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# Weingarten Realty Investors (WRI)

Q3 2017 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to the Weingarten Realty Third Quarter 2017 Earnings Call. My name is Brandon and I'll be your operator for today. At this time, all participants are in a listen-only mode. Later we will do a question-and-answer session. Please note this conference is being recorded.

And I will now turn it over to Michelle Wiggs. Michelle, you may begin.

## Michelle Wiggs

*Vice President-Investor Relations, Weingarten Realty Investors*

Good morning and welcome to our third quarter 2017 conference call. Joining me today is Drew Alexander, President and CEO; Stanford Alexander, Chairman; Johnny Hendrix, Executive Vice President and COO; Steve Richter, Executive Vice President and CFO; and Joe Shafer, Senior Vice President and CAO.

As a reminder certain statements made during the course of this call are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results could differ materially from those projected in such forward-looking statements due to a variety of factors. More information about these factors is contained in the Company's SEC filings.

Also during this conference call, management may make reference to certain non-GAAP financial measures such as funds from operations or FFO, both core and reported, which we believe help analysts and investors to better understand Weingarten's operating results. Reconciliation to these non-GAAP financial measures is available in our supplemental information package located under the Investor Relations tab of our website.

I will now turn the call over to Drew Alexander.

## Michelle Wiggs

*Vice President-Investor Relations, Weingarten Realty Investors*

Thank you, Michelle, and thanks to all of you for joining us. I'm pleased to report another strong performance this quarter. While retailer issues and recent storms have created some operating headwinds, our significantly transformed portfolio has performed very well. As to the storms, I'd like to say our sympathies and best wishes go out to all those directly affected by the storms and fires. Our team has been very involved and we appreciate their professionalism.

Moving on to our transaction activity, we continue to actively underwrite acquisitions, but haven't found any reasonably priced opportunities with the right risk growth. We don't have much in our pipeline, but we left guidance unchanged as there's still time to close a 2017 deal.

With respect to dispositions, we signaled last quarter that we'd accelerate our disposition activity if market conditions remained favorable. We worked hard to move a number of properties through the sales process resulting in a $150 million of closed deals since the end of the second quarter.

We have multiple additional properties that are in various stages of the disposition process and we expect some will close by year end or early 2018. We increased our disposition guidance given the size of a couple of these potential transactions.

We don't have a lot of changes in the new development area. At our West Seattle development, Whole Foods has publicly confirmed their plan to open the store, which will enhance our last little bit of leasing. As to future new developments, we continue to work on projects, but are being very cautious with our risk profile.

We also continue to work our robust redevelopment pipeline, where we generate excellent returns on invested capital. Bottom line, the quality of our transformed portfolio is evidence given its solid performance. Good retail real estate like ours continues to perform well.

Steve, the financials?

## Stephen C. Richter

*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

Thanks, Drew. I'm pleased to once again report strong earnings results. Core FFO for the quarter ended September 30, 2017 was $0.61 per share, an increase of 5.2% on a per share basis, over $0.58 for the same quarter of last year. The increase in core FFO over the prior year was primarily due to increases in our operating income from our existing portfolio, resulting from increases in rental rates, the full-year effect of our 2016 acquisitions and reduced interest expense from favorable debt refinancings. These increases were partially offset by the impact of our disposition program. For the nine months, core FFO was $1.83 per share for 2017 compared to $1.73 per share for 2016, generating a strong 5.8% increase.

Regarding the impact of hurricanes Harvey and Irma, we fared pretty well considering the severity of the storms. In Houston, we had two shopping centers that had water damage, however the majority of the tenants in those two centers reopened for business within a couple of weeks. In Florida, the majority of the damage was cosmetic in nature. We are continuing to evaluate the damage estimates, deductibles and exclusions to determine our ultimate loss.

We recorded an expense of $800,000 in the third quarter, which we believe to be a good estimate of our total exposure. It is still early in the claims management process, so we could see an adjustment next quarter. We have included this expense in NAREIT FFO, but have excluded it from core FFO. Bottom line, we came through both storms pretty well.

As to the balance sheet, we've had little activity on the financing front given the lack of acquisition activity and no debt maturities. Our balance sheet remains in great shape with minimal maturities for the next several years. And today, we have only $40 million outstanding under our $500 million revolver.

