FINAL TRANSCRIPT

H&R Real Estate Investment Trust

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PRESENTATION

Operator

Good morning and welcome to the H&R Real Estate Investment Trust 2020 Second Quarter Earnings Conference Call.

Before beginning the call, H&R would like to remind listeners that certain statements, which may include predictions, conclusions, forecasts, and 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, to rely on certain material factors, and is subject to inherent risk 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 General Accepted Accounting Principles and are 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, or profitability.

H&R's management uses these 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 these statements in the forward-looking information, and the material factors and 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 at 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 — President and Chief Executive Officer, H&R Real Estate Investment Trust

Good morning, everybody, and thanks for joining us. I'm Tom Hofstedter, H&R's CEO, and I'd like to welcome everyone to the call. Joining me today are Larry Froom, our CFO; Pat Sullivan, COO of Primaris; Philippe Lapointe, COO of Lantower; Robyn Kestenberg, EVP, Corporate Development; and Alex Avery, EVP, Asset Management and Strategic Initiatives.

All of our lives continue to be disrupted by the COVID-19 pandemic that has created huge economic disruption, restricted travel locally and internationally, triggered dramatic changes in capital markets, and changed the rhythm of day-to-day life, to say nothing of the significant illness, death, and suffering it has caused.

Our first priority remains the safety of our employees, tenants, and visitors to our properties. Like other responsible organizations, we are following all of the recommended protocols, including social distancing, practicing remote working, and frequent cleanings of space, among others. And as you can see from our results, there has been lots of activity, including temporary closure of properties, hundreds of applications for CECRA and other government-assisted programs, and some notable tenant filings.

However, we're pleased to report financial and operating results reflect the high quality of our portfolio that we have built over the past two-plus decades. Our focus on well-located properties, creditworthy tenants, and long-term leases and financings is evident in our latest rent collections, exceeding 90 percent and limited scope of tenant closures in our portfolio—less than half of 1 percent of retail space to date. It seems highly likely there will be more closures in the next few quarters but we are quite pleased with how limited the impact has been so far.

Our team continues to work closely with our tenants to find mutually beneficial solutions to support the success of our properties. Our Primaris team in particular has been running flat out to complete all of the CECRA applications, be responsive to tenant needs, and provide customized solutions to the unique challenges they are currently facing, all the while continuing to perform their normal duties.

One interesting side effect of the high volume of activity is that there's a backlog of rent collections related to tenants that have made partial payments, less than the recently agreed-upon amounts. It's just one more small, positive data point suggesting further rent collection improvements as circumstances slowly return to a more normal state.

Next up, Larry will summarize our quarterly and annual financial results. Pat will then provide an update on our retail portfolio, followed by Philippe, who will update us on our multi-res portfolio. And finally, I'll conclude with some closing remarks.

Over to you, Larry.

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

Thank you, Tom, and good morning, everyone.

I would like to begin by discussing the three unusual items included in this quarter's results. The first two almost offset each other.

Firstly, we received $3.3 million in lease termination fees. Nominally (phon), all of it was from a tenant in one of our Dallas, Texas office properties. This income is included in rentals from investment properties.

Secondly, largely due to COVID, we wrote off $3.9 million of costs incurred for abandoned transactions and an allowance for credit loss on our mortgage receivables. This has increased our trust expenses this quarter.

Thirdly, we increased our provision for bad debts from $334,000 in Q1 2020, to $24.5 million for Q2 2020. The breakdown of this provision is as follows: $2.9 million is for tenants that have filed for creditor protection under the Companies' Creditors Arrangement Act, CCAA. This is the amount that was owing to us on the day of their CCAA filing.

Secondly, $3.1 million was set aside for participating in the Canada Emergency Commercial Rent Assistance, the CECRA program, implemented by the Government of Canada, where we abated 25 percent of the April, May, and June rent for tenants that qualified for the program. Tenants making up about 16 percent of the rent due from an enclosed mall portfolio qualified for the program.

And finally, we have set aside an $18.5 million provision for expected rent abatements and a general provision for tenants that may still file for creditor protection.

This total provision of $24.8 million amounts to 43 percent of our gross accounts receivable as at of June 30, 2020. Net of the provision, accounts receivable at June 30th was $32.5 million, which includes our share of equity-accounted investments.

As can be expected, most of our $24.5 million provision for bad debt arose from our retail division, which accounted for 93 percent of the total provision and, specifically, in our enclosed mall portfolio. The split of the provision for bad debts amongst our four segments can be found in our press release and the Management Discussion & Analysis.

