dream office REIT

DREAM OFFICE REIT REPORTS Q3 2018 RESULTS

TORONTO, NOVEMBER 8, 2018, DREAM OFFICE REAL ESTATE INVESTMENT TRUST (D.UN-TSX) or ("Dream Office REIT", the "Trust" or "we") today announced its financial results for the three and nine months ended September 30, 2018. Management will host a conference call to discuss the results at 4:00 p.m. (ET) today, November 8, 2018.

FINANCIAL HIGHLIGHTS

SELECTED FINANCIAL INFORMATION	Three months ended			Nine months ended	
(unaudited) (In thousands of dollars except per unit amounts)	**September 30, 2018**	June 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Operating results					
Net income (loss)	**$ 41,382**	$ 25,386	$ (637)	**$ 99,289**	$ 34,055
Comparative properties net operating income ("NOI")[1]	**35,306**	35,794	36,604	**106,734**	110,572
Funds from operations ("FFO")[1]	**26,688**	27,912	44,653	**90,060**	165,822
Per unit amounts					
Net asset value ("NAV")[1]	**$ 24.40**	$ 23.95	$ 22.40	**$ 24.40**	$ 22.40
FFO (diluted)[1][2]	**0.40**	0.40	0.48	**1.27**	1.61
Distribution rate[3]	**0.25**	0.25	0.25	**0.75**	1.00

Footnotes: please refer to definitions on page 6.

SELECTED FINANCIAL INFORMATION	As at		
(unaudited)	**September 30, 2018**	June 30, 2018	September 30, 2017
Units			
REIT A Units (in thousands)	**60,037**	60,188	75,878
LP B Units (in thousands)	**5,234**	5,234	5,234
Total units (in thousands)[4]	**65,271**	65,422	81,112
Portfolio information			
Total number of properties[5]	**34**	38	46
Total number of properties under development	**2**	—	—
Total number of properties held for future redevelopment	**1**	3	1
Total gross leasable area ("GLA") (in thousands of sq. ft.)[5]	**6,619**	7,382	8,544
Total investment properties value (in thousands of dollars)[5]	**$ 2,614,693**	$ 2,750,839	$ 2,837,363
Comparative occupancy rate - including committed (period-end)[6]	**94.2%**	94.1%	94.6%

Footnotes: please refer to definitions on page 6.

- **Net income for the quarter and year-to-date:** For the three months ended September 30, 2018, the Trust generated net income of $41.4 million, consisting of net rental income of $37.4 million, fair value adjustments to investment properties of $24.8 million and share of income from our investment in Dream Industrial REIT of $5.6 million, which was offset by interest expense on debt and subsidiary redeemable units of $17.1 million, fair value adjustments to financial instruments of $4.4 million, general and administrative expenses of $3.2 million, net losses on transactions, leasing and other activities of $1.5 million and cumulative other items of $0.2 million.

For the nine months ended September 30, 2018, the Trust generated net income of $99.3 million, consisting of net rental income of $119.3 million, share of income from our investment in Dream Industrial REIT of $30.4 million and fair value adjustments to investment properties of $27.4 million, which was offset by interest expense on debt and subsidiary redeemable units of $49.7 million, fair value adjustments to financial instruments of $12.5 million, general and administrative expenses of $9.5 million, net losses on transactions, leasing and other activities of $5.2 million and cumulative other items of $0.9 million.

- **Comparative properties NOI[1] for the quarter and year-to-date:** For the three months ended September 30, 2018, NOI from comparative properties declined $0.5 million or 1.4% when compared with the prior quarter, mainly driven by Toronto downtown. Toronto downtown saw a $0.3 million or 1.5% decrease in comparative properties NOI over the prior quarter mainly due to a tenant downsize at 330 Bay St. for approximately 16 thousand square feet and the elimination of the Toronto vacancy tax rebate program in June 2018 which had an impact on 438 University Ave. With respect to the vacant space at 330 Bay St., we have secured the majority of this space with a five year lease that commences in Q1 2019, with net rents 33% higher than the previous net rents. Partially offsetting these declines during the quarter included higher occupancy and rent steps in certain properties within this region.

