CT REIT Second Quarter 2022 Earnings Results Conference Call
Tuesday, August 9, 2022 – 9:00 AM ET

DISCLAIMER

The information contained in this transcript is a textual representation of CT REIT's (the "REIT") Q2 2022 results conference call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only. The information set out in this transcript is current only as of the date of the webcast and may be replaced by more current information. The REIT does not undertake to update the information, whether as a result of new information, future events or otherwise. In no way does the REIT assume any responsibility for any investment or other decisions made based upon the information provided on the REIT's web site or in this transcript. Users are advised to review the webcast (available at www.ctreit.com) itself and the REIT's regulatory filings before making any investment or other decisions.

FORWARD-LOOKING INFORMATION

This document contains forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for CT REIT's business and results of operations.

Forward-looking statements are provided for the purposes of providing information about CT REIT's future outlook and anticipated events or results and may include statements regarding known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from those indicated. Such factors include but are not limited to: general economic conditions; financial position; business strategy; availability of acquisition opportunities; budgets; capital expenditures; financial results, including fair value adjustments and cash flow assumptions upon which they are based; cash and liquidity; taxes; and plans and objectives of or involving CT REIT. In addition, the effects of the coronavirus (COVID-19) pandemic, including variants of concern and any future waves, create additional uncertainties. Statements regarding future acquisitions, developments, distributions, results, performance, achievements, and prospects or opportunities for CT REIT or the real estate industry are forward-looking statements. In some cases, forward-looking information can be identified by such terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts.

CT REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. Such factors and assumptions include but are not limited to: whether the Canadian economy will stabilize and the timing and extent of further changes to inflation; that tax laws will remain unchanged; that the REIT will continue to manage its liquidity and debt covenants; that conditions within the real estate market, including competition for acquisitions, will normalize to historical levels in the near- to medium-term; that Canadian capital markets will provide CT REIT with access to equity and/or debt at reasonable rates when required; and that Canadian Tire Corporation Limited (CTC) will continue its involvement with CT REIT on the basis described in its 2021 Annual Information Form.

Although the forward-looking statements contained herein are based upon assumptions that management of CT REIT believes are reasonable, based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the REIT's control, that may cause CT REIT's, or the industry's, actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements.

These risks and uncertainties include, among other things, the factors discussed in section 12 of the REIT's 2021 annual Management Discussion and Analysis and under the "Risk Factors" section of CT REIT's 2021 Annual Information Form.

For more information on the risks, uncertainties and assumptions that could cause CT REIT's actual results to differ from current expectations, please also refer to CT REIT's public filings available on SEDAR at www.sedar.com and by a link at www.ctreit.com.

CT REIT cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also materially and adversely affect its results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Statements that include forward-looking information do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on CT REIT's business. For example, they do not include the effect of any dispositions, acquisitions, asset write-downs or other charges announced or occurring after such statements are made.

The forward-looking information contained herein is based on certain factors and assumptions made as of the date hereof or the date of the relevant document incorporated herein by reference, as applicable. CT REIT does not undertake to update the forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, except as required by applicable securities laws.

August 9, 2022

CORPORATE PARTICIPANTS

Kevin Salsberg
President and Chief Executive Officer

Lesley Gibson
Chief Financial Officer

Jodi Shpigel
Senior Vice President, Real Estate

CONFERENCE CALL PARTICIPANTS

Himanshu Gupta
Scotiabank

Tal Wooley
National Bank Financial

Jenny Ma
BMO Capital Markets

Pammi Bir
RBC Capital Markets

Sam Damiani
TD Securities

PRESENTATION

Operator

Good morning. My name is Valerie and I will be your conference operator today. At this time, I would like to welcome everyone to CT REIT's Q2 2022 Earnings Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during that time, simply press <star> then the number one on your telephone keypad. To withdraw your question, press <star> and then the number 2. The speakers on today's call are Kevin Salsberg, President and Chief Executive Officer of CT REIT; Lesley Gibson, Chief Financial Officer of CT REIT; and Jodi Shpigel, Senior Vice President, Real Estate, of CT REIT.

