Final Transcript

Crombie Real Estate Investment Trust

First Quarter Results Conference Call

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Forward-Looking Information

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;

(iii) asset growth and reinvesting to develop or otherwise make improvements to existing properties, which could be impacted by the availability of labour, capital resource availability and allocation decisions as well as actual development costs;

(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.

These forward-looking statements are presented for the purpose of assisting Crombie's Unitholders and financial analysts in understanding Crombie's operating environment, and may or may not be appropriate for other purposes. These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on Crombie's current estimates and assumptions. Crombie can give no assurance that actual results will be consistent with these forward-looking statements. A number of factors, including those discussed under "Risk Management" in Crombie's Management's Discussion and Analysis for the year and quarter ended December 31, 2017 and those discussed under "Risk Factors" in Crombie's most recent Annual Information Form (available at www.sedar.com) could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and a reader should not place undue reliance on the forward-looking statements.

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:

Dean Mark Wilkinson, CIBC Capital Markets, Research Division

Howard Leung, Veritas Investment Research Corporation

Michael Smith, RBC Capital Markets, LLC, Research Division

Sam Damiani, TD Securities Equity Research

Operator

Good morning. My name is Christa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Crombie REIT First Quarter Results Conference Call [Operator Instructions] Claire Mahaney Lyon, Investor Relations, you may begin your conference.

Claire Mahaney Lyon

Thank you, Christa. Good day, everyone, and welcome to Crombie REIT's First 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 crombiereit.com. 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 of Crombie REIT.

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 filings included our annual information form the year ended December 31, 2017, for a discussion of these risk factors.

I will now turn the call over to Don Clow, 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 a discussion of our capital allocation and funding approach.

Don?

Donald E. Clow

Thank you, Claire, and good day, everyone. 2018 is off to a great start at Crombie. With 5.3% growth in diluted AFFO per unit, material advancements to our development pipeline with the addition Le Duke in Montreal and our continued execution of our capital recycling program. Our results are driven by 2.7% same-asset NOI growth and solid occupancy gains. Occupancy reached new heights, as we ended the quarter with committed occupancy of 95.7%, our highest quarterly occupancy in 7 years.

Crombie and its predecessors have been in business for over 55 years. [We've] thoughtfully chosen a strategy based upon a legacy of investing for the long term, guided by the entrepreneurial values of the Sobey family. With this in mind, I'm very pleased with the early stages of our transformation from a landlord of a needs-oriented retail portfolio to a fully integrated owner-operator developer of retail and residential real estate. As is evident by our results, our core portfolio is performing very well, despite all the negative commentary out there around retail.

Our grocery anchored low-risk portfolio provides us with a solid foundation from which to launch into this next phase of developing world class, mixed-use development projects in Canada's top urban markets. Our portfolio is evolving. We're investing in large-scale mixed-use properties where people want to live, work, shop and play, building communities and place making from coast to coast. From Belmont Market, Vancouver Island's premier retail destination, featuring contemporary West Coast themed architecture and animated streetscape, all the way to St. John's Newfoundland, we're bringing in first class, first-to-market tenants at outstanding returns.

Our strategy is grounded in our key strategic pillars, improving portfolio quality, building financial strength and developing great talent, all while mitigating the risks associated with that.

In addition to our solid quarterly financial results, we've had a great success year-to-date in our capital recycling program. We closed on $55 million of asset dispositions in the 6.5% range and at $87 million of assets that are scheduled to close at the end of this week. Included in this number is a pending $78 million, 50% co-ownership interest sale in 9 properties at a sub-5.5% cap rate. We also have $230 million of assets that are listed or in various stages of negotiations. Majority of our disposition assets are deemed noncore or with lower growth, allowing us to improve portfolio quality and redeploy proceeds into higher and better uses, such as development. Pricing and demand for our assets is very strong. We've achieved prices at or above IFRS fair values. Recycling of capital at amounts in line or above IFRS values at a time when our units are trading materially below NAV, evaluates the mispricing of our units, as the private market recognizes and is paying for fair value of our properties.

