H&R REIT
2023 Second Quarter Earnings Conference Call
August 11, 2023

9.30a.m. E.T.

Operator: Good morning. And welcome to H&R Real Estate Investment Trust 2023 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 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 H&R's website and www.sedar.com.

I would like to now 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 our second quarter financial and operating results and strategy.

With me today on the call are Larry Froom, our Chief Financial Officer, and Emily Watson, Chief Operating Officer from our Lantower Residential Division.

Year-to-date, our portfolio team are producing strong financial and operating results across all our property classes. Residential continues to see strong rental rate growth. Our well-located office properties with long weighted average lease terms remain 98.7% leased. Industrial properties located in key markets remain in high demand, as we realize continued rental rate growth in our high quality grocery anchored and single-tenant retail property portfolio performing well, providing essential services to their respective communities.

Given the line of sight we have into our current disposition pipeline and the demand we are seeing for our properties, we are reiterating our intent to sell approximately $600 million of non-core assets this year, of which $387 million has been sold, to-date. On April 20th, we closed on the successful disposition of 160 Elgin for $277 million, H&R's only Ottawa Office property, comprising 973,000 square feet in Downtown Ottawa. Given the considerable headwinds in the public and private real estate markets, we are very pleased to have executed this transaction.

This one property represented 16 of our -- 16% of our Canadian office portfolio and reduces our total office exposure, excluding rezoning properties, to 20% on a fair value basis. We also sold for -- Quebec Retail properties for $68 million, allocating net proceeds to repay debt and repurchase units for NCIB. During the first six months of the year, the REIT repurchased and canceled 2.8 million units, at a weighted average price of $10.26 per unit, representing an approximate 51.2% discounts to NAV per unit. We intend to continue to buy back units through the NCIB with proceeds from future dispositions of non-core assets.

As a result of our disciplined capital allocation approach, we have augmented our growth profile meaningfully, achieving double-digit growth in same-property NOI since the announcement of our repositioning strategy, increased our allocation to residential and industrial investment properties, from 23% and 8%, respectively, in Q2 2021, to 39% and 16%, a total of 55%, as of Q2 of this year.

Over this time period, our Office exposure, excluding the rezoning portfolio, has declined from 38% to 20%. Coinciding with this progress is the improvement to our liquidity position and balance sheet metrics.

And with that, I will hand it over to Larry.

Larry Froom: Thank you, Tom, and good morning, everyone. I will start on the operating results. In my comments to follow, references to growth and increases in operating results are in reference to the three months ended June 30, 2023, compared to the three months ended June 30, 2022.

H&R same-property net operating income on a cash basis increased by 11.7%. Breaking the growth down between our segments, Lantower, our residential division, led the way with a 22.9% increase, or a 15.6% increase in U.S. dollars. Emily will provide more details on this growth shortly. Industrial, same-property NOI, on a cash basis, increased by 18.6%, driven by rent increases for new and renewed tenants. Occupancy in the industrial segment increased to 98.4% as of June 30, 2023.

Office same-property NOI, on a cash basis, increased by 2.1%. This increase was largely attributable to the strengthening U.S. dollar. For the six months ended June 30, 2023, same-property NOI from our office portfolio increased by 4.5%, compared to the same period in 2022. Our office properties are in strong, urban centers with a weighted average lease term of 7.1 years, and leased to strong, creditworthy tenants, with 81.1% of office revenue coming from tenants with investment-grade ratings.

I would like to point out that only 404,000 square feet of leases expire in our Office portfolio during the remainder of 2023, which is approximately 7% of the total square footage of our office portfolio. Included in these 2023 expiries is 105,000 square feet at 6900 Maritz Drive in the GTA, which now expires in December 2023. H&R received a termination payment of $856,000 in Q1 '23, and will receive an additional $2.5 million in Q3.

H&R is preparing a site plan application for submission to the City of Mississauga for a new, single-story, 122,000 square foot industrial building to replace the 105,000 square foot office building. Site plan approval is expected by Q4 of this year. In addition, 86,000 square feet shown as expiring in 2023, was for the Tampa office property that was subsequently sold in August for $13.3 million.

And lastly, retail same-property NOI, on a cash basis, increased by 9.1%, primarily driven by increased occupancy at River Landing and the strengthening of the U.S. dollar.

Q2 2023's FFO was $0.297 per unit, compared to $0.284 per unit in Q2 2022, a 4.6% increase, driven by strong operational performance across all segments and aided by the U.S.

dollar. FFO for the six months ended June 30, 2023, was $0.61 per unit, compared to $0.56 per unit in Q2 of 2022, an 8% increase. We are proud of our FFO growth, despite current headwinds of higher interest rates facing all real estate classes, and the current headwinds facing the office sector.

