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Greg Stevenson
Chief Executive Officer

Robert Armstrong
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CONFERENCE CALL PARTICIPANTS

Sumayya Hussain
CIBC World Markets

Himanshu Gupta
GMP Securities

Stephan Boire
Echelon Wealth Partners

Troy MacLean
BMO Capital Markets

Michael Schmidt
RBC Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Retail REIT First Quarter 2018 Financial Results Conference Call. As a reminder, this call is being recorded today, May 2, 2018, at 9:00 a.m. Eastern Time. Your host for today's call is Ms. Madeline Sarracini, Investor Relations. Please proceed, Ms. Sarracini.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the first quarter 2018 conference call for Slate Retail REIT. I'm joined today by Robert Armstrong, Chief Financial Officer, and Greg Stevenson, Chief Executive Officer.

Before getting started I'd like to remind participants that our discussion today may contain forward-looking statements and therefore 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's website to access all of the REIT's financial disclosure, including our Q1 2018 investor update, which is available now.

With that, we will open the line for Q&A.

QUESTION AND ANSWER SESSION

Operator

At this time, I would like to remind everyone in order to ask a question please press star and then the number one on your telephone keypad. We'll pause for a brief moment to compile the Q&A roster.

Your first question comes from Sumayya Hussain with CIBC. Your line is open.

Sumayya Hussain, CIBC World Markets

Thanks. Good morning.

Greg Stevenson, Chief Executive Officer

Good morning.

Robert Armstrong, Chief Financial Officer

Good morning.

Sumayya Hussain, CIBC World Markets

So, just firstly on your IFRS NAV and the fair value loss in the quarter, what markets does that relate to and does that reflect the Southeastern leases being amended?

Robert Armstrong, Chief Financial Officer

Yes, most of it's the Southeastern Grocers leases being amended just for the change in the cash flows primarily at six of the properties. From there, there's a couple properties within the 86 of two to three where we made adjustments as well but, for the most part, most of the properties across the portfolio are steady state compared to December 31st.

Sumayya Hussain, CIBC World Markets

So, just a couple of areas. Okay. And on the completed redevelopments at Buckeye and County Line, once they're completed and stabilized do you guys have a sense of what the market cap rate would be on those assets?

Greg Stevenson, Chief Executive Officer

I think we're going to look to dispose of both of those assets. We haven't gone out to market yet to see what those are but I would say that they're on our books at the price that we believe that they'll be sold at. I think it's TBD on cap rates at this point in time.

Sumayya Hussain, CIBC World Markets

Okay, thanks. I'll turn it back.

Operator

Your next question comes from Himanshu Gupta with GMP Securities. Your line is open.

Himanshu Gupta, GMP Securities

Thank you. Good morning, guys.

Greg Stevenson, Chief Executive Officer

Good morning.

Robert Armstrong, Chief Financial Officer

Good morning.

Himanshu Gupta, GMP Securities

Just a general question to start with: How do you get a sense of performance in your centres? I mean do you track this year's volume operating margins? Basically, trying to know what visibility you have on bad debts and overall exposure risk.

Greg Stevenson, Chief Executive Officer

Sorry, Himanshu, is that on foot traffic and sales?

Himanshu Gupta, GMP Securities

Yeah. I mean I'm just trying to get a sense of what visibility do you have in terms of exposure. Any tenants on your watch list? I mean do you track this year's volume operating margins?

Greg Stevenson, Chief Executive Officer

Oh, I see. I'll start and let Bobby jump in. We get sales reports from most of our anchors across the portfolio, so we see how they're doing on a year-over-year basis. 2017 sales sort of are coming in now and sort of from March to May we start to get those year over year, and across the portfolio, from a sales perspective, they're up in the sort of mid single digits range with probably 30% of the portfolio left to come in. So, I think that's obviously a positive indicator for us.

I think the big thing, the asset that we have is the relationships that the team has built with our grocery anchor, then our other tenants across the portfolio. I think we view this as a service business, not necessarily as landlord/tenant, and I think the conversations that we're constantly having with all of our tenants as of late and going back into the past, you know, we feel very confident in both foot traffic, sales volumes, and desirability of our centres, and I think that the leasing activity that we've been doing over the last few quarters sort of highlights all of that.

Robert Armstrong, Chief Financial Officer

Maybe the few points I'd add on that are, one, I do want to highlight the fact that sales are increasing across our centres at most of the grocers and we think that's an extremely positive thing. And it maybe isn't picked up today's media environment but they're probably as healthy as ever from a sales perspective.

