H&R REIT
2022 Fourth Quarter Earnings Conference Call
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Operator: Good morning, and welcome to H&R Real Estate Investment Trust 2022 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 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.

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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 H&R's website and www.sedar.com.

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

Thomas Hofstedter: Good morning, everyone. I'd like to thank you for joining us today to discuss H&R's fourth quarter financial and operating results. With me on the call are Philippe Lapointe, President, Larry Froom, our CFO, and Matt Kingston, Executive VP Development and Construction.

2022 was a very important year for us. Despite the volatility in the public markets, our teams accomplished many substantial milestones aligned to our simplification strategy through capital recycling, stock buybacks, a 9.1% distribution increase and a renew focus on our investment communication program. Through these actions, we have enhanced our geographical exposure, asset mix and tenant diversification, driving strong operating and financial results while also strengthening relationships with the investment community.

In 2022, we sold over $463 million in non-core properties, reallocating that capital to buy back stock through our NCIB. During the year, we bought back and canceled almost $300 million of our units, or 22.9 million units, at a 39% discount to our net asset value creating a 63 cent, per unit in NAV increase.

On the development front, our $370 million of industrial and US sunbelt residential properties are progressing well with embedded value and growth to be realized over the next two years. Given the current macroeconomic environment and keeping with our prudent capital allocation strategy, we've taken a conservative approach and have paused the majority of our development projects until we have more visibility into future stability.

As a result of the heavy lifting our teams have completed during the year to streamline and simplify this company, our 2022 financial and operating results are very strong.

In 2023, we plan to continue to recycle out of the non-core office and retail properties, and are off to a great start with the anticipated $277 million sale of 160 Elgin Street in downtown Ottawa, which is expected to close in April of this year. The disposition program will continue to carefully synchronize property sales to match our capital funding requirements.

With today's strong quarter results, we are on our way to creating a simplified growth-oriented company that will serve significant value for our unit holders.

And with that, I'll turn it over to Philippe.

Philippe Lapointe: Thank you and good morning, everyone. I'm happy to be on this call to discuss Q4 updates and to go over our quarterly highlights. But before I do, I'd like to take a moment to specifically highlight the progress today of our strategic repositioning plan released in October of 2021.

Since announcing our strategic plan, H&R has sold off or spun off over $4.2 billion worth of office and retail, including the Primaris spin-off, and over $1.8 billion excluding the spin-off, all figures in Canadian dollars. This includes 21 office and retail assets encompassing over 4.2 million square feet of space when excluding the Primaris spin-off.

Our office portfolio garners a lot of attention as the legacy asset class at H&R REIT, and thus, I'd like to take a moment to help unpack the remaining office portfolio. From our perspective, H&R's office portfolio consists of three segments totaling approximately $3 billion Canadian.

The US office segment almost exclusively consists of two high rises in New York City and Houston, representing approximately $1.3 billion or approximately 42% of the $3 billion office portfolio. The second office segment is Canadian office, currently undergoing rezoning, representing $750 million using current office cap rates, which will be in inapplicable once the rezoning is complete as the value created will push the entire property to be mostly valued on a developable square foot basis.

And lastly, our Canadian office segment, not subject to rezoning, represents the remaining $1 billion. Of this $1 billion, 160 Elgin represents 27% of that office segment's fair value and is the only office property located in Ottawa, which is not considered a core market for H&R.

On a square foot basis, 160 Elgin represents nearly 1 million square feet out of 3.2 million square feet, or said differently, 160 Elgin represents approximately 30% on a square footage basis of our Canadian office not currently being rezoned. Furthermore, 160 Elgin sale price of $277 million is in line with our IFRS value further underscoring our conviction in our office IFRS values.

It is important to remind that this transaction has not closed, and while we cannot share any more details about the transaction, we look forward to disclosing relevant details post-closing. However, we hope that this potential transaction further demonstrates to our unitholders of

our tireless and steadfast commitment to simplifying our company despite the challenges in headwinds that the market is currently experiencing.

