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CONFERENCE CALL PARTICIPANTS

Jonathan Kelcher
TD Securities

Dawoon Chung
National Bank Financial

Troy MacLean
BMO

Rob Sutherland
Echelon Wealth Partners

Jimmy Shan
GMP Securities

Yash Sankpal
CIBC

PRESENTATION

Operator

Good morning. My name is Lisa and I will be your conference operator today. At this time, I would like to welcome everyone to the Slate Office REIT Q3 2016 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.
Katie Talbot, Investor Relations, you may begin your conference.

Katie Talbot, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the third quarter 2016 conference call for Slate Office REIT.

I am joined this morning by Robert Armstrong, Chief Financial Officer; Scott Antoniak, Chief Executive Officer; and Steve Hodgson, Vice President of Asset Management at 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 statements, 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 November 2016 investor update.

I will now hand the call over to Scott Antoniak, Chief Executive Officer, who will provide a strategic update, and then we will open the line for Q&A.

Scott Antoniak, Chief Executive Officer

Thank you, Katie, and good morning, everyone.

The REIT completed two acquisitions that were accretive and consistent with our strategy of acquiring well-located assets with high-quality tenants at values below replacement cost. The first is the acquisition of a 51 percent interest in the Places assets in St. John's, Newfoundland, bringing our ownership to 100 percent. Second, we acquired 365 Hargrave, a government tenanted office building in Winnipeg, Manitoba. In order to finance these acquisitions the REIT completed its second equity offering of the year, a $58.3 million bought deal financing that was comprised of $51.6 million from treasury and a further $6.7 million secondary offering. The equity offering provided the REIT with incremental proceeds that were used initially to pay down debt and to fund future growth.

The REIT executed approximately 340,000 square feet of leasing in the third quarter, highlighted by the Medavie Blue Cross transaction at the Blue Cross Centre in Moncton, New

Brunswick. This lease extension was completed two years in advance of the existing lease maturity at terms superior to our acquisition underwriting of the asset, both in terms of average rent and deal cost. Specifically, average rent was higher than underwriting and leasing costs were materially below underwriting. Last, and most importantly, it keeps Medavie Blue Cross at the centre of downtown Moncton until 2029. In addition to the Blue Cross lease the REIT completed approximately 50,000 square feet of new leasing at Maritime Centre to the province of Nova Scotia and Dalhousie University. The REIT's overall portfolio occupancy increased 50 basis points to 86.3 percent and to 90.2 percent excluding the redevelopment properties. Going forward, we see continued leasing opportunities in the near future for both renewals and existing tenancies.

Slate Office REIT delivered another solid quarter of financial results in Q3 2016. At the same time, we remain focused on the long-term objectives that we have set out, to be a leading owner-operator of office real estate and delivering strong and consistent returns to our unitholders. We believe that the best way to accomplish these objectives is relatively simple: we need to be disciplined buyers of office real estate that fits our investment criteria and once we own that real estate we need to be best-in-class managers. If we are consistent with this approach, the results will continue to reflect these efforts.

With that I would like to thank each of you for your support and open up the line for questions.

QUESTION AND ANSWER SESSION

Operator

At this time, I would like to remind everyone in order to ask a question press star then the number one on your telephone keypad. Our first question comes from the line of Jonathan Kelcher from TD Securities. Your line is open.

Jonathan Kelcher, TD Securities

Thanks. Good morning. First, on leasing: for 2016 what percentage of leases have you either renewed or leased to new tenants?

Scott Antoniak, Chief Executive Officer

At the beginning of 2016 we would have about 16 percent, Jonathan, I believe of the portfolio rolling. We've done about 11 percent and change; we're down to 3 percent left that hasn't been renewed through the 2016 maturities.

Jonathan Kelcher, TD Securities

Okay. And then turning to 2017, what do you expect to achieve in terms of rental rate lifts?

Scott Antoniak, Chief Executive Officer

Steve, I think I'll turn that to you, because I think that the large expiry that we've spoken to before is Bell Aliant in Maritime Centre and I think there's a good story there that Steve can speak to.

Steve Hodgson, Vice President, Asset Management

Thanks for the question, Jonathan. Just shy of 200,000 square feet at Maritime Centre expire with Bell Aliant at the end of April 2017. They're currently paying $8.75 on a weighted average basis. We've already leased 50,000 square feet of that, which we reflected in the results this quarter, at 46 percent higher than the in-place rent. We have another 67,000 square feet that's currently on sublease with Bell Aliant that we are working to convert to head leases and I think you'd see very similar if not better spreads on those deals. And then there's another 80,000 square feet to lease, which will be just incremental to that.

