust

Thank you, and good morning, everyone. I'd like to thank you all for joining us on the call today. With me here are Larry Froom, our CFO; Pat Sullivan, COO of Primaris; Philippe Lapointe, COO of Lantower; Robyn Kestenberg, Executive Vice President, Corporate Development; and Alex Avery, Executive Vice President, Asset Management and Strategic Initiatives.

A lot has happened since our last conference call. The US election is finally over, progress on treatments and vaccines for COVID-19, continued recovery in employment, economic activity, and it seems that society is getting better at living more normally as we wait for the end of the pandemic.

We have continued to prioritize the safety of our employees, tenants, and visitors to our properties following all the recommended protocols, including social distancing and frequent cleaning.

From a business perspective, Q3 results reflect the high quality of our portfolio and the appeal of our properties to the creditworthy tenants that occupy them. Rent collections averaged over 93 percent in the quarter and continue to improve. Q3 FFO per unit was down less than 5 percent, primarily due to bad debts for the quarter, absent which FFO per unit would have risen by 5 percent. Net asset value per unit increased slightly, primarily driven by increased investment demand for Sunbelt apartments.

We are pleased with how well our portfolio has performed through these exceptional times. We are clearly not through this pandemic yet and may feel a further economic impact over the next few quarters, but the stability and resilience of our business is clear. Our team continues to work closely with our tenants to find mutually beneficial solutions to support the success of our properties.

We are confident that H&R REIT is adequately capitalized, owns great real estate, and has the flexibility to take advantage of opportunities in the market that may arise over the coming quarters.

And with that, I'll hand over the call to Larry, who will review our quarterly results, followed by Pat, who'll provide an update on our retail portfolio, and then over to Philippe, who will update us on our multi-res portfolio.

Larry?

Larry Froom — Chief Financial Officer, H&R Real Estate Investment Trust

Thank you, Tom. Good morning, everyone. Overall, we collected 93 percent of the rentals in Q3 2020, an increase from 90 percent in Q2. Q4 looks like the trend will continue as we've already collected 95 percent of October's total billings.

We increased our bad debt provision by $13.4 million in Q3 in addition to the $24.5 million booked in Q2; $5 million was for tenants who had filed for creditor protection, $2.8 million was for the 25 percent rent abatements we agreed to under the Connect Canada Emergency Commercial Rent Assistance Program, and $5.5 million was for other rent abatements we expect to draw and a general provision. Net of these provisions, our accounts receivable balance at September 30th at H&R's ownership interest was $23.6 million, down from $32.5 million at June 30, 2020.

As can be expected, most of our $13.5 million provision for bad debts arose from our retail division, which accounted for 95 percent of the total and specifically in an enclosed mall portfolio. The split of our provision for bad debts amongst our four segments can be found in the press release and the MD&A.

As a reminder, we own 100 percent of 10 enclosed malls and own 50 percent of seven other enclosed malls. These malls, at our proportionate share of ownership, account for 21 percent of our total billings.

Same-Asset property operating income on a cash basis decreased by 5.5 percent and 3.8 percent, respectively, for the three and nine months ended September 30, 2020, compared to respective 2019 periods, primarily due to the provision for bad debt. Excluding the provision for bad debt, Same-Asset property operating income would have increased by 1.5 percent and 2.7 percent, respectively.

Same-Asset property operating income from office properties increased by 2 percent and for the three months ended September 30, 2020, increased 0.1 percent for the nine months ended September 30th compared to respective periods in 2019. Included in the nine months ended September 30, 2020, were lease termination fees of $3.2 million compared to $5.8 million for the nine months ended September 30, 2019. Excluding lease termination fees, Same-Asset property operating income from the office division would have increased by 1.1 percent for the nine months ended September 30th.

The average term remaining on our office leases at September 30th was 11.7 years. Subsequent to the quarter, we extended Hess's lease on two-thirds of our office tower in Houston for an additional 10 years beyond the original expiry of June 2026. Same-Asset property operating income on a cash basis from our retail properties decreased by 15.7 percent and 17.2 percent for the three and nine months ended September 30, 2020, compared to respective 2019 periods, primarily due to the provision for bad debt as a result of the impact of COVID. Excluding the provision for bad debt, Same-Asset property operating income would have increased by 5.3 percent and 2.1 percent, respectively.

