InvenTrust Properties Corp. NYSE:IVT

Earnings Call

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Call Participants

EXECUTIVES

Christy L. David
COO, Executive VP, General Counsel & Corporate Secretary

Dan Lombardo
Vice President of Investor Relations

Daniel Joseph Busch
CEO, President & Director

Michael Douglas Phillips
Executive VP, CFO & Treasurer

ANALYSTS

Floris Gerbrand Hendrik Van Dijkum
Compass Point Research & Trading, LLC, Research Division

Unknown Analyst

Presentation

Operator

Thank you for standing by, and welcome to InvenTrust First Quarter 2023 Earnings Conference Call. My name is Emily, and I'll 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 Investors section of the company's website at inventrustproperties.com. [Operator Instructions]

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

Dan Lombardo
Vice President of Investor Relations

Good morning, everyone, and thank you for joining us today. In the room with me is D.J. Busch, President and Chief Executive Officer; Mike Phillips, Chief Financial Officer; Christy David, Chief Operating Officer; and David Heimberger, Chief Investment Officer. Following the team's prepared remarks, we will open up lines for questions.

As a reminder, 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 is my pleasure to turn the call over to DJ.

Daniel Joseph Busch
CEO, President & Director

Thanks, Dan. Good morning, everyone, and thank you for joining us. InvenTrust opened 2023 with another strong quarter of operating results. In the face of some economic uncertainty and a challenging capital markets backdrop, our Sun Belt grocery and necessity-based portfolio continue to perform well. We maintained our record-high occupancy rate of 96.1% for the second quarter in a row, and our same-property net operating income grew at 3.2% over the first quarter of 2022. Both our NAREIT and core FFO grew sequentially by over 17% compared to fourth quarter of 2022. Our results are a testament to the dependability, consistency and strength of our portfolio and markets.

Necessity-based retail continues to show signs of strength and has proven to perform well during challenging economic times, despite persistent inflation. The InvenTrust portfolio consists of high-quality essential retail tenants, with approximately 60% of our ABR coming from either grocery, discount or necessity-based retailers. Fine-tuning our merchandise mix across our properties to serve each of communities' needs accordingly has been and will continue to be a pretty component of our long-term strategy and ultimate success.

A notable tailwind in this space is the continued lack of new retail supply. Development for new strip center properties has been well below historical averages for the better part of a decade, and we expect this trend to continue as inflated construction costs and elongated delivery times persist. Lack of premier space factors into the demand and the pricing power we are currently experiencing at the time of lease negotiation and renewals.

Next, retailers, particularly grocers, continue to evolve and extract value out of their local brick-and-mortar locations. In our portfolio, we continue to see the expansion of our online order execution and fulfillment directly from our store locations.

Additionally, and arguably the most important and unique attribute of our portfolio, is the continued benefit from the well-documented migration to the Sun Belt. 95% of InvenTrust's NOI comes from Sun Belt markets. Demographics in our markets continue to grow, and we expect these market dynamics will create advantages to our portfolio and performance for the years to come.

A secondary point regarding migration is the suburbanization movement accelerated by the hybrid work model that is seemingly the new normal. Clearly, the structural shift places consumers closer to our centers for longer periods during traditional working hours, bringing additional activity and intern demand to our properties.

Our simple and focused portfolio is well-positioned to produce strong sector-leading internal growth. And with our balance sheet capacity, we have the ability to grow through acquisitions without the immediate need for external funding should capital markets remain influx. This gives us flexibility to capture acquisition opportunities as they present themselves.

On the acquisition front, as we discussed last quarter, we started the year by executing on the roughly $100 million purchase of the remaining stake in our joint venture. This transaction has been a part of our investment strategy since entering the public market.

In terms of private market transactions, with lower deal volume and the attractiveness of the Sun Belt, competition for quality centers remains high, and we will continue to remain disciplined and patient in our capital allocation plan.

Before I turn it over to Mike Phillips, I want to reiterate that we have started the year in an outstanding position and believe we are set to produce impressive sector-leading internal growth in 2023. Delivering at a high level within a competitive space is a testament to how this team and this portfolio will continue to create value for our shareholders.

Mike will now walk everyone through our financials and guidance for the quarter. Mike?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Thanks, DJ. InvenTrust started 2023 on a positive note. First quarter same-property NOI finished at $35.8 million, growing 3.2% over the first quarter of last year. The increase was primarily driven by contractual rent increases, occupancy gains and rent spreads.

