ALLIED

Allied Announces First-Quarter Results

TORONTO, APRIL 26, 2023

Allied Properties Real Estate Investment Trust ("Allied") (TSX: "AP.UN") today announced results for the three months ended March 31, 2023. "Despite continuing macroeconomic uncertainty, our operating income was up 14.5% in the first quarter, in large part because of development completions and contribution from last year's portfolio acquisition," said Michael Emory, President & CEO. "Our FFO per unit was slightly below forecast, primarily because we capitalized less interest than anticipated. Our AFFO per unit was above forecast. Average in-place net rent per occupied square foot continued to rise in the quarter, reaching $23.35 at quarter-end, and we continued to achieve rent increases on renewal. As a result, NOI and same-asset NOI were a bit higher than forecast for the quarter."

FINANCIAL RESULTS

The following table summarizes GAAP financial measures for the first quarter:

	FOR THE THREE MONTHS ENDED MARCH 31			
(In thousands)	2023	2022	CHANGE	% CHANGE
Rental Revenue	**$138,490**	$120,942	$17,548	14.5%
Property operating costs	**$(61,325)**	$(53,535)	$(7,790)	(14.6%)
Operating income	**$77,165**	$67,407	$9,758	14.5%
Interest expense	**$(22,564)**	$(15,161)	$(7,403)	(48.8%)
General and administrative expenses	**$(6,170)**	$(6,882)	$712	10.3%
Condominium marketing expenses	**$(120)**	$(113)	$(7)	(6.2%)
Amortization of other assets	**$(370)**	$(261)	$(109)	(41.8%)
Interest income	**$9,744**	$7,024	$2,720	38.7%
Fair value loss on investment properties and investment properties held for sale	**$(78,357)**	$(10,069)	$(68,288)	(678.2%)
Fair value (loss) gain on derivative instruments	**$(8,024)**	$19,198	$(27,222)	(141.8%)
Net (loss) income from joint venture	**$(3,006)**	$7,731	$(10,737)	(138.9%)

(In thousands)	FOR THE THREE MONTHS ENDED MARCH 31 2023	2022	CHANGE	% CHANGE
Net (loss) income and comprehensive (loss) income from continuing operations	**$(31,702)**	$68,874	$(100,576)	(146.0%)
Net income and comprehensive income from discontinued operations	**$18,019**	$118,316	$(100,297)	(84.8%)
Net (loss) income and comprehensive (loss) income	**$(13,683)**	$187,190	$(200,873)	(107.3%)

The following table summarizes non-GAAP financial measures for the first quarter:

(In thousands except for per unit and % amounts) [1]	FOR THE THREE MONTHS ENDED MARCH 31 2023	2022	CHANGE	% CHANGE
Adjusted EBITDA	**$102,995**	$91,722	$11,273	12.3%
Same asset NOI - rental portfolio	**$68,221**	$68,086	$135	0.2%
Same Asset NOI - total portfolio	**$86,354**	$87,367	$(1,013)	(1.2%)
FFO	**$81,175**	$77,340	$3,835	5.0%
FFO per unit (diluted)	**$0.581**	$0.603	$(0.022)	(3.6%)
FFO pay-out ratio	**77.5%**	72.4%	—	5.1%
All amounts below are excluding condominium related items and the mark-to-market adjustment on unit-based compensation:				
FFO	**$81,085**	$77,573	$3,512	4.5%
FFO per unit (diluted)	**$0.580**	$0.605	$(0.025)	(4.1%)
FFO pay-out ratio	**77.6%**	72.1%	—	5.5%
AFFO	**$74,482**	$71,571	$2,911	4.1%
AFFO per unit (diluted)	**$0.533**	$0.558	$(0.025)	(4.5%)
AFFO pay-out ratio	**84.4%**	78.2%	—	6.2%

(1) These non-GAAP measures include the results of the continuing operations and the discontinued operations (except for same asset NOI - rental portfolio, which only includes continuing operations). Refer to the Non-GAAP Measures section below.

