InvenTrust Properties Corp. NYSE:IVT

FQ2 2026 Earnings Call Transcripts

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Executive VP, COO, General Counsel & Corporate Secretary

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Executive VP, CFO & Treasurer

ANALYSTS

Andrew Reale
BofA Securities, Research Division

Daniel Purpura
Green Street Advisors, LLC, Research Division

James Colin Feldman
Wells Fargo Securities, LLC, Research Division

Todd Michael Thomas
KeyBanc Capital Markets Inc., Research Division

Presentation

Operator

Thank you for standing by, and welcome to InvenTrust's Second Quarter 2026 Earnings Conference Call. My name is Ellen, and I will be your conference call operator today.

Before we begin, I would like to remind 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, 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 open 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, I'll turn the call over to DJ.

Daniel Joseph Busch
CEO, President & Director

Good morning, everyone, and thank you for joining us. InvenTrust delivered another solid quarter, supported by continued strength of our portfolio and the consistency of our operating platform. Cash flow is growing, leasing activity and tenant retention remains strong, and our signed but not open pipeline continues to convert into occupancy and cash flow. Same-property net operating income growth accelerated to 4.1% in the second quarter, while year-to-date NAREIT FFO per share increased 11% and core FFO per share increased approximately 9%. Retailer demand remains concentrated in well-located open-air necessity-based centers and limited new supply continues to provide a favorable backdrop for long-term rent growth.

Our first half results, combined with the visibility we have from contractual rent growth, lease commencements and redevelopment activity continue to support our full year outlook. Mike will walk through our financial results in more detail in a few moments.

We made strong progress executing our external growth strategy during the first half of 2026. To date, we have acquired 6 properties and 1 outparcel at an existing center for approximately $290 million. A key part of that activity has been expanding into emerging Sun Belt markets such as Charleston, Greensboro and Knoxville. Importantly, we're finding opportunities, not only in our existing markets, but also in adjacent complementary markets where our operating model and retail relationships give us confidence that we can create long-term value. These markets offer many characteristics we value, including population growth, household formation, relative affordability and strong retailer demand. For us, they are a natural extension of our strategy, allowing us to expand while remaining disciplined and focused on the fundamentals that have driven our success thus far. This activity represents strong progress toward our full year net investment guidance.

Our acquisition pipeline remains active, and our balance sheet provides the flexibility to pursue additional investments where risk-adjusted returns are compelling. As we continue to grow, we expect to pair future acquisitions with selective one-off asset sales, recycling capital from assets that are less aligned with our long-term growth strategy into opportunities with stronger growth characteristics.

As our portfolio expands, we remain focused on scaling the organization efficiently. Technology, including artificial intelligence, will help us streamline workflows, enhance reporting and evaluate investment opportunities more effectively. While local market expertise, tenant relationships and disciplined decision-making will always remain at the center of our business, these tools will help us operate more efficiently and support our long-term growth.

In closing, our priorities remain clear: continue owning high-quality necessity-based retail centers; thoughtfully expand across our core and complementary emerging Sun Belt markets; maintain a disciplined balance sheet and leverage the strength of our platform to drive sustainable growth in cash flow, net asset value per share and long-term shareholder value.

With that, I'll turn the call over to Mike.

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Thanks, DJ, and good morning, everyone. For the quarter, same-property NOI was $48.5 million, up 4.1% compared with the second quarter of 2025. Growth was led by base rent increases of 320 basis points, including approximately 180 basis points from contractual rent bumps, along with contributions from leasing spreads, redevelopment activity, percentage rent, specialty income and net expense reimbursement. These gains were partially offset by a 50 basis point expected temporary occupancy impact and 20 basis points of bad debt. Year-to-date, same-property NOI totaled $97.2 million, up 3.3% compared with the first 6 months of 2025.

On our quarterly cadence, we expect same-property NOI growth to be somewhat uneven for the remainder of the year. The third quarter reflects timing of operating expenses associated with scheduled projects. From there, we expect the fourth quarter to reaccelerate as leases commence and signed not open leases continue converting into rent-paying occupancy.

NAREIT FFO for the quarter totaled $39.8 million or $0.50 per diluted share, reflecting an 11.1% increase from the second quarter of 2025. Core FFO rose 9.1% to $0.48 per share year-over-year. FFO growth was driven primarily by higher same-property NOI and net acquisition activity, partially offset by interest expense. For the first 6 months of the year, NAREIT FFO was $81.1 million or $1.03 per diluted share, reflecting a 10.8% year-over-year increase, while core FFO was $0.98 per diluted share, up 8.9% compared to 2025.

