

# INOVALIS

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REAL ESTATE INVESTMENT TRUST

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## **INOVALIS REAL ESTATE INVESTMENT TRUST REPORTS FINANCIAL RESULTS FOR THE THIRD QUARTER OF 2014.**

**Toronto, Ontario, November 11, 2014** – Inovalis Real Estate Investment Trust (the “REIT”) (TSX: INO.UN) today reported its financial results for the third quarter of 2014. Inovalis REIT’s management team will be holding a conference call on Thursday November 13, 2014 at 11:00 am EST to discuss the results. The dial-in numbers for the conference call are: in Toronto 1-416-764-8688; outside Toronto (toll free, within North America) 1-888-390-0546.

## **HIGHLIGHTS**

- Funds from Operations (FFO) of \$2.6 million (or \$0.20 per unit) for the 3-month period ended September 30, 2014 and of \$8.3 million (or \$0.65 per unit) for the 9-month period ended September 30, 2014
- Adjusted Funds from Operations (AFFO) of \$2.8 million (or \$0.22 per unit) for the 3-month period ended September 30, 2014 and of \$8.9 million (or \$0.70 per unit) for the 9-month period ended September 30, 2014
- AFFO cash payout ratio is 93.7% for the 3-month period ended September 2014 and 88.2% for the 9-month period ended September 30, 2014. The increase in the cash payout ratio in comparison to the quarter ended June 30, 2014 of 88.9% is due to the fact that the REIT has \$19.8 million of cash available for future acquisitions. The payout ratio will decrease when additional cash is generated by these acquisitions
- Overall occupancy rate of 92.8% with a weighted average lease term of 6.9 years and diversified tenant base with over 85% of the leases being signed with French public agencies, being guaranteed by large German or international banks or being signed with an affiliate of an investment grade corporate
- During the quarter, the REIT completed the acquisition of a 217,431 square feet property located in Duisburg (Germany) on a 50-50 co-ownership arrangement basis with a strategic, global institutional investor that has a long-standing relationship with Inovalis SA (closed on July 11, 2014). During the quarter, this investment generated \$375 thousand of interest income and increased in value by \$82 thousand. This investment is reflected in the financial statements using the equity method of accounting
- As of September 30, 2014, the debt to book value stands at 56.5%, slightly higher than our long-term targeted range of 50 to 55% but net of the \$19.8 million of the cash available, this debt to book value stands at 53.4%
- Subsequent to the quarter-end, on November 6, 2014, the REIT closed a \$37.0 million equity offering aimed at purchasing two office properties located in the Greater Paris Region and at funding an acquisition loan related to third property located in Paris. The loan will give the REIT a right of first opportunity to purchase the related property at a discount once it meets the investment criteria of the REIT. Further to these acquisitions, expected to be immediately accretive to the REIT’s AFFO, the REIT will have interests in seven properties located in France and in Germany. On top of this \$37.0 million capital increase, Inovalis SA has also subscribed for an additional \$4.1 million in the form of Exchangeable securities in the REIT, resulting in a 12.5% ownership in the REIT (post equity offering).

## OPERATING AND FINANCIAL SUMMARY

<i>(thousands of CAD\$ except per Unit and other data) As at</i>	September 30, 2014	Dec. 31, 2013
<b>Operational information</b>		
Number of properties	5	4
Gross leasable area (sq.ft)	638,227	529,267
Occupancy rate (end of period) <sup>(2)</sup>	92.8%	96.0%
Weighted average lease term	6.9 years	7.5 years
Average capitalization rate <sup>(3)</sup>	7.2%	7.6%
<b>Financing information</b>		
Level of debt (debt-to-book value) <sup>(4)</sup>	56.5%	44.2%
Level of debt (debt-to-book value, net of cash) <sup>(4)</sup>	53.4%	42.8%
Weighted average term of principal repayments of debt	8.6 years	4.2 years
Weighted average interest rate <sup>(5)</sup>	2.24%	1.44%
Interest coverage ratio <sup>(6)</sup>	3.3 x	4.0 x

