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Weingarten Realty Investors (WRI)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Weingarten Realty First Quarter 2018 Earnings Call, April 25, 2018. 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 conduct a question-and-answer session [Operator Instructions] . 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 first quarter 2018 conference call. Joining me today is Drew Alexander, President and CEO; 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 call, management may make reference to certain non-GAAP financial measures such as funds from operations or FFO, both core and NAREIT, which we believe helped 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.

Andrew M. Alexander

President, Chief Executive Officer & Trust Manager, Weingarten Realty Investors

Thank you, Michelle, and thanks to all of you for joining us. I'm pleased to announce another good quarter. While the retailer environment remains challenging, our portfolio performance shows that quality real estate prevails. This is especially true for neighborhood and community shopping centers with grocery components and merchants selling basic goods and services.

Further, with the dramatic improvements we've made to our portfolio over the last seven years, our tenant quality and location strength are significantly better. Coupled with that, our balance sheet is stronger than ever. So, there may be challenges ahead but WRI is well-positioned for future opportunities.

As communicated, our disposition program has been highly successful. Thus far, we've sold $268 million of property in 2018. Pricing seems to be holding for the most part of what we have in the market. We're selling property that ranks in the bottom [ph] of our (00:02:35) portfolio and feel that disposing of these assets when our stock is selling at such a significant discount to our net asset value is the right thing to do.

With these disposition proceeds, we have the ability to fund our new development and redevelopment projects, pursue quality acquisitions, and repurchase debt or common shares. Basically, we are positioned to take advantage of whatever opportunities present themselves going forward while maintaining our strong balance sheet. While dispositions impact FFO in the short-term, we believe it's the best long-term strategy for our shareholders.

With respect to our new development and redevelopment activities, West Alex, Centro Arlington, and The Whittaker are on track, and we expect to break ground this summer on The Driscoll, our 30-story high-rise apartment project at our prominent River Oaks Shopping Center here in Houston. Our redevelopment program is robust and continues to produce very strong risk-adjusted results generally over 10%. As an example, we just started construction on a 9,000-square foot building on a pad we purchased from Target at Roswell Corners in Atlanta. Most of the building is committed and we already hit secured entitlements at the time we acquired the land.

As to future new developments, we continue to work on projects but are being very cautious with our risk profile. We have many other redevelopment projects in the pipeline that will provide excellent returns on the invested capital, and we continue to work those with great focus. A solid quarter.

Steve, the financials.

Stephen C. Richter

Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

Thanks, Drew. Good morning, everyone. Before I get into the specifics of our results, I wanted to point out that effective this quarter, we adopted the new GAAP revenue recognition standard which resulted in the reclass of about $1.1 million of revenue in the first quarter from parking, licensing, and occupancy agreements out of minimum rentals into other revenue under the [ph] caption (00:04:34) customer contact revenue. This is a purely reclass and does not change the total revenues reporting. The standard was adopted prospectively, so we did not restate the prior year amounts. The details of this reclassification by account are included on page 45 of the supplemental and the impact on various same property NOI components by line item is noted on page 30.

Now, on to the quarter which I am pleased to report was very solid. Core FFO for the quarter ended March 31, 2018 was $0.57 per share compared to $0.61 per share for the same quarter of the prior year. Core FFO for 2018 benefited from increased occupancy, increased rental rates, and incremental income from our new developments and redevelopments.

Additionally, interest expense was lower due to the reduction of debt outstanding with disposition proceeds from 2017 and 2018. However, these increases were more than offset by a reduced operating income from the same dispositions in both years. Dispositions reduced FFO by $0.04 per share for the quarter. A reconciliation of net income to core FFO is included in our press release.

Our balance sheet is stronger than ever. We paid off our $200 million term loan in two $100 million tranches, the second of which closed on April 3 just after quarter end. Year to date, we have also repurchased $14.3 million of unsecured bonds and $13.9 million of common shares at an average price of $27.17 per share. At quarter end, net debt to EBITDAre was a strong 5.1 times and debt to total market capitalization was 34.6% supported by a well-laddered maturity schedule that has no significant maturities until 2022. Our great liquidity and strong credit metrics provide significant flexibility to pursue opportunities that arise.

As to earnings guidance, we are increasing NAREIT FFO to a range of $2.29 to $2.35 per share and reaffirm core FFO for the year along with supporting details as previously provided. All the details of our guidance are included on page 10 of our supplemental.

Johnny?

