## CORPORATE PARTICIPANTS

**Madeline Sarracini**
*Investor Relations*

**Scott Antoniak**
*Chief Executive Officer*

**Robert Armstrong**
*Chief Financial Officer*

**Steve Hodgson**
*Chief Operating Officer*

## CONFERENCE CALL PARTICIPANTS

**Jonathan Kelcher**
*TD Securities*

**Himanshu Gupta**
*GMP Securities*

**Troy MacLean**
*BMO Capital Markets*

**Chris Couprie**
*CIBC Capital Markets*

## PRESENTATION

**Operator**

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

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**Madeline Sarracini, Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the first quarter 2018 conference call for Slate Office REIT. I am joined this morning by Scott Antoniak, Chief Executive Officer; Robert Armstrong, Chief Financial Officer; and Steve Hodgson, Chief Operating Officer for Slate Office REIT.

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, I will now hand over the call to Scott for a brief overview.

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**Scott Antoniak, Chief Executive Officer**

Good morning, everyone. Thanks for joining the call. I'll just take a few minutes to touch on some of the quarter highlights before opening up the lines for any questions.

During the first quarter of 2018 same-property net operating income was up 5.2% in comparison to the same period in the prior year, largely a result of the REIT's leasing coming on line on our active asset management efforts. We are very pleased to see our leasing efforts translate into positive cash flow and value creation.

Continuing on that theme, the team has completed over 200,000 square feet of leasing across the portfolio with a very attractive leasing spread of 14% over expiring or in-place rents. Overall execution continues to be positive. Most notably, the REIT was able to renew the province of Nova Scotia for 81,300 square feet on a long-term basis at the Maritime Centre in Halifax. Maritime Center continues to see strong demand and the planned renovation should continue to drive an increase in net rents and occupancy. As the REIT continues to complete lease deals to reduce existing vacancy, in-place occupancy increased to 85.9% this past quarter and 88.2% when properties under development are excluded from the calculation.

We've discussed in the past that we are pursuing a measured capital recycling program. In that respect, we're pleased to report that we have executed on the disposition of 135 Queens Plate Drive in Etobicoke for $16.74 million. This transaction was approximately 10% higher than the December 31, 2017 IFRS book value, achieved a 1.9 equity multiple and 19% IRR over the whole period. It's also worth noting that Queens Plate was one of the original (inaudible) assets and the sales price reflects a 21% premium over the original acquisition cost. We're obviously very happy about this result and expect to continue to dispose of non-core and fully-valued assets that allow us to recycle capital into future opportunities.

Last, we received approval from the board to execute on a normal course issuer bid. We believe that at certain of the recent pricing, buying back our units provides meaningful valuation to unitholders.

We thank you for your continued support and I'll now open the call to any questions.

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## QUESTION AND ANSWER SESSION

**Operator**

At this time, if you would like to ask a question, press star then the number one on your telephone keypad. To withdraw your question, press the pound key.

Your first question comes from the line of Jonathan Kelcher with TD Securities. Your line is open.

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**Jonathan Kelcher, TD Securities**

Thanks. Good morning. First off, just on 135 Queens Plate, what was the cap rate on that?

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**Steve Hodgson, Chief Operating Officer**

It was a low six.

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**Jonathan Kelcher, TD Securities**

Low six? Okay. And how much debt did you have on that?

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**Steve Hodgson, Chief Operating Officer**

About $10 million allocated with our Wells Fargo facility.

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**Scott Antoniak, Chief Executive Officer**

Jonathan, if I can elaborate on that, we've talked the last couple quarters around our view of valuations in the Greater Toronto Area portfolio and we've had, obviously, appraisals done in terms of financing and things like that, but this is the first, from our perspective, real data point we have and we're extremely pleased about where the valuation came in, obviously, in relation to the IFRS, and I think that would be consistent with how the rest of the GTA assets are valued. This is one real-time data point that we're pointing to and I think we're very encouraged by the result.

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**Jonathan Kelcher, TD Securities**

Okay. Do you see any other sort of fully valued properties in the GTA that you might look at disposing over the next little bit?

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**Scott Antoniak, Chief Executive Officer**

Yes, there are some, both non-core and non-strategic going forward and those that are stabilized, so I think there'd be a mix of both those things. There are certain assets in the GTA that would fit that criteria and others in Atlantic Canada as well, that may take the form of either a wholesale disposition, or full disposition rather, or a partial. But it would be a mix of the two markets and both characteristics.

