Final Transcript

Crombie Real Estate Investment Trust

First Quarter Results Conference Call

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Forward-Looking Information

This transcript contains forward-looking statements about expected future events and the financial and operating performance of Crombie. These statements include, but are not limited to, statements concerning management’s beliefs, plans, estimates, intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical fact. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "estimate", "anticipate", "believe", "expect", "intend" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking information in this transcript includes statements regarding:

(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, requirements and timing for Sobeys investments, the timing of property development activities or other 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, anticipated yield on cost, and impact on net asset value and net asset value per Unit, 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, continuance of current market and capitalization rate conditions and general economic conditions and factors described under the “Property Development/Redevelopment” section of our most recent Management’s Discussion and Analysis, 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;

(iii) asset growth and reinvesting to develop or otherwise make improvements to existing properties, which could be impacted by the availability of labour, capital resource availability and allocation decisions as well as actual development costs;

(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) expected increase in revenue in 2020, which could be impacted by timing of completion of development projects underway, ability to secure tenants and the effects of general economic conditions;

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

(ix) 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; and

(x) anticipated distributions, distribution growth and payout ratios, which could be impacted by results of operations and capital resource allocation decisions.

These forward-looking statements are presented for the purpose of assisting Crombie's Unitholders and financial analysts in understanding Crombie's operating environment, and may or may not be appropriate for other purposes. These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on Crombie's current estimates and assumptions. Crombie can give no assurance that actual results will be consistent with these forward-looking statements. A number of factors, including those discussed under "Risk Management" in Crombie's Management's Discussion and Analysis for the year and quarter ended December 31, 2018 and those discussed under "Risk Factors" in Crombie's most recent Annual Information Form (available at www.sedar.com) could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and a reader should not place undue reliance on the forward-looking statements.

Non-GAAP Financial Measures

There are financial measures included in this transcript that do not have a standardized meaning under IFRS as prescribed by the IASB. These measures are property net operating income (“NOI”), same-asset property cash NOI, funds from operations (“FFO”), FFO as adjusted, adjusted funds from operations (“AFFO”), debt to gross book value, unencumbered assets, estimated yield on cost and net asset value ("NAV"). Management includes these measures as they represent key performance indicators to management and it believes certain investors use these measures as a means of assessing relative financial performance. These measures as computed by Crombie may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities. Readers are advised to refer to Crombie’s Management’s Discussion and Analysis for the year and quarter ended December 31, 2018 for additional information regarding Crombie’s use of non-GAAP financial measures, including definitions and reconciliations to GAAP measures.

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PRESENTATION

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Operator

Good morning, ladies and gentlemen, and welcome to Crombie REIT's First Quarter 2020 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator.

This call is being recorded on Thursday, May 7, 2020. I would now like to turn the conference over to Claire Mahaney Lyon. Please go ahead.

Claire Mahaney Lyon — Manager, Investor Relations, Crombie REIT

Thank you, Chris. Good day, everyone, and welcome to Crombie REIT's first quarter conference call and webcast. Thank you for joining us. This call is being recorded in live audio and is available on our website at www.crombiereit.com. Slides to accompany today's call are available on the Investor section of our website under Presentations and Events.

On the call today are Don Clow, President and Chief Executive Officer; Glenn Hynes, Executive Vice President and Chief Operating Officer; and Clinton Keay, Chief Financial Officer and Secretary.

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 a discussion of these risk factors.

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 development update and a review of Crombie's operating fundamentals and results. Clinton will conclude our remarks with a discussion of our financial results, capital allocation, and approach to funding.

Don?

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you, Claire, and good day, everyone.

Crombie's long-term strategy is to deliver risk-adjusted returns by effectively allocating capital within our grocery and pharmacy anchored real estate portfolio, to accelerate net asset value and AFFO growth per unit. This is accomplished through maximizing the value creation of our strategic relationship with Empire and Sobeys as well as the development of one of the strongest major market urban development pipelines in Canada. Our strategy is supported by ample cost-effective capital, strong balance sheet, as well as one of the most talented real estate teams in the country.

These past two months have been unlike any we've seen in our lifetimes with a global pandemic, a virtual shutdown of the global economy, the most rapid decline in global capital markets in history, and the most significant government stimulus packages ever. Truly these events are unprecedented. In the face of all this turmoil, Crombie's long-term strategy remains unchanged.

