InvenTrust Properties Corp. NYSE:IVT

FQ1 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Executive VP, CFO & Treasurer

ANALYSTS

Andrew Reale
BofA Securities, Research Division

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research Division

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

Michael Patrick Gorman
BTIG, LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to InvenTrust's First Quarter 2025 Earnings Conference Call. My name is Elliot, 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

Thank you, operator. Good morning, everyone. 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 Dave Heimberger, Chief Investment Officer.

Following the team's prepared remarks, the lines will be open for your 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, I will turn the call over to DJ.

Daniel Joseph Busch
CEO, President & Director

Thank you, and good morning, everyone. I'll start today's call with some brief commentary regarding our initial performance, the overall operating environment and how InvenTrust is positioned to grow cash flow in 2025 and beyond. Mike will discuss our financial results in greater detail, and Christy will conclude with additional color on the leasing and operational fronts.

We're pleased to report a strong start to 2025, driven by our strategic concentration of necessity-based open-air retail centers in Sun Belt markets. Our approach continues to provide resilient performance despite broader economic challenges. Same-property NOI grew 6.1% for the first quarter, reflecting robust demand and effective lease management, and core FFO per diluted share grew 4.5%, compared to the same period last year. Our portfolio remains highly leased with small shop lease occupancy achieving another record high.

Our simple and focused strategy continues to deliver. The Sun Belt region, where 97% of our net operating income is generated, continues to dominate among the list of top-performing retail markets. Extraordinary population and employment growth, business and tax-friendly policies and favorable climate and quality of life are just some of the factors that have allowed Sun Best retail fundamentals to remain on an impressive pace.

This, coupled with the absence of competing new supply is why we remain cautiously optimistic in an uncertain economic environment. Although pending tariffs have dominated the headlines in 2025, it is still much too early to assess what the impact, both direct and indirect will be on our consumers and in turn, our tenants. Our focus on essential retail, including quick service restaurants and health and wellness providers positions us well to navigate these challenges.

These businesses typically exhibit resilience during economic fluctuations, contributing to our portfolio stability. Importantly, our tenant health is still quite positive in the post-COVID era. Sales and profitability have been strong nearly across the board and even with InvenTrust capturing solid rent growth over the same time period, occupancy cost ratios remain quite resilient. As we have done in the past, we will support our tenants as needed as they navigate these current challenges.

Moving to our capital allocation plan for the year. We remain extremely active on the transaction front. As we have discussed previously, we continue to evaluate asset sales and capital recycling as part of our ongoing portfolio optimization strategy, more specifically our planned exit from California. Our expectation is that we will fully or significantly reduce our investment in California in 2025, depending on timing. Equally important, following the quarter, we have acquired 2 assets, Plaza Escondida and Carmel Village. Plaza Escondida, a 91,000 square foot neighborhood center in Tucson, Arizona, is 99% occupied and anchored by Trader Joe's and Marshalls. Carmel Village, located in the heart of South Charlotte, boasts a strong tenant mix of restaurants and service providers. These acquisitions further expand our presence in Arizona and in the Charlotte market.

We are also currently in several negotiations to accretively redeploy pending sales proceeds into high-quality centers in markets such as Asheville, Charlotte, Charleston, San Antonio and Orlando to name a few. Our pipeline currently stands at $1.5 billion to $2 billion, encompassing both marketed and off-market opportunities. While we prioritize grocery-anchored centers, we remain format agnostic. Our focus is on properties that will enhance our portfolio with high-quality necessity-based tenants in high-growth Sun Belt markets producing better risk-adjusted returns than the sector average.

Our capital recycling endeavors are fully contemplated in our net investment activity guidance for the year. Lastly, on the balance sheet front, InvenTrust remains one of, if not the lowest leverage strip center REITs in the public market. This allows us to be opportunistic during times of uncertainty and continue to appropriately and prudently grow our platform without relying on the capital markets. Obviously, it's been a turbulent beginning of the year in the equity markets. That said, the operational platform at IVT remains sound. Internal growth opportunities are available. And with our low leverage and capital recycling efforts, there is much to be excited about on the external front as well. These factors give us confidence that we continue to deliver sustainable cash flow growth for our shareholders on a consistent and recurring basis.

With that, I'm going to turn it over to Mike to discuss our financial results.

