ALLIED

# Allied Announces First-Quarter Results and Provides Short-Term and Long-Term Outlook

TORONTO, APRIL 29, 2020

Allied Properties Real Estate Investment Trust ("Allied") (TSX: "AP.UN") today announced results for its first quarter ended March 31, 2020. "Allied propelled strong internal and external growth in the first quarter of 2020, with a mid-single-digit percentage increase in same-asset NOI, FFO per unit and AFFO per unit and an 11.7% increase in NAV per unit," said Michael Emory, President & CEO. "We also issued unsecured debentures in the aggregate principal amount of $400 million and bearing interest at 3.117% per year for a term of 10 years. Half of the proceeds were used to prepay a $200 million unsecured term loan maturing in 2021, with the result that we now have very little debt maturing in 2020 ($23 million of first mortgage amortization) and 2021 ($27 million of first mortgage amortization). Our balance sheet and debt-metrics are stronger than ever."

## FIRST-QUARTER RESULTS

The financial results are summarized below:

| | AS AT MARCH 31, | | | |
|---|---|---|---|---|
| (In thousands except for per unit and % amounts) | **2020** | 2019 | CHANGE | % CHANGE |
| **Investment properties** | **$8,232,495** | $6,415,217 | $1,817,278 | 28.3% |
| **Unencumbered investment properties** | **$6,012,110** | $4,301,020 | $1,711,090 | 39.8% |
| **Cost of PUD as a % of GBV** | **9.7%** | 8.0% | 1.7% | — |
| **NAV per unit** | **$48.17** | $43.12 | $5.05 | 11.7% |
| **Total indebtedness ratio** | **27.2%** | 27.0% | 0.2% | — |
| **Annualized Adjusted EBITDA** | **$342,576** | $287,944 | $54,632 | 19.0% |
| **Net debt as a multiple of Annualized Adjusted EBITDA** | **6.8x** | 6.2x | (0.6x) | — |
| **Interest-coverage ratio including capitalized interest** | **3.3x** | 3.3x | — | — |

| (In thousands except for per unit and % amounts) | FOR THE THREE MONTHS ENDED MARCH 31, 2020 | 2019 | CHANGE | % CHANGE |
|---|---|---|---|---|
| **Adjusted EBITDA** | **$85,644** | $71,986 | $13,658 | 19.0% |
| **Net income excluding fair value adjustments** | **$60,717** | $48,786 | $11,931 | 24.5% |
| **Net income** | **$254,913** | $143,177 | $111,736 | 78.0% |
| **Same asset NOI - rental portfolio** | **$73,919** | $70,843 | $3,076 | 4.3% |
| **Same asset NOI - total portfolio** | **$73,476** | $70,810 | $2,666 | 3.8% |
| **FFO** | **$71,089** | $58,548 | $12,541 | 21.4% |
| **FFO per unit (diluted)** | **$0.577** | $0.555 | $0.022 | 4.0% |
| **FFO pay-out ratio** | **71.4%** | 72.0% | (0.6%) | — |
| **FFO per unit (diluted) excluding condo marketing costs** | **$0.582** | $0.563 | $0.019 | 3.4% |
| **AFFO** | **$61,780** | $50,186 | $11,594 | 23.1% |
| **AFFO per unit (diluted)** | **$0.501** | $0.475 | $0.026 | 5.5% |
| **AFFO pay-out ratio** | **82.1%** | 84.0% | (1.9%) | — |
| **AFFO per unit (diluted) excluding condo marketing costs** | **$0.506** | $0.484 | $0.022 | 4.5% |

The operating results are summarized below:

| | FOR THE THREE MONTHS ENDED MARCH 31, 2019 | 2018 | CHANGE | % CHANGE |
|---|---|---|---|---|
| **Leased area** | **94.8%** | 96.4% | (1.6)% | — |
| **Occupied area** | **94.5%** | 96.2% | (1.7)% | — |
| **Average in-place net rent per occupied square foot (period-end)** | **$22.91** | $23.12 | $(0.21) | (0.9)% |
| **Renewal and replacement rate for leases maturing in the period** | **61.2%** | 67.7% | (6.5)% | — |
| **Increase in net rent on maturing leases** | **24.2%** | 19.6% | 4.6% | — |

Same-asset NOI for Allied's rental portfolio was up 4.3% in the first quarter, with urban-data-centre (UDC) space down 2.7% on expected turnover vacancy and urban workspace up 6% on expected occupancy gain and rent growth. This underpinned 3.4% growth in Allied's FFO per unit and 4.5% growth in its AFFO per unit, excluding condo marketing costs, which are non-recurring, project-related costs.

