



Office
REIT

FINAL TRANSCRIPT

Q3 2015 Investor Call

November 6, 2015 – 10:30a ET

28 minutes

SPEAKERS

Scott Antoniak

Chief Executive Officer, Slate Office REIT

Brian Moncik

Chief Financial Officer, Slate Office REIT

Steve Hodgson

Vice President, Asset Management

ANALYSTS

Troy MacLean

BMO Capital Markets

Jonathan Kelcher

TD Securities

Mark Rothschild

Canaccord Genuity

Dawoon Chung

National Bank Financial

Rob Sutherland

Euro Pacific Canada

Operator

Good morning and welcome to Slate Office REIT's Third Quarter 2015 Investor Conference Call. At this time, participants are in a listen only mode. However, at the conclusion of today's presentation, management will conduct a question and answer period. Participants are reminded that this conference is being recorded for the benefit of unitholders and other interested parties who may want to review the call at a later time.

I will now turn the call over to Mr. Scott Antoniak, Chief Executive Officer of Slate Office REIT. Please go ahead, Mr. Antoniak.

Scott Antoniak — Chief Executive Officer, Slate Office REIT

Thank you operator and good morning everyone. We're exciting to be hosting the first ever investor call for Slate Office REIT this morning. Joining me on the line today are Brian Moncik, CFO, Steve Hodgson, and Conor McBroom.

Before getting started, I'm going to remind you that our discussion today may contain forward-looking statements. We therefore ask you to please familiarize yourself with disclaimers regarding forward-looking statements as well as non IFRS financial statements, both of which can be found in management's discussion and analysis (MD&A) for the quarter.

You can access all of Slate Office REIT's Financial Disclosure including our November 2015 investor update on the Web site. We'll devote most of our time today to answer any questions but we'll briefly summarize some of the operational highlights, as it has been one year since Slate assumed management and became one of the larger shareholders of Slate Office REIT.

One year ago, we stated our three strategic focus areas for the REIT were as follows: 1) enhancing the REIT's governance; 2) refocusing strategy to become a pure play Office REIT; and 3) improving management of the REITs portfolio.

In Q3 2015, we continued to execute on this strategy as evidenced by the following major highlights. Significant quarterly core FFO and AFFO per unit growth of 47 and 50 percent, respectively, over the same period last year. As a result of the increase in cash flow, our pay-out ratio has decreased to 78 percent as compared to 118 percent for the same period in 2014.

On the leasing side in Q3, we completed transactions for over 296,000 square feet including a major lease extension with SNC-Lavalin in the Sheridan Research Park. Rental rates for new leases were 8.1 percent above in place rent properties and rental rates for renewal leases were 22.6 percent over the expiring rents of those tenants. Finally, we purchased for cancellation 171,000 trust units under the REITs (NCIB) at a total cost

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of \$1.2 million. The highlights of Q3 along with all the other major events of the past year helped the REIT improve drastically in all respects.

Our portfolio is almost entirely focused on office assets, and includes strategic high quality properties. Our tenant roster has been upgraded, highlighted by our top 10 tenants which generate 45 percent of base rent and are all national, international or government tenancies. The REIT has completed over 600 million of accretive acquisitions, which, when combined with our improvement in operations, has resulted in this significant AFFO per unit growth referenced above.

Furthermore, by executing on a key tenet of our strategy, acquiring those properties at a low cost base, we're able to continue to generate income growth through our strong, competitive leasing position. We are extremely happy with the REIT's financial and operational performance and are excited to continue to execute on our strategy and drive unitholder value.

With that, I'll open the line up to questions.

Q&A

Operator

Ladies and gentlemen, if you'd like to ask a question, please press star followed by the number one on your telephone keypad.

And our first question comes from the line of Jonathan Kelcher from TD Securities. Your line is open.

Jonathan Kelcher – TD Securities

Thanks. Good morning. If we look ahead to 2016 and 2017 – and I didn't see this in need the MD&A – can you maybe walk us through your lease expiry schedule and what sort of uplifts you're expecting?

Scott Antoniak

So, on the two years, we're about 13 percent per annum, Jonathan, of lease expiries in place, a lot of which has been addressed already. I think you would expect renewals to be, or new deals in fact, to be higher than existing rental rates but I wouldn't suggest, you know, in the 25 percent, or probably in the 10 to 20 percent range for renewals and new deals.