As a reminder, we own 100 percent of 10 enclosed malls and own 50 percent of 7 other enclosed malls. These malls, at our proportionate share of ownership, account for 21 percent of our Q2 monthly rent billings.

In July, we filed CECRA applications for the four months of April, May, June, and July and, based on these filings, are expected to receive $8 million from the government. As of August 10th, we had received $5.6 million and expect to receive the $2.4 million balance soon.

We are pleased that our rent collections in the third quarter have improved compared to quarter 2's collections. July's overall collections, at 91 percent, are the highest since April, and we are trending to further improve in August, as our rent collection percentage for August stood at 87 percent by the 10th of the month.

Same-Asset property operating income on a cash basis decreased by 7.1 percent and 3 percent respectively for the three and six months ended June 30, 2020, compared to the respective 2019 periods, primarily due to the provision for bad debts. Excluding the provision for bad debt, Same-Asset property operating income would have increased by 5.9 percent and 3.4 percent respectively.

Breaking this down between the segments, Same-Asset property operating income on a cash basis from our Office segment increased by 3.8 percent, and for the three months ended June 30, 2020, decreased 0.9 percent for the six months ended June 30, 2020, compared to the respective periods in 2019.

Included in the three and six months ended June 30, 2020 were lease termination fees of $2.9 million, compared to $0.1 million and $5.9 million for the three and six months ended June 30, 2019.

Excluding these termination fees, Same-Asset property operating income increased by 0.5 percent and 0.8 percent respectively. The average term remaining on our office leases is 11.9 years.

Same-Asset property operating income, cash basis, from our retail properties decreased by 34.7 percent and 18 percent for the three and six months ended June 30, 2020, compared to the respective 2019 periods, primarily due to the provision for bad debts, as we have already discussed.

Excluding the provision for bad debts, the Same-Asset property operating income for our retail division would have increased by 2.9 percent and 0.5 percent respectively.

Same-Asset property operating income on a cash basis from our industrial properties increased by 7.2 percent and 5 percent respectively compared to the respective 2019 periods, primarily due to an increase in occupancy and rental rates increases.

Same-Asset property operating income from residential properties, in US dollars, increased by 11 percent and 21.5 percent respectively for the three and six months ended June 30, 2020. And Philippe will provide more colour on this during his remarks shortly.

Turning to funds from operations. FFO was $0.381 per unit for Q2 compared to $0.425 per unit in Q2 2019. Excluding the provision for bad debts, FFO would have been $0.462 compared to $0.426 per unit in Q2 2019, an 8.7 percent increase.

As far as liquidity goes, H&R had $996 million of unused borrowing capacity available under its lines of credit and $131 million of cash on hand, and only had $99 million of debt maturing during the remainder of 2020. In addition, the REIT had 94 unencumbered properties with a fair value of approximately $3.4 billion at June 30, 2020.

And I will now turn the call over to Pat to give us 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.

Over the past two years, we've completed almost 800 lease transactions, including 250 new deals, of which 35 were new large-format stores. In the last quarter of 2019, over 200,000 square feet of new large-format tenants opened, contributing significant rental revenue.

Earlier this year, a new 35,000-square-foot Best Buy opened at Sunridge Mall, and another of 180,000 square feet of large-format tenants has recently or will open shortly, primarily in space formerly occupied by Sears.

Moving into 2021, we have approximately 80,000 square feet committed to locate in former Sears locations, with several additional transactions under discussion.

With most of the hard work replacing Sears and Target behind us, we are now confronted with the COVID-19 pandemic. Our retail partners have faced significant challenges since malls began to close, and we have not hesitated to work with them to navigate this difficult period.

Within the Primaris division, we have—we utilized the CECRA program for more than 530 tenants, covering the period from April to July 2020. The gross rent paid by tenants in the CECRA program amounted to approximately 16 percent for Primaris and 3 percent for the overall H&R portfolio. We expect to apply for the CECRA program in August. However, with tenants open and operating and reporting sales, we're reviewing tenant applications on a case-by-case basis.

Due to mall closures and hardships faced by many tenants since reopening, we have negotiated tenant assistance agreements with many of our tenants, which has resulted in a $22.8 million bad debt provision in the retail division, with a majority being allocated to enclosed malls. As a consequence, 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 2.9 percent increase during the quarter, despite a significant decline in percentage rent and specialty leasing revenue, which is associated with the malls being closed. 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.

Collections of rent in the retail portfolio have trended higher since a low point of 64 percent in May. In July, we collected 77 percent, and we expect to exceed that figure in August. The enclosed mall portfolio follows a similar trend with collections of 49 percent in May, rising to 66 percent in July, with August collections expected to improve further.

