Primaris REIT

First Quarter 2026 Results Conference Call

11.30am ET, April 30, 2026

CORPORATE PARTICIPANTS

Alex Avery, *Chief Executive Officer*

Patrick Sullivan, *President & Chief Operating Officer*

Julian Schonfeldt, Chief Investment Officer

Rags Davloor, *Chief Financial Officer*

Claire Mahaney, Vice President, *Investor Relations & Sustainability*

CONFERENCE CALL PARTICIPANTS

Brad Sturges, Raymond Ltd., Research Division

Lorne Kalmar, Desjardins Securities Inc., Research Division

Pammi Bir, RBC Capital Markets, Research Division

Sam Damiani, TD Cowen, Research Division

Tal Woolley, CIBC Capital Markets, Research Division

Mario Saric, Scotiabank Global Banking & Markets, Research Division

PRESENTATION

Operator
Good morning, and welcome to Primaris REIT's First Quarter 2026 Results Conference Call.

I will now turn the call over to Claire Mahaney, VP, Investor Relations and Sustainability. Please go ahead.

Claire Mahaney
Vice President, Investor Relations & Sustainability
Thank you, operator. During this call, management of Primaris REIT may make statements containing forward-looking information within the meaning of applicable securities legislation.

Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Primaris REIT's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information.

Additional information about these assumptions, risks and uncertainties are contained in Primaris REIT's filings with securities regulators. These filings are also available on Primaris REIT's website at www.primarisreit.com.

I'll now turn the call over to Alex Avery, Primaris' Chief Executive Officer.

Alex Avery
CEO & Trustee
Good morning. Thank you for joining Primaris REIT's First Quarter 2026 Conference Call. Joining me today are Pat Sullivan, President and Chief Operating Officer; Julian Schonfeldt, Chief Investment Officer; Rags Davloor, CFO; Leslie Buist, SVP, Finance; Mordy Bobrowsky, SVP, General Counsel; Graham Procter, SVP, Asset Management; and Claire Mahaney, VP, IR and Sustainability.

As we begin 2026, we're encouraged by the strong leasing momentum across the business. Activity throughout the portfolio remains robust. Tenant demand is healthy and both the quality and volume of deals being executed continue to strengthen. While some of this progress will take time to fully translate into reported financial results, the leasing fundamentals we're seeing today give us a high degree of confidence in the direction of the business.

While near-term financial results reflect some expected headwinds, including the impacts from HBC and Toys "R" Us, equity compensation program settlements and 2025 dispositions, the underlying trajectory of the business remains very strong.

CRU leasing was a standout this quarter. The best descriptor of recent leasing activity is breathtaking with strong renewal spreads, record high leasing volume and very strong tenant demand across the portfolio. The deals executed by the team during the quarter will drive robust NOI growth over the next several quarters.

With the significant growth of our portfolio over the past few years and an expanding set of investment and capital recycling opportunities, we've strengthened our leadership team.

Julian Schonfeldt has joined Primaris as our Chief Investment Officer and will oversee our investment activities and capital allocation initiatives, including acquisitions, dispositions, portfolio optimization and underwriting.

A key area of focus will be unlocking value from our substantial excess lands, many of which have only recently become actionable following the departure of Hudson's Bay. Julian, welcome to the team. You can't see this, but he's got a big goofy grin on his face, and so do I.

In 2025, Primaris regained control of the 7% of our portfolio that had been occupied by Canada's last department store, half in June and half at the end of November. With average net rents of just over $4 per square foot, the space was the least productive but often the best located space in our portfolio.

Nevertheless, the full financial impact of this departure is notable in our Q1 2026 results as the peak quarter of occupancy and revenue drag. Now for the first time in Canadian mall history, we are no longer constrained by legacy access controls imposed by large anchor tenants, controls that have been monetized for decades without regard to the broader site optimization.

This shift gives us meaningful flexibility across our portfolio, enabling more integrated decision-making around leasing, redevelopment and excess lands, all informed by a disciplined assessment of highest and best use. By removing these long-standing barriers, we can begin to unlock value that has remained dormant for decades.

We are now executing on this opportunity to deliver a higher quality, structurally higher growth and more durable cash flow. This opportunity could not have come at a better time in terms of robust retailer demand and leasing environment.

