

# Press Release

for immediate distribution

## Melcor REIT announces second quarter 2018 results

Edmonton, Alberta | July 31, 2018

### Highlights

- Rental Revenue grew 6% to \$17.54 million over Q2-2017; \$35.55 million year to date
- Net operating income grew 5% to \$11.06 million over Q2-2017; 4% to \$22.13 million year to date
- Adjusted funds from operations (AFFO) declined 5% to \$4.97 million or \$0.18 per unit in Q2-2018; down 6% to \$9.87 million or \$0.35 per unit year to date
- Debt to Gross Book Value (GBV) ratio of 56%, well below our maximum threshold of 65%
- Distributions of \$0.05625 per trust unit were paid in April, May and June for a payout ratio of 95%

Melcor REIT (TSX: MR.UN) today announced results for the second quarter ended June 30, 2018. Rental revenue grew 6% in both the quarter and the year to date period due to portfolio growth related to the Melcor Acquisition of 172,629 sf in Q1-2018. Net operating income also grew by 4% to \$22.13 million year to date. AFFO was down 6% due to the timing and non-cash costs related to the Melcor Acquisition.

Andrew Melton, President & CEO of Melcor REIT commented: "It is my pleasure to report on the second quarter of 2018. Strategic growth via the Melcor Acquisition and capital recycling via the sale of two assets in the first half of the year have contributed to a stronger portfolio. In addition, with the asset sales and our renegotiated credit line, we are well positioned to take advantage of future acquisition opportunities as they arise.

We continue to find creative ways to overcome challenging markets by adjusting for and capitalizing on market trends across all asset classes and engaging in strategic, proactive leasing programs which has led to a strong retention rate and healthy new leasing in the first half of the year.

Once again these strong results are a testament our excellent team who work enthusiastically towards achieving our goals under some challenging conditions and we owe them a great deal of gratitude.

With a solid financial position, we remain well-positioned to continue to achieve steady results and to capitalize on growth opportunities."

### Q2-2018 Highlights:

Our portfolio grew following the Melcor Acquisition in Q1-2018, which added 172,629 sf offset by the sale of two assets in the first and second quarters. Growth across key indicators was tempered by a decline in same-asset performance over 2017; particularly in our Edmonton office assets where market fundamentals remain challenging. Our proactive engagement on renewing existing tenants and pursuing new tenants resulted in a healthy retention rate of 72.5% at quarter end and overall occupancy of 90.1%. The stability and diversity of our portfolio with respect to both tenant profile and asset class enable the REIT to continue navigating through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt.

Highlights of our performance in the second quarter include:

- Revenue and NOI growth of 6% and 5% respectively over Q2-2017 as a result of the Melcor Acquisition completed on January 12, 2018, which added 172,629 sf to our portfolio.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 201,972 sf (including holdovers) for a retention rate of 72.5% at June 30, 2018. New leasing has been strong across the portfolio with 35,958 in new deals in the first half of 2018 and an additional 44,000 sf in committed leases for future occupancy.
- Same-asset NOI was down 4% over Q2-2017, trending with a decline in same-asset occupancy. The decline in our Northern Alberta office assets was partially offset by same-asset income and occupancy growth in retail and office assets in Southern Alberta and British Columbia. Second quarter same-asset NOI was up 1% from Q1-2018 due to stable occupancy.
- Net income (loss) in the current and comparative periods is significantly impacted by non-cash fair value losses on investment properties due to changes in capitalization rates/NOI and Class B LP Units due to changes in the REIT's unit price. Management believes adjusted funds from operations (AFFO) is a better reflection of our true operating performance.

- AFFO was \$4.97 million or \$0.18 per share, down 5% from Q2-2017. Second quarter AFFO was up 2% over Q1-2018.
- We sold an Edmonton area retail property for gross proceeds of \$13.80 million as part of our capital recycling strategy.
- We paid distributions of \$0.05625 per trust unit in April, May and June for a quarterly payout ratio of 95%.
- We completed \$21.89 million in re-financings year to date at an average interest rate of 3.94%. Subsequent to the quarter we early re-financed our largest mortgage, securing gross proceeds of \$39.00 million at an interest rate of 3.84%. Early re-financing is a strategy employed to mitigate and re-balance our risk in the near term.
- We extended our \$35.00 million revolving credit facility to June 1, 2021 with our existing lender syndicate. The facility includes an accordion feature, which provides for up to \$10.00 million in additional borrowing capacity, subject to lender approval.
- As at June 30, 2018 we have \$3.24 million in cash and additional capacity under our revolving credit facility. We conservatively manage our debt, with a debt to GBV on the low end of our target range.