We reported first quarter NAREIT FFO of $28 million, or $0.41 per share, and core FFO of $27.4 million, or $0.40 per share. This anticipated decline over the first quarter of 2022 is primarily due to higher interest rate expenses and our strategic exit from Colorado in 2022. As DJ mentioned, on a sequential basis, both our FFO results increased over 17% as compared to fourth quarter of 2022.

Moving to the balance sheet. As of March 31, our net leverage ratio is 28%, and net debt to adjusted EBITDA is 5.5x on a trailing 12-month basis. Our weighted average interest rate is 4%, with a weighted average maturity of 4.6 years. And when contemplating extension options available to us, we only have $16 million of maturities through 2024, 2% of our debt stack. At quarter end, we had approximately $436 million of total liquidity, including the full $350 million of borrowing capacity available on our revolving line of credit.

Effective April 3, we were able to swap $100 million of floating rate debt on a portion of one of our term loans to a fixed rate of 3.69%, with an all-in rate of 4.99%. This further reduced our exposure to a volatile interest rate environment. And with the swap in place, our fixed-rate debt now totals 98%. Finally, we declared a dividend payment for the second quarter of $0.215 per share, which is a 5% increase over last year.

Turning to guidance. We are reaffirming our 2023 core FFO guidance of $1.59 to $1.64 per share as well as our NAREIT FFO guidance of $1.64 to $1.69 per share. We are also reaffirming our 2023 same-property NOI guidance of 3.5% to 5%. These ranges have the same 50 to 150 basis points of bad debt that we provided in our call last quarter. The bankruptcy scenarios and potential disruption of rent collection from struggling businesses is playing out how we anticipated in our initial forecast, which gives us the confidence to reaffirm our guidance.

And one final note. As discussed in our previous call and as implied in our guidance, we expect our growth to accelerate throughout the second half of the year. Our full year guidance assumptions are provided in our supplemental disclosure filed yesterday.

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

Christy L. David
COO, Executive VP, General Counsel & Corporate Secretary

Good morning, everyone. InvenTrust continues to experience strong leasing momentum. We are observing demand across the board from both national anchor tenants and local businesses looking to expand their footprints. Demand is also broad-based from a full array of retail categories, such as fast casual restaurants, wellness and beauty tenants and discount retailers.

Lack of new supply has made premier, well-located retail space more valuable. This dynamic is allowing landlords, like InvenTrust, to push rents and fill vacancy across their portfolios. Separately, despite the potential headwinds around struggling businesses like Bed Bath & Beyond, Party City, David's Bridal and Tuesday Morning, there is a bit of a silver lining if space becomes available.

For example, in the past, Bed Bath was a brand-name tenant. And for the most part, their stores were located in prime locations at high-quality centers. These boxes are attractive to a variety of tenants, which reduces marketing time to fill the vacancy.

We have already had constructive conversations with a variety of tenants for every one of our 5 Bed Bath locations. We continue to believe our market-dominant essential retail centers are exactly where retailers want to be, and they are waiting anxiously for this space to become available.

Despite some long telegraph bankruptcies, there are multiple retail concepts with announced store openings. Along with retail categories mentioned earlier, our team is also seeing demand for medical users. Medical tenants have been active, and we are excited to include them in our centers.

From a tenant mix perspective, medical complements our fitness and wellness operators. And with our occupancy rate at an all-time high, their willingness to take traditionally hard-to-lease space matches the vacancy we currently have available.

Retail is and always will be an evolution of concepts and new ideas. Regardless of all of the negative headlines, we are not seeing softening of retail fundamentals, but a more return to normal retail environment, where some tenants may fail.

Names on the marquess may change over time, but that is what keeps our properties fresh and vibrant. This is a normal retail cycle. This environment allows the InvenTrust team to focus on ensuring our properties have an attractive tenant mix, with tenants that are going to drive traffic and improve the financial performance of our centers.

Let me conclude my remarks by reviewing our leasing results for the quarter. We leased 254,000 square feet of space during the quarter, with a multitude of additional leasing activity at various stages in the process. We ended the quarter at 96.1% leased occupancy, which is a 170-basis-point increase over the first quarter of 2022.

Our anchor space lease occupancy increased to 98.8% and our small shop increased to 91.4%, both all-time highs. As of March 31, InvenTrust same-property portfolio ABR was $19.12, an increase of 2.6% compared to March 31, 2022.