In June, our $250 million private placement of senior notes funded, and we used the proceeds to partially pay down our line of credit. At quarter end, total liquidity stood at $489 million, including $64 million of cash and $425 million available on our revolving credit facility. Our weighted average interest rate was 4.36% with a weighted average term to maturity of 4.3 years.

Net leverage finished the quarter at 31.9% and net debt-to-adjusted EBITDA was 5.3x on a quarterly annualized basis. Our balance sheet remains strong and provides the flexibility and liquidity to continue executing on our long-term strategy.

Finally, we declared a quarterly dividend payment of $0.25 per share, a 5% increase over last year.

Turning to guidance. We are reaffirming our full year same-property NOI growth guidance range of 3.25% to 4.25%. We're also maintaining our core FFO guidance range of $1.92 to $1.96 per share. For NAREIT FFO, we are raising our full year guidance range to $2.01 to $2.07 per share, which reflects a noncash revenue increase from our recent acquisitions. Additional 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 L. David
Executive VP, COO, General Counsel & Corporate Secretary

Thanks, Mike. From an operating standpoint, leasing activity remained healthy during the quarter, and retailer feedback has been consistent. National tenants continue to have multiyear expansion plans, but their biggest challenge remains finding quality space in the right trade areas. In response to tight supply, some retailers are becoming more flexible on format and box size while remaining disciplined on build-out costs and store level economics. This reinforces the depth of demand while also showing that retailers are focused on opening locations that will perform well over the long term.

During the quarter, we executed 76 leases covering approximately 464,000 square feet, and our retention rate was 88% year-to-date. Comparable blended lease spreads were 8.5% with new lease spreads of 18.7% and renewal spreads of 7.9%. Annualized base rent per square foot increased 3.8% year-over-year to $20.94.

Leased occupancy ended the quarter at 96.2%, down 20 basis points sequentially, primarily due to the former Painted Tree anchor space. We already have a letter of intent from a prominent national retailer and expect to provide an update on this space in the near term.

Importantly, large-format availability remains limited and manageable. We ended the quarter with only 6 vacant big box spaces, 4 are tied to redevelopment or disposition activity. One is the former Painted Tree space just mentioned, and the remaining space is a former Party City at one of our Dallas properties.

Small shop lease occupancy increased 30 basis points to 93.2%, while anchor lease occupancy ended at 98.1%, down 40 basis points from first quarter.

Retention remains a key driver of internal growth. Excluding tenant exercise options, renewal spreads were 14.4%, which underscores the value we continue to capture through renewals. When we can retain a productive tenant, achieve a solid rent increase and do so with limited incremental capital, the all-in economics can often be more attractive than pursuing a higher headline spread that requires downtime, tenant improvements and leasing costs. Our goal is to build partnerships that support tenant success while creating durable cash flow growth for InvenTrust. Given the quality of our portfolio and the strength of the current retail backdrop, we are well positioned to capture these mark-to-market opportunities.

A significant lease signing during the quarter was with Publix at our Plantation Grove property in the Orlando MSA. This lease is an important first step toward a future redevelopment of the center where we are replacing the existing store with Publix's new prototype. We have worked with Publix on similar projects before, and we are excited about the value this type of investment can bring to the center. We expect the project to break ground in 2026.

At quarter end, the lease economic occupancy spread was 160 basis points, representing approximately $5.6 million of annualized base rent. We expect 77% of ABR to commence by the end of the year and over $1 million expected to be recognized in 2026.

Turning to acquisitions. We continue to build on the momentum DJ outlined earlier. During the quarter, we closed on 3 properties and 1 asset subsequent to quarter end. Together, these 4 assets represent more than $165 million of investment, showcasing our ability to acquire in a competitive transaction environment. Our acquisition pipeline is strong, and we will continue to target well-located centers in attractive trade areas, supported by necessity-based uses and clear opportunities to create value as we integrate the assets into the InvenTrust operating platform.