Today's discussion may include forward-looking statements. 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 CT REIT's public filings for a discussion of these risk factors, which are included in their 2021 MD&A and 2021 AIF, which can be found on CT REIT's website and on SEDAR.

I will now turn the call over to Kevin Salsberg, President and Chief Executive Officer of CT REIT.

Kevin?

Kevin Salsberg, President and Chief Executive Officer

Thank you, Valerie, and good morning, everyone. We're very pleased to welcome you to CT REIT's Second Quarter 2022 Investor conference call, which I feel fortunate to remind our listeners marks my first call as President and CEO.

As we have all witnessed since our last quarterly update, the overall economic picture has become increasingly more challenged and the global financial outlook even more uncertain. Central banks continue to increase rates, elevated levels of inflation persists, and the prospects for an economic slowdown seem more pronounced.

In the face of such an opaque market context, however, CT REIT continues to deliver strong and stable results, and growth in AFFO per unit. Our portfolio of primarily net leased assets complemented by a growing industrial base, provides a solid foundation. Our long weighted average lease term and minimal debt maturities over the next few years insulate us from much of the current market-based risks that exists in today's environment.

As well, our privileged relationship with Canadian Tire provides a growth pipeline that is consistent and meaningful.
And our prospects beyond our core portfolio, including third party acquisitions, intensifications and surfacing value in underutilized assets, provide

additional avenues for us to explore as we navigate through these uncertain times.

We are truly fortunate to find ourselves in a position to be able to continue delivering meaningful growth all while prudently managing risk. And as always, from this position of relative strength, we will continue to monitor the market for new opportunities.

With respect to what we accomplished in the quarter, I could not be prouder of the achievements of our team. We delivered several significant project completions, that Jodi will speak to shortly, and the diversity of these investments certainly highlights the internal capabilities and strengths that we have built at CT REIT over the last few years.

By adding nearly 600,000 square feet of GLA to the portfolio and increasing our weighted average lease term via the completion of certain strategic lease extensions, we continue to meaningfully grow and improve our asset base, as well as demonstrate how we work together with Canadian Tire to achieve our mutual objectives as it relates to our portfolio and their expanded store and supply chain network strategies.

I am very pleased to welcome Jodi Shpigel, our Senior Vice President Real Estate, to her first conference call with CT REIT this quarter. Jodi has been a great addition to our Senior Executive Team and has most definitely hit the ground running.

With that, I will turn the call over to Jodi to provide an overview of our investments, leasing and development activities. Jodi?

Jodi Shpigel, Senior Vice President, Real Estate

Thanks, Kevin, and good morning, everyone.

As highlighted in our press release yesterday, we were pleased to announce two new investments this quarter totaling $30 million, which, once completed, will add an incremental 149,000 square feet of GLA to the portfolio at a weighted average cap rate of 6.81 percent. These new projects include the vend-in of land and the development of a new Canadian Tire store in Lloydminster, Alberta, and the expansion of an existing Canadian Tire store in Stettler, Alberta.

As Kevin highlighted, we had a busy quarter with respect to our investment and development activity. In total, we completed 12 previously announced investments, totaling $111 million and added 590,000 square feet of GLA to the portfolio. These projects included the expansion of our Coteau du Lac distribution centre, the development of a new Canadian Tire store in Moose Jaw, Saskatchewan, the completion of Phase 2 of our Orillia, Ontario redevelopment, land acquisitions in Sherbrooke East, Québec, and in Invermere, British Columbia, and also the expansion of seven Canadian Tire stores.

At the end of the second quarter, CT REIT had 28 properties that were at various stages of development, with six projects currently expected to be completed by the end of this year. The projects in our development pipeline represent a total committed investment of approximately $366 million on completion, $90 million of which has already been spent and $150 million of which we anticipate will be spent in the next 12 months. Upon completion, these projects will add a total incremental gross leasable area of approximately 1.2 million square feet to the portfolio, 99 percent of which has been pre-leased as at quarter end.

In the second quarter, we also completed lease extensions for three Canadian Tire stores and one Canadian Tire distribution centre. As a result, the weighted average lease term of our portfolio increased to 8.6 years, one of the longest in the sector.

