CORPORATE PARTICIPANTS

Madeline Sarracini
Investor Relations

Greg Stevenson
Chief Executive Officer

Robert Armstrong
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Dawoon Chung
National Bank Financial

Sumayya Hussain
CIBC World Markets

Johann Rodrigues
Raymond James

Jimmy Shan
GMP Securities

Troy MacLean
BMO Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Retail REIT Third Quarter 2017 Financial Results Conference Call. As a reminder, this call is being recorded today, Friday, November 3, 2017, at nine o'clock a.m. eastern time. Your host for today is Madeline Sarracini, Investor Relations. Please go ahead, Ms. Sarracini.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the third quarter 2017 conference call for Slate Retail REIT. I am 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 Q3 2017 investor update, which is available now. With that, I will now hand over the call to Greg Stevenson.

Greg Stevenson, Chief Executive Officer

Thanks, Maddie.

I just want to take a few minutes to highlight a few items that are in the MD&A but didn't get picked up in the press release that I think are worth highlighting. I'm starting with the 90 percent retention rate this quarter, which is largely being driven by our proactive management, the desirability of our locations, and the lack of supply in our markets, which is driving natural demand at our centres.

We renewed four anchors in the quarter in advance of their expiration, which now means that year to date we've renewed eight anchors and 11 percent of our total anchor GLA. This compares to 2 percent or more than five times the contractual anchor expiries coming into the year. The 500,000 square feet of leasing completed this quarter means that we've renewed 99 percent of our 2017 contractual expiries by the end of Q3. This means that we can continue to focus on renewing our 2018 expiries and beyond in the upcoming quarters.

Leasing spreads in the quarter were strong, bringing the year-to-date spread on all new and renewed leases to 11.4 percent, which we believe will continue to support year-over-year NOI growth into the future. As a result of all of these accomplishments, NAV per unit grew 1.3 percent quarter over quarter. As we continue to execute on our business plans and see the remainder of our May equity raise get invested and flow into our results, we expect both per-unit cash flow or FFO and per-unit NAV to continue to grow.

I'll now turn it over for questions.

QUESTION AND ANSWER SESSION

Operator

At this time, I would like to remind everyone in order to ask a question please press star followed by the number one on your telephone keypad. Your first question comes from the line of Dawoon Chung, National Bank. Your line is open.

Dawoon Chung, National Bank Financial

Good morning.

Greg Stevenson, Chief Executive Officer

Good morning.

Dawoon Chung, National Bank Financial

According to Reuters last night, Amazon Fresh will stop its delivery services in suburban Pennsylvania and New Jersey, but some retailers like Costco is rolling out or expanding their delivery service. Can you just walk us through your thoughts on the state of grocery delivery service in your markets?

Greg Stevenson, Chief Executive Officer

Yes, I think that in our markets it's in its infancy and I think our view is that it may never get beyond that. I think the simple math is on every $100 grocery basket EBIT margins are about 3 percent to 4 percent, so they're earning $3 to $4 of profit on every basket of groceries. That's in the store. The grocery is a tough business. If you then account for the fact that, on average, in urban markets, like the top MSAs in the United States that delivery costs $15 to $20, delivery costs are, you know, the companies lose about $10 to $15 per basket of goods. In our markets those economics get even worse. What we're seeing instead is Kroger and Wal-Mart and Publix and a lot of our top anchors investing heavily in click-and-collect models, just because in less dense suburban markets it's too economically difficult to delivery groceries. The good news is the click-and-collect model in our markets is picking up. Our grocers are investing a lot of money in it. I think the other thing that's relevant that we're not in the Whole Foods customer zip codes is that these are largely one-income households. So, you have, compared to the top markets, someone at home with both time to pick up the groceries and less household income to pay for delivery. I continue to believe and I think the team continues to believe based on all the data that we've seen that we are very well insulated from grocery delivery services.

Robert Armstrong, Chief Financial Officer

Dawoon, maybe the additional point I'd make is that while we think this is definitely going to continue, we think the real estate is still part of that equation. A lot of the delivery will have to happen and be picked and originate from the stores, which continues to make the real estate relevant and valuable. We think we'll have a complementary place to play in that in helping our landlords execute whatever strategy they feel is best.

