Final Transcript

Crombie Real Estate Investment Trust

First Quarter 2026 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 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) 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) Anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations;

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Operator

Good morning, everyone and welcome to Crombie REIT's first quarter conference call.

At this time, all lines are in 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 May 7, 2026.

I would now like to turn the conference over to Meghna Nair, Manager of Investor Relations at Crombie. Please go ahead.

Meghna Nair — Manager, Investor Relations

Good day, everyone, and welcome to Crombie REIT's first quarter 2026 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 investors section of our website under presentations and events. Joining me 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. Our discussion will also include expected yield on costs 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 the discussion with comments on Crombie's strategy and outlook. Kara will review Crombie's operating and financial results, and Mark will conclude with a few final remarks.

Over to you, Mark

Mark Holly — President & Chief Executive Officer

Thank you, Meghna, and good afternoon, everyone.

Crombie's first quarter results demonstrate the continued disciplined execution of our Building Together strategy and the quality of our coast-to-coast, necessity-based portfolio.

Our centres are built around community essentials proving its resiliency in all economic cycles. The portfolio has been built with purpose: durable, predictable cash flows backed by necessity-based real estate provides both stability and growth.

Today, I'll focus my comments on two of our value creation drivers within our strategy: Own and Operate and Optimize.

Starting with Own and Operate and Optimize. Our coast-to-coast grocery-anchored portfolio sits at the heart of vibrant communities both large and small, generating consistent traffic and strong tenant demand.

Our leasing results this quarter once again reflects the success of our model and the excellence of the team. We completed 232 thousand square feet of renewals at a first-year growth rate of 12.1 percent over expiring rental rates. We added 30 thousand square feet of new leases at rates 52% higher than our portfolio average and maintained occupancy near all-time highs, ending the quarter at 97.6 percent. This drove a 3.9 percent increase in average minimum rent compared to Q1 2025. Kara will walk through the leasing details in a moment, but the headline is another quarter of disciplined execution supporting our 3.7 percent commercial same-asset property cash NOI growth.

Turning to portfolio management, we continue to selectively deploy capital into assets that strengthen our grocery-linked platform and support long-term cash flow growth.

We added to the portfolio this quarter, closing the Whitby acquisition announced in Q4 which is, a 484-thousand-square-foot Sobeys-occupied warehouse supporting retail store replenishment, we acquired that asset for 115.4 million dollars, before transaction and closing costs.

In the quarter we successfully acquired a newly constructed 55 thousand -square-foot warehouse property in Saint-Hubert, Québec for 14.4 million dollars, before transaction and closing costs. We've entered into a long-term lease with Sobeys and are currently working to outfit the space for their use. Crombie will act as development manager on the redevelopment, earning management and development fees through to completion.

These two grocery-related industrial assets bring our retail-related industrial gross leasable area to 3.0 million square feet and approximately 10 percent of our NOI – it's a meaningful platform alongside our grocery-anchored core, and one we've been deliberately expanding.

And subsequent to quarter, we acquired a 29 thousand -square-foot grocery property in Surrey, British Columbia for 12.7 million dollars, excluding transaction and closing costs from Empire. The property is a freestanding Safeway on roughly 2.25 acres in Ocean Park, at the heart of the community's primary retail node. It's exactly the type of well-located, necessity-based asset that reflects the ongoing value of our partnership with Empire.

Turning to Optimize. Optimize is about unlocking embedded value in the existing portfolio primarily through non-major investments such as modernizations and intensifications, and through major investments where we're advancing entitlements on the development ladder.

In the quarter, we invested over 6 million dollars in our modernization program with Empire. This is a repeatable lever we've been capitalizing on for years – it enhances asset quality, supports leasing on both renewals and new deals, and delivers attractive yields on cost.

With regards to our major investment program, we're focused on two items. First the Marlstone in Halifax where we have successfully secured partial occupancy and welcomed our first group of residents on May 1st. We're very proud of this accomplishment and the addition of this asset to the community and our portfolio.

And second, entitlements – where our development team is focused on advancing select projects through the rezoning and development permit phase, we're focused on a set of assets within our major development ladder that will provide near to medium term optionality and value creation.

Before I hand the call over to Kara, I want to highlight the one-cent increase to our annual distribution announced last night – our second consecutive year of growth.

This increase reflects the continued execution of our strategy, the stability of our platform, and the strength of our balance sheet. Crombie has a long track record of delivering dependable distributions across economic cycles, and in recent years we've grown both FFO and AFFO while further strengthening our payout ratios.