Allied's operating income was up 14.5% in the first quarter, in large part because of development completions and contribution from the portfolio (the "Portfolio") acquired from Choice Properties REIT at the end of the comparable quarter last year. Despite intervening macroeconomic uncertainty, Allied made measurable progress with the Portfolio. While occupancy is only up slightly after a year of ownership, average in-place net rent per occupied square foot increased by 5.5% from $24.74 to $26.11, the weighted average lease term increased by 21% from 4.3 years to 5.2 years, annualized NOI increased by 3.9% from $33.6 million to $34.9 million and the IFRS value increased by 4.8% from $775 million to $812 million.

Considerably higher interest expense in the first quarter put downward pressure on Allied's FFO per unit, which was 58 cents for the quarter, slightly below internal forecast. AFFO per unit of 53 cents was above internal forecast.

Allied recorded a fair value loss on investment properties of $78 million in the first quarter. $29 million is the result of modestly higher estimated cost-to-complete of development projects in Montréal. The balance reflects the fair-value impact of longer periods of turnover vacancy in Allied's rental portfolio.

The following table summarizes other financial measures as at March 31, 2023 and March 31, 2022:

	AS AT MARCH 31			
(In thousands except for per unit and % amounts)	2023	2022	CHANGE	% CHANGE
Investment properties and investment properties held for sale [1]	**$11,052,110**	$10,599,738	$452,372	4.3%
Unencumbered investment properties and investment properties held for sale [2]	**$9,749,760**	$9,369,227	$380,533	4.1%
Total Assets [1]	**$11,968,357**	$11,413,692	$554,665	4.9%
Cost of PUD as a % of GBV [2]	**11.5%**	10.8%	—	0.7%
NAV per unit	**$50.41**	$50.92	$(0.51)	(1.0)%
Debt [1]	**$4,340,919**	$3,769,606	$571,313	15.2%
Total indebtedness ratio [2]	**36.5%**	33.3%	—	3.2%
Annualized Adjusted EBITDA [2]	**$411,980**	$366,888	$45,092	12.3%
Net debt as a multiple of Annualized Adjusted EBITDA [2]	**10.5x**	10.2x	0.3x	—
Interest coverage ratio including interest capitalized and excluding financing prepayment costs - three months trailing [2]	**2.4x**	3.3x	(0.9x)	—
Interest coverage ratio including interest capitalized and excluding financing prepayment costs - twelve months trailing [2]	**2.8x**	3.4x	(0.6x)	—

(1) This measure is presented on an IFRS basis.
(2) This is a non-GAAP measure, and includes the results of the continuing operations and the discontinued operations. Refer to the Non-GAAP Measures section below.

LEASING

Allied had 243 lease tours in its rental portfolio in the first quarter, slightly higher than the 240 in the comparable quarter last year and considerably higher than the 226 in the prior quarter. Allied's occupancy and leased area declined to 88.2% and 88.8%, respectively, though they were a bit better than forecast for quarter-end. The modest decline from the prior quarter was driven by a non-renewal in Kitchener (with a large, long-time user moving into an owned building) and the transition of The Lougheed Building in Calgary from PUD to the rental portfolio. Allied is advanced in replacing the Kitchener user and working with an educational organization toward leasing The Lougheed Building in its entirety.

Average in-place net rent per occupied square foot continued to rise in the first quarter, reaching $23.35 at quarter-end, and Allied continued to achieve rent increases on renewal (up 11% ending-to-starting base rent and up 18% average-to-average base rent). As a result, NOI and same-asset NOI were slightly higher than forecast for the quarter.

The leasing metrics for the three months ended March 31, 2023, and March 31, 2022 are set out in the table below:

	AS AT MARCH 31			
	2023	2022	CHANGE	% CHANGE
Leased area [1]	**88.8%**	89.3%	—	(0.5%)
Occupied area [1]	**88.2%**	88.3%	—	(0.1%)
Average in-place net rent per occupied square foot - excluding UDC in both periods	**$23.35**	$22.52	$0.83	3.7%

(1) This metric excludes the assets held for sale based on the assets held for sale classification at the end of each period.

Given the scale of Allied's rental portfolio, upgrade activity is now constant in all markets, particularly Montréal, Toronto and Vancouver. The goal of the upgrade activity is to serve users better and boost net rent per occupied square foot over time. At the end of the first quarter, Allied's rental portfolio was comprised of (i) 14,047,591 square feet of GLA in buildings that are largely stabilized and (ii) 375,061 square feet of GLA in buildings that are undergoing active upgrade. The occupied area of the former was 88.8%, with leased area at 89.3%. The occupied area of the latter was 68.7%, with leased area at 69.3%.