So, in addition to your question about spreads, I think that's going to be a key driver for us, as well as our outlook on the GTA as well. And just to add to that though, when we look at the Maritime Centre year-over-year, at the deals that we have in trading paper or have already completed, our NOI is going to be very flat year-over-year due to those large increases in rents. And then we have another 80,000 square feet still to lease, which would be all incremental to our NOI. So, net-net if we are able to backfill all of the Bell space at current market rents we're looking at a $700,000 increase in NOI for that asset.

Jonathan Kelcher, TD Securities

Okay. And then on the balance it's probably the 6 percent or 7 percent that you did outside the big leases you did this year.

Steve Hodgson, Vice President, Asset Management

I think so, on a run rate.

Jonathan Kelcher, TD Securities

Okay. And then just turning to the development properties, was the change in value this quarter just 2251 Speakman coming out and 2285 going in?

Scott Antoniak, Chief Executive Officer

That's correct. With some additional capital being spent.

Jonathan Kelcher, TD Securities

Okay. Are you capitalizing any interest or G&A costs on the developments?

Scott Antoniak, Chief Executive Officer

No. We have a policy of not capitalizing interest.

Jonathan Kelcher, TD Securities

Or G&A I guess.

Scott Antoniak, Chief Executive Officer

Correct. Or G&A.

Jonathan Kelcher, TD Securities

Okay. And the income you're earning at the St. John's developments, does that flow through NOI?

Scott Antoniak, Chief Executive Officer

It does, yes.

Jonathan Kelcher, TD Securities

Okay. Is it in same property NOI?

Scott Antoniak, Chief Executive Officer

Yes it is. And the positive thing about the St. John's developments is, when we're doing the leasing there, because some of the space is being taken from vacant space, it's all direct to the bottom line. So, it's very positive from our perspective.

Steve Hodgson, Vice President, Asset Management

Yeah, if I could just add to that, Jonathan, some of the deals that we've done in those development properties are short term in nature and they're structured such that we have flexibility to terminate if we proceed with the redevelopment.

So, unfortunately, that has dragged down our new leasing spread in the past few quarters, but, as Scott mentioned, it's money that, it's cash flow that we're getting on these development properties that we wouldn't otherwise be getting, so it's net positive.

Jonathan Kelcher, TD Securities

Okay, thanks. I'll turn it back.

Operator

Our next question comes from the line of Dawoon Chung from National Bank.

Dawoon Chung, National Bank Financial

Thank you and good morning. Looking at your debt maturity it seems like the term loan and the revolving credit facility are maturing next year and these are both floating debt and have you thought about using fixed debt? I mean you did receive attractive mortgage rates at 2.65 percent for the Hargrave acquisition.

Scott Antoniak, Chief Executive Officer

Right now, I think the simple answer is that all options are on the table. We're in the beginning stages of talking to the lenders in those cases, you know, certain assets that continue to mature. We'll definitely take a look at fixed debt but we haven't made that decision yet.

Dawoon Chung, National Bank Financial

Okay, great. And on to the income statement side of things and with regards to the hotel asset, generated about $2.3 million of revenue this quarter. How much will it generate in Q4 2016?

Scott Antoniak, Chief Executive Officer

I think probably the better way to look at it is NOI-based. Generally, it's going to have about $800,000 of NOI per year. We saw most of that come through in Q2 and Q3.

I'd expect NOI from the hotel in Q4 to be in between $100,000, $200,000. It's going to depend on the weather, travel, and some other items. And then going into Q1 of 2017 we would probably be flat and maybe possibly slightly negative. But that's normal from the hotel's performance perspective.

Dawoon Chung, National Bank Financial

On to the redevelopment of 2251 Speakman Drive. You turned over the property to SNC in July but could you remind us the mechanics of the lease deal? I understand that you got a rent increase with the lease extension. Did the rent increase take effect in July?

Scott Antoniak, Chief Executive Officer

Go ahead, Steve.

Steve Hodgson, Vice President, Asset Management

So, we turned over the space for tenant fixturing in July and they had 120 days to fit out their space. The rent commences on November 19th, Dawoon, on the new building, and that would be at the new rents. Then the next stage in the process is technically they're supposed to move in on November 19th. Whether they do or not, they start paying rent. We're hearing that they might be delayed on moving in, which would be a delay on their part, which means that that would push back the timeline for the redevelopment of 2285 Speakman and may mean that in the fourth quarter we're collecting rent on two buildings for a period of time.

Dawoon Chung, National Bank Financial

Okay, great. Thanks for the colour there. Switching gears here a little bit, I know this can be a little bit granular but with regards to your AFFO calculation you've added an interest rate subsidy for $108,000. What is this related to?