This decision reinforces our focus on long-term value creation and disciplined, sustainable capital returns to our Unitholders.

I also want to recognize the team behind these results. Our performance is driven by the people at Crombie, and I am exceptionally proud of their commitment to operational excellence and to the communities we serve together. That commitment continues to be recognized externally – in 2026, Crombie was once again named one of Canada's Top Employers across multiple categories.

With that, I'll turn the call over to Kara.

Kara Cameron — Chief Financial Officer

Thank you, Mark, and good afternoon, everyone.

Our first quarter results demonstrate continued momentum across the business – strong leasing fundamentals, growing per-unit metrics, and a balance sheet that continues to support both stability and growth. The numbers tell a clear story: our strategy is working.

Let me start with leasing. During the quarter, we completed 232 thousand square feet of renewals at a first-year increase of 12.1 percent over expiring rental rates. As we have consistently emphasized, we focus on achieving growth over the full duration of the lease – and for the quarter, we secured a 13.2 percent increase when comparing expiring rates to the weighted average rental rate over the renewal term. Within those totals, retail renewals were 117 thousand square feet at 10.4 percent over expiring rents.

New commercial leases increased occupancy by 30 thousand square feet at an average first-year rate of $29.20 per square foot. At quarter-end, we had 166 thousand square feet of committed space at an average first-year rate of $28.92 per square foot, with tenants expected to take possession throughout 2026 and 2027.

That leasing activity, combined with embedded rent step-ups and contributions from our modernization investments, drove commercial same-asset property cash NOI growth of 3.7 percent year-over-year.

Turning to property revenue. Property revenue for the quarter was 127.1 million dollars, and net property income was 79.7 million dollars, up 2.5 million dollars year-over-year. Growth was driven primarily by renewals, new leasing, and the contribution of the Whitby acquisition, which closed during the quarter. These factors were partially offset by higher tenant incentive amortization from modernizations.

Revenue from management and development services was 3.2 million dollars in the quarter, driven primarily by ongoing fees from our programmatic partnerships. These contributions continue to represent a stable and recurring component of our cash flow profile.

Finance costs were 24.8 million dollars in the quarter, up from the prior year, primarily reflecting higher interest expense on our revolving credit facility as a result of the Whitby and Saint-Hubert acquisitions, partially offset by lower mortgage interest.

Turning to earnings. FFO was 61.6 million dollars, or 33 cents per unit. AFFO was 54.3 million dollars, or 29 cents per unit, up 7.4 percent year-over-year. As information, this quarter we updated the presentation of fair value movements related to unit-based compensation, moving them from G&A into change in fair value of financial instruments and aligning our FFO and AFFO to exclude the impact of that non-cash, share-price-driven item. Prior-period results were updated for comparability.

Our payout ratios were 68.4 percent of FFO and 77.6 percent of AFFO at the end of the first quarter.

Turning to the balance sheet. Our balance sheet remains a core strategic strength and a source of resilience, particularly in the current environment. We ended the quarter with available liquidity of 536.3 million dollars between our undrawn credit facilities and cash. The 115.4 million dollar Whitby and 14.4 million dollar Saint-Hubert acquisitions were funded through the unsecured revolver. We ended the quarter with an unencumbered asset pool with a fair value of 4.1 billion dollars, Debt to gross fair value of 43.0 percent, debt to trailing twelve-month adjusted EBITDA of 7.89 times, and interest coverage of 3.4 times.

Approximately 92 percent of our debt excluding swaps carries fixed rates, and our weighted average term to maturity on senior unsecured notes is 3.5 years. We have 200 million dollars coming due this year, with maturity of our Series F senior unsecured notes – a manageable amount that is well within our framework. Our liquidity position, unencumbered asset pool, and access to multiple funding levers give us the flexibility to address maturities and continue deploying capital as opportunities arise.

Overall, the first quarter was another quarter of steady, dependable execution – strong leasing, continued commercial same-asset property cash NOI growth, and disciplined capital and financial management – supported by a balance sheet built for both stability and measured growth.

Before I turn the call back to Mark, I'll briefly highlight the distribution increase we announced last night, which marks our second consecutive year of growth.

Our payout ratios reflect several years of FFO and AFFO per unit growth, supported by a disciplined approach to distributions, resulting in meaningful financial flexibility today.

