CORPORATE PARTICIPANTS

Steve Hodgson
Chief Executive Officer

Michael Sheehan
Chief Financial Officer

Lindsay Stiles
Chief Operating Officer

Braden Lyons
Investor Relations

CONFERENCE CALL PARTICIPANTS

Jenny Ma
BMO Capital Markets

Jaz Cumberbatch
TD Securities

Liyan Chen
iA Capital Markets

Brendon Abrams
Canaccord Genuity

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Slate Office REIT Fourth Quarter 2020 Financial Results Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star one on your telephone.

Please be advised today's conference is being recorded. If you require any further assistance, please press star zero.

I would now like to hand the conference over to your speaker, Braden Lyons, Investor Relations. Thank you. Please go ahead, sir.

Braden Lyons, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the Q4 2020 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 Q4 2020 investor update, which is available now.

I will now hand over the call to Steve Hodgson.

Steve Hodgson, Chief Executive Officer

Thank you, Braden, and thank you to everyone for joining the call.

I would like to highlight three key takeaways from 2020. One, we have demonstrated the durability of the REIT's income; two, the REIT's IFRS net asset value is well supported by private market transactions and external appraisals; and three, our strategy and platform is scalable and set up for both internal and external growth.

On the durability of our income, cash rent collections ranged from 96% to 98% each month since April. We attribute this industry-leading result to the composition of our tenant base, which is 60% government and credit rated tenants. The REIT had an average distribution yield of 10% in 2020, which was well covered with a payout ratio of 67.6%. We completed 688,000 square feet of leasing in 2020, which is only 4% less than our leasing volumes in 2019 prior to the pandemic. Leasing spreads were 15.2% above expiring or in-place building rents, demonstrating we are still growing rents in this environment. Looking forward, we see new leasing activity picking up and we have less than 5% of the portfolio due for renewal in 2021. Our weighted average lease term is 5.4 years and all of these points speak to our income durability now and into the future.

With respect to valuations, there is a disconnect between public and private office real estate values. We are trading at an approximately 50% discount to our net asset value. We strongly believe in our net asset value and this is supported by recent comparable transactions in our markets. In addition, 74% of the portfolio has been externally appraised since March 31, 2020, which further validates our net asset value. We are optimistic that the disconnect between public and private valuations in the office sector will narrow as people return to the office and the sentiment improves.

And finally, our strategy and platform is transferable to new and existing markets. We have a best-in-class team and with the strength and reach of Slate Asset Management, we have a tremendous opportunity to grow. Growth is critical for the REIT's long-term success, as it will further diversify and stabilize our portfolio, attract more institutional investors, reduce our cost of capital, and further strengthen our balance sheet. We are looking forward to increased economic activity in 2021, which will have a direct and positive impact on the demand for office space.

On behalf of the Slate Office REIT team, we thank you for your continued support, and I will now hand it over for Q&A.

QUESTION AND ANSWER SESSION

Operator

Ladies and gentlemen, if you would like to ask a question, please press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. Again, to ask a question, please press star one.

Your first question comes from the line of Jenny Ma with BMO Capital Markets.

Jenny Ma, BMO Capital Markets

Thanks and good morning, everyone.

Steve Hodgson, Chief Executive Officer

Good morning, Jenny.

Jenny Ma, BMO Capital Markets

I know in past calls you had mentioned that you expect occupancy to improve throughout 2021 as you are going through some transitions with your tenants, but just given the pace of the vaccine rollout in Canada and the commentary on when there will be a true return to the office, does that shift your thinking in terms of the lease-up of the portfolio?

Steve Hodgson, Chief Executive Officer

No, it does not. I am going to let Lindsay answer the question.

Lindsay Stiles, Chief Operating Officer

Sure. Hi, Jenny. We feel quite good about our leasing volume in 2020, Jenny. As Steve mentioned, in a rather unexpected and challenging year, we were able to complete 688,000 square feet of leasing, so just 4% less than what we completed in 2019 pre-pandemic. One of the interesting data points we saw in Q4 was the rebound of Atlantic Canada. We really attribute that to the success of the travel restrictions that were implemented there. We completed 120,000 square feet of leasing in Atlantic Canada in the quarter. We started to see activity pick up in Q1 in some of the other markets we operate in and we expect that to continue throughout the balance of the year as the vaccine rolls out and people return to the office.

Jenny Ma, BMO Capital Markets

Great. And congratulations on your promotion, Lindsay.

Lindsay Stiles, Chief Operating Officer

Thank you.

Jenny Ma, BMO Capital Markets

So, I guess when we think about occupancy, is it a fair expectation that Q4 2020 was a trough then? Or do you expect some of the velocity to come back maybe Q2, Q3 of this year?

