Final Transcript

Crombie Real Estate Investment Trust

Second 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, requirements and timing for Sobeys investments, the timing of property development activities or other 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, future revenue growth, anticipated yield on cost, and impact on net asset value and net asset value per Unit, 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, continuance of current market and capitalization rate conditions and general economic conditions and factors described under the "Property Development/Redevelopment" section of our most recent Management's Discussion and Analysis, 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) 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;

(v) 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;

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

(vii) 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.

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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"), funds from operations ("FFO"), FFO as adjusted, adjusted funds from operations ("AFFO"), debt to gross book value, 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, 2018 for additional information regarding Crombie's use of non-GAAP financial measures, including definitions and reconciliations to GAAP measures.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Crombie REIT Q2 Fiscal 2019 Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require assistance, please press star, zero for the Operator. This call is being recorded on Thursday, August 8, 2019.

I would now like to turn the conference over to Clinton Keay. Please go ahead.

Clinton Keay, Crombie REIT, Chief Financial Officer and Secretary

Thank you, Joanna. 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.com. Slides to accompany today's call are available on the Investor section of our website under Presentations and Events.

On the call today are Don Clow, President and Chief Executive Officer; Glenn Hynes, Executive Vice President and Chief Operating Officer; and myself, Clinton Keay, Chief Financial Officer 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 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 a development update and review of Crombie's operating results, and I will conclude our prepared remarks with a discussion of our financial results, capital allocation, and approach to funding.

Donald E. Clow, President and Chief Executive Officer

Thank you, Clinton, and good day, everyone. I often say that Crombie is a long-term mindset; quarterly reporting serves as an opportunity for us to look back at the significant growth and changes that have taken place in the last three months. This quarter is no exception. Crombie continued to grow and evolve as we welcomed new tenants to our properties, watched several of our major developments rise out of the ground, and expanded our development pipeline from 24 to 33 properties.

Our Team continues to execute on strategy, driving future growth and value creation through the sustainable competitive advantage of our relationship with Sobeys, strong fundamentals, and a real estate team that is focused on creating value for our stakeholders.

Our needs-based portfolio provides stable cash flow growth, and provides the foundation needed to support strategic growth with Sobeys and our major mixed-use developments. We continue to invest in high-quality sustainable real estate where people live, work, shop, and play, unlocking value for both investors and tenants across our portfolio, and funding these market-leading investments with low-cost capital from multiple innovative sources.

Our relationship with Sobeys is powerful and unique in the Canadian REIT industry. We work closely together as preferred partners, with both sides benefiting from our strong ties. Our shared history and the nature of our connection allows us to pursue strategic and mutually beneficial opportunities together. Sobeys strong year-end results and the return to investment grade status with DBRS demonstrate that our largest tenant is positioned well to successfully compete and win into the future.

This competitive advantage allows us to unlock value in several ways: investments in banner conversion such as the recent Freshco conversions, modernizations, expansions, renovations of our existing sites, and major development opportunities. The Pointe-Claire customer fulfillment center is a great example of this. Now our sixth active major development, Pointe-Claire is an exciting opportunity for Sobeys and Crombie to work together to lead the way in grocery e-commerce in Canada.

Pointe-Claire site will be an approximate 285,000 square foot customer fulfillment center, powered by Ocado's world leading online grocery engine and packing technology. The site will become Empire's Voila par IGA e-commerce distribution hub, serving Quebec and the Ottawa area. Crombie’s total cost of the project is approximately $100 million, including land and will produce a yield of 6% to 6.5%.

I mentioned earlier that we expanded our development pipeline potential from 24 to 33 properties. Our new national structure and strong relationship with Sobeys has enabled our teams to work to identify these additional potential development opportunities. Executing on this expanded pipeline will further urbanize our portfolio with six of the additional properties located in Bechtel markets.

Our active development pipeline, which we anticipate will create significant value for our unit holders, remains on track and on budget with roughly $300 million invested to date.