The one-cent increase is a measured step. It keeps us well within the conservative payout range we are comfortable operating in, preserves our capacity to fund acquisitions, modernizations, and our development pipeline, and enables us to return a portion of that growth to Unitholders. This is consistent with our approach to capital allocation – disciplined, balanced, and focused on long-term value creation.

With that, I'll turn it back to Mark.

Mark Holly — President & Chief Executive Officer

Thanks, Kara.

I noted at the outset that Crombie was built for this kind of environment – and the results show it: strong leasing performance, grocery-linked acquisitions that strengthen the platform, and a team executing with discipline across the portfolio. Our focus is unchanged – owning and operating essential real estate at the heart of Canadian communities, deploying capital prudently, and compounding long-term value for our unitholders. And while we're proud of what we've delivered, we believe we're still in the early innings of what this platform can deliver.

With that, we'll open the call for questions.

Operator

Thank you. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two.

The first question comes from Lorne Kalmar with Desjardins. Please go ahead.

Lorne Kalmar – *Analyst, Desjardins Capital Markets*

Thanks. Sorry, good afternoon. You guys had a pretty nice start to 2026 on the same property NOI perspective, and came in ahead of the 2% to 3% target. I was just wondering, is there anything one time in there, or is that a good run rate for the balance of the year?

Mark Holly – *President and Chief Executive Officer*

Hi, Lorne. There was nothing material as one time in the quarter. And you're right, we do have a long-term framework of same asset in that 2% to 3% range. Last year, we delivered 3.7% as a total. Two years prior to that, it was at the high end of the range in around 3%. We hold our long-term target as a 2% to 3%. When you look at this quarter, and you look at the rest of the year, we look at a path that could potentially push through that top end.

Lorne Kalmar – *Analyst, Desjardins Capital Markets*

Okay. Maybe is there anything specific there, or is it just the broader strength in the retail fundamentals? I mean, one of the things I was looking at is just the composition of lease maturities. I think the majority of them are non-Empire. Is that a factor?

Arie Bitton - *Executive Vice President, Leasing & Operations*

Hi, Lorne, it's Arie. The renewals that are non-empire are producing some very solid results and are a boost to our same asset NOI. We're seeing the benefit of that this year partially, but of course, as those comp over an annual basis, we'll see them bear fruit a little more throughout 2027 and beyond. They are a component, but that's not the full story.

Mark Holly – *President and Chief Executive Officer*

The other part to think about, Lorne, is modernizations. They contribute to same asset, and we kind of look at those as a great investment on the retail component where we're investing in the anchor, which creates that halo that creates the benefit on the leasing spreads and shows up in same asset as well.

Lorne Kalmar – *Analyst, Desjardins Capital Markets*

Okay. That's very helpful. Thank you. Then maybe just one last, I'm going back to a question from last quarter, I was wondering if you could give us an update on where leased and in-place occupancy is at the Marlstone as of today.

Arie Bitton - *Executive Vice President, Leasing & Operations*

Lorne, so we welcomed our first tenants last week at the Marlstone, and the building looks amazing. What we've done purposely is we've opened up the building with all amenities in place. That was a key learning for us from our previous experiences to make sure that the tenants experience the building fully. I would say that while we're not providing numbers today with where we are as far as occupancy, we're pleased with the uptake so far, and we're seeing our tour-to-lease conversion rates go up significantly since we've had access to the building when we got partial occupancy towards the end of April. We'll provide some more colour on upcoming quarters.

Lorne Kalmar – *Analyst, Desjardins Capital Markets*

Okay. Thank you very much. I'll turn it back.

Mark Holly *– President and Chief Executive Officer*

Thanks, Lorne.

Operator

The next question is from Brad Sturges with Raymond James. Please go ahead.

Brad Sturges – *Analyst, Raymond James*

Hey, good afternoon. I guess on the leasing front, you've seen, I guess, a little bit of further uptick on the leasing spreads you're getting, and I guess it's certainly going to depend on the composition of what the rollover is. But would you continue to expect kind of in that low double-digit kind of blended renewal spread right now?

Arie Bitton - *Executive Vice President, Leasing & Operations*

We will. We're seeing that, and obviously with the leases being six to 12-month triggers on renewals, we're renewing right now into 2027. We are seeing a bit of a look-through, and we expect to maintain the double-digit spreads for the short to medium term.

Brad Sturges – *Analyst, Raymond James*

Okay. Sounds good. I guess my other question would be just seeing some further execution on the Empire-related acquisition pipeline. Is there anything else in the pipeline that you're looking at that you could pull the trigger on, whether it's Empire-related or just third-party?

