



# InnVest

R · E · I · T

**For Immediate Release**

## **INNVEST REIT REPORTS FOURTH QUARTER RESULTS**

**Toronto, Canada (March 16, 2012)** – InnVest Real Estate Investment Trust (the "REIT") and InnVest Operations Trust ("IOT"), collectively "InnVest" (TSX:INN.UN), today announced financial results for the three and twelve months ended December 31, 2011. All dollars are in thousands of Canadian dollars unless otherwise specified.

"In 2011, we executed several initiatives to support long-term revenue growth across the portfolio including notable profit-improving capital expenditures in key markets and assets. These investments position our assets for increased market share and room rates, helping to improve margins in the years to come," commented Kenneth Gibson, InnVest's President and Chief Executive Officer. "While the Canadian lodging industry's recovery has been slower than anticipated, we are encouraged by the rate growth achieved during the fourth quarter and improving trends early in 2012."

### **Fourth Quarter Highlights**

- Revenue per available room ("RevPAR") on a same hotel basis increased 0.6% during the fourth quarter with a 2.0% improvement in average daily rate ("ADR") offsetting a 0.8 point decline in occupancy.
- Gross operating profit ("GOP") of \$29.0 million was unchanged from the prior period. GOP from hotel operations was \$27.6 million.
- InnVest realized a net loss of \$4.3 million in the fourth quarter of 2011 compared to net income of \$213.9 million in 2010. The prior year results include a \$232.1 million deferred income tax recovery recognized following InnVest's reorganization to a stapled REIT on December 31, 2010.
- Funds from operations and distributable income improved \$1.5 million and \$1.4 million, respectively, reflecting the benefit of lower interest charges.

InnVest's Consolidated Financial Statements and Management's Discussion and Analysis for the years ended December 31, 2011 and 2010 are available on InnVest's website at [www.innvestreit.com](http://www.innvestreit.com).

## SELECTED FINANCIAL INFORMATION

(\$000s except per unit amounts)	<b>Three Months Ended December 31, 2011 (unaudited)</b>	Three Months Ended December 31, 2010 (unaudited) (as restated)	<b>Year Ended December 31, 2011</b>	Year Ended December 31, 2010 (as restated)
Revenue				
Hotel properties <sup>(1)</sup>	<b>\$146,767</b>	\$145,905	<b>\$603,493</b>	\$600,755
Franchise business	<b>\$2,764</b>	\$2,630	<b>\$10,182</b>	\$9,565
Other real estate properties	<b>\$830</b>	\$904	<b>\$3,433</b>	\$3,716
	<b>\$150,361</b>	\$149,439	<b>\$617,108</b>	\$614,036
Gross operating profit <sup>(2)</sup>				
Hotel properties	<b>\$27,580</b>	\$27,512	<b>\$134,992</b>	\$137,535
Franchise business	<b>\$1,103</b>	\$1,054	<b>\$3,645</b>	\$3,458
Other real estate properties	<b>\$316</b>	\$438	<b>\$1,370</b>	\$1,773
	<b>\$28,999</b>	\$29,004	<b>\$140,007</b>	\$142,766
Net (loss) income and comprehensive (loss) income	<b>\$ (4,324)</b>	\$ 213,928	<b>\$44,535</b>	\$69,469
<b>Reconciliation to funds from operations (FFO)</b>				
Add / (deduct)				
Depreciation and amortization	<b>23,759</b>	23,395	<b>94,893</b>	94,115
Deferred income tax recovery	<b>(3,467)</b>	(232,052)	<b>(5,282)</b>	(240,527)
Unrealized (gain) loss on liabilities presented at fair value	<b>(4,245)</b>	(6,342)	<b>(77,922)</b>	109,556
Finance costs - distributions	<b>42</b>	20	<b>2,434</b>	18,403
Gain on sale of asset held for sale	-	-	-	(327)
SIFT transition expenses	<b>134</b>	2,246	<b>723</b>	2,756
Non-recurring gain	<b>(2,798)</b>	-	<b>(2,798)</b>	-
Writedown of hotel properties	<b>1,000</b>	7,412	<b>8,711</b>	7,412
Funds from operations <sup>(3)</sup>	<b>\$10,101</b>	\$8,607	<b>\$65,294</b>	\$60,857
<b>Reconciliation to distributable income</b>				
Add / (deduct)				
Non-cash portion of mortgage interest expense	<b>624</b>	675	<b>2,633</b>	2,209
Non-cash portion of convertible debentures interest and accretion	<b>988</b>	976	<b>3,816</b>	3,791
Reserve for replacement of furniture, fixtures and equipment and capital improvements	<b>(6,166)</b>	(6,116)	<b>(25,303)</b>	(25,081)
Distributable income <sup>(3)</sup>	<b>\$5,547</b>	\$4,142	<b>\$46,440</b>	\$41,776
<b>Per unit data</b>				
FFO - diluted	<b>\$0.108</b>	\$0.096	<b>\$0.678</b>	\$0.670
Distributable income - diluted	<b>\$0.059</b>	\$0.046	<b>\$0.492</b>	\$0.464
Distributions declared	<b>\$0.1083</b>	\$ 0.1251	<b>\$0.4836</b>	\$ 0.5004