Yields on cost for our first six projects remain, on average, in the range of 5.4% to 5.9%, which we expect will translate into $1.00 to $2.00 of net asset value per unit within the next one to two years, assuming current market and cap rate conditions continue. Place making plays an integral role in our mixed-use development planning as we strategically integrate grocery and residential into welcoming community spaces.

During the quarter, we increased our focus on entitlements, as an additional three projects moved to the pre-planning phase, two in Halifax and one in Langford near Victoria, B.C. Two of these projects are new to the pipeline. This increases the number of projects in pre-planning to seven.

Park West is in Halifax, and is a prime location abutting adjacent retail and residential where Crombie is currently exploring mixed-use development options.

West Hill is a multi-unit residential addition to our existing Scotia Square commercial complex in Halifax's downtown core.

Belmont Market Phase II is currently contemplated as a final piece of the larger 160,000 square foot shopping center development, with the potential to add an additional 140,000 square feet of commercial space on the remaining 1.7 acres of land.

We executed some innovative capital recycling during the quarter, allowing us to redirect capital to our growth with Sobeys and the major mixed-use development pipeline. These disposition transactions completed at or above IFRS fair value speak to the quality of our portfolio and our desirability as a partner, as well as validating our NAV.

The second quarter, Crombie sold investment properties for total proceeds of $186 million. Dispositions included an 89% partial interest portfolio comprised of 26 properties across the country; a 39,000 square foot retail property located at Markham Road in Toronto, and a land sale in Langford, B.C. After June 30, Crombie closed on an additional three assets, for total proceeds of $49 million.

We have entered into a second agreement of purchase and sale with Oak Street Real Estate Capital to sell at 89% non-managing interest in 15 portfolio properties for total proceeds of approximately $193 million. Transaction is expected to close this fall, bringing total 2019 proceeds to approximately $530 million. This transaction once again highlights our ability to creatively execute various types of partial interest property dispositions, expanding sources of capital, and enabling pre-funding of our major mixed-use development commitments well into 2020, while aligning with our long-term funding strategy.

Through 2018 and 2019, Crombie disposed of approximately $800 million of assets, and has re-invested approximately $300 million into a development pipeline, both of which are diluted to short-term earnings until our first major development projects come online. Our strong business foundation and fundamentals enable us to deliver solid results, driven by strong same-asset NOI with high occupancy and solid renewal spread; all the while, we position Crombie for a very exciting future.

In closing, Crombie's fundamentals remain strong. We're transforming our REIT by adding complementary and valuable mixed-use residential investments and state-of-the-art Sobeys-related industrial in Canada's major markets. Revenue from our active major developments is beginning to ramp up in 2019, and will significantly increase further in 2020. We're very pleased with the progress we've made in our development pipeline and our operational results. With a solid balance sheet and ample liquidity and one of the best teams in Canadian real estate, I have full confidence in our collective ability to continue to unlock value at Crombie for years to come.

With that, I'll now turn the all over to Glenn who will provide an update on our developments and our operational highlights. Glenn.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Thank you, Donnie, and good day, everyone. A significant milestone is fast approaching in Vancouver at Crombie's first major mixed-use project, Davie Street. On August 14, we celebrate the structural completion at the topping-off ceremony. Our experienced development team and partner, Westbank, are doing a wonderful job at developing this $181 million, 306,000 square foot property into the Vancouver skyline, and we're confident in our forecasted yields on cost in the range of 5.2% to 5.6%.

Here we own 100% of the retail and 50% of the residential rental. The new Safeway store at approximately 44,000 square feet should open in late 2019, with early 2020 openings for CRU tenants and apartment occupancy commencing in Q3 of next year.

