CORPORATE PARTICIPANTS

Braden Lyons
Investor Relations

Scott Antoniak
Chief Executive Officer

Steve Hodgson
Chief Operating Officer

Michael Sheehan
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CONFERENCE CALL PARTICIPANTS

Brad Sturges
iA Securities

Jonathan Kelcher
TD Securities

Chris Couprie
CIBC Capital Markets

Brendon Abrams
Canaccord Genuity

Jenny Ma
BMO Capital Markets

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Slate Office REIT Fourth Quarter 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during this session you will need to press star one on your telephone.

Please be advised that today's conference is being recorded. If you require any further assistance, please press star zero.

I would now like to turn the conference over to Braden Lyons, Investor Relations. Please go ahead.

Braden Lyons, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the fourth quarter 2019 conference call for Slate Office REIT. I am joined this morning by Scott Antoniak, Chief Executive Officer; Michael Sheehan, Chief Financial Officer; and Steve Hodgson, Chief Operating Officer.

Before getting started, I would like to remind participants that our discussion today may contain forward-looking statements and therefore we 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 Office REIT's website to access all of the REIT's financial disclosure, including our Q4 2019 investor update, which is available now.

I will now hand the call over to Scott Antoniak.

Scott Antoniak, Chief Executive Officer

Thank you, Braden. Good morning, everyone, and thank you for joining the call.

Slate Office REIT remains focused on owning and operating a portfolio of well located, quality office assets that deliver meaningful total returns to unitholders through an attractive monthly yield and continued growth in net asset value. Throughout 2019, the REIT completed a number of initiatives that enhance our operating performance and positioned us for growth, both organically and through acquisitions. These initiatives will allow the REIT to build value for unitholders in 2020 and beyond. This morning I would like to discuss the measures that we believe will continue to drive value creation for the REIT.

First, the operating performance of Slate Office REIT continues to be strong. During the fourth quarter the team completed over 190,000 square feet of leasing. On a year-to-date basis we completed 719,226 square feet of leasing at attractive leasing spreads of 18.8%, highlighting the strong demand across our core leasing markets. As a result of this strong leasing, occupancy in the quarter increased 80 basis points to 87.1%.

With in-place rents across the portfolio at a 12% discount to market on average, the REIT is well positioned to generate organic growth going forward. The REIT's IFRS net asset value increased to $8.99 per unit at December 31, 2019, an increase of $0.45 or 5.3% year over year. When combined with the monthly distribution, the REIT has provided unitholders with an attractive total return of 10.7% in 2019.

During 2019 the REIT completed five transactions as part of our previously announced capital recycling program. These transactions generated $171 million of net proceeds, which enhanced the REIT's liquidity and ability to acquire new assets, reinvest in our existing portfolio, and reduce leverage. These transactions, along with the disposition of 4211 Yonge Street, were completed at an average levered internal rate of return in excess of 22% and at a $55 million premium to acquisition cost, proving our ability to generate compelling returns for unitholders.

At the beginning of 2019 we set out to reduce the overall loan-to-value ratio of the REIT. During the year the REIT's loan-to-value ratio declined by 440 basis points to 58.7%. We expect this trend to continue naturally through debt amortization and value creation within the portfolio until we reach our target ratio of 55%.

With the completion of the capital recycling program and a strengthening balance sheet, we believe the REIT is well positioned for growth as we head into 2020. The REIT has a significant acquisition pipeline in the United States and Canada and we expect to deploy capital into new opportunities that will strengthen the quality of the REIT's portfolio and create incremental value for unitholders.

Lastly, the REIT has received board approval for further unit repurchases of up to $10 million under our normal course issuer bid. We believe that allocating a portion of our available liquidity to repurchase units will increase unitholder value and that such repurchases constitute a prudent use of the REIT's resources.