  For the three and nine months ended September 30, 2018, NOI from comparative properties decreased by 3.5% over the prior year comparative periods, primarily driven by previously known large vacancies in downtown Toronto (438 University Ave.) and downtown Montréal (700 De la Gauchetière St. W. or 700 DLG). In downtown Toronto, Loyalty One at 438 University Ave. vacated 0.2 million square feet at the beginning of Q4 2017 which is set to be occupied by a new government tenant for a term of seven years commencing in December 2018. At 700 DLG in Montréal, Bell Canada vacated approximately 0.2 million square feet at the beginning of Q2 2018, of which 98 thousand square feet took occupancy immediately, The Trust is currently marketing the remaining 87 thousand square feet of vacant space at 700 DLG. We believe that the asset is well positioned to capitalize on a growing economy, record low unemployment rate and strengthening technology sector in Montréal's downtown office market. Partially offsetting these declines included increases in comparative properties NOI in the Calgary region for the three and nine months ended September 30, 2018 of 17.2% and 29.6%, respectively over the prior year comparative periods, mainly driven by uplifts in occupancy, net of lower net rents. The Trust has sold off the majority of its underperforming assets and reduced its portfolio to its best properties in the Calgary region, with an in-place occupancy of over 90%.

  As discussed in previous quarters, major vacancies in our comparative property portfolio will heighten the volatility of our operating performance for the balance of 2018, but we expect our operations to stabilize and improve in 2019.

- **Diluted FFO per unit[1] for the quarter and year-to-date:** Diluted FFO per unit for the three months ended September 30, 2018 was $0.40, compared to $0.40 ($0.39 excluding lease termination fees and other non-recurring items) at Q2 2018 and $0.48 ($0.47 excluding lease termination fees and other non-recurring items) at Q3 2017. Diluted FFO per unit for the nine months ended September 30, 2018 was $1.27 ($1.18 excluding lease termination fees and other non-recurring items) compared to $1.61 ($1.55 excluding lease termination fees and other non-recurring items) in the prior year comparative period.

  The quarter-over-quarter diluted FFO per unit remained stable at $0.40 primarily driven by the positive impact of unit buybacks and debt reduction (from reallocation of capital from asset sales), offset by slightly lower comparative properties NOI[1].

  The year-over-year decrease in diluted FFO per unit for the three and nine months ended September 30, 2018 was mainly due to asset sales (partially offset by unit buybacks and debt reduction) (-$0.07 and -$0.26, respectively), along with lower comparative properties NOI[1] (-$0.02 and -$0.05, respectively), and other items (+$0.01 and -$0.03, respectively).

- **NAV per unit[1]:** As at September 30, 2018, our NAV per unit was $24.40, compared to $23.95 at June 30, 2018 and $22.40 at September 30, 2017, up $0.45 or 1.9% and $2.00 or 8.9%, respectively.

  The quarter-over-quarter and year-over-year increase in NAV per unit of $0.45 and $2.00, respectively, were mainly due to the fair value gains on properties in the Toronto downtown region, unit buybacks and cash flow retention from operations.

  NAV per unit has increased for six consecutive quarters since Q2 2017.

- **Properties under development:** We excluded 357 Bay St. in Toronto downtown and 1900 Sherwood Place in Regina from our comparative portfolio and have classified them as properties under development. During the quarter, the Trust secured long-term leases at each of the properties and over the course of the next two years, will undergo significant redevelopment programs to upgrade the building, improve the cash flow profile and value of each asset.

  At 357 Bay St. in Toronto downtown, we secured a lease for the entire building with WeWork for approximately 65 thousand square feet commencing in second half of 2020 for a term of 15 years, with net rental rates starting at $45 per square foot, with annual rent escalators. The Trust intends to invest approximately $29 million into the asset over the next two years, which includes a complete reconstruction of the building interior, all associated capital improvements and fit-outs and tenant allowances for fixtures. In addition to the Trust's share of investment, WeWork is committed to investing substantial amount of capital into the building and workspace. Upon completion, 357 Bay St. will transform into a best-in-class boutique office building in downtown Toronto. WeWork is a U.S.-based company that operates a global network of real estate solutions and services ranging from flexible, community-oriented workspace for entrepreneurs to more complex global solutions for Fortune 500 companies. WeWork has over 250,000 members spanning 253 locations across 74 cities in 22 countries *(Source: WeWork 2018 Economic Impact Report)*. 357 Bay St. will be the first property that is entirely dedicated to WeWork in Canada and will serve as their headquarter and national flagship location.

(Picture is for illustrative purposes only and actual design may differ)

"The 357 Bay St. project represents Dream Office REIT's official launch of re-imagination of our Bay Street village including many of our assets on Bay, Temperance and Richmond St.," said Michael J. Cooper, Chief Executive Officer of Dream Office REIT. "Our partnership with WeWork at 357 Bay St. confirms meaningful office demand from a quality tenant at a great location and we will continue to invest in these assets to create value and deliver the best tenant experience."