Now moving on to Lantower Residential's results, when excluding Jackson Park, same asset property operating income from our portfolio in US dollars increased by 11.8% and 13.6% respectively for the three months ending on December 31, '22 and for the full year '22 compared to the respective '21 periods. When including Jackson Park, same asset property operating income from our portfolio in US dollars increased by 6.9% and 25.7% respectively for the three months ending on December 31, 2022 and for the full year '22 compared to the respective '21 periods.

In recent reports, we have read headlines describing the deceleration of rents in many of the US sunbelt markets. While we are no longer seeing 25% to 35% rental rate increases, we are still experiencing healthy and above historical rental rate trade-outs. For context, our trade-outs in rental rates in the fourth quarter was nearly 11% when excluding Jackson Park.

We do expect this to revert to more sustainable and historical levels in '23. However, it is important to remember how healthy historical rental rate growth has been in our sunbelt markets, and secondly, the fact that our rent to income levels still haven't increased by any meaningful measure since the beginning of COVID, allowing for future headroom and rental growth.

Moving on to Jackson Park, at the end of the fourth quarter, Jackson Park's occupancy was nearly 99% occupied and experienced a retention rate of over 50% for the fourth quarter, which reflects another quarter of continued strength in demand fundamentals for the Jackson Park submarket.

On the development front, Lantower West Love in Dallas, Texas is on schedule and on budget and started framing work this quarter. Also in Dallas, Texas, Lantower Midtown is on schedule and on budget with the first building foundation pour expected at the end of this month.

West Love's hard costs are 99% bought out while Midtown's are approximately 90% bought out, and we have entered into guaranteed maximum price contracts with very reputable general contractors. Based on this, we expect limited variance in our in our hard cost budget and timeline.

Lastly, a comment on disclosures - as Lantower and the multi-family division of H&R continues on its path to becoming the majority asset class of the REIT, we wanted to provide more

visibility into the platform. And to that end, we have expanded the level of disclosures, which can be found on our investor deck posted online as of yesterday.

For our 2022 year-end reporting, we are providing additional visibility into our operating fundamentals such as occupancy, average monthly rent, lease trade-outs and retention rates on an individual market basis and compared to the respective metrics in ‘21.

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. Our strategy of increasing exposure to residential and industrial properties is bearing fruit. H&R’s same property net operating income on a cash basis in 2022 grew by 14.9% compared with the year ended December 31, 2021. Q4 2022 growth of the same quarter last year was 10.9%.

Breaking the growth down between our segments, our residential division led the way with a 30.7% increase for the year and a 16% increase for the quarter compared the respective period in 2021, primarily driven by an increase in occupancy at Jackson Park in New York and good growth in rents from our properties in the Sunbelt states.

Industrial same property NOI on a cash basis increased by 7.2% for the year and 12.1% for the quarter compared to the respective periods in 2021, driven by increased occupancy and rent increases for new and renewing tenants.

Office same property and net operating income on a cash basis increased by 13.3% for the year and 3.8% for the quarter compared to the respective period in 2021. Our office properties are in strong urban centers with a weighted average lease term of 7.5 years and leased to strong credit worthy tenants.

I would like to point out that only 346,000 square feet of our leases in our office properties expire during 2023, which is approximately 5% of the total square footage in our portfolio.

And lastly, retail same property NOI on a cash basis increased by 5.8% for the year and 18.7% for the quarter compared to respective period in 2021, primarily driven by the lease up of River Landing in Miami and the strengthening of the US dollar.

For 2023, we are expecting same property net operating income to grow in the range of 2% to 5%. Q4 2021 FFO was $0.35 per units. Primaris have contributed $0.10 towards that. Excluding

Primaris, FFO in Q4 2021 would've been $0.25 per unit compared to the $0.31 per unit for Q4 2022, a 24% increase.

For 2021, FFO was $1.53 per unit. Primaris have contributed $0.39 cents towards that. Excluding Primaris, FFO in 2021 would've been $1.14 per unit compared to $1.17 per unit for the year ended 2022, a 2.6% increase. Our 2022 FFO payout ratio was a very healthy 50%, and our AFFO payout ratio was 60%. For Q4 2022, FFO was $0.31 per unit and AFFO was $0.22 per unit.

