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Final Transcript

Crombie Real Estate Investment Trust 2018 Fourth Quarter Results Conference Call

Event Date/Time: February 28, 2019 / 12:00 PM ET

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

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

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(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;

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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"), 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 – Executive Vice President, Chief Operating Officer, Chief Operating Officer, and Secretary

Claire Mahaney Lyon –Manager, Investor Relations

Conference Call Participants:

Michael Smith, RBC Capital Markets - Analyst

Howard Leung, Veritas Investment Research — Analyst

Tal Woolley, National Bank Financial — Analyst

Pammi Bir, Scotiabank — Analyst

Jenny Ma, BMO Capital Markets - Analyst

Operator

Good afternoon, ladies and gentlemen, and welcome to Crombie REIT Q4 2018 Conference Call. This call is being recorded on Thursday, February 28, 2019. I would now like to turn the conference over to Claire Mahaney Lyon. Please go ahead.

Claire Mahaney Lyon, Manager, Investor Relations

Thank you, Leonie. Good day, everyone, and welcome to Crombie REIT's Fourth Quarter Conference Call and Webcast. Thank you for joining us. This call is being recorded in live audio and is available on our website at www.crombiereit.ca. Slides to accompany today's call are available on the Investor Relations section of our website under Presentations & Events.

Joining me on the call are Don Clow, President and Chief Executive Officer; and Glenn Hynes, Executive Vice President, Chief Operating Officer, 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 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 a review of Crombie's operating and financial results and a discussion on our capital allocation and funding approach. Don?

Donald E. Clow, President &CEO

Thank you, Claire, and good day, everyone. Crombie has a unique value proposition, it's as simple as it is powerful. Our core national portfolio of needs-based retail properties produces sustainable cash flow growth and creates a solid foundation from which our development pipeline will grow and expand. Our portfolio produced robust results in 2018, and we're executing solidly against our strategy. Our business fundamentals are solid. In fact, our team's consistent achievement in leasing and operations resulted in record year-end occupancy of 96%.

Same-asset cash NOI growth of 3.3% in Q4 and 2.7% for the year demonstrates resilience against the negative narrative that has surrounded retail, primarily due to e-commerce risk. We grew AFFO per unit for the year by 2.8%, inclusive of the successful execution of our disposition and development spending programs, both of which are initially dilutive in nature.

We believe the grocery industry in Canada is nicely managing e-commerce risk. And with Sobeys as our largest tenant, Crombie can achieve long-term sustainable growth that will stand the test of time. We believe bricks-and-mortar retail has and will continue to hold the last mile advantage by leveraging well located existing real estate. With a strong and insightful leadership team and a visionary strategy at Sobeys, we have a leading-edge partner and tenant in an omnichannel world.

Last year, we stated that we would be stepping up our disposition program, and in 2018, we did just that. We improved portfolio quality by recycling capital out of lower growth and/or noncore assets, primarily the mixed-use development pipeline and did so with values in line with IFRS. We were more innovative this year in the types of transactions we completed, expanding our sources of capital by selling full and partial interest properties. These transactions highlight our desirability as a partner and the attractiveness of our portfolio.

During 2018, we sold $220 million of assets and thus far, in the first quarter of 2019, we closed on an additional $106 million with proceeds directed primarily towards our mixed-use value-enhancing development pipeline. We continue to have additional recycling activity at various stages of completion.

In terms of the market forces, we're seeing on the disposition side, cap rates have stabilized across most markets, thanks in part to declining bond yields and tightening supply, with strong demand for our grocery-anchored properties as we, along with the rest of the market, recognize the stability inherent in our centres.

Execution against our active development pipeline remains on track with roughly $190 million invested to date into our first 5 active major developments. We're beginning to see the fruits of our labour with the first phases of Belmont Market generating income during the fourth quarter and additional 2019 income on the horizon. We're reducing overall risk in our portfolio by diversifying our income stream and asset mix along with increasing our urban footprint. We anticipate creating significant value for our unitholders on these projects with yields on cost remaining in the range of 5.2% to 6.2%, which we currently expect will translate into $1 to $2 of NAV per unit within the next 1 to 2 years, assuming current market conditions and cap rates persist. Crombie's intention is to create spaces where people live -- want to live, work, shop and play. Placemaking is an integral part of our mixed-use development planning with strategically integrated grocery and rental residential.