We are also active on master planning and are approaching this massive opportunity with a disciplined and thoughtful approach. All of this work, directly advances our strategic ambition of becoming the first call, and we are very excited about what lies ahead.

With that, I'll now turn the call over to Patrick to walk you through our operational results for the quarter. Pat?

Patrick Sullivan
President & COO

Thank you, Alex, and good morning, everyone. We've been hard at work reshaping the portfolio to achieve structurally higher internal growth. The closure of HBC represents significant progress towards this goal as we are replacing low rents with no growth that occupied a significant share of the total GLA with higher rents with contractual rent growth.

Our leasing efforts have accelerated and demand from retailers continues to exceed expectations due to low supply of available retail space and the high-quality nature of the HBC real estate. We anticipate retaining approximately 90% of the former HBC GLA. And to date, we are at various stages of advanced negotiation with tenants representing approximately 70% of the expected GLA.

Approximately 35% of space or 350,000 square feet is committed or conditionally leased with very minimal capital investment from Primaris. We plan to provide a detailed leasing update in June once we have a significant number of fully executed leases in place and are able to share a good level of detail.

Anticipated cash rent commencement from redeveloped HBC locations will begin in some properties as early as Q1 2027 with overall yields expected to be approximately 8% to 10%. At present, we continue to anticipate generating more than $17 million of annualized net rents from the former HBC premise once leases commence over the next two years from a diversified mix of high credit quality tenants.

We believe the full impact to NOI could be higher as this analysis does not account for the benefit to adjoining retail premise, some of which are currently vacant that will benefit from being next to new tenants generating higher traffic. Beyond the attractive economics we are experiencing on re-leasing the recently vacated space, the elimination of onerous development restrictions that were embedded in the disclaimed leases has now liberated more than 70 acres of land across our portfolio.

Primaris has established strategic plans for our properties that include the potential to develop excess land for outparcel buildings, including restaurants, grocery stores and financial institutions, as well as the sale of land to residential developers. We are currently engaged in discussions with retailers and financial institutions for outparcels previously restricted by HBC, which will generate returns of more than 10%. In addition, we are building a land disposition strategy and expect to begin marketing some of these excess land parcels shortly.

On to our operating results.

Despite the loss of HBC revenue, same-property NOI performance this quarter was fundamentally very strong.

The reported 2.1% decline in same-property cash NOI was driven by $2.5 million in prior year property tax recoveries in Q1 2025, as well as $2.4 million of lower rental revenue due to the now disclaimed HBC leases.

Importantly, excluding only the $2.5 million contribution from the recovery of property taxes last year, same-property shopping Centre cash NOI growth would have been an increase of 1.7%. This performance reflects the strength of the underlying portfolio, continued rent growth, improving recovery, solid leasing execution, and reinforces our confidence in the embedded NOI growth as HBC space is re-leased and occupancy grows.

As a quick reminder, retail operating results are inherently seasonal, with the fourth quarter typically representing the strongest period of the year. Occupancy and retail tenant sales generally peak in the fourth quarter, driven by the holiday shopping season, higher consumer traffic plus temporary and seasonal leasing activity. By contrast, the first quarter is typically the softest period, reflecting normal post-holiday sales normalization, fewer seasonal tenants, and the timing of lease commencement.

These recurring seasonal patterns are consistent across the retail sector and should be considered when comparing performance. Given these seasonal dynamics, same-quarter year-over-year comparisons rather than sequential quarter-to-quarter results offer a more appropriate lens for evaluating underlying performance.

Leasing activity was extremely strong during the quarter, with 114 leases renewed across 372,000 square feet. CRU leasing spreads were 7.9% and 5.5% overall. If not for the renewal of one large-format tenant at a lower rate at a non-core property, overall leasing spreads would have been much higher. 60 new deals encompassing 146,000 square feet were completed during the quarter, including 55 new CRU deals for 96,000 square feet. New CRU leases completed during the quarter were completed at a weighted average net rent of $63.20.
For context, average CRU rents in the portfolio have risen to $50.03 per square foot as at Q1 2026 from $42.02 per square foot at the end of 2022. The Q1 2026 CRU new deal average rent and the new deal count recorded are the highest quarterly amounts recorded over the past 10 years and reflect the strong demand from retailers for retail real estate.