Over the last two months our team mobilized in a relentless manner to prioritize the health, safety, and the well-being of our employees, tenants, communities, and our business. It is this talented team, in combination with Crombie's strong financial condition and high-quality grocery and pharmacy anchored portfolio, that positions us well to manage the uncertainty presented by this unprecedented event.

Approximately 80% of Crombie's retail portfolio remains open, as grocery stores and pharmacies are essential services, providing Canadians with food and vital products during this global pandemic. Our largest tenant, Sobeys, and our strategic partner, Empire, are meeting the essential needs of Canadian customers exceptionally well.

Crombie's finance team secured increased liquidity and have worked tirelessly with our operations, accounting, and leasing teams to build and implement our rent deferral program, Crombie Values Small Business. In mid-March we implemented a thank you program for our property employees who are doing the important work of maintaining our operations and, in turn, ensuring the safety of those customers visiting our sites.

We're incredibly proud of our team and the work they do, especially at a time like this. We extend our heartfelt sympathy to all of those who've lost loved ones to this virus and our gratitude to the frontline employees who work to keep our healthcare and essential services, including Sobeys stores, operating.

Although we are facing unprecedented conditions, Crombie's long-term strategy nevertheless continues to look promising. Through Q1, Crombie's strong fundamentals drove our same-asset property cash NOI with record high committed occupancy and solid leasing. Our grocery and pharmacy anchored retail is robust and defensive.

We're working in partnership with Empire to align our strategies to maximize value creation. They recognize a need to reinvest and renovate their current stores across the country and we will continue to work with them through modernizations, FreshCo conversions, the build-out of their ecommerce home delivery hub-and-spoke and network, land use intensifications, and the unlocking of major developments.

Our first six major developments continue to progress, albeit at a slower pace due to temporary delays caused by government-required shutdowns, labour shortages, or supply chain issues. Due to the shutdown of non-essential construction in Quebec, our Le Duke and Montreal CFC development projects are currently on hold with construction restart scheduled next week on May 11th. British Columbia and Ontario have deemed construction, including residential construction, essential. Accordingly, our projects at David Street in Vancouver and Bronte Village in the GTA continue, albeit at a slower pace to ensure the safety of all individuals on site. Belmont market in British Columbia is experiencing minimal delays.

Through 2020, we continue to expect to reach substantial completion on approximately $300 million of construction on David Street, Belmont Market, and Avalon Mall, with a slightly delayed schedule. We will continue investing in Bronte, Le Duke, and the Voilà par IGA customer fulfilment centre to complete those developments totalling approximately $300 million during 2021. We have another seven projects in pre-planning where we continue our work to improve and deliver value-enhancing entitlements for each development.

In summary, Crombie is resilient and nimble in the face of the fast changing and unprecedented macro environment and we continue to work diligently to ensure our commitment to our stakeholders remains steadfast.

With that, I'll now turn the call over to Glenn, who will provide an update on our developments and operational highlights. Glenn?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

Thank you, Don, and good day, everyone.

I would like to begin with an overview of Crombie's response to this pandemic and to reassure you, our unitholders, that we are committed to delivering value through a business that remains strong despite the current economic reality.

We enacted our business continuity plan to create optimal conditions for the safety of our tenants, customers, staff, and properties. Our teams continue to carry out enhanced cleaning and sanitizing and physical distancing measures and, thankfully, are now proactively preparing critical plans for reopening of those tenants that were forced to close. Near the end of the quarter we launched Crombie Values Small Business, a rent deferral program for small business tenants who have been impacted by business closures.

Crombie is well positioned with respect to the defensiveness of our annual minimum rent with 75% generated from grocery and pharmacy-anchored properties, 67% from essential services, and only 6% from small business. Our largest tenants are investment-grade grocery stores, pharmacies, banks, and government offices. Over the last few years, we have improved the quality of our portfolio by acquiring assets in Canada's top markets as well as recycling approximately $800 million in assets, mostly in secondary and tertiary markets, to reinvest in Crombie's urban major developments. The portfolio we have today is stronger and improves our positioning for future periods of uncertainty such as what we are experiencing today with COVID-19.

During the month of April, 87% of gross rent was collected. In addition to collected amounts, we have completed two-month rent deferrals with certain tenants representing about 2% of monthly gross rent. The remaining 11% consists of approximately 2% who could qualify for deferral and approximately 9% representing other larger tenants, most of whom could and should have paid April rent but chose not to. We are evaluating the implications of the recently announced CECRA small business government program, as it may be productive in supporting small business through this unprecedented time. Of particular note, close to 40% of Crombie's uncollected April rent was from one property, our enclosed shopping centre, Avalon Mall, which has been effectively closed due to provincial government restrictions since the end of March. Our defensive portfolio is robust and our team is working with our tenants to ensure rent deferrals are provided where necessary and rent is collected.

