CORPORATE PARTICIPANTS

Steve Hodgson
Chief Executive Officer

Lindsay Stiles
Chief Operating Officer

Michael Sheehan
Chief Financial Officer

Jennifer Pyper
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CONFERENCE CALL PARTICIPANTS

Lorne Kalmar
TD Securities

Brad Sturges
Raymond James

Jenny Ma
BMO Capital Markets

Scott Fromson
CIBC

Chris Kouts
Canaccord

PRESENTATION

Operator

Good day. Thank you for standing by, and welcome to Slate Office REIT Third Quarter 2021 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 "*" "1" on your telephone. Please be advised that today's conference is being recorded. And if you require any further assistance, please press "*" "0."

Thank you. I would now like to hand the conference over to your speaker today, Ms. Jennifer Pyper from Investor Relations. Ma'am, please go ahead.

Jennifer Pyper, Investor Relations

Thank you, Operator, and good morning, everyone. Welcome to the Q3 2021 conference call for Slate Office REIT. I am joined this morning by Steve Hodgson, Chief Executive Officer; Lindsay Stiles, Chief Operating Officer; and Michael Sheehan, 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 Q3 2021 investor update, which is available now.

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

Michael Sheehan, Chief Financial Officer

Thank you, Jennifer. And thanks to all participants for joining the call this morning. We are very pleased with our third quarter results. Slate Office REIT continues to offer investors a durable cash flow and distribution, a trading discount to a well-supported net asset value, and a scalable platform that is positioned for growth.

As we continue to put the pandemic behind us, the REIT's results are trending positively. This is our fourth consecutive quarter of per unit FFO and AFFO growth. Leasing volumes in 2021 are up 12% compared to the same period in 2020, and our rental rates spreads are a positive 7.7% year to date. We expect rental income to trend upwards through the balance of the year and in 2022.

We also executed on some key dispositions and refinancings that effectively raised capital at or above our net asset value, and created additional liquidity to support accretive growth. We continue to evaluate a large pipeline of transformative acquisition opportunities in Canada, the United States, and Europe with the support of Slate Asset Management's global team and relationships.

As the economic landscape continues to strengthen, we are well positioned for both internal and external growth. On behalf of the team, we thank you for your continued support. I will now hand it over for questions.

QUESTION AND ANSWER SESSION

Operator

And at this time, if you would like to ask a question, you can press "*" then the number "1" on your telephone keypad. Again, if you would like to ask a question, please press "*" and the number "1" on your telephone keypad. One moment, please, for our first question. And your first question comes from the line of Lorne Kalmar from TD Securities. Your line is open.

Lorne Kalmar, TD Securities

Thanks. Good morning, everybody. Maybe just on the leasing front, St. John's, maybe you guys had to do some more strategic leasing below market rates. What is the landscape out there? When do you guys think you can get occupancy back trending upwards? And has there been any sort of bump in activity because of the recovery in oil prices?

Lindsay Stiles, Chief Operating Officer

Great question. So, as you noted, we have completed over 17,000 square feet of leasing in St. John's. Excluding the new deals completed there, rental rate spreads were 5% in the quarter and 11.9% year to date. We are seeing a lot of increased activity from small growing companies, high growth companies, and specifically in the technology and mining sectors.

So a lot of continued momentum. We expect that to carry on throughout the balance of this year and into next year. And what we are seeing is, as a result of this activity, a lot of positive market chatter, and we are confident that will carry on into next year.

And speaking to Atlantic Canada as a whole, as we have messaged throughout the year, it has really been a leading indicator for us. Due to the travel restrictions, activity and market fundamentals rebounded a lot faster than some of the other markets late last year and early this year, and we have completed 240,000 square feet of leasing in Atlantic Canada year to date. So certainly expect that to carry on and occupancy to follow as momentum continues.

Steve Hodgson*, *Chief Executive Officer

Lorne, your question around oil and gas, what we are seeing is momentum similar to what we are seeing in Alberta and in other areas of Slate. It has not translated yet into need for more office space. We are just seeing renewed projects like the White Rose project and Hibernia, next phases, et cetera. But again, it has not translated yet into a need for more office space, but we expect it will. But it will be a bit longer recovery, and that is why we have employed this strategy to diversify our tenant base.

