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, the availability of accretive property acquisitions, 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, 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) 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) expected increase in revenue in 2020 and 2021, which could be impacted by timing of completion of development projects underway, ability to secure tenants and the effects of general economic conditions;

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

(ix) 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; and

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

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, 2019 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, 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.

Corporate participants

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Glenn R. Hynes
Crombie REIT — Executive Vice President and Chief Operating Officer

Clinton D. Keay
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Ruth Martin
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Conference Call Participants

Mike Markidis
Desjardins — Analyst

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PRESENTATION

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Crombie REIT Second Quarter 2020 Earnings Call. At this time, note that all participants' lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during the call you require immediate assistance, please press star, zero for the Operator. Note the call is being recorded on Thursday, August 6, 2020.

I now would like to turn the conference over to Ruth Martin. Please go ahead.

Ruth Martin — Director, Investor Relations and Financial Analysis, Crombie REIT

Thank you, Sylvie. 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 Investors section of our website under Presentations and Events.

On the call today are Don Clow, President and Chief Executive Officer, Clinton Keay, Chief Financial Officer and Secretary, and Glenn Hynes, Executive Vice President and Chief Operating Officer.

Today's discussions include 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 development update and a review of Crombie's operating fundamentals and results. Clinton will discuss our financial results, capital allocation, and approach to funding and Don will conclude with a few final remarks.

Over to you Don.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you, Ruth, and good day, everyone. The economic and social disruption experienced over the last few months has been truly unprecedented. When the global pandemic was declared in March, none of us knew the duration or the kind of impact it would have on our country. We've said numerous times over the last 10 years, Crombie has not only grown and optimized the quality of our grocery anchored real estate portfolio, but at the same time, we strengthened our financial condition and created an experienced and talented team such that we were ready for the proverbial black swan, in this case, the global pandemic.

Our team mobilized quickly with office staff moving to work from home and operation staff preparing our properties to ensure the health, safety, and well-being for all the visitors. I want to personally thank our team and especially our frontline team for their resilience and extraordinary work ethic in the face of the elevated risk of COVID-19 to keep our customers safe and properties operating. Fortunately for Crombie, most of the space within our portfolio was occupied by tenants deemed essential services and they remained open during the national shutdown.

With the economy beginning to stabilize, and most businesses reopening across the country, we are pleased that our July rent collection was 93 percent, an increase from the 90 percent achieved during the second quarter. As restrictions lift, we are happy to say that 97 percent of our tenants are open for business. Significant strides have been made in recent weeks as Canadians adapt to the new normal and while we are cautiously optimistic amidst the worldwide pandemic, we'd hope the current trend of stabilization continues.

Not all tenants have been able to weather the recession caused by the pandemic. Our leasing and operation teams have worked very closely with our tenants to maintain strong relationships and provide financial assistance through our Crombie Values Small Business Program for the federal and provincial governments, Canada Emergency Commercial Rent Assistance Programs. Additionally, case by case evaluations have been ongoing with select tenants who do not qualify for either of the two programs to determine appropriate levels of support for their business.

Our strategic partnership with Empire provides a sustainable competitive advantage for Crombie that enables us to expand and diversify our defensive grocery anchored real estate portfolio with strong risk adjusted returns, especially in the major urban markets in Canada where we are able to unlock the significant underlying land value and do major mixed-use residential developments.

We are working closely to align Crombie's strategy with Empire's strategy with an expectation that we collectively drive high-quality, yet defensive growth consistently and at scale. This alignment includes a three-year plan to invest in the modernization and expansion of grocery stores, a number of store conversions including the FreshCo discount format in Western Canada and Farm Boy in Ontario, accelerating Sobeys build out of Voilà, their online grocery home delivery service, land use intensifications, and the unlocking of major developments.

I want to commend the Empire team for their resilience and dedication as they worked relentlessly to put food on the tables of Canadians and keep customers safe over the last six months. The recent launch of their online grocery home delivery service, Voilà by Sobeys in the Greater Toronto Area and their announcement of a new three-year growth strategy, Project Horizon, indicates Crombie is fortunate to have a strong partner that has not only emerged as a leader during the COVID-19 crisis, but will also be a leader of the grocery industry in Canada for years to come.

