CORPORATE PARTICIPANTS

Brady Welch
Interim Chief Executive Officer

Robert Armstrong
Interim Chief Financial Officer

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Paul Wolanski
SVP, National Sales, Investor Relations

Sara Jane O'Shea
Vice President

Andrew Broad
Vice President

Jeremy Kaupp
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CONFERENCE CALL PARTICIPANTS

Jonathan Kelcher
TD Cowen

Sairam Srinivas
Cormark Securities

Gaurav Mathur
Laurentian Bank

Sumayya Syed
CIBC

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Office REIT Third Quarter 2023 Financial Results Conference Call.

At this time, all lines are in 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 Wednesday, November 15th, 2023.

I would now like to turn the conference over to Paul Wolanski, Senior Vice President, National Sales and Investor Relations. Please go ahead.

Paul Wolanski, SVP, National Sales & Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the Q3 2023 conference call for Slate Office REIT. I am joined this morning by Brady Welch, Interim Chief Executive Officer; Robert Armstrong, Interim Chief Financial Officer; Evan Meister, Managing Director; Sarah Jane O'Shea, Vice President; Andrew Broad, Vice President; and Jeremy Kaupp, Vice President.

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 Q3 2023 investor update, which is now available.

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

Brady Welch, Interim Chief Executive Officer

Thank you, Paul, and hello, everyone. First, I'd like to start by recognizing and thanking our team for all their efforts over the quarter. We accomplished a lot.

We're operating in a challenging macroeconomic environment. Interest rates remain elevated, we're dealing with tighter credit conditions. And different regions and subsectors of office real estate are recovering at varying rates from the impacts of the lockdowns.

Through all of this, our team has been working diligently to position our business for strength and stability. The team and the Board are focused on improving the REIT's liquidity and strengthening our balance sheet. We have made positive strides towards that objective in the last few months.

We refinanced or amended over $577 million of debt, which is nearly half of the REIT's total debt stack. We currently have only one remaining maturity in the balance of 2023, a $34 million loan that we expect to refinance in Q4.

We also announced yesterday the Board's decision to suspend the REIT's monthly cash distribution. The Board believes this decision will enable the REIT to further preserve capital, reduce leverage, and ensure the REIT will be in a stronger financial position when we emerge from this economic cycle.

On the operational side, we continue to actively lease vacancies in all markets and are maintaining a stable portfolio occupancy. We completed over 277,000 square feet of total leasing in the quarter at improved rental rates and longer lease terms. Looking ahead, less than 1% of the portfolio's GLA remains to be renewed in Q4.

Finally, we are introducing a Portfolio Realignment Plan to reposition the REIT for the long term. This plan will see the REIT divest noncore assets in certain Canadian markets that are not strategic for the REIT in the long term. Proceeds from the sale of these assets will go towards repayment of the debt and general liquidity of the REIT's business operations.

Looking ahead, we want to own high-quality assets with strong occupancies, tenants, and cash flow in markets with economic tailwinds and stable office demand. We believe the Portfolio Realignment Plan we are introducing will not only improve the REIT's balance sheet and liquidity, but enhance our portfolio composition, resulting in a more focused and resilient REIT.

We continue to have conviction in the value of our office real estate, and we are encouraged to see global organizations launching return to office mandates and employees spending more time in the office.

On behalf of the Slate Office REIT team and the Board, I'd like to thank the investor community for their continued support. I will now hand it 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 star followed by the one on your touchtone phone. You will hear a three tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Jonathan Kelcher with TD Cowen. Please go ahead.

Jonathan Kelcher, TD Cowen

Thanks. Good morning.

Brady Welch, Interim Chief Executive Officer

Good morning, Jonathan.

Jonathan Kelcher, TD Cowen

A couple of questions on the sales you are planning to undertake. You said it's 40% of GLA. What would that roughly be in terms of Q3 fair value?

Brady Welch, Interim Chief Executive Officer

We can get back to you on the exact IFRS component of that, I don't have that on the top.

Robert Armstrong, Interim Chief Financial Officer

Jonathan, it's Bobby Armstrong here. It's close to around 40% of the total, plus or minus a few percentage points.

The reason we haven't gone out and provided a specific dollar number is because we're in the market. We're trying to ascertain, as we go and test the market, where we can get liquidity for assets and where we can get the best price per pound for the portfolio. Overall, it's been more about, how do we approach and de-lever as opposed to specific assets.

We’re going to be working through the next year or two to be able to accomplish that. We wanted to provide a target as far as portfolio size as opposed to a specific dollar figure.

Brady Welch, Interim Chief Executive Officer

It's more strategic, Jonathan.

