# Final Transcript

# Crombie Real Estate Investment Trust

# Fourth Quarter Results Conference Call

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(i) the disposition of properties, including properties under contract, and the anticipated reinvestment of net proceeds, which could be impacted by the availability of purchasers, the availability of accretive property acquisitions, the timing of property development activities or other accretive uses for net proceeds and real estate market conditions;

(ii) our development pipeline and diversification to mixed-use and residential developments, including statements regarding the locations identified, timing, cost, development size and nature, impact on net asset value, cash flow growth, unitholder value or other financial measures, all of which may be impacted by real estate market cycles, the availability of financing opportunities and labour, actual development costs and general economic conditions and factors described under the "Property Development/Redevelopment" section and which assumes obtaining required municipal zoning and development approvals and successful agreements with existing tenants, and where applicable, successful execution of development activities undertaken by related parties not under the direct control of Crombie;

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(iv) the accretive acquisition of properties, including the cost and timing of new properties under right of first offer agreements, and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in interest rates;

(v) overall indebtedness levels and terms and expectations relating to refinancing, which could be impacted by the level of acquisition and disposition activity that Crombie is able to achieve, levels of indebtedness, Crombie's ability to maintain and strengthen its investment grade credit rating, future financing opportunities, future interest rates, creditworthiness of major tenants, and market conditions;

(vi) generating improved rental income and occupancy levels, which could be impacted by changes in demand for Crombie's properties, tenant bankruptcies, the effects of general economic conditions and supply of competitive locations in proximity to Crombie locations;

(vii) anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations;

(viii) the anticipated rate of general and administrative expenses as a percentage of property revenue, which could be impacted by changes in property revenue and/or changes in general and administrative expenses;

(ix) the estimated payments on derivative and non-derivative financial liabilities, which could be impacted by interest rate subsidy payments, conversions of convertible debentures, interest rates on floating rate debt and fluctuations in the settlement value and settlement timing of any derivative financial liabilities;

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(xi) the effect that any contingencies would have on Crombie's financial statements which could be impacted by their eventual outcome.

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**Corporate Participants:**

Donald E. Clow - Chief Executive Officer, President and Trustee

Glenn Robert Hynes - Chief Financial Officer, Executive Vice President and Secretary

Claire Mahaney Lyon –Manager, Investor Relations

**Conference Call Participates**

Dean Mark Wilkinson - Director of Institutional Equity Research

Heather C. Kirk - MD of Equity Research & Analyst

Howard Leung - Investment Analyst

Michael Smith - Analyst

Pammi Bir - Analyst

Sam Damiani - Analyst

Tal Woolley - Research Analyst

## Presentation

### Operator

Good morning. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Crombie REIT Fourth Quarter Results Conference Call. [Operator Instructions] Claire Mahaney Lyon, Manager of Investor Relations, you may begin your conference.

### Claire Mahaney Lyon

Thank you, and good day, everyone, and welcome to Crombie REIT's Fourth Quarter and Year-end Conference Call. Thank you for joining us. This call is being recorded in live audio and is available on our website at www.crombiereit.com. Joining me on the call are Don Clow, President and Chief Executive Officer; and Glenn Hynes, Chief Financial Officer and Executive Vice President and Secretary of Crombie REIT. Today's discussion includes forward-looking statements. As always, we want to caution you that 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 our public filings, including our annual information form for the year-end December 31, 2016, for a discussion of these risks. I will now turn the call over to Don who will begin our discussion with comments on Crombie's overall strategy and outlook. Glenn will follow with a review of Crombie's operating and financial results and discuss our capital allocation and funding approach. Don?

### Donald E. Clow

Thank you, Claire, and good day, everyone. 2017 was a very good year for Crombie and an exciting year in Canadian real estate. Disruptive change and evolving retail landscape and the notion of rising interest rates remain top of mind. And for 2018, volatility in the capital markets has been apparent. And rising but reasonable interest rates appear to be the reality. Despite all this, Canadian real estate remains a safe investment haven as demonstrated by the recently announced M&A activity in our space.

