

## **PRESS RELEASE**

### **KILLAM PROPERTIES INC.**

Halifax, Nova Scotia  
February 17, 2015

#### **KILLAM PROPERTIES INC. ANNOUNCES Q4 AND YEAR-END 2014 RESULTS HIGHLIGHTING FFO PER SHARE (DILUTED) OF \$0.72 FOR THE YEAR AND INCREASED GEOGRAPHIC DIVERSIFICATION**

Killam Properties Inc. ("Killam" or the "Company") (TSX: KMP) announced its financial results for the fourth quarter and year ended December 31, 2014.

#### **Q4 Highlights**

- Generated funds from operations ("FFO") per share (diluted) of \$0.18, consistent with FFO per share (diluted) of \$0.18 in Q4-2013.
- Increased same store rental revenue by 1.8%.
- Generated positive same store net operating income ("NOI") growth of 0.9%, despite a 6.7% increase in utility and fuel expenses.
- Completed \$97.1 million in acquisitions, comprised of \$47.1 million in additional investment in Ontario and a \$50.0 million investment in Alberta.

#### **Highlights from 2014**

- Generated FFO per share (diluted) of \$0.72, compared to FFO per share (diluted) of \$0.71 during 2013.
- Expanded the apartment portfolio with \$160.2 million in acquisitions.
- Increased geographic diversification with 84% of 2014 acquisitions in Ontario and Alberta, contributing to 22% of future NOI expected to be generated outside Atlantic Canada.
- Grew same store rental revenue by 1.7%.
- Experienced a 0.9% decline in same store NOI due to a 13.0% increase in utility and fuel expenses in the year.
- Invested \$29.0 million on developments.
- Achieved interest expense savings and reduced the weighted average interest rate on mortgages to 3.60% from 4.05%.

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

<b>For the three months ended,</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>	<b>Change</b>
Property Revenue	\$38,147	\$36,262	5.2%
Net Operating Income	\$21,767	\$21,399	1.7%
Income Before Fair Value Losses, Loss on Disposition, and Income Taxes	\$10,685	\$9,804	9.0%
Fair Value Losses	(\$16,814)	(\$13,827)	21.6%
Net Income Attributable to Common Shareholders	(\$9,259)	(\$4,543)	103.8%
Earnings Per Share	(\$0.16)	(\$0.10)	60.0%
Funds from Operations	\$10,238	\$9,812	4.3%
Funds from Operations per Share (basic)	\$0.18	\$0.18	0.0%
Funds from Operations per Share (diluted)	\$0.18	\$0.18	0.0%
<b>For the year ended,</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>	<b>Change</b>
Property Revenue	\$147,507	\$141,112	4.5%
Net Operating Income	\$84,601	\$83,040	1.9%
Income Before Fair Value Gains, loss on Disposition, and Income Taxes	\$41,177	\$40,064	2.8%
Fair Value Gains	\$4,768	\$13,070	(63.5%)
Net Income Attributable to Common Shareholders	\$29,772	\$39,779	(25.2%)
Earnings Per Share	\$0.54	\$0.74	(27.0%)
Funds from Operations	\$40,162	\$38,770	3.6%
Funds from Operations per Share (basic)	\$0.73	\$0.72	1.4%
Funds from Operations per Share (diluted)	\$0.72	\$0.71	1.4%
<b>As at</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>	<b>Change</b>
Total Assets	\$1,775,234	\$1,532,431	15.8%
Total Liabilities	\$1,112,551	\$928,371	19.8%
Total Equity	\$662,683	\$604,060	9.7%
Total Debt to Total Assets	54.9%	52.9%	200 bps

**FFO per Share of \$0.18 in Q4**

FFO was \$10.2 million in Q4-2014, up 4.3% from \$9.8 million in Q4-2013. FFO per share (diluted) was \$0.18 in Q4-2014, consistent with the same period in 2013. Earnings growth associated with new acquisitions and developments, same store NOI growth, increased corporate income and interest expense savings were offset by higher administrative costs, a reduction in MHC earnings due to the November 2013 sale and an increase in the weighted average number of shares outstanding.