Commencing in June -- in January 2023, H&R's monthly cash distributions increased to $0.05 per unit, or $0.60 per annum, an 11% increase over the 2022 distribution, excluding the special distribution in December. H&R's Q2 2023 payout ratios remained healthy, at 51% of FFO and 61% of AFFO, notwithstanding the increase in distributions. Net asset value per unit, as -- at June 30, 2023, was $21.04 per unit, a decrease from $21.95 at March 31, 2023. 2.8 million units were repurchased during Q2, at an average price of $10.26 per unit for a total of $29 million -- $29.2 million.

The following, overall weighted average cap rates were used in deriving the fair values of our investment properties -- 4.49% overall for the residential properties, which was split between Sunbelt Properties, at an average cap rate of 4.75% and Gateway Cities at 4.08%; 5.28% for industrial properties; 6.35% for Retail properties; 7.36% for our U.S. office properties; 4.81% for our eight, Canadian office properties, which are advancing through the rezoning and intensification process, to be converted to predominantly residential properties. These eight properties comprise 30% of our office portfolio; and 7.24% for the remaining 10, Canadian Office properties.

The increase in cap rates used to value our properties resulted in a downward, fair value adjustment of $274 million for Q2 2023, at the REIT's proportionate share. As at June 30th, our office portfolio of 23 properties comprised 24.8% of total real estate assets. Page 14 of our Management Discussion and Analysis shows the percentage allocations across all segments. Debt to total assets at June 30, 2023, was 44.8%, compared to 44% at the end of 2022, and liquidity at June 30, 2023, was in excess of $900 million.

In summary, we are very pleased with our Q2 results and confident that our high quality properties and strong balance sheet will continue producing good results for the remainder of the year. With that, I will turn the call over to Emily.

Emily Watson: Good morning, everyone. I am delighted to join you today in delivering our second quarter highlights from our multifamily platform, as well as discuss some operational updates. Market conditions continue to be favourable, in terms of employment, wage growth, and positive migration trends. We continue to deliver solid operating results with same asset revenue growth, excluding Jackson Park from our portfolio, in U.S. dollars, increased by 10.5%, and including Jackson Park 13.7%, for the second quarter.

When excluding Jackson Park, same asset, net operating income from our portfolio, in U.S. dollars, increased by 8.3% for the three months ending on June 30, 2023, compared to the respective 2022 period. Including Jackson Park, same-property operating income from our portfolio, in U.S. dollars, increased by 15.6%.

We mentioned reports of elevated supply last quarter. However, we believe our institutional product will continue to perform well, despite the short-term headwinds. By way of example, our multifamily portfolio ended the second quarter, at 94.1%, and remains stable today.

For context, our move outs due to home purchase, dropped 19.8% in the second quarter of 2022, to 13.7 in the second quarter of 2023. Additionally, our rent-to-income ratio is still hovering around 20%, with retention around 50%, underscoring the continued, positive fundamentals for Sunbelt multifamily. With strong investment interest in the small number of deals that are being marketed, we expect cap rates to remain low, relatively speaking, for the institutional quality assets in the Sunbelt.

While interest rates have induced cap rate movement, capital flows, which are primary component of cap rates, are still very much interested in a heavy, Sunbelt, multifamily allocation. Based on our recent third-party appraisals, and a few recent Sunbelt sales comps, we believe raising our internal FMV cap rates by 25 basis points, to 4.75% is appropriate and supported.

On the development front, Lantower West Love in Dallas, Texas, is still on schedule and on budget, and recently 'dried in' the roof on turns one through three. Exterior windows and doors are currently being installed, along with exterior sheathing and waterproofing being installed for a considerable portion of the development. Also in Dallas, Texas, Lantower Midtown is on schedule and on budget, and recently completed concrete work, including the parking garage. Framing has commenced and currently is on level two of the first turn.

We are progressing through different phases of design, drawing, and permitting on the remainder of our Sunbelt development pipeline and expect to receive more building approvals as we progress through the year.

On the operational front, as we approach normal, seasonal performance and patterns, following historical high growth, it makes it paramount to focus on improving efficiencies and expanding NOI margins. Consistently identifying best practices is one of my primary goals and a major part of my leadership strategy.

Let me share some of our value-add initiatives. Our SmartRent platform is deployed across almost 90% of our portfolio and provides efficiencies to our on-site teams, such as

electronic locks, leak detection, and the ability to control thermostats in vacant units. Additionally, it generates an approximately 30% return on investment in amenity revenue. We have installed over 1,200 in-unit washers and dryers, which yield over 55%. Dog yards are a popular amenity, and have installed over 120, with an anticipated 40% return on investment.

In summary, the Lantower platform continues to achieve positive results and progress, and I'd like to say thank you to the Lantower team for their commitment in helping facilitate H&R's repositioning plan, while delivering top tier results. And with that, I will pass along the conversation back to Tom.

Tom Hofstedter: Operator, you can now open the call for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the * followed by 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speaker phone, please press the handset before pressing any keys. One moment please for your first question.

First question comes from Jimmy Shan from RBC Capital Markets. Please go ahead.

Jimmy Shan: Yeah. Thanks. So first question would be on the Lantower business. Can you talk to what sort of lease spreads you are seeing on new and existing leases, and how you see that trending in the back half of the year?