In summary, we continue to believe that Slate Office REIT represents a compelling total return investment opportunity for unitholders. With strong organic growth driven by leasing and market rental rate upside, consistent operating performance, and a strengthened balance sheet, Slate Office REIT is very well positioned for the future. In addition to our existing portfolio of quality assets, we have a robust pipeline of accretive acquisition opportunities and available liquidity to acquire new assets that will continue to drive value creation for unitholders. There continues to be no better time to invest in Slate Office REIT and we remain excited for our future.

We look forward to continuing to execute on our strategy and we thank you for your continued support. I will now open the call for questions.

QUESTION AND ANSWER SESSION

Operator

Ladies and gentlemen, to ask a question, please press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Brad Sturges with iA Securities. Your line is open.

Brad Sturges, iA Securities

Hi. Good morning.

Scott Antoniak, Chief Executive Officer

Good morning, Brad.

Brad Sturges, iA Securities

I guess just starting up with your commentary at the end in terms of value related to the stock price relative to, I guess, your book value, I guess you have been approved to execute on the NCIB again, but also would Slate Asset Management or SLAM consider increasing its investment in SOT given the deep value currently at this trading price?

Scott Antoniak, Chief Executive Officer

No plans to do that at the present time, Brad. We are happy with the investments that we have in Slate Office REIT.

Brad Sturges, iA Securities

Okay. In terms of organic growth expectations this year, what are the expectations for the REIT and what would be the bigger driver of that in terms of growth this year?

Michael Sheehan, Chief Financial Officer

So, if you look at our weighted average lease term, it is approximately 5.6 years, so that basically means that you are turning over your portfolio about one-fifth every year. We believe that our rents are about 12% discounted to markets currently, so that would give you an increase year over year 1.5% to 2% organically. Furthermore, with the initiatives we have completed in 2019, we have available liquidity to purchase up to $150 million in assets this year, so that will further contribute to the growth in 2020 and beyond.

Brad Sturges, iA Securities

I guess for this year, what is your expectation for occupancy within the forecast if you are assuming, let's say, 1.5% to 2%?

Steve Hodgson, Chief Operating Officer

Hey, Brad, it is Steve. So, we increased occupancy by 80 basis points in Q4. We have completed a significant amount of leasing to date in 2020. Our anticipation of occupancy by year end is approaching 90%.

Brad Sturges, iA Securities

And that is including expected vacancies?

Steve Hodgson, Chief Operating Officer

Correct. Just to comment quickly, because I am sure the question will come up on the expected vacancies, so 129,000 square feet coming back in Q2 of 2020 in Atlantic Canada. In Atlantic Canada we have made significant progress on leasing. 70% of the leasing we did in Q4 2019 was in the Atlantic region. Most notably, we completed a 15,000 square foot deal at Maritime Centre with the province of Nova Scotia and we did a new deal in St. John's, Newfoundland at Fortis Place for 13,000 square feet. In addition, the vacancy that is coming back in St. John's is well below market rents.

Brad Sturges, iA Securities

Okay. So, when we look at the expectations for occupancy trending towards 90% by the end of the year, what is your view of what that occupancy would be in Atlantic Canada and where is the growth really coming from? Is that outside Atlantic Canada?

Steve Hodgson, Chief Operating Officer

The growth will be coming from Atlantic Canada and the lease up of some of our vacancy in Toronto, including 2599 Speakman, where subsequent to quarter end we completed a 40,000 square foot new deal with PWGSC to bring that building to 50% committed occupancy.

Brad Sturges, iA Securities

And finally, just leasing spread expectations for this year, I think in the MD&A it highlighted that the in-place rents are well below estimated market rents, so where do you see that ending up this year?

Steve Hodgson, Chief Operating Officer

It is difficult to predict, because spreads that we do are both renewals that may not be in the year for the year, and renewals in the year of course too, so it will really depend on any of that leasing that we do in advance of expiry. But, as Mike noted, our portfolio is still 12% below market rent, so we expect, not necessarily every quarter to achieve the 13.4% that we achieved this quarter, but somewhere in that range.