Our net asset value per unit decreased from $22.58 per unit in September 30th, 2022 to $21.80 at December 31st, 2022, primarily due to Q4 fair value adjustments to our properties, which resulted in our real estate assets decreasing by $187 million. Most of the decrease in value came from our office portfolio, which now has a weighted overall capitalization rate of 6.43%. Debt to total assets at December 31st, 2022 was 44% compared to 46.6% a year ago.

At year end, liquidity was in excess of $1 billion. Last month, we borrowed $250 million on our lines of credit to repay the series O senior debentures, the only remaining debt maturing in 2023 is on nine mortgages totaling $144.7 million. These nine encumbered assets have a weighted average loan of value of 25% at December 31st.

In terms of development spending for 2023, we expect to spend approximately $140 million on our US development projects and approximately $65 million on our Canadian development projects.

So in summary, we are pleased with our 2022 results and confident that our high-quality properties and strong balance sheet will continue producing good results for 2023.

And with that, I'll turn the call back to Philippe.

Philippe Lapointe: Operator, please move on to questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a three tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Sam Damiani with TD Securities. Please go ahead.

Sam Damiani: Thanks and good morning, everyone. First of all, thanks for the guidance for '23. Just on that same property outlook, 2% to 5%, can you give a breakdown or a sense as to how it's going to look by quarter and by segment?

Larry Froom: Good morning, Sam. I don't know if I want to get specific numbers per segment, but maybe I can just share some colour that will help you. That growth is going to be driven by our residential division, which we're expecting, call it low teens growth in 2023, followed by our industrial division, which we're probably expecting the same kind of growth as we saw in 2022.

And then we expect in our office and retail divisions to probably be pretty much flat. Hopefully, that helps, but I don't want to give specific numbers to specific segments.

Sam Damiani: Okay. And then kind of the unusual things that were driving some tailwinds frankly in 2022 on the same property, are those going to be continuing at all into the early part of '23, or is all that pretty much in the past now?

Philippe Lapointe: I mean, the first one that comes to mind, Jackson Park, we anticipate that to be somewhat normalized by now. I don't know. Sam, are you thinking about any particular tailwinds?

Sam Damiani: Well, just with I guess River Landing and -- obviously, that's free rent that you had, too. So just there's sort of the three factors that drove someone usually high same property last year.

Larry Froom: So most of those factors are not going to be there. We're not going to have the same growth in Jackson Park as we had this year. We're not going to have the same -- 2021, we had that free rent period on Hess in Houston, so that led to growth in 2022. We're not going to have that. But all in all, we are still expecting good growth from residential, from industrial, and increasing rents on both those divisions that will lead us to that 2% to 5% overall growth that we are expecting in same asset.

Sam Damiani: Okay. That's helpful. And just over to the dispositions, obviously, great to see another significant office transaction on the block and ready to close. Most of the dispositions thus far have been in the office sector. Just wondering how you see the retail portfolio potentially being a part of the disposition execution in the near term.

Thomas Hofstedter: There's no urgency. As we said, we're going to be matching our dispositions where we require funds. So if we pull through on the office, we have a little bit of

retail that we expect to sell, and then it'll be slow and steady. There's no reason to sell preemptively at this point in time. And we'll do that as we require funds.

Sam Damiani: That makes sense. Last one for me is just on capital allocation. With this -- the disposition expected to close in April, how do you -- and you've got some development spending, but how do you view that versus hitting the leverage or even unit buybacks? How are you looking at 2023 capital allocation?

Larry Froom: That's a good question, Sam. Our first course of action, we'd like to buy back our units, but we want to ensure we do that in a responsible manner. And when I say responsible manner, that's ensuring our balance sheet stays strong and that we have enough liquidity for our needs going forward.

So, for example, in 2022, as you know, we bought back almost $300 million of units, but we improved our debt assets to 44%, and we maintained our liquidity. So we'd like to do that, but again, in a responsible manner. And that's really going to depend largely on the amount of dispositions that we are able to achieve in 2023.

Thomas Hofstedter: But again, our paranoia is, as you'll find the sector, is really on our balance sheet, protecting our balance sheet first and foremost. When we're comfortable, we protected our balance sheet for 2024, and it'll be loosening up and going back to our NCIB.