Scott Antoniak, Chief Executive Officer

Sure. Back in June when we purchased Gateway the vendor provided us an interest rate subsidy because we assumed an above market loan. So simply the way it works is we receive that $108,000 each quarter, which basically subsidizes us for the higher interest rate we otherwise would have paid or are paying as a result of assuming that debt. So very simply from that perspective it just equalizes us as if we had market rate debt.

Dawoon Chung, National Bank Financial

Okay, great. Thank you and I'll turn it back.

Operator

Our next question comes from the line of Troy MacLean from BMO. Your line is open.

Troy MacLean, BMO

Good morning. Given the leasing success at the Maritime Centre, would you say the leasing market is picking up in Halifax?

Steve Hodgson, Vice President, Asset Management

I think so, Troy. It speaks to the Slate Office REIT strategy and in particular in the Halifax market it's a good case study, because we own this asset at such a low basis that we're able to be very competitive on the leasing front. And there's a lot of new supply in Halifax either completed or just being built that are materially higher asking rental rates than us. We are talking a $10 difference. So, I don't know if it's indicative of the entire market or if it's just indicative of us having well-located real estate at a low basis and we can be competitive on the leasing side due to those economics.

Troy MacLean, BMO

And you guys have talked about potentially redeveloping at least part of that asset, does the new leasing get us closer to when that would happen or is that still probably a couple years out?

Steve Hodgson, Vice President, Asset Management

The reason we've been saying we feel that we can do deals in the $12 to $14 range on an as-is basis is because I think when the competitive properties that have contiguous large blocks of space in Halifax are asking $22 and we're asking $12. There's a material difference there. And we feel that with some investment in the property we can close that gap. And we're working through exactly what that looks like. We've been through, and some of this is public, there's some design renderings that have gone through the design board in Halifax but, as you know, these redevelopments are iterative and we're still crunching our numbers and determining what the best strategy is to roll out hopefully early next year.

Troy MacLean, BMO

And I guess just finally for Scott, you know, what are you seeing in the acquisition market and are you seeing any change in vendor expectations?

Scott Antoniak, Chief Executive Officer

It's a fair question, Troy. I think there continues to be a fairly sizeable gap between what we would deem to be core or trophy and non-trophy. I think there's a couple core assets in the market right now where we're going to get a pretty good price cut and shortly I think those yields may be even compressed a little bit in the first quarter. I think for the non-trophy assets, market dependent, I don't think there's a material change in pricing or expectations.

We continue to see opportunities across the country from a variety of different vendors, whether it's funds that are nearing maturity or other public folks in our space and even some privates, there's a considerable amount of properties to look at and consistent with strategy. And I think I would say that the expectations are consistent with the acquisitions we've completed to date this year and even towards the end of last year.

Troy MacLean, BMO

So, the properties that you've acquired recently and that you're looking at now, how competitive is the bidding process? Is it there's only a couple of people looking at this and you're the winner or is it becoming more competitive?

Scott Antoniak, Chief Executive Officer

It's asset and market specific, Troy. I don't think there's a list of ten for every single one of these but there's more than a couple. And the interesting dynamic compared to the core investing is that we see different groups and different competition depending on markets. So, we wouldn't, for example, see the same people on Gateway that we would expect to see in Atlantic Canada or even in the western GTA. So, I think it's more asset specific. I think that speaks to the fact that we are, from our perspective, certainly on the public side and maybe just more generally the single aggregator of this kind of office real estate right now. So, we're the name that shows up consistently and otherwise it's more one-offs or folks like that.

Troy MacLean, BMO

Thank you. That's it for me.

Operator

Our next question comes from the line of Rob Sutherland from Echelon Wealth Partners. Your line is open.

Rob Sutherland, Echelon Wealth Partners

Hi, guys. Good morning. First, just going back to Halifax. You know, you're looking at 75,000 square feet of vacant space that you're trying to get tenants for outside of what you've got in the sub-lets. What size tenants are you seeing in the market? Are there a lot of those 25,000 to 75,000 tenants out there or is this going to be a piecemeal, you know, 5,000 and 10,000 going forward?

Steve Hodgson, Vice President, Asset Management

Hi, Rob. We have the largest floor plate in the market so by nature of that we're attractive to larger tenants, government tenants included, who like to be on the same floor. We're expecting it to be a mix but there are some large government RFPs coming out in 2017 that we think we'll be very competitive on.