Strong fundamentals on our 285 property portfolio were demonstrated by record high committed occupancy of 96.2% in Q1. New leases and expansions increased occupancy by 44,000 square feet at an average first-year rate of $22.87 per square foot. We ended the quarter with 124,000 square feet of committed space at an average first-year rent of $20.08 per square foot, boasting future NOI growth. During the quarter, 156,000 square feet of renewals were completed at a 4.5% increase over expiring rental rates. Same-asset NOI growth was plus 1.7%, and that was slowed by an approximate $500,000 bad debt provision, otherwise a more solid plus 2.6% same-asset NOI result would have been posted. As we continue to maneuver our necessity-based portfolio through these uncertain times, our team is dedicated to ensuring our underlying business fundamentals and core portfolio remain resilient and strong.

Our development pipeline has been impacted by the repercussions of COVID-19 with minor adjustments to our timelines and related revenue commencements. At this time we're not expecting significant changes to our cost to complete and are comfortable that our cost estimates, including contingencies, will be sufficient such that our published cost estimate should remain intact.

In Vancouver, construction continues at our David Street project, although at a slower pace, driven by social distancing and a reduced workforce. The 45,000 square foot Safeway store is projected to open later this month and the 9,000 square feet of ancillary retail space should follow in Q2 and Q3. Construction of the 330 residential rental units is now scheduled to be complete in Q4 of this year. This project is 100% tendered.

At Belmont Market in Langford, committed occupancy is 90% for the 137,000 square feet that's built and operational. The final phase of the development consists of three buildings totalling 23,000 additional square feet that is yet to be built. Construction will commence on the first building in Q2 of this year with the remaining two buildings slated for 2021 construction as we expect slower leasing due to COVID-19.

There has been significant consolidation in the retail industry, such that regional malls such as Avalon Mall in St. John's, Newfoundland and Labrador are dominant in their market. Avalon is the only regional mall in all of Newfoundland and Labrador, a province with 500,000 people and with sales over $700 a square foot, and of course that is without an Apple store, prior to COVID-19, so we are confident it will survive this pandemic and re-emerge once the economy reopens. That said, tenants at enclosed malls like Avalon Mall are nevertheless facing challenging times with significant retail closures. We are optimistic, as Newfoundland and Labrador is successfully flattening the curve with very few cases of COVID daily over the last two weeks. Construction of our expansion area is substantially complete, as we have turned over certain of our mid-box anchored spaces to our tenants; however, the grand opening will be delayed given the current state of emergency circumstances in the province, which will impact tenant fit-up and opening schedules.

In Quebec, construction was shut down on March 23rd with site scheduled, as Don mentioned, to reopen on May 11th. In Montreal, at our Le Duke project we've adjusted our expected completion date by one quarter to open now in Q3 of 2021 and we expect some cost increases due to these delays. The 25-storey mixed-use tower with 26,000 square feet of commercial space and 390 residential rental units is currently constructed to the 19th floor and the project is 86% tendered. We continue to monitor COVID-19 related events in the province for potential impact on our development activity. The launch of Voilà par IGA, the ecommerce service for Quebec and the Ottawa area, is still expected in 2021. Site work is complete and tendering is well underway with construction to commence this spring.

The Bronte Village construction site remains open in Oakville and has been marginally delayed due to the impact of a reduced workforce arising from COVID-19. We now anticipate the 54,000 square feet of commercial and 480 residential rental units will be delayed one quarter and completed in Q4 of 2021. Bronte is 96% tendered.

Upon completion, all these properties are expected to create significant net asset value and AFFO growth per unit, increase our presence in the country's top urban markets, while diversifying and improving our overall portfolio quality and income stream. And lastly, and most importantly, we're not aware of a single COVID-19 infection to date on these six project construction sites. We are proud of the work that our partners, our contractors, and our team have done in focusing on health and safety.

And with that, I will now turn the call over to Clinton, who will highlight our first quarter financial results and discuss our capital and development program funding approach.

Clinton Keay — Chief Financial Officer & Secretary, Crombie REIT

Thank you, Glenn.