Steve Hodgson, Chief Executive Officer

Yeah, we think it was a trough. Our leasing volumes, as Lindsay mentioned, have been strong relative to even historic years, being led by Atlantic Canada with the travel restrictions there. We are starting to see things pick up in the Greater Toronto Area as well. We have done a few new deals in the first quarter here that we look forward to reporting on later. Momentum is positive. The Q4 drop in occupancy is really a function of some of those larger tenants in Atlantic Canada that vacated and the decision to vacate predated COVID. So yeah, we do view this as a trough. As we have mentioned in prior calls, the timing of it is unfortunate, because we probably would have already re-leased that space by now in a normal environment. Our expectations of re-leasing it are still strong, but just timing pushed out to probably the later half of 2021.

Jenny Ma, BMO Capital Markets

Okay. And in the MD&A it was mentioned that some of the new leasing efforts offset the two known vacancies in St. John's and Toronto. How much does this offset, do you estimate?

Steve Hodgson, Chief Executive Officer

Yeah, I do not have the exact numbers in front of me, Jenny, but ExxonMobil, for example, was a 90,000-square-foot tenant and the net drop in occupancy was about 62,000 square feet. And Exxon was not the only tenant who left.

So, we are mitigating some of the drops in occupancy with new leasing, and looking forward to 2021, as I mentioned in my preamble, we have 4.7% of the portfolio rolling, which is not a lot compared to how we usually start a year, and so we are fortunate of that, because in addition to renewing all those tenants, we can focus our efforts on growing the occupancy.

Jenny Ma, BMO Capital Markets

Okay. And there was about 174,000 square feet of a month-to-month lease that largely consisted of a large single tenant. How much is that large single tenant of that number?

Lindsay Stiles, Chief Operating Officer

Yeah, Jenny, it is just over, almost 110,000 square feet of that number would be specific to one larger tenant. We have been in discussions with them for quite some time. We are getting pretty close to finalizing something there and it is just a function of their internal process taking a lot longer than we might see for a smaller tenant.

Steve Hodgson, Chief Executive Officer

Yeah, and it is a government tenant too, Jenny, so it is not unusual to end up in a month-to-month situation, as precarious of a position as it puts the landlord in. It is quite typical when you are dealing with the government tenant, unfortunately. But, as Lindsay said, we are at the finish line and we will message that as soon as that is completed.

Jenny Ma, BMO Capital Markets

Okay. Yeah, that is not surprising. Can you comment on the in-place versus the market rent on that specific space?

Steve Hodgson, Chief Executive Officer

Just in sensitivity to the negotiations, I will just say that it is an increase that is consistent with other increases we have seen across the portfolio.

Jenny Ma, BMO Capital Markets

Okay. That is fair. And then turning to the P&L, there was $700,000 of the accelerated amortization as a result of the deals that you did, just wanted to confirm that that was basically the bulk of it and that it is one-time in nature.

Michael Sheehan, Chief Financial Officer

Yeah, that is right. So, there are a few facilities, as you are probably aware, that we consolidated in Q4, and so that is exactly right, those were done earlier than their original maturity date. So, exactly that, that was the total amount, the $700,000, and it certainly would not be expected to recur unless there is any other debt that we do renew on an early term.

Jenny Ma, BMO Capital Markets

Okay. And then when we look at the Q4 2020 interest expense excluding that number, $0.7 million, is that a good run rate? Because I think most of the deals were done sort of September, October, right? So, I would assume the interest expense on the new credit facility would be fully picked up in Q4. Is that the case?

Michael Sheehan, Chief Financial Officer

Yeah, that is right. It is mostly in there. So yeah, I would say that is probably a decent run rate.

Jenny Ma, BMO Capital Markets

Okay, great. Thank you very much. I will turn it back.

Steve Hodgson, Chief Executive Officer

Thanks, Jenny.

Operator

Your next question comes from the line of Jaz Cumberbatch with TD Securities.

Jaz Cumberbatch, TD Securities

Hi. Good morning. It is Jaz on for Jonathan Kelcher. Just a couple of quick questions. So, leasing spreads on renewals turned negative in the quarter. Just wondering if you could give some colour there and what you are expecting for renewals in 2021.

Lindsay Stiles, Chief Operating Officer

Sure. So, we are quite pleased with the spreads for 2020, as Steve mentioned, just over 15%. There was a slight decline, as you noted, in Q4. That is really specific to one transaction, a law firm that we were able to renew in place for 10 years in Atlantic Canada. They were coming off of an above-market rent, so this is really just a function of adjusting them to reflect current market conditions. But we certainly view that as a one-off.

