CORPORATE PARTICIPANTS

Katie Talbot
Associate, Business Development & Investor Relations

Greg Stevenson
Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Dean Wilkinson
CIBC World Markets

Johann Rodrigues
Raymond James

Jimmy Shan
GMP Securities

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Retail REIT First Quarter 2017 Financial Results Conference Call. As a reminder, this call is being recorded today, Thursday, May 4, 2017, at 9:00 a.m. Eastern Time. Your host for today's call is Katie Talbot. Please proceed, Katie Talbot.

Katie Talbot, Associate, Business Development & Investor Relations

Thanks, operator, and good morning, everyone. Welcome to the first quarter 2017 conference call for Slate Retail REIT. I am joined today by Robert Armstrong, Chief Financial Officer, and Greg Stevenson, Chief Executive Officer.

Before getting started I'd like to remind participants that our discussion today may contain forward-looking statements and therefore ask you to familiarize yourselves with the disclaimers regarding forward-looking statements as well as non-IFRS financial statements, both of which can be found in management's discussion and analysis.

You can visit Slate's website to access all of the REIT's financial disclosure, including our Q1 2017 investor update, which is available now.

We'll allocate most of this call to answering your questions but first we'll hand over the call to Greg Stevenson to discuss some highlights from the quarter.

Greg Stevenson, Chief Executive Officer

Thanks Katie, and thanks everyone.

We continue to make progress across the portfolio, very strong leasing activity as well as making significant progress on all the redevelopment and strategic initiatives that we have ongoing right now. The team's doing an absolutely excellent job on both of those fronts.

The equity raised in January recharged the balance sheet and leverage is down to below 52 percent, which effectively allows us to take advantage of what we see today in the United States as the biggest pipeline for us and a lot of opportunities that we think Slate Retail REIT can and should be taking advantage of in the secondary markets for grocery-anchored shopping centres in the U.S. Needless to say, a good start to the year and we remain very excited about the next nine months of the year.

Katie Talbot, Associate, Business Development & Investor Relations

Thanks. Operator, we'll open up the line 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'll pause for just a moment as questions come into queue.

Your first question comes from Dean Wilkinson with CIBC World Markets. Your line is open.

Dean Wilkinson, CIBC World Markets

Thanks. Good morning, guys, and Katie. Greg, just wanted to make sure that I have the understanding around that same property NOI calculation correctly. The net impacts netting out last year's lease termination fee Q1 and the termination fee for the Buckeye asset this year, it was a net $300,000 difference? So that gets you to that 3 percent same property gross number?

Robert Armstrong, Chief Financial Officer

Yes, if you back out the termination income from this year and last year it's 3 percent on the dot.

Dean Wilkinson, CIBC World Markets

3 percent on the dot and then it's 4.5 percent exclusive of those, right?

Robert Armstrong, Chief Financial Officer

Correct. Including those, yes.

Dean Wilkinson, CIBC World Markets

Okay, perfect. On the North Augusta, you've got another 5.3 to spend on top of the 2.7 that you already put in. Is that correct?

Greg Stevenson, Chief Executive Officer

We spent another 2.9 this quarter so we've actually almost gone through the entire spend, there's not much left to go there.

Dean Wilkinson, CIBC World Markets

Okay. There's not much left to go there. If you back that into the 8.8 cap you paid, once it's all done, what do you think the yield on that all-in ends out being?

Greg Stevenson, Chief Executive Officer

About 9.3.

Dean Wilkinson, CIBC World Markets

9.3. Okay. So, you're getting a significant lift on the rents post that. When do you think that comes on into the P&L?

Greg Stevenson, Chief Executive Officer

Two of the tenants are now open, so it'll be fully in by the third quarter at the very latest.

Dean Wilkinson, CIBC World Markets

Third quarter 2017. Okay, perfect. The 560,000 feet that's to expire for the remainder of the year, what's the split between anchor and non on that?

Greg Stevenson, Chief Executive Officer

There are no more anchors for the year left to do. The earliest though is January of 2018. Effectively, all that is left for this year is shop space.

Dean Wilkinson, CIBC World Markets

Do you think that that retention ratio is going to be in the range of where you were rolling out in Q1 or is that going to change either way?

Greg Stevenson, Chief Executive Officer

We expect to still be north of 90 percent, as we have in the past.

