FINAL TRANSCRIPT

Q1 2015 Investor Call

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SPEAKERS

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Brady Welch
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ANALYSTS

Heather Kirk
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Endri Leno
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PRESENTATION

Operator

Good morning, and welcome to Slate Retail REIT's first quarter 2015 investor conference call. At this time, participants are in listen-only mode. However, at the conclusion of today's presentation, management will conduct a question-and-answer period. Participants are reminded that today's conference is being recorded for the benefit of unitholders and other interested parties who may want to review the call at a later time.

I will now turn the call over to Mr. Conor McBroom, Vice President, Investor Relations. Please go ahead, Mr. McBroom.

Conor McBroom — Vice President, Investor Relations, Slate Retail REIT

Thank you, Operator, and hello, everyone. We appreciate you taking the time to participate this morning, including those joining via webcast.

I'm here today with Blair Welch; Brady Welch; and Greg Stevenson. Before we get started, I would like to remind listeners that today's presentation and the responses during the question-and-answer period may contain forward-looking statements. Actual results are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements made during this call. For additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, please consult the Management's Discussion and Analysis for this quarter. You can download a copy at slateretailreit.com, where we've also posted the first quarter 2015 financial statements and our May 2015 investor update.

Moving on, we're very pleased with the results delivered by Slate Retail REIT, which will be referred to during this call as the "REIT", in the past quarter. Highlights are as follows:

- Net operating income or "NOI" was approximately US$11.1 million, up 10 percent compared with the previous quarter and 37 percent ahead of forecast.

- Funds from operations or "FFO" was US$0.36 per unit versus forecast FFO of US$0.31 per unit. Since the third quarter of 2014, our FFO per unit has increased by 25 percent.
- Adjusted funds from operations or "AFFO" was US$0.32 per unit, an increase of 14.3 percent compared with the previous quarter. AFFO per unit also beat forecast AFFO per unit by 23 percent. In fact, since the REIT listed on the Toronto Stock Exchange in the second quarter of 2014, the REIT has grown AFFO per unit by 25 percent and has surpassed forecasts for four consecutive reporting quarters.
- Our balance sheet remained strong with our debt to gross book value ratio now below 50 percent.
- We've had another exceptional quarter operationally in which we maintained our high portfolio occupancy at 96 percent. We have a remarkable US operations team led by Greg Stevenson that has once again delivered robust leasing activity underlined by organic rental rate growth.
- During the quarter, we completed over 100,000 square feet of renewals. We achieved renewal spreads of 8.7 percent for tenants occupying less than 10,000 square feet. We achieved 7.5 percent spreads for tenants occupying over 10,000 square feet.
- On new leases, the weighted average base rent was US$14.79 per square foot, which compares very favourably to the REIT's weighted average portfolio in-place rent of US$9.86 per square foot.

So in summary, we've had another consecutive quarter of meaningful rental growth. In particular, the REIT's shop space renewal spreads have averaged over 7 percent in the past four quarters. Our leasing program has excellent backing, both in terms of the team here at Slate Retail REIT with its continually proactive approach, and the fact that our high occupancy centres offer the high traffic, grocery-anchored environment that tenants want to be around.

This is magnified by the reality today that the delivery of new shopping centre space in the United States remains at its lowest levels in more than 15 years.

With that, I'll turn the conference over to Blair Welch, Chief Executive Officer.

Blair Welch — Chief Executive Officer, Slate Retail REIT

Thanks, Conor, and thank you, everyone, for joining us on this call this morning. I'd like to start off today with what many of you have already heard, that earlier this week unitholders voted near unanimously to approve the acquisition by the REIT of Slate U.S. Opportunity (No. 3) Realty Trust, which will be referred to during this call as the "Acquisition". At a separate meeting also held earlier this week, unitholders of Slate U.S. Opportunity (No. 3) Realty Trust, which will be referred to during this call as "SUSO 3", unanimously approved all required matters related to the Acquisition. The Acquisition, which is conditional upon satisfaction of other customary closing conditions, represents a significant growth event for the Slate Retail REIT platform.

We've always maintained our intention to eventually include SUSO 3 within the REIT and this week we secured the overwhelming support of unitholders to proceed with the Acquisition.

Prior to the REIT entering into the purchase agreement in respect of the Acquisition with SUSO 3, SUSO 3 had been fully invested with 13 US grocery-anchored shopping centres for several months. Its investment thesis and acquisition strategy are the same as Slate Retail REIT's.

