Final Transcript

Crombie Real Estate Investment Trust

Third Quarter Results Conference Call

Event Date/Time: November 8, 2018 / 12:30 PM ET

DISCLAIMER

The information contained in this transcript is a textual representation of the Crombie Real Estate Investment Trust (“Crombie”) Quarterly Conference Call. While efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only. The information set out in this transcript is current only as of the date of the webcast and may be replaced by more current information. Crombie does not undertake to update the information, whether as a result of new information, future events or otherwise, except as may be required by law. Readers are advised to review the webcast (available at www.crombie.ca) itself and Crombie’s regulatory filings before making any investment or other decisions.

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, Chief Operating Officer, Executive Vice President and Secretary

Claire Mahaney Lyon –Manager, Investor Relations

Conference Call Participants:

Dean Wilkinson, CIBC Capital Markets - Analyst

Sam Damiani, TD Securities — Analyst

Michael Smith, RBC Capital Markets - Analyst

Howard Leung, Veritas Investment Research — Analyst

Tal Woolley, National Bank Financial — Analyst

Pammi Bir, Scotiabank — Analyst

Operator

Good afternoon, ladies and gentlemen, and welcome to Crombie REIT's Third Quarter Results Conference Call. This call is being recorded on Thursday, November 8, 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

Thank you, Leonie. Good day, everyone, and welcome to Crombie REIT's Third 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 Investors section of our website under Presentations & 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 will now turn the call over to Don, who will begin our discussion with comments on Crombie's overall strategy and outlook. Glenn will follow with an overview of Crombie's operating and financial results, a discussion -- and discuss our capital allocation and funding approach. Don?

Donald E. Clow, President, CEO & Director

Thank you, Claire, and good day, everyone. Crombie's enjoying positive fundamentals and a value enhancing development pipeline that exceeds even our largest peers on a relative basis. Our portfolio is at record occupancy at 96.2% and our Q3 same-asset cash NOI growth of 1.9% remains consistent, bolstered by retail same-asset NOI growth of 2.5%.

We further derisked our balance sheet by issuing our first-ever unsecured bonds, with a greater -- maturity greater than 5 years. Our major mixed-use developments are progressing well and are on time and on budget, and our leasing team is making great progress at Avalon Mall, Belmont and Davie Street.

Crombie enjoys a sustainable competitive advantage in the Canadian real estate industry due to its partnership and largest tenancy with Canada's second-largest retailer, Sobeys. I thought I'd spend a couple of minutes talking about them.

Under the leadership of Michael Medline, Sobeys is aggressively building their business, adapting and growing. They're expanding their FreshCo stores to the west and are investing capital to revitalize their bricks-and-mortar stores, all driven by their omnichannel approach. The game-changing Ocado e-commerce end-to-end solution should position them very well to expand their presence in urban markets, with the launch of an e-commerce solution in the underpenetrated GTA market in spring 2020. Empire recently announced a strategic acquisition of Farm Boy, a specialized food retailer that has aggressive growth plans and will benefit from Sobeys' infrastructure and capabilities such as real estate sourcing and logistics. They're also one of the most insulated Canadian food retailers from e-commerce disruption due to their laser-like focus on fresh, private label and prepared foods.

Our largest tenant is adapting, growing and is at the leading edge of omnichannel technology. Sobeys is also a very profitable business that produced roughly $850 million in operating cash flow over the last 12 months.

I spent this time talking about our partner to emphasize that Sobeys is a strong, profitable, resilient partner and tenant, and that what is good for Sobeys is good for Crombie. Having Sobeys as our largest tenant allows us to drive down e-commerce risk and with a 14-year weighted average lease term provides for long-term sustainable growth.

In the current geopolitical and economic environment where we are seeing increasing levels of volatility, we have locked in cash flow that will stand the test of time. They are an important piece of our strategy, and with Sobeys and Empire, we can continue to unlock and create significant value for our unitholders.

Turning to our real estate. Year-to-date, Crombie sold $194 million of lower-growth noncore assets, with proceeds being directed towards our mixed-use value-enhancing pipeline. We have about $75 million to $100 million of asset dispositions that we expect will close in Q4 or early 2019. We have another $200 million of assets that are either listed or in various stages of discussion. I'd like to give a bit of colour around market forces we're seeing on the disposition side.

