

Summit Industrial Income REIT Reports Continued Strong Performance in Third Quarter 2020

TORONTO, Nov. 9, 2020 /CNW/ - Summit Industrial Income REIT ("Summit II" or the "REIT") (TSX: SMU.UN) announced solid operating and financial performance for the three and nine months ended September 30, 2020.

Highlights:

- Revenues increased by 41.4% in the third quarter and 38.3% year-to-date on portfolio growth, high stable occupancies and rent increases.
- Occupancy remained strong at 98.7% compared to 98.8% at June 30, 2020 and 98.5% at December 31, 2019, with average lease term of 5.4 years and 1.7% annual contractual rent steps.
- Net rental income increased by 41.1% in the third quarter and 40.8% year-to-date on revenue increase, organic growth and strong operating performance.
- FFO¹ increased 47.2% to \$24.2 million (\$0.168 per Unit) in the third quarter and 44.2% to \$69.0 million (\$0.492 per Unit) year-to-date.
- Strong accretive growth with FFO per Unit¹ increasing 21.7% to \$0.168 per Unit in the third quarter, despite a 20.4% increase in Units outstanding. Year-to-date, FFO per Unit¹ increased 12.1% to \$0.492 per Unit despite 28.4% increase in Units outstanding.
- Same property NOI¹ increased 4.3% in the third quarter and 3.2% year-to-date with Other Ontario, Toronto, Montreal and Alberta each contributing 11.8%, 4.2%, 2.8% and 2.5%, respectively (2.0%, 4.2%, 2.8% and 1.2%, respectively, year-to-date).
- Acquired nine properties totalling 746,903 sq. ft. of gross leasable area ("GLA") for \$180.3 million, and sold two properties, including one non-core asset located in Edmonton for \$1.95 million, and the DC2 data centre project in the GTA for a realized gain of \$21.0 million (\$0.153 per Unit).
- Completed a \$172.5 million bought-deal equity offering on August 27, 2020, further enhancing the Trust's liquidity.
- Assigned provisional issuer rating from DBRS Limited of BBB (low) with a stable trend, and successfully completed an inaugural \$250.0 million senior unsecured debenture offering at a fixed rate of 2.15% on a 5-year term, 0.05% lower than the REIT's current average rate on floating debt.
- Completed one-year extension on remaining \$100.0 million non-revolving bridge credit facility to November 1, 2021 at same terms of original facility.
- Strong liquidity with approximately \$430.0 million available including cash, borrowing capacity on the revolving credit facility, and potential new debt financing that could be placed on a portion of the \$1.1 billion of fully unencumbered properties.
- Rent collection remained strong, with an average of 96.9% of rents collected during the quarter (99.3% including rent deferral agreements in place).
- Completed 1.8 million sq. ft. of 2020 renewals with a very strong 88.0% retention rate, generating a 19.2% increase in rents (26.8% in the GTA). Only 1.4% of the total portfolio remains to be renewed in 2020.
- Completed pre-leasing and obtained commitments for 100% of GLA at Guelph development project at higher than pro forma monthly rents.

¹ Non-GAAP measure. Refer to "Non-GAAP Measures" section in this press release for further information.

Subsequent Events:

- Acquired remaining 50% interest in a portfolio of 11 light industrial investment properties located in Montreal, Quebec from joint venture partner for \$88.0 million. Sold 50% interest in office building to joint venture partner for \$5.8 million. The REIT now internally manages 100% of its portfolio.
- Acquired 244,633 sq. ft. Class A single-tenant warehousing and logistics facility located in GTA for \$47.3 million.
- Entered into agreement to acquire remaining 50% interest in two recently constructed properties in Guelph, Ontario totalling 387,610 square feet from joint venture partner for \$33.9 million.
- Obtained \$30.5 million of 10-year mortgage financing at an average interest rate of 2.9%.

"We continue to perform well during the COVID-19 pandemic with solid increases in revenues, NOI and FFO, driven by our portfolio growth, high stable occupancies, increasing monthly rents and strong operating performance. We believe we are on track for another record year in 2020" commented Paul Dykeman, Chief Executive Officer. "Importantly, we continue to collect the majority of our monthly rents, with over 99% collected through the third quarter including our agreed-upon rent deferral programs and are well-positioned from an overall liquidity perspective."

PORTFOLIO GROWTH

During the nine months ended September 30, 2020, the REIT acquired nine light industrial properties, all well-located in the strong Greater Toronto Area market, adding approximately 747,000 square feet of gross leasable area to the portfolio for total costs of approximately \$180.3 million. At September 30, 2020, the REIT's portfolio totaled 153 properties aggregating 18.2 million square feet with a net book value of approximately \$2.7 billion. With operations returning to near pre-COVID-19 pandemic levels, the REIT has returned its focus to growth activities, including acquisitions and development projects.