Same-Asset property operating income from industrial properties increased by 7.4 percent and 5.8 percent, respectively, for the three and nine months ended September 30, 2020, primarily due to an increase in occupancy and rental rates. Our new tenant, Deutsche Post, is busy setting up the first industrial construction property totalling just under 343,000 square feet on our Caledon land, and we expect rent payments to commence on November 14th.

Same-Asset property operating income cash basis from residential properties in US dollars decreased by 12.7 percent for the three months ended September 30, 2020, compared to respective 2019 period, primarily due to Jackson Park in New York, which has been negatively affected by lower than average lease renewals and apartment traffic due to COVID. Excluding Jackson Park, Same-Asset property operating income in US dollars increased by 4.1 percent and 8.5 percent for the three and nine months ended September 30, 2020, compared to respective 2019 periods.

Over the course of the next 12 months, construction will be completed on one mixed-use development and five residential developments totalling 969 additional units at our share.

Funds from operations, FFO, was $0.41 per unit for Q3 2020, up from $0.38 per unit in Q2 2020 and down from $0.43 a unit in Q3 2019. Excluding the provision for bad debt, FFO would have been $0.46, an increase of $0.03 compared to Q3 2019.

Adjusted funds from operations, AFFO, was $0.35 per unit in Q3 2020, up from $0.29 per unit in Q2 and flat for Q3 2019 of $0.35 a unit.

Distributions paid as a percentage of AFFO, or commonly known as the payout ratio, was 49 percent in Q3 2020.

Debt to total assets decreased to 47.2 percent at the end of Q3 2020 compared to 48.1 percent at the end of Q2 2020.

As far as liquidity goes, as of September 30, 2020, H&R had $1 billion of unused borrowing capacity available under its lines of credit, had $54 million of cash on hand, and an unencumbered asset pool of approximately $3.5 billion with only $39 million of mortgages maturing during the remainder of 2020.

I will now turn the call over to Pat to give an update on our retail division.

Pat Sullivan — Chief Operating Officer, Primaris Management Inc., H&R Real Estate Investment Trust

Thank you, Larry, and good morning. During the third quarter, the retail division incurred an additional $12.8 million in bad debt, bringing the year-to-date figure to $35.7 million. Enclosed malls accounted for approximately 94 percent of this amount. As a result of this bad debt provision, the retail division has experienced a significant decline in NOI during the second quarter.

On a positive note, without this bad debt provision, the Retail division would have experienced a 5.3 percent gain during the quarter. Further excluding bad debt provision, enclosed malls would have posted a 10.4 percent gain during the quarter, and a 4.1 percent gain through the first nine months of 2020 despite a significant decline in percentage rent and specialty leasing revenue.

Significant leasing in prior quarters and new store openings has resulted in a notable gain in our retail rent and recovery ratios, which we will continue to benefit from during the duration of 2020 and beyond.

In the third quarter of 2020, just under 80,000 square feet of large-format tenants opened from former Sears premise with another three tenants opening in the fourth quarter from approximately 72,000 square feet. This is in addition to large-format tenants that opened up from about 110,000 square feet in Q2. As we enter 2021, large-format tenants encompassing approximately 75,000 square feet is committed to open, and we are in the final stages of negotiation with several tenants for approximately 55,000 square feet more.

Additionally, we're closed to finalizing long-term renewals and expansions with two tenants that will expand by almost 15,000 square feet in total and occupy almost 90,000 square feet in aggregate.

Collection of rent in the retail portfolio have trended higher since the low point in May. In Q3, we collected 72 percent from our enclosed malls and 80 percent from the retail segment. Collection for October, November in enclosed malls are trending above 80 percent.

With respect to tenant failures, we've retained 65 percent of the stores that have filed for protection under CCAA and, including those that have already been replaced with new tenants, this figure rises to 82 percent. Le Chateau, which occupied approximately 43,000 square feet from 13 stores filed CCAA recently and will be closing all stores in our portfolio. Le Chateau has indicated they will remain at occupancy until March or April of 2021, which will afford us time to source replacement tenants for their high-profile locations.

We're pleased with the fact that our enclosed malls are reporting sales in Q3 that are 86 percent compared to the same period last year with some, specifically in larger markets, skewing lower, while several smaller market properties are posting sales above comparable months the year prior. Generally, those tenants that sell products that are associated with office work, such as suits, formal footwear, and even cosmetics, are experiencing lower sales as compared to retailers that sell casual apparel, athletic footwear, and household goods, some of which are posting higher comparable sales figures.