Crombie's grocery-anchored and service-oriented portfolio continues to produce improving and consistent key operating and financial performance metrics despite the aforementioned volatility in the capital markets. Our committed occupancy of 95.2% is the highest it's been in 6 years, and our leasing spreads are strong. Our business is built on meeting the needs of the communities in which we operate and in working with our tenants to adapt their real estate to the ever-changing needs of their customers. By focusing our portfolio on necessity-based retailers, such as Sobeys, Shoppers Drug Mart and others, we're building longevity in an ever-changing retail environment. Sobeys recently announced e-commerce partnership with Ocado as a great example of this evolution.

Crombie's strategy is grounded on our key strategic pillars: improving portfolio quality, building financial strength and developing great talent all while mitigating risk. Our proven real estate strategy drives Crombie's stable and improving results. We do this by maximizing value creation on Sobeys anchored assets, opportunistically acquiring strategic properties via third parties and continuing to execute on our major development and intensification pipelines.

During the fourth quarter, we disposed of $16 million of assets. Although 2017 saw limited dispositions, 2018 is off to a solid start. Since year-end, we closed on $35 million of dispositions, currently have a $100 million of assets under contract. We also have $200 million of assets that are listed or in various stages of negotiations. Pricing and demand for our assets are currently strong, achieving prices in line with or above posted IFRS fair values. We anticipate we will have success in our current -- in our capital recycling program as we move through the year. This is important as dispositions are our preferred funding option.

We have a unique portfolio of mixed-use developments, which is one of the most compelling value-creation opportunities in the Canadian REIT space. We believe our increased focus on growing NAV per unit, one of the best uses of our capital, and diversification into residential is complementary to our service-oriented and necessity-based retail portfolio. In addition to Crombie's active major developments, which includes Vancouver, Victoria and St. John's, are close to $0.5 billion. We have the potential to invest an additional $2.5 billion to $4 billion over time. Our pipeline is heavily weighted towards Canada's 6 major markets with 16 of our 22 projects located in these major cities.

Our development pipeline continues to take shape. The existing Safeway store at Davie Street in Vancouver's West End has been demolished and excavation is on track to wrap up in March. Upon completion of the development in 2020, Davie Street will be a 306,000-square-foot, mixed-use retail residential rental structure built to LEED Gold standards. Belmont Market in Langford, BC near Victoria is being developed as a grocery-anchored mixed-use center. 119,000 square feet or approximately 83% of Phase I has committed leases or is in advanced stages of negotiation, with building construction beginning imminently. Also, Avalon Mall's redevelopment plan is progressing into Phase 2, and has moved into active development. Our plan is to redevelop the space recently vacated by Sears, subdividing the space into midsized boxes to accommodate tenants aspiring to have an address at the only regional and the dominant shopping center in Newfoundland. We expect the redevelopment to take between 24 and 36 months. Demand for the new space has been very strong. We expect rental lifts will demonstrably exceed what the space was previously generating. We're currently in various stages of the negotiation process with perspective first-to-market tenants, along with other key tenants, and look forward to updating you in the near future. The economics here are highly compelling.

These projects have been purposely designed with the live, work, shop, and play components, which will enable us to deliver on our commitment to enrich the neighborhoods we build in for long-term sustainable growth and smart, high-quality real estate.

Before I hand the call off to Glenn, I want to quickly point out the relaunch of our website. Our newly designed website now showcases what Crombie is all about, from our properties and developments to talent, Investor Relations and more. If you haven't done so already, please check it out. It's pretty cool.

With that, I'll now turn the call over to Glenn who'll highlight our fourth quarter year-end financial results and discuss our capital and development funding -- program funding approach. Glenn?

**Glenn Robert Hynes**

Thank you, Donnie, and good day, everyone. FFO for the quarter was solid at $0.31 per diluted unit, up 1.5% over the same quarter last year. Our FFO payout ratio continues to improve and ended the quarter at 70.9% versus 71.8% in Q4 of last year.