Johnny L. Hendrix

Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

Thanks, Steve. We're proud our associates and our high quality portfolio primarily located in major metropolitan markets continue to produce strong results. Occupancy increased to 94.8% from 93.7% a year ago. Shop occupancy is at 90.4% and our spaces over 10,000 square feet are 97.5% occupied.

Same property NOI was up 2% and has built-in growth over the next several quarters through the commencement of over 500,000 square feet of signed leases. Leasing production remains strong with 75 new leases signed for $5.3 million in annual base minimum rent. In addition, our redevelopment program continues to grow and produce very good risk-adjusted returns.

Today, almost 80% of our annual base rent is generated from shopping centers with a supermarket component. Those supermarkets produce average sales of $637 per square foot. We're confident these strong supermarket-anchored shopping centers will continue to be in great demand from retail and service tenants.

We have a little better clarity on a couple of our bankrupt tenants. First, Toys "R" Us has announced they're liquidating and will be closing the four locations they have with us. They'll be conducting liquidation sales over the next several weeks so those stores will close sometime in June. We feel very good about the prospects of releasing all the spaces and I think we'll profit long-term from the closings. Significantly, after quarter end, we purchased the leasehold estate from Toys at Palms at Town & Country in Miami. The Toys building sits on a freestanding 3-acre pad fronting Kendall Drive. Over the next several months, we'll be evaluating several options ranging from selling the parcel for multi-family and/or office to reusing the existing building for retail use.

Since our last call, Southeastern Foods or Winn-Dixie has filed Chapter 11. They've told us they'll be terminating one of the three leases we have with them. That location, Embassy Lakes, will close in the next couple of weeks. We are in discussions with a few grocers to replace the Winn-Dixie at this location so expect to have the rent back online relatively quickly.

Finally, we only had one Charming Charlie's location, and they've affirmed that lease so we will not see any downtime there. The bulk of the lost rent from these bankruptcies was built into our guidance and will absorb the rest within our business plan. As the Toys and Winn-Dixie close, occupancy will drop a little but, again, we feel good that these spaces will be released quickly.

Overall, fallout has been lighter than we anticipated and we're cautiously optimistic about the balance of the year. As I mentioned earlier, we expect to commence over 500,000 square feet of leases throughout the rest of the year. These commencements should add to same property NOI through the balance of 2018 and we believe will result in annual same property NOI growth for the year within our guidance range of 2.5% to 3.5%.

Rent growth slowed to 5.8%. This is based upon a relatively small population of 47 comparable new leases. While leverage continues to shift towards tenants, our results this quarter reflects some amount of short-term sacrifice in order to position ourselves for the long-term. We're executing some shorter term renewals and canceling options which, in some cases, helps position us for redevelopment opportunities.

The leasing team is preparing for ICSC RECon meetings in May and we're excited about the demand for meetings and the interest in our centers from retailers. These retailers include discount clothing, banks, quick service restaurants, full service restaurants, shoe stores, supermarkets, pet stores, home furnishing stores, wine stores, fitness facilities, and many more. And the company continues to pursue great assets in our target markets and currently have a couple of interesting opportunities we're pursuing.

We're seeing supermarket-anchored properties with strong demographics and good growth selling for cap rates in the 4.5% to 5.5% range. These assets are attracting a strong list of bidders and lots of interest.

Assets in secondary and tertiary markets are trading in a wider range and they likely will transact in a cap rate range of 6% to 8%. So, again, it was a solid quarter and we believe the company is prepared to produce solid results as we move forward. Drew?

Andrew M. Alexander

President, Chief Executive Officer & Trust Manager, Weingarten Realty Investors

Thanks, Johnny. This has been a good start to 2018. Our job is to position the company to maximize the long-term value for our shareholders and we remain focused on that goal. REIT valuations [ph] face to (00:12:35) headwinds in 2018, especially retail rates.

Today, there is a clear disconnect between the value of good quality, supermarket-anchored neighborhood and community centers in the private market versus the value of the public retail REIT. This, combined with the constant changes in the retail world, causes us to adapt our strategy.

The management team at WRI has been through many real estate and economic cycles and has experienced dramatic changes in the retail world. This cycle, like all the others, is different and we will respond accordingly with our eye on that long-term value creation goal.

Over the last several years, we've totally transformed our portfolio and significantly delevered and strengthened our balance sheet. We positioned WRI to not only handle the current headwinds but to take advantage of the opportunities that will come out of such a turbulent market. 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.