Mark Holly – *President and Chief Executive Officer*

Hey, Brad. Thanks for the question. Yes, we were very happy that we've been able to execute on a few transactions year-to-date. That Whitby warehouse was a big one, half a million square feet. We were able then to tuck in in St-Hubert, which is in Longueuil, just outside of Montreal, another warehouse, and both those facilities are replenishment locations for stores. Those are great opportunities for us. Buying the Surrey Safeway location in Ocean Park is another one that we really like. For us, it's about making sure that we are underwriting as much as possible, but underwriting quality opportunities. We're not just chasing leasable area for the sake of it.

The team is busy. There's lots of opportunities out there. We're underwriting quite a bit from opportunities from our partnership with Empire. We've talked about in the past; there are a number of locations in their portfolio that we'd love on our balance sheet. When they're ready to sell it and if it meets our criteria, we would be interested to take it on our side. Our balance sheet is in terrific shape. We can opportunistically go after some of the stuff.

Brad Sturges – *Analyst, Raymond James*

Okay. I appreciate it. I'll turn it back.

Operator

The next question is from Sam Damiani with TD Cowen. Please go ahead.

Sam Damiani – *Analyst, TD Cowen*

Thank you. Good afternoon, everyone. Maybe just to start off, just wondering, as you look at multiple years for Crombie, do you see room in your capital allocation for a larger weighting to a grocery-anchored shopping centers, more than just the store, but acquiring those types of properties from third parties? I'm just wondering how you see that opportunity.

Mark Holly – *President and Chief Executive Officer*

Hi, Sam. Yes, is the short answer. We are underwriting third-party opportunities each and every quarter. There are opportunities out there. We are also acquiring from Empire, which is a great strategic partner for us, which gives us first access rights to excellent real estate across the country. St-Hubert is an example of a third-party opportunity that we were able to action. Found that location, it was a recently built warehouse that had vacated. We bought it from a third party, approached Empire, who had a use for it, and now we're going to upfit it for their specific use, collect management fees during the duration of the outfit, and then take what is sitting now and just committed occupancy and move it into economic. We're constantly underwriting opportunities and we're going to tuck in ones that meet the profile of what we're absolutely after, which is cash flow growth.

Sam Damiani – *Analyst, TD Cowen*

Thank you. The St-Hubert site there, how much extra CapEx beyond the initial acquisition are you anticipating there and what sort of yield on costs should we think about?

Mark Holly – *President and Chief Executive Officer*

It's going to be functioning as a TI. You won't see it show up in our non-major investments. It's a TI that we'll be providing to Empire to which will be then built into the rent. We're not disclosing what that fit up cost is at this point because it's going to ebb and flow as they sort of go through the detailed design. But we expect that it's going to take, it'll take us at least 12 to 18 months to get it to a spot when it will turn into economic occupancy. But during that time, we're going to collect management fees to build it out for them.

Sam Damiani – *Analyst, TD Cowen*

Okay, great. The last one for me, I think you guys had just one Toys R Us. Is there an update on the progress of backfilling that one?

Arie Bitton - *Executive Vice President, Leasing & Operations*

Hi, Sam. There is. Toys R Us remained in occupancy throughout the quarter on a temporary deal. They expired in early April with the receiver. We have secured a tenancy subject to finalizing a lease for the entirety of the space that we hope to have wrapped up by the end of this quarter. Hopefully, we'll be able to announce some more details then.

Sam Damiani – *Analyst, TD Cowen*

Great. Thank you. I'll turn it back.

Operator

The next question is from Giuliano Thornhill with National Bank Capital Markets. Please go ahead.

Giuliano Thornhill - *Analyst, National Bank Financial*

Hey, guys. I'm just wondering if you could provide an update on the Calgary CFC or just maybe the Calgary industrial market in general. Do you think, obviously, there's been some space that might be given back? If there's anything you could provide there for the future of that asset?

Mark Holly – *President and Chief Executive Officer*

Sure. As we called out, there's been no change from last quarter. It's a 300,000 square foot industrial asset in Rocky View. Empire has ceased operating from the premise there. We are in a very, very, very long-term lease with rent commitment and the corporate covenant of Empire. What we're doing today is working with them on them securing a tenant that might be able to take over the space. If they're successful in that, then we'll dialogue with them on what amendments we may want to consider with them. But until that time, very long-term lease in place, still collecting the rent of the corporate covenant. There's been no change since the last update.

