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CONFERENCE CALL PARTICIPANTS

Sumayya Hussain
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Himanshu Gupta
GMP Securities

Johann Rodrigues
Raymond James

Jenny Ma
BMO Capital Markets

Stephen Boire
Echelon

PRESENTATION

Operator

Good morning. My name is Julie and I will be your conference operator for today. At this time, I would like to welcome everyone to the Slate Retail REIT Second Quarter 2018 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, simply press the pound key. Thank you.

Madeline Sarracini with Investor Relations, you may begin.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the second 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 Retail REIT's website to access all of the REIT's financial disclosure, including our Q2 2018 investor update, which is available now.

I will now hand over the call to Greg Stevenson and Robert Armstrong for opening remarks.

Greg Stevenson, Chief Executive Officer

Thanks, Madeline. Hi, everyone, and thank you for joining the call this morning. We will take a few minutes to touch on some of the highlights from the quarter before opening up the lines for Q&A.

During the second quarter the team completed over 240,000 square feet of leasing from 74 new and renewed leases. Renewals were completed at a spread of 9.8 percent over expiring rent while new leases were 62 percent above average in-place rents across the portfolio.

Despite the market's ever-changing view on retail, the REIT has increased in-place occupancy by 20 basis points during the quarter to 93.9 percent with a significant portion of leasing activity to still impact future periods. Compared to the prior year, occupancy has increased by 2.2 percent, reflecting the execution by our team on our property-level business plans. Fundamentals in our markets still remain strong and supportive of future growth.

Continuing on that note, same property net operating income was up 0.6 percent compared to the same period in the prior year or 1.9 percent when including the impact of completion of our redevelopment properties. We continue to make progress across all of our development properties and we will see Buckeye Plaza and County Line Plaza contribute to our earnings in the second half of the year.

The solid increase in total portfolio NOI of 2.3 percent quarter over quarter is a result of our active asset management along with increases in rental rates from renewals above in-place rent and new leasing at or above market rents. We are pleased to see our leasing efforts translate into positive NOI growth and drive value creation and continue to anticipate the second half of 2018 to be even stronger than the first half.

Robert Armstrong, Chief Financial Officer

Just a couple notes on the debt side. Subsequent to quarter end we entered into a further $350 million of interest rate swaps. Our debt is now 99 percent fixed, effectively eliminating interest rate exposure in our balance sheet. Further, the weighted average fixed rate of our swaps is 2.03 percent, which is below the current one-month LIBOR.

On an all-in basis our weighted average cost of debt is now 4 percent with no significant maturities prior to 2021, which we believe is attractive. This marks an end to our floating rate interest rate strategy. We estimate that since listing on the TSX in 2014 we have saved approximately $13 million or $0.28 per unit in interest cost relative to that fixed rate strategy.

During the quarter we also reduced total debt outstanding by $8.6 million, bringing our total debt reduction during the year to about $20 million, further reducing our loan-to-value ratio. We expect to further reduce debt in the short term as we continue to execute on our capital recycling strategy and build capital for future growth.

Lastly, in support of this capital recycling strategy we continue to repurchase units and have repurchased just over 1 percent of all outstanding units during 2018. We believe that buying back units provides meaningful value to unitholders at appropriate levels and will continue to execute on that basis where possible.

We thank you for your continued support and we will now hand the call over for Q&A.

QUESTION AND ANSWER SESSION

Operator

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

Your first question comes from the line of Sumayya Hussain from CIBC. Your line is now open.

Sumayya Hussain, CIBC World Markets

Thanks. Good morning, guys.

Robert Armstrong, Chief Financial Officer

Good morning.

Sumayya Hussain, CIBC World Markets

Just firstly on your commentary on the higher TIs in the quarter, can you break down further where the spending was between maybe new leasing or renewals and between mall shop and anchor space?