Blended lease spreads for the quarter were 7%, and our retention rate for the quarter was above 95%.
These solid results continue to validate our portfolio's ability to drive leasing demand.
Operator, this concludes our prepared remarks. Please open the line for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of [Lissie Dougan] with Bank of America.

Unknown Analyst

I was hoping I could ask about if you could provide a bit more color on the stages of discussions you're currently in on the, I believe, it's 4 Bed Bath, 1 Buy Buy Baby store that you're in conversations with on backfilling those spaces. Maybe if you could just characterize what -- any kind of waitlist or just provide a bit more color on that? And then also, what really is leading to the assumptions of getting to that low and high end of the range that you've reaffirmed on credit loss?

Christy L. David
COO, Executive VP, General Counsel & Corporate Secretary

Lissie, this is Christy. I'll take the part of that question. With respect to our Bed Bath, you are correct, there are 4 Bed Baths and 1 Buy Buy Baby. And we have various levels of interest on all of those boxes.

I will say that we are expecting an LOI and a couple of them, still between this week and next week. And others, we have multiple different users coming in, making offers to take that space. And at this point in time, the good news on all of those is that they are single-tenant users, which helps get them in quicker and minimizes our cost in terms of putting them in.

And then, Mike, do you want to take the second part?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Yes. I'll take the second part on the bad debt. So as we said in our prepared remarks, kind of at the midpoint of the bad debt, we planned this quarter and last quarter from Bed Bath to pay probably through June. And that's looking at how it's going to play out, which takes a big portion of it.

Daniel Joseph Busch
CEO, President & Director

Yes. And then, Lissie, the only thing that I would add is, I think some of our -- some of the other companies have highlighted kind of the opportunity set or actually the spread related to the Bed Bath & Beyond and maybe some other of the retailers that are struggling.

We're no different. I think we feel very comfortable about where the in-place rent is and where we're able to mark those to market to the tune of, call it, the way we look at it. And our leasing team looks that it's about 15% to 20%. Probably upside if we were able to mark those to market and get new tenants in there.

Unknown Analyst

And I guess my second question, is there any change in the timing of delivery on same-stores -- on the stores you're seeing -- anticipating to come online throughout the year? I noticed just the spread on no came down about 10 basis points this quarter. If you could just comment on any kind of delays you're seeing or if you're on schedule as planned?

Daniel Joseph Busch
CEO, President & Director

No, it's a good question. So actually, the [indiscernible] not open did come down 10 basis points really because we had two big boxes commenced this quarter. It's really just timing. The pipeline remains really strong, even despite, obviously, the headwinds that we discussed in the prepared remarks. And that is well documented.

But the pipeline, both from an anchor standpoint and a small shop standpoint, we still feel really good about not only what's in the sign, but not open, but really in the pipeline behind that, whether it's in the legal or LOI process.

Michael Douglas Phillips
Executive VP, CFO & Treasurer

And if I can just add a little more detail. We do take account in our bad debt range a little bit of that, but we haven't seen much, Lissie, so far through the year.

Unknown Analyst

Great. I was wondering if you could talk about any new opportunities. Maybe you're probably not seeing as a lot of your peers have commented on seeing the transactions market is still limited. But maybe if you could talk about opportunities you're hoping for? Or as acquisitions still largely the focus? Or if really you're kind of happy with where you are in having recently consolidated the office from your JV? Just kind of if you could give more color on the strategy there for this year and then in '24.

Daniel Joseph Busch
CEO, President & Director

Yes. No, sure. So obviously, this year, we're hoping to deploy $150 million of net investment activity. The joint venture obviously sold for about $100 million of that. So we're hoping to obviously put out another $50 million.

But to your point, the transaction market is thin. And if you think about, obviously, the markets where we're trying to buy, it's even tighter. The -- there is still a pretty wide gap on the bid-ask, especially in our markets where, not too long ago, pricing was very aggressive. So we're just being patient.

And we're also very mindful. Even though we can buy on our current balance sheet due to our leverage, which is obviously a big benefit for us, we're still mindful of our cost of capital as it relates to our discount in the public markets.

So we're just being very mindful and patient, but that's not to say that we don't have -- we're always looking at opportunities. There are things out there that are coming to market. It's just not -- it's not as robust as it was, call it, 12 months ago.