Allied delivered 11.7% growth in NAV per unit in the quarter. Development completions and value-add initiatives represented 20% of the NAV per unit growth, organic NOI growth 27% and cap-rate compression 53% (essentially a 25 basis-point drop in the cap-rate applicable to certain Montréal properties and a 15 basis-point drop in the cap-rate applicable to certain Toronto properties).

The occupied area of Allied's rental portfolio at the end of the quarter was 94.5%, with leased area at 94.8%. Allied also renewed or replaced leases for 61.2% of the space that matured in the quarter. This resulted in an overall increase of 24.2% in net rent per square foot from the affected space and a weighted-average lease term of 5.8 years for its entire rental portfolio. Allied's UDC space was 83.5% leased at the end of the quarter.

## BALANCE SHEET AND LIQUIDITY

Allied has demonstrated continuous and unwavering commitment to the balance sheet, with the result that its debt-metrics are now squarely within its targeted ranges. At the end of the quarter, Allied's total indebtedness ratio was 27.2%, its net debt as a multiple of EBITDA 6.8 times, its interest-coverage ratio 3.3 times and its pool of unencumbered properties $6 billion.

Allied has a $400 million unsecured line of credit with a $100 million accordion feature bearing interest at 120 basis points over CDOR. In the interest of prudence and short-term financial flexibility, Allied has established a $100 million bilateral unsecured line of credit for a term of one year bearing interest at 145 basis points over CDOR. Going forward, Allied expects to maintain unsecured credit line availability of at least $500 million with a $100 million accordion feature. Management considers this appropriate given the size of Allied's business and its annual debt maturity levels from 2022 onward.

On April 20, 2020, Allied announced the closing of the acquisition of The Landing, 375 Water Street, Vancouver. Allied funded the acquisition with its unsecured line of credit and intends to fund the acquisition on a long-term basis with proceeds from the sale to a Canadian pension fund of a non-managing, undivided 50% interest in two fully stabilized properties in its Montréal portfolio. On April 24, 2020, Allied formalized this intention by entering into an agreement of purchase and sale with a subsidiary of the pension fund. The agreement is conditional until June 15, 2020, on completion of due diligence on behalf of the pension fund. Thereafter the agreement will be subject to normal closing conditions and clearance under the Competition Act. Allied expects to close the sale in early July of 2020. The proceeds of the sale will cover most of the purchase price for The Landing.

## GLOBAL PANDEMIC AND CONSEQUENT ECONOMIC DISRUPTION

A global pandemic has forced people around the world to confront a sudden and severe public-health crisis. Governments, businesses and citizens have implemented extreme physical-distancing measures in an effort to mitigate the spread of a novel virus, COVID-19. The measures appear to be working, but many human beings have suffered and died as a result of infection. Even more human beings are providing the services needed to care for the afflicted and to provide the essentials of human life. Having taken all necessary physical-distancing measures, the Trustees and employees of Allied express deep gratitude to the men and women providing essential services worldwide, including the building operators, contractors and security personnel protecting Allied's buildings and building users.

The physical-distancing measures necessary to mitigate the spread of the virus have caused severe economic disruption. Governments and central banks worldwide have provided massive economic stimulus to counter the disruption and are likely to provide additional stimulus going forward. While this bodes well for recovery, there is no way to predict at this time the duration or severity of the current economic downturn.

## SHORT-TERM OUTLOOK

While consistent with its original outlook for 2020, Allied's first-quarter results cannot be taken alone in formulating an outlook for the remainder of 2020. Allied expects downward pressure on its rental revenue in the short-term as a result of the global pandemic and consequent economic disruption. Most indicative in that regard is Allied's rent collection for the month of April, which is the first full month during which physical-distancing measures were in place across Canada.

Gross monthly rent due in April was $54 million. 3.2% of the total amount due derives from parking use, 7% from retail use, 15.4% from urban-data-centre (UDC) use and 74.4% from office use. In light of the current economic disruption, Allied has afforded a one-month rent deferral to users in genuine financial need, which for Allied includes a significant portion of its storefront retail users and a very small portion of its office users in early stages of business development. Allied expects to afford another one-month rent deferral to such users for the month of May.

To date, Allied has collected 90% of the total amount due in April and afforded one-month deferrals aggregating $4.2 million (8% of the total amount due in April). This leaves 2% of the total amount due in April to be collected. Allied is actively pursuing collection of the constituent amounts and expects to be successful in most instances.

