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Weingarten Realty Investors (WRI)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Weingarten Realty Inc. Second Quarter 2018 Earnings Call, July 31, 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 second 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; 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 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. We continue to produce strong results, which is a testimony to the quality of our portfolio, and the resiliency of neighborhood and community shopping centers with grocers and merchants selling basic goods and services. We also benefit from the best tenant diversification in our segment which somewhat mitigates the risk of tenant failures. For instance, with Toys "R" Us, we only had four locations which is manageable, and the dramatic improvements we've made to our portfolio over the last seven years our tenant quality and location strength are quite strong.

Further, we have a great team of outstanding professionals, and I thank them sincerely for our accomplishments. As to capital allocation, we continue to follow market signals. Our disposition program has been highly successful. During the quarter, the company closed $77 million of dispositions and an additional $13 million subsequent to quarter end. Year to date, we've closed dispositions totaling $358 million and have in excess of $120 million currently under contract or LOI.

We continue to believe that disposing of assets in the bottom portion of our portfolio where we can sell at or near the property level net asset value is the right strategy when our stock is selling at a significant discount to NAV. While conditions can change rapidly, the current environment seems to favor further dispositions activity.

Accordingly, we've increased our 2018 disposition guidance to a range of $400 million to $550 million. These disposition proceeds give us the ability to fund our new development and redevelopment projects, pursue quality acquisitions, repurchase debt and common shares, and fund a reasonably large special dividend at year-end. Basically, we're positioned to take advantage of whatever opportunities present themselves going forward while maintaining our strong balance sheets. While dispositions impact FFO, we believe this is the best long-term strategy for our shareholders given the current market conditions.

Our new developments and redevelopments are progressing nicely which will provide future earnings growth. West Alex, Centro Arlington, and The Whittaker are on track. Recently, we started demolition to make way for The Driscoll at River Oaks, our 30-story high rise at our prominent River Oaks Shopping Center here in Houston. We did experience a slight delay in wrapping up some of the permits and coordinating tenant work and utilities which delayed our start a bit. Therefore, our estimated stabilization slid from the end of 2021 to the first half of 2022 as noted in the supplemental. The walkability scores for this project are outstanding and we're quite excited about transforming this asset to live, work, play.

Our redevelopment program is robust and continues to produce very strong risk-adjusted returns generally over 10%. As an example, we're beginning construction on 20,000-square-foot building on vacant land at two different Texas projects. These are both low-risk, high-return offerings.

As to future new developments, we continue to work on projects that are being very cautious with our risk profile. We have many other redevelopment projects in the pipeline that will continue to provide excellent returns on the invested capital, and we continue to work on 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. I am pleased to report another very solid quarter. Core FFO for the quarter ended June 30, 2018, was $0.57 cents per share compared to $0.61 cents per share for the same quarter of the prior year. Core FFO for 2018 benefited from increased base rents, increased expense reimbursements, and higher bad debt recoveries. 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 reduced operating income from the same dispositions in both years. Dispositions reduced FFO by $0.08 cents 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. With our disposition proceeds, we paid off our $200 million term loan in two $100 million tranches. The second of which closed early in the second quarter. We have also repurchased $600,000 of unsecured bonds and $10.4 million of common shares at an average price of $26.90 per share. Year-to-date, we have repurchased $14.3 million of bonds and $18.6 million of common shares at an average price of $27.10 per share. At quarter-end, our Net Debt to EBITDA was a strong 5.1 times, and Debt to Total Market Capitalization was 31.4% 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 Net Income per share to a range of $2.52 to $2.60 and NAREIT FFO per share to a range of $2.37 to $2.43 per share. We are reaffirming Core FFO guidance for the year. Given the strong competition for quality centers and aggressive pricing, guidance has been decreased for acquisition. And as Drew touched on earlier, we are increasing guidance for dispositions. All of 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 pleased with our performance in the second quarter and focused on continuing to deliver great results for our shareholders. Leasing velocity remained steady. Overall Rent growth was 10.2% highlighted by new lease rent with spreads over 21%. Tenant fallout was modest. We increased Occupancy from a year ago to 94.6%. Same property NOI with redevelopments was 2.7%, and our redevelopment program continues to produce very strong risk-adjusted returns.

Since the last call, the company attended RECon in Las Vegas. This is the annual meeting of the retail real estate industry. We had hundreds of meetings and overall, the mood and expansion appetite for retailers was better than expected. The industry definitely has challenges but the retail apocalypse narrative has been replaced with discussions that are more realistic.