<i>(thousands of CAD\$ except per Unit and other data)</i>	3-month period ended		9-month period ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013 <sup>(1)</sup>
<b>Operating results</b>				
Rental income	4,291	4,409	13,836	7,893
Net rental income	4,608	4,825	12,759	7,158
Profit/(Loss) for the period	2,158	5,699	(4,829)	13,426
Funds from Operations (FFO) <sup>(7)(8)</sup>	2,554	2,467	8,284	4,424
Adjusted Funds from Operations (AFFO) <sup>(7)(8)</sup>	2,812	2,848	8,932	5,285
FFO per Unit (diluted) <sup>(7)(8)(9)</sup>	0.20	0.20	0.65	0.35
AFFO per Unit (diluted) <sup>(7)(8)(9)</sup>	0.22	0.23	0.70	0.42
<b>Distributions</b>				
Declared distributions on Units and Exchangeable securities	2,635	2,596	7,874	4,924
Declared distribution per Unit (diluted) <sup>(9)</sup>	0.21	0.21	0.62	0.39
AFFO payout ratio <sup>(7)</sup>	93.7%	91.2%	88.2%	93.2%

- (1) As the initial properties were purchased in April 2013, the 9-month period ended September 30, 2013 comprised only 167 days
- (2) Taking into account the Vendor Lease, occupancy rate is 95.2% as of September 30, 2014
- (3) Calculated on annualized rental income (based on rental income for the passing quarter)
- (4) Debt-to-book value is defined as total debt divided by total assets. Debt-to-book value, net of cash, is defined as total debt divided by total assets, each of which excludes \$19.8 million of cash and equivalent at September 30, 2014. Takes into account 50% interest in the Duisburg property
- (5) Calculated as the weighted average interest rate paid on the finance leases and the mortgage loans
- (6) Calculated as net rental income adjusted for IFRIC 21 plus interest, less general and administrative expenses, divided by interest expense on the financial leases
- (7) FFO and AFFO are key measures of performance used by real estate companies. However, they are not defined under IFRS, do not have standard meanings and may not be comparable with other industries or issuers
- (8) The reconciliation of FFO and AFFO to net income can be found under the section *Non-IFRS Financial Measures* of the MD&A for the quarter ended September 30, 2014
- (9) Based on the weighted average number of Units, i.e. 12,775,265 and 12,726,321 for the 3-month and 9-month periods

*“During the past quarter, we closed the previously announced acquisition of the Duisburg property. I am convinced that owning properties on a joint-venture basis with institutional partners, as is the case for this transaction, is a value-enhancement tool for our company with a better diversification of our risk profile. We could even use that approach on existing assets in addition of the cash on hands to materialize future transactions. The recent closing of a \$37 million equity offering also gave us the ability to buy two additional office properties in Greater Paris area and to fund an acquisition loan for a third office property located in Paris. Granting such a loan is a strategic way for the REIT to benefit from a right of first opportunity to purchase at a discount a downtown Paris office property once it meets its investment criteria. We will try to seize other similar investment opportunities in the future”* said Stéphane Amine, Chairman of the Board of Inovalis REIT.

## **DISCLAIMER**

Information appearing in this news release is a select summary of results. The financial statements and management’s discussion and analysis for the REIT are available at [www.inovalisreit.com](http://www.inovalisreit.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## **ABOUT INOVALIS REAL ESTATE INVESTMENT TRUST**

Inovalis Real Estate Investment Trust is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario. The REIT has been created for the purpose of acquiring and owning office properties primarily located in France and Germany but also opportunistically in other European countries where assets meet the REIT’s investment criteria. The REIT currently owns an interest in five office properties in France and Germany, comprising 638,227 square feet (59,293 square metres) of gross leasable area (taking into account the 50% interest in the Duisburg property). For further information, please contact:

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