Our first six major development projects play a key role in our long-term strategy to accelerate per unit NAV and AFFO growth. Despite being well managed by our teams and our JV partners, Westbank and Prince Developments, the impacts of COVID-19 on our major developments caused some minor increases in costs and slightly delayed expected completion dates. Though some work stoppages were experienced in Quebec, our development and entitlement work continued to forge ahead. We were thrilled to see the Safeway store of Davie Street in Vancouver open in May and look forward to the completion of this large mixed-use development, Crombie's first, later this year in 2020.

Quality and diversification of our developments and the economic returns including the significant NAV creation and solid AFFO growth remain of upmost importance to our strategy as we complete $600 million of major developments over the next 16 months. As we have said numerous times, based on current circumstances and valuation measures, we expect these first six developments to be worth a fair value of approximately $750 million to $900 million upon completion, thus creating approximately $1 to $2 per unit of net asset value.

Importantly, we continue to work with Empire and Canada's major cities on the zoning and density entitlements of seven additional projects to unlock and realize the significant land value embedded in our major urban market grocery stores and generate opportunities to continue our development program into the future.

Lastly, I want to encourage investors to use caution in using short-term KPIs to judge long-term real estate assets backed by a strong financial position and an expert management team. Short-term measures are important, but please recognize real estate portfolios and platforms like Crombie's are built for stability and growth over the long-term, including their ability to withstand short-term shocks as we are seeing today.

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

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

Thank you, Don, and good day everyone. Crombie remains committed to the health, safety, and well-being of our employees, tenants, customers, and communities. With the reopening of all our properties, our enhanced cleaning activities and operational physical distancing protocols continue to be of critical importance as a protective measure against the spread of the COVID-19 virus.

Understanding the value of open lines of communication, we have been sharing updates with our tenants on a weekly basis and will continue to do so. Many tenants are faced with substantial changes to the way they serve their customers, so we have assisted with implementing what is required, tenant by tenant, property by property.

Our portfolio is well positioned with respect to the defensiveness of our annual minimum rent with 76 percent of minimum rent generated from grocery and pharmacy anchored properties, 68 percent of rent from essential services tenants like grocery stores, and only 8 percent of rent from small business. Our largest tenants are investment grade grocery stores, pharmacies, banks and government offices. Over the last few years, we've improved the quality of our portfolio by acquiring assets in Canada's top markets as well as recycling approximately $800 million of properties mostly in secondary and tertiary markets to reinvest in Crombie's major urban developments. The portfolio we have today is strong and improves our positioning for future periods of uncertainty such as what we're experiencing today with COVID-19.

As Don mentioned, during the month of July, 93 percent of gross rent was collected, an improvement from the 90 percent collected for the second quarter which Clinton will detail shortly. We received full rent collection from our retail related industrial segment, 96 percent of our office rents, and 92 percent of our retail and commercial segment. We believe collections will continue to improve with approximately 97 percent of tenants already open and we anticipate virtually all our tenants will be open and operational by the end of this quarter.

Our tailored approach to rent relief further strengthened our relationships with tenants. To date, we have approximately 260 tenants at 70 properties in the application process for the CECRA program. Even with the additional support, inevitably, there are still tenants at risk. Since the onset of the pandemic, there have been numerous declarations of store closures, CCA applications, or bankruptcies in the broader market. Our defensive and internet resilient portfolio has minimal exposure to these announced closures with only 17 leases potentially impacted, representing approximately 61,000 square feet or approximately 0.7 percent of annual minimum rent. To date, only two of these 17 leases have been disclaimed, representing approximately 6,000 square feet or approximately zero annual minimum rent impact which is an indication of the strength of our properties.

Avalon Mall is feeling the impact of the pandemic the hardest. Avalon Mall was effectively closed from the end of March to early June due to provincial government restriction. The reopening has been extremely positive with 93 percent of tenants open for business and a significant improvement in rent collection at 60 percent for July compared to 42 percent in the second quarter.