At 1900 Sherwood Place in Regina, we secured a lease with the Co-operators for approximately 114 thousand square feet, commencing in the second half of 2021 for a term of 18 years. The building will be renamed as "The Co-operators Place" and serve as a hub for Co-operators' life and health insurance operations for over 650 employees. As part of the lease, we will be investing approximately $26 million in leasing and value-add capital into the property over the next three years, which includes a 13 thousand square foot expansion to the building, adding substantially more parking space, replacing the heating, ventilation and air-conditioning system, curtain wall upgrades at the building entrance, exterior and common area updates. These capital initiatives will enhance the overall experience for the new tenant as well as the existing tenants at the building once complete.

The table below summarizes select financial information related to the two properties under development as at September 30, 2018.

SELECTED FINANCIAL INFORMATION (unaudited) (in millions of dollars) Property	Carrying value at time of reclassification	Capital invested to date	Estimated capital remaining	Estimated NOI*	Estimated yield on cost and original carrying value
357 Bay Street, Toronto	$ 24.1	$ —	$ 29	$ 2.9	5.5%
1900 Sherwood Place, Regina	42.2	2.6	23	5.4	8.0%

*Does not include contractual annual escalators over the term of the leases

- **Properties held for future redevelopment:** Includes a 15 acre site held for future redevelopment at 2200 Eglinton Ave. E. in Scarborough, located at the north-west corner of Eglinton Ave. E. and Birchmount Rd. The Trust's asset management and leasing strategies for 2200 Eglinton Ave. E. are applied with future redevelopment strategies in mind. The Trust filed an Official Plan Amendment application during the quarter, with a view towards redevelopment for mixed use, either in the form of a major overhaul of the property or as a ground up development. In Q1 2018, we secured a 97 thousand square foot lease at this site, with commencements staggered over 2019. Accordingly, we expect to be operating cash flow neutral in 2020, enabling us to focus on our development efforts for this site without negatively impacting our NOI.

CAPITAL HIGHLIGHTS

KEY FINANCIAL PERFORMANCE METRICS (unaudited)				As at
	September 30, 2018	June 30, 2018	December 31, 2017	September 30, 2017
Financing				
Weighted average face rate of interest on debt (period-end)[7]	**3.94%**	3.85%	3.90%	3.93%
Interest coverage ratio (times)[1][8]	**2.8**	2.8	3.2	3.2
Net total debt-to-adjusted EBITDAFV (years)[1]	**9.1**	9.3	7.1	6.5
Level of debt (net total debt-to-net total assets)[1][8]	**46.2%**	48.1%	39.6%	39.7%
Level of debt (net secured debt-to-net total assets)[1][8]	**41.4%**	43.4%	30.6%	30.0%
Average term to maturity on debt (years)	**4.0**	4.1	4.5	4.7
Available liquidity and unencumbered assets				
Cash and cash equivalents on hand (in millions)	**$ 12.3**	$ 15.5	$ 97.0	$ 259.8
Undrawn demand revolving credit facilities (in millions)	**220.5**	213.6	396.6	406.9
Available liquidity (in millions)[1]	**$ 232.8**	$ 229.1	$ 493.6	$ 666.7
Unencumbered assets (in millions)[1]	**$ 140.0**	$ 113.0	$ 299.0	$ 160.0

Footnotes: please refer to definitions on page 6.

- **Dispositions update for the quarter and year-to-date:** For the three months ended September 30, 2018, the Trust sold IBM Corporate Park located in Calgary for $97.4 million or approximately $272 per square foot. For the nine months ended September 30, 2018, the Trust sold six properties located in Alberta and Saskatchewan totalling $202.7 million. At quarter-end, the Trust has four properties located in Calgary classified as assets held for sale totalling $99.1 million.

- **REIT A Units repurchased for cancellation for the quarter and year-to-date:** For the three and nine months ended September 30, 2018, the Trust purchased for cancellation approximately 151 thousand REIT A Units ($24.70 per unit for a cost of $3.7 million) and 13.8 million REIT A Units ($23.53 per unit for a cost of $325.0 million), respectively, under the NCIB and SIB programs.

  Subsequent to quarter-end, the Trust purchased for cancellation an additional 280 thousand REIT A Units under the NCIB at a cost of approximately $6.6 million or $23.66 per unit.

