CORPORATE PARTICIPANTS

Madeline Sarracini
Investor Relations

Greg Stevenson
Chief Executive Officer

Robert Armstrong
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Sumayya Hussain
CIBC World Markets

Himanshu Gupta
GMP Securities

Pammi Bir
RBC Capital Markets

PRESENTATION

Operator

Good morning. My name is Mariana and I will be your conference operator today. At this time, I would like to welcome everyone to the Slate Retail REIT Second Quarter 2019 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question during that time, simply press star then one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you.

I would now like to turn the call over to Madeline Sarracini, Investor Relations. You may begin your conference.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the second 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'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 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 Q2 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, everyone, for joining the call today.

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

Strong organic growth continued throughout the quarter. We ended the quarter with an occupancy rate of 93.3% and executed on more than 324,000 square feet of leasing. Our proactive approach to leasing has resulted in almost 50% of all 2019 renewals completed by the end of the second quarter. We also achieved an industry-leading 96.8% tenant retention ratio, demonstrating that our properties continue to be highly sought after by tenants in our markets. As a result of these efforts, we achieved a 2.9% increase in same property NOI year over year and a 4.4% increase when including the growth from recently completed redevelopment projects. Of the last 12 quarters, the REIT has now had 10 quarters of positive same property NOI growth.

We continue to make progress on our disposition pipeline, selling one property in the quarter for $7 million. Year to date we have sold three properties and two out-parcels for $35 million at a weighted average 7.5% cap rate. Proceeds from dispositions have been used to pay down debt as well as fund our redevelopment projects that we anticipate will deliver an accretive 15.6% yield. The third quarter will continue to be busy from a disposition perspective with seven properties currently under contract totalling over $36 million of expected proceeds. Importantly, following the completion of our targeted disposition pipeline we will have excess funds to recycle capital into higher-quality accretive acquisitions. In addition, we will also have excess funds to continue to de-lever our balance sheet and continue to bring our LTV toward our target levels, as we did in Q2.

Finally, as a result of completing several major leasing projects, our capital spend is trending back toward historical levels. This has resulted in our AFFO payout ratio declining from 103.1% in the first quarter to a healthy 87.9% in the second quarter. As a result of continued growth in income from leasing activity along with reduced capital spend, we expect the decline in our payout ratio to remain intact. Units of Slate Retail continue to generate substantial excess yield, today above 8.6%, and we believe this represents an attractive investment opportunity.

To summarize, we are ending the quarter with a 93.3% occupancy rate, steady NOI growth was achieved bolstered by redevelopment projects being completed, and property dispositions have been completed at a weighted average 7.5% cap rate, which compares favourably to where units of Slate Retail REIT are trading. The AFFO payout ratio was reduced to a healthy 87.9%. All such factors contributed to a very 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.

We thank you for your continued support and I will now hand over the call 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 and then the number one on your telephone keypad. We'll pause for a brief moment to compile the Q&A roster.

Your first question comes from Sumayya Hussain with CIBC. Your line is open.

Sumayya Hussain, CIBC World Markets

Thank you. Just firstly on the asset sale program and progress, what timeline are you expecting for the full amount to be sold and how much do you see potentially spilling into 2020?

Greg Stevenson, Chief Executive Officer

I think the target remains the same, which is going to be somewhere between $150 million to $200 million. We think by the end of Q3 we'll be, at the very least, somewhere between $75 million and $90 million, so call it more than halfway done. I think our pricing will be where we expected it to be, which is in the 7.5% cap rate range, and I think it may not be all by the end of the year but by Q1 of 2020.

I think the important thing is that we are very encouraged by two things. One is that we continue to believe we'll hit our pricing. Two, I think the pricing on the $36 million we have under contract right now is inside of the 7.5% cap rate. Three, all of the assets we're selling are non-core assets, both sort of standalone outparcels as well as that, that's where we've executed our business plan or where we think we can deploy most proceeds into higher-growth opportunities. So, when you think about selling assets in the lower tier of our portfolio at a 7.5% cap rate, I think it speaks to what we think the rest of the portfolio is potentially worth.

Sumayya Hussain, CIBC World Markets

Right. The $36 million that's held for sale in Q3, is that net or gross proceeds?

