

InvenTrust Properties Corp. NYSE:IVT

FQ2 2025 Earnings Call Transcripts

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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

Andrew Reale
BofA Securities, Research Division

Cooper R. Clark
Wells Fargo Securities, LLC, Research Division

Linda Tsai
Jefferies LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to InvenTrust Second Quarter 2025 Earnings Conference Call. 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](https://www.inventrustproperties.com). [Operator Instructions] I would now like to hand 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 joining us today. On the call 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 opened up for questions. As a reminder, some of today's comments may contain certain 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'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

Thanks, Dan, and good morning, everyone. We're pleased to report another quarter of solid operating results. For the first half of the year, same property NOI grew approximately 6% and Nareit FFO per share rose nearly 5% year-over-year. Leased Occupancy of 97.3% remains near an all-time record, while Small Shop Occupancy reached another high watermark of 93.8%, highlighting the ongoing success of our grocery-anchored necessity-based retail strategy.

Despite a less confident consumer and stubborn inflationary pressures, our retailers have been resilient and continue to operate at healthy levels within the InvenTrust portfolio. For this reason, we are raising our same-property NOI growth expectations for the year to 4% to 5%. During the quarter, we also executed on a key initiative, completing the sale of a 5-property California portfolio for approximately \$306 million. These prime assets commanded strong pricing, which speaks to the level of institutional interest across the open-air shopping center sector.

Following this transaction, we have one remaining property in San Pedro, California that we expect to sell by year-end, marking our full exit out of the state. This transaction was not a monetization event, but rather a tactical reallocation of capital that enhances our focus in our core markets that we expect will deliver long-term value. We have been methodical and disciplined in redeploying proceeds into high-growth Sunbelt markets, fully aligned with our strategic vision. As of today, we've successfully closed on 6 properties totaling approximately \$230 million. In addition, we have either secured or under contract for another 2 properties representing nearly \$126 million in value.

We are actively targeting investment opportunities in Asheville, Charleston, Charlotte, Nashville, Phoenix and Savannah, markets that share common themes such as healthy population and job growth, business and tax-friendly environments and high quality of life, driven by relatively favorable cost of living.

Mike will touch on guidance in more detail, but given the positive outcome and speed at which California portfolio transacted, our net investment activity will be more back-end loaded for the year than initially expected. That said, we remain extremely confident in our acquisition pipeline and expect to be active in the second half of 2025, both using proceeds from the aforementioned asset sales and utilizing the ample capacity provided by our low levered balance sheet.

In summary, Strip Center fundamentals remain solid, supported by strong tenant demand, limited new supply and the ongoing appeal of necessity-based retail. Against this backdrop, InvenTrust continues to deliver meaningful results while executing on our long-term strategy. We are scaling our enterprise efficiently with minimal increases to G&A and leveraging our well-capitalized balance sheet and proven platform to support sustained expansion.

Operationally, we are driving rent growth through embedded lease escalations, optimizing Small Shop occupancy across the portfolio and activating signed but not open leases. We remain hyper-focused on growing sustainable cash flow and delivering superior total returns for our shareholders over the long term.

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

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Thanks, DJ. The first half of the year demonstrates InvenTrust's continued ability to execute on both strategic initiatives and operational performance. In addition to successfully completing our California portfolio rotation, we delivered solid results on the operational front. Same-property NOI for the quarter was \$42.6 million, representing a 4.8% increase compared to the same period last year. The growth was primarily driven by embedded rent escalations, which contributed 150 basis points; occupancy gains added another 110 basis points; and positive rent spreads accounted for 80 basis points.

Other positive drivers included redevelopment activity of 80 basis points as well as percentage rents providing a 60 basis point tailwind. The increase was offset by net expense reimbursements, which reduced NOI growth by 20 basis points. Year-to-date, same-property NOI totaled \$85.1 million, a 5.6% increase over the first 6 months of 2024.