Brad Sturges, iA Securities

Okay. Great. Thank you.

Operator

Your next question comes from Jonathan Kelcher with TD Securities. Your line is open.

Jonathan Kelcher, TD Securities

Thanks. Good morning. Just following it up on Brad's last question there, so the 24% mark to market, I am sure that is a sticker shock to many of the tenants. Like would you expect to incur tenant turnover to get to those market rents?

Steve Hodgson, Chief Operating Officer

Apologies. Can you clarify what the 24% refers to?

Jonathan Kelcher, TD Securities

Page 19 of the MD&A it says the in-place rent of the 2020 maturities is approximately 24% below market rent.

Steve Hodgson, Chief Operating Officer

Right. In our forecast we have made assumptions around tenants that will be vacating and tenants that have a high renewal probability, so that is all embedded in the weighted average calculation that we have done.

Jonathan Kelcher, TD Securities

So, you think you can get 24% on the 8% that turns this year? Or matures, sorry.

Steve Hodgson, Chief Operating Officer

Yes.

Jonathan Kelcher, TD Securities

Okay. And generally speaking, like how do you guys think about that, like pushing as much market rent as you can versus, obviously, some tenants will move?

Steve Hodgson, Chief Operating Officer

Yeah, I mean we generally do not lose a tenant over deal structure. It is primarily because of other objectives that the tenant has, such as in St. John's where Exxon elected to own its own real estate, so I would say that that we push as far as the market allows us to.

Jonathan Kelcher, TD Securities

Okay.

Scott Antoniak, Chief Executive Officer

And that is the strategy, right, Jonathan, of actually buying assets at a low cost base that have that relationship between market rent and in-place rent. That is an important part of every single thing that we do, so that is why we have seen that consistently over kind of our five-year period, and we expect more of that to continue going forward. So that is really kind of our bread and butter on the leasing side of acquisition, to buy buildings and have that dynamic in place.

Jonathan Kelcher, TD Securities

Yeah. No, I get that, it is just 25% is a big number and I would expect not all tenants would just take that 25% increase.

Steve Hodgson, Chief Operating Officer

It is skewed by a couple larger deals in Atlantic Canada where you would have, say, a government tenant rolling over at a rent that was set 10 or 15 years ago. And the denominator on that calculation is not a large number. We are not talking $20 net deals; we are talking $10 net deals. So, the increase on a nominal dollar basis is less.

Jonathan Kelcher, TD Securities

Okay. Fair enough. Turning to acquisitions, I think you said in the MD&A that you guys are underwriting about $3 billion worth of deals right now. So, US Sun Belt, would that go all across Arizona and Texas and in states like that?

Scott Antoniak, Chief Executive Officer

It could, Jonathan, would be the short answer. And the longer answer, I mean southeast, specifically, we spent a lot of time there over the last 12 months. We continue to like Chicago, we think the experience we have had there is very good, that million square feet bought on a thesis where it was under-occupied has been borne out with that 84% at acquisition now pushing 90% on an occupancy basis with some more leasing to go there, so we really continue to like Chicago.

And the other markets would be southeast. I think, as I said in the letter, Florida specifically, from a tax perspective and, not to be dismissive of this, climate actually does matter. Cost of living. There are 900 people a day immigrating into Florida, either from other parts of the US or around the world, so that is a strong growth market, we think, with very positive demographics going forward. So that is where we spent the bulk of our time, but other markets where we can find those kinds of demographics and dynamics we would look at as well.

Jonathan Kelcher, TD Securities

Okay. And then how do you look at accretion on acquisitions? Because you guys don't have a very favourable cost of equity right now. How do you think of that?

Michael Sheehan, Chief Financial Officer

We have existing liquidity to purchase up to $150 million of assets currently, we would be able to do that without accessing the markets, and so we would be looking to do that. And in terms of capital allocation questions, we are always looking to maximize returns for unitholders, whether we reinvest in our current portfolio of assets, which we have done in the past and have generated outsized returns, versus acquiring new or, in this situation right now, potentially being active on our NCIB.