The first acquisition was 3609 South in Charlotte, North Carolina. This property is 100% leased unanchored strip center located in Charlotte's South and submarket with favorable surrounding demographics and visible rent upside. While unanchored assets are not a large portion of our portfolio, we will pursue them selectively when the location fits within an existing market where we already have operating knowledge and relationships. We also closed on Western Plaza in Knoxville, Tennessee, an approximately 162,000 square foot community center anchored by The Fresh Market and Crunch Fitness. Knoxville is an example of the type of emerging Sun Belt market where we are seeing attractive long-term fundamentals and healthy retailer interest. Western Plaza provides us with a position in an established retail node with grocery and fitness anchors that drive consistent traffic.

In the Charleston MSA, we acquired Sweetgrass Corner, an approximately 95,000 square foot community center anchored by Trader Joe's, Homesense and Golf Galaxy. This high-quality asset marks our fourth acquisition in Charleston in less than 2 years.

On July 1, we closed on New Garden Crossing in Greensboro, North Carolina. This property is 100% leased, 169,000 square foot community center, anchored by Lowes Foods, Marshalls, HomeGoods and Office Depot. We like the combination of grocery, off-price and service-oriented tenancy, and we view Greensboro as another attractive emerging Sun Belt market that is complementary to our existing regional footprint.

Tenant interest reinforces where we are investing. National and regional retailers are increasingly looking to emerging Sun Belt markets for expansion opportunities. Charleston, Greensboro and Knoxville are places where retailers want to grow, where consumers are moving and where owning high-quality assets fits our strategy.
Operator, that concludes our prepared remarks, and we are ready to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Andrew Reale with Bank of America.

Andrew Reale
BofA Securities, Research Division

I guess just to go back to the occupancy. Obviously, your small shop occupancy improved sequentially, but anchor slipped. Can you just remind us what drove the anchor decline? And then how should we think about the trajectory of both anchor and shop occupancy into year-end?

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

Sure, Andrew. This is Christy. Thanks for the question. The primary driver, as you noted, was the Painted Tree, which we lost. It was not in our numbers last quarter, but we noted it on the call. That was at our West Park asset in Glen Allen, Virginia. So that's the primary driver of why the anchor vacancy went down. And as I noted, we only have 6 vacant anchors, of which we expect to hopefully bring 3 of those into execution by the end of the year. And as for the trajectory of where we think occupancy can go, we think we should be approaching leased occupancy all-time highs by the end of first quarter 2027 with economic occupancy about third quarter 2027.

Andrew Reale
BofA Securities, Research Division

Okay. And then just on the net debt-to-EBITDA, that's moved to 5.5x from about 4.5x at year-end. Are you comfortable running at this leverage level? And then how should we think about equity or dispositions entering the funding mix going forward?

Daniel Joseph Busch
CEO, President & Director

Andrew, yes, so interestingly enough, some of the assets that we closed were late in the quarter, and that's an annualized number. So that's going to come down materially. But the way we look at it on a forward basis, we'll probably still end the year based on our net investment expectations still under 5x. And as we've said, our range where we're comfortable is 5 to 6x on a forward basis. So we still have plenty of capacity on the current balance sheet. Obviously, there's been volatility in the equity markets. We want to be very careful and patient with our equity capital. But we still can self-fund this business and continue to grow cash flow for the next several years if need be.

Operator

Your next question comes from the line of Jamie Feldman with Wells Fargo.

James Colin Feldman
Wells Fargo Securities, LLC, Research Division

So you clearly had success on some of the Sun Belt expansion markets. How big is the buy box of what you're looking at? And how quickly could you ramp it up if you really wanted to? I would imagine the transaction market is getting more competitive. It just seems like everyone seems to be finding opportunities to sell. So maybe just a big picture of what the next couple of years could look like and how many more Sun Belt markets you think you might be in, and what's out there?

Daniel Joseph Busch
CEO, President & Director

Yes. No, it's a great question, Jamie. Thanks. It's interesting. So our pipeline ebbs and flows. It always remains kind of the canvas that we're looking at, both in current and new expanding markets is right around $2 billion, give or take. There is a seasonality to the pipeline. It's always a little bit quieter midyear. We're seeing some interesting opportunities just pop up now. We've been very fortunate that some of these new expanding markets we've gone into, I wouldn't say we were a first mover, but they are tighter markets. So when you say the buy box, the opportunities in something like a Greensboro or a Knoxville or a Savannah are going to be fewer than what it would be, obviously, in an Orlando or some of our Texas markets. But we're looking at all of it.