Generally, demand is solid for our grocery-anchored properties, as we, along with the rest of the market, recognize the stability inherent in our centres. Having said that, we have witnessed some softening in certain markets, partially due to excess supply and rising interest rates, which can make it more challenging for private buyers to secure their financing.

Now we have a quick development update. Our first 5 major mixed-use developments remain generally on time and on budget and we anticipate creating significant value for our unitholders on these projects with yields on cost in the range of 5.2% to 6.2%, which we currently expect will translate into $1 to $2 of net asset value per unit within the next 2 to 3 years at current cap rates.

At Belmont Market Phase 1, a handful of our retail tenants have just taken possession. Phase 2, which is over 70% leased, is expected to be complete in Q2 '19 -- 2019. Ledcor Development, the adjacent residential developer, has already presold over half of their first phase of condos and began construction in September. Upon completion, Belmont Market will be one of Vancouver Island's premier retail destinations, featuring contemporary West Coast-themed architecture, animated streetscapes and a place where people live, work, shop and play. We're very pleased with the Belmont development, where we are the sole owner and developer.

Leasing at Avalon Mall's Phase 2, the former Sears space, is moving along well, and we're in advanced negotiations with numerous mid-market anchors and expect to finalize several leases by year-end. Winners will be moving and expanding into new space and we've executed LOIs and are -- or are in advanced stages of negotiations with several key national, international and first-to-market tenants. The interior and exterior demolition of the former Sears footprint is complete. We're tendering much of the Phase 2 construction now and are also pleased with Phase 1 progress where our new 875-stall parkade opens this week, just in time for the holiday shopping season. Our site access and signalization is complete. We are on track with a multi-phased interior renovation of the mall, all of this while owning and operating a very busy regional shopping centre.

Davie Street in Vancouver is progressing as planned, with the underground parkade essentially complete. The retail portion within the podium is 95% leased, with deals signed with the necessity-based tenants Safeway, Scotiabank and BC Liquor. And I'll note that the rents have come in, in excess of our model assumptions. On the cost side, we are 95% tendered on our major trades, and we've seen only slight cost inflation. Luckily, given the prime location of this development and a continued record-low residential rental vacancy rates in Vancouver's West End, residential rents have escalated and we believe will more than make up for the minimal cost inflation we've experienced. All in all, our experienced development team and partner Westbank are doing a wonderful job of transforming this asset, and we're confident in our forecasted yields. Here, we own 100% of the retail and 50% of the residential rental.

Bronte Village, we've executed the lease with Rexall and the store is under construction. Opening date is expected to be April of '19. Excavation of the residential portion of development is expected to commence before the end of the year.

At our Le Duke project in Montreal, the excavation shoring is substantially complete, with the crane now installed. 75% of the hard costs for this project have been tendered. Retail leasing has been complete, with a 25,000-square-foot urban format Sobeys IGA store to be positioned on the ground. Our partner, PrinceDev, is the development construction manager.

In closing, Crombie's fundamentals, again, remain strong. We're transforming our REIT by adding complementary and valuable mixed-use residential investments in Canada's major markets to one of the best grocery-anchored retail portfolios in Canada. The first revenue from our active major developments will be realized in less than 12 months. With this balanced execution, strong balance sheet, ample liquidity and access to multiple sources of capital, as well as one of the best teams in Canadian real estate, I'm excited about Crombie's future and confident in our ability to create sustainable NAV and cash flow growth.

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

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

Thank you, Donnie, and good day, everyone. As Donnie mentioned, our portfolio continues to produce strong results. Our diluted FFO and AFFO per unit were $0.30 and $0.25 per unit, respectively, impacted by our decision to early redeem $74.4 million of 5.25% convertible debentures and incur a $1 million deferred finance cost write-off in the quarter, as well as Q3 severance costs relating to an executive departure. Excluding these 2 items, diluted FFO and AFFO per unit for Q3 would have been $0.31 and $0.26, respectively.

Our year-to-date diluted AFFO per unit is up a very solid 3.7%. Our FFO payout ratio for the quarter was 74.3% and our AFFO payout ratio was 89%. Excluding the items just mentioned, these payout ratios would have been 72.3% and 86.1%, respectively.

