CORPORATE PARTICIPANTS

Katie Talbot
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

Mark Rothschild
Canaccord Genuity

Jimmy Shan
GMP Securities

Alex Avery
CIBC World Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Office REIT First Quarter 2017 Financial Results Conference Call. As a reminder, this call is being recorded today, Tuesday, May 9, 2017 at 9:00 a.m. Eastern Time.

I will now turn the call over to Katie Talbot. Please go ahead.

Katie Talbot, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the first quarter 2017 conference call for Slate Office REIT.

I'm joined this morning 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 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 Q1 2017 investor update, which is available now.

I will now hand the call over to Scott Antoniak, who will discuss some highlights for the quarter, and then we'll open up the line for Q&A.

Scott Antoniak, Chief Executive Officer

Thanks, Katie, and thank you, everyone, for joining the call today. I'm going to make a few brief comments about our first quarter results and then open up the line for any questions.

Overall, we're extremely pleased with what we were able to accomplish in the first quarter of 2017. While the impact of these activities will not all be realized immediately, we believe that the transactions completed in the first quarter of 2017 will contribute very positively to the results and performance of Slate Office REIT over the mid to long term. Most notably, we completed an equity offering for $130 million, $120 million in installment receipts and a further $10 million private placement, that was primarily used to fund the acquisitions of West Metro Corporate Centre in the GTA and two government-occupied buildings in Fredericton for a total of $160 million.

Subsequent to the quarter we entered into an agreement to acquire Commerce West, also in the GTA, for $95 million. This is a great opportunity for the REIT to consolidate space along the 427 corridor and realize operational and leasing synergies. These transactions are accretive to AFFO and NAV, increase the occupancy and weighted average lease term of our portfolio, and made the GTA the largest geographic concentration of the REIT at 47 percent of net rentable area. Furthermore, the REIT continues to monitor a robust pipeline of potential and attractive acquisitions that meet our investment criteria: are in suburban or urban office assets across Canada, at a significant discount to replacement cost with in-place rents that are below market, and in locations that have strong operating histories.

On the leasing side, we completed approximately 240,000 square feet of new and renewal deals at weighted average rents that were in excess of 30 percent greater than the expiring or average rents for each building. The most significant lease we completed was the 154,000 square foot deal with Johnson Insurance at the subsequently renamed Johnson Building in St. John's, Newfoundland. This ten-year deal extends Johnson Insurance as a tenant of the REIT through 2030 and is the second 150,000 square foot lease transaction completed by Slate in Atlantic Canada over the past six months. I don't have all the empirical data on hand but I'm fairly certain it has been a long time since that was last accomplished, if ever.

Lastly, we are pleased to report that subsequent to quarter end Slate Office REIT agreed to terms with CIBC on the extension of a credit facility that was set to mature on June 30, 2017 for a further term of two years.

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

QUESTION AND ANSWER SESSION

Operator

At this time, if anybody would like to ask a question, please press star one on your telephone keypad. Again, that would be star one on your telephone keypad. Your first question comes from Dawoon Chung from National Bank. Your line is open.

Dawoon Chung, National Bank Financial

Good morning, guys.

Scott Antoniak, Chief Executive Officer

Good morning, Dawoon.

Dawoon Chung, National Bank Financial

On to the Sheridan Park property, how much rent did SNC pay at 2285 Speakman Drive this quarter in terms of dollar amount?

Steve Hodgson, Chief Operating Officer

They over-held at 2285 for January and half of February. We'll get you that number.

Scott Antoniak, Chief Executive Officer

Dawoon, the over-hold probably added about $200,000 more than—

Dawoon Chung, National Bank Financial

Okay.

Steve Hodgson, Chief Operating Officer

Yeah, that's right.

Dawoon Chung, National Bank Financial

Great. Thanks. On the straight line rent, it was slightly lower than what we were expecting. Is the Q1 figure a good run rate?

Robert Armstrong, Chief Financial Officer

It's going to oscillate every quarter. It's really just the time of when we have free rent and leases starting. It's not a bad estimate. I think what we've seen in the last year would probably be what we expect going forward.

Dawoon Chung, National Bank Financial

Okay. That's fair. Great, thanks. I'll turn it back.

Operator

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

Jonathan Kelcher, TD Securities

Thanks. Good morning. Just on the same property NOI, it was obviously negative in Q1 versus Q4 and you've got Bell Aliant leaving this quarter. Do you expect another dip in Q2 versus Q1?

Robert Armstrong, Chief Financial Officer

Yes, Q2 versus Q1, so you are talking forward Q2 2017 versus Q1, we would expect NOI to move upwards given the leasing we have done. What I would say is we are looking and the way we look at it is Q1 versus Q1 in the following year, I know you do as well, but what I want to highlight there is that from our perspective we think we did much better than we thought we would do. We were really happy with the results we had. Importantly, we knew about some of the leases that were coming up at Brunswick Square and The Promontory when we bought those properties. I think the important thing is that we weren't buying those properties with NOI going forward. We knew that we underwrote that and we have come out a little bit ahead of where we had underwritten originally.

