Final Transcript

Crombie Real Estate Investment Trust

Second Quarter Results Conference Call

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This transcript contains forward-looking statements about expected future events and the financial and operating performance of Crombie. These statements include, but are not limited to, statements concerning management’s beliefs, plans, estimates, intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical fact. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "estimate", "anticipate", "believe", "expect", "intend" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking information in this transcript includes statements regarding:

(i) the disposition of properties, including properties under contract, and the anticipated reinvestment of net proceeds, which could be impacted by the availability of purchasers, the availability of accretive property acquisitions, the timing of property development activities or other accretive uses for net proceeds and real estate market conditions;

(ii) our development pipeline and diversification to mixed-use and residential developments, including statements regarding the locations identified, timing, cost, development size and nature, impact on net asset value, cash flow growth, unitholder value or other financial measures, all of which may be impacted by real estate market cycles, the availability of financing opportunities and labour, actual development costs and general economic conditions and factors described under the “Property Development/Redevelopment” section and which assumes obtaining required municipal zoning and development approvals and successful agreements with existing tenants, and where applicable, successful execution of development activities undertaken by related parties not under the direct control of Crombie;

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(iv) the accretive acquisition of properties, including the cost and timing of new properties under right of first offer agreements, and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in interest rates;

(v) overall indebtedness levels and terms and expectations relating to refinancing, which could be impacted by the level of acquisition and disposition activity that Crombie is able to achieve, levels of indebtedness, Crombie's ability to maintain and strengthen its investment grade credit rating, future financing opportunities, future interest rates, creditworthiness of major tenants, and market conditions;

(vi) generating improved rental income and occupancy levels, which could be impacted by changes in demand for Crombie’s properties, tenant bankruptcies, the effects of general economic conditions and supply of competitive locations in proximity to Crombie locations;

(vii) anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations;

(viii) the anticipated rate of general and administrative expenses as a percentage of property revenue, which could be impacted by changes in property revenue and/or changes in general and administrative expenses;

(ix) the estimated payments on derivative and non-derivative financial liabilities, which could be impacted by interest rate subsidy payments, conversions of convertible debentures, interest rates on floating rate debt and fluctuations in the settlement value and settlement timing of any derivative financial liabilities;

(x) anticipated distributions, distribution growth and payout ratios, which could be impacted by results of operations and capital resource allocation decisions; and,

(xi) the effect that any contingencies would have on Crombie’s financial statements which could be impacted by their eventual outcome.

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Non-GAAP Financial Measures

There are financial measures included in this transcript that do not have a standardized meaning under IFRS as prescribed by the IASB. These measures are property net operating income ("NOI"), same-asset property cash NOI, operating income attributable to Unitholders, funds from operations ("FFO"), FFO as adjusted, adjusted funds from operations ("AFFO"), adjusted cash flow from operations ("ACFO"), debt to gross book value, earnings before interest, taxes, depreciation and amortization ("EBITDA"), interest service coverage, debt service coverage, unencumbered assets, estimated yield on cost and net asset value ("NAV"). Management includes these measures as they represent key performance indicators to management and it believes certain investors use these measures as a means of assessing relative financial performance. These measures as computed by Crombie may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities. Readers are advised to refer to Crombie's Management's Discussion and Analysis for the year and quarter ended December 31, 2017 for additional information regarding Crombie's use of non-GAAP financial measures, including definitions and reconciliations to GAAP measures.

Corporate Participants:

Donald E. Clow - Chief Executive Officer, President and Trustee

Glenn Robert Hynes - Chief Financial Officer, Executive Vice President and Secretary

Claire Mahaney Lyon –Manager, Investor Relations

Conference Call Participates:

Sam Damiani, TD Securities — Analyst

Howard Leung, Veritas Investment Research — Analyst

Tal Woolley, National Bank Financial — Analyst

Pammi Bir, Scotiabank — Analyst

Operator - Good afternoon, ladies and gentlemen. Welcome to the Crombie REIT Second Quarter Results Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call, you require immediate assistance, please press * for the Operator. This call is being recorded on Thursday, August 9, 2018. I would now like to turn the conference over to Claire Mahaney Lyon, Investor Relations. Please go ahead.