Sam Damiani: Very helpful. Thank you very much, and I'll turn it back.

Operator: Your next question comes from Mario Saric with Scotiabank. Please go ahead.

Mario Saric: Hi. Thank you and good morning. Just coming back to those two topics, the guidance and then the disposition outlook, what are the primary drivers that comprise the gap in the 2% to 5% range, like that 300 basis points? Like what are some of the uncertainties that can result you think in the lower end of the range 2% versus the higher end of the range at 5%?

Philippe Lapointe: The different property segments that consist of H&R REIT - I mean, they have four very different growth profiles, and as such, next year, they'll offer different NOI growth percentages. But to be honest, we're also -- as you've noticed from previous calls, we're also very, very conservative. And so we've given a conservative range as best as the visibility has given us.

Thomas Hofstedter: Yeah, but, Mario, just remember that, contractually, the long-term leases in office, ironically, it's reverse. When you have office and industrial with long-term leases,

that's contractual. And historically, it's always been 2% on a lumpy basis, 10% every five. So that, you can actually predict, and as you well know, we have very few lease roles coming off in office industrials. That's not really the issue.

The driver of unknown is where you get to month to month, which is more residential oriented, and therefore, you need to have some -- you need to know where the economy's going. Coming off of healthy growth over the past three years of residential, you need to put some type of a range in there because you just don't know what 2023 is going to look like.

So office is no lease roles. Office is very steady. Growth is very tempered at the 2% level. And anything -- as is industrial and is retail, in our case. We have -- retail is very solid. So it's really just mostly residential that creates that fluctuation, and you need to have that gap, and you just can't predict what the world's going to look like over the course of the next 12 months.

Larry Froom: I would also say it's in good, strong growth right now in residential, and it's -- we just hope that continues throughout the year. But we're not sure that's going to flow all the way throughout the whole year.

Mario Saric: Got it. So to paraphrase, kind of the 2% to 5% range is really kind of predicated on the uncertainty associated with the US economy in '23?

Thomas Hofstedter: I would say yes.

Mario Saric: Okay. And then just coming back to Larry, maybe your comment on the growth being good thus far - I appreciated the new disclosure on Lantower in the investor presentation. Can you -- I think the lease trade out data was for '22 in total. Can you provide what those numbers were? It doesn't have to be for each market, but can you give us a rough sense of what the new renewal and blended lease spreads were in Q4 for Lantower and how those are looking in January?

Philippe Lapointe: Mario, we want to stick to annual '22 over '21 metrics. This is the first time of us giving guidance for Lantower. Like I said in the speech, and I think I've reiterated on some calls, we will look for additional opportunities to add quarter over quarter disclosures throughout the year. But as of right now, other than to say somewhat counterintuitively that the renewal rates has been by multiple higher than new leases, I think that's what we're going to limit ourselves to on this call today.

Mario Saric: Got it. Okay. And then stepping back, more of a broader question - heading into '22, you announced this transformational plan. You've been steadily executing on that since.

What would you identify as the key two to three tangible goals that you've set for the organization for 2023?

Philippe Lapointe: I think, in summary, it's a continuation of our plan. I think we were very meticulous and careful in kicking out the plan in October '21. I think today's results -- or today's call, yesterday's results are further evidence of our conviction in that plan. On a relative basis, we had a very strong year last year. We'd like to continue that momentum going into '23, all the while despite the fact that we may be in turbulent times, still creating a tremendous amount of value, both in Canada through our rezonings with Matt Kingston and our development pipeline, both on the two properties that we're developing now, but also the advancement of the, for lack of a better word, development readiness of our remaining pipeline.

Mario Saric: Okay. Great. Maybe one last one for me - on 160 Elgin, I appreciate you provide additional disclosure or detail going forward, but can you give us a sense of what the disposition price was in relation to the Q3 '22 IFRS fair value for the asset as opposed to Q4?

Larry Froom: Morning, Mario. Yeah, we have -- we've not been able to give all the disclosures we would like to be able to give now. So, yeah, I will answer your question. Just a bit of backdrop - fair value adjustment in office was $194 million for the quarter. That was over 18 properties. 160 Elgin is one of those properties, and we wrote down 160 Elgin by $25 million in Q4.