The development pipeline is heavily weighted towards Canada's top urban markets with now 17 of our 23 projects located in Canada's 6 major markets. These assets currently produce solid operating returns, while we move through the various planning and approval phases. Our pipeline continues to take shape. And in April, we announced the exciting new addition of Le Duke, a 25-story mixed-use development in Old Montreal and our acceleration of the redevelopment of Bronte Village in Oakville, Ontario. Both of these projects will be completed at 50% JV interest with our talented partners, Prince Developments, out of Montreal.

With the addition of Le Duke, we've added a fifth VECTOM market, Montreal to our development pipeline. This $127 million development is adjacent to the new Bonaventure Greenway in Old Montreal, being built as a 25-story mixed-use tower with 390 residential units above the 25,000 square foot urban-format IGA. The structure will incorporate the existing heritage building, integrating the 2-story facade, maintaining the current character and streetscape. Excavation is under way with project expected to be completed in 2020.

Bronte Village is a historic small town Oakville community situated on Lake Ontario and Bronte Creek. Steps from Bronte Beach Park and Marina, our development, which is also called Bronte Village, represents 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. This $275 million development will include 480 units of refined rental living, 30,000 square foot Sobeys and complementary ancillary space.

Our Davie Street project in Vancouver's West End, the existing Safeway store, has been demolished. An excavation will be complete this month. Our partners at Westbank have done an outstanding job with about 90% of our cost tendered and on budget. Crombie's piece, commercial leasing, has also been very strong with rents coming in excess of our pro forma.

Belmont Market in Langford near Victoria, B.C. will be a vibrant open-air center in the dominant retail node of the West Shore communities. The premier retail destination on Vancouver Island, it will feature contemporary west coast themed architectures and an animated streetscape, while creating a leading edge retail environment. The immediate trade area has seen exceptional population growth in recent years. It is the third fastest-growing community in B.C. This increase, coupled with a relatively young population and strong -- stronger household incomes, has led to solid retail and restaurant performance in the area. The project is being 100% developed by Crombie, and leasing for Phase 1 has been superb with the development full -- virtually full at 96% pre-leased. On-site construction at Belmont Market is well under way with the new municipal road now open. We recently sold approximately 6 acres of land to Ledcor developments where they plan to build market condos and 437 units of low-rise rent -- residential rental. Commercial approach -- the commercial portion of this project has been reduced from 192,000 to 160,000 square feet, leaving additional vacant land available for future mixed-use development.

Avalon Mall's redevelopment plan, where again Crombie is the developer, is progressing as planned with Phase 1 scheduled to be complete in 2019. Phase 2 kicked off in March with the partial demolition of the former Sears space. We're building new CRU in the remaining Sears space, 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. Term metrics on this phase are truly phenomenal, as we're estimating our yield on cost to be in the range of 10% to 13%, demonstrating that well-located, well-managed retail is far from dead and is, in fact, thriving.

And last but not least is Penhorn, which is being developed 100% by Crombie and became an active development in Q1. Phase 1 involves partial demolition of the former Sears store, which is being redeveloped into approximately 43,000 square feet of office and retail space designed to integrate with our budding 104,000 square foot grocery-anchored Penhorn Plaza. We're already 76% pre-leased with the lead tenant taking 32,500 square feet. Demolition is under way with expected occupancy later this year. Although this project is smaller in nature, the returns are not, and we expect to generate solid returns between 7% to 8%. Future phases are being planned for this 31-acre multi-phased mixed-used development opportunity.

In summary, based upon current estimates and market conditions, we expect Crombie to invest approximately $450 million in our first 5 major mixed-use 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 -- or $1 to $2 per unit of NAV growth over the next 2 to 3 years.

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

Glenn R. Hynes

Thank you, Donnie, and good day, everyone.

Diluted AFFO per unit increased 5.3% to $0.26 versus the same quarter last year. Our Q1 AFFO payout ratio improved to 86.9% compared to 91.7% at the end of Q1 of last year. Diluted FFO for the quarter was solid at $0.30 per unit, up 3.1% over the same quarter last year. Our FFO payout ratio continues to improve and ended the quarter at 73.3% versus 75.4% in Q1 of last year. Growth in the quarter was driven by strong same-asset NOI as a result of our strong leasing and resulting improvements in occupancy, lower G&A costs offset by slightly higher finance costs.