Giuliano Thornhill - *Analyst, National Bank Financial*

Right. Then the second question I had was just on Empire entering the discount slash warehouse segment with their announced agreement. Does that change anything for yourselves from a real estate perspective? Would there be sites in Quebec that you think would benefit from that kind of retailer as opposed to your current one?

Mark Holly – *President and Chief Executive Officer*

Strategically, it doesn't change anything. Our focus is still to own, operate, and where we can offer management services to Empire, we will. Where we can acquire real estate like St-Hubert for their use is great opportunities for us. They have great yields and support all our metrics. The acquisition, I'm not going to comment on that acquisition that Empire did in Quebec specifically. But what I can say is they are looking to grow coast to coast. That's the platform that we have. We have a strategic partnership with them. Where they're looking to grow, we are interested in growing with them.

We'll do that in more grocery anchored. As you can see in our non-major development within the MD&A, we have one project on the go at this point that is a grocery anchored location that we're developing. Then from there, we'll continue to try and tuck in more projects.

Giuliano Thornhill - *Analyst, National Bank Financial*

Great. All right. Thanks, guys.

Operator

The next question is from Mario Saric with Scotiabank. Please go ahead.

Mario Saric - *Analyst, Scotiabank*

Hi. Good afternoon. Just on the Marlstone, without providing where the occupancy metrics are now, are you able to give us a range of what the potential FFO impact from the property could be for 2026?

Mark Holly – *President and Chief Executive Officer*

Hey, Mario. Is that with the Marlstone?

Mario Saric - *Analyst, Scotiabank*

Yeah.

Mark Holly – *President and Chief Executive Officer*

Okay. For the Marlstone, as Arie called out, we just welcomed our first resident May 1. We're going to give some updates as we progress to get to substantial completion, which for us is in around that 90% mark. Throughout 2026, it's going to be dilutive. But we expect that in the back half of 2027, it will move from dilution to accretion as we anticipate stability mid to back end of 2027.

Mario Saric - *Analyst, Scotiabank*

Got it. Okay, that's helpful. Mark, it sounds like the acquisition pipeline is—the potential is there, whether it's third party or through Empire. From a funding perspective, it sounds like you're pretty comfortable with the balance sheet that you have. It's probably the best that it's ever been. How do you think about the potential for dispositions and then successful rezoning in 2026 as a potential source of acquisition funding?

Mark Holly – *President and Chief Executive Officer*

On the disposition side, we have been active in that area. Last year, we disposed of two properties. We disposed of the office in Moncton, and we disposed of a non-core, non-grocery location in St. John. Most of the dispositions that we have been actioning against have been scaling up the portfolio for some of those ones that were not delivering on some of the key metrics that we're pushing for. As we kind of continue to look, there's the new crop of ones that are likely the drags and not contributing. We have some others in the portfolio that we're working against.

In terms of the development ladder and assets in there that we could leverage, there are a couple. The market today, if you think specifically Vancouver and that ladder that we have, we have one in Belmont, we have one in Broadway and Commercial. We're still working through zoning and entitlement. We're still working with our partner. There's been no action calls on either one of those in terms of when we plan to green light them. I would say for now, it's about just pruning and high grading the portfolio.

Mario Saric - *Analyst, Scotiabank*

In terms of the potential assets that are income producing right now, does the nature of the potential buyer, has that changed? Or would it be similar to the types of buyers that you've sold to last year?

Mark Holly – *President and Chief Executive Officer*

Yeah, it's a very similar profile to the buyers that bought last year.

Mario Saric - *Analyst, Scotiabank*

Okay. More from an accounting perspective, IFRS perspective, the Choice First Capital transaction, would that serve as a data point for you from an evaluation standpoint with your Q2 results in terms of thinking about the cap rate on that transaction and what that may mean for your portfolio?

Kara Cameron – *Chief Financial Officer*

Hi, Mario. It's Kara. I think that was a great transaction in the market and serves as a data point for all of us in the REIT space. I think it solidifies very much the IFRS NAV value that I think us and others in this space have been highlighting over the past several years. Yes, we will definitely be taking that transaction into consideration as we look at cap rates and assessing our Q2 results.

Mario Saric - *Analyst, Scotiabank*

Okay. My last one, just more of a modeling question, the G&A this quarter ticked up close to $7 million, which is up sequentially and also year-over-year. What's a good run rate for ‘26 for that line item?