Scott Antoniak, Chief Executive Officer

That is consistent overall with this building's history and we think part of the great opportunity of Maritime Centre is it can do both. So, if you can imagine, it's almost like two pods joined in the middle. So, you could do something on a very large basis for big users if you went across both pieces but it also lends itself fairly well to subdividing. So, just as we can offer an as-is opportunity that's really cost effective for tenants, we can also do something with more capital investment that might be more creative and interesting. It is an interesting flexible offering in a really great location, we're excited about that piece of it, because there's not much in the way of a tenant offering that we can't provide for folks.

Rob Sutherland, Echelon Wealth Partners

Perfect. Okay. And then I guess the only other one is, you mentioned that one of the leases you did on Water Street in St. John's, you've put in a demo clause there to give you some more flexibility. Can you just give more colour on potential size of that redevelopment, timelines, what you're hoping to do at some point?

Scott Antoniak, Chief Executive Officer

I think it's premature to be specific about it, Rob. You've been out there and seen it, so it's a natural extension of the Fortis building, from our perspective. We think that could take a number of different forms, contiguous with the Fortis building, maybe Fortis goes on its own and this is something similar to what it is now maybe just a more modern version of it. We've been encouraged by the tenant demand, at least interest that we have seen in St. John's subsequent to the first quarter of this year, so there are lease deals being completed, there are some RFPs in the market that you're probably familiar with. So, there's activity there. That kind of leasing will be consistent with what we do in the near term. I can't say specifically how long it will be but we'll look to do shorter-term deals or even deals with a little bit of term that offer the ability to either relocate tenants or to terminate them relative to the extent something comes along. Given what we can offer in downtown St. John's in terms of location and the site, when we do start to see interest from some of those regional or larger offices, we have a very compelling offering.

Rob Sutherland, Echelon Wealth Partners

Okay. That's it for me. Thanks.

Operator

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

Jimmy Shan, GMP Securities

Thanks. So just to follow up on the acquisition side, Scott, in the letter to unitholders you talk about high volatility in the Canadian office market that leads you to be more prudent on the acquisition front. I just wanted to see, what does that mean? Can you maybe elaborate on that? Are you becoming more cautious? Are the leasing fundamentals weakening so you thought maybe you should take a pause? Maybe you could talk about that.

Scott Antoniak, Chief Executive Officer

No, I think we continue to execute on strategy. It's incumbent on us to be prudent no matter what we're doing, Jimmy. There's volatility in certain Canadian office markets for sure, so the Canadian market as a whole has some volatility to it. We get asked about Alberta because we are not an owner of office space in Alberta right now. I can say definitively we haven't seen anything on the investment side that suits the investment characteristics of Slate Office REIT at this point.

There are lots of other markets that we continue to be interested in to pursue opportunities right now. So, it was a little bit of a generalization and that's a fair comment that you made but I think I'd take nothing more than that and that we continue to be prudent as we always have been on the acquisition front.

Jimmy Shan, GMP Securities

Okay. So, this was more of a specific reference to perhaps Alberta, which so far you haven't, you don't expect that you'd do anything there in the near term.

Scott Antoniak, Chief Executive Officer

No, just what I said before. We have not seen anything that would suit the investment thesis of Slate Office REIT at this point.

Jimmy Shan, GMP Securities

Okay. And then on the leasing front, the Bell Aliant or Maritime Centre, Steve, I think you said $700,000 of potential NOI increase. I just want to make sure I understand off what base you are referring to here. Are you talking about $700,000 off the Q3 run rate?

Steve Hodgson, Vice President, Asset Management

No, not exactly, Jimmy. The simple math is just shy of 200,000 square feet at the existing rent of $8.75 versus that same amount of square footage at a market rent in the $12 to $13 range.

Jimmy Shan, GMP Securities

Okay. But the $200,000 at $8.75, that would be the current Q3 run rate.

Steve Hodgson, Vice President, Asset Management

Yeah, that's in the current Q3 number, but in Q4 we did an early surrender with Bell for the 50,000 square feet that we've already leased to the government and to Dalhousie.

Jimmy Shan, GMP Securities

Okay. And just on that, so when I look at page six of the MD&A where you put in the new leases and, you know, we see a negative 2 percent rent decline, so would that 50,000 be in that number?

Steve Hodgson, Vice President, Asset Management

Yes. It's relative to the average building rent and not relative to what Bell was paying. So, for those two deals specifically it's 46 percent higher than what Bell was paying but it's only marginally higher than the average building rent.

Jimmy Shan, GMP Securities

Okay, so the weighted average expiring rent is not the expiring rent on the specific space?

Steve Hodgson, Vice President, Asset Management

Well, it is for renewals, but for new deals there's no expiring space, right? So, we just, we do it compared to the average building rent.