With warm weather across Canada in August, sales during that month were somewhat lower than expected. However, September sales were solid as a result of schools opening.

Tenants continue to state that the most challenging properties are super regional malls and major markets that require regional draw to generate high sales volumes as well as urban properties that rely on daytime traffic. Most consumers are avoiding travel to major centres and shopping locally, which is benefitting malls in our portfolio that are typically located in secondary markets and include a higher concentration of essential services.

Thank you. And I'll now turn the call over to Philippe.

Philippe Lapointe — Chief Operating Officer, Lantower Residential, H&R Real Estate Investment Trust

Thanks, Pat. Good morning, everyone. I'd like to begin by revisiting our experience through COVID-19's pandemic, successful by most metrics due to the complete and exceptional dedication of our on-site and corporate staff members. And so I'll begin with another encouraging collections update.

Our high collections rate mentioned on our last call has persisted throughout the third quarter. I'm delighted to announce that our teams have continued this success as evidenced by receipt of over 97 percent of billed rent for every month from August to October. Additionally, as of yesterday, Lantower had collected over 94 percent of billed rents for the month of November, keeping pace with our collections rate of over 97 percent.

On the value creation front, I'd like to provide an update on our smart apartment pilot program at three of our properties in Austin and two properties in Charlotte. As of November 1st, all hardware had been installed and the software is operational at our five properties. As expected, reception from residents and staff has been overwhelmingly positive. And in light of this, over the next few months, we'll be studying the feasibility of rolling out the smart apartment platform across our portfolio.

As a reminder, these smart apartment packages include smart locks, thermostats, and leak sensors that'll provide the residents full apartment control, all from a single app. In addition, we expect operational efficiencies ranging from keyless and remote access to units in addition to expense savings via vacant unit climate control.

On the development front, The Pearl, a 383-unit, mid-rise, multifamily development in Austin, Texas is expected to open its leasing office in the fourth quarter of 2020 and is scheduled to fully deliver in the first quarter of next year.

Nightingale, a 263-unit, mid-rise development located in Seattle, is still estimated to commence preleasing by the end of this year and will deliver towards the end of the first quarter of 2021. Phase 1 of our Hercules development in San Francisco, named The Exchange, received final CO, and leasing velocity has been stronger than expected, in part due to having secured short-term leases from the US Navy, bringing current occupancy to 64 percent. Phase 2 of our Hercules development started construction during the first quarter of 2019 and is expected to deliver in the second quarter of 2021.

Lastly, Shoreline Gateway, our 35-storey, multifamily tower in Long Beach, California, is on schedule and expected to deliver in the summer of 2021. The project has reached the 35th level and is currently topped out.

On to River Landing. The third quarter also saw the grand opening of our property, Miami River Landing, a 528-unit, multifamily development community in Miami, Florida. We’re happy to announce that we’ve already signed in nearly 95 leases to date, well ahead of our budgeted occupancy. For context, we had anticipated securing 95 leases by the end of the month of May 2021.

Additionally, we believe the leasing velocity to be quite strong, given that the leasing team did not move into leasing office until this week. Lastly, we expect to receive access to most of the amenities in the coming weeks, accelerating the desirability of the property. Simply put, we are beyond satisfied with the leasing velocity that we’re experiencing at River Landing.

Jackson Park. While Jackson Park experienced a lull in operating performance due to COVID-19, we are encouraged with what we believe to be the start of a rebound. From an operational perspective, the property gained more new move-ins than move-outs in the month of October, underscoring our belief that we’re past the worst of the COVID-19 leasing impairment.

Furthermore, lease expirations for the fourth quarter are only a small fraction of what they were during the summer months of 2020, and thus, we feel strongly about a more favourable trajectory going forward. Fortunately, Jackson Park community amenities are predominantly open with restrictions, which support a lifestyle competitive advantage within the submarket, not to mention a private two-acre park; yet another competitive advantage over the surrounding multifamily properties. Also of note, we expect a new grocery store to open across the street in the fourth quarter of 2020, which we believe will be a major draw and selling point for prospective tenants.

On the operational front, at the end of the third quarter, the Lantower portfolio, excluding Jackson Park, was nearly 93 percent occupied. Our Lantower portfolio benefitted from a strong summer leasing season and above average retention rates supporting strong operational fundamentals.

