

## Press Release

for immediate distribution

# Melcor REIT announces 2016 annual results

Edmonton, Alberta | March 9, 2017

### Annual Highlights

- Rental Revenue of \$66.04 million for growth of 1% over 2015.
- Net rental income of \$40.27 million for growth of 1% over 2015.
- Adjusted funds from operations (AFFO) grew 3% to \$22.28 million or \$0.86 per unit.
- Debt to Gross Book Value (GBV) ratio of 50%, within our target range of 50%-55%. Debt to GBV ratio of 55% including convertible debenture, below maximum threshold of 65%.
- Distributions of \$0.675 per trust unit paid out (\$0.05625 per trust unit per month).
- Payout ratio trended downward to 78% compared to 80% in 2015.

### Quarterly Highlights

- Rental Revenue of \$16.17 million for a decline of (5)% over Q4-2015.
- Net rental income of \$9.68 million, for a decline of (5)% over Q4-2015.
- AFFO of \$5.30 million or \$0.21 per unit for a decline of (3)% over Q4-2015.
- Occupancy was stable at 92.4% compared to 93.6% at the end of 2015.

Melcor REIT (TSX: MR.UN) today announced results for the fourth quarter and year ended December 31, 2016. 2016 rental revenue grew 1% to \$66.04 million compared to \$65.48 million in 2015. Adjusted funds from operations grew 3% to \$22.28 million or \$0.86 per unit.

Darin Rayburn, CEO of Melcor REIT commented: "It is my privilege to report to you on our 2016 results. 2016 had its challenges, which our team met head on by understanding and responding to market demand, and through their ongoing commitment to delivering exceptional customer care. We achieved stable results in spite of the difficult market.

Since our IPO in 2013, we've grown our REIT significantly - by 67% in asset value, 68% in revenue and 77% in gross leasable area. We intend to continue to grow, but did not identify any acquisitions that we could execute at an attractive price in 2016.

We see the mood improving across the business community, and the outlook - especially in Edmonton - appears more buoyant than at the outset of 2016. However, we are not content to rest on our past performance. We continue to seek opportunities to improve all elements of our business - from maintenance programs to tenant interactions.

With our strong history, diverse portfolio, focus on property management and customer care, and our pipeline of high quality assets being developed by Melcor Developments Ltd., we remain well positioned for the future."

### Highlights for the year include:

The REIT's performance remained steady throughout 2016. The stability and diversity of the REIT's portfolio with respect to both tenant profile and asset class position the REIT well for managing through economic cycles. The REIT is focused on the real estate fundamentals of asset enhancement and property management while conservatively managing debt. At 78%, the REIT's payout ratio is a strong indicator of overall health and the REIT's ability to sustain distributions at current rates.

Highlights of 2016 include:

- Property acquisitions completed via the Melcor proprietary pipeline over the past 14 months coupled with densification activity on two existing properties led to revenue growth of 1% and AFFO growth of 3% over 2015.
- Leasing activity remains steady, with 256,945 sf in new and renewed leases (90% of expiring and early termination GLA) completed during the year. Occupancy remained above target at 92.4%. Step-ups on leases with escalating rents and a proportionate increase in revenue from higher rental rate retail assets led to a 2% increase in weighted average base rents over 2015.
- We achieved an on-time response rate in our signature care program of over 99% in 2016. In September, we completed a tenant survey at select Edmonton area office buildings. Respondents rated our property management team (94%) and building operations team (95%) as good, very good or excellent. We view these metrics as an important indication of our commitment to ongoing client care, which contributes to tenant satisfaction and ultimately retention.
- We renewed and re-financed \$45.48 million in mortgage and Class C LP debt at an average interest rate of 2.98%. Recent renewals and re-financings have resulted in a downward trend in our weighted average interest rate, which declined 17 basis points over December 31, 2015.
- We paid monthly distributions of \$0.05625 per trust unit during 2016 for an annual payout ratio of 78% (2015 - 80%).
- Our working capital position remains healthy and we continue to collect receivables in a timely manner. Funds available under our revolving credit facility at December 31, 2016 provide the REIT with the capacity to respond to market demands and investment opportunities while maintaining and sustaining operational and capital requirements.

