CORPORATE PARTICIPANTS

Steve Hodgson
Chief Executive Officer

Charles Peach
Chief Financial Officer

Lindsay Stiles
Chief Operating Officer

Paul Wolanski
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CONFERENCE CALL PARTICIPANTS

Sairam Srinivas
Cormark Securities

Scott Fromson
CIBC

Lorne Kalmer
TD Securities

Jenny Ma
BMO Capital Markets

Matt Kornack
National Bank

Brad Sturges
Raymond James

PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to the Slate Office REIT First Quarter 2022 financial results conference call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star-one on your telephone. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to one of your speakers today, Mr. Paul Wolanski. Please go ahead, sir.

Paul Wolanski, Senior Vice President, National Sales and Investor Relations

Thank you, operator. And good morning, everyone. Welcome to the Q1 2022 conference call for Slate Office REIT. I am joined this morning by Steve Hodgson, Chief Executive Officer, Lindsay Stiles, Chief Operating 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 Q1 2022 investor update, which is available now.

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

Steve Hodgson, Chief Executive Officer

Thank you, Paul. And good morning, everyone. This quarter marks the closing of a transformative acquisition for Slate Office REIT that is emblematic of our growth strategy going forward. We are seeing that well-operated, well-located, and high-quality real estate remains in demand, particularly among tenants who recognize the importance of the office in fostering innovation, collaboration, and culture.

We are well-positioned to capitalize on investment opportunities coming out of the pandemic that will further align our portfolio with these tenants, assets, and markets and enable us to continue providing stable long-term income to unit holders. I'm very proud of the team's performance this quarter.

I will now hand it over to Charles to walk through some of the highlights.

Charles Peach, Chief Financial Officer

Thank you, Steve. In the first quarter of 2022, the REIT continued to pay an industry leading distribution yield of 8%, which is well-covered with an AFFO payout ratio of 84%.

The Irish portfolio and team have been onboarded and we look forward to the opportunities their pipeline provides. Our occupancy rates have improved to 84.7% and WALT to 5.6 years. Asset values and units in issue have increased and our property and financing sources have widened over the quarter.

The Irish transaction demonstrates the team's ability to apply Slate Office REIT’s capital to under rented assets purchased below replacement cost with credit-worthy tenants. The cash flows from these assets will diversify and support the REIT’s distributions, while providing opportunities to grow the value of the properties and NAV of the REIT.

We are very aware of the ESG responsibilities we as property investors and operators have to people, our partners and the environment. These are outlined in our recently updated ESG policy.

I will now hand over for questions.

QUESTION AND ANSWER SESSION

Operator

As a reminder, to ask a question, you will need to press star-one on your telephone keypad. Again, that would be “star” followed by number “one” on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Sairam Srinivas of Cormark Securities. Your line is open.

Sairam Srinivas, Cormark Securities

Thanks operator. Good morning, Steve. Good morning, Charles. And thanks for the update. My first question’s primarily on the leasing front for West Mall. Can you give any color on what led to that downsizing, and are you seeing such similar trends play out with any other levers in your portfolio over the summer?

Lindsay Stiles, Chief Operating Officer

Sure, Sairam. Good morning. As some background here, the tenant occupied all of 195 The West Mall as well as some space at 191 The West Mall. We have renewed them in place at 191 The West Mall for 10 years. As part of that transaction, they'll be significantly updating the space at 191. In order to build out the space at 191, they'll be overholding in 195 from now until the end of September, currently occupying about half the building and then giving it back in tranches thereafter while covering operating costs and realty taxes.

We maintained them in the portfolio in the footprint that they require for their business going forward. It was really a business decision for them. They didn't take space anywhere else. We

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Steve Hodgson, Chief Executive Officer

The other thing I would add, Sairam, as you know, they continue to be a strong utilizer in the other properties we have them in. Where their nuclear division exists, they own an adjacent research facility to our buildings there.