Kara Cameron – *Chief Financial Officer*

I'd say we're pretty comfortable with the run rate as you're seeing it in the quarter. We did make a slight adjustment this quarter. I mentioned it in my prepared remarks. We had about $432,000 come out of G&A and moved into the fair value of the unit-based compensation. That move was reallocated and we actually chose to restate prior year. Prior year was about $786,000. That's a G&A move. You can think about this quarter as a better run rate for you.

Mario Saric - *Analyst, Scotiabank*

Okay. Would most of the variation or the variance be attributable [audio interference] or are there other items involved as well?

Kara Cameron – *Chief Financial Officer*

Sorry, Mario, you cut out there.

Mario Saric - *Analyst, Scotiabank*

Sorry. I'm just wondering whether most of the variance, either sequentially or year-over-year, can be attributable to the reclassification from an accounting standpoint or is there just a higher G&A load in part because maybe the management and revenue services line item is moving higher?

Kara Cameron – *Chief Financial Officer*

Yes. It's a one-for-one on the stripping out the fair value adjustment. There's no variance that you would see as a result of that.

Mario Saric - *Analyst, Scotiabank*

Okay. Thank you.

Operator

The next question is from Pammi Bir with RBC Capital Markets. Please go ahead.

Pammi Bir - *Analyst, RBC Capital Markets*

Thanks. Hi, everyone. Just coming back to the Marlstone, I realize it's still early, but how do the asking rents maybe compare to the initial underwriting, and do you see need at all to lean a little bit more on incentives at this stage?

Arie Bitton - *Executive Vice President, Leasing & Operations*

Hi, Pammi. It's Arie. The current asking rents are trending above our initial underwriting from project approval a few years ago. They're in line with what I'd say is more on the upper end of the market and the high $3 range. As far as incentives are concerned, what we're seeing here is there's nothing advertised. We did have a grand opening or a soft opening promotion last week or two weeks ago and we had our open house, which was extremely well attended. We had over 65 prospects tour and many of those led to conversions of leases. For that particular open house, we did offer an incentive on a very short fuse. But beyond that, we're not advertising any.

Pammi Bir - *Analyst, RBC Capital Markets*

Okay. Then is this an asset where there's perhaps opportunities for bulk leasing arrangements or is that not really contemplated at this stage?

Arie Bitton - *Executive Vice President, Leasing & Operations*

We're not looking at that right now.

Pammi Bir - *Analyst, RBC Capital Markets*

Okay. Then just, Mark, I think you mentioned earlier in one of the responses, the contribution for modernization in your same property. I know it's certainly a positive, but how much of that 3.7% in Q1 came from modernizations?

Mark Holly – *President and Chief Executive Officer*

Good question, Pammi. I don't have that at my fingertips. We can get Kara to circle back with you on that and give you some highlights on it.

Pammi Bir - *Analyst, RBC Capital Markets*

If I look back to last year, is it on a full year basis? Are we looking at something as high as in the 20%, 25% range or not?

Mark Holly – *President and Chief Executive Officer*

Of the 3.7, that would be too high. In modernizations, we're investing about $25 million to $35 million annually, but we can definitely give you a bit more colour on that. Let us grab the materials and we'll circle back with you.

Pammi Bir - *Analyst, RBC Capital Markets*

Okay. Thanks very much. I will turn it back.

Operator

Again, if you have a question, please press star, then one. Our next question is from Tal Woolley with CIBC Capital Markets. Please go ahead.

Tal Woolley - *Analyst, CIBC Capital Markets*

Hi. Good morning. With the Marlstone moving out of development, does that change the management and development fee earning potential from that asset going forward?

Mark Holly – *President and Chief Executive Officer*

On that asset, yes, it'll turn into asset. Yes, because we were clipping some development fees, it'll turn into property management fees. But as a reminder, with the Montez partnership, we have two other projects that are still working through that entitlement program. If you think about it, the $2.4 million that we have marked as a quarterly run rate on the two partnerships, East and West, you can hold that one for the balance of 2026.

Tal Woolley - *Analyst, CIBC Capital Markets*

Okay. The sort of baseline fees you would expect on an annual basis is in and around that $10 million mark, and then with some episodic development fees on top of that.

Mark Holly – *President and Chief Executive Officer*

You nailed it. Exactly.

Tal Woolley - *Analyst, CIBC Capital Markets*

Perfect. Okay. That's great. Thanks very much, everyone.

Operator

This concludes the question-and-answer session and today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.