CT REIT First Quarter 2020 Earnings Results Conference Call
Tuesday, May 5, 2020 – 8:00 AM ET

FORWARD LOOKING INFORMATION

This document contains forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for CT REIT's business and results of operations and the effect of the COVID-19 pandemic on the REIT's business and operations.

Forward-looking statements are provided for the purposes of providing information about CT REIT's future outlook and anticipated events or results and may include statements regarding known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from those indicated. Such factors include but are not limited to,: general economic conditions; financial position; business strategy; availability of acquisition opportunities; budgets; capital expenditures; financial results, including fair value adjustments and cash flow assumptions upon which they are based; cash and liquidity; taxes; and plans and objectives of or involving CT REIT. In addition, the effects of COVID-19, including the duration spread and severity of the pandemic and impact on the business, operations and financial condition of the REIT, create additional uncertainties. In particular, the impact of the virus and government authorities' and public health officials' responses thereto may effect: our tenants' ability to pay rent in full or at all; domestic and global credit and capital markets and our ability to access capital on favourable terms, or at all; the health and safety of our employees and our tenants' customers and employees; and domestic and global supply chains. Given the rapidly evolving circumstances surrounding the COVID-19 pandemic, the duration, spread and severity of its impact on the REIT's business and financial results cannot be estimated with certainty as the extent of the impact will largely depend on future developments, including actions taken to contain COVID-19. Statements regarding future acquisitions, developments, distributions, results, performance, achievements, prospects or opportunities for CT REIT or the real estate industry and the impact of COVID-19 are forward-looking statements. In some cases, forward-looking information can be identified by such terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts.

CT REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. Such factors and assumptions include but are not limited to: that the Canadian economy will stabilize over the next 12 months and inflation will remain relatively low, despite government stimulus; that tax laws will remain unchanged; that the REIT does not currently have any third-party debt maturing within the next fiscal cycle; that the REIT will continue to manage its liquidity and debt covenants with a reduction in capital expenditures planned for 2020 to capital projects as well as by participating in property tax deferral payment arrangements being offered to property owners; that conditions within the real estate market, including competition for acquisitions, will normalize to historical levels in the near- to medium-term; that Canadian capital markets will provide CT REIT with access to debt at reasonable rates when required; that CTC will continue its involvement with CT REIT on the basis described in its 2019 AIF and that for the near- to medium-term Canadian Tire stores will continue to remain either fully open or with reduced- level services, with other CTC banners remaining closed; that the fair value ascribed to the CTC tenanted properties will not be materially impacted by the temporary COVID-19 restrictions; and that the ERP will operate as expected. However, given the evolving circumstances surrounding COVID-19, it is difficult to predict how significant the adverse impact of the pandemic will be on the global and domestic economy, the business, operations and financial position of the REIT's tenants, including Canadian Tire, and the business, operations and financial position of the REIT.

Although the forward-looking statements contained herein are based upon assumptions that management of CT REIT believes are reasonable, based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the REIT's control, that may cause CT REIT's, or the industry's, actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the factors discussed in section 12 of the 2020 Q1 Management Discussion and Analysis and under the "Risk Factors" section of CT REIT's 2019 Annual Information Form.

For more information on the risks, uncertainties and assumptions that could cause CT REIT's actual results to differ from current expectations, please also refer to CT REIT's public filings available on SEDAR at www.sedar.com and by a link at www.ctreit.com.

CT REIT cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also materially and adversely affect its results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Statements that include forward-looking information do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on CT REIT's business. For example, they do not include the effect of any dispositions, acquisitions, asset write-downs or other charges announced or occurring after such statements are made.

The forward-looking information contained herein is based on certain factors and assumptions made as of the date hereof or the date of the relevant document incorporated herein by reference, as applicable. CT REIT does not undertake to update the forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, except as required by applicable securities laws.

May 4, 2020

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PRESENTATION

Operator

Good morning. My name is Alana and I will be your conference Operator today.

At this time, I would like to welcome everyone to CT REIT's Q1 2020 Earnings Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press star, then the number one on your telephone keypad. To withdraw your question, press the pound key.

The speakers on the call today are Ken Silver, Chief Executive Officer of CT REIT; Lesley Gibson, Chief Financial Officer of CT REIT; and Kevin Salsberg, Chief Operating Officer of CT REIT.