Belmont Market Phase 1, we've reached an important milestone with retail tenants taking possession and rental income commencing. In February, we've completed construction of 3 buildings, and tenants have been opening throughout the month, with Thrifty's opening their 53,000 square foot grocery store in Q2. Phase 2 is over 70% leased and is expected to be completed in Q2 this year.

Upon completion, Belmont Market will be one of Vancouver Island's premier retail destination, featuring contemporary West Coast-themed architecture and animated streetscapes. We're very pleased with this project, where we are the sole owner and developer.

Avalon Mall Phase 2, the redevelopment of the former Sears space, is moving along well, with Winners relocating later this year from its former space within the mall and LOIs executed with several key mid-box anchor tenants. Interior and exterior demolition of the former Sears footprint was complete in Q3. Majority of our Phase 2 construction costs are now committed, and we're also pleased with Phase 1 where our new 875 stall parkade opened in November and is being fully utilized by our shoppers.

Cineplex's 30,000 square foot dining and entertainment complex, The Rec Room, is planning to open ahead of schedule in the spring and will be The Rec Room's seventh location in Canada and the first to open in Atlantic Canada.

Davie Street at Vancouver is progressing nicely as planned, with concrete being poured for the first floor of the residential and leasing of the retail portion within the podium essentially complete. On the cost side, we're 99% tented on our major trades and see opportunity to benefit from residential rental rate escalations to support our returns. Our experienced development team and partner, Westbank, are doing a wonderful job at transforming this asset, and we're confident in our forecasted yields. Here, we own 100% of the retail and 50% of the rental -- residential rental.

Bronte Village in Oakville, the construction of the Rexall is now complete and scheduled for Q2 opening. Excavation ensuring the residential portion of the development is well underway and is scheduled to be complete in June. We've made strides in securing required approvals, and our partner, PrinceDev, is doing a great job leading this $280 million project, which consists of 2 residential towers comprising 480 units and 500 underground parking stalls.

Construction of Le Duke located along the Bonaventure Greenway in Montréal is on track and 70% tendered. Concrete and formwork for the perimeter walls and columns are underway with the above grade structure and base building work to begin in the spring. Upon completion, in 2020 and '21, this $124 million asset will consist of a 25,000 square foot urban format IGA store, 390 residential rental units and 200 underground parking stalls.

In closing, Crombie's fundamentals 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 strongest grocery-anchored retail portfolios in Canada. The first revenue from our active major developments have begun with the income ramping up in 2019. With this balanced execution, a solid balance sheet, ample liquidity and multiple sources of capital as well as one of the best teams in Canadian real estate, I'm excited about Canada's future, confident in our ability to create sustainable NAV and cash flow growth.

With that, I'll now turn the call over to Glenn, who'll highlight our fourth 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. On a cash basis, same-asset NOI increased by 3.3% in the quarter and 2.7% for the year driven by our record occupancy levels, lease renewal rent growth and revenue from land use intensifications.

AFFO per unit increased 0.4% to $0.26 versus the same quarter of last year. Our Q4 AFFO payout ratio improved to 84.8% compared to 84.9% at the end of Q4 of '17. FFO for the quarter was solid at $0.31 per unit, and our FFO payout ratio was up slightly to 72.5% versus 70.9% in Q4 of last year.

For the year ended December 31, 2018, AFFO per unit increased 2.8% to $1.03 versus 2017 and our year-end AFFO payout ratio improved 86.5%, down from 89.9% (sic) [88.9%] in 2017. FFO was $1.21 per unit, up 0.8% over 2017. Our FFO payout ratio improved to 73.2% versus 73.6% last year. Growth in both the quarter and the year were driven by our strong fundamentals.

On the leasing front, we finished the year strong with solid Q4 results. We renewed 155,000 square feet with an increase of 6% over the expiring rate. Taking a closer look, 116,000 square feet of Q4 expiries were renewed at 6.1% growth, with 39,000 square feet of future year renewal completed in Q4 at 5.7% growth. This brings our total renewals for the year to 835,000 square feet at a 3% overall renewal lift.

Committed occupancy was 96%. We had a strong year in leasing vacant space and hit numerous all-time highs in 2018. We ended the quarter with 124,000 square feet of committed space, boosting future NOI growth.

G&A as a percentage of property revenue for Q4 was 5% or $5.2 million, up from Q4 of last year at 4% or $4.2 million, with the increase primarily driven by higher salaries and benefit cost. For the year, G&A was 4.6% or $19.2 million, which was flat over last year.