Jonathan Kelcher

OK, are there any large leases in there that concern you?

Scott Antoniak

Nothing that concerns us.

Jonathan Kelcher

OK. What would – are there any large leases in there at all?

Scott Antoniak

There's one large lease towards the end of 2016, we're already in negotiation with the tenant and expect them to be renewing with the positive lift in rental rate.

Jonathan Kelcher

OK. And then just – just – go ahead.

Scott Antoniak

No, go ahead.

Jonathan Kelcher

A second question, just on the retail and the industrial assets and I guess your intent still to dispose of those. Do you have any sort of timeline for that? Would that be –

Scott Antoniak

The expectation is this quarter, Jonathan.

Jonathan Kelcher

For the majority of them? So Q4 of '15?

Scott Antoniak

Yes.

Jonathan Kelcher

OK. And how much and why do they contribute?

Scott Antoniak

Look, I'll get back to you specifically, Jonathan.

Jonathan Kelcher

OK. Thanks, I'll turn it back.

Operator

Our next question comes from the line of Dawoon Chung from National Bank, your line is open.

Dawoon Chung – National Bank Financial

Good morning guys. Congratulations on the quarter. On the Atlantic Canada front, you mentioned the disposition opportunities in the MD&A. Could you provide us with more colour on this front?

Scott Antoniak

That's the retail portfolio that Jonathan referenced before.

Dawoon Chung

OK.

Scott Antoniak

So there will (inaudible) be acquired the three enclosed shopping centers.

Dawoon Chung

Right.

Scott Antoniak

Yes.

Dawoon Chung

But you wouldn't be selling any office, sort of the lower quality office spaces there, correct?

Scott Antoniak

There're no plans to sell any office properties in Atlantic Canada at this time.

Dawoon Chung

OK, great. On the redevelopment project – the potential redevelopment project – for [inaudible] properties. What are your plans so far and how long do you think it will take to reach some stabilized occupancy level and where are your plans. I mean, how much do you plan to spend on CAPEX?

Scott Antoniak

I think it will depend on ultimately what the leasing situation looks like there. I think there's a couple of different options, likely started with a larger tenancy– now that will depend on how large that is, as you know, what happens with the rest of it, the building. But I think, you know, there are number of larger tenant opportunities in that market right now. We're exploring those at the current time. To guess as to what exactly the CAPEX spend would be at this point, I think, would be a bit premature.

But there certainly would be a CAPEX spend related to a bigger tenancy. But we're exploring those opportunities right now.

Dawoon Chung

And at the Fortis building, Fortis will be leaving and are you planning to sort of – I mean you're looking into the CAPEX and potentially redevelopment. But do you – planning on doing that afterwards thinking about the redevelopment project afterwards or?

Scott Antoniak

I'm not sure I understand. Fortis has lapsed.

Dawoon Chung

Right.

Scott Antoniak

Fortis has moved into the new building, Fortis Place, correct?

Dawoon Chung

Right.

Scott Antoniak

Yes, yes. So I'm not sure what the question is.

Dawoon Chung

OK, never mind – we can – we can take this off line. But onto the MTS Data Centre, from an accounting standpoint, will you be using the finance lease going forward or will it eventually become investment properties?

Brian Moncik – Chief Financial Officer, Slate Office REIT

Hey, Dawoon. It's Brian. Yes. No, from an IFRS perspective it fell under a finance lease. So that's kind of an ongoing treatment of that and it has to do with the tenant's option to purchase that in 15 years.

Dawoon Chung

Right. Thanks. Thanks for the colour here. And on the balance sheet, how much do you planning on using the (NCIB) program and should we be monitoring this going forward?

Scott Antoniak

I think given the current trading price, we will continue to, you know, to be active in the NCIB. Where it ultimately goes, I can't comment at this point but I think given where we're trading right now, I think for the foreseeable future we'll probably continue with that.

Dawoon Chung

Right. And my last question is with regards to the lease with the Province of Newfoundland. If I'm not mistaken, the lease, they're coming due in 2016. Is that one that you were talking about earlier with the lease expiry schedule?