On a cash basis, same-asset NOI increased by 1.9% in the quarter, driven by retail same-asset NOI growth of 2.5%. Growth was driven by improvements in occupancy and rental uplifts.

On the leasing front, during the third quarter, we renewed 256,000 square feet, with an increase of 3.9% over the expiring rental rate. Taking a closer look, 140,000 square feet of 2018 expiries were renewed at a 3.1% lift, with 116,000 square feet of future year renewals completed at 5.3% renewal lifts.

Committed occupancy was 96.2%, the highest in Crombie's history. We ended the quarter with 125,000 square feet of committed space, which will boost future NOI growth.

Turning now to G&A. Our G&A expenses as a percentage of property revenue for Q3 was 4.9% or $4.9 million, a slight uptick from Q3 of 2017 at 4.6% or $4.7 million. The increase in expenses is primarily related to higher wage costs and the previously noted severance costs.

We saw a slight uptick in our IFRS cap rate to 6.06% for the quarter, mainly driven by cap rate expansion in secondary markets. As Donnie mentioned, there is a lot of product for sale in some of these markets that is putting some pressure on cap rates. Also, rising interest rates are making it challenging for certain buyers to achieve their desired financial leverage, impacting asset pricing and thus, cap rates. The majority of our assets are grocery-anchored by Sobeys. Some of our secondary market assets have very little competition, enjoy very high market share and are, dare I say, unlikely to be victims of e-commerce.

We continue to derisk our balance sheet, with our first-ever unsecured bond issue greater than 5 years, and we've redeemed and replaced the last of our convertible debentures with unsecured bonds. The $74.4 million of 5.25% convertible debentures were redeemed and replaced with $75 million of 3.962% unsecured notes. Our decision to early redeem the convertible debentures resulted in a $982,000 writeoff of deferred financing charges, which hit our FFO and AFFO per unit by just over $0.005. This hit was well worth it, considering we'll save approximately $1 million in interest savings annually for the next 2.5 years.

Subsequent to quarter end, we issued $175 million, 6.25-year, 4.8% unsecured notes that mature in January 2025. Although we incur a slightly higher cost to achieve this longer maturity, we are true to our financing strategy of derisking our capital structure. We finished the quarter with debt to gross book value on a fair value basis of 50.5% versus 49.9% at the end of Q2, and debt to trailing 12-month EBITDA was 8.57x compared to 8.84x at Q4 of last year.

Our goal remains to reduce leverage over time. Our balance sheet remains strong and flexible, with increasing access to the unsecured bond market and the mortgage and bank markets. We have roughly $340 million of available liquidity and our weighted average interest rate on fixed rate debt sits at 4.14%.

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 sold, as Donnie mentioned, $194 million of assets and deployed a portion of this capital into our value-enhancing developments. With our current capital recycling program and free cash flow, we're confident that we can fund our future investments and improve our balance sheet.

In closing, our core portfolio remains strong. Our business is not only strong, but also predominantly ecommerce-resilient and a wonderful complement to our development pipeline. As we look to the future, we remain acutely focused on creating 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, and we're now happy to respond to your questions.

Question and Answer

Operator

Your first question is from Dean Wilkinson from CIBC.

Dean Mark Wilkinson, CIBC Capital Markets, Research Division

Donnie, maybe specifically for you. You mean, you've got a pretty long history in doing development and have kind of, let's say, been there, done that. How have you seen the development cycle and process change, sort of over the last couple of years, 5, 10 years? And what's the biggest challenge today in sort of getting developments through the process? And how do you see that sort of as you go forward?

Donald E. Clow, President, CEO & Director

I think honestly, the biggest change is the value -- valuation of the properties and the cost to build, and the accelerating cost to build. In terms of the city approval, they don't -- honestly, I mean, they are certainly getting much more stringent in terms of affordable housing and how those types of units are positioned in properties and how much of the property has to be affordable housing, especially in Vancouver. But I think the first issue is the most important, because it's, we're clearly seeing cost inflation across the country, 4% to 7% right now, but in pockets you're seeing as much as 1% a month. And so how we tender those costs and how we control those costs, which are a lot of what we can control in these development projects, is critical. Importantly, we have been able to pass those costs on to consumer because rents or condo prices, which we don't have any condos now, but in terms of what we're looking at, have continued to escalate. But everybody's been through this cycle. I think I've been through 3. And it's difficult to know when things will stop. And especially when, especially the larger markets in Canada like Vancouver and Toronto, increasingly have foreign capital or other factors that are, I'll call it unusual. They've been in place for some time, but they're unusual in that they don't respond to, call it, normal dynamics in the market. They may respond to external forces, such as what's happening in their own country. So things like that are just a little more difficult to predict.