### FFO per Share of \$0.72 in 2014

Killam increased FFO per share (diluted) to \$0.72 during 2014 from \$0.71 in 2013, an increase of 1.4%. Earnings associated with new acquisitions and developments, and interest expense savings were partially offset by a decrease in same store NOI, the temporary timing difference relating to the redeployment of the funds from the sale of ten MHCs in November 2013, higher administration expenses and a 2.3% increase in the weighted average number of shares outstanding.

### Same Store NOI Declined by 0.9% Due to High Utility and Energy Costs

Consolidated same store results for the three months and years ended December 31, 2014 and 2013, are summarized below:

#### Consolidated Same Store NOI (in thousands)

For the three months ended,	Dec 31, 2014	Dec 31, 2013	Change	% Change
Property Revenue	\$32,497	\$31,936	\$561	1.8%
Property Expenses				
Operating Expenses	(5,708)	(5,624)	84	1.5%
Utility and Fuel Expenses	(4,951)	(4,639)	312	6.7%
Property Taxes	(3,695)	(3,683)	12	0.3%
Total Property Expenses	(14,354)	(13,946)	408	2.9%
Net Operating Income	\$18,143	\$17,990	\$153	0.9%

  

For the year ended,	Dec 31, 2014	Dec 31, 2013	Change	% Change
Property Revenue	\$129,419	\$127,256	\$2,163	1.7%
Property Expenses				
Operating Expenses	(22,007)	(21,620)	387	1.8%
Utility and Fuel Expenses	(19,173)	(16,973)	2,200	13.0%
Property Taxes	(14,787)	(14,578)	209	1.4%
Total Property Expenses	(55,967)	(53,171)	2,796	5.3%
Net Operating Income	\$73,452	\$74,085	(\$633)	(0.9%)

Killam's same store revenue grew by 1.7% in the year, achieved through an increase in rental rates and occupancy improvements. All regions contributed positively to revenue growth, with the largest gains realized in Saint John, Charlottetown and Ontario. Killam's Halifax portfolio, which comprised approximately 45% of the Company's same store apartment NOI in 2014, generated a 0.6% increase in revenues and achieved a 1.8% increase in residential rents, despite higher than normal levels of supply being introduced into the market over the last two years.

High natural gas rates in Atlantic Canada drove up energy costs in 2014, contributing \$1.2 million of the \$2.2 million increase in utility and fuel expenses in the year. The Company experienced record high natural gas pricing in the first quarter of 2014, as well as higher than market pricing during off-peak

months, reflecting annual fixed price contracts from the Company's Nova Scotia distributor. The Company also absorbed a significant water rate increase introduced in Halifax in April 2014, resulting in an increase of 11.4% in same store water costs. These increases were partially offset by savings in oil costs in the fourth quarter of 2014 as a result of lower pricing.

Killam partially offset the increase in utility and energy costs by achieving modest increases in controllable costs, maintaining a 1.8% increase in same store operating expenses through continued focus on operational efficiencies and a reduction of discretionary spending. Property taxes increased only 1.4% in the year as a result of successful assessment appeals. Overall, same store total property expense growth of 5.3% resulted in a 0.9% decline in same store NOI in 2014.

### **\$160 Million of Acquisitions Completed in 2014**

2014 was an important year for acquisitions for Killam, with the Company completing a total of \$160.2 million in transactions, its largest year of acquisitions since 2005, and well above its minimum acquisition target for 2014 of \$75 million.

Of the acquisitions completed in 2014, \$134.0 million, or 84%, relates to investments outside of Atlantic Canada, exceeding the Company's target to have a minimum of 50% of acquisitions completed in the year be outside of Atlantic Canada. These acquisitions included a \$50.0 million investment for a 50% interest in the Company's first apartment acquisition in Calgary, \$48.7 million in Ottawa, \$26.2 million in London and an additional \$9.1 million interest in Mississauga. Geographic diversification is a strategic priority for Killam, increasing its investment in urban centres with high population growth. With the completion of these acquisitions, Killam expects that 22% of its earnings in 2015 will be generated in Ontario and Alberta. Management has set a target to grow the amount of NOI generated outside of Atlantic Canada to 50%.

