



Final Transcript

Crombie Real Estate Investment Trust

Second Quarter 2024 Earnings 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 Empire 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 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 "development" 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) Set 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 2024 and 2025, 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 quarter ended June 30, 2024 and those discussed under "risk factors" in Crombie's most recent Annual Information Form (available at www.sedarplus.ca) 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.

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Operator

Good day, everyone, and welcome to Crombie REIT's second quarter 2024 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 August 8, 2024.

I would now like to turn the conference over to Ruth Martin. Please go ahead.

Ruth Martin — Senior Director, Investor Relations & Financial Analysis, Crombie REIT

Thank you. Good day, everyone, and welcome to Crombie REIT's second quarter 2024 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.crombie.ca. Slides to accompany today's call are available on the investor section of our website under Presentations and Events.

On the call today are Mark Holly, President and Chief Executive Officer; Kara Cameron, Chief Financial Officer; and Arie Bitton, Executive Vice President, Leasing and Operations.

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 management's discussion and analysis and annual information form, for a discussion of these risk factors. The discussion will also include expected yield on cost for capital expenditures. Please refer to the development section of our management's discussion and analysis for additional information on assumptions and risks.

I will now turn the call over to Mark, who will begin our discussion with comments on Crombie's strategy and outlook. Kara will review Crombie's operating fundamentals, discuss our financial results, capital allocation, and approach to funding, and Mark will conclude with a few final remarks.

Over to you, Mark.

Mark Holly — President & Chief Executive Officer

Thank you, Ruth. Good day, everyone, and thanks for joining us for our second quarter conference call.

Crombie's performance in the first half of 2024 continues to demonstrate the resilience of our coast-to-coast necessity-based portfolio and the proficiency of our operating teams. It also highlights our steady progress against initiatives designed to enhance financial strength and flexibility while delivering growth and value for our unitholders. I'm very proud of our team's efforts, both operationally and financially in the second quarter, which resulted in high occupancy, same-asset property cash NOI growth of 3.4%, and a 6.7% increase in normalized FFO per unit. Our leasing team successfully negotiated renewal spreads of 9.6% on 293,000 square feet of GLA during the quarter. We anticipate healthy renewal spreads to continue, underpinned by our strong fundamentals with an outlook of achieving mid- to high-single-digit renewals. Crombie's resilience and performance is rooted in our unwavering commitment to operational excellence, its financial condition and flexibility, and prudent capital allocation. We maintained a strong and flexible balance sheet, ending the quarter with ample liquidity, debt-to-EBITDA of 7.6x, and leverage ratios well within our target ranges.

Stepping back for a moment to look at the overall environment, the macro backdrop, while showing signs of clarity and stability, is still challenging, but Crombie continues to be well positioned to

deliver cash flow growth consistently and our overall outlook remains positive. With the structural tailwinds of high immigration levels, a current shortage of quality retail space, and limited new supply, demand for our necessity-based properties is strong and should continue to drive sustainable growth into the future. Today I will focus my remarks on three primary value creation drivers that enable us to consistently achieve solid results: our operational excellence, the optimization of our assets, and our partnerships.

Owning a portfolio of highly desirable assets in the heart of vibrant towns, expanding cities, and major urban centers is critical to our ability to deliver reliable cash flows and growth for our unitholders. Our portfolio is strategically allocated to high-quality grocery-anchored retail-related industrial and mixed-use residential properties. These are some of the most desirable asset classes in the Canadian market, which positions us well for both short-term stability and long-term growth.

Our in-place annual minimum rent per square foot was \$17.93 at the end of the second quarter, approximately 4%, equivalent to \$0.65 per square foot, higher than 12 months ago. The increase is supported by diligent leasing efforts, contractual rent step-ups, and further demonstrates our ability to extract value through unique strategic initiatives such as our modernization program while maintaining a strong weighted average lease term of 8.6 years. At the end of the second quarter, 89,000 square feet of GLA was committed at an average first year rate of \$21.34 per square foot, 19% above our in-place portfolio rent per square foot. This includes one non-major development project in Burlington, Ontario, where we re-purposed existing vacant space within our portfolio to become the home of a new Farm Boy grocery store which is expected to open in our third quarter.