With that, operator, we'd be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thanks, Drew. We will 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

Hey, guys. Good morning. Just wanted to follow-up on the dispositions in Q1. you had an average cap rate in there of 7.3% but there was also a new footnote that it's based on underwritten estimates and sort of current returns. Just given that the underwritten amount presumably accounts for some vacancies through the year, I'm wondering if you could give us a sense for what those cap rates are based on current [ph] in place (00:14:29) NOI especially since that's effectively what we're modeling for.

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

A

Good morning, Christy. It doesn't really move it that much. I think the middle-7s is still a good number. We just had a couple of unique circumstances where we sold one of the Toys "R" Uses that we knew was going out. We also had some leases, some rather large leases that were signed but not commenced so there were things moving both ways. So, we thought the – it's actually the practice that we've been using for years is that we sort of look at it and come up with a reasonable estimate of what's current but especially with this environment, Toys "R" Us being the main example, it's hard to say definitively what it is when there are certain known things moving both ways rather soon in the underwriting. So, it's really an attempt to enhance the disclosure. It's not really a change and the middle-7s is a pretty good estimate for modeling.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay. So, if we're looking at sort of Q4 unaffected NOI, then if we look at the mid-7s, that's a pretty good representation of the NOI that's going away?

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

A

Yes.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then, just given where you're at today, at the low end of the disposition range, can you tell us what you have under contract today? Just give us a sense for how the volumes could trend through the next few quarters given presumably greater visibility a couple of months later.

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

A

So, I'd really rather not get into specifically what's under contract. I am prepared to say that we're working on a lot of different things. We are in a good position to sell a lot this year. We obviously did not see a need to change guidance at this time as mentioned and as a lot has been said, there's a lot going on with cap rates and interest rates.

So, while we are working on a lot and we do think it makes sense to sell when we can do good sales with the stock at this discount, having so much in the market gives us a tremendous amount flexibility. As you know, we don't have to sell things. So, we'll continue to be opportunistic and we'll certainly update folks as things move along but things aren't done until they're done and we'll continue to be flexible and opportunistic.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay and I apologize, just a really quick follow-up on that. You mentioned sort of the trend in interest rates and cap rates. Are you seeing actually any impact on cap rates today in terms of where you're negotiating from what's happening with interest rates?

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

A

As I mentioned in my prepared remarks, we really haven't seen it yet. We appreciate, we talked about it a lot it at [indiscernible] (00:17:19) conference a month or so ago. We certainly read all the same reports that there's a lot coming to market and one has to think that does affect things over time. So, we haven't seen it yet. And as I said, we're in a position that we don't have to sell anything and we'll continue to be flexible and opportunistic.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks so much. Thanks for the time.

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

A

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. Thank you. I'd like to stay on the dispositions. We're in a multiple year of asset dispositions for Weingarten and I just wondered if your criteria has changed, particularly given the events of the last couple of years in terms of what you are getting rid of. You talked about obviously improving the location of your assets and the tenancies. But what are the things you're looking at in selling in 2018 that might have been different from, say, 2014?

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

A

Good morning, Craig. I would say we look at a lot of things differently; the changing nature of the retail world, the focus on different measures of tenant quality. So, we certainly worked over years to hone the map. As you and I have talked for a lot of years, while we think we have some wonderful independent supermarkets, it's clear to us that those are worth more in the private markets than the public markets can understand. So, there are lots and lots of things that go into that and as I tried to say in my prepared remarks, I think it's our responsibility to adjust our strategy based upon changing retailer and retail conditions.

And then the biggest that I would say is with the stock at a discount to NAV, it just seems to us to make sense to sell, especially since we're mostly selling out of the bottom of the portfolio when we can. We've always been much more focused on the quality of the particular real estate and maybe not as focused to whether it might be classified by some as a power center. As you know, most of the so-called power centers that we have are supermarket-anchored and we're comfortable with them. But, again, in a lot of cases, those can be perceived better in the market and we can take advantage of selling something very, very close to our internal NAV while the stock is at a big discount. And that just has to – we just feel so strongly that it has to be the right thing. And as I said, we're working on a lot of different things and it gives us the flexibility to pick and choose what we want to do.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch
Q

Okay. And maybe as a follow-up, do you have a preference for the size of your shopping centers or at this point, do you remain sort of agnostic on how big or whatever the total GLA is?