<sup>(1)</sup> In accordance with IFRIC 13 – Loyalty Programs, customer loyalty awards are accounted for as a separate component of the sales transaction in which they are granted. The cost of loyalty program points is recorded as a reduction in revenues. During the three months ended December 31, 2011, the impact of this difference resulted in a reduction in hotel revenues and hotel expenses of \$2.3 million (2010 - \$2.5 million). During the year ended December 31, 2011, the impact of this difference resulted in a reduction in hotel revenues and hotel expenses of \$9.2 million (2010 - \$9.4 million). The impact of these reclassifications had no impact on gross operating profit, net income and comprehensive income, funds from operations or distributable income during the periods presented.

<sup>(2)</sup> Gross operating income ("GOP") is defined as revenues less hotel, other real estate properties and franchise expense.

<sup>(3)</sup> Funds from operations and distributable income are non-GAAP measures of earnings and cash flow commonly used by industry analysts. Non-GAAP financial measures do not have a standardized meaning and are unlikely to be comparable to similar measures used by other organizations.

The operating statistics relating to gross room revenues are on a same-hotel basis and exclude one hotel which is classified as an operating lease.

	Three months ended December 31, 2011	Variance to 2010	Year ended December 31, 2011	Variance to 2010
<b>Occupancy</b>				
Ontario	53.8%	(2.7 pts)	59.6%	0.6 pts
Quebec	57.1%	0.6 pts	62.1%	1.1 pts
Atlantic	52.9%	(0.1 pts)	61.1%	0.1 pts
Western	58.8%	1.7 pts	61.4%	0.3 pts
Total	55.3%	(0.8 pts)	60.7%	0.6 pts
<b>ADR</b>				
Ontario	\$106.02	0.8%	\$105.75	(1.4%)
Quebec	\$112.22	0.2%	\$114.24	0.5%
Atlantic	\$110.59	0.7%	\$116.10	0.4%
Western	\$143.07	5.2%	\$140.87	2.4%
Total	\$115.55	2.0%	\$115.94	0.1%
<b>RevPAR</b>				
Ontario	\$57.00	(4.1%)	\$63.00	(0.5%)
Quebec	\$64.04	1.1%	\$70.97	2.3%
Atlantic	\$58.45	0.4%	\$70.95	0.6%
Western	\$84.20	8.4%	\$86.53	2.8%
Total	\$63.95	0.6%	\$70.40	1.1%

## FINANCIAL REVIEW

### *Three months ended December 31, 2011*

For the three month ended December 31, 2011, revenues increased by 0.6% to \$150.4 million.

Revenues generated by hotel operations increased 0.6% to \$146.8 million. RevPAR over this period increased 0.6%, benefitting from a 2.0% increase in ADR which offset a 0.8 point decline in occupancy. RevPAR growth of almost 30% at the Fairmont Palliser in Calgary following recent renovations offset declines in Ontario driven by two hotels which were completing renovations in order to enter into new long-term franchise agreements.

InnVest generated gross operating profit from hotel operations of \$27.6 million, relatively unchanged from the prior year. GOP margins from hotel operations were consistent with the prior year at 18.8%.