And then just to specifically respond to your bad debts question, we haven't seen any change in the activity in any meaningful levels. It still tends to be very, very healthy. It's not something that we're really worried about in any way. But I also think that, you know, looking at the health of the portfolio overall, on a same-property basis we're up year over year and we're continuing to do leasing and there's continuing to be demand for the space through our conversations on the leasing front. So, notwithstanding the general retail environment, the grocery-anchored environment, especially in our practical experience, tends to be very strong.

Greg Stevenson, Chief Executive Officer

I think our retention ratio this quarter and going back into the past is some of the highest in the space relative to our peers and I think that highlights exactly what Bobby alluded to.

Himanshu Gupta, GMP Securities

Yeah, that's helpful. And then on capital allocation, there are a fair bit of store closures expected in 2018 and 2019, so how do you prioritize between share buyback and debt reduction? I mean how much are you prepared to de-lever the balance sheet?

Greg Stevenson, Chief Executive Officer

I'll let Bobby jump in. Just on the share buybacks, I think that at the value that we see there where we can buy a fractional interest in a portfolio of 86 assets that we know very well, obviously at a price that we think is attractive, we're going to keep doing that. I think Bobby and I talk about the leverage thing a lot and, you know, I don't think we're looking to de-lever necessarily, it's more that when we sell assets we want to make sure that we pay down debt so that our leverage doesn't increase.

Robert Armstrong, Chief Financial Officer

That's right. The choice to do the buybacks has completely been a capital allocation decision. We think at the price that we're able to buy back at doesn't make sense and has benefit to unitholders. But the one thing I would say is that we've done $4.5 million on the buybacks. I think that's aggressive and we've been quite lucky to do that volume over the last few months. But it has taken us two months just to do $4.5 million so I think we'll be stretched to make the NCIB have a meaningful impact on leverage across the portfolio on top of the $1.5 billion of assets. So, we'll likely take on debt to do that but we think it's positive, but it's probably at the margins from an LTD perspective.

Himanshu Gupta, GMP Securities

Got it. And then on tenant improvements, tenant improvements are tracking almost $2 million in quarter one. Do you see that increasing even further given all the store closures and changes in tenant mix? How do we see that number on a full-year basis?

Greg Stevenson, Chief Executive Officer

We report actuals, as you may or may not know, but it's worth stating because I know that that's not consistent across the board in REIT land, and so that will bump around for us a little bit. I think that the good news is that our increase in capital, to your point, is because of TIs and leasing commissions, so it's a capital that comes with a return. It's not an increase in maintenance CapEx.

We budgeted a number for the year on a quarterly basis that will be lower than the quarter, i.e. we think that it will move around from quarter to quarter but it won't be sort of as high as it is this quarter every quarter, if that makes any sense. So we don't expect it to increase due to store closures or anything like that.

Himanshu Gupta, GMP Securities

Sure. And then finally on same-property NOI growth trends, it looks like you expect a ramp up in the second half of the year. Can you quantify the ABR, I mean the leases which were signed earlier but rent has yet to commence?

Greg Stevenson, Chief Executive Officer

Yes, we've done a lot of leasing, as you can see, sort of in the last two quarters, and I think that will continue because the team is just doing a wonderful job being proactive, getting in front of lease expirations and, like I said, I think we spend a lot of time communicating with our tenants, both the grocers and our shop space tenants.

I think it's just really timing of lease commencement so, you know, high level, you sign a new lease, for example, and there's anywhere between a three- to nine-month build-out period depending on size of the space and tenant use, and so it's really just having that period expire or run off before rent starts to be paid. But, like Bobby and I have said the last two quarters, because of that timing, a lot of the leases that we have signed in Q4 and Q1 and actually some in Q3 as well will be sort of coming into the results in Q3 and Q4 of this year.

Himanshu Gupta, GMP Securities

Sure. And probably just one final question, a general question on the demand for open-air centres in the private market. So, some of your peer group are mentioning about increasing (inaudible) formation. Do you agree with this? Do you see demand for single assets? And then, you know, is there any demand emerging for portfolios as well?