Nareit FFO for the second quarter was \$35.5 million or \$0.45 per diluted share, representing a 2.3% increase compared to the second quarter of last year. Core FFO also increased 2.3%, to \$0.44 per diluted share for the 3 months ending June 30. Components of FFO growth for the quarter are primarily driven by same property NOI of \$0.02, net acquisition activity of \$0.02, interest expense of \$0.02, interest income of \$0.01 and partially offset by the impact of increased share count of \$0.06. For the first half of the year, Nareit FFO was \$72.6 million or \$0.93 per diluted share, reflecting a 4.5% year-over-year increase. Core FFO for the first 6 months of 2025 was \$0.90 per diluted share, up 3.4% compared to the prior year.

InvenTrust continues to maintain a strong and flexible balance sheet, providing a foundation to execute our long-term goals. We finished the quarter with \$787 million of total liquidity, including a full \$500 million and borrowing capacity available under our revolving line of credit. Our net leverage ratio stood at 17%, and net debt to adjusted EBITDA was 2.8x on a trailing 12-month basis. We fully expect these ratios to normalize in the back half of the year as we continue to execute on our acquisition plans.

We closed the quarter with a weighted average interest rate of 4% and a weighted average maturity of 2.9 years. As we evaluate our debt maturity profile, we are in active conversations reviewing options with our advisers, to negotiate the terms of our \$400 million term loans maturing in late 2026 and early 2027. Finally, we declared an annualized dividend of \$0.95 per share, representing a 5% increase over the prior year.

Turning to guidance. We're raising our full year same property NOI growth guidance range to 4% to 5% and adjusting our bad debt reserve to 65 to 85 basis points of total revenue. This reserve accounts for recent tenant bankruptcies as well as an estimate for potential fallout for the remainder of the year. We are maintaining our Nareit FFO and Core FFO guidance and our net investment guidance remains at \$100 million. Further details on our guidance assumptions are available in our supplemental disclosure.

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. The leasing environment remains healthy and highly active. Retailers are strategically expanding and prioritizing centers that offer excellent visibility, easy accessibility and a complementary tenant mix. Today's tenants want more than just space. They seek adjacent businesses that drive traffic throughout the day like restaurants, wellness providers, fitness users and essential services. These positive trends are clearly reflected in our leasing results and ongoing momentum. .

In the second quarter, we executed 73 leases for approximately 304,000 square feet. New leases were signed at a 44.1% spread while renewals were 9.2%, resulting in blended leasing spreads for the quarter of 16.4%, one of our strongest quarter since the company's listing in 2021. Our retention rate remained robust at 91%, and we successfully embedded annual rent escalators of 3% or higher in over 90% of our renewal leases, supporting sustained and predictable NOI growth over the long term.

At quarter end, total lease occupancy stood at 97.3%, with Small Shop lease occupancy reaching a new all-time high of 93.8%. Anchor space remained near full capacity at 99.5%, with 100% of our 2025 leasing complete and approximately 85% of new 2026 leasing already secured, providing excellent visibility into near-term cash flows and continued confidence in the durability of our income stream.

Also on the leasing front, I'm pleased to announce a new Trader Joe's at the Shops at Galleria in Austin, Texas. Trader Joe's' presence will further elevate the center's profile, increase traffic and create meaningful synergies with our existing tenants. This opportunity originated from our proactive efforts to recapture space from an underperforming junior anchor tenant. Securing Trader Joe's has marked a significant enhancement to one of our premier properties in Austin, our largest market and reflects the strength of our leasing strategy and our ability to attract top-tier tenants to high-performing locations.

Health and wellness remains a key growth category, consistently driving daily foot traffic to our centers. Reflecting this momentum, we signed a notable lease this quarter with Crunch Fitness at our Skolfield Crossing property, also in Austin. This addition enhances the center's overall appeal while also delivering an extraordinary rent spread of over 90%, underscoring the significant value created through the strategic repositioning. Leasing demand remains strong across a variety of categories. Quick service restaurants, off-price retailers, medical and wellness operators and experiential users continue to be highly active. Brands like Chipotle, [Cava], Starbucks, Burlington and Five Below continue to seek space in high-quality locations.