During these challenging times I'm pleased to report that Crombie's financial condition remains strong. Our unencumbered asset pool has grown and we have intentionally increased our allocation to unsecured debt, allowing for future additional financing flexibility. We have steadily increased our liquidity and are consistently working to re-risk our balance sheet. On a cash basis, same-asset NOI increased by 1.7%, demonstrating the consistency and stability of our portfolio.

AFFO per unit was $0.26, consistent with the same quarter last year. Considering our significant disposition activity throughout 2019, reduction in leverage, and our continued investment in our development pipeline, we are pleased with this result. Our AFFO payout ratio was 87.4% versus the same quarter last year at 87.3%.

FFO for the quarter decreased to $0.29 per unit from $0.30 for Q1 2019 and our FFO payout ratio was 76% versus 74.2% in the same quarter last year. We are feeling the effects of approximately $500 million in dispositions executed in 2019 and the investment of approximately $400 million of capital in major developments with no initial return.

G&A as a percentage of property revenue for Q1 was 3% or $3 million, down from Q1 2019 at 5.5% or $5.8 million. The decrease is primarily due to the decrease in unit price and its impact on unit-based compensation plans.

Crombie closed a $100 million equity financing during the quarter at $16 per unit on a bought deal basis. After the closing of the public offering and private placement, Empire continues to hold a 41.5% economic and voting interest in Crombie. This was the first time Crombie has raised equity since 2016.

Crombie is committed to increasing weighted average term to maturity of our debt, reducing leverage over the medium term, and increasing our unencumbered asset pool. In the first quarter we repaid a $158 million mortgage with a weighted average interest rate of 5.61%, leaving $58 million in mortgages maturing for the balance of the year. Our unencumbered asset pool increased to approximately $1.5 billion from $1.2 billion at Q4 and our balance sheet remains flexible with $500 million of available liquidity as of today.

Out debt net of cash to gross book value on a fair value basis was 48.8% at the end of Q1 compared to 48.9% at the end of 2019. We ended the quarter with debt net of cash to trailing 12 month EBITDA at 8.44 times, an improvement compared to 8.52 times at Q4 2019.

Subsequent to the quarter end, Crombie completed a 16-year $118 million mortgage financing on our Vaughan, Ontario distribution centre at an interest rate of 3.88%. This transaction extends our weighted average term to maturity on fixed-rate mortgages from 4.2 years to 5.3 years. Proceeds from this transaction were used to repay $45 million of the $120 million unsecured non-revolving credit facility with the remainder of the proceeds applied against bank debt outstanding.

As we continue to progress through this difficult time, Crombie's grocery and pharmacy anchored portfolio of essential services will support our communities, businesses, tenants, and employees, while never losing sight of our long-term strategy to effectively allocate capital to accelerate NAV and AFFO growth per unit, delivering value.

That concludes our prepared remarks. We are now happy to answer your questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Howard Leung, Veritas Investment Research. Howard, please go ahead.

Howard Leung – Analyst, Veritas Investment Research

Thanks. Good morning. Can you comment a little bit on what considerations you're looking at for the CECRA and what some of the puts and takes are if you decide whether you want to apply for some of your smaller tenants?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

Sure, Howard. It's Glenn Hynes. The good news is, you know, with the Crombie Values Small Business program and the CECRA program, and now there's some rumour that there may even be another program for the non-essential services, some of those of large retailers, it's good that there's options available. I think what Crombie wants to do is, first and foremost, focus on the success of retailers and our office tenants. But speaking about retailers to your question, getting to success is really what's vital, so we want to roll up our sleeves with our tenants and determine the best program. In fact, there are certain tenants that should just pay their rent that really have no need for support and we'd like them to do that.

And then the category there may be some where a couple of months of deferral from Crombie and then being repaid over, say, 12 months is the right recipe for their success. In other cases it may be the CECRA program where, for a three-month program, as we currently understand it, but the details are still not fully communicated, there would be a 25% investment from us as landlord.

So for us, Howard, we want to get to success for our tenants and we want to roll up our sleeves and do what's best in each individual situation and hopefully, if we have good transparency with our tenants and good dialogue, we'll get to the right successful conclusion in each case.

