

## **CORPORATE PARTICIPANTS**

**Jennifer Pyper**  
*Investor Relations*

**Steve Hodgson**  
*Chief Executive Officer*

**Mike Sheehan**  
*Chief Financial Officer*

**Lindsay Stiles**  
*Chief Operating Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Jonathan Kelcher**  
*TD Securities*

**Matt Kornack**  
*National Bank Financial*

**Jenny Ma**  
*BMO Capital Markets*

## **PRESENTATION**

### **Operator**

Good day and thank you for standing by. Welcome to the Slate Office REIT Second Quarter 2021 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question and answer session. To ask a question during the session, please press star-one on your telephone keypad.

I would now like to hand the conference over to Jennifer Pyper, Investor Relations. Please go ahead.

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### **Jennifer Pyper, Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the Q2 2021 conference call for Slate Office REIT. I am joined this morning by Steve Hodgson, Chief Executive Officer, Michael Sheehan, Chief Financial Officer, and Lindsay Stiles, Chief Operating 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 Q2 2021 investor update, which is available now.

I will now hand over the call to Steve.

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### **Steve Hodgson, Chief Executive Officer**

Thank you, Jenn. We are very pleased with our second quarter results, in particular the leasing volumes and continued rental rate growth.

As we expected with the rollout of the vaccine, we are seeing increased leasing activity and demand for office space in all of our markets. Our financial results in the second quarter also demonstrate the continued durability of the REIT's income.

I am going to ask Mike to summarize some of the key highlights from the quarter.

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### **Mike Sheehan, Chief Financial Officer**

Thank you, Steve. We completed nearly 350,000 square feet of total leasing in the second quarter, which is our best leasing performance since Q2 2018. This is almost 3.5 times our first quarter leasing volume. These leases were completed at an average rental rate increase of approximately 17%, which is our highest quarterly leasing spread since the onset of the pandemic. As a result of this leasing, occupancy increased in the second quarter to 83.6%, and we are expecting continued momentum throughout the year.

The durability of Slate Office REIT's income continues to be a key component in our investment thesis. 60% of the REIT's income is derived from government and credit rated tenants, and our weighted average lease term is 5.4 years.

Now, on the return to office and our discount to net asset value. Global financial institutions like Goldman Sachs and JP Morgan Chase have the majority of their employees back in their Manhattan-based headquarters. These decisions illustrate the critical role that the office plays in optimizing employee engagement and productivity, as well as maintaining company culture.

Based on our conversations with the tenants in our portfolio, we expect other employers to follow shortly. Despite these strengthening fundamentals and our proven income durability, we continue to trade at a significant discount to our net asset value. For investors, we see this as an opportunity: our current trading discount, coupled with our attractive, well-covered distribution yield, combine to create one of the most

compelling total return investment opportunities in the Canadian REIT sector.

Finally, on our growth going forward. Our in-place rents across the portfolio are, on average, 9% below market, which creates an opportunity to grow our rental rates. There is also upside between our current occupancy of 83.6% and where we believe our portfolio stabilizes.

Additionally, we continue to evaluate a pipeline of transformative and accretive external growth opportunities across 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 in both Canada and the United States, Slate Office REIT is positioned well for both internal and external growth. On behalf of the Slate Office REIT team, we thank you for your continued support.

I will now hand it over for questions.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. The floor is now open for questions. To ask a question, please press star-one on your telephone keypad. To withdraw your question, press the pound key. Please stand by while we compile the Q&A roster.

And your first question is from Jonathan Kelcher of TD Securities.

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### **Jonathan Kelcher, TD Securities**

Thanks. Good morning.

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### **Mike Sheehan, Chief Financial Officer**

Morning.

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### **Lindsay Stiles, Chief Operating Officer**

Morning.

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### **Jonathan Kelcher, TD Securities**

First question, and congrats on the good leasing quarter, for the leases you did in Q2, the renewals specifically, when do those rents start to kick in?

