

# INOVALIS

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REAL ESTATE INVESTMENT TRUST

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## INOVALIS REAL ESTATE INVESTMENT TRUST TO PURSUE “CORE+” STRATEGY AND ASSET RECYCLING PROGRAM WITH RENEWED BOARD AS STRATEGIC REVIEW PROCESS CONCLUDES

*SETS ANNUAL MEETING FOR JULY 13, 2021 AND ANNOUNCES \$0.307 PER UNIT SPECIAL DISTRIBUTION*

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**Toronto, Ontario, June 7, 2021** – Inovalis Real Estate Investment Trust (the “REIT”) (TSX:INO.UN) today announced its intention to pursue a strategy that includes new “core and core+” investments in its current and new European markets and special cash distributions to unitholders attributable to its asset recycling plan, following the completion of its strategic review process. It has also set July 13, 2021 for the annual meeting of unitholders (the “Meeting”) to consider, among other things, the election of new independent trustees nominated as part of the REIT’s board renewal process.

### **Strategic Review**

The strategic review process, first announced on October 28, 2020, was overseen by a special committee of independent members of the Board of Trustees (the “**Special Committee**”), with assistance from independent financial and legal advisors.

The Special Committee’s mandate was deliberately broad in order to enable it to consider a wide range of strategic alternatives available to the REIT. During its review process, the Special Committee considered and agreed to a renewed two-year extension to the REIT’s management agreement with Inovalis S.A., and considered and evaluated a number of expressions of interest relating to some or all of the assets of the REIT.

The Special Committee ultimately determined that it was in the best interest of the REIT and its unitholders to pursue a strategy as more particularly described below that it had developed in conjunction with management during its review process (the “**Strategic Plan**”).

### **Strategic Plan**

The REIT intends to pursue the following investment strategy:

#### Cash Deployment

- Invest in “core and core+” assets that meet the REIT’s investment criteria and that are accretive to AFFO/unit on a normalized leverage neutral basis of 50% primarily in France and Germany
- Consider investing up to 15% of total assets in other continental European markets such as Spain, where the manager currently has operations and expertise

The REIT is expected to deploy the majority of its cash on hand in furtherance of such strategy. The manager has currently identified 120 million Euros of potential acquisitions in its current markets which fit within such strategy, and that could close in 2021. However the REIT has not yet entered into any

agreements in connection with such acquisitions and there is no certainty any such acquisitions will be completed.

### Structure

- By the end of 2022, the manager intends to, either acquire or dispose of current joint ventures in accordance with their respective agreements in an attempt to simplify its corporate structure and governance.
- The REIT's preference will be to acquire new properties as wholly-owned assets.

### ***Participatory Distribution and Asset Recycling Plan***

The strategic review assisted in identifying the manager's strong track record of crystallizing value in mature assets in the REIT's portfolio. Expressions of interest on individual assets of the REIT also assisted in identifying attractive value opportunities yet to be realized.

The REIT intends to continue to sell mature assets where it believes value can be maximized and utilize the new capital to invest in higher return AFFO accretive opportunities.

As part of the strategic review process, the REIT has quantified the portion of its current balance sheet cash attributable to profitable asset monetization over IFRS fair market value as approximately \$20 million generated by the sale of the Vanves and Rueil properties. In order to allow the REIT unitholders to participate in these profitable sales, the REIT intends to implement a supplementary "participatory" distribution program to provide unitholders with 50% of the incremental profit generated from any such sales.

The Board of Trustees announced it will begin the "participatory" distribution program with a special distribution of \$10 million to be paid with the regular June distribution on July 15, 2021. This is based on 50% of the current cash attributable to sales over IFRS fair market value on the Vanves and Rueil properties, and represents \$0.307 per unit.

The REIT expects additional properties, including Jeuneurs, to be included in the Asset Recycling Plan, in which case not less than half of after-tax realized cash would be distributed. In all instances, remaining proceeds will be deployed in AFFO accretive acquisition opportunities in accordance with the above-noted investment strategy.

### ***Regular Monthly Distribution***

The Special Committee also performed a review of the sustainability of the REIT's current regular monthly distribution, taking into consideration current cash flow stability and deployment of the capital on its balance sheet for accretive acquisitions. It concluded that the current regular monthly distribution level should remain in place at \$0.06875 per unit (\$0.825 per annum) for the foreseeable future.

### ***Renewal of Management Agreement***

As previously announced and discussed in its Q1 MD&A, further to the Special Committee's review, the Board of Trustees approved an extension of the Management Agreement with Inovalis S.A. by way of entry into an amended and restated Management Agreement, effective April 1, 2021, with a term ending March 31, 2023, subject to an additional one-year extension.

The Board of Trustees and Inovalis SA also agreed that given its relative size, the REIT will aim to internalize the finance functions on, or before, April 1, 2022.

Other key features of the revised management agreement include:

- Strong incentive for the Manager to reduce G&A and outsourced services, including off-sets, scalable charges for G&A expenses in excess of budgeted amounts, and incentive payments to management where actual annual G&A expenses are significantly less than the budgeted expenses for that year;
- From January 1, 2021 until the completion of the internalization, the Manager will reimburse the REIT half of all costs for the finance function; and
- The asset management fee will be reduced by CAD\$500,000 once the internalization of the finance function is completed and the REIT has an option to fully internalize management once a market capitalization of CDN \$750 million is attained (based on the volume weighted average trading price of the REIT's units on its primary stock exchange).

The revised management agreement provides the Board and Manager with flexibility to continue to assess strategic options for the REIT while ensuring continuity of a professional and aligned European manager. The Special Committee also believes that the revisions to the Management Agreement better aligns the Manager's interests with those of the REIT and its unitholders, as the Strategic Plan is implemented.