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

I don't think we have a significant preference. As I said, we love the supermarket-anchored power center or the larger community center that does have a supermarket and some other centers. As you and I have talked before, if you just have a supermarket and some shop space, it can be rather labor-intensive and it's hard to move things. So, as a big company, it's nice to have a little bit bigger center being that 250,000-square foot range. Obviously, you have to be sensitive to who the tenants are and I think we've done a good job over the years with our watch list and shedding some of the at risk tenants.

So, I would say we have a slight preference for larger centers and certainly a center – a preference for clustering our centers in markets where we can be both cost-effective and know the market and be something of a leader in that market with our strong leasing and property management platforms.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch
Q

Great. Thank you.

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

Thank you.

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

Greg McGinniss
Analyst, UBS Securities LLC
Q

Good morning. This is Greg McGinniss on with Nick. Based on dispositions so far this year, do you have an idea for the potential minimum size of a special dividend you're going to be paying?

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

Greg, good morning. We really don't at this point. It depends on so many different things in terms of the mix and the basis of things, some things we [ph] 10/31d (00:21:46) into. So, it's really, really, really complicated. But I think, Steve, as we've communicated to folks, they're very, very, very likely will be some amount of a special dividend and that's something we're very cognizant of in our cash planning needs and are keeping our balance sheets strong, but we haven't gotten into putting any numbers around that.

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

Yeah. The only thing I would add is not only the volume that we dispose of, it's the specific assets and individually how much gain is driven by those and so it's too early in the year to really tell.

Greg McGinniss
Analyst, UBS Securities LLC
Q

Okay. Thanks. Then on the development side, there's another pushback with Sunset Point. Just curious what's causing delay here. And then, is this the third pushback in two quarters, is this changing your development assumptions going forward?

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

Hey, Greg. This is Johnny and actually, we've been thrilled with Sunset 19. It's been a really exciting new development and I think the positive news here is we've been able to expand the scope of the project and improve things as we've gone along. We initially started by relocating Bed Bath & Beyond and then we signed new leases with Cost Plus, Five Below, Kirkland's, Carter's, DSW, Hobby Lobby, and then finally this quarter, Sprouts.

And as we've added new tenants like Sprouts, we've adjusted the completion dates and some of the investment totals. We probably could have done it in phases, but that seemed to be more confusing than anything, so, again, we see this as very, very positive and as we've added some tenants and scope changes, we made some changes to the numbers we've reported to you guys.

Greg McGinniss
Analyst, UBS Securities LLC
Q

Okay. Thanks. And just one quick final one here. On guidance, G&A seem pretty low versus full year expectations. Does guidance on G&A and net interest expense from last quarter still apply or are there any one-time impacts in there?

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

Good morning, Greg. This is Steve. We did have a relatively large adjustment in G&A in the first quarter. It came out of the calculation of equity-based compensation expense for last year. But we adjusted it in Q1 because those shares were issued in Q1, and it all results from the significant price decrease that we've experienced over the last several months. So, that was in Q1. I think if you look going forward, we're probably still on the $18 million, $19 million range for G&A for the balance of the year.

Greg McGinniss
Analyst, UBS Securities LLC
Q

Okay. Great. Thank you.

Operator: From Jefferies, we have George Hoglund. Please go ahead.

George Andrew Hoglund
Analyst, Jefferies LLC

Q

Hey. Good morning. Just one question in terms of the buybacks. Sort of how are you looking at buying back equity versus debt at this point?

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

A

Hey, George. Drew. Good morning. And I'll let Steve amplify this. As mentioned, we look at a lot of different things. The main thing that we want to do is think about the long-term. And obviously, we're not in the position to trade. We don't know the ins and outs of what the stock's going to do on any given day or what interest rates are going to do. So, we're looking at a variety of different things.

Johnny mentioned we also have some exciting acquisition opportunities that we're pursuing. It's early but we are very much looking at good quality things there. Don't see a whole lot of brand-new new developments, but we do have a lot of activity in our redevelopment pipeline. So, we will certainly look at some debt buybacks, but we're also very sensitive to where rates are and most of the nearer term stuff we've handled with the payoff of the term loan. And then to the extent that the stock looks attractive and the discounts to NAV and everything is accounted for in terms of factoring in a special dividend, we can certainly consider some stock buybacks as was reported we did both last quarter and earlier this year. So, the strength of our balance sheet, the amount of dispositions that we have working, give us a lot of flexibility in pursuing all the various opportunities that will maximize the long-term value.

Steve, anything to add?