The CECRA process monopolized much of our team's time recently, but with it nearing completion and terms having been finalized and documented with the majority of our tenants regarding outstanding rents, we will focus on updating our expected rents and receivables, which will in turn improve our collections statistics further.

While there have been a number of CCAA filings, we managed to mitigate our exposure and have realized a limited reduction in square footage. While new leasing activity has been light during the past few months, some of the space vacated by tenants filing CCAAs is of high quality and as a result, we have progressed discussions with replacement tenants already.

With all malls essentially being closed in April, properties began to reopen in Manitoba, New Brunswick, Alberta, and BC in May. Our Quebec property in Chicoutimi opened in June and our Ontario properties opened mid-June, except for Dufferin which opened at the end of June.

Tenants have been confronted with issues since reopening, including additional costs for PPE, staffing, and maintaining inventory levels. While food tenants and personal care tenants continue to report sales in the 50 percent to 70 percent range of prior-year comparable sales on average, other tenants, including many electronic, fashion, and footwear tenants are performing well, with some posting comparable sales greater than last year.

Generally, malls opened since May are showing sales of approximately 70 percent, 80 percent compared to the same period last year. Smaller-market properties, typically enclosed malls that are the only one in its respective region, such as Park Place in Lethbridge and Place du Royaume in Chicoutimi, are performing better than malls located in major markets. Tenants are stating that the most challenging properties are super regional malls in major markets that require a regional draw to generate high sales volume, as well as urban properties that rely on daytime traffic.

With the majority of our discussions completed with tenants regarding outstanding rents, and our major capital program associated with Sears and Target nearing completion, we look forward to focusing on our redevelopment of Dufferin Mall that incorporates approximately 1,000 new residential units, as well as other intensification opportunities across our portfolio.

Thank you, and I will now turn it over to Philippe.

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

Good morning, everyone. As you can imagine, we spent most of the first half of 2020 primarily focused on supporting the high collections rates and, just as importantly, value creation through active management.

I'd like to begin, however, by highlighting that our success through COVID-19's pandemic can be attributed to the unbelievable work and complete dedication that our on-site and corporate staff have demonstrated.

And so I'll begin with collections. As mentioned last quarter, collections have been top of mind, and so we've enacted a few strategies that supported our collections percentage and assisted our residents through this period.

Thankfully, our high collections rate mentioned on our last call has persisted throughout COVID-19. I'm delighted to announce that our teams have continued their success, as evidenced by our receipt of approximately 97 percent of billed rent for every month from April to July.

For comparison, the National Multi-Housing (sic) [Multifamily Housing] Council's Rent Payment Tracker, which is tracking 11 million apartments across the US, has reported a collections rate of 95 percent over the same period.

Additionally, Lantower had collected 90 percent of August rent, compared to the industry average of 79 percent as of the 6th of this month, and has collected over 93 percent of August billed as of yesterday.

I'd like to briefly touch on eviction moratoriums. While enacted in an earnest attempt to help renters, eviction moratoriums have yielded an unfortunate moral hazard. Some residents, aware of the temporary eviction laws, appear to be gaming the system by electing not to pay rent, even though they possess the financial means to do so.

Upon the release of some local moratoriums, Lantower sent eviction notices to residents who were delinquent multiple months' rent, many of whom were suspected of this nonpayment strategy. Within a few days, nearly 40 percent of those notified residents paid a portion of the delinquent balances.

Unfortunately, this is a well-documented trend across the US and, in our opinion, represents a policy failure in strategy to provide aid to residents in need. Having said that, evictions across the country remain low, even where moratoriums are lifted, and collections remain high.

We mentioned on our last call that we have been implementing specific technology enhancements to a few Lantower properties. In light of the advancement of property tech and the shift of resident preferences, we've moved forward with a smart apartment pilot program at three of our properties in Austin and two properties in Charlotte. These properties are in the process of receiving smart locks, smart thermostats, leak sensors that will provide the resident full apartment control, all from a single app.

Furthermore, we expect operational efficiencies ranging from key-less remote access to expense savings via vacant unit utilities control.

Lastly, our smart tech initiative and software integrates very well with our enhanced self-guided tour initiatives that we've begun deploying in early 2020. And I look forward to sharing updates next quarter regarding the reception of this initiative.

On the development front, the Pearl, a 383-unit mid-rise multifamily development in Austin, Texas, commenced pre-leasing in August and has begun signing leases. The project is scheduled to fully deliver later this year.

Despite COVID-related construction shutdowns throughout the State of Washington, Nightingale, our 263-unit mid-rise development located in Seattle, Washington, is still estimated to commence pre-leasing by the end of this year and will fully deliver in the first quarter of 2021.