Today's discussion may include forward-looking statements. 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 CT REIT's public filings for a discussion of these risk factors which are included in their 2019 MD&A and AIF, which can be found on CT REIT's website and on SEDAR.

I will now turn the call over to Ken Silver, Chief Executive Officer of CT REIT. Ken?

Ken Silver, President and Chief Executive Officer

Thank you, Operator, and good morning, everyone. We're very pleased to welcome you to CT REIT's First Quarter 2020 Investor Conference Call.

This is also our first virtual conference call, as Lesley, Kevin, and I are observing social distancing by calling in from separate locations. We hope this goes well, and also hope that you and your families are all healthy and staying safe.

Yesterday, we released our 2020 first quarter results, and Lesley and Kevin will touch on highlights of what was another strong quarter. Probably more importantly, given the unique circumstances we're all living through, they will share some actions we've taken that will have implications for the current and future quarters. For my part, I'd like to focus on some higher-level themes that are relevant to where we are today and where we're going.

From the REIT's inception in 2013, we have consistently described ourselves as reliable, durable, and growing. At first, beginning with our IPO road show, I would have described these words as aspirational, but over the past six and a half years our focus has remained on them as our strategic foundation and guideposts. A measure of our success over that time is reflected in an unbroken track record of annual distribution increases, so where does that leave us today when the world is facing previously unimaginable challenges?

In the simplest terms, the strategic objectives we have pursued from day one put us in a strong position to weather the storm and plan for a post-COVID future. Our reliability is grounded in the large portfolio of primarily single-tenant assets leased to Canadian Tire Corporation for terms that average almost 10 years, amongst the longest in the sector, and provide predictable annual rental growth.

Our core competitive advantage is our privileged relationship with Canadian Tire, our majority unit holder and most significant tenant. The Canadian Tire brand, nearly 100 years old, has succeeded through the Great Depression, the Second World War, and every economic cycle and business disruption since then, continuing to grow along with Canada, meeting the needs of Canadians from coast-to-coast, and always with a truly local approach that resonates with its customers.

I have no doubt that Canadian Tire will emerge stronger than ever from this pandemic with a clear understanding as to how to leverage its unparalleled store network and supply chain, its digital properties, including its website, apps, and Triangle Rewards Loyalty Program, and consumer credit offering to compete successfully and grow market share. We will continue to benefit from our relationship with Canadian Tire which provides such a firm foundation to our enterprise.

Our durability is grounded in the strength of our balance sheet and our ample liquidity. From the time of our IPO, we have worked to make our balance sheet and financial metrics stronger, reducing leverage, reducing our payout ratio, and driving more conservative debt coverage ratios to the point that our financial position coming into the crisis was amongst the best in the Canadian REIT sector. Lesley and Kevin will provide further details on what we have done to bolster our already strong financial position and reduce risk with the primary goals of navigating the current economic disruption and emerging well-positioned for the future.

Over our history, we have delivered attractive growth in adjusted funds from operations per unit and net asset value per unit, both driven by solid organic growth and additions to our portfolio. There's no question that delivering growth in this environment, however long it lasts, will be a significant challenge. Nevertheless, with over 95 percent of our revenues derived from investment-grade tenants, and with the contractual growth built into our leases, we are well-insulated.

Our rent collections through the crisis so far are amongst the highest of any REIT in the sector across all asset classes. At the same time, we are committed to working with those of our tenants who are truly wrestling with survival, and, as we do in all things, we are taking a long-term and conservative approach to improve the chances of these tenants emerging from the downturn. We genuinely believe in retention as a landlord's best option and are working with our tenants to improve their odds of staying in business.

To this point in our history, our deliberate and conservative management of the REIT has succeeded in delivering attractive financial results. It has also positioned us well coming into this unprecedented crisis. Never did we imagine such a deep and global interruption in economic activity, yet in consistently steering away from acquisitions or developments that were priced to perfection or large relative to the size of our balance sheet, combined with our focus on quality net lease assets leased to investment-grade tenants, we have built-in resiliency.

We have been opportunistic at the margin and have selectively invested in particularly attractive value-add opportunities, whether a redevelopment project where we have leveraged tenancies with Canadian Tire and other banners, or the Canada Square property at Yonge and Eglinton in Toronto which we believe to be one of the best-located redevelopment sites in the country.