Emily Watson: Hey, Jimmy. Good question. Going into Q1 and Q2, we had much bigger spreads, from a renewal front. In Q3, we are really coming off of the anniversary dates, of the really higher leases. So the first half of the year, we came into the year about 5% of loss lease spread, with it really, probably a 7% or 8% renewal increase. The second half, I expect that to be closer in the 2% to 3% range for the renewal, because we are really closer to that spread for our new releases, within the 3% range. So I would expect 2% to 3% in Q2 and Q3.

Jimmy Shan: Okay. And what about on the new lease?

Emily Watson: New leases I expect to be flat, maybe 1% to 2%. But with the construction pipeline in our markets in Q2 -- Q3 and Q4, I expect those to be relatively flat.

Jimmy Shan: Okay. You also mentioned seeing a few deals in the U.S. Sunbelt that would support your cap rate. Can you share what some of those deals are?

Emily Watson: Yeah. There's one Dallas and one Tampa. I mean, the volume is really down, as I am sure you have read, really 70% down, as far as the transaction volume. But we did have a deal trade and a Tampa deal trade that we watched at a 4.7 range.

Jimmy Shan: Okay. And then maybe turning to the office and, I think, so the -- on the Elgin property sale, I did notice that the VTB was extended. Kind of have any thoughts there? Are you feeling pretty good about them coming up with the dollars?

Tom Hofstedter: Yeah. We have -- hi, Jimmy. We have seen the term sheets already. So we are pretty confident that it's imminent that it will happen this quarter.

Jimmy Shan: Okay. And then maybe, in generally, in terms of office financing, Tom, you had mentioned before to get a deal done. The banks aren't there, really for financing. Kind of how is that environment, like, has it changed at all, is it improving at all? What are you seeing?

Tom Hofstedter: I don't think it's improving. I think it's the other way around. I think it's getting worse. I think banks are putting pens down almost, in the United States and Canada. So the -- what you are seeing in both countries is you are seeing, to move real estate, and you can see the last Atrium deal is a good example of that. The sellers, the vendors, are providing financing to facilitate the deal. It solves the problem of the question mark on getting the financing and plus the rate, which has also been very volatile.

So I think the answer is it's really, really difficult to get. Only the best sponsors are going to get. As you well know, United States is a non-recourse world, and therefore, it's basically pens down. The transactions that I have seen in both countries are vendor take backs right now.

Jimmy Shan: Okay. Sorry. Then maybe lastly, just on the office rezoning, like, you made some progress. Are there any assets that you think you would be in a position to start thinking about selling? And then maybe relating to that, thinking about the Wynford Drive deal you did with Oak Street, like can you replicate a deal like that with some of the assets that you are currently working on?

Tom Hofstedter: I didn't quite understand the question. It sounds like it was two-fold. The Wyn -- and the --

Jimmy Shan: Yeah.

Tom Hofstedter: -- Wynford deal is a credit tenant lease deal. It's not a rezoning issue. It could be rezoning for the new buyer. We haven't -- the put -- with the option to purchase it back. And that with -- the reason we put in that option is for exactly that reason, if in the -- during the term of the extended lease term, the next 12 years, the rezoning that takes place and there's higher value, that's why we preserve the sales -- ourselves the right to buy it back. And there -- our buyers of that transaction, we are in the credit lease business than on the residential business.

For the most part, that type of a transaction is salable. Again, it depends on whether -- the general question, not specific to our portfolio, but it will really be the present value of the cash flow and some residual. In underwriting that, and generically not, again, not applicable to our portfolio, since we have gone through COVID and post-COVID, and very few leases were -- long-term leases were signed over the past, call it, three years, four years, the lease -- the duration of the lease terms that are remaining for most landlord's portfolios are not long enough to facilitate transaction, whereby you are buying it at the present value of the cash flow, plus the residual, because there's not enough term left, for the most part.

H&R does have a longer duration, as you all know, than I would say, almost all other -- all other landlords throughout their portfolio. But it still is -- makes it difficult to sell, predicated on the present value of that, and it's very hard to underwrite what the terminal value will be, because we have very little visibility into what the lease rates are going to be, what the market's going to look like five years, 10 years down the road.

Jimmy Shan: Okay. And so, sorry, but on the assets that you currently rezone, like, 145 Wellington on those ones, I guess, you can't sell that as a credit, and then with development upside, down the road, to the same to, like, the creditors, right? Is that what you are saying?

Tom Hofstedter: Yeah. That's not a credit buyer lease, because those are -- and every one of our assets, we are talking about Front Street, 145 Wellington, 55 Yonge, 69 Yonge, Bouchard. All of those deals are predicated on getting the -- converting it to residential, really an expiry of the tenant. And in our case, since we are so laden with long-term leases to single tenants, in other words, if they don't -- it's not a multi-tenant building with a whole bunch of 2,000 and 4,000 square foot tenants, which makes it very difficult to convert to residential down the road.