Howard Leung – Analyst, Veritas Investment Research

Right. So I guess because, just thinking about the CECRA specifically, because it's only lasting really for another month, I guess you would really only want to apply those for tenants that you believe could kind of, could survive past that point and be able then to shoulder 100% of the rent going forward, right? Is that the right way to think about it?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

Sort of. I think it is. But the other thing is we just don't know how long this whole pandemic is going to last. And I think what you want to do is be judicious. We'd all like to be supportive. If success is the end game, and, unfortunately, there may be some tenants where success won't be an option, and that's unfortunate, and I guess, you know, want to be careful not to invest significant resources if there's no end-game for success. And that's part of the transparency and the open dialogue.

But I think the reason why we want to get to the right solution, so, for example, some tenants should just pay their rent with no support. That gives us more resources to support other tenants where maybe there is need for more than a two-month deferral. The feds, of course, when they announce their three-month program, they don't have a crystal ball as to how long they may need to provide support. Who knows? Maybe there's a CECRA round two if this goes on too long.

So the key thing for us as a landlord is to have a focus on success and to try to use our resources judiciously so we can continue to report good numbers to our unitholders but also to be there, to the best extent possible, to get to success for our tenants.

Howard Leung – Analyst, Veritas Investment Research

Right. That makes sense. I guess for the 9% that you called out, the larger tenants, I guess, that could and should pay, you mentioned, I think, 40% of them really came from Avalon Mall. For the remaining 60%, are those tenants, I guess, thinking maybe movie theaters, apparel, any QSRs in there, franchisees? Like is that kind of the tenants that have withheld rent?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

I'm not going to name names, Howard, but certainly the QSR segment was a segment where there's a lot of receivables, and those ones are interesting because, generally speaking, there's franchisees, local business people that you might, on a day-to-day basis, entertain a small business, but in some cases there's a very strong franchisor covenant there and, in general terms, there's a way to look at those tenants that they're really not your typical small business, you're (inaudible) small business, if you will.

So it's spread across. The good news is, towards the end of April when we put a bit of pressure on some of those larger tenants who hadn't paid through default letters, we actually did get a positive response in some cases. So it is mixed bag. But you're right; we have communicated that close to 40% of our remaining receivables are Avalon and closed mall space is very tricky. I think our collections at Avalon were just under 26% of gross rent. And as bad as that number is, that's actually a decent number in the enclosed mall space, because we don't have a 200,000 square foot superstore or like a Wal-Mart or a big grocery store at Avalon and we don't have an Apple store.

So Avalon was tricky, but the balance is spread around. But yes, there is a material component of that remaining 9% of tenants that have good covenant, and that's actually encouraging. Because I'd rather that 9% be tenants that we think will meet success, it's just getting them to the right headspace. And whether they didn't pay because they're waiting to see what programs are in existence or they think it's an opportunistic opportunity, I can't speak for them, and that's why we're going roll up our sleeves, on a case-by-case basis, and get our rent collected in the way that has both tenant success and REIT success optimized.

Don Clow — President & Chief Executive Officer, Crombie REIT

Howard, it's Don. I'm going to just jump in. One additional element is that when we're talking with these people we often have known them for a very long time and have good relationships with them. But part of the exchange is, I'll call it, real estate savvy, which is, you know, we're looking at opportunities elsewhere within our portfolio with these people and so it's not just a, call it, credit issue or collection issue. It's also about how do we maximize the benefits for both parties out of this and, call it, creative partnership with them.

So we're working very hard. Each situation is unique and it's case by case, but it's important that people know we are asking for financial statements, we are working hard to collect all the information we need to make a good decision. This isn't something that's done inappropriately. So, anyway, I think overall we will come out of it exceptionally well.

Howard Leung – Analyst, Veritas Investment Research

Yeah. And it looks like, because really the major exposure is the enclosed mall right now that don't have floor collections and Crombie doesn't have much of that, so that's pretty good.

I guess May collections, it's pretty early, it's still just the first week, but is it so far on par with the first week of past months, I guess excluding Avalon?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

I would say this, Howard, that May is not markedly different than April at this point. And we'll obviously look forward to updating you in August on how it goes, but so far May is very much aligned with April.

Howard Leung – Analyst, Veritas Investment Research

Great. And just one more from me: Some of your leases have the step-ups and some of them are kind of fixed step-ups. Have you had to kind of modify step-ups on any of the leases, maybe in negotiations with some of the tenants?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

No, not at this point. So far our conversations have been more around what we've just been talking about for the last few minutes. But in terms of renewals and regular step-ups in rents, those are pre-programmed and we're not anticipating any change in that program. But if tenants need to talk about those things, I'm sure they will, but at this point that has not been a conversation that's been active at all.