Several years ago, as some in the REIT sector turned to significant programs of mixed-use and high-rise development, we decided to remain on our own path, a path that provides visibility to predictable results in a business model less challenging and risky to execute. We view CT REIT, with its high quality assets and investment-grade tenants, as Canada's premier net lease REIT, a unique positioning and business model within our sector.

CT REIT's core attributes have never been more relevant. For our investors, this means continued focus on leveraging our key competitive advantage, our relationship with Canadian Tire, to deliver over time the reliable, durable, and growing results that have always been our core purpose.

With that, I'll turn things over to Kevin.

Kevin Salsberg, Chief Operating Officer

Thanks, Ken. Good morning, and I hope you're all keeping well.

As disclosed in our press release yesterday, in the first quarter, CT REIT completed the development of a Mark's store in Bradford, Ontario and a development of third-party pad buildings at two existing REIT properties.

We also completed the acquisition of a further one sixth interest in the Canada Square complex located at the corner of Yonge and Eglinton in Toronto, Ontario, thereby bringing our ownership interest in the property to 50 percent. We are very pleased to have increased our ownership level in this premier redevelopment site, as we continue to advance design development for the property.

In total, CT REIT invested approximately $42.6 million in these previously-announced projects which added nearly 155,000 square feet of incremental GLA in the quarter.

In line with the REIT's focus on preserving liquidity as we navigate our way through the COVID-19 pandemic, we have opted to cancel, delay, or defer all non-committed and non-essential capital expenditures at this time. All projects that are currently under construction will continue and will be completed once construction can restart in any provinces currently impacted by a shutdown.

At the end of the first quarter, CT REIT had 19 properties that were at various stages of development. These projects represent a total committed investment of approximately $222 million upon completion, $76 million of which has already been spent, and a total incremental gross leasable area of just over one million square feet, nearly 95 percent of which has been pre-leased. Over the next 12 months, the REIT anticipates spending roughly $80 million on furthering and completing these development projects.

As at March 31, 2020, CT REIT's occupancy rate was 99.4 percent, which was slightly above the occupancy level as at Q1 2019 and year-end, primarily due to the temporary lease-up of a portion of the 11 Dufferin Place Southeast property in Calgary, Alberta.

With respect to the impact that the current crisis has had on property operations, there have been many measures put in place by various governmental and public health authorities across the country that have limited the ability of some of our tenants to conduct their businesses. As a result of these actions, tenants representing approximately 96.5 percent of annual base minimum rent fulfilled their financial obligations to the REIT on May 1 compared to 97.2 percent on April 1. Tenants comprising approximately 6.2 percent of the REIT's annual base minimum rent are not open and remain closed until further notice, and tenants representing another 33.4 percent of the REIT's annual base minimum rent are now operating on a limited basis. This includes 132 Canadian Tire retail stores in the province of Ontario that are owned by the REIT and that are servicing customers only through curbside pick up, e-commerce, home delivery, as well as through their auto service centres.

We remain focused on preserving occupancy levels within our portfolio and doing our part to help our tenants through this difficult time. The impact that this pandemic has—is having on our tenants is dependent on the nature of their businesses. As such, we have attempted to remain flexible in determining the optimal strategy to fairly and equitably support each of them through this crisis, including assessing the availability and potential benefits of government-sponsored rent relief measures on a case-by-case basis.

With that, I will turn it over to Lesley for a review of our financial results.

Lesley Gibson, Chief Financial Officer

Thanks, Kevin, and good morning, everyone.

I will also provide an update on the impact of the COVID-19 pandemic following my Q1 results remarks.

We are again pleased with the Q1 2020 results the CT REIT has delivered.

In the quarter, we reported diluted AFFO per unit of $0.254, an increase of 3.7 percent compared to $0.245 per unit in Q1 of 2019. Diluted FFO per unit increased 1.7 percent to $0.293 versus $0.288 in Q1 of 2019.

Reported net operating income increased 6 percent in the quarter compared to the prior year. The primary contributor of the 6 percent NOI growth was the acquisition of income-producing properties and properties under development completed in 2020 and 2019. Same-store NOI increased by $2.2 million, or 2.4 percent, in Q1 2020 compared to the prior year. Same-property NOI increase by $2.9 million, or 3.2 percent, compared to Q1 2019, and was driven by several factors primarily from the contractual annual rent escalations of 1.5 percent on average contained within the Canadian Tire store leases, which contributed nearly $1.1 million to NOI growth, as well as from the intensifications completed in 2020 and 2019, which contributed roughly $720,000, and lastly, the recover of capital expenditures and interest earned on the unrecovered balance added $420,000 to NOI growth, so the interest component of the recovery is less than in prior quarters due to the decrease in the prime rate of interest on which the interest portion of the recovery is based.