Diluted AFFO per unit increased 2.8% to $0.26 per unit versus the same quarter last year. Our Q4 AFFO payout ratio improved to 84.9% compared to 87.3% at the end of Q4 2016. Growth in the quarter was driven by improvements in occupancy, rental increases on renewals, lower G&A expenses offset by slightly higher finance cost.

For the year ended December 2017, diluted FFO was $1.20 per unit, up 1% over the year ended 2016. Our FFO payout ratio improved to 73.6% versus 74.7% in 2016.

Diluted AFFO per unit increased 1.5% to $1 versus 2016, and our year-end AFFO payout ratio improved to 88.9%, down from 91% in 2016. On a cash basis, same-asset NOI declined by 2.7% in the quarter as compared to the same quarter last year. This decrease was the result of $3 million of lease termination income received from Best Buy in Q4 of 2016. Excluding this lease termination income, same-asset property cash NOI increased by 2.1% in Q4. Growth was primarily driven by improved occupancy, increases in base rent and recoveries as a result of new and renewal leasing activity.

On the leasing front. During 2017, we renewed 574,000 square feet of 2017 renewals at a solid 10.2% increase over expiring and 358,000 square feet of 2018 and beyond expiries at 2.5% growth. That puts our total renewals over expiries for the year at a healthy 7.6%. Our retail leasing spreads were above 10% for the year, while office and commercial mixed-use renewals have been softer. Year-to-date, new leases and expansions increased occupancy by 358,000 square feet, contributing to the increase in committed occupancy to 95.2%. During the quarter, 323,000 square feet was renewed at an increase of 16% over expiring, driven by a few unique lease renewals. Given our longer average lease term, we occasionally have swings in renewal rates because of the small number of leases rolling in any given year. Of note, every asset acquired as part of the 2013 Safeway portfolio is now generating rental steps of 1.5% annually.

Turning now to G&A. Our G&A as a percentage of property revenue for Q4 was 4% or $4.2 million, an improvement from the 4.6% or $4.7 million in Q3 of 2017.

Now onto the balance sheet. We finished the quarter with debt to gross book value on a fair value basis of 50.3%, flat over Q3 of 50.2% and also flat to the year-end 2016. Our goal remains to reduce leverage over time in order to continue to derisk our balance sheet. Debt to trailing 12-month EBITDA was 8.84x and interest and debt service coverage ratio has remained strong. We continue to focus on utilizing our investment-grade credit rating to further improve our capital structure and derisk our business. During the quarter, we issued $150 million of 4.066%, 5 years Series D unsecured notes, with proceeds being used to pay down our bank lines of credit. Our balance sheet is stronger and more flexible than it was 1 year ago, with $450 million of available liquidity, that's $450 million of available liquidity, and our weighted average interest rate on fixed-rate debt at 4.21%. That's 13 basis points lower than 1 year ago and with increasing access to the unsecured market. As our unsecured debt grows, naturally so has our unencumbered asset pool, which remains strong at $954 million.

Crombie's IFRS weighted average cap rate for the year continued to compress and was down 8 basis points to 5.80% from 5.88% in 2016. Although we believe this is a useful metric, IFRS and our weighted average cap rate ignores the fair value of future developments until they are complete and income-producing.

As we mentioned on our last call, given the significant value creation opportunity embedded in our current portfolio, we're transitioning our capital allocation focus further towards development with a de-emphasis on acquisitions. Historically, we have been more acquisitive and have traditionally communicated acquisitions of $100 million from Sobeys and at least $100 million annually in third-party acquisitions. For 2018, accretive acquisitions from Sobeys will be pursued per normal, with third-party acquisitions executed only opportunistically. This shift in our capital allocation focus will allow us to direct capital to compelling and higher-returning developments.