Claire Mahaney Lyon — Manager, Investor Relations, Crombie Real Estate Investment Trust

Thank you, Brittany. Good day, everyone, and welcome to Crombie REIT's second quarter conference call and webcast. Thank you for joining us.

This call is being recorded in live audio and is available on our website at www.crombiereit.ca.

Slides to accompany today's call are available on the Investor Relations section of our website under Presentations and Events.

Joining me on the call are Don Clow, President and Chief Executive Officer, and Glenn Hynes, Chief Financial Officer, Executive Vice President, and Secretary.

Today's discussion includes forward-looking statements. As always, we want to caution you that such statements are based on management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Please see our public filings, including our Annual Information Form for the year ended December 31, 2017, for a discussion of these risk factors.

I would now like to turn the call over to Don, who will begin a discussion with comments on Crombie's overall strategy and outlook. Glenn will follow with a review of Crombie's operating and financial results and discuss our capital allocation and funding approach. Don?

Don Clow — President & Chief Executive Officer, Crombie Real Estate Investment Trust

Thank you, Claire, and good day, everyone. Strong second quarter results announced last night prove that our core portfolio is performing very well. We've achieved 9.4 percent growth diluted AFFO per unit, advanced our mixed-use major development pipeline, and continued the execution of our capital recycling program. Occupancy for the REIT reached a new all-time high of 96.1 percent, the highest in Crombie's history as a public company.

In addition to our solid quarterly financial results, our capital recycling program has been very successful. Through the sale of assets that are deemed lower growth and/or noncore to our strategy, we were able to improve portfolio quality and redeploy proceeds into more strategic efforts, such as development.

Year-to-date, we've closed on $194 million of asset dispositions, in line with IFRS fair values, and are negotiating and evaluating another $200 million of asset sales. Recycling of capital in amounts in line with IFRS fair values, at a time when our units are trading materially below NAV, validates our prior statements that our units are mis-priced.

Our development pipeline is heavily weighted towards the major urban markets across Canada, with 17 of our 23 projects located within major cities. These assets currently produce solid operating returns at a 5.3 percent yield while we move through the various planning and approval phases.

Before providing an update on our development projects, I'm going to make a couple of comments about our development team. Crombie has an experienced development team right across the country that's creating value over time. In addition to my 20-plus years of residential development experience, our team of 20 professionals includes expertise across development, construction, and design. From myself to SVPs to managers, we have decades of experience, and a sizable portion of that is residential. We're working alongside our development partners every step of the way, communicating with them daily, providing our insight and expertise, and learning from them wherever possible.

Let's discuss the great work our development and construction teams are doing on our own and with our partners.

On Vancouver Island, where land is scarce and limited, Belmont Market near Victoria, BC will be a vibrant open-air centre in the dominant retail node of the West Shore communities. This project is being 100 percent developed by Crombie.

Belmont Market's taking shape, with the paving of the internal roadways, parking, and sidewalks to be complete by the end of the summer. Stage 1 of the retail will be complete this fall, with hand-over to our tenants scheduled for September. Sobeys is now under way with the construction of a new Thrifty's food store, which is expected to open in the spring of 2019. Phase 2 has also begun.

Our Davie Street project in Vancouver's West End is moving along well. The market is extremely strong in this area for residential rental, with vacancy rates at or around 1 percent and rents growing at an astonishing 5.7 percent according to CMHC. Excavation material has been removed from the site, and the lower level of the parking garage is beginning to take form. Ninety-five percent of our costs have been tendered and are on budget. Commercial leasing has been very strong, with rents coming in, in excess of our pro forma.