Dean Wilkinson, CIBC World Markets

90 percent. Okay. That's it for me. Thanks, guys.

Greg Stevenson, Chief Executive Officer

Great, thanks.

Operator

Your next question comes from Johann Rodrigues with Raymond James. Your line is open.

Johann Rodrigues, Raymond James

Hey, guys. Kind of a bigger picture question. There's an article in Bloomberg today about groceries in the U.S. and it pointed to a couple things. One is the entrance into the market of a couple German grocers, primarily one of them being Lidl, and they're planning to open 100 stores along the southern east coast in Texas in the next two years and then up to 630 stores by 2023. As you know, grocery store construction or delivery was 4.5 percent in 2016, most supply delivered in the last 15 years. How do you think that impacts your business going forward? Do you have a relationship with them yet or do you think they're going to cannibalize some of the market of the tenants that you guys have good relationships with?

Greg Stevenson, Chief Executive Officer

Yes, we have a relationship with them. As you may not be aware, outside of Slate Retail REIT we own grocery-anchored shopping centres in Germany, so we know them quite well and we've been paying very close attention to them coming into the United States. To say that it doesn't affect our business I think is probably not fair. I think that we don't really compete in the discounter space, which is what these folks are going to be doing. I think Wal-Mart is taking note of Lidl and Aldi, because that's their space, and they've already started adjusting their business plans accordingly. There are some Aldi and Lidls in our markets already, but I think our focus is on the real estate. Credit is obviously important and macro views of the grocery industry is important, but for us, we want to find great real estate with utility. For us, sales are strong, rents are low, and there is low GROC ratio.

These are centres with 15 years of operating history. In a lot of cases all the competition, in some cases the Aldis and Lidls are already in our markets, including Wal-Marts and Targets and everyone that has come in the last 10 years. We have a pretty good view of the competitive landscape in all of our markets. Food Lions and Wal-Marts are sort of looking over their shoulder more than anyone else right now, because they are more discounters. We don't own any, with the exception of one Food Line. We sold five last year. The Wal-Marts that we own could be impacted by Lidls but, again, the Wal-Marts that we own are number one in market share and there would be a lot of pain necessary for anything to go bad. So, we are not oblivious to it. We pay attention to it. I can actually send you a 25-page report that Credit Suisse put out on them coming to the U.S. that I thought was very good. They laid out what I believe to be what the real threats are and it is not to the Krogers and the Publixes of the world. Needless to say, we are paying attention, but we are not that concerned.

Johann Rodrigues, Raymond James

Okay, thanks. One of the things that might end up impacting the Krogers and Publix of the world is food deflation. It has been negative every month, year over year price change since February 2016. Are you starting to see that impact your grocers and maybe impact the lease bumps that you guys are going to get when the anchor tenants come up for renewal?

Greg Stevenson, Chief Executive Officer

I would say the only place it has impacted our business is their new stores that they are building. Kroger has publicly said they are going to do 75 and they have dropped that number to 40, not largely because of food inflation but that is definitely one of the inputs. I think that the macro things that are out of our control are going to change. It could be food inflation two years from now. Who really knows? We can not run our business that way. For us, we have to focus on the quality of the real estate and whether it is food inflation or deflation or it is Kroger or somebody else, we ask ourselves, is this a place that someone wants to run and operate a grocery business? If it is not a grocery business, I think we just need to make sure the answer is yes.

The head of Kroger real estate was up at our board meeting last quarter and talked a lot about their business, including food deflation, and his view is the same - this is part of the business, it comes and goes, and effectively the grocery business in the U.S., what it really all comes down to in his mind, and I would agree, is can they solve the service and convenience factor, i.e. can they make it a better service experience and can they make it more convenient? I think that is really what is affecting more of their business decisions today than anything else, including food deflation or inflation. I think that is really what they are all trying to figure out.

Johann Rodrigues, Raymond James

Okay. Great. I'll turn it back.

Greg Stevenson, Chief Executive Officer

Thanks.

Operator

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

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

Jimmy Shan, GMP Securities

Good morning. Relating to that last question, maybe another way to ask it is what would be your anchor tenant sales per square foot for the portfolio today and how has that trended over the last little while?