SALE OF UDC PORTFOLIO

Scotiabank and CBRE are well advanced in conducting a comprehensive sale process with respect to Allied's UDC portfolio. They contacted nearly 100 potential buyers worldwide in January, approximately 30% of which signed Non-Disclosure Agreements and gained access to the Virtual Data Room. Allied received first-round bids on March 24 and narrowed the field for the second round and again for a third round, at the end of which it expects to receive firm bids. While Management cannot yet be certain as to the outcome, it expects a firm agreement and closing within the parameters anticipated when Allied embarked on the process.

Allied's principal motivation in selling the UDC portfolio is two-fold. First, Allied wants to reaffirm its mission and pursue it over the next few years with low-cost capital. Second, it wants to supercharge its balance sheet and reduce its dependence on the capital markets going forward.

Allied expects to use most of the sale proceeds to retire debt and the balance to fund current development activity. Allied may elect to use a portion of the sale proceeds to buy back units under its NCIB. It does not expect to use any of the proceeds to fund acquisitions, nor does it expect to engage in material acquisition activity in 2023.

OUTLOOK

Allied's internal forecast for 2023 calls for low-to-mid-single-digit percentage growth in each of same asset NOI, FFO per unit and AFFO per unit. Allied does not forecast NAV per unit growth in any given time period.

Allied continues to have deep confidence in, and commitment to, its strategy of consolidating and intensifying distinctive urban workspace 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. 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 and other constituents.

NON-GAAP MEASURES

Management uses financial measures based on International Financial Reporting Standards ("IFRS" or "GAAP") and non-GAAP measures to assess Allied's performance. Non-GAAP measures do not have any standardized meaning prescribed under IFRS, and therefore, should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. Refer to the Non-GAAP Measures section on page 22 of the MD&A as at March 31, 2023, available on www.sedar.com, for an explanation of the composition of the non-GAAP measures used in this press release and their usefulness for readers in assessing Allied's performance. Such explanation is incorporated by reference herein.

RECONCILIATIONS OF NON-GAAP MEASURES

The following tables reconcile the non-GAAP measures to the most comparable IFRS measures for the three months ended March 31, 2023, and the comparable period in 2022. These terms do not have any standardized meaning prescribed under IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities.

ADJUSTED EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("ADJUSTED EBITDA")

The following table reconciles Allied's net (loss) income and comprehensive (loss) income to Adjusted EBITDA, a non-GAAP measure, for the three months ended March 31, 2023 and March 31, 2022.

	THREE MONTHS ENDED	
	MARCH 31, 2023	MARCH 31, 2022
Net (loss) income and comprehensive (loss) income for the period	**$(13,683)**	$187,190
Interest expense	**24,335**	16,669
Amortization of other assets	**370**	261
Amortization of improvement allowances	**8,368**	7,900
Fair value loss (gain) on investment properties and investment properties held for sale (1)	**75,791**	(101,220)
Fair value loss (gain) on derivative instruments	**8,024**	(19,198)
Mark-to-market adjustment on unit-based compensation	**(210)**	120
Adjusted EBITDA (2)	**$102,995**	$91,722

(1) Includes Allied's proportionate share of the equity accounted investment's fair value loss on investment properties of $4,023 for the three months ended March 31, 2023 (March 31, 2022 - fair value gain on investment properties of $7,292).
(2) Includes the Urban Data Centre segment which was classified as a discontinued operation starting in Q4 2022.

SAME ASSET NOI

Same asset NOI, a non-GAAP measure, is measured as the net operating income for the properties that Allied owned and operated for the entire duration of both the current and comparative period. Same asset NOI of the assets held for sale for the three months ended March 31, 2023, consists of five investment properties.

