

## **CORPORATE PARTICIPANTS**

**Blair Welch**  
*Chief Executive Officer*

**Andrew Agatep**  
*Chief Financial Officer*

**Paul Wolanski**  
*Senior Vice President, National Sales and Investor Relations*

**Connor O'Brien**  
*Senior Vice President*

## **CONFERENCE CALL PARTICIPANTS**

**Jenny Ma**  
*BMO Capital Markets*

**Sumayya Syed**  
*CIBC Capital Markets*

## **PRESENTATION**

### **Operator**

Good day and thank you for standing by. Welcome to the Slate Grocery REIT First Quarter 2022 Financial Results Conference Call. At this time, all participants are in a listen-only mode.

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 keypad. Please be advised that this conference is being recorded.

And without further ado, I would now like to hand the conference over to one of your speakers today, Mr. Paul Wolanski. Please begin.

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### **Paul Wolanski, Senior Vice President, National Sales and Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the Q1 2022 conference call for Slate Grocery REIT. I am joined this morning by Blair Welch, Chief Executive Officer and Andrew Agatep, Chief Financial Officer.

Before getting started, I would like to remind participants that our discussions today may contain forward-looking statements, and therefore we ask you to review the

disclaimers regarding forward-looking statements, as well as non-IFRS measures, both of which can be found in management's discussion and analysis. You can visit Slate Grocery REIT's website to access all of the REIT's financial disclosures, including our Q1 2022 Investor Update, which is available now. I will now hand over the call to Blair Welch for opening remarks.

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### **Blair Welch, Chief Executive Officer**

Thanks, Paul. Good morning, everybody. We began investing in grocery real estate on the heels of the global financial crisis, recognizing that the asset class was uniquely defensive in all market conditions because of the critical role it plays in last mile food logistics. Today, amid inflationary pressures and global supply chain issues, our grocery real estate continues to demonstrate resiliency and strong performance.

In the first quarter of 2022, our team continued its operational excellence and enhanced the durability of our portfolio. We completed over 410,000 square feet of leasing in the quarter, with strong rental spreads of 38.3% for new leasing and 8.9% for renewals.

Demand is strong for our less than 10,000 square foot spaces and our asset management team continues to see additional lease up opportunities that are accretive and will push occupancy up further by the end of the year. We also continue to see positive momentum on our same property NOI, AFFO and redevelopment progress, all of which will provide meaningful value for our portfolio in the current year and beyond.

With new macroeconomic pressures emerging, the REIT's portfolio is well positioned to ensure long-term, stable income. At the end of Q1, our anchor occupancy is at 100%, and our total occupancy is stable at just over 93%. In an inflationary environment, our real estate is even more valuable to grocers in their efforts to service the last mile of food logistics.

With prices rising, consumers are likely to pull back on discretionary purchases and spend more on groceries and other essentials. This is likely to bolster revenue growth for our grocery tenants but sustaining that level of demand makes logistics more costly for groceries. Our properties, which are located close to the end consumers, help to minimize grocery's last mile logistics costs. With prices rising, it also is becoming more costly for the grocery tenants to relocate, let alone build from the ground up, making our tenancies even stickier.

The REIT's cost basis of \$145 per square foot remains highly defensive, providing at least a 47% discount to the

average cost for a new build, at an estimated \$275 per square foot. And we see that number increasing.

Finally, 97% of our leases are net meaning our tenants are responsible for utilities, taxes and insurance, all of which we think will see cost increases. This offers protection in an inflationary market and ensures long-term stability of our income.

Moving forward, we remain focused on our efforts to grow the REIT organically and through quality acquisitions that are accretive to the portfolio. Our investments team continues to underwrite numerous opportunities in the United States. In March, the REIT established an at-the-market equity program to keep us financially nimble and to fund ongoing development and acquisition activities.

Slate Grocery REIT continues to benefit from the insights, deal flow and resources of Slate Asset Management, which owns and operates over \$3 billion of grocery assets worldwide. In a fragmented market, we are well-positioned to capitalize on a range of opportunities, both single asset and grocery portfolios, that will create value for all of our unit holders.

On behalf of Slate Grocery REIT and the board, I'd like to thank the investor community for their continued confidence and support. I will now hand it over for questions.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. As a reminder, to ask a question you will need to press star-one on your telephone. To withdraw your question, press the pound key.

Please stand by while we compile the Q&A roster.

Your first question comes from the line of Sumayya Syed. Your line is open.

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### **Sumayya Syed, CIBC Capital Markets**

Thanks. Good morning. Just firstly, on same property NOI and, if you could share the outlook on the temporary vacancies you've noted, when would you expect that same property NOI trend to improve by?