The $57.88 million redevelopment at Avalon Mall is progressing well, as construction continues and leasing activity ramps up. The Rec Room by Cineplex opens in April, and Winners HomeSense opened in their new and expanded location on August 6, just two days ago. We've executed redevelopment leases for over 53,000 square feet with H&M, Old Navy and Gap, Banana Republic now fully executed. With current occupancy at 97.3% for the existing mall, 62.5% of the leasable square footage in the re-development area has been executed to date, and we continue advanced discussions with other national anchor and CRU tenants.

At our $93 million 160,000 square foot grocery anchored retail center, Belmont Market, 108,000 square feet has been added to GLA to date, with committed occupancy of 92.9%. During the quarter, four tenants completed their fixturing and opened for business, with the Thrifty Foods office expected to open this month. The final portion of the project consists of three retail buildings, totaling approximately 23,000 square feet. Construction is expected to start by year end on at least one of these buildings. Pre-leasing is currently taking place with deals pending on approximately 11,000 square feet.

Along the Bonaventure Greenway in Old Montreal, construction at Leduc progresses, as the above-grade structure and base building work is now well underway. Upon completion in early 2021, this $123.5 million development that comprises 277,000 square feet will consist of a 25,000 square foot urban format IGA store, 390 residential rental units, and 200 underground parking stalls.

At Bronte Village in Oakville, cranes are now on site as excavation and shoring work is complete, and the below-grade parking structure is well underway. The 520,000 square foot 480 residential rental unit development with 622 underground parking spaces is expected to be completed in Q3 of 2021, with total project's cost estimated at $277.2 million. Crombie is a 50% owner, alongside our partner, Prince Developments at both Duke and Bronte.

Pointe-Claire, as Donnie mentioned, located 3 kilometers from Montreal's Pierre Elliott Trudeau International Airport, was acquired in the first quarter of 2019. Things are moving quickly, as the site is currently zoned for its intended use. Site plan approval was received, and demolition of the existing structure is almost complete. This approximate 285,000 square foot ultramodern customer fulfillment center will be home to the Voila par IGA, e-commerce service for Quebec and the Ottawa area, beginning in 2021.

Don also noted our strong foundational operation fundamentals, as total committed occupancy was 95.9% at the end of Q2, an improvement from 95.7% at Q1. Our team is dedicated to ensuring our underlying business fundamentals and core portfolio remains solid. An entrepreneurial approach to leasing has helped to attract and retain tenants in all markets. We ended the quarter with 126,000 square feet of committed space, which will boost future NOI growth.

One hundred and seventeen thousand square feet of renewals were completed in the quarter, with a solid increase of 6.7% over expiry. Year-to-date, we renewed 299,000 square feet at an increase of 2.1% over expiring rent. During the first six months, retail renewals were strong, with 127,000 square feet renewed at rental increases of 6.8%.

In closing, our core portfolio is performing well, and is a wonderful foundation on which to build out our mixed-use development pipeline.

With that, I will turn it back to Clinton, who will highlight our second quarter financial results and discuss our capital and development program funding approach. Clinton.

Clinton D. Keay, Chief Financial Officer and Secretary

Thank you, Glenn. On the cash basis, quarterly same asset NOI, including the impact of IFRS 16, increased by 3.2% and 3.7% for the year-to-date. Quarter-to-date and year-to-date same asset NOI, excluding the impact of IFRS 16, increased 2.7% and 3.2% respectively. The increase is a result of rental rate increases on existing tenant leases, new leasing activity, and revenues from land use intensification at certain properties.

AFFO per unit decreased slightly to $0.25 from $0.26 for the same quarter last year. Considering our disposition activity, reduction in leverage, and our investment in our development pipeline, we are pleased with these results. Our Q2 AFFO payout ratio was 89.9% versus the same quarter last year at 85.3%. FFO for the quarter decreased to $0.29 per unit, and our FFO payout ratio was 75.7% versus 72.7% in Q2 2018. The decrease to FFO and AFFO is due to the disposition of properties in the current and prior quarters and increases in G&A costs.