As Donnie mentioned earlier, we have improved momentum on recycling capital which, combined with free cash flow from our operations, DRIP proceeds and strategic equity raises, gives us confidence that we can fund our future investments and improve our balance sheet at the same time.

It is well known that in-ground development activity and certain dispositions may cause a short-term drag on earnings growth, but we believe any such dilution, should it occur, is justified in order to deliver medium- and long-term multiple, NAV and earnings growth. Thankfully, Crombie's core business is strong, e-commerce resilient and a wonderful complement to our development opportunity.

In closing, our core portfolio remained strong as is clear by our leasing spreads, occupancy, same-asset NOI growth, improving payout ratios and our predictable and stable growth. As we look to the future, we remain acutely focused on creating long-term unit-holder value through disciplined capital allocation, through the performance of our core property portfolio and through our development and intensification programs.

Thank you for listening, and we're now happy to respond to your questions.

## Question and Answer

### Operator

Your first question comes from the line of Dean Wilkinson with CIBC World Markets.

### Dean Mark Wilkinson

Donnie, just on those sales that you talked about, the 35 closed, 100 under contract and another 200 listed, where do you think that, that could go over the course of the year? Could you push up towards 500? Or is 335 kind of a cap that you're looking at?

### Donald E. Clow

Dean, I don't want to speculate on what the final number would be. As you know, dispositions can be challenging from time to time, things come and go. Generally, high-quality assets, in some cases -- sorry, are probably desirable in the market. And so we think that we will achieve a significant chunk of those numbers that I put forward. But they're in negotiations and not under contract. And even when they're under contract, as you know, there can be things that happen that cause it to happen it to crater. So I don't want to speculate on what the actual number would be. We just wanted to give folks some scope as to what is possible, and we'll see where it lands. Everybody on this call, I think, is experienced in real estate to know that it's -- that real estate is a tough business and things do fall away from time to time. So we're comfortable with the program, we're comfortable that we're moving in the right direction, but I don't want to tell anybody that there is any certainty, as everyone knows.

### Dean Mark Wilkinson

Fair enough. And should we be thinking sort of roughly 50% leverage on those assets, sort of in line with the rest of the portfolio?

### Glenn Robert Hynes

Dean, I would say generally, you can make that assumption. It depends on the assets in question. Occasionally, there's unencumbered assets sold. Occasionally, loan-to-value might be slightly above but you can assume a leverage ratio on that range.

### Dean Mark Wilkinson

Perfect. Perfect. And then just sort of a small niggling question here. Looking at Davie Street, it looks like the construction cost and the pursuant NOI have come down a slight amount from last quarter. Was

that just a result of firming up some of the contracts and signing them? Or had there been a bit of a change to the scope of the project?

**Donald E. Clow**

No, the scope's roughly the same. The costs, actually, Dean, are roughly the same. Really, for the last year, they've basically still on par. So -- and our returns are holding, as we've always talked about, they're somewhere between 5.5%, 6%. So everything is really on time, on budget. Our partner there, Westbank, we think, is an extraordinary developer and very seasoned and got a good contractor in ITC. So I think we're very pleased with the progress there. So I don't really see any material change that's worthy of note.

**Glenn Robert Hynes**

And also, Dean, on Davie Street, we're pleased. As you probably recall, we did a 10-year CMHC mortgage. We locked it up in the fall, a 10-year rate of 3.224%, which, I think, the way rates are currently progressing, looks like will stand us in good stead but we also have financing in hand as -- which is another positive on Davie Street.

**Dean Mark Wilkinson**

Great. And of the 76 and change on the cost to complete, how much of that would be locked down in terms of the costs right now?

**Donald E. Clow**

We're -- 70% is completely priced, but there's -- most of the pricing is on the rest. So within the next month, we'll have somewhere in the 90s completely priced. We're actually quite comfortable with where we are. We have a nice contingency built into those numbers. And I don't know that we're going to need it, but you never know. Construction is also a messy business so -- but at this stage, the numbers are healthy and they're on track.

