CORPORATE PARTICIPANTS

Steve Hodgson
Outgoing Chief Executive Officer

Brady Welch
Incoming Interim Chief Executive Officer

Charles Peach
Chief Financial Officer

Paul Wolanski
Senior Vice President, National Sales, Investor Relations

CONFERENCE CALL PARTICIPANTS

Jake Stivaletti
CIBC

Brad Sturges
Raymond James

Gaurav Mathur
IA Securities

Matt Kornack
National Bank Financial

Sairam Srinivas
Cormark Securities

Jonathan Kelcher
TD Cowen

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Office REIT First Quarter 2023 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 Tuesday, May 2nd, 2023.

I would now like to turn the conference over to Paul Wolanski. Please go ahead.

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

Thank you, operator, and good morning, everyone. Welcome to the Q1 2023 conference call for Slate Office REIT. I am joined this morning by Steve Hodgson, outgoing Chief Executive Officer; Brady Welch, incoming interim 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 disclosure, including our Q1 2023 investor update, which is now available.

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

Steve Hodgson, Outgoing Chief Executive Officer

Thank you, Paul. This quarter, we continued to focus our efforts on strengthening the REIT's balance sheet and liquidity position to preserve value for unitholders during a challenging operating environment.

We believe the value preservation plan announced following the Board's comprehensive review of strategic alternatives will provide the flexibility and capital to continue strengthening the REIT's core business. We're also pleased to have added to our Board two experienced independent trustees to provide further expertise and stability.

We continue to have conviction in the value and resilience of our office assets, and we believe that by shoring up the REIT's capital and balance sheet, we can emerge from this economic cycle in a stronger position.

Our long-term focus, which will remain unchanged under Brady's leadership, remains on repositioning our portfolio to align with markets, assets, and tenants that are driving growth and long-term performance. We believe well located, high-quality, and modern office buildings with growing, strong credit tenants will continue to outperform, and we will continue to position our portfolio to focus on opportunities that align with this demand.

We are confident that our value preservation plan, operational excellence, and experienced management team will greatly benefit unitholders and position the REIT for long-term success.

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

Charles Peach, Chief Financial Officer

Thank you, Steve. As Steve mentioned, in 2023, our focus has been on our existing portfolio and balance sheet. The Board unanimously agreed to amend the monthly distribution to $0.01 in April, allowing the REIT to continue to improve its assets and repay debt were possible.

Increasingly expensive and selective credit markets have made dispositions and acquisitions more challenging. However, the 5.8% weighted average discount to market rent of our portfolio at quarter-end means we can work to increase the revenues from our existing tenants.

The REIT's focus on operational performance continued in the first quarter, with 120,000 square feet of total leasing at a weighted average rental rate spread of 5.8% above in-place and expiring rents. Net operating income fell slightly over the past quarter, increased borrowing costs and the cost of the special committee at the Board review reduced AFFO to $0.06 per unit for the quarter.

The NOI is supported by an average weighted lease term is 5.4 years, and government or high-quality tenants making up 67.9% of the portfolio. While we do have some vacancy, this, along with our weighted average 5.8% discount to market rent, gives the opportunity to improve NOI further on our existing assets.

In an increasingly expensive financing market, we've had the benefit of our debt being over 90% hedged for the first quarter. As we have a number of maturities this year, we're working with our universe of lenders to refinance these and continue to strengthen our balance sheet.

I will 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 number one on your touchtone phone. You will hear a three tone prompt acknowledging your request. If you would like to withdraw your request, please press the star followed by the number 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 Jake Stivaletti with CIBC. Please go ahead.

Jake Stivaletti, CIBC

Good morning.

Steve Hodgson, Outgoing Chief Executive Officer

Good morning, Jake.

Jake Stivaletti, CIBC

Given the price tag, is there anything further coming from the strategic review, other than the distribution cut?

Steve Hodgson, Outgoing Chief Executive Officer

The focus for the Board out of the strategic review, after reviewing all the assets in great detail and all the different alternatives that we had, was a strong belief by the Board that there's a lot of inherent value in the assets, and that trying to sell into this market would be more destructive to value, whereas preserving cash is an excellent way to preserve the value of the company.