And so for us, the main event we have is that we own the land and a Safeway store and a parking lot in the middle of a big city, we own the land at a very attractive price. And we're working with great partners who can figure out how to source materials and labour at reasonable prices. In the case of Westbank and Prince Developments, we think they're doing an outstanding job of controlling those costs. As I said in my script, the costs are being held down significantly at Davie Street and even Le Duke. We've actually reduced our cost estimate of our total budget in Montreal. So they're doing an outstanding job, and we're benefiting from their, I'll call it, talent of sourcing product and labour.

And then in terms of the rental increases and/or condo pricing increases, no one knows when that will end. But the good news is that we have solid partners who, I believe, have the ability to create value where others don't in those markets or they have strong ability to do that. And that ability is what creates the margin in residential projects. And for us, that's critical to ultimately creating value. You're not just relying on the cap rate spread between yield on cost and the cap rate you sold it. You're actually able to create real cash flow that people -- is fully rented, and then is going to grow at an accelerated rate. We have a strong interest, as we said historically, in the growth of the cash flow; how we can have rental properties contribute faster-growing cash flow than what a grocery-anchored tenant might, which it's great to have a grocery-anchored tenant, in it's a strategic advantage. But one of the negatives is that the rent tends to grow a little slower. So anyway, we view the residential as a strong complementary type of product and the faster we can grow in cash flow is particularly important at times like this, when we're starting to see some rise in interest rates. So anyway, long-winded answer, Dean, I apologize for that, but hopefully that is helpful.

Dean Mark Wilkinson, CIBC Capital Markets, Research Division

No, absolutely, it is. I guess, sort of one of the things I'm just sort of trying to struggle with is, it looks like the industry has kind of moved away from fixed-price contracts. And it's really, really important to be able to manage those costs, given how tight the spread between sort of development on yield and stabilization is. So I guess, you do stand out on that front. So worth mentioning.

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

And Dean, as well, it's Glenn. One of the risk management things we did on Davie Street, for example, being our first project, we wanted to mitigate sort of all of these risks. But Don just talked about all the labour and hard cost. But on the financing side, we did a 10-year mortgage there about a year ago, locked in the financing for 10 years, CMHC insured, at an all-in rate of 3.224%. And just seeing how rates have moved and may continue to move, we saw that as another sort of key step in the process of really trying to ensure that we deliver a strong result and having that interest cost locked in for 10 years is certainly advantageous at that, especially at that rate. You couldn't do that rate today.

Dean Mark Wilkinson, CIBC Capital Markets, Research Division

So is that a forward lock on sort of takeout financing?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

Essentially, yes. We funded the entire mortgage, put it into escrow, with a slight negative carry. And we're drawing it out as we proceed with the development.

Dean Mark Wilkinson, CIBC Capital Markets, Research Division

That was a -- that was a great idea.

Operator

Your next question is from Sam Damiani from TD.

Sam Damiani, TD Securities Equity Research

Just on the leverage. So the goal to reduce leverage, Glenn, you mentioned that. Are you focused more on loan-to-value or debt-to-EBITDA? Which one are you sort of prioritizing as you effect that strategy?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

I'd say debt-to-EBITDA is more important, Sam. Like for example, in the quarter, we went from 49.9% to 50.5% on a debt-to-GBV fair value basis, but that was all basically because we moved our fair value down by about $46 million as a result of some cap rate movement. So you're going to see some volatility, good and bad, in debt-to-GBV fair value. So we've been focused more on debt-to-EBITDA at 8.57x that we noted. We added some disclosure in the MD&A this quarter to show that over time, because we think that's a metric that is more meaningful. Certainly, I think the rating agencies look at debt-to-EBITDA as being more important. So we'll continue to disclose both. But I think I would say debt-to-EBITDA is the metric that probably is the real indicator of how we're proceeding with leverage and whereas debt-to-GBV fair value, as noted, can be a little bit more volatile.

