CORPORATE PARTICIPANTS

Madeline Sarracini
Investor Relations

Greg Stevenson
Chief Executive Officer

Robert Armstrong
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Stephan Boire
Echelon Wealth Partners

Sumayya Hussain
CIBC World Markets

Pammi Bir
RBC Capital Markets

Jenny Ma
BMO Capital Markets

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Slate Retail REIT Third Quarter 2019 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speaker's presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star one on your telephone. If you require any further assistance, please press star zero.

I would now like to hand the conference over to your speaker today, Madeline Sarracini, Investor Relations. Thank you. Please go ahead.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the third quarter 2019 conference call for Slate Retail REIT. I am joined today by Greg Stevenson, Chief Executive Officer, and Robert Armstrong, Chief Financial 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 Retail REIT's website to access all of the REIT's financial disclosure, including our Q3 2019 investor update, which is available now.

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

Greg Stevenson, Chief Executive Officer

Thank you, Maddie, and thank you to all the participants for joining the call today.

We continue to gain momentum and our achievements in the third quarter reflect the team's tremendous efforts and highlight the durability and attractiveness of the REIT's grocery-anchored and necessity-based real estate portfolio.

Solid results this quarter were driven by substantial leasing activity that saw over 680,000 square feet renewed, the highest since inception. This was driven by seven grocery-anchored renewals, another record, and our 94.7% tenant retention rate, which highlights the strength and desirability of our grocery-anchored portfolio and demonstrates that our properties continue to be highly sought after by tenants in our markets.

The new leasing and strong retention ratio drove an occupancy increase of 110 basis points to 94.4% and has resulted in 84% of all 2019 renewals being completed by the end of the third quarter. As a result of these efforts, we achieved a 1.8% increase in trailing 12 month same-property net operating income year-over-year. As a result of continued growth, we are pleased to announce that the REIT will increase its monthly distribution by 1.1% to US$0.072 per unit, or $0.864 annually, beginning with its December 2019 distribution. This marks the sixth consecutive annual distribution increase since the REIT listed on the TSX in 2014.

We continue to execute on our disposition pipeline at attractive prices, having completed 14 dispositions for $81.2 million on a year-to-date basis at a weighted average cap rate of 6.4% on trailing 12-month net operating income. The progress that we have made on our disposition pipeline has allowed the REIT to reduce total debt by $75 million so far this year. Following the completion of our targeted disposition pipeline, we will have excess funds to recycle capital into higher growth and higher yielding real estate opportunities that we are actively pursuing.

Looking forward, the path to continued growth remains clear with over $1.5 million of rent from signed leases not yet contributing to net operating income and a $20.5 million redevelopment pipeline with an estimated yield on cost of 10.3%. Units of Slate Retail continue to generate substantial excess yield, today above 8.6%, and we believe also represent an attractive investment opportunity.

To summarize, we are ending the quarter with an occupancy rate of 94.4% driven by our tenant retention ratio of nearly 95%. Over 680,000 square feet of renewals were completed during the quarter, the highest since inception, demonstrating the strength and desirability of our grocery-anchored assets. Slate Retail has completed 14 dispositions year-to-date at a 6.4% cap rate, which compares favourably to where Slate Retail REIT units are currently trading.

All such factors contributed to a strong quarter. We are encouraged by the positive underlying fundamentals in our portfolio that will set the stage for our team to execute on the business plan ahead and deliver stable and growing earnings for our unitholders.

I will now pass the call back 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 brief moment to compile the Q&A roster.

Your first question comes from the line of Stephan Boire with Echelon Wealth Partners. Stephan, your line is open.

Stephan Boire, Echelon Wealth Partners

Thank you. Good morning, everyone. Greg, I was just wondering, in the letter, can you develop a little more on your intention to recycle capital into higher growth and higher yielding real estate opportunities that you mention in the letter? And in other words, I would like to know if deleveraging the balance sheet is still on the priority list and if you would prioritize acquisitions over deleveraging with the proceeds from the asset sale.