While acquisition investment activity is still fairly muted, with limited opportunities to acquire quality grocery-anchored assets in Canada, our team successfully sourced, negotiated, and acquired a

48,000 square foot retail property from a third party for a total purchase price of approximately \$9.9 million during the quarter. This asset is anchored by Empire's FreshCo banner located in the heart of Powell River British Columbia, serving the community needs and aligning well with our grocery-anchored asset base. This site also has opportunity for future intensification, which will allow us to drive additional value at this property through our non-major development program.

Next, I'll focus on portfolio optimization, which is an important program to drive AFFO and NAV growth. We are focused on reinvesting within our portfolio and identifying the most effective uses of our assets to maximize returns and strategically allocate capital. Our development program is split into two categories of major development and non-major development. Our existing portfolio has approximately 10.5 million square feet of potential major development density spanning coast to coast, providing a pathway for Crombie to unlock embedded value and drive responsible growth via self-development, joint venture partnerships or, from time to time, monetizing entitlement value through dispositions.

In the second quarter we closed the sale of our Broadview site in Toronto to a private developer. Crombie received total proceeds of \$13 million for its 50% stake in the property. The purchase price was significantly above IFRS fair value, further reflecting the quality and attractiveness of our portfolio. Our one active major development project, The Marlstone in Halifax, will introduce 291 residential units to our expanding portfolio and will be a welcome addition to one of Canada's fastest-growing cities. We remain on track, recently completing the sixth level of the residential structure with substantial completion expected in the first half of 2026.

Our non-major development program, which encompasses shorter-duration projects, remains a high priority, especially in this economic environment. The current project pool has an anticipated yield on cost between 5.5% and 10.7% and they are a great way to enhance and strengthen the value of our

portfolio. There is currently 54,000 square feet of GLA under construction, which will be added to our portfolio over the course of 2024 and 2025. Although we did not add incremental GLA from non-major development activities to our portfolio in the second quarter, we were still very active, investing \$24.9 million at 77 properties in modernizations with Empire, which will positively impact our NOI for 2024 and beyond.

Turning to partnerships and the critical role they play in our strategy, the largest of these is our mutually beneficial partnership with Empire. This is highlighted within the quarter as the Alberta warehouse entered economic occupancy, investments in our modernization program, and income earned from our development expertise. Last year, Crombie began providing development and construction management expertise and in the second quarter of 2024 revenue from these services contributed \$2.1 million. Revenue will ebb and flow each quarter as we continue to work to streamline this synergistic partnership. In addition to the tremendous relationship we have with Empire, expanding our partnerships is a focus for Crombie to enable us to unlock the value in our extensive development pipeline while maintaining our top-quality balance sheet. Collaborating with the right partners enables us to strategically develop properties while maintaining a disciplined focus on capital allocation and maximizing returns for our unitholders.

I want to take a moment to highlight the great work the team has done in advancing our ESG commitments and further embedding ESG priorities into our strategy, culture, and values. I'm proud of the accomplishments to date. In June we released our 2023 ESG report, which highlighted our environmental, social, and governance achievements year. 2023 was a meaningful year for Crombie where we made significant progress tracking, measuring, and reducing our greenhouse gas emissions through our climate action plan. Our team volunteered thousands of hours to community organizations

across the country and we introduced a community impact strategy to maximize our contributions to the communities we serve.

Before handing the call over to Kara, I want to congratulate her on being appointed Chief Financial Officer. Since joining Crombie in 2019, Kara has been an integral part of our financial leadership team, known for her strategic thinking and commitment to our financial strength. I look forward to continuing our collaboration to further advance Crombie's strategy.

I will now hand the call over to Kara, who will highlight our operational results and discuss our financial results, the cornerstone of our solid foundation, our balance sheet.

Kara Cameron — Chief Financial Officer

Thank you very much, Mark, and hello, everyone.

We are pleased with our operational and financial performance in the quarter. Our strategic focus remains on value creation, prioritizing our solid financial position and prudent approach to capital allocation while advancing key initiatives.

Strong leasing activity over the last 12 months, including new leases and renewals as well as contractual step-ups, propelled same-asset property cash NOI growth to 3.4%, equivalent to an increase of \$2.6 million compared to the second quarter of 2023. Looking ahead, we still expect to achieve annual same-asset property cash NOI growth in the 2% to 3% range for 2024, consistent with the targets we have previously communicated.