Avalon Mall is one of the best regional shopping centres in Atlantic Canada and the dominant centre in Newfoundland and Labrador. Our redevelopment plan of this asset, where Crombie again is the 100 percent owner and developer, is progressing as planned, with phase 1 scheduled to be completed in 2019.

Parking garage is near completion and just two weeks ago, the pedway from the parking garage to the mall was installed. The interior of the existing mall is under renovation, and Cineplex has commenced construction of a 30,000 square-foot rec-room concept. We're building new CRU in the remaining Sears space, a new mall expansion, and creating an additional pad site.

We're in negotiations with numerous international and national first-to-market tenants which will enhance Avalon's merchandising mix, drive additional customer traffic, sales productivity, and in turn, rental growth. The return metrics of this phase are truly phenomenal, as we're estimating our yield on cost will be in the range of 10 to 13 percent, demonstrating that well located and well managed retail is far from dead and is in fact thriving.

Le Duke, our latest addition to our pipeline, is being built as a $124 million development and is adjacent to the new Bonaventure Greenway in Old Montreal. Vacancy rates in Montreal decreased 2.8 percent, with rental growth remaining strong. Our 25-storey, mixed-used tower will contain 390 residential rental units above a 25,000-square-foot, urban-format IGA. A new structure will incorporate the existing heritage building, integrating the two-storey façade, maintaining the current character and streetscape. Excavation is nearing completion, with the project expected to be completed in 2020.

Steps from the Bronte Beach Park and Marina in Oakville, Ontario, our Bronte Village development, presents a special luxury rental opportunity in a vibrant, unique, and highly sought-after community, surrounded by lakefront parks, running and walking trails, shopping, grocery stores, restaurants, and cafes.

Demand for residential rental is very strong in Oakville, with vacancy rates around 1 percent, a 16-year low, and rental rates growing at approximately 4 percent per CMHC. This $277 million development will include 480 units of refined residential living, rental living, and a 30,000-square-foot Sobeys. Project kicked off this quarter, and demolition of the enclosed shopping centre is now complete.

Based upon current estimates, market conditions, we expect Crombie to invest approximately $450 million in our first five major developments that, at current cap rates, are expected to be worth approximately $600 million to $750 million, effectively creating $150 million to $300 million of value, or $1 to $2 per unit on net asset value, or NAV, over the next two to three years.

In closing, we're very pleased with this quarter's results, the pace and the pricing of our dispositions, as well as our execution of the development pipeline. We're focused on doing what is best for our real estate and the communities in which we operate, including our strategy to position our portfolio to generate consistent growth that will create short-, medium-, and long-term shareholder value. Our experienced operating and development teams across the country are successfully driving the transformation of Crombie from a landlord of neighbourhood, needs-based retail to a fully integrated owner-developer of retail and residential real estate in Canada's top markets.

And with that, I'll now turn the call over to Glenn, who'll highlight our second quarter financial results and discuss our capital and development program funding approach.

Glenn Hynes — Chief Financial Officer, Executive Vice President & Secretary, Crombie Real Estate Investment Trust

Thank you, Donnie, and good day, everyone. Diluted AFFO per unit increased 9.4 percent to $0.26 versus the same quarter last year. Our Q2 AFFO payout ratio improved to 85.3 percent compared to 93.6 percent at the end of Q2 of 2017.

Diluted FFO for the quarter was solid at $0.30 per unit, up 5.6 percent over the same quarter last year. Our FFO payout ratio continues to improve and ended the quarter at 72.7 percent versus 76.7 percent for the same period in 2017.

On a cash basis, same-asset NOI increased by 2.9 percent in the quarter as compared to the same quarter last year. Growth was driven by improvements in occupancy, rental step-ups, and rental uplifts from redeveloped properties.

On the leasing front. During the first quarter, we renewed 138,000 square feet, with an increase of 3.4 percent over expiring rate. Taking a closer look, 113,000 square feet of 2018 expiries were renewed at plus 2.8 percent, with 25,000 square feet of future-year renewal completed at 7.6 percent.