## Financial Highlights

(\$000s except unit amounts)	Three months ended June 30			Six months ended June 30		
	2018	2017	△%	2018	2017	△%
Net operating income (NOI)	11,057	10,570	5 %	22,132	21,307	4 %
Funds from operations (FFO)	6,723	6,835	(2)%	13,425	13,650	(2)%
Adjusted funds from operations (AFFO)	4,973	5,219	(5)%	9,866	10,469	(6)%
Adjusted Cash Flow from Operations (ACFO) <sup>(7)</sup>	4,917	5,163	(5)%	9,754	10,356	(6)%
Rental revenue	17,537	16,559	6 %	35,554	33,559	6 %
Income before fair value adjustments	3,451	3,566	(3)%	6,871	7,146	(4)%
Fair value adjustment on investment properties <sup>(5)</sup>	(3,414)	(249)	nm	(3,415)	(16,708)	nm
Distributions to unitholders	2,130	1,882	13 %	4,451	3,764	18 %
Cash flows from operations	1,679	2,701	(38)%	5,376	5,528	(3)%
Same-asset NOI	9,833	10,255	(4)%	19,599	20,588	(5)%
<b>Per unit metrics</b>						
Income (loss) - diluted	(\$0.13)	(\$0.16)		\$0.30	(\$1.37)	
FFO	\$0.24	\$0.27		\$0.48	\$0.53	
AFFO	\$0.18	\$0.20		\$0.35	\$0.41	
Distributions <sup>(6)</sup>	\$0.17	\$0.17		\$0.34	\$0.34	
Payout ratio	95%	83%		96%	83%	
<b>Weighted average number of units:</b>						
Trust Units	13,186,797	11,151,297		13,051,847	11,151,297	
Class B LP Units	14,899,325	14,615,878		14,880,533	14,615,878	
Total	28,086,122	25,767,175		27,932,380	25,767,175	
				30-June-18	31-Dec-17	△%
Total assets (\$000s)				711,545	676,237	5 %
Equity (\$000s) <sup>(1)</sup>				280,401	260,600	8 %
Debt (\$000s) <sup>(2)</sup>				386,858	353,340	9 %
Weighted average interest rate on debt				3.71%	3.75%	(1)%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)				48%	47%	1%
Finance costs coverage ratio <sup>(3)</sup>				2.68	2.93	(9)%
Debt service coverage ratio <sup>(4)</sup>				2.37	2.60	(9)%

1. Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.
2. Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale and convertible debentures, excluding unamortized discount and transaction costs.

3. Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units and fair value adjustment on derivative instruments.
4. Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units.
5. The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.
6. Distributions for the current and comparative periods have been paid out at a rate of \$0.05625 per unit per month.
7. In Q3-2017 we amended our definition of ACFO retroactive, comparative period ACFO has been restated to reflect the amended definition.

## Operational Highlights

	30-June-18	31-Dec-17	△%
Number of properties	36	37	(3)%
Gross leasable area (GLA) (sf)	2,834,133	2,710,862	5 %
Occupancy (weighted by GLA)	90.1%	91.8%	(2)%
Retention (weighted by GLA)	72.5%	80.6%	(10)%
Weighted average remaining lease term (years)	4.91	4.66	5 %
Weighted average base rent (per sf)	\$16.53	\$15.88	4 %

## MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with the REIT's Q2-2018 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three and six-months ended June 30, 2018 can be found on the REIT's website at [www.MelcorREIT.ca](http://www.MelcorREIT.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

## Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held Wednesday, August 1, 2018 at 11:00 AM ET (9:00 AM MT). Call 416-340-2216 in the Toronto area; 1-800-377-0758 toll free.

The call will also be webcast (listen only) at <http://www.gowebcasting.com/9313>. A replay of the call will be available at the same URL shortly after the call is concluded.

## About Melcor REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties in western Canadian markets. Its portfolio is currently made up of interests in 36 properties representing approximately 2.83 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit [www.MelcorREIT.ca](http://www.MelcorREIT.ca).

## Non-standard Measures

NOI, same-asset NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (IFRS), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are defined and discussed in the REIT's MD&A for the quarter ended June 30, 2018, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Forward-looking Statements:

*This press release may contain forward-looking information within the meaning of applicable securities legislation, which reflects the REIT's current expectations regarding future events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the REIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; the REIT's ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest rate fluctuations. The REIT's objectives and forward-looking statements are based on certain assumptions, including that the general economy remains stable, interest rates remain stable, conditions within the real estate market remain consistent, competition for acquisitions remains consistent with the current climate and that the capital markets continue to provide ready access to equity and/or debt. All forward-looking information in this press release speaks as of the date of this press release. The REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the REIT's filings with securities regulators.*

## Contact Information:

Nicole Forsythe  
 Director, Corporate Communications  
 Tel: 1.855.673.6931  
[ir@melcorREIT.ca](mailto:ir@melcorREIT.ca)