They still have a lot of term there and we believe that they continue to consolidate people there as well, because they view that as a strategic location and a location they have significant investment in.

Sairam Srinivas, Cormark Securities

Thanks for the color, Steve. So just on that though, because obviously it's asked the leading pressure you're seeing on that side of the market, can you give some color on the kind of traffic you're seeing there and your ability to kind of release the space that's going to be vacant by September?

Lindsay Stiles, Chief Operating Officer

Sure, absolutely. Activity in the GTA portfolio increased significantly quarter over quarter. We increased 20% quarter over quarter in terms of deals done in the GTA. Because the Toronto market was so much slower to reopen than all of the other markets we operate in, that pent up demand really started to come on stream at the end of last year and has been really strong carrying into this year.

We have a very unique location, excellent proximity to the highway 427, the airport, great rooftop signage, the space is in excellent condition, easily multitenanted if that's necessary and frankly, the tenant was paying below market rent. This provides us with an opportunity to get someone new in the door and increase our rental rate going forward.

Sairam Srinivas, Cormark Securities

Thanks for the color, Lindsay. And maybe just switching gears to the U.S. market. We saw a bit of an occupancy drop this quarter over there. Can you give some color on that one?

Lindsay Stiles, Chief Operating Officer

That would have just been normal course. There were a couple known vacates so, that would just be that coming off stream. What I would say about the Chicago market is, similar to Toronto, it was a little bit slower to recover but actually just last week there was a citywide event held downtown called Chicago Returns. It created a ton of buzz in the market and was providing really great, exciting events downtown and drawing people and businesses back into the office.

Across the portfolio as a whole, our utilization rate, actual number of people in the properties, increased 12% quarter over quarter. We have seen a lot of increase in tour activity in Chicago. It's still a story of amenities and quality space that's ready to go. So, we're really focused on making sure we have that product available so we can capitalize on the activity in the market going forward.

Sairam Srinivas, Cormark Securities

Thanks again. Before I turn it back, my last question would probably be on the debt maturities coming up this year. Can you give any color on the exposure to variable rates and how you're seeing maturities play out?

Charles Peach, Chief Financial Officer

Absolutely. Even though we're talking about debt maturities to come in the later part of this year, we have already refinanced some of our debt given that the bridge loan, which we took on to purchase the Irish portfolio, has already been refinanced out to five years. We have shown within that our ability not only to do effective refinancing, but at the same time to widen the universe of financing available to us.

We are very aware of financing to come in the fourth quarter later this year. We’re working on both that and, at the same time, looking at our revolver which is due to come up in maturity next year as well. It’s at the front of our mind, but I can't say anything more on detail than that.

Sairam Srinivas, Cormark Securities

Thanks, Charles. I'll turn it back.

Operator

Your next question comes from the line of Scott Fromson of CIBC. Your line is open.

Scott Fromson, CIBC

Good morning, folks. Can you talk about the operating cost structure a bit especially where and if you're seeing inflation hit the cost structure?

Charles Peach, Chief Financial Officer

Inflation is one of the key focuses that we currently have and in some ways, it's difficult to measure, but we are keen to do so. Firstly, the majority of our leases are net leases. That provides an element of protection against rising costs. We do not have significant developments underway currently. We finished one recently within Ireland, but that was on a fixed price contract, which we put in specifically to prevent against inflationary pressure as that continued. So, we have an element of insulation there.

We are also noticing that having some vacancy in the portfolio allows us to compete well for those looking for space, who currently might have thought of development space, but at the moment that development could be either more expensive or taking longer to complete. So, we may have a following wind there.

At the same time, one of the key metrics that we think of, and this is aided from an inflationary perspective, is we buy assets below rebuild cost. What we see at the moment is the rebuild cost, as well as the rebuild time, extending out and increasing. As such, that metric will be increasingly protected by those pressures that we see at the moment.

