

Press Release

for immediate distribution

Melcor REIT announces third quarter 2018 results

Edmonton, Alberta | October 31, 2018

Highlights

- Rental Revenue grew 3% to \$17.28 million over Q3-2017; \$52.84 million year to date
- Net operating income grew 3% to \$10.85 million over Q3-2017; 3% to \$32.98 million year to date
- Adjusted funds from operations (AFFO) declined 13% to \$4.49 million or \$0.16 per unit in Q3-2018; down 8% to \$14.36 million or \$0.51 per unit year to date
- Debt to Gross Book Value (GBV) ratio of 57%, below our maximum threshold of 65%
- Distributions of \$0.05625 per trust unit were paid in July, August and September for a payout ratio of 105% (year to date 99%)

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2018. Rental revenue grew 3% in the quarter and 5% year to date due to portfolio growth of 172,629 related to the Melcor Acquisition in Q1-2018, offset by two property sales in the first half of the year. Net operating income also grew by 3% to \$32.98 million year to date. FFO was down 5% and AFFO was down 8% due to property sales completed earlier in the year and the 6% decline in same asset NOI. AFFO was further impacted by an increase in leverage and higher interest rates.

Andrew Melton, President & CEO of Melcor REIT commented: "Our performance remained stable in the quarter. We continue to find creative ways to overcome challenging markets by adjusting for and capitalizing on market trends across all asset classes. We also continue to engage in strategic, proactive leasing programs, leading to a strong retention rate and healthy new leasing year to date, including commitments on 43,000 square feet of office space.

We presently enjoy a strong cash position and are actively pursuing acquisition opportunities that are a fit with our portfolio and our strategy. Our payout ratio was negatively impacted by undeployed cash due in part to the sale of two buildings earlier in the year."

Q3-2018 Highlights:

Rental revenue and net operating income were up in the third quarter and year to date period as a result of the Melcor Acquisition earlier this year, offset by the sale of two retail assets. Ongoing market challenges, particularly in our Edmonton office portfolio, resulted in a decline in same-asset performance over 2017. We are proactively engaged in renewing existing tenants and pursuing new tenants and achieved a healthy retention rate of 76.0% at quarter end and overall occupancy of 90.3%. Further, we have secured new tenants for 33,600 sf office which should contribute to stable occupancy in the office portfolio over the next few quarters. 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.

Highlights of our performance in the third quarter include:

- Revenue and NOI growth of 3% over Q3-2017 is a result of the January 12, 2018 Melcor Acquisition which added 172,629 sf to our portfolio. This portfolio growth was offset by the sale of two assets (50,515 sf) in the first and second quarters.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 255,954 sf (including holdovers) for a retention rate of 76.0% at September 30, 2018. New leasing has been strong across the portfolio with 73,843 in new deals to date in 2018 and an additional 43,000 sf in committed leasing for future occupancy in office buildings.
- Same-asset NOI was down 3% from Q2-2018 and 7% over Q3-2017, trending with a decline in same-asset occupancy. The decline in our Northern Alberta office assets was partially offset by stability in our retail and office assets in Southern Alberta and British Columbia.
- 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 on Class B LP Units due to changes in the REIT's unit price. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was \$6.28 million or \$0.22 per unit (basic), down 11% from Q3-2017. Lower FFO was primarily due to property dispositions completed earlier in the year, declining same-asset performance and proceeds from the over-allotment on the convertible debenture and trust units which have not been re-deployed to date.
- Adjusted funds from operations (AFFO) was \$4.49 million or \$0.16 per unit (basic), down 13% from Q3-2017. The decrease in AFFO was due to lower FFO and an increase in normalized capital, tenant incentive and leasing commissions.

- We paid monthly distributions of \$0.05625 per trust unit in July, August and September for a quarterly FFO payout ratio of 76% and an AFFO payout ratio of 105% in the quarter and 99% year to date. Our payout ratios are impacted by cash on hand that has not yet been redeployed following the sale of the two assets earlier this year. Near term liquidity provides the REIT with the flexibility to allocate available resources towards operational, investing and financing initiatives. We continue to pursue various opportunities to maximize value for our unitholders.
- As at September 30, 2018 we have \$13.73 million in cash and \$30.25 million in additional capacity under our revolving credit facility. We conservatively manage our debt, with a debt to GBV within our target range.