With our continued lean management structure, G&A expenses amounted to 2.4 percent of property revenue versus 3.9 percent for Q1 2019. This decline was primarily due to the decrease in personnel compensation trustee fees due to the fair value adjustment on the unit-based awards and the decrease in the service agreement cost as a result of the new ERP system implemented in Q2 2019.

The interest covered ratio increased to 3.43 times as of Q1 2020 compared to 3.35 times the same period in 2019.

Turning to our balance sheet, we continue to be focused on maintaining liquidity. Our balance sheet remains strong, and we are in a stable financial position as at March 31, 2020. We have $294 million available on our bank credit facility, as well as $20 million in cash.

During the quarter, we completed the refinancing of the mortgage secured by Canada Square, which now matures in 2023. Subsequent to quarter-end, we also reset the rate on five series of Class C LP units totaling $252 million for a 5-year term at 2.37 percent commencing May 31, 2020. These Class C LP units are held by Canadian Tire Corporation, and the interest rate was determined in accordance with the terms of the limited partnership agreement and set at 200 basis points above the spread above the benchmark government of Canada bond yield rate.

With these transactions completed, the REIT has no further debt maturities until the second quarter of 2021. CT REIT's indebtedness ratio was 42.7 percent with no change from year-end. The indebtedness to EBITDA FE ratio was a solid 6.85 times at quarter-end, lower than the 6.94 times reported at year-end 2019.

In addition, as at March 31, 2020, the book value per unit was $14.60, remaining quite consistent with the year-end value of $14.61 despite the fact that net income during the quarter included a $24 million negative fair value adjustment on investment property primarily driven by the COVID-19 pandemic.

Before I turn the call back to Ken, I'd like to add a few remarks to address the impact of the COVID-19 pandemic and how we think about our financial flexibility.

I would emphasize that while CT REIT's objectives remain intact, the priority at this time is preserving liquidity. We have provided a combination of rent deferrals and abatements for the months of April and May to a portion of the 3.5 percent of tenants who did not fill—fulfill their financial obligations on May 1. We are also reviewing the various government relief programs to evaluate how we can find the best outcome and maximize the benefit for our tenants.

As Kevin mentioned earlier, we have canceled, delayed, or deferred all non-committed and non-essential capital projects, and the $80 million of capital we anticipate spending in the next 12 months can largely be funded by our retained cash of $50 million to—$55 million to $60 million per year and the $20 million of cash we currently have on hand before any need to use our bank credit facility. We also took advantage of certain property tax deferral programs to further preserve our cash position and assist our tenants.

The REIT continues to have some of the strongest financial metrics in the Canadian REIT sector. As of Q1 2020, the REIT's portfolio was 99.4 percent occupied, with a conservative 76—77.6 percent payout ratio with a 97 percent unencumbered asset base on a $6 billion IFRS value, and lastly, the REIT's debt to gross book value is approximately 43 percent, and there's a total of roughly $315 million in liquidity between our undrawn credit facilities and cash on hand. This positions the REIT well to manage through these unprecedented times, and with that, I hope everyone is staying safe and healthy, and I will turn things back to you, Ken.

Ken Silver, President and Chief Executive Officer

Thank you, Lesley.

With that, I'll turn the call back to the Operator for any questions from our listeners.

QUESTION AND ANSWER SESSION

Operator

Thank you. At this time, I would like to remind everyone in order to ask a question, please press star, then the number one on your telephone keypad. We ask that you please pick up the handset or step close to your speakerphone system when asking your question to provide maximum audio clarity. We'll pause for just a moment to compile the Q&A roster.

The first question is from Himanshu Gupta with Scotiabank. Please go ahead.

Himanshu Gupta, Scotiabank

Thank you, and good morning.

Ken Silver, President and Chief Executive Officer

Good morning.

Himanshu Gupta, Scotiabank

For the May rent collections, almost 97 percent collected, similar to the last month, are there any specific segment or categories of tenants which did not pay, like restaurants, etc.?