- **Sound capital structure with ample liquidity:** We ended the quarter with a net total debt-to-net total assets ratio(1) of 46.2%, net total debt-to-adjusted EBITDAFV(1) of 9.1 years, and interest coverage ratio(1) of 2.8 times. Our available liquidity(1) of approximately $233 million comprises undrawn demand revolving credit facilities totalling approximately $221 million and $12 million of cash and cash equivalents on hand as at September 30, 2018. The overall net total debt-to-net total assets ratio(1) has declined 190 basis points from 48.1% in Q2 2018 to 46.2% this quarter mainly driven by a reduction in our drawings on our credit facilities with net proceeds from dispositions. We expect leverage to further decline using net proceeds from future asset sales.

"Over the next year, Dream Office REIT will continue to sell non-core assets, with net proceeds used to reduce debt, reinvest into our best assets and repurchase units on an opportunistic basis," said Jay Jiang, Chief Financial Officer of Dream Office REIT. "Our capital allocation strategy will prioritize NAV growth and improvement of our balance sheet over the long term."

OPERATIONAL HIGHLIGHTS

SELECTED FINANCIAL INFORMATION			
(unaudited)			As at
	September 30, 2018	June 30, 2018	September 30, 2017
Comparative Portfolio(6)			
Occupancy rate - including committed (period-end)	**94.2%**	94.1%	94.6%
Occupancy rate - in-place (period-end)	**88.3%**	88.2%	91.1%
Average in-place and committed net rent per square foot (period-end)	**$ 20.87**	$ 20.94	$ 20.60
Weighted average lease term (years)	**5.0**	4.9	5.0

Footnotes: please refer to definitions on page 6.

- **In-place occupancy:** Comparative portfolio in-place occupancy on a quarter-over-quarter basis remained relatively stable at 88.3% when compared to 88.2% at Q2 2018. Sussex Centre in Mississauga and 150 Metcalfe Street in Ottawa experienced positive leasing absorption during the quarter totalling approximately 9 thousand square feet while all other regions remained relatively stable. Toronto downtown experienced a marginal decline in occupancy during the quarter mainly due to a tenant downsize at 330 Bay St. as mentioned above.

  The decline in the comparative portfolio in-place occupancy on a year-over-year basis was largely due to the known large vacancies mentioned above at 438 University Ave. and 700 DLG and vacancies in the Non-core markets region. The declines in the Non-core markets region were mainly due to 31 thousand square feet of negative absorption at London City Centre and 8 thousand square feet of negative absorption in Saskatchewan.

  At September 30, 2018, vacant space committed for future occupancy approximated 387 thousand square feet, bringing our overall comparative portfolio in-place and committed occupancy to 94.2%. Of this future committed occupancy, approximately 358 thousand square feet is scheduled to take occupancy in the remainder of 2018, the majority of which is attributable to the government tenant that will take occupancy at 438 University Ave., Toronto, in December 2018 for a term of seven years.

- **Leasing activity:** For the three months ended September 30, 2018, approximately 376 thousand square feet of leases commenced, of which approximately 324 thousand square feet were renewals. The overall retention ratio for the quarter was 89%.

  To date, we have secured 2018 lease commitments totalling approximately 1.8 million square feet in our comparative portfolio, representing over 110% of our 2018 lease maturities. The Trust has also leased 64% of the 2019 lease maturities.

  Leasing momentum in downtown Toronto remains robust given the low vacancy rates, which remain amongst the lowest in North America. To date, we have completed over 143% of our 2018 lease maturities and 56% of 2019 lease maturities in the Toronto downtown region. During the quarter, the net rents for lease renewals that commenced in Toronto downtown were approximately 10% above expiring net rents. Further, as at September 30, 2018, the Toronto downtown market rents are estimated to be approximately 17% higher than our in-place and committed net rents. As a result of when leases are executed, there is typically a lag between leasing spreads relative to our estimates of the spread between estimated market rents and average in-place and committed net rental rates.

CALL

Management will host a conference call to discuss the results today, November 8, 2018 at 4:00 p.m. (ET). To access the conference call, please dial 1-888-465-5079 in Canada and the United States or 416-216-4169 elsewhere and use passcode 5098 584#. To access the conference call via webcast, please go to Dream Office REIT's website at www.dreamofficereit.ca and click on the link for News & Events, then click on Calendar of Events. A taped replay of the conference call and the webcast will be archived for 90 days.