Sam Damiani, TD Securities Equity Research

And with the continuing spend on the development projects, I guess, offset by disposition activity that you've talked about, how would we expect to see that debt-to-EBITDA measure evolving over the next 2 to 4 quarters?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

I don't see any reason for it to change at this point. I think it's going to stay pretty static. We're continuing to enjoy great fundamentals, as we've talked about, record occupancy and 125,000 square feet in the committed bucket coming on stream to bring new income. And obviously, offsetting a bit of that through dispositions. But at this point, I think debt-to-EBITDA should remain range-bound to where it is. Our game plan in time is to bring our leverage down, but at this point, Sam, I would say that debt-to-EBITDA should stay range-bound to where it is. It's an improvement, it was 8.84x, I believe, at the end of the year; it's down to 8.57x, so a small amount of progress year-to-date. But I would say in the next few quarters, I'm not expecting any significant movement at all.

Donald E. Clow, President, CEO & Director

And Sam, it's Donnie, just a couple of points. One is the GBV on a fair value basis, we calculate it on a trailing 12-month basis of income only, rather than 12-month forward basis, which a lot of our peers do. And we're actually thinking about changing it to be in line with those peers. But two, obviously, we've said it many, many quarters, there's no recognition of either the air rights or the development profit that's being built into the sites that we're developing, but those don't get triggered until later part of the development cycle. And so as we get closer to completion, it's one of the things we've been talking about, is we're getting closer and closer every quarter to the completion of these assets, and we believe that NAV creation is real. Costs are holding, rents are holding, cap rates are holding in these major markets, so the -- and NAV creation is real, and that'll ultimately flow its way into the GBV on a fair value basis once the projects are complete, so -- and they're substantial, so as we get down to 3 quarters, 2 quarters, 1 quarter, people hopefully will recognize that the value that we're creating is not expressed in debt-to-GBV today, but it will be shortly. So it's just a point that I think all the REITs with major mixed-use development pipelines are experiencing at this point in the cycle.

Sam Damiani, TD Securities Equity Research

That's helpful. And I'm going to ask a question, just on the lease at Scotia Square. How is that coming along in terms of the renewal?

Donald E. Clow, President, CEO & Director

We can't talk about a particular lease, unfortunately, due to privacy considerations, but we have the highest occupancy pretty well in all of downtown Halifax marketplace. And we've got, on a committed basis. And this lease is obviously a very, very important lease to us, and we believe, in the normal course, it should be renewed, we're working very hard towards that. So we can't really tell you any more than that.

Operator

Your next question is from Howard Leung from Veritas Investment Research.

Howard Leung, Veritas Investment Research Corporation

I want to ask about, Donnie, you had -- you mentioned a comment about there was some softening in certain markets you're looking to exit out of. Can you give a little colour around some of the -- some of those markets where, like which provinces or maybe which regions they're in?

Donald E. Clow, President, CEO & Director

Yes, I don't think it's provincial, it's more urban-rural, or let's call it, tertiary markets versus primary markets, major markets. And there's 2, I think, major impacts right now. One is a number of large players, I won't name them because we -- we happen to like them, so I don't want to blame them for any of the issues going on in those markets. But there's, I'll call it, oversupply of people trying to strategically move their portfolio and where they're large players, they have a bigger influence in some of these markets. And then there's obviously just the rise in interest rates. There's been a bit of a change in the buyer in those tertiary, secondary markets that's moved away from being a majority of institutional to being a minority of institutional. And with that, the private buyers depend more on financing and with the rise in interest rates, you end up seeing certainly an impact on pricing. So it's a couple of influences, but again, we've been, I think, conservative in our estimates, with the moves in those cap rates via the fact that we don't end up recognizing the value inherent in our development or the value inherent in any of our air rights in the major markets. And I think people do have to recognize the value of those air rights is going up significantly today, in Vancouver or Toronto or in Montreal, and -- but we don't recognize any of this, it's just the way the accounting rules are. I'm an accountant by background, and they're conservative rules, and they're conservative for a reason. So I hope that people won't read too much into it, because we take the negative but we can't record the positive, so it's just the way it is. And you're on IFRS until such time as you get a transaction, then you can actually recognize it, so.

