

## **CORPORATE PARTICIPANTS**

**Madeline Sarracini**

*Investor Relations*

**Scott Antoniak**

*Chief Executive Officer*

**Robert Armstrong**

*Chief Financial Officer*

**Steve Hodgson**

*Chief Operating Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Dawoon Chung**

*National Bank Financial*

**Jonathan Kelcher**

*TD Securities*

**Jimmy Shan**

*GMP Securities*

## **PRESENTATION**

**Operator**

Good morning, ladies and gentlemen and welcome to the Slate Office REIT Second Quarter 2017 Financial Results Conference Call. As a reminder, this call is being recorded today, Friday, August 4, 2017 at 9:00 a.m. Eastern Time. I will now hand the call over to Madeline Sarracini, Investor Relations.

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**Madeline Sarracini, Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the second quarter 2017 conference call for Slate Office REIT. I am joined today by Scott Antoniak, Chief Executive Officer; Robert Armstrong, Chief Financial Officer; and Steve Hodgson, Chief Operating Officer of Slate Office REIT.

Before getting started I'd like to remind participants that our discussion today may contain forward-looking statements and therefore ask you to familiarize yourself with the disclaimers regarding forward-looking statements as well as non-IFRS financial measures, both of which can be found in management's discussion and analysis.

You can visit Slate's website to access all of the REIT's financial disclosure, including our Q2 2017 investor update, which is available now.

We will now allocate the remainder of this call to answering your questions. Thank you.

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## **QUESTION AND ANSWER SESSION**

**Operator**

At this time, I would like to remind everyone in order to ask a question please press star followed by the number one on your telephone keypad. We'll pause for a brief moment to compile the Q&A roster. Your first question comes from the line of Dawoon Chung with National Bank.

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**Dawoon Chung, National Bank Financial**

Good morning, guys.

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**Steve Hodgson, Chief Operating Officer**

Good morning, Dawoon.

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**Dawoon Chung, National Bank Financial**

Looks like you guys had another good quarter of leasing activities and just looking at our new leases saw a decrease in rent. Was there one lease deal that kind of skewed that number by any chance?

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**Steve Hodgson, Chief Operating Officer**

Yeah, there was an expansion of Irving Oil at Brunswick Square, which did not include any tenant inducements. As well, they, being a large tenant in that building, paid a slightly lower rent than the average building rent.

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**Dawoon Chung, National Bank Financial**

Is that slightly, like is that 5 percent? 10 percent? Could you just quantify that if possible?

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**Steve Hodgson, Chief Operating Officer**

Yeah, well they are paying \$10 relative to the average building rent of \$13.30. It's more like a 30 percent for them. On 17,000 square feet of new space.

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**Dawoon Chung, National Bank Financial**

Right. And in terms of leasing velocity at this Sheridan Exchange and the Fortis, could you provide more colour on that front as well?

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**Steve Hodgson, Chief Operating Officer**

Yeah, I think in our significant highlights section of the MD&A, I'll point you to there for the all the specifics but, at a high level, the Sheridan Exchange, we've leased 8,400 square feet of the former MMM space and we continue to have tours and progress on the balance of the space. At Fortis Place where the head lease expired June 30<sup>th</sup>, we've already leased 5,700 square feet of that, 45,000 square feet that's coming back to us and are participating in an RFP currently as well as have another prospective deal for another 15,000 square feet in total.

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**Dawoon Chung, National Bank Financial**

Prospective deal. Perfect. Switching gears here to the balance sheet here and with regards to your liquidity position, seems like you guys have \$9 million remaining from the equity raise and additional capital from refinancing mortgages and also got some availability from your credit facility. How much should we expect in terms of acquisition activities for the rest of 2017?

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**Scott Antoniak, Chief Operating Officer**

Dawoon, I think in terms of liquidity available to us right now, I think we're able to do an acquisition in the range of \$75 million, maybe a little more than that. I think we'll continue to evaluate. We have a fairly significant pipeline as we've had throughout the year looking at assets in a number of different markets, so I think we'll look to deploy that sooner rather than later. As for the rest of the year, I think

you can expect that we'll continue on kind of a similar to trajectory that we've done so far, this year and last year as well. But in terms of at-hand liquidity, I'd say we could do about a \$75 million acquisition (inaudible). And, Dawoon, I think I think of some of that liquidity as well, not that we kind of parcel and part it apart, but is focused on some of the redevelopment activity we have as well. We just finished at Speakman. There are some other opportunities in the portfolio as well. So, there will be some allocation of capital for value add within the portfolio as it is.

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**Dawoon Chung, National Bank Financial**

Great. And this question is probably more for Bobby and looking at your variable debt, given what interest rates have been, would you be interested in using swaps to fix the rate?