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### **Andrew Agatep, Chief Financial Officer**

Yeah. Same property NOI, when we look at this quarter, was up slightly. I'd say a modest 10 basis points. One

thing to think about is SPNOI on a trailing 12-month basis, we've seen growth of about 2.5% which includes redevelopment projects that come online. Our occupancy right now is stable at 93.2% and we think that we're going to see occupancy gains throughout the rest of the year. If I had to say, I think our guidance remains consistent - 1%-1.5%- but once we include redevelopment, that number's going to be higher.

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### **Sumayya Syed, CIBC Capital Markets**

Okay. I wanted to ask about the \$275 per foot cost to build. Just wondering if that's a national average number or it's specific to the market Slate is in and, if you can, share how that number has trended or changed over the last year or so?

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### **Blair Welch, Chief Executive Officer**

I would say it's definitely market specific and I would say that's on the lowest end of any market that we're in, at Slate Asset Management or Slate Grocery REIT for the United States. We see across the board construction costs have probably gone up 20% to 30%. The problem is now, if you're going to try and do new build - try and get steel and concrete in certain markets, you can't even get it. So, we see continued pressure on costs. And we also see, factoring in land costs that aren't in that number, hard costs have gone up, making our real estate extremely valuable and defensive for our tenants. If you think of our weighted average in-place rent and the yield on cost to develop something new, when we quote a \$275 cost and, I'm sure that's not land, you would need to achieve high teen rents across the board. A \$20 rent to make that make sense. We just don't see that. We see our rents at a significant discount to that. We have a lot of room to grow and it's just difficult to quote a per square foot number in any market. So, we like to use the lowest number of the markets we're in.

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### **Sumayya Syed, CIBC Capital Markets**

Okay. That's fair. And then just lastly from me, in your letter to shareholders where you kind of noticed the increasing importance of grocers being close to customers. Is that something you are also seeing come across in your negotiations with your anchors and were able to push a little bit more rent or has that dynamic not really changed?

**Blair Welch, Chief Executive Officer**

Well, if you think, where does industrial end and retail begin? I think Amazon's results kind of speak to how valuable our Walmart and Kroger's are because Amazon's having a significant problem delivering food. If you look at our portfolio with 100% anchor occupancy, I would say that's a pretty good tell of how valuable our real estate is to them. And it's always been that way.

Grocery anchored real estate neighborhood centers have performed in the low nineties' occupancy for the last several decades. And we have been able to increase rents, as noted from our leasing spreads for new and renewal. I think we'll continue to see that happen. For the grocer and food logistics, we estimate 45% of their costs are transportation and we also estimate 25% of their costs are labor. So, when you see self-checkout, what they're really doing is decreasing their labor cost to increase their margin and if we can help them on their rent cost and increase their margin, they love staying in these locations because it's where all the houses are. And the last mile logistics, you can read all the Amazon reports, is the most expensive mile. You need to get the products to the consumer as close as you possibly can, and that's costing more and more money. And we think that makes our real estate more and more valuable.

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**Sumayya Syed, CIBC Capital Markets**

Okay. Definitely some encouraging trends. That's all for me. Thank you.

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**Blair Welch, Chief Executive Officer**

Thanks.

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**Operator**

Again, everyone. If you would like to ask a question, just press star-one on your telephone keypad. Again, that would be "star" followed by number "one" on your telephone keypad. Your next question comes from the line of Jenny Ma. Your line is open.

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**Jenny Ma, BMO Capital Markets**

Hi, thanks. And good morning.

**Blair Welch, Chief Executive Officer**

Morning, Jenny.

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**Jenny Ma, BMO Capital Markets**

I wanted to ask about the new ATM that you've put in. It looks like the issuance that you've done recently have been near where your stock popped out at. I'm just wondering if you can give us some more color on the parameters on how you're going to be using the ATM in terms of what kind of unit price would you be looking for to be issuing? And is it something that you'll be using that's tied to specific projects like development or specific one-off acquisition, or is it something that you would tap opportunistically to sort of build up your equity and reduce the leverage over time, assuming the unit price allows for it?

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**Blair Welch, Chief Executive Officer**

Yeah, that's a very good question. In a rising interest rate environment, people are going to have to pay way more attention to cost of capital because debt's more expensive and it's just not going to be easy for most folks. We love the fact that we still are in great positive leverage territory on new buys and continue to grow.