Our transform portfolio has very desirable locations retailers want to occupy. Weingarten shopping centers are primarily and highly sought after urban markets with good incomes, strong population densities and higher than average education levels. Most of our properties are in business-friendly, low-tax states that will enjoy outsized population growth for years to come.

We continue to see good demand for our space from clothing retailers like Burlington, Ross and T.J. Maxx. Other categories expanding include craft, home furnishing, fitness, service, entertainment and specialty supermarkets like Sprouts and Lucky. I expect we will continue to maintain strong occupancy for years to come.

I want to update you on a couple of bankruptcies. First, Toys "R" Us has closed all four locations they had with us. The Argyle lease is not been rejected yet but we expect it will be soon. The four leases represent 160,000 square feet and $1.8 million in annual base minimum rent. Each of the spaces is categorized as occupied at quarter end, and there has been no impact yet for loss rent. We are negotiating with prospects for all four locations, and I think these spaces will be generating rent again in 12 to 18 months. My expectation is replacement rents for the three properties Cypress Station, Argyle, and Bunker Hill will be about the same. The lease we bought at Palms has tremendous upside. So, overall this should be a long-term positive for Weingarten.

The Southeastern Foods bankruptcy is now complete. We had two Winn-Dixie locations and Fresco y Más. Southeastern Foods has emerged from bankruptcy and affirmed leases for two locations. They sold the third to an independent supermarket, Ideal Food Basket, who is currently refurbishing the store and should open soon. As a result, we will not lose any rent or occupancy from this bankruptcy. We closely monitor the retailers on our watch lists and do not believe there is a significant risk that further bankruptcies will affect us this year.

We executed 210 new leases and renewals during the second quarter. We signed 79 new leases representing $5.4 million in base rent. This included a HomeGoods and two Burlington stores. We also leased to fitness facilities, restaurants, along with medical and other service-type tenants. We're pleased with the rent growth this quarter particularly with 21.4% new lease spreads.

It's important to remember rent growth is based off a small denominator. So, one quarter can easily be skewed by one or two leases. Year-to-date, the overall spread is around 8%, and this is consistent with our expectations for the rest of the year. Year-to-date, our Same Property NOI with redevelopment is a good 2.3%. That's in line with our projections we used for our guidance so far. We expect to finish the year inside our Same Property NOI guidance of 2.5% to 3.5%. At the same time, we want to acknowledge the margin for error built into the budget is limited, and significant negative surprises over the next five months would be impactful, and achieving the top end of the range could be challenging. We have about 580,000 square feet of space that is leased and not commenced. This represents over $13 million in annual base minimum rent. Much of that will come online over the next several months, and will be a big boost to Same Property NOI particularly in the fourth quarter.

Weingarten's redevelopment program continues to generate very good risk-adjusted returns. Excluding The Driscoll at River Oaks, we have 14 properties under redevelopment and an anticipated investment of $78 million. The incremental returns will be over 10%. Most of the projects are multi-tenant outparcel buildings. Entitlements and tenant approvals do take a lot of time, but once these projects commence construction, there is very little risk. While we did not purchase any new property during the second quarter, we continue to be very active pursuing the acquisition of great shopping centers in our target markets. We continue to see supermarket-anchored centers in coastal markets command cap rates in the range of 4.25% to 5.5%. Cap rates in other top 50 markets for great supermarket-anchored shopping centers has been in the 5% to 6% range. Power center pricing seems to have a significantly wider range and depending on tenancy are trading around 6% to 8%. We look forward to continuing to meet the challenges ahead.

Drew?

Andrew M. Alexander

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

Thanks, Johnny. Our job is to position the company to maximize the long-term value for our shareholders, and we remain focused on that goal. While the overall perception of retail real estate has improved modestly, REIT valuations continue to be depressed especially the retail REITs even after this recent slight run-up in stock prices. The disconnect between the value of good shopping centers in the private markets versus the value of the public retail lease remains causing us to continually reassess our strategy. The management team at WRI has been through many real estate cycles and has experienced the 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.

Our strong balance sheets continues to improve, and we are well positioned to fund our future capital requirements while still maintaining the dry powder necessary to react to other growth opportunities that will undoubtedly arise. 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 now be happy to take questions.

QUESTION AND ANSWER SECTION

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

Katy McConnell
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. This is Katy McConnell on for Christy. Can you talk a little more about your decision to increase net disposition guidance just based on transaction market trends you're seeing at play currently? And then directionally, what's your expectation for net transaction activity next year?

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

A

Good morning, Katy, it's Drew. As we said in our prepared remarks, and I think as we talked about in other conferences, it's really about the market signals that we see this pretty significant disconnect between the value of properties to private buyers versus where the retail REIT stocks are. And it just seems to us that the right long-term strategy is to sell if we can sell the bottom portions of the portfolio at the property level NAV.