Dawoon Chung, National Bank Financial

Great. Thanks for the colour there. During the quarter you backfilled the former Giant Eagle space at Buckeye Plaza with a ten-year lease at $7 per square foot. Can you remind us again how much Giant Eagle was paying?

Greg Stevenson, Chief Executive Officer

They were paying $8.85 in the past. The difference in rent really accounts for the fact that on a net effective rent basis we provided no capital as part of the deal, no TI, no landlord work, no leasing commission. That was a management-lead deal that we did directly with the grocer.

Dawoon Chung, National Bank Financial

So, on an NER basis it will be very similar with the Giant Eagle?

Greg Stevenson, Chief Executive Officer

Yes, even slightly above.

Dawoon Chung, National Bank Financial

Great. Also at North Summit, the REIT terminated the lease of 37,000 square feet of junior anchor tenant that were paying below market rents. Could you provide some colour there?

Greg Stevenson, Chief Executive Officer

Sure. That centre is anchored by a Sam's Club, which is still there and operating and doing very well. This is a box that we've had some initial interest in and where we think we can, to your point, re-lease the space at higher rents than what we were achieving before. In addition to that, we think we can get better credit quality tenants with longer lease term and have tenants that attract more customers and drive foot traffic and increase sales. So, it's still in the early stages but that was the impetus for that transaction.

Dawoon Chung, National Bank Financial

Fair enough. Looking at your acquisitions, you guys have been very active during the quarter, and given that you obtained a loan commitment of $250 million post quarter how should we think about the pipeline for the rest of the year and perhaps in 2018?

Greg Stevenson, Chief Executive Officer

The pipeline remains robust and I think that the $250 million term loan just increases the capacity on our balance sheet in the future should we need it. And I can let Bobby jump in and add things in a minute but I think right now our focus is going to be on the assets that we've purchased in the second quarter and the two that we plan on closing in the fourth quarter, one of which we've already closed on, and driving organic growth in the future. Not to say the pipeline isn't big. We're always exploring opportunities. We've been the most active acquirer of grocery-anchored real estate in the United States, so we see a lot, and there are opportunities out there. I don't think we'll be too active outside of that in the recent quarters to come based on what we're seeing today but I think the term loan sets us up to do that should we please.

Robert Armstrong, Chief Financial Officer

The term loan is capital for the next year or so and beyond. What I would say is we'll continue to be active in the market from an acquisition perspective but we'll continue to be diligent in that respect but also measured probably in the pace. I wouldn't expect the volumes we had in 2017 so far to continue.

Dawoon Chung, National Bank Financial

Great. Thanks for the colour. That's it for me.

Greg Stevenson, Chief Executive Officer

Thanks.

Operator

Your next question comes from Sumayya Hussain, CIBC. Your line is open.

Sumayya Hussain, CIBC World Markets

Good morning, guys.

Greg Stevenson, Chief Executive Officer

Good morning.

Sumayya Hussain, CIBC World Markets

So, on the Wal-Mart renewal at Charles Town, were there any contractual rent bumps in the new lease?

Greg Stevenson, Chief Executive Officer

No, there were not. The good news is when we bought that centre we bought it with less than two years left in the lease term with the view that we thought we could extend it early and not pay for someone else doing it for us, but all the four anchors that we renewed within the quarter renewed at their contractual option rents, including Wal-Mart.

Sumayya Hussain, CIBC World Markets

Okay. And on the occupancy, it seems to have picked up a bit. Do you have a sense of what the occupancy would be on a same property basis in the quarter?

Robert Armstrong, Chief Financial Officer

The same property occupancy on the 56 properties was 95.2.

Greg Stevenson, Chief Executive Officer

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Sumayya Hussain, CIBC World Markets

Okay, great. And lastly, just on the broader industry trends, are you guys seeing any shift in terms of growth or demand coming from the more traditional large-footprint grocers versus the smaller format, limited assortment grocers? Just any colour on what you're seeing there.

Greg Stevenson, Chief Executive Officer

No, I think that the store formats that we've acquired, we've spent a lot of time having dialogue with the anchors and the grocers, understanding that that's the format that they're going to stick with. No changes.

