CORPORATE PARTICIPANTS

Madeline Sarracini
Investor Relations

Greg Stevenson
Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Johann Rodrigues
Raymond James

Dean Wilkinson
CIBC World Markets

Jimmy Shan
GMP Securities

Troy MacLean
BMO Capital Markets

Michael Smith
RBC Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Slate Retail REIT Fourth Quarter 2016 Financial Results Conference Call. As a reminder, this is being recorded today, Thursday, February 23, 2017, at 9:00 a.m. Eastern Time. I will now hand the call over to Madeline Sarracini, Investor Relations. Please proceed, Ms. Sarracini.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the fourth quarter and 2016 year-end conference call for Slate Retail REIT. I am joined today by 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 yourself with the disclaimers regarding forward-looking statements as well as non-IFRS financial statements, both of which can be found in our management's discussion and analysis.

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

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

Greg Stevenson, Chief Executive Officer

Thanks, Maddie.

A solid quarter overall, which contributed to what ended up being a solid 2016. In the quarter, same property NOI was up 2.5 percent. We acquired five grocery-anchored properties and in addition we leased almost 260,000 square feet with renewals at 9.7 percent spread above expiring rents and new leases at a 38 percent increase above the weighted average in place for comparable space across the portfolio. In addition to that, we fixed $300 million of debt through an interest rate swap, which took our fixed rate debt from approximately 26 percent up to 70 percent. Also during the quarter, we paid down into fees $27 million mortgage secured by five properties. This defeasance will reduce our annual interest cost and effectively provide us with the flexibility to both redevelop a few of the assets in that pool and look to recycle capital at some of these assets in the future. The assets involved in this defeasance were of the GAR portfolio, which were the first six properties purchased back in 2011.

So, with that, we'll turn the call over to some questions.

QUESTION AND ANSWER SESSION

Operator

At this time, ladies and gentlemen, if you would like to ask a question, please press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Our first question comes from the line of Johann Rodrigues with Raymond James. Your line is now open.

Johann Rodrigues, Raymond James

Hey, Greg. You guys did a sizeable amount of dispositions in 2016. Do you have any more on the horizon either that are planned that you'd like to call or maybe you've received some offers on unsolicited?

Greg Stevenson, Chief Executive Officer

Nothing that imminent and the ones that we did do in 2016 were unsolicited and we haven't had that. Part of the reason for doing the defeasance was to recycle or look to recycle capital of some of the earlier assets where the team has done an excellent job executing on our business plan and increased lease term, increased rents, and added value through our hands-on approach.

Nothing imminent, but we are looking always to increase portfolio quality and, as importantly, increase the future upside by buying assets with that and selling those where we believe that the upside has been achieved.

Johann Rodrigues, Raymond James

Okay, thanks. Pretty strong same property NOI number. Do you have kind of a range that you expect for 2017?

Greg Stevenson, Chief Executive Officer

No range, but as our same property count is increasing to be more reflective of the entire portfolio and the rental rate increases, meaning spreads on renewals in new leasing that we've done flow through into full 12-month results. We think what we did this quarter is something that we can certainly achieve in the future. We've done spreads on renewal of between 5 percent and 10 percent and new leasing has been strong. We've been acquiring properties with more vacancy than we have in the past, which has resulted in occupancy looking lower; however, it's really just a result of buying more vacancy because we've had success in the past. The short answer is I think 2.5 percent is something that we feel is very achievable for us in the future.

Johann Rodrigues, Raymond James

Okay. My last question is, do you have the cap rates on the two post-quarter deals?

Greg Stevenson, Chief Executive Officer

Mid-sevens.

Johann Rodrigues, Raymond James

Okay. I'll turn it back.

Greg Stevenson, Chief Executive Officer

Thanks.

Operator

And our next question comes from the line of Dean Wilkinson with CIBC World Markets. Your line is now open.

Dean Wilkinson, CIBC World Markets

Thanks. Good morning, Greg.

Greg Stevenson, Chief Executive Officer

Good morning, Dean.

