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InvenTrust Properties Corporation

Second Quarter 2022 Earnings Conference Call

Tuesday, August 2, 2022, 9:00 AM ET

CORPORATE PARTICIPANTS

Daniel Busch - *Chief Executive Officer & President*

Michael Phillips - *Chief Financial Officer*

Christy David - *Chief Operating Officer & General Counsel*

Dan Lombardo - *Vice President, Investor Relations*

PRESENTATION

Operator:
Thank you for standing by, and welcome to InvenTrust's Second Quarter 2022 Earnings Conference Call. My name is Joanna, and I will be your conference call operator today. Before we begin, I would like to remind our listeners that today's presentation is being recorded and a replay will be available on the investor section of the company's website at inventrustproperties.com.

I would now like to turn the call over Mr. Dan Lombardo, Vice President of Investor Relations. Please go ahead, sir.

Dan Lombardo:
Thank you and good morning. We are happy you are joining us today. With me are DJ Busch, President and Chief Executive Officer; Mike Phillips, Chief Financial Officer; Christy David, Chief Operating Officer; and Dave Heimberger; Chief Investment Officer. Following our prepared remarks, we will open the lines and answer questions from the research analyst community. Some of today's comments may contain forward-looking statements about the company's views on the future of our business and financial performance, including forward-looking earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties.

Any forward-looking statements speak only as of today's date, and we assume no obligation to update any forward-looking statements made on today's call or that are in the quarterly financial supplemental or press release.

In addition, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted on our Investor Relations website.

With that, it's my pleasure to turn the call over to DJ.

Daniel Busch:
Thanks, Dan. Good morning, everyone, and thank you for joining us.
InvenTrust had another solid quarter, driven by our team's strong performance and our portfolio of high quality assets in some of the most sought after markets in the Sun Belt. Our simple and focused business plan continues to produce strong results near the top end of our sector, and we believe this strategy has us well-positioned to navigate any potential volatility in the economy and the capital markets.

Our almost exclusive Sun Belt portfolio differentiates us from our strip center peers, which continues to see strong migration and job creation patterns. From Texas to Florida to North Carolina, the Sun Belt remains desirable for business relocation. Companies such as Apple,

Tesla, Citadel and Honeywell, to name a few, have all recently announced new or additional locations in one of our markets, bringing new population and high paying jobs to our already growing communities. These factors and the high traffic patterns at our properties do not go unnoticed by retailers, which does in turn drive continued demand for leasing our space.
The InvenTrust team has continued to execute on significant corporate initiatives since joining the public market last year. This quarter I want to highlight another milestone as we published our inaugural ESG report. ESG is not new to InvenTrust, and this report encapsulates the various activities across our company and the objectives we are motivated to pursue.
These efforts align with our commitment to transparency and outlines our pledge toward being an even greater corporate partner to the environment, communities we serve, and all of our stakeholders. We invest in our properties, creating community gathering spaces and prioritizing the installation of energy management systems and electric vehicle charging stations across our portfolio.

Sustainability assessments are also reviewed when performing due diligence on new acquisitions. InvenTrust analyzes the center's current state of environmental practices as well as any opportunities to implement additional activities to support an environmentally friendly portfolio.

Equally important to our sustainability pursuits, we are also currently in the process of adding diversity to our board of directors. We are conducting a search to add to the breadth of skills and competencies on our board while further increasing diversity. Our board's guidance, experience, and leadership is and will continue to be an integral part to our long term success.
Finally, let me provide you with a few comments about the current acquisition environment. Our team continues to pursue and review a robust pipeline of opportunities within our markets. While pricing for core Sun Belt assets appears resilient, we remain extremely disciplined in our evaluation of new opportunities and their corresponding contribution to our potential external growth.

During the quarter, we acquired Bay Landing, a grocery-anchored center just outside of Naples, which is an area seeing excellent demographic trends. In addition, we acquired the Highlands of Flower Mound in suburban Dallas from our joint venture. Both deals demonstrate our ability to deploy capital in a competitive environment by coupling external opportunities in the market with the captive acquisition pipeline that sits within our JV. Our seasoned team will continue to navigate the acquisition landscape as we maintain our prudent approach to capital allocation decisions.