**Operator**

Your next question comes from the line of Sam Damiani with TD Securities.

**Sam Damiani**

Just on the dispositions. So clearly, we're looking at some potential high volume of disposals here. I understand it's not certain. But on the other side, on the Sobeys pipeline, what size could come through there this year and if you look out to next year as well?

**Donald E. Clow**

Yes, Sam. On average, we've said probably for most of the last decade, it would be approximately $100 million a year. I think that's a fair number. It's generally been a consistent program with the exception like in 2016 and 2013 and 2008. So we generally -- it's a constant, I think, improvement in our portfolio. Things are generally done at market reasonable pricing. And so we like to continue to activate that program of purchasing. And it's also a strategic partner that we enjoy a great relationship with. So I think you can probably use the $100 million is probably a fair number.

**Sam Damiani**

Okay, great. And just sort of following from that. It sounds like that as you -- I think you said in your opening remarks, NAV is the focus over -- perhaps over FFO growth. And for 2018, we might be looking at a slight decline in investment properties, balances and a slight decline from the stable -- sort of stable cash flow earning side of the business in favor of maybe lowering a little bit of leverage and generating liquidity and positioning for the coming pipeline of developments that you have underway. Is that the right way to think about it?

**Glenn Robert Hynes**

Yes, I think that's correct, Sam. I think we've indicated clarity that we'd like to moderately reduce the leverage on the balance sheet. And we'll do that through our different funding options that we have to do so. I think generally speaking, dispositions generally tend to be slightly dilutive to earnings, but it depends on what you're selling and it depends on how you're redeploying the capital. I think you're also well aware that to the extent that we're increasing our development expenditure that's in the ground and currently not productive, that's also slightly dilutive. So I think at the end of the day, really where the potential for slight earnings drag is more just increasing the development pipeline activity. And as we get projects like Davie Street out of the ground and into production, then they become a very valuable asset. But the in-ground time is slightly dilutive to earnings. And depending on sources of capital that we use, that also impacts our cost to capital as well.

**Sam Damiani**

That makes sense. And just on that final point, Glenn. With the pipeline that you have, is Bronte Village likely to be the next project to become active? And if so, when do you think that comes online or gets started? And how many projects would you see having active at any one point in time?

**Donald E. Clow**

Sam, it's a great project, and we're working very hard. Development, as you know, is unpredictable. We're hopeful that Bronte could come onstream in 2018, but again, it's an unknown process completely. So at this stage, our plan is to have a consistent flow of development. And so we're consistently working very hard on great projects. Most of them, as we've said, are in the major urban markets. So I can't really give you any certainty on it. We have a solid partner there that we're working with. And we think we're hopeful that we'll get entitlement and be ready to go in the near term.

**Operator**

Your next question comes from the line of Howard Leung with Veritas Investment Research.

**Howard Leung**

Just want to talk about the weighted average term to maturity for debt. So it was about 5.4 years. Do you have a floor, maybe, that you wouldn't want to go below? And do you really have a plan to try to match it closer to the average lease terms?

**Glenn Robert Hynes**

That's a great question. And it has a sort of a multiplicity of angles, but I'll try to be really brief. When we're using mortgage debt, we do have a predisposition to be longer duration, and that's been really the genesis of Crombie since the beginning of time. I think why you're seeing more of a migration of our weighted average remaining term to more back towards other REITs, although we're still higher than pretty much everybody, is because we're starting to balance in unsecured bonds into that mix or unsecured notes. And just because we're BBB low, a negative trend currently, we're not in a position, for example, to be issuing 10-year notes. Probably, we could go out to 7-year notes. So I think the answer is going to depend on the future funding. I think it's likely that we probably won't see weighted average debt duration out like in the 10-year range. I think where it is now is probably one of the lowest levels it's been. So we'll certainly look to try to maintain it or even increase it from there but you're dead right. Our long-term view is that we like to match long-term leases with long-term debt as part of our conservative culture. So that's still the game plan. But it will be a function of what mortgage debt is used versus unsecured notes. And we also, of course, continue to use our bank facilities actively. And by their nature, those are shorter-term facilities. I hope that helps, but our DNA hasn't changed in terms of liking longer duration debt. But just what's going on in the last few years, it has come down a little bit just because using more unsecured debt in the debt stack.

