S&P Global
Market Intelligence

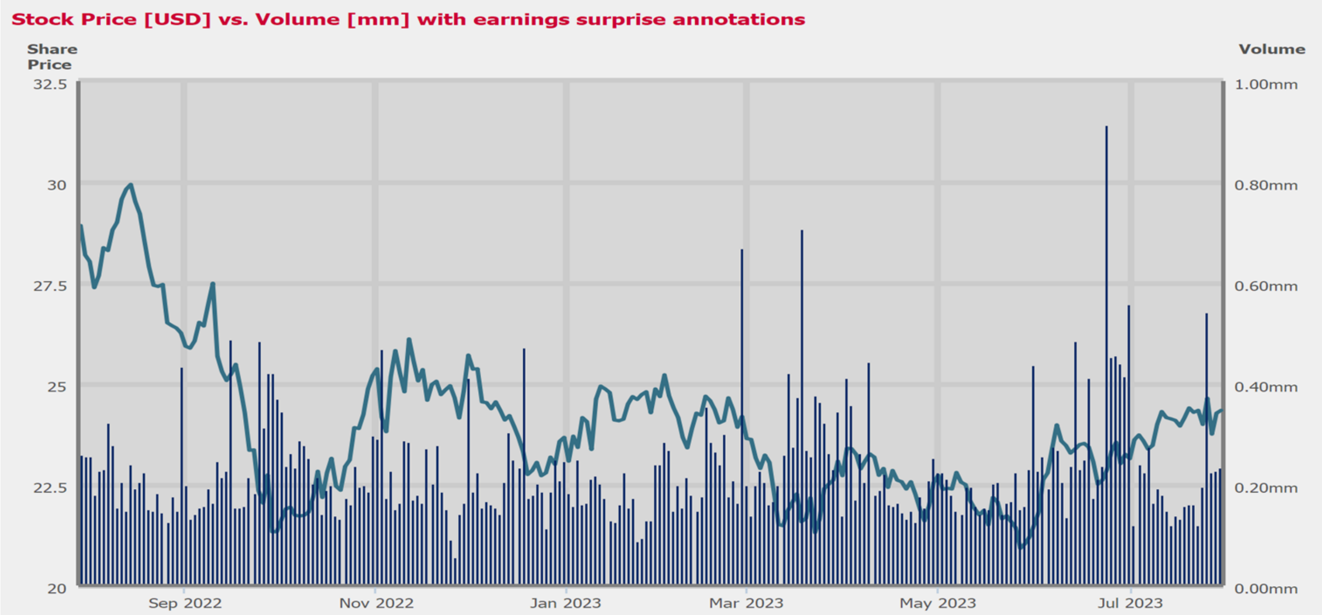
InvenTrust Properties Corp. NYSE:IVT
FQ2 2023 Earnings Call Transcripts

Tuesday, August 1, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.02	(0.01)	NM	0.04	0.04	NA
Revenue (mm)	60.90	64.69	▲6.22	60.26	248.29	NA

Currency: USD
Consensus as of May-24-2023 2:58 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	(0.01)	(0.01)	NM
FQ4 2022	0.00	(0.05)	NM
FQ1 2023	NA	NA	NA
FQ2 2023	0.02	(0.01)	NM

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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

David Heimberger
Senior VP & Chief Investment Officer

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 the InvenTrust Second Quarter 2023 Earnings Conference Call. My name is Carla, 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 Investors section of the company 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

Thank you, operator. Good morning, everyone, and thank you for attending our call today. Joining me from the InvenTrust team is DJ 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 the 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 quarterly earnings materials, which are posted on our Investor Relations website.

With that, I will turn the call over to DJ.

Daniel Joseph Busch
CEO, President & Director

Thanks, Dan, and good morning, everyone. The InvenTrust portfolio continues to deliver solid operating results, highlighted by strong leasing activity and record occupancy. Our consistent performance is indicative of our simple and focused strategy, owning and operating premier necessity-based shopping centers in growing Sun Belt markets.