We are looking to expiry of the major tenants, at which point in time, rezoning will be completed, and you can grow, put it, sell it or develop it as residential. At this point in time, until the develop -- until the rezoning is completed, it would not make sense to sell those assets.

Jimmy Shan: Okay. Okay. That's it for me. Thanks.

Tom Hofstedter: Thank you.

Operator: Thank you. The next question comes from Sam Damiani at TD Cowen. Please go ahead.

Sam Damiani: Thank you. Good morning. First question, maybe back to you, Emily, on Lantower, with the dynamics you are expecting in the second half. We did see occupancy come down a bit in Q2. Do you see that continuing in the back half of the year? And is what you are

seeing, sort of the softness, more a result of the increased supply, weaker demand, or a combination of both?

Emily Watson: Definitely not demand. We are seeing an increase in demand, actually over '22. So that -- that's good for the strong fundamentals. But the supply is going to be some headwinds, really between now and when, I think, into 2024. We had 50,000 units deliver, year-to-date in -- just in our markets, in our Sunbelt markets that we operate in, and went head-to-head with about, a little over 6,500 of them. And we -- and they only absorbed 30,000 in the first half of the year.

So going into the second half of the year, we have 55,000 that are anticipated to be delivered, that will go head-to-head about 9,000 of those. So we strategically really kind of traded occupancy in the first half of the year, to get the renewal increases while we could, because we knew the second half was going to have a little choppier waters, going forward. I do anticipate really getting our occupancy up in 95, and then trying to increase our retention to 60%, over the 50% where we have, just to be able to have a hunker down effect, if you will, between now and the end of 2024, and kind of ride out any headwinds that might come our way.

Sam Damiani: That's great. That's very helpful. Thank you. And maybe one for you, Larry, just on the debt stack, with the weighted average maturity now under three years. Are there -- is there any plan or a path to terming out the REIT's overall debt over the next couple of years?

Larry Froom: Good morning, Sam. The reason our debt maturity has shortened quite quickly is because we have been selling assets and paying off the debt. So if you are not refinancing back at five and 10 years, then everything is going to be just -- you are not getting that weighted, back end of that financing and everything is just coming due a lot sooner. So there's not plan to refinance everything. We will do it year-by-year, as it goes, depending on how the proceeds from our sale. And proceeds that come in will be used to just keep our debt levels the same, on debt-to-assets and debt-to-EBITDA metrics.

But from what we have in the pipeline of what's coming up, no, there's just a $350 million unsecured debenture in January 2024. And that's the really big maturity that we have, that we will be looking to refinance, probably towards the end of the year. Other than that, it's short mortgages, which are all low loan to values. And we are pretty confident we will have no problem refinancing them, or using our lines of credit, which are in excess of $9 (audio gap) million, to pay some of those -- some of that debt back, in the short-term, until proceeds are available from sale of properties.

Sam Damiani: Okay. Great. Thank you. And last one for me, is just on the office occupancy. So do you -- so based on your comments at the outset, do you see occupancy remaining stable through the balance of the year, in the office segment?

Tom Hofstedter: We have a very small lease holdover schedule to the end of 2024, really. So there's a couple of floors here or there, but nothing significant. So the answer to your question is, it should remain stable.

Sam Damiani: Great. Thank you. I will turn it back.

Operator: Thank you. The next question comes from Mario Saric at Scotiabank. Please go ahead.

Mario Saric: Hi. Good morning. Just coming back to Lantower and more of a clarification question for Emily. The new lease spreads and the renewal spreads for Q2, specifically -- will they be similar to the 7% to 8% renewal and kind of flat to 2% for new that you highlighted for the first half of the year?

Emily Watson: Yeah. Basically. The flat -- the renewals were 7.9, I believe. And I expect them -- in fact, August, I think, we got 6%. So they're still probably in that 5% range, for the beginning of Q3. And then, I expect the 2%, 3% for September, through the end of the year. And the --

Mario Saric: Got it.

Emily Watson: -- and the new leases flat, basically.

Mario Saric: Okay. And I recall that, during COVID, H&R was proactive in signing as many two-year, leases not necessarily as you could, but it was elevated. So when you talk about Q3 being a reset quarter, is essentially the benefit of those two-year leases coming off? Does it kind of terminate in Q3?

Emily Watson: It's really nicely dispersed, actually. It's a great question. We didn't have an overwhelming amount of the percentage of the portfolio. So I don't think you will see it in our overall. I'd say, probably, 3% to 5% of our portfolio took us up on those two-year leases. So -- and they were a little staggered throughout early '23. So, we -- yeah, I don't anticipate that to really be any significant headwinds on -- or actually windfall, on being able to capture the loss to lease there.

Mario Saric: Got it. Okay. And then just maybe a couple for Tom. On the disposition, the $600 million target versus roughly about $400 million, to date -- can you give us some color, in terms of where the incremental 200, or so, is expected to come from, whether it be by geography or by asset class?

Tom Hofstedter: Asset classes would be office. Geography, I -- that would be to telling -- our two assets in the United States. So we won't go geography.