Mario Saric: Perfect. Okay. Thanks, Larry. That's great.

Operator: Your next question comes from Matt Kornack with National Bank Financial. Please go ahead.

Matt Kornack: Hi, guys. With regards to -- appreciate the guidance for 2023, but looking past that to 2024, you have a fairly sizable amount of industrial lease maturities, and I think about a third of it, maybe 7900 Airport Road. Can you give us a sense as to what you're expecting mark to market on that? And is there a chance to get to market or is there a fixed renewal there?

Thomas Hofstedter: No, we've -- that's a complicated transaction. I can't give you too much details on it, but we are working on it. So we're not concerned by the vacancy, we're not concerned about the rental rate is significantly -- the market is significantly higher than what we're currently leased at.

Regretfully, like -- since we are currently working on a transaction and talking, we're not -- we can't give you too much colour on that. That is our significant role, but again, it's no concern of ours. It’s really one of state of art buildings that we have in our portfolio.

Larry Froom: Yeah. Just generally though, our market rent on industrial are way below our -- the average rents that are currently in the market. So we would expect to get good growth coming forward from that division all the way out.

Matt Kornack: Outside of Airport Road, is it a few other assets in the GTA that would make up the remaining sort of 600,000 square feet or so?

Thomas Hofstedter: Of no concern to us; we're not losing sleep.

Matt Kornack: Okay, fair enough. And then with regards to some of the -- well, the Dallas High School transaction and the opportunity there on the adjacent land, can you give a bit more colour, and then -- and may maybe also with regards to The Cove, if there's been any progress on that project?

Thomas Hofstedter: The Cove is -- we're in the final stages of completing drawings. We’re going to go for permit application, but we're going to put pencils down after that. We're not really allocating any funds into development at this point in time, as we mentioned in our speech, until we see better visibility into the economy. So, it's zoned as it always was zoned. It's ready to go, but we're going to wait and see. So we're going to pause on that. And that'll probably be the next 30 days that we shall complete all the drawings and do our submissions on The Cove.

On Dallas High School, Dallas High School -- we purchased the land around Dallas High School for high rise residential. There is a -- to be built some time in the future, not willing to pull the trigger right now on that development as we are not pulling the trigger really on any development. There's a park that's been newly completed across the street. It's a historical office building. There’re historical tax credits involved. That is Lantower's head office. Perkins and Wills, a significant architecture firm, has a long-term lease on substantially most of the balance of the space. And the parking lot that is part of the office building is adjacent to the balance of the lands and should be integrated into the high-rise development in the future -- high-rise residential development in the future.

Matt Kornack: And I noticed the description of your sort of target markets in the US now includes sunbelt and gateway markets. I guess you've always been in gateway markets. But is that a sort of -- other than buying land in Miami, do you anticipate expanding kind of the residential investments in some of these gateway markets?

Philippe Lapointe: No, I think there's more commentary on what we currently owned and perhaps anticipated developing. But for all intents and purposes, the growth in the US residential segment will be predominantly, if not exclusively, sunbelt markets other than what we currently own.

Thomas Hofstedter: We do have relationships with Ledcor Qualico, our partners in Canada, in the gateway cities. We never actually went into gateway cities without partners. So where there are -- and it's been opportunistic. So we're not turning down any opportunity that may come up into the future for long term strategically, but we do have relationships, and we do have land holdings with Ledcor Qualico.

Matt Kornack: Okay. Thanks. And switching over to office, appreciate the disclosure on the fair value that you're holding some of the redevelopment assets at. On my math, that's about $700 per square foot, and you have the ability to grow the square footage from a million square feet to 2.5 on the office front. I know there's a few retail/industrial assets that are excluded from that. I mean, that seems like a pretty conservative price. Do you have any sense as to what per square foot for the existing square footage you think it might trade for in the market?

Matt Kingston: On the existing square footage -- sorry, this is -- it's Matt. For the existing square footage on the existing office or what the potential rezoning value would be?