In addition to the CTC lease extensions, we are also happy to announce that we have successfully re-leased the 100,000 square foot unit at our 11 Dufferin industrial building in Calgary, Alberta. Based on the strength of our property and the Calgary industrial market, we were able to secure this new tenancy with a third party logistics provider very quickly, achieving a 25 percent increase over expiring rents, with minimal invested capital and new rent to begin prior to the end of this year.

With this most recent lease commitment, our portfolio remains 99.4 percent occupied in line with the last quarter.

I will now turn it over to Lesley to review our financial results. Lesley?

Lesley Gibson, Chief Financial Officer

Thanks, Jodi. Good morning, everyone.

As Kevin highlighted, we are very pleased with the results delivered by the REIT this quarter.

Second quarter AFFO per unit on a diluted basis was $0.284, an increase of 2.5 percent compared to the Q2 of 2021, primarily due to the impact of NOI variances, partially offset by increased personnel costs, which included retirement expenses of our former CEO. It should be noted that this is the last quarter that we expect to incur these retirement related expenses. Excluding this one-time cost, AFFO per unit was $0.287, up 3.5 percent from the same period last year.

Diluted FFO per unit this quarter was $0.313, a slight increase compared to the $0.310 in Q2 of 2021 as the growth in FFO exceeded the increase in the weighted average units outstanding.

Net operating income was $104.1 million for the quarter, an increase of 3.7 percent or $3.7 million compared to Q2 2021. This NOI growth was comprised primarily of 2.4 percent growth on a same-store basis and 2.8 percent growth on a same-property basis.

Same-store NOI for the quarter grew by $2.4 million or 2.4 percent as a result of contractual rent escalations contributing nearly $1.6 million, including the 1.5 percent average annual rent escalations excluded in the Canadian Tire leases, with the balance of the growth primarily from the continued recovery of capital expenditures and interest earned on the unrecovered balance which contributed approximately $0.7 million in the quarter.

In the second quarter, adjusted G&A expenses as a percentage of property revenue were 3.1 percent, which was above the 2.5 percent in Q2 2021. As previously mentioned, the accelerated amortization of long-term compensation costs related to our recent CEO transition have run through the P&L and drove slightly higher G&A expenses through the end of Q2, which amounted to $0.5 million in the current quarter. Excluding this transition cost, adjusted G&A as a percentage of property revenue would have been 2.7 percent, comparable to the 2.5 percent in Q2 of 2021.

With respect to our portfolio fair value, the REIT recorded a small adjustment of $6 million on our investment properties for the second quarter of 2022. Determining fair value this quarter was particularly challenging in the absence of comparable sale transactions. We continue to apply our same consistent methodology in looking at property valuations and seeking external support from the appraisal community, which informs our view of the market. This led to no change in our overall cap rates during the quarter of 6.05 percent, with the increase in fair value being driven by higher NOI within our portfolio of properties including those projects completed in the quarter.

It should be noted, however, that our retail and industrial average cap rates did increase each by a couple of basis points, respectively, this quarter, but due to the increased relative weighting of our industrial properties due to the transfers from Properties Under Development, which are a lower relative cap rate than our average cap rate, the overall average remained consistent with Q1. With the rise in interest rates that we've seen thus far in 2022 and the prospects for future central bank hikes for the balance of the year, we are anticipating the potential for upward pressure on cap rates in the coming quarters.

Distributions in the quarter were $0.212 per unit, 5.7 percent higher than in the second quarter of 2021 due to the increases in the rate of distribution, which became effective with the monthly distributions paid in July of 2021 and July 2022. This resulted in an AFFO payout ratio of 74.6 percent for the quarter, in line with the 74.5 percent for the same quarter last year.

Turning now to the balance sheet. Our debt metrics remains strong, with the interest coverage ratio at 3.7 times in Q2 2022, consistent with the 3.7 times reported in the second quarter of 2021.

CT REIT's indebtedness ratio has improved, and was 40.2 percent as at June 30, 2022, compared to 40.9 percent last quarter and 41.2 percent as at year-end.

