H&R REIT
2022 Second Quarter Earnings Conference Call
August 12, 2022

Operator: Good morning, and welcome to H&R Real Estate Investment Trust 2022 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, or projections, and the remarks that follow may contain forward-looking information, which reflect the current expectations of management regarding the 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 flow, 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.

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

Tom Hofstedter: Good morning, and I'd like to thank everyone for joining us today to discuss H&R's second quarterly financial and operating results. With me on the call are Larry Froom, our CFO, and Philippe Lapointe, President.

I'm delighted to share with you today our strong second quarter results. Our results highlight the quality of our properties and embedded growth within our portfolio. The portfolio's organic growth, coupled with unit buybacks, are creating value for our unitholders, with the dispositions announced to date furthering our portfolio simplification strategy.

Capital allocation is our utmost top priority and where our focus remains. Year-to-date, we have recycled capital out of or have under contract to sell $406 million of office, retail, and other non-core assets, and repurchased and canceled $250 million of our units.

Highlighting a few key dispositions is the $120.7 million agreement executed in July to sell the Canadian office property located at 100 Wynford Drive in Toronto. H&R will have an option to repurchase the property, thereby retaining future redevelopment optionality at no cost to our unitholders.

We also entered into a $47 million agreement to sell a second Canadian office property in Calgary and two Canadian retail properties, in line with our IFRS values of providing further support to our net asset value. The closing of these sales remains subject to certain customary conditions being satisfied, and are expected to occur in September of 2022.

Our net asset value per unit grew from $21.06 at Q1 to $20.14 at June 30th, 2022, driven by the 10.5 million units that we purchased and canceled under NCIB during the quarter, organic net operating income growth and strengthening of the US dollar. Year-to-date, we have bought back $22.1 million units at a weighted average cost of approximately $13.00 a unit, representing a substantial 41% discount to our NAV per unit of $22.14.

Our active unit buyback and very strong same property net operating income growth are driving NAV growth and financial results. With today's strong quarterly results, we are on our way to creating a simplified, growth-oriented company that will surface significant value to our unitholders.

And with that, I'll turn it over to Philippe to discuss our residential platform, Lantower.

Philippe Lapointe: Good morning, everyone. I'm happy to be on this call to discuss the Q2 updates and to go over our quarterly highlights.

But before I do, I wanted to thank our investors for their time, generosity, and feedback over the last 90 days. While the team and I are encouraged as H&R has been among the best performing Canadian REITs year-to-date, we still have a lot of work to do and look forward to sharing more exciting updates before year's end.

The US Sunbelt and gateway markets continue to experience amplified population and income growth, driving affordability in our rental portfolio. As of Q2, our rent to income ratio sits at approximately 20%, well below the standard benchmark for affordability, and so we are confident that we'll continue to see strong future rental growth, and so, not at the detriment of a resident's ability to pay.

Inflation is undoubtedly another area of conversation regarding how the overall economy will impact multi-family fundamentals. The common thinking goes that, with inflation, comes equivalent expense increases. While we do expect some increased cost creep in the future, we have experienced only marginal increases in most expense categories.

Through operational efficiencies stemming from our smart technology initiatives, self-guided leasing, and negotiated national accounts, our quarter-over-quarter and six month year-to-date expenses have actually decreased slightly compared to the same time period for 2021.

And more good news, as we have seen in previous quarters, we are continuing to experience substantial rental rate growth in all of our US Sunbelt markets. By way of example, during Q2 our new lease trade-out for the entire portfolio, excluding Jackson Park, was approximately 16.6%.

Moving on to Jackson Park, we continue to see positive trends in the amount of traffic, renewal rates, and number of leases executed. At the end of the second quarter, Jackson Park's occupancy was 97.2%, and the percent of residents renewing their leases during the second quarter hovered in the high 50% range, which reflects another quarter of continued strength and demand fundamentals for the New York City submarket.

On to dispositions, in June, we strategically disposed of our only asset in San Antonio, Texas. Given that San Antonio did not fit in our long-term growth strategy, we felt it prudent to dispose of that asset at a premium to our fair market values, further reinforcing our conviction in our NAV. We intend to reinvest the proceeds in our core markets and to transfer the equity in a tax efficient manner into more accretive, long-term investments.