As a management team and Board, we look at ways to unlock value on an ongoing basis outside of the scope of the strategic review as well, and we'll continue to do so.

Jake Stivaletti, CIBC

Okay. How are the tenant incentives for Q1 compared to 2022? It looks like straight-line rents increased a bit.

Steve Hodgson, Outgoing Chief Executive Officer

Yes. What you'll find is that, in the leasing that we did in the quarter, we did a fair amount of new leasing, of which the weighted average lease term on that new leasing was about 9.1 years. So, that comes with slightly higher inducements to incent people to do longer-term deals.

One particular larger lease that we did at 2599 Speakman, which was a building that was 50% occupied and is now 70% occupied, there was additional landlord's work that was required to accommodate that life science tenant. A really strong covenant, really strong rents, but slightly higher cost to execute that deal. I wouldn't say it's a trend, I would say it was more deal specific.

Jake Stivaletti, CIBC

Okay. On that 15.4% spread on the new leases, were those spread across the portfolio, or more weighted to a certain region?

Steve Hodgson, Outgoing Chief Executive Officer

Yes, on the renewal side, it was heavily weighted to Atlantic Canada. And on the new leasing side, it was Ontario, which was primarily that deal at 2599 Speakman.

Jake Stivaletti, CIBC

Okay. Thanks. I'll turn it back.

Operator

Thank you. The next question comes from Brad Sturges with Raymond James. Please go ahead.

Brad Sturges, Raymond James

Hi there. Just sticking on the leasing front, given that the REIT's lease rollover exposure is a little bit more limited over the remainder of this year and even into next, where do you see occupancy trending over the next few quarters? Do you think you'll start to make back some ground from where you are today?

Steve Hodgson, Outgoing Chief Executive Officer

I think so, Brad. It's a difficult environment to have a firm view because we are starting to see more traction on the new leasing side, but renewals and maintaining tenants at their existing square footage is also a challenge.

To your point, we have pretty good visibility on the balance of this year on the renewals, and I would say that our goal is to at least maintain occupancy, and incrementally improve it by the end of the year.

Brad Sturges, Raymond James

Just with Atlantic Canada, I think you dipped a little bit in terms of occupancy. Can you comment more specifically on that region in terms of the leasing and touring activity you're seeing, and what your outlook would be for occupancy within your Atlantic Canada portfolio?

Steve Hodgson, Outgoing Chief Executive Officer

Yes. St. John's and Newfoundland, for example, had a pretty strong recovery of about 500 basis points, so 5% increase in overall occupancy in the downtown market in St. John's. So, we're continuing to see some traction there. We were a big part of that improvement in the market.

We had some turnover in our Frederickton building, with one of our large financial institutions giving back a floor but maintaining and doing a longer-term deal on the floor that they retained. We're still having some turnover, but I would say the sentiment continues to be strong there, and the utilization rates are much higher than we're seeing in Toronto.

Jeremy and the asset management team are doing a great job continuing to lease up Maritime Center now that the redevelopment is complete. There's some exciting kind of things happening in New Brunswick, particularly in St. John's as well, around the energy market and some renewed activity there.

Brad Sturges, Raymond James

To go back to your comment around asset sales not being prudent at this point, just given the limited transactional activity, when we do start to get more of an opportunity through higher transactions and you're seeing better pricing discovery, I'm curious to know what the strategy would be if you're contemplating asset sales. Would that be more potentially opportunistic by asset, or could it be more targeted by region?

Steve Hodgson, Outgoing Chief Executive Officer

Yes, it's more by asset. We would like to see eventually, as we've messaged before, our weighting to Atlantic Canada reduce. That can happen through growth or through dispositions – but in this environment, it's probably through dispositions.

But it's more asset specific. What we're trying to focus the REIT on is assets that are high cash yield, low capital requirements, newer buildings, credit tenants, tenants that are life science or other industries that are growing, and in strong markets. And to the extent assets don't align with that, and we can get a fair value for them, we'll look to execute.

Being able to deleverage the balance sheet will be a great opportunity for us too, given where the cost of debt is right now, and it'd just set us up in a good position for coming out of this economic cycle.