The decrease in the ratio was primarily due to the increase of fair value adjustments made to the properties, as well as acquisition intensification development activities completed in 2022, exceeding the growth in indebtedness.

In the current interest rate environment, we are delighted to be largely insulated from refinancing risk, as we have no public debentures scheduled to mature until 2025 and almost no variable rate debt.

Our liquidity remains strong, with $294 million available through our committed credit facilities, along with [$23] million of cash on hand and a further $300 million available on our uncommitted facility with Canadian Tire Corporation.

And with that, I will turn it back to the Operator for any questions.

Operator:
At this time, I would like to remind everyone in order to ask a question, please press <star> then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Q&A – ALL

Thank you. Our first question is from Himanshu Gupta with Scotiabank. Please go ahead.

Himanshu Gupta, Scotiabank

Thank you, and good morning. Just one valuation comment there. Obviously, lower adjustment of, [minor adjustment] just been down in Q2. Lesley, I think you mentioned that you expect upward pressure on capex in the second half of that. So maybe can you elaborate that? Any thoughts what kind of potential impact you could see there?

Lesley Gibson, Chief Financial Officer

It's not just specific, Himanshu. I think with continued pressure of the inflation, with the expected increases in interest rates that are still to come, I think those are generally correlated with increases in cap rates. So that's [definitely] that we're looking at on the horizon. We just haven't seen that actually in practice and have seen that in any kind of comparable transactions that would inform our view of the market just yet.

Himanshu Gupta, Scotiabank

Okay. So transaction activity has been slow, but have you got any appraisals done or any local sentiment coming through suggesting one way or the other?

Lesley Gibson, Chief Financial Officer

Yes. As you mentioned, we actually had 36 appraisals done as at Q2, representing about 11 percent of our portfolio, and that was one of the, obviously, key inputs to expand those covered geographies, markets, etc., across our portfolio. So, based on some of that feedback and other things, such as the cap rates, surveys and the other stuff that are provided by the various appraisal firms, we took a view that was really a flat overall cap rate for us. There was very little changes into the properties that were of our type.

Himanshu Gupta, Scotiabank

Got it. Thank you. And then just on the development spend for the next 12 months, I think you mentioned $150 million to be deployed. How do you look to finance that? Any thoughts of exploring the unsecured debenture market here?

Lesley Gibson, Chief Financial Officer

Himanshu, we're fortunate to be—having sitting on a bit of cash, we generated a fair bit of cash flow from our operations. So those would be the first two sources. We have a significant amount of our credit facilities that are undrawn, so that would be our primary one. Obviously, our past practice has been typically when we reach a certain level of draw on our lines that our preference would be to term that out in the unsecured debt market. I think that would still be something that we're looking towards, but obviously depending on the rate it's been and how fast that goes, will determine when we might be in the market in the future.

Himanshu Gupta, Scotiabank

Got it. Thank you. And maybe finally, a question from my side on Canada Square. Any update there? And then what occupancy reduction are you expecting in the near term, and probably how much NOI margin should we model it?

Kevin Salsberg, President and Chief Executive Officer

In terms of the development, Himanshu, we may work with Oxford in response to the community and stakeholder engagement process that remain ongoing. We're updating and revising the master plan scheme as we speak. Our hope is that we'll be in a position to resubmit an application by the end of this year. That process obviously takes time. As we've mentioned previously, we cannot begin the development, early Phase 1 of the development until the LRT is completed. There's been no new announcements to my knowledge around the timing of completing that project, although it is clear driving to work everyday that work continues and is ongoing.

So, we're just working through that process more generally. Obviously, we've mentioned in the past that as we set the stage for the first phase, we'll see some NOI erosion in the property as we de-lease or manage expiries as we work towards that start date. Although can't give any specific items at this time with respect to the quantum or timing.

Himanshu Gupta, Scotiabank

All right. And maybe just one follow-up. Obviously, costs of refinancing has gone up quite a bit compared to, let's say, the last two years. Does that change anything in terms of your Canada Square plans in terms of the mix of the property, like residential versus office or other complement within the property?