On the financial front, our Same-Asset quarter-end operating income decreased in US dollars from $19,904,000 in the third quarter of 2019 to $17,376,000 in the third quarter of 2020. While this equates to a Same-Asset quarter-over-quarter operating income growth of negative 12.7 percent, this decline is attributed to the operational lull at Jackson Park. When excluding Jackson Park, our Same-Asset quarter-over-quarter operating income growth equates to a positive 4.1 percent for the third quarter and a positive 8.5 percent for the nine months ending in September 2020 compared to the respective 2019 period.

And with that, I will pass along the conversation back to Tom.

Tom Hofstedter

Thanks, Philippe, and thank you to the entire H&R team for their hard work and dedication in 2020. As the team has just reviewed, H&R's portfolio is performing well under challenging circumstances. We are confident our portfolio will continue to deliver stable and growing cash flows underpinned by the quality of our properties and our tenants.

We'd now be pleased to answer your questions. Operator, please open the line for questions.

Q&A

Operator

Thank you. At this time, if you would like to ask a question, please press *, 1 on your telephone handset.

Our first question comes from Sam Damiani from TD Securities. Please go ahead. Your line is open.

Sam Damiani — TD Securities

Thank you. Good morning, everyone. The first question, Tom, probably for you. When you took the large IFRS marks in Q1, did it contemplate the kind of incentive that might have been provided to Hess to extend its lease?

Tom Hofstedter

Yeah. We don't believe that it did. And we're fine with the value we put on Hess. Nothing's changed. What we availed ourselves of is, obviously, financeability. That asset is debt-free. And in addition, the liquidity on the asset to be able to sell the asset is, obviously, much greater. We've eliminated the future risk of the asset.

So we can sell it. We can finance it. We can do whatever we want with it. It's now an asset that's, quite frankly, quite liquid.

Sam Damiani

Okay. Just to be clear, I'm not sure if I heard correctly. You think the lease that you did will not affect the IFRS for value as it currently stands?

Tom Hofstedter

I think it provided liquidity, which means that if anything, the value has gone up. But I think we're happy with the valuation we had then.

Sam Damiani

And then similarly, we have seen a return to activity within the investment market, specifically for shopping centres, just in very recent weeks and months. And I note in the press release and MD&A you say you haven't seen enough transactions to revisit your valuations. But the transactions that you are seeing, as few as they may be, do they support the big write-downs that you did take back in Q1?

Tom Hofstedter

I think the answer is the same. I don't know what you're referring to. There has been almost no malls done. There's been one done in BC that we know of that was, call it, pre-COVID that came back alive. I don't know of any other malls that have transacted.

I think we're still missing enough evidence of actual deals that have gotten done to actually, of course, to have changed our opinion. I think we're comfortable with the valuations that we have.

Sam Damiani

Okay. And just last question is on the Mississauga industrial that looks to be adjacent to the GlaxoSmithKline building. Is it on the north side or the south side of the building there, that lot that you bought?

Tom Hofstedter

South side.

Sam Damiani

South side. And was that an off-market deal? Or was it widely marketed?

Tom Hofstedter

It was off-market.

Sam Damiani

And when does construction start there?

Tom Hofstedter

Not for another year; 9 months to 12 months.

Sam Damiani

Okay. Congrats on that. Thanks very much. I'll turn it back.

Operator

Thank you. And our next question comes from Matt Kornack from National Bank Financial. Please go ahead. Your line is open.

Matt Kornack — National Bank Financial

Hi, guys. Thanks for the updates. On Jackson Park, it sounds like things are turning around. Can you speak to the type of tenants that you're targeting? And would you, as universities reopen, go after the international student market again in terms of leasing that up?

Philippe Lapointe

So I'll take that question, Matt. So two questions. I think the makeup—one of the major factors as to why we're currently in the situation that we're in right now is due to the fact that at a heavy concentration of international students, to be honest, I don't think that we would have done anything differently. If we think about the pace of the velocity of the lease-up, it obviously exceeded our expectations at Jackson Park and enabled us to get exceptional financing. And so I'm not sure that we would have done anything differently.

And then casting forward, my guess is, again, I don't think that the property was intentionally targeting international students. It's just at the end of the day, it was open to whoever came in through their marketing efforts leased units.