Jonathan Kelcher, TD Securities

I understand. I am just trying to get a sense of how the quarter, the next several quarters are going to play out from an NOI perspective. Same property you expect to be higher in Q2 than Q1? Just to be clear that's what you said.

Robert Armstrong, Chief Financial Officer

Yes.

Jonathan Kelcher, TD Securities

Okay. And then secondly, you're just under 88 percent overall occupancy if you exclude developments. What level would you guys consider stabilized occupancy and how long do you think it will be until you can get there?

Steve Hodgson, Chief Operating Officer

I would say, Jonathan, 92 percent, low 90s.

Jonathan Kelcher, TD Securities

Low 90s?

Steve Hodgson, Chief Operating Officer

In terms of timing we are going to have the lease at Maritime Centre burn off at the end of April 2017, so we'll have to release that I think to make a meaningful impact on that number. Once SNC comes on line as well, that will help our overall occupancy. But I would expect by the end of this year.

Scott Antoniak, Chief Executive Officer

For the year, Jonathan, and quoting the number inclusive of the development properties, I think we are 86 percent, stepping down to 84 percent. We expect to end the year plus or minus a little bit just under 88 percent. I think we would expect between 50 and 100 basis points overall and you can apply that net of the developments as well. It will also depend on what we do from an acquisition perspective. The new properties will contribute positively to that because of the occupancy of them but it'll depend on what, if anything, that looks like going forward. I think you could bank on 50 to 100 basis points of incremental occupancy year over year. That's our view. It will be a little bit higher than that year just temporarily, the step down will be closer to 200 at the end of the year, but I think that's a fair number.

Robert Armstrong, Chief Financial Officer

Jonathan, just a couple points for some clarity. There is some transactional stuff there that will change occupancy, so, importantly, Speakman will probably add about 40 basis points to occupancy throughout the year once that move is complete in Mississauga. The disposition in Grand Prairie will also add about 60 basis points, because right now that property is vacant, so that helps. The other thing I would say is, just not same store but given the acquisition activity with West Metro, Commerce West, and the two Fredericton assets, we would expect on a whole those would add about 60 basis points as well to occupancy.

Jonathan Kelcher, TD Securities

Okay, fair enough. Just lastly on the Maritime Centre, I guess the first lease you did was at 44 percent higher rates and I think, if I recall, there's a second lease that you either have or you're close to having around 50,000 square feet. Will that also be at similar rental rate uplifts or how should I think about that?

Steve Hodgson, Chief Operating Officer

That's correct. To date, Jonathan, we've done 78,000 square feet of leasing of the 195 that was coming back to us at a 42 percent rental spread. The conditional deal that you spoke of for 58,000 square feet would be at a similar rental spread.

Jonathan Kelcher, TD Securities

Okay, thanks. I'll turn it back.

Scott Antoniak, Chief Executive Officer

Thanks, Jonathan.

Operator

Your next question comes from Mark Rothschild from Canaccord Genuity. Your line is open.

Mark Rothschild, Canaccord Genuity

Thanks, and good morning, everyone. Focusing on the leasing spreads, obviously, some very high numbers, but it's a little lower just on the renewals. Could you talk about what drove the high numbers and how we should think about that going forward on the new leases. I guess I'm just trying to get even more detail on what you were just explaining to Jonathan.

Steve Hodgson, Chief Operating Officer

Sure. If you back out the impact of the Johnson lease, which was a large rental spread, our new lease spread in the quarter was around 3 percent. I would say that's more indicative of our run rate on a go-forward basis. On the renewal side, the 8 percent would be consistent with what we've seen in prior quarters and what we expect to have going forward.

Mark Rothschild, Canaccord Genuity

Okay. And then on that, as you've increased your exposure to the GTA and primarily the suburban market are those the types of leasing spreads you expect to see? Can you expand on what type of leasing cost and TI cost you generally are going to be incurring in that market since it's become a major market for you guys?

Steve Hodgson, Chief Operating Officer

Sure. In terms of leasing costs, I always like to tie it back to what the weighted average lease term was, because it provides more relevance. So, the weighted average term for new deals in the quarter was 8.9 years and for renewals was 3.8 years. Our new deal costs were $31 roughly and renewal costs were $9. You can get a sense of the NER from those figures.

Mark Rothschild, Canaccord Genuity

Okay, great. Thank you very much.

Operator

Again, if anybody would like to ask question please press star one on your telephone keypad.

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

Jimmy Shan, GMP Securities

Thanks. Just a couple follow-ups. One is on the Bell Aliant space at the Maritime Centre. To be clear, based on the leasing that's done so far and the conditional lease, I haven't done the math yet but I presume those two leases would be enough to offset, to be cash flow neutral at a minimum.

Steve Hodgson, Chief Operating Officer

Not quite, Jimmy. We would be neutral from a base rent perspective but there would be some slippage from the remaining vacancy that we estimate to be around $700,000, and the remaining vacancy is 59,000 square feet.

The way we looked at it is we have to lease another 30,000 square feet to recoup that slippage and then when we lease all of it we'll actually have upside of $700,000 of NOI.