Mario Saric: Got it. Okay. And then just a follow-up to Jimmy's question on the capability and kind of the willingness to sell, let's say, residential density ahead of all the requirements necessary to start construction. Is that simply, like structurally, it's -- you are not able to do that? Or do you feel like you are leaving too much value on the table doing it that far in advance?

Tom Hofstedter: The latter, leaving me too much table -- that -- just to qual -- just to qualify that point that you made, it's not until we can start construction. It's until you complete zoning. In other words, there's three components of this. There is getting the zoning done, there is getting the tenants out, and therefore, at that point in time, demolishing and going forward, subject to the market being right at that time. Once the zoning is done, then the rest is easy. Then it's just a question of the market conditions -- when -- maximize pricing. Until the zoning is complete, we would be leaving too much on the table.

I might add, also, that at this point in time in the cycle, as you -- I am sure you are aware, the residential land values are depressed, and we will not be selling into this market right now. We fully believe that, for the properties that we have, the quality of the properties that we have, and -- now it would be an inappropriate time to put them on the market -- we wait until the market recovers.

Larry Froom: And even though we have some rezoning in place, like on 145 Wellington, the plan is really -- we have some office components in that rezoning. So it's an office space. And we are going back into the city to try and switch that out into fully Residential. So even though we have some zonings in place, we are trying to do better on them, and therefore, not ready to sell them at this time.

Mario Saric: Yeah. Okay. That makes sense. Tom, now would you estimate residential land values are down for your types of assets, from peak levels?

Tom Hofstedter: Peak levels for Downtown Toronto were $3.25 a foot. And again, it's like everything else, there's not a whole lot of clearing. So line of sight -- 175? There's been very few trades, don't forget. A lot of it has to do with the size of the deal. And nothing is really going on in the market now, either. But I think that's a fair answer -- $3.25 -- and you can probably liquidate it to 175.

But it's not a whole lot different than any other sector out there. There's very little liquidity in the world. And so that's what -- that's why the decision is -- even if you could clear 175, we will still wait. We believe that there's a -- on the supply-demand side, there is a -- there

will be a shortage of the high quality, Residential properties that we are talking about, in Downtown Toronto. And whether they go back to the office or not, it seems like they want to live downtown. So I do believe that the values will -- will circle back to $2.75-plus, in the not-too-distant future.

Mario Saric: Okay. Great. And appreciate the position and the answer. Thanks, guys.

Tom Hofstedter: Thank you.

Operator: Thank you. The next question comes from Matt Kornack at National Bank Financial. Please go ahead.

Matt Kornack: Good morning, guys. Just a follow-up on Jimmy and Mario's question, with regards to the office repositioning -- has your sense changed or evolved at all, in terms of office replacement, and what the city would be able to grant or willing to grant, on that front, residential wise?

Tom Hofstedter: Yeah. I am going to hand that over to Matt Kingston. This is his world. So why don't I hand it over to him?

Matt Kingston: Good morning, Matt. Yeah. I think we have an application at 69 Yonge Street, where we were not replacing office, which is a little different than 145, 55 and 310. And I will say, we are feeling a difference. So it has always been a hard line from the city. You have to replace office. We are starting to actually see some progress. And we have seen a few other examples. KingSett has a property at Bay and Bloor, where they were successful reducing that number significantly, on the office replacement.

Reserve Properties, at 277 Wellington West, similarly, was able to reduce the amount of office replacement. So the city is starting to get it. They are slow. They are parliamentary, in terms of their thinking. But we do see an opening. And as such, we are going to try and see if we can do better.

Matt Kornack: And remind me, what is the timing to kind of go back? I know you have firmed up the density, which was the important part of it. But what's the timing to go back to the city and go through that process?

Matt Kingston: Yeah. To that point there -- so 310 Front, with the council, we got our approval last week. 55 Yonge, we managed our settlement conditions in Q1. 69 Yonge is headed to council in October, with a positive staff report. And 50 -- excuse me -- 145 Wellington was done last August. So all four of those are "firmed up" in their approval. For us to go back in, we are going to attempt to be back in Q4 or Q1, latest, next year.

In terms of approvals, because we have dealt with all the minutia of what's the absolute height of the building, how much density, what is the setback, all the stuff we normally haggle on, it's difficult to say it will be significantly less time. But we are hoping, by kind of mid-2025, we would have new approvals in place.

Tom Hofstedter: And that's Downtown Toronto. You can talk a little bit to Bouchard and Kingsway.

Matt Kingston: For Quebec, it's a refreshing process. So at Bouchard, we are hoping by the end of this year. We have got new bylaws in place for that property. And for Burnaby, which is 3777 Kingsway, we are hoping to have our entitlement finished by Q3 of next year.

Matt Kornack: Okay. That's helpful. And then, I can't remember the timing on Prince Andrew, but you were waiting to win the lottery or not, when the lottery on it, is timing basis there. Is there any update, at this point, as to the land use change?