Howard Leung – Analyst, Veritas Investment Research

Okay, great. Thanks so much. That was a lot of good colour. I'll turn it back.

Operator

Thank you. Your next question comes from Dean Wilkinson, CIBC. Dean, please go ahead.

Dean Wilkinson – Analyst, CIBC World Markets

Thanks. Hi, guys.

Don Clow — President & Chief Executive Officer, Crombie REIT

Hi, Dean.

Dean Wilkinson – Analyst, CIBC World Markets

Don, maybe for you, bigger question, sort of stepping back from the immediacy of the pandemic and if you look at the portfolio on the business, are there opportunities in this to refine or perhaps change the longer-term view around some of the real estate and perhaps there's some opportunities that the market might be missing here? Or is it, you know, putting in terms of, say, a prior life of yours, more maintaining that strong defence and running the A gap?

Don Clow — President & Chief Executive Officer, Crombie REIT

You know, our strategy, as I said in my remarks, our strategy remains unchanged. So, it's been a focus on Sobeys, which we believe has, I think, unique opportunity. The unique opportunity is the relationship with a retailer to create value in real estate is, I think, unique and exceptional and only held by, call it, a few people in our industry. And we're really just getting started. I mean we've really honestly been at it since Michael Medline was appointed CEO of Sobeys. And since that time we've really taken it to another level. And so I think, for us, it's really consistently investing in Sobeys and Sobeys-related projects, including ultimately unlocking value and major developments. So it's really those two things.

And included in the major market mixed use is obviously residential and I think, forecasted out for people, saying by the end of 2021 we'll be at about 8% residential. And on a longer-term basis, over a decade, which a lot of people don't care about but we do, we could see ourselves into that 15% to 20% range as we, hopefully, continue to build at a consistent pace. And as well, the hub-and-spoke network for Sobeys ecommerce home delivery platform is retail-related industrial. So, building those two categories out but doing so, I'll call it, organically, is, I think, very strategic for us. And it just shows the opportunity that's presented by the relationship with a retailer.

And then pruning various parts of our portfolio over time where they're in the minority is something that we'll be thinking about, but at this point the properties that we have in that category generally are the strongest in their local and so those things are, you know, other than, call it, on a short-term basis, we feel comfortable holding those assets and working them over time.

The opportunity is to stick to our knitting. Today, I think, someone I talked with the last week, we talked about over the last 10 years what are the top metrics that people look at, and it's really NAV growth, AFFO growth, and NOI growth. But today it's illiquidity, right? And/or the quality of your portfolio and how is it. We're all on defence. And so for us, we feel like we have a very, very strong defensive portfolio that has a unique opportunity to go on offence. So it's really just about pacing ourselves and picking our spots on both, whether it be for funding or whether it be for investment.

And so we're quite pleased with where we sit today and, again, we don't believe it changes our strategy. It really, for the moment, maybe slows it down, clearly, because the level of uncertainty, but overall we're focused on what we're focused on.

Dean Wilkinson – Analyst, CIBC World Markets

Great. And my second question, I don't know if it's Clinton or Glenn, just on the—it looks like you're getting ahead on that allowance for the doubtful accounts related to some of this uncollected rent. Was that your sort of best guess of the worst case or was that specific insight into stuff that you know you're probably not going to collect?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

I was just a bit of a unique situation, Dean. It's Glenn. When you're doing allowance for doubtful accounts, you're using judgement about the wherewithal of somebody to pay something and you're making a judgement. In many cases, if you're looking forward and they're making the promises, they've said that they'll pay you a certain amount by a certain time or there's a more positive backdrop, then you're more comfortable with a smaller allowance.

As we got to Q1 we looked at the general situation and said you know what? We should be a bit conservative here. In aggregate, we took over $1 million, but $0.5 million of it hit same asset properties, the other $0.5 million hit other properties, and it was just us acknowledging that there could be difficult here that's risk, so we thought it was proactive to take the charge in the quarter.

I wouldn't say it has any indication on how we'll be thinking about the allowance for doubtful accounts in Q2 and Q3 and beyond. That's going to be, obviously, dependent on each individual situation. But we thought it was important to acknowledge at the end of Q1 that we did have some risk.

Dean Wilkinson – Analyst, CIBC World Markets

It's good to see you getting out in front of it and I think others will probably follow. That's it. I'll hand it back. Thanks, guys.

Operator

Thank you. Your next question comes from Sam Damiani, TD. Sam, please go ahead.