Greg Stevenson, Chief Executive Officer

That is gross.

Sumayya Hussain, CIBC World Markets

Gross. Okay. Thank you. I'll turn it back.

Operator

Your next question comes from Himanshu Gupta with GMP. Your line is open.

Himanshu Gupta, GMP Securities

Thank you and good morning, guys. Just to follow-up on the disposition questions from Sumayya, on that $36 million under contract, so you mentioned inside of 7.5 cap rate. How does that look on a dollar-per-square-foot basis? And also, can you speak about the profile of the buyers? Is there enough liquidity in the private market bidding for these non-core assets?

Greg Stevenson, Chief Executive Officer

The dollar per square foot number is $150 a foot, roughly. The liquidity is there for single assets. I think what we continue to see, and it is certainly not just us, if you look at our US peers who have, I think, executed very successfully on disposition pipelines as well at attractive cap rates, ours is certainly no different, and there's lots of capital out there for what we own, which is neighbourhood necessity-based strip centres today that generate an excess yield, particularly for a lot of private buyers, in an interest rate environment that we're in, which I'll describe as a low interest rate environment, and these assets generate healthy yields. We are encouraged by the liquidity, we are encouraged by the demand, and I think that we will be able to execute on our dollar amounts as well as on the cap rate targets that we set out coming into the year.

Himanshu Gupta, GMP Securities

Sure. Switching gears, on the leasing side anchor renewals, so five leases were signed, I think, at a rental spread of 0.2%. How much did you spend there and what was the lease term for these anchors? Are you satisfied with the rental spread of 0.2% relative to like 2% to 5% in the recent quarters?

Greg Stevenson, Chief Executive Officer

It is always quarter dependent and that will jump around a little bit. This quarter there were anchors renewing and it happened that some of the anchors this quarter had fixed options and they renewed.

I think to your point on the cost, the nice thing is when you renew an option there is no cost to the landlord, so we get an extra five years of term, which means an extra five years of cash flow, so there is lots of positives. It did not cost us a lot of money. We are very okay with it is the short answer.

Robert Armstrong, Chief Financial Officer

I would add as well, Himanshu, that on the strip side, we are still seeing really strong rental growth there, I think this is just more a matter of timing. But we will see anchors pop along and continue to do options but on the strip tenants we are tending to see 5% to 6% increases on average. We do not think there is anything to stop that going forward.

Himanshu Gupta, GMP Securities

Sure. And based on your conversations with grocers, what are you seeing in terms of them thinking creatively about the future space and new formats? Also, are you seeing any closures of traditional grocery centres which are not able to invest in properties like Publix of Kroger?

Greg Stevenson, Chief Executive Officer

No, I think what we have been saying for a long time now is finally making its way into the press, which we are hopeful is beneficial to the sentiment and for our business, which is this is a tremendously stable sector. It is necessity-based and people are still going to the grocery store and buying groceries. What is also now being written about a lot, and Amazon is talking about this themselves so you do not need to hear it from us, is bricks and mortar is not an option. It is a necessity for these folks in the grocery space. It is what we have been saying all along. You need it. These are last-mile distribution centres. The Krogers, Publix, Wal-Marts, Albertsons of the world, and now Amazons, are all talking publicly about the importance of bricks and mortar, they are investing in their stores, they are investing in our stores, they're renewing at our stores, sales are trending up and things are positive. Nothing is really changing from last quarter or the several quarters before and I think that grocers will continue to try and figure out a way to leverage their store footprint and that will be to the benefit of Slate Retail REIT.

Himanshu Gupta, GMP Securities

Sure. And Bobby, the last question from my side, leases signed but not commenced. I think it was around $1.7 million last quarter. Did any of that kick in in quarter two? And how much more leases do we expect to commence in the second half of 2019?

Greg Stevenson, Chief Executive Officer

Yes, that amortized down because some of it came in, but that number is still north of $1 million for the REIT. So, between the redevelopment pipeline money coming in and the signed but not paying leases, you are north of $3 million of NOI. Again, we continue to think, as Bobby highlighted, we will continue to see growth in NOI from renewals on shop space, renewals from anchors, and then our new leasing spreads continue to be 40% to 50% because our rents are under market, so you will see growth there. So, we have growth coming from a number of different places. And our expiry profile, if you were to look at it, our rents are $10, give or take, for the next few years, so we anticipate the growth to continue.