On the portfolio valuation front, considering what is occurring in the capital markets and the ongoing adjustment to monetary policy, we erred on the side of caution regarding valuation cap rates. While we are still witnessing competitive sale processes and believe in the sustainability of our values, we have elected to increase our portfolio's cap rates by an eighth of a point.

However, in light of our rent and NOI growth, our overall portfolio value actually increased slightly in Q2. We feel confident that our strong NOI growth fundamentals will support evaluations despite the potential headwinds of future cap rate expansion.

On the JV development front in Hercules, California, phase 2 of our development named The Grand at Bayfront received its final certificate of occupancy in March, and is currently 59%

leased. Shoreline Gateway, Long Beach's tallest residential tower at 35 stories, has seen strong renter demand and is now 69% leased.

On the wholly-owned development front, Lantower West Love in Dallas, Texas is on schedule, as we expect to lay the foundation for the tower crane in the coming weeks. Also in Dallas, Texas, Lantower Midtown recently broke ground, with site work well underway.

And lastly, in Tampa, Florida, we are wrapping up the building permit for a development called Lantower Baseline. This development will consist of 271 units, and is expected to break ground in the coming months.

More good news on the development front; again, during the second quarter, we successfully rezoned a 5.8-acre land site from industrial to multifamily. This project will consist of 430 apartments and is adjacent to downtown Dallas. Also in Dallas, we closed on a CityLine Phase 2 land site, which will accommodate 250 apartments on an eight-story podium development next to our currently planned 295 apartment five story wrap development in North Dallas.

In April, we closed on an infill site along Highway 19 in Clearwater that will accommodate a 400-unit five story wrap development. Lastly, in late June, we closed on a 381-apartment garden style development site in South Orlando, Florida that sits on the entrance of NeoCity, a mixed-use development anchored by a planned research park.

Our residential development platform is supported by our land pipeline of over 5,000 potential units at a basis of approximately $28,000 US dollars per unit, which is a substantial discount to the $50,000-plus per unit pricing that we are seeing in the Sunbelt markets for similar A Plus sites such as ours.

In summary, we have continued excitement about the future value creation opportunities at H&R. And with that, I will pass along the conversation to Larry.

Larry Froom: Thank you, Philippe, and good morning, everyone. As Tom mentioned, we are excited to report our results this quarter, which reflect our simplified portfolio strategy and alignment with properties producing higher growth.

That growth is clear from our year-to-date results of same property net operating income on a cash basis, which grew 19% compared with the first half of 2021. Q2 total same property net operating income on a cash basis continued to be strong and grew 18.8% compared with the same quarter of last year.

Our residential division led the way, with a 43.7% increase, or 39% in US dollars, for the quarter, primarily due to an increase in occupancy at Jackson Park in New York, which was in lease-up last year. Excluding Jackson Park, growth was a very healthy 20.8%. As Philippe has already discussed, Lantower residential continues to see significant increases on new leases and renewals.

Same property NOI cash basis from office properties increased 23.2% for the quarter, primarily due to the burn-off of Hess Corporation's rent-free period that expired in June 2021. Excluding the rent-free period, the increase is 1.5%.

Our office properties are located in strong urban centers with a weighted average lease term of 8.5 years and leased to strong credit-worthy tenants. I would like to point out that only 5% of our total office footage is subject to lease expiries between now and the end of 2023. 23,000 square feet expires during the remainder of 2022 and 349,000 square feet expires in 2023.

Retail same property NOI on a cash basis decreased by 3.5% for the quarter, driven by higher non-recoverable property operating costs at River Landing Commercial, which is in lease-up. Two major tenants are expected to commence occupancy in the near term, a 49,000 square foot lease in Q4 of this year and another 63,000 square foot lease in Q1 2023.