Corporate and administrative expenses during the quarter declined \$2.1 million reflecting costs incurred in the prior year relating to InnVest's 2010 reorganization to a stapled structure. Total interest expense declined \$1.3 million with lower average interest rates on mortgages somewhat offset by increased convertible debenture interest (March 2011 issuance of \$50.0 million Series F Stapled Debentures). InnVest recognized a non-cash impairment charge of \$1.0 million relating to one hotel during the quarter, triggered by changes in the local market conditions.

Other income during the quarter includes \$2.8 million relating to the successful settlement of an outstanding lawsuit during the three months ended December 31, 2011.

The fourth quarter of 2011 generated distributable income of \$5.5 million (\$0.059 per unit diluted) and FFO of \$10.1 million (\$0.108 per unit diluted), each up \$1.4 million and \$1.5 million, respectively, from the prior year reflecting lower interest charges.

***Year ended December 31, 2011***

For the year ended December 31, 2011, revenues increased by 0.5% to \$617.1 million.

Revenues generated by hotel operations increased 0.5%, to \$603.5 million. Annual RevPAR increased 1.1% based on a 0.6 point improvement in occupancy and a modest 0.1% increase in ADR. Growth in the Quebec and Western regions following renovations undertaken during the year was offset by declines in Ontario. Revenues during the year were negatively affected by business displacement following the rebranding of two hotels in Ontario in 2011 as well as the completion of renovations at two hotels in order to enter into new long-term franchise agreements.

InnVest generated gross operating profit from hotel operations of \$135.0 million, down 1.8% or \$2.5 million as compared to the prior year. Hotel GOP margins declined 50 basis points to 22.4%. The growth in hotel revenues during the year was achieved through occupancy gains. The marginal contribution from this incremental demand was offset by higher operating costs. In addition, various rooms were taken out of the rental pool as a result of renovations which resulted in business disruption during the year.

InnVest generated annual distributable income of \$46.4 million (\$0.492 per unit diluted) and FFO of \$65.3 million (\$0.678 per unit diluted), each up \$4.7 million and \$4.4 million, respectively, from the prior year reflecting lower interest charges incurred.

In 2011, distributions totalling \$44.9 million, or \$0.4836 per unit, were declared.

**BALANCE SHEET REVIEW**

InnVest has executed a number of transactions to strength its balance sheet including:

- Completed the five-year renewal of a \$50.7 million mortgage at an interest rate of 5.9%. The mortgage is secured by two full-service hotels.
- Completed the one year extension of its credit facility to August 31, 2013.
- During the first quarter of 2012, InnVest amended its existing credit agreement to increase the maximum amount available under its line of credit on a seasonal basis. The credit line was increased from \$40.0 million to \$50.0 million through June 15, 2012 and to \$45.0 million through August 31, 2012. Thereafter the line of credit will return to the \$40.0 million level.
- During the first quarter of 2012, InnVest completed the short-term extension of a \$146.7 million mortgage based on existing terms. The mortgage is otherwise subject to a one year option through February 2013. InnVest entered into this short-term extension while it is finalizing the terms of 5-year extensions on this maturity along with a \$164.2 million maturity in November 2012 with the same lender. Assuming the completion of these two renewals, the proforma weighted average term to maturity of InnVest's mortgages at December 31, 2011 would increase to 3.9 years and the weighted average interest rate would remain at approximately 5.6%.

As of December 31, 2011, InnVest had approximately \$13.7 million of cash (including restricted cash) and \$39.2 million of available capacity under its credit facility.

At December 31, 2011, InnVest's leverage including convertible debentures was 62.9% (45.6% excluding convertible debentures). This reflects an 80 basis point leverage reduction over the year.

During the year, InnVest invested \$56.2 million in capital expenditures throughout its portfolio. These investments reflect a number of profit-improving projects designed to increase cash flow and improve profitability by capitalizing on changing market conditions and the favorable locations of InnVest's properties. Significant investments undertaken during the year included renovations to the executive gold floor and rooms at the Fairmont Palliser in Calgary, room renovations at the Hilton Quebec City, upgrades at a number of Delta hotels and the roll-out of a multi-year investment program to revitalize InnVest's Comfort Inn portfolio. During the fourth quarter InnVest completed renovations at two of its Holiday Inn hotels in order to renew long-term franchise agreements and commenced the final phase of room and common area renovations at its two Hilton properties.

