H&R Real Estate Investment Trust

Fourth Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to H&R Real Estate Investment Trust's 2020 fourth 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 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, and 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 the statements in the forward-looking information, and the material factors or assumptions that may have been applied in making 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 of H&R REIT. Please go ahead, Mr. Hofstedter.

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

Thank you and good morning, everyone. I'm Tom Hofstedter, H&R's CEO, and I'd like to thank everyone for joining us on today's call.

With me here, virtually, are Larry Froom, our CFO; Philippe Lapointe, COO of Lantower; Pat Sullivan, COO, Primaris; Alex Avery, EVP, Asset Management & Strategic Initiatives; and Robyn Kestenberg, EVP, Corporate Development.

We are gathered here today to celebrate the end of 2020 and a good riddance to 2020. Despite being one of the worst years for humanity in a long time, we're pleased to report solid financial operating results.

We responded to the challenges of 2020 in a manner consistent with the conservative nature of H&R REIT. We prioritized the safety of our employees, tenants, and visitors to our properties and followed all recommended protocols, including social distancing, frequent cleaning, and temporary closure of select properties. From a business perspective, we battened down the hatches, focused on both ensuring smooth operations and maintaining a strong financial position. As the team is about to discuss, we are pleased with how well our portfolio has performed, underlining the stability and resilience of our business.

Now I'll turn it over to Philippe, who will review our multi-residential operations, followed by Pat, who will provide an update on our retail portfolio, and then to Larry, who will provide some context on our financial results, and finally, I'll make some closing remarks.

Phillipe, over to you.

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

Thanks, Tom, and good morning, everyone. As we report on the closing of 2020, I'd like to begin by revisiting the dedication of our on-site and corporate staff members. As mentioned in previous quarters, our collections rate remains above the industry average, largely due to their exceptional work.

On the JV development front, The Pearl in Austin, Texas is scheduled to fully deliver in the third quarter of 2021. Nightingale in Seattle, Washington is in the early stages of pre-leasing, and the project will be fully delivered in April of this year.

Phase 1 of our Hercules development north of San Francisco, named, The Exchange, is currently 74 percent occupied. Construction of Phase 2, named, The Grand, has remained on schedule and is expected to deliver in the second quarter of 2021. Lastly, Shoreline Gateway, our 35-storey tower in Long Beach, California, is also on schedule and expected to be delivered in the summer of 2021.

To supplement our JV development partnerships and US gateway markets, Lantower has been increasingly focused on expanding its wholly owned, ground-up development platform. Internally managed multifamily development is, in our opinion, the best strategy to increase shareholder value within our space.

The expected development yields, relative to historically low Class A cap rates, provides strong value creation and risk-adjusted returns. With over 175 bips of yield coverage, coupled with the benefit of retaining 100 percent of the upside economics, our recent land purchases in Dallas, Texas and Tampa, Florida underscore our intent to capitalize on this development strategy.

Lantower is able to leverage its brand and network to source opportunities; its market-level experience to select sites; and its property management division to help design, plan, and operate an

exceptional multifamily community. The synergies between our divisions bolster our competitive advantage as a vertically integrated, multifamily investment platform and operating company.

As previously mentioned, Lantower has been able to secure additional Class A sites for development in our target markets and expects to source additional opportunities in the upcoming quarters. For instance, we recently acquired an infill site in Dallas, Texas, in proximity to the Dallas Love Field Airport and medical district. The plan for the 5.4-acre site is a five-storey community with approximately 415 units.

Additionally, on January 28th, we purchased a 4.2-acre infill site with direct frontage to Highway 75 North Central Express Way, one of the most trafficked thoroughfares in the core of Dallas. We expect to build a similar five-storey wrap product with approximately 360 units on that site. As always, we look forward to sharing more information on the timing of these developments next quarter.

On the topic of prevailing Class A multifamily cap rates, we found it prudent to convey what we're seeing in the private market from a valuation perspective. Due to favourable debt terms stemming from historically low interest rates, paired with an increased institutional appetite in capital allocation for multifamily investment, we're seeing substantial cap rate compression in our Sunbelt markets. For context, we witnessed cap rates for comparable Lantower assets decrease by well over 50 bips on average across all of our markets in 2020.

This sentiment is shared by most of our peers, both public and private. Quite counterintuitively, public real estate valuations are trading at an elevated discount, illustrating an increasing detachment from valuations of the underlying real estate. Consequently, this reiterates our observation that many publicly traded multifamily REITs are thus undervalued.

On the Lantower River Landing front, our leasing pace continues to beat expectations. As of today, we are 28 percent occupied and have leased 169 apartments. We are pleased with the leasing velocity that we experienced during the fall and winter months and expect an even more impressive spring and summer leasing season.

On to Jackson Park. As we mentioned last quarter, we're encouraged of what we believe to be the start of a rebound from an operational perspective. The return to stabilization will largely be driven by the vaccine rollout, workers returning to the office, and students returning to the classroom.

With that said, the property is expected to gain positive absorption as we enter the favourable spring and summer leasing season, and we hope to experience a noticeable recovery by the end of 2021. We remain confident that Jackson Park is one of the best if not the best value proposition for prospective residents in the submarket when considering location, amenities, and quality of construction.

We have been encouraged by the elevated recent traffic and, most importantly, the stronger lease conversion rates. As an anecdote, the average lease conversion rate over the past few weeks has been over double the historical average, underscoring our belief that a recovery is in sight.

On the financial front, when excluding Jackson Park, our same-asset quarter-over-quarter operating income growth equates to a positive 2.5 percent for the fourth quarter and a positive 6.9 percent for the 12 months ending December 2020, compared to the respective 2019 periods.