G&A as a percentage of property revenue for Q2 was 6%, or $6 million, up from Q2 '18 at 4.4% or $4.6 million. This increase was primarily driven by salaries and benefit costs, the majority of which is related to our positive unit price increase of 25% year-to-date. Excluding the impact of our unit price increase, G&A will be at approximately 5% of property revenue for Q2, FFO would be $0.30 per unit, and AFFO would remain at $0.25 per unit.

Our debt to gross book value on a fair value basis improved to 49.2% at the end of Q2 compared to 50.3% at Q1 and 51% at the end of Q4 2018. We ended the quarter with a debt to trailing 12-month EBITDA at 8.21 times, an improvement compared to 8.56 times at Q1. Our unencumbered asset pool decreased slightly to $954 million from approximately $1 billion at Q1, driven by dispositions.

Our balance sheet remains flexible, with approximately $413 million in available liquidity, and with continued access to the unsecured bond market and the long-term mortgage and bank markets.

Crombie is executing as planned on our strategy and capital allocation priorities. We are directing disposition proceeds into both Sobeys investments and higher returning developments. This smart capital allocation strategy will continue to improve the quality and urbanization of our portfolio and deliver higher cash flow growth over time. Given our multiple sources of capital, success with our current capital recycling program, and free cash flow generation, we're confident we can fund our future investments and maintain a strong balance sheet.

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

Thanks for listening. We are now happy to respond to your questions.

Questions and Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star, followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question is from Dean Wilkinson from CIBC. Please go ahead, Dean.

Dean Wilkinson, CIBC World Markets, Research Division

Thanks. Good morning, everybody. Let me start with Clinton. The gain on the air rights coming out of Davies Street, the $7 million and change, how is that going to roll through the P&L and will that come into an FFO calculation or how will you be dealing with that?

Clinton D. Keay, Chief Financial Officer and Secretary

No, it will not. That moves into the asset base, so no, there's no impact on the P&L.

Dean Wilkinson, CIBC World Markets, Research Division

No impact on the P&L, great. On the joint operations credit facility, which you are, call it 10%, did Crombie have to backstop any of that, or how is that guaranteed?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

No, there is no backstop, Dean. It's basically, when we did the transaction with Oak Street there were certain properties that were unencumbered, so we simply pledged together the properties for that facility, so we have 11%, and they 89%, so there's no backstop.

Dean Wilkinson, CIBC World Markets, Research Division

It's straight to the asset level, that's it. Okay.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Correct.

Dean Wilkinson, CIBC World Markets, Research Division

Then, just a bigger kind of broader thinking question maybe, Donnie. You look at development yields and they're kind of still hanging in maybe 150, 200 basis points, I estimate, over where stabilized value would be, which affords a pick up. How tight would that spread have to come in before, based on your experience developing, that the decision to continue to develop maybe comes a little bit too tight, or could you just let development fall on top of acquisition cap rates to effectively say it's a newer asset, there's going to be no deferred maintenance, that sort of thing.

Donald E. Clow, President and Chief Executive Officer

Some people look at 100 basis points as their limit. I think for each situation for us, Dean, it's going to be unique. We have a very unique situation with Sobeys, and that's something we believe is a sustainable competitive advantage, and part of that is we have flexibility within, call it the model that we work with Sobeys to share some of the upside in the value and/or we have very low historic costs, especially given the changes in land cost in Vancouver and Toronto. I'd say the rule of the thumb, somebody might say 100 bps, but for us, there's a lot of uniqueness in the transaction that we can figure out a way to make certain things work, especially if it's strategic for both parties, and I think for us, we're, again, as I've said to a lot of people, we're interested in the long-term cash flow. We do do 30-year IRRs on these projects to look at cash flow growth that's, whatever, 2%, 3%, and in Vancouver's case, some cases, 4% or 5% over time, that, for us, is critically important to offset, diversify away from retail to some degree, but also offset the lower rental growth that we get on some of our grocery-anchored income streams. It's a variety of factors. It's not just simple development math, I guess is the way I would answer.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Dean, I would add to that, that the NOI yield on cost is year one NOI, and you mentioned one of the two factors. You're right, when you do development, and you get a brand new asset, so you're going to have years of no maintenance CAPEX, so that's a positive. The other thing, and the other primary reason why we're into development is the cash flow growth that we get. It's not just the year one NOI that drives the initial yield relative to cap rate, but if we can get 3% to 5% NOI growth with some of these projects, which is possible, then that's another catalyst. Obviously, we want to get a great spread between our development yield and cap rates, but we also want to get the diversification that Donnie mentioned, but also the cash flow growth that's inherent in many of these projects.

