CORPORATE PARTICIPANTS

Braden Lyons
Investor Relations

Scott Antoniak
Chief Executive Officer

Steve Hodgson
Chief Operating Officer

Michael Sheehan
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Stephan Boire
Echelon Wealth Partners

Jonathan Kelcher
TD Securities

Brendon Abrams
Canaccord Genuity

Matt Kornack
National Bank Financial

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Slate Office REIT First Quarter 2020 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 star one on your telephone.

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

I would now like to turn the call over to Braden Lyons, Investor Relations. Please go ahead.

Braden Lyons, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the first quarter 2020 conference call for Slate Office REIT. I am joined this morning by Scott Antoniak, Chief Executive Officer; Steve Hodgson, 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 familiarize yourself with the disclaimers regarding forward-looking statements as well as non-IFRS financial 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.

I will now hand over the call to Scott Antoniak.

Scott Antoniak, Chief Executive Officer

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

Before speaking to our quarterly results, I would first like to comment briefly on COVID-19. There is no doubt that the emergence of this global pandemic has had a profound impact on all aspects of our lives, including our business. However, our portfolio, comprised of quality office assets and tenants, was assembled to provide stability in challenging times like these and its resilience has never been more apparent.

We are pleased to have collected in excess of 97% of April rents in cash, a testament to the quality of our assets, creditworthiness of our tenants and the hard work of our team. We expect May collections to be similarly strong. While the office sector as a whole has fared well in relation to other asset classes with average April rent collections of 92%, Slate Office REIT is amongst the sector's top performers.

The REIT's disciplined and consistent approach to acquiring quality real estate assets at a discount to replacement cost and proactively managing these assets to create value has resulted in a highly resilient portfolio. Approximately 61% of the REIT's income is generated by government and credit-rated tenancies. The REIT's largest industry concentrations by tendency are to government and financial services at 14% and 10%, respectively, with less than 2% exposure to the energy sector.

Going forward, our priority will continue to be the safety and well-being of our team, tenants and partners. Our asset management team has been in daily contact with our tenants, property management and leasing teams and on-site service providers. As the focus begins to shift towards a responsible and carefully managed reintegration, we will continue to employ best practices at every level.

Now just a few comments on the first quarter of 2020. The REIT delivered solid results and our business was not materially impacted by COVID-19.

The REIT completed over 304,000 square feet of total leasing at an average rent increase of 28.6%. New lease transactions comprised approximately 109,000 square feet at a 21.5% increase while renewals accounted for approximately 196,000 square feet at an average increase of 33.4%. The REIT's weighted average term to lease maturity is 5.5 years with in-place rents on average 10% below market, providing continued opportunity to increase rents.

We refinanced the Maritime Centre located in Halifax, Nova Scotia at an implied value increase of $49 million. In total, this transaction provides the REIT with $28.8 million of proceeds, bolstering the overall liquidity of the REIT. The REIT's loan to value ratio continued to improve, ending the quarter at 58.3%. We expect this trend to continue until we reach our objective of maintaining leverage in the mid-50% range.

In many ways, COVID-19 is subjecting our industry to the ultimate stress test and we are incredibly proud of the performance of both our team and our portfolio. While it is hard to know for certain when we will get back to normal or even what the new normal might look like, what we do know for certain is that there will be another side. Our commitment to unitholders is that we will continue to work hard building on the strength of our existing portfolio of assets while remaining ready to uncover the exciting opportunities that will inevitably arise.

On behalf of the entire Slate Office REIT team, we wish you good health and we thank you for your continued support. I will now open the call to questions.

QUESTION AND ANSWER SESSION

Operator

Ladies and gentlemen, 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.

Your first question comes from Stephan Boire with Echelon Wealth Partners. Your line is open.

Stephan Boire, Echelon Wealth Partners

Thank you. Good morning.

Scott Antoniak, Chief Executive Officer

Hi, Stephan.

Stephan Boire, Echelon Wealth Partners

Hi. I have a couple of questions, so maybe I will get back in line after a few. I am just wondering if you had any discussions with some of your tenants about their footprint post-COVID, whether they are looking to rent more space to increase social distancing or decrease their footprint due to employees working remotely.

Scott Antoniak, Chief Executive Officer

Thanks for the question, Stephan.

We have had ongoing interaction and conversations with our tenants in the past and especially in the current circumstances. I would say that nobody has made any definitive decisions about what this might look like going forward. No one knows for certain what the future of office is going to look like. We think there will be certain groups, businesses, others who might consider working at home as a viable alternative. We think that there are a significant number of tenancies who will be looking at increased space requirements for individual people working, so there is probably some balance in there. I would think it is early days for folks to make a decision.