Greg Stevenson, Chief Executive Officer

Not all of our anchors report, because they are not all required to, however, it has been trending up across the portfolio. Sales are up, which is a good thing, since we started this strategy effectively across the entire portfolio and the really important thing is, what is the rent that they pay relative to the sale? It all comes back to GROC for us, and that GROC is 2.6 percent across the portfolio, which compares to a national average of somewhere between 4 percent and 5 percent. What it really means for us is can someone else build a store across the street for more than what our grocers pay, which is, on average, like a $7 rent? When you have to build something for $175 a foot it is really hard to make the math work when your grocers are paying $6 or $7 a foot in rent. It means sales need to meaningfully increase. We actually think it is a margin of safety for us. That is what the discounters pay as well. I think we are charging a rent for mid to high-end grocers at a rent that a lot of the discounters pay. It really comes back to the quality of the real estate, what are the sales relative to the rent, what is the operating history here, and location? We spend a lot of time trying to figure out those things. It is a mix of those things, not just what is the gross sales to begin with. Across the U.S. in retail you are seeing rents drop for enclosed shopping centres back to a level that the GROC makes sense, and we are sort of already there. I think our GROC is actually lower than most other folks.

Jimmy Shan, GMP Securities

Right. Okay. We've seen a series of U.S. retailer bankruptcies, I think most of which are on the fashion clothing line segment. Wondered if you had any exposure to any of these known bankruptcies, Gymboree and Payless? If you have any, have quantified what that exposure might be?

Greg Stevenson, Chief Executive Officer

No, we are fortunate enough to be in the non-commoditized goods space. We are everyday, necessity-based retail. With 40 plus percent of our revenue from grocery, we are largely insulated from all of that. I think that is largely why you see 3 percent growth in income, which again will bounce around. I don't put a ton of weight into a three-month number but obviously, it is moving in the right direction - new leasing at 40 plus percent, spreads above in-place rents and positive spreads on renewals, and occupancy stable at 4 percent effectively. There will be some bumps at some point along the way, we had two Radio Shacks, but again, you are talking 1,200 square foot CRU units on a REIT with almost 9 million square feet of space. Effectively, this stuff is not really affecting us at all right now.

Jimmy Shan, GMP Securities

On the renewal spreads you spoke about, when I look at the small shop space it is historically trended in that 7 percent to 10 percent spreads. This quarter was around 3 percent. Is that just a quarter blip or is that a sign of maybe the competitive nature of the leasing market today?

Greg Stevenson, Chief Executive Officer

Yes, it is just the nature of the tenants that expired during that three-month period. It will pop back up. We had a few larger tenants with 2 or 3 percent renewals that dragged the weighted average down. But it was largely strong across the board.

Jimmy Shan, GMP Securities

Okay. You spoke about liquidity in the letter and I wondered if you could talk about what you are seeing in terms of level of interest, whether that has changed at all from buyers in the secondary markets given all the negative headline news on the retail space overall.

Greg Stevenson, Chief Executive Officer

I think we are still in a good niche. There is not a lot of folks doing what we are doing, which is 100 percent grocery focused primarily on the secondary markets, large urban centres in the United States. Not a ton of increased competition, however, as the questions on this call highlight, folks are focused on what I will call non-grocery retail and specifically power centres and enclosed shopping malls and how those are doing. A lot of those folks are now looking for grocery. I think that there is an increased demand for more, increasing your revenue from grocery as a percentage of overall revenue. So that has changed. Some of these power centres and malls are looking for grocery-anchored tenants. For us, from a competitive standpoint, we have not run into any new entrants that we have noticed and we still see a lot of off market deals and there still seems to be the game plan from the U.S. REITs, the publicly-listed REITs in the U.S., to sell secondary, buy primary, and/or become development businesses and add things like storage and multi-family to their sites in their more urban centres. Those guys, I think, while may not be talking about it or marketing properties in an auction, I think they are out there with some product for secondary market assets. Needless to say, nothing has changed and for us the opportunity remains very large in all of the markets that we are in today as well as some new ones too. We are pretty excited about what is out there right now.

Jimmy Shan, GMP Securities

Okay. Thank you.

Operator

There are no further questions at this time. I turn the call back over to Katie Talbot.

Katie Talbot, Associate, Business Development & Investor Relations

Thanks, everyone, for joining the call today. Have a great day.

Operator

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