I would anticipate that as New York City would kind of unfreeze, no pun intended, you would see a rebound in that demographic, and we would get right back to where we were pre-COVID. Now as to what the exact makeup would be and would it be the same proportion of US students as our international students? I don't know. But my guess is it probably would get close.

Tom Hofstedter

But don't forget, it's also November right now and international students won't be coming back for quite a few months. By the time they come back, I shall have hoped that it will be leased to others. So in reality, just from a practical perspective, it's not going to be leased to the same proportion of students because the students aren't back and they won't be back, even if COVID's over, they're not going to be running back until probably next September.

Matt Kornack

So what you're seeing now is young professionals probably that have started to migrate back to Manhattan or New York City?

Philippe Lapointe

Yeah. I think that's a reasonable statement. I also want to underscore the importance of the amenity mix that Jackson Park has that, to my knowledge, no other property has in one city, which is essentially a two-acre park. And so if you think about potentially the city shutting down again and ultimately some of the businesses that tenants are going to and them being closed, but you have a private park so you're given the opportunity to a tenant to have some outdoor space which is not closed, obviously with social distancing, my guess is the desirability of that property over the short term will increase. We have a very significant competitive moat to the remainder of the market due to those amenities.

Matt Kornack

And then with regards to River Landing, is that—I mean, Miami's a city and that's a semi-urban asset, but the Sunbelt generally seems to be outperforming the northeast and California at this point. Is that leasing traction there asset-specific? Or is it due to the Sunbelt generally seeing reasonable demographics? And can you speak to the rental rates as well relative to your forecasts? Are they coming in line as well?

Philippe Lapointe

So the easier, I'll deal with the rental rates. The rental rates are exactly are very close to where we thought they would be. And so there's really no material deterioration there. As it relates to the velocity, I think it's 100 percent asset-specific. We have assets in Orlando and Tampa. We had lease-ups. We know what to expect or knew what to expect. But there's also a couple of properties not in the immediate submarket, but within a three to five mile radius of River Landing who are also in lease-up whose pace is probably half of ours, which leads me to believe that it is probably 100 percent asset-specific. And when I say we, it's a big them, not so much myself, but we as H&R have built one heck of an asset. And the fact that, frankly, we have 95 leases seven weeks in is a testament to the quality of the product.

Matt Kornack

Okay. Fair enough. On the Hess lease extension can you just, where were—I don't know what you can provide here—but where were rents relative to prior levels? And it's an extension for two-thirds of the space, I think, and I assume the full space will be rent-paying until 2026, but how should we think about the remaining one-third?

Tom Hofstedter

Well, the remaining one-third is currently subleased, other than two floors that's currently on the market. So I think you can safely assume that the one-third that they're not occupying is going to be sublet very shortly. As I said, it's all done other than two floors in either event for tenants that you can assume will stay there for the long term. There's no reason that they wouldn't.

So you can assume that the building will have a mix of single to primarily obviously Hess and one-third mix of other tenants. And it will be fully leased and should remain so. It is one of the preeminent buildings in the market over there. It's Platinum LEED, so I expect that it'll be a high-profile Class A building and remain fully occupied.

Matt Kornack

Okay. And then last one for me on the retail side. It seems like you're actually getting some incremental tenants taking space. What type of tenants are leasing new space in this market? And how do you think about that going forward?

Pat Sullivan

On the large-format tenant size, it's kind of a just a mixed bag of, say, Dollaramas. There's some office tenants, medical uses, some of your other typical big-box guys. And inside the mall itself, not a lot of fashion activity. It's primarily electronics, some food, some home goods, stuff like that. But fashion activity is really on the smaller side is really light right now.

And going forward, I don't see us slowing down in terms of our volume with the larger-format deals. We've got a lot of discussions on the go. And on the small tenant side, there is a lot of dialogue going on. I think some of the fashion guys are just waiting to see how the pandemic continues to evolve.

But on the electronics side and some of the other uses, there's a lot more activity that should really kick into gear next year at the start of next year.

Matt Kornack

Okay. Great. Thanks. Lots of moving parts in the quarter, but looks to be moving in the right direction. Take care, guys.

Operator

Thank you. And again, if you would like to ask a question, please press *, 1.

Our next question comes from Sam Damiani from TD Securities. Please go ahead. Your line is open.