The focus is on identifying strong performing assets that are anchored by market-leading groceries and can be acquired at attractive pricing, specifically at discounts to replacement and peak value. Upon completion of the Acquisition, which is expected to close before the end of the second quarter of 2015, Slate Retail REIT will own 59 such properties spanning 20 states. Such number includes two properties that the REIT has entered into agreements to acquire, but which acquisitions have not yet closed. All this is to say that we have effectively doubled our asset base since the class U units of the REIT were listed on the Toronto Stock Exchange just over one year ago.

Post-Acquisition, the REIT's portfolio's predominant groceries in terms of revenue generation will continue to be Kroger, Walmart, Publix, SuperValu, among other well-known grocery retailers.

Diversity by grocery tenant continues to be a cornerstone of our defensive strategy. The addition of SUSO 3 only strengthens this approach, as no one tenant will comprise more than 7 percent of total revenue.

Today, Slate Retail REIT continues to be among the most active acquirers in the US grocery-anchored segment with our portfolio poised to pass US$800 million in total assets.

Importantly, the opportunity to continue growing through accretive acquisitions has never been bigger. This is largely attributable to the fact that the REIT has established itself as a preferred counterparty in the market: a well-capitalized, decisive investor with clear-cut acquisition criteria.

Our origination pipeline continues to be filled with deals from a variety of sellers. Firstly, owners large and small have come to the REIT for the certainty of close we provide. Often we see large public real estate investment trusts cycling their portfolios into gateways markets and disposing of high-quality non-gateway assets.

Secondly, while the lending environment in the US commercial real estate post-downturn is markedly improved, availability of debt financing in large, but non-gateway cities remains fickle. We are in the middle of a wave of 2005 to 2007 vintage CMBS debt that is coming due, a situation where property investors are faced with refinancing at valuations that are still considerably below peak levels. Some are choosing to sell.

Lastly, we continue to develop strong working relationships with our grocery tenants, who in turn are bringing forth acquisition opportunities because they know that they can partner with us for value-added strategies.

In closing, I would like to acknowledge the dedicated team that comes to work at the REIT each day to focus solely on our US platform. It's their energy and entrepreneurial mindset that is really the driving force behind our continued operational success.

And finally, we thank our fellow unitholders. As one of the largest holders of Slate Retail REIT, we at Slate Asset Management L.P. are highly committed and motivated to deliver on the US strategy.

The ongoing support and trust of our investors allows us to continue to expand the business. We are excited about the REIT's prospect for continued growth, and as always, we rely on our disciplined approach to guide that process.

With that, we'd like to turn the call over to listeners and get into some questions.

QUESTION-AND-ANSWER

Operator

At this time, I would like to remind everyone in order to ask a question, press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Heather Kirk from BMO Capital Markets. Your line is open.

Heather Kirk — Analyst, BMO Nesbitt Burns

Thanks. So in terms of the SUSO 3 portfolio, I'm just wondering sort of what upside you see there or whether there's any. You've done a little bit of sort of moving pads (phon) around and stuff like that in your existing portfolio. Are there any opportunities there that you see that would add to the growth?

Greg Stevenson — Vice President, Asset Management, Slate Retail REIT

Hey, Heather, it's Greg. It's very, very similar to our existing portfolio, and there are a lot of those internal or organic growth opportunities. I can highlight one.

We've got a building in North Augusta where we purchased it. Publix had invested a lot of money; there's a Kmart there. We are down the road on that Kmart box right now. We think we'll be able to get Kmart out of the box and release it with much better credit at much higher rents. So that's a SUSO 3 asset.

There are a few other smaller development opportunities, and it's the same sort of thing. I mean the average base rent is between 20 and 30 percent below market in all the centres. We have a low cost base; strong grocer tenants. The average weighted lease term is actually longer than the REIT portfolio, so we increased the weighted average lease term on a weighted average basis. And it's sort of all the same growth metrics that you'd see in the existing portfolio.

Heather Kirk

And on the balance sheet you've got the debt has trended down a little bit here. Just two items: just refresh on your thoughts where you would like that number to be in terms of debt to asset value? And just where you're at in terms of terming out some of the floating?

Blair Welch

Go ahead, Brady.

Brady Welch — Chief Financial Officer, Slate Retail REIT

Yes. So I think to be clear, we have term on our debt. I think your question maybe is more directed between the fixed to float…

Heather Kirk

It's way more.

Brady Welch

Yes. So you will see us continue, as we did in the fourth quarter of 2014, look at where we have stabilized assets, or in what we believe have completed our business plan on locking in our tenants long term to then go and get some fixed rate debt on those assets and locking certain assets in. And I think you will see some announcements coming out on that because we'll continue that strategy.