Phase 1 of our Hercules development in San Francisco, named, the Exchange, received final CO in July of this year and has fully opened its leasing office. 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 be delivered in the summer of 2021. The project has reached the twenty-ninth level and should top out in the fourth quarter of this year.

On the operational front, at the end of the second quarter, the Lantower portfolio, excluding Jackson Park, was 90.6 percent occupied and was over 92.1 percent occupied when excluding our lease-up properties.

Perhaps more importantly, we've recently seen an improvement in leasing velocity and retention rates. As of this week, the Lantower portfolio is 92.5 percent occupied including lease-ups, and then over 93.3 percent occupied excluding lease-ups, representing fundamentals moving in a positive direction and hopefully leaving the second quarter in the rearview mirror. By way of example, in July 2020 alone, we secured nearly 60 percent of the total number of new leases secured in the entire second quarter of 2020.

On the financial front, our Same-Asset quarter-end operating income increased in US dollars from $18.21 million in the second quarter of 2019 to $20.217 million in the second quarter of 2020. This equates to Same-Asset quarter-over-quarter operating income growth of 11 percent, partially due to the inclusion of Jackson Park's lease-up stats. When excluding Jackson Park, our Same-Asset quarter-over-quarter operating income growth equates to 5.6 percent.

We're proud to announce and highlight that our second quarter operating income growth represents 10 consecutive quarters of Same-Asset quarter-over-quarter NOI growth.

Aside from focusing on collections and operating income growth, Lantower and the REIT have increasingly moved to a more sustainable business approach that recognizes the financial and social benefits of ESG. Our smart apartment initiative will inherently make a double bottom-line impact via the utility savings and efficiencies.

In addition to the environmental initiatives being pursued, Lantower has also taken positive steps on the social front. We have recently launched two national committees led by company leaders from various levels that will be geared towards promoting diversity, inclusion, and active employee engagement.

As a tidbit that I'm quite proud to share with you, at Lantower, approximately 45 percent of our employees and over 50 percent of our executive team consist of women. While our achievements on that front are and will continue to be a work in progress, I'm delighted to say that these initiatives stem from an organic movement within our organization that, admittedly, are representative of our company culture and values.

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

Tom Hofstedter

Thanks, Philippe. With those updates out of the way, I only have a few final remarks.

Firstly, we didn't see any significant changes to fair value of properties. Last quarter, we recorded a significant reduction in fair value. While there still haven't been many market transactions to benchmark off, we believe we have adequately provided for the impact of the pandemic in our portfolio.

Second, our unit price. We believe the current, roughly 50 percent discounts to our IFRS fair value that our units are trading at is excessively discounting the risk in our business. We hope our Q2 results provide some comfort to investors that our cash flow and portfolio value is more resilient than our unit price would suggest.

As noted in the past, we are always looking at ways to improve our business, and the variety of options we look at is broad. With the unit price trading where it is currently and with the REIT's adequate liquidity, the option of buying back our units has become very attractive, particularly relative to other investments we might pursue.

Over the rest of 2020, as visibility improves and economic conditions return to a more normal state, we expect to have excess liquidity and we'll consider buying back units, if current price levels persist.

And with that, Operator, please open the line for questions.

Q&A

Operator

My pleasure. If you'd like to ask a question, please press *, then the number 1 on your telephone keypad. That is *, 1 to ask an audio question. We'll pause for just a moment to compile that Q&A roster.

And again, that is *, 1 to ask an audio question.

Your first question comes from Matt Kornack.

Matt Kornack — National Bank Financial

Good morning, guys.

Tom Hofstedter

Morning.

Matt Kornack

With regards to same-property NOI growth within the retail segment, I mean, I understand that it's mostly a provision. But what would you think are the at-risk portion on a longer-term basis, not necessarily relative to collections you would have had historically? Looking at sort of the plus-3 percent excluding COVID and minus 30 percent with COVID, where should we think of it in that range?

Pat Sullivan

It's Pat. We've done a lot of leasing, and a lot of that rent, as I mentioned in my speech, is starting to kick in and we're starting to see the benefit. We really, we're going to experience significant growth over the next—this year and next year in terms of rental rate growth, just from all the box stores and development work we've done. And that's not going to change.

I think in terms of the small-format stores, I think in the short term, we're going to have—we're going to experience some pressure on just having rates remain flat, in some cases. And we're going to have issues with some further CCAA filings potentially. But I think over the longer run, our malls are generally smaller and they're the only game in town, and I think we're going to maintain our occupancy and we're going to be able to grow rents over time.