It does, as we communicated, indicate that we will have a rather large special dividend. Other than that, it positions us very well to take advantage of future opportunities, fund our new development redevelopment properties, keep our balance sheet strong, and if the stock price were in a range, do some stock buyback. So, it's again really about the market signals, honing the map, focusing the geography, selling some of the weaker properties. So, we're still seeing cap rates generally for what we're selling in the middle 7s. And as we indicated looking at what we have in the pipeline, we thought it was appropriate to increase guidance.

As to next year, it's a little harder to say at this point. We haven't done any budgets and given that the whole strategy is around the market conditions, we don't know what market conditions are going to be like. We'll certainly continue to follow the signals but it's hard to estimate next year but estimating things my guess is 2019 will be a lower number than 2018.

Katy McConnell
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Great. Thank you.

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

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

Thanks. Good morning, everyone. So, you're on track to sell about $0.5 billion of assets. Your balance sheet is in great shape, and you certainly don't have any pressure to solve my deleveraging standpoint. So, my question is how do you balance cash flow per share growth versus optimizing NAV? And look, the long-term NAV decision should be the same answer as the cash flow decision? By the near-term closing the NAV gap by selling assets does put cash flow per share growth under some pressure in the near-term, and maybe unfairly, puts Weingarten in a slight penalty box in the mindset of some investors. So, how do you balance that tipping point?

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

Good morning, Ki Bin. It's Drew. That's an excellent question. And as you say in your question, it is a difficult thing to balance. It's something that occupied a good amount of time at our board meeting yesterday because you accurately observe there is some pressure on FFO. Hopefully, we've also been clear that the properties that we're selling trigger gains, and consequently, some of the money does go out to a special dividend. That said, as we try to address in our prepared remarks, we think real estate is a long-term business, and we think our responsibility as management is to manage for that long-term. And again, to improve the property, to de-risk assets, to sell off remote geographies, make us more efficient from a management perspective, to de-risk from tenant issues that may be problems multi-years out. While it is some short-term pain, we think it's long-term gain, and we think it's the right long-term thing to do. So, as I said before, based upon what's working, we increased guidance for 2018. We'll have to see what market conditions exist in 2019. As again, the strategy is reacting to market conditions which are ever changing.

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

Is there – and I know you mentioned that you're looking to tone down the pace of dispositions next year. Is there a point from a balance sheet standpoint where it just becomes too dilutive and your leverage goes sub-5 and it just becomes a little bit too expensive to be delevering.

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

I'm sure there is. But at this moment, we're again looking at some pretty decent discounts to NAV and the ability to sell things in the lower portion of the portfolio at NAV and it just seems the right long-term thing to do. We've funded a lot of but still have a decent amount of our new development pipeline to fund. We also have a lot of redevelopment opportunities in our pipeline that we're working on.

As well as we're very active in acquisitions across the entire footprint of the company. As Johnny said in his remarks, we do see things very, very competitive for the quality centers and the qualities that we want to buy. So, a lot of things that go into factoring the balance of short term and long term but we tend to more focus on the long term and the NAV cognizant of the short term to FFO but trying to do the right long-term thing.

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

Okay. And if I can squeeze one last one in. Just an accounting question. With the new accounting lease standards that are set to kick in 2019, have you guys formalized an estimate on your FFO or how much you have to [ph] expense (00:21:42)?

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

All right. Good morning, Ki Bin. This is Steve. We're still reviewing and working through the details of the new accounting announcement. However, at this point, we do expect that G&A will be affected by $8 million to $9 million or somewhere in the $0.06 to $0.07 range. I'd also note that WRI has an extensive in-house legal department which we believe is very efficient and cost effective that prepares and negotiates all of our leases which is the largest component of the decrease in capitalization. So, again, we're not totally finished but that's where our thinking is currently.

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

All right. That's a good point. I mean it doesn't unfairly penalize companies with scale. All right. Thank you.

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

Justin Devery
Analyst, Bank of America Merrill Lynch
Q

Hi. This is Justin Devery on for Craig. I wanted to address a topic that's come up quite a bit lately which is, how should we be thinking about higher construction costs as it pertains to current or maybe more importantly future development?

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

Sure, Justin. Good morning. It's Drew. I think it is an important distinction to make. As to current, we're in pretty good shape. We've got guaranteed max price contracts with contractors. We've bought or pre-bought a lot of the materials. So, I think as to the three big projects, River Oaks and the two in Virginia, we're in very, very good shape.