New leases on a year-to-date basis increased occupancy by 122,000 square feet at an average first year rate of \$25.61, boosting our in-place rent per square foot. Noteworthy new leases in the quarter include five primarily necessity-based tenant expansions totaling approximately 10,000 square feet as well

as our co-owned industrial facility, Alberta Central Kitchen Commissary, which moved into economic occupancy and commenced paying rent in June. As Mark previously mentioned, 293,000 square feet was renewed in the second quarter at a 9.6% increase for year one over expiring rental rates with healthy contribution from each market class. The team puts an emphasis on achieving rental growth throughout the duration of the lease, securing an 11.8% increase when comparing the expiring rental rate to the weighted average rental rate for the renewal term. It is this commitment to operational excellence that has led to our high occupancy, ending the quarter with committed and economic occupancy of 96.4% and 95.9%, respectively. While occupancy is in line with the second quarter of 2023, we saw a 20 basis point improvement in both committed and economic occupancy from the first quarter of 2024.

Normalized for employee transition costs incurred in the second quarter of both 2023 and 2024, AFFO and FFO per unit increased 7.7% and 6.7%, respectively. The improvement in normalized AFFO and FFO per unit was primarily a result of our persistent focus on our primary value drivers. Our commitment to operational excellence and optimizing our assets led to higher property revenue from leasing activity and completed developments. Leveraging partnerships also contributed to higher revenue as well as increased income from equity accounted investments, largely due to the positive leasing momentum over the last 12 months at The Village at Bronte Harbour. This was partially offset by higher interest expense. We take a proactive approach to balance sheet management to minimize the impact of the current high interest rate environment through constant monitoring of the market and our weighted average term to maturity. Our normalized AFFO payout ratio was 79.4% while our normalized FFO payout ratio was 69.1%, both improving from Q2 of 2023.

General and administrative expenses were \$5.4 million in the quarter, or \$4.7 million excluding employee transition costs. Adjusting for employee transition costs in the second quarter of 2024 and

2023, general and administrative expenses as a percent of property revenue were 4% and 4.3%, respectively. We proactively manage these costs and have been able to derive a new revenue stream without adding incremental expense.

Now turning to our balance sheet, our strong financial condition is marked by our steadfast focus on leverage, liquidity, and a well-structured maturity ladder to ensure we have access to multiple capital sources to support our growth and operational strategies. We ended the quarter with available liquidity of \$707 million and our unencumbered asset pool increased from \$2.6 billion at Q4 2023 to \$2.7 billion in the second quarter of 2024. Debt to gross fair value was 42.6%, down 40 basis points compared to Q4 of 2023, and our debt to trailing 12-month adjusted EBITDA was 7.68x, an improvement from 8.03x at December 31, 2023.

Crombie remains committed to our goal of achieving an upgrade to BBB (mid) from the current BBB (low) for Morningstar DBRS. We are pleased to have received the trend change to positive, previously stable, a reflection of the team's hard work and dedication. Morningstar DBRS cited the update reflects our strong operating results underpinned by our grocery-anchored properties and our continued momentum in the stabilization of our recently completed major developments.

An important component of our financial strength is maintaining well laddered debt maturities. For the remainder of 2024 we have \$101 million of debt maturing and in early 2025 we have a \$175 million unsecured note coming due. Of the remaining 2024 debt maturities, we will look to move approximately \$90 million from secured to unsecured debt. We plan to maintain ample liquidity with access to multiple sources of capital and we'll continue to monitor the market for the best opportunities to refinance our maturing debt.

An important milestone was reached at The Marlstone subsequent to the quarter. We signed a commitment letter to secure CMHC financing for \$105 million through the MLI Select program. During the construction phase, the loan will be at a floating rate and upon completion of the project we will convert to term financing. We anticipate closing on this financing and receiving the first advance in the third quarter.

To conclude, we are well positioned to continue to reach our financial goals and proactively pursue the right opportunities at the right time. With that, I will now turn the call over to Mark for a few closing comments.

Mark Holly — President & Chief Executive Officer

Thank you, Kara.

To conclude, our strong performance in the second quarter underscores our commitment to delivering consistent results and advancing key strategic initiatives while allocating capital responsibly. Looking ahead, we remain dedicated to providing attractive returns and sustainable growth for our unitholders. And with that, we are pleased to answer any questions you may have.

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please press star one. To withdraw your question, press star two. One moment please for your first question.

Your first question comes from Lorne Kalmar from Desjardins. Please go ahead.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Thanks. Good afternoon, everybody, and, Kara, congratulations on the appointment of CFO.