Unknown Analyst

Great. And if I could just add one more quick question. On the same-store NOI growth this quarter is 3.2%. Does that exclude out-of-period rents? And if not, what would that growth be when excluding that?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Yes, it does. It would be 4.2%, if we included it.

Operator

Our next question comes from Floris Van Dijkum with Compass Point.

Floris Gerbrand Hendrik Van Dijkum
Compass Point Research & Trading, LLC, Research Division

I guess I had a question regarding maybe the balance sheet. Obviously, you took out a $100 million swap. I think that's essentially fixed all of your debt, it looks like. Maybe if you can walk through that in greater detail.

And also talk about your plans for addressing the -- I guess, the three cross-collateralized mortgages that are coming due at the end of this year. And why would you not simply pay them off with your cash in hand?

Daniel Joseph Busch
CEO, President & Director

Yes. Maybe I'll start and if Mike has any color. But Floris, you're absolutely right. Not to name any names, but I love how Connor talked about -- on the site centers, talked about how they were thinking about that because we think about the same way. We're just trying to take any of the interest rate risk off the table.

So obviously, swapping the $100 million, that puts us almost effectively with the exception of maybe $17 million. All fixed rate data at still a pretty attractive price. And we're going to continue to do that and look for those opportunities.

Now as you mentioned, in November, that cross-collateralized loan does a swap on that does burn off. So our fixed-to-variable will probably go to somewhere closer to 90%, 10%, give or take.

And we're looking at a lot of options as it relates to what we want to do with that. We could pay it off. Obviously, with the current balance sheet, we could refinancer or do use some other instrument to do it. Or we do have two extension options -- two 1-year extension options on it as well. So it will just come down to market conditions and working with our advisers and bankers as it relates to the best option for us. And that -- those discussions have kind of just started, but we'll certainly pick up over the summer.

Floris Gerbrand Hendrik Van Dijkum
Compass Point Research & Trading, LLC, Research Division

And just to -- the swaps on those notes are pretty low, right? Presumably, the extension options would be done at market rates. And so there would be a jump in interest. Is that the right way to read it?

Daniel Joseph Busch
CEO, President & Director

Yes. So think of it this way. So the swap that we just put in place, so in our supplemental, our weighted average interest rate is, I believe, 4%. The swap that we were able to just accomplish makes that closer to 3.8%. So it actually gets better.

Once those birds -- based on the current curve, it would -- our weighted average rate would probably go up, call it, 40 basis points. And then obviously, depending on where rates go, or we're able to fix in or lock in those? We'll see, but that's kind of the bridge. If that helps.

Floris Gerbrand Hendrik Van Dijkum
Compass Point Research & Trading, LLC, Research Division

Yes. No, that's helpful. You guys have a pretty minimal redevelopment pipeline, DJ. And part of it is you guys have also more newer assets probably than some of your peers. But I would imagine there are some untapped outparcel opportunities still remaining.

And as the acquisition markets are essentially shut right now, are you looking more closely at trying to unlock some of the other value-add opportunities within your existing holdings? And how much can that grow over time?

Daniel Joseph Busch
CEO, President & Director

No, it's a good question. First, I think you hit it on the head. Look, our assets tend to be on the smaller side. I mean we do have some bigger power centers and community centers, but I think our average size, give or take, is 130,000 square feet. So obviously, that doesn't give us a ton of additional opportunity.

Now we do have plenty of outparcel opportunities. And we're going to continue to explore those. Right now, frankly, it's really hard to make the math work, even though the returns tend to be pretty strong.

Construction costs are still high. We don't want to burden any of those tenants, especially if you're doing a multi-tenant outparcel with high rent, where they're putting it in a position to fail just to make our return hurdles. But we're going to continue to look at those.

We do have a couple of bigger redevelopment opportunities, but it's more of an over -- I would call, more of a remerchandising endeavor that gets us a really good incremental return.

We have one asset in particular, down in Tampa, Florida. That is a fantastic asset, has a target and a public that has really interesting opportunities that we're continuing to explore. But it's more of those as opposed to looking for -- adding out parcels just at outparcels, and then either burdening new tenants with high rent or making your in-line space less competitive. So we're trying to balance all of that.

But I will tell you, our redevelopment pipeline is one that's going to be slightly complementary to the overall portfolio. It's going to make our assets better. It's going to grow our NOI over time. But I wouldn't expect us to spend any more time than this because it is going to continue to be a smaller part of our overall growth strategy.

