INOVALIS

REAL ESTATE INVESTMENT TRUST

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INOVALIS REAL ESTATE INVESTMENT TRUST ANNOUNCES FINANCIAL RESULTS FOR THE SECOND QUARTER OF 2021

Toronto, Ontario, August 11, 2021 – Inovalis Real Estate Investment Trust (the "REIT") (TSX: INO.UN) today reported financial results for the quarter ended June 30, 2021.

Stéphane Amine, President of the REIT, stated *"The second quarter was a turning point in a number of ways. Most importantly, the REIT has defined its going-forward strategy to invest in "core and core+ assets" and has initiated the participatory distribution program in which unitholders receive additional cash distributions based on 50% of the cash attributable to sales over IFRS fair market value. The initial participatory distribution of $0.31/Unit was paid to unitholders on July 15, 2021."*. Mr. Amine also commented *"Property operations are being well-managed, rent collection remains strong and the outlook for the REIT is very positive. Management is now furthering plans to deploy the $55 investment capital"*.

HIGHLIGHTS

Net Rental Income

For the portfolio that includes only assets owned entirely by the REIT ("IP Portfolio"), net rental income for the three months ended June 30, 2021 ("Q2 2021"), adjusted for IFRIC 21 – Levies ("IFRIC 21"), was CAD$6.1 million (EUR4.1 million), compared to CAD$6.7 million (EUR4.4 million) adjusted net rental income for the three months ended June 30, 2020 ("Q2 2020"). The decrease of CAD$552,000 is mainly attributable to the bad debt provision of $379,000 incurred on the Metropolitain property for the early departure of a tenant. A credit note of CAD$118,000 arising from a negotiated agreement with the main tenant on the Baldi property partially offsets the loss. The space made available from this vacancy at Metropolitain will be leased at a higher rental value.

In Q2 2021 net rental income adjusted for IFRIC 21 for the portfolio that includes the REIT's proportionate share in joint ventures ("Total Portfolio"), was CAD$8.1million (EUR5.4 million), compared to CAD$9.0 million (EUR6.0 million) for Q2 2020, mainly attributable to the factors described in the previous paragraph plus the CAD$73,000 impact of the vacancy in the Duisburg property.

To date, 84.2% of the REIT's wholly controlled properties and 91.1% of the Total Portfolio are leased on a long-term basis to high-credit quality tenants. The weighted average lease break option of the Total Portfolio stands at three years. Leasing inquiries from prospective tenants increased notably in Q2 2021.

COVID-19 Related Business Update

Management continuously monitors market conditions, adapting its operations to the measures taken by European governments and health officials to protect public health. Management is confident in the strength of its portfolio, as indicated by Q2 2021 results. Quarterly rent collection for Q2 2021 was strong. Management's forecast for subsequent quarters of 2021 reflects the possibility of short-term downward pressure on rental revenue as the COVID-19 pandemic may necessitate additional lockdown measures causing economic disruption.

Rent collection

Rent for the French assets is invoiced and collected on a quarterly basis and 95% of rent has been received to date for Q2 2021. This is generally in line with the timing and percentage of pre-COVID-19 rent collection levels with a few minor exceptions.

For the REIT's German properties, rents are collected monthly and nearly 100% of rent was received in Q2 2021.

Management is actively monitoring rent payments to maintain consistent rent collection while supporting tenant needs.

Leasing Operations

In the REIT's Total Portfolio, nearly 10,000 sq. ft. of office space has been secured through lease maturity extensions on the Baldi and Pantin properties. On the Bad Homburg property, one lease on 37% vacant space is being finalized and is expected to be signed before the end of Q3. On the Duisburg property, the lease for the vacant 7th floor is also being finalized and should increase occupancy rate to 100% before the end of Q3. Efforts continue to lease unoccupied space (162,690 sq. ft., 12.5% of total weighted areas) in the portfolio. Management will selectively complete capital expenditure improvements on vacant areas to attract tenants and maximize rent.

Adjusted Funds from Operations ("AFFO").

The REIT follows the recommendations of the Real Property Association of Canada ("REALPAC") (February 2019 white paper) with certain exceptions. Refer to the Non-GAAP Financial Measures section of this MD&A for a more detailed discussion on FFO and AFFO.

In Q2 2021, the REIT reported Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO)" were CAD$0.13 and CAD$0.13 per Unit respectively, versus CAD$0.16 and CAD$0.15 for the same period last year. As economic recovery is gradually restored in the Paris and German markets and the REIT's Strategic Review has been completed, management is launching plans to deploy the CAD$55.0 million earmarked for acquisitions of income-generating assets since 2020.

Financing Activity

The REIT is financed almost exclusively with asset-level, non-recourse financing with an average term to maturity of 5.0 years.

As at June 30, 2021, the weighted average interest rate across the IP Portfolio debt was 2.02% and the debt ratio was 41.3% (35.7% net of cash), comfortably within the REIT's mandated threshold of 60%.