**Howard Leung**

No, that makes sense. That's helpful. With the cap rates, just want to dig in there a little bit more. I think that the overall cap rate was 5.8%. Do you see a gap -- is there a big gap between, let's say, your Atlantic Canada stores versus the rest of Canada? Where's -- is there -- like can you just kind of give a little color over the cap rate?

**Donald E. Clow**

It's interesting. Being from Atlantic Canada, I can sometimes be sensitive to questions like this, but I won't be. But the bigger delineation or bifurcation is really urban versus rural markets. And so I challenge people to, say, have a look at rural Quebec, rural Ontario, rural Western Canada versus rural

Atlantic Canada so -- quite honestly. So clearly, the urban markets are attracting a greater amount of capital and attention. And as a result, cap rates are, I think, still doing very well. And for the particular types of assets that we own being grocery-anchored, defensive real estate, they're certainly doing very well. And in tertiary markets, there's certainly still interest from a number of people in that type of space. And I remind people that some of these grocery stores in tertiary and secondary markets can have a very high market share and be the dominant grocery store in those markets. And even though the narrative is one of everybody's got to be in the top markets in the country, some of those markets are still fantastic core markets, and I think people don't give them enough credibility. But anyway, it's -- I'd still say nevertheless interest in -- it's really where capital is flowing is to the top markets, which is driving those cap rates. So I'd say it's more of an urban-rural issue than a particular region in general.

**Glenn Robert Hynes**

And Howard, as you know, we've been materially growing our urban footprint the last number of years and that's sort of one of the parts of the Crombie story that people sometimes forget. While our genesis was Atlantic Canada in the beginning of time, we are much more diversified nationally and far more diversified urban than we were even 3, 4, 5 years ago.

**Howard Leung**

No, that's fair and that's actually really interesting because the next -- and the question I have was related to that, the secondary versus primary. The decisions you've had, especially in the secondary markets, can you kind of give a profile of the buyers that have an interest in these assets? And do you expect that profile to maybe change in 2018? Or remain the same?

**Donald E. Clow**

The profile is either privates or, I'll call it, pension fund management or private fund management. So there's certainly people who have definitive interest in those markets and especially grocery-anchored defensive properties in those markets. And so -- and I don't see the interest changing. There's clearly, I think, a solid amount of people interested in that space and it's still at a good volume and multiple interested parties. So we're quite comfortable -- we're comfortable owning the assets because we do a good job managing those portfolios and obviously have a great relationship with Sobeys. But we're also comfortable they're quite salable if we choose to do so.

**Howard Leung**

That's good. The Peterborough disposition, what was the exit cap rate of that disposition?

**Glenn Robert Hynes**

It was sub-6% actually. It was an attractive cap rate, I believe, in the 5.8% range of cap rate.

**Howard Leung**

Okay. Yes, that's pretty good. I'm just comparing it to some of the other asset sales that we've seen out there with retail. It seems to be at a higher amount per square foot, so that's encouraging.

**Operator**

Your next question comes from the line of Pammi Bir with Scotia Capital.

**Pammi Bir**

Just can you maybe comment on the -- just coming back to the assets held for sale. Where are these properties located? Are they kind of spread out geographically? Or at any particular area at this stage?

**Donald E. Clow**

You know what, Pammi? There are a variety of assets. I'd say that we're looking at not only secondary and tertiary markets. But we're looking at potentially, and we talked about it at length before, selling percentage interest in primary markets and assets that are high quality but tend to have low growth in NOI. And so it's a combination. For me, that's multiple sources of capital. There are different types of assets, core and/or noncore and core and/or growth. So I'd say there -- and they're spread out across Canada, quite honestly. So there's really -- it's hard to give a little more color than that.