At quarter end, our net debt to EBITDA was a strong 5.55 times and our debt to total market cap was 34.9%. Given the strong operating performance year-to-date, we are raising and narrowing our 2017 guidance for NAREIT FFO to $2.38 to $2.41 per diluted share and our core FFO guidance to $2.42 to $2.45 per diluted share.

As to disposition, we are increasing guidance to a range of $300 million to $550 million. Should we achieve this level of dispositions, it should have a minimal effect on 2017 FFO as many of the transactions should close late in the year.

Additionally, as we noted last quarter, if we sell a reasonable amount of our current pipeline, we expect to generate a special dividend given the large tax gains associated with some of these sales. We remain comfortable with our guidance on same property NOI, including redevelopments of 2.5% to 3.5%. All these 2017 guidance changes are detailed on page nine of our supplemental.

Johnny?

## Johnny L. Hendrix

*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

Thanks, Steve. The quality of our portfolio and the strength of our team is evident in our third quarter results. Leasing was strong, rent growth was outstanding, occupancy is up nicely, same property NOI continues to be solid and our redevelopment program is producing strong risk adjusted returns.

The current retail environment is challenging for many retailers. Our tenants are competing not only among themselves, but also a variety of distribution channels. We believe strongly that the omnichannel model incorporating bricks and mortar will ultimately prevail.

As part of that, retailers continue to seek the best locations they can get. And our transformed portfolio is positioned to offer great opportunities in dense urban markets. We feature strong supermarket in discount clothing anchors that continue to draw millions of customers to our centers.

We executed 79 new leases this quarter for $7.2 million of annual minimum rent. Over the last six months we've executed new leases for over $14.4 million. That level of production is building a nice pipeline of leases to commence over the next 18 months. During the quarter, we also signed 150 renewals for $10.7 million in annual minimum rent.

We've already renewed about 25% of our tenants expiring in 2018. As for shop leasing, we're continuing to lease to restaurants, quick service and fast food, fitness, personal services like hair salons, nails and massage, we're also leasing to cellular stores, pet stores and medical service providers. We had a lot of success this quarter leasing our box spaces. We signed leases with REI, Sprouts, Perry's Steakhouse, a regional furniture store and a fitness studio.

We also signed a lease with Gulf Coast Veterinary Services in the space I mentioned last quarter, where we terminated an industrial tenant at Shoppes at Memorial Villages Shopping Center. Gulf Coast is a well-regarded clinic that offers highly specialized surgical services for pets. They absorbed 100,000 square feet and will open next month in a temporary space and then in the permanent facility mid-2018.

We signed this deal quickly. And combined with our strong box leasing, the company did not experience the occupancy drop we had signaled last quarter. Occupancy actually increased to 94.8%. That's up from 94.1% a year ago and up from 94.5% last quarter.

Gains in occupancy mostly came from Texas and California, but Florida and Georgia continue to have strong occupancy. A lot of this increase over the last year is the lease up of the Sports Authority boxes. We've released all, but one of their stores.

Shop occupancy fell slightly to 90.4%, which I interpret as good given we terminated 11 leases, totaling 39,000 square feet with bankrupt tenants, Payless, rue21, and Alfred Angelo. During the quarter, Toys"R"Us filed Chapter 11 and seems to be on a path to a fairly swift reorganization.

We have five stores with Toys representing $2 million in annualized minimum rent. Rents are relatively low at an average of $10.17. I'm uncertain how many of their stores will close, but I believe our exposure is limited. Both rue21 and Payless have had their bankruptcy plans confirmed during the quarter. rue closed one store and Payless closed seven during the quarter. This leaves us with five stores remaining with rue21 and 14 with Payless.

Rent growth was up again this quarter. The company produced overall growth of 16.6% and new rent growth of 29%. This metric always seems to be driven up or down by one or two leases. But even eliminating the largest two drivers for the quarter, we would have generated an overall rent increase of 12%, which indicates the strength of our portfolio.

Year-to-date, rent growth is 12.3%, so even with the retail headwinds, we've enjoyed very good rent growth. Again, we have strong urban locations with strong barriers to entry. You probably noticed our TI was relatively high at $41 per square foot.