Greg Stevenson, Chief Executive Officer

I don't think the demand has changed. I think we've always been of the view that for grocery-anchored open-air centre, strip centre, neighbourhood centre, it's called a few different things, it's always been there in our view. We think that there's private buckets of capital that are local regional buyers. There's 1031 buyers out there, which are buyers that are looking to defer capital gains tax by taking sales proceeds of an existing asset and putting it in a like kind asset within 180 days. We think that there's institutional buyers, there's some smaller to mid-cap REIT buyers, so for one-off assets, you know, nothing has really changed. I think where pricing has softened a little bit on the capital formation side is when you start to look at larger portfolios in the hundreds of millions of dollars. That's still yet to be seen. I think I would echo some of the other REIT's comments in the US, which is on a risk-adjusted basis the valuation levels that we're seeing, and I think it's becoming more obvious to people that retail is not dead and strip centre retail, i.e. every day convenience retail, is still not only doing just fine but increasing demand where there's a lack of supply. Fundamentals are strong. I think that capital formation for larger portfolios will start to recognize all of these things over time. But it's certainly not yet obvious in the higher dollar amounts today.

Himanshu Gupta, GMP Securities

Sure. Thank you. I'll turn it back.

Operator

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

Stephan Boire, Echelon Wealth Partners

Thank you. Good morning. I was wondering what do you expect in terms of rents for current redevelopment and repositioning projects on the way and how would that compare to the market rents?

Greg Stevenson, Chief Executive Officer

The rents that we've been achieving are all laid out in the MD&A on pages 10 and 11. We think that spreads on renewals will continue to be anywhere between 5% to 10% on shop space, which we define as spaces less than 10,000 square feet. We don't see any trend down or trend up. I think that will remain pretty consistent. If you look at our expiry profile, we've got a $10-ish rent on a weighted average basis expiring contractually for effectively the next five years, so we think we see that growth continue into the future for some time.

On new leases, again, as you can see in our MD&A, and it goes back four quarters, we've been doing spreads on leases, which is, again, weighted average across the portfolio about 10.5. We've been closer to 12.5, 14, so anywhere between 25% to 50% above in-place rents, and I think that will be sort of similar to what we see going forward. We see sort of no change than what you'd see in our MD&A today going forward and I think that's driven by the fact that you've got a multi-decade low in new supply in the strip centre space. I think that our team has done an excellent job from a leasing perspective developing those relationships. We talk about this a lot, we're bringing capital to capital-starved markets where our TIs and leasing commissions go a really long way. And I think, again, going back to the comment on the team, we're bringing a sophisticated team of institutional real estate ownership to markets where that doesn't really exist.

Stephan Boire, Echelon Wealth Partners

Okay. And, on another subject, regarding the properties affected by Southeastern Grocers, were there any discussions in regard to any lease extension?

Greg Stevenson, Chief Executive Officer

Yes, there was. It was a mix across sort of the 10 assets that we have but we received lease extensions at some as well as capital investment commitments from Southeastern Grocers following bankruptcy across the board.

So, to Bobby's earlier comment and Sumayya's question, while a large majority of the valuation changes within the REIT in both Q4 and Q1 were as a result of Southeastern Grocers, we do think that Southeastern comes out a better company. They're going to reduce debt, they're going to have more money to put into operations, they're going to close their underperforming stores, so we do think that there's possibility in the future as this becomes clearer to the market and to us, although we're believers, that there may be upside in those valuations in the future.

Stephan Boire, Echelon Wealth Partners

Okay. So, basically, if they successfully restructure they would have to provide upgrades or to improve the properties in which they're located, right?

Greg Stevenson, Chief Executive Officer

That's correct.

Robert Armstrong, Chief Financial Officer

And the other point of clarification there is the rents don't adjust either until they've exited as well.

Stephan Boire, Echelon Wealth Partners

Right. Okay. And actually, on that same subject, it looks like you minimized the risk and you got an option on improvement but, if I remember correctly, the market conditions for the affected properties remained relatively solid. Is that correct?

Greg Stevenson, Chief Executive Officer

Yeah, that's right. It's similar to Kroger in the northeast or even, I think, a lot of the Kmart locations that you see and that, you know, we've picked off a few to be opportunistic. Southeastern Grocers is the oldest grocer in the state of Florida and they've been there for, you know, 100 years, and, as a result, they've got a lot of the best real estate in the market and that location advantage goes a long way. And I think that from an opco perspective, meaning at sort of the store level, fundamentals at the stores that we've seen, both from an acquisition perspective and the ones we've owned, we've underwritten a lot of these over the last six years, you know, they're still very solid. We couldn't agree more, I think, that the fundamentals are fine and the parent co, it was sort of an opco/propco thing where they really just over-indebted the company. But our view is that the real estate fundamentals and the sales at their stores, because their locations are so good, are still quite strong.