And as you've seen, we'll do unanchored if it makes sense for the portfolio or the market that we're operating in or we'll do some bigger box opportunities like we did in Nashville, if it makes sense, and that's a great asset for us to get into the Nashville market. So we feel very confident. Obviously, we're off to a great start this year with $290 million closed. We have a couple of really interesting opportunities that we're looking at. But like you said, it is a competitive market. We've been very lucky on a blended basis, we're hitting our goals from a net investment activity, which continues to be kind of in the low 6s on an initial yield perspective and getting to an IRR on an unlevered basis somewhere in the low to mid-7s. And that recipe has continued for the last couple of years, and it's something that we still feel comfortable given what we're seeing in the pipeline today. But nonetheless, it is a competitive market, specifically in some of our larger core markets.

James Colin Feldman
Wells Fargo Securities, LLC, Research Division

Okay. And then 21% exposure to the restaurant business. Can you just talk about some of the trends you're seeing? Any kind of weakness? I know the lettuce scare has probably been top of mind for people. But what are you just seeing on whether it's the lower end or the higher end restaurant credit trends or sales trends?

Daniel Joseph Busch
CEO, President & Director

Yes. It's funny. We don't have a ton of, obviously, white linen or anything high end from a restaurant basis. I think it's about half full service, half fast casual or fast food. Restaurants are always a tricky business. We tend to have the highest turnover in that category. We've always ran kind of close to 20%. I think we moved up a little bit, obviously, post-COVID, given the amount of traffic, given the hybrid work environment, all the stuff that we've talked about previously. It will always be a higher turnover category. However, there's no significant trends as it relates to types of food category. It's really either undercapitalized or poor performing operator with several options as backfills. So like I said, it is a turnover business, but there's a tremendous amount of demand behind some of those struggling restaurants, at least what we've seen in our portfolio.

James Colin Feldman
Wells Fargo Securities, LLC, Research Division

Okay. I mean, do you have a pipeline of potential closures you know about or you just monitor?

Daniel Joseph Busch
CEO, President & Director

No, no, no. There's always a handful that we're watching for different reasons. Sometimes it's as simple as it's taken them longer to get open than what we expected. So we always have a handful of restaurants that we're watching. And then if we're watching them, we're already talking to potential backfills if necessary.

Operator

[Operator Instructions] Your next question comes from the line of Todd Thomas with KeyBanc.

Todd Michael Thomas
KeyBanc Capital Markets Inc., Research Division

DJ, you mentioned you're closing in on the net investment guidance for the year. It sounds like the appetite is there for additional acquisitions. And as we think about additional investments, you've also talked a little bit about maybe pruning the portfolio, perhaps reducing exposure in some markets such as Houston. Can you just provide an update on efforts there, whether anything on the disposition side is in the works?

Daniel Joseph Busch
CEO, President & Director

Yes. No, thanks, Todd. That's exactly right. As we've always said about our net investment expectations, it's really at a point in time what we're seeing. If we see buying opportunities in the back half of the year that are attractive to us that can help us accelerate, not only into the back half of this year, but more importantly into 2027, we'll absolutely go through that $300 million.

To your point, we do have a handful of assets that we can pull forward. There's 2 in the market right now that we're hopeful that we will get done in the second half of this year. And like you said, the strong properties that just don't fit the growth profile that we're looking for as we move forward, but still very solid properties. And we'll continue to look through the portfolio for those. But we're fortunate that the portfolio kind of top to bottom is increasing in quality. So the disposition activity will be kind of de minimis after from what you saw last year with California.

Todd Michael Thomas
KeyBanc Capital Markets Inc., Research Division

Okay. Got it. And then can you -- how should we think about from a pricing standpoint, maybe you can -- if you can bookend the pricing on dispositions, how we should think about disposition pricing as it compares to the initial yields on what you're buying in the low 6% range?

Daniel Joseph Busch
CEO, President & Director

It's actually very similar. So on an initial yield, it's going to be basically neutral from an accretion dilution perspective. But obviously, the difference being the growth profile that we're trading up for. The bookends on the buy side that we've been at and like we talked about, the pricing is getting competitive. We always look at it as the entire net investment activity, but that ranges from 5.5% up to 7%, and we'll look at everything from both sides of the spectrum. And as you know, like it's going to be core grocery core market is going to be on the low end and then maybe some of the boxer stuff and maybe some of the secondary markets will be on the high end. But everything is compressing. So we're being very careful and selective on the opportunities that we're going after.