Strong fundamentals are critical in these unprecedented times. Crombie experienced a small decrease in committed occupancy to 95.6 percent compared to our record high occupancy of 96.2 percent at Q1. New leases and expansions year-to-date increased our occupancy by 92,000 square feet at an average first year rate of $18.97 per square foot, while we experienced 124,000 square feet of year-to-date net lease expiries, vacancies, terminations, and space adjustments. We ended the quarter with 88,000 square feet of committed space at an average first year rent of $21.18 per square foot which will boost future NOI growth.

During the quarter, 230,000 square feet of renewals were completed at a 3.6 percent increase over expiring rental rates.

Year-to-date, our renewal program is on schedule as we have renewed 386,000 square feet at an increase of 4 percent over expiring rent. During the first six months, our retail renewals were solid with 302,000 square feet of retail renewed at rental increases of 4.9 percent. As we continue to maneuver our necessity-based portfolio through these uncertain times, our team is dedicated to ensuring our underlying business fundamentals and core portfolio remain resilient and strong.

The impact of COVID-19 on our major development program, as Don noted, caused some minor cost increases and slight adjustments to completion dates. These changes are discussed in the MD&A and I will note them here. We are pleased to report that construction at our Montreal, Le Duke mixed-use development and our Montreal Voilà par IGA customer fulfillment centre or CFC resumed in May, after the six-week government required shutdown. Construction in Vancouver, the GTA, Victoria, and Saint John's, the homes of our other four major projects, were deemed essential and were continued, albeit at a slower pace through the quarter with new protocols to ensure the safety of all individuals on site.

We continue to expect to reach substantial completion in 2020 of our first three major developments including Davie Street in Vancouver, Belmont Market on Vancouver Island, and Avalon Mall in Newfoundland and Labrador with slightly delayed schedules. Investment continues in Bronte in Oakville, Le Duke in Montreal, and the Voilà par IGA CFC in Montreal with substantial completion expected in 2021. We have another seven projects in preplanning where we continue our work to improve and deliver value enhancing entitlements for each development.

In Davie Street Vancouver, the new Safeway store opened on May 21st with Scotiabank and a government liquor store scheduled to open in Q4 of this year. Total project cost for the retail component increased by $600,000 reducing our expected yield range slightly to 6.2 percent to 6.5 percent. The residential portion is well advanced with construction complete and interior finishing well underway for both towers. Despite construction continuing throughout the pandemic, the estimated substantial completion date of the 330 residential rental units has been extended slightly but will still be completed in Q4 2020, as previously communicated, with an estimated increase in total project costs of $1.8 million reducing our expected yield on cost range slightly to 5 percent to 5.5 percent which is still a very strong risk adjusted return on a high-quality residential development in Vancouver.

Belmont Market on Vancouver Island will reach substantial completion in 2020 with the final phase of the development consisting of three small buildings totaling 23,000 square feet which will come on line in 2021. Construction commenced on the first of these three buildings during the second quarter, with the remaining two buildings slated for 2021 construction.

Avalon Mall is the only regional mall in all of Newfoundland and Labrador and we are cautiously optimistic that as the economy continues to reopen, it will reemerge and continue its dominance as evidenced by sales of approximately $700 per square foot pre-pandemic. Construction of our expansion area will be substantially complete in Q3 with the grand opening delayed until spring of 2021 due to COVID-19. 92.6 percent of Avalon Mall, excluding the expansion area is leased, but due to an expected near-term slowdown of leasing activity, we have adjusted our NOI yield on cost range projections from 10.3 percent to 11 percent downward in Q1 to an updated 9.2 percent to 10.1 percent range in Q2.

In Montreal, at our Le Duke project, we've experienced some pandemic related completion delay but still anticipate substantial completion in Q3 of 2021 as previously communicated. This 25-story mixed-use tower with 26,000 square feet of IGA anchored commercial grocery and 390 residential rental units has the structure complete to the 25th floor and the project is 89 percent tendered.