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

A

No, the only thing that I would add on the debt side, obviously, is that if you look at our maturity schedule, given that we'd paid off the term loan, there's nothing left out there other than our unsecured bonds that trade in. Fortunately or unfortunately, they don't trade that much so there's not a lot of opportunity to buy a whole lot there. But we will continue to look at that from time to time and look at that as a possibility as well. At this point, we do not have in the plan to tender for anything. So, I think, again, as Drew mentioned, it's more of an opportunistic approach.

George Andrew Hoglund
Analyst, Jefferies LLC

Q

And as far as the debt, are you targeting any sort of certain discount to par that you're willing to buy it at or kind of how are you evaluating that?

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

A

I would say we are more focused on the shorter maturity than the longer paper. And I would also acknowledge that we'd look at the yield to WRI but a lot of that paper, given where rates are, is not trading significantly away from that. So, again, looking at what the yield to us is and where we are is part of the analysis.

George Andrew Hoglund
Analyst, Jefferies LLC

Q

All right. Thanks, guys.

Operator: From Baird, we have RJ Milligan. Please go ahead.

RJ Milligan
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Good morning, everybody. Just curious to follow-up on George's question on those stock buybacks. What leverage level or how much are you willing to buy back before you become to a point on a debt to EBITDA basis where you're no longer comfortable?

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

A

Good morning, RJ. So, I think I'll start out here, and then Steve can amplify. As I said, I think we're going to be very cautious in the amount we buy back and cognizant of how much dispositions we've actually done as opposed to just have working because as I said before, we will be opportunistic. We don't have to do anything so if somebody re-trades us for other than the most justifiable reasons, we're more than likely going to tell them no and deal with the fact that that means it takes us another six months to remarket the asset because, again, we don't have to sell anything.

So, we're going to be very sensitive to the balance sheet and protecting it and very much move moderately and cautiously with the long-term view in mind. I would say and see if you can amplify, we are cognizant of the fact that we've got a couple of new developments in the large River Oaks redevelopment that we'll have to lay money out for and it'll basically be 2021 before we have that cash flow on. So, we are aware of that and would certainly factor that unique event into our pipeline. Steve, any other thoughts?

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

A

Yeah. The only thing that I would mention is whatever it – we're approaching this on a leverage neutral kind of basis. Now, that doesn't mean that I'm going to always be at a 5.1 times net debt to EBITDA kind of number. We have a little flexibility and that's obviously a very conservative number but we want to keep some dry powder.

The other only comment that I'd make is that when one looks at it, you also have to be associated that we have that obligation to pay that special dividend. So, depending -- and that can be, as we know last year, it was $100 million, so it's something that we also have to reserve that far.

RJ Milligan
Analyst, Robert W. Baird & Co., Inc.

Q

That's helpful. So, would it be fair to assume that if you exceeded your full year guidance for dispositions that we could see a greater than expected activity on the buyback side?

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

Yeah. I would say, yes. Again, as Steve said, we have to account or reserve or keep in mind the special dividend. We want to do it leverage neutral, depends what acquisition opportunities, redevelopment opportunities we see. But as I said, if the deals are done, then we'll pursue some amount of special dividend. But if the deals were done and we were done over the range, then yes, we would look more aggressively at it.

RJ Milligan
Analyst, Robert W. Baird & Co., Inc.
Q

That's helpful. And I have a question to clarify on some of your opening comments about the leasing spreads. You mentioned that you had signed a few shorter term lease renewals but new lease spreads were also down in the quarter, and I'm just curious what was driving that.

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

Hey. Good morning, RJ. This is Johnny. It's always interesting to me how you have one or two leases kind of move things. When we look at the renewal rent growth for the leases that we had, they were overwhelmingly positive. Only eight of the169 renewals were negative. And if we took out three leases for the renewal rent growth, the rent growth would have been 7%, so more in line with the 9% that we had in 2018.

And when you look at the new leases, it's really a small subset with only 47 new leases. So, one can really move the number and really, as a good example, we did re-lease a space in the first quarter that had been vacant for more than two years. So, in keeping with our criteria, we excluded that particular lease. If we had included it, the overall new lease rent growth would have been around 15%. So, you can see that it would be a tremendous move just with one lease. I think, overall, the rent growth is going to be better as we go forward through the rest of the year. It's very difficult to really project because we don't really know what the exact mix of the spaces will be.

RJ Milligan
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. That's helpful. Thank you, guys.

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

Thank you.