As Donnie mentioned, committed occupancy was 96.1 percent, the highest in Crombie's history as a public company. We ended the quarter with 175,000 square feet of committed space, boosting future NOI growth.

G&A as a percentage of property revenue for Q2 was 4.4 percent, or $4.6 million, an improvement from the 5.1 percent, or $5.2 million, in Q2 of last year. The improvement was mainly driven by $494,000 in tax reorganization cost incurred in Q2 of last year.

Cap rates remained stable, with our IFRS cap rate at 5.99 percent for the quarter, up 7 basis points from the first quarter. Although we've mentioned this on previous calls, I'd like to reiterate our methodology. Crombie calculates its NAV based on market cap rates and trailing-12-month, in-place NOI versus some who use next-12-months NOI. In addition to our already conservative approach, IFRS, and our weighted average cap rate, it excludes the fair value of future development and air rights until projects are complete and income-producing.

As Donnie mentioned in his opening remarks, we estimate that our active developments could add $1 to $2 per unit of NAV in the next two to three years.

We finished the quarter with debt-to-gross book value on a fair-value basis of 49.9 percent versus 49.6 percent at the end of Q1. Our goal remains to reduce leverage over time in order to continue to de-risk our balance sheet. Debt to trailing-12-month EBITDA was 8.5 times, an improvement from the 8.6 times in Q1 of this year. And our interest and debt service coverage ratios remain strong.

We continue to focus on improving our capital structure and de-risking our business. During the quarter, we repaid the balance of our 2018 maturing mortgages at $35 million, reducing our interest costs and growing our unencumbered asset pool to approximately $1.1 billion, which is up 8 percent from Q1. Our unencumbered assets now account for 22 percent of our IFRS fair value of investment properties.

Our balance sheet remains strong and flexible, with increasing access to the unsecured bond market. We have roughly $360 million of available liquidity, and our weighted average interest rate on fixed-rate debt sits at 4.18 percent.

Lastly, we recently announced the redemption of our $74.4 million of 5.25 percent Series E convertible debentures, which should result in about $1 million of annual interest savings. We're executing as planned on our strategy and capital allocation priorities, directing disposition proceeds into compelling and higher returning developments. Assets we've identified within our portfolio as potential sources of capital are either noncore or lower growth.

Year-to-date, we've sold $194 million of assets, deployed capital into development, and acquired a $101 million portfolio from our partners at Empire. With our current momentum on recycling capital and free cash flow, we're confident that we can fund our future investments and improve our balance sheet at the same time.

In closing, our core portfolio remains strong, as is clear by our record occupancy, solid same-asset property cash NOI, cash flow growth, and improving payout ratio. Our core business is not only strong, but also e-commerce-resilient, and a wonderful complement to our development pipeline. As we look to the future, we remain acutely focused on creating short-, medium-, and long-term value through disciplined capital allocation, through the performance of our core property portfolio, and through our development and intensification programs.

Thank you for listening, and we're now happy to respond to your questions.

Q&A
Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press the *, followed by the 2. If you're using a speakerphone, please lift the handset before pressing any keys.

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

Sam Damiani — TD Securities

Thank you and good morning.

Don Clow

Good afternoon, Sam.

Sam Damiani

So just on the development plans for the next maybe two years, roughly, maybe three. Could you clarify just the amount of spend that is going to be required? And what the sources of that capital are going to be?

Don Clow

So as we said in our presentation, Sam, we're planning to spend approximately $450 million on our first five projects over the next two to three years. And then funding for that is really in place with the disposition program that we've managed to achieve during the first half of the year. And with the visibility we have on dispositions in place or at least in negotiations today, we believe we can fund that program. And so that's as simple as it is, I believe.

We are continuing to work, importantly, with Sobeys on our pipeline. And again as we've said, we have a $5 billion—$4.5 billion pipeline that we're planning to do over the next 10 to 15 years, and we're working very closely with them to ladder that program out over those next 10 to 15 years, so we end up with a very consistent program of development over that timeline.