Scott Antoniak, Chief Executive Officer

And I would add, Jonathan, I think the simple way that we are looking at this now to a certain extent, as you know, we disposed of 4211 Yonge to a user at a sub 4% cap rate. A lot of that $3 billion pipeline that we are currently underwriting and looking at in these markets in the US, the cap rates would start with a seven. So that is a pretty good arb that we would take.

And we have a similar building quality, tenant credit profile, lease term, et cetera, to what we have now with that upside that we continue to look for in the competitive cost base. So, I think that is a pretty good trade. And part of our job is to be opportunistic for unitholders and look around and find these deals, so if we can trade out kind of at full value plus into new opportunities where we can see those returns over the longer term, we will do that.

Jonathan Kelcher, TD Securities

Okay, that makes sense. Thanks. I will turn it back.

Operator

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

Chris Couprie, CIBC Capital Markets

Good morning. Just turning back to the questions regarding the acquisitions, are you looking at more kind of one-off acquisitions a la what you did in Chicago or are you looking more at portfolios?

Scott Antoniak, Chief Executive Officer

We will evaluate both types of opportunities, Chris, in both markets. And again, it has never been that we are exiting Canada, if you will, for the US, so we continue to look here and in markets in the US for either individual assets, portfolio asset opportunities.

Chris Couprie, CIBC Capital Markets

And then within Canada, are you just looking at GTA or are there other markets that you are considering?

Scott Antoniak, Chief Executive Officer

Oh, we are looking in all markets all the time. We think, as evidenced by 4211 Yonge, we think the GTA is obviously in high demand right now and that has impacted the pricing, but yeah, we look at all markets across Canada and the United States.

Chris Couprie, CIBC Capital Markets

So, just maybe where in Canada right now are you seeing an opportunity that kind of fits your profile?

Scott Antoniak, Chief Executive Officer

It would be GTA, potentially Ottawa. We have looked in Montreal, et cetera. We are happy with our existing asset base in Atlantic Canada. We think there is great value in Calgary, but not necessarily for a vehicle with a structure that pays out a monthly distribution. But we think as a long-term play there is value in there, but it would not be for the REIT. So, I think probably Ontario and maybe Montreal would be the simple answer.

Chris Couprie, CIBC Capital Markets

Okay, great. And then with respect to your leverage, it has come down a bit, the 55% being your kind of mid-term target. If you executed that $150 million of liquidity, where would you see leverage going or where are you comfortable taking it in the near term to get these transactions over the line?

Scott Antoniak, Chief Executive Officer

As Mike said, Chris, and I think, first of all, we are committed to the 55% number as a goal for Slate Office REIT. I think we are confident that we can execute on the acquisitions that we have outlined and continue that loan-to-value trajectory in 2020. We have available liquidity to do up to $150 million worth of acquisitions. We think we can keep driving that towards that 55% number.

There is 150 to 250 basis points of natural amortization that ticks down on an annual basis, so it comes down that way, and we think there are a number of value-creating initiatives within the existing portfolio, be it Maritime Centre or in Chicago, that have not been fully realized yet, so the denominator of the overall portfolio we still see will be increasing as we get closer to completion on Maritime Centre and finish up the leasing in Chicago. So, we think there is a natural downward trend in it and we are confident that we can do both.

Chris Couprie, CIBC Capital Markets

Okay, great. And then with respect to 2599 Speakman, you mentioned the lease that got signed subsequent to year end. What about traffic outside of that? How is that overall lease-up going now that this one has been signed?

Steve Hodgson, Chief Operating Officer

So, the remaining vacancy is 60,000 square feet on the second floor of that building. Tour traffic has been strong, particularly as of recent, and I think having completed some lease deals at that building, make it more attractive to tenants.

Chris Couprie, CIBC Capital Markets

Okay. Thanks. I will turn it back.