Greg Stevenson, Chief Executive Officer

Thanks, Stephan. I think we can continue to do both. As it relates to the acquisitions, what we mean is we are selling assets where we have executed on our business plan and we have achieved what we think is sort of stabilized occupancy and where we can then reallocate that capital into properties that we see that have been sort of under-managed, where there is some vacancy to be leased up. Likely higher quality in terms of markets and opportunities, grocers that we are targeting, which are larger grocers, and we are staying away from the smaller regional ones, so we are also upgrading the portfolio from that perspective as well.

So, it is really just taking money and recycling it into opportunities that will help drive future NOI growth and earnings growth.

Stephan Boire, Echelon Wealth Partners

Okay. And in terms of acquisitions, can you tell us where you see attractive acquisitions at this point and what kind of cap rate do you see at the moment?

Greg Stevenson, Chief Executive Officer

Sure. We continue to like the southeast, which is where a lot of our acquisitions are recently, for lack of a better description, even though the last one was in August of 2018, in the southeast.

I think we have probably all read about the southeast. You have got job growth, income growth, net migration, low taxes, best-in-class education, a lot of reasons that people are moving to these places, nice weather, and an environment where there has been a complete lack of new supply while all of this growth has been happening, which is great from a leasing perspective for landlords that can bring a team of people to execute and capital to execute on a business plan. So, I think our continued focus will be growth in the southeast.

Stephan Boire, Echelon Wealth Partners

Okay, that is good. And I know I have asked this question in the past and I was wondering if this time you would be in a better position to answer this question, but in terms of same store NOI growth, can you provide some kind of guideline maybe for next year?

Greg Stevenson, Chief Executive Officer

We think about it as total portfolio NOI growth and when we set out, we are super optimistic about where we stand today because when we set out in our letter at the end of 2018 we said we think we can do 2.5% to 3% total portfolio NOI growth. At the end of the third quarter we are just shy of 2.7%, so we are approaching the top end of our total portfolio NOI guidance. We think about it from that way for two reasons. One, we are still not at full capacity in our same property NOI bucket. It leaves out a number of properties as well as 1% to 1.5% of NOI growth will come from redevelopments over the next, we think, call it six to eight quarters. So, we think we will hit our target of 2.5% to 3% in 2018, which is excellent in my view. I think we can do it again next year.

Robert Armstrong, Chief Financial Officer

The other way to think about that too is we are currently below market for in-place rents compared to market about 7%, 8%. And for the shop space, tenants are turning those over about every four years, so that is at least 2% growth. Plus, we think we have, to Greg's point, a number of good projects on the way, but also for 2020 a lot of those increases are already baked in on leasing we have already done so we feel pretty confident about where we are going to be for 2020 with continued good results.

Stephan Boire, Echelon Wealth Partners

Okay, perfect. Thank you for that. And my last question is on the development projects. I noticed that the estimated yield on cost of most of your development projects fluctuated since Q1 and I was wondering if you expect any impact from the rise in construction costs going forward.

Greg Stevenson, Chief Executive Officer

Nothing that will materially change any of those numbers. I think one thing we do like about our business and where we are able to acquire well below replacement cost is that construction costs have come up and continue to rise. There is a shortage of labour and it makes building new centres quite difficult and expensive and so that makes us feel very good about the existing portfolio and, again, about the leasing environment. We talk a lot about that. We have had a complete lack of supply and rising construction costs, certainly one of those reasons. From our perspective, we do not expect that to impact any of our projects and so far, we are on time and under budget across all four of our projects, so we remain confident that that will be the case.

Stephan Boire, Echelon Wealth Partners

Okay, perfect. Thanks so much for all the details.

Greg Stevenson, Chief Executive Officer

Thanks.

Operator

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

Sumayya Hussain, CIBC World Markets

Thanks. Good morning, guys.

Greg Stevenson, Chief Executive Officer

Good morning.

Sumayya Hussain, CIBC World Markets

I just wanted to touch on the $90 million of assets under contract and if you can give any indication on the timing and valuation there.