Sam Damiani – Analyst, TD Securities

Thanks and good afternoon, everyone. First question, just on the development pipeline, maybe for you, Don: Obviously the new-build residential market is a growing one, the demand has been strong, but have you been chatting with your partners Westbank and PrinceDev in terms of how leasing has been going specifically in the last couple months? Has there been any impact from the pandemic on demand for newly-built purpose-built rental?

Don Clow — President & Chief Executive Officer, Crombie REIT

So I have. I talked with both of them last week and we have a great relationship and we're very fortunate to have outstanding partners that are very strong in their own right, both financially but also operators and developers. And the indications are things did take a brief pause in May (sic) to some degree but that the leasing has come back towards in April and in May. So the leasing is continuous, it's just at a little bit of a slower pace.

And we're, I think, quite fortunate. When we budgeted our properties a number of years ago, we would have been conservative, as we usually are, and since that time the rents have increased, and not insignificantly in a couple of jurisdictions, and maybe they've come off just a little bit, I don't know, we'll see. The bottom line in most of the markets we're in is that we want to take our time, lease it up well. And they don't come on stream, Davie Street will come on probably late, late this year or early next year, and by that time the local markets, basically any of the new projects are full. And in Bronte and Duke, they're well into 2021 and hopefully by that time, you know, the pandemic has ideally passed or in the latter stages of herd immunity.

And again, we believe in these big markets, the strong markets, and there's a shortage of this type of housing, so we're very comfortable with the projects and the quality of the work that our teams are doing, including our partners. They're terrific people.

Sam Damiani – Analyst, TD Securities

Thank you. That's helpful. Second and last question, just on your discussions with Sobeys on the idea of retrofits, does the pandemic change their sort of physical needs for their stores, either inside the box or even the size of the box? Is there any discussion about increasingly wanting larger stores to accommodate a little more spacing between the aisles?

Don Clow — President & Chief Executive Officer, Crombie REIT

I mean right now, I think they've been so focused on maintaining the supply chain, keeping their stores open and, most importantly, the health and well-being of their staff and their customers, so those kind of changes, I think, will be initiated, they may be already thinking about it, but we're not in any discussions with them at the moment of that type of change. We are though, however, in constant conversations with them. We've slowed down just a little in terms of our pipeline spending with Sobeys just because they were so focused on delivering those essential services, so for us it ends up with a slight delay on some of our modernizations where we hadn't started, which just made sense.

But we do still have plans to move forward with those, but how they ultimately take shape, as we've said, there's so many opportunities, whether it's via modernization, changing of the store, but it can also be investing, as we've done in the hub, and also now the new spokes, which will be sites that could be parts of stores that are basically where they transition the orders from the big trucks into the small cube vans for local delivery. All of those hub-and-spoke pieces, especially in the major urban markets, are terrific investments for Crombie and we want to be a part of that with Sobeys.

So, a variety of circumstances, Sam, I guess is the endgame and we just haven't seen at this stage, they just really haven't turned their minds to ultimately changing the size of the store.

Sam Damiani – Analyst, TD Securities

Great. Thanks very much.

Don Clow — President & Chief Executive Officer, Crombie REIT

Okay. Thank you.

Operator

Thank you. Your next question comes from Tal Woolley, National Bank. Tal, please go ahead.

Tal Woolley – Analyst, National Bank Financial

Hi. Good morning.

Don Clow — President & Chief Executive Officer, Crombie REIT

Good morning, Tal.

Tal Woolley – Analyst, National Bank Financial

Just following up on Sam's questions regarding Empire, any discussion on how they're viewing their ecommerce business they're piloting (inaudible)? Do you think that once we sort of, we all emerge from this, is that an acceleration of that online businesses likely something we're going to see?

Don Clow — President & Chief Executive Officer, Crombie REIT

Today it makes up, ecommerce home delivery of groceries makes up 0.5% to 1% of overall groceries and so the talk about accelerating it, you know, there has been a lot of press about it and people are clearly ordering from home and so, you know, it's a little too early to see whether there's significant cultural change. But the denominator is so small that overall impact even in the near term is limited to some degree. There's not a great infrastructure for home delivery for, call it, the largest competitors and delivering from stores is not profitable. Having somebody run around a store, a person run around a store is just not, it's very suboptimal and not profitable. So, even though it's a stopgap and clearly helping consumers, it's not the ideal for ultimate long-term profitability.