Crombie maintains its 2021 substantial completion date for the Montreal CFC, the Empire launch of Voilà par IGA, the online grocery home delivery service to be made available in Quebec and the Ottawa area is now expected in early 2022, delayed slightly due to the temporary shutdown of non-essential construction in Quebec during the pandemic. Construction commenced in May, foundations are in place and steel superstructure is now underway.

The Bronte Village construction site in GTA remains open and has been only marginally delayed due to the impact of a reduced workforce arising from COVID. We still anticipate the 54,000 square feet of commercial and 480 residential units will be substantially completed in Q4 2021 as previously communicated. Bronte is 96 percent tendered.

Upon completion, we expect these properties to create significant AFFO growth per unit and based on current circumstances and valuation measures, as Don noted, aggregate NAV creation of approximately $1 to $2 per Crombie unit and increase our presence in the country's top urban markets while diversifying and improving our overall portfolio quality and income stream.

And lastly and most importantly, we're not aware of a single COVID-19 infection to date on these six project construction sites. We are proud of the work that our partners, our contractors, and our team have done in focusing on health and safety.

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

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Thank you, Glenn and good afternoon everyone.

During these challenging times, Crombie remains in good financial health with a strong, and flexible balance sheet, ample liquidity and an ability to prudently allocate and creatively source capital.

While we are pleased with our 90 percent collection rate in Q2, which improved to 93 percent in July and 97 percent tenant opening statistics, like everyone else, we are unable to predict the future duration and financial impacts of the pandemic with complete certainty. The pandemic created increased risk, particularly around the collection of tenant receivables. Our bad debt expense for the quarter was $8.7 million. This includes $1.1 million expense for the 25 percent rent abatement for tenants under the CECRA program, $2.6 million expense for other rental abatements, and $5.1 million in the general provision for bad debts. Bad debt expense for the quarter is 8 percent of quarterly gross rent consisting of 1 percent for CECRA, 2 percent for other abatements, and 5 percent general provision against the 7 percent of deferred and unpaid rents. Judgement is required in estimating bad debt expense exposure and where doubt on collection existed, we included those amounts in our Q2 provision, negatively impacting short-term NOI by increasing bad debt expense.

On a cash basis, same asset NOI decreased by 4.6 percent compared to the second quarter of 2019. Excluding COVID-19 related adjustments such as bad debt expense and the decline in parking revenue, same asset NOI increased by 3.6 percent quarter-over-quarter.

AFFO per unit was $0.18, decreasing from $0.25 for the same quarter last year. Our AAFO payout ratio was 125.2 percent versus the same quarter last year at 89.9 percent. FFO for the quarter decreased to $0.22 per unit from $0.29 for Q2 2019 and our FFO payout ratio was 101.8 percent versus 75.7 percent in the same quarter last year. The decline in AFFO and FFO is primarily due to the significant increase in bad debt expense and parking revenue impact, as previously noted. Adjusting for the impact of COVID-19 on Crombie's operating performance, AFFO per unit would be $0.26 and FFO per unit would be $0.30.

Additionally, we are feeling the effects of approximately $500 million in dispositions executed in 2019 with a primary reinvestment of proceeds to major developments with no initial return while we await the completion of major developments over the next 16 months.

G&A as a percentage of property revenue for Q2 was 7.2 percent or $7 million, up from Q2 '19 of $6 million. During the quarter, in the face of the uncertainty of COVID-19, we chose to reduce operating expenses with an organizational realignment resulting in elimination of certain positions including two at the vice president level. Severance costs of $1.5 million were incurred resulting in the increase of G&A expense, partially offset by lower travel and office expenses. Excluding severance costs, G&A in the quarter would have been $5.5 million versus $6 million last year.

In the first six months of 2020, when fair valuing our investment properties, we made assumptions that to the potential short and long-term impacts caused by COVID-19. Net property income has been lowered and capitalization rates increased in certain cases. In the first quarter of 2020, Crombie reduced its fair value of enclosed malls by approximately 15 percent which was the primary driver behind a Q1 fair value reduction of investment properties of $86 million. In the second quarter, expectations were again updated as to the impact of COVID-19 and values were in line with our Q1 estimates. Additionally, fair value was positively impacted in Q2 by non-COVID related adjustments for capital investments and Sobeys properties, causing increased NOI and appraiser provided reductions in capitalization rates for some of our properties in British Columbia resulting in an increase in fair value over Q1 of $85 million.