As to the broader question of the future, I think it's an excellent question. That is something that is beyond the scope of Weingarten Realty. It's much more of a national geopolitical, gets into a lot of questions about tariffs, and steel prices, and lumber, gets into labor issues, immigration policy, and lots and lots of things. But I would say it is it is definitely an issue.

There are a lot of friends in the construction business as well as the activities that we are looking at, the pricing that we're doing on, again mostly our redevelopment. But it's definitely something that we're factoring in. The nice thing is, except for the big three projects, everything we're doing is small-floater buildings, or most of what we're doing is small-floater buildings. So, if there are some construction increases, we can increase the rent as to the – development is a decent – pretty good percentage is residential in very strong markets. So, again, if there are construction price increases and there shouldn't be because most of that is locked in. We can likewise increase those rents.

So, we're very cognizant of it. And it's a very good question and a very good issue that we're wrestling with. And it's really across the whole geography. Obviously, in Houston and parts of Florida, we're still seeing a little effects of the hurricane repair. But in other strong markets from Seattle, Washington to Washington, D.C. construction prices are an issue.

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

A

Thank you. That's helpful. And one other one for me. Should we be thinking about Toys any differently than Sports Authority bankruptcy just in terms of demand for releasing space or the time it takes to get a new tenant in play?

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

A

Hey, Justin. This is Johnny. Really, all I can speak to are the four properties that we have. And I would say generally when you look at the spaces, I think there are better spaces and better shopping centers than we had with Sports Authority, and I think all but one of the leases are lower rents than we had with Sports Authority.

Construction time is probably going to be about the same. Construction costs probably up a little bit given the market today. When you factor in again Palms, it's likely that Palms will eventually turn into a larger redevelopment. So, again we have a tremendous amount of upside there. We've got many, many tenants and even different uses that are wanting to access that great property. So, again that would be quite different than anything we experienced with Sports Authority.

Justin Devery
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you, guys.

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

A

Thank you.

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

Vince Tibone
Analyst, Green Street Advisors LLC

Q

Good morning. Can you guys provide some color on expense recoveries in the quarter? That seemed to provide a pretty big tailwind to Same Property NOI growth.

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

A

Good morning, Vince. This is Steve. The same-store reimbursable is primarily driven by the improvement in occupancy over Q1. We did rebill a little bit of the Texas margin tax. And other than timing, there was really nothing unusual in there. It can move around a little bit from quarter to quarter.

Vince Tibone
Analyst, Green Street Advisors LLC

Q

So, [indiscernible] (00:27:11) for the rest of the year there will be continued year-over-year positive expense recoveries in the back half?

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

A

Yeah. I don't see anything going forward that's going to dramatically shift. Again, it's mostly driven by what occupancy looks like. We do have the difference between signing commenced is still pretty strong out there that we should have that improvement as we move through the year.

Vince Tibone
Analyst, Green Street Advisors LLC

Q

Make sense. Thank you. And then just one more for me in just a follow-up on the construction cost point, can you put a little bit more detail into what annual cost increases are included or incorporated into the current underwriting of the residential projects? Are you forecasting 3% to 5% construction cost increase as these properties stabilize or just so you know, anything you could provide to give us a little more confidence that some of these projects won't be experiencing cost overrun over the next few years?

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

A

I understand, Vince.

Vince Tibone
Analyst, Green Street Advisors LLC

Q

I'm wondering big residential side.

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

A

I understand, Vince. This is Drew. Good morning. Yes. There are some cost increases. There are some contingencies. And again, the vast majority of all the material costs are bought out so that part is locked in, and contractor all of the big three projects have guaranteed max price contract. So, between the contingencies, the contracts, and the buyout of materials, I think that we are in good shape. But as I've said in the earlier question, things are moving around and there's a lot of other questions in a broader geopolitical world.

Vince Tibone
Analyst, Green Street Advisors LLC

Q

Okay. Thank you. That's all I have.

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

A

I understand, Vince. Thank you.

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

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

Q

Good morning, everybody. I guess I just wanted to follow up back on the disposition guidance increase. I guess maybe, Steve, if you were halfway through the year, I wonder if you have any sense as to what we should be thinking about in terms of special dividend versus flexibility for either debt repayment or stock buyback based on the stuff that's closed so far this year and then what you're expecting for the back half?

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

A

Good morning, Chris. That's a very difficult question to answer from the perspective that we obviously don't know what will close between now and the balance of the year. We've signaled – we do have a liability today for what we've already closed. That's probably an excess of or is an excess of last year's special dividend. But again, what happens between now and in the balance of the year is really on an asset-by-asset basis as you probably are aware. Some locations have a lot higher gain percentage than others. So, it's very difficult to figure out exactly what that looks like going forward.