But, as it relates to the ATM, we'll be more opportunistic. Whenever you can raise equity through the ATM program, which has less cost associated with it as you know, at or above our posted NAV, we think that makes good sense. So, we'll use it opportunistically going forward because it is really a cost to capital gain.

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**Jenny Ma, BMO Capital Markets**

Okay. And can you remind me, are there any limitations to using it, like daily limitations on an NCIB or is it really as much as the market could absorb?

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**Andrew Agatep, Chief Financial Officer**

It's limited to what the market would take on an average daily trading volume. The program itself is capped at \$150 million US dollars over a 24-month period. So, it's more based on volume trading that day.

**Jenny Ma, BMO Capital Markets**

Okay, great. Turning to acquisition opportunities, you stated that Slate Grocery remains focused on that front. I know a lot has changed in the market outlook in the very recent past. So just wondering if you can give us an update on what you're seeing in terms of volume and pricing, and whether or not you've seen any slowdown in the market so far as grocery anchored retail properties?

**Blair Welch, Chief Executive Officer**

I'll start then I'll pass it over to Connor to give you some more specific color. I think, as you know, the grocery anchored space in the United States is highly fractured with under 40,000 assets and most asset size is of a size that's been done through private people that have used one-off asset financing such as CMBS, or Commercial Mortgage Back Securitization. That market is blown out a little bit and lenders are taking a pause on finding one-off assets.

However, companies that have the wherewithal and the expertise to make accretive acquisitions right now can still access the debt capital markets or debt markets such as Slate Grocery REIT. We believe with the use of prudent leverage, the buying opportunity is pretty interesting right now because there's not as many privates at the moment and- they will always come back, because it is the United States- they are just not as active. So, we think we can buy at a great basis with conservative leverage to catch the rental growth that we think will pick up in the next couple years. But Connor, why don't you give what you're seeing in the U.S.?

**Connor O'Brien, Senior Vice President**

I certainly think there's no shortage of opportunities. As Blair alluded to, the private buyer has kind of taken a step back that was really pushing pricing towards the end of last year and the beginning of this year. So certainly, without less competition on one-off deals and maybe some portfolio deals, we're excited about what the market presents. From a Slate perspective, we want to stick to the fundamentals and continue to acquire under market rents at a significant discount to replacement cost to set ourselves up for future revenue growth over time.

**Jenny Ma, BMO Capital Markets**

Okay. That's great color on the buyer side, but what about the seller side? I mean, are they bringing stock to market and what are their pricing expectations? Has that shifted at all?

**Blair Welch, Chief Executive Officer**

No. They are bringing stuff to market and things have shifted somewhat. I think we can still buy in a very, very accretive way. There's no shortage of product in the U.S. to go buy and I think some of the sellers are still very motivated to sell. In a thinner buyer pool, there's still more opportunities because there's less buyers. So, there's tons of sellers, there's tons of product. We have a pipeline in the billions like we always do but we can be selective. I think it's about buying, as Connor said, low in-place rents at a cheap price per square foot and that's what we've always done and I think that will be extremely valuable in an inflationary environment.

**Jenny Ma, BMO Capital Markets**

Okay. Are you still targeting sort of cap rates in the seven-handle range, or have they come down a bit? Where's a sweet spot for you?

**Blair Welch, Chief Executive Officer**

I think that it's interesting. If you look at some of the larger portfolio deals that have been done in the last 12 months in the U.S, whether it's the Donahue Schriber deal or other deals, I would say those cap rates have been in the fives. Jenny I've talked to you about this, cap rates are kind of out of context if you don't know what rent you're capping. I would rather buy something with a low in-place rent in the high sixes knowing that I'm going to reset it in two years at a way different rent because I'm really then buying a stabilized rent two years from now at an eight or nine cap. That's what we are talking about. We are very fundamental real estate people and I think that there's still great acquisitions to buy in the high sixes with positive leverage because you're going to be able to reset those rents that are below market in the short term.

**Jenny Ma, BMO Capital Markets**

Okay. That's very helpful. My last question is, so I noticed the title, you dropped the interim on the CEO. So, I'm just wondering if you read into that as you taking a permanent position or if that's a chair that you're still looking to fill with someone else?

**Blair Welch, Chief Executive Officer**

I think we'll come out with some more information on that within the next 45 to 60 days.

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**Jenny Ma, BMO Capital Markets**

Okay, great. Thank you very much.

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**Operator**

There are no further questions over the phone. Let me turn the call. Hold on one moment.

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**Paul Wolanski, Senior Vice President, National Sales and Investor Relations**

Thank you everyone for joining the Q1 2022 conference call for Slate Grocery REIT. Have a great day.

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**Operator**

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

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