Ken Silver, President and Chief Executive Officer

Thanks, Himanshu. I'm going to pass that question over to Kevin and let him speak to it.

Kevin Salsberg, Chief Operating Officer

Sure. Thanks, Ken, and hi, Himanshu.

As you'd imagine, we have about 95 percent of our tenant base that consist of what we would describe as either essential services or Canadian Tire, so it's really the other, almost 5 percent we're talking about here, and obviously, any retailer that their business has been closed as a result of the government requirements has been impacted, and their ability to pay our rents has been similarly impacted, so, as you'd imagine, restaurants fit a portion of that segment. Retail, apparel, cinema, gym would all be comparable from that perspective.

Himanshu Gupta, Scotiabank

Got it, and then on collections from these tenants, how do you plan to provide for debts or bad debt reserve in the financials based on your discussion with these tenants, and sounds about that you're offering around two months of rent deferral. Will that be enough for some of these tenants, and do you expect them paying back after 60 days?

Kevin Salsberg, Chief Operating Officer

Sorry, go ahead, Ken.

Ken Silver, President and Chief Executive Officer

Himanshu, maybe I'll just give you sort of a high-level discussion, then I'll pass it back to Kevin, so first of all, just recognize that—as Kevin noted, that the ancillary tenants represent a pretty small proportion of our overall portfolio, and that has a couple of implications for us. One is, first, obviously the potential total impact of them on our results, but also given the relatively small base of ancillary tenants we have, it gives us an opportunity to truly engage with them on a case-by-case basis, so Kevin and his team have been speaking with our tenants.

In some limited circumstances, we've gone straight to abatements to give these tenants some hope, frankly, and visibility to a path back from the crisis. I can tell you I've heard from the team that we've had a couple of tenants who broke down in tears when they got that news, and it's just a reflection of the fragility and—that some tenants are experiencing, and we think it's important to allow the tenants, as I said, some hope that they hang in there and try to reopen.

At the end of the day, the numbers aren't huge for us, and—but at the same time, but don't have absolute clarity at the moment to how it'll all shake out, how long this will last, how much help these tenants will need, what the implications of any emergency rental support programs might have for us for our tenants.

With that, I'll ask Kevin or Lesley to chime in and see if they had anything else they wanted to add. Kevin?

Kevin Salsberg, Chief Operating Officer

Yes. The only thing I'd add to that, Ken, as you know, we've been taking a pretty pragmatic lens to this situation from the outset, and really, as we mentioned in our comments, believe in retention as the best strategy, so I think from a retail landlord perspective, the leasing market coming out of the crisis is not going to be strong. We're not sure, obviously, where market rents are going to trend, so the extent to which we can offer terms to our tenants in terms of either repayment, or, as Ken mentioned, select abatements, we felt it was incumbent upon us to help them weather the storm and get through this crisis so that they can be there to pay us rent on the other side of it.

Himanshu Gupta, Scotiabank

Sure. Thank you, guys. Really appreciate your perspective there, and maybe last question on the IFRS cap rates, almost no movement on a quarter-on-quarter basis. Can you provide any colour there, the for any subcategories, let's say, for third-party tenant portfolio or industrial portfolio, and given that what we are seeing in the market, like the collection numbers for multi-tenant portfolios, or market in general, do you think that will have some kind of cap rate impact properties post-COVID?

Ken Silver, President and Chief Executive Officer

Himanshu, it's Ken, and with respect to the second question, it's a little bit premature to fully understand the implications of the crisis. Given that the core of our portfolio are single-tenant assets, we think that's the category of asset that will hold up best and are most optimistic about those from a valuation perspective.

With respect to the first question, I'm going to actually ask Lesley to comment on what we did in the quarter.

Lesley Gibson, Chief Financial Officer

Sure. Thanks, Ken.

Himanshu, regarding some of it, the subcategories, and you mentioned sort of multi-tenant properties, we do have sort of a handful of what we say is sort of enclosed regional shopping centres, and we did make some changes and did take some right-to-owns on those assets through a combination of cap rate changes and increases to sort of vacancy in those models, and so we did take into the factor that those tenants we feel will have the toughest time, and there's some potentially sort of missing cash flows, and they'll be most strained in that area, whereas in the remainder of our portfolio where we have significant portfolio, sort of single-tenant Canadian Tire stores, we really felt that the underlying businesses were still performing, and that, at this point in time, it was premature to take any sort of significant change in value for those assets, but obviously, we'll continue to monitor things during the second quarter, and as we get more information leading into Q2.