Lorne Kalmar, TD Securities

Okay. And I guess, so following on that, do you think you guys will have to keep giving up big incentives to fill up space there as you kind of keep pursuing strategic tenants, or is that sort of in the rear-view mirror?

Steve Hodgson*, *Chief Executive Officer

I think that would probably continue for the balance of this year but then, in 2022, revert to more conventional lease structures.

Lorne Kalmar, TD Securities

Okay. And then, I think there was last quarter some lease termination income at the West Metro Center, and I think we were able to sort out it was Air Transat. Any progress on that front?

Lindsay Stiles, Chief Operating Officer

Just in terms of backfilling the space?

Lorne Kalmar, TD Securities

Yes. Yes.

Lindsay Stiles, Chief Operating Officer

Q3 was our most active quarter since the onset of the pandemic, with respect to the GTA portfolio. We completed 130,000 square feet of leasing in the quarter, and that included an in-place renewal of an existing tenant, 100,000 square foot renewal for 5 years.

That is indicative of the conversations we are having with a lot of other tenants. Activity is increasing as market fundamentals improve and people return to the office. Obviously, recovery in Ontario has been a bit slower than elsewhere in the country, but certainly seeing a shift with respect to tour activity and interest and we expect that to carry over into next year.

Lorne Kalmar, TD Securities

Okay, and then maybe just last one for me, it looks like there is some lease termination down in Chicago. Could you maybe unpack that a little bit more for us?

Michael Sheehan, Chief Financial Officer

It was a tenant that was effectively acquired by a private equity firm and had decided to consolidate and downsize their space. So, they had an option in their existing lease, and the vacancy on that is June of next year.

Lorne Kalmar, TD Securities

That was not as exciting as I was expecting. Okay. Thanks so much for the color, guys. I will turn it back.

Michael Sheehan, Chief Financial Officer

Thanks, Lorne.

Lindsay Stiles, Chief Operating Officer

Yes.

Operator

And your next question comes from the line of Brad Sturges from Raymond James. Your line is open.

Brad Sturges, Raymond James

Hi, good morning.

Michael Sheehan, Chief Financial Officer

Good morning.

Brad Sturges, Raymond James

Just to follow on to the questioning around leasing and looking at, I guess, next year's maturities. I think SNC will have one in that bucket in the 427 quarter. Just any update there any thoughts around any non-renewals for next year

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Lindsay Stiles, Chief Operating Officer

Brad, lease expiry exposure is down to 9.7% for next year. As I mentioned, activity has really picked up in the GTA in Q3 – 138,000 square feet of leasing. Certainly, deals are taking longer to complete, just given the pandemic and some companies still working through their requirements short and long term, and I would put SNC in that bucket. Obviously global strategy playing in here, so not a function of local people necessarily being able to make a quick decision. But we have a great relationship with them, as you know, they occupy over 200,000 square feet at our Speakman Drive properties. So those discussions are ongoing, and we look forward to reporting back once we have completed a deal.

The other thing I would like to mention is rental spreads for the next 12 months of expiries are 14.6% below market, so we see a real opportunity to adjust rental rates going forward and continue to drive our positive rental rate spreads.

Brad Sturges, Raymond James

Okay. And just to go back to the question there on Chicago, what would be the leasing strategy to replace the tenant there, given that you have a little bit of opportunity or runway before the vacancy takes place, what would be the opportunity to release that space?

Lindsay Stiles, Chief Operating Officer

As is the case with most termination options, they are required to provide us with 12 months notice, so we are already actively marketing the space with our brokers.

Never great to have a tenant terminate, but the termination income more than offsets the cost to release the space.

We are seeing activity pick up in Chicago as well. I would say in Q3, there has been a substantial increase in tours and paper trading, so we are pretty confident we will be able to backfill that in due course.

Steve Hodgson, Chief Executive Officer

And it is likely to be expansions of existing tenants, Brad.

Brad Sturges, Raymond James

All right. Just maybe a little more of a general question on leasing activity, are more of the discussions you are having still more on the renewal side, or are you starting to see more activity in tour activity for new deals?