Kara Cameron — Chief Financial Officer

Thanks, Lorne.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Did I hear correctly that you guys are maintaining the 2% to 3% same-property NOI guidance?

Mark Holly — President & Chief Executive Officer

Yeah, that's correct, Lorne. So, when you look at how we've been performing over the last number of quarters and where we ended last year, we were at the 3% range. We had a really good quarter this quarter, but we're lapping some fairly strong numbers from last year, so at this point we're maintaining our targets in that 2% to 3% range.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay. Is there anything you're seeing right now that gives you reason to believe that, you know, other than maybe, I think, a tougher comp in Q4, that you would be able to maintain the current trajectory at least in Q3? Because I believe if I look at Q3 of last year it was relatively similar to the same-property NOI growth for the first couple quarters.

Mark Holly — President & Chief Executive Officer

Yeah. And if you looked at Q4, to your point, we were on the higher end that kind of [inaudible] the year. So we're going to be comping a little bit in the back half. But there's nothing that we're kind of looking at in the business that gives us any concerns. You've seen sort of the great work that the leasing ops team has done on renewal growth and new leases and how we're driving value within the business.

So at this point there's nothing that we're looking at that gives us some pause, but we're just maintaining that outlook at this point.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay. Fair enough. And then on the development fees, obviously a pretty stellar quarter there; can you maybe give us an idea of how you expect the balance of the year to evolve in terms of the fees and maybe an outlook for 2025 well or some rough guidance?

Mark Holly — President & Chief Executive Officer

Yeah, we had a terrific quarter, \$2.1 million. Really, what we're trying to do, and we've talked about this for a few quarters, is trying to streamline that part of the business, and at this point it's really based on deal structure and timing of recognition. And we're trying to smooth that out and so that we can clip it along at a consistent level quarter over quarter based on status of project completions. For the balance of the year, I would look to probably Q1 as a bit of a proxy to how you can model out the back half of the year. And for 2025 and beyond, I think where we landed the year in 2023 at \$3.4 million is a fairly reasonable number, but as we've talked about, this is a very early program that we're sort of leaning into. The team is doing a good job, but it's early days.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay. Fair enough. And then just last one for me. I believe you talked about there's something like 300 banners in the anchor space right now. Has that changed at all? I know there have been some softer retail earnings. Just wondering if you're seeing any change there.

Mark Holly — President & Chief Executive Officer

Yeah, we've talked about just the healthiness of the retail portfolio. Arie, who's with us today, can certainly give a lot of colour on all the great work this team is doing in that class. But yes, there's been a lot of great groups looking to grow their portfolios.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay. So, no real change.

Arie Bitton — Executive Vice President, Leasing & Operations

No, we're seeing a lot of interest in our open-air grocery-anchored portfolio, so a lot of QSR, a lot of value retailers, and they're really coming to us because of the footfall that we're seeing out of our grocery anchors at those properties. So, a lot more tenants are gravitating towards that asset class, so we remain really optimistic about the growth profile we have in that asset class.

Lorne Kalmar — Analyst, Desjardins Capital Markets

Okay. Fantastic. Thank you, everybody, for the colour. I will turn it back.

Mark Holly — President & Chief Executive Officer

Thanks, Lorne.

Operator

Your next question comes from Mike Markidis from BMO Capital Markets. Please go ahead.

Mike Markidis — Analyst, BMO Capital Markets

Thanks, operator. Kara, congratulations on the permanent appointment. Well done on that front.

Kara Cameron — Chief Financial Officer

Thank you very much.

Mike Markidis — Analyst, BMO Capital Markets

Can you just remind me, I know there are advantages to MLI Select, and obviously it's great to get CMHC financing, but what the particular advantages are with this particular loan from a rate or LTV perspective and if there are any gives on your part in order to receive that rate?

Kara Cameron — Chief Financial Officer

Yeah, so I think that there are quite a few advantages on the rate side of things with the CHMC insured and the MLI Select really does have some advantages, especially for our Marlstone, which is really, I think, doing well on the accessibility. We've talked about it being Rick Hansen Certified upon completion and so that really helps us out in and getting favourable rates. We ended up about middle tier in that MLI Select program. And so yeah, during construction we are looking at having a floating rate until the end instruction, and that's going to be about 160 basis points above our lender's cost of debt, and that lender's cost of debt will loosely follow the overnight rate for us, and so the MLI Select program has benefits when we look at affordability, accessibility, as well as climate compatibility, and we did very well on the accessibility as well as the climate compatibility.