Howard Leung, Veritas Investment Research Corporation

Right. No, that makes sense. I mean, I'm an accountant, so I completely get that. And with those properties, do you have a kind of a plan B or an alternative plan for them or for some of them, if you don't end up getting the valuation you want, given that it's a bit of a softer market?

Donald E. Clow, President, CEO & Director

Yes, we've said it all along. We like multiple sources of capital. And dispositions are no exception, so we're not only doing 100% dispositions of what I'll call noncore, we're also doing partial interest dispositions of core. And so that's a blend, as we talked about in our script, it's a balanced approach to funding, multiple sources, in some cases new for us. We just did the Northam deal in the earlier part of the year, which is our first type of -- it's the first time we've done a private equity, but again, it was at a core property, at a very good price. So we're balancing off the potential dilution from 100% interest in tertiary markets, which tend to be a little bit more sporadic and on a one-off basis. But -- so we're very comfortable. And again, these are grocery-anchored, they're the most desirable type of real estate, I think, in the Canadian retail marketplace today. So I do think that they do hold their value on a long-term basis. So we're quite comfortable with where the portfolio is.

Howard Leung, Veritas Investment Research Corporation

That makes sense. And then on Bronte and Le Duke, just on the statement that it looks like Bronte was sold for almost $40 million with a JV. And then did you have to pay any extra for Le Duke as well, for the acquisition of the 50% interest, or was the $40 million kind of a net?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

So no, both organizations, so we owned the Oakville asset. Our partner, PrinceDev, owns the Montreal asset. So we moved our asset into the JV, effectively selling our asset in the JV and then taking 50% equity in that JV. PrinceDev did the same thing in the Montreal asset, Howard, where they've ended the --their interest in. So effectively, just 2 separate transactions, both using the same value approach. And now we have a 50% interest in both of those JVs.

Howard Leung, Veritas Investment Research Corporation

Okay, makes sense. And so can I -- I see. And so, aside from selling the amount -- sorry, aside from selling the Bronte project into the JV, did you have to transfer any cash into the JV for the interest of Le Duke?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

No.

Howard Leung, Veritas Investment Research Corporation

Okay, that's helpful. And then just one final one on debt-to-EBITDA. I know there was, just to follow up on the previous question. Glenn, I think you mentioned that the ratio wasn't really expected to go up. Is there -- did you have a kind of a hard limit, like we'd never go past 9 kind of thing? Or is it just staying in this range is fine for us?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

I wouldn't put a limit on it, but certainly, we have no desire to move into the range you just described. Clearly, we are an investment-grade name, and we want to make sure that -- we've got many constituents, but bond rating agencies are one important one. So we're very comfortable in the range that we're currently at. Eventually, we'd like our debt-to-EBITDA to be lower. If it happens to top up episodically just because of timing of funding, it could, but certainly not in the game plan. And as I mentioned to the previous questioner, we expect it to remain range-bound.

Operator

Your next question is from Tal Woolley from National Bank Financial.

Tal Woolley, National Bank Financial, Inc., Research Division

Donnie, I just wanted to chat a bit about, you mentioned the FreshCo conversions that Empire's pursuing upfront. Do you have a line of sight yet on what's, if you might be in line for any of those conversions?

Donald E. Clow, President, CEO & Director

You know what, we can't disclose it at this point, Tal, I wish we could. We're working more closely with Sobeys than ever, under the leadership of Michael Medline. The good news, as I said on a number of previous calls, is that Sobeys recognizes today, which it may not have as well before, the opportunities with Crombie in terms of both funding, but also just strategic opportunities, to create value on the real estate side. And this is one option, and it's clearly a good one for both sides in terms of funding for Empire and funding at a reasonable price for Crombie to create AFFO growth in the short term, which is clearly important to everybody, and NAV growth. And for us, I think more importantly, looking through the retail and the local markets, is that this product is more suited for those markets. We have been working with, as I said, with Sobeys and their real estate teams very closely, so we understand how they look at their analytics and which stores are being converted and why, et cetera, and how it's going to match the market much better. So ultimately that has legs over the long term, so we're pleased about that. But we can't really give anybody today a number that we're -- are in our portfolio, and we plan to participate in over time, but I can tell you that we're working with them to define that and develop it over a multiyear plan, so -- and we're quite excited about it, just because again, it matches the market for the consumer.