Himanshu Gupta, Scotiabank

Sure. Thank you. Thank you so much, and really appreciate, and I'll turn it back.

Kevin Salsberg, Chief Operating Officer

Thank you.

Ken Silver, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Sumayya Syed with CIBC. Please go ahead.

Sumayya Syed, CIBC World Markets

Thanks. Morning, everyone.

Ken Silver, President and Chief Executive Officer

Good morning.

Sumayya Syed, CIBC World Markets

Morning. Just going to follow up on, I guess, rent deferred versus abatements agreed to to-date. Do you have just a rough split of how much went towards deferment versus abatements?

Ken Silver, President and Chief Executive Officer

Sumayya, I'm going to ask Lesley just to speak to that one.

Lesley Gibson, Chief Financial Officer

Sumayya, I mean, right now we're really—it's a really small position of our whole portfolio. I mean it's a subset of 3.5 percent. Whether it's a 0.5 percent here and there is really not going to make any difference, so we're really going to stick to higher-level on that. At the end of the day, whether we abated the rent or whether we deferred the rent and have to consider some bad debt expense against that, potentially, we kind of end up, potentially, in a not too wide a range, so really, it's just a subset of those sort of 3 percent, 3.5 percent of people that haven't paid, and it's really small for us.

Sumayya Syed, CIBC World Markets

Sure. That's fair enough. Thanks, and what is the payback period for the rent that's been deferred to so far?

Ken Silver, President and Chief Executive Officer

Kevin, do you want to speak to that one?

Kevin Salsberg, Chief Operating Officer

Sure. Typically, it's a two-month deferral with a six-month repayment. The timing of when those six months begins differs slightly by tenant by tenant, though.

Sumayya Syed, CIBC World Markets

Okay. Thanks, and just lastly, from me, have just the discussions around, I guess, Canadian Tire's interest in the REIT and their intention changed at all since the shutdowns went into effect?

Ken Silver, President and Chief Executive Officer

Hi Sumayya. It's Ken. I really couldn't speak to Canadian Tire's intentions with respect to their ownership position at this point. I'm not aware of any changes one way or the other.

Sumayya Syed, CIBC World Markets

Okay. Thank you. That's all for me. I'll turn it back.

Ken Silver, President and Chief Executive Officer

Thank you.

Operator

Thank you. Again, as a reminder, please press star, then the number one on your telephone keypad to ask a question.

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

Tal Woolley, National Bank Financial

Hi. Good morning.

Ken Silver, President and Chief Executive Officer

Morning, Tal.

Tal Woolley, National Bank Financial

I just wanted to ask about some of the operational questions in terms of how things will restart, so to speak. In terms of your dialogue with public health, is that dialogue primarily with the landlords, or is it with the retailers about how to operate going forward with? Who sort of bears the public health responsibility on this?

Ken Silver, President and Chief Executive Officer

Tal, it's a great question. Clearly, every jurisdiction is taking different approaches to reopening and setting different rules and whatnot with respect to that. We certainly have been keeping in touch with REALPAC, the industry organization that's kind of representing the various asset classes, and we'll certainly be following whatever guidance we get, either from the public jurisdictions or industries or peers, as well as working with our tenants to understand how best to reopen safely.

Tal Woolley, National Bank Financial

Okay, and have you had much dialogue with—I know you've only got—you've got a very small mall portfolio and stuff like that, but have you had much dialogue with the tenants there just about what they would need in order to get opening back up? I'm just thinking about if there's extra security needs or supply, things like that, and then how are you sort of handling all of those types of requests? Are these recoverable? Are they non-recoverable? Can you just give any focus or give any colour on that?

Ken Silver, President and Chief Executive Officer

Lesley, do you want to speak to some of the property management aspects in the mall portfolio?

Lesley Gibson, Chief Financial Officer

Sure. Thanks, Ken. Hi, Tal.