Significant demographic trends continue to be an important tailwind in the Sun Belt, which is experiencing some of the healthiest market rent growth across the U.S. A major catalyst is the lack of institutional quality retail space across the sector and the absence of meaningful new development. Inflated construction and labor costs continue to be a hurdle to any new projects, creating a compelling backdrop for our business.

Our strong internal growth prospects are complemented by our low levered balance sheet, which allows us to look for external growth opportunities without having to access the capital markets. We are comfortable with our capital position to support future acquisitions while still maintaining a prudent and low levered balance sheet with a net debt-to-EBITDA target of around 6x on a forward-looking basis and a net leverage ratio of around 35%. That said, an uncertain rate environment continues to keep deal volume relatively low and will remain disciplined and patient in our capital allocation plan. InvenTrust closed on one acquisition in the quarter, The Shoppes at Davis Lake, located in our target MSA of Charlotte, which is approximately 90,000 square feet anchored by Harris Teeter in a strong retail corridor, experiencing population and income growth with significant residential development in the immediate area.

Finally, InvenTrust published its annual ESG report in June. We have set 5-year energy, greenhouse gas, waste and water reduction goals for areas under our operational control and are working with our tenants to optimize operations through our green leases. Investing in our properties is a fundamental part of our business plan as we strive to create best-in-class shopping experiences and improve our communities. We believe that our investment in sustainability will continue to provide appropriate returns and position our company and ask us for the future.

With that, I'm going to turn it over to Mike to walk everyone through our financials and guidance for the quarter. Mike?

Michael Douglas Phillips

Executive VP, CFO & Treasurer

Thanks, DJ. InvenTrust had another solid quarter of results, and we are positioned for a strong finish for the remainder of 2023. Same Property NOI for the quarter was $38 million, growing 3.7% over the quarter of last year. Year-to-date Same Property NOI was $71.8 million, growing 3.5% over the first 6 months of 2022. The year-to-date increases were primarily driven by base rent and spread equally between rent bumps, occupancy and spreads.

Stripping out the prior period collections headwind of 100 basis points from cash basis tenants, Same Property NOI growth would have been 4.5%. We reported NAREIT FFO of $57.2 million, or $0.84 per diluted share and core FFO of $56.4 million, or $0.83 per diluted share for the first 6 months of the year. This anticipated decline for the first half of the year is primarily due to higher interest rate expense from the private placement debt funded in the third quarter of last year at a blended interest rate of 5.12%.

InvenTrust continues to maintain a strong and flexible balance sheet. We ended the quarter with a net leverage ratio of 28%. Net debt to adjusted EBITDA is 5.4x on a trailing 12-month basis which we do expect to decline as we benefit from the income generated by the acquisition of our joint venture in January. Our weighted average interest rate is 3.9% with a weighted average maturity of 4.3 years and only 2% variable rate debt.

One important note, InvenTrust has $92 million of debt that expires in November of '23. This debt has 2 1-year extension option, which we plan to exercise. This debt will roll to variable rate upon initial maturity in November, increasing our total variable rate debt to approximately 10%.

At quarter end, we had approximately $434 million of total liquidity, including a full $350 million of borrowing capacity available on evolving line of credit. With one of the lowest levered balance sheets in the shopping center space, we remain prepared for the challenges and opportunities that may arise. And finally, we declared a dividend payment of $0.215 per share, which is a 5% increase over last year.

Turning to guidance. We are revising our 2023 core FFO range to $1.61 to $1.64 per share. This increase is due to stronger-than-expected first half same-property NOI. Our NAREIT FFO range will remain at $1.64 to $1.69, driven primarily by noncash GAAP adjustments related to the acquisition of our joint venture in Q1 of 2023. We are also raising our Same Property NOI growth guidance by 25 basis points at the midpoint and narrowing the range to 4% to 5%, mostly driven by higher-than-expected occupancy and recovery rates. Our full year guidance assumptions are provided in our supplemental disclosure filed yesterday.