This number was also driven by a couple of outliers, specifically the Gulf Coast lease, where we're converting an industrial building into a state-of-the-art surgical clinic and the REI lease at Ridgeway Trace, where we're dividing a former Sports Authority. Excluding those, TIs for new leases would have been about $31 per square foot.

Same-property NOI is right in line with our guidance. During the third quarter, same property NOI was – with redevelopment grew 2.8%. Year-to-date, it's grown 3%. Even with the fallouts of rue21, Payless and Alfred Angelo, we expect to end 2017 around 3%. The leases signed but not commenced represent 260 basis point of occupancy or $13.4 million in annual rents, which will contribute to our 2018 growth. Commencement of that rent will accelerate in the second half of 2018. We're not finished with the 2018 budget, but this metric does look positive.

I also mentioned our redevelopment efforts are progressing nicely. We currently have redevelopments underway, where we expect to invest $238 million at a return of over 8%. We're making great progress at Sunset Point 19 in Clearwater, Florida, where we expect Bed Bath & Beyond to open next month. We're back filling the former Bed Bath & Beyond space with Kirkland's and DSW. Hobby Lobby is under construction and will commence early in 2018. And we've also started construction on an additional 12,000 square feet of shop space.

In Orlando, Florida, we signed a lease with Sprouts and we'll kick off the reconfiguration of Winter Park Shopping Center. [ph] We'll be able to do (13:48) 30,000 square foot Sprouts and add 12,000 square feet of shop space there. We expect to commence those new leases in 2019.

While we did not buy anything material during the quarter, we continue to be active searching for great properties that are accretive to our portfolio. We continue to see great properties with strong supermarket anchors trading in a cap rate range of 4.25% to 5.25% in coastal markets and 5% to 6% in non-coastal markets.

Non-supermarket anchored properties are selling in a much wider band depending on the tenant line-up and perceived mark to market. We've seen some power centers go under contract in the cap rate range of 5.5% to 7.5%. Again, we're pleased with the results this quarter and look forward to meeting the challenges ahead.

Drew?

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

Thanks, Johnny. Another great quarter and further evidence that our significantly transformed higher quality portfolio allows us to produce solid results in a very unsettled retail environment. We believe that bricks is a very important part of the bricks and clicks or omnichannel model and superior locations will remain in great demand.

Quality centers with a grocery component that generate strong sales will continue to drive traffic to these centers, making them sought-after locations. 75% of our rents come from centers with a grocery component and those grocers average a strong $632 per square foot in sales. We believe we're very well positioned to weather the changing nature of retailing and continue to produce quality returns for our shareholders.

We will continue to pursue high-quality additions to our portfolio of acquisitions and new developments, but will remain disciplined in evaluating the risk growth of these opportunities. We'll also continue to execute our disposition program as long as the disconnect between private and public markets remain. Great people, great properties and a great platform equals great results. I thank all of you for joining the call today and for your continued interest in Weingarten.

Operator, we'd now be happy to take questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thanks, Drew. We'll now begin the question-and-answer session. [Operator Instructions] And from Citi, we have Christy McElroy, please go ahead.

Christy McElroy
*Analyst, Citigroup Global Markets, Inc.*
Q

Hi, good morning can you hear me okay?

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*
A

Yes.

Christy McElroy
*Analyst, Citigroup Global Markets, Inc.*
Q

Okay, great. Just – can you talk a little bit about the primary drivers of the FFO guidance increase? Steve you said, you gave a reason for – of a strong operating performance, but the same-store NOI growth range is unchanged. Are you thinking about maybe at the midpoint or the upper end of the range given the increase or is timing of disposition versus your expectations, was that also a factor?

Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*
A

Good morning, Christy. I wish there was a single thing that I could point out that was a big driver in our improvement, but quite frankly it's a variety of basically operating issues that are driving it. Everything from rents and commencements, the timing on dispositions, I think, drove it a little bit. And the only thing I could guess I could really point to is that on the bankrupt tenants at the end of Q2 or during Q2 with rue21 and Payless, by the time we got through Q3, end of Q3, we understood the timing of which stores they were closing and so forth. So I think that gave us a little more confidence, but generally there's not anything big one or two things that are driving, it's basic operations.