Yes. I mean, right now the initial dialogue with the customers is really, as Ken had mentioned, talking about their rent and what's going to happen to them. I think more in the background, as we get more clarity on reopening, particularly in Ontario where most of them are closed, we will look to things like security and supplies and what they need. Really, the lease will dictate what is actually recoverable from those tenants. We may be able to provide assistance in procuring things directly sort of on a direct chargeback basis to them, but typically things like security and things that happen in the common area sections in the mall is recovered through the common area maintenance part, so that would form part of that, but if people needed individual supplies and other things to assist them in getting going, then we'll be able to work through our other channels to help those tenants open as quickly as they can and in a safe manner.

Tal Woolley, National Bank Financial

Okay, and then do you have a sight line on when the Canadian Tire dealers in Ontario will be able to reopen? Are you hearing any—are you able to provide any clarity on that?

Ken Silver, President and Chief Executive Officer

Tal, I couldn't provide you with any clarity on that beyond what the province of Ontario has been saying in terms of their daily press conferences and whatnot, so I guess we'll see how that unfolds.

Tal Woolley, National Bank Financial

Okay, and then just lastly, when you started the REIT, I think it's been, what, seven years now, you had created this portfolio of leases with an average—weighted average rent increase across the portfolio. Seven years out now, when you look at where the rents are for the individual stores, how many do you feel are at market, above market, and below market? Do you feel confident that everything across the board is in the sort of at market or—and sure, I know that's hard to establish what market is right now, but I'm just wondering, seven years out, how do you feel about where rents are among those individual leases?

Ken Silver, President and Chief Executive Officer

Tal, certainly coming into the crisis, I would have said that certainly the rents were at or below market. We'll have to see how things unfold in the fullness of time, and I can look to Canadian Tire same-store sales track record with—which has, on average, exceeded the annual rental growth to feel reasonably comfortable that the rents remain kind of in line, but we'll have to see how things unfold and we'll continue to do further analysis.

Tal Woolley, National Bank Financial

Okay. Thanks very much.

Ken Silver, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Niki Shi with RBC Capital Markets. Please go ahead.

Niki Shi, RBC Capital Markets

Hi. Good morning. I was just wondering if you could please comment a bit on the discussions you've had with Canadian Tire regarding rent payments going forward for stores that are both open and closed, and how do rents on the new leases with Canadian Tire compare with the existing REITs?

Ken Silver, President and Chief Executive Officer

Well, we haven't had any discussions with Canadian Tire with respect to rents going forward, so my assumption is they'll fulfill their commitments in the leases.

Niki Shi, RBC Capital Markets

Okay, great. Thank you, and then you've previously discussed potential acquisition opportunities surfacing. Would you be able to provide an update on your outlook there and the trends that you're seeing in the market on that front?

Ken Silver, President and Chief Executive Officer

Well, generally, right now the outlook's a little bit cloudy, but overall, I would say we're—given the strength of our balance sheet and—we are optimistic about the universe of potential opportunities. I don't know when we'll have better visibility into values and transactions to tell you exactly when we would pick up our investment pace again, but it's certainly something that we're thinking about, not only how do we get through the crisis and manage through the crisis and work with our tenants, but what does recovery and growth look like afterwards?

Niki Shi, RBC Capital Markets

Okay, great. That's all for me. Thank you. I'll pass the line.

Ken Silver, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Jenny Ma with BMO Capital Markets. Please go ahead.

Jenny Ma, BMO Capital Markets

Thanks. Good morning, everyone.

Ken Silver, President and Chief Executive Officer

Good morning, Jenny.

Jenny Ma, BMO Capital Markets

Can you comment about the business level of Canadian Tire in Ontario post the reclassification in non-essential versus what kind of business Canadian Tires outside of Ontario are doing? I'm not sure if you have insight into that.

Ken Silver, President and Chief Executive Officer

Jenny, I couldn't comment on that. Canadian Tire's reporting on May 7, Thursday, so we definitely look to their disclosures.

Jenny Ma, BMO Capital Markets

Okay, sounds good. Also, on some of the development projects, it looks like there were a handful that were pushed out about a year, so I don't think that falls in the category of the development projects that you're—that haven't started and you're pulling yet, so I'm just wondering what was behind the delay in those timeframes? Is there anything outside of what we'd expect given the current environment?

Ken Silver, President and Chief Executive Officer

No. Basically, when the crisis hit, we worked with Canadian Tire in terms of the development schedule, and I think both entities were looking to manage liquidity, so we worked cooperatively on the timeframes for some of those projects.