As a quarterly exercise, we review the rents in all the markets where we are operating and that was obviously just completed for Q4. Our in-place rents are sitting at about 9% below market rent, so we feel pretty confident in the ability to carry that positive spread going forward for the balance of the year.

Steve Hodgson, Chief Executive Officer

Yeah, I would just add some colour there, too. So, if you exclude the deal with the law firm that Lindsay mentioned in Newfoundland, our spread is 4.5%, I believe. So that is a positive sign. But the renewal spreads are also somewhat muted right now because of the dynamics at some of the tenants that we deal with.

It is really great that we were able to do a 10-year renewal with the law firm in Newfoundland right now, that was a huge win for us, but a lot of the renewals that we are doing are short-term in nature, and when you do those short-term deals it is often not a huge lift on rent. But to counteract that, there is no inducement cost. So, I think that is a trend that you are seeing across the whole office sector right now.

Jaz Cumberbatch, TD Securities

Okay. That is helpful. And then just a second question. What markets are you seeing the strongest leasing activity? And just a follow-up to that: Is there any activity on the 190,000 square foot space that was vacated here at your two Atlantic Canada assets?

Lindsay Stiles, Chief Operating Officer

Sure. So, as mentioned, we have really seen a very significant increase in activity in Atlantic Canada. Again, it really speaks to the success of the travel restrictions. We completed 120,000 square feet of leasing there in Q4. So that certainly was the strongest market towards the end of the year but, as Steve mentioned, we have seen activity pick up. We have done a couple of new deals in the Greater Toronto Area so far this quarter and expect that to continue in the balance of the portfolio as the vaccine rolls out and people return to the office.

As it relates specifically to the larger block you noted in Atlantic Canada, we do think it will take a bit longer than we had originally anticipated to backfill that space due to the current market conditions. But given that things have rebounded so much faster there, we think probably later this year, Q3, Q4, is when we will start to see better traction on those specific pieces of space.

Jaz Cumberbatch, TD Securities

Okay. Thanks. That is helpful. And just last question for me: Have there been any requests from tenants to augment their footprint, if that is increasing the size or decreasing the size?

Lindsay Stiles, Chief Operating Officer

We are in ongoing discussions with all the tenants in the portfolio. There has certainly been a lot of discussion around changing requirements as it relates to potential work-from-home scenarios. What we have seen as a general theme is people want to get back. To the extent there has been any indication of a small portion of the workforce potentially working from home on a more permanent basis, the conversation has been a need to maintain the existing footprint or potentially grow it in order to accommodate social distancing. So, as a general theme, we have certainly had no discussions regarding downsizing, and any of the larger renewal discussions have been around remaining in place or potentially taking on additional space based on specific tenant requirements and needs.

Jaz Cumberbatch, TD Securities

Okay. That is helpful. That is it for me. I will turn it back.

Steve Hodgson, Chief Executive Officer

Thank you.

Operator

Your next question comes from the line of Liyan Chen with iA Capital Markets.

Liyan Chen, iA Capital Markets

Actually, most of my questions were already answered, but I guess if you could just maybe comment on office utilization rates in Q4 compared to Q3.

Lindsay Stiles, Chief Operating Officer

Sure. So, utilization rates, at this point, so Q4 and carrying into Q1, the general theme, again, has been a more notable rebound in Atlantic Canada. I would say, in that region, we are seeing utilization anywhere from 45% to 50%. And we expect that to pick up as the year progresses. In the other markets we operate in, we are seeing utilization in and around 20% to 30% and, again, we expect that to pick up as the vaccine rolls out.

Liyan Chen, iA Capital Markets

Okay, great. Thank you. I will turn it back.

Lindsay Stiles, Chief Operating Officer

You are welcome.

Operator

Again, if you would like to ask a question, please press star then the number one on your telephone keypad. Your next question comes from the line of Brendon Abrams with Canaccord Genuity.

Brendon Abrams, Canaccord Genuity

Hi. Good morning, everyone. Maybe just keeping in line with the previous questioning on leasing, for Maritime Centre, big redevelopment project and I guess maybe your largest asset, it looks like occupancy has been really stable at 83% throughout the year. Just wondering if there is an update there in terms of your projections on that asset and where you think occupancy ultimately stabilizes for that property.

Steve Hodgson, Chief Executive Officer

Thanks, Brendon. So, as I think you know, that has been a tremendously successful project for us. We bought that at just over $100 a square foot. We have increased occupancy from the low 60s, to 83%. As you know, rents have grown by 30%. We recently refinanced that building for double the valuation of what we bought it at and that allowed us to finance the redevelopment cost as well. That is all before the redevelopment is actually complete. And it is very much a construction zone right now. So, it is a slightly more difficult environment to lease until that is complete and, quite frankly, strategically, we think once it is complete, we do want some vacancy to be able to drive a new level of rents that we were not able to achieve pre-development. And there are some committed leases that are not yet in the occupancy as well, but we envision taking this from 83% to 95% in the next kind of 12 to 18 months.