Crombie remains committed to increasing weighted average term to maturity of our debt, reducing leverage over the medium term, and increasing our unencumbered asset pool. In the second quarter, a 3.88 percent 16-year mortgage loan for $118 million on our Vaughan, Ontario distribution centre was secured and funded. We repaid approximately $10 million of mortgages, leaving $48 million of mortgages maturing primarily in Q4 of 2020.

Our unencumbered asset pool remained consistent at approximately $1.5 billion and our balance sheet remains flexible with approximately $400 million of available liquidity.

Our debt to gross book value on a fair value basis was 49.2 percent at the end of Q2, compared to 50 percent for Q1 2020 or 48.9 percent adjusted for cash on hand in Q1. We ended the quarter with debt to trailing 12 months EBITDA at 9.12x versus 8.86x at Q1 ’20. Adjusting for bad debts recorded in the quarter, debt to EBITDA would have been 8.73x.

Subsequent to the quarter end, Crombie put in place a one billion base shelf prospectus for 25 months to allow the issuance of units, debt, and other related securities on an accelerated basis. This is a proactive, ordinary course step and we do not see an immediate need to access the capital markets.

As we continue to navigate through his difficult time, Crombie’s grocery and pharmacy anchored portfolio of essential service tenants will support our communities, businesses, tenants, and employees while never losing sight of our long-term strategy to effectively allocate capital, to accelerate NAV and AFFO growth per unit delivering value.

I will now turn the call over to Don for a few closing comments.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you, Clinton.

Before we conclude for questions, I’d like to take a moment to reflect on current events and their impact on Crombie. As Crombie continues to grow and evolve, so too does our focus on ESG priorities. In developing a comprehensive ESG program, we’ve identified key areas in which we can improve our business and our impact. In recent months, the world has watched social protests led by Black Lives Matter and other organizations have mobilized our communities to commit to eliminating racial injustices. Diversity and inclusion is a critically important element of our social impact commitment and is essential to the success of every organization. We can and must do a better job of ensuring this work is engrained in our hiring and employment practices and we are committed to doing just that. Like many CEOs across Canada, I recently signed the BlackNorth CEO Pledge, which was initiated by the Canadian Council of Leaders Against Anti-Black Systemic Racism. Signing the pledge, I've committed myself, and Crombie, to work diligently to uphold its underlying promise.

Working diligently is the unspoken mantra of the Crombie team. I've often said that one of my priorities as CEO is to ensure Crombie is well prepared if "the world falls off a cliff". While we envision different potential scenarios that might play out, the global pandemic wasn't at the top of the list. As we saw the virus take hold across China and Italy, our business continuity team met daily to plan our response in case Canada faced a similar crisis. I knew we had a strong team at Crombie and they proved me correct. The people who are the backbone of our business are smart, focused, and committed to excellence. What we have seen over the past months is that our team is also incredibly resilient and nimble in the face of a fast changing and unprecedented environment. Every week, our team successfully faces a new challenge - whether it is supporting tenants through rent relief, adapting our operations to evolving health and safety protocols, maintaining strong relationships, or preparing comprehensive quarterly reports from home, we continue to work diligently to ensure our commitment to all of our stakeholders remains steadfast. I want to again thank each and every member of the Crombie team for their perseverance and excellence over the last six months.

Lastly, as I've said many times, we believe in and are deeply committed to our long-term strategy of creating value with our strategic partner Empire, together with a strong real estate development program in Canada's major urban markets that is layered on top of one of the best grocery-anchored real estate portfolios in Canada. We believe this strategy, when combined with our sold financial condition, our access to capital, and our entrepreneurial talent will generate solid total unitholder returns for our stakeholders for years to come.

That concludes our prepared remarks, we are now happy to answer your questions.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you do you have a question, please press star, followed by one on your touchtone phone. You will then hear a three-tone prompt acknowledging your request. Should you wish to withdraw your question, simply press star, followed by two and if you're using a speakerphone, we ask that you please lift the handset before pressing any keys. Please go ahead and press star, one now if you have any questions.