Dean Wilkinson, CIBC World Markets, Research Division

Yes, no, that makes total sense. That's it. I'll hand it back. Thanks a lot, guys.

Donald E. Clow, President and Chief Executive Officer

Thank you.

Operator

Thank you, and the next question is from Mark Rothschild from Canaccord. Please go ahead.

Mark Rothschild, Canaccord Genuity Corp. (Canada), Research Division

Thanks, and good afternoon, guys. In regards to the renewal rates, and it's just under 7% for the quarter, do you see that as a good kind of range for the next little while, and I'm curious also to what extent does this change maybe your expectations for same store NOI following the large volume of asset sales?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Good question. I think we're very comfortable with this 6%, 7% renewal rate uptick. That's more than normal for us. We usually say mid to high single digits. Q1 was an anomaly. We had a couple of funny leases in a very small sample size. Q2 was much more normal. I would say same asset NOIs as it relates to our disposition properties, I wouldn't say there's any particular reality. We're bullish that we're going to continue have strong 2% to 3% growth in same asset NOI. I wouldn't say the sample of properties that have been disposed changes that reality. Some of the assets we've sold were, call it, non-core and/or lower growth. It's possible, and I would say it is the case, that the properties that we've disposed of would have lower same asset NOI, all things equal, but I wouldn't say it's material enough, Mark, that it would move our go-forward same asset NOI growth higher, but if it was a trend change after our dispositions is that our go-forward same asset NOI would be higher than lower as a result of the properties we've sold.

Mark Rothschild, Canaccord Genuity Corp. (Canada), Research Division

Okay. Great. Thanks, and in regard to your development pipeline. Obviously you've got quite a few projects. To what extent should we expect the development spend over the next couple of years to accelerate further or are you focused on keeping it under maybe $300 million a year?

Donald E. Clow, President and Chief Executive Officer

It's a central strategic question, Mark, so, and we don't like giving guidance, but this year let's call it $150 million to $200 million is the rough, call it, spend, and given our current project list, that's probably a reasonable estimate for next year as well. We are building a company that can torque up to a higher level of spending, but development takes time. We're patient and want to do it with the right developments, and especially where we're working with our partner at Sobeys, it's got to be right for them and for us at the same time.

I would say the spending is going to be consistent, reasonably consistent, and ideally we will torque it up, because we're certainly anticipating the opportunities as we've outline this quarter with an increase in the opportunities. For us, with the way we look at it, is we look at the amount of opportunities, and then two, the amount of entitlements, and then three, the amount we spend, and then four, the amount of completions. All of those four things you'd like to seeing increasing nicely over time, and we're still in our infancy as a development company.

We've got great inventory. Certainly, the entitlements, I think, Glenn with his new position as COO is going to focus more heavily on entitlements. Our spending is now developing a bit of consistency, and we're just about to start on completions, which should drive our AFFO and NAV growth very, very nicely. As we evolve in the next five years, you'll see those numbers hopefully grow to be consistent and ideally growing over time, and that should—that is the key to our strategy driving AFFO and NAV growth.

Mark Rothschild, Canaccord Genuity Corp. (Canada), Research Division

Okay. Great. Thanks.

Donald E. Clow, President and Chief Executive Officer

Thank you.