OTHER INFORMATION

Information appearing in this news release is a select summary of results. The condensed consolidated financial statements and Management's Discussion and Analysis ("MD&A") of the Trust are available at www.dreamofficereit.ca and on www.sedar.com.

Dream Office REIT is an unincorporated, open-ended real estate investment trust. Dream Office REIT owns well-located, high-quality central business district office properties in major urban centres across Canada, with a focus on downtown Toronto. For more information, please visit our website at www.dreamofficereit.ca.

FOOTNOTES

(1) Comparative properties NOI, FFO, diluted FFO per unit, NAV per unit, interest coverage ratio, net total debt-to-adjusted EBITDAFV, level of debt (net total debt-to-net total assets), level of debt (net secured debt-to-net total assets), available liquidity, and unencumbered assets are non-GAAP measures used by Management in evaluating operating and financial performance. Please refer to the cautionary statements under the heading "Non-GAAP Measures" in this press release.

(2) A description of the determination of diluted amounts per unit can be found in section "Our Equity" under the heading "Weighted average number of units" of the MD&A.

(3) Effective with the July 2017 distribution, the Trust revised its monthly distribution to $0.08333 per unit, or $1.00 on an annualized basis.

(4) Total units includes 5.2 million LP B Units which are classified as a liability under IFRS.

(5) Excludes properties held for sale and future redevelopment and properties under development at the end of each period.

(6) Comparative occupancy rate and comparative portfolio excludes properties sold, held for sale and future redevelopment and properties under development at the end of Q3 2018.

(7) Weighted average face rate of interest on debt is calculated as the weighted average face rate of all interest bearing debt on balance.

(8) Interest coverage ratio, level of debt (net total debt-to-net total assets), and level of debt (net secured debt-to-net total assets) have been restated in the comparative periods to conform to current period presentation. For further details, please refer to the "Non-GAAP Measures and Other Disclosures" under the heading "Interest coverage ratio" and "Level of debt (net total debt-to-net total assets and net secured debt-to-net total assets)" in Dream Office REIT's MD&A for the three and nine months ended September 30, 2018.

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NON-GAAP MEASURES

The Trust's condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). In this press release, as a complement to results provided in accordance with IFRS, the Trust discloses and discusses certain non-GAAP financial measures, including comparative properties NOI, FFO, diluted FFO per unit, NAV per unit, interest coverage ratio, net total debt-to-adjusted EBITDAFV, level of debt (net total debt-to-net total assets), level of debt (net secured debt-to-net total assets), available liquidity, unencumbered assets, as well as other measures discussed elsewhere in this release. These non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts. The Trust has presented such non-GAAP measures as Management believes they are relevant measures of the Trust's underlying operating performance and debt management. Non-GAAP measures should not be considered as alternatives to net income, net rental income, cash flows generated from (utilized in) operating activities, cash and cash equivalents, total assets, non-current debt, total equity, or comparable metrics determined in accordance with IFRS as indicators of the Trust's performance, liquidity, cash flow, and profitability. For a full description of these measures and, where applicable, a reconciliation to the most directly comparable measure calculated in accordance with IFRS, please refer to the "Non-GAAP Measures and Other Disclosures" in Dream Office REIT's MD&A for the three and nine months ended September 30, 2018.

FORWARD LOOKING INFORMATION

This press release may contain forward-looking information within the meaning of applicable securities legislation, including statements regarding our objectives and strategies to achieve those objectives, future asset sales and use of proceeds from asset sales, our expected future operating cash flows, the future composition of our portfolio, future development plans, our expected cost to complete development activities, our expected income and yield from properties under development, the terms of and duration of secured tenant renewals, anticipated market rents, the volatility of our operating performance through the remainder of 2018 and 2019, our capital allocation strategy, and the future strength of our balance sheet. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dream Office REIT's control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest and currency rate fluctuations. Our objectives and forward-looking statements are based on certain assumptions, including that the general economy remains stable, interest rates remain stable, conditions within the real estate market remain consistent, competition for acquisitions remains consistent with the current climate and that the capital markets continue to provide ready access to equity and/or debt. All forward-looking information in this press release speaks as of the date of this press release. Dream Office REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise except as required by law. Additional information about these assumptions and risks and uncertainties is contained in Dream Office REIT's filings with securities regulators, including its latest annual information form and MD&A. These filings are also available at Dream Office REIT's website at www.dreamofficereit.ca.

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