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**Jonathan Kelcher, TD Securities**

What would you have considered Queens Plate? Non-core or fully valued?

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**Scott Antoniak, Chief Executive Officer**

Both. Which made it the obvious lead off to the recycling program. It made sense. It was, from any historical measure, fully valued and I think non-core to us going forward.

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**Jonathan Kelcher, TD Securities**

Okay. And would it be fair to say if your stock price stays in around where it is you'll use some of the proceeds from that when it closes into your NCIB?

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**Scott Antoniak, Chief Executive Officer**

Yeah, we think that's fair.

**Jonathan Kelcher, TD Securities**

Okay. Thanks. I'll turn it back.

**Scott Antoniak, Chief Executive Officer**

Thanks, Jonathan.

**Operator**

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

**Himanshu Gupta, GMP Securities**

Good morning. The markets you mention in the letter being Atlanta, Charlotte, and a couple of others, just wondering what cap rates you can buy in these markets. And is the approach to buy Class B assets in core downtown locations or is it Class A assets in suburban markets?

**Scott Antoniak, Chief Executive Officer**

It would probably be a mix. As you know, whether it's the GTA or Chicago or Charlotte or any of those markets, I think the answer is there's a very wide range in terms of where pricing is, so there are lower cap rate and higher per square foot assets. I think what I'd stress is that we will roll out the same kind of acquisition discipline that we've used in growing the portfolio in the GTA and Atlantic Canada now into Chicago. It will be a mix of suburban and urban, depending on where the opportunities are. The one thing that we'll be very focused on, as we have been historically here, is the relationship between pricing and replacement cost.

I expect that cap rates will be, that we'll be looking at on a stabilized basis, depending on markets, will be into the sevens. High sixes and low to mid sevens and, again, a mix of suburban and urban and it will be completely opportunity driven. As we get to some scale I imagine we'll roll out the same kind of philosophy here in terms of clustering of assets. We wouldn't want to add maybe one necessarily in every one of those markets, but if we can get some scale in certain of those markets I think that would be the longer-term goal.

**Himanshu Gupta, GMP Securities**

Right. So, you short-listed these markets based on your criteria of buying below replacement cost and good markets. Okay. To follow up on the asset disposition, 135 Queens Plate, did the buyer approach you or you were marketing this asset for sale? I just want to get a sense how active you were on the capital recycling front.

**Steve Hodgson, Chief Operating Officer**

The buyer, it was an inbound, but it was an asset that we had slated for disposition later in the year. The buyer, just to give you some colour, intends to occupy some of the space in the vacancy in the building, so we felt as though they were not discounting that vacancy and thus their price reflected that.

**Himanshu Gupta, GMP Securities**

Got it. Given your measured capital recycling program going forward, do you think you can get a better price for a small portfolio compared to these one-offs?

**Scott Antoniak, Chief Executive Officer**

It's possible, Himanshu. I think we'd look at either scenario. If we had a cluster of assets that made sense putting it together, that's possible. It'll be a mix of individual asset sales and maybe smaller portfolios, just depending on where we see demand.

**Himanshu Gupta, GMP Securities**

Okay. And there was a small fair value negative adjustment of $9 million in the quarter. Was it any specific asset or any market?

**Robert Armstrong, Chief Financial Officer**

Effectively what that is, is just the transaction cost for the seven-asset portfolio in South Clark just getting put through the P&L. On a run-rate basis, looking at the portfolio as a whole, we didn't move valuations substantially anywhere in the portfolio aside from Queens Plate to reflect that sale, so it's effectively on top of what our December 31st was.

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**Himanshu Gupta, GMP Securities**

Okay. That's helpful. One final question, 2285 Speakman is now paying rent. Rent started in the quarter. How much is the rent on a per-square-foot basis? Basically, I want to compare with SNC was paying, will be paying now versus what they were paying before the revitalization project.

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**Steve Hodgson, Chief Operating Officer**

They were paying about $13.50 prior to redevelopment and they're stepping between $17 and $19 with their new deal.

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**Himanshu Gupta, GMP Securities**

Okay, that's helpful. I'll turn it back. Thank you, guys.

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**Operator**

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

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**Troy MacLean, BMO Capital Markets**

Good morning. How much rent was included in Q1 from SNC's 2599 Speakman space?