Greg Stevenson, Chief Executive Officer

Timing is going to be Q4 and some will trickle into Q1, but we do think by the end of the year and sort of halfway into Q1 we will be wrapping up the disposition pipeline. And, as we have talked about in the past, it is going extremely well and we are hitting, and in some cases exceeding, our targets. We have sold $81.2 million at a 6.4% cap rate. Our target for the $175 million to $200 million was a 7.5% cap rate for all of it, so you can kind of back into what the remaining cap rate will be.

Sumayya Hussain, CIBC World Markets

Okay, thank you. And just to touch on organic growth, excluding the termination fee and the higher cost this quarter, any sense of what that number would have been this quarter?

Robert Armstrong, Chief Financial Officer

Yeah, if you back out the termination income and just the pure difference, it is a decrease of 0.2%. If you take out some of the timing we had, which was really related to property taxes that got brought into Q3, we would be slightly positive, call it 0.3%, 0.4%.

Greg Stevenson, Chief Executive Officer

Yeah, the negative delta is about $80,000 that swung us to the negative 0.2% on, call it, almost $23 million of same property NOI, so it is a blip and minor and we continue to expect it to trend upwards going forward.

Robert Armstrong, Chief Financial Officer

Yeah, because we are still quite happy. Quarter to quarter it is a bit of a snapshot in time but over the course of the year we have continued to grow NOI on same property growth and even looking over the last three years we have had nine of the last twelve quarters being positive, so we have been quite happy with that.

But I think when we kind of step back and not even just looking at the individual quarter, we are really, really happy and we think the business is probably in a better position now than it ever been has with 94% occupancy, we are continuing to grow, we have a 90%-plus retention rate. For our business and the markets we are in and our tenants, it is as good as it ever really has been.

Greg Stevenson, Chief Executive Officer

Yeah, I think Bobby's point is a good one, the path to growth is not very speculative, it is quite clear in that we have $1.5 million on, call it, $98 million of annualized NOI today that is already executed leases, so that is happening, in addition to the redevelopment projects. And we talked a little bit about it in the letter. We have NOI coming on from two of them in Q1 and Q2 of 2020, so that is even more growth on top of the signed leases that will contribute to NOI growth in 2020.

So, we are feeling pretty optimistic about the business. And I think we have been doing a lot of things in the last 12 months to really coil the spring and I think that 2020, if you start to think about all the growth we just talked about and then the debt refinancing that we have coming that will increase term and could likely decrease interest rates, that is even further growth to FFO going forward.

Sumayya Hussain, CIBC World Markets

Thank you. And then just any update on prospects for the refinancing coming up so far?

Robert Armstrong, Chief Financial Officer

Yeah, we have been actively talking to lenders for a while. What I would say is the overall tone is positive within the banking network both on, a multitude of lenders, everywhere from traditional banks to lifecos. The demand for grocery-anchored real estate continues to be high. If anything, there has been a shortage of supply in the market. A number of debt providers are overweight industrial and multi-res, and they see the durability in the type of product that we have and consistency of the cash flows. So, I think we will end up going into 2020 after doing a number of refinancings on our existing platform with excess term, reduced rates, and better covenant packages. From our perspective, we could not ask for better in this environment and I think the response we have had so far is that the sector, from a grocery-anchored perspective, is very financeable and there is quite attractive demand and I think we will be the beneficiaries of that.

Sumayya Hussain, CIBC World Markets

That is great. Thank you.

Operator

Your next question comes from the line of Pammi Bir with RBC Capital Markets. Pammi, your line is open.

Pammi Bir, RBC Capital Markets

Thanks and good morning. Coming back to the comments around acquisitions, can you just provide some context around the potential timing of putting the capital back to work from dispositions?

Greg Stevenson, Chief Executive Officer

Yeah, it may be as early as Q4, because we are actively looking at opportunities in the markets that we like which we discussed earlier. I think I would put a much higher probability on that being deployed in Q1 but probably not much later than that, Pammi.

Pammi Bir, RBC Capital Markets

Okay. And then just from a pricing and cap rate standpoint, what are you seeing? You mentioned that some of these might be not necessarily stable assets so I am just curious what going-in yields we could be looking at.