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### **Lindsay Stiles, Chief Operating Officer**

Hey, Jonathan. Thanks for joining the call. So, the deals that we have completed would reflect renewals for later this year and into next year as well. They were staggered across the portfolio.

To give you a little bit more color, we completed 100,000 square feet of leasing in the Greater Toronto Area, 180,000 square feet in Atlantic Canada and then the balance would have been in Chicago. And again, spreads were really solid at 17% across the board.

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### **Jonathan Kelcher, TD Securities**

Okay. So, over the next, say, three quarters, you would expect the bumps to kick in?

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### **Steve Hodgson, Chief Executive Officer**

Yeah.

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### **Lindsay Stiles, Chief Operating Officer**

Yeah, exactly.

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### **Steve Hodgson, Chief Executive Officer**

Most if it was in the year for the year, so within 2021.

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### **Jonathan Kelcher, TD Securities**

Okay. That works. And were there any big TIs that you guys had to dispense with that leasing?

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### **Lindsay Stiles, Chief Operating Officer**

I would say we completed a number of large deals. You would remember that we completed a 100,000 square foot renewal with a government tenant out in Atlantic Canada. Inducements would be consistent with those larger deals, similar to what they would have been in pre-pandemic levels.

To the extent there was a space that required an abnormal amount of improvement, we potentially would have increased the TI slightly. But that would not be any different than what we would have done pre-pandemic.

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**Steve Hodgson, Chief Executive Officer**

Yeah. And I will just add some color. I can address head on the negative rental spread on the new leasing side. That was really a strategic opportunity to get some tenants into our buildings in Newfoundland, where the oil and gas sector has been a little bit stagnant.

We are trying to strategically bring new tenants into our buildings, and growth companies, tech and mining, etc. And what we are doing there is offering short term, lower gross rent deals as opposed to providing any sort of cash out the door, with the hope that as these companies grow, they will grow with us and we can convert them to a more conventional lease structure.

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**Jonathan Kelcher, TD Securities**

Okay, that makes sense. So, if we look at 2022, you had 11% renewals or something around there. Do you have any large renewals similar to the New Brunswick government deal, or is it more sort of steady?

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**Lindsay Stiles, Chief Operating Officer**

Yeah, Jonathan. There are a couple that would be similar in size to the deal we did in Atlantic Canada. We are very close to finalizing one of them. That would be in the next couple of weeks. And I would expect the other would follow, hopefully before the end of the quarter.

One thing I would say is the bulk of that 11% is in Ontario. So, we are certainly seeing a significant amount of demand for office space and increased activity in that particular market. Some of those conversations were admittedly delayed due to the pandemic, but they have picked up steam recently. We are working really closely with those tenants to get those renewals completed in the back half of this year.

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**Jonathan Kelcher, TD Securities**

Okay. And then last one for me. You had some lease termination income in the quarter. With the renewals, over the remainder of this year and into next year, do you expect any more lease termination income?

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**Lindsay Stiles, Chief Operating Officer**

No, we do not. That one specifically, Jonathan, we expected that tenant would not renew on expiry, given the nature of their business.

What I would say on that particular termination is, we got 12 months' notice. We expected them to leave. They are paying well below market rent, so this gives us an opportunity to adjust that space to a market rent, which off the top of my head is something like a 25% lift. And the termination income provides us with more than enough money to re-lease that space.

We do not expect any other terminations to be exercised in the balance of this year.

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**Steve Hodgson, Chief Executive Officer**

Yeah. This was a tenant that is in the travel industry. We did not expect them to renew after their term.

There was some balance sheet and collectors' pressure to adjust things in our favor, really, because they only had a few years left of term, and they paid us a termination fee of \$34.00 a square foot. And we have 12 months to lease until they actually vacate.

They are paying currently 27% below market rent. We do not like tenants vacating, but in this case, there is a significant opportunity with this as well.