On a cash basis, same-asset NOI increased by 2.7% in the quarter as compared to the same quarter last year. Growth was primarily driven by improved occupancy and revenues from land use intensifications. On the leasing front, during the first quarter, we renewed 301,000 square feet with an increase of 2.1% over expiring rate. Taking a closer look, 267,000 square feet of 2018 expiries were renewed at 3.6% growth with 34,000 square feet of future year renewals completed at minus 13.8%.

As we mentioned last quarter, given our longer average lease term, we occasionally have swings in our renewal rates because of the small number of leases rolling over in any given year. Removing the impact of one unique renewal, total growth would have been 3.6%. Committed occupancy was 95.7% and, as Don noted, the highest since 2010. We ended the quarter with 168,000 square feet of committed space, getting a head start on future NOI growth.

G&A as a percentage of property revenue for Q1 was 4.2% or $4.5 million, down from 4.9% or $5 million in Q1 of last year. The decline was mainly driven by $0.5 million in tax reorganization costs incurred in Q1 of last year.

Now on to the balance sheet. Given our growth in properties under development, or PUD, we've made a slight change in how we report our weighted average IFRS cap rate and now removed PUD from this calculation. Crombie's IFRS weighted average cap rate for the quarter remained stable at 5.92% versus the fourth quarter last year at 5.93%.

We finished the quarter with debt to gross book value on a fair value basis of 49.6% versus 50.3% at the end of 2017. Our goal remains to reduce leverage over time in order to continue to derisk our balance sheet. Debt to trailing 12 months' EBITDA improved to 8.6x from 8.8x in Q4 of 2017 driven by earnings growth and our conscious effort to delever. Interest and debt service coverage ratios remained strong. Also during the quarter, DBRS upgraded us from BBB low negative trend to BBB low stable trend. We continue to focus on improving our capital structure and derisking our business. Year-to-date, we've repaid $61 (sic) [$61 million] in maturing mortgages at a 5% average interest rate, reducing our leverage, interest costs and contributing to our growing unencumbered asset pool, which now stands at over $1 billion, up 5.7% from Q4 of last year.

Our unencumbered assets now account for 20% of our IFRS fair value of investment properties. Our balance sheet is stronger and more flexible than it was a year ago with roughly $430 million of available liquidity, and our weighted average interest rate on fixed rate debt at 4.20%, 8 basis points lower than a year ago and with increasing access to the unsecured debt market.

We're executing, as planned, on our capital allocation strategy, directing disposition proceeds into compelling and higher returning mixed-use developments. Assets we've identified within our portfolio as potential sources of capital are either noncore or lower growth. For 2018, we're reiterating our acquisitions targets of approximately $100 million in accretive acquisitions from Sobeys with third-party acquisitions executed only opportunistically. Subsequent to quarter end, we acquired an $88 million portfolio from our partners at Empire. With our current momentum on recycling capital, we're confident that we can fund our future investments and improve our balance sheet.

In closing, our core portfolio remains strong, as is clear by our occupancy, same-asset property cash NOI and cash flow growth, improving payout ratios and our predictable and stable growth. Our core business is strong, e-commerce resilient and a wonderful complement to our development pipeline.

As we look to the future, we remain acutely focused on creating long-term unitholder value through disciplined capital allocation, through the performance of our core property portfolio and through our development and intensification programs.

Thank you for listening. We're now happy to respond to your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Dean Wilkinson with CIBC World Markets.

Dean Mark Wilkinson

Donnie, just on the Bronte Village, can you remind us, is that all fully zoned and ready to go? Or is there work that has to be done there in terms of the municipality?

Donald E. Clow

We just received conditional site plan approval, Dean, and we actually got a demolition permit. So we're actually going to start this week.

Dean Mark Wilkinson

Okay. So there's no issues, vis-à-vis any objections or anything like that?

Donald E. Clow

There's still minor things, but we did receive conditional site plan approval, so there's still -- and there's obviously, whatever, building permits, occupancy permits. But this is conditional site plan approval, and the demolition permit allows us to start.