Brady Welch, Interim Chief Executive Officer

Hi, it's Brady. I would add, since 2019, Slate Office REIT sold $280 million of properties. We are buyers and sellers, and when we stabilize an asset and we figure it's the right time to execute, we will sell.

What Steve's point is, is that today the office is under different pressures besides rising interest rates and inflation. It's human behavior, and we will look to sell assets when we feel that we've done our job and it's the right time to sell an asset.

We will continually do that at Slate, and that's our job. We are pretty good when it comes to operating real estate and figuring out what needs to be done and sell the asset. So, we'll always look for those opportunities.

Brad Sturges, Raymond James

Last question from me is more a modeling question. G&A has been elevated, probably due to the strategic review. How should we think about the run rate into Q2 and the rest of the year?

Charles Peach, Chief Financial Officer

The first quarter has the impact of the special review, particularly. My suggestion would be on the G&A side is to look more towards where we were in the fourth quarter of last year as more along the run rate you should be using going forward.

Brad Sturges, Raymond James

Okay, that's helpful. Thanks a lot.

Steve Hodgson, Outgoing Chief Executive Officer

Thanks, Brad.

Operator

Thank you. The next question comes from the line of Gaurav Mathur with IA Securities. Please go ahead.

Gaurav Mathur, IA Securities

Thank you and good morning, everyone. Just to your prepared remarks, are you envisioning any change in the tenant mix as you go through the repositioning strategy?

Steve Hodgson, Outgoing Chief Executive Officer

Yes. That's more of a long-term view on strategy, but the message that we put out there and continue to reinforce is that the environment's changed. As Brady mentioned, it's been a human behavior type issue. Every market's a bit different, but every tenant is different, and we're trying to align the portfolio.

We're still very bullish on office and think that employers are going to continue to strive to get people back into the offices because of all the benefits of culture, collaboration, etc. But we know that every tenant and industry will operate differently, and we're trying to align ourselves with the tenants that will be the biggest utilizers of office space and markets that are proponents of having people back in the office.

The deal we did in Ireland is exemplary of that, as is the deal with the Pfizer building in Chicago. The $280 million of assets that we've sold since 2019, those came with leasing risk, capital risk, a lot of below the line costs, older buildings.

The flight to quality is real. It doesn't mean that tenants are lining up trying to go into AAA buildings necessarily, but there's a lot of B and C buildings in the suburbs that we've had success taking tenants from in our class A suburban office. We're just aligning our portfolio with where we see the demand.

Gaurav Mathur, IA Securities

Right. And that's a great segue into my next question. Because as you're looking at the tenants filtering through the door, can you perhaps discuss the level of tenant incentives that are now required to attract tenants, and how that's changed since the beginning of the pandemic?

Steve Hodgson, Outgoing Chief Executive Officer

Yes, in the beginning of the pandemic, there wasn't really leasing activity to speak of. The incentives were actually quite low because tenants were looking to kick the can down the road and do short-term renewals in their existing space until they figured out what their workplace strategy was going to be.

What we're seeing now is that bigger tenants are making moves, and they're committing to space long-term. It may be slightly less square footage, it might be more square footage, and tenants continue to evaluate that.

To get tenants to move to a new building, there's certainly increased inducements. Those can be in the form of out-of-term free rent. They can be in the form of a TI package. But base rates, as we've demonstrated in our portfolio with the growth that we've had in rates, base rate is not the issue. Tenants are motivated by being in the building that works for their employees, that's higher quality, has the right location, and a landlord and operator that can service them properly.

They're still willing to pay for that, but, yes, inducements are slightly higher because it's competitive to get new leases right now.

Gaurav Mathur, IA Securities

Okay, great. My last question, when you're looking at fair value adjustment, what seems to be the toughest part for you to estimate in the current environment?

Steve Hodgson, Outgoing Chief Executive Officer

There are still very few comparable transactions in all of our markets. We had some appraisals done at the end of last year which indicated some movements in the cap rates and discount rates, which we applied across our whole portfolio.

In Q4, we took a write-down on our book values. This quarter, we've remained relatively flat. We always have some fluctuations with currency, etc., but because any of the transaction comps that we see in today's market we knew about last quarter, and we haven't seen any further evidence of movements. Looking at our peers, the views of our auditors, the views of our appraisers, we seem to triangulate where we think is an appropriate number in the range of value.