Last of all, we can think about our portfolio, but we also think constantly about the credit-worthiness of our tenants themselves. One of the things that we look at across our tenants is the sensitivity of those tenants to those pressures. That’s one thing that we’re monitoring at the moment.

Scott Fromson, CIBC

Okay. Thanks. And on the space that's vacant, do you anticipate significant or any capital to renew it or bring it up to a standard that is equivalent to market?

Steve Hodgson, Chief Executive Officer

I would say normal course, Scott, if you're referring to the space that just is coming back to us from the West Mall. As Lindsay said, the building is in very good condition. The wall systems are demountable wall systems, so it can be moved around to suit tenants. There are some things we'll probably do from a model suite perspective and refreshing the lobby, but those are an aim to reposition the building so that we can grow market rent. As Lindsay mentioned, the tenant was paying about $16.50, market is $19 to $20.

Scott Fromson, CIBC

That's great. Thanks, Steve. I'll turn it over.

Operator

Your next question comes from the line of Lorne Kalmer of TD Securities. Your line is open.

Lorne Kalmer, TD Securities

Thanks. Good morning, everybody. Maybe just flipping back to the West Mall. What do you expect sort of the NOI impact to be of the vacancy there over the course of 2022?

Steve Hodgson, Chief Executive Officer

You can derive it with the net rent that I just provided and the square footage that we provided in the MD&A. There's a section of the MD&A where we wrote out the different tranches and when things are coming back.

Lorne Kalmer, TD Securities

Fair enough. Yeah. I guess with the net run that makes it a little bit easier. Any other known vacancies you guys have coming down the pipe at the moment?

Lindsay Stiles, Chief Operating Officer

There's just one in New Brunswick. We have one floor coming back at King's Place, but it's in pretty good condition and we have been actively marketing it since we knew it was coming back. That's been at least six months now, so that's not a concern.

Steve Hodgson, Chief Executive Officer

I would say that's just normal course slippage, Lorne. I think what we're seeing and what I know our office peers are seeing, is that there's a lot of momentum right now and it started in Atlantic Canada for us. We're seeing it in Chicago downtown and we're seeing it in Toronto now as well.

We have done some deals subsequent to the quarter end that are favorable and new deals. We expect occupancy, even with the SNC vacate in the West Mall, to be at or better than where we're at now by the end of the year.

Charles Peach, Chief Financial Officer

The Irish portfolio is an example of what has happened within that. What we have seen is the development that I mentioned beforehand that is, let to a life science tenant, we should see the benefits of that coming through in the second quarter. At the same time, we have seen interest in some elements of the other vacancy within the portfolio. That market continues to show interest in the vacancy that we have, of which we don't have that much.

Lorne Kalmer, TD Securities

Charles, you stole my next question. Maybe I'll switch gears. Any update on the disposition fund? I think there was some talk about that last quarter.

Steve Hodgson, Chief Executive Officer

We're still planning the $100 million of dispositions that we had announced alongside the Ireland announcement, working through that, and expect we'll have some updates in the next few months.

Lorne Kalmer, TD Securities

Okay, great. And then one last quick one, I guess, maybe for Charles. How much NOI do you guys have coming on for that Irish development?

Charles Peach, Chief Financial Officer

Are you talking about additional NOI?

Lorne Kalmer, TD Securities

Yeah, yeah. From the development that you guys just completed.

Charles Peach, Chief Financial Officer

In absolute figure terms, that is around €800,000 - the amount coming through from that particular development. That I think is an example of having a good credit-worthy tenant within the portfolio, in a sector we are keen on, with an asset on a park where we own other assets, and we know there is interest as well, and having the ability to increase revenue from those in-place tenants. One of the things I would mention about that Irish portfolio is, throughout the pandemic, the lowest and worst we got to was a 96% collection rate and that's looking at things on a monthly basis. We have high collections, high credit-quality tenants, and increasing the rental flow from those is something we're keen to do when we come across the opportunities to do so.

Lorne Kalmer, TD Securities

Perfect. Thank you, guys, so much for all the color. I'll turn it back.