Operator

Thank you, and the next question is from Pammi Bir from RBC. Please go ahead

Pammi Bir, RBC Capital Markets, Research Division

Thanks, and good afternoon. Just on the…

Donald E. Clow, President and Chief Executive Officer

Congratulations, by the way.

Pammi Bir, RBC Capital Markets, Research Division

Thank you. Thank you. Just coming back to the Pointe-Claire, DC, now that all of this is fully disclosed and it's in your materials, can you just maybe shed some light or some additional light on the terms there, the duration, the rent steps, what those look like?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

It would be a standard 20-year lease out of the gate. I can't disclose the rental steps. That's something that we're not disclosing currently, but it will be in the ordinary norm of our leases with Sobeys. I think those are the major terms, 20 years, triple net lease with, call it, market rental steps.

Pammi Bir, RBC Capital Markets, Research Division

Okay, and would those rent steps be annual or periodic within the 20-year term?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

They're periodic, likely every five years would be the reality of Pointe-Claire.

Pammi Bir, RBC Capital Markets, Research Division

Okay. Not to get too granular on this, but just, I'm curious about the transfer of the air rights that happened post quarter end. Can you just maybe shed some light on how the terms were structured? I guess this was going back three years ago. I'm just curious as to how the mechanics on the pricing worked?

Donald E. Clow, President and Chief Executive Officer

We reached an agreement with our partner, who's been an outstanding partner. I was on the site a couple of weeks ago, and the construction is outstanding, and we think the project's coming along very well. The pricing was determined, as you stated, a few years ago, and it was market at the time, and it's the agreement we made, and we're very pleased with, I think, at the end of the day the result on the development will be probably double our investment, so it's going to be a home run. I always hoped it would be a double or maybe a triple, but in baseball terms, I think it's going to be a triple or a home run right now, and we give full credit to our partner, Westbank, for that and our own team working very hard on it as well. The land sale is a technicality and a timing issue is all it really is.

Pammi Bir, RBC Capital Markets, Research Division

Okay. No, that's helpful and good progress on that one. Last one for me, just in terms of the CAPEX and TIs, they seem to be running below 2018 levels from a maintenance standpoint. I'm just curious if you've given any thought to perhaps revisiting the reserve at all, and after you factor in some of the dispositions as well?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Sure. I would say we're a bit surprised, because we thought the $0.90 is really a reflection of the last three-year average, effectively this year and prior two years, and we may well look at it. I think part of the reality is, as you noted, some of the properties that we disposed perhaps were slightly more using of maintenance CAPEX and TI, and the trend seems to be for the last 12 months or so that we've been underspending against the $0.90. We chose to leave it at $0.90, but based on year-to-date, our AFFO would be over a cent higher if it was based on actual. We may get a bit more spend. Spend tends to occur in the summer, and it is on a cash basis, so we may catch up some of that, but we'll be looking closely, Pammi, by the end of this year. We usually only change it in January, but if it's certainly staying on the current trend, then we'll be looking to reduce it, and part of that will be motivated by the properties that we have recycled.

Pammi Bir, RBC Capital Markets, Research Division

Okay. Thanks very much, Glenn. It's helpful.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Thanks.

Operator

Thank you. The next question is from Sam Damiani from TD. Please go ahead.

Sam Damiani, TD Securities Equity Research

Thank you, and good afternoon, everyone. I wanted to touch on the development pipeline first of all. I noticed the Lynn Valley asset seems to be pushed back off of the front burner. Was there a reason for that? Also, I was just wondering as you look at the Vancouver market, do you feel confident enough to start another residential development in that market, and if so, which site might that be?

Donald E. Clow, President and Chief Executive Officer

Yes, Sam. Lynn Valley is something we are continuing to work on over time, and in development things get pushed up, they get pushed back, depending on circumstances. Some of it, in our case, as I alluded to a little earlier, depends on our partner's situation. Lynn Valley, it may have been, call it, slowed down a bit, but it's certainly not off the radar. We are constantly working on it.