I think that, as I said earlier, I think that the focus for a lot of our grocers right now isn't on capital spend at the stores or changing formats or anything like that or opening new stores. I think we see the benefit of the store remodels, which is just updating, which they are doing a lot of, but as it relates to changing formats or changing demand, I think the money is being largely allocated to e-commerce and click-and-collect within their businesses today.

Sumayya Hussain, CIBC World Markets

You're not really seeing a shrinkage in their square footage requirements.

Greg Stevenson, Chief Executive Officer

Not in our markets, no.

Sumayya Hussain, CIBC World Markets

Okay, thanks. I'll turn it back.

Operator

Your next question comes from Johann Rodrigues, Raymond James. Your line is open.

Johann Rodrigues, Raymond James

Hey, guys. Just on that whole online theme, there was an article in the Economist the other day about the two German grocers and how they're really focusing not on growing their online presence but on brick-and-mortar footprint, and I think they talk about how ALDI wants to open 900 stores in the US, which would, I think, make them the third largest grocer after Wal-Mart and Kroger. Most of your acquisitions obviously are very much relationship-based, so have you guys reached out? Is there a relationship there with either of the two and kind of how is that looking and I guess what are your thoughts on them growing in the States over the next kind of half decade?

Greg Stevenson, Chief Executive Officer

Yes, they are tremendous operators outside of Slate Retail REIT. Slate Asset Management owns and operates over 100 grocery stores in Germany, so we know them, we have relationships with them. I think ALDI has a presence in the US and they've been successful there for more than a decade already. I think 900 stores is ambitious, but that doesn't mean they can't do it. And would we be happy to be their landlord because we think that they're a great operator? The answer is yes. And will we try and do that if the math and the economics make sense? Absolutely.

As it relates to Lidl, I think that after coming out publicly saying that they have these huge growth plans I think they've then recently retrenched to say that they're having a much harder time than they thought, because they're trying to do it all themselves. What I mean by that is they're trying to buy the land, develop the centre, and own the real estate themselves. Their struggles are two things. One, it takes a long time to do that, and if you're the low-cost producer the model means you need scale and you need scale quickly or else you're in trouble. They're also having a hard time finding good retail sites because they're trying to do it themselves. So, they're often in inferior locations. I think they're already very quickly having their challenges. We've reached out to say we're here to help you, should you need it, because we think they're great operators, and my view is that in the future, and I don't know how long this takes, but they start to rely more on landlords in the United States as the model is a bit more difficult than they're able to do back in Europe.

I think the jury is still out with both of them. I think Aldi has a much better position in executing than Lidl. So, needless to say, we're going to make sure that we're very relevant in any discussions that happen.

Johann Rodrigues, Raymond James

Okay, great. Thanks. I'll turn it back.

Operator

Your next question comes from Jimmy Shan at GMP Securities. Your line is open.

Jimmy Shan, GMP Securities

Hey, guys. A couple questions for me. One is on the general grocer leasing trends. If I were to look back a couple years ago the grocer average lease term was about 6.3 years. Today it's around 5.5 years. On the surface it would appear that the grocers are committing to shorter leases. I wonder if you can just talk about that and whether that is indeed the trend and maybe just characterize what the grocer sentiment is like.

Secondly, I recall there's one or two assets you had acquired recently where there's an opportunity to sell some of the outparcels at a good cap rate and maybe you can give us an update there.

Greg Stevenson, Chief Executive Officer

Sure. On the first one I would say that five-year renewals, so effectively exercising their contractual options, is what the majority of our anchor renewals have been. I don't think that's any different. I think that what we have been doing probably more of is acquiring anchors or properties with anchors that have shorter lease term, because we've had some success buying properties with less than two years where, you know, I think that risk or that mis-understood risk, because we think it's a misunderstood risk, keeps a lot of other bidders away and, as such, we get advantageous pricing. That would bring our weighted average down, but I think this year with eight anchors renewed year to date with only one anchor contractually expiring in the year shows that I think our strategy is the right one, and so we're creating value and that translates into NAV growth, which is good for everybody.