Matt Kornack

So you don't see this as permanently impaired vacancy, it sounds like. And then also, do you have a sense as to how much of that would have been actual cash rent abatements versus just a deferral and a write-off against the deferral?

Pat Sullivan

In terms of the bad debt?

Matt Kornack

Yeah.

Pat Sullivan

Yeah. Deferrals aren't included in that. We did do some deferrals; they're not provided for. But generally, all our deferrals are either paid back this year or within early next year. We didn't do any long-range deferrals for the most part.

Matt Kornack

Okay. And, Larry, I mean, your liquidity position materially improved with the bond issuance, but also some further credit facility capacity. Doesn't sound like you have much coming due in the way of mortgages. Just wondering why take out such a huge insurance policy in terms of liquidity.

Larry Froom

Good morning, Matt. It's just uncertain times, and in uncertain times, want to be as liquid as possible, and look forward to not necessarily just 2020 but into 2021 as well.

Matt Kornack

And from a financing standpoint, I mean, do you have any sense as to where bond yields have gone, as well as mortgage financing? It seems like you've done both at fairly attractive rates. But have those improved since the height of the COVID crisis?

Larry Froom

Yes. Lender spreads have definitely come in since the heart of the COVID crisis. We did a large mortgage just in the heart of that crisis and, for sure, lender spreads since then have narrowed. The bonds, you all know. So, yeah. It was cheaper financing available than there was in April of this year.

Matt Kornack

Okay. So needless to say, I guess, going forward, you'd think that you'd have access to cheaper capital, assuming again, no second wave, et cetera, et cetera?

Larry Froom

Cheaper than the financings that we did in April? Yes.

Matt Kornack

Okay. And—

Pat Sullivan

We have nothing really rolling of any consequence. So it's not really—

Matt Kornack

Yeah. No. That's fair—

Pat Sullivan

—so it's not going to be impactful on our financials in the near term.

Matt Kornack

Yeah. I guess, for 2021, with regards to the maturities that you have there, would you be replacing mortgages with mortgages and bonds with bonds? Or how should we look at your approach to those financings?

Larry Froom

Yeah. I think it's fraught now to wait and see. We'll wait 'til we're a bit closer. We'll see where we are in unsecured worlds compared to the secured financing world. And we're still too far out to make—

Tom Hofstedter

Yeah. In terms of—

Larry Froom

—a determination right now.

Tom Hofstedter

If our financing—it can also be partnership-driven, where our partners require financing; that can't be unsecured. So for example, the retail partnerships with Montez and a lot of the PSP industrial portfolio, they have to be secured financing rather than unsecured just because our partners don't have access to our unsecured. So that's going to dictate to a great degree where we're going to do secured versus unsecured.

Matt Kornack

Okay. That makes sense. And then, I mean, even so, I guess, when you look at the cost of debt capital relative and you've got cash as well relative to your current price, your comments on buying back shares. Do you have a sense as to how long you're willing to wait to see that discount compress before you start buying back? Or is this something we should expect imminently?

Tom Hofstedter

Definitely not imminently, unless a vaccine—there's too much greyness in the market right now to give you definitive answers. So we have the capacity and we're waiting just like everybody else is for some light at the end of this tunnel and we'll act accordingly.

Matt Kornack

Okay. Thanks, guys.

Tom Hofstedter

Thank you.

Operator

And your next question comes from Jenny Ma.

Jenny Ma — BMO Capital Markets

Thanks. Good morning. Maybe just a bit further, Tom, on the comment about buybacks. I know you said that you're going to wait 'til there's light at the end of the tunnel. But in terms of more concrete thresholds, would you say that the liquidity position that you're in currently and combined with the unit price is enough of a threshold for you to act on, if you can see an improvement in the environment?

Tom Hofstedter

Absolutely.

Jenny Ma

Okay. Great. And then with regards to the fair value loss in the office portfolio. I'm not sure if maybe I missed this, but was it a little bit of a change across the portfolio? Or was there a certain type of office asset or assets in particular that drove that move?

Larry Froom

Morning, Jenny. It's Larry. No. We basically kept our fair values exactly the same fair value. Our valuations team kept it at the same value as last quarter. But what happened, in a few properties, we had CapEx and leasing and CapEx charges. So if our valuation started last quarter, let's say at $100 million, and we kept it the same $100 million for the valuations team, but we had CapEx incurred in the quarter of $10 million, which resulted in a fair value decrease of $10 million. In other words, we didn't increase the fair value by the CapEx work we had done during the quarter.

Jenny Ma

Okay. So no major fundamental changes. Just some tweaks here and there, I guess?