Lastly, on a personal note, I'm very pleased with the positive same-store growth achieved in 2020; quite exceptional when considering all of the challenges related to COVID. And quite frankly, all of the credit must go to my colleagues in our US markets and at our corporate office who worked tirelessly for the betterment of our communities.

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

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

Thanks, Philippe, and good morning. During the fourth quarter, the retail division reported a decline in same-property NOI of 1.7 percent, a marked improvement from the 15.7 percent decline reported in Q3, primarily due to a significant reduction in bad debt, improved occupancy, and growth in retail rents.

During the quarter, enclosed malls reported an increase in NOI of 2.5 percent despite recording $1.2 million in bad debt. Without any bad debt provision for the quarter, the retail division would have shown an increase of 1.8 percent, with enclosed malls growing by 5.5 percent. For the full year, the retail division would have shown an increase of 2 percent without bad debt being recorded, and enclosed malls would have grown by 4.5 percent.

Significant leasing completed in the past few years with large-format retailers and premises formerly occupied by Target and Sears is the primary driver of NOI growth in enclosed malls.

Positive rental growth, lower expenses, and improved recoveries in the quarter were offset by bad debt, the impact of CCAA tenant filings, coupled with reduced percentage rent and specialty leasing revenues, which were down 69 percent and 30 percent respectively in 2020 compared to 2019.

We were well positioned moving into 2020, having completed remerchandising the majority of our vacant anchor boxes. Since the start of the pandemic, our primary focus has been providing the support to our local retailer partners and to maintain occupancy. Occupancy in the retail portfolio is 92 percent as at the end of 2020 compared to 91.5 percent at the end of 2019, while occupancy in the enclosed malls ended the year at 88.1 percent compared to 87 percent at the end of 2019.

Unfortunately, government-mandated closures in Manitoba, Ontario, and Quebec starting in Q4 2020 will result in further bad debt provisions and will negatively impact our specialty leasing program

and percentage rent potential. Fortunately, our properties are now open or scheduled to open prior to the end of February, limiting the downside risk of 2021 NOI.

We anticipate a further $1.8 million contribution during the year from tenants scheduled to open from premises formerly occupied by Sears. In addition, we completed a number of notable transactions in the third and fourth quarter that will positively contribute to rental growth later in 2021 with full year contribution in 2022, including a new 15,000-square-foot government passport office at Place D'Orleans; an approximately 28,000-square-foot lease with City of Toronto to occupy second-floor office space at Dufferin Mall at rents 1.8 times higher than the prior tenant; a 20-year lease renewal with Walmart at Dufferin Mall with a 55 percent increase in rent starting in summer of 2021, with rental escalations every three to four years thereafter; a 12-year renewal of Alberta Health Services' 47,700-square-foot premises at Sunridge Mall, with an expansion of 8,000 square feet occurring in late 2021; a 15-year renewal of the 23,500-square-foot Boomtown Casino at Fort McMurray, coupled with an expansion of 6,500 square feet; and the redevelopment of an outparcel at Sunridge Mall with occupants being medical/dental and average rents being 2.5 percent higher than prior rents.

Collection of rents in the retail portfolio have trended higher since the low point in May. In Q4, we collected 83 percent from our enclosed malls and 88 percent from the retail segment overall. Collections for January in enclosed malls are 82 percent.

We have leased 23 of 49 locations vacated following CCAA filings. Approximately 61 percent of the gross revenue associated with space vacated due to CCAA tenant filings is located in five of our stronger malls, including Stone Road and Orchard Park. As such, we are optimistic that space will be filled in a timely manner once leasing activity improves. Over the past few weeks, there has been a notable

increase in tenants expressing interest in opening new locations, and we expect discussions to progress over the remainder of the year.

Our enclosed malls reported sales in Q3 of 86 percent compared to the same period last year. However, due to government-mandated mall closures in Ontario, Quebec, and Manitoba, coupled with occupancy limits in Alberta, sales were significantly lower in Q4. In general, sales of property in larger markets had been trending at about 80 percent of normal until the shutdowns, while smaller market properties such as Medicine Hat Mall, Regent Mall in Fredericton, and Park Place in Lethbridge have posted sales at about 90 percent, with several properties, including Kildonan in Winnipeg and McAllister Place in Saint John, showing some monthly gains over the prior-year periods.

Generally, those tenants that sell products 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.

Food court tenants, typically a significant driver of sales productivity, have been down about 30 percent prior to recent mall closures, primarily due to reduced seating or service being restricted to takeout only.

As a result of the pandemic, traditional bricks-and-mortar retailers have accelerated the adoption of e-commerce. E-commerce sales in Canada have risen to represent 5.7 percent of Canadian retail sales for the 12 months ending November 2020, or $35.8 billion of the $626.6 billion of overall retail sales. During this time period, bricks-and-mortar online sales grew to $13.7 billion or 38 percent of all the online sales. Five years ago, bricks-and-mortar online sales represented just 28 percent of online sales.

Since the beginning of the pandemic, an increasing number of our tenants have invested in their operations to facilitate e-commerce sales in an effort to improve last-mile efficiencies. Primaris, as well as other landlords, have identified this as an opportunity to develop an e-commerce perform, exploring innovative technology that facilitates the seamless online purchase and delivery of real-time inventory directly from our shopping centre real estate. The digital strategy that Primaris is exploring will soon be a prerequisite to attract new bricks-and-mortar locations retailers and direct-to-consumer brands to our centre.

Thank you, and I'll now turn it back to Larry.

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

Thank you, Pat, and good morning, everyone. Since the onset of COVID, our number-one goal was to protect our employees, our tenants, and our shoppers. We also ensured we protected our balance sheet.