GROWTH AND STRONG OPERATING PERFORMANCE GENERATE SOLID RESULTS

Revenue from income producing properties for the three and nine months ended September 30, 2020 rose 41.4% and 38.3%, respectively, due primarily to acquisitions completed over the prior twelve months, continuing strong occupancies and increased rents.

For properties acquired prior to January 1, 2019 and owned during both nine-month periods, same property NOI¹ rose 3.2% for the nine months ended September 30, 2020 compared to the prior year. In the REIT's target markets of Toronto and Montreal, same property NOI¹ for the nine months ended September 30, 2020 rose 4.2% and 2.8%, respectively, compared to the same prior year period, while the Alberta portfolio contributed 1.2% to same property NOI¹ growth. Same property NOI¹ represented approximately 64.3% of total NOI¹ and 72.3% of total GLA for the nine months ended September 30, 2020.

Net rental income for the three and nine months ended September 30, 2020 increased 41.1% and 40.8%, respectively, compared to the same prior year periods due to the increase in same property NOI¹, higher overall rental rates on leasing activities, contractual steps in rent, and accretive acquisitions. Net rental income for the nine months ended September 30, 2020 was negatively impacted by provisions for tenant receivables of approximately \$1.7 million, including approximately \$0.5 million representing the 25% rent reduction required for certain tenants approved for the government-operated Canadian Emergency Commercial Rent Assistance ("CECRA") program.

For the three months ended September 30, 2020, FFO¹ was \$24.2 million (\$0.168 per Unit) up 47.2% from the same prior year period. For the nine months ended September 30, 2020, FFO¹ was \$69.0 million (\$0.492 per Unit) up 44.2% from the same prior year period. The increase in FFO¹ was due primarily to acquisitions completed over the prior twelve months and strong operating performance, partially offset by the sale of the REIT's 50% interest in a data centre property in September 2019.

The REIT's FFO payout ratio¹ for the nine months ended September 30, 2020 was a conservative 82.2% (67.1% including the benefit of the REIT's DRIP program) compared to 90.5% (80.2% including the benefit of the REIT's DRIP program) in the same prior year period.

PROACTIVE LEASING PROGRAM

Occupancy in the REIT's portfolio was 98.7% at September 30, 2020 with a weighted average lease term of approximately 5.4 years. The REIT continues to be proactive in addressing lease expiries well in advance.

The REIT completed 1.8 million square feet of 2020 lease renewals to date with a strong retention rate of 88.0%. Overall, 2020 renewals generated an average increase in monthly rents of 19.2% over the expiring rent with a significant 26.8% increase over expiring rents in the REIT's GTA target market. The REIT also completed leasing of 348,675 square feet of vacant space with an average lease term of 6.4 years. At September 30, 2020, only 1.4% of the portfolio remains to be renewed in 2020. In addition, the REIT pre-leased 213,330 square feet of space at its Guelph development project commencing November 15, 2020 on a ten-year term at higher than pro-forma monthly rent.

SOLID BALANCE SHEET AND LIQUIDITY POSITION

Total assets increased to \$2.8 billion at September 30, 2020, up from \$2.6 billion as at December 31, 2019 due to the acquisition of nine properties. Total debt was \$1.1 billion at September 30, 2020 consistent with December 31, 2019 levels.

On March 23, 2020, the REIT secured a new \$300.0 million unsecured revolving credit facility which matures March 23, 2023. At September 30, 2020, \$60.2 million of the available \$300.0 million was drawn from the unsecured facility, which was used to fund acquisitions in 2020, as well as to repay \$43.6 million in maturing secured mortgage debt and \$32.2 million on the non-revolving bridge credit facility.

On June 30, 2020, the REIT completed an up-financing of an assumed mortgage on a Guelph property. The new \$40.0 million mortgage replaced the assumed mortgage of \$21.0 million at a blended average interest rate of 3.45% (interest rate of 3.05% on the new debt) for an 8-year term (increase from 1.75-year term). The mortgage proceeds were used to pay down a portion of the unsecured revolving credit facility.

On August 27, 2020, the REIT completed a successful bought deal offering of 14,375,000 Trust Units at a price of \$12.00 per unit for total gross proceeds of approximately \$172.5 million, including proceeds from the full exercise of the over-allotment option.

In September 2020, the REIT was assigned an issuer rating from DBRS Limited of BBB (low) with a stable trend. On September 17, 2020, the REIT successfully completed an inaugural offering of \$250.0 million in 5-year senior unsecured debentures at a fixed annual rate of 2.15%, payable semi-annually in arrears. The proceeds were used to pay down a portion of the non-revolving bridge credit facility.