A key metric for us is CRU occupancy, which refers to space under 15,000 square feet. CRU in-place occupancy improved to 91.2% versus 90.1% at Q1 last year. CRU occupancy in newly acquired centres is lower than our portfolio average, which provides for significant income growth in these high-performing centres. HBC had a significant impact on our overall occupancy figure, negatively impacting occupancy by 6.5%, with new acquisitions also creating a negative drag of 3%.

Combined recovery ratios improved to 78.5%, driven by strong leasing activity and improvement in the portfolio composition. Stabilized levels for recovery ratios in our portfolio are around 92% to 93% for property tax and 96% to 97% for operating costs as compared to our current figures of 75.5% and 81.3%, respectively. Each 1% improvement in the combined recovery ratio adds approximately $2.5 million to NOI annually.

Occupancy is a key driver of recovery ratio improvement, and CRU occupancy has the greatest impact on this metric. Many of the properties acquired since 2022 had elevated CRU vacancy, and our leasing efforts to reduce this vacancy at malls such as Conestoga, Devonshire, and Oshawa Centre have resulted in higher NOI over the past few years.

With continued strength in new CRU leasing, coupled with accelerating leasing progress with HBC replacement tenants, occupancy and recovery ratios will continue to improve at our properties, including top-tier centres newly acquired, such as Oshawa, Galeries de la Capitale, and Southgate, where recovery ratios remain well below our target levels.

Sales continue to be strong, with all store sales volume growing by 3% to $3.57 billion for the 12-month period ending February 2026, as compared to February 2025. Notable increases were realized at Orchard Park, where sales volume has surpassed $200 million to $214 million, as well as Halifax Shopping Centre, Lime Ridge Mall, Oshawa Centre, and Promenades St-Bruno. Conestoga Mall also posted strong gains, and we anticipate this property will eclipse the $200 million mark in sales volume this year, given the significant leasing activity at the property.

Across the board, our leasing and operations teams are executing at a very high level and producing outstanding results. 2025 was a transformative year for our portfolio, and 2026 is already shaping up to be a year of significant leasing progress.

With that, I'll turn the call over to Rags.

Rags Davloor
Chief Financial Officer
Thank you, Pat, and good morning, everyone. Primaris reported FFO per unit of $0.425 per diluted unit, down 3.2% year-over-year. It is important to frame the result in the right context. The decline in the year-over-year comparison is primarily impacted by approximately $2.5 million of prior year tax recoveries and $2.4 million from the now disclaimed HBC leases.

Excluding the $2.5 million impact of the prior year tax recoveries, FFO per unit was up 1.6%. This growth, even after absorbing the loss of $2.4 million of lost HBC revenue, speaks directly to the strength of our underlying core portfolio and operating business. We achieved these impressive per-unit results despite increased unit count, sale of non-core assets at the end of 2025, and the impact of the now disclaimed HBC leases.

Internal growth and accretive high-quality acquisitions completed in the last 18 to 24 months are the drivers of core performance. As the portfolio has grown, we've continued to realize meaningful economies of scale by leveraging our internal management platform. As a result, G&A has started to stabilize as Primaris reaches scale across its national portfolio.

In the quarter, while G&A was $2.3 million higher than the same period in 2025, this was primarily as a result of the unit-based compensation vesting and settlement. The equity compensation vested in the quarter was granted in 2023 at an average price of $13.78 per unit, being the market price at the time these options were granted, and was cash settled in the quarter at a market price of $17.45 per unit, resulting in an incremental expense of $1.4 million in the quarter.

Turning to the balance sheet. We remain very comfortable with our financial position. At quarter end, average net debt to adjusted EBITDA was 6x. Liquidity was $626.8 million, and we continue to have no debt maturities until 2027.

Importantly, Morningstar DBRS reaffirmed our BBB high credit rating with a stable trend during the quarter, which we view as a strong endorsement of our differentiated financial model and our low payout ratio. If you are trying to reconcile same-property NOI growth to FFO growth, it is important to note that over 1/3 of the 2026 cash NOI guidance is attributable to the 2025 acquisitions, which were not included in same-property NOI, but also benefited from strong leasing activity.