**Pammi Bir**

Right. So I suspect then -- so you mentioned that some of these will be partial interest sales as well?

**Donald E. Clow**

Yes. That's what we've indicated on many calls before, that we'd have -- some sales will be partial interest, some would be 100% interest.

**Pammi Bir**

Okay. And then just in with respect to your IFRS cap rate of that 5.8% and tying it against your comments that these are spread across the country, would the -- would your IFRS cap rate on these -- on the $100 million and the $200 million, would they be in the range of that 5.8% or above or below?

**Donald E. Clow**

I think as we said in our conference call, the -- we're actually doing nicely a little bit better than that. So in terms of better pricing than IFRS, it's at or near IFRS, I think, is the language we used.

**Pammi Bir**

Okay. And just turning maybe to the leasing spreads again, a pretty good quarter and for the year as well. You seem to be tracking ahead of some of your peers. Can you comment on the strength that you've seen or provide a bit of an update? Are these some specific assets that are really pushing the average higher, like in Avalon Mall? Or are they kind of across-the-board?

**Glenn Robert Hynes**

Pammi, as you know, whether the numbers are really good or less than really good, we're always cautioning you and your colleagues that we don't have a huge canvas of renewals. So sometimes, we can get episodic transactions that just move the needle. In Q4, we had 1 transaction that was very positive and it did move the numbers. So I think for the year, it put our 2017 renewals up 10.2% and you combine that with our 2018 and beyond of 2.5%, it put us up to 7.6% for the year. That's probably slightly better than the typical year in the last 3 or 4 years, but we have been targeting nicely in that mid-single-digit range. And I think that's what we're very comfortable with. But I wouldn't draw any big conclusions from Q4 that that's sort of the new normal. Let's be real. But we're obviously very pleased with the Q4 performance, but we're comfortable still that renewal spreads over expiries will be in that mid-single-digit range.

**Operator**

Your next question comes from the line of Tal Woolley with National Bank Financial.

**Tal Woolley**

I just wanted to ask a quick question about the distribution assets. You've got some partial interest, I believe, in some Safeway and Sobeys DCs. As Empire moves sort of along this e-commerce path, is there a bigger role for Crombie to play on the distribution center side of the distribution business at Empire?

**Donald E. Clow**

I mean we're always talking with Empire on a strategic basis about what assets to acquire. And for us, when we bought those in 2016, we viewed those assets as their most strategic assets. As you know, they are world-class, fully automated distribution centers. And so at any time, we would love to buy the other half of those properties. But I think it's just part of the ongoing mix of the conversation. There's certainly no conversations today about those assets. As we move forward, we're pleased with the defensive nature of the retail real estate we have today. And -- but owning distribution centers from Sobeys is also a good thing. And as you see with CT REIT, Canadian Tire, they're comfortable as well. So I'd say we're happy to do it. There's no urgency to it. They're just great assets.

**Tal Woolley**

Okay. And you offered some guidance on what you think acquisition spend might look like for the year. Could you talk a bit about just CapEx and development spend, what sort of envelope you might spend this year?

**Donald E. Clow**

Yes. We've generally don't give guidance on the volume. I mean, we've got major projects, as you can see, on some of the numbers that -- a comment that go along with it or are attached to those various developments. As we've said before, the whole portfolio is over a 10- to 15-year period and I think you can do the math and see what kind of volume we're attempting to get up to over time. But it's obviously project-specific, and each of those projects takes 2 to 3 years to complete. So yes, so I think it's a solid pipeline, but I can't really give you a number today. I apologize.

**Tal Woolley**

Okay. And just lastly, the -- your credit rating. Is the sort of the key thing to getting the negative trend watch removed is that – is it sort of tied to Empire's credit rating? Or is it something internal that would -- you can fix to get the rating back up?