Floris Gerbrand Hendrik Van Dijkum
Compass Point Research & Trading, LLC, Research Division

And maybe as -- at what point -- when the acquisition markets remain shut and the lending markets are gummed up still, at what point -- and your stock is trading at a discount to NAV. At what point do you start to think, DJ, hey, we should look at buying back some stock because we're trading at a discount to NAV?

Pretty -- not dissimilar to everybody else, by the way, in the sector. But at what point do you say, hey, maybe we should just use that capital to repurchase stock?

Daniel Joseph Busch
CEO, President & Director

No, it's a great question. And it's one we think about and our Board thinks about a lot. Obviously, we bought back our shares to support the stock price, right, when we listed the company in late 2021.

There's a lot of factors that go in. So first, we're not looking to sell assets. When I -- when we think about selling or repurchasing shares, I think personally and as a management team, we think it should be paired with selling part of your portfolio and then repurchasing to take advantage of that arbitrage.

We're not in the market or we're not disposing a lot of assets if any, in the time being. And we have to be mindful of our size. So we're already on the smaller size. We're not -- we're obviously not blind to that. We want to make sure this platform is as efficient as possible.

But at a certain price, especially if our relative valuation decouples from the rest of the strip centers, you mentioned, obviously, everyone's trading at a pretty significant discount. We don't know where private market pricing. We don't have a great idea of where private market pricing will fall out. It's probably -- it usually ends up when the dust settles to be somewhere in between.

The public markets probably overshot a little bit, but that's our opinion. But maybe private market pricing will settle a little bit lower as well from a valuation standpoint.

So thinking about all those and then obviously, being mindful of our size and our efficiency and our scale, it is a tool that we will use and we have used in the past, but the bar has to -- there's a lot of factors that we've taken into place. And the bar is pretty high for us to really pull that trigger and shrink the company further.

Floris Gerbrand Hendrik Van Dijkum
Compass Point Research & Trading, LLC, Research Division

And I guess last question here on my side. As I look out at your lease expiration schedule next year as well as -- that's where a bulk of your growth is going to have to come from, right? It's from re-leasing at higher rates. And we're in an environment where you have the pricing power.

But I noticed your small shop expirations are above where your average small shop rents are the expiring rents per square foot. Maybe can you walk us through how you're thinking about your expirations going forward? And how you're planning on tackling that? And how much upside you think there could be in -- as the market still benefits from the lack of new supply and still consistent retailer demand?

Daniel Joseph Busch
CEO, President & Director

No, it's a good question. I -- the way we think about it. And I will say -- and obviously, the lease expiration schedule is an important piece of disclosure. However, it can be a little misleading because it's all about the mix on what's coming due. So it's hard to read into the -- obviously, the rent that you highlighted.

We feel very comfortable that we're going to continue to be able to have positive spreads and push rents because of the pricing power. That being said, we're also trying to continue to push our escalators. So getting that 3% and 4% escalation over a period to make sure we're not only getting a positive spread -- cash spread at the onset of the lease, but building in some substantial escalators, so we can grow with the success of our tenant and not overburden them with rent right away, but benefit through the term of the lease really.

So we still feel very good, obviously, at an all-time high occupancy. All of our growth at this point -- or most of our growth, I should say, is going to be coming from our pricing power, and it shows. And I know that we've talked to you in the past, some of our best growing assets are ones that have been 100% occupied because of the pricing power and the annual escalators that we've been able to put in place.

Operator

We have no further questions. I'll turn the call back to the management team for any closing remarks.

Daniel Joseph Busch
CEO, President & Director

Yes, thanks. Maybe I'll just close by echoing some of our key comments.

Look, we talked a lot about our internal and external growth opportunities. I think it's driven by our simple and focused portfolio. We're expecting to deliver sector-leading cash flow growth. Our investment-grade balance sheet provides us additional flexibility to be both patient and opportunistic when we're looking to grow the business without the immediate need to access the capital markets in this environment.

So for folks and investors looking to invest in a geocentric portfolio, in markets with fantastic demographic trends and the security of grocery and necessity-based tenants, I think InvenTrust is obviously a natural option for that criteria.

We look forward to seeing everyone over the next several weeks in ICSC Las Vegas and out in New York for REIT week. As always, if you have any additional questions, please feel free to reach out. Otherwise, everyone, have a fantastic weekend.

Operator
Thank you, everyone, for joining us today. This concludes our call, and you may now disconnect your lines.