Larry Froom

Yeah. There were no changes to our assumptions or anything or valuation assumptions that we had made last quarter. We kept the same valuation assumptions as we used last quarter.

Jenny Ma

Okay. Great. And then my next question is for Philippe with regards to the Lantower portfolio. Just wondering if we can get some on-the-ground insight in terms of what you're hearing from your tenants regarding their ability to pay rent. I know it's been pretty strong, but maybe as a timing issue, it looks like it's come off a bit in August, and it very well could be timing. But any sense of your tenants' ability to pay? And do you collect any employment data from them? Anything that you could share with us?

Larry Froom

Philippe, I think you're on mute.

Philippe Lapointe

I am on mute, the cardinal sin of all Zoom calls. I'm sorry. I didn't quite understand your comment that August was a little bit off.

Jenny Ma

From what I see, the collection was at 90 percent compared to some of the earlier months in the high 90s. I'm not sure if that's just timing or if there's been a change, given that some of the benefits that have come off, or maybe there's been some changes in employment for some of your tenants. Just any insight on that.

Philippe Lapointe

Yep. Okay. So listen, if I was to wager a bet, I would probably say that we're going to end August exactly where the last four months have ended. I think that's just purely a timing issue in that we're having the call today as opposed to in a week from now.

As it relates to your question, I think that's the million-dollar question that everybody in the Class A space is kind of wondering, right? Most of our folks, we have employment data, we know where they're employed, which leads us to believe that the vast majority of our tenants are still employed and either going to the office or working from home. We've noticed a small uptick in credit card usage to pay rent, which I think was more prevalent in April and then petered out as we got further into the summer.

And so trying to answer the question as quickly as I possibly can without going on, I would probably tell you that our residents—and this is probably true for most Class A residents in the gateway cities—are less sensitive to what ends up happening on the unemployment side. And so if we are staying the course and there's no improvement, but there's no material deterioration, I wouldn't anticipate there being any material effect to our collections. Does that—

Jenny Ma

Okay.

Philippe Lapointe

—does that answer your question?

Jenny Ma

Yeah. Yeah. I just wanted some additional colour. Turning to Jackson Park, could you comment on the physical occupancy there? I mean, we've been hearing a lot about some segments of New Yorkers moving out of the city. Have you seen that occur in Jackson Park? And if you could remind us when the bulk of the move-ins were from the stabilization. Basically, I'm just wondering if there's a big bump of tenants whose leases are starting to come to expiry shortly.

Larry Froom

Hey, Jenny. It's Larry. The occupancy at Jackson Park was kind of flat, maybe slightly down at June 30th. But the bulk of the leases are coming up—not the bulk—a lot of leases come up in the summer. So July—

Jenny Ma

Mm-hmm.

Larry Froom

—August, September, there's a lot of leases coming up, which, that's the way just the New York apartment building goes. So we're waiting to see how we do with those renewals.

Tom Hofstedter

And, Jenny, a significant portion of our property, Jackson Park in LIC, are foreign students, and universities aren't opening. So we're—

Jenny Ma

Mm-hmm.

Tom Hofstedter

—expecting that the vacancy rates will rise because those residents, they're just not going to renew. They're not in New York anymore. I don't think that's—

Jenny Ma

Right.

Tom Hofstedter

—indicative of anything other than our particular location, which was very attractive to foreign students.

Jenny Ma

That's fair. Do you have a sense of what this percentage of, I guess, nonresident tenants would be in Jackson Park?

Tom Hofstedter

Forty percent are students, foreign students.

Jenny Ma

Forty percent.

Tom Hofstedter

So you can expect that the occupancy's going to trail down to the low 80s—the low 80 percents in the short term, in either event. And we'll have to ramp up again as universities start opening again.

Jenny Ma

Okay. I'm not sure if you know, but are they intending to open in person for the most part? Or?

Tom Hofstedter

They are not. They are not.

Jenny Ma

Yeah. That's what I thought.

Philippe Lapointe

Right. We're going to have a lot of—

Jenny Ma

Okay.

Philippe Lapointe

—Zoom classes.

Tom Hofstedter

So we're going to take a hit on occupancy in the short term for sure, and we'll have to build up from there, basically ramping out of the student market and attracting the typical LIC Manhattan market.

Jenny Ma

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

Tom Hofstedter

Thanks, Jenny.

Operator

And your next question comes from Sam Damiani.

Sam Damiani — TD Securities

Thanks, and good morning. Maybe, Pat, just for you, you mentioned you see maintaining occupancy in the malls. Could you just be a little more specific as to what sort of time frame that comment was referring to?