Christy McElroy
*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And then just being the second quarter in a row where your disposition assumptions are increasing, I understand there's some chunky deals in there that you're looking at, but just can you give us a sense from a capital allocation perspective why is now the right time to ramp up the volume? And thinking about 2018, I know you mentioned a special dividend, what's the size of that? And then how should we think about the use of the remaining proceeds?

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Good morning Christy, it's Drew. So I think it's basically a function of – the stock is at a strong discount to NAV, how much is a function of which NAV you look at and just following the basic signal when we see the disparity between that, we're taking advantage of that and selling more property.

As to the use of proceeds, there is the new development to fund for some of it, but a lot of it is just driven by the discounts to NAV, the disconnect between Wall Street pricing and Main Street pricing. As to the specifics of the special dividend, it's really hard to get into forecasting that in any level because a lot of it depends upon whether things close December 28 or January 4 and which deals close. So we'll certainly communicate more as we know more, but it's really hard to forecast at this time.

Christy McElroy
*Analyst, Citigroup Global Markets, Inc.*

Q

Sure. And that makes sense. All right. Thanks, guys.

**Operator**: From SunTrust, we have Ki Bin Kim, please go ahead.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Thanks. Good morning everyone. Could you talk a little bit about your leasing spread page and how you calculate TIs? If memory serves me correct, you include landlord work in that TI calculation, is that right and it's fully loaded?

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

A

Good morning, Ki Bin Kim, yeah, this is Johnny. Yeah, we do include all of the work that is required for the tenant both allowance and landlord work.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

And what happens when you take a bigger box and you split it up? Is the kind of split up portion, [indiscernible] (19:57) you take a Sports Authority box, cut into half and get a higher rent, is that shown in the lease spread page or not?

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

A

Yes, Ki Bin. What we – we take all of the costs and include that in what we would consider the capital for the deal. So absolutely, so that's what you're seeing with the REI deal at Ridgeway Trace. Some of the cost of splitting the space, generally speaking, is in that deal.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. And just lastly, it looks like the number of Whole Foods location stay the same, but the rent went up pretty materially. Just curious what caused that.

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

I think that's the commencement of the rent that would occur [ph] at the end (20:37).

A

Yeah.

Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

A

Right. Yeah.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. That makes sense. All right. Thank you.

**Operator**: From Bank of America, we have Craig Schmidt, please go ahead.

Craig Richard Schmidt
*Analyst, Bank of America Merrill Lynch*

Q

Yeah. Just given the active – the pace of dispositions and then the limited amount of acquisitions, I mean, is this generally you're seeing cap rates that are you think too low or valuations that are too high?

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

So on the disposition side – Craig, good morning, it's Drew. On the disposition side, Craig, as I said before, it's really just taking advantage of the fact that the stock is at a discount to NAV and if we can sell off generally the lower part of the portfolio and some of the things that strategically don't fit the map as well and are not core for us and position the company and continue to transform the portfolio as we have, so we continue to show the results like we have in this uncertain environment, we're going to do that.

On the acquisition side, we talked about last year we had a fabulous year and there was a little bit of good fortune that was involved in some of the deals that we were able to buy last year. This year we've worked hard, we've underwritten a lot of deals, we still have some things we're working on, and might do some things this year. But we've also been very disciplined in terms of the returns and especially the near-term growth looking out the first few years. And we haven't been as fortunate, finished second in a lot of cases, but haven't been as fortunate to find something. So we'll remain disciplined, but we're very active across the 25 markets where we'd like to grow, we see every property. And part of us wish as we do more but we're going to remain disciplined.

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Craig Richard Schmidt
*Analyst, Bank of America Merrill Lynch*
Q

Okay. Thanks. And then I just, you've been getting some nice strong healthy leasing spreads. But I noticed the pace of leasing has slowed as we worked through the quarters. Are tenants taking longer to sign deals or is that just a general pattern for you?

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Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*
A

So maybe, I'll start Craig and Johnny can amplify. I think, we have great relationships with tenants, but tenants are being very deliberate. As Jonny talked about in the prepared remarks, they're competing with a lot of things. And I think it's also – we're pretty full. So it is harder to do more deals given our occupancy. Any other observations, Johnny?