In the second half of the year, we improved our capital structure with 2 unsecured note issuances which took place during a period of increased market volatility. We also repriced our bank debt to more favourable terms and paid out the remaining balances of expiring 2018 mortgages. At the end of October, we replaced the maturing $175 million, 3.986% unsecured notes with $175 million, 4.8%, 6.25-year unsecured notes, fitting nicely into our debt ladder. Although we incurred a higher cost to achieve this longer maturity, we're true to our financing strategy of de-risking our capital structure and matching the long-term nature of our leases to our debt maturities.

We finished the quarter with debt-to-gross book value on a fair value basis of 51% versus 50.5% at the end of Q3, and debt-to-trailing 12-month EBITDA was 8.67x compared to 8.57x at Q3. The timing of certain dispositions not closing until early 2019 marginally impacted our year-end leverage levels. Our balance sheet remains flexible with over $300 million in available liquidity and with increasing access to the unsecured bond market and the mortgage and bank markets.

We're executing as planned on our strategy and capital allocation priorities, directing disposition proceeds and favourable pricing into compelling and higher returning developments. This strategy is not only smart capital allocation but will improve the quality of our portfolio and income over time and de-risk our business.

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.

A month ago, we went live with a new enterprise-wide ERP information system, an initiative that commenced 2 years ago, and we hit our go-live milestone on time and on budget in January. The tools at Crombie's disposal from implementing this ERP system are truly exciting, and we strongly believe we'll leverage them to fundamentally improve the way we run our business and execute against our strategy.

In closing, our core portfolio is performing very well. Our business is not only strong but also predominantly e-commerce-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. We're now happy to respond to your questions.

Question and Answer

Operator

Your first question is from Jenny Ma from BMO Capital Markets.

Jenny Ma, BMO Capital Markets Equity Research

I wanted to sort of dig into the same-property NOI number a little bit, it's a good number. Can you give me a sense of how much of it would have come from intensification projects?

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

We don't break it down, Jenny, but I would say that in 2018, we probably had a disproportionate amount of our same-asset NOI that was just from good old blocking and tackling and leasing and improving occupancy. In certain years, we have more intensifications coming over the wire, but 2018 was more of just the regular rent escalations, the 6% rental growth, improving occupancy by over 100 basis points, all of those things. Again, we don't break it down, but I would say that 2018 was really a more traditional growth and LUI or intensifications continue to be important, but in 2018, they were less of a force than they may have been in other years.

Jenny Ma, BMO Capital Markets Equity Research

Okay. And I know you don't offer guidance, but based on that commentary, it's a nice clean number to work with when we look forward next couple of years?

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

We don't give guidance, right? It's a lovely question. I think what I would say is, we're feeling pretty good. We've got 124,000 feet of committed occupancy. Most of the properties in committed are in same-asset. There's a few that are in development. So we feel pretty good. Looking at the retail landscape and sort of the impacts in occupancy, we're feeling bullish on occupancy. I think we're feeling bullish on sort of the rental uplifts that are coming. I think we're in a slightly less aggressive environment. Traditionally, 5% to 8% would be our renewal lift over expiry; this year 3% and took a bit of a good flurry at the – in Q4 at 6% to get there. But we'll see. 2019 looks like a solid year. So I think our same-asset NOI will be solid, but I can't tell you with any -- I don't want to tell you that it's going to be 2.7% for 2019, but we're certainly targeting to make it as strong as -- at all possible.

Jenny Ma, BMO Capital Markets Equity Research

Okay. Sounds good. Now switching to what you're seeing in some of the markets you're operating in. Donnie, I know you mentioned that you're not really seeing a lot of cap rate movements in the secondary markets, but we heard some other entities talk about some upward pressure on cap rates, just given the amount of supply that's out there. How do you balance, I guess, that potential opportunity if cap rates were to move up a bit with your knowledge of certain markets? And would that actually prompt you to have a closer look at acquiring some properties if you start to see some deals here or there, or is it really focus on development and moving towards some of the larger markets?