And 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. For the first 6 months of 2023, our leasing team stayed busy as we leased 601,000 square feet with a multitude of additional leases in our pipeline in various stages of negotiation and discussion. Our anchor space leased occupancy finished at 98.6%, and our small shop increased to 92%. As of June 30, InvenTrust Same Property portfolio ABR was $19.18, an increase of 2% compared to June 30, 2022.

Our leasing spreads year-to-date were 6.3%, and our retention rate remains high at 92%, driven by increases in small shop retention, which continues to be one of our most effective strategies to grow rents, limiting our capital commitments and downtime. We should note that overall occupancy, which stands at 96.2%, will fluctuate as the process of taking back and re-leasing Bed Bath & Beyond space continues to unfold. That said, the uptick in recent bankruptcies is putting us with a unique opportunity to upgrade our tenant mix at favorable rates.

As I mentioned last quarter, retail is and always will be an evolution of new exciting concepts coming in and others falling out of favor as we are seeing with a few troubled tenants in our portfolio. Starting with Bibentamion, the team has been working on backfilling these locations and had multiple offers for each of the 5 locations. While the debate on bankruptcy is still very fluid, we have recently received clarity on each space. In late June, one lease was acquired at auction by a known national retailer. One location was rejected as of July 1, and we immediately identified the replacement tenant and proceeded to finalize lease terms.

For the remaining 3 locations, we received notice last week that we would regain possession of those boxes as of today. We are currently selecting the best tenant to complement each center and moving each deal towards lease execution.

As for Party City, the bankruptcy is ongoing, but we anticipate that both of our locations will be assumed by the tenant. Our results this quarter highlight the proven ability of our centers to attract tenants as well as our team's ability to capitalize on the opportunities

presented during this high demand, low supply leasing environment. The current market dynamics bode well for our business, as is shown by the occupancy levels and the broader operational performance throughout the sector.
Operator, this concludes our prepared remarks. Please open the line for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Polina Rogers from Green Street.

Unknown Analyst

My question is about bad debt. So it seems you're running below what we expected in the beginning of the year a provided. And so do you have updated expectations at this point for the year?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Polina, it's Mike. We do feel comfortable in the range. We haven't updated our range of bad debt. And you're right, we've only taken about 15 to 20 basis points of bad debt year-to-date. But most of that you'll see in the back half of the year with the Bed Bath & Beyond fallout, and that will take up most of it in the second half.

Daniel Joseph Busch
CEO, President & Director

And really, Polina, this is DJ. The majority of the bad debt that we're still reserving for is really already spoken for. It's just you're kind of looking forward to the back half of the year with the Bed Bath & Beyond spaces. We do have a small contingent though, of just small shop. I wouldn't call it conservative, but we have seen. A couple of small tenants that we've had our eye on that we want to just make sure we're accounting for as well.

Unknown Analyst

How do is frame or help us understand how much buffer you're including guidance for potential selling disruption that happened through it yet?

Daniel Joseph Busch
CEO, President & Director

I'm sorry, Polina, I was having trouble hearing you. Can you repeat the question?

Unknown Analyst

Yes. I'm wondering if you could help us understand how much buffer you haven't included in your guidance for potential tenant disruption that -- yes.

Daniel Joseph Busch
CEO, President & Director

Yes, yes. So you said buffer. I would say, just based on my last comment, I would say that it's about 25 basis points or so of unforeseen fallout, whereas the rest of it is obviously stuff that we already know that's going to be imminent in the second half, just mostly due to the bankruptcies that mostly Bed Bath & Beyond actually. So I wouldn't go it a buffer, I think that's just kind of normal course. The small shop has been lighter than expected, but just given the overall environment, we're just trying to be mindful.

