

INOVALIS

REAL ESTATE INVESTMENT TRUST

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INOVALIS REAL ESTATE INVESTMENT TRUST ANNOUNCES FINANCIAL RESULTS FOR THE FOURTH QUARTER AND THE YEAR ENDED DECEMBER 31, 2019

Toronto, Ontario, April 9, 2020 – Inovalis Real Estate Investment Trust (the “REIT”) (TSX: INO.UN) today reported strong financial results for the year ended December 31, 2019.

HIGHLIGHTS

- **\$51.5 Million Public Offering of Equity**

In December 2019, the REIT closed a secondary offering of 4,835,110 trust units (“Units”), inclusive of 609,710 Units issued pursuant to the exercise of the 15% over-allotment option, on a bought deal basis, at a price of \$10.65 per Unit for total gross proceeds to the REIT of \$51.5 million. The REIT used the net proceeds of the offering to fund the purchase price for the remaining interest in the Arcueil property (“Arcueil”) which was previously jointly held. See “Arcueil Joint Venture buyback” below. The remaining proceeds to be used to fund potential future acquisitions of office properties located in France and Germany and for potential capital expenditures relating to the re-positioning and/or re-development of currently owned properties.

- **Arcueil Joint Venture buyback**

On December 18th, 2019, the REIT has purchased the Arcueil property, previously held in a joint venture accounted for using the equity method. The winding up of the joint venture was completed on January 22, 2020. The property is located in the Vache Noire district of the southern rim of Paris and is fully leased to the Orange Group (formerly France Telecom) with the existing lease set to expire in March 2023. The property consists of 9 upper levels and 2 basement levels, with 253 parking spaces (40 outdoor and 213 indoor) and office floor plates of approximately 2,500 sq. m. and was acquired at an attractive capitalization rate of 7.7%, which will provide mid-single digit accretion to 2020 and 2021 AFFO per unit estimates

- **Rueil acquisition loan**

On December 19, 2019, the sale agreement for the underlying asset relating to the “Rueil development loan” was executed by the company which develops the project. The economics of this agreement confirm the budgetary assumptions applied by management in valuing the profit participation component of the loan since 2018 and allow management to forecast future (2020) fund inflows following the reimbursement of the loan, as per the initial loan plan. The gain in fair value of CAD\$2.9 million was recognized in relation to the profit participation component for the year ended December 31, 2019 and CAD\$9.5 million since the inception of the loan.

- **Sale of Vanves property**

The REIT closed the disposition of its Vanves property (“Vanves” or “Property”) on December 16th, 2019 for net proceeds of €95 million (CAD\$140.9 million). The Property was sold for €9 million (CAD\$13.4 million) above the December 31st, 2018 asset valuation and represents a capitalization rate of approximately 6%. The sale crystallizes a substantial increase in the property’s value for unitholders since acquisition in 2013 for €78 million, with the appreciation largely driven by capitalization rate compression and strong rental rate growth.

- **Leasing Operations**

Significant new leases and renewals were signed in December 2019 at the Duisburg property, confirming 100% committed occupancy for the 217,920 sq.ft building for the next seven years. Efforts continue to lease

space to reduce the remaining portfolio vacancies, selectively complete CAPEX improvements on vacant areas to attract tenants and maximize rent.

- **Net Rental Income**

For the portfolio of properties owned by the REIT (“IP Portfolio”), net rental income for Q4 2019 (adjusted for IFRIC 21) was a CAD\$5.52 million (EUR3.78 million), an increase over the CAD\$5.24 million (EUR3.48 million) adjusted net rental income for the same period in 2018. The gain in adjusted net rental income is mainly due to the income contribution from the Trio property, partially offset by the sale of the Hanover property and the departure of Smart&Co tenant in Courbevoie.

In Q4 2019, for the portfolio that includes REIT’s proportionate share in joint ventures (“Total Portfolio”), net rental income (adjusted for IFRIC 21) slightly declined by CAD\$0.06 million (EUR0.13 million) compared to the same period in the previous year, due to the negative effect of foreign exchange.

- **Funds from Operations (“FFO”), Adjusted Funds From Operations (“AFFO”)**

In Q4 2019, the REIT reported Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”) were of CAD\$0.22 and CAD\$0.26 per unit respectively. AFFO payout ratio improved, quarter to quarter, from 130.7% to 77.1%, mainly explained by less capital expenditure during the period, while the FFO pay-out ratio increased from 83.0% to 93.5%, still in line with REIT’s expectations.

- **Financing Activity**

The weighted average interest rate across the portfolio is 2.06% and the debt ratio is 38.4% (30.3% net of cash), comfortably within its mandated threshold of 60%. After its full re-letting in December 2019, the Duisburg property is to be refinanced by end of Q2 2020.

- **Restatement of the 2018 Consolidated Financial Statements**

The REIT also announced today that it has filed restated consolidated financial statements for the year ended December 31, 2018 to recognize an increase of 10% in the withholding tax rate used for the calculation of the deferred income tax liability as at December 31, 2018 following the Double Taxation Treaty (the “New Treaty”) ratified by France in March 2018 and Luxembourg on July 2, 2019, and effective as of January 1, 2020. Management had considered that it was probable as at December 31, 2018 that its Luxembourg subsidiary (“CCEU”) would have obtained the necessary authorization allowing the conversion of CCEU into a SIF, which would have resulted in the application of a reduced effective tax rate of 15%. Given that the regulatory approval required to convert to a SIF is considered a substantive process, the reduced effective tax rate should not have been applied in measuring the REIT’s deferred taxes until such time as the regulatory approval is obtained. The application process to convert CCEU to a SIF is still ongoing as at the date of these consolidated financial statements and therefore the REIT has filed the aforementioned restated financial statements for the year ended December 31, 2018 to reflect this change to the deferred tax liability.

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.

SOURCE Inovalis Real Estate Investment Trust

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