We finished the year with $63 million of cash on hand and $1.1 billion of unused borrowing capacity under our lines of credit. In addition, we have an unencumbered property pool of approximately $3.7 billion, which is set to grow in 2021.

Our debt-to-total asset ratio at December 31, 2020 was 47.7 percent, an increase from 44.4 percent a year earlier. This increase was all due to the fair value adjustment of $1.2 billion to our real estate assets.

The IFRS fair value of H&R's retail portfolio was reduced by approximately $660 million in Q1, with the changes related primarily to inputs into the forecasting of cash flows, including vacancy rates, market-to-rental rates, tenant retention rates, and re-leasing assumptions.

The IFRS value of H&R's office property was reduced in Q1 by approximately $670 million, primarily from properties of significant energy sector tenancies. These properties are generally subject to long-term leases, and as such, there have been limited changes to cash flow models but more significant changes to discount rates.

While there have been very few recent transactions for comparable properties, our valuation team used prudent assumptions, reflecting pricing signals observed in oil prices and the energy sector corporate credit market. These fair value adjustments have hit our portfolio in Alberta the hardest, as shown by the decline in fair value of approximately $900 million from $3.2 billion a year ago to $2.3 billion at December 31, 2020.

As a result of these significant markdowns, our net asset value per unit decreased from $25.79 per unit to $21.93 per unit at December 31, 2020. We are optimistic we may see some of these fair value adjustments reversed as we emerge from COVID.

Moving on to operations. We're pleased to report that Q4 collections of 95 percent continued the upward trend since the Q2 lows, including continued improvement in our most challenging segment of enclosed malls, which reached 83 percent. This trend has continued into January, where we have collected 82 percent to date from our enclosed malls and 94 percent overall.

As some of the positive trend has been seen in our bad debt expense, our bad debt expense in Q4 2020 was $3.9 million, a significant improvement from $13.5 million in Q3 2020 and $24.5 million in Q2 2020. Our bad debt expense for the year 2020 was $42.2 million compared to only $2.2 million in 2019. Most of the bad debt expense incurred was a result of H&R providing abatements to our hardest-hit retail tenants, many of which were mandated to close as part of provincial lockdowns.

At December 31, 2020, we had a provision for expected credit losses in accounts receivable of $15.1 million, which we believe provides ample room against the gross accounts receivable balance of $34.7 million.

Given the pandemic backdrop, we are extremely pleased to report our 2020 FFO per unit was $1.67 compared to $1.76 for 2019. Q4 2020 FFO per unit was $0.42 compared to $0.44 a year ago. 2020 AFFO per unit was $1.27 compared to $1.33 for 2019.

Turning to 2021, there are a few items which we expect to influence results going forward.

Firstly, as River Landing construction is completed, interest that was capitalized through the River Landing project will no longer be capitalized. Interest capitalized for 2020 amounted to approximately US$11 million. We expect the net drag on FFO until the project achieves stabilized occupancy. Notably, we expect the project to reach stabilized occupancy and NOI contribution of approximately US$25 million in the second half of 2022.

Secondly, as noted in our subsequent event note, in January 2021, H&R converted a US$140 million mezzanine loan on a 12.4-acre development site in New Jersey City to a direct ownership position. This will reduce interest income by approximately US$14 million in 2021 compared to 2020, and interest will not be capitalized on the project until development commences.

While these sectors will temper our 2021 results, they are expected to substantially revert in 2022 with anticipated lease-up of River Landing. Offsetting these drags in 2021, we expect there'll be positive contributions from other factors, including, one, lower bad debt expenses; two, contractual rental escalations in our office portfolio; and three, lower leasing expenditures and tenant inducements.

Within our equity-accounted investments, five multi-residential development projects we have interest in will commence lease-up, creating a modest drag on FFO initially but adding to the upside potential over the course of 2021 and 2022.

Overall, we expect higher AFFO per unit in 2021 compared to 2020 but lower FFO per unit, with a significant positive growth trajectory over the course of the next two years. We also expect the development activities to contribute to NAV-per-unit growth and improve the overall quality of our portfolio.

And with that, I will turn it back to Tom.

Tom Hofstedter

Thank you, Larry, and thank you to the entire H&R team for their hard work and dedication in 2020. We are pleased with the operating and financial results the team just reviewed and believe the REIT is well positioned as we progress towards a return to a post-pandemic new normal.

Thematically, I'll make a few comments on the outlook for office and retail operating segments.

Office is our largest segment, accounting for 44 percent of our revenue. Work-from-home and return-to-office are among the most hotly debated topics in the real estate world today. Office markets were booming as the world entered the pandemic, with broadly low vacancy, broadly high market rents, and high asset pricing.

In 2019 and 2020, H&R took action to fortify our office portfolio, selling assets that had significant near-term lease expiries with a strong demand and participate in the office cycle and negotiating significant lease extensions with major tenants at other properties. The result is a portfolio with an average remaining lease term of over 12 years, 85 percent of revenues coming from investment-

grade tenants at high-quality properties well located in markets, and leases on only one percent of office GLA expiring in 2021.

We believe the long-term value proposition of office property is this specialized environment designed specifically for people to come together to work collaboratively on office work activities. We expect many office users will explore ways to incorporate more flexibility into how their employees use office space over the next few years, and it exacerbates the ordinary softness in office leasing conditions that follows cyclical office market peaks.

Our portfolio is defensively positioned, and we'll be closely monitoring the market for opportunities to both buy and sell properties that enhance the REIT's portfolio and create value for our unitholders.

Our retail portfolio accounted for 34 percent of revenues and has delivered very solid results in challenging market conditions. Our portfolio includes a mixture of grocery-anchored properties, single-tenant properties, and enclosed centres that are dominant in their respective markets. A common thread to all of these properties is a focus on providing affordable space for more staples-oriented retailers, allowing the stores to be profitable.