And lastly, industrial same property and NOI on a cash basis increased by 4.9% for the quarter, primarily due to increased occupancy and contractual rental escalations. During the quarter, we leased the vacant 314,000 square foot industrial property at 2121 Cornwall in Oakville, Ontario, which will commence in Q3 2022. H&R has a 50% ownership interest in this property.

We also completed a five-year lease renewal on a 371,000 square foot Montreal property at our ownership interest, with rent set to increase by 125% in January 2023.

Overall, FFO for Q2 2022 was 28.4 cents per unit, and AFFO per unit was 25.7 cents. Based on our distributions of 13.5 cents per unit for the quarter, our AFFO payout ratio was a very healthy 52.5%.

Debt to total assets at June 30th, 2022 was 44%. We finished the quarter with cash on hand of $71.7 million and $619.6 million available under our unused lines of credit.

Our net asset value per unit grew from $21.06 at March 31st, 2022 to $22.14 at June 30th, 2022, primarily due to the purchase and cancellation of 10.5 million units under our NCIB and the strengthening of the US dollar. We repurchased these 10.5 million units at a weighted average price of $13.00, a 41% discount to the $22.14 NAV per unit at June 30th, 2022.

And so, in summary we are very pleased with our Q2 results. Our high-quality portfolio of properties are well positioned to produce strong operating results going forward.

And with that, I will turn the call back to Tom to open up for questions. Please go ahead.

Tom Hofstedter: Operator?

Operator: If you would like to ask a question, please press star followed by the number one on your telephone keypad. To withdraw your question, please press star-one again. We'll pause for just a moment to compile the Q&A roster.

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

Sam Damiani: Thanks. Good morning, everyone, and congratulations on the solid results. First off, just on the dispositions, Tom, perhaps with the agreements set on these latest acquisitions set in June, obviously the process was underway in the spring during the market volatility. Wonder if you can tell us how that went, what sort of buyer you're working with, and how the fair--how the pricing compares to the fair values at Q1?

Tom Hofstedter: Are you referring to the US retail we sold?

Sam Damiani: No, I'm referencing, sorry, specifically 100 Wynford and the three other assets that are also under contract.

Tom Hofstedter: Oh, I see. In line with our obvious values, the right to purchase is because it has residential intensification potential, although that's down the road. We control the rezoning, and that's why we gave ourselves the right to buy it back.

Sam Damiani: And was there any fair value change on them during the quarter to true them up to the sale price?

Tom Hofstedter: No.

Sam Damiani: Okay. All right, that's good. But overall, the process, like, how would you characterize the process given the market volatility? Anything you want to share?

Tom Hofstedter: So, it was an off the market deal, so I can't respond to your question on market volatility. If it would have gone to the market, I can't speculate. But since it was an off market deal, it was very fluid. It was not an issue.

Sam Damiani: Okay. And just on the leasing in the residential and industrial side, have you seen any deceleration of momentum that would indicate a slowing of the economy in your portfolio?

Philippe Lapointe: Hi, Sam. It's Philippe. Nope, not yet. We're still having, obviously, a record level of renewals. As I previously mentioned, we're seeing a rental rate that is in line with what we've seen in the last three quarters, and so obviously paying close attention to the data, making sure that we're not increasing our rents at the detriment of our residents' balance sheets. But, no, we're not noticing any slowdown whatsoever.

Sam Damiani: And just on the same property for Lantower, excluding Jackson Park, it was over 20%, I guess. How does that portfolio do that at stabilized, I guess? I'm just trying to--struggling a little bit with the math.

Philippe Lapointe: Sorry, Sam. One more time, how does the--?

Tom Hofstedter: The math.

Philippe Lapointe: Yeah, how does the what? It's not coming across clearly on our end, Sam. I apologize.

Tom Hofstedter: Sorry. One sec, Sam. Let's just increase the volume.

Philippe Lapointe: Sam, do you mind repeating the question?

Sam Damiani: Oh, sure. Yeah. No, just wondering how does--a portfolio that's mid to high 90s leased, how does it generate 20% plus same property, I guess? Was there some properties that had an occupancy increase year-over-year? And just--I guess help us understand how the occupancy and the rent change would triangulate into a 20% plus same property NOI.