Donald E. Clow, President & CEO

Our core focus is Sobeys and major developments. And so as -- I think you saw -- see from our acquisitions in 2018, we did buy some Sobeys in secondary and/or even tertiary markets. And that's, again, where Sobeys has a dominant store, and we have a 20-year lease with lots of options. So we're quite comfortable with that, and the pricing works for us. So that's where we're probably most comfortable. Certainly, we know a lot of the, call it, secondary and tertiary markets, that's where we've grown up. But really our focus today, as everybody tends to do it, is into the major markets. We always have said that we have a broader scope, not only the top 6 markets, like some of our peers but top 6-plus whatever another 20 or 30 markets, where we think we have a sustainable competitive advantage through the understanding of the market via Sobeys. And we're working more closely than ever with Sobeys, including very strong market intelligence. So it allows us to play in a bit of a different sandbox, and so I'm quite excited about that. So I'd say, we'll continue with a balanced approach, continue to work in the VECTOM markets, continue to work in those next 20 or 30 with the odd one here and there in the row. But you can see, I think, quite a transformation in this portfolio over time of ultimately exiting noncore markets and with noncore properties, so it's very purposeful.

Operator

Your next question is from Pammi Bir from Scotia Capital.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

Donnie, you touched on the capital recycling program in your remarks, which certainly has been going well. How much more do you expect to allocate to that program this year in terms of dispositions? And if you could describe the types of assets that you'd be looking to sell?

Donald E. Clow, President, CEO & Director

We don't give guidance on the volume. We said, I believe, last couple of quarters that we have deals under agreement and then deals that have been listed in various stages of negotiation that are at scale in the hundreds of millions of dollars. You saw some close in the first month of the year that were in that scale. And so we'll continue to work our disposition program. As we've said before, Pammi, it's about noncore assets, and it's about partial interest in low growth but core assets, and that's what we've been executing on. And where we're seeing pricing in at or above IFRS versus what our share price is, especially towards the end of December, it was an easy decision, right? So -- and so we'll continue that program. It's an ongoing part of our strategy to dispose of noncore assets and by doing so, improve the quality of the portfolio, just as much as on the other end of the spectrum, doing first class, A plus residential in Vancouver and Toronto.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

And would you describe the appetite among buyers as similar as to where it was a year ago? I mean, you obviously had a pretty active year last year, and we've seen rates drop, and you made some comments around this. But have there been any new players coming in looking at the types of assets you're selling or pretty steady?

Donald E. Clow, President, CEO & Director

So the noncore, there's a steady market. It's mostly private. It's a lots of onesies and twosies or singles and doubles, whatever your adjective. In the -- in our partial interest noncore, that's new for us. Both the northern deal and the Firm Capital are people we know and we respect and have a high regard for, but they're partial interest and -- so those are new deals for us. So -- but I'd say, in the private markets, grocery anchored is still exceptionally well thought of, and people recognize that people have to eat and that e-commerce is unlikely to come there for a long time. So for us, it's actually a very stable, robust cash flow and very strong performers, typically for Sobeys. So we're pleased to own those.

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

And Pammi, I would add that, with the private buyer being more price conscious and more leverage and -- leverage-mortgage focused, if these low interest rates sustain, it's certainly going to make the market more attractive for that buying group. What we did find in 2018 and particularly when rates were sliding up a bit, we did find -- I think the movement in cap rates was precipitated by these buyers looking at what they could get for loan-to-value, not liking the number and then essentially coming back to the vendor to say, "Hey, I need better pricing to make my financing work." So if we see continued, very attractive --right now, the mortgage rates in Canada are almost as cheap as overnight bank money, and I think that's going to bode well for any recycling to take place, particularly with that private buyer universe.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

That's helpful. Just on Belmont, how much of the cost for that project are now part of your income producing portfolio? And if you could just maybe expand on what was the sort of their rough NOI contribution in Q4 from that property?

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

Very small. I think it's in the notes to financials how much, when...

Donald E. Clow, President & CEO

I think it's around $30 million.

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

Yes, that went into income-producing in the quarter. In note, actually, it looks like $20 million. Note 3, Pammi, we show property under development, reclassified income-producing property -- yes, $36 million, including land and building. So yes, $36 million in Q4 and not much income in the quarter, but I can get you a number offline, but it was pretty de minimis for Q4.

Donald E. Clow, President and CEO

We're really excited about that project. It's a great site, an area of BC that's hard to find land. And I think we're building pretty nice development there. It's really coming along. So -- and we're very excited about Thrifty's opening very soon, that's going to be a huge draw, so it is pretty exciting.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

Okay. And then just on -- just coming back to the same-property NOI growth, was there any contribution from lease termination in Q4 in that figure or not?