Operator

Your next question comes from the line of Jenny Ma of BMO Capital Markets. Your line is open.

Jenny Ma, BMO Capital Markets

Hi, good morning, everyone. I just want touch quickly on the floating rate debt that you guys have. It looks like it's gone up, quarter over quarter, and I'm just wondering what your philosophy is on that. Probably a bit too expensive to fix now, but how are you viewing that position and managing throughout a rising interest rates cycle?

Charles Peach, Chief Financial Officer

Thank you, Jenny. If I look at our floating rate debt and the increase over the period, the vast majority of that is from the debt that was taken on for the purchase of the Irish portfolio. So, it's Euro denominated floating rate debt. There is an element of protection in that. That floats over three-monthly Euribor and three-monthly Euribor is, when I looked a couple of days ago, I think was less 42 basis points, which is higher than it has been historically around the less 56, 58 basis points. So, there would be some direction to travel before that comes to a point at which there is a cost to us.

I think you are correct in the view that it is a focus for us as well. We have insulated the vast majority of our Canadian dollar and U.S. dollar floating rate debt from rate rise, and we will be looking to do so on our Euro debt when the time is appropriate.

Jenny Ma, BMO Capital Markets

Okay. So, on that note, with the Irish portfolio, I think based on your disclosure, the loan to value on that just short, north of 50% or so. Is there any more room within the Irish portfolio to secure additional debt at a more advantageous interest rate than on Canadian properties?

Charles Peach, Chief Financial Officer

There could. One of the things that we are very cognizant of is where the absolute loan to value is on the portfolio. That sat, at the end of the quarter, at 60.1%.. I would say that does include within it $14 million of restricted cash and we would expect to see at least $10 million of that become unrestricted. That would help us from the LTV metric perspective.

At the same time, when we look to taking on further debt, we do so very much through the lens of the entire portfolio itself. I'd say that the universe of providers of financing on the Irish portfolio is not as great as we find within the Canadian and U.S. markets, but that is a market that continues to expand and it's one we have been involved in for the last eight years and continue to work on.

Jenny Ma, BMO Capital Markets

Okay. So, I guess, conventionally, what is sort of the max loan to value in Ireland for the average property?

Charles Peach, Chief Financial Officer

Coming from a REIT perspective, the REIT rules in Ireland limit loan to value to 50%. However, there aren't that many REIT's left within Ireland itself. People do look for further leverage, that comes with an additional cost to it. There are certain taxation limits within that as well

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Steve Hodgson, Chief Executive Officer

I would say in our experience, Jenny, 50 to 55% is convention in Ireland.

Jenny Ma, BMO Capital Markets

Before it gets more expensive. Okay. That's helpful. Thank you. And then lastly, for me, there was a press release from an external party, G2S2, who had mentioned that they've accumulated 10% of Slate Office stock. I'm wondering if this is a party that you've had any dialogue with and if you have any sense of where their interest in this position might be recognizing, of course you can't speak on their behalf.

Steve Hodgson, Chief Executive Officer

Happy to speak to that. They're a value-oriented investor. I think they recognize that there's a disconnect between where we're trading and where our NAV is and that there's value to be created there, while collecting a stable compelling distribution. We look forward to engaging with them and other shareholders that are looking for ways to create value.

Jenny Ma, BMO Capital Markets

Have you engaged with them at all yet?

Steve Hodgson, Chief Executive Officer

We're scheduled to. Thank you.

Jenny Ma, BMO Capital Markets

Okay, great. Do you have a sense of when they started accumulating this position?

Steve Hodgson, Chief Executive Officer

I'm not going to speak on their behalf on that point, Jenny. I don't know.

Jenny Ma, BMO Capital Markets

Okay. That's fair. Thank you very much. I'll turn it back.

Operator

Your next question comes from the line of Matt Kornack of National Bank. Your line is open.