Philippe Lapointe: Yeah. I mean, Sam, the math is really simple, right? So, if you're looking at a--if you think about our NOI margins of the upper 50s, I think it's 57 or 58%, and as I previously stated, no significant expense creep in year-to-date yet. I can't recall what we did last quarter, but we did 16.6% this quarter.

The math is ultimately simple, right? And so, it doesn't time perfectly, but, no, it's not an occupancy thing. It's purely a matter of revenue is growing at a very fast clip and expenses are somewhat muted.

Sam Damiani: And the muted expense experience that you're enjoying right now, is that something you see somewhat sustainable just given the specifics of the portfolio, or will you see ultimately the portfolio being impacted by the macro inflation that we're seeing?

Philippe Lapointe: I think 95% of the expense creep that folks are experiencing we've abated through us leveraging--and it's not just us, right? So, some of the larger publicly traded REITs in the US have done the same. But our utilization of technology has really muted debt expense creep that other folks who hadn't made the investments in the last 18 months are now, I guess, wishing that they had.

Having said that, I mean, there's nothing that technology can do to help our property taxes and insurance. And I would anticipate--and we're obviously accruing for it, but I would anticipate there being year-over-year some significant increases, especially on property taxes, as you would imagine, given that our values are obviously skyrocketing as a result of our very healthy NOI growth.

But casting aside that, to answer your question, no, I mean, I'm not surprised to see that there hasn't been much of a change because of the monumental investment we made on that side of the house two years ago and last year.

And really, Sam, and credit goes to the team in Dallas for really pushing that through. I mean, we're in the middle of--on the back end of COVID. It is a very difficult setting. Some groups have done it. It hadn't been completely proven yet.

Despite that, there's a tremendous amount of leadership in Dallas that saw it through, and the execution was near flawless. And so, much credit goes to the team that saw the implementation of the tech packages.

Sam Damiani: Great. Thank you. I'll turn it back.

Operator: Our next question comes from Jenny Ma from BMO Capital Markets. Please go ahead. Your line is open.

Jenny Ma: Thanks. Good morning.

Larry Froom: Good morning, Jenny.

Jenny Ma: Maybe just expanding on the multifamily metrics, Philippe, did you say that there was 16.6% same property rent growth in the portfolio?

Philippe Lapointe: That's right, for the quarter.

Jenny Ma: Okay, great. Can you talk to us about how you are raising rent on renewals on your tenants? Obviously, there's the technology yield management software angle. But given how tight the market is, are you leaning on that or are you looking at the tenant's individual financial situation and trying to push as far as you can without losing them? And how does that rent growth differ across the markets you're in?

Philippe Lapointe: It's a great question. I think generally speaking--I'll answer last question first. Generally speaking, we see the same thing across the board only because we have--casting aside Jackson Park, we happen to be in the Sunbelt markets. And so, the story is similar in North Carolina, Florida, and Texas.

As it relates to the renewals, in the first quarter--I'm using round numbers, but in the first quarter our renewal rate was about 4.5% in terms of the increases that we are asking of our current residents. And the reason we had done that was a self-imposed governor. And so, in Q1, much of the growth came in new leases.

And so, the delta between new leases was probably, and I'm spit balling, but my guess is anywhere between 12% and 15%. These were seeing some very healthy 18%, 20% increases in the first quarter. This quarter I think the delta is less than 2%.

So, we took the governor off and I think our renewals are somewhere in the ballpark of 14% to 16%, as is our new leases. And so, on a blended basis, it's a much more balanced increase that we're seeing.

In some respects, unexpectedly our renewal ratio is also at an all-time high. So, last quarter was in the low 60s. This quarter is approximately 60%. Historically, we've seen anywhere between 40% and 50%. And so, not only are we increasing at a very healthy clip, but they're also--they're renewing at a healthier clip than we've seen in the past.

And so, my biggest concern and what keeps me up at night is ultimately the balance sheet and the credit of the residents. As we're increasing rents, whether on the renewal or new leases, is it really coming at a detriment of their balance sheet and, more importantly, their ability to pay? And I take comfort in knowing that the 20%--the rent to income ratio of 20% is almost identical to what it was in '18 and '19 and pre-COVID, which leads me to believe that there's still a ton of runway left.