Operator

Your next question comes from Brendon Abrams with Canaccord. Your line is open.

Brendon Abrams, Canaccord Genuity

Good morning, everyone. Maybe just from a capital allocation perspective, how are you guys thinking about balancing that external growth through acquisitions that you have talked about so far on the call versus the significant discount between the unit price in your IFRS book value?

Michael Sheehan, Chief Financial Officer

Yeah, we have completed a number of initiatives through 2019 that provide us with the liquidity to go and acquire new assets and we want to grow the REIT. To your point, there is a discount between our net asset value and the trading price and that is why we have the approval from the board to go and be active on the NCIB.

Our investment in our current portfolio also would likely not be dissimilar to what has done in the past. Through doing that we have been able to generate outsized returns for unitholders and we will continue to do that in the future.

Brendon Abrams, Canaccord Genuity

Okay. I guess just a question being that presumably $1 spent on an acquisition is being done in and around fair value versus your unit price at a significant discount to the fair value.

Michael Sheehan, Chief Financial Officer

Yes.

Scott Antoniak, Chief Executive Officer

Exactly. Again, the intention here is to grow the REIT, so we are obviously aware of the discount and, again, we will be active on the NCIB, but longer and mid-term we do like to see the REIT growing.

Brendon Abrams, Canaccord Genuity

Okay. If you could just remind us again for the 4211 Yonge sale, out of the $63 million gross proceeds, what was the net amount that would have been applied to debt repayment?

Michael Sheehan, Chief Financial Officer

It was approximately $20 million to the REIT for our 75% interest.

Brendon Abrams, Canaccord Genuity

Okay. And then just last question for me, Steve, I think you referenced it earlier in the call, just in terms of the leasing in Atlantic Canada. Can you just provide an update on, I guess, the two more significant spaces, the Irving Oil and I guess the Imperial Oil coming up?

Steve Hodgson, Chief Operating Officer

Yeah, so Irving Oil in St. John, New Brunswick, we have completed a 6,000 square foot lease there. We have some significant prospects, one that is in the sort of 30,000 to 40,000 square foot range, which would be a large tenant for that market. So, things are actually going quite well in St. John, New Brunswick and if the pipeline gets approved that will be another catalyst for that market.

In Newfoundland, as I mentioned, we completed a new lease at Fortis Place for 13,000 square feet, which essentially stabilizes that building from an occupancy perspective. The two larger vacancies that we are going to experience have requested overhold, so we probably will not see them vacate until the end of Q2, and we are actively touring that space and prospecting.

Brendon Abrams, Canaccord Genuity

Okay. And how do the proposed rents compare to the in-place or the previous rents and what would kind of TIs on a per-square-foot basis be?

Steve Hodgson, Chief Operating Officer

Exxon is paying somewhere between 5% and 15% below market rents and CNLOPB at TD place, they are on a gross rent structure and they are about 45% below where we see market rents, even in today’s market in St. John’s. So, we do see some significant upside on the rent rate growth. Sorry, what was your other question?

Brendon Abrams, Canaccord Genuity

Just in terms of the leasing costs.

Steve Hodgson, Chief Operating Officer

The leasing costs will be highly dependent on what the tenant is looking for from an existing finish perspective. Both these spaces are built out with perimeter offices, which we do find that a lot of these engineering or exploration companies are looking for, so it is really tenant dependent, but I would suggest that TI packages for five-year deals would be in the $20 per foot range and for ten-year deals $40 to $50.

Brendon Abrams, Canaccord Genuity

Okay. That is very helpful. I will turn it over. Thank you.

Operator

Again, to ask a question, please press star one on your telephone keypad.

Your next question comes from Jenny Ma with BMO Capital Markets. Your line is open.

Jenny Ma, BMO Capital Markets

Good morning, everyone. Scott, just wanted to boil down the comments you made on the $3 billion of potential acquisitions. First, could you talk to us about the geographic mix between Canadian and US assets in that pipeline and how it has changed over the course of the past year?