Unknown Analyst

Perfect. And then one last one, if I may. And regarding the property you acquired, can you provide some color about circumstances, the level of competition is so prices? And also in trusted by the lease rate, it's a pretty highly leased center. So where do you see the potential to squeeze more due from these assets?

Daniel Joseph Busch
CEO, President & Director

Yes. And maybe I'll let Dave add a little bit more color as far as the competition because although deal volumes have been lower for obvious reasons. The properties that we like to try and acquire obviously, in our markets, there's still a decent level of competition. Obviously, Charlotte is a target market for us. This is our fourth asset in that market in the broader MSA. It's a market that we've really enjoyed the rent growth at our other properties. So we were excited to find one with a very strong anchor in a corridor that we had liked and able to get it done. But maybe Dave can give you a little bit more color around the competitive process at that asset.

David Heimberger
Senior VP & Chief Investment Officer

Yes, sure. So I think with anything you see Sun Belt grocery-anchored under $25 million is going to be healthy competition, runs the gamut of different buyers or capital sources from other REITs to private buyers, even 1031 exchange money. So it's pretty competitive with this one. We definitely see it as an opportunity for us to remerchandise the mix, grow some rents and kind of get ahead of where the market is going. There's a lot of residential development in the immediate area. It also clusters nicely with our other assets in the north side of Charlotte. So we really like the deal. But it is competitive out there. With lower volume comes more attention to certain attractive deals, but we're happy to get this one.

Daniel Joseph Busch
CEO, President & Director

And Polina, just one thing to add, too. When you noted the high level of occupancy already in place. When we're looking at these deals, we'll certainly look at some value-add deals where you can get to a higher net operating income in a quick manner, but it doesn't have to be. And if you think back many of the most recent acquisitions we've done, a lot of them have been fully leased, but it's because we like the position of the asset, and we think we can grow rents long term. So if we think it's in a pocket where market rent growth is going to outpace what otherwise would be the case, maybe the national average, we'll do that even if it is fully leased and it may take a little bit more time to get to some of those leases we just believe in the underlying real estate.

Operator

Our next question comes from Cesar Barco from Wells Fargo.

Unknown Analyst

One follow-up from Polina's questions on the property acquisition. Can you talk a little bit about the economics of the deal? What may be the going in cap rate? And what kind of NOI growth you see for an asset like this that it's more fully leased?

Daniel Joseph Busch
CEO, President & Director

Cesar, this is DJ. We don't -- we're not going to provide the initial going-in yield. But the way I would think about it is in today's environment, our targeted unlevered returns are in the high 6s and low 7s. So this asset falls squarely in that area. So the underlying growth is something that we are comfortable with. The going in cap rate we thought was reflective of the current environment. So we were happy to move forward, underwrite it, got comfortable with the underwriting and the long-term growth prospects and move forward. We have been a lot more prudent in that process, right? So this is obviously one of many, many deals that comes through our transactions team's pipeline. And many of them don't hit those standards, whether or not the price is a little bit too aggressive or it just doesn't fit our core competency. But those are -- that's kind of the framework on the way we look at it. And obviously, it is a fully leased asset. But like I said earlier, we do see some embedded growth opportunities as we look to remerchandise space over the next couple of years.

Unknown Analyst

A different question on Bed Bath & Beyond. I think you commented on the -- in the prepared remarks that there will be 3 locations coming back in Q3. Can you talk about the interest for those locations, perhaps in detail on what type of users. And is there any takeaway from the lease that was acquired in the auction in terms of pricing? Or just any comments from that?