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**Robert Armstrong, Chief Financial Officer**

Yeah, we look at it and have looked at it over the last two years. It's definitely something we keep our mind on. I think it's something that we'd take advantage of if, you know, say that the swap rate came in a little bit, but it's something we definitely actively manage. I think we're actively managing it in two ways though. One, from a swap perspective, something we could do and are looking at but have not have done yet and, secondly, we do have some fixed-rate financing that we are expecting to take to the term market over the next year and that will also switch some of that from float to fixed. So, I think it will be natural progression of that as well as we could do something on the derivative front as well, but we haven't yet.

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**Dawoon Chung, National Bank Financial**

Okay, great. Thank you. That is it for me. I'll turn it back.

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**Steve Hodgson, Chief Operating Officer**

Thanks, Dawoon.

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**Operator**

Again, if you would like to ask a question, please press star followed by the number one on your telephone keypad. Your

next question comes from the line of Jonathan Kelcher with TD Securities. Your line is open.

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**Jonathan Kelcher, TD Securities**

Thanks. Good morning.

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**Scott Antoniak, Chief Operating Officer**

Good morning, Jonathan.

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**Jonathan Kelcher, TD Securities**

Just following up on the \$75 million, so that would be total \$75 million for acquisitions and property redevelopments, for lack of a better word?

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**Steve Hodgson, Chief Operating Officer**

No, Jonathan, I think it was \$75 million for acquisitions and the balance of our available liquidity would be used for ongoing capital and redevelopment.

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**Jonathan Kelcher, TD Securities**

Okay. And then the head lease at Fortis Place, how much NOI comes off in Q3 on that?

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**Robert Armstrong, Chief Financial Officer**

It's about, um, just a tad over 500.

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**Jonathan Kelcher, TD Securities**

And that's annual?

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**Robert Armstrong, Chief Financial Officer**

Sorry, quarter. And then just a point of clarification there is none of that head lease revenue is going into NOI. We are simply putting that into an adjustment for AFFO.

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**Jonathan Kelcher, TD Securities**

Okay. So that will have no impact on same property NOI then. So, if you look at it, would you expect same property NOI to, with the leasing that you've done, to tick up from in Q3 from Q2 then?

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**Robert Armstrong, Chief Financial Officer**

Yeah, absolutely. And some of the history there as well is we're actually, from a same property NOI perspective this quarter when we look year over year, we're slightly ahead of where we expected to be, and obviously you know all the context and history really well but we did have a number of leases coming off for MMM and everything that was expected in that respect. Moving into Q3 and Q4 we're expecting to see some of that velocity come back.

I think we've had really good success so far within the portfolio but also in the properties that aren't hitting the same property NOI quarter to quarter. I think we've been fairly happy with what we're seeing in the 427 corridor over the last three, four months of our ownership in that respect. But, to answer your question simply, yeah, we should see that tick up slightly in Q3 and we expect even further progress in Q4.

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**Jonathan Kelcher, TD Securities**

Okay. And at what point on a year-over-year basis do you go back to positive?

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**Robert Armstrong, Chief Financial Officer**

I think Q3 will be very, very close, like it could go one way or the other but I think it would be close, but I'd expect Q4 without a doubt to be positive.

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**Jonathan Kelcher, TD Securities**

Okay. And then just on 2599 Speakman, are you still on track to get that back near the end of this year?

**Steve Hodgson, Chief Operating Officer**

Yeah. On the landlord work side we are, Jonathan, and if everything goes to plan with the tenant's work, which we have less control over obviously, we would get the building back on November 1, 2017.

**Jonathan Kelcher, TD Securities**

Okay. And then how long do you think, like what's your sort of timeframe in terms of reworking that building and getting it back on stream? Is that something that we could see in 2019?

**Steve Hodgson, Chief Operating Officer**

No, I think it would be a 2018 venture. I don't think we will have the same scope of redevelopment that we had on the other two buildings. We're currently working with some prospective tenants now that would view it more as an as-is deal. So there would be some ceiling work and some extra TI that would be required but nothing to the extent of a full redevelopment like we had with SNC. So it's somewhat tenant specific in that regard.

**Jonathan Kelcher, TD Securities**

Okay. Fair enough. I will turn it back. Thanks.

**Steve Hodgson, Chief Operating Officer**

Thanks, Jonathan.

**Operator**

Your next question comes from the line of Jimmy Shan with GMP Securities. Your line is open.

**Jimmy Shan, GMP Securities**

Thanks. Good morning, guys. Just on the core FFO per unit, a year ago Q2 2016, you did \$0.27, and there are a lot of moving parts in your leasing activity and your redevelopment and the timing of the acquisition so I'm just

sort of curious as to when you think we can reasonably expect that you'll track back to that \$0.27 run rate?

**Robert Armstrong, Chief Operating Officer**

It's a good question. I think you're right, there is a lot of moving parts there. What I would say on the core FFO is a couple of things. One, the story in Q2 as far as we're concerned is we didn't have a full quarter contribution from the acquisitions of West Metro as well as Commerce West in the province of Fredericton, so Q3 will see that fully impacted. Looking at it from an AFFO perspective, we'd expect that to come back up to regular levels in Q3 having that full quarter contribution. But I think additionally we probably still need to make another acquisition, say in the \$60 million range, to see that come back down to where it was previously. There's still an overhang from just trying to deploy that capital from the raise. As I pointed out before, we still have a little bit capital to deploy in that respect, but I think from our perspective, and Scott can speak to it, we want to remain diligent as to our acquisition criteria as to what we're trying to buy, so we're going to hold out to make sure that we buy diligently and appropriately.

**Scott Antoniak, Chief Executive Officer**

From the AFFO perspective as well, if you look at the payout ratio for this quarter that's refer to that noise that Bobby spoke about. It is timing. And I know we've spoken on calls about this before, that like I'd love to be able to do this absolutely sequentially one minute after the other and close the equity and then deploy it all et cetera. And, as you know, in terms of what we've already placed on the equity we raised, 130, we over-equitized a little bit, so I think going forward, if the full quarter of what we've already purchased, you'd see the payout ratio inside 100 and then into the 90s as we talked about before, and upon full deployment of that equity, whether that's a \$60 million or \$75 million deal, we'd be back in the low-90s, as we forecast for Q3. So it was a big and important quarter for us in terms of that equity and acquiring those assets. We like those assets. We really like what we're seeing in terms of the leasing in the 427 and the GTA West. So that's all positive and I think overtime as we get our hands on those and apply our asset management skills to them I think it's going to be an even better story and we'll look to deploy the rest of that capital and you'll see us more in line with where we were in Q2 of last year.

**Jimmy Shan, GMP Securities**

Okay. Would consider these more normal levels once you deploy that capital to be, did you say in the low-90s or in the 80s?

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**Scott Antoniak, Chief Executive Officer**

I would think in the low 90s on full deployment of the equity, yeah.

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**Robert Armstrong, Chief Financial Officer**

That's correct. And then just on the core FFO, to respond to that question directly, I think based on the results we have and we're expecting we'd be a couple cents light of that without an additional acquisition to deploy that capital. With an additional acquisition fully vested for the quarter we'd expect to be back in that range.

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**Jimmy Shan, GMP Securities**

Okay. Okay. And then just yesterday I noticed that Morguard has acquired a property, 123 Commerce Valley Drive East. I don't know if you guys looked at that asset or you guys bid on that asset and I don't know if you could share anything in terms of what the cap rate and profile of that and how would that property be comparable with your Gateway Centre?

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**Steve Hodgson, Chief Operating Officer**

Yes, Jimmy, it's Steve. We looked at that building. Pricing was sub-six cap from my understanding. I don't know definitively the exact pricing but I do know it started with a five. We bought Gateway at, call, it a 675 cap. I think there is a slight gap between quality there but I think there's also a trend towards tightening cap rates in the suburban market for high-quality suburban Class A assets.

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**Jimmy Shan, GMP Securities**

Okay. So, sorry, there's a gap between quality as in this is a better quality asset?

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**Steve Hodgson, Chief Operating Officer**

Yes. And it's a newer building with longer weighted average lease term.

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**Jimmy Shan, GMP Securities**

Okay. And maybe some potential extra density?

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**Steve Hodgson, Chief Operating Officer**

Yeah.

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**Scott Antoniak, Chief Executive Officer**

I think, Jimmy, I'd balance that too. I mean we have a fairly sizable acquisition pipeline, we're looking at deals all over the place all the time, as you know, and trying to be the best allocators of our capital, and whether that's new acquisitions or spending money on the assets we have to create value. But I think from an overall NAV perspective, like as the GTA assets, the subsequent comps to what we did at Gateway and at 427 as those continue to get lower on a cap rate basis and higher on a per square foot basis, that's nothing but good for us in terms of NAV to the value of our existing holdings in the GTA.

We are keen observers of that and whether we're buyers of those assets if we like them and then we like the pricing, that's positive, but it's also a positive to see interest and velocity in this market in terms of what it does to the overall valuation of us. And you know that for us, we're constantly focused on NAV. We're in this for the long term. We have a fairly long view of our assets and what we're doing to them that's why we're trying to allocate capital as carefully as possible and do the right acquisitions and then spend money where we can generate outsized returns on our existing holdings, and that's the whole story. So, it's all positive.

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**Jimmy Shan, GMP Securities**

Yeah, no, that make sense. I mean I guess what I was trying to get at was from the time you bought Gateway to the time this transaction, I mean it just closed, I mean it sounds like values have ticked up a little bit. Is that—?

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**Scott Antoniak, Chief Executive Officer**

I would agree with that. Yeah, I think that's fair.

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**Jimmy Shan, GMP Securities**

Okay. Thanks, guys.

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**Operator**

There are no further questions at this time. I will now turn the call back over to Madeleine Sarracini for closing remarks.

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**Madeline Sarracini, Investor Relations**

Thanks, everyone, for joining the second quarter 2017 conference call for Slate Office REIT. Have a great day.

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**Operator**

This concludes today's conference call. You may now disconnect.

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