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Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*
A

Yeah. Good morning, Craig. I would tell you that one of the benefits of this transformed portfolio is really the lack of churn that we have as compared to years past. And it really is obvious when you look at the amount of space that's churning through the portfolio and it does result in a little bit lower leasing volume in terms of numbers. But if you look at the dollars that we're producing with the fewer leases that we're executing, it actually is quite good.

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Craig Richard Schmidt
*Analyst, Bank of America Merrill Lynch*
Q

Okay. Thank you.

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**Operator**: From UBS, we have Nick Yulico. Please go ahead.

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Greg McGinniss
*Analyst, UBS Securities LLC*
Q

Hey, good morning. This is Greg McGinniss on for Nick. With the concerns surrounding Southeastern grocers, I was hoping you could tell us if you have any exposure to them. And could you also talk about credit quality and if you have any concerns in your other regional grocers?

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Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*
A

Good morning. It's Drew. So I'm not – when you say Southeastern grocers, you mean in general or is that a specific company?

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Greg McGinniss
*Analyst, UBS Securities LLC*

Q

So it's [ph] BI-LO (24:30) and Winn-Dixie [indiscernible] (24:33).

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Okay. So we have I think three Winn-Dixies, Johnny, two?

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

A

Four I think.

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Four. So a very small number, very comfortable with things, very comfortable with their rent sales, not a big part of the portfolio. As to the broader grocery business, that's our background, that's where the company came from. That's something that we are generally very comfortable with as we look at the specific operators, the quality of the facility, the locations that we have, the sales that they produce and in a lot of cases, where the rents aren't the national – or the names aren't the national well-known names. We're very comfortable with the rent sales. So, we've done exhaustive studies of our grocers and very comfortable. Apologize, I forgot the corporate name of Winn-Dixie [ph] BI-Los (25:36), but they're a pretty small tenant of ours.

Greg McGinniss
*Analyst, UBS Securities LLC*

Q

Okay. Thank you. And then have rent concession requests remain limited to bankrupt tenants? I'm just a bit concerned that as concessions are granted, this may become a more pervasive theme for retailers.

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

A

Yeah, good morning, Greg. We have not seen a lot of rent concession requests. Even in areas affected by the storms, they've been fairly limited, so that's not been an issue for us.

Greg McGinniss
*Analyst, UBS Securities LLC*

Q

Great. Thank you.

**Operator**: From Wells Fargo, we have Jeff Donnelly. Please go ahead.

Jeff J. Donnelly
*Analyst, Wells Fargo Securities LLC*

Q

Good morning, guys. Maybe for Drew and for Steve. Do you guys feel lenders or property market investors are underwriting grocery or non-grocery anchored centers differently today compared to 6, 12 months ago?

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Good morning, Jeff. It's Drew. I'll start and Steve can amplify. I think about 12 months ago, as the increased concerns about the general competitive nature of retail took on, all lenders became more and more cautious to everything. I think the grocery is still very well understood, still very much in demand. And if you have a good grocery center that checks all the boxes, good sales, some amount of term left, good name, good position, good facility, et cetera, it's a very, very doable deal from a sale financing perspective. So I do think lenders have been paying more attention as they should for about a good year, but hasn't really changed that much in the last little bit. Steve, any other thoughts?

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### Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

A

The only other comment that I might make is that the life cos, it is still in the retail world, their favorite type of property, the supermarket anchored center. The CMBS market likes it as well, but they'll do other – they're not as discriminating, if you will, as the life cos, but it is clearly, they will get very competitive even today with a good supermarket anchored center as Drew described.

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### Jeff J. Donnelly
*Analyst, Wells Fargo Securities LLC*

Q

And not to jump around, but I was just curious, there's been certainly a lot of focus on Houston in light of the unfortunate flooding and just the impact of the dislocation of residents and what that's going to hold. How do you think retail, the demand for retail space is impacted by that? Do you think it's, on the spectrum, it's relatively less impacted than what we'll see elsewhere and maybe in other property types?

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### Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Jeff, good morning. This is Drew. So, as was mentioned, the company came through the storm very, very well with one center in the far northeast part of the area affected in the Kingwood area, which is a long ago planned mixed use – or mixed and planned development and then a center in the southwest part of town that will be redeveloped. So, our company came through really, really well.