Robert Armstrong, Chief Financial Officer

I think, while the Southeastern event was unfortunate, I think the way we kind of look at it is it's a positive reflection of what we're trying to do in just buying good real estate that people want to stay in. Not to be confirmed but we believe that we're the only landlord in the US under Southeastern that had 10 or more stores without a single store closure, and I think that's reflective of the way we'd be buying, our acquisition discipline. That was the biggest event we had in 2017 and so far in 2018 as far as store closures are concerned and we'd be relatively immune across the board. In 2017 we only had five shop tenants in the entire portfolio of 1,500 tenants that were affected and those five we released at a 10% spread up. It has been the type of real estate as well as the way you've been buying and the market's been buying in. We've been very fortunate but I think it's been just part of the strategy and we don't see any problems going forward either.

Stephan Boire, Echelon Wealth Partners

Okay. That's good. Okay. And also, on another subject, I was wondering if you could expand a bit more on the retention rate for the quarter. I know you mentioned it was one of the best among your peers but I was wondering if you could give some colour on the fact that it decreased over the quarter and just in general.

Greg Stevenson, Chief Executive Officer

Yeah, you know, there's not a ton to read into it, just this number will bump around a lot on a 90-day period. But, overall, again, I think that the close to 90% retention ratio that we saw in 2017 this quarter was down to 85.5%. We expect it to be closer to 90% for 2018 and sort of jump back up going forward. But it will bump around quarterly. Nothing really material to read into, I think it's just, it'll fluctuate.

Stephan Boire, Echelon Wealth Partners

Okay, perfect. And the last one, I was wondering what's your view on the same-property NOI for 2018. Again, you mentioned a little bit that it would improve near the end of this year but do you have any guidance for the year?

Greg Stevenson, Chief Executive Officer

No guidance but I think that a similar comment is that the 90-day period we don't focus too much on, because it jumps around a lot. We had free rent at one centre alone move it from a positive to a negative figure, so it just goes to show you how sensitive it is today to small changes being 67%-ish of the total portfolio. I think the Q1 letter does a good job of highlighting our views on same-property NOI and sort of what we think, how we think about the total portfolio and the different buckets within that portfolio going forward.

Robert Armstrong, Chief Financial Officer

I wouldn't want to provide any guidance but we do think it will move positive. We've been happy with what we've done over the last two years in that regard, regardless. The thing I'd point out though is it is a little bit, you know, while we have estimates, I think it's a little bit hard to predict just because of the timing of the free rent. But also, the timing of when properties come into same store based on their acquisition dates will skew it a little bit. It's not entirely representative. I think it's a decent representation but I think over the course of the year we're really happy with how things are progressing so far.

Stephan Boire, Echelon Wealth Partners

All right. Perfect. That's great. That's it for me. Thank you, gentlemen.

Greg Stevenson, Chief Executive Officer

Thanks.

Robert Armstrong, Chief Financial Officer

Thanks.

Operator

Your next question comes from Troy MacLean with BMO Capital Markets. Your line is open.

Troy MacLean, BMO Capital Markets

Good morning.

Robert Armstrong, Chief Financial Officer

Hey, Troy.

Troy MacLean, BMO Capital Markets

Just on the same-property NOI discussion, you mentioned it going up in the last half of the year. Does that include the settlement with Southeastern Grocers?

Robert Armstrong, Chief Financial Officer

No.

Greg Stevenson, Chief Executive Officer

I think that's why we're shying away from guidance, because the timing of their emergence is still a bit uncertain. It's progressing really well. They've stayed current during bankruptcy, which is, quite frankly, unheard of, and I think it speaks to how solid the underlying business is and how well this has been going. But I think we're shying away from providing guidance just because we don't know what that timing yet will be.

Troy MacLean, BMO Capital Markets

You mentioned in your comments that you really haven't seen a trend in market rents, but I was kind of curious if you've seen, like are new or renewal leasing negotiations getting tougher with tenants? Like are there any new terms they want? Like shorter lease terms or more tenant improvements? Is there any comment you can have there?