Tal Woolley, National Bank Financial, Inc., Research Division

Got you. And I guess, you say working closer than ever, I guess like one of the questions I have, too, is if you think about the next couple of years, you will be delivering a lot of product to market with their banners on it. And is there a possibility longer term that as you sort of start to prove yourselves as developers, that more of what's happening in Empire right now could be downloaded to Crombie on the development side?

Donald E. Clow, President, CEO & Director

We can't speak for Empire. I do believe that there has been a shift in, call it, the Empire-Sobeys world, where they are doing less development and really looking to Crombie, we're being transparent with that, that they're looking to Crombie as the developer, both of the retail, but then also importantly, to take advantage of creating the highest and best use for some of these inner-city sites, which creates value not only for Crombie but for the retailer in terms of delivering brand-new, high-performing stores and ancillary retail, but also customers up above those stores in residential and at scale. And then also, I think you have to look through, Crombie does, is owned 40% by Empire. So ultimately, whatever profit is developed at the Crombie level and/or cash flow, Empire can claim 40% of that rightfully. And I think as I said, the new leadership at Sobeys, Empire is clear. Mr. Medline in particular has lengthy experience with Canadian Tire and CT REIT and was the key person in the formation of the REIT. So he clearly gets it, and we're very excited about that, so we just, really, it's now about how do we accelerate that over time. And that acceleration, I think, can ultimately pay long-term dividends for unitholders, so we're quite excited about it.

Operator

Your next question is from Michael Smith from RBC Capital Markets.

Michael Smith, RBC Capital Markets, LLC, Research Division

Donnie, you've been active, very active capital recyclers, which makes total sense, given your development program and your cost of capital. And you had mentioned that some of the assets are sold are sort of noncore or they don't grow as much. So could that mean that you will dispose of some of the lower-growth properties in smaller markets, even if they're really good properties anchored by Sobeys? Or is that not really kind of in your thinking?

Donald E. Clow, President, CEO & Director

Yes, so Michael, we -- I've said it before. We, let's call it, have 3 definitions internally. We call it core properties, which are our best property as defined by the capital markets and investors other than capital markets, and I would say historically, defined by some of the largest players in the retail REIT space, the defined top 6 markets. And then we add core plus, which for Crombie is looking at true, not only the markets, but the store, understanding the intelligence at the store network and the store performance. And then we have, call it, rest of Canada, which is either stuff that's not anchored by Sobeys, or it's not even necessarily the best. They're often still good stores, but they're not always the best. And so I would say we'll do a selection of all 3 of those buckets, but generally, the top 2 buckets, core and core plus, we would generally look to be partial interest sales.

But particularly, as you said on the lower-growth end of the cash flow spectrum. And then, the rest of Canada, and noncore, we will sell those 100% over time, but -- and most importantly, our worst assets, we generally don't have too many bad assets anymore. We've generally worked our way through those over the last decade, either by selling or by driving down their importance by growing our company. So we really have a much better portfolio, always had a good one, but we now have a much better one. And so these situations, it's a good situation for us, in that our portfolio is almost all of a high-quality and one of the best in the country. And so even if we sell an asset, it's generally still a pretty good asset. So I think we're in pretty good shape. And grocery-anchored in particular, as I said earlier, is pretty well the

#1 type of real estate that people are seeking out there in this market because of the safety and security, right?

Michael Smith, RBC Capital Markets, LLC, Research Division

Makes sense, that was helpful. Just switching gears, just to renewals. I wondered if you could just give us some colour on your future year renewals, the 116,000 square feet you did. Is that -- were they --were you sort of actively pursuing them, or were they just looking for an early renewal? And what's your general thinking on early renewals?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

We generally don't instigate them, Michael. They tend just to be sort of situation-specific. Sometimes, if we're manoeuvring a property or doing some redevelopment, that can be a catalyst, but generally speaking, it can vary. So I think in the quarter, we did show overall 3.9% growth in our renewals, but the over 5% on the future year renewals, so that was a little bit stronger. But I wouldn't say that there was anything sort of terribly unique. We're actually really excited also about our 2019 renewal program, since you brought up renewals. We have about 880,000 -- 818,000 square feet, I think, rolling over in 2019 and we're feeling really good about our prospects on that front. We're just reviewing our top 10 renewals, and we feel confident that virtually each and every one will be completed. So we're going to have a very strong retention rate into 2019. So again, the fundamentals are strong.