Daniel Joseph Busch
CEO, President & Director

Yes. I'll just -- I'll touch on the last you made on the one that was acquired at auction. The auction process is a very interesting process, but it really just comes down to the economics. So if you have a long duration lease in place, where a retailer could come in and take that there's value to it because it's a below market lease and then they can make the economics work as it relates to the capital that they want to put into it. I think that's where we saw the most activity. And then we also saw some retailers that were just making sure that they could get access to locations to fit their own growth plans. And through that auction process, there's probably lease negotiations that will happen throughout across the board as well. But we had one, and we're very comfortable with the retailer that acquired it. But maybe, Christy, you can touch a little bit on the 3 that we got in some of those opportunities.

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

Sure. Cesar, before the -- we have the one that was purchased at auction. And then we actually have 4 other locations. One that was rejected and we received back as of July 1. And then 3 others that we actually receive effective today. So with respect to the 1 that we received in July, we have already been able to identify the new tenant, and we are in finalizing the lease terms on that deal finalizing the lease negotiation and moving towards getting that executed. .

With respect to the 3 that we are taking back possession of today, we have multiple LOIs for each of those locations. And at this point, the team is just working on identifying the absolute best deal with the best tenant mix for us at each asset. And again, we will try to get those moved into lease execution by the end of the year.

Unknown Analyst

Okay. Yes. And then one more comment. It sounds like from the prepared remarks that the raise in same-store NOI growth guidance is really driven by higher occupancy than you expected as the bad debt reserve seems to be unchanged. Is that right? Or -- what can you comment on what's the key driver of the guidance rate in NOI?

Daniel Joseph Busch
CEO, President & Director

No, I think that's exactly right. I mean if you think about last quarter, we still were in a very -- we're in flux on what we -- what was going to happen with Bed Bath & Beyon and Party City and Tuesday Morning, although our exposure to those latter 2 tenants is fairly de minimis. Having said that, as Christy said in her prepared remarks, the 2-party seal locations look like they'll be assumed by Party City itself. And then there was some timing, the Bed Bath & Beyond, if you think about some of our peers, some of the -- many of those leases were rejected slightly later in the year, whereas we just got all bars back. Now it's a blessing and a curse, right? We get a little bit more income. We wouldn't have minded getting those back sooner rather than later, so because of the amount of demand that we're seeing. Luckily, our locations are prime locations, and we've been very, very happy with the demand thus far. But really, it's those 2 pieces, it's timing and then slightly better outcome as it relates to some of these bankruptcies.

Operator

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

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

I guess, a quick question. It looks like you're somewhat unique in the sector that you see accelerating same-store NOI growth in the second half of this year based on your guidance. Is that because you've got your sign not open pipeline coming online? Is that what's causing it? Because presumably, there's going to be a drag in terms of occupancy and in terms of rents from the Bed Bath space. And maybe if you can touch on the timing for the new leases commencing in your numbers based on your latest discussions on those 4 spaces that haven't been assumed or haven't been bought out of bankruptcy.

Daniel Joseph Busch
CEO, President & Director

Yes. Floris, good observation. So the way I would frame it is there's a couple of things. So the sign -- our pipeline is pretty consistent, and we're really comfortable with it. I think the...

Michael Douglas Phillips
Executive VP, CFO & Treasurer

We have about $5 million in our snow pipeline right now and about 60% of that will come online in the second half of the year.

Daniel Joseph Busch
CEO, President & Director

Right. So call it $3 million is going to come online in the back half. So obviously, we're going to get a nice pickup from that. But really, the big driver is, if you recall, last -- the second half of last year, we did have some -- we did have elevated expenses due to a lot of the pre-leasing activity that we're doing in the portfolio to really -- to really set up the leasing pipeline to kind of accelerate. And so we're benefiting from that process because of all the leases we signed and then also expenses coming down to a more normalized run rate. So those 2 pieces are going to really set off the acceleration of same-store in the back half.

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

And then if you can maybe comment on the $75 million of more debt that's coming due at the end of this year and talk about where that's going to get refinanced at and what kind of potential insight do you have on the debt markets maybe as well?