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Thanks, DJ. InvenTrust is off to a solid start in 2025 as demonstrated by our first quarter results. Same-property NOI for Q1 reached $47.3 million, representing 6.1% growth compared to Q1 of 2024. The year-over-year increase was primarily driven by approximately 400 basis points of growth in base rent, supported by embedded rent bumps accounting for 150 basis points. Net expense reimbursements contributed approximately 160 basis points.

NAREIT FFO for the quarter totaled $37.2 million or $0.48 per diluted share, representing an increase of 6.7% compared to the same time period last year. Core FFO rose 4.5% year-over-year to $0.46 per share. This increase was fueled by internal growth and acquisitions, partially offset by a larger share count from our equity offering in September of last year. From a balance sheet perspective, we continue to operate from a position of strength, providing the flexibility and capital to pursue our strategic initiatives. As of quarter end, our net leverage ratio was 23.4% and net debt to adjusted EBITDA stood at 4.1x on a trailing 12-month basis. Our weighted average interest rate was 4% with a weighted average debt maturity of 3.1 years, and our entire debt portfolio remains 100% fixed. Finally, we declared an annualized dividend payment of $0.95 per share, a 5% increase over last year.

Turning to guidance. We are reaffirming our full year same-property NOI growth guidance range of 3.5% to 4.5% as well as maintaining our bad debt reserve at 75 to 100 basis points of total revenue. This reserve reflects both recent tenant bankruptcies and an estimate for potential fallout that may occur for the remainder of the year. While we experienced no bad debt impact during the first quarter, we do anticipate some effect on same-property NOI later in the year as the announced bankruptcies take effect.

For NAREIT FFO, our full year guidance remains in the range of $1.83 to $1.89 per share, which represents a 4.5% growth at the midpoint versus 2024. Core FFO guidance is $1.79 to $1.83 per share, up 4.6% at the midpoint from last year. Our net acquisition assumptions, as DJ mentioned, remains at $100 million for the year, reflecting the potential acquisition and disposition activity for 2025. Further details on our guidance assumptions are available in our supplemental disclosure filed yesterday.

And with that, I'll turn the call over to Christy to discuss our portfolio activity. Christy?

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

Thanks, Mike. During the quarter, we executed 256,000 square feet of both new leases and renewals. We've completed 100% of our 2025 leasing and already secured roughly 80% of 2026, giving us clear visibility into near-term cash flows. Our portfolio leased occupancy ended the quarter at 97.3%, a 100 basis point increase over last year. Anchor space leased occupancy ended the quarter at 99.5%. Small shop leased occupancy finished the quarter at 93.4%, 130 basis points over last year and a new all-time high for our portfolio.

InvenTrust's total portfolio ABR ended the first quarter at $20.21 per square foot, reflecting an increase of 3.1% compared to Q1 2024. For the quarter, we delivered blended comparable leasing spreads of 9.6% with new lease spreads of 20.3% and renewals at 8.7%. Our retention rate stands at 90% for the quarter. Additionally, we have successfully embedded rent escalators of 3% or higher in 90% of our renewals, supporting long-term NOI growth.

As for tenant health, our exposure to recent retail bankruptcies has been minimal, limited to 1 Jo-Ann location with the lease was recently assumed, causing no revenue disruption to the center and 3 Party City stores representing approximately 20 basis points of our bad debt reserve. We continue to monitor our sectors under pressure and the effects new economic policies may have on our tenants and the consumers. However, solid interest from high-performing concepts remain, and we remain confident in our ability to backfill spaces that may become available.
With that, I'll turn the call back to the operator for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Dori Kesten with Wells Fargo.

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research Division

With just over 6% same-store NOI growth in Q1, I'm just trying to figure out how are you getting to the 3.5% to 4.5% for the year. Is there a particular quarter that stands out as being a little bit softer? Or should Q2 through Q4 look rather comparable?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Yes. Dori, it's Mike. I can take that. So yes, obviously off to a good start in the first quarter, and there is some deceleration implied in our guidance and really it comes from a few main areas. The one -- the first one is bad debt. So for Q1, we really had 0 net bad debt for the quarter. We do still maintain our guidance of 75 to 100 basis points for the full year. So that's the main chunk of it, quarter-to-quarter. And then there's a few other things that were kind of unique to Q1 that happens most years. We had higher percentage rent from our grocers in Q1. Our expenses were a little lower in Q1 than they will be throughout the year. So you'll kind of see that expense reimbursement kind of go down a little bit throughout the year, too. So those are kind of the 3 main categories for the deceleration.