With that, I'm going to turn the call over to Mike to discuss our financial results and guidance in more detail.

Michael Phillips:

Thanks, DJ. Good morning, everyone. Let me start with InvenTrust's financial performance. As we reported yesterday, our core FFO grew to $57.7 million for the first six months of 2022, or $0.85 per share, representing a year-over-year increase of 33 percent.

The increase in year-to-date core FFO for 2022 was largely driven by an increase in pro rata same property NOI, contributing $0.10 per share, and an additional $0.03, primarily from 2022 acquisitions.

In addition, we realized G&A savings of $0.06 due to non-recurring costs of our succession planning in 2021, and we saw a positive $0.04 impact on our $100 million share repurchase in Q4 of last year. These gains were offset by an increase in interest expense of $0.02.
Pro rata same property NOI year-to-date reached $74.8 million, growing 9.9 percent. The increase was primarily driven by contractual rent increases, occupancy gains, and the timing of collections of cash basis tenants. We also have a favorable comparison against year-to-date 2021 of about 150 basis points related to rent relief given in 2021 that we did not experience in 2022.

Turning to the balance sheet, InvenTrust continues to diversify its capital structure and manage its maturity schedule. In June, utilizing its investment grade rating, InvenTrust completed a $250 million private placement offering. The senior unsecured notes are broken down into a seven-year tranche for $150 million and a 10 year tranche for $100 million.

The weighted average fixed interest rate is 5.1 percent and weighted average maturity is 8.2 years. Using the delayed draw feature, funding will occur on August 11th, and we intend to use the proceeds for general corporate purposes, including the repayment of debt and future acquisitions.

Next, I would like to update our full year 2022 guidance. We are lifting the low end of our core FFO range to $1.52 while maintaining the high end of the range at $1.56 per share. We are tightening our pro rata same property NOI growth guidance to 4 to 5 percent.

As we mentioned last quarter, we continue to expect our quarterly pro rata same property NOI and core FFO growth to decelerate in the back half of the year due to significant out of period rent received in Q3 of 2021, an increase in property operating expenses, and increased interest expense.

Bottom line, for the full year we expect to deliver meaningful NOI and core FFO growth, and these strong results will be near the top end of the sector. Our full guidance assumptions are provided in our supplemental disclosure filed yesterday.

With that, I'm going to turn the call to Christy to discuss our portfolio activity.

Christy David:
Thank you, Mike. As DJ mentioned, InvenTrust continues to experience strong operational and leasing performance. Our centers remain busy and traffic levels are in line with 2019 visits.

Our leased occupancy ended the quarter at 95.4 percent, 100 basis points above Q1 and 250 basis points above this period last year. Our anchor lease percentage for the first six months of the year increased to 98.2 percent and our small shop remained at 90.5 percent, both all time highs, giving us significant pricing power when negotiating leases.

With our occupancy levels increasing, our goal is to minimize the spread between our economic and lease occupancy rates. Our team continues to be proficient in effectively turning signed leases into rent paying tenants. Even in these times of supply chain challenges, we are finding creative ways to reduce delays and open tenants on time and on budget.

Our annual base rent as of June 30th for the pro rata same property portfolio was $19.03, an increase of 2.7 percent compared to June 30th of 2021. Anchor tenant ABR was $12.53, with small shop ABR hitting $32.07.

In the second quarter, we signed 78 leases totaling approximately 289,000 square feet of GLA. Our leasing team continued to see interest in many retail categories, with tenants signing new leases including Total Wine, HomeGoods, Crunch Fitness, and Burlington.

Our retention rate for the quarter was above 92 percent. Our expectation is that renewals will continue to make up a substantial percentage of our leasing volume. In an environment where new tenant CapEx is increasing, we view our strong retention rate as a strength. It eliminates downtime while still generating positive leasing spreads.