Dean Wilkinson, CIBC World Markets

Can you clarify on the defeasance? Those five assets are now free and clear?

Greg Stevenson, Chief Executive Officer

That is correct.

Dean Wilkinson, CIBC World Markets

Was the debt ported over to your facility. Is that how we should think about that?

Greg Stevenson, Chief Executive Officer

That's correct. The swap would have increased our fixed rate debt to 75 but because we paid off this fixed rate debt and put it into the revolving facility, which is floating rate debt, we're down to 70 percent fixed rate debt. The benefits of that is that the mortgage carried a 5.8 percent interest rate so now we have cut that in half effectively. We will see reduced interest cost. In addition to that, we had almost $3 million tied up in escrow, so restricted cash that we couldn't touch, which we now have received back, we can lever up at 55 percent and acquire where we've been acquiring in the mid-sevens. That's even more future accretion that we think we'll be able to deliver. So, all in all, a good news story.

Dean Wilkinson, CIBC World Markets

That's clear. Remind me on the Hocking Valley with the ground lease with Kroger. Are they doing the new build to take out just over 100,000? That leaves the 56 vacant, right? After December 2017? So, you have a year to backfill that?

Greg Stevenson, Chief Executive Officer

That is correct. We're working on it already.

Dean Wilkinson, CIBC World Markets

Is Kroger already building now? What is the timeframe for that?

Greg Stevenson, Chief Executive Officer

Yes, they've started. Planning has started, all the drawings and all that. Most of the costs that we've spent to date have been soft costs but they are starting to construct very shortly. Kmart is paying rent until the end of June but they've already started moving out and Kroger is moving in to start their work very shortly.

Dean Wilkinson, CIBC World Markets

Is it a 2018 occupancy for them?

Greg Stevenson, Chief Executive Officer

Yes. They're targeting the end of that year. There's no reason to think they won't be on time. The good news for us is that gives us time to find backfills, which we're already making progress on.

Dean Wilkinson, CIBC World Markets

Perfect. That's good. With the CFO announcement, is that going to be a dual duty or is that a single role within Slate?

Greg Stevenson, Chief Executive Officer

Bobby's actually in the room and, I wanted to make a note of that, so thank you for asking the question. That'll be dual. He will be CFO of Slate Office and Slate Retail REIT. We're very excited to have Bobby. He comes with a breadth of experience, and the reason it took this long to announce him was because he's been busy with SOT. We are happy to have him.

Dean Wilkinson, CIBC World Markets

That's good. Keeps it all on one platform. I'll hand it back there. Thanks.

Operator

Our next question comes from the line of Jimmy Shan with GMP Securities. Your line is now open.

Jimmy Shan, GMP Securities

Thanks. Good morning, guys. Not to harp on the GAR assets that was defeased, but is the plan really to sell the assets and the higher debt on it right now is just an encumbrance to facilitating a trade? Is it more likely to be redeveloped or to be sold?

Greg Stevenson, Chief Executive Officer

It's actually a mixture of both. If we didn't do either, the payback period on the interest savings and getting that cash back and redeploying it is actually shorter than what the remaining term on the debt is. Based on those merits, it was a good thing to do. But within that portfolio there are two assets that we're looking to redevelop. They're Kroger-anchored assets, once of which has a Kmart, where we're working on doing exactly what we're doing at Hocking Valley. This kind of debt comes with dealing with a servicer and getting approvals to do these types of things and, believe it or not, approvals for something that can add a ton of value for our unitholders become more challenging. It is a mix of both redevelopment and giving us the flexibility to sell should we choose and should the pricing be right.

Jimmy Shan, GMP Securities

Okay. There are a lot of mall REITs talking about how they're trying to attract grocers as they go through some of their struggles, so I wondered if you are seeing that playing out in your discussions with your anchor tenants and how you see that evolving?