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**Jonathan Kelcher, TD Securities**

Okay. That is helpful. I will turn it back. Thanks.

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**Lindsay Stiles, Chief Operating Officer**

Thank you.

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**Steve Hodgson, Chief Executive Officer**

Thanks.

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**Operator**

Thank you. Your next question is from Matt Kornack of National Bank Financial.

**Matt Kornack, National Bank Financial**

Good morning, guys. Just a follow up with regards to your occupancy trajectory. If I look at where you have below market occupancy, it seems like most of it is in Atlantic Canada. It sounds like the strategic leasing you are doing in Newfoundland may end up in some of that being picked up. But can you speak to the New Brunswick and Nova Scotia opportunities as well?

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**Lindsay Stiles, Chief Operating Officer**

Sure. So, in Nova Scotia, you would recall that we have the redevelopment of the Maritime Center well underway. It should be completed towards the end of this year.

In a somewhat strategic fashion, we have not been trying to do a whole ton of new leasing there. We feel that there is a real opportunity to drive rents once the redevelopment is complete. We have seen increased activity recently. We are trading paper with a number of different groups, including existing tenants who are looking to expand.

And then at our Chain Lake properties in Nova Scotia, occupancy has increased significantly. I believe it is up to about 87%, which would be a significant increase from where we were at this time last year. So, that market in particular has done very well and a big part of that is the travel restrictions that have been in place in Atlantic Canada.

And then in New Brunswick, we were able to complete a couple of significant deals in the quarter. Similar to what Steve mentioned about some of the strategic deals we did in Newfoundland, we have started to see positive momentum in New Brunswick. We have new larger tenants in the building, and as a result, we have more traffic, which is leading to increased activity and positive market chatter. Vaccines have rolled out. Utilization rates are up and a lot of the Atlantic Canada markets, they are going to be back open for business completely in the next month or two.

So, we feel really good about the activity we are seeing, 180,000 square feet in Atlantic Canada in Q2 alone. We feel really good about how things are trending, and we expect that to continue in the balance of the year.

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**Matt Kornack, National Bank Financial**

Okay. That is helpful. If I had to ask and, again, this is forecasting, so feel free to tell me you cannot give me any information. But if you had to think about the trajectory of occupancy through the end of 2022, and

then on top of that, if you could give us some sense as to the quantum you would expect, assuming things kind of normalize, on parking as well as the hotel contribution. Just trying to understand the potential upside, particularly in 2022 if the markets normalize.

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**Steve Hodgson, Chief Executive Officer**

Okay. Yeah, I can speak to that, Matt. I will let Mike speak to parking because he was looking into the specifically.

But with respect to occupancy, for the balance of this year, it is going to be difficult. We will have positive increases in occupancy, but it will be difficult to make a significant headway towards our stabilized target of 90% just because, at this point in the year, we may do deals, but they may not commence and be in occupancy until next year.

And so, I would say look to kind of mid to late 2022 to get back to where we feel this should stabilize. And a significant part of that will be leasing up 2599 Speakman in the West End. It will be leasing up Newfoundland, and it will be leasing up Kings Place and 570 Queen in New Brunswick, all of which we have a very good pipeline on.

And there may be some smaller, non-strategic properties that have lower occupancy that might be shed from the portfolio as part of our natural recycling program that may assist with the denominator as well.

With respect to the hotel, as you would obviously know, 2020 was a very challenging year. The government wage subsidy programs were helpful, but not helpful enough to lead us to profitability in 2020. Having said that, in 2021 year to date, we have effectively broken even. And the wage subsidy program continues until the end of September.

And our forecast for the balance of the year, is about \$0.5 million of net operating income, with an expectation that in 2022 we can get back to about doubling that again. And then, we stabilize the hotel at around \$1.3 to \$1.4 million of net operating income eventually, which for this hotel will be sooner than your downtown core large markets because its demand really comes from local and regional, which in these recoveries tends to pick up sooner.