Greg Stevenson, Chief Executive Officer

The majority of the spending was related to small shop space, which is where you saw the largest increase in occupancy take up, and we're now effectively 100 percent leased on our anchor space so the growth going forward that we'll see will be on small shop space and largely related to leasing activity, which is what's driving sort of the 2.3 percent total portfolio NOI growth quarter over quarter.

You'll also note that we've sold $20 million so far of properties this year, so a lot of the pickup in capital spend is part of our capital recycling program from our sold assets that we're putting back into the portfolio to drive growth, as Bobby mentioned in the opening comments. The other part of that capital will go back to buying some units and I think we're continuing to stay active in the market from an acquisition perspective and we see a lot of good opportunities out there and we're monitoring and underwriting to potentially deploy capital back into some select opportunities in the second half of 2018 as well.

Sumayya Hussain, CIBC World Markets

Okay. Then, on that, do you kind of see the spend on tenant improvement cost, where do you see it trending over the balance of the year and maybe to 2019?

Greg Stevenson, Chief Executive Officer

I think the balance of the second half of the year will be in line to maybe slightly below what we've done in the first half. I think it's really driven by the fact that we have a lot of great opportunities in the leasing side of things, both from a pure leasing standpoint and from a redevelopment standpoint as well. As long as those opportunities present themselves, we're going to be spending the capital to take advantage of them, because we can do so at double digit unlevered yields, which we find very attractive.

Sumayya Hussain, CIBC World Markets

Lastly, on the capital allocation side, can you just remind us what your target leverage is?

Robert Armstrong, Chief Financial Officer

I think we'll try to come back down to about 55 percent leverage but we'll be a little lower than there, a little higher than there as opportunities for acquisitions present themselves and the timing of the dispositions. It's hard to say, but that's our target.

Sumayya Hussain, CIBC World Markets

Okay, great. Thank you.

Operator

Your next question comes from the line of Himanshu Gupta from GMP Securities. Your line is now open.

Himanshu Gupta, GMP Securities

Thank you. Good morning, guys. In the letter you mentioned $2 million of incremental base rent. Just wondering, do you have a sense of timing? I mean when do we see that in the numbers? Is it mostly back half of the year or is it more running into 2019?

Greg Stevenson, Chief Executive Officer

Largely in the second half of 2018 with some of it into 2019 in Q1, but a lot of it is going to be in the second half of 2018, which is why we talked a lot about it in Q1 and again this quarter. We see the majority of our growth in the 2018 calendar year being back-half ended.

Himanshu Gupta, GMP Securities

Okay. On the small shop occupancy, I mean it's up sequentially, it's up year over year; can you just give a sense of how the tenant negotiations have evolved over the last year? Are there things tenants are asking? Are there things you're giving? Has anything changed in the last 12 months or so?

Greg Stevenson, Chief Executive Officer

Nothing has changed in the last 12 months. As I mentioned, the markets that we're in particularly are very supportive of strong growth going forward and Q2 was no different. You have vacancy tightening, 30, 40 year low of supply of new product, and I think most importantly, we're bringing capital, as we've talked about a lot in the past, to markets and properties where other landlords aren't focused and aren't investing, which gives us a big competitive advantage on the leasing side.

Tenants haven't asked for more or less, it's sort of been the same. I think the increase in capital spend is really just a result of increased leasing activity, which is a good thing because we're growing NOI quarter over quarter and year over year. But all in all, I would say markets are tight, there's not a lot of places to go, and tenants are growing, stores are opening, and we've been the net beneficiary of that and the team has done just an absolutely tremendous job of getting down there, building those relationships, and driving that leasing activity across the portfolio.

Himanshu Gupta, GMP Securities

Okay. That's helpful. And on the same lines on the cap rate, you mentioned about the leasing activity, what about the cap rate? Cap rates have moved for the neighbourhood committee centres a little bit, I mean slightly, not much related to power centres. What's the trend there? Do you see that stabilization now or do you see that trend going further in terms of spread between neighbourhood and power centres cap rate?