Greg Stevenson, Chief Executive Officer

Yeah, I think what we want to do is, I say lower quality of what we have been selling, and it does not mean we do not like it, it is just that we have executed and there is less growth. What we want to do with the capital is move upstream and sort of high-grade our portfolio, probably more on the grocer side. And what we have learned over the last seven years is we know who we love in terms of the grocery tenants and we want to focus on those tenants. We can probably buy a centre at 7.25% to 7.5% that would sit in the top 25% from a quality perspective in our portfolio with some vacancy that we think we can lease and stabilize in the high 7s, low 8s.

Pammi Bir, RBC Capital Markets

Got it. Coming back to the comments around in-place and market rents, the gap certainly seems to have widened, over the last three years just looking at what you have quoted as market rents. Is that partly a function of, the southeast grocer rent reduction last year? And then secondly, how do you see the spread changing over the next two years?

Greg Stevenson, Chief Executive Officer

I think that slide is instructive largely because we get the question how are you going to grow NOI going forward and, we do not think that we are going to go from $10.99 to $11.80 overnight, but what our point is, is that we can do our 5.5% to 6% steps on renewals like we have done for 14 or 15 quarters now, largely as a result of the spread to market. So, we are not saying that the spread will close to zero, because that is, unless you are acquiring assets at market rents that is hard, because you are only rolling over a percentage of your portfolio every year. What it really means is that without causing real issues for ourselves in the future, which is having rents that are too high, we can increase our rents and get renewals of 5% to 6% on a weighted average basis and still probably be under market, which is, from our perspective, a good margin of safety and provides a nice runway for growth.

Robert Armstrong, Chief Financial Officer

Yeah, and I think maybe the commentary I would add as well is that in a market where rents continue to grow, we have been doing the leasing at spreads that are reflective of where market rates are, so we have been quite happy with that. But to the extent that the market rates keep chasing away from us because we are getting rental growth in the market, we see that as such a fantastic thing because, one, it is baking in future NOI potential growth for us, but two, it is providing so much certainty around the durability of the income in this portfolio. We are quite happy with both. So, one, protecting what we have from downside and that we have continued growth, but the fact that it is only increased durability of what we are doing in the portfolio that exists today, we think is a fantastic result.

Pammi Bir, RBC Capital Markets

Right. So, some of this is, again, partly a function of the churn in renewals as market rents continue to rise, right?

Greg Stevenson, Chief Executive Officer

Yes.

Robert Armstrong, Chief Financial Officer

And part of it too is back in 2017 we had a number of acquisitions and that is where you can see some of the spread pop, there is an element of portfolio mix there, but the market is definitely moving and we are quite happy with that.

Pammi Bir, RBC Capital Markets

Okay. Thanks very much.

Operator

As a reminder, if you would like to ask a question, please press star then the number one on your telephone keypad. Your next question comes from Jenny Ma from BMO Capital Markets. Jenny, your line is open.

Jenny Ma, BMO Capital Markets

Thanks. Good morning.

Greg Stevenson, Chief Executive Officer

Good morning, Jenny.

Jenny Ma, BMO Capital Markets

A question about the high leasing activity: was that really just a function of timing or did you pull some forward from 2020? And I am wondering if that would mean that the leasing volume may decline for 2020, notwithstanding that it sets you up quite well for the year going forward.

Greg Stevenson, Chief Executive Officer

Yeah, a lot of it was pulled forward on the renewal side and we renewed seven anchors this quarter, only two of which were contractually up for renewal. So, we did five in advance.

And I think on the growth side, a lot of the growth comes from the shop space tenants anyways. Our anchor tenants, in large part, have set options that, sometimes there are steps, sometimes it is flat. So, I do not think it impacts our growth going forward, just due to the nature that it is the grocery-anchor tenants that drove a lot of the leasing. I think what it does do is, we get a lot of questions on the grocery sector and what are tenants doing, I think it helps us reaffirm the message to folks who are not as close to it as we are that the grocery-anchored rents are $5, $6, $7, which are cheaper than most industrial rents in the markets that we are in, and the grocers, as they continue to want to service last-mile distribution and home delivery and click-and-collect, they are very willing to have these conversations with us in advance of their upcoming expiries.