Matt Kornack: Yeah, just if someone's buying it -- it's a million square feet today. $700 per square foot on that million seems cheap. But I guess do you have a sense as to what it would be per square footage? I understand someone's going to look at it as a development play, but a price per square foot maybe on the 2.5 million then?

Matt Kingston: So three of the properties are Downtown Toronto. One's in Burnaby. In Toronto, we have seen a big drop in terms of land rate. So there was sort of the high watermark on Pleasant Boulevard at Yonge and St. Clair between KingSett and a private developer hitting the $350 a square foot mark for residential mixed use. There have been a few trades this year, one notably at Mount Pleasant and Eglinton through CBRE, which traded about $216 a foot.

But the market has really just been quiet. So we're not seeing fire sales. KingSett had a property at Yonge and Wellesley as well as one at Symington and Bloor. They couldn't attract the price they wanted, so they pulled the deals from the market. So I would say prices are still quite high for what is trading. If people can't achieve the price they want, they are pulling it.

In terms of our values, we are being relatively conservative at the moment, partially because 145 Wellington is the only property that has achieved rezoning. Of that million square feet, it's

about 150,000. On the other properties, we are very close to approval. So we're not taking full upside yet. Does that answer your question?

Matt Kornack: Yeah. No, that's -- so at this point, essentially, you're not really getting the benefit for any of the redevelopment potential. Even with 145 Wellington, is there anything in fair value for that or no?

Matt Kingston: We've taken a partial upside, but not a full one at this time.

Thomas Hofstedter: The simple answer mathematically is that you don't take an upside predicated on call it $250 a square foot times the density you get. You just use -- the market always uses just more of an aggressive cap rate on the commercial. So it looks at the commercial, says, hey, there's some residential potential over here, but it trades on the basis of a more aggressive cap rate on the commercial rather than an allocation to a price per square foot based on the residential because the residential is not here and now, and think, from an accounting perspective, we just -- the industry just doesn't do it.

Matt Kornack: Fair enough. No, that makes sense. Just two quick last accounting one - Larry, sequentially for the joint venture, it was a pretty significant increase in revenues. FX played a part of that. But is that -- I guess, is that a normalized figure for Jackson Park for Q4 that would have driven the sequential increase there? And then just quickly, the bad debt was elevated this quarter. It seems like it's non-recurring, but any colour there?

Larry Froom: So there's a few questions there. I think your first was on the management fee recovery that we do. Is that right, Matt?

Matt Kornack: Oh, no, just joint venture -- the sequential performance of the joint venture portfolio is pretty strong.

Larry Froom: Jackson Park actually did have a bit of an increase in bad debt. Other than that -- so we should have a bit of a lift from Jackson Park next quarter, not much, a little bit. And therefore, thereafter should be back to regular growth of 2% to 3%. And that is all of our equity joint ventures that was any difference this quarter.

Matt Kornack: Okay. So that's a clean figure. Okay, thanks.

Operator: Your next question comes from Jimmy Shan with RBC. Please go ahead.

Jimmy Shan: Thanks, good morning. Larry, on the $250 million debentures redeem -- I assume the line was drawn to pay that down and then subsequently, the sale -- the asset sale will pay down the line. Is that fair?

Larry Froom: Good morning, Jeremy. Yes, that will be -- that is correct.

Jimmy Shan: Okay. And with the net proceeds -- it looks like there's no debt on 160 Elgin. So would the net proceeds to be similar to what the asset held for sale amount is?

Larry Froom: So we will give more details on that when it closes, but, yeah, pretty much the same.

Jimmy Shan: Okay. All right. And what would the in-place rent be? Would they be largely in line with market rent at 160 Elgin?

Thomas Hofstedter: The answer is, on average, yes, but it's made up of various tenants paying various different rental rates. So on average, the market rent is there, but I wouldn't say it's every tenant paying that rent, which is--

Jimmy Shan: --But on a weighted average basis--

Thomas Hofstedter: Sorry?

Jimmy Shan: I'm sorry, I missed that.

Thomas Hofstedter: It's very typical of any multi-tenant asset, which is leased at staggered periods of times, and some tenants are older rent, and some tenants are newer rent. This would be reflective of that. Bell Canada being the largest tenant was there long before the other ones were, so it's going to have a different profile of rent than the other tenants.