Jenny Ma: Okay. Are the tenants willing to pay these higher rents because market rents are just going up across the board, or is there any element of the housing market cooling down with affordability actually getting worse and maybe some tenants that may have bought, let's say last year or earlier, are more inclined to stay? Is there any element of that in your markets?

Philippe Lapointe: Yeah, I mean, it's a great question. I think, just to summarize the question, there's an enormous shortage of housing period, right, apartments and homes in the Sunbelt markets. And there's--obviously it was true before COVID. With COVID and the migration patterns within the US, that just exacerbated the issue.

Then obviously, with interest rates rising--I don't know what the latest was, but a couple weeks ago you could get a mortgage for about 5%. And ultimately what that made was an otherwise already expensive purchase that much more unattainable for residents.

And so, what we're seeing and what the data would suggest is that, on the right side of the standard deviations, our residents are staying longer but they're also a little bit older in our communities. And I think that's because of a lack of opportunity for them to move up to another house, or frankly there's just a lack of supply for them to move from one community to another.

And so, I think all of those factors play or come into play. But the truth of the matter is, there's an enormous undersupply of apartments in the Sunbelt. And frankly, the stats that we're seeing in '23, '24, we think construction starts are going to start plummeting. And so, it's going to exactly--like further exacerbate the issue.

And so, I think that it is more a supply issue. There's a ton of demand. There's just not enough supply to meet the demand. And therefore, what we're seeing is obviously these very healthy increases across the board.

Jenny Ma: Okay, great. Turning to the development, is the intent of H&R still to eventually sell the partial interest that you have in Shoreline and Hercules phase 2? And just wondering if you could comment on whether or not the buyers of previous partial interest might be interested in coming back for these ones.

Philippe Lapointe: I think the answer's yes. They're definitely meant to be sold. They're not--they weren't meant to--built to core. They're also in markets that we're not in. So, from an operational standpoint, I don't know that it would make a ton of sense.

But we want to be opportunistic. And frankly, we think that perhaps now is not the right time to be selling those assets. But in short order, they will be sold. Now, whether through our partners or the third party, my guess is it's probably going to be a third party. There's going to be no shortages of buyers for that type of product.

Jenny Ma: When you say now is not the right time, do you mean just given the uncertainty in the market, or the fact that it's a partial interest makes it harder to unload? Like, could you expand on that point?

Philippe Lapointe: No, it's not a partial interest because we're all on the same page. We're selling it as one. So, it really isn't anything to worry--or lack of liquidity for that discounted interest.

No, I think it's more along the lines of, given the potential headwinds that we've got, then the fact that the property is not stabilized, we believe--and we could be wrong, but we believe that, to get maximum pricing, I think it'd probably be best if we waited for the assets to be leased about, say, 80%.

And so, for Shoreline, we're at 69%. Hercules, we're a little bit behind that. And so, in Q4, Q1 feels like just about the right time to put what we believe to be a best in class asset to the largest audience possible.

Jenny Ma: Okay, gotcha. On the dispositions, for the 1031 like-kind exchange, I think your sales exceeded the land purchases in Florida. Does the 1031 like-kind exchange apply to land acquisitions, or is it just for ITP? I'm just trying to figure out if you could maximize the room that you have on 1031.

Philippe Lapointe: No, we absolutely can do it for land. We still have proceeds left to deploy. And as Tom mentioned, we're obviously very busy on the disposition side, both in Canada and the US, and we're exploring a variety of opportunities.

And so, whether those funds are commingled in other disposition proceeds or in of itself, they will be reallocated to either land for development or income producing assets within Lantower.

Jenny Ma: Okay, great. And then my last question is, when looking at the leasing activity, particularly with the industrial assets in Oakville and Montreal, just wondering if you can give us a bit more guidance on how to model that income coming in in I guess Q4 and perhaps Q1 of next year?