There are pockets where a lot of things were heard and it will take some time to rebuild. But generally speaking, retail comes back a lot quicker than other things. Generally speaking, people need to replenish their closets and their freezers, so retail comes through these things pretty well. So, Harvey was an incalculable huge unique amount of rain, but I do think the city in general and retail in particular will rebound from it.

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### Jeff J. Donnelly
*Analyst, Wells Fargo Securities LLC*

Q

And maybe one for Johnny, I'm just curious if you've seen any movement in leasing terms as retailers maybe try to adapt to an omnichannel platform, sales reporting, percentage rents, your flexibility of doing distribution out of their stores, things like that.

And then maybe just one add on is, Drew, you had mentioned the Whole Foods would open a store in Pacific Northwest, have you heard any more formal statements out of Amazon Whole Foods about looking at new Whole Foods locations since they took ownership?

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### Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

So I'll go first. All of our conversations with the Whole Foods people is Amazon very much back in business and they are actively looking at stores. So certainly excited about that. Johnny?

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Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

A

Hey, Jeff. I would say that that all of the supermarkets are responding and are looking for some form of a click station or some way to provide services to customers that would be easier for them. Whether or not that's been real successful or not, I don't know. And now Amazon is out in the market, looking for locations where they would just have pick-ups for grocery and for other goods. So, I think we're beginning to see the start of it, but at this point, it hasn't been huge. We have seen some of the other retailers looking for areas where they can expand their customer pick-up stations and things like that. But so far, it's been relatively small.

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Jeff J. Donnelly
*Analyst, Wells Fargo Securities LLC*

Q

Okay. Thanks, guys.

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**Operator**: From JPMorgan, we have Michael Mueller. Please go ahead.

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Michael W. Mueller
*Analyst, JPMorgan Securities LLC*

Q

Oh yeah, hi.

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**Operator**: Okay. Michael Mueller has disconnected. We'll take – from Hilliard Lyons, we have Carol Kemple. Please go ahead.

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Carol L. Kemple
*Analyst, J.J.B. Hilliard, W.L. Lyons LLC*

Q

Good morning. It's a relatively small number overall, but your other income was up substantially on a percentage basis. Was there anything one time in there?

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Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

A

Carol, I'm not – I'd have to get into it, it wasn't material, I know that. So we'll follow back up offline.

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Carol L. Kemple
*Analyst, J.J.B. Hilliard, W.L. Lyons LLC*

Q

Okay. And then in your conversations with retailers, what are they thinking for the holiday season or how are they feeling for their physical retail presence?

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Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Good morning, Carol. This is Drew. Everything we hear, they feel pretty good. The NRF, ICSC estimates, you hear 3%, 4%. So, people feel pretty good about it. So, we'll see. The holiday season is important certainly, but I do wonder if it doesn't sometimes get too much attention versus the rest of the year, but most of what we hear, folks feel pretty good.

Carol L. Kemple
*Analyst, J.J.B. Hilliard, W.L. Lyons LLC*

Q

Good. Thanks.

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**Operator**: From Boenning, we have Floris van Dijkum. Please go ahead.

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Floris van Dijkum
*Analyst, Boenning & Scattergood, Inc.*

Q

Yeah. Good morning, guys. A quick question on your same store NOI number. If I look through the details, it looks like about 30% of that – the increase or about $600,000 relates to some recoveries that exceed your expenses. Could you maybe give us a little bit more detail on that?

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Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

A

Yeah. Good morning, the recovery -I'm assuming you're talking about the ratios...

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Floris van Dijkum
*Analyst, Boenning & Scattergood, Inc.*

Q

Yes.

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Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

A

...between – yeah. If you look at – starting last quarter, we began grossing up our tax recovery and tax expense for property taxes, where a tenant space is rendered separately and they pay the taxes directly. Historically, that was not recorded in our financials, they paid directly and we didn't record that. Bottom line, we have now put that on the balance sheet and that is shown in both the revenue line and the expense line and flows through the balance sheet. So it changed the ratios starting in Q2 to be a little higher.