Killam also strengthened its Atlantic Canadian apartment portfolio with the addition of two luxury properties, a newly developed 83-unit property in Halifax, and a 35-unit property in downtown Moncton.

### **Development Projects in 2014**

Killam has two development projects nearing completion, a \$22.5 million apartment building in St. John's, Newfoundland (102-unit Chelsea Place) and a \$25.3 million apartment building in Cambridge, Ontario (122-unit Saginaw Gardens). Killam completed phase one of Chelsea Place in December 2014 and expects to complete the second phase during the first quarter of 2015. Saginaw Gardens is expected to be completed during the second quarter. Both projects are expected to contribute positively to FFO in 2015. In addition, two of Killam's developments completed in 2013, The Plaza and S2, completed their lease-up during the second half of 2014 and are expected to generate a full year of stabilized earning in 2015, also contributing to FFO growth.

During Q4-2014 Killam began construction of Southport, a 142-unit development in downtown Halifax. Killam owns a 50% interest in the project. Killam's cost for the development is \$14.7 million (\$210,000 per unit). The development is expected to be completed in 2016.

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

Killam benefitted from interest rate savings on mortgage refinancings during 2014. Killam successfully refinanced \$121.0 million of maturing apartment mortgages at a weighted average interest rate of 2.72%, 220 basis points ("bps") lower than the weighted average interest rate prior to refinancing. The Company also refinanced \$13.5 million of MHC mortgages at a weighted average interest rate of 3.78%, 215 bps

lower than the weighted average interest rate prior to refinancing. This resulted in decreased interest expense, despite a \$58.4 million increase in mortgage balances outstanding after refinancing.

Total debt as a percentage of total assets was 54.9% at December 31, 2014, compared to 52.9% at December 31, 2013. Killam's interest coverage ratio for the last twelve months was 2.12 times, up from 2.08 times at December 31, 2013.

### **Decrease in Fair Value Gains**

Killam recorded \$4.8 million in fair value gains in 2014, a decrease compared to \$13.1 million in fair value gains recorded in 2015. An increase in capitalization rate compression year-over-year was offset by higher capital reserves, a decline in NOI assumptions at certain properties reflecting higher utility and energy costs and an average 10 basis point increase in vacancy, and an increase in the Company's capital spend in the year. Gains in real estate valuations do not impact the Company's FFO per share, its key measure of performance.

### **Management's Comments**

"We are pleased to present Killam's 2014 financial results, including a 1.4% increase in FFO per share", noted Philip Fraser, Killam's President & CEO. "We faced our fair share of challenges this past year, including record high natural gas prices and large water rate increases, combined with increased competition in our largest market of Halifax and a generally soft economy in the Maritimes. Despite these headwinds, we've made great progress on many fronts. We increased our occupancy levels, effectively managed those expenses that we can control, improved our internal operating and leasing processes and grew our portfolio by \$160 million."

"2014 was also an important year for Killam's geographic expansion with an increased investment in Ontario and our first apartment acquisition in Alberta. Our target is to grow our investment outside Atlantic Canada to represent 50% of NOI."

"We are optimistic about the year ahead. We have a diversified portfolio of quality assets in well located urban markets. We also have a talented team of employees who are committed to our tenants, our strategy and our success. In addition, improved population growth is expected in our core markets in Nova Scotia and New Brunswick following large economic projects. These factors, along with more moderate utility and energy prices, continued interest rate savings and a full year's earnings associated with recent acquisitions and developments, is expected to be reflected in FFO per share growth in 2015.

### **Financial Statements**

Killam's 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 Wednesday, February 18, 2015, at 11:00 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, fair value losses, and tax planning costs relating to the Company's potential REIT conversion, less fair value gains, 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.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense.

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

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