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**Mike Sheehan, Chief Financial Officer**

And I will just touch on the parking income. But for context, on a quarterly basis, we could see about \$1 million of parking revenue when we are back to normal.

And I think that would take into the balance of 2022 to happen, but that would be the upside there.

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**Matt Kornack, National Bank Financial**

Okay. That is very helpful, appreciate the color there. Last one for me on the balance sheet and refinancing, can you maybe speak to what remains outstanding and discussions on that?

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**Michael Sheehan, Chief Financial Officer**

For sure. So, there are three pieces of debt that are due throughout the rest of this year. We are in discussions with lenders on all three of those. They are all very, very good credit quality tenants with long weighted average lease terms. So, we expect decent pricing when we get that done. And we do not have any concerns. We are quite confident in getting those done in advance of the maturity dates there.

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**Matt Kornack, National Bank Financial**

Okay, great. Thanks all.

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**Mike Sheehan, Chief Financial Officer**

No worries.

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**Operator**

Thank you. Once again, if you would like to ask a question, press star then the number one on your telephone keypad.

And your next question is from Jenny Ma of BMO Capital Markets.

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**Jenny Ma, BMO Capital Markets**

Hi. Good morning.

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**Steve Hodgson, Chief Executive Officer**

Hey, Jenny.

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**Lindsay Stiles, Chief Operating Officer**

Morning.

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**Jenny Ma, BMO Capital Markets**

Just a quick follow up on the question about the hotel. I wanted to make sure I heard you guys correctly. You are looking for positive \$0.5 million of net operating income for the total of 2021. Is that correct?

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**Steve Hodgson, Chief Executive Officer**

Yeah, because year to date is effectively zero net operating income. And the balance of the year we are forecasting \$0.5 million. As you know, a forecast at a hotel is a lot less reliable than a forecast at an office building.

But we feel pretty confident based on the return of demand that we are seeing and the forward bookings we have, particularly from the association groups and the motorcoach groups that are local and have had a few years of not being able to visit and are pretty eager to visit.

And then there is also an Irving plant shutdown in St. John later this year that is a regularly scheduled cycle that brings in a lot of contractors, and we have secured a number of them at our hotel. So, we feel pretty good about that forecast.

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**Jenny Ma, BMO Capital Markets**

Okay, great. And so, you mentioned that you expected to eventually get to sort of that \$1.3, \$1.4 normalized level.

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**Steve Hodgson, Chief Executive Officer**

Yeah.

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**Jenny Ma, BMO Capital Markets**

But as I am looking the past couple of years pre-COVID, you were tracking closer to in and around \$2 million of net operating income in 2018 and 2019. I am just wondering how you account for that gap and what would have to happen for the hotel net operating income to get back to those levels, of course recognizing those are pre-pandemic levels and pretty good years economically.

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**Steve Hodgson, Chief Executive Officer**

I was probably misquoting, you are right, it is generally around \$1.8 million of EBITDA. But I am speaking to after capital and capital reserves, FF&E reserves, etc.

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**Jenny Ma, BMO Capital Markets**

Okay.

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**Steve Hodgson, Chief Executive Officer**

Yeah.

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**Jenny Ma, BMO Capital Markets**

Okay. So, from a topline standpoint, to go back to 2018 and 2019 would be a fair assumption?

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**Mike Sheehan, Chief Financial Officer**

Yeah, that is right.

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**Jenny Ma, BMO Capital Markets**

Okay. Okay, great. Are you going to speak to what your renewal spread would have been ex the two large deals at Cabot Place?

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**Lindsay Stiles, Chief Operating Officer**

Yeah, if we were to remove those deals, Jenny, we would be looking at a lot closer to a flat spread.

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**Jenny Ma, BMO Capital Markets**

Okay.

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**Lindsay Stiles, Chief Operating Officer**

Again, as we mentioned, they were really strategic, wanted to get some growing companies into the building, generated a lot of positive momentum. I expect we will be announcing some additional deals as a result of getting these people in the building. So, we would be about flat quarter-over-quarter if we were to take those out.