Lindsay Stiles, Chief Operating Officer

It is a combination of the two, Brad. To give you some context, year to date activity has been 50% GTA, 40% Atlantic, and the balance in Chicago. That will be a combination of new and renewal leasing. I would say renewal conversations have been a little bit easier to have just because you are talking to existing tenants who are familiar with the product.

New leasing was a bit slower in early stages of the pandemic where we could not get people physically through the buildings. But that has really changed across the entire portfolio as of Q3. We have active tours happening in all the markets, so I think we will see new leasing activity continue to pick up going forward.

Brad Sturges, Raymond James

Okay. Last question, just you sold 1 Eva Road. Any thoughts around more capital recycling at this time? And what should we expect in terms of redeploying that capital into acquisitions?

Steve Hodgson, Chief Executive Officer

We sold Eva Road at a 2.3% cap rate. We sold 4 Harold in Corner Brook as well for $2.8 million, and that did not have any leverage on it. In total, we have generated about $23 million, $24 million of equity to redeploy. And I would suggest for modeling purposes, that we expect to have new properties online in Q1 of next year.

Brad Sturges, Raymond James

Okay, sounds good. Thanks. I will turn it back.

Operator

Thank you. And once again, if you would like to ask a question, simply press “*” then the number “1” on your telephone keypad. Your next question comes from the line of Jenny Ma from BMO Capital Markets. Your line is open.

Jenny Ma, BMO Capital Markets

Thanks, and good morning.

Michael Sheehan, Chief Financial Officer

Hey, Jenny.

Jenny Ma, BMO Capital Markets

Just extending on the last question, can you give us some views on your acquisition outlook for 2022, maybe in terms of quantum and if you can go in on any geographic focus as well?

Steve Hodgson, Chief Executive Officer

Similar to prior quarters, Jenny, we continue to focus on a transformative deal and using the – at the end of Q3, we had about $32 million of liquidity. We have since generated more with some refinancing subsequent to the quarter, and the disposition subsequent to the quarter. We would like to use that liquidity and capacity to help support a larger transformative acquisition.

We think transformative growth is important for this particular vehicle because closing the discount on our NAV is not going to happen by sitting still. We need to grow AFFO per unit. We need to attract more institutional investors. We need to be of a larger size to do that, and have more liquidity in the stock and be able to access a cheaper cost of capital through things like unsecured debentures and et cetera that come when you get a certain size and scale. So that is really the strategy.

In terms of the market, again, we will be focused on where we have boots on the ground with Slate Asset Management, so Canada, the U.S., and Europe. I would suggest that most of the more actionable deals right now are in Canada and Europe. The U.S., while there is a large volume of pipeline we are reviewing, we are finding that a lot of it is either more on the value add side, which is not necessarily fitting the investment criteria of the REIT, or there is just a large bid ask spread on other deals still. So I would think our next acquisition would likely be Canada or in Europe.

Jenny Ma, BMO Capital Markets

Okay. So by transformative, is it fair to say that it would be a deal of size, whether it be--I presume it would be a portfolio as opposed to a single asset, but is that kind of what you are playing to? And would you be looking to push leverage to achieve that, if you do find such a deal?

Steve Hodgson, Chief Executive Officer

We would evaluate the capital structure based on the deal. We have been primarily focused on what is the right real estate transaction for this REIT, and what fits our investment criteria. And then the deal will dictate what sort of capital structure we need to employ to make it accretive to investors, which include Slate Asset Management. I can not speak to that specifically yet, Jenny.

Jenny Ma, BMO Capital Markets

Okay. So when you are looking at these deals, are you still squarely focused on office, or are you open to more sort of office adjacent type of properties? And you have got a couple in your portfolio, but, what asset class would you be looking at right now?

Steve Hodgson, Chief Executive Officer

We are still very bullish on office. What we have seen through the pandemic is that our portfolio has been very resilient, and we have been providing a stable cash flow and distribution to our investors. We think there is some headwinds in office, and there has been some headwinds over the last 24 months. But we are going to come out of that, and we are very bullish. We are making a call on that.