Users of Allied's UDC space experienced a surge in activity in late March and throughout April. The use of Allied's meet-me-rooms and cross-connection capability is rising accordingly, as is the need for additional power, which Allied can supply profitably in meaningful quantities. Allied expects the surge to provide a boost to its earnings in 2020 and a more material boost to its longer-term earnings. Allied expects to be in a position to quantify this more fully when it reports its second-quarter results.

In summary, Allied expects to experience some erosion in its rental revenue over the remainder of 2020, primarily as a result of turnover vacancy flowing from the current economic disruption. Allied does not believe the short-term erosion will be material, especially when it takes account of probable positive offsets flowing from its UDC space and other aspects of its operations.

Allied's original internal forecast for 2020 called for mid-single-digit percentage growth in each of same-asset NOI, FFO per unit and AFFO per unit. In light of the global pandemic and consequent economic disruption, its revised internal forecast for 2020 calls for flat-to-mid-single-digit percentage growth in each of same-asset NOI, FFO per unit and AFFO per unit. Allied expects to allocate a large amount of capital in 2020 with the same strategic coherence and discipline it demonstrated in 2019. Allied is committed to allocating $335 million to development and value-add activity over the course of 2020, and it expects to allocate additional capital to accretive acquisitions.

There are material areas of uncertainty with respect to Allied's revised internal forecast, the most significant being the fact that Allied cannot predict the duration of the physical-distancing measures that are now in place across Canada. Allied also cannot predict how consumers will respond in the short term when physical-distancing measures are lifted or relaxed.

## LONG-TERM OUTLOOK

Allied's leasing activity has continued while physical-distancing measures are in place. Its leasing teams continue to finalize lease renewals and entertain new requests for space in Montreal, Toronto, Vancouver and even Calgary. Because of the supply-demand dynamics in Montreal, Toronto and Vancouver, Allied expects continued upward pressure on rental rates. While there will be no such pressure in Calgary, there appears to be continued demand for distinctive urban workspace on the part of knowledge-based organizations.

Allied's development activity has implications for its long-term outlook. Construction activity at all of Allied's large development sites in Toronto is ongoing at about 80% of normal capacity. While there are understandable concerns for the health and well-being of construction workers, the prevailing view of all involved has been that appropriate physical-distancing and sanitation measures can be achieved without suspending work. The other issue that could impact on timing is supply-chain interruption. Allied is monitoring this closely, but it has not yet had to invoke *force majeure* provisions with respect to the delivery of space to users that have entered into pre-leasing commitments. Invoking these provisions would delay delivery dates, but would not result in penalties being payable by Allied in relation to the delay.

Allied continues to have deep confidence in, and commitment to, its strategy of consolidating and intensifying distinctive urban workspace and network-dense UDCs in Canada's major cities. Allied firmly believes that its strategy is underpinned by the most important secular trends in Canadian and global real estate and that these trends will not be altered in any material way by the global pandemic or its aftermath. Allied also firmly believes that it has the properties, the financial strength, the people and the platform necessary to execute its strategy for the ongoing benefit of its unitholders.

## CAUTIONARY STATEMENTS

FFO, AFFO, NAV, EBITDA, Adjusted EBITDA, total debt and net debt are not financial measures defined by International Financial Reporting Standards ("IFRS"). Please see Allied's MD&A for a description of these measures and their reconciliation to financial measures defined by IFRS, as presented in Allied's most recent financial statements. These statements, together with accompanying notes and MD&A, have been filed with SEDAR, *www.sedar.com*, and are also available on Allied's website, *www.alliedreit.com*.

NOI is not a measure recognized under IFRS and does not have any standardized meaning prescribed by IFRS. NOI is presented in this press release because Management of Allied believes that this non-IFRS measure is an important financial performance indicator. NOI, as computed by Allied, may differ from similar computations as reported by other similar organizations and, accordingly, may not be comparable to NOI reported by such organizations.

This press release may contain forward-looking statements with respect to Allied, its operations, strategy, financial performance and condition and the expected impact of the global pandemic and consequent economic disruption. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. Allied's actual results and performance discussed herein could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations, including the effect of the global pandemic and consequent economic disruption. Important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition, changes in government regulations and the factors described under "Risk Factors" in Allied's Annual Information Form which is available at *www.sedar.com*. The cautionary statements qualify all forward-looking statements attributable to Allied and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date of this press release, and Allied has no obligation to update such statements.

## ABOUT ALLIED

Allied is a leading owner, manager and developer of (i) distinctive urban workspace in Canada's major cities and (ii) network-dense urban data centres in Toronto that form Canada's hub for global connectivity. Allied's business is providing knowledge-based organizations with distinctive urban environments for creativity and connectivity.

## FOR FURTHER INFORMATION, PLEASE CONTACT:

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