In closing, let me briefly highlight 4 recent acquisitions that reflect our strategic focus and redeployment of capital from our California portfolio sale. First, we purchased West Ashley Station, a fully leased Whole Foods-anchored property in Charleston, South Carolina. This marks our third Charleston acquisition in the past 6 months. Next is Twelve Oaks Shopping Center in Savannah, Georgia. This property is anchored by Publix and features a strong mix of retailers, restaurants and service tenants. This is our first asset in Savannah, a market with accelerating population and economic expansion.

In July, we acquired the marketplace at Encino Park in San Antonio, Texas. The property is 100% leased neighborhood center anchored by top-performing Sprouts. San Antonio is one of the most affordable cities in Texas and is projected to become the sixth largest city in the U.S.

Finally, we expanded our presence in Richmond, Virginia with the acquisition of West Broad Marketplace. This center is anchored by Wegmans and Cabela's with additional national retailers, T.J. Maxx, Burlington and Michaels. We believe these acquisitions reflect our disciplined capital allocation strategy, and we are excited to have these properties as part of our growing portfolio.

With that, I'll turn the call back to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Linda Tsai from Jefferies.

Linda Tsai

Jefferies LLC, Research Division

Given acquisition activity is more back-end loaded than you initially expected. Does that mean you would have raised guidance if you had the acquisition activity happened during the time period you initially expected?

Daniel Joseph Busch

CEO, President & Director

Linda, it's a great question. I think the short answer is you would have seen probably a similar movement in our expectations relative to the internal operations. I think that's a fair assessment, especially when you're moving the amount of I guess, proceeds that we are. I mean, if you think about our California portfolio, it's roughly 10%, maybe a little bit more of NOI. So to do that in 1 year, and match fund it perfectly, nothing is really perfect in the transaction market. And the transaction market this year in the spring was a little bit slower than what we anticipated. So we're being a little bit more selective. And we are seeing that speed up, I think as many of our peers have mentioned, in the back half of this year, which gives us a lot of optimism as we finish '25 strongly and then move into '26.

Linda Tsai

Jefferies LLC, Research Division

That makes a lot of sense. And then just a 2-part question. What was the same-store growth profile of the California assets you sold? And I'll follow up with the next one.

Daniel Joseph Busch

CEO, President & Director

It's a good question. Without getting into the underwriting of those assets, obviously, what we were expecting -- I think the way I would frame it is the growth profile that we were going to expect for the next couple of years in California was not going to be as favorable as what we've been seeing and experiencing in our portfolio in the Southeast.

There's a lot of reasons for that. Obviously, demographic trends, migration, business-friendly environments, all those things have continue to draw us towards the Carolinas, towards Florida, towards -- in some select areas in Texas. And we see the unlevered risk-adjusted returns in those markets just to be more favorable what we were experiencing in California.

Linda Tsai

Jefferies LLC, Research Division

And then given what you're saying, does that mean the 4% to 5% same-store growth that you expect for this year becomes more sustainable as you look to next year, though I know you're not giving guidance?

Daniel Joseph Busch

CEO, President & Director

That's a good question. I think what I would say is what we used to think 3% to 4% is a very strong year on an internal growth basis. We've been surprised to how sticky it's been north of 4%. I think that's building in higher escalators. Obviously, our occupancy is near an all-time high, getting close to frictional vacancy, if we're not already there. I think we continue to surprise ourselves on getting higher watermarks, and we still do have some nice visibility as it relates to occupancy gains in our Small Shop for the next couple of years, notwithstanding any material change in the economy that would suggest a Small Shop fallout. But that 4% does seem like a sustainable number or it has been for the last couple of years.

Operator

Our next question comes from Andrew Reale from Bank of America.