But as Greg said, a lot of our assets are below market rents, and as we release or roll tenants to market; those are the tenants that get lease extensions, that's when we'll unlock the value. Because we're able to get better valuation it doesn't increase our LTVs because we're adding value, so we kind of continue to keep our debt at the same levels.

I think 50 to 55 percent is kind of our target for our leverage.

Heather Kirk

And how do you look at sort of the swap between the lift on the rent that you're talking about and then the soft of offset of what you might have to be taking on the additional cost side? I guess I'm just looking at if you're to fix it and you've got costs going up, how much of that are we going to get on the other side in terms of the rental rate growth to sort of, I guess, offset where investors would stand on an FFO perspective?

Blair Welch

Hey, Greg, maybe just talk about like the first—the fixed financing we did and how much equity was able to be pulled out. I think that kind of nominal dollars helps.

Greg Stevenson

Yes. I think it's two things is one is you get the rental rate growth to offset the increase in interest costs, but I think the much larger thing and we're talking multiples here of money back in terms of what the interest rate cost is. So we'll take Uptown Station as an example. It was a Winn-Dixie anchored asset; one of the top performing assets in their chain in Florida. It was a distressed seller. We approached Winn-Dixie. They had four-and-a-half years left on their lease; landlord hadn't invested money in a number of years.

We said let's partner; let's add some value; we'll do roof; we'll do parking lot; what can you give us? So they said great, rental rate increase. They give us 10 years of term. We took occupancy up in the shop space and increased rents. We bought that asset for just over an 8 cap in early 2013. After working with Winn-Dixie and some of the other value-add opportunities we were able to finance that at a 6.75 quarter cap rate for 10 years at 3.8 percent.

And to give you an idea, the floating rate debt was LIBOR plus 300 at the time, so that gives you an idea of what the spread from float to fixed was. It was pretty thin. And we were able to suck out 25 percent of our equity, which was around US$2 million.

We took that money and invested it at a 7.5 cap rate asset, so you can do that math. It was about US$280,000 of NOI, which is multiples higher than what the increase in interest rate costs are.

So that's sort of what we try and do, and we don't have to tap the equity markets to generate that equity. And we have no increase in LTV, as Brady mentioned, so that's sort of the math.

Blair Welch

Yes. So I think it's important, there's two things there. One, lenders, fixed rate lifeco lenders are valuing the real estate at 6.75 cap rates, so hence our NAV discussion. And then secondly, our ability to pull capital from refinancing and redeploy that capital that's accretive to the REIT, so it's not just you're fixed to float. It's our ability to take capital out and reinvest it that's how we're going to increase our FFO.

Heather Kirk

Helpful. Your G&A came down this quarter, and I'm just wondering what your thoughts are on run rate there?

Brady Welch

Yes. I think it was US$1 million this quarter. I think that's—I think we've been saying it's between 1 million to 1.1 million. So I think that is getting closer to our run rate. We expect to have some closing costs from the Acquisition in the third quarter of 2015, but I think then it goes back to a stabilized run rate thereafter.

Greg Stevenson

I think we're also getting scale too, which helps.

Brady Welch

Yes. I think we'll continue to grow, and I don't think that number will continue to grow effectively is what we hope is going to happen.

Heather Kirk

So running at about 1, 1.2 per quarter?

Brady Welch

Yes.

Heather Kirk

Okay. Great. Thanks.

Operator

Your next question comes from Jimmy Shan from GMP Securities. Your line is open.

Jimmy Shan — Analyst, GMP Securities

Thanks. So just to follow up on that discussion on fixing the rate, would there be a dollar amount that you're working to towards for the balance of the year? Just given some of the assets that you would be looking to…

Blair Welch

Yes. I think that we're looking for all of those opportunities, Jimmy. We're working on that. I mean we don't want to give a dollar amount, but it will be consistent and probably grow as the portfolio gets larger to fix out assets where we've added some value.

So I think that you'll see a continued amount of the floating rate debt termed to more traditional fixed rate and mortgage financing.

Jimmy Shan

Okay. So not that I want to—just in terms of like you did 50 million last year for the fourth quarter.

Blair Welch

Mm-Hmm.

Jimmy Shan

That would not be an unreasonable amount?

Blair Welch

No.

Jimmy Shan

Okay.

Blair Welch

No.

Jimmy Shan

Then turning to the leasing activity, so the renewal spreads obviously positive and have been trending up. And wondered if you could sort of provide any further colour there? Is it that you're seeing the rents that are rolling are progressively lower? Or is it that you're seeing that the market rent's actually moving, and wondered if you could comment on that? And then secondly in terms what would be your expectation for the remaining 300,000-some-odd square feet that are coming up for the balance of the year?