Jonathan Kelcher, TD Cowen

Okay. And your goal is obviously to reduce leverage, but do you have a target that you're willing to put out there of where you want to get to, either on debt to EBITDA or gross book value?

Robert Armstrong, Interim Chief Financial Officer

We don't have a specific target other than to say it's less than it is now. We'd love to get down to the 60% level in the current market.

The challenge is that we don't necessarily control where the V component of that element is. What we want to get down is to have a reasonable approach with our lenders where we continue to have support, they're continuing to provide ample liquidity to continue our operations. That's really been the goal.

Jonathan Kelcher, TD Cowen

Okay. And then you didn't talk about share repurchases with some of the liquidity you're going to generate. What are your thoughts on buying back parts of your 9% convert?

Brady Welch, Interim Chief Executive Officer

Everything is on the table. We take a look at all those things, in terms of allocating the REIT's capital. We discuss all those options with the Board. And it is an allocation of capital, what we feel is the best use of that capital. Right now, our focus is to reduce leverage and create liquidity for the REIT.

Robert Armstrong, Interim Chief Financial Officer

I would just add, on a buyback program - we did talk about that internally. The sole and primary goal is the reduction of leverage and increasing liquidity for the REIT.

The math pencils out very well from a repurchase program of units. The convertible debentures is not something we're looking at right now, but on the unit purchase, it's just not something we're interested in at this point in time.

Jonathan Kelcher, TD Cowen

Okay. Thanks. I'll turn it back.

Brady Welch, Interim Chief Executive Officer

Thanks, Jonathan.

Operator

Your next question comes from Sairam Srinivas with Cormark Securities. Please go ahead.

Sairam Srinivas, Cormark Securities

Thank you, operator. Good morning, guys.

Robert Armstrong, Interim Chief Financial Officer

Good morning.

Brady Welch, Interim Chief Executive Officer

Morning.

Sairam Srinivas, Cormark Securities

Just going with the dispositions you have been working on so far, or the discussions you have been holding so far, can you give us some color on the buyers you're seeing out there for these assets?

Brady Welch, Interim Chief Executive Officer

In today's market, as you know, the constraint of debt financing for office is real. The interest is really coming from private locals - people that can close on a bite-size deal.

As you can see in the broader global market, the larger transactions are far and few between because of the lack of debt capital out there. But the smaller bite-size deals and the local privates are the ones that are buying right now.

Sairam Srinivas, Cormark Securities

That makes sense. And just revisiting what's happened in the year, with G2S2, et cetera. Has there been a broader discussion from their perspective in terms of their interest in the portfolio, has there been any discussions on that side?

Brady Welch, Interim Chief Executive Officer

Could you repeat the question? Are you talking about G2S2's interest in the REIT?

Sairam Srinivas, Cormark Securities

Yes, just going back, when G2S2 wasn’t on the Board, they ran an activist mandate. And looking at it from that perspective, I know at that point time they had expressed some interest in some of the assets in the portfolio. Is that an option that could be on the table perhaps?

Brady Welch, Interim Chief Executive Officer

I can't answer for G2S2. We are going through a process. G2S2 has a representative on the Board and is fully aware of our strategy and is aware of what the Board's approving and direction.

But properties are out in the market, and we're going to get the best and highest price that we can from the market. If they are interested, then they will go into that analysis.

Sairam Srinivas, Cormark Securities

Fair point. My last question is around the change in terms of the credit facility, or essentially the amendment of term there. I know the debt cap has been lifted to 70% until March '24 and 65% after that. Can you run us through the thought processes there - is the aim to get the debt rapidly down through dispositions over the next two quarters essentially, through Q4 and Q1 of next year?

Robert Armstrong, Interim Chief Financial Officer

We would hope so. The thought process, to answer your question specifically, was, given where we've repriced our portfolio this quarter, the loan to value is over that threshold. We're appreciative of our banking syndicate working with us very constructively to move forward on that point.

What we have communicated broadly to them, and what we're communicating to the market, is that our first goal is to execute on our disposition and Portfolio Realignment Plan for the purpose of raising capital to repay debt. And we're hoping that that reduces leverage to a more appropriate level that's acceptable and continues to have the support of our banking partners. But that would be our goal, to try to get to that point, by that date at Q2.

Sairam Srinivas, Cormark Securities

All right. Thanks for the color, guys. I'll turn it back.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the one. Your next question comes from Gaurav Mathur with Laurentian Bank. Please go ahead.

Gaurav Mathur, Laurentian Bank

Thank you, and good morning, everyone. Just first question on the fact that, around this time last year, you had initiated a strategic review, and now we're talking about a disposition program or portfolio realignment program. Could you talk us through the line of thinking about what's really changed from then versus now?