Daniel Joseph Busch
CEO, President & Director

Yes. I think the only thing that I would add, obviously, I think everyone got a little bit more cautious, April 2 and beyond. So the first quarter finished extremely solid. I think had it not been for some of those things, I think some of our peers have mentioned similar things. We probably feel a little bit more optimistic finishing the year. The reality is we feel really good about where our lease activity -- it's effectively done for 2025, as Christy mentioned, and almost effectively done for 2026. So really, the only unknown in the business is on the bad debt side. And while we feel like we're in a great spot, there are really -- there's no big known distressed retailers certainly within our portfolio. I think that's broadly speaking as well. We're trying to be a little bit more cautious as it relates to what could happen in the back half of this year.

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research Division

Okay. And then with anchor occupancy almost at 100% and only 6 leases expiring this year with relatively low rents, it feels like your team would really be in the driver's seat on negotiating terms when filling those spaces. Can you give us a sense of where you think maybe those aggregate leasing spreads could be?

Daniel Joseph Busch
CEO, President & Director

It's a good question. I think with the anchors, it's more or less, it's on a case-by-case basis. We felt really good about the net effective spread that we've been able to accomplish over the last couple of years. We'll take a lower spread. The reality is we will take a little bit lower spread if there's a tenant -- certainly, there's core tenants or key tenants, I should say, that could really change the merchandise mix in a hugely positive way. So we've done some of those deals as well.

And then I know Christy mentioned it, many of the opportunities that we thought we were going to get back over the last 18 to 24 months, we haven't been able to because they've been assigned or bought out through auctions. So we do have a couple of opportunities over the next, call it, 12 to 24 months, but many of those are options as well. There's quite a bit of role in '26 and '27, but we feel really good about the opportunity set when we do get to negotiate because like you mentioned, we have effectively one vacant box throughout the portfolio.

Operator

We'll now turn to Andrew Reale with Bank of America.

Andrew Reale

BofA Securities, Research Division

For California assets that you're currently marketing, what is the reception and level of appetite been? And any color on potential pricing would be helpful, too.

Daniel Joseph Busch
CEO, President & Director

Yes, Andrew, it's a good question. What I didn't fully say in my prepared remarks is that all of our assets are in some form of -- they've been awarded. So they're going through the process, whether it be due diligence or finalizing contracts. So obviously, a really, really good outcome in a rather quick time period for a sale of that size and of that magnitude. And it really is because of the reception of response, both from all different pockets of capital, whether it be private equity, private, public. There was folks that took a look at it. Some were more interested than others. But we feel really, really good about where potential pricing will fall out and our ability to redeploy those in the back half of this year. I want to be a little bit careful and sensitive on cap rates and the like. But as we've mentioned, we fully expect to have great opportunities in the markets that I highlighted in my prepared remarks and do it on an accretive basis with some really, really high-quality centers in the Southeast.

Andrew Reale
BofA Securities, Research Division

Okay. And then maybe just on leasing and maybe just thinking about shop tenants in particular. I know it's kind of early amid this macro uncertainty, but has anything been changing in your leasing conversations or what you're seeing from tenants and their behavior that's materialized kind of post April 2, as you mentioned?

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

I'll take that. This is Christy. At this point in time, as you said and DJ said in his prepared remarks, it is very early, but our leasing demand has not changed, and our pipeline remains unchanged. It's very healthy. The conversations that we're having with tenants that we are negotiating with or existing tenants for that matter have not really changed at this point in time. And I think as long as we continue to see the supply dynamics the way they are currently, with the lack of new supply and given our high-quality real estate, we think that our leasing momentum should continue into the future.

Daniel Joseph Busch
CEO, President & Director

Yes. And I think the only thing that I would say, and I think some other folks have said it this earnings season is the retailers that we are more or less dealing with aren't making decisions for the next 12 months. They're building businesses that should be able to survive and do well through multiple parts of the cycle. I mean we're doing 5- and 10-year leases. Something will happen good or bad over the next 5 or 10 years and their business needs to be built to withstand that. So I think rent negotiations are a small part of what they're kind of thinking about, certainly with the large national tenants. So because of that and because the fact you can't really go on the sidelines and miss opportunities with your open to buy, expecting that there's going to be better opportunities in 18 months because it may not be there because of the demand and supply dynamic.

Operator

We now turn to Floris Van Dijkum with Compass Point.

