CORPORATE PARTICIPANTS

Madeline Sarracini
Investor Relations

Greg Stevenson
Chief Executive Officer

Robert Armstrong
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Troy MacLean
BMO Capital Markets

Himanshu Gupta
GMP Securities

Sumayya Hussain
CIBC World Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Retail REIT Fourth Quarter 2017 Financial Results Conference Call. As a reminder, this call is being recorded today, February 20, 2018, at 9:00 a.m. Eastern Time. Your host for today's call is Ms. Madeline Sarracini. Please proceed, Ms. Sarracini.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the fourth quarter 2017 year-end 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 Q4 2017 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 then the number one on your telephone keypad. We will pause for a moment to compile the roster.

Our first question comes from Troy MacLean from BMO Capital Markets. Please go ahead, your line is open.

Troy MacLean, BMO Capital Markets

Thank you. Good morning. There's been news reports on the weekend that the parent company for Winn-Dixie and BI-LO is looking at potentially restructuring, including some store sales. Just wondering if you've heard anything and kind of how that would impact your capital program for 2018.

Greg Stevenson, Chief Executive Officer

Yeah, we've read probably a lot of what everyone on this call has read, and I think what we read is that it's largely a leverage issue at the parent co and not an operating issue, i.e. Lone Star, who is the private equity parent company, has over levered the company. When we look through to the operating business, which is the grocery store business, they operate just over 700 stores. They're a large dominant player in the southeast and next to Publix they're the largest grocer in the state of Florida. We are always talking with all of our anchor tenants, including Southeastern Grocers, and our view on the 10 stores that we have with them is that they would sit in the top rankings within their 700 store chain. We can't speculate on what may or may not happen but we do believe that if the parent co can solve the leverage issue that there are positive operating fundamentals at their stores, including the ones that we own, and that we stand to benefit from improvement in credit on our Winn-Dixie and BI-LO anchored centres, which today makes up about 4% of our base rent.

Troy MacLean, BMO Capital Markets

Thanks for that. You've mentioned potentially higher redevelopment spend in 2018. I was wondering if you can give us colour on how large the program could be and whether or not it's dependent on asset sales. I know you've targeted $30 million to $50 million in 2018. Could that get higher?

Greg Stevenson, Chief Executive Officer

As we outline on page 16 of the MD&A, the current pipeline is $26.7 million. If you add the $10.7 million from North Augusta that we've just completed in Q4, that's about $37.8 million, which is also highlighted in the investor presentation that you can find on our website. We think that can continue to grow, not substantially but, as we stated, we think that the $26.7 million can grow to anywhere between $30 million to $50 million over the next 12 to 18 months. We are also targeting expected yield on cost between 9% and 11%. So, very accretive to the underlying business and where we'd like to focus part of excess cash flow towards those opportunities.

As it relates to the outparcel sales and other non-core sales, we target that to be about $30 million to $50 million, as you stated. We've completed two subsequent to the fourth quarter already, as we noted in the MD&A. So that's $15 million of that $30 million to $50 million already in the door that we can deploy accretively. Those sales can come at cap rates sub 6% in some instances, so if we can redeploy that capital either back into the portfolio or by repurchasing units north of an 8% yield, we think that's a positive outcome for the REIT.

Troy MacLean, BMO Capital Markets

On the $30 million to $50 million of sales, will that be just on outparcels alone or will there be any property sales, like entire properties sold as well?

Greg Stevenson, Chief Executive Officer

There may be two or three properties in that number that are from the 2011/2012 vintage that we've largely executed our business plan on and that are stabilized and that we think that we can sell, realize maximum potential from a value perspective, and redeploy into other opportunities at higher unlevered yields within the portfolio today. But largely outparcels.

Troy MacLean, BMO Capital Markets

The two sales completed so far in 2018, what cap rates were they? Were they in the sub-7 range?

Greg Stevenson, Chief Executive Officer

One was in the sub-7 range and one was in the mid-7 range.

Troy MacLean, BMO Capital Markets

For Q4 there was new leasing of about 112,000 square feet. I was curious if that included the completed redevelopment from North Augusta. Is that where it showed up?

Greg Stevenson, Chief Executive Officer

No, no new leasing in that number is from North Augusta. A large part of it was actually related to the development that we have ongoing at Hocking Valley where we signed two new leases.

To give you background on that, so that also shows up in our redevelopment table. That was an asset that we bought with a Kroger and a Kmart. We have moved the Kroger into the Kmart space. They are now operating and open for business. We signed a 20-year lease with Kroger there. A lot of the new leasing that you've read in this quarter was executed leases backfilling the former Kroger space at rents that are more than double what Kroger was formerly paying. So that makes up a large portion of what the new leasing in this quarter was.

Troy MacLean, BMO Capital Markets

Perfect. Thank you. That's it for me.

Greg Stevenson, Chief Executive Officer

Thanks.

Operator

Your next question comes from the line of Himanshu Gupta from GMP Securities. Please go ahead, your line is open.

Himanshu Gupta, GMP Securities

Good morning, guys. In the letter you mentioned that power centres and enclosed malls are the most impacted from store closures due to large fashion exposure. Just wondering how the cap rates have moved for power centres versus, say, neighbourhood and community centres in the last year or so.

