

News Room



SOURCE: Slate Retail REIT



February 23, 2017 07:00 ET

Slate Retail REIT Reports Fourth Quarter 2016 Results

(All amounts are expressed in U.S. dollars unless otherwise stated)

TORONTO, ON--(Marketwire - February 23, 2017) - Slate Retail REIT (TSX: [SRT.U](#)) (TSX: [SRT.UN](#)) (the "REIT"), an owner of U.S. grocery-anchored real estate, today announced its financial results for the three and twelve months ended December 31, 2016. Senior management will host a conference call at 9:00 a.m. ET on Thursday, February 23, 2017 to discuss the results and ongoing business initiatives of the REIT. The dial-in details can be found below.

"The fourth quarter capped off a very successful year for us," said Greg Stevenson, the REIT's Chief Executive Officer. "The REIT's same-property NOI growth of 2.5% is reflective of the investments our people have made to continually improve our business and grow unitholder value. We are looking forward to a successful 2017 where we can continue to build on our growth."

For the CEO's letter to unitholders for the quarter, please link [here](#).

Quarterly Highlights

- Increased quarterly year-over-year same-property net operating income ("NOI") by 2.5%.
- Acquired five grocery-anchored properties for a total purchase price of \$49.8 million (\$101 per square foot).
- Completed 258,168 square feet of leasing, an increase of 107,803 square feet compared to the same period in the prior year. The REIT renewed 36 tenants at a 9.7% spread over expiring rents and in addition 10 new shop space tenants, of less than 10,000 square feet, at an average rental rate of \$16.48 per square foot which is \$4.66 per square foot or 38.8% higher than the weighted average in-place rent for comparable space across the portfolio.
- Reduced floating rate interest exposure by fixing \$300.0 million of debt through an interest rate swap. At December 31, 2016, the swap had a fair value of \$7.0 million.
- Completed the defeasance of a \$26.7 million mortgage secured by five properties. The defeasance reduces annual interest costs and provides the REIT with the flexibility to potentially dispose of certain properties and undertake redevelopment opportunities that would have been restricted by the lender. Additionally, the REIT received \$2.7 million previously held in escrow that was not otherwise available to the REIT until maturity of the mortgage in 2021.
- The REIT reported a \$1.9 million increase in rental revenue to \$25.0 million compared to the fourth quarter of 2015.
- Net loss of \$12.4 million, representing an \$11.3 million decrease from the same period in 2015.
- FFO was \$8.7 million, a decrease of \$1.9 million compared to Q4 2015, due primarily to a \$2.8 million charge to income from the mortgage defeasance. FFO on a per unit basis would have been \$0.32 had the defeasance not been completed.
- AFFO was \$5.6 million for the fourth quarter, or \$0.16 per unit. After adjusting for the defeasance AFFO per unit would have been \$0.28 per unit.
- Subsequent to the end of the quarter, the REIT completed a public offering and private placement for an aggregate of 5.6 million class U units at a price of \$10.89 or C\$14.35 per unit for gross proceeds to the REIT of approximately \$60.5 million or C\$79.8 million. The REIT used the net proceeds to initially repay debt, but has and expects to continue to redraw such amounts to fund acquisitions.
- The AFFO payout ratio for the fourth quarter was 129.2% compared to an AFFO payout ratio of 70.4% for the same period in the prior year. Adjusting the fourth quarter AFFO for the loss on the defeasance, the AFFO payout ratio would have been 72.3%.