Charles Peach, Chief Financial Officer

One thing that I could add to that is while there has been a lack of transactional evidence, and the transactional evidence is relatively idiosyncratic between particular buyers and sellers, one thing that we have noticed, given that we have refinancing on at the moment, is it those appraisals which match values that we have, are those which are being used to provide financing to us, showing belief in these, not only from ourselves but also from those others who are willing to provide financing.

Gaurav Mathur, IA Securities

Thank you for the color, gentlemen. I'll turn it back to the operator.

Steve Hodgson, Outgoing Chief Executive Officer

Thank you.

Operator

Thank you. The next question comes from Matt Kornack with National Bank Financial. Please go ahead.

Matt Kornack, National Bank Financial

Good morning. Just to follow up on value, have you done any exercise particularly around the GTA portfolio trying to get at alternate uses for potential density on sites? Is there anything there with regards to zoning, etc., that potentially would add value, just given the land that you own?

Steve Hodgson, Outgoing Chief Executive Officer

Yes. We have the benefit with Slate Asset Management of having a full development team internally, and we've been exploring this. There are five assets in our portfolio – for competitive reasons, I won't mention them – but there are five assets in our portfolio where we're actively looking at a change of use or a mixed-use component.

There are certainly some opportunities out there. It doesn't work in every market, the math doesn't work in every market. Outside of SOT, Slate's very active in other markets where this is being reviewed, for example, in Calgary.

Our team is very well-versed in running these models and understanding the economics. We're in the early stages of that, Matt, but we'll provide an update to the extent there is anything to update on.

Brady Welch, Interim Chief Executive Officer

Hey, Matt, it's a great question. We look at all of our assets, particularly in the GTA or even other markets, where we look at what's the highest and best use, can we extract more value from the asset, we absolutely look at that.

Matt Kornack, National Bank Financial

Makes sense.

Brady Welch, Interim Chief Executive Officer

Yeah. Thanks.

Matt Kornack, National Bank Financial

When you think of – I don't know if we quite know yet what the new normal would be in terms of the per capita square footage of office, and it's probably going to change. But Canada has seen some of the best population growth in years. So, is there any discussion now with your tenants that, hey, look, we're hiring more people, we may not need as much space per person, but employment growth has been pretty good, or is it still too early? There's also recessionary fears, so, we're in a weird position at this point, but just any color there?

Steve Hodgson, Outgoing Chief Executive Officer

Yes. There's a number of tenants in our portfolio that we speak to that say, if everyone were to return to the office, they wouldn't have enough space. They're managing the hybrid workforce strategically, but they're also saying that they want people back to the office. The employers are telling us that.

That's why I get such a strong conviction that eventually over time – it’s taking a long time in Canada relative to other markets – but over time, it may not be five days a week, but I see it at least being four, and that's what our tenants are telling us.

Brady Welch, Interim Chief Executive Officer

There's 40 million people that live in Canada. There's eight billion people that live on the planet. If you go to other markets, for example, Asia, they have 90% utilization for office space.

You need to really think long-term. Humans are social creatures, and if you want to develop a business, you need to be together as a team. We're big believers in office because that's what you need to do to be together as a team.

Canada is a little isolated. It's on its own. Yes, it's got positive migration, but it's different behavior in different markets. There are markets where office rents are hitting all-time highs. It's just a very specific thing here, and you've got to think long-term.

We have great assets with great credit tenants, and it's for the long game. It's not for the short game. And that's what we believe in. Canada is a great place, and it's just a matter of time.

Matt Kornack, National Bank Financial

Yes, I hope that's the case. Just switching gears, there were some subsequent events disclosure around the financing side. Can you give us an update as to where things stand on that front, or at least the approach? Looked like some of them were shorter term renewals, but do you have a sense of if you go five year fixed at this point, or do you give yourself a bit of leeway in terms of where bond yields may go?

Charles Peach, Chief Financial Officer

Happy to give a direction there. Given that for some of those we are in negotiation at the moment, I won't go into full details because that is commercially sensitive.

What we have had is the opportunity to refinance one of those, you'll notice Commerce West with incremental proceeds, which we were pleased to be able to get.