Development as a whole, remember, we're in Vancouver, we're generally looking at purpose-built rental. We do look at condo on a micro-market basis, what's demanded in that local market. We could do condo and purpose-built rental, and we are working, importantly, on East Broadway, and we are working on King George Highway, as well as Royal Oak at the same time. Our view on the market is it's still a solid market. It may have come off 5% or 10% in terms of condo pricing, but rental numbers seem to be holding, especially where we're working with numbers that are dated back a year or two in our proforma's, we're generally—the numbers that are there today, even if they've come off a little bit, are still exceeding our budget. The numbers are very compelling when you've got large increases in the value of the land, and the highest and best use is something that's a full development. I don't think it really pulls us back too much. They're certainly very cautious and certainly very mindful of what's happening there and working very closely with our partner, Westbank, who is working with us on East Broadway to understand those changes in the market and try to predict what's going to happen when the project is completed a few years from now. A long-winded answer, but I hope that's been helpful.

Sam Damiani, TD Securities Equity Research

That is helpful. Thank you. Just shifting over to the fair value disclosures. With the Oak Street sale committed and set to close in the latter half of this year, are those—that $193 million pricing, is that reflected in your fair value disclosure at Q2?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Yes, it is. It is.

Sam Damiani, TD Securities Equity Research

Could you clarify as well to the extent to which, if any, the properties that are under development are included in the fair value at a premium above cost?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

We remain, I would say, very conservative in that respect. Our fair value that we reflect in Note 3 of our financial statements is 100% based on trailing 12-month NOI, and current market cap rate for the existing retail or operational use. There is nothing in our fair value for fair value of air rights. There is nothing in our fair value for any mark-to-market of projects that are in our top six, for example. They will come into NAV based on our current methodology when those projects are completed. We continue to evaluate the accounting parlance, etc., to make sure that we're not too conservative, but that's been our general methodology. We'll continue to evaluate that. We're mindful of what other REITs are doing, so we'll pay attention, but the current methodology, Sam, is, as I've described it, and is basically only based on income in place with no additional add-on value.

Donald E. Clow, President and Chief Executive Officer

Sam, there's a number of solid methodologies out there as Glenn alluded to, where people do provide fair value once they've got a property entitled. We are certainly looking at it. I think I can safely give a range of values that would be in the hundreds of millions of dollars of air rights values that we currently own. It would be something that, as I said earlier, we're going to ask Glenn to really focus hard on entitling those projects, and given those level of entitlements, we're looking at how other people are maybe a little more aggressive than we are, and their interpretation and composition of fair value to say what's apples to apples here, and whether we should be doing it as well. There's significant value, we know it. It's not recognized under IFRS, and so over the next few quarters we'll come to an opinion and it may be different than what we've done in the past.

Sam Damiani, TD Securities Equity Research

Thank you. Just one last question, on the Ocado Development in Montreal, comes out to around $350 a square foot. I'm just wondering if you could help us understand what costs to the project are perhaps being borne by Ocado or Sobeys, not by Crombie?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

I wouldn't get into it terribly deeply, Sam. I think it's safe to say our primary responsibility is to own the land and build the building to a very specific specification. Most of the technology and infrastructure inside the building would the Ocado Sobeys contribution, and it's really that simple. It may be a higher amount per square foot. There's obviously, with the height and depth and weight of this building, there's a lot of intensity around foundation conditions and site conditions. There's a lot of meticulous work in getting this site ready, and then building the structure. It's a tall structure, a big structure, 285,000 square feet, a lot of parking lot and area for vehicles to come and go. That's essentially it though. Everything inside the building would be, as you expect from a landlord's point of view, would be the tenant's oversight, and hopefully that gives you some color.