Greg Stevenson, Chief Executive Officer

It has stabilized as of Q2. I think if you'd listened to or seen any of the results, Q2 results come out of the US REITs that do what we do in the strip centre space, they've been very strong, largely for the same reasons I gave you earlier that it's just supportive of growth. I would say that I think that the difference between neighbourhood strip centres and power centres has been there for some time. I think it's now just becoming more obvious to market participants what those differences are that there's more tenant demand in the neighbourhood strip centre space that tenants want to be next to grocery stores and not necessarily next to failing department stores or failing big-box retailers. I would add the capital spend required for power centres and big-box tenancies is far in excess of what we need to spend in the shop space. All to say that I think that on a return-on-capital and risk-adjusted basis neighbourhood strip centres offer a much better play today, in our opinion, which is why we're doing what we're doing and we're active in the space.

Things are getting better. There's still more results to come. I think we had a great quarter and, as we've talked about, we think the second half is going to be even better. There is a 4 percent print on a GDP growth coming out of the US, fundamentals are strong, there's retailers opening stores. We feel really good about the near term and the long term and I think the peers in the US are probably going to say a lot of the same things that we are.

Himanshu Gupta, GMP Securities

Fair enough. That's good to hear.

Robert Armstrong, Chief Financial Officer

Himanshu, the only thing I'd add is while we can't really control what the market does from a cap rate perspective, what we're trying to do, and have done, is we have grown occupancy by 200 basis points year over year. We have had good prints on same store, so we feel like that's creating value at the ground level. We have reflected in our valuations increased cap rates and we've moved them up, on average, about 20 basis points over the year, but we're only, we're within $2 a square foot from a valuation perspective, which we think is still very good. But I think it's a testament to what the team's done. Increasing occupancy 200 basis points year over year, continuing to have great growth at the ground level, we are really happy with where things are at.

Himanshu Gupta, GMP Securities

Absolutely. Quickly on balance sheet, 100 percent of debt, effectively 100 percent is fixed now, and obviously risk profile has improved. Just confirming, does that take away any flexibility? Can you still do asset dispositions, debt repayment without incurring much additional cost there?

Robert Armstrong, Chief Financial Officer

We actually think the balance sheet right now on the debt side is really flexible in that regard and that's been part of the strategy. A lot of US REITs and owners of US property will use CMBS financing in a large way are very restrictive. We think the way we financed, you know, having revolvers that allow us to trade assets in and out with hedges on top gets us to the same economic place but having massive flexibility to be able to manage our portfolio as a whole, so we couldn't be happier. We've got no meaningful maturity until 2021 and we've got four years of term on our interest rate positions, so we think we've got a lot of flexibility in that regard and couldn't be happier.

Greg Stevenson, Chief Executive Officer

The only thing I would add to that is I think in a lot of cases with the CMBS debt or property-level mortgages, you're calling a servicer, you know, 26-year-old servicer in California to get approvals to do lease deals to spend capital and tell you what you can do. We don't have any of that and I think part of our competitive advantage is how quick we turn things around and I think it shows up in our leasing velocity. I think from an operations perspective as well it really frees up the hands of our asset management team to be decision makers and to be proactive and to act quickly.

Himanshu Gupta, GMP Securities

That's helpful. And maybe just one final question. Now that the Southeastern Grocers have been dealt with, is there any tenant, is there any grocer on your watch list? I mean we read The Fresh Market, they're closing a bunch of stores. Probably that is on the watch list. Have you heard anything there or any other grocer on the watch list?

Greg Stevenson, Chief Executive Officer

No, no grocers on the watch list. I think what you'll continue to see in the sector is more consolidation and more acquisitions. Super Value has been sold. We had two Super Value chains and the Farm Fresh chain. Those were acquired by Kroger. We're the net beneficiary of that because we now have Kroger credit as opposed to Super Value credit. They're extending their leases and investing a bunch of capital to convert those over to Kroger stores.