Mike Markidis — Analyst, BMO Capital Markets

Okay. Wonderful. And then when you go to fix that out when it converts to a fixed rate, what's the spread? Is there any advantage there? Just trying to get a sense.

Kara Cameron — Chief Financial Officer

Yeah, there will be an advantage there as well. Hopefully more to come on that. When we come out of the construction phase and go to fixed, we'll be able to give a bit more colour on what that looks like. We're just not giving guidance on that right at the moment.

Mike Markidis — Analyst, BMO Capital Markets

Fair enough. Okay. So the existing business is doing well, maybe the rate environment is getting a little bit better. Mark, I know that when you sort of in your, I guess it was early days in your tenure, but in your initial stages of your tenure you wanted to be very cautious in terms of the amount of capital that you wanted to put out into development at one period of time versus maybe where Crombie has been in the past. But I guess from a step change perspective, just with programs announced such as MLI Select or any of the other incentives that are out there to try and spur construction and maybe an improving outlook on the rate side, does that make you want to get maybe a little bit more aggressive in terms of putting capital into the ground?

Mark Holly — President & Chief Executive Officer

What we've typically given guidance around is, you know, we have envelope of about \$250 million. Last year we spent on the lower side of what we had historically would have spent. We spent around \$180 million. And how we spent the money, to your point, was different than historically. We put a lot of investments in the non-major development category because we had a bit more certainty around timing in and timing out, cost, and they had very attractive returns. And so when you look at 2024, we're still leaning into non-major developments. We're still in that range between \$100 million and \$250 million of capital being spent. And when you look at sort of the split between major development and non-major for the year, it will be slanted towards non-major. And then looking ahead, we're very focused on entitlement work and we continue to invest in that and when we get a little bit more clarity and certainty

around the market we have a number of projects that are in our near-term pipeline that we'll be able to make some decisions against, whether it be self-develop or joint ventures or to monetize, we'll start to make decisions around that in probably the next 12 months or so.

Mike Markidis — Analyst, BMO Capital Markets

Okay. That's great. Last one for me before I turn it back. I guess in your intro comments you talked about your third pillar, which is your partnerships, and I think you said you wanted to grow your partnerships. So maybe just on that topic, when you say you want to grow, is that, ah, obviously Empire is a given, I guess it's the other partners that you have, is that to grow with the existing partners or to potentially expand on new? And if the latter, is there anything that's sort of somewhat near term on that front?

Mark Holly — President & Chief Executive Officer

Definitely for Empire. You're absolutely right. That's a given. We will continue to grow as it works for us as we did with the Alberta Commissary Kitchen warehouse and built that. We did the Burlington Farm Boy. We're leaning into modernizations, development revenue services. There's a lot of great work and synergies between that and we want to continue to grow that.

When you look to our development pipeline on the major side, yeah, we're going to have to action some of that through joint ventures if we're actioning it. We did Marlstone on our own. But it is a very significant pipeline and if we want to get at it effectively and efficiently without compromising the balance sheet we're going to have to look at what partnerships may look like. So definitely something we're exploring.

Mike Markidis — Analyst, BMO Capital Markets

Okay. And is the growth outside of Empire with existing or would that be exploring new? Or is it a bit of both?

Mark Holly — President & Chief Executive Officer

Both.

Mike Markidis — Analyst, BMO Capital Markets

Wonderful. Thanks so much. I'll turn it back.

Operator

Your next question comes from Brad Sturges from Raymond James. Please go ahead.

Brad Sturges — Analyst, Raymond James

Hey there. Just go back quickly on the MLI Select loan, what would be the timing of—I guess it's going to be a staggered draw, but what would be the timing of being fully deployed on that loan?

Kara Cameron — Chief Financial Officer

We're looking at early 2026.

Brad Sturges — Analyst, Raymond James

Okay. So I guess it'll match the spend of the project, so by the time you get closer to the completion, that's when you'd be fully drawn?

Kara Cameron — Chief Financial Officer

Correct.

Brad Sturges — Analyst, Raymond James

Got it. Maybe switching gears, just on the leasing spreads, obviously it's been quite healthy this year. With the reported numbers I think around 10%, would those include fixed rate options? And if they do, what would be the leasing spreads for those leases without or the non-option renewals?