That all said, clearly there's going to be a continuous movement towards investing, I think, and Sobeys already, as you know, invested in both Toronto and now in Montreal would be continuous movement towards that. I have not discussed any changes in terms of the pace. I think that's really up to Mr. Medline and his team. And we'll be clearly wanting to be part of that conversation and invest alongside with them as we are in Montreal. So, again, it's too early to tell I guess is the end answer, Tal.

Tal Woolley – Analyst, National Bank Financial

Okay. And then one of the other things after leadership changed at Empire that you had talked maybe more about doing, um, was using leased locations at Sobeys in shopping centres as leverage to make acquisitions. And I'm wondering like, again, I'm not trying to get you to commit to anything (inaudible) right now, but does that kind of transaction get easier to effect in a tougher economic environment? Like does it—could some more opportunities open up along that front?

Don Clow — President & Chief Executive Officer, Crombie REIT

Yeah, exactly. So, we did that with our McCowan and Ellesmere acquisition in 2016 and we've done it with a few other, I'll call it, smaller tuck-ins and we still have a few and we are working, I'll call it, continuously on those activities. I think we've said publicly there's 80 or 90 Sobeys leasehold interest that we're continuously looking at in the major urban markets. And so whether they get easier, you know, a lot of the people who own those places are well capitalized and we're constantly working on it, but they're mostly well capitalized so the gap between the bid and the ask is relatively wide.

So I'd say we're not really focused on it today as much as we were, say, two months ago. We're going to slow down a little. But we still have things we're working on. But we want to be very careful with our liquidity, focus on what we have to do to execute on our major developments, focus on Sobeys plan, and part of that will be the odd transaction that fits that category. But it's an exceptional opportunity for us to backfill our major development pipeline as we complete our projects and also to do a number of other, call it, interesting type transactions. So we're quite excited about it.

Tal Woolley – Analyst, National Bank Financial

Okay. And then obviously late last fall you had sort of rolled out at your investor day a longer-term sort of growth guidance, kind of longer-term goals of like 3% to 5% NAV and AFFO growth. Obviously, you know, you weren't saying 2020 would be the year that that was going to start to begin with and clearly, given where we are, it's probably certainly not going to be now, but do you see anything (inaudible) that would really shift that longer-term goal at all right now?

Don Clow — President & Chief Executive Officer, Crombie REIT

You know, you don't know what you don't know and right now that's about what kind of retailer fallout could take place over the next three to six months. But again, for us, we view it as ideally short-term transition stuff that we'd have to work through. But our investment thesis of Sobeys and major developments is pretty simple, straightforward, and pretty strong on a risk-adjusted return basis, and that's why we've said our strategy remains unchanged.

Our investments may be a little lower this year. If we said $100 million to $150 million on Sobeys, we may be closer to that $100 million range or a little less than that, just because, again, slowing transactions down, and so that, you know, but in the long term, if that's the question, no, it doesn't change our target. And we're pretty comfortable, if we can continue to invest in those programs, that we will, you know, we'll be in that best-in-class REIT category.

Tal Woolley – Analyst, National Bank Financial

Okay. And just lastly on the Davie Street (inaudible), it sounds like it's going to be late Q4, early Q1 before it's really starting to get up and running. When should we expect you to bring that property out of (inaudible) and into IPP just so we can tweak our numbers correctly?

Glenn Hynes — Executive Vice President & Chief Operating Officer, Crombie REIT

Hi, Tal. It's Glenn. Initially our expectation was to be substantially complete in Q3 of this year. We'd have then full interest expense and the lease-up would take place through Q4. In fact, there'd be a drag on NOI, or FFO and AFFO I should say, in 2020. It now appears that we'll probably be substantially complete more like the end of the year, late Q4, and we'll have that slight drag in lease-up and full interest expense in early to mid 2021. So, in an odd way, it's probably going to slightly improve our results for

2020, because the net drag of having full interest expense and then the lease-up of the rental over, say, four months, six months, wouldn't have a net-net dragging effect. So, not material, but nonetheless a slight negative drag. So we would suggest that that reality will be in early 2021 and not late 2020.

Tal Woolley – Analyst, National Bank Financial

Okay. Perfect. Thanks very much.

Don Clow — President & Chief Executive Officer, Crombie REIT

Thank you.

Operator

Thank you. There are no further questions at this time. Please proceed.

Don Clow — President & Chief Executive Officer, Crombie REIT

Okay. Thank you very much for joining us, everybody, and we'll look forward to talking to you next quarter. Have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.