Our underwriting remains the same, which is we underwrite the store first, the location. What are the sales? What is the rent? We like strong sales and we like low rent. We think high rents in today's market is a liability. We don't walk around talking about high ABR as this good thing that presents quality. We think that grocers today are looking across their fixed cost structure and when you have a store like many of ours in the $500 to $600 a foot range with a $5, $6 rent and your gross rent makes up 1 percent of your sales, we think that's a very good thing and we continue to focus on that and that's a healthy metric across our entire portfolio and sits at about 2.5 percent.

We think if we continue to focus on those metrics and store-level underwriting, you know, things might happen on a macro basis but, much like the Southeastern Grocers example, we're going to come out relatively unscathed and if not in a much better position than we were to begin with.

Himanshu Gupta, GMP Securities

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

Operator

Your next question comes from the line of Johann Rodrigues from Raymond James. Your line is now open.

Johann Rodrigues, Raymond James

Hey, guys. So far this year you guys have really only kind of culled outparcels and it seems like in some parts of kind of US retail the disposition market is pretty healthy. I mean a few of your peers have had some good success selling properties. Are there any kind of entire assets that you guys would like to kind of depose of and recycle that capital? Or should we kind of continue to expect really just outparcel sales through the balance of the year?

Greg Stevenson, Chief Executive Officer

I think we'll continue to do the outparcels, largely because there's no value add to us and we can take advantage of that market, which are today, price and cap rates, sub 6 percent, which is very accretively we can deploy that capital either buying back units or into the portfolio.

As it relates to full property dispositions, the answer is yes. It's not going to be substantial but some of the investments that we made in 2011 and 2012, which we've executed on our business plans, we've leased up to full occupancy, we've grown NOI, we've invested our targeted capital. I think there are opportunities today, to your point, to sell into what is a very healthy market full of private buyers, both institutional and local, and take advantage of the fact that we can then upgrade our portfolio from a quality perspective and buy assets with maybe lower occupancy or more upside that have been under managed for the last several years, i.e. do what we've done very well in the past. It's not going to be a meaningful part of our portfolio but the answer is yes, there'll be some select asset sales in the second half of the year to sort of take advantage of exactly what you just described.

Johann Rodrigues, Raymond James

Okay, great. And the outparcel sales, who's the buyer of those and what are they being turned into?

Greg Stevenson, Chief Executive Officer

A lot of the net lease single-tenant REITs, which are some of the largest REITs in the US, are buying. These are Starbucks, McDonalds, national credit tenants with 10, 15 years of lease term where there is nothing to turn them into. I think they look at these outparcels and say I can buy this from Slate at a 5.5 cap with a 15-year lease where the underlying credit for McDonalds or Starbucks on a corporate bond is maybe 3. We're going to get that 2.5 percent spread and there are steps in the leases and they think that's wonderful. I think for us, we view it as, we paid effectively 7.5 percent for that same credit because we bought it as a part of the larger centre. There's nothing that we can really do to it to add value, which is what we do as real estate operators, and if we can take that money at a 5.5 cap, using the Starbucks and

McDonalds example, and buy units back at an 8.8 percent distribution yield or north of an 8 cap, which is what our units are implying today, we think that's a pretty good trade.

Johann Rodrigues, Raymond James

Right. Okay. Philosophically in terms of capital allocation, I mean you guys have done, seem to be getting pretty good results in terms of the new leasing at places that you guys have put in capital. Really healthy spreads, both at kind of the small shop and the greater than 10,000 square feet. Do you not think that maybe you'd be earning a better return on the capital if you didn't buy back units? It doesn't seem to be really having too much of effect on the stock and it's already a thinly-traded stock. I know it's $4 million but are there not better places for that capital at the moment?