The total combined rent spread for the quarter, inclusive of new and renewal leases, was 15.1 percent. These results further demonstrate our conviction around the ability of our Sun Belt assets to attract new tenants, maintain occupancy, and most importantly, drive rent.

Although we are experiencing strong demand for space, we continue to closely monitor how inflation is affecting our tenants and our consumers. Due to the necessity based nature of our assets, sales for our tenants remain healthy. Labor availability and wage increases are starting to cause challenges for our tenants, but currently tenants are adjusting to mitigate risk or any significant disruption to their operations. InvenTrust will continue to partner with our tenants as needed to help them conduct their business successfully.

To conclude, I wanted to highlight a redevelopment project that we are extremely proud the InvenTrust team was able to complete and hand the space over to the tenant this quarter. In a time of rising costs and supply chain delays, the team was able to hit both our budget and delivery timeline in the rebuilding of a brand new Publix at our Suncrest Village property in Orlando.

On top of that, we expect this project to generate significant NOI growth for this center, a true win-win for InvenTrust and tenants at the property. This project embodies InvenTrust's approach to redevelopment. Modest investment opportunities can enhance the consumer experience while generating solid risk adjusted returns for our stakeholders without the longer term construction cycle typically seen on larger projects.

Now I will turn the call over to DJ for some final remarks.

Daniel Busch:
Thanks, Christy. The InvenTrust team, since listing the company October of last year, has completed an impressive array of achievements. These include repurchasing $100 million of shares at $25 per share; moving closer to 100 percent Sun Belt portfolio by acquiring $190 million of assets in Austin, Texas and selling two of our Colorado assets; putting in place an ATM program and a share repurchase program; receiving our inaugural investment grade rating from Fitch Ratings; executing on a $250 million private placement to fund our growth strategy and diversify our debt capital structure; and publishing our inaugural ESG report.

These accomplishments, as well as our inclusion in numerous indices, has moved our institutional ownership closer to 60 percent. Every day, the InvenTrust team is motivated by our core principles, and we will continue to strive to bring value to our stakeholders.

We will also continue to maintain our simple and focused Sun Belt strategy that should continue to deliver sustainable cash flow growth in the future and be an attractive investment for our current and new shareholders.

Operator, this concludes our prepared remarks. Please open the line for questions.

QUESTION AND ANSWER

Operator:
Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press star followed by the number one on your touchtone phone. We will hear a three tone prompt acknowledging your request. If you would like to withdraw your request, please press star followed by two. One moment, please, for your first question.

The first question comes from Floris van Dijkum at Compass Point. Please go ahead.

Floris van Dijkum:
Good morning, guys. Thanks for taking my question. So, I had a question on the occupancies, which are at record levels. And I would love to get your comments on we're sort of in unprecedented, for the portfolio anyway, occupancy levels already. How much more can occupancies increase, in your view?

And also, what does that mean? I saw that your leasing costs were pretty elevated for the quarter. Is that partly due to the mix, or is that also leasing space that hasn't been leased before and thus requires more refurbishment? And is that something that we can expect going forward as well? Just want to get a sense of your optimism or your view on how much more can you push the occupancies, and then obviously that would allow you to push rents, presumably, as well.

Daniel Busch:
Hey, Floris, this is DJ. Good morning. No, it's obviously an important observation. I think we're not alone in the sense that we're getting certainly past pre-pandemic occupancy levels, but getting close or past peak occupancy levels, which is a tremendous tailwind as we think about pricing power. And I think some of our peers have already mentioned that.

We do think that we can push occupancy a little bit higher, and I think you hit on an interesting point. We're actually having success in areas of our centers that have struggled to be leased in the past, whether it's just in a suboptimal location or something else. I do think, to your point on leasing costs, that's more of a mix issue than trying to get space that's maybe been a long period of time vacant.

We're actually being much more careful and cautious on leasing costs in those areas because we want to make sure, if it has been a space that has struggled in the past, that we're not putting too much capital that in the case that it may come back to us.