Matt Kornack, National Bank

Hey guys. Just following up on the refinancing, or I guess terming out of the bridge loan. Did you maintain a variable rate on that, and if not, what were the terms on the five-year fixed in Ireland?

Charles Peach, Chief Financial Officer

We maintained a floating rate on that. Historically, we have financed these assets with Allied Irish Bank. AIB were part of the bridge, and they were part of the term facility after that, and they have a good understanding of the assets themselves and the security those assets provide. So, we continued with them.

The majority of the debt that's available is on a floating rate. There are the opportunities for us to turn around and fix that. I imagine because we have negative rates at the moment, we'd be looking at doing so with a cap, but that's something for the future.

Matt Kornack, National Bank

Okay. And could you give a sense as to what a sort of five-year fixed rate is at this point in Ireland? I'm not entirely familiar with the market.

Charles Peach, Chief Financial Officer

For the purposes of that, we'd be looking at something of three and a half.

Matt Kornack, National Bank

Okay. Fair enough.

Charles Peach, Chief Financial Officer

But I would say that's not something that we've looked to source.

Matt Kornack, National Bank

Okay, no, that makes sense. With regards to the new takers of space, or this increased velocity that you're seeing on the leasing front, can you speak to whether these are entities that may have been looking for space before the pandemic and put things on hold during the pandemic and are back, or are they new users to the market looking to upgrade their space? I'm just interested in what the nature of the demand is at this point. Any color on that front by market, but predominantly in Canada?

Lindsay Stiles, Chief Operating Officer

Sure, Matt. I would say it's a combination of all these things, honestly. Some people as we've discussed previously were completing shorter-term renewals earlier on in the pandemic just to wait and see how this would all play out. I think a lot of those people are back to the table now. We're seeing a real trend towards five- and 10-year lease terms at this point and that could be people who are using space differently and do need more space, people who are looking at more of a hub and spoke type model, perhaps wanting locations in different places, but largely operating from the same footprint and for others- it's a little bit too early to tell.

I think a lot of companies, like Google and Scotiabank, they just returned to the office earlier this year. So, they'll be wanting bums in seats for a little bit longer before they start making long term decisions. So, I think it's all of the above, but the general sentiment is very solid. As I've said, our activity was up 26% quarter over quarter, and then utilization is up 12% quarter over quarter. So, we're really seeing positive momentum from that and I think that will continue.

Steve Hodgson, Chief Executive Officer

I think it's more than just tenants moving from one building to another. There is an element to that Matt, that you hinted at, which is there's a flight to quality. So, in these suburban Toronto markets, for example, where we have high-quality buildings, we are seeing that benefit, but I think there's also positive absorption happening in this market right now which is the pent-up demand for tech and global users that are now seeing through the end of the pandemic and starting to get space secured.

Matt Kornack, National Bank

Makes sense, and are you seeing at this point, and again, it's early days in terms of the resumption in our very slow Toronto market, but are you seeing a change in tenants are asking for? I think you hinted at it, but maybe it's not fully baked at this point in terms of what they are looking for if they even know. But yeah, also maybe just space per employee as well, any trends on that front, or is it just kind of status quo, same as what we were seeing pre-pandemic?

Steve Hodgson, Chief Executive Officer

It's a bit of a mixed bag still. There's some that are trying out the hybrid model or the hoteling model, and there's many that are just continuing on as they were before. Again, our focus for the REIT is we've always been a stable distribution and we've always had a high credit-quality of tenants. We want to continue that and augment that. So, our strategy in buying newer buildings, buying buildings with even better credit-quality tenants but still staying true to our discount to replacement costs, it's all exemplified in what we're doing in Ireland and what we're planning to do elsewhere as well because we think those are the themes that will maintain what we've been able to achieve to date and into the future.

Matt Kornack, National Bank

Fair enough. And the last one for me, I mean S&C I think was a bit of a unique situation, but is there a stickiness to some of these government tendencies? And also just, I mean, presumably they will go back to the office in some way shape or form, but how are they thinking about their footprints in your portfolio at this point?

