

## PRESS RELEASE

for immediate distribution

# Melcor Developments announces second quarter results, declares quarterly dividend of \$0.12 per share

Edmonton, Alberta | August 5, 2021

Melcor Developments Ltd. (TSX:MRD), an Alberta-based real estate development and asset management company, today reported results for the second quarter and six months ended June 30, 2021. Year-to-date revenue was up 49% to \$108.82 million compared to the first half of 2020. Strong market demand for new homes led to 299 single-family lot sales in Canada in the first half of the year compared to 106 last year, resulting in revenue growth of 196% for the **Community Development** division.

Investment Properties owned gross leasable area (GLA) grew by 8% as a result of properties transferred from our Property Development division over the past 12 months. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 2% over Q2-2020 and up 2% year-to-date. These divisions are down slightly in occupancy and base rents due to challenging market conditions; however, results in both divisions remain relatively stable. See the COVID-19 section for rent collection information.

Year-to-date net income was impacted by non-cash fair value losses of \$26.96 million on REIT units related to unit price appreciation compared to December 31, 2020 resulting in a net loss of \$5.02 million or \$0.15 per share (basic) compared with a net income of \$4.05 million or \$0.12 per share (basic) in the same period of 2020.

These drastic swings in net income caused by non-cash gains and losses are the reason that management relies on Funds from Operations (FFO) as a better reflection of Melcor's true operating performance. Funds from operations (FFO) increased 76% to \$16.33 million or \$0.49 per share over Q2-2020 and 74% to \$26.50 million or \$0.80 per share year-to-date. This increase is a result of the impact of fair value adjustments on REIT units and investment properties, lower distributions on REIT units, and an increase in Community Development, Property Development and Recreational Properties revenue earned than in the comparative period.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We are pleased with our results for the first half of 2021. The strong demand for new homes that materialized mid-year in 2020 continued through the quarter. To replenish inventory to meet builder and home buyer demand, we have an active development program underway this year.

Our ability to react quickly to changes in market demand keeps our inventory levels manageable. At the beginning of the pandemic in early 2020, we cautiously brought on a fewer number of lots at a time (60-100) by splitting larger phases in our communities. As the market began to ramp up later in the year, we adjusted again and are now confidently bringing on some of our largest phases to date.

While COVID-19 has had a modest impact on our business through the past year, our income-generating divisions have been the most sensitive to changes in consumer behaviour and work from home orders. We continue to work with our tenants to support them through this time. As of August 5, we have collected 98% of year-to-date rent and 92% of July rent. Revenue and occupancy have remained relatively stable in these divisions throughout the past year.

Echoing strong performance in other divisions, our Recreational Properties revenue and margin are also up significantly year-to-date as a result of early opening dates and favourable weather for the golf season thus far.

Gross margin is a result of the overall revenue mix, with Community Development contributing more revenue at a lower margin than our Investment Property and REIT divisions. Our income-generating divisions accounted for 53% of year-to-date revenues after intersegment eliminations compared with 78% of total revenue in the same period last year.

We continue to plan and operate conservatively, as is our nature. Pre-sales threshold requirements remain in place on all new development. We're pleased that the comeback has been stronger than the set back thus far."

The Board today declared a quarterly dividend of \$0.12 per share, payable on September 30, 2021 to shareholders of record on September 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.

## Second Quarter Results

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

Revenue in Q2-2021 was up 68% over Q2-2020 and 49% year-to-date as a result of strong demand for new homes in Canada. Lot sales, which can have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. We typically see the most revenue from lot sales in the third and fourth quarters as that is when plans typically register; however, the strong market demand that began mid-2020 continues at a steady pace and contributed to the 196% increase in Community Development revenue year-to-date. Community Development also sold 22.69 acres of raw, commercial and industrial land for \$4.68 million year-to-date. No land sales occurred in the comparable period.

The US community development model differs from Canadian markets, resulting in the majority of revenue occurring in a single quarter. Builders buy lots in bulk from Melcor to finish and build homes to sell to homeowners. Builders sales to homeowners remained strong through the second quarter. Demand for additional lots in our Harmony development in Colorado remains high and we are nearing completion of the third phase for sale to builders this fall.

Investment properties owned gross leasable area (GLA) grew by 8% as a result of properties transferred from our Property Development division over the past 12 months. Revenue from our income-generating Investment Properties and REIT divisions decreased 2% over Q2-2020 due to lower base rent and straight-line rent adjustments offset by other revenue, such as one-time lease termination fees. Excluding these fees, income-generating revenue was down by 13% due to lower occupancy and weighted average base rents related to COVID-19 lease adjustments. We continue to both renew tenants and lease new space.