Sam Damiani, TD Securities Equity Research

That's helpful. Just what is the exact location of the site?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

The exact location? We'll get that for you offline, if that's okay, Sam. We'll text it to you, but Pointe-Claire, but I don't think I have a specific address at the tip of my tongue.

Sam Damiani, TD Securities Equity Research

I appreciate it. Thank you.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

You're welcome.

Operator

Thank you, ladies and gentlemen. As a reminder, should you have any questions, please press star, one.

The next question is from Tal Woolley from National Bank. Please go ahead.

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

Hi. Good afternoon. Maybe just following along Sam's line of questioning about the Voila DC. Can you compare that sort of per square foot cost to maybe one of the other Sobeys automated DCs in Terrebonne or Vaughan?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

I haven't actually thought about it in that context. Tal, we could have a look at it, but fundamentally they're different. What is unique about the Pointe-Claire facility is that it's for the Ocado engine. The other three DCs are actually very high end and high tech, as you know. They are powered by the Veton system from Europe that is a very highly automated distribution center, but not for the e-commerce side, so they are different. They're both very high tech, and very ultramodern, but we have not done a comparison to look at it that way. It might be something interesting to do, but I'm not sure it's something that's all that powerful.

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

Okay. Any sense on how may more of these are possible?

Donald E. Clow, President and Chief Executive Officer

Yes, we said it I think previously where there may be a few more of these larger Ocado DCs in the country. We'll leave it to Sobeys to say how many there are and when, but importantly, in addition to these DFCs, there is potential for call it spokes or hub-and-spoke type system where there are smaller facilities in high-traffic areas within the major centers in the country that are not insignificant for a company like Crombie potentially. We're quite excited about working with Sobeys, to be part of their more fulsome network, and we think it could be a significant vehicle for us to invest, and it's—we think it's, given the nature of it, it's state-of-the-art, it's e-commerce, it adds to our retail-related industrial part of our portfolio and allows us to grow that in a very solid risk adjusted basis.

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

Beyond Avalon, how many other enclosed malls do you guys own?

Donald E. Clow, President and Chief Executive Officer

Technically, I'm going to let Glenn answer, but I'll jump in, and I'll basically say none. We have some listed on our MD&A obviously, but they're so insignificant in my mind that it's really Avalon, and it's a regional, and it is, let's call it, the only regional in Newfoundland, so it behaves differently. It behaves like a super-regional and the other enclosed shopping centers are really just a technical classification more so than true enclosed centers.

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

Okay.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

But you don't have to take a glove off your hand to count them all. It's about five, four to five.

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

I don't think you have a Hudson's Bay lease there either, right? Correct?

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

No.

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

You don't, post these transformations, you don't really have much more anchor risk, and it's sort of not a core asset class. It's a great investment. I get it, but is this a core holding long term for the Company? Because I could see where maybe you could look at this might be one of those properties that you could fetch a good price for now that it has been transformed.

Donald E. Clow, President and Chief Executive Officer

We're super enthusiastic on Newfoundland and Avalon's position in the province. It's the only mall for within three hours of air time of flight, so it's a very dominant shopping center, and we're very enthusiastic about the recent announcements of our tenants, and how good they are, and how well they're going to be newer format stores in most of these situations. We think they'll fit perfectly with the Newfoundland market, and for the customer base at Avalon and really draw, I think, terrific traffic for our CRU tenants. We're really excited about it, and in terms of the future of the mall, we don't ever comment on that. We're very excited about the mall. We love being its owner, so it's a unique property within our portfolio, so we're excited about it.

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

Okay. That's great. Thanks very much.

Glenn R. Hynes, Executive Vice President and Chief Operating Officer

Thanks, Tal.

Operator

Thank you. There are no further questions. You may proceed.

Clinton D. Keay, Chief Financial Officer and Secretary

Thank you very much, and we look forward to updating you on our next call in the Q3 call and probably that will be November. Have a good day.

Operator

Thank you, ladies and gentlemen. This concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.