Arie Bitton — Executive Vice President, Leasing & Operations

Hi, Brad. So they do include fixed rate renewals within that. We don't break that out separately. What I would say is that this was a fairly typical quarter and composition of our renewals. And to your point, we're in the range of around 10% year to date and we're comfortable that we're on a glide path towards that mid to high single digits for the end of the year.

Brad Sturges — Analyst, Raymond James

I guess what I'm trying to get at, trying to understand what the incremental mark to market could be beyond the spreads you're disclosing. Obviously that will be consistent, I guess, in future quarters that you'll have that sort of mix between options and non-options, but I'm curious to know how much incremental mark to market there could be, particularly for those with the non-option rules.

Arie Bitton — Executive Vice President, Leasing & Operations

It's a bit of a mixed bag on some of those fixed rate options. Some of them are coming off of a very low rate, so the percentage could be high. But again, it's a little bit all over the map, Brad.

Brad Sturges — Analyst, Raymond James

Okay. And just last question on the capital investment deployment strategy. Obviously, as you said, you've been focused a little bit more on the non-major development and progressing some of the

entitlement on major development. How do you think about the pipeline or the opportunity just from like a tuck-in acquisition perspective? You did the one deal this quarter, but the transaction market has been kind of muted, so how do you think about that at least in the next few quarters?

Mark Holly — President & Chief Executive Officer

Yeah, in terms of our acquisition, you broke up just there at the end, you're speaking about acquisitions in the market?

Brad Sturges — Analyst, Raymond James

Yep. Yeah, just the tuck-in acquisitions, what you're seeing in the pipeline. Are you expecting it to still be muted going forward or is there any green shoots in terms of maybe seeing a little bit more opportunity from an acquisition point of view?

Mark Holly — President & Chief Executive Officer

I wish I could see a bit more green shoots. Our team did a great job on wrestling out from a third party the Powell River grocery-anchored site and we have some opportunity there to intensify it. So those are the things that we're looking for. The team is active, but there's nothing that's coming to surface that we look at and we look at the price and it's compelling and it also has an ability to add additional value for us over time. So those are the two factors we're looking for. They're tough to find. We're constantly looking for it. We do have capital available to do it if it becomes available.

Brad Sturges — Analyst, Raymond James

Okay. Makes sense. I'll turn it back.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press one.

Your next question comes from Mario Saric from Scotiabank. Please go ahead.

Mario Saric – Analyst, Scotiabank

Hi. Good afternoon. I wanted to come back to the same-store NOI discussion, so the 2% to 3% that's been maintained on the tougher comps year over year. So we sit back, unless I'm missing something, it seems like you're a bit more confident in your lease spreads now, kind of referencing mid to high single digit relative to mid-digit before, I believe, going forward, so the strength of the overall environment seems pretty good. So, by keeping the 2% to 3%, acknowledging in that in Q4 last year was 4% and so on, are you inherently implying that you expect occupancy to come down a little bit in the second half of the year? Or is it just simply maintaining the 2% to 3% and we'll see how goes from there?

Mark Holly — President & Chief Executive Officer

It's the latter, Mario. So, to your point around what we are comping in versus Q4, we came off a high number. When you adjust for lease termination income and some bad debt is 3.1%. So we kind of look at the range that we're in and we think 2% to 3% is the right range that we want to continue to give. From where we sit today, definitely not going to be in the low end of the 2% to 3%, but we're maintaining that target, it has been our historical range, and we're pretty comfortable to maintain it at this point.

Mario Saric – Analyst, Scotiabank

Okay. And then just on the lease spreads or rent growth, one of your peers during the quarter highlighted an uptick in contractual rent increases being done in this environment and outside of, obviously, the Empire leases, are you seeing something similar in terms of a greater ability to see higher contractual annual rent bumps from your CRE tenants relative in the past?

Mark Holly — President & Chief Executive Officer

I guess the short answer is yes, but then when you look at the composition of what we're renewing each and every quarter, you know, it's about a million square feet on an annual basis just on the renewal side being almost 10%. When you look at the five-year weighted average it's 11.8%. So historically we're running in that 1% to 1.5%, but when you look at the recent renewals the answer is yeah, you're starting to see a bit of a movement up. But again, I'm just cautious that it's, ah, at this point, if you only look at the last year, it's been a million square feet. So it's going to take time to grow into that. But the short answer is yes, we're starting to see it starting to move up a little bit.