Greg Stevenson, Chief Executive Officer

No, I think it still remains the same. The grocers have a cheaper cost of capital, so it's usually their dollars going into anything in their space, which is great. Our capital, as it relates to getting lease extensions with the grocers, are still targeted toward new roofs or parking lots. On the shop space side, again, I think you have your regional tenants, which are a little more sophisticated but, again, we think we've got some of the better centres and there's not a lot of better options so we think we're in a pretty good position there, so nothing has changed. And then on the shop space side, you know, I think, again, when we add acquisition we really target centres where there's rents that are below market, which goes a long way, because it's not like we're asking our tenants to go from market to above market. All we're really asking tenants to do is take their rents below market up towards market, either at or slightly below market or even slightly above market. That's a big part of our acquisition strategy and it makes those conversations a lot easier.

Robert Armstrong, Chief Financial Officer

Troy, just to loop back on the Southeastern piece, it will depend partly on the timing of when Southeastern exits from the restructuring, because that's when the lease amendments will be effective. We provided guidance within the MD&A. I think it's supposed to be just over $0.3 million, assuming that there's impact for about half of the year. I think it's important just to represent that $0.3 million in what I'd expect NOI to be, you know, say approximately $50 million for the back half of 2018. We really don't think it's a huge impact to the portfolio. But, as Greg kind of properly pointed out, a couple hundred thousand bucks here and there on a 90-day period for two-thirds of our portfolio and same property can skew things.

Troy MacLean, BMO Capital Markets

Fair enough. And then just finally, on Springboro Plaza, I know you're working on the due diligence but has Kroger agreed to take over the Kmart or to expand its current store?

Greg Stevenson, Chief Executive Officer

They haven't yet, no.

Troy MacLean, BMO Capital Markets

Is that dependent on your due diligence or is the project waiting on them to agree to expand the store?

Greg Stevenson, Chief Executive Officer

It's waiting on them right now. I think they're just, they're running all of their sales projections and numbers that they do, similar to what they've done at Hocking Valley and some of the other marketplaces that we've built for them. And I think we're going to have some clarity soon but they're a big company and they move slower than Slate Retail REIT, unfortunately. But I think it's all positive. They just renewed for five years recently so they're committed to the site in one way or another.

Troy MacLean, BMO Capital Markets

Are they taking longer to determine whether to do the store expansion versus the first couple projects you did last year?

Greg Stevenson, Chief Executive Officer

I would say last year it was similar but they're definitely taking longer than we expected probably two years ago, which we don't view as a bad thing but I think that they're probably being a bit more thoughtful with their capital and I would argue that they're spending more capital on ecommerce initiatives and on their employee training programs, et cetera. All good news but I think it's just slowed down their capital allocation process as it relates to real estate. We remain confident that Springboro is, again, a place they want to and will spend money. I think, to your point, it's just going to be a bit slower as a result of the environment than it may have been two years ago.

Troy MacLean, BMO Capital Markets

Perfect. That's it for me. I'll turn it back. Thank you.

Robert Armstrong, Chief Financial Officer

Thanks, Troy.

Operator

Again, it is star one on your telephone keypad if you would like to ask a question.

Your next question comes from Michael Schmidt with RBC Capital Markets. Your line is open.

Michael Schmidt, RBC Capital Markets

Thank you and good morning. Greg, you mentioned earlier that your markets are capital starved. I mean I realize there's lots of money flowing into coastal markets and big cities but maybe could you just give us a little colour as to why your markets are capital starved?

Greg Stevenson, Chief Executive Officer

I think, and I've been reading them and you guys probably have as well, and it's not just been Q1, it's been the last several quarters, the REITs in the US that would be our peers that own centres in our markets, you know, they're exiting and they're not, they're selling assets. And it's really just, it's two things that I think it's an opportunity for us is, A, they're selling, which we were buying from them in the past, you know, our cost of capital is too expensive today to do that. I would say that from an operational perspective because they're selling, they're not focused there. And then it's sort of the same comment on the capital side, because they're exiting they're just not spending money. It's not a place that they're allocating capital. To your point, they're allocating capital to their six to ten top markets, they're allocating capital to redevelopment projects where, because they can't acquire accretively in these core markets because prices have become so expensive and elevated, they're developing, trying to develop accretively. So, it's effectively just capital flows going into core product, into redevelopment, and sort of out of the secondary market strategies.

Michael Schmidt, RBC Capital Markets

Okay, thank you. That's it for me.

Operator

There are no further questions at this time. I will now turn the call back over to the presenters.

Madeline Sarracini, Investor Relations

Thanks everyone for joining the call. Have a great day.

Operator

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