Larry Froom: Hey, Jenny, it's hard to say because it's single tenant assets. And I don't want to be cute, and it's just--we have confidentially agreements with our tenants. And to give you the rents and what the increases are I think is a bit unfair on that.

Anyway, what I can, there are substantial increases, ballpark, that are coming off. The one in Montreal is coming off about $5.00 per square foot rent. You can model it that way. I think we said 125% increase, okay?

Tom Hofstedter: Yeah. But Jenny, they're all leased in the relationship with the market. There was no discounts, or it was really--.

Jenny Ma: --Right--.

Tom Hofstedter: --It's a very vibrant market and we got the market for it.

Jenny Ma: Right. So, Montreal is going to have a big step-up. Oakville, remind me, was it vacant throughout Q2? So, it's going to be a big step?

Larry Froom: Yeah.

Jenny Ma: Okay.

Larry Froom: Oakville has been vacant for about nine months.

Jenny Ma: That's right. Okay, all right. I will run the math on that. Thanks very much. I'll turn it back.

Philippe Lapointe: Thanks, Jenny.

Operator: Our next question comes from Matt Kornack from National Bank Financial. Please go ahead. Your line is open.

Matt Kornack: Good morning, guys. I guess, Larry, just a quick follow up to Jenny's questioning there on Oakville. Is there any fixturing or otherwise that would prevent it from being cash rent in Q3, or is that a cash contribution?

Larry Froom: That is a good question. Is there a free rent period? I am not sure.

Unidentified: One month.

Larry Froom: I've been signaled that there's a one-month rent-free period.

Matt Kornack: Okay, perfect. And then also follow up to Jenny, with regard to Shoreline and The Grand, can you give a sense as to--I know it's in the joint venture portfolio and you're only a one-third interest, but the NOI contribution, how you think that kind of ramps up as you lease-up. I know you have to get over your threshold of covering costs. There may not be much there, but just what should we expect on that front?

Philippe Lapointe: So, we've got estimated figures. But what I'd tell you, Matt, is just I guess from our perspective, rather than trying to underwrite what is stabilized underlying, I think you just tuck in the back of your mind the fact that we will be proceeding with dispositions of those assets.

They weren't meant to be held, but in the event that they were to be held, approximately--both of them on a combined basis, then our interest is approximately $6 million US.

Matt Kornack: Okay. And do you know if--it wasn't negative in the quarter, but was it above zero at this point?

Larry Froom: It was actually slightly negative. It was a couple hundred thousand dollars negative in the quarter.

Matt Kornack: Okay. No, that's helpful. And then, on the $110 million that is being held as restricted cash on the 1031, you're pretty certain that you will ultimately find an acquisition that you can put that tax benefit to. Is that fair to say?

Philippe Lapointe: Yeah, without kind of tilting our hand, we're going to have some exciting updates for the following quarter. But we're seeing some pretty enticing mispriced arbitrage opportunities especially in the Sunbelt. So, not meaning to be cute and to flex, but stay tuned, and hopefully we'll have an interesting Q3 to expand on that very question.

Matt Kornack: Okay. Nope, fair enough. And the last one for me, just there's been some transaction activity at some pretty impressive pricing for Caledon or close to Caledon land. I know you have a fair value that's not included in some of these H&R at-interest cost numbers for the industrial land in Caledon, but can you give us a sense as to where you're holding that on your books on a price per acre?

Tom Hofstedter: $2.5 million an acre.

Matt Kornack: Okay. So, some recent transaction activity proves that out, if not more.

Tom Hofstedter: Well, there's been one at 2.5, but there has been more acreage around three. There's nothing been below 2.5 that I'm aware of.

Matt Kornack: Fair enough. Okay. Thanks, guys.

Operator: Our next question comes from Sumayya Syed from CIBC. Please go ahead. Your line is open.

Sumayya Syed: Thanks. Good morning. Just--I wanted to go over 145 Wellington with the zoning progress this quarter. Just wondering about the next steps, if you guys are in discussions or received interest or just what the plan is with that asset.

Tom Hofstedter: Oh, sorry. I couldn't hear the question. Can you repeat?