So, we're actually being more cautious, not only from a base rent perspective to make sure those tenants that are taking some space that's struggled in the past to be more successful, but also with the capital that we're investing in those as well.

We do expect through the balance a year for occupancy to continue to tick higher. Obviously, in the current economic backdrop, we are in unprecedented territory as far as the lack of bankruptcies. Certainly, I'm not sure that that will last forever, but it's obviously been a huge boon for us in the interim.

Floris van Dijkum:
Thanks, DJ. Maybe if I can follow up with an additional question, I'd love to get your comments on your market exposures. Obviously, you're predominantly Sun Belt, Austin being the biggest market. You just bought some assets--an asset that you had in a joint venture in Flower Mound or in Dallas. How do you look at and compare Dallas and maybe Atlanta, which I think is your second largest market? And are you as excited about those markets as you are about the Austin market?

And clearly, Austin has gotten a lot of attention from investors and cap rates have really compressed in that market. Are you more hesitant about deploying more capital in a market like that?

Daniel Busch:
Yeah, it's a good question. I think it's--our approach is a little bit more holistic. Obviously, we like all three of the markets that you mentioned, Dallas, Atlanta, and Austin, but for a couple of different reasons.

I think when we think about the total returns that we need to get to or we want--that we're underwriting, obviously Austin is going to be on the lower end of that spectrum because of the dynamics and the growth prospects in that market, not only from a demand perspective, but from a lack of supply perspective.

Those dynamics are a little bit different in some of the parts of Atlanta and Dallas and certainly Houston, where it is a little bit easier to build and it doesn't have the same level, I guess for lack of a better word, NIMBYism that places like Austin and even the triangle in North Carolina have. We expect to obviously continue to invest in those markets.

But we are, to point out some other markets that we are equally or maybe even more excited about, the dynamics that we've seen in central and west Florida have been very exciting on just the assets we have, which goes to our acquisition of Bay Landing. And then we would love to get further investment and concentration in the Carolinas, where many of our peers have assets as well. But the dynamics there, from our perspective and what we're seeing on the ground, are a little bit closer to Austin than maybe a Dallas or a Houston or Atlanta.

Floris van Dijkum:
And maybe another in terms of cap rates, the view is--well, interest rates have gone up significantly. The market, certainly the stock market, has repriced everything as if cap rates are going to increase. We haven't seen a whole lot of evidence of that yet in the direct markets, but most people expect that to occur later on this year. How are you--how have you changed your underwriting criteria for acquisitions and investments?

Daniel Busch:
I think it's just--and I mentioned in our prepared remarks, it's just more discipline because, to your point, what we've seen in our current pipeline is pretty sticky pricing. And obviously, most of the stuff that we're looking at continues to be core grocery in the markets that we're already in, and we haven't seen a whole lot of movement.

A lot of that is due to the core grocery-anchored centers usually can be bought on balance sheet. They don't--they're not as highly dependent on secured financing. I think in the larger assets, perhaps in the power center space, I think, that is more dependent on the mortgage market, probably has moved a little bit and may move a little bit more. We haven't seen the same.

But I would agree with your sentiment that we could expect a pullback. Obviously, we had a fantastic run up in values and down in cap rates just from our observations over the last 18 to 24 months. And if that cools off a little bit, that's okay. But we haven't seen that yet, which is why we've been a little bit more disciplined in our acquisitions.

Floris van Dijkum:
Thanks, DJ. That's it for me.

Daniel Busch:
Thank you, Floris.

Operator:
Thank you. As a reminder, should you have any questions, please press star followed by one.

Next question comes from Craig Schmidt at Bank of America. Please go ahead. Craig, your line is open. You may proceed with your question. Craig Schmidt, please proceed.

CONCLUSION

Operator:
At this time, there appear to be no other questions. I will turn the conference back over.

Daniel Busch:
Thank you, everyone, for joining us. Thank you for your interest in InvenTrust, and we look forward to speaking with many of you over the coming months. Have a great rest of your day.

Operator:
Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines. Enjoy the rest of your day.