Brendon Abrams, Canaccord Genuity

Okay. Yeah, that is helpful. And maybe as it relates to the suburban Greater Toronto Area portfolio, just curious, in terms of conversations with either prospective tenants or brokers, are prospective tenants primarily from within the existing suburban regions or are you getting any inquiries from companies in the downtown looking to relocate to the suburbs? Just wondering, at a high level, if there are any trends there.

Lindsay Stiles, Chief Operating Officer

I would say, since we have owned the assets in the suburbs, specifically the Greater Toronto Area West, so the 427 assets and the other properties further west towards Mississauga/Oakville, there have always been some inquiries on a regular basis from tenants who maybe are located downtown or in Liberty Village. And I think that is really a function of price points and trying to evaluate how much savings there would be to move out of the core.

I think it is too early to comment on whether or not there is a significant trend with groups who are currently downtown looking to relocate to the suburbs, but certainly it is something we have seen over the last couple of years. And with vacancy rates climbing downtown and people potentially using transit less, we do expect with our availability of parking, people who live in the suburbs benefitting from a shorter commute, we do think that there certainly could be a trend to see some of those larger downtown groups start considering that option and potentially relocate. But we do not really have the data point to support that just yet.

Steve Hodgson, Chief Executive Officer

Yeah, I think the trend you are talking about is the spoke-and-hub model. It is too early to say, but I am comforted in that some of the larger tenants, banks, et cetera, that have space in the suburbs as well as downtown, the utilization rates of their space in the suburbs has been much higher. And in a situation like this, the ability for them to spread their people out and have critical infrastructure in locations that are in a less dense environment, has been beneficial. We renewed, on a long-term basis, 65,000 square feet with a major bank on the 427 in 2020. So, I think it is only going to serve to benefit our assets and where they are located.

Brendon Abrams, Canaccord Genuity

Right. Okay. That is helpful. And then maybe just last question for me before I turn it over, on capital allocation and maybe some of your comments regarding growth of the REIT and how it is critical to the long-term success. Just wondering where the current unit price is and the discount to NAV that you referenced, how you would plan on kind of balancing the growth of the REIT with maybe any dilution to NAV or your comfort level in terms of increasing leverage. Just maybe talk about some of the ways you can pursue a growth strategy while, at the same time, preserving the NAV per unit.

Steve Hodgson, Chief Executive Officer

Yeah. So, I mean there is a lot to unpack there. The public markets are mispricing office assets relative to where they are trading in the private market. We have a number of comps in Toronto, in Chicago, less so in Atlantic Canada, that is just the nature of that market, but they are all supportive of values that are consistent with our book values and our net asset value. In addition, like I mentioned, 74% of our portfolio was externally appraised, most of which was for financing purposes, so lenders are actually lending off the values that we have on our books, which further validates our net asset value.

So, we feel strongly about our net asset value. We are hopeful that the markets will start to recognize that as well and as the sentiment shifts from one that is panicked about people working from home to one that the media is talking about people returning to the office and the vaccine being rolled out, we hope that is a positive catalyst for the office sector and for our stock, in particular, to get us trading at an appropriate level where we can grow.

Having said that, we are not just waiting for that to happen, because we cannot control the unit price, and long term, growth is a key priority for this REIT, because of the reasons I mentioned – stability, cost of capital, institutional ownership and liquidity in the stock and all those things that will help us be a more sustainable long-term business, and we are looking at ways to be creative to grow. It will be more kind of structured deals. We have liquidity right now. What was our ending liquidity, Mike, at the end of the year?

Michael Sheehan, Chief Financial Officer

Almost $55 million.

Steve Hodgson, Chief Executive Officer

$55 million. So, we are not necessarily looking to deploy that for a single-asset transaction, because I would like to keep some dry powder to help us facilitate a larger transaction that will do more for those non-monetary attributes that we will benefit from with growth.

Brendon Abrams, Canaccord Genuity

Okay. That is good colour. I will turn it over. Thanks.

Operator

At this time, there are no further questions. I would like to turn the call back over to Braden Lyons for any closing remarks.

Braden Lyons, Investor Relations

Thank you, everyone, for joining the Q4 2020 conference call for Slate Office REIT. Have a great day.

Operator

Ladies and gentlemen, that does conclude today's conference. Thank you for participating. You may now disconnect.