Andrew Reale*BofA Securities, Research Division*

It seems like the level of competition for core grocery-anchored centers has just become so strong this year. Just curious if you're seeing any decline in the number of accretive core grocery opportunities available to you? And then I guess could we maybe see you target more unanchored or shadow-anchored opportunities versus core?

Daniel Joseph Busch*CEO, President & Director*

Andrew, good morning. All really good questions. So I'll walk you through. I do think on balance, and I think you've seen it from some of our peers' commentary as well and their transaction activity that there is a lot of institutional interest, both public and private to grow the grocery-anchored parts of their portfolio. So the competition is there.

I think the reason that we were so excited about the opportunity to rotate out of Southern California, which is obviously a core market for almost everyone. Certainly, on the -- certainly it gets a tremendous amount of private interest as well because of the financing options that you do have in such a liquid market. But our ability to take those proceeds and redeploy that cost of capital is probably as good as we can get, right?

So we were able to be appropriately competitive on assets that we really, really liked at cap rates that would probably otherwise not be available to us. And not only were we able to do it day 1 accretive, but the growth profiles on the assets that we're acquiring are more compelling.

Andrew Reale*BofA Securities, Research Division*

Okay. That makes a lot of sense. And then now Small Shop, almost 94% leased, new high watermark there. What's a realistic ceiling in terms of where that can go from here?

Daniel Joseph Busch*CEO, President & Director*

It's hard to say. Obviously, not every center was built to perfection when developed. There's always areas of the center that are a little bit more challenging to lease, and that's even in the A+ types of centers. But we do have a process and operational strategy to lease some of those areas that -- perhaps the market rent in those locations is much -- is materially lower than in the center of the shopping center per se.

But based on what we see today, we have direct visibility and, call it, another 100 basis points. Obviously, that could be offset by any tenant fallout or bad debt expense that we're taking. But based in our pipeline outside of executed leases, so you think of LOI and legal stages, there's another 100 basis points of runway, and we think that there could be a little bit more after that as well, so long as the Small Shop health stays as strong as it has.

Operator

[Operator Instructions]

Our next question comes from Cooper Clark from Wells Fargo.

Cooper R. Clark*Wells Fargo Securities, LLC, Research Division*

Can you provide some color on the current acquisition pipeline in terms of size and pricing and the confidence level on hitting the \$100 million net acquisition guide from here?

Daniel Joseph Busch*CEO, President & Director*

Yes, no doubt. So what I would say is we've -- our acquisition pipeline, give or take, always has about \$1 billion of real opportunities in it, and that will flex up and down a tad, but we tend to try and be canvassing that amount. Obviously, our level of success on closing on everything has been pretty good. We have looked at opportunities this year that we weren't successful in acquiring, which is fine. We just couldn't get to the final pricing.

But as we sit here today and obviously, as we reiterate our Core FFO guidance, we feel very confident that we're going to get to that \$100 million. And if there are more opportunities, which it feels like a lot more opportunities are going to unlock and have already unlocked following the holiday, we think we can surpass that if those opportunities do come to fruition. And we have, obviously, plenty of capacity to do that.

Cooper R. Clark

Wells Fargo Securities, LLC, Research Division

Great. And then as a follow-up there, just trying to figure out kind of what assumptions you need to get to the low end of the FFO range and if the low end assumes any further transaction activity throughout the rest of the year?

Daniel Joseph Busch

CEO, President & Director

It's a good question, and I think you're thinking about it the right way. If activity kind of froze as we sit here today, that put us probably closer to the low end of guidance. And then on the flip side, if we're able to bring a couple of deals forward or timing is a little bit better or a little bit more on our side, you could see us float to maybe the higher end of our range. So really -- at this point in the year, it really is mostly dependent on timing of that net transaction activity.

Operator

We currently have no further questions. So I'll hand back to DJ for closing remarks.

Daniel Joseph Busch

CEO, President & Director

Thank you all for joining us. We look forward to seeing you guys in the coming months throughout the conference schedule. Enjoy the rest of your summary.

Operator

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

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