Greg Stevenson

Sure. I think the spreads will always depend on what rent is rolling in the quarter.

Jimmy Shan

Yes. Yes.

Greg Stevenson

However, the market's heating up; rents are rising. We're at a 35-year low of supply for strip centre retail in the grocery sector. Occupancy in all the markets is effectively above 90 percent, so things—like fundamentals are strong.

I think you're seeing more local tenants looking for space; you're seeing more users, more gym users, more medical users; just more demand for space and lack of supply. And that's driving rates up.

And this quarter specifically I know that we're consciously starting to push rates because all of our peers are doing the same thing. So we are positive about growth in rents this year in the rest of the 300,000 square feet; 100,000 of the square feet of the 300,000 square feet rolling remainder of this year is anchors. And we are 90 percent of the way done both of those.

We hope—it is our expectation that we continue our 100 percent renewal ratio for 2015. But, just generally I think the US is good. Discretionary income is higher; unemployment is lower. The US is in a very good place right now. And specifically for retail things are going well, and the groceries are having record quarters, and we feel very good about leasing going forward for the rest of the year.

Jimmy Shan

Okay. So 7 to 8 percent on the renewal spreads in the small shop space would also not be unreasonable to assume for the balance of the year?

Greg Stevenson

I don't think so.

Jimmy Shan

Okay. And then one just last question on the pricing environment; I wondered if you could comment or give us an update on what you're seeing on that front, competition for assets? And I know, Blair, you talked about how they're still sort of fickle, that environment's still fickle for the non-gateway markets, but I wondered if that's changed a little bit? And how the last two transactions that you've done what would be the pricing on those from a cap rate perspective?

Blair Welch

Sure. So I mean I think that our story; we haven't deviated from how we started. And pricing, has it come in from 2012? Well, yes, of course it has, but it's really the tale of two different markets or types of assets.

If you have a large core return deal or it's deemed to be core return deal in a US gateway city, the pricing has actually gone even wider or more aggressive than I think anyone has anticipated. And I think that speaks to flows of capital. So we are still seeing great one-off opportunities to acquire these assets, the assets that we always have purchased about 60 of them in the last several years. They're US$7 million to 15 million assets. And to be very candid, Bank of America is not psyched about giving someone an individual partnership of US$4 million mortgage on that asset.

They want to put out US$500 million at a time or US$1 billion at a time. And that's a similar story to a lot of large pools of equity. I'm even talking outside the capital markets because there's more money outside the capital markets than inside looking for US-denominated assets. So our niche is being a well-capitalized buyer of these assets.

So we can come in with the ability to close, so we aren't competing against the Government of Singapore Pension Fund on a one-off asset. And I think that needs to be clearly thought of in our strategy.

So pricing has come in, but you can still get great return assets in the mid-7 caps, but I want to take that a step further. We're talking 7 caps on below US$10 rents. And when you can have consistently 7 to 8 percent rental rate growth, what we find interesting is that very few people are taking that in consideration because people quote cap rates and assume the rents are at market, but that's not the case in what we're doing.

So I think if you want to think of where we're buying on stabilized on these one-off assets, our pipeline's never been larger because the market is so big, and there still isn't large competition doing the one-off strategy. It's a lot of work for Slate Retail REIT to do it, but I think that's where we will get outsized returns.

In addition, we're still buying at a huge discount to replacement cost and peak value. These assets that we're buying are a great price per square foot, low in-place rent, and so on the defensive nature we love what we're buying existing, but we know we can add significant value. And the two assets that we're talking about fit in that strategy perfectly.

Nothing's changed from how we look at the real estate because we're real estate first investors.

Jimmy Shan

Okay. All right. Actually I do have one quick last question. SUSO 3, what is the expected closing date there?

Blair Welch

I think what we'll try and shoot for is the end of this month, Jimmy; like right at May 31st, June 1st, that's the goal.

Jimmy Shan

Okay. Great. Thanks, guys.

Operator

Your next question comes from Dean Wilkinson from CIBC. Your line is open.

Dean Wilkinson — Analyst, CIBC

Hi, guys. Just had a question on the expiring anchor space, the 100,000 feet or so. Do they have fixed rate options on their renewal? Or do you get to go to market on those?

Greg Stevenson

One is a predetermined option, and the other one is a negotiation.

Dean Wilkinson

Okay. And on that predetermined option is there much of a lift? Or are you sort of expecting that to be…

Greg Stevenson

Expecting that to be flat.