### Financial Highlights

(\$000s)	Three-months ended December 31			Year ended December 31		
	2016	2015	△%	2016	2015	△%
<b>Non-Standard KPIs</b>						
Net operating income (NOI)	10,251	10,401	(1)%	42,329	41,313	2 %
Funds from operations (FFO)	6,306	6,629	(5)%	26,668	26,345	1 %
Adjusted funds from operations (AFFO)	5,297	5,434	(3)%	22,284	21,728	3 %
Rental revenue	16,170	16,963	(5)%	66,042	65,482	1 %
Income before fair value adjustments	3,374	3,481	(3)%	13,694	13,422	2 %
Fair value adjustment on investment properties	776	(2,315)	nm	(6,546)	(5,418)	nm
Distributions to unitholders	1,881	1,882	— %	7,527	7,582	(1)%
Cash flows from operations	3,078	3,842	(20)%	12,312	10,563	17 %
Same asset NOI	9,338	9,991	(7)%	38,980	39,696	(2)%
<b>Per unit metrics</b>						
Income (loss) - diluted	\$0.25	\$0.30	(17)%	(\$1.00)	\$0.71	(241)%
FFO	\$0.24	\$0.26	(6)%	\$1.03	\$1.02	1 %
AFFO	\$0.21	\$0.21	(2)%	\$0.86	\$0.84	3 %
Distributions	\$0.17	\$0.17	— %	\$0.68	\$0.68	— %
Payout ratio	80%	80%	— %	78%	80%	(3)%

	31-Dec-16	31-Dec-15	△%
Total assets (\$000s)	663,724	666,458	— %
Equity (\$000s) <sup>(1)</sup>	260,600	260,600	— %
Debt (\$000s) <sup>(2)</sup>	351,947	353,521	— %
Weighted average interest rate on debt	3.63%	3.80%	(4)%
Debt to GBV ratio <sup>(3)</sup>	55%	56%	(2)%
Finance costs coverage ratio <sup>(4)</sup>	2.88	2.87	— %
Debt service coverage ratio <sup>(5)</sup>	2.65	2.76	(4)%

### Operational Highlights

	31-Dec-16	31-Dec-15	△%
Number of properties	38	38	0 %
Gross leasable area (GLA) (sf)	2,775,782	2,768,750	— %
Occupancy (weighted by GLA)	92.4%	93.6%	(1)%
Retention (weighted by GLA)	71.0%	73.0%	(3)%
Weighted average remaining lease term (years)	4.85	5.27	(8)%
Weighted average base rent (per sf)	\$15.73	\$15.49	2 %

(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 and convertible debenture, excluding unamortized discount and transaction costs.

(3) Excluding convertible debentures, Debt to GBV ratio is 50% (December 31, 2015 - 50%).

(4) 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.

(5) 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.

### **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 Melcor REIT's 2016 consolidated financial statements and management's discussion and analysis, which can be found on the REIT's website at [www.MelcorREIT.ca](http://www.MelcorREIT.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **Conference Call & Webcast**

Unitholders and interested parties are invited to join CEO Darin Rayburn and CFO Naomi Stefura on a conference call to be held Friday, March 10, 2017 at 11:00 AM ET (9:00 AM MT). Call 416-340-2218 in the Toronto area; 800-273-9672 toll free.

The call will be webcast at <http://www.gowebcasting.com/8367>. A replay of the call will be available shortly after the call is concluded at the same address.

### **Annual General Meeting**

We invite unitholders to join us at Melcor REIT's annual meeting on April 26, 2017 at 10:00 am MT. The meeting will be held in the Devonian Room at the Westin Edmonton, 10135 100 Street NW. We look forward to seeing you there.

### **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 with exposure to high growth western Canadian markets. Its portfolio is currently made up of interests in 38 properties representing approximately 2.78 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit [www.MelcorREIT.ca](http://www.MelcorREIT.ca).

### **Non-standard Measures**

NOI, FFO and AFFO 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 more fully defined and discussed in the REIT's management discussion and analysis for the period ended December 31, 2016, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward-looking Statements:**

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

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