Brady Welch, Interim Chief Executive Officer

The world has changed immensely over the last 12 months. Anyone who's in this space, you need to adapt to the market. Yes, there was a strategic review that the independent trustees of the Board engaged, and hired Bank of Montreal to do that.

As the world has experienced elevated interest rates, and I'd say rapidly increasing - it's still low on a historic level, but it's moved quickly - you need to adapt your business model and plan accordingly. That's what's happening here; it's the Board considering what's going on in the market and what the best thing is for the REIT and for the unitholders.

Robert Armstrong, Interim Chief Financial Officer

The only color I would add to that, I think Brady is spot on, that the capital markets and the investment interest around office has changed.

It's important to note what hasn't changed and what continues to be the same, and that is the underlying portfolio. We've been very pleased with the performance of that in this market.

There is a lot of negativity around office, but what we're seeing for our portfolio is we've got occupancy stabilized, we've got a great pipeline of upcoming potential new tenants, which is fantastic. What continues to be a little bit of a headwind is the interest rate environment at its current elevated levels and the general investment market.

But the underlying portfolio, at least for the properties we have, and I think downtown real estate and the large urban centers, are a little bit different. But we continue to be holding fairly well, and we're quite pleased with the underlying operations of the real estate itself.

Brady Welch, Interim Chief Executive Officer

Bobby raises a very good point: from an operational point of view, the themes we're seeing are that there are more people coming back to the office, that businesses are starting to plan now for the future and commit to space across all the regions that we own and operate real estate, and our real estate is very stable. We don't have a lot of turnover over the next 12 months, and we're starting to see more activity.

The things that we can control, we're very focused on. We can't control interest rates, and we can't control the availability of debt capital that's out there in the markets.

Gaurav Mathur, Laurentian Bank

Okay, great. Well, thanks for the color. That does segue into my next question. Now given that the operational stability is still there in the portfolio, could you talk us through how you're thinking about core versus non-core assets?

Brady Welch, Interim Chief Executive Officer

At a high level, the way we look at that is, which markets do we want to own real estate in, which markets do we believe in the economic drivers where there's strong GDP growth, there's strong demand from office users? Those are the markets we want to be in.

I believe Slate's done a great job over the past 10 years being able to buy properties, put modest capital in there, fix them up, and sell them and make profits. Today, in a world where there's a little less liquidity, we're focusing on cash flowing assets with high occupancy, with strong covenant tenants, in markets that we believe in. That’s at a high level. If assets don’t fit into that, those are the assets we'll look to dispose of.

Gaurav Mathur, Laurentian Bank

Okay, great. And my last question, just switching gears to the balance sheet, your debt to gross book value is about 65%. From a lender's perspective, I wonder how they're thinking about covenants going forward, given that there is a disposition program in place, but these things take time. I'm wondering if you could provide some color on what the lender thought process here would be.

Robert Armstrong, Interim Chief Financial Officer

It's a great question, and I think it's relevant. The world has changed for what the lenders are looking for. We've been very fortunate to have great support from our lenders across the board. We've refinanced over the last quarter a half a billion dollars worth of debt - in this market, I'm quite proud of what the team's accomplished.

As far as specific covenants and how the world's changed, I think the debt to gross book value is relevant, but less relevant than it has been in the past, just given where the investment market has gone. I think the lenders are more concerned about ability to be repaid, have their debt continue to be serviced, as well as having a partner that they believe in to execute on the plan. I think those are the most important things from their perspective at this point in time.

I think all banks and lenders are probably looking to reduce office exposure as a whole. That just means that they need to be selective on where they’re putting out capital and who they’re choosing their partners to be. We’ve been fortunate over the last quarter that we've made great progress in that respect.

Gaurav Mathur, Laurentian Bank

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

Operator

Your next question comes from Sumayya Syed with CIBC. Please go ahead.

Sumayya Syed, CIBC

Thanks. Good morning. Most of my questions have been answered, but I just wanted to see if you have the loan-to-value handy for the for-sale assets, and if that's in line with the rest of your portfolio.

Robert Armstrong, Interim Chief Financial Officer

Yes, it's around the 60-65% range. And I think that makes sense, because the 40% target that we've highlighted, you start to take out the highs and lows. A number of those assets are on our revolving credit facility, which is around that range as well. So, 60-65% is a good range.

Brady Welch, Interim Chief Executive Officer

Yes, it’s reflective of the overall portfolio's LTV.

Sumayya Syed, CIBC

Okay. Thank you. That's all I had.

Brady Welch, Interim Chief Executive Officer

Great. Thank you.

Operator

There are no further questions at this time. I will now turn the call over to Paul Wolanski for closing remarks.

Paul Wolanski, SVP, National Sales & Investor Relations

Thank you, everyone, for joining the Q3 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 lines.