Kevin Salsberg, President and Chief Executive Officer

In terms of mix, no. I mean, the mix is actually somewhat prescribed as it relates to the zoning on the site. And to remind everybody, we can build about 3 million square feet of total GLA and we have to replace a large component of the commercial that exists as at today. From a financing perspective, we'll obviously be in discussions with our partner Oxford Properties in terms of the optimal financing structure as we look to set the stage for the initial Phase 1.

Himanshu Gupta, Scotiabank

Okay, got it. Fair enough. I'll turn it back. Thank you guys.

Kevin Salsberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from Tal Wooley with National Bank Financial. Please go ahead.

Tal Wooley, National Bank Financial

Hi, good morning.

Kevin Salsberg, President and Chief Executive Officer

Good morning.

Tal Wooley, National Bank Financial

Just wondering with all of the completions this quarter, do you have a sense of—and particularly since you've got one that's in a big DC coming online that's accounting for a big chunk of square footage, just can you give us a sense of what the net rents will be on the added square footage this quarter? I just want to make sure there's no big deviation from sort of where the average net rent was right now.

Kevin Salsberg, President and Chief Executive Officer

Are you talking about the 590,000 square feet that was completed that came online, or the two new projects we announced?

Tal Wooley, National Bank Financial

The 590,000 square feet.

Kevin Salsberg, President and Chief Executive Officer

I would say they would be in line with our current rents. Obviously, the industrial property probably will be a little bit lower, but it would also be in line with our industrial portfolio. They were also at market. So I don't think there'd be much in the way of deviation from the average.

Tal Wooley, National Bank Financial

Okay. And then, I appreciate the conversation you've sort of given around assessing for value this quarter. I guess my question is this. Going through that process with the appraisal and your own work and talking to the community, the broader community, would it sort of suggest to you that maybe you could have been more aggressive prior to this move in rates with respect to cap rates?

Kevin Salsberg, President and Chief Executive Officer

And just to make sure I understand your question, do you mean over the last number of years writing down our cap rates?

Tal Wooley, National Bank Financial

Yes, that you—possibly you could have been a little bit—you could have maybe brought up valuations a little bit more prior to this move in cap rates, just given where things kind of are sitting right now.

Kevin Salsberg, President and Chief Executive Officer

Well I think we've always pegged our cap rates where we think the market is. I would certainly suggest we've taken a conservative view of the market, both over the last number of years as cap rates have trended down, and I think we would likely take a similar approach as we anticipate possible movements upwards. But no, I don't think we should have been more aggressive. I think this gives us a little bit of leeway to wait for this period of price discovery to unfold and figure out really where cap rates land. I mean, we don't want to be guessing at where fair value is. We want to be using our—as Lesley said in the call, remarks are consistent, similar methodology to pinpoint where we think the value of our portfolio sits.

Tal Wooley, National Bank Financial

Okay. And then just maybe you can give a little bit of colour in terms of what you're seeing in terms of third party acquisitions? Obviously, I would expect volumes probably significantly lower than it normally is. Anything you can say with respect to pricing of assets right now?

Kevin Salsberg, President and Chief Executive Officer

Yes. In the retail space, for sure, transaction volume has really just ceased through Q2. I've seen a couple of new offerings come to market. So, I think it'll be really interesting probably as we head into the Q4, end of year period to see if those trade and at what prices.

On the industrial side, I think we're seeing a bifurcation of product type where there's much greater interest in short-term lease in even small (inaudible) product where people still feel like they can get at the rent expiries and mark-to-market. The longer weighted average, that is still very much of interest. I think it's just the IRRs are a little bit more challenged. So on a cap rate basis those will—we'll see expansion there. There's probably a few trades that are in the market right now that could set benchmark on that.

So, I think you'll continue to see that. I think on the retail, just further to your initial question, I think what we saw in the cap rate survey was coming from a relatively higher base. It's probably less subject to larger swings on a percentage basis in terms of valuations and cap rates.

Tal Wooley, National Bank Financial

Okay. And then if you can just remind me, is there an automatic rent formula on the renewal for the CTC leases? I would have known this cold at the time of the IPO, but it's been a long time since then. I can't really remember the formula.