Summary of 2016 Results

(in thousands of U.S. dollars except, per unit amounts)		Three months ended December 31,		
		2016	2015	Change %
Rental revenue	\$	25,044	\$ 23,104	8.4%
Net operating income ("NOI")	\$	17,931	\$ 16,248	10.4%
Net loss	\$	(12,397)	\$ (1,057)	1,072.8%

Leasing - shop space		97,917		98,178	(0.3)%
Leasing - anchor		160,251		52,187	207.1 %
Total leasing activity (square feet)		258,168		150,365	71.7 %
Same property NOI	\$	15,229	\$	14,854	2.5 %
Weighted average number of units outstanding ("WA units")		35,494		31,957	11.1%
Funds from operations ("FFO") ⁽¹⁾	\$	8,688	\$	10,543	(17.6)%
FFO per diluted weighted average ("WA") units ⁽¹⁾	\$	0.24	\$	0.33	(27.3)%
FFO per WA units, excluding defeasance costs ⁽²⁾	\$	0.32	\$	0.33	(3.0)%
FFO Payout ratio ⁽¹⁾		82.6%		57.8%	42.9%
FFO Payout ratio, excluding defeasance costs ⁽²⁾		62.3%		57.8%	7.8%
Adjusted funds from operations ("AFFO") ⁽¹⁾	\$	5,557	\$	8,647	(35.7)%
AFFO per WA units, excluding defeasance costs ⁽²⁾	\$	10,085	\$	8,647	16.6%
AFFO per WA units ⁽¹⁾	\$	0.16	\$	0.27	(40.7)%
AFFO per WA units, excluding defeasance costs ⁽²⁾	\$	0.28	\$	0.27	3.7%
AFFO Payout ratio ⁽¹⁾		129.2%		70.4%	83.5%
AFFO Payout ratio, excluding defeasance costs ⁽²⁾		71.2%		70.4%	1.1%

<i>(in thousands of U.S. dollars except, per unit amounts)</i>	2016	2015	December 31, Change %
Total assets	\$ 1,114,606	\$ 1,013,481	10.0%
Total debt	\$ 621,442	\$ 577,280	7.7%
Net asset value per unit	\$ 13.36	\$ 13.17	1.4%
Portfolio occupancy	93.5%	94.7%	(1.3)%
Debt / GBV ratio	56.1%	57.5%	(2.4)%
Interest coverage ratio	3.35x	3.19x	5.0%

⁽¹⁾ The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of \$4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A \$2.8 million charge to income was recorded which was determined as the \$4.5 million cost, less \$1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the \$2.8 million charge to income and AFFO was impacted by the aggregate amount of \$4.5 million.

⁽²⁾ Excludes the impact of the defeasance of the mortgage in the 2016 year.

Appointment of Robert Armstrong as Chief Financial Officer

The Board of Trustees also appointed Robert Armstrong as Chief Financial Officer of the REIT, effective for March 2017. Brady Welch, the REIT's current Chief Financial Officer, will continue to serve the REIT in his capacity as a Trustee. Robert brings a wealth of experience to the REIT, as Chief Financial Officer of Slate Office REIT, and his over 15 years of experience in the real estate industry.

Defeasance of \$26.7 million Mortgage

On December 15, 2016, the REIT completed the defeasance of a \$26.7 million mortgage due April 30, 2021 with an annual interest rate of 5.8%.

The defeasance reduces annual interest costs and provides the REIT with the flexibility to potentially dispose of certain properties and undertake redevelopment opportunities that would have been restricted by the lender. Additionally, the REIT received \$2.7 million required to be held in escrow that was not otherwise available to the REIT until maturity of the mortgage in 2021.

The defeasance had an impact to net loss, FFO and AFFO for the three months and year ended December 31, 2016 as follows:

	Three months ended December 31, 2016		Year ended December 31, 2016	
<i>(in thousands of U.S. dollars except, per unit amounts)</i>	Including impact of defeasance	Excluding impact of defeasance	Including impact of defeasance	Excluding impact of defeasance
Net loss	\$ (12,397)	\$ (9,565)	\$ (29,071)	\$ (26,239)
IFRIC 21 property tax adjustment	(3,055)	(3,055)	(414)	(414)
Transaction costs	-	-	1,030	1,030
Unit expense	15,360	15,360	55,170	55,170
Change in fair value of investment properties	8,276	8,276	4,295	4,295
Deferred income taxes	504	504	11,554	11,554
FFO	8,688	11,520	42,564	45,396
Straight-line rental revenue	(287)	(287)	(1,582)	(1,582)
Mark-to-market amounts on defeased debt ⁽¹⁾	(1,696)	-	(1,696)	-
Finance charge and mark-to-market adjustments	143	143	295	295
Income support payments	-	-	6	6