Financial Highlights

(\$000s except unit amounts)	Three months ended September 30			Nine months ended September 30		
	2018	2017	△%	2018	2017	△%
Net operating income (NOI)	10,845	10,557	3 %	32,977	31,864	3 %
Same-asset NOI	9,553	10,276	(7)%	29,152	30,864	(6)%
Funds from operations (FFO)	6,277	7,029	(11)%	19,702	20,679	(5)%
Adjusted funds from operations (AFFO)	4,494	5,158	(13)%	14,360	15,627	(8)%
Adjusted Cash Flow from Operations (ACFO)	4,438	5,102	(13)%	14,192	15,458	(8)%
Rental revenue	17,283	16,791	3 %	52,837	50,350	5 %
Income before fair value adjustments	3,000	3,853	(22)%	9,871	10,999	(10)%
Fair value adjustment on investment properties ⁽⁵⁾	(1,746)	79	nm	(5,161)	(16,629)	nm
Cash flows from operations	2,815	4,751	(41)%	8,287	10,279	(19)%
Distributions to unitholders	2,225	1,881	18 %	6,676	5,645	18 %
Distributions ⁽⁶⁾	\$0.17	\$0.17		\$0.51	\$0.51	
Net income/(loss)						
Basic	\$0.23	\$0.38		\$0.83	(\$0.99)	
Diluted	\$0.14	\$0.25		\$0.44	(\$0.99)	
Weighted average number of units for net income/ (loss) (000s): ⁽⁷⁾						
Basic	13,187	11,151		13,097	11,151	
Diluted	28,086	28,494		27,984	11,151	
FFO						
Basic	\$0.22	\$0.27		\$0.70	\$0.80	
Diluted	\$0.22	\$0.27		\$0.70	\$0.79	
Payout ratio	76%	62%		72%	63%	
AFFO						
Basic	\$0.16	\$0.20		\$0.51	\$0.61	
Payout ratio	105%	84%		99%	83%	
Weighted average number of units for FFO & AFFO (000s): ⁽⁸⁾						
Basic	28,086	25,767		27,984	25,767	
Diluted	30,086	28,494		32,711	28,494	

	30-Sept-18	31-Dec-17	△%
Total assets (\$000s)	720,991	676,237	7 %
Equity (\$000s) ⁽¹⁾	280,401	260,600	8 %
Debt (\$000s) ⁽²⁾	397,442	353,340	12 %
Weighted average interest rate on debt	3.74%	3.75%	—%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	49%	47%	4%
Finance costs coverage ratio ⁽³⁾	2.61	2.93	(11)%
Debt service coverage ratio ⁽⁴⁾	2.33	2.60	(10)%

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. For the purposes of calculating per unit net income/(loss) the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.
8. For the purposes of calculating per unit FFO and AFFO the basic weighted average number of units includes Trust Units and Class B Units, The diluted weighted average number of units includes convertible debentures, to the extent that their impact is dilutive.

Operational Highlights

	30-Sept-18	31-Dec-17	△%
Number of properties	36	37	(3)%
Gross leasable area (GLA) (sf)	2,835,228	2,710,862	5 %
Occupancy (weighted by GLA)	90.3%	91.8%	(2)%
Retention (weighted by GLA)	76.0%	80.6%	(6)%
Weighted average remaining lease term (years)	4.79	4.66	3 %
Weighted average base rent (per sf)	\$16.58	\$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 Q3-2018 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three and nine-months ended September 30, 2018 can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held Thursday, November 1, 2018 at 11:00 AM ET (9:00 AM MT). Call 416-340-2218 in the Toronto area; 1-800-478-9326 toll free.

The call will also be webcast (listen only) at <http://www.gowebcasting.com/9672>. 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 2.84 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.

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 September 30, 2018, which is available on SEDAR at 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.

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