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

Jeffrey J. Donnelly
Analyst, Wells Fargo Securities LLC
Q

Hello. Good morning, guys. I think you mentioned in the prepared remarks that cap rates in secondary markets are in the range of -- I think you said 6% to 8%. Frankly, it feels like a lot of the REITs are selling their non-core assets kind of in the range of 7.5% to 8.5% and those are from portfolios that have arguably or even, I guess, called repeatedly. So, I guess I'm curious what kind of -- in your view, drives an asset from one end of that cap rate range to the other? Is it market, is it sort of deal size, is it anchor profile? It's a wide range, admittedly, and I think there's a lot of uncertainty in the market. And I think any kind of clarity you could give would be great.

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

A

Thank you, Jeff. Good morning. It's Drew. Yeah. I think you touched on a lot of the different things. There's many, many things that go into the pricing, as you mentioned in your question, and you hit on the vast majority of them. So, it's been widely reported and I think generally accurate that larger deals have fewer folks. A lot of that is as simple as lenders and you can certainly appreciate given that in the name of your business card how lenders look at things. So, that's a major part.

So, if you've got a supermarket-anchored center and the supermarket does great and there's a lot of term left on the lease and it's good credit, that's totally different situation than if you got a lot of tenants on everybody's watch list who have short-terms. The replacement, there's just lots and lots of things that go into that.

As Johnny mentioned in the prepared, generally speaking, we can see 6% to 8%. But as I think we've been clear, we are targeting and I think a good number to use for everybody's model is that middle 7s and that will move around quarter-to-quarter, especially with some outlying things. But I think over the course of the year is a good number.

And then in terms of what we sell, we can be selective. We've got a lot working and we certainly don't plan to sell everything we work on. So, it's a – we analyze it every quarter. We report to the board on what we sold relative to what we thought. And generally speaking, we come pretty close but there's always some ups and there's always some downs, so.

Jeffrey J. Donnelly
Analyst, Wells Fargo Securities LLC

Q

Drew, where do you think that cut off is on a deal size basis where you kind of move from maybe a sweet spot to maybe one that's more difficult? Is sort of $25 million an easy transaction and $100 million is hard? I guess where do you kind of draw that line?

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

A

So, I don't think it's we who draw the line versus the lenders who draw the line. But one sees a lot written about $50 million and it's, of course, not a hard line at a $49 million deal and a $51 million – a $49 million deal is easy, a $51 million deal is hard. It's not that bright a line. But directionally, yeah, around $50 million. You're looking at a $25 million, $30 million equity check that limits the number of people. You pretty definitionally are getting into a pretty sophisticated person who has $25 million of equity to put into the real estate deal. So, you're dealing with bright, sophisticated folks who have access to lots of data as you get to around $50 million.

Jeffrey J. Donnelly
Analyst, Wells Fargo Securities LLC

Q

And just one last question. You had mentioned in your remarks maybe looking admittedly cautiously, you had dwelt on opportunities. What are you guys seeing in land pricing? Bacause I would just think that the uncertainty around stabilized asset prices and maybe widening of cap rates would have had a really sharp negative impact on land prices, particularly zone for retail. Have you seen a sell-off in prices there or has that really not occurred?

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

A

No, we have not seen it which, hopefully, I was clear that when I said we are looking at a few new development opportunities, I would underline few and I would underline what I said about our risk profile such that I don't see us doing a lot of new new development. Redevelopments, things like the pad we bought from Target, other things that we're working on adjacent to shopping centers where we can buy things, we are looking at.

In most metropolitan areas, zoning can be changed. It's a function of time. So, again, given where retailers are and their willingness and how often they're willing to pay the rents that command new construction, one hasn't seen the drop in land prices. People are just more pulled off the market and are waiting or pursuing zoning changes and looking at other things. So, I do think it's one of the things that will make the existing portfolio stronger is there's not a lot of new retail space being built, which is helpful given all the change going on in the retail world.

Jeffrey J. Donnelly
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks, guys.

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

A

Thank you.

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

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Hi. My questions were answered on the leasing stuff. Well, actually thinking about dispositions for a second, any thoughts on 2019 at this point in terms of do you anticipate something that's more normalized in terms of disposition levels or is there a shot you could still keep up at this elevated level?

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

A

Good morning, Mike. Yeah, it's really hard to forecast. As I've said, we're going to be opportunistic and we don't have any pressure for what we do the rest of 2018. I just really, really believe that if we can sell properties at NAV when the stock is at a big discount to NAV that that's the right thing to do.