Scott Antoniak, Chief Executive Officer

Sure, I can. I would say, Jenny, at a high level, it is probably 80% US to 20% Canada right now. And that would be consistent over the last year. I would say I started to see the difference two years ago, around about the time we started to look at the Chicago transaction. So, I think that is a consistent theme now, like the scale obviously overall in the US, with that size of a pipeline and the REIT the size it is, we do not have to do every single deal we look at, so can be particularly selective in our underwriting, etcetera. So, I think at 80%/20% is a fair number looking at it right now.

Jenny Ma, BMO Capital Markets

And how should we boil down that $3 billion? Because obviously you will not have the time or the energy to pursue everything that comes across your desk, so how much of it you really dig further into? At what point do you start having conversations about potential deals? Just maybe a rough estimate of how all that boils down.

Scott Antoniak, Chief Executive Officer

Well, I think that the pipeline exists on a rolling basis, so we are constantly evaluating real estate opportunities all around the world, frankly, and in Canada and the US specifically with Slate Office REIT. So, I think our target of $150 million for 2020 is certainly achievable. And at any given time, a subset of the $3 billion I would call, maybe $250 million to $500 million we are more actively in-depth underwriting, touring, et cetera. So, say it is a 20% ratio where we get actually significantly closer than just vetting deals.

Jenny Ma, BMO Capital Markets

Okay. And then, so given that it is the majority being the US, just wondering what the mix is as far as suburban versus downtown, just because the Chicago assets obviously are downtown, the Canadian stuff suburban. What are you seeing in the US markets and I guess specifically in Florida where you are initially targeting?

Scott Antoniak, Chief Executive Officer

It would be a mix of both. It is probably 50/50, Jenny. In some suburban markets, call it non-Miami, Florida, there are interesting opportunities in Tampa Bay and Jacksonville and Orlando, and then a mix of suburban as well. And I would say in Canada, that you just said suburban, it is not a necessarily suburban portfolio in Canada. The GTA would probably be more suburban. Certainly, the Atlantic Canada would be urban. So, it is a deal-driven, opportunity-driven, and return-driven philosophy, so where we can find the best opportunities for the REIT and for unitholders, be it suburban or urban, the theory was always if we could find the right investment characteristics we would be flexible in terms of specific location.

Jenny Ma, BMO Capital Markets

Right. Okay. And then you mentioned that the cap rates you are seeing in the US are sort of at least 7% or so but with comparable quality and term. I am just wondering what your thoughts would be with regards to the disconnect between that number and what we see in some markets in Canada. Like what do you think is the opportunity in the US that that we are not seeing here?

Scott Antoniak, Chief Executive Officer

I think what has happened to Canada, it is nothing new. I think the institutional capital has a very narrow focus up here and that is what you are seeing, certainly for CBD office, extremely low cap rates and extremely high per-square-foot pricing. The net that they have cast is a little bit wider now so the GTA has been the beneficiary of that and I think with that much capital seeking a specific type of asset you can see what is happening to pricing. Similar dynamics in the US. Like there are not vastly discounted deals in, I would say, midtown Manhattan or Silicon Valley or San Francisco or Washington, but in other markets you can find those opportunities, not dissimilar to what we have done in our growth trajectory in Canada. So, I think there is an abundance of different opportunities that would shake out at cap rates in that range.

Jenny Ma, BMO Capital Markets

Okay. And with regards to that 7%, would you say that for the stuff you are looking at it is sort of fairly tight around 7% or is there a range?

Scott Antoniak, Chief Executive Officer

There is a range, but I would use 7% as an average.

Jenny Ma, BMO Capital Markets

Okay, great. Thank you very much.

Operator

There are no further questions queued up at this time. I turn the call back over to Braden Lyons.

Braden Lyons, Investor Relations

Thank you, everyone, for joining the fourth quarter 2019 conference call for Slate Office REIT. Have a great day.

Operator

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