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

There was a little bit. I think there was about $500,000 in same-asset for Q4.

Pammi Bir, Scotiabank Global Banking and Markets, Research Division

Okay. Last one for me. Just on the G&A side. The -- We did see, again, an uptick in Q4, I guess, relative to Q3. I'm just thinking, how do you feel about 2019 in terms of sort of a reasonable run rate?

Donald E. Clow, President & CEO

Pammi, there's 2 mindsets. One is that we are working on a lot of new different types of projects that require a number of, call it, new and different type of people across the country. So part of it is that, I mean, just simply that we have very strong people in markets like Calgary and Toronto, and so it's just that creeping up but doing different thing like development, doing, I think, innovative things with Sobeys. So it's not unusual. But I think if you really -- for us, I don't solely look at the G&A as a percentage of revenue. I look at management expense ratios, and I think one of your peer banks actually just put out something that showed we were roughly in the middle of the pack. And I think with that in mind, we're pretty comfortable with our expense ratios.

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

One of the issues, Pammi, that sort of is relevant is because we've been funding our business with recycled capital versus the old-fashioned way of raising, the business has stayed roughly the same size, even though we're morphing into a much higher quality, much more urban, much stronger cash flow-generating business. We're essentially the same size we were a year ago. So we're -- the revenue numbers that we're putting those G&A costs against are essentially flat because we're recycling so much capital. So that's another factor, but it's not [as] -- it's not to be all end all, but it is relevant because if we were growing the business at a traditional rate, that percentage would be lower.

Donald E. Clow, President and CEO

The other main thing that we don't often talk about, especially in these calls, is just the quality of the talent that we have in our team and how that's changing and evolving. And really hard to get great talent in the real estate industry. And I think we've been very fortunate to attract a lot of good people with the nature of our culture and quality of our team. So we're really wrapping it up over time, but their talent level has always been very good but continues to improve just because we have a lot of new and different projects to perform.

Operator

Your next question is from Howard Leung from Veritas.

Howard Leung, Veritas Investment Research Corporation

Just -- I had a question about the Empire transaction that you guys did for the year. Just on a -- I guess, on a price per square foot basis, they are slightly higher than what they were in '17 and '16. Would you say that's more of a function of just location -- like the different properties in the location have a higher valuation or like it's just more a market valuation overall going up so those property prices went up as well?

Donald E. Clow, President & CEO

[No], we would be very site specific. Generally speaking, if you were buying in more secondary market, Howard, as you would know, you would have a higher cap rate, and you'd have a lower price per square foot. So it's really going to just be depending on the asset specific that we're buying. We haven't changed our methodology. We have a same formula for getting the fair value on those acquisitions with Sobeys. So if there's any change in cost per foot, it would be just a function of the asset-specific locations.

Howard Leung, Veritas Investment Research Corporation

Okay. That sounds good. And then on the question about the leases, the problems in Nova Scotia, I think that's one of the bigger tenants there, less than a year left on the lease. Has that already been renewed or -- like I guess, subsequent to year-end, or are you guys working on that renewal?

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

We're working -- we're very confident on its renewal. We're just working through the final stages of that. But yes, we're very confident that, that government space will be renewed.

Howard Leung, Veritas Investment Research Corporation

Okay. And then on just general lease renewals with Sobeys. I know you were -- I think you guys were working on converting the leases so that there would be some step ups every year. What's kind of the weighted average step up on these leases we should be taking in?

Donald E. Clow, President & CEO

Well, the Safeway leases, which we did in 2013, which was on about 70 properties, they are at about 1.5% per year. So those ones are an annual step up. The balance of our leases generally have step ups, Howard, usually on a 5-year basis. So it could be step up a dollar in rent every 5 years. And so there different levels of episodicness. So it's kind of difficult depending on which leases are coming up when. Clearly, the Safeway leases continue to behave the same way they did since 2013. But in any one given year, the impact on same-asset NOI will just depend on how many of those Sobeys leases are coming due. And usually, in any given year, there are some, but it's difficult for me to give you a specific number.

Howard Leung, Veritas Investment Research Corporation

No. I understand, yes. Based on how they renew, it might be a bit little tough. And then just one last one from me on the cap rates. The slight increase, I guess, quarter-over-quarter in the cap rates for the IFRS fair value, is that more -- is that driven more from the revaluation of the existing portfolio or the disposition that you guys made in Q4?