At September 30, 2020, the REIT's debt leverage ratio¹ was 39.8% compared to 37.8% at September 30, 2019. The weighted average effective interest rate on the REIT's mortgage portfolio was 3.64% at September 30, 2020 compared to 3.69% at September 30, 2019. Debt service and interest coverage ratios¹ were 2.11 times and 3.09 times, respectively, for the nine months ended September 30, 2020, an increase from 1.77 times and 2.81 times respectively, for the same prior year period.

STRONG AND STABLE RENT COLLECTION

The REIT collected approximately 96.9% of rents during the third quarter (99.3% including rent deferral agreements in place). Since the onset of the COVID-19 pandemic, the REIT has collected approximately 94.6% of rents (98.5% including rent deferral agreements).

SUBSEQUENT EVENTS

On October 9, 2020, the REIT acquired the remaining 50% interest in a portfolio of 11 light industrial properties from its joint venture partner, Groupe Montoni, for a total purchase price of \$88.0 million. The acquisition was financed by the assumption of \$31.8 million of mortgage debt bearing an average interest rate of 3.38% and with an average term to maturity of 4.6 years, and cash from the REIT's unsecured revolving credit facility. In conjunction with the acquisition, the REIT sold its 50% interest in a 22,023 square foot office building located in Boisbriand, Quebec for cash proceeds of approximately \$5.8 million. As a result of the completion of this transaction, the Trust now internally manages 100% of its investment property portfolio.

On October 13, 2020, the REIT acquired an undivided interest in a 244,633 square foot Class A single-tenant warehousing and logistics facility located at 123 Great Gulf Drive in Vaughan, Ontario for a purchase price of \$47.3 million. The acquisition was financed with cash from the REIT's unsecured revolving credit facility.

On November 9, 2020, the REIT entered into an agreement to acquire the remaining 50% interest in two recently constructed properties in the Hanlon Creek Business Park in Guelph, Ontario totalling 387,610 square feet of leasable area from the REIT's joint venture partner, Cooper Construction Limited, for a purchase price of \$33.9 million, providing the REIT with a projected consolidated capitalization rate¹ of 5.6% on this development. The acquisition will be financed with cash from the REIT's unsecured revolving credit facility and assumed debt on the acquired properties.

In October 2020, the REIT obtained \$30.5 million of new 10-year secured mortgage financing placed on four of the REIT's unencumbered investment properties at an average rate of 2.9%. Proceeds from the new mortgage financing were used to repay a portion of the REIT's unsecured revolving credit facility.

INVESTOR CONFERENCE CALL

A conference call will be hosted by Summit II's management team on Tuesday, November 10, 2020 at 8.30 am EST. The telephone numbers to participate in the conference call are **North America Toll Free: (833) 714-0924** and **International: (778) 560-2693**. Please use the access code **4598606#** when requested.

A slide presentation to accompany management's comments during the conference call will be available prior to the conference call. To view the slides, access the Summit II website at www.summitiireit.com and follow the link on the page. The live call will also be available as a webcast. To access the audio webcast please access the link on the website at www.summitiireit.com.

FINANCIAL AND OPERATING HIGHLIGHTS

(in \$ thousands, except per Unit amounts)	Three months ended September 30		Nine months ended September 30	
	2020 ⁽⁴⁾	2019	2020 ⁽⁴⁾	2019
Portfolio Performance				
Industrial occupancy (%) ⁽³⁾	98.7%	99.5%	98.7%	99.5%
Revenue from investment properties	\$ 46,821	\$ 33,103	\$ 139,654	\$ 100,964
Property operating expenses	12,016	8,440	36,405	27,609
Net rental income	34,805	24,663	103,249	73,355
Interest expense (finance costs)	9,804	8,276	31,716	26,185
Net income ⁽⁶⁾	43,136	108,449	110,916	81,249
Operating Performance				
FFO ⁽¹⁾	24,246	16,470	68,954	47,827
Net income per Unit - basic ⁽²⁾	0.300	0.907	0.792	0.745
FFO per Unit ⁽¹⁾⁽²⁾	0.168	0.138	0.492	0.439
Regular Distributions per Unit declared to Unitholders ⁽²⁾	0.135	0.135	0.405	0.397