Store closures have aggregated less than 1 percent of retail GLA in our portfolio since the beginning of 2020. Retail rents collection reached 88 percent in Q4 and retailers have begun signing new leases and making expansion plans as they look forward to a post-pandemic environment.

In 2021, we look forward to the rising contributions from River Landing, four other multi-residential projects included in our equity accounted investments due to begin lease-up this year, as well as making progress on our industrial and multi-residential developments in the GTA and Vancouver.

New developments create a temporary drag on FFO during the early days of lease-up, and as Larry just outlined, this will be the case for H&R in 2021. However, we are focused on the positive contributions to cash flow and NAV per unit as these projects reach stabilization over the next 18 to 24 months.

We remain committed to maximizing value for our unitholders and plan to take advantage of opportunities in 2021 to evolve H&R into a more narrowly focused REIT consistent with investors' preferences.

I would now be pleased to answer any questions from call participants. Operator, please open the line for questions.

Q&A

Operator

Thank you. 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

Thanks and good morning, everyone. First, on Jackson Park, Philippe. I wonder if you could just give us a little bit of detail on the occupancy at Jackson Park, I guess during Q4 and where it is today. I guess, what your expectations might be for Q1 and Q2.

Philippe Lapointe

Hi, Sam. Good question. So in the last quarter, it's hovered around I'd say a tad over 60 percent. My expectation for the next month or two is it probably starts inching towards the middle of the 60s.

It's going to be really interesting. I want to be careful in not offering too much guidance only because of the outliers. If this was just a market demand issue then it'd be easier to give a prediction, but because of the vaccine rollout and, frankly, what happens with midtown office, I'm not terribly certain.

Like I mentioned, though, we are seeing a ton more traffic than we have seen in the last six months, and obviously, our conversion rate from traffic to actual lease signing has been double the historical average. And so somewhat encouraging, but just out of prudence, I'm not capable of giving you accurate guidance on that.

Sam Damiani

Okay. That's fair. And then just on the NOI impact. I mean, when you look at 60 percent to 65 percent occupancy there, how does that impact either the margin or the absolute NOI dollars compared to let's say Q1 or Q2 of last year when it was obviously much higher?

Philippe Lapointe

It's a good question. I think perhaps Larry can opine on the specifics. But because the property is a very large property, a Class A and very modern, the percentage of NOI clearance from revenue is obviously much lower than—or the break-even points from an occupancy perspective is much lower than a Class A building or a Class B building.

So as far as I can tell, I believe we're still positive on an NOI basis even at 60 percent. It's something that Larry can confirm. And so from that perspective, less so worried, and obviously, like I said, all signs are pointing to us reaching the bottom. And so, from here on out, I would expect only a positive NOI growth.

Larry Froom

I'll just add, Philippe is correct. We are still positive on an NOI basis at Jackson Park, but there's been significant reduction in NOI.

Sam Damiani

Okay. That's great. Thank you. And then just on The Bow, with the mortgage bonds' maturities starting to come up here this year, I wonder if you could just share your thoughts on how you're going to sort of approach that situation, or if anything's been accomplished to date.

Tom Hofstedter

Nothing's been accomplished to date. Obviously, Ovintiv bonds are trading very, very well compared to where they were a year ago, as is their stock performance, quite frankly. So that opens up a whole new opportunity that didn't exist a year ago. So I'm optimistic we'll get somewhere. But it's kind of, for the short term, we have a bond that's expiring, $250 million in June 2021, which we'll be paying off by issuing an unsecured piece of paper into the markets within the first half of the year.

Sam Damiani

Okay. Thanks. 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 — Scotia Capital

Hi, and good morning. Tom, given some of your commentary in your letter to unitholders about simplifying the REIT structure in 2021, which is something that—

Larry Froom

Sorry. Mario, I'm not hearing you that well. Can you just, I don't know, just try again?

Mario Saric

Is that better?

Tom Hofstedter

Yeah. Try it.

Mario Saric

Okay. So I was just mentioning, given some of the commentary in the unitholder letter with respect to simplifying the structure of H&R in 2021, which is something that you've worked out since, I guess, 2019, can you give us any sense in terms of what the debt to fair values for each of the verticals would be as of Q4?

Tom Hofstedter

Sorry. Again, I'm losing you. I apologize. The debt to the what?

Mario Saric

The debt to fair value by vertical. So office—

Tom Hofstedter

I can't. I can't hear. Larry, can you hear?

Larry Froom

I think, Mario, you're asking what the debt to fair value would be per segment of our asset classes. Is that your question?

Mario Saric

Yeah. Thank you.

Larry Froom

We haven't given that information, Mario, and I don't really have it offhand. Happy to maybe speak to you and give you some guidance offline, but I really don't have it right now.

Alex Avery — Executive Vice President, Asset Management & Strategic Initiatives, H&R Real Estate Investment Trust

Yeah. And it's Alex. I think, Mario, it's difficult to allocate by segment when you've got as much unsecured corporate-level debt as we have. I think maybe what you're asking is a little bit more about what we think maybe the appropriate level of debt would be by different property types.

Mario Saric

Yeah. If we just take a look at your mortgage debt outstanding, kind of the mortgage debt to asset value by vertical would be something I'd be interested in.

Alex Avery

Oh. Okay.

Larry Froom

The mortgage debt.

Tom Hofstedter

Sorry. But Mario, that's not very relevant. That's where the opportunities lie to—if you look at your total unencumbered pool, and you've got to maintain a certain percentage overall, where the opportunities lie to go ahead and do secured debt at the best-bidder pricing, you do that. And you take the ones that are less receptive to getting good pricing on secured debt in your outlook. It's not by a division by division. It's by an asset-by-asset basis.