**Glenn Robert Hynes**

I can't speak for DBRS but they were pretty clear with us that the principal ingredient for Crombie to go from BBB- negative trend to BBB- stable trend would be to see Sobeys get rid of their negative trend rating that they have. So that was made pretty clear to us from the rating agency. So yes, I think, as you can see from our results, we had a very good year, very steady, making good progress. We think we're doing the things that are important in running the business. So from a rating point of view, and it is Sobeys, as you know, not Empire, that has the rating. I think for Sobeys to get rid of that negative trend is a critical ingredient for us to move forward. And given that we have 53% of our revenue from Sobeys, that's not shocking.

**Operator**

[Operator Instructions] Your next question comes from the line of Michael Smith with RBC Capital Markets.

**Michael Smith**

Just for that $100 million of acquisitions you typically do from Sobeys, do you have any visibility on that? Or do you have any properties under contract at the current time?

**Donald E. Clow**

We're always working with them, Michael. I'd say, it's a long-term relationship, and we work with them every year on what portfolios are good for us and good for them. And I can't really give you a definitive timeline. And -- but we're constantly working with them on a portfolio and trying to figure out what the appropriate timelines are over the course of the year for them and for us.

**Operator**

Your next question comes from the line of Heather Kirk with BMO Capital Markets.

**Heather C. Kirk**

When you look at, I guess, some of the shifts that are happening in retail and we see what other players are doing in terms of a greater focus on development, maybe some leverage reduction and also diversification to other asset classes. When you look out over the next period of time, is there any thought given to down weighting retail in favor of boosting some of your other asset classes? You have a little bit of office or industrial. I'm just wondering just what the portfolio might look like 5 to 10 years out.

**Donald E. Clow**

Great question, Heather. Thank you for that. I mean, clearly, we've announced a shift into residential. And over time, with a disposition program, we think that our retail portfolio will either be stable or decline to some degree a little bit. And that the residential investment, as Glenn talked about, our allocation to the highest and best use or best creator of NAV growth, which we believe will be residential over time, will take material percentage of our portfolio into the residential space. At this point, we don't have any interest in increasing our office and/or industrial at this stage. We think -- we commend other people for what they've done and some of their focus. We like the nature of our retail and we like the complementary aspect and then, obviously, the NAV growth and cash flow growth, profile of the residential, we think, especially given our portfolio has 16 properties in the top 6 markets. It's an opportunity for us to not only increase a different asset class but increase our profile in the top urban markets. But I think as materially -- would be a material improvement in our portfolio. So that's really our focus. And there's enough complexity and enough scale in that to keep us busy for a little while. So I think that'll be our focus.

**Heather C. Kirk**

And as you focus more heavily on residential, would you consider expanding that weighting to acquisitions in addition to just the development opportunities?

**Donald E. Clow**

Yes. As you know, I mean, cap rates in residential, it's a very popular asset class. So M&A is exceptionally difficult, especially for retail REITs trading at discount to NAV. To try and make something like that work is quite a challenge financially. But – and you never say never, and there's lots of people looking at, I think, at that type of acquisition in the marketplace today. For us, our primary focus is organic growth, but that also includes not only an M&A type thing, but -- or growing the JV relationships. But it also includes, at some point, us growing our platform, such that we can do 100% of these developments. And given that it's $4.5 billion of potential major developments, most of which is residential, if we start capturing a higher percentage than 50%, we think that that's also a way to increase the size and scale of that part of our portfolio. So we are seriously considering that over time, and we'll pick our spots to do that.

**Operator**

There are no further questions in queue at this time. I'll turn the conference back over to our presenter.

**Claire Mahaney Lyon**

Okay. Thank you, everybody, for your time today, and we look forward to updating you on our results on our Q1 call in a few months. Bye-bye.

**Donald E. Clow**

Thanks, everybody.

**Glenn Robert Hynes**

Thanks, everyone.

**Operator**

This concludes today's conference call. You may now disconnect.