Himanshu Gupta, GMP Securities

Sure. Thank you. I'll turn it back.

Operator

Again, it is star then one on your telephone keypad to ask a question.

Your next question comes from Pammi Bir with RBC Capital Markets. Your line is open.

Pammi Bir, RBC Capital Markets

Thanks. Good morning. Just with respect to the proceeds on disposition, what are your thoughts with respect to the NCIB versus reducing leverage?

Greg Stevenson, Chief Executive Officer

We will continue to execute on the disposition pipeline and, as we have done in the past, I think we will continue to look at all options, whether it is leverage, unit buybacks, looking at asset acquisitions, the distribution, all of those things. We will be patient and I think we see a lot of opportunities out there in investing in direct real estate as well and we will continue to weigh that against each other. The nice thing for Slate Retail REIT and those proceeds coming in is that, at 7.5 cap or below, which is where the next $36 million is going to come in, is that whether it is units or real estate, both will be very accretive uses of proceeds for the REIT, which is what I think we are most excited about.

Pammi Bir, RBC Capital Markets

Right. That's helpful. Can you maybe expand on the commentary in your letter around the rising demand from tenants at some of your centres coming from under-performing enclosed malls? Just curious, what types of tenants are these and which markets are you seeing this play out in?

Greg Stevenson, Chief Executive Officer

Yes, I mean it is reasonably consistent across the portfolio and as we highlighted in the letter, strip centre demand has been strong for a number of years because there has been no new supply. If you have a good centre like we do, and I think one of our competitive advantages is we are bringing both capital as well as an institutional team to markets where that may be lacking, so that is another source of demand for us.

As we talked about, you have malls, which we do not own, enclosed shopping malls, you have tenants leaving those malls looking for strip centres or places they can go where there is traffic, which is what grocery stores drive, they can come to our centres where operating expenses are much lower, rent is much lower, but now they have visibility and so it is starting to pick up. The weighted average occupancy for US REIT strip centre space over the last five years has been 95%. It has been tremendously stable in the face of all of the headlines that you've read. Mind you, those are now starting to change.

What we wanted to highlight, because we spend every day in this space and this may not be as obvious to others, is that, think about owning one of these businesses, being in a dying mall relative to moving to a strip centre, there is a lot of favourable reasons to do so and that has started to happen more for us and it is why you have seen our leasing pick up. We are not alone. The results across the US strip centre space in general have been very positive. For Slate Retail REIT, this is certainly one of the reasons.

Pammi Bir, RBC Capital Markets

Thanks for that. Just last one for me, at Eastpointe, with respect to the Kroger lease, can you provide some colour on their decision to take that space and perhaps interest that you're seeing on backfilling their box?

Greg Stevenson, Chief Executive Officer

Yes, we have done a few. To Himanshu's question earlier of grocers investing in their space, and the answer is, where they have great assets the answer is yes, they are still doing it and Eastpointe is certainly one of them. We have a very productive Kroger there doing very strong sales and they wanted to grow their store. They know the market and they know markets where they want to grow and that was one of them here. We have a very good relationship with Kroger and this was one of the developments that we have worked on with them, and we have done a few others in the portfolio where they come to us as opposed to, we go to them, and so this was another one of those.

We are very excited and we already have a lot of leasing activity on their box and I think that that's something we will either be able to announce in Q3 and, if not, Q4 at the very latest. That is the largest vacancy in our portfolio today so leasing that Kmart box with Kroger is great for the REIT and then backfilling the Kroger box and taking their rent, which we think we can do three to four times higher than what Kroger was paying on the rent, I think will be a great news story for the REIT. The guys have done a tremendous job working with that. Thanks to Kroger, we have a great relationship there and the six, seven years we have spent investing with them is really starting to pay off.

Pammi Bir, RBC Capital Markets

Thanks very much. I'll turn it back.

Greg Stevenson, Chief Executive Officer

Thanks.

Operator

There are no further questions at this time. I will now turn the call back over to Madeline Sarracini.

Madeline Sarracini, Investor Relations

Thanks, everyone, for joining the second quarter 2019 conference call for Slate Retail REIT. Have a great day.

Operator

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