As you know, leasing is a long-term decision, so it is very difficult to make changes on the fly. I think the jury is out as to what the ultimate future will look like. We are very pleased with the portfolio we have, with the location of our assets and the type of assets that we have. To a certain extent, I think the ability with some of our suburban assets to be able to drive your own car, park in your own spot, and go to your own office with a door is attractive versus some of the more highly concentrated situations you would find in downtown Toronto or Vancouver and cities like that.

Stephan Boire, Echelon Wealth Partners

Okay. Thank you. And can you tell us what the rent collection is so far for the month of May? I may have missed it, but I think it was just the month of April in the MD&A.

Scott Antoniak, Chief Executive Officer

Yeah, we have not disclosed May. It is tracking on a similar trajectory to April.

Stephan Boire, Echelon Wealth Partners

Okay. And do you have any deferrals as well for the month of May?

Scott Antoniak, Chief Executive Officer

Sorry, Stephan, did you say default?

Stephan Boire, Echelon Wealth Partners

No, no, any rent deferrals.

Steve Hodgson, Chief Operating Officer

Deferrals. Yes, very minimal, which would be consistent with April, representing about 1% of the total collections.

Stephan Boire, Echelon Wealth Partners

Okay. And how does it work exactly? Is it paid over a number of months or before year end? Or how does it work? Or is it on a case-by-case basis?

Steve Hodgson, Chief Operating Officer

It is on a case-by-case basis, but it is generally paid back in the short term.

Stephan Boire, Echelon Wealth Partners

Okay. All right. I may have missed it, but can you tell us what the same store NOI growth was for the quarter year-on-year excluding the hotel?

Michael Sheehan, Chief Financial Officer

Of the decrease that was mentioned, that hotel was close to half of that. So, you would get about a $400,000 year-over-year decrease, and that is just due to the vacancies across a couple of different areas in the portfolio.

Stephan Boire, Echelon Wealth Partners

Okay. So, roughly 1.5%? Roughly.

Michael Sheehan, Chief Financial Officer

Yeah.

Stephan Boire, Echelon Wealth Partners

1.5%. Okay. Okay, I will get back in line. Thank you.

Scott Antoniak, Chief Executive Officer

Thanks, Stephan.

Operator

Your next question comes from Jonathan Kelcher of TD Securities. Your line is open.

Jonathan Kelcher, TD Securities

Thanks. Good morning.

Scott Antoniak, Chief Executive Officer

Hi, Jonathan.

Jonathan Kelcher, TD Securities

I guess at the beginning of the year you guys were targeting 90% occupancy by year end. Is that still something you think you can achieve?

Steve Hodgson, Chief Operating Officer

Hey, Jonathan. We had a really good start to the year with over 300,000 square feet of leasing and a spread of 28% in Q1. Of that, 100,000 was new leasing. We did have a slight occupancy decrease on a same property basis by about 68,000 square feet. That will be offset by the 91,000 square feet of leasing that has already been completed but has not yet commenced. So, we are slightly ahead, if all else was the same.

Having said that, the 90% is where we view this portfolio stabilizing. I do not envision the same amount of new leasing for the balance of the year and thus far we have pushed out that projection into probably mid or late 2021 as to when we would achieve that stabilized number.

Jonathan Kelcher, TD Securities

Okay. Are you seeing more renewal discussions or is there anybody that you thought might be leaving that is now talking about renewals?

Steve Hodgson, Chief Operating Officer

Yeah. The first quarter, while we achieved good leasing results, it really was not a full quarter, it was two and a half months, because there has not been a lot of leasing activities since the onset of pandemic. Having said that, tenants that were already in discussions about expanding their existing space, particularly if they are government tenants or other sectors that have not been as impacted by the pandemic, those discussions continue. In addition, the renewal discussions that were happening already are continuing. And will there be a trend to more renewals? I think so, because it is difficult for tenants to invest the incremental dollars required to move space right now, and then optically and logistically it is also a challenge from the perspective of touring and actually physically moving.

Jonathan Kelcher, TD Securities

Okay. And then just secondly, it looks like you walked away from the Florida acquisition. Maybe give a little colour as to why and would you expect to get the deposit back on that.

Scott Antoniak, Chief Executive Officer

Certain closing conditions were not fulfilled and with that fact set we are not proceeding with the transaction and at this point we have no further comment.

Jonathan Kelcher, TD Securities

Any comment on the deposit?

Scott Antoniak, Chief Executive Officer

No.

Jonathan Kelcher, TD Securities

Okay. Thanks. I will turn it back.

Scott Antoniak, Chief Executive Officer

Thanks, Jonathan.

Operator

Again, to ask a question, please press star one on your telephone keypad.

Your next question comes from Brendon Abrams with Canaccord Genuity. Your line is open.