Dean Wilkinson

Flat. Okay.

Greg Stevenson

Yes.

Dean Wilkinson

And would that roughly be sort of 50-50 in terms of the space that's there?

Greg Stevenson

Yes. One's 45,000 square feet; one's 55,000 square feet.

Dean Wilkinson

Okay. So you'll get to mark the other half of that. And that you expect that to be in line sort of with the anchor lifts that you've been seeing?

Greg Stevenson

Yes.

Dean Wilkinson

Okay. Okay. The other question I had, the SUSO 3 acquisition timing, so May 31st you're looking for. I guess there were some expenses that you flowed through surrounding that. I guess they were expensed just in terms of the same way you have to deal with the expense of the units as they are liabilities. So that being said, is that US$0.36 FFO run rate sort of what you would consider to be sort of the normalized floor from here on in?

Greg Stevenson

Yes. It's going to be in and around that number.

Dean Wilkinson

In around that number.

Greg Stevenson

Yes.

Dean Wilkinson

Okay. Perfect. I assume that the G&A does actually bump up a bit as we go through Q3 and Q4 when SUSO 3 comes in there for the asset management fee associated with that?

Greg Stevenson

Yes. It's going to bump up a bit. I think there'll be other costs that scale down, but there'll be some onetime costs related to SUSO 3 that go through.

Dean Wilkinson

That go through there. And as well I'm assuming that the incentive fee is all going to get booked in Q4 for blowing through the hurdle rate, right?

Greg Stevenson

Right now we are not into the money on that, but as we go through the year we'll keep an eye on it.

Dean Wilkinson

Okay. So there's been no accrual for it to this point?

Greg Stevenson

That's correct.

Blair Welch

Correct.

Dean Wilkinson

Okay. Perfect. And then just the normalized margin on the quarter seemed to come in a bit. Was that seasonality? Or was there something else in there outside of sort of IFRIC?

Greg Stevenson

What margin is that?

Dean Wilkinson

The NOI margin.

Greg Stevenson

Oh Yes…

Dean Wilkinson

After accounting for IFRIC. It seemed it was around sort of 67 percent on the quarter. Was that just seasonality, cold weather, that sort of stuff? Or…

Greg Stevenson

Q4, well, yes, Q2, Q3, Q4 averaged about 70 percent. We went down to 57.6 in Q1.

Dean Wilkinson

Yes.

Greg Stevenson

A lot of that was—well, 99 percent of it was just huge snow removal costs…

Dean Wilkinson

Okay.

Greg Stevenson

And the slippage related to that expense because we don't—unlike office in Canada we don't get to pass through 100 percent of our costs. And it was like the worst snowfall year in the history of the United States. So we took a bit of a hit for that, but we'll be right back up in Q2 is our expectation.

Dean Wilkinson

And then so the full year margin should come in at more around that 70 percent?

Greg Stevenson

Yes.

Dean Wilkinson

And that's the number to use going forward. Okay. Perfect. That's all I had. Thanks, guys.

Operator

Once again, if you'd like to ask a question please press *, 1 on your telephone keypad.

Your next question comes from Endri Leno from National Bank of Canada. Your line is open.

Endri Leno — Analyst, National Bank of Canada

Hi. Good morning.

Blair Welch

Good morning, Endri.

Endri Leno

Quick question on the lease renewals. I was wondering is it possible to quantify how much of that was above and below 10,000 square feet

Greg Stevenson

Yes. We broke that out. One second; I've got it in front of me. Sorry, bear with me here.

Brady Welch

Why don't we get back to you? I mean I know we did 106,000 square feet of renewals, and I just don't know what the component of that is. We'll get the split for you on that.

Endri Leno

Okay. Thank you. Then I have another quick question; this is on SUSO 3 occupancy, which if I'm not wrong I think was 93.9 percent in the Management Information Circular of the REIT dated April 2, 2015. Is it moving like towards the 96 percent where the rest of the portfolio is? Or do you think it's…

Greg Stevenson

It's not stabilized. I don't know if it gets to 96 percent, but it's our expectation is that it climbs upwards because there's some vacant space and some leasing opportunities that we think we can capitalize on.

Endri Leno

Okay. And do you have even like a rough timeline for that?

Greg Stevenson

No.

Endri Leno

You don't. Okay. Thank you. That's all I have actually. Thanks.

Operator

Once again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

We have no further questions at this time. I turn the call over to the presenters.

Conor McBroom

Thanks, everyone, for taking the time to call in today. If you have any follow-up questions, please don't hesitate to reach out to any one of us.

Have a great day.

Operator

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

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