Pat Sullivan

We haven't had a lot of followed at the moment. And we have—actually, I just signed one this morning—we have transacted some new deals. Most of our properties didn't have a lot of vacancy. A lot of our vacancy was being carried in the anchor boxes, which we're filling up.

The one strong benefit of our properties—a couple of benefits. One is, we're typically the only mall in town. So if you want to be in our region, you're coming to our property. And the second thing is, our malls are generally affordable. I would suggest to you that we've been one of the better shopping centre managers at controlling our costs. Our average CAM and tax package is significantly below a lot of the other shopping centres in other regions. And so we're very affordable for tenants and our GROC levels are very reasonable.

And for that reason—that's one of the reasons we haven't seen a lot of fallout throughout the CCAA filings. And I think as we move forward and tenants continue to rationalize their store counts, they're going to look at our market and say, I want to be in that market and I make money there.

I think where you're really going to see the pressure is the larger markets, the super regionals, where the gross rent packages are completely out of hand and unaffordable. And that's where you're going to see a lot of the store closures. But for us, I don't really see occupancy being a challenge going forward because we are really the only alternative in the region we're in.

Sam Damiani

Okay. That's helpful. And you made a comment, I think, on malls that have been opened since May; sales levels or traffic levels are in the 70 percent to 80 percent range. I just wanted to clarify that. And I wonder if there's any more colour you could provide in that regard.

Pat Sullivan

Yeah. I think right now, sales reports are a little fuzzy, right, for a number of reasons. One is, although the malls might have opened on a specific date, not all the tenants opened on that date. That's one. The CERB program has really caused a lot of problems with tenants in that they are having trouble getting staffing. So some stores are not opening seven days a week; they're not opening full mall hours. And so their sales are being squeezed by that as well.

In general, as we dissect kind of the sales reports and look at who's doing what and who's been open for what period of time, the guys who are basically open full-time and opened back in May, they've been able to ramp up. They've got their staff in place there, they've got their inventories kind of at a stable level, and they're doing well.

I think, generally, what we've seen is it takes about 30 days for the mall to kind of get back into the swing of things, before people really start coming back and feel comfortable there. So Dufferin Mall, for instance, has had a slow start, but we're starting to see it pick up now because it didn't open 'til the end of June.

Sam Damiani

Right. And so do you know what percentage of your stores are open today? Or your GLA is open today?

Pat Sullivan

Well, save and except for the stores that filed CCAA and might have closed for that reason, I would suggest we're 99 percent-plus. We're virtually entirely occupied.

Sam Damiani

Fully open. And everyone's opened up?

Pat Sullivan

Everyone's opened. Yeah. The hours and the number of days per week is still a little hit and miss.

Sam Damiani

Okay. Thank you. And my last question, just on River Landing. I wonder if, Tom, perhaps you could just address the reasoning for the cost increase on the closure this quarter.

Tom Hofstedter

Well, basically, they were primarily COVID delays, where we haven't really opened the residential yet. It's waiting for its occupancy permits. And it's just carry costs. We haven't leased any of the restaurant space. It's impossible to do so during this period.

The first occupancy is commencing over the Labour Day weekend. Hobby Lobby's opening up; Publix is opening up September 17th. And most of the 70 percent of committed retail tenants will be opening up towards the end of the year. But overall, the office leasing is—again, we're still with that 50,000-square-foot tenant. But all these delays have basically added to our costs. So it's primarily just COVID-related.

Sam Damiani

Thank you.

Operator

And your next question comes from Irena Prokovia (phon).

Irena Prokovia

Yes. Hello. Thank you for taking my question. I wanted to just ask you for an update on your tenants in the mall space, just to follow up on Sam's question. For example, of GoodLife Fitness, movie theatres, and Hudson's Bay.

Pat Sullivan

Sorry. Just to clarify, you're asking about HBC?

Irena Prokovia

Yes. So what's the outlook there? And how's business going there?

Pat Sullivan

Hudson Bay stores are all open and operating in our portfolio. They're reporting that their sales are trending up. They had a slow start but they're doing better now. They have not indicated they're prepared to close any stores. I know that there's been discussions with other landlords, where landlords have actually requested them to—asked if they would close, and they had said no. So as far as I'm concerned, it's just building up—building their business back to normal and everything will—they'll be open and operating.

Irena Prokovia

Mm-hmm. And what about Cineplex and other movie theatres? And the fitness clubs?

Pat Sullivan

The movie theatres and fitness clubs? Movie theatres right now are open. Their biggest challenge is that they don't have any new releases. The setback they faced was when the US COVID-19 reared its head and, basically, theatres down in the US shut down. The Hollywood studios put the movies on hold. So the new releases are really key to getting their business moving forward. There are new releases scheduled to come out later this month—I think it's the third week of August—which will help significantly.