So, it's hard to forecast exactly how that plays out in 2018. Therefore, I think it pretty well follows. It's really hard to say how it plays out in 2019 in terms of the mood on retail stock price, interest rates, et cetera, et cetera. So, again, we don't have to sell any property. As Steve said, we don't really have any debt maturities to speak of and that's only $300 million even until 2020 so...

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

A

2022.

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

A

2022. So, 2022, sorry. So, we are in a great position to take advantage of opportunities and take us a good situation and make it even better. So, forecasting 2018 has so many variables, chief among them were the stock prices. It'd be really hard to forecast that.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Okay. Thank you.

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

Thank you.

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

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

Thanks. Just a more broader question on development. When – you're developing your major projects at about a 5.5% yield. At this point, do you feel like that is enough of a buffer versus what the exit cap rate could be on those deals, especially given the environment we're in today?

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

Ki Bin, it all depends on the project. The nice thing about the bigger projects that we have underway in the Northern Virginia area is they're incredibly good locations where the entitlement process is eight years on one of them and I think close to that on the other. The good news, bad news is there's a lot of residential in both of those things as people know. So, the cap rates on those, the exit cap rates on those, are much lower, tend to stay lower longer because rents can move. So, I think we're comfortable with that.

But as we've also talked, we don't see adding a whole lot more to that in part because we don't want to increase our residential exposure. And in part because the basic answer to your question is it is concerning what interest rates construction costs might do over the time it makes to build these. So, we're very comfortable with the two existing assets in Virginia and with River Oaks here in Houston. But we'll be very, very, very selective on adding anything new into the new development pipeline.

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

And for the projects that have an apartment component to it, approximately what percent of the value of the project is tied to apartments versus retail or other?

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

It's about two-thirds.

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

Okay. And another broad question. Obviously, T.J. Maxx is one of your top tenants and discount retails are obviously doing well. But isn't there a point where the market does get saturated, like how many more T.J. Maxxes do you need in a city where you have Rosses or Old Navies? How far do you think you're away from that kind of saturation point?

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

A

So, I think I'll start here and then turn it over to Johnny. I think we've got huge runway. They continue to evolve new concepts, adding their home goods. Ross has their [ph] D.D.s. (00:42:14) Johnny talked about RECon and we look forward to that. And as you can imagine, with those tenants in particular, not only do we meet at RECon, we meet before leading up to it, organize things. They're obviously public companies. You [ph] can look at their (00:42:30) open to buy but they and the other Treasure Hunt apparel folks have an excellent niche in this world.

Johnny, [ph] any more thoughts? (00:42:40)

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

A

Hey. Good morning, Ki Bin. Yeah, we really like T.J. Maxx. You may have noticed that they are, today, our top tenant. And one of the things that I really wanted to emphasize is that our tenant roster is incredibly diversified and we don't have a single tenant that's more than 2.5% of our annual base rent and the top 25 tenants is only 28%. So, we really don't have a lot of exposure to any single tenant. But, again, I agree with Drew. We still have a lot of runway with T.J. Maxx, Ross and some of the discount clothing guys.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. Thank you, guys.

Operator: From Capital One Securities, we have Chris Lucas. Please go ahead.

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

Q

Hey. Good morning, everybody. Hey, Johnny, I just wanted to follow-up on a comment you made during your presentation about the lighter than expected fallout year-to-date. I was just curious as to say maybe how that would have compared to last year and/or 2016.

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

A

Good morning, Chris. It actually compares pretty favorably. As we went through with the board, kind of went through the list of things, [ph] tends (00:43:54) falling out in the amounts, it was a little bit less, and certainly less than we had initially budgeted. So, when you look at some tenants who are as well-known haven't fallen out and overall, we're very, very pleased with where we are.

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

Q

And I guess just a follow-up to that on as it relates to sort of where your watch list is and you obviously know where Toys is headed, but as things have evolved, how has the watch list evolved? Are there new names showing up or is it fairly stable at this point?

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

Chris, there are a few new names and you guys are probably familiar with some of them and so we're intently watching these tenants who generally have gotten overlevered, been bought by private equity and it seems to be a fairly familiar theme there.

The other thing in terms of the watch list that I wanted to add is Winn-Dixie at Southeastern Foods. In the long run, this is going to be a very positive event for us. They're in South Florida. High demand for space there. They were only paying $7 a square foot for the next 27 years.