Sumayya Syed: Yeah, just wanted to I guess go over 145 Wellington, given the zoning progress in the quarter, just wondering about next steps, if there's any discussions or interest on that asset.

Tom Hofstedter: No. Right now, it's leased and we've achieved zoning, as you know. And so, right now we're going to just burn off the leases. There's no imminent plans to redevelop or to sell.

Sumayya Syed: Okay. And then just turning to Lantower, I'm wondering, Philippe, if you could go over just the turnover trends in the portfolio and how they're sort of comparing to what you've seen historically?

Philippe Lapointe: Sorry, did you say renewal times or renewal ratios?

Sumayya Syed: Turnover trends.

Philippe Lapointe: Turnover trends. They're historically as low--so, back to my original point, our renewal ratio is in the low 60s, and now--in the first quarter. It's around 60% in the second quarter.

If I look back over the last nine years, it was probably a little lower than 50%. And so, not only are we achieving record rental rates, but also record renewal percentages. And that's also true at Jackson Park and New York City.

Sumayya Syed: Okay. And then just sticking to US multifamily, just wondering if there's any update or changes on the transition market side in terms of pricing having moved from last quarter to today.

Philippe Lapointe: No. It's surprising. I must admit it's somewhat unexpected, but the--frankly, the sheer amount of equity and capital that wants to be placed in multi-family, either because of a preference for that asset type or, frankly, just the ability to come on and to have that explosive growth, is rendering most of the properties to still being valued in the mid 3%.

And what I think is going to happen is, as evidenced by our disposition in San Antonio, arguably our least best performing asset in the sleepiest of all of our markets and still achieving a 3.6 cap rate, I don't see there being any softness in our fair market values.

And I think that transactions that are going to occur in the next 60 days, as everyone comes off from their summer breaks and activity picks up towards Labor Day, we're going to see further transactions being done at a sub four cap rate. Despite the fact that the interest rates may imply that there'd be negative leverage in the first year, the fact that people are growing their NOIs at 14%, 15% and getting out of that negative leverage very quickly, is enticing to much--both private and institutional capital.

And so, in short, no. If anything, from the amount of calls--the inbound calls that we receive on our own assets from folks trying to secure them on an off-market basis at those numbers gives us additional comfort in our fair market values.

Sumayya Syed: Okay, great. Thank you.

Operator: Our next question comes from Jimmy Shan from RBC Capital Markets. Please go ahead. Your line is open.

Jimmy Shan: Thanks. Yeah, so just on the office assets that you have in the process of rezoning, can you remind me, how are they being valued on the balance sheet? I guess I'm thinking specifically at 145 Wellington. Now that it's rezoned, is there an incremental value, or are those assets essentially being valued as if they're existing office properties?

Tom Hofstedter: It's valued as an existing office property. But in reality, what happens in the entire REIT sector is the value of the revenue producing asset has gone up and the cap rate has been lowered by the fact that you'd have then intensification. So, it's not valuated, and you'll find the same thing with Choice and REOCan and everybody else. They're not valuating it based upon $250 or $300 a square foot. They're valuating it based upon a decreased cap rate overall for someone buying a revenue producing asset.

And you can see, though, when the old CSA building on Wellington Street sold to Westdale, it was actually sold on the same basis as well, as more of aggressive cap than actually a valuation based upon the residential and commercial density that'll be available upon rezoning.

So, in essence, you do get a lift, but you don't get a lift--a full lift to the market values. If it's land value, you get a lift as a more aggressive cap because the buyer's not buying a project that's shovel ready at this point in time, as we have tenants in the building.

Jimmy Shan: I see. So, the aggressive cap I guess embeds the incremental density. And so, on 145 Wellington, stick to assume the value was--even with the rezoning, we shouldn't see any kind of lift this quarter--next quarter.

Tom Hofstedter: Not this quarter. But my guess is you'll find the value increase over time as we get closer to burn-off of the lease end as now, with the fact it was just recently rezoned, falls into our reappraisals.