Kevin Salsberg, President and Chief Executive Officer

But we're happy to remind you, Tal. It's okay. So, the leases prescribed that rents in the renewal term is to be set at market, not less than the amount paid at the end of the initial term and not greater than the ceiling that is somewhat tied to inflation but capped at about 112 percent.

Tal Wooley, National Bank Financial

And so can you give the average renewal spread on the leases that had been renewed thus far?

Kevin Salsberg, President and Chief Executive Officer

Yes. I mean, to remind you, Tal, we've talked about this in past calls, even though that's what the lease calls for, in discussions with CTC, we have thus far with those IPO or subsequently acquired Canadian Tire properties agreed to continue the annual rent escalations as they exist in the lease through the renewal term. So on average, that would be the 1.5 percent annual increases. As of now, that formula seems to be working, but that's not to suggest at any point in time either party couldn't go back and say they want to stick by the letter on the contract.

Tal Wooley, National Bank Financial

Perfect. All right, thanks everybody.

Kevin Salsberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from Jenny Ma with BMO Capital Markets. Please go ahead.

Jenny Ma, BMO Capital Markets

Thank you. Good morning. Maybe just a clarification, Kevin, on what you just mentioned about the CTC renewal terms. So you said the ceiling is not more than 112 percent of the expiring rent. Is that correct?

Kevin Salsberg, President and Chief Executive Officer

Yes, that's correct.

Jenny Ma, BMO Capital Markets

Now is that in weighted average, which would include the rent steps, or is that 112 percent on day one of the renewal and then there's rent steps on top of that?

Kevin Salsberg, President and Chief Executive Officer

That's 112—well, it's reset at a market rent, so that's presumed to be flat amount for the five-year option, and that 112 percent is the amount greater than the rent on the last day of the expiring term.

Jenny Ma, BMO Capital Markets

So that is the weighted average then. Is that one way to think about it?

Kevin Salsberg, President and Chief Executive Officer

For the five-year renewal, yes.

Jenny Ma, BMO Capital Markets

For the duration of the lease? Yes. Okay. So I guess my question is, given the inflation we've seen, are there any triggers or data points where you start to sort of rethink that 1.5 percent rent step? I'm not sure how much wiggle room there is with CTC, but is that something you might be seeing when you're negotiating with some of your smaller tenants? I recognize you guys don't have many of them, but what I'm just trying to think through is, at what point do you start to see inflation figure into negotiating some of these rent escalations?

Kevin Salsberg, President and Chief Executive Officer

I don't think that has any influence on the discussions we're having with our smaller tenants. I think we've been pretty successful with our renewal program there. Albeit, a much smaller percentage of our portfolio, I think, on average, we're probably seeing rental lifts in the high single-digits. Obviously, inflation is a consideration as we think through our renewals with Canadian Tire, but we certainly like the 1.5 percent, which provides organic growth in the base portfolio. The compounding effect of that escalation is also somewhat meaningful to us over an extended period of time. And it remains to be seen, obviously, the length of time that the inflationary period is with us and also its impact specifically on retail rents.

So I think as of right now, we're pretty content with the structure. Obviously, as we get to each discrete lease negotiation, we're thinking our way through it and what makes sense for us and what makes sense for Canadian Tire, and obviously, trying to look at the portfolio on a holistic basis as well just to make sure we're continuing to transact on market terms and it works for both parties.

Jenny Ma, BMO Capital Markets

Okay, great. And I wanted to turn to my next question on the debt capital markets. Recognize you guys have very little rolling or floating, so that's a good position to be in these days. But maybe this is for Lesley. Are you getting any indications on what unsecured debt is coming in at and what that spread might be to secure debt and if it remains elevated as we've seen in the past few months?

Lesley Gibson, Chief Financial Officer

Yesterday, I mean, we—we do poll the market and see sort of what some of the other peers and people are doing. We're not currently actively in the unsecured market. So as it relates to our specific assets, no (inaudible). Yes, obviously, there's been a number of times over the years, etc., where the secured debt is a cheaper option, etc., but I think we also, I guess (inaudible), as you mentioned, fortunate not to perhaps have any immediate term need for some of that. I mean, polls still look at not just the rate but also the flexibility that some of the unsecured debt does give us.