So, it's going to be a little bit of a short-term pay in there, but on a long-term basis, it will be very positive for the company.

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

Hey, Chris. It's Drew. I feel compelled to say I kid Johnny all the time that we watch all the tenants. So, it is something that I think the key point is, the Johnny made just a melon or two ago about the diversification of our tenant base which is not -- it's not an accident. We do pay close attention to all the tenants and the years that we've been together, the cycles that this management and this company had been through, we appreciate that all things can change. And I think the point Johnny made about diversification, that's the key point.

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

And I guess my last question, Drew, is on the buyer pool that you're seeing is as it relates to the assets. Have you see any changes to that? Were you hearing more anecdotal evidence of what I would call sort of the smart money looking around right now? Are you seeing that or has the pool continued to be sort of more the one-off local guy?

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

So, your intel is the same as ours that I would say at this moment, the pools are fine. You can see what we've sold and what we expect to sell as evidence of that. They are not the feeding frenzy that it was years ago. But as long as you have several people competing, things are fine. But yeah, we've heard the same things that some of the so-called smart money big houses are starting to sniff the opportunity, recognizing how things have changed and starting to line things up there. And as you implied in your question, if that were to happen, that could be usually is transformative.

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

That's all I have. Thank you.

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

Thank you.

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

A

Thanks, Chris.

Operator: [Operator Instructions] And from Green Street Advisors, we have Vince Tibone. Please go ahead.

Vince Tibone
Analyst, Green Street Advisors

Q

Good morning. One more for you guys on development. Can you discuss the change in return expectations for the mixed use projects? It appears that the combined ROI for the three largest projects dropped by about 30 bps from the last quarter. I just want to make sure I'm looking at that the right way.

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

A

Hey, Vince. Drew. Good morning. Some of that is just that we moved River Oaks into the larger redevelopment group. And as you know -- as we talked about, that's a large apartment project which are developed and sell at lower cap rates. So, it's not really a change. It's just the moving of River Oaks at a conservative lower end of the range is what's driving it.

Vince Tibone
Analyst, Green Street Advisors

Q

Okay, [indiscernible] (00:48:07) my question. So I say like the 7.5% previous high end at River Oaks, probably unobtainable at this point or a little rosy, it's probably be closer to that high 5%, low 6% yield to the River Oaks development?

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

A

Exactly. Exactly right.

Vince Tibone
Analyst, Green Street Advisors

Q

Okay. Thank you. That's helpful. And then one more, can you expand on your earlier comments on things like selectively trying to cancel retailer lease options and replacing with the renewal? Just want to better understand how that tees up a redevelopment opportunity if the tenants remaining in the space and how that kind of negotiation goes with at retailer getting them to give up any options.

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

A

Yeah. Vince, this is Johnny. Good morning. In the specific cases that we were referring to, we had tenants who had options that lasted maybe more than 20 years in five-year increments. And generally, they may have to give us 180 to 230 days notice of the option. It's almost impossible for me to go out and negotiate with another tenant to redevelop the shopping center and say that I'm going to put them into place of that existing retailer when we just really don't know. So, if I have a finite period and I know that their lease ends on January 1, 2018, I have a lot better chance to be able to convince another tenant to come in and help me with the redevelopment of that shopping center. So, the idea that options are going away is very helpful for me as the landlord.

Vince Tibone
Analyst, Green Street Advisors

Q

And that makes sense. Like is this a negotiation you're talking about, are you changing existing leases or just more, going forward, you're really just trying to take options out of the leases?

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

A

I think its selected situations and we certainly have had some of the boxes come back to us and ask for a reduction in the rent that they have today and we're trying to accommodate them and – but at the same time, give ourselves more options and be able to do some different things down the road and that's really where that comes in. And that could be a loosening up of restrictions for out parcels, for uses, and other things. So, it's not all a cash-on-cash deal. There's a lot of other pieces to the negotiation and any time somebody wants a reduction in rent, we're going to try to get some things also.

Vince Tibone
Analyst, Green Street Advisors

Q

That's very helpful color. Thank you. That's all I have.

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

A

Thank you.

Operator: Thank you. We will now turn it back to Drew for the final remarks.

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

So, thank you, Brandon. Thank you, everybody, for your interest in Weingarten. We really appreciate it. We'll be around if there is questions. We look forward to seeing many of you at ICSC coming up and at NAREIT shortly thereafter. Thank you again so much. Have a great day.

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