Scott Antoniak

No, it's not.

Dawoon Chung

OK. And could you potentially speak to the market conditions in Gander?

Scott Antoniak

Fortis tower? That's – that's in Corner Brook. Gander is just the retail property.

Dawoon Chung

Right.

Scott Antoniak

Yes, so we are in renewal discussion with the province of Newfoundland in Corner Brook, for the Fortis tower.

Dawoon Chung

OK. Great. Thanks. I'll turn it back.

Operator

Our next question comes from the line of Rob Sutherland from Euro Pacific Canada. Your line is open.

Rob Sutherland – Euro Pacific Canada

Hi guys. Congratulations on the quarter.

Scott Antoniak

Thanks Rob.

Rob Sutherland

Just I guess most of it's been asked about out east and I think that's pretty well covered. Can you just breakout how you guys are handling GTA west office market like the 427 corridor and that sort of thing with I know just a little bit farther north, it's a pretty wretched market and how you're competing against that?

Scott Antoniak

Well I think our story's a little bit different in suburban and certainly the GTA west as witnessed with the SNC transaction. I think you know, from a cost basis perspective, where we own these properties, we can be very competitive from a leasing perspective in terms of what we can offer tenants on a rental perspective, I think. We would have outperformed the broader suburban markets in the GTA. I think that we're optimistic that we're going to continue to do that going forward.

We're aware of what's going on and that I think everybody is looking closely at all those markets. But I think in addition to SNC we have had a number of successful leasing outings in the west end last quarter and I think we continue to see that and really it speaks to where we own these assets from a cost basis perspective that we can continue to drive out-sized leasing returns by virtue of that.

Brian Moncik

I think, Rob and Steve, I think tenant retention has also been very key. Queen's Plate, for example, it's been about retaining and expanding tenants and that's really been our success there. And that's the reason we're out performing the market in that note and to your other point, about the 427 corridor, it's the same thing in our [inaudible property name] asset.

Rob Sutherland

OK. The Queen's Plate – I think I remember right, you had looked at transitioning that building to a different type of use. Are you still thinking of doing that? You'd looked at doing medical office or something or that might be, you know, an absolute hallucination on my part.

Brian Moncik

No. I think it's been looked at it in the past. I think it was more from a user perspective. For now, we're actually having quite a bit of success leasing it as an office building so.

Rob Sutherland

OK. And then I remember the [inaudible], I think there are some plans in place for an expansion, is that something you're still trying to push forward?

Scott Antoniak

There's density on the site for an expansion I think again it would be user driven. It's nothing that we would do on specs certainly.

Rob Sutherland

OK. And I think – you said majority of Jonathan's question. Majority of the retail, industrial should be sold. Does that mean you're in active negotiations with someone to be – do you expect it really will be sold or is that something we can kind of pencil in as opposed to pen in.

Scott Antoniak

I think, Rob, we'll just leave it at the previous answer. We expect it to [come by the end of the year] if that's fair.

Rob Sutherland

OK. Yes. That's it for me. Thank you.

Operator

Again, ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad.

There are no further questions in queue – sorry, we have a question from Dave Brown, your line is open.

Dave Brown

Yes, good morning. I see your debt to GBV ratio is hitting 61.5 percent, do you have a goal of what you want to see your data at in a year or two and how do you plan to get there? Thank you.

Scott Antoniak

Well, we do have a goal in place and I think as the REIT, you know, continues with its maturity in terms of the size and transformation, I think we would migrate towards, you know, the low to mid 50 percent range which is akin to most of our peers. I think, you know, the fact that we're disposing of assets right now as outlined earlier on the call, it would be logical to assume that some of that might go towards some debt repayment.

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You know, we think that having a slightly higher debt ratio right now has allowed us to do some pretty compelling things on the acquisition side. But we view that as temporary and over the long run, we feel that we'll – we'll migrate down towards the low to mid 50s to be – to be comparable to our peers.

Operator

There are no further questions in queue at this time. I'll turn the call back over to the presenters for any closing remarks.

Scott Antoniak

Well thanks everyone for joining and thanks for the questions. As I said before, we're really pleased with the Q3 results and hope to have a similar call with all of you on board for Q4. Thanks very much.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for joining us today. You may now disconnect your lines.