On the others that we have, they're a mix at the moment of certain ones where we are very close in the legal process and the refinancing. For the majority of those, we'll be looking at something relatively shorter, something along two years.

We have a couple of reasons, the first of which is we want to ensure that, as a portfolio, we have a reasonable debt ladder of maturities, ensuring that they're fairly well spread out over time. The second of which is, while interest rates have gone up, the margin that's been required by lenders has, in a number of instances, gone up. Not always, but in a number of instances. And as such, as opposed to locking that relatively high margin now, there could be an opportunity if one's slightly shorter, let's say in the two year or somewhere slightly north of that, to be able to only pay that for relatively short period of time before we come to refinance out as well.

Matt Kornack, National Bank Financial

Okay. Appreciate that color. One last question on the hotel year-over-year. I don't know whether Q1 of 2022 there was something there or if it was a margin issue, but it was a drag on NOI this quarter. I know it's a seasonally

weak quarter, but is there anything one-time in there or is that because people weren't going to New Brunswick in the winter?

Steve Hodgson, Outgoing Chief Executive Officer

Yes, it's just seasonality. The hotel's performing very well. We still expect this year to be at or better what we achieved in 2019. Group business in the hotel sector is taking longer to recover in the major city centers, but these regional, smaller association groups are back. The cruise business is back in St. John's, and the leisure travelers. New Brunswick continues to have an incentive similar to what we have here in Ontario for staycation tax credits. So, the hotel's doing well.

Matt Kornack, National Bank Financial

Okay, great. Thanks.

Operator

Thank you. And the next question comes from Sairam Srinivas with Cormark Securities. Please go ahead.

Sairam Srinivas, Cormark Securities

Thank you, operator. Good morning.

Steve Hodgson, Outgoing Chief Executive Officer

Good morning.

Sairam Srinivas, Cormark Securities

Steve, just going back to your comment on incentives, I know this might be difficult, but is it possible to kind of tentatively see what the delta looks like or quantify the delta between cash rents and in-place rents?

Steve Hodgson, Outgoing Chief Executive Officer

Between cash rents and incentives?

Sairam Srinivas, Cormark Securities

Between cash rents and in-place rents.

Steve Hodgson, Outgoing Chief Executive Officer

Yes. Market rent's still 5.5%-ish above the in-place rents, so we continue to see that. There has been some incremental cost as of late to secure new leasing. Renewal leasing, we're still seeing incentives on par with prior history. I'm not sure if that covers the question you're asking, Sai.

Sairam Srinivas, Cormark Securities

It partly does, Steve. I was just trying to see if you have a broader number to it, but I do understand why it would be difficult to kind of put a number to it specifically. If you do, that's great. If not, that's fine too.

Steve Hodgson, Outgoing Chief Executive Officer

It's hard to put an average. It depends on the deal, the market. Because we have a diverse portfolio across different markets and different types of properties, it's hard to put a number on it. If you extrapolate that, it may not be the right weighted average for what we have renewing or coming online in the next 12 months.

Sairam Srinivas, Cormark Securities

That makes sense. Looking at Ireland, I know it's been one year now since you have had these assets. Can you talk a bit about the fundamentals you're seeing in that market there and Europe in general, and the opportunities out there?

Charles Peach, Chief Financial Officer

One of the things that we can hark back to is what Brady said earlier about the fact that we have different markets, and some markets are doing relatively better at the moment.

Given there's lower transactional volume, one area in Ireland in which there is more transactional volume is in central Dublin itself. What we see there is rental rates at levels which are the highest they have had. We're looking at up to 65 euros per square foot, which is higher than they have had before.

So, that shows that there are some markets out there which have the ability to attract tenants and they have good quality tenants there, and those tenants are willing to pay for that space, too. Ireland has some transactional

volume, particularly on the leasing side, showing it had the ability to improve its rental rates there.

The occupancy of our portfolio there sits at 92.5%, which is good in comparison with the remainder of our portfolio. Where we have vacancy, we've shown we've had the ability to fill that vacancy.
One of the things about those tenants we have in Ireland is the majority of those tenants are FDI. They've come into the country for a specific reason. They've found a place where they have the ability to attract employees, and they're relatively sticky once they're in place. As such, a lot of the work that we have there, as opposed to looking for future tenants, is looking to capture that increase to market rent that we can within that portfolio.