Now, some office will perform better than others. We think, to Lindsay's earlier point about leasing momentum, it is really in the properties that are the higher quality in our portfolio. And high quality can mean the best in each individual market, like we have in Atlantic Canada, or in the GTA can mean, the stuff we have in the 427 or Markham or Sheridan Business Park. So, we are very bullish on office.

We think there are some current thematic things that we would like to further explore around Life Sciences or more flex office that provides opportunities to have ground level walk in space because we think those types of themes are here to stay and could be attractive to position and diversify our portfolio.

Jenny Ma, BMO Capital Markets

Okay, great. Thank you. Moving to same store NOI, I am just wanting to square the outlook and when you think the office might hit an inflection point to positive territory, because you have got pretty good leasing activity, but I think in the MD&A, you mentioned there were some properties, where you might see some extended vacancies for the next 12 months. So I just want to square all that together and get your views on when you think same store NOI could turn positive.

Michael Sheehan, Chief Financial Officer

If you look quarter over quarter and remove the impact of termination income, the same property NOI is up 0.6%, if you take out the hotel as well. On a year over year basis, if you remove the impact of currency, we are effectively flat. And I think if you are looking forward, there are a couple of leases that we have done that are coming online over the next few quarters. So we are not exactly providing guidance on same property NOI, but I think that we have proven that it is stable over the last four quarters and growing as those leases come online.

Jenny Ma, BMO Capital Markets

Great, that is helpful. And then, lastly, on the hotel, can you comment on how it performed in Q3 with some of the reopening and lifting of the travel restriction? How far below potential you think it might be still at this point, and whether or not group booking have sort of restarted or do you expect to contribute going forward?

Steve Hodgson, Chief Executive Officer

I can touch on that. In Q3, the hotel, generated about $600,000 of EBIDTA. That was ahead of our expectation.

You asked this question last quarter and the answer was, the first half of the year, our NOI was effectively zero, and we expected it to be 500,000 for the balance of the year. We are currently pacing slightly ahead of that. I hate to give guidance in the hotel space, because it is volatile, but I think--

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Jenny Ma, BMO Capital Markets

--Yes--

Steve Hodgson, Chief Executive Officer

--I think we are feeling really good about our $0.5 million for the balance of this year. Looking forward to next year, we like to finalize our budgets as late as possible for a hotel property, just given things can change on a day-to-day basis. But what I am seeing is that the group business is pacing ahead from where bookings would have been same time last year.

And we benefit from being in a secondary regional market where a lot of that group businesses is association or motor coach, and they are drive-to and regional, so they are not relying on having to cross borders or take flights. As a result of that, we will see that group business come back sooner than you might see in a more conventional downtown convention hotel.

Jenny Ma, BMO Capital Markets

Have you had any good bookings so far, or is it a little too early?

Steve Hodgson, Chief Executive Officer

Group bookings? Yes, absolutely. Yes.

Jenny Ma, BMO Capital Markets

Great. Thank you very much.

Michael Sheehan, Chief Financial Officer

Thanks, Jenny.

Operator

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

Scott Fromson, CIBC

Hi, thanks. Good morning. Just wondering how the trend in leasing activity is going in Atlantic Canada.

Lindsay Stiles, Chief Operating Officer

Year to date, Scott, we have completed just less than 247,000 square feet of leasing in Atlantic Canada specifically. As we have mentioned, we have done some strategic deals with high growth companies in St. John's. That has resulted in 17,500 square feet of leasing year to date in that particular market. That is one instance of where there are some challenging fundamentals and we are being creative to increase occupancy in the short term and absolutely expect those tenants to grow with us long term and adjust to more traditional lease structures next year, and as we carry forward with leasing efforts.

I will mention Maritime Center specifically, in Halifax. We are nearing completion of our redevelopment project there, so really excited about that. It has resulted in a significant amount of leasing activity recently, that is both existing tenants looking to expand and other tenants looking to get space in the building. It is just really become a center, it will be the best building in downtown Halifax. We will be launching a new F&B offering. We have converted the old food court into additional parking that was needed, so we are really checking all the boxes for what tenants are looking for. So very excited about activity there.