Alex Avery

I think, qualitatively, you could say that, if you look at the availability and cost of debt, the trend over the past few years has been to have less secured debt on retail assets. In the H&R portfolio, in particular, there are a lot of very long-standing office properties that have quite low loan to value because they're very long term, fully amortizing mortgages. And we highlight some of those coming due over the next 12 or 18 months.

But there are some properties within the office portfolio that have higher loan to value. And within the multi-residential, we tend to have higher leverage as a result, in part due to the tax advantages and the natural hedge that that provides, given that those are US assets. And there is clearly abundant availability of debt at aggressive pricing on the industrial portfolio.

Tom Hofstedter

But also, Mario, obviously, in certain asset classes where we want to sell properties, you want to leave them debt-free because then you'd have to pay through a yield maintenance to get rid of the debt. So you look at our office portfolio, for example, Hess is debt-free. So really, it's not on category by category. It's more on an asset-by-asset basis that we make those decisions whether it's secured or unsecured.

Mario Saric

Right. Okay. And then just associated to that, in terms of creating these new public entities, is it your view internally that each of the verticals—office, retail, industrial, and residential—are large enough and distinct enough to be able to stand on their own?

Tom Hofstedter

I think the answer is yes.

Mario Saric

Okay. And then, in terms of the structure, how should we think about the relationship between those four verticals in H&R corporate, like in terms of internal relationships, like external? So hypothetically, if these were to be spun out, let's say, would you consider an external structure? Or would you go along the internal structure route?

Tom Hofstedter

I don't think I'd want to give—and we know what the market wants so we're going to try to give the market what it wants, but I don't think I can answer that question at this early stage of the game. As far as the structure goes, there's many issues involved in making decisions like that, but you'll see. Wait and see.

Mario Saric

Okay. That's fair. My second question, just maybe for Philippe, with Lantower. You noted a wide gap between how the public and private markets have been treated during the COVID crisis in terms of the US Sunbelt market. What do you think you can do in terms of trying to narrow that gap? And I recognize it's hard to understand what Lantower's implied cap rate change has been, given it's part of a bigger organization. But in terms of strategy, what do you think you can do to narrow that gap going forward?

Philippe Lapointe

Well, it's a very good question. I don't know that necessarily there's anything we can do to narrow that gap and change the public perception of US multifamily. Rather, what I think we ought to do is take advantage of the historically wide delta between the development yields and the in-place cap rates. If cap rates, like I mentioned, went down 50 basis points and are closer to 4 than they were to 5 and were

developing closer to a 6, then it probably behooves us to look increasingly towards development, especially in our Sunbelt markets.

The delta, as well, from a private and public market is more pronounced on—or rather, with REITs that have gateway exposure. And so my belief is that's temporary in nature, only because our house view is the gateway cities will always remain the gateway cities, and COVID will one day subside.

But as it relates to the development yields, they're, frankly, in my opinion, they're just too wide. And so we, like I said, we made the announcement that we bought in the last 90 days two more sites. I would anticipate that we continue that strategic acquisition initiative moving forward in 2021 and look to, quite honestly, put a shovel in the ground on some of these sites towards the latter half of this year.

Mario Saric

Great. I think it was maybe six months ago or nine months ago there was discussion of potentially trying to monetize the Lantower brand and platform in terms of possibly bringing in partners. Could you maybe provide an update in terms of where that stands from a capital allocation perspective?

Philippe Lapointe

Yeah. Like all things, I mean there's 24 hours in a day and 7 days in a week, and so it's just a matter of where we want to place the focus. In our opinion, Lantower is, the platform has consistently risen quarter over quarter in value. We've grown exponentially, as evidenced by our quarter-over-quarter growth last year, especially given the challenges of COVID. And so in this environment where the platform keeps getting better, in my opinion, and is worth more, and we are in tune with how to create additional value through development, it's just a matter of when we find it opportunistic to bring on a partner while we're still growing so quickly.

And so I don't think there's a month that goes by where we don't hear about interest about buying into either a participation in the existing platform or on a future partnership. But frankly, we have to allocate where we focus our energies, and it is our opinion that, as of right now, given COVID and especially what we're seeing on the development, perhaps doing that in asset management would risk being a dilution of focus.

And so, the appetite is certainly there on the third-party side to join us. It's just more a matter of us determining the best timing for unitholders.

Mario Saric

Got it. And does the gap between public and private valuation that you noted, does that change your desired timing at all in terms of possibly bringing partners in or not?

Philippe Lapointe

I don't think it does because I think that that delta is temporary in nature. I think it will course correct fairly quickly, especially in the US.

As it relates to the next six months with the rollout with the vaccination and us obviously having a better handle on COVID, I would suspect that that delta would compress even further. And so I think the public market is going to go and meet the private market, not vice versa. And so trying to capitalize on that delta I think will dissipate too quickly. And so I don't know that that's necessarily a factor in our decision-making right now.

Mario Saric

Got it. Okay. That's it for me, and thank you for your patience on the technological issues this morning.

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. Good morning, everyone. Going back to Jackson Park, I'm just wondering, when you look at sort of the post-COVID view, I know, Philippe, you had mentioned in the past that a large proportion of your tenants were sort of college students. Do you expect that to change a bit given that you've referenced the return of midtown office? Or do you think that the tenant base is going to stay relatively unchanged versus pre COVID?

Philippe Lapointe

It's a great question. I think first and foremost it really depends on what opens up first. If they're both concurrent in nature where universities are opening up at the same time as employers are asking their employees to come back to the office, then I'd say it's probably going to be a good mix and we're going to see a similar mix of tenants. But if one opens before the other, then I suspect that that's probably the first wave that's going to hit.