But back to your question, it varies. We don't usually instigate early renewals. Usually, it's tenant-specific and often property-specific, if there's reasons for a tenant to be moving around to make room for some development or redevelopment activity.

Michael Smith, RBC Capital Markets, LLC, Research Division

Okay, and just while we're on that, while you brought up the 2019 renewals for the top 10, do you see a gap between in-place rent and market rents?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

Yes, we continue to see. We think it will be -- continue to be positive. This was an anomaly year for us. Our renewal spreads were relatively weak. If you look at the 5-year history, where we are year-to-date is not as strong. We've been traditionally in the 5% to 8% range. And I think it's primarily because we've had a lot of office rollover, primarily in Halifax. And with new supply in that marketplace, the market has been fairly aggressive, and we've been getting deals done, but not with the kind of renewal increases that you would normally expect. So we're hoping for 2019 to hopefully see a return to more normal, call it, more normalcy on our renewal uplifts. But as you know, it only occurs when those deals get done. But I'm hopeful that 2018, although it's now back nicely in the positive category, I'm hoping 2019 will be a return to more normal levels.

Operator

Your next question is from Pammi Bir from Scotiabank.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

Donnie, you made some comments on rent growth on the mixed-use projects. But just curious if you could provide some colour on how much the multifamily rents have changed at Davie Street or the market rents, at least, for comparable assets, if there are any, from when you first underwrote the project versus where they are today.

Donald E. Clow, President, CEO & Director

Yes, I mean, it's a competitive market. There's actually quite a few towers being built in the area of the Davie Street project. But I'd just say -- I would say that we've modelled, let's call it, high $3s, $3 a square foot a month, in that, call it between $3.75 and $4. And today, there's rents in place over $4 a square foot. So for us, we've not changed our budget at this point, but I fully expect, when we actually go to market, that we'll be reflective of market, which we expect will be higher than our budget. And so for us at Davie Street, it will be a home run with cost locked in place, financing locked in place. And we think, with rental growth between now and when it opens, so which is mid- to late-2020, so it's, I think, a great situation.

And especially where you see cap rates in rental in Vancouver in that part of the country is as good as you're going to see anywhere, building to a 5.5% yield with comparable cap rates for that type of brand-new product in the 2.5% to 3% range creates a lot of value for Crombie and our unitholders. So we're quite excited about that, it creates tremendous NAV growth. So one project alone, I think, it has a serious impact on our balance sheet and on our value of our company. So we're quite excited. So, yes. In the rest of the country, again, major markets are seeing solid rental growth. And so we're excited to be building in both Toronto and Montreal, so it's just -- and our budgets have always been conservative, so it's, I think going to end up hopefully better than we expected.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

Got it, that's helpful. Just one last one. Just wondering if there's any exposure to some of the bankruptcies or closures that we've recently seen in the last few weeks and how you're feeling about Q1, where we typically do see some seasonal weakness from a leasing standpoint?

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

We'll see, Pammi. Clearly, nothing -- Lowe's was news this week. We only have 2 Lowe's in our portfolio, both in Nova Scotia and neither one affected by that departure. And at this point no, there's nothing specific on our radar of concern, but you are right, after the holiday season, that can be a time for some retail departures. But we have nothing on our -- are registering at this minute. So we're cautiously optimistic heading into 2019 that our fundamentals remain strong, and we're looking forward to that 125,000 square feet of committed occupancy to come on stream and get into our economics.

Operator

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

Claire Mahaney Lyon, Manager, Investor Relations

Thank you, everyone, for your time today. And we look forward to updating you on our progress on our Q4 call in the coming months. Thank you.

Donald E. Clow, President, CEO & Director

Thanks, everybody.

Glenn R. Hynes, Executive VP, COO, CFO & Secretary

Thank you.

Operator

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