From a performance perspective, it's doing what we would've expected, and the market seems to be supportive for that too.

Brady Welch, Interim Chief Executive Officer

Ireland is part of the EU. It attracts a lot of foreign direct investment from North America. We want to put the REIT in a position where we can invest in assets where we see rental growth and strong covenant tenants, and it's a great place.

The portfolio is performing extremely well, with high occupancy, with growing rents, and in today's world, with rising interest rates and inflation, you want to be in a place where you can have an investment with economic drivers, and Ireland's a great place to be, and that's why we made that investment. And it's been performing very well.

Sairam Srinivas, Cormark Securities

Thanks for this color, Brady and Charles. Shifting gears to Canada and looking at what's been happening over the last couple of months, the strike action, I know there's been a bit of resolution in terms of federal workers working from office or working from home, etc. But do you see any of that flow through to your discussions with your federal tenants?

Steve Hodgson, Outgoing Chief Executive Officer

Yes. We are not currently exposed to any near-term maturities with significant government tenants, but we're disappointed in the result of that and the lack of leadership from the government. It's a disappointing result.

It's interesting, I think it's 12% over three years, which might be suggestive of where they think inflation's going to be, and certainly might set a precedent for other negotiations in the future too.

But more importantly to our business and the overall competitiveness of Canada on a global scale, it's concerning that people only need to be in the office a couple days a week and somehow are going to be able to provide a public service to taxpayers that's as efficient as it used to be. So, we're concerned about that.

As to direct impact on our portfolio, that's to be determined, but we certainly are less exposed to that particular segment than others.

Brady Welch, Interim Chief Executive Officer

Luckily, we don't have any exposure in Ottawa in our portfolio to those federal tenants. We have provincial tenants, but we don't have a lot of federal tenants.

So, yes, it's a concern, not for Slate Office REIT, but for the country.

Sairam Srinivas, Cormark Securities

Awesome, thanks for the color. I'll turn it back.

Operator

Thank you. The next question, we have Jonathan Kelcher with TD Cowen. Please go ahead.

Jonathan Kelcher, TD Cowen

Thanks. Just a couple questions. Brady, you talked about utilization rates being a lot higher than Canada in different parts of the world. Could you walk through your portfolio and what you're seeing in your different regions?

Brady Welch, Interim Chief Executive Officer

What Slate Asset Management can bring is a global perspective; we invest in Europe, we invest in Canada, and we invest in the U.S., and it is different.

If you were to go in the southern part of the U.S., the utilization, say, in Dallas and Florida, would be much different than you see in the northern cities of the U.S. or even in Canada, or say San Francisco and Seattle. So,

it's behavior and it's leadership, as Steve said, both politically and from the private sector.

For example, in the West End of London, they're hitting all-time rents. That used to be 80, 85 pounds per square foot. They're paying 135. So, people are back to work and they're working there. I would have concern being in office in downtown cores in markets where occupiers aren't having people come back to the office. I would be concerned with that. But we're not there.

In the GTA, we're actually getting activity because we're not downtown. People are wanting to be in suburbia and close to the offices. So, we're seeing a difference, we're seeing rents that are holding up.

It is very spotty, and it's all to do with human behavior and leadership in those communities. That's my opinion. It's going to change, and you have to adapt, but I do have concerns about big cities who have big financial institutions that aren't working with local and political figures.

It's not about an office building. It's about a community and getting people back to work. It's an ecosystem. So, those cities need to think about what's going on in the community so we can pay for all the services that people want.

That's why Ireland's performing very well. The office assets we have in GTA, they're performing well. So, it is specific, and you've got to think about where you want to be. That's why we want to be in a place where there's economic engines and people who want to be there, occupy space, and grow their businesses. Those are the assets we want to own.

Jonathan Kelcher, TD Cowen

How are your Chicago assets doing?

Brady Welch, Interim Chief Executive Officer

Those assets, there is a big re-gentrification going on in the nodes. We're downtown, where Google has made a big play to occupy and employ a lot of people. We're pretty excited about what could happen in the node we're in, in the West Loop. It's a challenging office market, but I think we're well-positioned in those assets.