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

DJ, I'd love to get your comments on the transaction market. And if you're seeing any changes, if you've had any of the bidders for your California assets potentially change pack or change pricing expectations? And also, just -- if you could just confirm that the capital recycling, which is presumably selling lower cap rate California assets or reinvesting into higher-yielding assets that is not contemplated in your existing guidance. Is that correct?

Daniel Joseph Busch
CEO, President & Director

No, it is. And so it's all about timing, Floris. So let me take a step back. The transaction market, as we see it, is still very healthy. There's -- certainly where we've been deploying capital for the last several years, there's no doubt about it, it's competitive. It ebbs and flows. I think what we look for is the first thing that happens is the buyer pull things out. And that's good for us, and that's good for other large institutional buyers that buy for different parts of the cycle.

And if there's less competition, whether it be on an off-marketed or fully brokered deal, I think we like that environment, especially given where our capital is being recycled from and the fact that we're at less than 4x on a forward basis. So for a company like InvenTrust and our size, we've kind of built -- our strategy is built around times of uncertainty to where we can lean in and perhaps get some growth where faster than what we otherwise thought because of our leverage and our opportunity set as it relates to California and redeploying those proceeds.

Just to add a little bit more color, as it stands today, and I think this is the second part of your question, Floris. In the California asset sales and replacing that by the end of the year. Now, obviously, how those come in remains to be seen. I think if you think about our -- where our NOI is trending and where our core FFO is, obviously, the timing will impact that as well. But we feel confident based on where the pipeline is today. I think we have about half on the acquisition side awarded and spoken for as it relates to what we're trying to accomplish for the year. Obviously, there's a lot to be still done there, but we feel really good about the pace of it thus far.

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

DJ, maybe if you could just dive into -- you mentioned a couple of the markets that you're looking at. Are they all going to be -- or these are deals you're looking at? You mentioned, I think, Charlotte, Charleston, I can't remember the other markets off the top of my head. Will you be looking to expand in all of those? Or is it just -- that is a portion of where you will be looking to deploy capital?

Daniel Joseph Busch
CEO, President & Director

It's a portion. Those are the ones where we've seen opportunities recently, Floris. Obviously, we just closed a nice little deal on the south side of Charlotte. We're still looking at other opportunities in Charlotte. Charlotte is a great market. But then I think one of the things that we can do is because we have 5 assets in the Charlotte market, hopefully to have maybe a couple more, then places like Asheville get more interesting. It's an ancillary, very complementary market, very high-quality assets. Obviously, Asheville has gone through some turmoil certainly in tragedy through the hurricane. But that market will rebuild, and it's been a very strong growing market for some time, and we can service that exceptionally well out of our Charlotte platform.

So we're looking for other opportunities like that. Think about Charleston, we have a foothold there now. We're hoping to add a little bit. And then we're looking a little bit south in like the Savannah market. Once we get into those smaller markets, it's important though that the threshold of quality has to go up. It's no longer acceptable to have the fifth best market. That's fine in Charlotte because there's so many nice little pockets in submarkets. The smaller the market gets, the higher the quality and because we want to make sure that the demand will be -- is appropriate to fit within the portfolio so we can continue to grow.

Operator

[Operator Instructions] We now turn to Michael Gorman with BTIG.

Michael Patrick Gorman
BTIG, LLC, Research Division

DJ, maybe just sticking with that last answer for a second. Given some of the markets that you're looking at where the quality threshold goes up a little bit, is there anything on the -- on putting the money to work could slip either later into the year or into next year? And is there any -- would that create any situation with a special dividend? Or is that not a risk?

Daniel Joseph Busch
CEO, President & Director

Michael, it's a great question. Obviously, when you're doing -- when you're moving 10% in and out of the portfolio, temporary one is an important piece of that because of the potential gains. We've spent a ton of time making sure that we're mitigating that risk because it's absolutely something that we want to avoid if possible. And because of the pipeline as it sits today, I think we're in a great spot to make sure we're covered and executing on not only the portfolio strategy, but the tax strategy that comes with it.

We expected, Mike, when we came out with our initial guidance this year that most of the acquisition activity was going to be backloaded, call it, certainly second and third quarter, maybe leaking into the fourth, but we still feel very confident in our guidance range because at the end of the day, it's just important for us to continue to move core FFO higher. And if we can do something is substantial on the capital recycling side while doing that and upgrading the portfolio for 2026 and beyond from a growth perspective, I think that's what we're trying to accomplish this year. And we feel really good at where we stand today.