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**Steve Hodgson, Chief Executive Officer**

Yeah. But even the flat number is skewed a little by a couple deals we did in Chicago that were just lower in the stack of the building, because the way we do the spreads is based on what the building average is. If it is lower in the stack, it generally doesn't garner the same rents. So, the denominator was unfortunately so small that those types of things can skew that spread.

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**Jenny Ma, BMO Capital Markets**

Okay. So, to be clear, the expiring to day one spread was flat on average ex Cabot Place leases?

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**Steve Hodgson, Chief Executive Officer**

Yeah.

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**Jenny Ma, BMO Capital Markets**

Okay, great. Now, I know you do not disclose the rent collection, bad debt. It has been pretty good. Was Q2 fairly consistent with Q1 and the past few quarters at the high-to-mid 90%'s and minimal bad debt?

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**Mike Sheehan, Chief Financial Officer**

Yes, that is right. With respect to cash collections, it has effectively become a non-issue for us, so we have not continued to report on it. The amount of collections would have increased beyond 96% and are closer to 100% each month now. So, we are kind of back to normal in terms of rent collections.

With respect to the bad debts, there was a slight increase this quarter, but that was related to a tenant that still has not been able to reopen as a result of restrictions in place. And so, what we did is had an allowance for that amount. We still continue to work with them to collect it.

But for context, it is 0.2% of total revenue for the quarter as well. And we do not expect it to increase on the go-forward.

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**Jenny Ma, BMO Capital Markets**

That is 0.2% for everybody, or this one specific tenant?

**Mike Sheehan, Chief Financial Officer**

In total.

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**Jenny Ma, BMO Capital Markets**

In total, okay. Does the tenant happen to be in Ontario, and are they non-core retail?

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**Mike Sheehan, Chief Financial Officer**

They are in Ontario. And it would be retail-based, so they are unable to open.

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**Jenny Ma, BMO Capital Markets**

No surprises there. Okay. And then my final question is probably for Michael. There is a bit of a discussion on the U.S. LIBOR transition and I am not sure what to make of all that. If you could sort of summarize it, is the risk mostly on the rates to you guys and that is the unknown, or are there other potentially even qualitative triggers that might be at risk as well? How should we think about that transition? Because I am not sure if there is more discussion than is warranted for what the risk might be to the REIT.

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**Mike Sheehan, Chief Financial Officer**

I would say that it is in there as an abundance of caution. We want to be transparent that there is a transition and there are certain elements that are unknown, and particularly the specific mechanisms by which that transition happens.

But from all of our conversations with lenders, we do not expect an impact to rates on an all-in basis. And we are not concerned with transitioning from LIBOR. We do have a plan in place, and we have adhered to the fallback protocols, which is the mechanism by which that transition will happen. And that is what everyone else is doing as well. So, there are not any concerns qualitatively or numerically at this point.

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**Jenny Ma, BMO Capital Markets**

Okay. So, basically your lawyers made you do it.

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**Mike Sheehan, Chief Financial Officer**

I would not quite say that. It is just helpful to have everyone understand the mechanism and some of the uncertainty that surrounds that transition.

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**Jenny Ma, BMO Capital Markets**

Okay. All right. Thank you very much. I will turn it back.

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**Mike Sheehan, Chief Financial Officer**

Thanks, Jenny.

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**Lindsay Stiles, Chief Operating Officer**

Thanks, Jenny.

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**Steve Hodgson, Chief Executive Officer**

Thank you.

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**Operator**

Thank you. We have no further questions at this time. I will turn the call back over to Jennifer Pyper for any additional or closing remarks.

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**Jennifer Pyper, Investor Relations**

Thank you, everyone, for joining the Q2 2021 conference call for Slate Office REIT. Have a great day.

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**Operator**

Thank you. This does conclude today's conference call. You may now disconnect.

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