Jimmy Shan, GMP Securities

Okay. To Jonathan's question, when we think about the same property NOI for the balance of the year then it's safe to assume that we'll see a little bit of a slippage next quarter? Or is it that the other leases that you're working on, new leases, would more than offset the $700,000 such that by the end of the year it'll be pretty well flat or positive?

Steve Hodgson, Chief Operating Officer

Yes, and that annual, that $700,000 wasn't an annualized figure but we would have some offsetting leasing that we have done as well as the contribution from the hotel and the seasonality.

Jimmy Shan, GMP Securities

Okay. On the occupancy front, the 84 percent, I think, Scott, you mentioned that by the end of the year including acquisitions you're probably going to settle in at around 88 percent?

Scott Antoniak, Chief Executive Officer

Correct.

Steve Hodgson, Chief Operating Officer

That's right. Including acquisitions and the disposition of Grand Prairie as well, which added 60 basis points, as Bobby mentioned.

Jimmy Shan, GMP Securities

Okay. All right. Lastly, on the West Metro and the West Mall, maybe if you could speak in general terms in terms of that office node and how strong, how weak is it, and sort of what comfort do you have in being able to maintain the cash flow from those assets.

Scott Antoniak, Chief Executive Officer

Sure, Jimmy. I'll let Steve talk to specifics about it and why we like some of the synergies but I look at this kind of like a smaller version of St. John's. It is a little higher profile given the GTA location and having a concentration of assets in a market with higher visibility is great for us. We were kind of dogmatic about this, able to acquire those assets well within our investment criteria, so below replacement cost with some upside on the leasing and, in the case of Commerce West, a little bit of upside in the occupancy. As you know, we have a smaller property there already on Eva Road but I think the synergies that it is going to offer up for the REIT going forward is exciting to us. I think we have had good experience with that kind of situation where we have multiple assets in one market. We think this will be just a continuation of that.

Steve can talk just specifically where the leasing spreads are vis-à-vis in place versus market but we're excited to take advantage of it.

Steve Hodgson, Chief Operating Officer

To add to what Scott said, with West Metro we acquired a well-occupied building and with Commerce West, which should close in the next couple weeks, which is at 87 percent occupancy currently, there are some proposals out for that building for some fairly large tenants that would require contiguous space that we'd only be able to offer if we would be able to relocate them to other buildings that we have in the node. We have already started to see some synergies in that regard and there is a tenant in our existing building that would like to expand and, again, we can only accommodate that if we have additional space in the node that we can offer them.

Jimmy Shan, GMP Securities

Okay. I noticed in the MD&A you talked about the space at The Promontory being white box. What does that actually mean?

Steve Hodgson, Chief Operating Officer

The condition that the former tenant left the space in was fully built out. They did not have a requirement to return it to base building condition. So, we spent some capital to do that. What white box means is it returns it to vanilla shell with concrete floors, ceilings, and the walls prepped and ready for paint. We have done that and since then we have had some momentum on the leasing front. We have got a few conditional deals, smaller deals albeit, but we have also got some proposals out for some larger deals. We are having a broker reception as well to further market the space next week actually.

Jimmy Shan, GMP Securities

Okay, got it. Thanks.

Operator

Again, if anybody would like to ask a question please press star one on your telephone keypad. Your next question comes from Alex Avery from CIBC. Your line is open.

Alex Avery, CIBC World Markets

Thank you. I was just wondering if you could provide what your leverage is going to be pro forma, I guess, all of the transactions, including the Commerce West transaction.

Robert Armstrong, Chief Financial Officer

Including the Commerce West transaction, we are down about 54 percent.

Alex Avery, CIBC World Markets

Does that leave you with excess capacity for acquisitions or are you looking at transitioning leverage a little lower?

Robert Armstrong, Chief Financial Officer

No, it leaves us with some excess capacity and the point I was going to make was that we think we still have some powder. The pipeline continues to be very deep and we'll probably take advantage of it if we can get our hands on some good product to add to the portfolio, we would do that where it makes sense. I expect it to bounce back up, probably not to the 59 percent where it was but it will trend up higher.

Scott Antoniak, Chief Executive Officer

Yes, there are further acquisition opportunities to be interesting and within reason, we like the cost of debt with respect to the cost of our equity. I think we would continue to be prudent managers of that. But at mid 3 percent versus a 9.5 yield, with the kind of acquisitions we could continue to do, I think that is probably the most appropriate approach for us.

Alex Avery, CIBC World Markets

Okay. On the West Metro Centre, it is a pretty prominent location, looks like a fair bit of land. Is there anything more to your asset plan there than just collecting a high yield or do you see something further down the line?

Scott Antoniak, Chief Executive Officer

West Metro, we acquired the three-existing income-producing office buildings. That land that you see on the 427 that you deem as development or maybe redevelopment is not owned by us. Between that and Commerce West there is enough to do on the leasing side to keep us busy for now and what may or may not happen with that land is not up to us at this point.

Alex Avery, CIBC World Markets

Okay. Thanks.

Operator

I have no further questions in queue. I turn the call back over to the presenters for closing remarks.

Katie Talbot, Investor Relations

Thanks, everyone, for dialling in. Have a great day.

Operator

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