Greg Stevenson, Chief Executive Officer

I'll say this, I wish that the capital spend opportunities were even bigger than they are for that reason, because we would deploy 100 percent of our available capital to them. The reason that there was a big spike in capital this quarter is because more opportunities presented themselves.

The short answer is, we're putting as much capital to those opportunities as are presently available. In between generating significant operating cash flow plus proceeds from asset sales, we still have quite a bit left over, and we think that with that available capital unit purchases are still a very attractive capital allocation opportunity.

Robert Armstrong, Chief Financial Officer

On the buy backs as well, we believe in ourselves, we think it's a great use of proceeds, but it hasn't been entirely meaningful from a dollar perspective. Over the course of the year so far in 2018 we've done about $5 million. At our target price we'll be probably not able to do that for the rest of the year but to the extent there's dips in the market we'll take advantage of that. What we're seeing in the US is that there continues to be some pretty compelling opportunities, you know, with the opportunity Greg said before with some of the disposition plan, we'll likely take all of those proceeds and recycle it back into acquisitions.

Greg Stevenson, Chief Executive Officer

If you think about the units, using yesterday's closing price of $9.70, we pay a $0.84 distribution. So, if you own that for a year your basis is $8.86. That's 42 percent below our net asset value while you continue to collect an 8.8 percent distribution. We understand this portfolio, we see fundamentals strong looking to the future, I don't know of many better capital allocation opportunities out there today across any investment class, stocks, bonds, you name it. And at a 7.3 times FFO multiple it feels pretty good.

Johann Rodrigues, Raymond James

Gotcha. Okay, thanks.

Operator

Our next question comes from the line of Jenny Ma from BMO Capital Markets. Jenny, your line is now open.

Jenny Ma, BMO Capital Markets

Thanks. Good morning, everyone. Just wanted to get more colour on what you're seeing as far as acquisitions, what kind of cap rates, what kind of geographies, and how they differ from where your dispositions have been. How you think about the yields on the acquisitions when we talk about the cost of your equity and what you're getting back through the unit buybacks and how you think about it. Are there any acquisitions where going in you think it's a pretty good proposition as is or would you be looking for a redevelopment angle in order to kind of juice that return?

Greg Stevenson, Chief Executive Officer

On the dispositions, I think it's really not just a cap rate, because cap rate is just point in time. For example, if we bought something for a 7 cap, if we see upside that may grow to an 8.5 with leasing over time. So, cap rates are tough. I think on a risk-adjusted basis what we're really trying to do is sell assets where we've achieved our target mid- to high-teen IRR and recycle that capital into something that, again, pays us a healthy day-one yield but something that we think we can grow accretively for the REIT into the future.

Yields today on acquisitions, I mean it obviously varies. If you're talking core market with long-term leases and a Kroger, Wal-Mart, Publix, i.e. highly sought-after credit, I mean you're still in the high 5s, low 6s. For what we own, which is outside of those markets but still the credit I described, you're anywhere from low 6s to low 7s. Where it really starts to widen out again is more on the power centre space in the tertiary markets.

Where we're focused is still our bread and butter, which is a market with $1 million MSA, strong credit grocer, well located, strong sales, low rent, all of those things. Those cap rates today are similar to what we could have done 12, 18 months ago. Like Bobby said, we've adjusted our internal cap rate 20 basis points, which is probably what we've seen in the market. It is not a huge move. I think for us it's really just upgrading the portfolio from a quality perspective and making sure that whatever it is we're investing in, you know, there's a path to growth in both earnings and NAV on a per-unit basis.