	THREE MONTHS ENDED		CHANGE	
	MARCH 31, 2023	MARCH 31, 2022	$	%
Rental Portfolio - Same Asset NOI	**$68,221**	$68,086	$135	0.2%
Assets Held for Sale - Same Asset NOI	**13,522**	16,279	(2,757)	(16.9)
Rental Portfolio and Assets Held for Sale - Same Asset NOI	**$81,743**	$84,365	$(2,622)	(3.1%)
Development Portfolio - Same Asset NOI	**$4,611**	$3,002	$1,609	53.6%
Total Portfolio - Same Asset NOI	**$86,354**	$87,367	$(1,013)	(1.2%)
Acquisitions	**$9,030**	$—	$9,030	
Dispositions	**—**	435	(435)	
Lease terminations	**193**	124	69	
Development fees and corporate items	**2,125**	3,188	(1,063)	
Total NOI	**$97,702**	$91,114	$6,588	7.2%

FUNDS FROM OPERATIONS ("FFO") AND ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

The following tables reconcile Allied's net (loss) income and comprehensive (loss) income to FFO, FFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation, AFFO, and AFFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation, which are non-GAAP measures, for the three months ended March 31, 2023, and March 31, 2022.

	THREE MONTHS ENDED		
	MARCH 31, 2023	MARCH 31, 2022	CHANGE
Net (loss) income and comprehensive (loss) income from continuing operations	**$(31,702)**	$68,874	$(100,576)
Net income and comprehensive income from discontinued operations	**18,019**	118,316	(100,297)
Adjustment to fair value of investment properties and investment properties held for sale	**71,768**	(93,928)	165,696
Adjustment to fair value of derivative instruments	**8,024**	(19,198)	27,222
Incremental leasing costs	**2,240**	2,353	(113)
Amortization of improvement allowances	**8,185**	7,767	418
Amortization of property, plant and equipment (1)	**100**	—	100
Adjustments relating to joint venture:			
Adjustment to fair value on investment properties	**4,023**	(7,292)	11,315
Amortization of improvement allowances	**183**	133	50
Interest expense (2)	**335**	315	20
FFO	**$81,175**	$77,340	$3,835
Condominium marketing costs	**120**	113	7
Mark-to-market adjustment on unit-based compensation	**(210)**	120	(330)
FFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**$81,085**	$77,573	$3,512
Amortization of straight-line rents	**(1,993)**	(209)	(1,784)
Regular leasing expenditures	**(1,126)**	(3,195)	2,069
Regular maintenance capital expenditures	**(33)**	(386)	353
Incremental leasing costs (related to regular leasing expenditures)	**(1,568)**	(1,647)	79
Recoverable maintenance capital expenditures	**(1,835)**	(315)	(1,520)
Adjustment relating to joint venture:			
Amortization of straight-line rents	**(48)**	(250)	202
AFFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**$74,482**	$71,571	$2,911
Weighted average number of units (3)			
Basic	**139,765,128**	128,074,012	11,691,116
Diluted	**139,765,128**	128,279,982	11,485,146
Per unit - basic			
FFO	**$0.581**	$0.604	$(0.023)
FFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**$0.580**	$0.606	$(0.026)
AFFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**$0.533**	$0.559	$(0.026)

	THREE MONTHS ENDED		
	MARCH 31, 2023	MARCH 31, 2022	CHANGE
Per unit - diluted			
FFO	**$0.581**	$0.603	$(0.022)
FFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**$0.580**	$0.605	$(0.025)
AFFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**$0.533**	$0.558	$(0.025)
Pay-out Ratio			
FFO	**77.5%**	72.4%	5.1%
FFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**77.6%**	72.1%	5.5%
AFFO excluding condominium related items and the mark-to-market adjustment on unit-based compensation	**84.4%**	78.2%	6.2%

(1) Property, plant and equipment relates to owner-occupied property.
(2) This amount represents interest expense on Allied's joint venture investment in TELUS Sky and is not capitalized under IFRS, but is allowed as an adjustment under REALPAC's definition of FFO.
(3) The weighted average number of units includes Units and Exchangeable LP Units. The Exchangeable LP Units are classified as equity in the unaudited condensed consolidated financial statements as non-controlling interests.

CAUTIONARY STATEMENTS

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 "forecast", "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 operator of distinctive urban workspace in Canada's major cities and network-dense UDC space in Toronto. Allied's mission is to provide knowledge-based organizations with workspace that is sustainable and conducive to human wellness, creativity, connectivity and diversity. Allied's vision is to make a continuous contribution to cities and culture that elevates and inspires the humanity in all people.

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