Special Distributions per Unit declared to Unitholders ⁽⁷⁾	-	0.070	-	0.070
Total Distributions per Unit declared to Unitholders ⁽²⁾	0.135	0.205	0.405	0.467
Regular FFO payout ratio without DRIP benefit ⁽¹⁾	80.2%	98.0%	82.2%	90.5%
Regular FFO payout ratio with DRIP benefit ⁽¹⁾	64.7%	90.4%	67.1%	80.2%
FFO including net realized gain (loss) ⁽¹⁾⁽⁵⁾	23,756	57,948	89,510	89,350
FFO per Unit including net realized gain (loss) ⁽¹⁾⁽⁵⁾	0.165	0.485	0.639	0.819
FFO including net realized gain (loss) payout ratio without DRIP benefit ⁽¹⁾⁽⁵⁾	81.8%	20.5%	63.4%	57.0%
FFO including net realized gain (loss) payout ratio with DRIP benefit ⁽¹⁾⁽⁵⁾	66.1%	42.3%	51.7%	43.0%
Weighted average Units outstanding ⁽²⁾	143,962	119,594	140,017	109,049
Liquidity and Leverage				
Total assets	2,846,900	1,947,008	2,846,900	1,947,008
Total debt (loans and borrowings and lease liability)	1,134,068	735,130	1,134,068	735,130
Weighted average effective mortgage interest rate	3.64%	3.69%	3.64%	3.69%
Weighted average mortgage term (years)	5.51	5.98	5.51	5.98
Leverage ratio ⁽¹⁾	39.8%	37.8%	39.8%	37.8%
Interest coverage (times) ⁽¹⁾	3.37	2.95	3.09	2.81
Debt service coverage (times) ⁽¹⁾	2.26	1.79	2.11	1.77
Debt-to-adjusted EBITDA (times) ⁽¹⁾	8.35	7.55	8.48	7.63
Other				
Properties acquired	-	2	9	3
Non-core properties disposed	1	1	1	1
Number of properties ⁽³⁾	153	110	153	110
Total GLA (in thousands of square feet) ⁽³⁾	18,207	14,068	18,207	14,068

(1) Non-GAAP measure. Refer to "Section II - Key Performance Indicators - Financial Indicators" of the MD&A for further information (including definitions and measures).

(2) Includes REIT Units and Class B exchangeable units (collectively, the "Units").

(3) Excludes the non-core properties held for sale at September 30, 2020, as disclosed in the "Investment Properties Held for Sale" section of this MD&A.

(4) Financial metrics include the non-core properties held for sale, as disclosed in the "Investment Properties Held for Sale" section of this MD&A.

(5) The realized gain on sale of investment property is calculated as net proceeds on sale less the actual costs incurred to initially acquire the property and any capital and leasing cost incurred since ownership.

(6) 2019 results include non-recurring costs of \$96.5 million associated with the property and asset management internalization on May 17, 2019.

(7) 2019 results include a special distribution of \$0.070 per Unit payable to shareholders of record on September 19, 2020 as a result of the sale of the 50% interest in the data centre property and repayment of mezzanine loans.

Summit II's Condensed Consolidated Interim Financial Statements and MD&A for the three and nine months ended September 30, 2020 are available on the REIT's website at www.summitireit.com.

About Summit II

Summit Industrial Income REIT is an unincorporated open-end REIT focused on growing and managing a portfolio of light industrial and other properties across Canada. Summit II's units are listed on the TSX and trade under the symbol SMU.UN. For more information, please visit our website at www.summitireit.com.

Non-GAAP Measures

The REIT prepares and releases condensed consolidated interim financial statements prepared in accordance with IFRS (GAAP). In this release, the REIT discloses and discusses certain non-GAAP financial measures, including FFO, FFO per Unit, FFO payout ratio, NOI, interest coverage ratio, debt service coverage ratio and capitalization rate. The non-GAAP measures are further defined and discussed in the MD&A for the three and nine months ended September 30, 2020 and filed on SEDAR, which should be read in conjunction with this release. Since these measures are not determined by IFRS, such measures may not be comparable to similar measures reported by other issuers. The REIT has presented such non-GAAP measures as management believes the measures are a relevant measure of the ability of the REIT to earn and distribute cash returns to Unitholders and to evaluate the REIT's performance. These non-GAAP measures should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with GAAP as an indicator of the REIT's performance. Please refer to "Section II – Key Performance Indicators – Financial Indicators" in the REIT's MD&A for the three and nine months ended September 30, 2020.

Caution Regarding Forward Looking Information

This news release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "goal" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, this news release contains forward looking statements and information concerning Summit II's belief that it is on track for another record year in 2020, Summit II's returned focus to growth activities and Summit II's proactive approach to addressing lease expiries. The forward-looking statements and information are based on certain key expectations and assumptions made by Summit II, including general economic conditions. Although Summit II believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because Summit II can give no assurance that they will prove to be correct. By its nature, such forward-looking information is subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed, and given the impact of COVID-19 and government measures to contain it, there is inherently more uncertainty associated with Summit II's assumptions as compared to prior periods. These risks and uncertainties include, but are not limited to risks related to: tenant risks, current economic environment, environmental matters, general insured and uninsured risks, COVID-19, and Summit II being unable to obtain any required financing and approvals. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof, and to not use such forward-looking information for anything other than its intended purpose. Summit II undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

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