Robert Armstrong, Chief Financial Officer

Maybe what I'd add is from a cost of capital perspective, as Greg said, we're looking at a minimum of 15 percent IRRs, so mid to high teens on a leveraged basis. We believe that the acquisitions we've undertaken over the last number of years were on track to achieve that in the large majority of cases. We're very happy with that. As far as our equity cost of capital and our underwriting in that respect, we're looking at where we last went to market, which we think is appropriate. But what I would comment is we still see a lot of acquisitions and opportunities where this is just very simple real estate where we can buy something where we just do some leasing, we can increase occupancy. You've seen that in our portfolio so far where we're up 200 basis points year over year and a lot of that's really just the acquisitions we bought in 2017 and 2016, the team just doing their job and doing some leasing and getting tenants in there and increasing rents.

A lot of the growth we see is in that respect and what we're really happy about and why we like the strategy and we think there's tons of opportunity is, you know, we can do that all day long with fantastic credits. In order to be able to do that in the Canadian market and being able to achieve a 15 percent or above levered IRR is really tough without having to do a redevelopment play or something else that takes a lot of management time and a lot of risk. We see this strategy as relatively low risk and just simple real estate plays where we've just got to roll up our sleeves and do some good work. And it's been working for us so far and we're going to continue to do that.

Jenny Ma, BMO Capital Markets

Okay. So, when you're underwriting a potential acquisition, how much time do you allocate to pick off the low-hanging fruit like through leasing and then how much time do you allocate to the longer-term returns to get your 15 percent IRR?

Greg Stevenson, Chief Executive Officer

In terms of like how long it takes us to achieve all of those things?

Jenny Ma, BMO Capital Markets

Yes. Like do you assume that your lease-up happens in 9 to 12 months and then your 15 percent IRR comes in 24 months? Like how do you think about the timeframes of getting to those targeted returns?

Robert Armstrong, Chief Financial Officer

Generally, we'd look at a five-year underwriting scenario. And by market it's all asset-specific. So, it would be on the basis of talking to brokers, understanding what they think the lease-up is possible, understanding, based on our other assets in the market, how long that takes. Generally, when we do our look-back on how we've performed, generally we tend to be ahead of schedule on actual leasing for the most part. Not on all parts. But it could be, in some cases, three or two years to achieve that leasing. And there's a whole portion of what we buy as well where we're assuming that, you know, there's structural vacancy for some of it, so we think we're pretty conservative in that regard.

Greg Stevenson, Chief Executive Officer

I think Bobby's point is a good one. I think we've now been doing this since 2010, 2011. We've made some mistakes and we'll make some more but they'll be small relative to the good things that we do. And I think that we have a portfolio—we've owned 93, we now own 96, and we've got seven years of look-back data to sort of drive our underwriting decisions and we're investing in the markets that we've been in for a long time, so I think that we're getting even better than we were in the past at underwriting these opportunities.

Jenny Ma, BMO Capital Markets

Okay, great. That's helpful. Thank you very much.

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 Stephen Boire from Echelon Wealth Partners. Your line is now open.

Stephen Boire, Echelon

Thank you. Hi. Good morning. So, as you mentioned earlier, I believe you expect an even better growth in the second half of 2018 and I was wondering if you could give us some kind of a guideline in terms of the same property NOI growth for the year.

Greg Stevenson, Chief Executive Officer

There's a lot of moving parts between acquisitions and dispositions, so we don't want to give guidance, and leasing activity is picking up meaningfully so it's hard to pin down with any meaningful accuracy. We've done 0.6 percent in the second quarter and I think we're continuing to see growth into the second half of the year. So, needless to say, we think it's going to continue to be more positive than it was in Q2.

Stephen Boire, Echelon

Okay. Okay, good. Thank you. And in terms of the G&A, I was just wondering, from a modelling perspective, should Q2 be considered as a good run rate going forward?

Robert Armstrong, Chief Financial Officer

Yeah, I think that's correct.

Stephen Boire, Echelon

Okay. That's good. That's it for me. Thank you so much.

Operator

There are no further questions. I turn the call back over to Madeline Sarracini.

Madeline Sarracini, Investor Relations

Thanks, everyone, for joining the second quarter 2018 conference call for Slate Retail REIT. Have a great day.

Operator

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