Matt Kingston: That, you may or may not have heard that announcement on Wednesday, which was not the most flattering announcement regarding our Minister of Municipal Affairs and Housing, and his Chief of Staff. As a result of that, the -- any discussion on official plan amendment has grinded to a halt. So we believe that we are still progressing well, but the problem is timing. So it's not a question of the substance of what we want to get done. It's a question of when we can actually get it done. So they are kind of -- they are in firefighting mode.

Matt Kornack: Yeah. I can imagine. It was only a couple of billion dollars. But just switching gears to the U.S., multifamily side. Just, Emily, is your sense that the markets that you are in is where you want to continue to be at this point? I saw you did a small land acquisition. I don't know if it's meant for ultimately owning the rental residential, or if it's meant to be a play on kind of getting at value on development in the San Diego area. But do coastal markets fit into kind of your view, as to where Lantower wants to be, longer term?

Emily Watson: Yeah.

Tom Hofstedter: I can take that one.

Emily Watson: Okay.

Tom Hofstedter: Emily, let me just take that one, because this is. It's Lantower, but not Lantower. We have a joint venture with LEDCOR Qualico. Qualico is from Winnipeg, LEDCOR is from Vancouver. We have had a long-term relationship with them. The LEDCOR Qualic --, the reason I say it's not Lantower, is because it's under the Lantower banners -- guidance, not

banner. Those are built to be sold, not built to keep. So that's just -- that was a play we entered into a while ago, and had certain conditions on the land, which was achieved.

We don't plan to be long -- we don't plan to stay in those markets at all. We -- sorry, of Long Beach, with Shoreline, which is now 90% occupied, would have been on the market, if the market would have been stronger, and it would have been sold by now. So the answer to your question is it's not long-term. This is all Qualico LEDCOR, all meant to be sold. They are experts in that market, and that's why we used their guidance in the West Coast market, similar to the New York market, which was not our expertise, either. And that's managed by Tishman. It's not under the Lantower banner, either.

Matt Kornack: Okay. But I guess, Tom, do you like those markets, long-term, as rental markets? Would it make sense, eventually, to go into them, or is the focus going to be kind of Sunbelt at this point?

Tom Hofstedter: No. I -- well, there are different buckets. The answer to the question is long-term, Emily's business in Lantower is the Sunbelt. And that's going to be her focus and her strength, going forward. To diversify yourself across the country is a big demand, from a knowledge base, and a capital base. I don't think we have the capital or the knowledge, and -- to do both -- to go into those markets.

The answer to your question is, at this point in time, it will only be strategic, with taking a one-third position or something like that, where we see value and where we made a lot of money in the past. But I don't think Lantower is going to head into those markets. Not because the market -- those markets are good or bad. It's just you can't be everywhere.

Matt Kornack: Okay. Fair enough. Thanks.

Operator: Thank you. The next question comes from Sumayya Syed at CIBC. Please go ahead.

Sumayya Syed: Thanks. Good morning. Just going to touch on capital allocation first. So, obviously, buybacks have resumed in the quarter, and you have also acquired some development lands in the U.S. So just wondering how do you prioritize allocating capital as you get proceeds from your future asset sales?

Larry Froom: Good morning, Sumayya, and welcome back.

Sumayya Syed: Thank you.

Larry Froom: Proceeds will be first used to repay debt, to keep our, as I said before, our debt-to-asset ratio in line, our debt-to-EBITDA ratio in line. And then the balance will be divided, either between the developments that we have on the go -- that we already have on

the go. We have not committed to any further developments, other than the ones under -- currently under construction. And then, besides that, then it will be used to pay back -- to buy back units. So that is kind of the order.

Tom Hofstedter: Yeah, but just to give you a clarification. The two land deals that you are looking at, we are not, because strategically, we decided we want to buy land. Those we entered into a couple of years ago. And there were certain milestones in which we put down a hard deposit and the -- still had to go ahead and achieve the milestones of zoning, which they did.

So today, not because of value or anything else, they're good piece of property, but we would not allocate capital, specifically answering your question. Two further acquisitions of land, today, post-COVID, to where we are in the world today. Again, those were entered into a couple of years ago.

Sumayya Syed: Okay. That's clear. And just more of a housekeeping question, for Larry. On the capitalized interest in the quarter, would that be a good run rate for the balance of the year?

Larry Froom: Sumayya, yeah, the capitalized interest should more or less continue on the same pace as we had it in Q2.

Sumayya Syed: Okay. Thanks. I will turn it back.

Tom Hofstedter: Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press * 1. Next question comes from Jenny Ma at BMO Capital Markets. Please go ahead.

Jenny Ma: Thanks. Good morning, everyone.

Tom Hofstedter: Good morning.

Jenny Ma: I wanted to ask about your Caledon lands. I know you just mentioned it in the last question, that you haven't committed to any future developments. But what would you need to see, what triggers do you need for any development there to commence? And if you were to start today, do you think you would be able to replicate the kind of yields you got on the Meadowvale developments?