Mario Saric — Analyst, Scotiabank

Okay. And then just last question, shifting over to the residential portfolio, the Le Duke occupancy [inaudible] sequentially, Davie was down a little bit quarter over quarter. Can you just maybe highlight some trends that you're seeing in each property?

Mark Holly — President & Chief Executive Officer

Yeah, for sure. Certainly Arie can give a little colour on each property. Just talking at the high level of the three properties, really pleased with their performance. Bronte just got into stabilization last quarter and so we worked hard to get it there and on Davie Street a bit of a balancing act between rental spreads and occupancy, but if you look at each of the assets, we're pleased.

Arie, can give a little bit of colour about what he's seeing on sort of the change of the profile on the Davie.

Arie Bitton — Executive Vice President, Leasing & Operations

So, what we're seeing is generally a slight slowdown in touring activity and we're hearing that's consistent with many of our peers. Despite that, we're still seeing numbers tick up. The blip you're seeing at Davie is really a surrender of 2022 leases that we had on a bulk deal that was expected in our forecast and those are done in the early days in 2021 of lease-ups. So we'll lease those back up at today's current rates. And that might take a little bit of time, but we're feeling pretty good about where that will trend.

Mario Saric — Analyst, Scotiabank

I see. Okay. And what's your expectation in terms of where current market rate is versus that bulk rate in early 2021?

Arie Bitton — Executive Vice President, Leasing & Operations

I don't have that in front of me. I'd be guessing on a CAGR there.

Mark Holly — President & Chief Executive Officer

So, Mario, if you look at the entire portfolio, you know, we're running at about 380 square foot. That's sort of what we kind of give guidance on, on the composition of the whole portfolio. We don't give individual assets, but to Ari's point, we're seeing a fairly healthy CAGR on Davie Street. And why are we seeing a healthy CAGR on Davie Street is what he was talking about on sort of those corporate stays. They're turning over. So you're seeing a bit of softening in occupancy, which comes back to that balancing act between occupancy and rental. And so while they're coming off and they're in our forecast, we're going to lease them back up and we'll hopefully get a nice little CAGR on them as they were done 2021 where we were actively working to lease it up.

Mario Saric — Analyst, Scotiabank

Got it. Okay. That's it for me. Thank you.

Mark Holly — President & Chief Executive Officer

Thanks, Mario.

Operator

Your next question comes from Sumayya Syed from CIBC. Please go ahead.

Sumayya Syed — Analyst, CIBC World Markets

Thanks. Good morning. I wanted to just touch on your modernization program. The spend on that did pick up a bit this quarter. Can you just give me a bit more colour there? Are these one-off assets or do you, I think, typically address groups or tranches of assets at a time and do they entail conversion of banners or renovations or all of the above?

Mark Holly — President & Chief Executive Officer

Yeah, Sumayya, it's the last, it's all of the above. The modernization program, as we work with Empire on it, is a mixed bag. Some of them are larger investments that you would see at front of house on the exterior of the box, other just back-of-house improvements, some of them might be maintenance requests and requirements. So it is a mixed bag. For us, about the dollar that we're investing versus the number and so we're really happy that we were able to make that investment of \$25 million. We have historically talked about those ranges being in that 6% to 8% yields and so that's something that, as we've talked about, non-major developments, we want to lean in, and modernizations are a nice little project for us.

Sumayya Syed – Analyst, CIBC World Markets

Okay. And what does that pipeline look like? I guess, given your relationship with Empire, you would have, I guess, visibility into a targeted number of stores. Is that a fair way to look at it?

Mark Holly — President & Chief Executive Officer

Yes and no, because some of it is tranches and some of it is things that they bring to our attention later in their program. And they have their own program, their renovation program, and so where we're able to line ourselves up on our assets that they want to renovate, we get a little bit of line of sight, and those are those one-offs. But these bulk ones we don't get as much line of sight on.

Sumayya Syed – Analyst, CIBC World Markets

Okay. That's all for me. Thank you.

Operator

And there are no further questions at this time. I will turn the call back over to Ruth Martin for closing remarks.

Ruth Martin — Senior Director, Investor Relations & Financial Analysis

Thank you for your time today and we look forward to updating you on our third quarter call in November.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.