Jenny Ma, BMO Capital Markets

Okay. And then switching gears to the redevelopment pipeline, you added Wedgewood this quarter and it is the biggest one that you guys have undertaken at $15 million. Just wondering if you could expand, looking at the yield, it is relatively low at 6%, so wondering if there is potential upside further down the road and how that squares against the valuation of that property specifically given that your portfolio cap rate is sitting at 7.5%.

Greg Stevenson, Chief Executive Officer

Yeah, we think there is upside to that number, both driven by the NOI side and then the cost of $15 million coming down. We are still in the early stages but we have started moving tenants and vacating tenants in advance so we have included it in the list.

I think the other thing that that yield-on-cost calculation does not pick up is how we think about it from an IRR perspective, which is in the future. If we have a brand-new Publix amongst all the other things that we are doing with a 20-year lease, we think, relative to our cost basis in the asset, will have meaningful cap rate compression, so the IRR is accretive to the 6% yield on cost that we are showing today.

Jenny Ma, BMO Capital Markets

So, when you think about where the property sits now, like how close is it to the 7.5% portfolio average on valuation?

Greg Stevenson, Chief Executive Officer

I am not sure I follow the question.

Jenny Ma, BMO Capital Markets

So, you are thinking the 6.5% will start moving up; I am just wondering if the asset has a cap rate that is well below the 7.5% portfolio average or is it kind of sitting in that range?

Greg Stevenson, Chief Executive Officer

It is 50 basis points below, just to be very exact.

Jenny Ma, BMO Capital Markets

That is helpful. Thank you. Most of my questions have been answered, so I will turn it back. Thank you.

Greg Stevenson, Chief Executive Officer

Great. Thanks, Jenny.

Operator

And your next question comes from the line of Stephan Boire with Echelon Wealth Partners. Stephan, your line is open.

Stephan Boire, Echelon Wealth Partners

Yes, thanks again. I just wanted to quickly follow up on the acquisition and disposition. Just wondering, could you, from a modelling standpoint, can you just quantify both amounts for next year?

Robert Armstrong, Chief Financial Officer

Like the level of acquisition and disposition activity for 2019 and 2020?

Stephan Boire, Echelon Wealth Partners

Well, mostly for 2020, yeah.

Robert Armstrong, Chief Financial Officer

I see.

Greg Stevenson, Chief Executive Officer

Dispositions will be done sort of halfway through Q1 and that will be, again, somewhere on the, rounding out the full year, $175 million to $200 million number. So, maybe $50 million in the first quarter, give or take. And then acquisitions, I think it is TBD. But if it is $100 million and we have sold $200 million of dispositions, that, I think, is sort of making sense to us today, but it is TBD. I mean there are lots of interesting things in retail, grocery-anchored retail today, and I think, as we stated in the press release, I think that the market continues to misunderstand the asset class and I think that we are getting smarter with every passing day at it and there are some interesting opportunities out there that could move that number around, so I do not want to get too specific because it could change.

Stephan Boire, Echelon Wealth Partners

But maybe, just to follow up on Pammi's question earlier, the acquisition that you have currently under analysis, can you quantify that one?

Greg Stevenson, Chief Executive Officer

It is not just one. We are looking at several things, nationally across the US.

Robert Armstrong, Chief Financial Officer

I would say our current pipeline is probably $300 million, $400 million deep. I think as far as the way we would approach this is we do not necessarily have a target that we need to deploy X million dollars. The way we are operating is that we have a view that where we can create value and see a good return that meets our thresholds, that we can find opportunities and remain disciplined in the markets we are in, we will be buyers to the extent we can and for as much as we can.

Stephan Boire, Echelon Wealth Partners

Okay. Okay, perfect. Thank you so much.

Operator

This concludes our question-and-answer session. I will now turn the call back over to Madeline Sarracini, Investor Relations, for closing remarks.

Madeline Sarracini, Investor Relations

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

Operator

This concludes our conference call. Thank you for participating. You may now disconnect.