And then, our Chain Lake property is also in Halifax. We have done a significant amount of leasing. To date, I believe occupancy is just less than 90% at this point. So really, really pleased with what we are seeing there.

Scott Fromson, CIBC

Thanks, Lindsay. And how is Saint John looking?

Lindsay Stiles, Chief Operating Officer

St. John’s, as I mentioned, we have tried leasing tactics to increase occupancy in the short term. We have quality office products there. We have actually engaged a new leasing broker there who has been excellent to partner with, very well connected in the market, and we are confident we will continue to drive occupancy there.

As Steve mentioned earlier, there are challenges there with oil and gas. It is certainly not as strong as some of the other markets where we own real estate, but we are being creative. We are getting in front of any groups that are looking for space, and we will continue to chip away at that vacancy. It may take a little bit longer, just given the pandemic carrying over, but we expect towards the end of next year to have really strong growth.

Steve Hodgson, Chief Executive Officer

And Lindsay, could you just touch on Saint John, New Brunswick? Because I think that is what Scott was referring to.

Lindsay Stiles, Chief Operating Officer

Sure. With respect to leasing, as you may recall, last quarter we completed a 100,000 square foot renewal with the province. That was really important for us in terms of occupancy long term – excellent spreads for that deal and illustrates their commitment long term. Our partnership with them has been great.

We continue to work with them on unique requirements they have where we may be able to lease other space within the portfolio. Brunswick Square specifically, we are looking at some interesting ways to convert some of our retail space there to more traditional storage and office type uses just given, quite frankly, retail has been hit hard by COVID. We have done some new leasing there, we will continue to chip away at it, but that market will be a bit slower to recover.

Scott Fromson, CIBC

Okay. Thanks, Lindsay. That is helpful. I will turn it over.

Michael Sheehan, Chief Financial Officer

Thanks, Scott.

Operator

And again, if you would like to ask a question, please press “*” then the number “1” on your telephone keypad. If you have any questions, please press “*” “1” on your telephone. And your next question comes from the line of Chris Kouts of Canaccord. Your line is open.

Chris Kouts, Canaccord

Thanks. Good morning, everyone. Just wondering if you could provide us with an update on sublease activity and maybe how that has trended over the past few quarters?

Lindsay Stiles, Chief Operating Officer

Sure. Sublease activity across the portfolio, as you may know, Chris, 85% of our portfolio is located in suburban and secondary markets. Although a lot of the headlines, for example, with respect to downtown Toronto, are commenting on increased sublet space availability, we have not seen that carry over into the markets where we are located. Utilization rates have increased a lot faster in our markets. People are much more comfortable coming back to the office when they can drive instead of taking public transit and walk up the stairs instead of taking elevators.

So our portfolio has been quite resilient with respect to sublease space availability. And to the extent we saw it in the GTA suburban market as an example, it has really come offline in Q3 as tenants formalize their return to the office strategies and have realized that they are quite likely going to need the space they have. Although the configuration may change, as a result of the pandemic and different uses of this space, a lot of them expect to need that space going forward. So it has not really impacted us as it has some other landlords that had a significant amount of supply in downtown core.

Steve Hodgson, Chief Executive Officer

And Chris, probably what you will hear from our peers that do have assets in downtown cores is that sublease availability is significantly down from where it was earlier in the pandemic. It is a result of a few things. Some tenants have just taken their space off the sublease market because the reason it was on there was more of an accounting thing than a business requirement.

And then second, some of the sublease space has been taken by new tenants. And then those tenants have left behind space that is available from a direct landlord. I think, it is a positive sign to see that shed off first before we start to see more positive net absorption in in downtown Toronto.

Chris Kouts, Canaccord

Okay. Thanks for the color. I will turn it back.

Michael Sheehan, Chief Financial Officer

Thanks, Chris.

Operator

And we have reached the end of our Q&A session. I would like hand it back to Ms. Jennifer Pyper for closing remarks.

Jennifer Pyper, Investor Relations

Thank you, everyone, for joining the Q3 2021 conference calls for Slate Office REIT. Have a great day.

Operator

Thank you. And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