Sam Damiani

Great. And so you're definitely looking at more dispositions to fund that program, is that—

Don Clow

Yeah. We have a predisposition to dispositions. And no, that's—

Sam Damiani

Great. Can I quote you on that?

Don Clow

You can. Yeah. It's a mouthful. I got it from Claire, so she can take credit for it. But yeah, we do. And, I mean, it's obviously a less dilutive type of activity in terms of raising funds for us, and so we're very focused on that. And given the nature of our product, as we've proven year-to-date, grocery-anchored product is still in favour across the market. Even though there's a fair amount of it on the market from some of our peers, we still end up with a very, I think, strong market for our product. And we're quite confident in our ability to achieve that over the next little while.

Sam Damiani

Great. Thank you. And just a couple questions on cap rates. The Park Lane asset that was sold, could you share the cap rate on that with us?

Glenn Hynes

Sam, that's a difficult one. That was a 270,000-square-foot property with office, retail, and so the income in place is sort of to be modeled by the buyer. So I think we just say we're very happy and satisfied with the value, but to put a cap rate out on that would be rather—wouldn't be a lot of utility in that. So we're not disclosing a cap rate. And also, with the movie theatre and all the moving parts there,

there's certainly a dynamic income there that's a little bit more complicated than the traditional grocery-anchored centre that we're very happy to provide cap rate detail on.

Sam Damiani

Makes sense. And on the acquisition from Empire this quarter, what was that—what was that cap rate?

Glenn Hynes

It was just over 6.5 percent.

Sam Damiani

Right. Okay. And just finally, the Province of Nova Scotia there. The office lease is coming up in about a year. What's the status of renewal negotiations there?

Don Clow

We're working very closely with them. We have a great relationship with them, especially our local team here in Halifax, and so we'll continue to work with them and basically see how things play out.

Sam Damiani

Okay. I'll turn it back. Thank you.

Don Clow

Thank you.

Operator

Your next question comes from Howard Leung from Veritas Investment Research. Please go ahead.

Howard Leung — Veritas Investment Research

Hi. Good afternoon.

Don Clow

Good afternoon.

Howard Leung

I want to go into the acquisitions this quarter. Most of them—most of the properties are non-VECTOM and increase your Quebec and Western Canada exposure. Can you go over that? And versus the dispositions in the quarter?

Don Clow

Sure, Howard. The key thing on the acquisitions, over 40 percent of the value in the income is in VECTOM markets. So for example, there's assets in the Edmonton market, there's assets in the Gatineau market, Chateauguay, Edmonton, as you go down the list of the properties in the MD&A. So we're pleased about having a strong VECTOM composition of the acquisition.

Secondly, gave us some growth in Quebec. If you look at our market share, we're substantial in the West and more substantial in Atlantic Canada than in central Canada. So we got access to some good strong IGA and other Sobey-branded product in Quebec, which is a market we want to continue to grow in. So that was the primary presence of the acquisition.

And what was your question with respect to the disposition assets?

Howard Leung

Just comparing the geographies of the dispositions compared to the acquisitions? And getting a sense of where that might head up in the next couple quarters?

Glenn Hynes

Yeah. I wouldn't look forward, but what we sold in the second quarter, there was some secondary market assets in markets like Red Deer and Napanee, which were sort of more secondary market-related.

The Northam portfolio, which was a 50 percent disposition, where we continue to have a managed interest in those properties, those tended to be lower growth assets, non-development-potential assets—again, non-development-potential assets, but in more urban markets. And that was a transaction that we consummated at a sub-5.5 percent cap rate.

Howard Leung

Okay. No. That's good. And then the increase in the cap rate, just for this quarter, for your overall portfolio. Was that driven by—I'm guessing it's probably not from dispositions and just—it's just actually from the remaining portfolio?

