

## **PRESS RELEASE**

### **KILLAM PROPERTIES INC.**

Halifax, Nova Scotia  
August 6, 2014

#### **KILLAM PROPERTIES INC. ANNOUNCES SECOND QUARTER 2014 RESULTS INCLUDING FFO PER SHARE GROWTH OF 5.6%**

Killam Properties Inc. ("Killam" or the "Company") (TSX: KMP) announced its financial results for the second quarter ended June 30, 2014.

#### **Q2 Highlights**

- Generated funds from operations ("FFO") per share of \$0.19, compared to FFO per share of \$0.18 in Q2-2013.
- Improved occupancy 130 basis points year-over-year.
- Increased same store rental revenue by 2.2%.
- Achieved same store net operating income ("NOI") growth of 1.3%.
- Completed an \$18.6 million apartment acquisition.
- Reduced the weighted average interest rate on mortgage debt to 3.85% from 3.93% at March 31, 2014, and extended the weighted average term to maturity of mortgage debt to 4.4 years from 4.0 years.

#### **Highlights from the Six Months Ended June 30, 2014**

- Generated FFO per share of \$0.31, compared to FFO per share of \$0.32 during the six months ended June 30, 2013.
- Improved same store rental revenue by 1.7%.
- Same store NOI decreased by 2.6% due to high heating and utility costs.
- Completed \$38.2 million in acquisitions.

**Financial Highlights** (in thousands, except per share amounts)

<b>For the three months ended,</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>	<b>Change</b>
Property Revenue	\$36,518	\$34,506	5.8%
Net Operating Income	\$21,441	\$20,225	6.0%
Income Before Fair Value Gains, Gain on Disposition, and Income Taxes	\$10,301	\$10,380	(0.8%)
Fair Value Gains	\$8,200	\$20,199	(59.4%)
Net Income Attributable to Common Shareholders	\$13,671	\$23,238	(41.2%)
Earnings Per Share	\$0.25	\$0.43	(41.9%)
Funds from Operations	\$10,173	\$9,478	7.3%
Funds from Operations per Share (basic)	\$0.19	\$0.18	5.6%
Funds from Operations per Share (diluted)	\$0.18	\$0.17	5.9%
<b>For the six months ended,</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>	<b>Change</b>
Property Revenue	\$71,583	\$67,758	5.6%
Net Operating Income	\$39,061	\$38,394	1.7%
Income Before Fair Value Gains, Gain on Disposition, and Income Taxes	\$17,347	\$18,397	(5.7%)
Fair Value Gains	\$8,200	\$24,490	(66.5%)
Net Income Attributable to Common Shareholders	\$18,540	\$32,206	(42.4%)
Earnings Per Share	\$0.34	\$0.60	(43.3%)
Funds from Operations	\$17,009	\$17,290	(1.6%)
Funds from Operations per Share (basic)	\$0.31	\$0.32	(3.1%)
Funds from Operations per Share (diluted)	\$0.31	\$0.32	(3.1%)
<b>As at</b>	<b>June 30, 2014</b>	<b>Dec 31, 2013</b>	<b>Change</b>
Total Assets	\$1,592,708	\$1,532,431	3.9%
Total Liabilities	\$982,519	\$928,371	5.8%
Total Equity	\$610,189	\$604,060	1.0%
Total Debt to Total Assets	53.8%	52.9%	90 bps

**FFO per Share Growth of 5.6%**

Killam generated FFO per share of \$0.19 during Q2-2014, up 5.6% from \$0.18 during Q2-2013. The growth was attributable to positive same store property NOI growth, contributions from acquisitions and developments, and interest expense savings. These positive contributions were partially offset by a reduction in manufactured home community ("MHC") earnings associated with the November 2013 sale.

## Same Store NOI Growth of 1.3%

Consolidated same store results for the three and six months ended June 30, 2014, are summarized below:

### Consolidated Same Store NOI (in thousands)

For the three months ended,	June 30, 2014	June 30, 2013	Change	% Change
Property Revenue	\$32,276	\$31,593	\$683	2.2%
Property Expenses				
Operating Expenses	(5,489)	(5,601)	(112)	(2.0%)
Utility and Fuel Expenses	(4,241)	(3,697)	544	14.7%
Property Taxes	(3,714)	(3,713)	1	0.0%
Total Property Expenses	(13,444)	(13,011)	433	3.3%
Net Operating Income	\$18,832	\$18,582	\$250	1.3%

For the six months ended,	June 30, 2014	June 30, 2013	Change	% Change
Property Revenue	\$63,673	\$62,594	\$1,079	1.7%
Property Expenses				
Operating Expenses	(10,854)	(10,550)	304	2.9%
Utility and Fuel Expenses	(10,919)	(9,369)	1,550	16.5%
Property Taxes	(7,413)	(7,283)	130	1.8%
Total Property Expenses	(29,186)	(27,202)	1,984	7.3%
Net Operating Income	\$34,487	\$35,392	(\$905)	(2.6%)

Killam's growth in revenue is attributable to higher rental rates and increased occupancy levels. Killam achieved positive same store NOI growth of 1.3% during Q2-2014, despite a 14.7% increase in energy and utility costs in the quarter. More moderate natural gas prices in May and June, as well as flat property taxes and a 2.0% decrease in operating expenses, resulted in a 3.3% increase in total property expenses in the quarter.