Daniel Joseph Busch
CEO, President & Director

Yes. So I think Mike touched on it in his prepared remarks. We do have 2 1-year extension options on that. We're planning on extending at least for 1 year as we monitor the debt markets. Our swap will burn off, so there will be some variable rate. That debt will go variable in November, which is obviously fully implied in the rest -- in the guidance for this year. So that will put us at about 10% variable rate debt. We're still fairly comfortable with that. It gives us optionality to pay down a portion of it if we don't find other uses for our proceeds as we grow cash flow. So we're looking at all that. But because of where the debt markets are now and the way the curve is sitting, we're happy to kind of take a wait-and-see approach, and we're lucky to be in that position.

Operator

[Operator Instructions] Our next question comes from Lee Dakin from Bank of America.

Unknown Analyst

I just had a question on the maintenance CapEx this quarter. It seems like it picked up a bit, just that $6.6 million amount. And just want to see what kind of drove that pickup?

Daniel Joseph Busch
CEO, President & Director

Yes. I think just landlord work. And I don't think -- there's nothing really to read into it. I think it's just the timing of some of the projects that were coming through the pipeline. And then some of that obviously has to do with our leasing pipeline as well.

Unknown Analyst

Okay. Great -- and how -- how about that. Sorry.

Daniel Joseph Busch
CEO, President & Director

Go ahead. No, I'd say one thing I would add, though, is like our -- when you look at our capital spend, it will be elevated as our as our Sign Not Open pipeline comes online. You'll see those capitalized costs come through, whether it's landlord work or tenant capital. So that will be accelerating. I'm assuming it's going to be the same across the space because of the amount of leasing activity that's coming online over the next several quarters.

Unknown Analyst

Great. That's helpful. And I just wanted to ask on the blended rent spread achieved this quarter. It kind of settled more in the -- more of a mid-single-digit range. And still leasing activity and the rent growth is still pretty strong and steady, but just wanted to see if we should anticipate more of a slowdown here? Or if you could speak more to the level of confidence you have in sustaining that level of pricing power you've spoken to last quarter?

Daniel Joseph Busch
CEO, President & Director

No, it's a great question. And I'll tell you, so the primary driver of that settling closer to the mid-single digits as opposed to kind of our target -- longer-term target, which is high single, low double-digit blended spreads, is we had 3 large anchor leases that were options. Those options were lower than the average that you see. So it's just 3 big leases on a small sample set, pulls that number down. Otherwise, the leases that were true renewals without that option were more in line with what you've seen in the past.

Unknown Analyst

Great. And I just wanted to confirm also on the average rent escalators you're able to achieve or you're kind of foreseeing from the past quarter. I think last quarter, you mentioned 3% to 4%. And is this on overall in the portfolio? Is this higher on small shop, just seeing how aggressive you're staying on rent escalators?

Daniel Joseph Busch
CEO, President & Director

No. Yes. So the 3% to 4% is absolutely our target. That is our small shop target. The anchors tend to be -- they tend to have a more flatter period and then you get your ramp ups every 5 years or so. That hasn't changed as quickly. We've been successful in some of those ones, but there are some of the larger -- anchor tenants are still that cadence. The small shop is where we've had a lot of success and that 3% to 4% is now delivering on an annual basis, call it, 150 to 200 basis points of our Same Property NOI growth.

Operator

We have no further questions registered at this time. So I now hand back to your host, Dan Lombardo, for final remarks.

Daniel Joseph Busch
CEO, President & Director

Thank you, operator. In the first half of 2023, we've continued to execute on our focus Sun Belt strategy, producing strong operating results. Our investment-grade balance sheet provides us the flexibility to be both patient and opportunistic when we look to continue to do our asset base. InvenTrust is a unique investment opportunity for folks that are looking for a concentrated strip center portfolio with a geographical focus in the sun book. So as always, if you have any questions, please feel free to reach out to our IR team. Have a wonderful rest of your day.

Operator
This concludes today's call. Thank you for your participation. You may now disconnect your lines.