And your first question will be from Mike Markidis at Desjardins. Please go ahead.

Mike Markidis – Analyst, Desjardins

Hi everyone. Thank you very much for providing the breakdown of the bad debt expense on Page 18 of the Investor presentation deck. Just wanted to clarify a few things if you don't mind.

First off, do you off the top of your head just have the—and I'm sure we can back that out, what the total gross rent bill for the quarter was?

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

Yes, Michael the gross rent bill for the quarter would be around $103 million.

Mike Markidis – Analyst, Desjardins

One hundred and three. Perfect, okay.

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

It's a bit higher than the revenue part of the financials. But, yes $103 million.

Mike Markidis – Analyst, Desjardins

Right. Yes, we've been learning that you got to include the tax on some of this stuff as you go forward, which I don't think is reflected in your PNL. With the collected amount just to confirm, it's consistent with everybody else, that the government receivable on CECRA, which I guess would be about 2 percent would be included in the 90? Correct?

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

Correct.

Mike Markidis – Analyst, Desjardins

Okay, good, and then just curious on the abatement expense, sort of how you're looking at that versus the deferrals. Is there—I guess a two-part question. Is some of that permanent reduction, i.e. you abated 2 percent for the quarter and therefore, there's a rent reduction going forward of maybe 25 percent? I'm just trying to get a sense how much of that is just an ongoing reduction versus a free rent?

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

No, I would say, Mike, it's essentially—never used the word one time, but it's not an ongoing rent abatement, it's a cost that recognized in the quarter, and one of the other matters I would say is that part of the consideration in exchange for the rent abatement is some other things that are valuable for Crombie, whether it's term extensions or whether it's some restrictions of development rights etc. And Donnie may speak to this a little bit later as well, but the abatement piece we would think what's covered in the quarter should be the vast majority of any abatement cost assuming things continue in the current trajectory that we're currently feeling.

Mike Markidis – Analyst, Desjardins

You read my mind with that one, Glenn so thank you very much for providing that. And then just lastly, I guess you guys have the 5 percent of anticipated uncollectable that are grouped together with the deferrals and the unpaid, so is that to say that basically the provision is solely—

yes, I guess that would be the case because you don't have an abatement if there's an abatement, there's no relievable. Okay, I think I just answered my question.

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

No, but you asked a question there and it's a good question which is exactly right. I think often others, what we've really said is we have the bad debt for the quarter of 8 percent, you can earmark 1 percent specifically for CECRA, the 25 percent piece, that's straight forward, the abatement piece is straight forward, so the remaining 5 percent is a provision against what's in the deferral category. We're confident and optimistic that the deferrals will be collected as we're confident and optimistic that a chunk of the unpaid will be, but we were I would say, Mike, a bit prudent or even conservative in that piece, the 5 percent provision against that remaining seven, and I think the biggest piece of why as we look at it today, why we feel it was very conservative is that Avalon has really turned the corner nicely with 93 percent of tenants now open and moving from a 42 percent rent collection in the quarter up to 60 percent in July and feeling really good about foot traffic and the mood at Avalon. You know, we're feeling much better, but your interpretation of those numbers is correct.

Mike Markidis – Analyst, Desjardins

Okay, and appreciate all those clarifications just because everyone's presenting things a little bit differently and we're just trying to make sure it's all comparable, and you know, your guys' collection rates probably just stand out very well versus first.

Just last one for me, with respect to your office portfolio. Just curious if you have a sense of how much of the tenant base is actually back in force in the office portfolio?

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

Yes, the office space is interesting and ours is primarily in Halifax. We have about 97 percent of the tenants are operational. Only about half of them have workforce that's back on site, and I think with work from home going well for many of these companies, you know, we're not expecting to see a big resurgence in that office return until the fall. You know, we're seeing—if you look at our parking piece which is very much tied to office, that's really slowed down, the food court at Scotia Square has slowed down, so our guess is we're going to start to see a doubling of our office population by mid-September, and then I think from there it's just going to be a gradual confidence piece that, vaccines in place etcetera. I think the fact that work from home seems to be going relatively famously for many has reduced the urgency.