We expect same-property NOI growth to accelerate in 2027 and 2028 as we see vacant anchor space coming back online at higher rents. The underlying performance of our core business remains extremely strong.

Our portfolio continues to generate stable and resilient cash flow, reflecting the quality of our assets and our operating platform. We remain disciplined in our approach, well capitalized and well positioned to continue executing on both internal growth initiatives and selective external opportunities.

With that, I'll turn the call back to Alex.

Alex Avery
CEO & Trustee

Thank you, Rags. As you can see, our team continues to deliver remarkably strong leasing activity and very solid operating results across the portfolio. Our progress is increasingly being recognized in the capital markets with our weighting in the TSX Capped REIT Index rising to over 4% and our trading liquidity now roughly 4x what it was two years ago as measured by the dollar value of units traded per day.

With leasing well advanced on the remaining HBC space, we are confident that 2026 will be another remarkable year for Primaris. We'd now be pleased to answer any questions from the call participants. Operator, please open the line for questions.

Question and Answer

Operator

Your first question comes from Sam Damiani from TD Cowen.

Sam Damiani
TD Cowen, Research Division

So just maybe on the occupancy to start things off. Just wondering if you think the Q1 level is a trough for the foreseeable future. And how do you see the cadence of in-place occupancy, rent paying in-place occupancy kind of materializing in the next couple of quarters and heading into the end of 2027.

Patrick Sullivan
President & COO
Hi Sam, so occupancy will be driven by two things. One, first of all, I think we have hit the trough. I mean HBC, they're closed, and that was the big, that was the Band-Aid being ripped off. And from this point forward, you're going to see CRU leasing continue to accelerate, which is going to help improve occupancy, but that's rather small movements. The big chunky movements will come when we start replacing the base space because we're talking about replacing approximately 1 million square feet. So that will happen over the next 24 months. So, and that will come in big, like I said, lumpy pieces and it will drive occupancy up in a meaningful material way.

Rags Davloor
Chief Financial Officer
Yes. The other thing, Sam, it's Rags. You'll note that there's a gap between in-place occupancy and committed occupancy of 250 basis points, which is about as high as you would see. Typically, it's 100 to 150 basis points. But that's just a product of the high level of leasing activity that we've had in the last quarter and then just the lag with those tenants taking place. So, you will start to see then the occupancy start up and the cash flow starting to flow through the same-property NOI.

Alex Avery
CEO & Trustee
And just to add to that point, that 350 basis point gap is likely to expand from here and through the committed number going up and the in-place will lag. But basically, it's all about leasing right now, and we're expecting the pace of leasing to be faster than tenants can actually occupy the space.

But the guidance being maintained from an FFO perspective is indicative that later this year, you're going to see a bunch of the cash rents coming in. A lot of it's on the CRU leasing and then cash rents more so from the HBC stuff end of this year, beginning of next year and then all the way through 2027 into 2028. It should be a pretty steady cadence.

Sam Damiani
TD Cowen, Research Division
Very helpful. And just for my follow-up, maybe an update on acquisitions and dispositions. I see the held-for-sale bucket is up a little bit quarter-over-quarter. And I guess, Alex, any sort of current commentary on the prospect for the next sort of strategic acquisition for the REIT?

Alex Avery
CEO & Trustee
Yes. Sam, as we've said before, the group of counterparties that we're dealing with are large, sophisticated, largely pension fund-owned groups, and they have a whole lot of committees and approvals and processes that they go through. And they also tend to be, keep their cards relatively close to their chest. So, we engage with a number of them on a fairly regular basis, have discussions about specific properties.

We have multiple discussions about specific properties going on, but we're not at a point where we have visibility to a specific transaction on the acquisition side. We're pretty optimistic that we have one or two or three that we might be able to conclude this year. But the timing is uncertain.

On the disposition side, in terms of our ambition of becoming the first call, it's as impactful to make these big high-quality mall acquisitions as it is to recycle capital from the bottom end of our portfolio. And we have a fair bit of activity on that front. Hopefully, we'll have some further updates in the near term. And as Rags was alluding to, we're planning to provide an update on HBC leasing in the next 60 days-ish. And at that point, we are also expecting to be able to report on some of the property transactions that we've been working on as well.