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

I think it's more the former. I think the reality, is we've been pretty disciplined, and we take the fair value model seriously. And we've been -- because we've been in the market recycling capital, we had seen -- particularly during 2018, we did see through a combination of interest rates going up but also excess amount of product supply for sale and in some secondary markets, cap rates were moving a bit. So we acknowledge that throughout 2018, and also though, we've had some of our urban assets where cap rates have compressed a bit. But the small change in basis points of our IFRS cap rate would be more reflective of that reality. I would say though, most of the assets we've sold, we've probably sold at around our average IFRS cap rate. And I will repeat that all of the acquisitions completed, the $220 million in 2018 and the $106 million subsequent year-end -- I'm sorry, dispositions, excuse me, that those were completed at or above IFRS fair value. So we've been pleased because, as you ask, we take the fair value model seriously, and we've been able to sort of demonstrate its rigor by selling assets in line with the values that we're carrying our assets at.

Donald E. Clow, President & CEO

But Howard, I'm going to jump in here because it's a bit of a beef, is the issue of the fact that our air rights and/or development assets aren't valued in that valuation, and it's a bit of a beef where all accountants, et cetera and respect to IFRS, but there's certainly no value for, I won't call -- tell you the number, but it's significant amounts of value for either air rights in Vancouver, Toronto or ultimately, the potential of development in those markets and development clearly in progress. So the rules are the rules. We play by them but significant amount of value that's not recognized. So it's a bit frustrating to see our cap rate rise a little bit at a time when we're creating such value in those very valuable places.

Howard Leung, Veritas Investment Research Corporation

Right, right. Yes, I understand that. And as a [captain] myself, I know that [they], like, need to be conservative, so I'm not as overly [indiscernible]. I get that.

Operator

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

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

Just wanted to ask how recruitment was going for the new CFO and SVP for leasing?

Donald E. Clow, President & CEO

We have a new SVP of leasing and operations starting on March 4, and we are down to the final stages of the recruitment for CFO. So we have great candidates. So we're very pleased about that, and so we're hopeful that we can make an announcement in the next month or 2 before we report on Q1 in May so...

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

Okay, perfect. And then on the ERP system, I may be a little bit more familiar with these rollouts in other industries, can you give me an example of like some of the better data and analytics that you're going to be able to get out of the system? And how long sort of the gestation period is before you really start harvesting some of these benefits? Because I know when these things go live, it's not like, immediately, they start saving money. It takes a little bit of time for everyone to sort of get comfortable.

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

Sure. I'll give you a couple of examples. But I know, for example, there's reports that are in our MD&A that, today, it takes multiple days to produce. But in the ERP system, today, it will take 5 minutes to produce. Part of the reason is, is that we're moving from more from an accounting system to really a truly ERP system where leasing and operations and accounting and finance are all totally integrated, along with job cost and development and construction. So we're going from a system, Tal, that really had a very strong financial reporting system but then with job cost off to the side in a non-ERP way, leasing in sort of a lease CRM kind of environment and operations generally having their own systems for certain things, like inspection of properties.

The new world is that everything is really totally integrated, all the data. So when leases are put in place, you're basically able to run a lot more analytics and get a lot more information out of the system. One example is -- just for example, when we do new leasing, we're able to -- if we want to analyze what is the cumulative average growth rate on new deals or on renewals, sometimes the leasing people focus on, a, getting deals done, getting a good NER and that might be the end of their analytics. But now we're going to be looking, well, what is the cumulative average growth rate in that lease because as we want to get to 3% to 5% FFO and AFFO growth, the best way we get there is through strong leasing.

So just an easier ability to get more analytics out of the system and really just the fact that when data goes into the system once, it covers all dimensions of our business. And there's probably Jeff Downs who's here, who's our senior leader of this initiative. He would tell you a lot better example. But the key thing I would say to you today is getting to the go-live is getting to the starting line, not the finish line. We think this is a tool that will enable us to execute our strategy better, to drive the business forward, have truly better information, and we think, potentially, to drive some competitive advantage.

So it's early innings, but we've got some new modules that we'll be going in later this year as well, like budgeting and forecasting, for example, is going to be starting in the next quarter. But hopefully, that gives you some colour, but it's just a transformational journey and on time, on budget. The whole organization has been behind it. Lots of change management, lots of change, but generally speaking, the level of apprehension has been pretty impressive. People are embracing it nicely. We're only a month in, but no issues, no surprises. And I think the adoption and acceptance is exceeding our expectations.