Michael Patrick Gorman
BTIG, LLC, Research Division

Great. That's helpful. And then maybe if you could just spend an extra minute on Carmel Village. Obviously, Charlotte is a great market. It's a little bit of a different asset, it looks like. So maybe you can just kind of walk us through how you thought about adding to the portfolio, its positioning in the market and maybe any future opportunities at the site?

Daniel Joseph Busch
CEO, President & Director

Yes. So maybe I'll just start high level and then maybe Christy can talk a little bit about the leasing opportunities. I think that's one of the things that was attractive about it. But I think as I mentioned, most of our portfolio certainly is caters to grocery or is grocery-anchored centers. I think 60%, 65% has -- is a true neighborhood or community center. We do have a portion that's a little bit bigger in nature, power centers. Most of those do have a grocery component as well. We're looking to add grocers at the ones that are anchored by a grocery and we've had success, and we feel good about where that's going in the future as well.

But we think these -- we think unanchored centers, if they have a reasonable amount of scale, they fit the market nicely. We're already in the market or we're looking to expand in the market. Those are all interesting to us. Obviously, Carmel Village is in an incredible part of the Charlotte market down in Carmel, high income and great population growth. It serves that smaller community really well. It's got good restaurants, services, some of those that we're going to be able to upgrade. Will you see us do 10 deals like Carmel Village in a row? Probably not. But it's a nice addition, and we're looking at similar opportunities like that in some of our other markets.

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

I mean I'll just -- as DJ mentioned, I'll just add, the tenancy there is actually basically all necessity base, so it fits what we're trying to do at our portfolio. And as we review that asset for acquisition potential, we really saw that there was an ability to upgrade some of the merchants there, add additional service tenants to that neighborhood and raise rents. And that was key for us.

I mean, given the lack of an anchor that means it's all small shop where you have greater ability to turn those tenants and also drive the rent. And I just note there's a fantastic new Publix that opened across the street from it that does not have any small shop. So you could also look at this as if it feeds off of all of the foot traffic that the brand-new Publix is going to drive in that area. So we were really excited by the opportunity and think it will be very additive to our Charlotte portfolio.

Michael Patrick Gorman
BTIG, LLC, Research Division

That's really helpful color, actually. And maybe just 1 last one, Christy. Obviously, it's still very early, but just as you think about the last 30 days and having conversations with tenants in the portfolio, have you noticed a difference in the tenor or a difference in the kind of questions and conversations you're having between sort of the larger tenants in the portfolio, those north of 10,000 square feet and maybe some of the smaller local either service providers or retailers that you have in the portfolio? Any bifurcation in those conversations?

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

Not yet. I mean you think that given the 30 days in the news and the fact that, that was the headlines of the economic uncertainty and how the population as a whole is reacting, you might see more of it. But our property management teams and our leasing teams regularly communicate in all times, good and uncertainty with our tenants. And to date, the people or the tenants that are showing concern are the ones that we've had our eye on all along. So there hasn't been a new crop and the conversation hasn't changed, and I feel good that we're close to the ones where we think there could be some failures or closures, and we have already looked at backup opportunities for those. So again, it's early, but I'm hopeful that we're going to get through this and that our tenants will still do really well.

Daniel Joseph Busch
CEO, President & Director

Yes. And Mike, the only thing that I would add is in full candidness, if we were going through the situation 18 months ago, I think it was, when we were working on 5 Bed Bath & Beyond deals at the same time with new tenants, I think we'd probably be a little bit more nervous only because when you're in active negotiations, that's when there can be a little bit more first training, if you will, as it relates to what kind of both economic and noneconomic incentives you may be getting or you may be giving up. We're sitting at where our anchors are fully leased. We're holding one off at a redevelopment opportunity, and we have -- everything else is executed. So it's a great time to be fully leased on the anchor side, and then it's a great time to have -- be at your high watermark on the small shop side because we don't have -- we're not having to have a tremendous amount of those conversations right now in a time where there's probably some uncertainty on the retailer side.

Operator

We have no further questions. I'll now hand back to DJ Busch for any final remarks.

Daniel Joseph Busch
CEO, President & Director

Thank you, everyone, for taking the time and joining us this morning. We look forward to seeing many of you in what's going to be a pretty busy spring conference season. Until then, hope all is well and see you soon.

Operator
Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.