Operator

Your next question comes from Brad Sturges at Raymond James.

Brad Sturges

Raymond James Ltd., Research Division
Congrats on the leasing activity to date. It sounds like you're making good progress. Just curious on the, I guess, the last call, you talked about Toys "R" Us, you were kind of at six locations in advanced negotiations. I wonder if there was any, I guess, update specifically on those six locations.

Patrick Sullivan
President & COO
Sure, Brad. Yes, we had 45,000 square feet. The average rent was about $12.40, so relatively low. We have leasing activity on all of them. And most of them are very advanced. We have some that are going to have possession this year, and we're achieving much, much higher rents than we had in place. So, it's a very good win for us going forward.

Bradley Sturges
Raymond James Ltd., Research Division
Perfect. And there's no shortage of investment and transaction opportunities for Primaris. Just curious, as the stock price has improved of late, where does NCIB activity or buyback activity rank? And do you still expect to kind of keep a similar amount of investment activity as you were the last couple of years into the NCIB?

Alex Avery
CEO & Trustee

Yes. We love buying back stock and continue to see it as a good use of capital, a very good use of capital. As we were talking a couple of minutes ago about the trough in occupancy, you may have noticed that our debt-to-EBITDA number hit 6.0x this quarter. And that's a function of the EBITDA ticking down a little bit with the departure of HBC as well as the seasonality that we see in our business.

And so you might have noticed that our NCIB activity has been a little lighter over the past maybe 120 days, something like that. And that's just, we're not, it's a little bit ironic. We have $50 million of cash sitting in the bank account, but we haven't been buying a lot of stock, and that's because of the governor that we have on our balance sheet of a 6x ceiling.

And so as we see the occupancy tick up, as we see the EBITDA tick up, we're going to see the natural sort of deleveraging that comes out of that. And I think at that point in time, you'll see a resumption of a higher level of repurchase activity. We've always looked at the NCIB as something that is sort of a permanent feature of Primaris. Now it's a very good use of capital and we're structured to generate excess retained cash flow and capital inside the business. And that one is always pretty attractive.

So it has been in a little bit of a lull recently, but that's really about our leverage and excess capital availability. The other piece ironically that has led to the 6x debt to EBITDA being a little inflated is the $50 million of cash sitting in a bank account, not generating any EBITDA.

So to the extent that we can deploy that into some acquisitions, that will also be deleveraging, which is a little bit counterintuitive. But we're just taking our, or we took our foot off the pedal a little bit on the NCIB as we're getting through this low.

Operator

Your next question comes from the line of Mario Saric at Scotiabank.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Just sticking to the disposition, the $256 million that are held for sale, I believe that the guidance doesn't reflect any material dispositions nor acquisitions. So can you give a sense of what the IFRS cap rate is on what is held for sale and the potential FFO impact if you were to transact on?

Rags Davloor
Chief Financial Officer
Yes. I believe the cap rate would be around 8.5% on a blended. It range from 8% to 9.5% on an individual asset basis, but on a blended basis, would sort of be in that zone. The guidance right now has not incorporated any further acquisitions are disposed until we have greater visibility and know that the transactions are happening. So that's not incorporated in even though we do expect to see both for the current year. So that's sort of where that sits. And as we start to dispose of assets, we will likely be moving more assets into the held for sale market.

Mario Saric
Scotiabank Global Banking and Markets, Research Division
Got it. Okay. Just as my follow-up, last quarter, I think land sales of up to $100 million were kind of discussed. And so I don't know if this is for Alex or maybe for Julian. But can you maybe shape up what the residential kind of land market is looking like feeling like and whether that's something that will be included in more thorough detail in June with the other updates?

Julian Schonfeldt
CIO
Mario, thanks for the question. So less than a month in, I've been working with the team and going through all the assets and looking at what we can do in light of the HBC no-build clauses being gone. As you noted, the land market is an important factor in that. And in some parts of the country, I'll say it's more healthy than others. We're not in an extreme rush to do it. So we're going to focus more so on the sites where the land markets are healthier.