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

Okay, that's great. And then on FreshCo and Farm Boy, there's obviously been some conversion announcements on FreshCo. And I'm just wondering, give a sense of how that's progressing. And what sort of exposure you might have to that? And the same thing, too, on the Farm Boy side. Has there been any many more discussions about existing properties that may make sense for conversions?

Donald E. Clow, President & CEO

You know what, we can't give you numbers in terms of the number of stores we're working on with Sobeys. All I can tell you is that our relationship under Michael Medline and his team has been extraordinarily improved over what the team we worked with previously, and that includes the FreshCo conversions and the -- Farm Boy hasn't really entered into the discussions yet. I believe they're still getting their head around the operations and working with the team there, which we hear is an extraordinary team. But we believe, in the future, there will be opportunity for us to participate there because just the brand will actually match the local market. So we're excited about that, but -- and we're working very steadily. As I said earlier, we have strong intelligence, strong relationships, strong systems processes to actually put into effect the transactions with Sobeys now and a willingness to really work with us. So our sustainable, competitive advantage of the relationship with the retailer is actually playing out in a lot of different ways that, hopefully, you'll see in 2019.

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

Okay. And then just lastly, on Vancouver, obviously, Davie Street seems to be progressing nicely. But we read a ton just about how the market is shifting there. And given that, that's where a lot of your sort of undeveloped acreage is, can you just talk to sort of like what you sort of perceive as a reality on the ground and how you're sort of thinking about the next series of projects in that market?

Donald E. Clow, President & CEO

Yes, we're -- we've seen the, call it, ranch and/or condo prices come off a bit. I will tell you that we have a terrific partner there in Westbank. And I'd say that if any of the pricings come off on their projects, I'd be surprised. They do an amazing job in terms of design, in terms of marketing. And so we feel like we're working with one of the best developers, if not the best developer in Vancouver. So -- and then in terms of Davie Street in particular, when we initially budgeted the project, we were in the high 3s in terms of rents in the last year or so. A number of people have said we'll be in the low 4s. So if they come off a bit, we're still well above our budget, we believe. And so -- and as we look forward, we are working on projects. We are looking at commercial and Broadway, a few others. It's certainly something that we take into consideration. And we're very conservative. Our development partners tend to be a little more risktaking. So we've got a good balance, I think, there, and we'll figure it out. And especially those projects involve some condominiums as well as rental. It's a market that we have to be very mindful of and very careful with, so -- and we will be.

Operator

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

Michael Smith, RBC Capital Markets, LLC, Research Division

Donnie, I could certainly understand your frustration with all that density value that's not really being marked in the IFRS. Just wondering, are you thinking about or planning any kind of without -- obviously, you can't give us a number but maybe trying to increase the visibility in any way so that folks like us could try and put a number on it?

Donald E. Clow, President & CEO

We're working very hard on it, Michael. We've been getting appraisals on air rights and looking at our portfolio, trying to figure out ways to shape it so that we can actually communicate it. But we've got very, very strong orders, very strong team of accounts internally and very conservative CFO, who I think the world of, is going to keep us in line. And we'll only do it when we can. But nevertheless, we're working very hard to try to expand our transparency because the value there is unquestionable, right, it is. Yes, there's entitlements, et cetera, encroaching on the property to some degree in terms of leases, et cetera, but the value -- especially the value increase in Vancouver and Toronto has gone through the roof, right? And so what we bought 5 years ago through Safeway's acquisition can sometimes be 3, 4, 5x its value in terms of air rights, so -- but we can't show it anywhere at this stage. So we're working hard at it. We're hopeful that in '19, we can get everybody's head around it, and maybe we'll be conservative, but we think even a conservative number would surprise people on the value of the air rights. And then we've always been publishing, what I believe, is a conservative number, the $3 billion to $4.5 billion of development costs. So it's just a work in progress, and we're cognizant of it. We're trying to get there. But it's – our conservative nature is, I think, at the end of the day, prudent, but hopefully, we'll get something to you this year.

Operator

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

Claire Mahaney Lyon, Manager, Investor Relations

Thank you for your time today, everybody, and we look forward to updating you on our progress on our Q1 call in coming months. Thank you.

Donald E. Clow, President & CEO

Thank you, everybody

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

Thank you, everybody.

Operator

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