I'd also just mention that in Q3, we did have a little higher capital recovery than we've seen historically, which can move around a little bit, but the biggest chunk of that was a change in the way we were handled the separately rendered property for some of the tenants.

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Floris van Dijkum
*Analyst, Boenning & Scattergood, Inc.*

Q

Steve – so, and – Steve, is that a recurring? Does the one-off item – or how much of that will be recurring going forward? Presumably most of that is a one-off event, right?

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Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*

A

No. That we change the accounting policy, where on the P&L now, you're going to have more revenue and more expense for taxes in both categories, so that will be going forward as well. If you look at Q2, Q3, the ratios are probably closer to what you're going to see running – going forward.

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Floris van Dijkum
*Analyst, Boenning & Scattergood, Inc.*

Q

Okay. And then the other question I had was regarding your 14 remaining Payless leases. Were there any lease modifications? And how do you account for any lease modifications if they were to occur?

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*
A

Yeah, Floris, this is Johnny and good morning. There are some modifications to the leases, both financial and non-financial. And basically, at this point, these guys are – Payless is paying us percentage rent. And we have, depending on which lease it is, a little bit of time to work through and maybe try to replace them or they could terminate. So, we are recording the percentage rent and not the former base minimum rent.

Floris van Dijkum
*Analyst, Boenning & Scattergood, Inc.*
Q

Got it. So – and Johnny would that – if you were to change it from a fixed rent to a percentage rent, what does that do to your leasing spreads, does they get captured in leasing spreads?

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*
A

No. It does not.

Floris van Dijkum
*Analyst, Boenning & Scattergood, Inc.*
Q

Okay. Great. Thanks, guys.

Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*
A

Thanks.

**Operator**: From JP Morgan, we have Michael Mueller. Please go ahead, sir.

Michael W. Mueller
*Analyst, JPMorgan Securities LLC*
Q

Hey, sorry about that. I fumbled the switch over to the headset. So – two questions. First of all, on the Sports Authority boxes, you mentioned all but one have been signed. Can you talk a little bit about the timing for when rent will be commencing on those, about how far out does that occur?

Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*
A

Sure. It obviously varies. We've leased them over a period of 12 months. I would say, most of them will have commenced by the second half of 2018 and most of what we would see in the current signed and not leased is going to be accelerated into the second half of 2018.

Michael W. Mueller
*Analyst, JPMorgan Securities LLC*
Q

Got it. Okay. And then turning to dispositions, the elevated pace that you're expecting into yearend, I mean, how are you thinking about that at least at this point as it relates to 2018? And how would you think about it if you're still running into the same challenges on the acquisition side, where the deals just aren't penciling out?

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Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

A

Good morning, Michael. It's Drew. I think, we'll try to do the right long-term thing and that's where, a lot of it depends too on the stock price that if we continue to see a big disparity between current stock price and underlying NAV, it makes sense to sell more. So we've talked long-term, there are good centers, our Kentucky assets and other things that we can hone the portfolio and continue to strengthen and transform the portfolio. So it's something that we'll follow the signals of the markets as to that pace. So, as we talked about with the balance sheet, some amount of need for development et cetera, we don't have to do things, but if we achieve the right pricing, I think it makes sense too in a long term.

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Michael W. Mueller
*Analyst, JPMorgan Securities LLC*

Q

Got it. Okay, thank you.

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**Operator**: [Operator Instructions] From Capital One Securities, we have Chris Lucas.

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Chris R. Lucas
*Analyst, Capital One Securities, Inc.*

Q

Hey, good morning, everybody. Just a couple of follow-up questions on, I guess, related to the storms. I guess just kind of current period, are you guys seeing anything on in terms of – Steve, are you seeing any on late pays as it relates to the October period, or are you pretty confident that the business lost at individual tenants, particularly the – absolutely the mom and pops is going to be covered in some way so that rent for fourth quarter won't be an issue.

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Johnny L. Hendrix
*Chief Operating Officer & Executive Vice President, Weingarten Realty Investors*

A

Yeah. Hey, Chris. This is Johnny. Good morning. We obviously saw a little bit initially and most of that is kind of catching up at this point. Keep in mind that roughly 76% of our tenants are national and regional operators, so not really that impacted. The other piece of it is, there is really only a couple of individual properties were impacted. We probably will lose, maybe three of those tenants who are not going to be able to reopen. The vast majority are back open today and operating. We expect Randall's and CVS and that center to be back open by Thanksgiving. And so we really haven't seen that. We've had a few people talking about a little bit of delay, but it has not been material in any way.