### FINANCIAL HIGHLIGHTS

- Revenue is up 68% in the quarter and 49% year-to-date as a result of increased lot and land sales. Revenue from single-family lot sales was up 179% to \$47.50 million year-to-date (YTD-2020 - \$17.06 million). Land sales contributed \$4.13 million to revenue before eliminations in the second quarter compared to \$nil sales in Q2-2020.
- Funds from operations (FFO) increased 76% over Q2-2020 and 74% year-to-date. This increase is a result of the impact of fair value adjustments on REIT units and investment properties, lower distributions on REIT units, and an increase in Community Development, Property Development and Recreational Properties revenue earned than in the comparative period.
- Net income of \$9.01 million in Q2-2021 and the year-to-date loss of \$5.02 million are a result of the dramatic swings in non-cash fair value adjustments on investment properties and REIT units and increased finance costs offset by increased revenue. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These losses are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

### DIVISIONAL OPERATING HIGHLIGHTS

- The **Community Development** division is focused on replenishing inventory in all regions after successfully reducing inventory throughout 2020. To date we have approved the development of 25 new phases in 14 existing communities and 1 new community, representing 1,721 single-family lots (including duplex and townhome sites) and 3.33 acres for multi-

family development. As outlined above, this includes the launch of a new community known as Cobblestone Creek in Airdrie, AB.

Sales activity remains healthy in all Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 299 single-family lots compared to 106 in the first six months of 2020. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

While interest in all areas remains high, the Kelowna market had an exceptionally strong first half of the year with 72 single-family lots sold. All lots in North Clifton and BlueSky phase 7 are sold or under contract.

Interest in Harmony (Aurora, CO) also remained strong throughout the quarter as builders move through their inventory.

- The **Property Development** team has a total of 92,705 sf in 4 projects (Greenwich, Chestermere Station, Jensen Lakes Crossing and Clearview Market) currently under construction. Property Development transferred a 6,517 sf building at The District to Investment Properties in Q2-2021. A further 42,046 sf is complete and awaiting lease-up and transfer in 3 projects: The District, Woodbend Market, and Clearview Market.
- Total GLA under management has increased 3% via transfers from **Property Development** (136,240 sf), partially offset by the sale of a 24,154 sf office property in Arizona over the trailing 12 months. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 2% over Q2-2020. These divisions are down slightly in occupancy and base rents due to challenging market conditions; however, results in both divisions remain relatively stable. See the COVID-19 section for rent collection information.

The investment property portfolio fair value increased in Q2-2021 with gains of \$3.88 million compared to fair value losses of \$61.89 in Q2-2020.

- Our **Recreational Properties** year-to-date revenue increased 68% to \$4.63 million due to mild spring weather allowing earlier course opening dates and favourable weather throughout the season thus far.

## RETURNING VALUE

- We continue to return value to our shareholders and unitholders:
  - We paid a quarterly dividend of \$0.10 per share in March and June 2021.
  - On August 5, 2021 we declared a quarterly dividend of \$0.12 per share, payable on September 30, 2021 to shareholders of record on September 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT paid monthly distributions of \$0.035 per trust unit in the first half of the year for an ACFO payout ratio of 62% in the quarter and 57% year-to-date. Distributions declared July 15, 2021 remained at \$0.035 per trust unit pending the board review of the reforecast budget for the remainder of the year. On July 27, 2021, the REIT declared a distribution of \$0.04 per trust unit for the months of August and September, 2021, which is an increase of 14% to the monthly distribution. The August distribution is payable on September 15, 2021 to unitholders on record August 31, 2021. The September distribution is payable on October 15, 2021 to unitholders on record September 30, 2021.

## SUBSEQUENT EVENTS - Asset Disposition

- On July 30, 2021 we sold a 10 unit brownstone in Arizona for gross proceeds of \$7,312 (US\$5,900). The price was settled in cash, excluding working capital adjustments.

## Selected Highlights

(\$000s except as noted)	Three-months			Six months		
	30-Jun-21	30-Jun-20	Change	30-Jun-21	30-Jun-20	Change
Revenue	65,547	39,053	67.8 %	108,817	72,820	49.4 %
Gross margin (%) *	45.8 %	49.5 %	(7.5) %	48.3 %	50.2 %	(3.8) %
Net income (loss)	9,014	(62,590)	(114.4) %	(5,019)	4,050	(223.9) %
Funds from operations (FFO) *	16,326	9,276	76.0 %	26,500	15,201	74.3 %
<i>Per Share Data (\$)</i>						
Basic earnings (loss)	0.27	(1.88)	(114.4) %	(0.15)	0.12	(225.0) %
Diluted earnings (loss)	0.27	(1.88)	(114.4) %	(0.15)	0.12	(225.0) %
Funds from operations *	0.49	0.28	75.0 %	0.80	0.46	73.9 %

  

As at (\$000s except as noted)	30-Jun-21	31-Dec-20	Change
Shareholders' equity	1,061,418	1,077,429	(1.5) %
Total assets	2,014,864	2,001,285	0.7 %
<i>Per Share Data (\$)</i>			
Book value *	32.10	32.56	(1.4) %

### MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 2021, which can be found on the company's website at [www.Melcor.ca](http://www.Melcor.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.64 million sf in commercial real estate assets and 603 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and in Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

### Forward Looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2021 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risk in our annual MD&A and the additional disclosure under Business Environment and Risk in this MD&A.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

**Contact Information:**

Nicole Forsythe  
Director, Corporate Communications  
Tel: 1.855.673.6931 x4707  
[ir@melcor.ca](mailto:ir@melcor.ca)