Glenn Hynes

Yeah. A little few moving parts. We did have two impairments in the quarter. You'll notice on the P&L we had $8 million impairment relating to two properties. Because we're on IFRS cost versus fair value, we're obliged to report our impairments when they occur. So we had two—so that moved a few basis points of cap rate. I think the rest of it was just moving parts in the ordinary course, acquisitions, dispositions, and obviously looking at our ongoing market data. But I think it moved 6 or 7 bips, so it really wasn't much.

Howard Leung

Yep. Okay. And then the JVs for the Leduc and the Bronte Village, notice they're not in the financials yet. I guess it's going to be reported next quarter when the actual title is transferred?

Glenn Hynes

That's correct. August. And we note in the MD&A that we expect those things to be consummated in August, and they should be in our Q3 reporting.

Howard Leung

Great. And then just one more. Glenn, do you have the figure for the reimbursement of property taxes for the quarter? Or for the first six months?

Glenn Hynes

Reimbursement of property taxes?

Howard Leung

The recoveries for the property taxes?

Glenn Hynes

I'm not sure I understand. Are you talking recovery rate, Howard? Or what are you speaking to?

Howard Leung

For the actual revenues. In the notes, I think they're lumped in the financial statements note, and for revenue, they're lumped in with the rental revenue?

Glenn Hynes

Yeah. Let's take that offline. Happy to provide that, but I don't think we've got that at hand right now. But drop me a note, and we'll get that information to you.

Howard Leung

Sounds good. Thanks, guys. I'll pass the line.

Operator

Your next question comes from Tal Woolley from National Bank. Please go ahead.

Tal Woolley — National Bank Financial

Hi. Good afternoon.

Don Clow

Good afternoon.

Glenn Hynes

Hi, Tal.

Tal Woolley

Could you—you've got your Series A debentures, I think, coming up or coming due sort of in Q4. What are your preliminary thoughts on how to refinance that right now?

Glenn Hynes

So first of all, we have a $175 million backstop facility in place, which we put in place back in Q4 of 2017. Our game plan, ultimately, is to issue new unsecured notes to take out the maturing notes. But we put the backstop facility in place just as a secondary precaution late last year. So our game plan there, Tal, would be to do a new series of notes.

Our preference would be to go out a little longer duration. We'd like to continue to build a ladder in the unsecured notes base. We currently have only issued out as far as five years' duration, so we'd like to look at six, seven years as possible duration for that replacement series of notes. But that'll be something we'll look at in the next few months. Given that we have the backstop facility in place, it's not an urgent priority to do it fairly soon, but we're looking at doing it between now and the end of October.

Tal Woolley

Okay. That's great. And I can't remember whether Empire's sort of last store closure announcements were previous to the last call or not. But did you have any stores that were affected by that last—I think there was about 10 to 15 stores—I can't remember, and.

Don Clow

Yeah. That was announced, actually—nothing new on that news.

Tal Woolley

Yeah.

Don Clow

I think, from memory, they announced 10 total closures, of which four were applicable to us, and I think ultimately—

Glenn Hynes

Three discounts.

Don Clow

—and three that were planned to be reopening as discounts. So there was really one ultimate closure which is—

Tal Woolley

Okay.

Don Clow

—a property that will be redeveloped—will be a major development project, so—Yeah. In Vancouver. So no impact. So that was announced, I think, back in January—

Tal Woolley

Yeah.

Don Clow

—in terms of the gains. But you're right, the closures are actually taking effect here now in the summer of this year.

Tal Woolley

Okay. Perfect. Thanks.

Don Clow

Thanks, Tal.

Operator

Your next question comes from Pammi Bir from Scotiabank. Please go ahead.

Pammi Bir — Scotiabank

Thanks. Good afternoon.

Don Clow

Hi, Pammi.

Pammi Bir

You're doing well on your disposition program with the proceeds in line with IFRS values. But are you seeing any sort of cap rate shifts in some of the markets more recently? You mentioned, Donnie, that there is a fair amount of product out there. Just curious as to what you're seeing there?

