

INOVALIS

REAL ESTATE INVESTMENT TRUST

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INOVALIS REAL ESTATE INVESTMENT TRUST REPORTS FINANCIAL RESULTS FOR THE FOURTH QUARTER AND THE YEAR ENDED DECEMBER 31, 2017

TORONTO, March 20, 2018 /CNW/ - Inovalis Real Estate Investment Trust (the "REIT") (TSX: INO.UN) today reported its financial results for the fourth quarter and the year ended December 31, 2017.

HIGHLIGHTS

- Inovalis REIT ("Inovalis REIT", or the "REIT" or "we") is a Canadian REIT managed by Inovalis S.A. ("Inovalis SA"), a local cross-border French and German real estate asset manager, managing \$10 billion of real estate and financial assets. As of December 31, 2017, Inovalis SA and Inovalis SA's founding partners had a 13.7% interest in the REIT's equity (directly and indirectly).
- On October 4, 2017, the REIT completed the issuance of a €7.3 million (\$10.8 million) second convertible promissory note on the same terms as the promissory note issued on June 26, 2017. The convertible promissory note has a fixed interest rate of 8.13%, which is equivalent to the distribution yield on REIT units on October 4, 2017, the date of issuance of the convertible promissory note.
- On October 26, 2017, the REIT completed a mortgage refinancing of the Baldi and Jeuneurs properties, securing loans of €44.5 million (\$65.6 million). After the reimbursement of the existing loans amounting to €39.0 million (\$57.5 million), which includes a €6.9 million (\$10.2 million) partial early repayment of the loan associated with the Courbevoie property, the outstanding loan balance related to Courbevoie amounted to €7.7 million (\$11.3 million) – resulting in a LTV ratio for Courbevoie of 28%. The proceeds from refinancing were €4.8 million (\$7.1 million).
- On December 27, 2017, the REIT completed the acquisition of Neu-Isenburg, a property in the greater Frankfurt area located less than 10km from downtown Frankfurt, with highway and public transport connections. The property is a 12,500m² (134,550 sq.ft) modern and sustainable office building with 330 parking units, anchored by an American Fortune 500 manufacturer of electronic components. The property is currently 100% let with a 5.2-year weighted average lease term. This acquisition, which valued the property at €38.3 million (\$57.6 million) was completed through a share purchase agreement and was funded using cash raised through the private placements completed in Q4 2017. This transaction is a 50-50 joint-venture with an affiliate of Inovalis SA. Subsequent to the quarter, the Neu-Isenburg property was refinanced by the REIT on February 23, 2018, with a €22.8 million (\$34.41 million) loan.
- On December 31, 2017, as part of its ongoing strategic plan to crystallize intrinsic value and recycle capital through the disposition of assets that offer lower long term returns, the REIT elected to divest its holding in the Cologne property. The property was acquired in Q4 2015 at a total acquisition price of approximately €20.0 million (CAD\$34.4 million), of which the REIT acquired a 49% ownership. The property was appraised at €20.7 million (CAD\$32.3 million) in Q4 2017, and the sale of the property was completed based on a valuation of €22.0 million (CAD\$34.4 million). 43% of the 49% owned by the REIT was transferred as at December 31, 2017, with the remaining 6% to be transferred at a later date.
- Subsequent to the quarter, in February 2018, the REIT completed the acquisition of the Kösching asset, for approximately €24.4 million (CAD\$38.1 million). The property is strategically located less than 10km from the global headquarters of Audi AG in Ingolstadt, Germany. The recently constructed modern office building and R&D facility, with a gross leasable area of approximately 9,900m² (106,563 sq.ft), is fully occupied with a weighted average lease term of 10.0 years. The REIT's 50%

interest in the property was principally funded with cash on hand raised through the private placements completed in Q4 2017.

- Subsequent to the quarter, the Board of Trustees of the REIT approved the extension of the management agreement between the REIT and Inovalis S.A. The Board of Trustees and the Manager agree that, given the REIT's relative size, it is in the REIT's best interest to not internalize the asset and property management function at the current time. As part of the terms of the extension of the agreement, the following modifications were approved:
 - Term: The initial term will be for three (3) years, not to exceed April 1, 2021. The Agreement shall be automatically renewed for an additional two (2) years if the REIT's AFFO per unit for the year ended December 31, 2020 is greater than 115% of the AFFO per unit of the REIT as at December 31, 2017. The AFFO calculation shall be consistently applied and approved by the audit committee. Internalization can occur at any time at the discretion of the Board of Trustees.
 - Asset Management Fees: Will be reduced from 0.75% to 0.50% and calculated based on the book value of assets. Fees will be payable in cash and/or exchangeable securities, the exact composition of which will be determined by the Board annually based on the REIT's cash resources.
 - Acquisition Fees: 1.00% of the purchase price of properties acquired that are not currently owned or managed by the Manager and paid 100% in cash.
- FFO / AFFO

| | Q4 2017 ⁽¹⁾ | Q4 2016 ⁽²⁾ | REIT Guidance ⁽³⁾ |
|---|------------------------|------------------------|------------------------------|
| <u>Including private placement in the form of a promissory note</u> | | | |
| FFO per unit | 0.21 | 0.19 | 0.21 - 0.23 |
| FFO payout ratio | 102.0% | 110.0% | 90% - 96% |
| AFFO per unit | 0.22 | 0.20 | 0.22 - 0.24 |
| AFFO payout ratio | 94.0% | 102.0% | 88% - 94% |

(1) \$1.4652 C\$/€foreign exchange rate

(2) \$1.4666 C\$/€foreign exchange rate

(3) \$1.4101 C\$/€foreign exchange rate

In the table above, funds from operations ("FFO") and adjusted funds from operations ("AFFO") for the three-month period ended December 31, 2017 are compared to the Q4 2016 and the REIT's guidance.