But my expectation, candidly, is that once the situation in New York City and its obviously five boroughs normalizes, Jackson Park will probably lease-up and stabilize faster than most properties. And the reason I say that is, casting aside the quality of the construction and its location and proximity to the subway and obviously one-stop away from midtown, I think if anything COVID has taught us is the idea that somehow you want to stay in your 300-, 400-square-foot studio apartment and be content with that without access to a park or nearby walking trail, I think is moot. And I think people are putting a premium on that open space.

And I know you remember this, but, Jenny, there's a two-acre park, a private park for Jackson Park which, quite honestly, no other property nearby has; certainly not in New York City. But there's not that amenity in Long Island City. And so I think that when tenants come back either to work or to study and value that open space and want to be outside and have that fresh air, I think that they're going to be flying in droves to Jackson Park.

Jenny Ma

Okay. Great. So I guess, in the interim, if you think students are going to be a reasonable driver, I guess the demand would probably return in the summer, hopefully. But in the interim, how are you balancing occupancy versus rent at Jackson Park? Because if you think there's sort of 6-to-12-month visibility on the demand coming back, are you willing to give a little bit on rent just to have these suites occupied? Or how are you thinking about that over the very short term?

Philippe Lapointe

It's a great question. And I think the strategy lies in, obviously, without reducing rates, just using a strategic blend of concessions but also of term maturity. And what I mean by that is being aggressive with the month of concession or free rent that is being offered, but also pushing the leases that historically have been 9 to 12 months, pushing the 15 to 24 months and then spreading the concession along the term of the lease. And so I think that–

Jenny Ma

Okay. Great.

Philippe Lapointe

—I think those are the levers that are going to be successful that are currently being in use.

Jenny Ma

Okay. So are you saying that you haven't had to move face rents much?

Philippe Lapointe

Right.

Jenny Ma

Or is there any kind of give there too?

Philippe Lapointe

Right. That's exactly right. I think the—

Jenny Ma

Okay.

Philippe Lapointe

—on a net-effective basis, the rents have moved, but, obviously,–

Jenny Ma

Right.

Philippe Lapointe

—as a virtue of concessions.

Jenny Ma

Okay. Great. Moving on to retail. I think, Pat, I must have not heard you correctly, but you mentioned that the Walmart lease at Dufferin Mall was renewed for 20 years. Is that correct?

Pat Sullivan

Yeah. It was a blend-and-extend. They had some term left on it but, yeah, we did a 20 year. It's a 20-year term now.

Jenny Ma

And you said that there was some rent steps involved as well?

Pat Sullivan

Yeah. There's an initial rent step that kicks in in the spring, and then every three to four years there's rental bumps.

Jenny Ma

Can you give us a rough magnitude of that bump?

Pat Sullivan

The first bump I mentioned was about 55 percent. It was a significant bump.

Jenny Ma

Mm-hmm.

Pat Sullivan

And the bumps thereafter are also pretty significant.

Jenny Ma

Okay. Now I guess I mean that's not necessarily typical for a Walmart lease. Is it because of the virtue of the strength of that location in particular? Is that the case? Or is it because it's been, I guess, the first lease was signed a long time ago. Is that a mark to market? Like what's really driving this rent bump?

Pat Sullivan

Yeah. No. It is reflective of the location. It's frankly the location, the fact the market was under rent. It was a lease that was done a long time ago, and the market clearly has changed from what it was.

Jenny Ma

Mm-hmm.

Pat Sullivan

And it was an early renewal. So it's, like I said, it was really a blend-and-extend, and as part of that deal, we got our development rights back to facilitate our redevelopment of the property.

Jenny Ma

Okay. Great. I guess last question on that specific store. Does Walmart feel that the store size is appropriate for what it is? Or is there any possibility down the road of expanding that store? Or is it sort of the right size for that market?

Pat Sullivan

I'd suggest to you that the store is a good size, given what Walmart's footprint is today. Really, I don't think we'd even look to expand it. By expanding it, we would diminish our ability to rent smaller shop space which pays much higher rent. So I think they're kind of—their footprint is what it is.

Jenny Ma

Okay. Well, I guess it seems like they think it's good for the next 20 years. So that's great. And then moving on to industrial. It looks like the first building of the Caledon development has been very successful. But I know in your commentary, you sort of reiterated that Buildings 2 and 3 are still on hold. I guess just given what we know about the industrial market now and the success you've had with Building 1, what are you waiting for to change before developing? I mean, I recognize it's a lot easier to start and stop with industrial. But what else do you need before you embark on that?

Tom Hofstedter

Actually, nothing. We're just waiting for the winter. We don't need to have winter construction, pay for winter construction. So we are negotiating with someone for the larger building, and whether we land it or not, we're going to be proceeding after the winter.

Jenny Ma

Okay. And remind me the build time. Is that less than 12 months? Or is it sort of in that 12-to-18 range?

Tom Hofstedter

It's in the 12-ish range.

Jenny Ma

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

Tom Hofstedter

Thanks.

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

Good morning, guys. I'm not sure what information you can provide, but I'm going to ask the question anyways, and it's a follow-up to Mario's line of questioning. Notwithstanding the ability of these segments to stand alone, do you anticipate that H&R, whatever the surviving entity is, would own a stake in each of these going forward?

Tom Hofstedter

So that's a detail that we are not at the stage of answering; can't answer yet.

Matt Kornack

Okay. Fair enough.

Tom Hofstedter

It's a fair question, but it's too early days. We're not there yet.