Dean Mark Wilkinson

So you can start, yes. Okay. Perfect. And then just on the joint venture and the deal with Prince. So it looks like, sort of, Bronte is the bigger of the 2 deals. I'm assuming that wasn't sort of vending 50% and taking back 50%. Was there -- did they sort of put cash back into you? Or how did that work?

Donald E. Clow

We're not going to get into the detail of the deals. At the end of the day, it's a fair trade for Crombie. It's a larger deal, but we're also -- we were very interested in getting into Montreal and also interested in working with PrinceDev. The [Lavie] family and the [Varety] family are very, i think, well known in the Montreal market and very strong at development, so we've picked a good partner. And I think the deal is very fair for Crombie and a good deal. So at the end of the day, it'll work out really well for us, but I can't get into the detail.

Dean Mark Wilkinson

Okay. Fair enough. And they're going to run the construction of Le Duke. You guys are going run Bronte. And then deal with it when it's all done.

Donald E. Clow

The way it works is that we're going to run the retail side, but they're working on Bronte – leading on Bronte in terms of the development, as well, working with the construction manager, Reliance, on that site. And so -- but they are the residential developer, per se. And so -- and they've got, I think, a great way of sourcing supplies, materials and great relationships in that space with contractors, so we're comfortable. Although, as I like to put it, we're active-passive partners so we're very active with them and have had a role in everything to date and are continuing to work with them on a weekly basis, quite frankly, with our real estate teams.

Dean Mark Wilkinson

Do you think that there's other deals? I mean, you probably can't go too deep into that.

Donald E. Clow

Dean, as I always say to people who are our partners, is we like to do more deals. And one of the key things for selecting partners is that they, just like we may bring them future opportunities, they'll bring us future opportunities as well. So we're quite hopeful for that. But at this point, we have a deal on 2 properties. It's exciting for us to get into the Montreal market which, as everyone knows, is a very unique market and challenging market. And we're doing so with people who are very experienced and have been very successful in that market. So -- which we think is a market that's doing really well right now. So we're pleased. And Le Duke is underway, by the way -- is the other issue, right? It's been under -- they've been -- they broke ground in October, right? So it's something that's already in process. And for us, we like seeing that -- having deals in the hopper that are going to close in 2 years as well as ones that will close in 3. So it fits our timing of completion rate as well.

Operator

Your next question comes from the line of Sam Damiani with TD Securities.

Sam Damiani

Just wanted to get into acquisitions and dispositions. For the $230 million of listed and under negotiation on the dispose side, can you give a little bit of the profile in terms of what we're talking about there? Is it a mix of primary and secondary markets and whatnot?

Donald E. Clow

Yes. First and foremost, as we've said before, Sam, it's primarily going to be secondary and tertiary markets and/or also, call it, noncore assets. But in the case of where -- what we would call core that, unfortunately, you or others may not in the capital markets where we have a good relationship with Sobeys and understand some of the strongest stores, even if they're in secondary or tertiary markets, but also in primary markets like you've seen with our recent deal with Northam, we'll do partial interest sales. So we're looking at doing 100% interest sales and partial interest sales. And 100% interest would be noncore for us. Partial interest would be core for us, even though they may not be core for the capital markets, and it's simply because of the strong performance, I'll call it bond-like performance, of some of these stores in rural markets, which are, quite honestly, more e-commerce resistant than some of the ones in downtown Toronto or Vancouver. And so we like still owning those, but they just don't have a growth rate rent that we're totally thrilled with. But it's a solid covenant, solid stores. We're happy to still own them and others are, as well, with us. So we think it's multi-faceted that funding strategy. And ideally, it does primarily push some of the ones that are noncore off our balance sheet and out of our portfolio, so we improve the quality of our portfolio mostly.

Sam Damiani

So if you had more similar to what you did with Northam, you would transact on those types of properties further.

Donald E. Clow

Yes. The opportunities, I think, right now, for groceries, [indiscernible] are grocery-anchored properties, is strong in the Canadian market and that is both tertiary and secondary as well as the primary market. So for us -- and again, multi-faceted. Whether it's 100% or 50%, those are still -- those are open. So -- and for us, it's a good source of capital. The ones we've traded are at 15% above IFRS value, so it's a very good source of capital for us when stock's trading 15% to 20% off, whatever -- off everyone consensus NAV, and even a higher number if you take consideration into development -- the development that we have in our -- on our balance sheet. So -- and in our portfolio. So to us, it's a good source of capital, and it's a market that's very strong in the real estate side.