Lindsay Stiles, Chief Operating Officer

I agree. They are absolutely sticky. They've been one of the most impacted groups by the pandemic. They're just not set up to have their staff work from home. They don't have laptops and cell phones and can easily plug in like most of the rest of us, their systems are antiquated it's not something they've invested in.

We have seen government on a whole across the country start to return. I'd say they're probably close to kind of 50% utilization at this point and we expect the next couple tranches in Q2 and Q3. So by and large, by the end of Q3 they should be back to what they were early 2020. I think they'll continue to use space likely in the same way. I don't expect that reimagining their space is how they'll want to allocate their funds, but we'll see what happens.

Matt Kornack, National Bank

Okay. And I guess last, last one. Any incremental kind of cost associated with bringing back the people that were at the front desk, et cetera, that's all recoverable, is it not through leasing? So, we shouldn't expect any real change in margins as a result of this reopening?

Lindsay Stiles, Chief Operating Officer

That's right. That would be recoverable.

Matt Kornack, National Bank

Okay. Perfect. Thanks guys.

Operator

Your next question comes from the line of Brad Sturges of Raymond James.

Brad Sturges, Raymond James

Hi there. Just based on your comments on occupancy, it sounds like occupancy could be stable to slightly up for the year when you bake in some of the leasing that you're working on and offset by some of the known vacancies coming in. Is that a fair characterization of where occupancy can trend by the end of the year?

Steve Hodgson, Chief Executive Officer

On an existing portfolio basis, assuming no disposition or acquisition, yes.

Brad Sturges, Raymond James

Right. And what would that translate into from like a same property NOI growth perspective? Is there a range that you think you could achieve this year?

Steve Hodgson, Chief Executive Officer

As you know, we don't provide guidance on that, but it'll be a mix of rental rate growth and occupancy. It's a little bit more complicated than that, but I'd suspect that our goal is to continue to show accretion as well from the Irish assets because we closed that deal on February 7th. So, first quarter was not a full quarter of results. Through Q2 and Q3, we'll see that benefit, then of course the benefits from rental growth and the rest of the portfolio.

Brad Sturges, Raymond James

All right. And in terms of the $100 million asset sales, like I guess, you know, since you made that sort of announcement on the plan, the bond market has changed quite dramatically. Do you think that has any impact on what you think you could achieve on pricing at this point? Or how should be thinking about valuation in the private market at the moment?

Steve Hodgson, Chief Executive Officer

It’s a good question and on that, there hasn't been enough evidence to suggest that the change in interest rates or bonds has impacted pricing at all yet, but these are unique deals that we're working on and we expect to transact at in-place cap rates in the low to mid sixes. When we're buying, in Ireland or elsewhere, north of seven with assets that better fit our long-term strategy, we’re quite pleased with that.

Brad Sturges, Raymond James

Right. And then I guess my last question, leverage is obviously ticked upon the back of the acquisition. Where we should we think about leverage trending or where would you like to get to?

Steve Hodgson, Chief Executive Officer

The plan was to bring leverage up to execute on the Irish transaction and then subsequently bring it down with these asset sales. We expect to be back to where we were pre-transaction, which was in the high fifties.

Brad Sturges, Raymond James

Okay. I'll turn it back. Thanks.

Operator

Again, everyone. If you would like to ask a question, just press star-one on your telephone keypad. Your next question comes from the line of Scott Fromson form CIBC. Your line is open.

Scott Fromson, CIBC

Thanks. I had a question on the financing structure, particularly the Irish debt, which Charles answered very comprehensively. So, I'll turn it back. Thanks.

Operator

Presenters, there is no further question. Let me turn the call over to Mr. Paul Wolanski for closing remarks.

Paul Wolanski, Senior Vice President, National Sales and Investor Relations

Thank you everyone for joining Q1 2022 conference call for Slate Office REIT. Have a great day.

Operator

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