Matt Kingston: Hi, Jenny. It's Matt Kingston. In terms of getting the ability to proceed, we are currently tied up, because of the 413 and 410 extension. There's a sort of moratorium on all our lands that we have remaining, except for three acres of land. So we wouldn't proceed

with those three acres, because we want it to be a much bigger piece. And there's one-fifth moratorium lift. Ae would have a bigger, contiguous piece to develop. So we are just sitting on those three, excess acres, for now.

In terms of the balance of the lands, we are in active discussions with the MTO and the region, to say that we believe they are at a point where they are starting to scope down their corridor. We are exploring the options of expropriation and trying to see if we can get the land, at least partially sold, now that they are starting to finalize their plans for the highway. And we are also exploring possibilities of temporary servicing or servicing solutions that will allow us to break free.

So there's a planning context, because of the highway, which is holding us up, and there's a servicing context, which is linked to the planning one. So we are investigating a number of different options to go. With respect to the deal, I will pass that back to Tom.

Tom Hofstedter: Yeah. In relative terms, the Mississauga lands are in sale much more so than the Caledon lands, and the returns are higher. The higher -- we bought our lands in the Mississauga, and the future ones are going to be doing on Slate Drive and Mississauga Road, at a very, very low price, and that's why the yields are so high. The rental rates are very high, because it's infill. Caledon is strong. I think there's a lot of development that's going to occur in Caledon. I don't think you are going to see the same type of returns, though.

Jenny Ma: Okay. So it sounds like it's going to be a while before you can commence on anything in Caledon?

Tom Hofstedter: Correct.

Jenny Ma: I appreciate the colour on the land values for res development. Can you comment on what you are seeing on the industrial development side, in the GTA?

Tom Hofstedter: Land values? Is that your question?

Jenny Ma: Yeah. Yeah.

Tom Hofstedter: Oh, they're -- yeah. They have softened. I will hand it over to Matt.

Matt Kingston: Hi, Jenny. I think we are seeing a softening of it. I think we are lucky with our locations. So we are more focused on 6900 Maritz, by 520 Slate, Meadowvale. I think we see, probably, price coming down about 10% maybe. Again, there aren't a ton of trades to back things up. The Residential land price Tom was referring to earlier, we think it's down about 40%. So relatively speaking, the industrial price is not quite as soft right now, but it's definitely leveling off, or some --

Tom Hofstedter: Let me just qualify that for a second, though. The big trades in industrial, the milestones of $3.5 -- three -- $3.2 million an acre -- it's hard to answer your question, have they softened a whole lot, because there's almost no trades of the 100-acre blocks. And it's not that they are not available, if you want to price loose, it's just no one is buying it.

Matt Kingston: Yeah.

Tom Hofstedter: So they have softened. I don't think there's evidence, to any great extent, of what they have softened to. The $4.2 million, or the $4 million per acre, let's talk about the 160 McNabb, that ultimately, we want to rezone. That's -- well, it is rezone -- it is zoned, but ultimately, that may be prices. That was a $4.2 million. Eight -- if it's eight to 13 acres, the prices have not come up much on this. Infill is still very, very strong.

Jenny Ma: Okay.

Matt Kingston: Yeah.

Tom Hofstedter: Large blocks of 100 acres. You are not seeing the trade institutions, such as the hoops of the world and the big pension funds they've -- at Oxford, etc. They have already land banked quite a bit of it. And you are seeing almost no trades right now.

Jenny Ma: Okay. And then turning to the res land that you are talking about -- I am going to ask you to speculate a bit, but I will attempt the question, anyway. The decline has been, obviously, bigger than you have seen for industrial. What do you think needs to shift for the land values to recover back to that $2.75 that you had mentioned earlier? Is it about construction costs for interest rates? Do they just need to stabilize around current levels, or do they need to go down substantially, free to see that? What's your view on how we get those land values back, and any sense of timing?

Matt Kingston: Jenny, I think, definitely sales are the thing that need to drive it. We are seeing very low new home sales. We are seeing low, new home sales, because the demand is down, because interest rates are so high. I don't think there's a panacea. I don't think it's a single thing that's going to solve the issue.

But definitely, interest rates, I think, are the most important. Construction costs, on the early work things, where you are not buying a manufactured product -- so you are not a plumber buying a toilet or a kitchen manufacturer, on the shoring, earthworks, upfront works, we are seeing a softening including formwork, which is one of our biggest divisions.

So we are starting to see former prices, which were $21, $22 a foot, call it, four months ago, are now getting quoted in the high $17s, low $18s. So that's a function of the work not

starting, over the last 12 months to 18 months. And that's not changing over the next six 12 months. So we are going to see construction costs come down. That will help us. Interest rates got to come down too, though, or else the investors right now, they are basically, anything over $700,000 is not moving. It's kind of a hard stop, in terms of an end price. So you see people getting --

Jenny Ma: Okay.

Matt Kingston: -- smaller and smaller with products. Our average unit sizes were 650 last year. They are 550 now. We cannot get any smaller, literally, we are at the code minimum. So that is no longer a lever we can pull. We can't just make them smaller. So it has to be a function of the hard costs coming down, interest rates softening. Those are the things that are going to help us.