Sam Damiani

Just switching over to the acquisition of the portfolio from Empire. I guess, 9 properties, including 2 additions, so 7 new properties. Could you give a little bit of color as to what provinces or where these are located and how old they are?

Donald E. Clow

Yes. They're spread across the country, Sam, including, I think, about 1/3 of the properties were in, call it, top 6 markets, with 2/3 in non. And -- but we still have -- and one more deal to follow, quite frankly, to get us probably to the $100 million mark. That should take us to about a 44% profile. But any ones that are, what we call, secondary markets and then there are some that are tertiary, they're all very strong Sobey stores or Safeway stores, IGA stores. So we are comfortable owning those because we have very good knowledge and, obviously, relationship with Sobeys. And -- but it's just -- they're all very strong Sobeys, Safeway stores, IGA.

Glenn R. Hynes

And Sam, I would add that we're expecting -- normally, we transact $100 million a year with Sobeys. And there's one property that will still be closing on over the next quarter or so. But the profile of the acquisition, is approximately 45% of the income is in top 6 markets. We're pleased, as well. As you now, on the map of Canada, we're a little underrepresented in Central Canada. There are 6 Quebec properties in the portfolio, which also happens to be one of the strongest parts of the Sobey grocery offering with the IGA brand in Quebec. We're also, of course, going to have an IGA in the bottom of our Le Duke property in Montreal, the 25,000 square foot offering. So it's a good mixture in this portfolio, and it does give us better balance across the country as well.

Sam Damiani

And just to clarify, the 2 additional properties -- or additions to properties, is that similar to the deal you did, I guess, a couple of years ago where you funded some expansions for Sobey?

Donald E. Clow

Sort of slightly different. This is just the -- an add-on of buying some additional development at the -- on the property. We did modernizations in 2016, but this is just buying an ancillary piece adjacent to the property that we have previously bought from Sobeys.

Operator

Your next question comes from the line of Howard Leung with Veritas Investment Research.

Howard Leung

Just wanted to touch on the noncore asset sale. Just looking at this property that you disposed of in the quarter, when you think of what is noncore, is that leaning towards -- is that a freestanding store? Or is it a -- is it mixed with many tenants? Is it a single store? Just also the -- just kind of a color over the asset type, please?

Donald E. Clow

It's -- the majority -- obviously, significant majority of our portfolio is grocery and drug store anchors, so they're all going to be pretty well that. There are a few others that aren't. And so we'll be -- but I'd say the significant majority would be either grocery stores or grocery-anchored plazas or drug stores. And so that is the asset type we own. The noncore would be -- primarily, it's going to be about the markets. And if there's somebody better, especially local, or there's now called -- what I'd call structured deal-type purchasers that are looking for those products and may be better owners than us, whether in smaller markets and those people have, whatever, on-site management, et cetera. So for us, it's -- that's I guess, the best I can give you on color.

Howard Leung

Yes, sure. No, that makes sense. And the amount that you've listed, the $230 million, do you -- is that -- do you anticipate listing anymore on top of that in the coming year? Or is that kind of it for now?

Donald E. Clow

We're not really going to give -- I mean, that's about as much guidance as we've ever given. And I'd say that's as good as we can do. I mean, it's -- that's a lot for us. Again, we've said it's listed or in negotiation, and we don't know that we -- I don't know that we expect all of it to close and whether we want all of it to close. But we're basically working with -- we're looking at our capital plan and how we fund our developments and basically citing an optimal amount to achieve for our capital planning. And -- but it's good that we have lots of opportunity. And so that's, I think, going to be probably the upper limit of where we go, depending on what deals fall into place. So there could still be more, but who knows?