Todd Michael Thomas
KeyBanc Capital Markets Inc., Research Division

Okay. And just to clarify, I guess, from a timing standpoint, it sounds like as you sort of approach or exceed the $300 million acquisition amount, that would drive or be a catalyst for dispositions or are you -- you mentioned you're in the market with 2 assets. I mean, should we anticipate that there could be some asset sales in advance of incremental acquisitions?

Daniel Joseph Busch
CEO, President & Director

They're going to usually be on the back end. That's kind of the cadence that we're hoping to kind of stick with. Obviously, California was more opportunistic. We're trying to match fund the capital recycling a little bit more carefully as we look forward. But there could be -- we do have select assets after the 2 that I mentioned that we will pull forward if the acquisition opportunities are there. However, we do have plenty of capacity on the balance sheet to continue to use leverage in our favor, but obviously, in a very conservative manner to continue to grow the business. We've got a bunch of different levers without having to go to the equity markets to continue to grow the portfolio and grow cash flow.

Operator

Your next question comes from the line of Daniel Purpura with Green Street.

Daniel Purpura
Green Street Advisors, LLC, Research Division

You've acquired a range of property types this year. You mentioned the unanchored center in this quarter and then there's a power center last quarter. Can you talk about the different return profiles that you underwrite across these property formats?

Daniel Joseph Busch
CEO, President & Director

Yes. I mean, Daniel, thanks for the question. I mean, obviously, when you have the boxer centers tend to have a slightly higher unlevered return. But on a risk-adjusted basis, it all kind of comes back to the same spot, you know what I mean. So unanchored centers core grocery, they're going to be a lower initial yield than what you do for larger format community or power. And a lot of times, it's price point, a lot of times it's GLA size or market. There's a lot of different pieces of it. But if I'm going to use a generalization, usually core grocery is going to be the most sought-after product. With the unanchored strips, you can get a little bit better growth. So the initial yield may be a little bit tighter, but you can get the growth on the back end. So it's a tough question to answer, but that's the way that kind of we think about it.

But like I said, InvenTrust, our portfolio, we're portfolio agnostic to an extent that unanchored can be just as attractive to us as larger format, but it's got to fit the criteria. It's got to be in a market that we trust, that we know we can grow in, that we already have had success in, and it has to fit the essential retail nature of the centers that we own.

Daniel Purpura
Green Street Advisors, LLC, Research Division

Got it. So you aren't underwriting like a different IRR depending on the property type?

Daniel Joseph Busch
CEO, President & Director

No, not necessarily. I mean, like I said, the unlevered IRRs that we're getting to are anywhere from the low 7s to the high 7s. And it's all what the risk tolerance is. We need a little bit of more unlevered return if we think that the asset is inherently more risky for whatever reasons and a lot of things I just mentioned, GLA size, the amount of boxes that it may have, whether it has a grocery anchor or not, if it's in a core market or core retail node or if it's in a developing market or a secondary submarket within a market. So all those things considered. But we look at it, like I said, when we're looking at our $300 million that we're trying to put out on a blended basis, we want to get to an initial yield that we're comfortable with, a growth profile that's going to be complementary and additive to the current portfolio and an IRR where we know we can make money and then in turn, grow cash flow.

Daniel Purpura
Green Street Advisors, LLC, Research Division

Got it. And if I could ask one more. Do you see a market concern about expanding into more of the secondary and tertiary markets is the ability to grow rents long term to match that of some of the larger markets? So how do you get comfortable thinking that you'll be able to grow rents in these markets similar to how you would grow in some of your larger markets?

Daniel Joseph Busch
CEO, President & Director

So Daniel, it's a great question. And the reason for that is what we've studied the markets that we've currently been talking about, we've been looking at for a long time. And the most important thing is, and it really is a Sun Belt kind of story that continues, by the way. It's probably not as accelerated as it was just coming out of COVID. But the migration trends from population, the amount of income and business formation that's going into the Sun Belt, it's bleeding out into some of these other markets like a Knoxville, like a Greensboro, certainly like a Charleston. So those markets are seeing the types of movements, and I'm going to use this just as an example, like perhaps Nashville did 15 years ago. So continuing to get population growth and that should serve it for the next several years, not just a point in time.

Operator

There are no further questions at this time. I will now turn the call back to DJ Busch for closing remarks.

Daniel Joseph Busch
CEO, President & Director

Thank you, everyone, for your interest in InvenTrust. Thank you for the questions, and we look forward to seeing many of you as we kick back into some of the conference season. Enjoy the rest of the day.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.