So we'll definitely look at those but I'm not sure that just because the secured debt is less expensive now that you'll see a big change in our financing strategy.

Jenny Ma, BMO Capital Markets

Okay. And I guess my follow-up to that is, this is definitely going to be academic, because there's no real need for it. But is there a point at which the spread between unsecured and secured becomes wide enough that CT would consider going secure? I mean, I know you like the flexibility, but CT has a lot of it. So is that something worth considering or would the flexibility be the paramount consideration?

Lesley Gibson, Chief Financial Officer

No, Jenny, I think there's definitely an inflection point where we would consider a piece of those—a fixed of secured debt. We do have a number of assets that could easily be suited to sort of be circled up into a pool of assets to be securitized. So, there is definitely that. We also have Canada Square where we do have property level debt with our co-owner Oxford Properties. So, that strategy for that asset will continue to have some property specific at secured debt as well.

Jenny Ma, BMO Capital Markets

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

Operator

Thank you. Our next question is from Pammi Bir with RBC Capital Markets. Please go ahead.

Pammi Bir, RBC Capital Markets

Thanks. Good morning. In terms of the 6.8 percent cap rate just on those new investments, I know it's not a huge amount, but that is a bit higher than—the cap rates already is a bit higher than the last several quarters of investments in the low sixes. I'm just curious, was that maybe a function of anticipating some higher financing rates, or just maybe the nature of the assets or their locations?

Kevin Salsberg, President and Chief Executive Officer

Hi Pammi. I'd say a little bit of both. I mean, they were in smaller markets in Alberta. We're also kind of being mindful of the current rate environment. So, I think we're satisfied with the yield on the projects. I think, obviously, going forward, as we enter into new terms on new deals with Canadian Tire and other—besides tenants, we're being mindful of our cost of financing and certainly to make sure that our development investment activity remains accretive.

Pammi Bir, RBC Capital Markets

Thanks very much. That's all I had.

Kevin Salsberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from Sam Damiani with TD Securities. Please go ahead.

Sam Damiani, TD Securities

Thanks. Good morning everyone. The only question I had was just on your discussions, ongoing discussions with Canadian Tire with respect to potential new expansions or additional stores in the next near to medium term. How does that pipeline look today versus, I guess, historically in terms of is it above average, below average, kind of in line with the average just in terms of framing how we should think about square footage growth on the retail side going forward?

Kevin Salsberg, President and Chief Executive Officer

Sure. Sam, as you'll recall, Canadian Tire held an investor day earlier this year where they announced some updated capex programs, one of which was related to a bricks-and-mortar both in the retail and the supply chain. Obviously, CT REIT is a net beneficiary of that program, as we'll be funding a large component of it.

So I would say, historically, related to average since IPO, we'd probably be above average. Historically, as it relates to our run rate in terms of project announcements and what you currently see in our development table over the last, call it, year, year and a half, we're probably expecting more of the same going forward.

Sam Damiani, TD Securities

That's great. Thanks very much. I'll turn it back.

Kevin Salsberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. As there are no further questions at this time, I will turn the call over to Kevin Salsberg, President and CEO, for closing remarks.

Kevin Salsberg, President and Chief Executive Officer

Thank you, Valerie. We delivered solid results in the second quarter, improving the quality of our asset base and securing additional lease extensions with Canadian Tire; all of which serves to highlight the durability of our business model. Our focus remains on expanding our exceptional retail and industrial asset base, while adding to our robust pipeline of development opportunities in order to continue to drive growth in AFFO per unit and distributions. With our strong balance sheet, CT REIT is well positioned to navigate through this current period of uncertainty, and we will continue to be opportunistic with the goal of delivering attractive risk-adjusted returns for our Unitholders over the long term.

Thank you all for joining us this morning. I hope you all enjoy the rest of your summers, and we look forward to speaking to you again in November after we release our Q3 results.

Operator

Thank you. This concludes today's call. You may now disconnect.