Don Clow

Yeah. You know there's, I mean, obviously a number of our peers, and I won't name them, but they're out there with significant amounts of product in the market and obviously, they're secondary and tertiary market assets. What we're seeing for our product is obviously some very strong results year-to-date. And I think continuing going forward, we'll continue to see good results.

As we've talked about before, we're looking at doing both a blend of noncore and partial interest in core. And so that combination allows us a lot of flexibility in terms of how we do deals and when. And so we'll be able to, I think, work around, call it, that flooding of the market, those—at least the secondary and tertiary markets if we want to, depending on the nature of the deal. So I don't see it affecting us significantly, quite frankly, but I mean, you don't know until you actually transact the deals.

Pammi Bir

Right. And then just going back to your comments about the additional $200 million that you're planning to sell. Is that all noncore? Or would some of that be core assets? Or partial-interest sales?

Don Clow

What I would say, it would be a combination of both, as what we're, call it working on off-market deals primarily in the marketplace. And we'll, again, choose what's best for Crombie at the time. But we have a number of deals, obviously, to do—call it our target dispositions. You need to have a certain number out in the market and basically feeling out what's going to work out best for us. So I'd say you always have a little more out in the market, testing the waters and seeing where things are, to ultimately achieve the result that you want, so.

Pammi Bir

Got it. That's helpful. Just maybe coming back to the development team comments. As the amount of development activity increases, the pipeline is obviously quite large. Do you feel that you have the sufficient resources in place at this stage to manage the process? Or do you see yourselves perhaps adding more bodies over time? More expertise? And if so, would there be any incremental G&A tied to that?

Don Clow

Well, first and foremost, we're working with partners, and so out of the first five projects, two of them are done by Crombie 100 percent, and they're 100 percent retail. And then the three mixed-use, obviously, as people know, and we've announced publicly that we have, obviously, great partners in Westbank and Prince Developments out of Montreal. And so they really provide the development talent, and we'll actually provide the operating talent as well on those projects.

But importantly, as we've said to a number of investors, we're what we call active-passive development management people. And so we've got a good team. I wanted, in my remarks, to stress that I've got 20 years-plus residential experience in my background, and we've got 20 other people inside of Crombie that have significant residential as well, already. So it's not like we don't have any.

And so the real question will be, when do we want to take on one ourselves? And so we're going to consider that over the next few years, as we look forward at our different opportunities with Sobeys. And so in terms of the overall team, I'm comfortable with where we are, given the way that we are doing transactions today. But it is—obviously, development's a hard-to-get and I think very complex talent, to obtain in the marketplace. But so we'll be, I think, looking to add more people as we go forward.

Does it disaffect our G&A? I don't think it does materially. I think one of your peers just released some statistics and many different metrics on G&A, in the last few weeks. I thought it was a decent report, and it showed that Crombie was, call it lower or just below the middle of the pack in terms of G&A. And that's carrying some G&A costs towards development.

So I believe that we'll be able to manage those types of costs over time and certainly, we'll be adding—we'll need—we need great talent to do great things. And as I've said to a lot of people, that development pipeline is a world-class development pipeline, so we need world-class people to do it. And we'll continue to add as we see fit.

Pammi Bir

Got it. Thanks very much.

Operator

Your next question comes from Tal Woolley from National Bank. Please go ahead.

Tal Woolley

Sorry. I forgot to ask, just on my last round. Just when you look at the $450 million spend program. How are you thinking you might use construction financing and other tools through that period? What sort of LTVs do you think you could use to sort of let the banks or other lenders fund the cost a bit?

Glenn Hynes

Sure. So Tal, we use a variety. So on Davie Street, for example, we did something a little bit more novel. We put in place 10-year permanent financing, both construction and permanent financing. We did it through CMHC, who we locked in at a 10-year interest rate of 3.22 percent—3.224 percent, to be precise. And that's 10-year financing, so funds are in escrow, a small negative carry through the development phase, but gives us security. The loan to cost on that project was very strong, around 80 percent range, so that was very good.