Sam Damiani

Thanks. And, Pat, just following on the last question there, what do you see is the impact on your Winnipeg assets from the current situation in the province?

Pat Sullivan

Yeah. I mean, the malls effectively are closing. We've arranged for online pickup orders from the store to be done inside the mall, which is good given the time of year it is. Hopefully, it's a short duration. The government Rents Assistant Program helps subsidize a further 25 percent of rent for qualified tenants in the event of government closures. So that should help significantly for a lot of the tenants. But both malls we have in Winnipeg, we own at 50 percent levels, so that will mitigate whatever exposure we may have. But hopefully, it's a short duration for the closures.

Sam Damiani

Absolutely. And just one last question. On the new rent subsidy program compared to CECRA, is it your view that that will ensure a much greater incidence of 100 percent of the rent collections compared to CECRA?

Tom Hofstedter

Yeah. My preliminary reading on it leads me to believe that we should see a lot better rent collection from the tenant for their portion that's owed, just simply because I believe they have to pay the rent in order to get the money from the government. And from an administrative point of view, it's a huge relief for us. I think we pushed through 900 documents related to CERCA with the last program. So it was a tremendous burden on our internal resources.

Sam Damiani

Thank you very much.

Operator

Thank you. And our next question comes from Jenny Ma from BMO Capital Markets. Please go ahead. Your line is open.

Jenny Ma — BMO Capital Markets

Thank you, and good morning. Just looking at the debt stats coming up for 2021, and it looks like there's a few chunky maturities coming up between the first tranche of the mortgage bonds and a secured line of credit on the Primaris assets, the term loan, and then, of course, some mortgages. Just wanted to get some additional colour on how you're thinking about these pieces and if you intend to sort of roll them over in their current form or look at different ways of accessing debt?

Larry Froom

Morning, Jenny. It's Larry. If you look at mortgage maturities of $832 million-odd for 2021, we expect we'll have to repay, call it, about $285 million of that and we'll be able to refinance the rest.

As far as the other facilities that are coming due, I've spoken to some of our bankers and feeling hopeful, or pretty confident that we'll be able to renew all of them. So there's really just taking care of $285 million of repayments in 2021 of mortgages. The rest, everything else, we expect to roll or refinance.

Jenny Ma

So when we think about the line of credit that's secured against Primaris, can you remind me how many assets that's secured against?

Larry Froom

Four assets.

Jenny Ma

Four assets?

Larry Froom

Yup.

Jenny Ma

Okay. And you expect to sort of roll it over and have it secured against these four assets or, I guess, a basket of assets within Primaris?

Larry Froom

I expect to roll it over and we'll see what basket of assets have to be secured by it. We may have to give another asset as security, but that would not be a problem.

Jenny Ma

Okay. And you last did the unsecured debt in June. Just wondering if you can give us an update on some of the indicative spreads you're seeing today versus five months ago?

Larry Froom

I don't think we've seen the debenture spreads come in that much in the last four months or so. I think they're kind of looking at the same kind of spreads on the unsecured market.

Jenny Ma

And what about the secured market?

Larry Froom

The secured market spreads, I think, have tightened. Not necessarily, but they've probably tightened 10 to 15 bips, both on the 5-years and the 10-year end.

Jenny Ma

And lastly, do you have a preference for being closer to 5 or 10 years? Do you want to extend the term out as much as possible, notwithstanding the slight premium to that?

Larry Froom

For our secured debt—

Jenny Ma

Yeah.

Larry Froom

—I think for that we would like to extend that as far as possible. The 10-year base bond rate is at a near all-time low, so why not take advantage of that.

Tom Hofstedter

Jenny, it's a loaded question because it really depends if you in order to get flexibility to sell assets, you want to have it shorter term. So it's not just a question of rates or locking into rates for a long period of time. It's giving flexibility to being able to sell assets over time. And for that reason, we use unsecured, even though unsecureds are more expensive.

Jenny Ma

Right. Right. Okay. Understood. And I guess just maybe one more question on the mortgages. Is there a certain time frame in the year where a lot of them come due? Or is it fairly spread out in 2021?

Larry Froom

For 2021, just looking at the list now, it looks pretty spread out throughout right throughout the year.

Jenny Ma

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

Operator

Thank you. And our next question comes from Mario Saric from Scotiabank. Please go ahead. Your line is open.