### ***Performance Goals***

The REIT and the Manager have also agreed to certain goals and priorities for the REIT's ongoing business operations, including:

- Reducing normalized AFFO distribution payout ratio <95% in 12 months and <85% within three years
- Exiting all existing joint ventures by the end of 2022
- Achieving three year average AFFO/unit growth of 2-3% per year
- Evaluating the Asset Recycling "participatory" distribution program over a three-year period with the goal of increasing the overall distribution payout by a minimum of 10% annualized
- Increasing the institutional shareholder base to 25% over three years

### ***Investor communication and engagement***

The REIT recognizes it would benefit from an increased investor presence in Canada. One of the REIT's objectives is to become the preferred vehicle for investors to gain exposure to European Real Estate Assets in the Canadian REIT market. To achieve this, an active review and selection process for a Canadian-based investor relations group and on-ground presence is underway, with engagement expected by Q3. The REIT expects that a focused and consistent message in the marketplace relating to the unique asset selection and enhancement strategies of the manager will assist in improving its market presence. Going forward, the REIT also intends to compare its performance to a European REIT index in order to allow investors to better track its relative performance.

### **Three New Trustees to be Nominated as Part of Board Renewal Process**

The REIT has undertaken a board renewal initiative, resulting in the nomination of three new independent Trustee Nominees and two incumbent Trustees for election to the Board of Trustees at the REIT's upcoming annual unitholders' meeting to be held on July 13, 2021. It has been determined for a REIT of this size it would be more efficient to reduce the number of trustees from eight to five.

To that end, Jean-Daniel Cohen and Marc Manasterski will stand for re-election as incumbent Trustees at the Meeting, ensuring continuity and the preservation of institutional knowledge at the REIT. Three new

independent Trustee candidates – Mike Bonneveld, Laetitia Pacaud and Robert Waxman – will also stand for election to the Board of Trustees at the Meeting (together with Messrs. Cohen and Manasterski, the “Trustee Nominees”, each a “Trustee Nominee”). Each new independent Trustee Nominee is well qualified and will bring new energy and requisite skills and experience to the Board:

- Mike Bonneveld is Director of Acquisitions and VP Asset Management for The Skyline Group of Companies. In his role he leads the acquisition teams for each of Skyline Apartment REIT, Skyline Retail REIT, Skyline Commercial REIT and Skydev collectively which has AUM in excess of \$5.5B CDN. He has 26+ years of Canadian Real Estate experience, with previous roles at BMO Capital Markets Inc. and Scotia Capital Inc in their real estate corporate finance groups, as well as Director of Acquisitions at Allied Properties REIT;
- Laetitia Pacaud is COO and CFO at Epic Investment Services, a fully integrated North American real estate platform which owns MDC Realty Advisors in the United States. She is part of the Executive Leadership Team driving EPIC’s strategic growth plan in addition to leading corporate services. Since joining Epic, Laetitia developed the fund management line of business launching two real estate funds within the last 18 months. Prior to joining EPIC she was The President of Strathallen Capital Corp; and
- Robert Waxman is CFO at Skyline Investments (no relation to Mike Bonneveld and Skyline Group of Companies), a business with an asset base of \$740 million, over 2000 employees and operating in two countries and 9 US states. He has been involved in asset transactions and financings of over \$600 million in the 3+ years he has been at Skyline Investments.

“On behalf of the Trustees who will be leaving the Board following the Meeting, it has been our pleasure to serve the REIT and its unitholders”, said Dan Argiros, Chair of the Board of Trustees. “The dedicated service of all Trustees, including Michael Lagopoulos, Jo-Ann Lempert, Marc Manasterski, Stéphane Amine, Michael Missaghie, Jean-Daniel Cohen and Robert Picard has been particularly valuable during the strategic review and COVID-19 pandemic, as was everyone’s support for the Board renewal initiative. I believe the REIT has a bright future and look forward to following its evolution.”

### ***Forward-Looking Information***

Certain statements in this news release may constitute “forward-looking information” within the meaning of applicable Canadian securities laws (also known as forward-looking statements). Forward-looking information involves known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements or industry results expressed or implied by such forward-looking information. Forward-looking information generally can be identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “feel”, “intend”, “may”, “plan”, “predict”, “project”, “subject to”, “will”, “would”, and similar terms and phrases, including references to assumptions. Some of the specific forward-looking statements in this news release include, but are not limited to, statements with respect to the execution of the Strategic Plan, the REIT’s supplementary distribution program, the \$10 million special distribution to unitholders and future distribution levels, the REIT’s expectations with respect to the Asset Recycling Plan and the Jeuneurs property, the internalization of the finance functions of the REIT, the REIT’s performance goals, and the REIT’s plans regarding increased investor presence in Canada.

Forward-looking information is based on a number of key expectations and assumptions made by the REIT, including that the Canadian and European economies remain 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. Although the forward-looking information contained in this news release is based on what the REIT’s management believes to be reasonable assumptions, the REIT cannot assure investors that actual results will be consistent with such information.

Forward-looking information is provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward looking information involves significant risks and uncertainties and should not be read as guarantees of future performance or results as actual results may differ materially from those expressed or implied in such forward-looking information. Those risks and uncertainties include, among other things: global and local economic and business conditions; ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest and currency rate functions.

Additional information about risks and uncertainties related to the REIT is contained in the REIT's Annual Information Form for the year ended December 31, 2020 and in the REIT's Management's Discussion and Analysis dated March 31, 2021, both of which are available under the REIT's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The forward-looking information contained herein represents the REIT's expectations as of the date hereof, and is subject to change after such date. The REIT assumes no obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable law.

#### ***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.

#### **For further information, please contact:**

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