I mean, it's a tough time to open a theatre when the weather's nice outside and you're being asked to go sit indoor and watch a movie that was on TV 10 years ago. So there's challenges in the short term. But I think once they get the new releases, they'll see a marked increase in traffic.

The fitness facilities, surprisingly, are all telling us that they're surprised at how well they're doing. We thought that would be a significant struggle, but they weathered the storm, they got reopened, and they're not complaining at all.

Irena Prokovia

Okay. And so in your enclosed malls, do usually tenants, the smaller tenants, do they have in their leases a cotenancy clause with regards to anchor tenants?

Pat Sullivan

Some tenants do have cotenancy clauses. One of the goals that we've done kind of going through this pandemic and part of our negotiations with tenant regarding their rental arrears or outstanding rent has been to work to eliminate those clauses or defer them for an extended period of time. And we've been very successful in doing that. So I'm not really concerned about any cotenancy, and it doesn't look like it's really going to be an issue anyways, as our malls are basically fully open at this point.

Irena Prokovia

Okay. Thank you. And I wanted also to ask about the office—the breakup fee that you got from tenant in Texas in the office space. What was the reason that tenant decided to break up with the lease? Did they decide just to work from home? Or they went bankrupt? Or I don't know, some other issues?

Pat Sullivan

It was a tornado basically demolished the building, effectively. So the buildings are going to be demolished and we got insurance proceeds.

Irena Prokovia

Okay. Okay. Super. Okay. Thank you.

Pat Sullivan

Thank you.

Operator

And again, if you'd like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from Dean Wilkinson.

Dean Wilkinson — CIBC World Markets

Thanks. Good morning, everybody.

Pat Sullivan

Morning.

Philippe Lapointe

Morning.

Dean Wilkinson

Pat, I'm actually looking forward to seeing E.T. in the theatre because I missed it the first time around, so don't discount that fully. Questions for Philippe. I'll give him a second to get off mute. On that couple of percent that you haven't collected, and you mentioned some eviction notices, how does that break down between tenants who are in a position to evict and tenants that you are working with on some kind of deferral payment to sort of help them get through this?

Philippe Lapointe

Yeah. So that's two buckets. There's a third bucket which, essentially, is the folks that can pay but know that they don't have to, so they wait until the very last minute for the moratoriums to be lifted and all of a sudden rush for the leasing office, which I would say is close to half of the bad debt that we're carrying. So if I'm using round numbers, if we collect 96 percent, then that 2 percent of the 4 percent is—and I want to be polite here—but just folks who are being strategic—

Dean Wilkinson

Yep.

Philippe Lapointe

—with the policies.

And of the other half I would say are definitely folks that we are having conversations with, that are roughly still employed, that are on some payment plan. I was looking at the stats the other day. From a pure bad debt, I'm not paying, I can't pay, I lost my job, and I want to leave, it's a very immaterial uptick versus where we were at pre-COVID.

Dean Wilkinson

That's what I would have figured, less than one would expect. How does that—and then you look at sort of the stabilization of the lease-up and some moving parts around there, and I know it's very hard to say from a guidance perspective. What do you think the time frame is to sort of stabilize occupancy across the portfolio? Because it looks like there's a lot of juice there, right? Like there's, on a stabilized basis, I don't know, maybe 7 percent, 8 percent of occupancy lift that you could capture here.

Philippe Lapointe

Yeah. If you recall, since the very beginning, we've always said that we do not manage to occupancy. We manage to NOI—

Dean Wilkinson

Mm-hmm.

Philippe Lapointe

—and, specifically, NOI growth. And so to be completely blunt, I don't really care if our portfolio is 90 percent or 96 percent, as long as we're seeing NOI growth and we're getting the rents that we believe we should be achieving.

I think that, ultimately, the fallacy in occupancy rates is, ultimately, if you're managing to occupancy, the risk is you're leaving money on the table.

Dean Wilkinson

Mm-hmm.

Philippe Lapointe

And you're not turning your units as quickly as you ought to be. And so if that's—I mean, everyone has their own investment philosophy, but ours has always been managing to NOI growth.

Dean Wilkinson

Yeah. Well, no. That's what drives the bottom line, so. That's it. I will hand it back. Thanks, guys.

Operator

And there are no further questions.

Tom Hofstedter

Thanks, everybody. Enjoy the rest of the summer, and we'll see you next quarter. Thank you.

Operator

That does conclude today's call. You may now disconnect.