Still working through the analysis. As you know, I'm not the type to sit on my hand, so working very hard on that. But we're going to be focusing on the markets where there's the most liquidity.

Patrick Sullivan
President & COO

And I'll just say as an overall comment, it's a very impressive land portfolio. I mean just with the malls, there's a lot of excess surface parking where you can build really efficient floor plates, you're connected to transit. Got amazing retail amenities, and we think this is a really attractive opportunity.

And so again, focusing on the priority sites. Stay tuned, and we'll continue to give updates and hopefully be able to execute transactions at least on some of the sites in the near-term.

Mario Saric
Scotiabank Global Banking and Markets, Research Division

Got it. At the risk of tripping the one plus one follow-up rule, just what would you consider to be the healthier markets today given the diversity.

Patrick Sullivan
President & COO
Yes, sure. I'd say just markets where there's not a lot of unsold inventory or deep negative rent growth or falling occupancy. So to be candid, staying out of the Greater Vancouver area, the Greater Toronto area and Halifax, those are the markets that I would say are a little bit more challenged right now.

There's a lot of value in the sites that we have there. But just given a lot of developers are in what I'd say more of a defense mode and dealing with their existing challenges, those would be the markets where I'd say we better served by pausing and waiting for a better part of the cycle, whereas the other markets would be where we're putting a little bit more focus on something quicker.

Operator

Your next question comes from Pammi Bir at RBC Capital Markets.

Pammi Bir
RBC Capital Markets, Research Division
Just in terms of the drop in NOI between Q4 and Q1, how much of that was attributable to maybe just the normal seasonality versus heavier than typical maybe winter-related costs?

Patrick Sullivan
President & COO

So one of the things that as we were reflecting on our financials popped out was that, that seasonality that if you observe on any other year or on an average, if you look over a long, long term for Primaris, this would be larger than average and part of it actually relates to the HBC.

A year ago, when HBC went, announced that they were going bankrupt, they we looked at it and we said this is our gross revenue exposure, but the net operating income impact is less because some of the additional rents are recoverable through the CAM pool. And what sort of snuck up on us was that with our recovery ratios hovering around 80%, as that recoverable expense moved from HPC back into the CAM pool, sort of 20% of it came back to us. So you had a larger landlord burden in terms of the operating expenses as you normally do in Q1 versus Q4, but it was accentuated by the departure of HBC.

And none of us expected to still be talking about Ruby Lue and the lease assignments as late as November 27, which is when we got the space back. So you had this sort of step down from HBC in terms of the NOI contribution in Q4 to Q1. And then you also had an exaggerated impact because of the recovery ratio being depressed. So it was a little bit of the weather, but it was mostly that dynamic, I think.

Pammi Bir
RBC Capital Markets, Research Division
Okay. So fair to say that the way we should think about it is just as the space is ultimately repositioned over time, that, I guess, that incremental 20% cost that Primaris beared in Q1 should essentially decline over, again, as you re-lease?

Patrick Sullivan
President & COO
Yes. No. And as we were talking about a few minutes ago, I mean, the committed occupancy, 350 basis points ahead of the in-place and expanding, that will expand for another few months, and then it will probably start to catch up and the gap will start to close. But as that happens, I mean, I would imagine that this year's Q4 to Q1 is the largest sort of seasonal dynamic that we'll experience. And I would expect that in future years, it will revert to a more normal sort of Q4 to Q1 seasonality.

And the other, there is a little bit of weather in there, but the other thing that we very typically experience is the specialty leasing volumes that we get in Q4 are significantly higher. You get Santa Clause and all sorts of other things that are occupying space on a temporary basis around the holiday season. And that's a big source of the normal Q4 to Q1 dynamic.

Pammi Bir
RBC Capital Markets, Research Division
Okay. Hopefully, that didn't count as my follow-up. But just on that, you've cited some pretty strong demand and good progress on some CRU leasing. But as we kind of progress through Q2 to date, the economy is still soft and there are pressures on the consumer. So are you seeing any changes in any of the tenant behavior in terms of their space requirements or anyone new on the watch list?