Greg Stevenson, Chief Executive Officer

I think that it is an important distinction to make, because a lot of the pain felt at enclosed shopping malls and power centres are from either large 100,000-plus square foot department stores, for example Sears, or at power centres where you have large 30,000 to 40,000 square foot general merchandisers, largely apparel, electronics, or book stores, of which Slate Retail REIT has an immaterial amount within the portfolio, which is what we wanted to highlight. It's not a huge impact of shop space tenants moving out of malls and coming into our centres, although it is there and the demand is there where they are looking to leave those either power centres or malls and looking to relocate next to a grocery-anchored centre, largely because the grocery store generates natural demand as our customers visit grocery stores, on average, two to three times a week in the United States.

Himanshu Gupta, GMP Securities

Obviously, retailers are closely looking at the cost of occupancy as they focus on profitability, so what is the base rent per square foot differential between, say, neighbourhood versus a power centre or retail mall? We are trying to see is there an opportunity to upgrade the tenant mix over the medium term.

Greg Stevenson, Chief Executive Officer

Yes, that is a stat that we focus very heavily on and we think that if your gross rent as a percentage of your sales is low enough someone, a grocer or otherwise, will want to be there over the long run. And for us that number is below 3% and for power centres and enclosed shopping malls it's more than two times that amount. So, not only do you get better foot traffic, improved visibility, you also get lower fixed costs and better margins at our centres. I think that's going to be very important for retailers going forward and it's why we focus meaningfully on that number.

Himanshu Gupta, GMP Securities

How is the debt environment? I mean in terms of lending spreads, has there been change in underwriting CMBS financing?

Robert Armstrong, Chief Financial Officer

While we're not in the market, we have been staying abreast of it. I think we did the last revolver and term loan in the fall of 200 over. I think currently, if we were back out in the market, we'd probably be able to get inside of that, say 10 to 15 basis points. So, for well-positioned, high-quality property, which we think the Slate Retail REIT has, we think the spreads are today better than they ever have been. Maybe some of the other terms would change based on overall leverage and what rates of done but I think, you know, with rates kind of increasing up you're seeing a little bit of spread compression, but not on a one-for-one basis.

Himanshu Gupta, GMP Securities

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

Operator

Again, if you have a question, please press star then the number one on your telephone keypad.

Our next question comes from Sumayya Hussain from CIBC. Please go ahead, your line is open.

Sumayya Hussain, CIBC World Markets

Thank you. Good morning.

Greg Stevenson, Chief Executive Officer

Good morning.

Sumayya Hussain, CIBC World Markets

It looks like in 2018 there's going to be a greater focus on organic growth versus acquisitions so, just to that end, where do you guys see same property growth and occupancy trending over the course of the year?

Greg Stevenson, Chief Executive Officer

I think almost the sole focus is organic growth versus external growth. Same property growth, much like it did for the full year of 2017 where we were almost 1%, or 1.4% when you include North Augusta, we expect the positive trend to continue and likely increase as our redevelopment comes on line. A lot of the leasing that you've seen this quarter and in prior quarters flow through into our results. So, the last five quarters that we had from a same property NOI growth perspective have been positive.

This quarter is a 90-day period and it was largely related to one-time items, so we don't expect that trend to continue. We generally expect the same property trends to revert back to positive going forward and I think that because our same property portfolio only accounts for about 58% of our total, you're susceptible to some of these blips, but overall for 2018 we see positive trends, much like in 2017, and I think that will flow into FFO growth much like it has in the past. And, again, I think if you look through at the leasing trends and the stats that we've been posting, the fundamentals are still very positive inside the portfolio.

Robert Armstrong, Chief Financial Officer

I'd just add as well, coming out of 2017 with close to $400 million of acquisitions, the team has done a great job with the leasing, and a lot of that leasing has already been done on those properties, but it's going to be a lag from the lease deal to when that gets into results. So, as a result, we're really positive on 2018 but we think we're going to see the big benefit of all the leasing done as of late come into Q3 and Q4.

Greg Stevenson, Chief Executive Officer

I think that is an important point. We have completed 78%. By the end of 2017 we have completed 78% of contractual 2018 expiries. So, all of that we expect to flow through into the latter half of 2018 results.

Sumayya Hussain, CIBC World Markets

The retention rate for the non-grocery space in the quarter or for the year was about 77% from 84% last year. How does this compare against what you guys have seen historically? What would you expect to see for retention in non-grocery space in 2018?

Greg Stevenson, Chief Executive Officer

I think we are very pleased with almost an 80% retention rate in shop space. Part of it is strategically improving the tenant mix within our stores to bring in synergistic uses and uses that we think can improve the overall desirability of our centres and I think 80% is a good number. Going forward it is something that we can continue. It's not something that we project. I mean we generally look for highest and best use and sometimes that takes 90 days, sometimes it takes 24 months, but I think the important thing is if we can continue to do 100% renewal rates at anchors and 80% on shop space with redevelopments coming on line, all of which to say organic NOI growth will continue into the future.

Robert Armstrong, Chief Financial Officer

Adding to that, looking back over the last couple years, that rate has been about that the entire time. It's going to oscillate from quarter to quarter. But, overall, since Slate Retail REIT has been around we have in and about the same occupancy we are now and the retention rate continues to remain extremely high, notwithstanding some of the discussion going on in the retail industry. We've been really happy with what the team has been able to do so far and we see nothing that would change that going forward.

Sumayya Hussain, CIBC World Markets

Okay, great. I'll turn it back.

Operator

And there are no further questions. I will now turn the call back to management for closing remarks.

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.