Steve Hodgson, Outgoing Chief Executive Officer

Yes, it's a challenging office market that long-term has some exciting things happening in the Central Loop, as Brady alluded to. There's a whole revitalization of LaSalle Street. There are some proposed tax incentives to convert some major sized buildings into residential and make it more of a live-work-play environment. Long-term, we like that.
While it's a tough environment right now, our buildings are significantly outperforming the market; one is anchored by CIBC and the rest of the tenants have good weighted average lease term as well. So, we are isolated in that building. The other building, it's more of a boutique offering, very well located, priced right in the market.

We've had tenants vacate, but we've been successful in backfilling them, so, we're doing a good job of maintaining occupancy. The inducement costs are higher because of how competitive the market is right now, but I think that'll start to stabilize over time. There's no new supply being built in any of these markets, and Chicago is still a very attractive place for employers to be: great education force, young workforce, and a really strong tech community.

Jonathan Kelcher, TD Cowen

Okay. Switching over to the balance sheet, one of the reasons you cut the distribution was to shore up the leverage. What would your goal be for debt to EBITDA and debt to gross book value, and how long do you think it'll take you to get there?

Charles Peach, Chief Financial Officer

The REIT has had for some time a medium-term target of 55% debt to gross book value. The LTV recently has been driven by changes in asset values themselves as opposed to a positive decision to move towards the leverage where we are at the moment.

With the increasing cost of debt, it is more attractive to be slightly less levered. However, any change to that is looking at what is the best use of capital. Coming out of the special review that we've had recently, that didn't just look from an asset perspective about how capital could be raised and deployed on assets. It looked across all uses of capital, about whether that might best be used in the repayment of debt, and which type of debt there are. Given that we do have value in our assets that we are looking to uncover, we're looking at what we could do by applying the capital towards those assets as well.

While we have a medium-term target of the 55%, it would require an element of change in asset values to assist towards that direction. But along the way, it would be driven by the Board's desire to implement their special

review and look across the many opportunities we have for capital in front of us at the moment.

Jonathan Kelcher, TD Cowen

Okay. Do you have a target debt to EBITDA? I think you were at 12.5x in the quarter.

Charles Peach, Chief Financial Officer

We don't have a target for that. To have it lower would obviously be beneficial for us as well. We do keep a very close eye on all of our debt metrics and our covenants at the moment. We don't have a specific target we're targeting there though.

Jonathan Kelcher, TD Cowen

Okay. I know that you're in negotiations with your lenders on the renewals this year, but how are lenders looking at loan-to-values right now? It was good to see you got $1.0 million out of one of your renewals. Do you think there'll be any assets where you're doing renewals where you'll have to add some equity?

Charles Peach, Chief Financial Officer

We've been thinking about that for some time. A good example of that is what we did with 120 South LaSalle at the end of last year, an asset that had a significant amount of finance against it, and in order to improve the cost and availability of financing on that, we repaid $20 million at the end of last year.

We’re not afraid of adjusting the leverage on one asset veruse another, taking financing where we can, and where we have to apply capital to repay financing, happy to do that on others as well.

There will be some where we pay down, and some where we look to take more.

Jonathan Kelcher, TD Cowen

Okay. Overall, do you think that nets out?

Charles Peach, Chief Financial Officer

We have to see where that goes. Our aim is to look for things to net out at the moment. If we're looking at assets and what we might with them, we may take the opportunity to further pay debt down, given where we are from a leverage perspective.

Steve Hodgson, Outgoing Chief Executive Officer

The output is the loan-to-value in today's market. Lenders aren't lending off an LTV. They're lending off debt service coverage. The pressure on debt service coverage is on the refinancing analysis that a lender will do on the backend in today's rate environment and inflation.

The loan-to-value is just the output from that. To Charles's point, there are some where we are well covered, and there's some where we're closer to the margin of where the lenders are comfortable. We just need to reallocate our debt through the year.

Jonathan Kelcher, TD Cowen

Okay. That's helpful. I'll turn it back. Thanks.

Operator

Thank you. There are no further questions at this time. I'll turn the call over to Paul for closing remarks.

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

Thank you, everyone, for joining the Q1 2023 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 participating and ask that you please disconnect your line.