Patrick Sullivan
President & COO
Pammi no actually the first portion of the second quarter, the leasing demand seems it's still very strong. We're still seeing a lot of transactions, and that's just on the CRU side. The HBC stuff is moving along very, very well. Lots of

demand on that. A lot of our boxes are actually oversubscribed. We have more tenants than we can accommodate. So it hasn't, we haven't seen any slowdown at all in terms of leasing demand. And likewise, with sales, sales continue to be very strong.

Operator
Your next question comes from the line of Tal Woolley at CIBC. Your line is open please go ahead.

Tal Woolley
CIBC Capital Markets, Research Division
Just on your plans for some of the outparcels. I'm just wondering like if you're looking at maybe like selling a plot of land to a grocer or something like that to put them on the site. Is there no consideration for maybe retaining the land and building for the grocer yourselves? Or I'm just wondering what the thinking is behind doing land sales versus building for tenants.

Patrick Sullivan
President & COO

Yes, Tal, thanks for the question. We're actually looking at both. And any time we're looking at selling land or building, like both teams are talking to each other and seeing what's kind of the highest and most profitable use for it. So when we do a development pro forma, we look at the construction costs, we look at the rent we get, but we also factor in the opportunity cost for if we were to sell that land to a residential user and vice versa. So it's all being looked at together and with the objective of maximizing value for unitholders.

Tal Woolley
CIBC Capital Markets, Research Division
Okay. And then you continue to make progress winding down the amount of short-term leasing in the tenant role. Is there like a long-term target on where you want that to be? I would presume you'd always want a little bit of that in the business just for like you said, like the holidays and things like that. Can you just sort of talk what you'd love to see that number be long term?

Patrick Sullivan
President & COO

Tal, 3% is probably a normalized target number simply because you're always going to want to have swing space so you can carry out remerchandising efforts. We're always looking to bring in the new exciting tenants that help drive sales and drive rental growth. And sometimes you have to wait out other expiries and assemble space. So you're always going to have the swing space and it generally will equate across the portfolio to about 3%.

Operator

Your next question comes from the line of Lorne Kalmar from Desjardins.

Lorne Kalmar
Desjardins Securities Inc., Research Division
Sorry, I was having a little bit of technical difficulty, so apologies if I missed this. But I was just wondering, could you maybe provide a little more detail on, I guess, sort of the NOI build over the next 3 quarters that underpin the guidance? Like which quarters do you expect to see the biggest uplift is sort of what I'm trying to get at just to better understand here.

Patrick Sullivan
President & COO
Lorne, it's fairly typical in our business that a lot of the remerchandising is done in Q1. We do a lot of leasing in Q4, Q1. The tenants, they take possession and open in typically Q3, Q4. So Q3 and Q4 see the benefit of the leasing done at the end of the year prior plus the first and second quarter, plus that combined with the increased specialty leasing revenue that's done with the seasons, the holiday seasons and the percentage rent. A lot of tenants at a breakpoint, they tend to pass their breakpoint towards the end of the year and start paying percentage rent.

And then when sales just generally increase, any tenants on percentage rent in lieu and such forth, generally, there's higher volumes paid when their sales go up at the end of the year.

Lorne Kalmar
Desjardins Securities Inc., Research Division

Okay. So you wouldn't be expecting a meaningful lift in Q2 versus Q1 on the NOI side?

Patrick Sullivan
President & COO

I think we're going to see the benefit of some leasing activity that opens in Q2. The majority of the downtime really happens in Q1.

Lorne Kalmar
Desjardins Securities Inc., Research Division
Okay. And then I'm going to take a cue from a few of the other folks on this call and hopefully, that doesn't kind of follow up. I just had one other question, and it relates to the Devonshire HBC box. I saw an article earlier. I'm just wondering if you could provide some color on what's happening there.

Alex Avery
CEO & Trustee
Yes. Sorry. There have been some media reports that, that may be something that Primaris would be interested in buying. And I would say that it is very logical for us to want to own a building attached to our shopping Centre. It would fall into the immaterial category, but also into strategically very logical for us to buy.

Operator
There are no further questions at this time. Claire, I turn the call back over to you.

Claire Mahaney
VP, Investor Relations & Sustainability

Thank you, operator. With no further questions, we'll close today's call. On behalf of the Primaris team, we thank you all for participating. Thank you

Operator
Thank you. You may now disconnect.

- End -