Jimmy Shan, GMP Securities

So, it's really just portfolio mix change as opposed to a discernible trend that grocers are in fact not committing for longer, at least in the lease deals.

Greg Stevenson, Chief Executive Officer

Yeah. No one has said we don't want to give you ten years, we're only going to do five. I think that we effectively sit down at the table and say, here's the five-year, here's the ten-year, this is the difference in cost, and if we think that there's value in taking it to ten years, we'll do it. If we don't think that's a good use of our capital because we can deploy it elsewhere, like in opportunities that I wrote about in the letter where our IRRs are, you know, 17 percent over a ten-year timeframe and we're tripling our money, from a capital allocation perspective that's what we're doing. Because we're not intending to get ten years and then flip the property. You know, this is let's hold this stuff forever because we think it's great real estate.

As it relates to the outparcel sales, we sold two during the quarter and two more subsequent to the quarter at a different asset but sort of the same business plan. We're making progress on the business plan at the asset that we mentioned, Mooresville Consumer Square, and we think that we'll be on plan as it relates to both dollars and timing. So far so good.

Jimmy Shan, GMP Securities

And what are you getting in terms of pricing on these outparcels, on the four that you've done so far?

Greg Stevenson, Chief Executive Officer

They've been basically between low sevens and high sevens depending on what it was that we're selling. We sold two quick-service restaurant pads in the high six, low sevens and then we sold two call them retailer pads, for high sevens, low eights. The single-tenant quick-service restaurants like your Taco Bell, your Pizza Hut, things of that nature, they still go for high fives, low sixes, and those are the ones, including bank outparcels and things like that, those are the ones that we're focused on selling, because if we buy a centre at a 7.5 and we can sell those outparcels at 6 or lower, you can do the math. It's accretive. So that's what we're focused on doing.

Jimmy Shan, GMP Securities

Okay. Okay, great. Thanks.

Operator

Again, it is star one on your telephone keypad to ask a question.

Your next question comes from Troy MacLean, BMO. Your line is open.

Troy MacLean, BMO Capital Markets

Good morning.

Greg Stevenson, Chief Executive Officer

Hi, Troy.

Troy MacLean, BMO Capital Markets

Do you expect grocers adding click-and-collect at your locations will have any impact on other tenants at the property, like in increased sales, things like that?

Greg Stevenson, Chief Executive Officer

Too early to say. I think that theoretically the answer is yes. We haven't seen it translate into that yet because it's early days but the grocers do believe that there will be an increase in foot traffic and an increase in sales as a result. So, I think the answer is we hope so.

Troy MacLean, BMO Capital Markets

I know you have two ClickList under construction at Hocking Valley and Mulberry Square; how many of your properties have some form of grocery pickup?

Greg Stevenson, Chief Executive Officer

I don't know off the top of my head, because it's changing every week. I would say the answer is that probably 75 percent of them are thinking about it, working on it, or already have it.

Troy MacLean, BMO Capital Markets

And then just on 2018, you have about 225,000 square feet of grocery leases up for renewal. Did they all have fixed-rate options?

Greg Stevenson, Chief Executive Officer

Yes.

Troy MacLean, BMO Capital Markets

Are you considering any more asset sales, besides the outparcels? You know, at Buckeye, I think you've talked about selling that in the past once you got a tenant in place. Is that still something you're thinking about?

Greg Stevenson, Chief Executive Officer

Yes, so Buckeye, they'll be in and operating by late spring, if all goes according to plan, so call it the start of Q2 2018, and then once that happens I think the answer is yes, we'd look to explore a sale. As it relates to anywhere else in the portfolio, I think it will just continue to be the quick-service or bank outparcels as well as maybe some non-core outparcels that we've leased up or created what we think is maximum value and that we can sell off to sort of simplify the overall property going forward. But nothing outside of that.

Troy MacLean, BMO Capital Markets

Are you able to disclose what the cap rate was on the Q4 acquisitions that have closed or been announced so far?

Greg Stevenson, Chief Executive Officer

Yes, 7.2. I'll come back if I'm wrong but I'm 99.9 percent sure it's about a 7.2 cap rate.

Troy MacLean, BMO Capital Markets

Perfect. Thanks a lot. I'll turn it back.

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.