The other two JVs that we're doing, in both Duke and Bronte, we're looking at more traditional bank construction financing, call it, floating rate BA+ financing. And generally speaking, we're in the 80 percent-plus loan to cost on those. And once we finish the construction, we'll look at what the permanent financing options are, whether it's unsecured notes, whether it's CMHC mortgages, or whether it's traditional mortgages.

But we're very comfortable. There's a great supply of bank financing for the construction side. And clearly, what we will do in the REIT is we want to lower leverage over time, but we'll have a disproportionately higher amount of leverage on construction, but we'll be continuing to pay off—you'll probably have noticed in our financials, we paid off over $100 million of mortgage debt, year-to-date.

So all of the mortgages that have come due, plus our ongoing principal payments, are extinguishing mortgage debt, which is reducing our on-balance sheet debt. But if we can get inexpensive higher leverage in these JVs for the development and construction program, we'll take advantage of that, meanwhile keeping the total aggregate leverage of the REIT at a lower level going forward. So that's the game plan.

Tal Woolley

Okay. And then, if you could just talk a bit about sort of the potential major developments that you outlined? Like when I look at something like the Avalon Mall project, you're seeing—your projected returns there are double digits, like that's great. And if you had like $500 million of those, that'd be fantastic, right?

And I'm wondering, like when I look at the potential major development list, you've got both commercial and residential expansion for sort of all of the projects. And I'm wondering if you can sort of talk qualitatively about that pipeline? Like how much of the, sort of 2.5 billion to 4 billion—how much of that is in your kind of mixed-use? Or residential? And if—how much of those like really sort of tasty retail projects are there in that bucket too? Maybe you can maybe offer some colour around that?

Don Clow

There's not a lot, Tal. I mean, Avalon—

Tal Woolley

Yep?

Don Clow

—is a very unique project. It's the Yorkville—sorry, Yorkdale of Newfoundland and Labrador, and it's a dominant regional shopping centre. In fact, it's really the only regional shopping centre in Newfoundland and Labrador, the entire province.

But what I will stress to you is that most, almost all of the mixed-use project is mixed-use development in the major urban markets. We've said 17 out of 23 are in basically Vancouver, Toronto, Calgary, and now Montreal. And all of those have huge differentials between the yield on cost, and call it a sale cap rate.

So for the most part, our forecast is in the mid 5s of what we're doing today, and we call it 5 percent to 6 percent, but most of them are in the mid to high 5s on a yield-on-cost basis, in markets where cap rates today in Vancouver, on this quality of residential, would be in the low 3s, if not—it's hard to believe—maybe even in the high 2s. And in Toronto, you'd be talking mid 3s.

So the differential's extreme. It's a wonderful thing for us. That's where we try and articulate that we can create a tremendous amount of NAV. And if we really wanted to, we could sell one or sell two, to generate the capital to fund that development program almost into perpetuity. So gives us not only great NAV creation, but tremendous flexibility in terms of how we fund our business.

And really, I think, for the long term, as we've said many times, we generally think long term because we have major shareholders that are long-term investors. So our primary interest is building and creating communities that are A-plus real estate, that have long-term cash flow. But there's lots of flexibility, and so it's a wonderful opportunity.

And to be truthful, the major mixed-use in the major urban markets is the opportunity. It's a world-class—this is world-class real estate, whereas the Avalon is really—it's a great property, but it's a one-of for us, in my view. So I would prefer to focus on the major urban market stuff.

Tal Woolley

Gotcha. Thanks very much.

Don Clow

Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the *, followed by the 1.

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

Claire Mahaney Lyon

Thank you for your time today, and we look forward to updating you on our progress on our Q3 call in the coming months. Goodbye.

Don Clow

Thanks, everybody.

Glenn Hynes

Thanks, everybody.

Operator

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

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