The Q4 2017 FFO of \$0.21 per unit is \$0.02 higher than Q4 2016 FFO and in line with the REIT's guidance. AFFO for Q4 2017 of \$0.22 per unit is \$0.02 higher than Q4 2016 AFFO and in line with the run rate going forward estimated by the Management.

The Q4 2017 FFO payout ratio of 102.0%, the increase from Q3 2017 to Q4 2017 is attributed to the timing of the investment of the proceeds of the Private Placement in the acquisition of the Neu-Isenburg property. The Q4 2017 AFFO payout ratio of 94% is in line with the REIT's guidance.

- NOI (GAAP)

In the table below is the NOI presentation prepared under GAAP. The REIT guidance includes the application of 2017 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%. Between 2013 and 2016, on average, the German index increased 0.50% per year. Over the last year the index has been increasing at a rate of 1.74% per year, indicating an accelerating trend. If this trend continues, the indexation threshold of 5% could be reached between 2018 and 2021 at which time it will be applied to the German assets. These calculations include consideration of the contractual specificities of each lease. See the section Rental Indexation for details on French and German indices.

| | Q1 2017 ⁽¹⁾ | Q2 2017 ⁽²⁾ | Q3 2017 ⁽³⁾ | Q4 2017 ⁽⁴⁾ | REIT Guidance ⁽⁵⁾ |
|---|------------------------|------------------------|------------------------|------------------------|------------------------------|
| NOI (GAAP) | 3,247 | 6,744 | 6,729 | 7,410 | |
| IFRIC 21 impact | 2,411 | (763) | (815) | (833) | |
| NOI (excluding IFRIC 21 impact) | 5,658 | 5,981 | 5,914 | 6,577 | 5,600 - 6,000 |
| % Increase compared to the previous quarter | | 6% | -1% | 11% | |
| (1) \$1.4101 C\$/€foreign exchange rate (2) \$1.4455 C\$/€foreign exchange rate (3) \$1.4547 C\$/€foreign exchange rate (4) \$1.4652 C\$/€foreign exchange rate (5) \$1.4101 C\$/€foreign exchange rate | | | | | |

The Q4 2017 NOI of \$7,410, the 10% increase when compared to Q3 2017 - of which approximately 6% of the increase corresponds to other revenue related to investments in joint-ventures. (The reader is cautioned that REIT's guidance information is forward-looking and actual results may vary from those reported).

- NOI (Non-GAAP) (Excluding IFRIC 21 impact)

In the table below is NOI presentation for the whole portfolio including the REIT's proportionate interest in properties held in partnership. The REIT guidance includes the application of 2017 forecast indexation for French assets. Indexation has not been applied to the German asset forecast as it is not applied until index increases exceed 5%.

| | Q1 2017 ⁽¹⁾ | Q2 2017 ⁽²⁾ | Q3 2017 ⁽³⁾ | Q4 2017 ⁽⁴⁾ | REIT Guidance ⁽⁵⁾ |
|---|------------------------|------------------------|------------------------|------------------------|------------------------------|
| NOI (excluding IFRIC 21 impact) | 7,177 | 7,697 | 8,221 | 8,902 | 7,900 - 8,400 |
| % Increase compared to the previous quarter | | 7% | 7% | 8% | |
| (1) \$1.4101 C\$/€foreign exchange rate (2) \$1.4455 C\$/€foreign exchange rate (3) \$1.4547 C\$/€foreign exchange rate (4) \$1.4652 C\$/€foreign exchange rate (5) \$1.4101 C\$/€foreign exchange rate | | | | | |

The Q4 2017 NOI, in the amount of \$8,902, increased by 8% compared to Q3 2017 NOI, and is ahead of the REIT's guidance. (The reader is cautioned that REIT's guidance information is forward-looking and actual results may vary from those reported).

- Debt to Book Value (GAAP)

The REIT's debt to book value, in accordance with GAAP, was 42.7% as at December 31, 2017, compared to 46.5%, one year ago. The decrease was predominantly due to of the amortization of \$18,022, in spite the refinancing of the Jeuneurs and Baldi properties. Net of cash available, the debt to book value was 39.2% as at December 31, 2017, compared to 42.1% one year before.

- Debt to Book Value (Non-GAAP)

The REIT's Non-GAAP debt to book value for the whole portfolio, including REIT's proportional share in joint-ventures was 50.0% as at December 31, 2017, slightly lower than 51.3%, one year ago. Net of cash available, the debt to book value was 46.2% as at December 31, 2017, compared to 47.5% one year before.

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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Attached: MD&A