Same store NOI growth for the first half of the year was impacted by high energy and operating costs during Q1-2014.

### Occupancy Improvements

Killam's stabilized apartment portfolio achieved 95.3% occupancy at June 30, 2014, a 130 basis point improvement from 94.0% at June 30, 2013. This compares to 96.0% occupancy at March 31, 2014. Killam typically experiences its lowest occupancy during the summer, followed by its highest occupancy in September. In addition to higher occupancy at June 30th year-over-year, Killam achieved improved occupancy throughout the quarter, with its stabilized properties realizing 94.8% occupancy throughout the quarter, a 110 basis point improvement from 93.7% during Q2-2013. The strongest occupancy gains were realized in Saint John, Moncton, Ontario and Charlottetown.

### **Redeployment of Funds from 2013 MHC Sale**

During Q2-2014 Killam completed the acquisition of 300 Royale, a new 83-unit property in the Halifax market for \$18.6 million. 300 Royale is the third of a three-building apartment community developed over the last four years. Killam acquired the first two buildings upon completion, in 2011 and 2013. During the first six months of the year Killam completed \$38.2 million in acquisitions and had redeployed approximately 70% of the \$42.6 million of cash generated from the sale of its New Brunswick MHC portfolio in November 2013. The timing of earnings replacement from the MHC sale has resulted in short-term dilution in FFO per share in both Q2 and the first half of 2014. The remaining funds from the MHC sale are expected to be redeployed during the third quarter.

### **Interest Expense Savings on Mortgage Refinancings**

Killam continued to benefit from interest rate savings on mortgage refinancings. During Q2-2014 Killam successfully refinanced \$36.5 million of maturing apartment mortgages at a weighted average interest rate of 3.11%, 110 basis points lower than the weighted average interest rate prior to refinancing. The Company's weighted average mortgage interest rate improved to 3.85%, from 3.93% at March 31, 2014, and 4.25% at June 30, 2013. The average number of years to mortgage maturity was extended to 4.4 years from 4.0 years at March 31, 2014.

Total debt as a percentage of total assets was 53.8% at June 30, 2014, compared to 52.9% at March 31, 2014, and below Killam's target debt levels of 55% to 65%. Killam's interest coverage ratio for the last twelve months was 2.03 times, down modestly from 2.05 times at March 31, 2014.

### **Management's Comments**

"We are pleased to report same store NOI and FFO growth in the quarter", noted Philip Fraser, Killam's President and CEO. "Occupancy improvements, management of operating expenses, acquisitions and developments have all contributed to growth. In addition, our acquisition program is on schedule, having completed 50% of our 2014 acquisition target of \$75 million by the end of the second quarter. Based on our acquisition pipeline, we anticipate the funds from last year's MHC sale to be fully deployed by the end of the third quarter. We are pleased with the quality of the properties that have replaced the MHC assets, and their long-term potential for earnings growth and increased value."

"We've seen strong occupancy gains so far this year and the positive momentum has continued during the summer months. The lease-up at S2 and The Plaza, two developments completed last year, is also continuing, and we are currently projecting 92% and 90% occupancy at these properties for September. These occupancy gains will help contribute to earnings growth in the second half of the year."

"Development remains a growth opportunity for Killam. Our two developments underway in St. John's and Cambridge are progressing well and are expected to be ready for occupancy in Q4-2014 and Q2-2015. Leasing demand is strong for our St. John's development, with 54% of the 102 units already pre-leased, and marketing is underway in Cambridge."

### **Financial Statements**

Killam's Q2-2014 Financial Statements and Notes, and Management's Discussion and Analysis can be found under Financial Reports in the Investor Relations section of Killam's website at [www.killamproperties.com/investor-relations](http://www.killamproperties.com/investor-relations).

## Results Conference Call

Management will host a conference call to discuss these results on Thursday, August 7, 2014, at 10:00 AM Eastern. The dial-in numbers for the conference call are 647-427-7450 (in Toronto) or 888-231-8191 (toll free, within North America).

A live audio webcast of the conference call will be accessible on the Company's website at [www.killamproperties.com/investor-relations/events-and-presentations](http://www.killamproperties.com/investor-relations/events-and-presentations) and at [www.newswire.ca](http://www.newswire.ca).

## Corporate Profile

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest residential landlords, owning, operating and developing multi-family apartments and manufactured home communities.

## Non-IFRS Measures

There are measures included in this press release that do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- Net operating income is calculated by the Company as income from property operations.
- Funds from operations are calculated by the Company as net income plus deferred tax expense, loss on disposition, depreciation on owner-occupied property and tax planning costs relating to the Company's potential REIT conversion, less fair value gains, gain on disposition and non-controlling interest.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2014 and 2013.
- Capitalization Rate is the rate calculated by dividing the forecasted NOI from a property by the property's purchase price.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense.

See the Q2-2014 Management's Discussion and Analysis for further details on these non-IFRS measures.

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*expressed or implied by such forward-looking statements. For more exhaustive information on these risks and uncertainties, you should refer to our most recently filed annual information form which is available at [www.sedar.com](http://www.sedar.com). Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made and should not be relied upon as of any other date. Other than as required by law, Killam does not undertake to update any of such forward-looking statements.*