Greg Stevenson, Chief Executive Officer

I'm sure it's happening. It's not affecting us. I think it really comes back to, and to use the two assets that we've purchased post quarter and the ones we purchased during the quarter, in and around like $100 a foot. Our competitors, whether they're enclosed malls or power centres fighting for grocery stores, their basis isn't $100 a foot and their rents that they offer aren't as low as ours. I think we win the leasing fight ten times out of ten in addition to the fact that I think we've done an excellent job finding well located assets that these grocers have been in for a very long time. I understand why these other folks are doing it, but because we're focused on grocery for a reason, it's stable, it drives a lot of foot traffic and other tenants want to be around them, but those other real estate options certainly aren't affecting the demand that we were receiving and have received at our properties.

Jimmy Shan, GMP Securities

Okay, thanks.

Greg Stevenson, Chief Executive Officer

No sweat.

Operator

And again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad.

Our next question comes from the line of Troy MacLean with BMO Capital Markets. Your line is now open.

Troy MacLean, BMO Capital Markets

Thank you. Good morning.

Greg Stevenson, Chief Executive Officer

Good morning, Troy.

Troy MacLean, BMO Capital Markets

The IFRS fair value is $129 per square foot. How would that compare to replacement cost?

Greg Stevenson, Chief Executive Officer

It's market dependent and the difference being land cost is different in each market, but I would say somewhere between $150 to $180 a foot. Call it $165, $170 mid range.

Troy MacLean, BMO Capital Markets

On the 2017 expiries, it looks like the expiring rent is below the portfolio average. Does that imply there's more upside on the 2017 renewals than there was on the 2016?

Greg Stevenson, Chief Executive Officer

Yes, I think you saw the spread tick up near the later end of 2016, and we expect those same numbers into 2017. A little higher than 2016 was higher than 2015 and I think 2017 should be higher than 2016 based on the math that you've done and, again, 11 Galleria, which we announced earlier this week, is a perfect example of a deal where there's some upside, occupancy in the high 70s where we think we can execute on a leasing plan, and even before closing that property there's 22,000 square feet of vacancy. We had executed LOIs before closing on 17,000 square feet. I think there'll be some better spreads on renewals in addition to more new leasing activity in 2017 as well.

Troy MacLean, BMO Capital Markets

Thank you. That's it for me.

Greg Stevenson, Chief Executive Officer

Thanks, Troy.

Operator

And, again, that is star one on your telephone keypad to ask a question.

Our next question comes from the line of Michael Smith with RBC Capital Markets. Your line is now open.

Michael Smith, RBC Capital Markets

Thank you and good morning. I was wondering if you could just give us an update on your $7.7 million strategic acquisition loan.

Greg Stevenson, Chief Executive Officer

We are making solid progress on that as well as the Hocking Valley lease that we signed with Kroger serves as a template for other deals, including a template there. I think Slate Retail REIT still has the loan outstanding and we are working with Slate Asset Management closely on everything there. Within the next few months we will have the option to purchase that property, because the guys are making some solid progress on the leasing at that property where it will become a grocery-anchored asset and then that falls in the bucket for us to look at owning it. As you know, we have the right of first refusal on that and of course we have our acquisition fee on it as well.

Michael Smith, RBC Capital Markets

Okay. Switching gears, could you give us a little bit more colour on the potential redevelopment of County Line Plaza?

Greg Stevenson, Chief Executive Officer

Sure. As you may recall, this is a former A&P grocer. The parent company went bankrupt. We are working diligently on that and all I will say at this stage is that there is a good chance we have a more meaningful update for you in Q1 and I would think that Q2 by the latest on having that backfilled.

Michael Smith, RBC Capital Markets

That will either backfilled or redeveloped?

Greg Stevenson, Chief Executive Officer

Probably backfilled at this stage based on the economics. We have been going down the road with two groups, one which would be a redevelopment and one a straight up backfill, and the economics on the backfill are, at this stage in the game, better. I don not want to get too ahead of myself here but that's where it stands today.

Michael Smith, RBC Capital Markets

Okay, thank you.

Greg Stevenson, Chief Executive Officer

No sweat.

Operator

And there are no further questions in queue at this time. I'll turn the call back over to our presenters for closing comments.

Madeline Sarracini, Investor Relations

Thanks, everyone for joining our call today.

Operator

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