Brendon Abrams, Canaccord Genuity

Hi. Good morning, everyone. It looks like leasing spreads were pretty strong during the quarter and for the rest of 2020 I guess you are saying they are about 25% below market rents. I am just curious in terms of which areas of the portfolio these renewables or maturities are kind of located or concentrated in given the wide mark-to-market spreads there.

Steve Hodgson, Chief Operating Officer

Yeah, thank you. The leasing spreads we achieved in Q1 were compelling. It is primarily driven by a strong leasing spread in the new leasing that we did in Chicago, as well as a renewal that was well ahead of existing rents in Winnipeg. For the balance of the year, the renewals that we have are pretty well spread throughout the portfolio, Brendon, Atlantic Canada, Chicago and Toronto. The 25% is where they are relative to market rents. It is not to say that we will get all the way to 25%, but it is directionally a positive sign that we will be able to increase rents.

Brendon Abrams, Canaccord Genuity

Okay. That is good. And then just last question quickly for me. I know the hotel is probably a small amount of the portfolio, but just given where occupancy levels are across the sector can you just remind us again what percentage of NOI the hotel might represent on a normalized annualized basis.

Steve Hodgson, Chief Operating Officer

Yeah, we generally had been projecting approximately $800,000 of contribution. We previously messaged the seasonality of that as well, which I do not have in front of me at the moment but can follow up. And I would expect that to be almost entirely taken away for the balance of the year.

Scott Antoniak, Chief Executive Officer

On a run-rate basis, Brendon, it would be less than 1% in a typical year.

Brendon Abrams, Canaccord Genuity

Okay. Right. So, it is pretty small. Okay perfect.

Steve Hodgson, Chief Operating Officer

I would add just there are some positive signs in New Brunswick. They have now reopened retail and our hotel continues to be open and servicing frontline workers and others and so we do see that there will probably be a quicker recovery in some of those secondary markets where there is a strong sort of drive to demand from our customers.

Brendon Abrams, Canaccord Genuity

Great. Perfect. Okay, I will turn it over. Thank you.

Operator

Your next question comes from Matt Kornack with National Bank Financial. Your line is open.

Matt Kornack, National Bank Financial

Hi, guys. Good morning. With regards to capital allocation, I mean in light of the announcement on the acquisition and just generally with regards to CapEx, can you give a sense as to how COVID changes your outlook?

Scott Antoniak, Chief Executive Officer

Yeah, I think, and maybe the guys can speak to specifics, but at a high level, Matt, the focus is liquidity and capital preservation and I think you would probably hear a similar answer from anybody in the industry. That is our focus. We enter Q2 with a solid position with respect to liquidity. We completed a refinancing, which enhances that. We are now not proceeding with the Florida transaction. We have been able to pare back capital. We are down to essential life safety type items and other smaller projects, Maritime Centre being the example where there is direct and measurable enhances to income as a result of that CapEx spend, but that has been reduced. So that is where our focus really is and, as you know, we will continue to be opportunistic in the future as opportunities present themselves, but for right now it is very much a focus on liquidity and capital preservation.

Matt Kornack, National Bank Financial

Okay. That makes sense. And margins wise, I mean I assume most of the leases are net, but are there any potential savings that you are passing on to your tenants or maybe accruing to yourself as a result of less maintenance or costs or otherwise? Or vice versa?

Steve Hodgson, Chief Operating Officer

Absolutely. Without getting into too many specifics, Matt, there have been deferral programs through property tax and utilities in all the jurisdictions and we have taken advantage of those. There have been fewer costs. In some aspects there have been higher costs on cleaning and waste management, but overall there have been fewer costs because of less people being in the workforce. And we have also, as Scott noted, pared back our capital plans which, to the extent that was recoverable from the tenants, will provide some savings to the tenants.

Matt Kornack, National Bank Financial

Okay. And I understand that 90% is the aspirational figure, but given where you are sitting on an in-place basis and where spreads have been, excluding the hotel, would do you expect the trajectory from same property NOI growth, all things being equal, assuming there is not mass bankruptcies and deferrals, to trend in the positive direction for the remainder of the year?

Steve Hodgson, Chief Operating Officer

Yeah, so with respect to occupancy, as I noted, we do still have 91,000 square feet of leasing that has been completed but not yet commenced for the balance of 2020. And then on average we complete 214,000 square feet of new leasing between Q2 and Q4. So, while that might be muted because of the pandemic, we do think that there is still opportunity to grow occupancy through the balance of the year and that would have a direct impact on our same property NOI growth.

Matt Kornack, National Bank Financial

Okay, perfect. Thanks, guys.

Scott Antoniak, Chief Executive Officer

Thank you, Matt.

Operator

There are no further questions queued up at this time. I will now turn the call back over to Braden Lyons for closing remarks.

Braden Lyons, Investor Relations

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

Operator

This concludes today's conference call. You may now disconnect.