Tenant improvements and leasing commissions	(851)	(851)	(4,792)	(4,792)
Landlord work and maintenance capital	(440)	(440)	(2,241)	(2,241)
AFFO	\$ 5,557	\$ 10,085	\$ 32,554	\$ 37,082
FFO per WA units outstanding	\$ 0.24	\$ 0.32	\$ 1.24	\$ 1.32
FFO pay-out ratio	82.6%	62.3%	64.1%	60.1%
AFFO per WA units outstanding	\$ 0.16	\$ 0.28	\$ 0.95	\$ 1.08
AFFO pay-out ratio	129.2%	71.2%	83.8%	73.5%

Conference Call and Webcast

Senior management will host a live conference call at 9:00 a.m. ET on Thursday, February 23, 2017 to discuss the results and ongoing business initiatives.

The conference call can be accessed by dialing (647) 427-2311 or 1 (866) 521-4909. Additionally, the conference call will be available via simultaneous audio found at <http://www.gowebcasting.com/8303>. A replay will be accessible until March 9, 2017 via the REIT's website or by dialing (416) 621-4642 or 1 (800) 585-8367 (access code 51919738) approximately two hours after the live event.

About Slate Retail REIT

Slate Retail REIT is a real estate investment trust focused on U.S. grocery-anchored real estate. The REIT owns and operates over U.S. \$1 billion of assets located across the top 50 U.S. metro markets that are visited regularly by consumers for their everyday needs. The REIT's conservative payout ratio, together with its diversified portfolio and quality tenant covenants, provides a strong basis to continue to grow unitholder distributions and the flexibility to capitalize on opportunities that drive value appreciation. Visit slateam.com/SRT to learn more about the REIT.

About Slate Asset Management L.P.

Slate Asset Management L.P. is a leading real estate investment platform with approximately \$4.0 billion in assets under management. Slate is a value-oriented manager and a significant sponsor of all of its private and publicly-traded investment vehicles, which are tailored to the unique goals and objectives of its investors. The firm's careful and selective investment approach creates long-term value with an emphasis on capital preservation and outsized returns. Slate is supported by exceptional people, flexible capital and a proven ability to originate and execute on a wide range of compelling investment opportunities. Visit slateam.com to learn more.

Supplemental Information

All interested parties can access Slate Retail's Supplemental Information online at slateam.com/SRT in the Investors section. These materials are also available on SEDAR or upon request to the REIT at info@slateam.com or (416) 644-4264.

Forward Looking Statements

Certain statements herein may be forward-looking statements within the meaning of applicable securities laws. These statements reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT including expectations for the current financial year, and include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain words such as "could", "should", "would", "anticipate", "expect", "believe", "plan", "intend", "will", "may", "might" and similar expressions or statements relating to matters that are not historical facts constitute forward-looking statements.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on the REIT's current estimates and assumptions, which are subject to significant risks and uncertainties. Forward-looking statements contained herein are made as the date hereof and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are contained herein except as expressly required by applicable securities laws.

Non-IFRS Measures

This news release and accompanying financial statements are based on International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

We disclose a number of financial measures in this news release that are not measures used under IFRS, including NOI, same-property NOI, FFO, FFO payout ratio, AFFO, AFFO payout ratio, adjusted EBITDA and the interest coverage ratio, in addition to certain measures on a per unit basis.