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**Steve Hodgson, Chief Operating Officer**

Just for two months. So, it would be the square footage they occupied for two months at the $13.50 rathe that I just cited.

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**Troy MacLean, BMO Capital Markets**

I know it's early days but how is leasing proceeding at 20 South Clark?

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**Steve Hodgson, Chief Operating Officer**

It's positive. We referenced in our MD&A some of the leasing that we have done. We have a known vacancy in Q2 of about 13,000 square feet that we underwrote and didn't pay for and we've already offset that and we're net ahead by 3,600 square feet at rents that are indicative of the 18% growth that we expected.

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**Troy MacLean, BMO Capital Markets**

The Queens Plate was done at a pretty attractive increase over what you paid for it. Would you say you've had a similar move in fair value for what you could sell the property for in Atlantic Canada?

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**Steve Hodgson, Chief Operating Officer**

Yeah, on some of the properties I would say, and, Scott, feel free to jump in, I mean there is obviously been valuation impacts of some of the larger lease deals that we've done vis-à-vis Johnson Insurance and the long-term extension there, Blue Cross and the long-term extension there, Kings Place in Fredericton, which is one of our larger assets, with some of the new leasing we have done. And Maritime Centre, while it's sort of halfway through its transition, you know, we expect meaningful valuation impact from the rental increases we've achieved there.

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**Troy MacLean, BMO Capital Markets**

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

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**Operator**

And again, that's star one if you would like to ask a question.

Your next question comes from Chris Couprie with CIBC. Your line is open.

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**Chris Couprie, CIBC Capital Markets**

Good morning, guys. I'm just following up on Speakman. How is leasing going at 2599?

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**Steve Hodgson, Chief Operating Officer**

We just received the property back, as you know, from SNC. We're doing some work right now to get it ready for tours. We've had a few tours. But, as you can imagine, the space was occupied by SNC for many years and is an older vintage of product. New ceilings, lighting, et cetera are required. There's some landlord's work that we need to do on a speculative basis to make it more attractive to the end user. I'd expect, you know, if you're trying to model, I would expect it goes in four tranches and probably one tranche every six months. That's kind of our expectation.

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**Chris Couprie, CIBC Capital Markets**

Great. And then just on the Cominar assets, is there any type of operating strategy that you can share with us? Are there any value-add opportunities, anything like that?

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**Steve Hodgson, Chief Operating Officer**

I think it's a similar story to when we acquired the Fortis portfolio in that the properties were under-managed and some of the major tenants have shorter weighted average lease term, which is an opportunity for us to grow rents and extend and sort of re-stabilize and de-risk those assets. Over the coming quarters you'll see that be the general theme on those Cominar assets.

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**Robert Armstrong, Chief Financial Officer**

I think that Steve's point is correct in that we'll do leasing and we expect to do leasing. I think we've got pretty good momentum already both on South Clark and on the Cominar assets. So, even though we're only a month and a half into that, we'd be very positive. But it will probably be until Q4/Q1 of next year until we start to see new leasing come on line, but at this point we're really optimistic.

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**Chris Couprie, CIBC Capital Markets**

Any known vacancies that you underwrote for Cominar?

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**Steve Hodgson, Chief Operating Officer**

Just the Duncan Mill head lease, which is obvious, and we're starting to see an excitement around that property with Slate's ownership, just as we did when we acquired the 427 properties. We are optimistic that that's going to be a good story.

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**Scott Antoniak, Chief Executive Officer**

To follow on Bobby's point, I think it's consistent with many of the acquisitions that we've done that there's, in addition to being reasonable well occupied real estate in markets that we like, I think there's a story around this around the GTA assets being kind of non-core, if you will, to the vendor of them, who embarked on a strategy of no longer owning Ontario. I think that was reflected maybe in some of the management of them. And I think, you know, simply in Burlington, as it's below what market occupancy should be for an asset of that quality in that market. It will be a mix of that. And same with South Clark. I think the ownership structure was complicated and we can come in and, over the near to mid-term, create value through exploiting some of these opportunities that are consistent with much of what we've done in the past. They're good assets with a little bit more of a story than maybe just a plain vanilla.

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**Chris Couprie, CIBC Capital Markets**

Thanks. I'll turn it back.

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**Operator**

There are no further questions at this time. I will turn the call back over to Ms. Sarracini for closing remarks.

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**Madeline Sarracini, Investor Relations**

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

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**Operator**

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

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