I would also say, and this is a cultural thing maybe in Atlantic Canada, but the two markets where we have a lot of office which is principally Halifax, but a bit in Moncton, there seems to be not an urgent rush to get back, but we're expecting to see significant ramp up in the fall. Hopefully that helps, but the good news is that 97 percent of the tenants are operational, rent collection has been strong. I think you noted or may have noted that our same asset NOI drop in office for the quarter was principally on the parking side. That's where most of our parking disaffection was or at least a good portion was, but beyond that, we're still feeling good about office fundamentals but it's going to take a bit of time with elevator concern and other concern to get all of the traffic back.

Mike Markidis – Analyst, Desjardins

That's very useful Glenn. Thank you very much. I'll turn it back.

Operator

Thank you. Once again ladies and gentlemen, if you do have a question at this time, please press star, followed by one on your touchtone phone.

And your next question will be from Tal Woolley at National Bank Financial. Please go ahead.

Tal Woolley – Analyst, National Bank

Hi, good morning or good afternoon.

Unidentified Speaker

Good afternoon, Tal.

Tal Woolley – Analyst, National Bank

You guys—your geographic concentration is a little bit different than your peers due to a little bit more to the Maritimes and Western Canada and just, you know, the pandemic sort of spread has been obviously very different, you know, across the country. I'm just wondering if you can talk maybe a little bit to what leasing demand looks like across some of the regions. Just to see—just to try and understand some of the regional trends that might be out there.

Glenn Hynes — Crombie REIT, Executive Vice President and Chief Operating Officer

You know it's interesting. We're not seeing anything dramatically different. The beauty of our portfolio, for example, in Alberta where you might be worried more so, you know, we just have a very strong grocery anchored portfolio there and the ancillary that we saw is very strong, so were very, 99 percent occupied in Western Canada.

As we look at our renewal spreads over expiry, it's actually pretty balanced, that 4 percent year-to-date, 3.6 percent for the quarter, and 4.9 percent on our retail renewals Tal. If I look across the country, and it's not a huge canvas because with our long lease terms, we don't have a ton of renewal activity but for the first half year, it's been very consistently positive in terms of the renewal spread, there's not pockets of market that are negative and other pockets that are positive, it's pretty well balanced.

And then secondly, as we look at the renewals for the balance of the year, we're feeling pretty good, I think we have another half a million square feet. We have a couple of big deals, we had one about 100,000 square foot renewal that actually got renewed into just early Q3 that was a Q4 renewal, so we're feeling good about the renewal piece. I think last call we had expressed caution about maintaining positive renewal spreads on expiries, but that's been very pleasing so far, so I can't tell you that there's a whole lot of anomalies, maybe Don or Clinton can or have a different perspective, but at this point, the leasing side has been fine. We're expecting it to be, you know, a bit slower post-pandemic or during the pandemic for new leasing, but thankfully so far, the renewal side and not losing many tenants.

Those stats on the CCAA piece that we shared in the script, those are pretty good. We've had 17 leases that are, call it part and parcel of a CCAA process, only two of those are being disclaimed and that speaks to the fact that the other 15 are just for great locations and great properties that even through CCAA, the tenant doesn't want to give them up, and so I think that goes well, but nothing specifically geographically that would be of interest.

Tal Woolley – Analyst, National Bank

Okay. As we get sort of closer to completion on Davie Street on the residential piece, can you just talk a bit about marketing plan, how you sort of might adjust, you know, how you approach going to market given everything that's going on too.

Don Clow — Crombie REIT, President and Chief Executive Officer

Yes, Tal. It's Donnie. You know, so number one, we've been delayed, call it by a quarter, which pushes us into early 2021 in terms of lease up. We've been saying for the last, you know, year or so, (inaudible) and our partner at Westbank had been saying that we will be taking our time to ensure we get the rent that we want to get out of the gate because as you know, there's, you know, limits on what can be done after the fact, and so that will continue to be what we expect to happen.