Kevin, anything that you would add to that?

Kevin Salsberg, Chief Operating Officer

No. I think the ones you're referring to are all store expansion projects, which typically have a shorter construction timeframe, so likely, those would actually be ones that haven't started construction yet. They were ones that were in the pre-development stage in terms of entitlements and approvals, and obviously there's impacts in terms of when those store expansions would come on stream in terms of seasonal openings as well, so like Ken said, just working closely with Canadian Tire to re-slot those into a later date at this point.

Jenny Ma, BMO Capital Markets

Okay, great, and then my last question is in relation to the DRIP. You're one of the very few REITs left with one, and just given where the unit price is, have you had any discussion internally about what to do with that, or are you happy keeping it in place?

Ken Silver, President and Chief Executive Officer

Jenny, we did think about it. I'll ask Lesley to answer that one.

Lesley Gibson, Chief Financial Officer

Thanks, Jenny.

I think, Jenny, first of all, the DRIP for us is a relatively small piece. Canadian Tire and their unit and ownership don't participate in the DRIP, and obviously, with the pare back in unit prices, we've also seen their DRIP participation greatly tail off in the last month, so a lot of people have opted out of the DRIP given where things are priced, but I think for us, the rest of our non Canadian Tire unit holders—we have a large, still, share of retail unit holders, and this is fundamental and a key part of their investment strategy that they continue to reinvest money in the DRIP just as they look at the dividends, so I think at this point in time, the—any kind of changes to the DRIP are really, really small for us, and turning it off is just not something that we think is prudent to do at the moment.

Jenny Ma, BMO Capital Markets

Okay, so is it fair to assume that the DRIP participation will go down in Q2 then, because I actually would have thought maybe the opposite happened given where stock prices at liquidity?

Lesley Gibson, Chief Financial Officer

Yes, and that's it. It's really, I think, driving liquidity, so we've seen it actually drop considerably, at least in the month of April. I can't say for the May or June participation, but April is decreased over our historic participation, and I think, really, it is all liquidity-driven, so we'll see where that goes.

Jenny Ma, BMO Capital Markets

Okay. Well, I guess that's a partial offset to some of the dilutive impact.

Lesley Gibson, Chief Financial Officer

Yes.

Jenny Ma, BMO Capital Markets

Okay, great. That's all for me. Thank you.

Lesley Gibson, Chief Financial Officer

Thanks.

Operator

Thank you. The next question is from Johann Rodrigues with Raymond James. Please go ahead.

Johann Rodrigues, Raymond James

Hi. Just for modeling purposes, can you tell us what the incremental, other than a dollar figure, percentage basis spend that the proper expense is or G&A would be for extra cleaning or staffing costs, anything COVID-related?

Ken Silver, President and Chief Executive Officer

Johann, maybe I'll ask Lesley to answer that one. I'm not sure it's a huge number, but I'll let her...

Johann Rodrigues, Raymond James

Yes, I figured it'd be small, but...

Lesley Gibson, Chief Financial Officer

Yes, Johann, at the vast majority of our centres where they have a standalone Canadian Tire, it's the actual tenant Canadian Tire, the actual dealer that actually bears all those costs, so they will pay for all those directly. The only cost that we would see really go into potentially a CAM pool or something else is perhaps at a few of our multi-tenant centres or some of our enclosed shopping centres, and quite honestly, it's really too hard to predict really how long and to the extent of what they may need right now. There's a possibility of, obviously, offsets because some of our occupancy costs have gone down as some of the centres have been closed, so as they come up again in the next couple of months when they're reopening, they could easily offset during the year, too, so it's just too hard to predict the net incremental that that could be.

Johann Rodrigues, Raymond James

Okay. Okay. Thanks. I'll turn it back.

Ken Silver, President and Chief Executive Officer

Thank you.

Operator

Thank you. As there are no further questions at this time, I will turn the call over to Ken Silver, CEO, for any closing remarks.

Ken Silver, President and Chief Executive Officer

Thank you, Operator, and thank you, all, for joining us today. We welcome you to join us later this morning for our first virtual annual general meeting to be held at 10:00 AM Eastern Time. We also look forward to sharing with you our second quarter results expected the first week of August. Let's hope by then we have all returned to some semblance of normal life. In the meantime, please stay healthy and safe.

Operator

Thank you. This concludes today's call. You may now disconnect.