- NOI is defined as rental revenue less operating expenses, prior to straight-line rent and IFRIC 21 adjustments. Same-property NOI include those properties owned by the REIT for each of the current period and the relevant comparative period excluding those properties under development.
- FFO is defined as net income (loss) adjusted for certain items including IFRIC 21 property tax adjustments, transaction costs, unit expense, change in fair value of investment properties, change in fair value of interest rate caps, goodwill impairment and deferred income taxes.
- AFFO is defined as FFO adjusted for certain items including straight-line rental revenue, income support payments received by the REIT but not recognized in income, non-cash adjustments related to financial instruments, amortization of finance and mark-to-market charges in interest, tenant improvements and leasing commissions and landlord work.
- The FFO and AFFO payout ratios are defined as distributions declared divided by FFO and AFFO, respectively.
- Adjusted EBITDA is defined earnings before interest, income taxes, distributions, fair value gains (losses) from both financial instruments and investment properties, while also excluding certain items not related to operations such as transaction costs from dispositions, acquisitions, debt termination costs, or other events.
- Interest coverage ratio is defined as adjusted EBITDA divided by cash interest paid.

We utilize these measures for a variety of reasons, including measuring performance, managing the business, capital allocation and the assessment of risk. Descriptions of why these non-IFRS measures are useful to investors and how management uses each measure are included

in Management's Discussion and Analysis. We believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses in a manner similar to management. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others.

Calculation and Reconciliation of Non-IFRS Measures

The table below summarizes a calculation of non-IFRS measures based on IFRS financial information.

<i>(in thousands of U.S. dollars except, per unit amounts)</i>	Three months ended December 31,	
	2016	2015
Rental revenue	25,044	23,104
Straight-line rent revenue	(287)	(412)
Property operating expenses	(3,771)	(3,409)
IFRIC 21 property tax adjustment	(3,055)	(3,035)
NOI ⁽¹⁾	\$ 17,931	\$ 16,248
Net loss ⁽²⁾	\$ (12,397)	\$ (1,057)
IFRIC 21 property tax adjustment	(3,055)	(3,035)
Transaction costs	-	(30)
Unit expense	15,360	9,644
Change in fair value of investment properties	8,276	648
Deferred income taxes	504	4,373
FFO ^{(1) (2)}	\$ 8,688	\$ 10,543
Straight-line rental revenue	(287)	(412)
Finance charge and mark-to-market adjustments	143	73
Mark-to-market amounts on defeased debt ⁽²⁾	(1,696)	-
Income support payments	-	9
Tenant improvements and leasing commissions	(851)	(1,279)
Landlord work and maintenance capital	(440)	(287)
AFFO ^{(1) (2)}	\$ 5,557	\$ 8,647
NOI	\$ 17,931	\$ 16,248
Other expenses	(1,724)	(1,593)
Cash interest expense	(4,840)	(4,600)
Debt defeasance costs ⁽²⁾	(4,528)	-
Interest, net	9	149
Income support payments	-	9
Tenant improvements and leasing commissions	(851)	(1,280)
Landlord work and maintenance capital	(440)	(286)
AFFO ^{(1) (2)}	\$ 5,557	\$ 8,647
WA units	35,494	31,957
FFO per WA unit ⁽²⁾	\$ 0.24	\$ 0.33
FFO per WA units, excluding defeasance costs ⁽²⁾	\$ 0.32	\$ 0.33
FFO Payout ratio ^{(1) (2)}	82.6%	57.8%
FFO Payout ratio, excluding defeasance costs ⁽²⁾	62.3%	57.8%
AFFO per WA unit ⁽²⁾	\$ 0.16	\$ 0.27
AFFO per WA units, excluding defeasance costs ⁽²⁾	\$ 0.28	\$ 0.27
AFFO Payout ratio ^{(1) (2)}	129.2%	70.4%
AFFO Payout ratio, excluding defeasance costs ⁽²⁾	71.2%	70.4%

⁽¹⁾ Refer to "Non-IFRS Measures" on page 3.

⁽²⁾ The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of \$4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A \$2.8 million charge to income was recorded which was determined as the \$4.5 million cost, less \$1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the \$2.8 million charge to income and AFFO was impacted by the aggregate amount of \$4.5 million.

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