Larry Froom: Yeah. Just a bit more color, Jimmy, that we did a reevaluation. We had a third-party appraisal on that asset in Q1, and we got a bit of a bump up based on the expected rezoning. The expected rezoning came subsequent to the second quarter so we didn't change that value from Q1.

There should still be a little bit more of an uptick now that we actually have it in our hand, that rezoning, but we didn't change it from Q1 where it was still expected. So, it was a bit of a discount just based on the expected rezoning that we now have.

Tom Hofstedter: And timing was recent on the rezoning. You can expect it to increase gradually, but not to the level of the value as vacant land.

Jimmy Shan: Okay, got it. And then similar to the--.

Tom Hofstedter: --The appraisers will never do that. They won't give you the full value. That's just the way the system works.

Jimmy Shan: Okay. And on Wynford Drive, and maybe this is too simplistic a way look at it, but the embedded upside in the rezoning of that asset is effectively the difference between sale price and the option price. Is that how kind of--if I were to gauge what that incremental value could be, it's essentially that $39 million difference less time value of money? Is that--?

Tom Hofstedter: Sorry, I don't understand the question, but I'm also not hearing you well.

Larry Froom: So, the question is how is that repurchase option price based? Was it based on the revalue of the potential--?

Tom Hofstedter: --No, it's not priced at all. There's no math to it. It's just a negotiation.

Larry Froom: The potential of the rezoning is far more.

Tom Hofstedter: But understand that the rezoning is speculative at this point in time. We have absolutely no idea if it's going to happen or when it's going to happen. We are controlling the process, but we're not confident that it's necessarily going to happen, or what we're going to achieve and what we're going to have to give to the city in order to get it.

It does have the potential that--of we retain the rights, but I wouldn't evaluate that option as significant. I don't know. It's totally speculative. It's very similar to the option in The Bow, which I can't put a dollar amount on either.

The real question you should ask yourself is can I sell that option today? What would someone pay me for that option today? And the answer is since that person would have to pay in cash out of their pockets, they probably wouldn't pay a whole lot, but it does have, as a freebie, a whole lot of potential value. So, good luck trying to evaluate it. It's not evaluated in our books at anything at this point in time.

Jimmy Shan: Okay. Lastly, just on the topic of valuation, so on the US multifamily asset pricing, some of the US REITs are commenting seeing cap rates moving as high as 50 to 100 basis points in markets like Dallas, Raleigh. You're talking about 4 to 4.5 from 3 to 3.5 at the peak.

I don't know. Cap rates are tricky these days. I think if you--I don't know what NOI people are capping. So, I'm just trying to square that with what you're talking about, kind of sub-4. Is it that we're seeing pricing pressures in certain different types of assets or not? And I'm just trying to see if there's any comment you can make in that regard.

Philippe Lapointe: No. I'm not disputing the information you received. It's just that it's not indicative in any of the data sets that we're looking at.

Both--we're tracking above in every market, and I think I mentioned this previously, but we track about 100 live deals to get a better feel for, in the event that we had to make a quick acquisition or we were looking to take advantage of a mispriced opportunity. And most of the opportunities that we're taking to take a look at in that regard, almost 90% of them are at a sub-3.7, 3.8 cap rate currently.

Now, there haven't been many trades. But I think the one confusing part is, I think everyone is pontificating on cap rates because naturally you would expect cap rates to expand based on the cost of capital, and more specifically the cost of debt. However, there haven't been many trades, if any, certainly not any public trades that would support a cap rate moving above 4.

Now, what happens in the next 90 days, who knows? But again, I'm not looking at anything right now apart from the odd mispriced opportunity here or there by perhaps a developer that's distressed. But I would argue that most folks that are active in the market currently looking at current stabilized opportunities in the Sunbelt in the Class A asset class, there are no 4 caps to be found.

Jimmy Shan: Okay, thank you.

Operator: We have no further questions in queue. I'd like to turn the call back over to Philippe Lapointe for closing remarks.

Philippe Lapointe: Thank you, everyone, for joining us today, and we look forward to continuing to update you on our progress over the upcoming quarters. Thank you and have a great weekend.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.