Jimmy Shan, GMP Securities

Okay, got it. And lastly, for the Blue Cross deal, I was just curious, the rent rolled down a little bit but the term got extended. How does that actually impact the IFRS value?

Robert Armstrong, Chief Financial Officer

Steve will elaborate a little more on the deal. The deal terms we did were slightly better than underwriting at the time. Since we've owned that asset we've moved up the IFRS value incrementally over time as the deal certainty became larger. So, the deal we actually did was right on top of what we had from an IFRS valuation perspective. So, we didn't move the value in quarter. A lot of that was already baked in.

Scott Antoniak, Chief Executive Officer

Jimmy, just academically, everything is valued at year end on a DCF basis and then monitored through the year and updated for exceptional items. To Bobby's point, we would have had at the time of acquisition and then at year end last year a full DCF valuation of the Blue Cross Centre that reflected our view of what that lease looked like, whether there was downtime involved or not, the rates. and the TIs. So, as we got closer to the lease completion those would have been tweaked quarter-by-quarter, so the IFRS value is reflective of what these lease terms are and would have been fairly close to. We're a little bit better than where we were on the acquisition underwriting but we would have been cognizant of this throughout our ownership period of the asset.

Robert Armstrong, Chief Financial Officer

Jimmy, I think I'd just add, from a management team perspective we're really excited about this deal. To be able to take down a credit-worthy tenant in that market for 49 percent of the building we think is an excellent thing. We are really happy to get that done.

Jimmy Shan, GMP Securities

No, for sure, I'm just trying to understand the impact on the value. So, I guess it would have been, you know, when you did the whole DCF it would have been done at what you think market rate would have been on that space.

Robert Armstrong, Chief Financial Officer

That's correct. Absolutely.

Jimmy Shan, GMP Securities

Okay, great. Thank you.

Operator

Your next question comes from the line of Yash Sankpal from CIBC. Your line is open.

Yash Sankpal, CIBC

Hi. Good morning, guys. Just one quick follow up on your MD&A page six where you show your lease maturity table, 2017 leases roughly 600,000 and Bell Aliant is roughly 200 of that, so I'm just wondering what other leases are there.

Scott Antoniak, Chief Executive Officer

Go ahead, Steve.

Steve Hodgson, Vice President, Asset Management

We've got the Fortis Place head lease that expires at the end of June 2017 that is three floors. I'll get you that square footage number in just a second.

Yash Sankpal, CIBC

At the end of June, you said?

Steve Hodgson, Vice President, Asset Management

Yeah. At the end of June 2017. And then, the other large one would be 2599 Speakman, which is the building that ends up being vacant at the end of the second redevelopment. And that's about 120,000 square feet, that building. But the important thing to consider with the 2599 Speakman is at any given time we're showing one of those Speakman assets as vacant, right? So, 2285 is shown as vacant right now because it's under redevelopment and 2599 and 2251 are occupied. So, that occupancy is just going to roll from 2599 to 2285. And then after that, 2599, anything we do there will just be incremental to what we have on the books right now.

Yash Sankpal, CIBC

Okay, got it. Do you have the square footage for Fortis head lease?

Steve Hodgson, Vice President, Asset Management

It's 45,000 square feet.

Robert Armstrong, Chief Financial Officer

And, Yash, just for informational value, in the MD&A this quarter we did put in a little more information in the redevelopment section and it speaks to the timing and how the Speakman redevelopment works.

Yash Sankpal, CIBC

All right. Thanks.

Operator

Again, if you'd like to ask a question, press star then the number one on your telephone keypad. Our next question comes from the line of Jonathan Kelcher from TD Securities. Your line is open.

Jonathan Kelcher, TD Securities

Thanks. Just one follow-up: On the Maritime Centre, what were the TIs for the 50,000 square feet? Was there anything out of the ordinary there?

Steve Hodgson, Vice President, Asset Management

No, nothing extraordinary. It wasn't a TI deal though, Jonathan, it was a turnkey for the government.

Jonathan Kelcher, TD Securities

Okay.

Steve Hodgson, Vice President, Asset Management

So, it's tough to comment in that respect. But the other thing that we did there is we committed to some landlord's work in support of the building that would have had to be done and was underwrote in our model anyway. So, we kind of leveraged that we were going to do this work anyway and then it became part of the deal as an inducement but it didn't really cost us anything incremental.

Jonathan Kelcher, TD Securities

Okay. That's it for me. Thanks.

Operator

We have no further questions in queue. I'll turn the call back to the presenters.

Katie Talbot, Investor Relations

Thanks very much for joining us today, everyone. If you have any follow-up questions please reach out to myself, Scott, Robert, or Steve directly. Have a nice day.

Operator

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