Glenn R. Hynes

And Howard, one of things we're really pleased about is that on both the Northam transaction, we achieved IFRS fair value. And Donnie mentioned the other transactions were above IFRS fair value. So we're really encouraged that, at least, the private market appreciates and understands the value of the real estate. So at this point, on a funding point of view, it makes a lot of sense to be using currency that were -- is basically trading above par and using other currency that's trading 20% below par. So we're not going to guide on what the future holds, but we're pleased with our progress, to date, in terms of the pricing and valuation that we're achieving on the real estate that we are putting into the market.

Howard Leung

Yes, that's great. And just to confirm, those properties that you disposed of, those were all unencumbered, right? They didn't have any mortgages tied to them?

Donald E. Clow

No. The Northam portfolio had some assumed debt. And then the other properties, that would've been unencumbered.

Howard Leung

Okay. Great. Because I know we spoke about the -- it's helpful to delever some of the properties that have mortgages. And then turning to PUD, I think you mentioned that this when you disclosed the cap rates now, PUD is no longer going to be included. So is it going to be only valued at IFRS fair values once they're complete? Is that how it's working now?

Glenn R. Hynes

Well, that's the anomaly with IFRS, anyway, is that there's 0 value in IFRS fair value for the development property. Just real quick, our NAV is really just taking all of our income-producing properties, NOI divided by trailing 12-month income and using market cap rates. You do the [indiscernible] and that's your enterprise value. And we're now saying PUD shouldn't be in there. Before we had PUD in there, and that's generally land assets, Howard. But on reflection, we thought it's more pure to have our IFRS cap rate just based on income-producing properties only. So the change in the quarter was simply just to take the PUD out. It started to become a bigger number, so we didn't want to distort our IFRS cap rate with PUD. But more importantly, the derivation of our IFRS cap rate and our NAV is just taking the NOI and the trailing -- the trailing 12-month NOI and the cap rate, subtracting our debt to get to our equity value, and that's how our NAV is determined. So we're doing it conservatively, and that calculation has nothing in it to reflect any future value for our development pipeline. And as Donnie noted in his comments, we believe that the $450 million of spend that we currently are committed to make, we see a significant value creation of total value of $650 million to $750 million, which means $1 to $2 of potential NAV over the next 2 to 3 years. So that's not reflected at all in our current IFRS metrics.

Operator

[Operator Instructions] Your next question comes from the line of Michael Smith with RBC Capital Markets.

Michael Smith

Just picking up on the last question on noncore. Has your definition changed over the past 6 to 12 months of noncore?

Donald E. Clow

I don't think so, Michael. We've always had a slightly different version of core and noncore than the markets. We've always said top 36 -- or we now call them top urban markets. Our definition of urban markets is broader than some of our competitors who, really, I think, that's where the language was established. And so our core is broader and it's primarily based on the fact that we know the markets through the retailer, right? We have intelligence with our significant amount of work we do with Sobeys to understand how strong those stores are. So we're much more comfortable, obviously, than many of our peers and, obviously, people in the capital markets owning those stores because they -- a store in Northern Quebec, as an example, has 75%, 80% market share in one grocery store in a 3,000 person town. It's a bond, let's be honest. And so it has -- in our case, it has -- we take great comfort in knowing that, and we view it as a good investment. And if you buy it at a 7 cap, it's -- I'll buy those all day long. It doesn't resonate as well in the capital markets. But some tertiary markets clearly are -- there's some decline -- either economics or population, et cetera. And we're clearly working very hard to evaluate those and work those out of our portfolio over time. So it's probably just a broader definition of primary and -- or top urban markets than our peers, driven primarily by the significant knowledge we have through the retailer, both on the quality of their store, what's happening with the retail market and also the quality of development opportunities in those markets is often driven by the retailer and working with them. We're able to unlock that more easily than other non-related REITs, right? So it's -- I think it's a fair assessment, but it is slightly different.

Michael Smith

I certainly appreciate that. I mean, having that relationship is a big advantage. Just switching gears, I just want to confirm for the Le Duke -- or Le Duke, I should say, 390, that's rental residential.

Donald E. Clow

Yes, that's right.

Operator

And we have no further questions in the queue at this time. I'll turn the call over to Claire Mahaney Lyon for closing remarks.

Claire Mahaney Lyon

Thank you for your time today, and we look forward to updating you on our progress on our Q2 call in a few months.

Operator

And this concludes today's conference call. You may now disconnect.