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

Q

Okay. And then as it relates to the pool that's potentially left to be sold this year, I mean, the stuff you sold in the second quarter tended to be smaller centers. There were more power centers in the first quarter. I guess, just curious as to what the mix looks like for the back half of the year potentially?

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

A

Good morning, Chris. It's Drew. The issue is that we are taking advantage of an opportunity because of this big disconnect, and we're moving forward when we get pricing that we feel is advantageous at or near NAV. So, we're always working on a lot more than we ever expect is going to happen which is part of why it's really hard to frame a special dividend.

So, broad-brush I would say there are still some smaller properties, there still are some power centers. We continue to hone the map. We've sold two centers in Kentucky this year and working on the other two. They're good centers, supermarket-anchored but it's just increasingly clear to us as a public REIT being in Kentucky isn't consistent with Wall Street goals.

So, it is, I would say, a continuation of the kinds of properties that we've sold looking at the quality, looking at the risk, but has been observed, market conditions change. We can slam on the brakes and stop because we don't have to do it for delevering. It's totally about this disconnect between the public and the private, and taking advantage of that. One has to think that one of these days that changes, but in the meantime, it's the right long-term thing in our view to take advantage of it.

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

Q

So, I guess, Drew, as I think about the plan going forward is if this disconnects days, is there a point where you are either continuing to sell assets to – and distributing out the gains or is there a size that you feel like you can operate under given the public company size issues?

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

Yeah. Great question, and I do think there are some points that you reached, some difficult inflection things, and that's part of where I said before that while it is an opportunity and we do intend to take advantage of it, that's part of why I estimate that next year would be less than what we just moved the guidance to because there are, as you say, a lot of factors that go into it, the farther down the road one gets on it.

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

Okay. And then, last question for me. Johnny, just on the acquisitions front, your cost of capital has improved a bit. Obviously, the dispositions give you some freedom in terms of playing with 1031 money. But I guess I'm just curious as to what are you seeing in the marketplace that gives you some confidence that you guys might actually come out on top on an active bid?

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

Well, not a whole lot. I mean, I don't think we're going to be the winner in a lot of active bid situations. Where we can apply our platform where there are some issues that we think we can resolve that we can live with is really where we have an advantage especially in the markets that we're in that we have already have boots on the ground.

Again we've reduced guidance for acquisitions and it's going to be tough along the way. We do have a small property under contract now that I think that we will close and a couple of things that we're working on. But again most of these are bid situations that would be very difficult for us, Chris.

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

Okay. Thanks a lot. Appreciate your time this morning.

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

Thanks.

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

Thank you.

Operator: [Operator Instructions] And from SunTrust, we have a follow-up from Ki Bin Kim. Please go ahead.

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

Thanks. Just a quick accounting question on the under market lease write-off that cost a onetime income. I know it's not in your Core FFO, but just curious on how the mechanics work. Is it just because the Toys "R" Us leases were ended or bankrupt – went to bankruptcy or whatever it is that cost it? But does that necessarily mean that your view of the market rent has changed at all or is that just two mutually exclusive things?

Joe D. Shafer
Chief Accounting Officer & Senior Vice President, Weingarten Realty Investors

A

Hey, Ki Bin. This is Joe Shafer, the Chief Accounting Officer. And actually in your piece that you put out this morning, you actually described it pretty well. And that at the time we bought Palms, the rent for Toys "R" Us was under market. So, we ended up with a liability on our balance sheet.

And then when Toys goes bankrupt, that liability needs to be written-off and that's typically what you do with any lease that's out there. If it terminates, you look at all those intangibles that are out on your balance sheet and you flush them through the income statement.

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

A

Ki Bin, this is Steve, just...

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Right.

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

A

...just a follow-up. It depends. That's recorded at the inception of the acquisition. It has no really driver as to what the market rent may be today because it's evaluated at the very front end, and it's not adjusted as you go through time.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Right. And that's why I thought because I wanted to clarify that on the call. And thanks for reading my research.

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

A

Thank you.

Operator: Okay. No further questions at the moment. Drew, we'll turn it back to you for closing remarks.

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

Thank you, Brandon. And just for everybody on the call, we've read everybody's research, and we enjoy our relationship with all our analyst friends. So, and if any of you have any other questions this afternoon, we will be around. We appreciate your interest in the company very much. Thank you, Brandon. Thank you, everybody. Hope everyone's having a great summer and wish you all the best.

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