Matt Kornack

I guess, yeah. At the end of the day, it'll either be an asset management-type structure, or you could parse it off. But is there a single–

Tom Hofstedter

Well, no. No. But you can also have an IPO versus a spend. You can spend it all. You can IPO part of it.

Matt Kornack

Right. Yeah.

Tom Hofstedter

There's a lot of ways to doing this one.

Matt Kornack

And just from a fixed income standpoint, because we have been fielding some questions from them, there will be a surviving entity large enough to sustain the unsecured debt that's currently outstanding?

Tom Hofstedter

Absolutely. Absolutely.

Matt Kornack

Okay. And then on the retail front, Pat, there was some positive on the leasing of space that was subject to CCAA. So it sounds like it was 35,000 square feet on 100,000 square feet. What is the nature of those tenancies? And you provided some leases in your commentary. Would some of that have been on previously occupied space by guys that went into CCAA?

Pat Sullivan

Yeah. One of the deals structured went into a Pier 1 at Stone Road Mall. We backfilled a lot of the David's Tea. I wouldn't say there's–there's no fashion deals replacing these right now. The fashion guys are pretty much not doing anything at the moment, although there's discussions from them for doing deals next year. So it's a lot of the smaller space.

Moving forward, we have two more Pier 1s that we're negotiating LOIs on right now. And that would be the end of our Pier 1s. We'd have gotten rid of all three at that point. And then, yeah. There's a lot of, just in terms of the CCAA space, there is quite a bit of activity and discussion in the last—it really started up in the last few weeks for a number of our better malls that really were the brunt of the impact of the CCAA filing.

So again, for instance, at Orchard Park, I know we've got active discussions with about six deals right now to fill space. So it's good to see some positive momentum on the leasing side.

Matt Kornack

Sure. And are any of these new tenants to Canada new to your portfolio? Or are they all kind of existing guys that you've dealt with across the portfolio already?

Pat Sullivan

Nothing new to Canada. Not right now. I've heard stories of some brands looking at coming to Canada and opening, but not right now in our portfolio. We're just dealing with domestic players.

Matt Kornack

And your commentary around sort of the e-commerce play in enclosed malls, that was interesting. Is the structuring of the malls and the loading docks, et cetera, is it suited to provide that? And just what if anything do you need to do to the malls to make it a better sort of place to either take in returns or send out product?

Pat Sullivan

I'd suggest that it's still a bit early days in terms of what we're doing, but there's a lot of technology that's out there. One of the big issues was really dealing with real-time inventory and for customers, consumers to be able to source inventory that's actually available in the shopping centre. And that seems to have been something that's been overcome now, according to the people we've talked to.

The beauty of an enclosed shopping centre is that they're really, really flexible. We can kind of move things around and create space at a fairly–it's not, I wouldn't say easy, but it's very doable to recreate certain areas where need be. Not exactly sure what our net needs will be going forward. Clearly, we want to continue with curbside pickup, but the buy online, pick-up-in-store model and such forth is something we're really going to push along.

Matt Kornack

Okay. Thanks. On the residential side, and I guess it's a two-pronged question, with regards to the projects like The Pearl, Hercules, Nightingale, Shoreline, there's some question as to whether those are sold off or purchased at some point. Interested in your thoughts there.

And then on the Canadian residential offering or opportunity, when we think of that as a silo, is Lantower an exclusively US operation? And those residential suites would stay with the asset class that they're going to be built on top?

Tom Hofstedter

So I'll answer the latter question that we don't visibility to that. As you know, we have quite a number of projects that fit the bill—145 Wellington, Front Street, 55 Yonge, and our large joint venture on the Telus Tower in Burnaby, so, and then there's Dufferin Mall. So we don't have the answers to what

bucket it would work or how it would work, if it's going to be mixed use between office and residential. Early days on that.

As far as the Canadian bucket of Lantower at this stage of the game, Lantower doesn't have to be exclusively US. Can be, but there's too many questions as to Lantower and where it goes just to be able to answer that question in the future as to which bucket to place these things because, quite frankly, they're a ways off. The first project wouldn't be ready probably for a shovel in the ground at the earliest I would say year-and-a-half to two years. So it's early days.

Matt Kornack

Thanks, then.

Philippe Lapointe

Yeah. Matt, and as it relates to your first question, I think just as like any other asset in our portfolio, we have an evaluation internally of what we think is the fair market value of the assets. In the case of those developments, when they stabilize or before stabilization, but upon that review, if the market—which is what I suspect is going to happen, and I think that's what you're trying to get to—I suspect that the market, given the frothiness for US multifamily, especially given the quality of that construction and its locations, I suspect the market's going to value those assets more than we do internally. And so, if I was a betting man, I would say we'll probably end up selling those assets at a very, very low cap rate and quickly redeploying that capital into more accretive investments such as what we just discussed earlier today on the call.

Matt Kornack

Okay. No. That makes sense. And then last one on Jersey City. Just wondering if you plan on developing that on your own? Or if you'd bring in a partner? If you've got any ideas as to what's going to go on there? I know it's probably going to be a few years out, but just interested.

Tom Hofstedter

So it's a mixed-use development. It can be a mixed-use development. It can be zoned all for residential or we can actually put commercial, and we can actually put lab space, which is very much in vogue today. Right now, we're marketing it to users for both the lab space, the technology, life sciences, that's very much in vogue, and we'll see what we land there. And that'll follow with residential.

But from a residential perspective, we are basically, I would say 2021 is a year on hold. Because I would say, overall, you look at a good example, Matt Kelly, which is one of the largest developers as a REIT in that area, you're probably seeing occupancies trend 80 to 85 percent.