Tom Hofstedter: And finally, don't forget, right across North America, it's the banks that have to be comfortable lending again. And if you are not one of the biggest banks in Canada -- sorry, one of the biggest borrowers in Canada, you are not going to have access to bank financing. In United States, if you are the biggest borrower, you are still not going to have access to bank money. So that's how upside it is down there.

Matt Kingston: Yeah.

Tom Hofstedter: So all these stars have to align.

Matt Kingston: And we are seeing a lot of polygyny in our world. We are seeing a lot of people partnering up -- one partner, two partners. So there's a lot of dilution of positions right now, not a lot of sales, whether on new home sales or land sales right now.

Jenny Ma: Okay. That's very helpful. Thanks. Lastly, for me, the unsecured debenture coming due -- Larry, can you share with us what kind of pricing or spreads you are seeing for that? How it compares versus secured debt, and whether or not you would be inclined to maybe tap secured debt versus unsecured, given where interest rates have moved?

Larry Froom: Hi, Jenny. I think to do a refinancing today of our unsecured debenture would cost us around 6.5%, call it, in that ballpark. To do a secured financing would probably be 50 basis cheaper, around 6%. So what are we thinking? Well, when it comes to renewal, we will see what our proceeds are from certain sales. And we have may not refinance the whole thing. We may have some proceeds and only end up refinancing 250 of the 350, or something like that. That is the game plan for now.

Tom Hofstedter: It's really the same game patterns before. We always paid a premium to get unsecured debt, to get the flexibility of being able to sell properties, without any --

without having to be encumbered. And since our plan is to still continue to sell properties, I don't think we want to put unsecured debt and encumber the properties. So we will still leave it across 50 basis points more and continue with the unsecured world.

Jenny Ma: Okay. Great. Thank you very much.

Tom Hofstedter: Thanks.

Larry Froom: Thanks, Jenny.

Operator: Thank you. The next question comes from Erick Brown at Sun Life Capital. Please go ahead.

Erick Brown: Hello. Just two questions on my end. First, on the retail portfolio -- as you think about moving towards your target portfolio composition, what trends are you seeing on the disposition, and what are you expecting, going forward?

Tom Hofstedter: So our retail is very much grocery anchored, but it's not grocery anchored strip centers. It's primarily single tenant. Our Giant Eagle ECHO portfolio is just predominantly Giant Eagle stores -- single stores, not malls, not strip malls and get-gos, which are guest bars, together with convenience stores. They're long-term leased, with visibility to a very strong tenant in Canada. Our portfolio is leased to the metros to Sobey's, again, grocery and shoppers, etc.

So those are very liquid. It's easy to sell them. We are not in a rush to sell them. They are good cash flow. There's a wide range of buyers, more so on the retail investor rather than institutional investor, that we can fill. We are pacing our sales, and right now our focus is still on office. We haven't really pulled the trigger to sell any of the retail at this point in time.

Erick Brown: Thanks. That's useful. And then, lastly, just further color on the capital allocation and payment of debt -- is there a specific debt-to-EBITDA level you are targeting?

Larry Froom: We have -- we are currently at 9.5, I believe, is our debt-to-EBITDA, 9.4, 9.5, in that range. We want to try and keep it around there. We definitely don't want to go over 9.8, would be our maximum, maximum. So the range that we are currently in, is where we would like to keep it.

Erick Brown: Thank you.

Tom Hofstedter: Thank you.

Operator: Thank you. The next question is a follow-up from Mario Saric at Scotiabank. Please go ahead.

Mario Saric: Hi. Sorry. One more quick one, on my end. The planned conversion of the office, industrial in Mississauga, what types of returns should we think about, on the incremental capital on that?

Tom Hofstedter: So you are talking about Maritz, which project, Maritz Drive?

Mario Saric: That's right.

Tom Hofstedter: It's Maritz. You put them in the Maritz, it's current -- well, the value of the land, which is the value of the building upon demolition, is developing land. If you put in land at the current market, then you are going to be looking, probably, in the range of around 5.5.

Mario Saric: Perfect. Okay. Interesting. Thank you.

Tom Hofstedter: Again, that -- that's probably going to be 123,000 square foot, 40 feet high. We have just been negotiating with ourselves as to the height. But it will probably be state-of-the-art. It could well be for studio space, as well. So it may have a higher use than conventional office. Again, it will be high cube space. And at 123,000 square feet, there's not a lot of that in Toronto.

Mario Saric: Okay.

Matt Kingston: So, Mario, just -- and -- as you are talking about margin, on a cost basis, the yield will be around 12%.

Mario Saric: Got it. Okay.

Matt Kingston: (Inaudible) factored in an ROI perspective, we think it's accretive.

Mario Saric: Thanks, guys. Okay. Thanks.

Tom Hofstedter: Thanks.

Operator: Thank you. There are no further questions. I will now turn the call back over for closing comments.

Tom Hofstedter: Thank you, everyone. Have a great weekend.

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