For the same period, the REIT had CAD$58.2 million of cash on its consolidated balance sheet.

Looking ahead, management is considering other refinancing opportunities to take advantage of historically low interest rates in Europe. The REIT should be able to finance assets on a less costly basis than that offered by traditional financing in Canada.

Bad Homburg

The contribution of the Bad Homburg property to the six-month net rental income represented CAD$603,000, an increase of CAD$55,000 compared to the same period in 2020. The REIT acquired the other 50% ownership of this asset in October 2020 which had a 48% vacancy in Q2 2021. A new lease is being finalized on 37% of the property area for a firm seven-year period (plus 5 optional).

Jeuneurs

Subsequent to the quarter end, as part of the new asset recycling program, the REIT signed an agreement to sell the asset on July 27, 2021 for a total amount of CAD$104.7 million (EUR71.2 million), excluding closing costs, with a Paris-based investor specialized in the repositioning of Central Business District assets, with the goal of closing the transaction by December 15, 2021. The transaction is backed by a CAD$10.5 million (EUR7.1 million) deposit, of which CAD$ 5.2 million (EUR3.6 million) was received on the day of signing under the unilateral commitment to sell, which will be applied against the selling price of the property at the transaction date. Although there is no financing nor building condition as per this contract, the closing is subject to the non-execution by the Paris City Hall of its preemption right. The closing has been scheduled on December 15 at the latest, for the buyer to structure its financing of the acquisition and construction costs. This price, above fair market value, is driven by the scale of this downtown Paris redevelopment project envisioned by the buyer.

Courbevoie (Veronese)

The sale of the Courbevoie asset is conditionally scheduled to be completed by the end 2021 at a price of CAD$40.0 million (EUR27.2 million). The disposition is contingent on the buyer obtaining a building permit and the seller vacating the asset (costs estimated to CAD$1.2 million) by the end of the year, each acting at their own expense. The building permit application was filed in June by the buyer and an initial review of the application is expected by September 2021. Given the uncertainty related to the conditions attached to the agreement to sell, the Courbevoie property still does not qualify for the presentation as an asset held for sale as of June 30, 2021.

Duisburg

On April 19, 2021, management signed a two-year extension of the joint venture agreement with the partner in the Duisburg property, maturing on December 31, 2022. This extension together with the mortgage loan agreement maturing in June 2023, now enables management to proceed with leasing plans for the 7th floor of the property. A new lease for this space is under final negotiation with a prospective tenant for a firm 5-year term.

Cologne

On June 29, 2021, the REIT sold its 6% interest in Cologne and the balance of its interest-bearing loan with Cologne to a related party, SC Advenis IMMO Capital, for a total consideration of CAD$963,000 (EUR655,000). The REIT recognized a loss on sale of CAD$108,000 (EUR73,000) mainly relating to the disposition costs. This sale is in line with management's commitment to simplify the legal structure of the REIT by selling the properties held in joint ventures or by buying back their share from the joint venture partners.

Management Agreement Renewal

The renewed two-year Management Agreement with Inovalis S.A. became effective on April 1, 2021.

See “Related Party Transactions - Extension of Management Agreement effective April 1, 2021” in the MD&A, and the Fourth Amended and Restated Management Agreement which is available on SEDAR.com.

Capital Market Considerations

The REIT has reliably maintained returns to Unitholders, continuing to pay a stable, attractive distribution. With an average trading price of CAD$9.93 in Q2 2021, Inovalis REIT provides a very attractive investment opportunity for investors who understand the long-term value of quality real estate in strategic European locations, all the more as the current Unit price still represents a significant discount to the underlying net asset value. The REIT’s Unitholders’ equity on June 30, 2021, was CAD$347.2 million, which implies a Unit price at that date of CAD$10.72/Unit or CAD$10.68/Unit on a fully diluted basis.

In addition, the REIT has started the participatory distribution (“Participatory Distribution”) program which was initiated with a special distribution of CAD$10.0 million paid in addition to the regular monthly distribution on July 15, 2021. The Participatory Distribution was based on 50% of the cash attributable to sales over IFRS fair market value on the Vanves and Rueil properties and was CAD$0.307 per unit.

With its substantial cash reserve, the REIT is well positioned to opportunistically invest in new assets as the real estate sector and European economy stabilizes. Several operational and value add opportunities are in the outlook for the remainder of 2021 and beyond.

SIF conversion

On June 30, 2021, the REIT completed the process of restructuring Luxembourg holding company ("Luxco") into a Specialized Investment Fund within the meaning of the Luxembourg law of February, 13, 2007. This restructuring is not expected to result in material Canadian or foreign tax consequences; however, no assurance can be given that the CRA or a foreign tax authority will not challenge certain positions taken by the REIT and the REIT's subsidiaries in connection with the restructuring of Luxco.

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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