So this is a post-COVID story. Therefore, we're not in a rush to put the shovel in the ground. Ultimately, it'll be great. It is one of the–a spectacular site that you can't really repeat. But it has the good affordability as a mixed-use development. So mixed-use development really would entail bringing in either a partner who has experience in that sector or landing a major tenant, which we're out currently marketing for.

So whatever comes first is really going to be the answer, and residential, my guess, will follow because it's going to have to wait until Jersey City recovers from the pandemic.

Matt Kornack

Sure. Thanks for the colour. Looking forward to more news on the spinouts. Although that just means a lot more work for us, but all good. Take care, guys.

Tom Hofstedter

Thanks.

Operator

Thank you. And our next question comes from Matt Logan from RBC Capital. Please go ahead. Your line is open.

Matt Logan — RBC Capital Markets

Thank you and good morning.

Tom Hofstedter

Good morning, Matt.

Matt Logan

Tom, there's a lot of opportunity across your business. And when you take a step back and think about the 30,000-foot view, could you give us a sense for what your top three priorities are for 2021?

Tom Hofstedter

Yeah. I can give you the top two pretty easily. The top two, not in that order, necessarily in order, is Primaris and The Bow. That's definitely within the top three. Then the third one, I think what I'd really love to see is get everybody get the vaccine and moving on in life and opening up. Those are the top two.

I'm looking forward to getting River Landing. We have a lot of action on the office space. What you're reading in the newspapers is actually true. They're flooding to—people moving to Miami in droves, and we've had more showings in River Landing on office than we've ever seen before so I'm very encouraged. I think we'll land our first tenant finally—it's been dragging on because of the pandemic—probably within the next 60 days, I'm very much certain we will. And thereafter, we have actually more users than we have space for, which is interesting to see.

Miami's a small-tenant market, not a large-tenant market, and all of a sudden, because of the pandemic, it turned into a large-tenant market. And we have a 40,000-square-foot floor space (phon), which is unusual in the market. So I'm looking forward to actually to stabilizing River Landing a lot sooner than I would have thought. I'm looking forward to actually signing our restaurant leases and having the space open again.

So I'd say Primaris and The Bow are definitely ranking high up there for 2021, finishing off River Landing and some of our other developments, and basically just general overall recovery.

Matt Logan

Great recovery and certainly positive news on River Landing. Was that, did you say 6 days or 60, 6-0?

Tom Hofstedter

Sixty, 60 days. I'm being conservative. I mean I can't imagine it lasting that long.

Matt Logan

And when we think about the stabilization of that project as a whole, is that really more of an H2 event? Or could that come a little bit sooner?

Tom Hofstedter

Is it an H—I couldn't hear. Is it a what event?

Matt Logan

Is it a second half of 2021 event?

Tom Hofstedter

Well, no. Well, it depends on the terms of the (unintelligible). As Philippe mentioned, we're leasing at conservatively 30, but we've been high as 40, 30 to 40 units a week. So we initially thought there

was going to be a two-year lease-up from now, and we're probably going to finish this within 18 months. So that's going to happen sooner rather than later.

The retail is basically 80 percent there. So we're just waiting for the market to—COVID to subside so we can actually fill up the balance of the restaurant space, which we haven't done. So but the office space takes, I would say, the earliest is going to be the end of the year before I have the leaseholds built up and the tenants paying rent. That's realistically speaking once we clear the committee approval within the next little short while. Even on the first tenant, it's not going to happen before the end of the year.

So stabilization from, on a realistic perspective, is probably I would say 16 months, 15 months from now.

Matt Logan

Okay.

Tom Hofstedter

Stabilization meaning basically fully leased up.

Matt Logan

Mm-hmm. And maybe just changing gears to capital allocation. Could you give us a sense for maybe your acquisition/disposition targets for 2021?

Tom Hofstedter

Probably not. I think to start off the residential, so Philippe did mention all of the properties that we have with our joint venture partners who are building in the markets of Seattle, Los Angeles, San Francisco, et cetera. Well, that can be geared for sale, and that's something that my guess is, as Philippe did allude to and clarify, it's probably too expensive for us to buy because I think the caps are going to be

very, very low, in and around the four-ish range. So that's not accretive enough for us. So that'll be a disposition.

I think as far as industrial goes, there'll be no dispositions. As far as office goes, I think that we'll—we obviously have some target office buildings that we want to sell, but I don't necessarily think that 2021 is the right year to do that until there is some light at the end of the office recovery tunnel, even though we have long-term leases, quite frankly. So our assets can wait and be sold if we want to sell later on to generate cash.

So I can't give you clarity on what assets are going to be sold and when. We're looking at it and when the time is right, we will do so. But I don't think the time is right now in those sectors.

So I regretfully can't give you a clarity. It's really too—the pandemic has really caused too much uncertainty as to what the timing is as to sell assets and aim to purchase assets.

From a purchase perspective, I don't think Canada affords much opportunity. I think the opportunities everyone's waiting for is distress, and distress is only going to happen in certain key markets like New York City. They're not going to happen in Austin or Dallas or, quite frankly, any other target markets, and they won't happen in Canada for any of the assets we want to buy.

So bottom line is, Canada's going to be very challenged to go ahead and buy accretively in Canada. I think we will be able to purchase things in the United States, but I think it's more balance sheet management for 2021 and, opportunistically, sale if the market opens.

Matt Logan

Well, that's good colour. I appreciate all the comments. I'll turn the call back. Thank you.

Operator

Thank you. And that concludes our questions.

I will now turn the call back to Tom Hofstedter for closing remarks.

Tom Hofstedter

Thanks, everyone. Stay healthy. Stay well, and hopefully by next quarter that there'll be vaccines.

Thank you. Have a good weekend. Bye.

Operator

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