Mario Saric — Scotiabank

Thank you, and good morning. My question just relates to The Bow and whether since the last Q2 results call has anything changed, either in ability or appetite, in terms of extracting that lease from that building?

Tom Hofstedter

No update. There's nothing new again at this point in time.

Mario Saric

Okay. And then more broadly speaking, we're continually hearing a strong appetite in the market for long-lease office buildings, single tenant, of which you have several. Any incremental thoughts on the ability to extract now through dispositions—

Tom Hofstedter

We're in the business of owning them, so to answer the question, that's what we do for a living. So we've extended hands to extended belt. We really have no rollovers to be concerned about. And we're very happy clipping our coupons and keeping—having a fully leased building. So at this point in time, it's really the steady as she goes.

Mario Saric

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

Operator

Thank you. And our next question comes from Sam Damiani from TD Securities. Please go ahead. Your line is open.

Sam Damiani

Hi again. Just following on on the River Landing, when will that be transferred into IPP? Will it all happen at once? And any guidance on the FFO impact at that time?

Larry Froom

The commercial part of it, which is the retail part of it, will be transferred in Q4. The residential parts may be transferred in tranches, much like we did in the two buildings that we have. That may be done in a two-building phase. So probably the first building will also be transferred in Q4 and maybe the second building in Q1. That's the timing we have now. I have no updates in terms of the impact of FFO. I would expect that initially, while it's not fully leased, then there should be some FFO shortage until those assets are stabilized.

Sam Damiani

And are the retailers paying rent as they open their stores? Or is there a free rent period?

Tom Hofstedter

Yes. There is a standard 60-, 90-day free-rent period. But the answer is yes. All the majors are open other than TJ Max is still going to be open shortly and Planet Fitness will be next month.

Sam Damiani

That's great. And how's the office leasing going?

Tom Hofstedter

We have good demand. Miami, I think you probably know, because of COVID, has had strong demand than the rest of the country because many tenants have left; many office occupiers that are leaving other states to go to Florida. So we're seeing good demand and we are still negotiating. Well, not finished negotiating, but trying to wrap up through approval process around half the building. But we're seeing good demand.

Sam Damiani

Thank you.

Operator

Thank you. And our last question at this time comes from Dean Wilkinson from CIBC. Please go ahead. Your line is open.

Dean Wilkinson — CIBC

Thanks. Good morning, everyone. Tom, maybe it's a bit of a philosophical question, the capital markets' desire notwithstanding to have lower leverage on real estate and its balance sheet, in a world where a 10-year bond is 70 basis points and it doesn't look like that's moving anytime soon, how do you guys—sort of does it change your view on leverage in that flawed metric of debt to gross book value, which we talked about could be anything we want it to be that your interest coverage could actually increase by actually levering up the balance sheet at this point? And so what's the view there in terms of sort of the practicality of that cost of capital advantage on the debt side of things?

Larry Froom

Sorry, Dean, we're not sure of your question. Are you asking why don't we lever up? Is that your question, in order to take advantage of the low rates?

Dean Wilkinson

Essentially, yeah.

Tom Hofstedter

Because the capital market doesn't like it.

Dean Wilkinson

Well, that's what I'm saying. Capital markets aside, right?

Tom Hofstedter

Well, it's not the capital market side. We're in the public arena. From a private perspective, I think you do it all day long as much as you can, especially the United States model, which is nonrecourse debt. But that's always been the case, quite frankly. It's been low interest rates for a long, long time, and the capital markets don't like it. We follow the United States lead and the United States lead in the capital markets is much lower now. That's the philosophical question.

Dean Wilkinson

Fair enough.

Tom Hofstedter

You're right, from a personal perspective I always believe to load up a bit. But as CEO of a public company, I don't think I have the luxury of doing that.

Dean Wilkinson

Maybe we should look to privatize.

Tom Hofstedter

Just for the debt reasons alone, right?

Dean Wilkinson

Just for the debt alone.

Tom Hofstedter

But then you'd never talk to me, Dean. Come on.

Dean Wilkinson

Yeah. I have plenty of other reasons to. All right. Thanks. That's it for me.

Operator

Thank you. And at this time, I'll turn the call back to management for closing remarks.

Tom Hofstedter

Thank you, everybody. Have a great weekend.

Operator

Thank you for joining us today, ladies and gentlemen. This concludes our call. You may now disconnect.