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Chris R. Lucas
*Analyst, Capital One Securities, Inc.*

Q

Okay. And then on the disposition side, can you maybe give us some context as to the characteristics of the assets that you're looking to put or you have put on the market? And then maybe some color as to sort of what the bidding – the depth of their pool looks like at this point and whether that's really been – has that changed in the last six months.

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Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*
A

Good morning, Chris, it's Drew. I would say we look at a number of things. We are very focused on our supermarket exposure, so it is something that – when we look at some of our non-supermarkets, that's something that we look at very closely. We've talked before and it's pretty clear, I hope in our road show, about the target markets and that over time, we would exit a lot of the non-target markets. So that's another big factor. Sometimes, you get into the size of projects that some of the older centers are just smaller and not a good focal point. So there's a lot of different things that we screen for.

As we've commented and as you see in our guidance, we're pretty comfortable that we can be successful and get things done. The depth of bidders probably is a little bit lower than it was a couple of years ago, but in most cases, there is still good interest and we're able to work through things. We are fortunate that we're working on enough things that when we have unreasonable requests in terms of retrades, we just say no. So again, a lot of it's very tactical, very opportunistic. And consequently, some range in our guidance, but it is something that we're going to try to do the right long-term thing and continue to strengthen our already strong transformed portfolio.

Chris R. Lucas
*Analyst, Capital One Securities, Inc.*
Q

Okay. Great. And then just on the proceeds from the dispositions, recognizing that you do have obviously taxable income issues that you have to deal with, but just curious as to, in terms of not just avoiding paying any sort of corporate level tax on gains, where do you think about that other capital as it relates to stock buybacks or prefunding your development costs?

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*
A

So, as Steve mentioned, we may have a special dividend and as I said before, the exact size of that is hard to say. Special – or stock buybacks is something that we would continue to think about, talk about and what we felt was the proper discount to NAV, something that we think about. But I think that's really a discussion for another day. Again, at this moment, the signal we seem to be getting from the market is it makes sense to do more dispositions than not and that's what we're doing.

Chris R. Lucas
*Analyst, Capital One Securities, Inc.*
Q

Great. Thank you. Appreciate the time.

**Operator**: From SunTrust, we have a follow-up from Ki Bin Kim. Please go ahead.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Thanks. Do you have a sense of what you think market rent growth is happening in your markets for your portfolio? So I don't mean lease spreads, I mean just overall market rent growth.

Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors*
A

Ki Bin, I think it's going to vary from market to market. I have been very, very pleased with the overall rent growth and the rent spreads that we've been able to generate. That would be a difficult question for me to really give you a specific answer to – relative to San Francisco, to Houston, to Miami. I don't think there's been a great change in my expectations over the last 12 months.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.* Q

And what were those expectations?

Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors* A

I think rent growth is going to be around 3%.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.* Q

Okay. And for what percent of your tenants do you get sales data and if there is any direction towards those data points?

Stephen C. Richter
*Chief Financial Officer & Executive Vice President, Weingarten Realty Investors* A

Yeah, we – it's not as many as it used to be. We generally get sales from the supermarkets and from the department stores, the discount guys. And I would say that again that is relatively mixed in Houston, most of that has been growing in most parts of the country, it's been growing. It's – in some, it's been lower, but also that is very dependent on the individual retailer, I think, more than an area, a location.

Ki Bin Kim
*Analyst, SunTrust Robinson Humphrey, Inc.* Q

Okay. Thank you.

**Operator**: [Operator Instructions] It looks like no further questions. Drew, I'll turn it back to you for closing remarks.

Andrew M. Alexander
*President & Chief Executive Officer, Weingarten Realty Investors*

Thank you, Brandon. Well, we'll see many of you at NAREIT coming up in a couple of weeks and we look very much forward to that. We're around if there's any other questions and thanks so much for your interest in Weingarten. Everybody, have a great day.

**Operator**: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.