There has been some softening, you know, in the market to some degree and we're concerned about what impacts of Airbnb and other factors have on the market, but we still have very solid confidence our partner has projects in the community that have leased throughout the COVID-19 pandemic and shutdown and are quite confident that we will also lease up once we get into 2021 over time, so in our—honestly, our pro forma rents are still well above what we initially would have forecasted for them that are in our MD&A, so again, we have some margin of safety there in terms of hitting the numbers.

The project's been very well managed, they've been very resilient through the construction uncertainties, whether it be supply chain or just the labour forces and managing a number of scares that they thought may have been COVID but were not confirmed and ultimately proved not be COVID, so there's lots of things that happened on that site and you know, we're very thankful to have a great partner who's done a great job, and we have also, our teams have done, I think, an immense amount of work in bringing this project to completion.

We're really excited. It's going to drive a lot of NAV creation for this Company and AFFO growth over time and it generates to Vancouver, so for us it's a great asset and, you know, great location, probably the best dirt in the country, so we're quite pleased with that.

Anyway, some of this stuff is short-term in my mind but I think in the long-term we'll be very, very thankful that we have that asset moving forward.

Tal Woolley – Analyst, National Bank

And any early word on the performance of the reopen store?

Don Clow — Crombie REIT, President and Chief Executive Officer

Sorry, the what?

Tal Woolley – Analyst, National Bank

Any early word on the performance of the reopen Safeway there?

Don Clow — Crombie REIT, President and Chief Executive Officer

Nothing but anecdotal so far, Tal, but we're hearing Sobeys is very happy with the store. I think they opened a little softer than normal because of the pandemic timing, but beautiful store, we're hearing good comments, they seem quite satisfied, but we're not privy to sales numbers, and if we were, I don't think we'd be sharing them.

Tal Woolley – Analyst, National Bank

Yes.

Don Clow — Crombie REIT, President and Chief Executive Officer

No, but so far so good is what we're hearing. It's a beautiful store and it's going to be a great centerpiece to the 330 units above, and the good news too, the Scotiabank and the liquor store will commence paying rent in Q3, they'll be taking occupancy in Q4, so we'll have almost a full complement of retail there operational as we gear up to rent out the apartment.

Tal Woolley – Analyst, National Bank

Okay, and then just lastly, you know, you completed a couple transactions selling some of your grocery incurred retail to private investors last year. Have you—subsequent to all this economic (inaudible), have you received any more inbound interest on that type of product?

Don Clow — Crombie REIT, President and Chief Executive Officer

Yes, the—Tal, we have, call it a constant flow of inbounds, and I would say at scale in a variety of forms, so whether it be the 100 percent non-core—what we call non-core, that could be tertiary or secondary markets, it could be some of our drugstores that we're interested in potentially selling, and it could be partial interests like the Northern deal we did a year and a half ago for 50 percent or the Oak Street deal where it was an 89, 11 more unconventional deal.

All of those types of inquiries are, I'll call them, consistently inbound, so—and we, I would say, with our stock price where it is, we would be looking again at dispositions, again it's a form of equity and we proved that we can do it at or above IFRS through '18 and '19, and so we'll be started to look at that program and working on it over the next number of months until the markets sort of settle out and rebound to something that's closer to our NAV, and we don't mean equity as we've said a number of times, as Clinton said earlier, we really ended, we now end at 2021 and 2022, we don't really need equity, so we're at a place where we're in a pretty good space with a lot of different sources of capital and the inbounds are an important of that. People that are interested in being our partner and have good assets.

Tal Woolley – Analyst, National Bank

Okay, thanks very much gentlemen.

Unidentified Speaker

Thank, Tal.

Operator

Thank you. As a reminder again ladies and gentlemen, if you do have any questions, please press star, one at this time.

And right now, we have no further questions registered. Please proceed.

Ruth Martin – Crombie REIT, Director, Investor Relations & Financial Analysis

Thank you for your time today and we look forward to updating you on our progress on our Q3 call in November. Stay safe and healthy.

Unidentified Speaker

Thanks everyone.

Unidentified Speaker

Thanks everybody.

Unidentified Speaker

Thanks everybody.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines.