

CORPORATE PARTICIPANTS

Steve Hodgson
Chief Executive Officer

Charles Peach
Chief Financial Officer

Paul Wolanski
Senior Vice President, National Sales and Investor Relations

CONFERENCE CALL PARTICIPANTS

Sairam Srinivas
Cormark Securities

Jonathan Kelcher
TD Securities

Brad Sturges
Raymond James

Tom Callaghan
RBC Capital Markets

Matt Kornack
National Bank Financial

Jake Stivaletti
CIBC

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Office REIT Fourth Quarter 2022 Financial Results Conference Call.

At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you require immediate assistance, please press star-zero for the operator. This call is being recorded on Wednesday, February 22nd, 2023.

I would now like to turn the conference over to Paul Wolanski, Senior Vice President of National Sales and Investor Relations. Please go ahead.

Paul Wolanski, SVP, National Sales & Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the Q4 2022 conference call for Slate Office REIT. I am joined this morning by Steve Hodgson, Chief Executive Officer, and Charles Peach, Chief Financial Officer.

Before getting started, I would like to remind participants that our discussion today may contain forward-looking statements, and therefore we ask you to review the disclaimers regarding forward-looking statements as well as non-IFRS measures, both of which can be found in management's discussion and analysis. You can visit Slate Office REIT's website to access all of the REIT's financial disclosures, including our Q4 2022 investor update, which is now available.

I will now hand over the call to Steve Hodgson for opening remarks.

Steve Hodgson, Chief Executive Officer

Thank you, Paul. Despite headwinds challenging the broader office market, the REIT successfully executed a number of high impact transactions throughout 2022 that have meaningfully advanced the quality of our real estate and the performance of our portfolio.

Looking ahead, we remain focused on uncovering opportunities to maximize value for our unitholders and positioning our portfolio for stability and growth over the long-term.

As our tenants continue to return to work, our conviction in the office sector remains strong. We know that physical workspaces enable collaboration, culture, and innovation. At the same time, we understand that post-pandemic, certain tenants and industries will be more significant users of office space than others.

We will continue to position our portfolio to focus on opportunities that align with tenant demand. We believe well located, high-quality, and modern office buildings with growing, strong credit tenants will continue to outperform.

While the sector is facing a number of macroeconomic challenges, this environment can create unique opportunities to capitalize on historic market dislocations, and Slate Office REIT is well-positioned to take advantage of these opportunities.

Notwithstanding the REIT's attractive assets and longer-term upside, our Board of Trustees recognizes that

market disruptions and elevated levels of inflation continue to weigh on the valuations of publicly traded REITs, creating a divergence between asset values and unit price.

In October of 2022, the Board of the REIT formed a special committee of Independent Trustees to oversee a review of strategic alternatives for the REIT. As we continue to navigate a challenging operating environment, the strategic review will play a key role in identifying additional ways to maximize value for unitholders.

I will now hand it over to Charles for some additional highlights.

Charles Peach, Chief Financial Officer

Thank you, Steve. 2022 was a busy year for the REIT, completing \$379 million of strategic transactions and closing over \$600 million of senior debt capacity.

On the asset side, the REIT acquired a portfolio of 23 properties in Ireland anchored by government, technology, and life sciences tenants. The local team has continued to demonstrate strong collections and performance from these assets.

The REIT also purchased a modern office property in Chicago towards the end of the year. This is anchored by a 10-year lease with Pfizer at an 8.4% cap rate, with upside available from letting further space there.

An older, higher risk property at 95-105 Moatfield Drive in Toronto, Ontario was sold at a 5% premium to the REIT's June IFRS NAV.

The REIT's focus on operational performance continued, with 563,000 square feet of total leasing at a weighted average rental spread of 15.1% for the year, up from the prior 2021 6.5% spread.

Net operating income rose by 21.2% when comparing Q4 2022 with Q4 2021, showing an increase in same property net operating income of \$500,000 and a net increase of \$3.8 million from acquisitions and dispositions mentioned earlier. This NOI is supported by an average weighted lease term of 5.6 years, and government or high-quality tenants making up 66.3% of the portfolio.

In an increasingly expensive financing market, we closed financings in Canadian dollars, U.S. dollars, and euros to support the REIT's assets. Our universe of lenders increased. We arranged or refinanced term loans, revolving credit facilities, mortgages, and subordinated debt, while reducing our floating rate debt (after the

impact of swaps and caps) to \$75.4 million or 6.4% of our outstanding debt principal.

I'll now hand over for questions.

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Sairam Srinivas from Cormark Securities. Please go ahead.

Sairam Srinivas, Cormark Securities

Thank you, operator. Steve and Charles, good morning.

Steve Hodgson, Chief Executive Officer

Good morning.

Sairam Srinivas, Cormark Securities

Looking at the vacancies in Ontario, was this primarily because of their intent to leave, and were there other assets that saw some vacancies in the quarter?

Steve Hodgson, Chief Executive Officer

Your question was about what drove the vacancy in the quarter? Two things. One was the acquisition of the building in Chicago, the Pfizer anchored building where they occupied 67% of the building. We paid for that income, but we didn't pay anything for the vacancy. So, there is upside with that building, but it does decrease our overall occupancy slightly.

The other factor was the remaining vacate from SNC-Lavalin. They had their last phase of exit in the fourth quarter, and it was about 44,000 square feet.

Sairam Srinivas, Cormark Securities

Thanks for that, Steve. I was actually asking about the Ontario leases, but that gives me good color. Looking at the U.S. vacancy leases, are you in the process of actually closing in on that additional space in the Pfizer building?

Steve Hodgson, Chief Executive Officer

Yes, we've had a lot of interest. There are a couple of things that we are working on. We need to bifurcate the building so that it can be multi-tenanted. There is some work we are doing in the lobby, and we are going to do some aesthetic improvements as well.

But there is strong interest. We have had a few tours, both of which would take the entirety of the vacancy. This has historically been a 100% occupied building, so it is new to the market, and it is a very nice space, so there has been a lot of interest.

Sairam Srinivas, Cormark Securities

That's good color, Steve. On the same note, do you expect any vacancies to be coming in this year--any terminations, specifically?

Steve Hodgson, Chief Executive Officer

There are always expected vacancies. I would say that right now we have a good line of sight on vacancies for the balance of the year, of which half of those have already been replaced by new deals that haven't yet commenced in our occupancy.

We are having a lot of traction, particularly in Atlantic Canada and Ontario on new leasing. Ireland is still a very strong market, but there is less new leasing to do there because they are already well occupied.

Sairam Srinivas, Cormark Securities

Would it be safe to assume that the strength you saw last year would be reflected in the leases that commence through the summer and with these leases you just spoke about?

Steve Hodgson, Chief Executive Officer

Yes.

Sairam Srinivas, Cormark Securities

Okay. My last question would be on leverage. What are your thoughts on actually decreasing leverage as well as the payout ratio?

Charles Peach, Chief Financial Officer

I think decreasing leverage is generally an attractive thing for us. If we look at what has driven the increase in leverage over the quarter, that hasn't been so much through increased debt, it has been due to the fact that there has been a decrease in the IFRS value of our assets.

When we have looked at refinancing, we have looked in certain areas of selectively reducing the leverage on certain assets and the debt that's applied to them. We look at that in two directions. First, we generally would like to reduce the leverage level from where it is at the moment. The REIT has a target of 55%. Second, when it comes to refinancing and financing, we look to allocate our capital in the area it might be best used. That might advantages accepting lower leverage on one particular asset in order to gain additional leverage on another asset, should there be certain pricing benefits or availability benefits when it comes to other refinancings then or in the future.

Given that we completed a lot of refinancing last year, that set us up for this year. This year, we have a fair amount of refinancing to come, which we are well advanced with.

Sairam Srinivas, Cormark Securities

Thanks for that, Charles. Related to that, where are the re-fi rates coming in at?

Charles Peach, Chief Financial Officer

We are at the mercy, to a certain extent, of where interest rates are and where interest rates are going. We have a reasonably significant quantum of financing to come up this year. The majority of that occurs towards the end of April. Given that we are in negotiations on all of those financings, I'd rather not talk about levels and spreads that we have there.

Rates have increased significantly between where we were last year at this point and where we are today, and there will be an element of reflection of that in the cost.

What I will say is that we have looked to immunize ourselves from interest rate movements by looking for fixed debt as far as we can. There are a couple of instances where we do have swaps on assets which extend beyond the term of their debt, so we could continue to have that benefit at maturity. Unfortunately, I would expect an increase in our financing costs over the year as we look to refinance.

Sairam Srinivas, Cormark Securities

Looking at 2023, I know the interest rate coming in is expanding even more at 5.4%. Would you say that the rates that you expect to get will be significantly higher?

Charles Peach, Chief Financial Officer

Given that we have a significant amount of financing in the market, I'd say that as it is commercially sensitive at the moment. I think we could cover that data when we have completion..

Sairam Srinivas, Cormark Securities

Thanks for the color, Charles. I'll turn it back.

Charles Peach, Chief Financial Officer

Thanks.

Operator

Your next question comes from Jonathan Kelcher from TD Securities. Please go ahead.

Jonathan Kelcher, TD Securities

Thanks. Sticking with the leverage, you said 55% loan-to-value is your target. Do you have a target on the debt to EBITDA side?

Charles Peach, Chief Financial Officer

We do not have a specific target that we look at there. It is a measure that occurs within several the covenants that we have on our debt, so it is something that we obviously keep an eye on. But I think it is more the absolute level of leverage that we look at.

One of the things that we have been reviewing across all of our debt is where we stand from a covenant perspective, and ensuring, particularly as we have had increasing rates that we take as much advantage as we can with hedging derivative transactions, such as a cap we recently did on our Irish lending, to ensure we stay well within those covenants. They may include the DSCR as well.

Our chief metric when we look at this is LTV. We have an absolute level which sits in the Declaration of Trust of 65%. We have a target that the REIT has had for some time of 55%, which we look to move towards. And at 61.8%, obviously we are looking to reduce that to 55%.

Jonathan Kelcher, TD Securities

Okay. Switching gears, you did a small write-down on a vendor take-back loan on Water Street. Can you give a bit of color on that, and what you expect with that loan going forward?

Charles Peach, Chief Financial Officer

We have taken a relatively small write-down on what the amount of the loan itself was, the reason being that we have security on that loan. We believe we have the ability to take that security, and therefore expect to receive payment for that.

What we took as a write-down was our view of what costs might be in a disappointing situation. We may achieve more,, but that's ongoing.

Jonathan Kelcher, TD Securities

Okay. I believe it was two properties you sold. Was it to the same vendor, or is that separate?

Steve Hodgson, Chief Executive Officer

Yes, it was sold to the same vendor. We sold the former Fortis Building in St. John's, as well as a series of buildings that were a land assembly along Water Street. And it was to the Water Street Land Assembly, smaller retail with residential above buildings, that this VTB relates to. But we do have other security from the purchaser that Charles is referring to.

Jonathan Kelcher, TD Securities

Okay. Is that something that should get sorted out this year then?

Steve Hodgson, Chief Executive Officer

I would think so.

Jonathan Kelcher, TD Securities

Okay. Lastly, on your occupancy, it sounds like that's the end of SNC leaving. So, 81% is hopefully the low on occupancy and it builds from there over the course of the next couple years. Is that a good way to think about it?

Steve Hodgson, Chief Executive Officer

Absolutely, yes.

Jonathan Kelcher, TD Securities

Okay. Thanks. I'll turn it back.

Operator

Your next question comes from Brad Sturges from Raymond James. Please go ahead.

Brad Sturges, Raymond James

Hi there. On the IFRS valuation change, can you give more color if that was broad-based across the portfolio, or was that in specific regions? And I'm assuming that's more just based on changes to discount rate assumptions, or are there transactions that you're tying those fair value changes to?

Steve Hodgson, Chief Executive Officer

Good question. There are still not a lot of transactions that we would view as comparable to our portfolio. There have been some trades, but you really have to look into the details and specifics of each of those trades because they are still highly structured. There are adjustments that are happening after the headline prices. So, we don't view those as willing seller, willing buyer scenarios.

What we do know is that investors are still looking for a certain levered return, and financing rates are higher. So to get that same levered return, you need to pay less for an asset.

With what we are seeing from both the third-party appraisal world and our peers, in collaboration with our audit team, we felt it was prudent to make some changes to both our cash flow assumptions and discount rates in the fourth quarter, primarily in North America, as we felt that our Irish assets were appropriately valued given we feel we bought them at a very good price.

Brad Sturges, Raymond James

Okay. Thanks for that. On the strategic review, you commenced in October, you've been going through this process for a few months now. Where do you think you are in that process? And do you have a rough estimate on the timeline, in terms of how long that could take and when a resolution might be found from the strategic review?

Steve Hodgson, Chief Executive Officer

The strategic review is still underway, and at this time, I can't speak to the potential outcomes or timing.

We think it is a very prudent process. We have two new Board members that will certainly have opinions on the outcomes of that, and we'd like to get them fully up to speed. Until that is done, there is nothing to speak to in terms of the outcomes or timing.

Brad Sturges, Raymond James

As part of that process, you highlighted potential transactions that could be contemplated. Would a change in the distribution rate also be part of that process in terms of maybe revisiting the amount of retained cash you want to keep for reinvestment or to de-lever, for example?

Steve Hodgson, Chief Executive Officer

I think the Independent Trustees, as part of the strategic review, are looking at all alternatives, Brad.

I'll say this about the distribution, is that financing rates have put upward pressure on our payout ratio. Our objective is to continue to increase our NOI over the coming quarters, and we believe we are well positioned

to do that. We also have liquidity in our business, as you'll see in our Q4 results, and there are a number of levers to preserve and enhance liquidity.

Ultimately, the Board will make capital allocation decisions, and that's all going to be evaluated as part of the strategic review.

Brad Sturges, Raymond James

That's great. I'll turn it back. Thanks.

Operator

Your next question comes from Tom Callaghan from RBC Capital Markets. Please go ahead.

Tom Callaghan, RBC Capital Markets

Thanks. Good morning. Can you just touch on any updated utilization or traffic trends that you have seen across your assets? I think you specifically mentioned Atlantic Canada and Ireland as leaders, but what are you seeing across the broader portfolio? And secondly, has there been any shift in that since the new year?

Steve Hodgson, Chief Executive Officer

Very good question. Atlantic Canada and Ireland are leaders. Atlantic Canada in Q4 sat at around 80% utilization in our portfolio, which we feel is a very strong number. Ireland is around 70%. In Chicago and Ontario, we are still seeing that 30%, 40% range.

That being said, these are Q4 numbers. I'm eager to see Q1, because anecdotally, we feel that a lot of companies have implemented return to work, particularly in February after the holidays. So, we are eager to see the Q1 results and we expect some improvements.

Tom Callaghan, RBC Capital Markets

Got it. Makes sense. As a follow-up there, can you provide an update on that SNC space and any progress there with respect to lease-up?

Steve Hodgson, Chief Executive Officer

With West Metro as a whole, because we have the SNC space and we have a few other floors of vacancy, we've

got a pipeline of about 100,000 square feet right now. And most of that has materialized in the new year, so we are starting to see some movement.

It really speaks to the flight to quality. I think a lot of people, when they hear that term, they think of downtown, triple A buildings. But there are a lot of tenants that are currently in B and C buildings that are looking at West Metro, and the opportunity we have there, as a tremendous value-add for their companies.

As I think you know, the space that SNC left behind was also very well appointed, and it shows really well. So, we are getting some traction. I hope to have some updates in subsequent quarters.

Tom Callaghan, RBC Capital Markets

Got it. Thanks. I'll turn it back.

Operator

Your next question comes from Matt Kornack from National Bank Financial. Please go ahead.

Matt Kornack, National Bank Financial

Good morning. Can you give us a sense as to the trend in retention rate for maturities? Your 2023 and 2024 maturities are pretty modest in the context of the greater portfolio, and you've also got 1.4 million square feet of vacant space, including the assets you just alluded to, where you could potentially gain some occupancy. I am just trying to understand where we go from here on the occupancy front, retention versus new leasing and vacant space.

Steve Hodgson, Chief Executive Officer

As I mentioned earlier, the vacancy that we know of for the balance of the year, half of that has already been replaced by new, committed deals that have not yet commenced, and we still have the balance of the year to replace the rest. So, we are anticipating improvement in occupancy this year.

To answer to your question around retention, it is different by market. What we are expecting from the Chicago market, where we have one building that is fairly locked down from the leasing perspective with CIBC as the anchor tenant, and we have another building that has smaller tenants that are more mobile, but we are at the

right price point for them in the market. At that building, you'll see tenants leave and then they're quickly replaced by another. So, we are expecting to maintain occupancy in that market.

Atlantic Canada, we are still seeing some great momentum in Newfoundland, a bit in New Brunswick, and certainly the Maritime Center in Halifax continues to be very successful. So, I could see some of our occupancy increase there. In Ontario, backfilling, we have already at a deal at 2599 Speakman this quarter for 20,000 square feet, and we expect to do more there and more in the 427 corridor.

Matt Kornack, National Bank Financial

Okay. That's helpful. You mentioned that you're positioned to take advantage of some historic dislocations in office asset pricing. I think we saw a bit of that with the recent Chicago acquisition and the Toronto sales. Is that how we should think about how you'd execute on that potential? You also did Yew Grove and used your equity. Is there potential to do merger type transactions at this point? Just generally interested in your thoughts on how you can take advantage of dislocations in pricing.

Steve Hodgson, Chief Executive Officer

From a management team level, we are not currently contemplating any new acquisitions.

We would like to continue to advance our repositioning of the portfolio towards higher-quality, better tenants, longer-term lease deals, and better cash yielding assets that have less below the line capital costs. But the strategy and the way forward will be determined through the strategic review.

Matt Kornack, National Bank Financial

Okay. That makes sense. Thanks.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by the one. Your next question comes from Jake Stivaletti from CIBC. Please go ahead.

Jake Stivaletti, CIBC

Good morning. What were the leasing incentives like during the quarter? And how do those compare to Q3?

Steve Hodgson, Chief Executive Officer

Very much the same. On the new tenant side, we are providing additional inducements, primarily in the form of out of term or in term free rent. But on the renewal side, we tend to be lifting rents and providing market TI packages.

Operator

There are no further questions at this time. Paul, please proceed with your closing remarks.

Paul Wolanski, SVP, National Sales & Investor Relations

Thank you, everyone, for joining the Q4 2022 conference call for Slate Office REIT. Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining, and ask that you please disconnect your line.