## **DISTRIBUTIONS**

During the fourth quarter, InnVest announced a reduction in distributions paid to unitholders to \$0.40 per unit annually, as compared to the prior distribution level of \$0.50 per unit annually. This equates to a monthly distribution of \$0.0333 per unit beginning in November 2011. The Board of Trustees unanimously approved the reduction of distributions after careful consideration of the environment faced by InnVest and its desire to conserve liquidity to fund profit-improving capital investments throughout the portfolio.

For 2011, approximately 60% of the combined distributions to the REIT and IOT will not be taxable to unitholders.

## **CORPORATE REORGANISATION**

On July 20, 2011, the Minister of Finance (the "Minister") announced changes in, among other things, the tax treatment of real estate investment trusts that have issued "stapled" securities. If the Minister's announcement is enacted as proposed and no changes are made to the existing structure of the REIT and IOT, then rents (and certain other amounts) paid by IOT to the REIT after the applicable transition date (expected to be July 20, 2012) (the "Transition Period") would cease to be deductible in computing the income of IOT for Canadian income tax purposes.

In November 2011, InnVest announced its intention to complete an internal reorganization to unwind the stapled unit structure (the "Reorganization") resulting in all the former stapled unitholders and stapled debenture holders of the REIT and IOT holding only units or convertible debentures, as the case may be, of the REIT. The merged entity would be governed as a trust.

The Reorganization was approved by 99.9% of the votes cast in person or by proxy by InnVest unitholders at a special meeting held on February 23, 2012. On February 29, 2012, InnVest received final court approval of the plan of arrangement forming part of the Reorganization from the Ontario Superior Court of Justice. InnVest anticipates that the effective date of the Reorganization will be June 30, 2012.

Additional information about the Reorganization is contained in InnVest's management information circular dated December 31, 2011, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Pending completion of the proposed merger, InnVest is restricted from issuing stapled securities during the Transition Period, subject to certain exceptions. As a consequence, InnVest suspended its distribution reinvestment plan ("DRIP") beginning in August 2011 until further notice and will satisfy all Trustee

compensation and the vesting of executive units in cash as opposed to the usual satisfaction in the form of units.

## **OUTLOOK**

Uncertainty in the world economy continues to impact our business. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

Looking ahead, we are focused on driving internal growth within our existing portfolio. In 2011, we began an important multi-year capital program to enhance our product offering at a number of our hotels. These targeted investments are expected to improve our hotels' competitive positioning and operating performance through increased occupancies and rates. An enhanced product, coupled with improving demand and constrained new supply should enable InnVest to realize cash flow growth.

## **QUARTERLY CONFERENCE CALL**

Management will host a conference call on Friday March 16, 2012 at 11:00 a.m. Eastern time to discuss the performance of InnVest. Investors are invited to access the call by dialing (416) 340-2216 or 1-866-226-1792. You will be required to identify yourself and the organization on whose behalf you are participating. A recording of this call will be made available March 16<sup>th</sup> beginning at 1:00 pm through to 11:59 p.m. on March 30<sup>th</sup>. To access the recording please call (905) 694-9451 or (800) 408-3053 and use the reservation number 7573534#.

## **FORWARD LOOKING STATEMENTS**

Statements contained in this press release that are not historical facts are forward-looking statements which involve risk and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Among the key factors that could cause such differences are real estate investment risks, hotel industry risks and competition. These and other factors are discussed in InnVest's 2011 annual information form which is available at [www.sedar.com](http://www.sedar.com) or [www.innvestreit.com](http://www.innvestreit.com). InnVest disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities law.

## **INNVEST PROFILE**

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust which owns a portfolio of 143 hotels across Canada representing approximately 19,000 guest rooms operated under internationally recognized brands. The REIT leases its hotels to InnVest Operations Trust ("IOT"), a taxable investment trust. IOT indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IOT also holds a 50% interest in Choice Hotels Canada Inc., one of the largest franchisor of hotels in Canada, and earns revenues from franchising fees.

Each issued and outstanding REIT unit trades together with a non-voting unit of IOT as a "stapled unit" on the Toronto Stock Exchange (the "TSX") under the symbol INN.UN. The REIT's convertible debentures trade on the TSX under the symbols INN.DB.B, INN.DB.C, INN.DB.D, INN.DB.E and INN.DB.F.

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