Jimmy Shan: Okay. And then on Lantower, there was -- from Q3 to Q4, the NOI did increase by about $4 million, give or take. So what -- like was there any -- other than just market conditions, that's a pretty big change. What would have caused that sequential change?

Philippe Lapointe: I think it was just -- simply put, it was organic growth in the NOI. I think we had -- I'm using round numbers. I'm going back to Mario's question as it relates to the same-store growth of the new leases and renewal leases. In the fourth quarter -- I must have misunderstood. Mario, if you’re still on the line, I apologize for misunderstanding your question. I'll give you an example. Our new leases were 5.4% in Q4 and 15.6% on the renewal for a total blended rate of 10.5%.

I would anticipate to have something in that ballpark for the remainder '23. But if you take a look at those statistics, you'll quickly realize that our revenue is by far outstripping the expense growth, therefore, leading to outsized NOI growth. And that NOI growth is what you're identifying.

Jimmy Shan: Okay. Maybe just lastly, just on the asset sale, how would you characterize the level of interest or liquidity of the U.S. office assets? And do you see yourself selling either one of those two assets this year?

Thomas Hofstedter: The United States market is on pause right now, so we actually don't expect to sell it this year. We do have long-term leases, but we still -- with the interest rate environment, the office environment not clear where people are working right now, we don't expect to put it on the market and we don't expect to sell it. And you're hearing that sentiment from all the office REIT players in the United States.

Jimmy Shan: Okay. Thank you.

Operator: Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by the on.

Your next question comes from Dean Wilkinson with CIBC. Please go ahead.

Dean Wilkinson: Thanks. Morning, everyone. Just one question for Larry - when you're looking at the debt stack and what's coming up in 2023, how are you thinking about sort of term and maturity and sort of the balance between perhaps going longer at a higher rate, or do you have a view around what rates ought to do over the next 12 months, and how is that sort of impacting your views there?

Larry Froom: Good morning, Dean. With the repayment of the January debentures of $250 million, we've taken care of just about all our maturities. On the mortgage side, on the secured side, we have around $144 million of mortgages maturing. We will do financing -- my guess is refinancing, there's one property that's a multi-res that will be refinanced at $77 million. And we are looking to do a refinancing of some of our industrial portfolios - more about that to follow hopefully by the next reporting date.

So the way interest rates are going, where we take a longer-term view, whatever our long-term view is, the economy will be there just like where it is. So we think we have the dispositions coming in in order to repay off a lot of those mortgages maturing. So we're in the fortunate

position to be able to start to take out more financing or to just use our bank clients to repay them off. But overall, interest rates have gone up, and our interest costs will go up likewise.

Dean Wilkinson: Where do you see that pricing come sort of as we sit today then?

Larry Froom: So for secured debentures, I think we would look at a five-year pricing in the range of—

Thomas Hofstedter: --Unsecured--.

Larry Froom: --I'm sorry, unsecured debentures, a quote we see around from all the banks as of yesterday is about 5.4% all in. And on a secured basis, we're probably looking at like a 5% rate.

Thomas Hofstedter: But on inverted yield curves, you asked the question on term, and that we can't answer because 5 is cheap -- is in line with 3 or cheaper than 3. We're not laddering anymore.

Dean Wilkinson: --Do you go shorter and hope that the yield curve normalizes by the front end going down, which, jeez, I hope it does? Or do you just lock in the longer term and say, okay--

Thomas Hofstedter: --We call up our favorite analyst, and we ask them what they think. How do we know?

Dean Wilkinson: Lower is better. Thanks, Thomas. Thanks, guys.

Larry Froom: I think in all seriousness, we try to manage our balance sheet so we don't have any large exposures in any one year so we won't fall short in one year. So we'll look at our maturities as they come up, and we'll find -- take a responsible approach of staggering them out.

Dean Wilkinson: Yeah. Thanks, guys.

Larry Froom: Thanks, Dean.

Operator: There are no further questions at this time. Please proceed.

Philippe Lapointe: Thank you for joining us on our Q4 call, and we look forward to speaking to you following quarter. Thank you.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.