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Weingarten Realty Investors (WRI)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Weingarten Realty, Inc. Second Quarter 2016 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 conduct 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

Good morning, and welcome to our second quarter 2016 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 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 NAREIT, which we believe help analysts and investors to better understand Weingarten's operating results. Reconciliation to these non-GAAP financial measures is available on 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

Thank you, Michelle, and thanks to all of you for joining us. I'm pleased to announce yet another outstanding quarter. Operations remain strong. We continue to increase our redevelopment pipeline and we issued common equity under our ATM program. Our new development projects are moving along nicely. Our pipeline contains some exciting opportunities and we completed some exciting acquisitions.

During the quarter, we invested $93 million in Deerfield, an excellent shopping center in South Florida, anchored by a high volume Publix, T.J. Maxx, Marshalls, and Cinépolis Theater. You may have noticed the Sports Authority on the site plan but that space is actually leased by TJX who was Sports Authority's landlord. OSH, formally known as Orchard Supply, a subsidiary of Lowe's Hardware, has won the bid for that location, and we expect that they will be open over the next six months or so.

We see the NOI for this project growing over 3% a year over the next 10 years. We'll add an outparcel building and reposition a few anchors over time as part of a longer-term redevelopment.

Big news, in our press release yesterday, we just completed the purchase of Palms at Town & Country, an outstanding asset in Miami for $285 million. Palms is a 664,000 square foot premier shopping destination that features best-in-class operators including Publix, Kohl, Nordstrom Racks, (sic) [Kohl's, Nordstrom Rack,] (3:11) Dick's Sporting Goods, CVS, Totaline, and Marshalls.

National retailers comprise 87% of the revenue of the center. The shopping center serves the dense and affluent communities of Kendall and West Kendall with 171,000 people and 59,000 households in a three mile trade area and 485,000 people and 160,000 households in a five mile trade area. Also the day time demand is quite strong with several large activity generators like Florida International University and Baptist Health Hospital.

This 72 acre shopping center in a really great trade area has significant barriers to entry. We'll have long-term redevelopment opportunities that will contribute to strong NOI growth going forward. Site plans, demos and facts on why we like Florida are posted on our website.

Consistent with our transformation, we're very pleased that we've been able to invest in three high volume supermarket anchored properties in very dense urban locations this year. These two public anchor properties along with the Whole Foods in Seattle. The market for the core assets that we're looking for has become more competitive in recent months. We see cap rates declining for great properties with coastal markets in the 4.25% to 5.25% range. Other strong metropolitan markets [ph] are experiencing (4:40) cap rates in the 4.5% to 5.5% range.

Turning to new development activities. We continue to have strong demand at our Lake Forest development in the Raleigh market and expect to stabilize this project shortly. Nottingham Commons in White Marsh, Maryland, is anchored by T.J. Maxx, Petco, and MOM's Organic Market. We've completed the construction of this $46 million project and started commencing leases in the last couple of weeks. Nottingham is nearly 100% leased with only one 1,200 square foot lease about to be signed. Page 12 of our supplemental disclosure shows the NOI from these projects this quarter.

The Whittaker in West Seattle is a six-story mixed-use project being co-developed with Lennar, who anticipates delivering the retail portion by early next year to us. We expect the 41,000 square foot Whole Foods, which anchors the $31 million investment to open in late 2017.

Our Walter redevelopment continues to move forward with the closing on a portion of land expected to occur early next year. Development of the majority of the retail component is projected to commence in 2018.

At the Atlanta, Civic Center, just north of downtown, we're continuing our due diligence. The estimated net investment in the retail portion is about $50 million and we could close on the land as early as the end of the third quarter. We're pursuing other development opportunities and are optimistic about our pipeline. We'll remain sensitive to risk, but we're pleased with the shareholder value created by our efforts in new development. It was a great quarter on all fronts.

And now Steve will give us the details on the financials.

Stephen C. Richter

Chief Financial Officer & Executive Vice President

Thanks, Drew. Good morning to everyone. Let me begin by saying we have made some changes to our terminology this quarter in response to some general guidance provided by the SEC to all public companies regarding non-GAAP financial measures, which includes funds from operations.

Historically, we provided earnings guidance and reported operations using the titles Recurring and Reported FFO. We have not changed the definition of these calculations, but have changed the titles of Recurring FFO to Core FFO and Reported FFO to NAREIT FFO. Only the names have changed as all the historical amounts remain the same as previously reported.

With that said, I am pleased to once again report strong earnings results. NAREIT FFO was $75.3 million or $0.59 per share for the second quarter of 2016, compared to $58.4 million or $0.46 per share for 2015. The increase is primarily due to the non-cash write-off of preferred redemption cost of $0.08 per share in 2015.

Additionally, a net gain of $2 million related to the refinancing of a secured note was included in interest expense. The remainder of the increase was due to operations at the company's existing portfolio, redevelopments and new developments. Year-to-date, NAREIT FFO was $141.6 million or $1.11 per share for 2016 compared to $118.7 million or $0.95 per share for 2015.

Core FFO for the quarter ended June 30, 2016 was $0.57 per share or $73.6 million, an increase of 5.6% on a per share basis compared to $0.54 per share or $68.3 million for the same quarter of last year. The increase in Core FFO over the prior year was primarily due to increases in net operating income from our existing portfolio resulting from increases in rental rates, incremental income from our new developments and redevelopments, and reduced interest expense from favorable debt refinancings. These increases were partially offset by the impact of our disposition program.

For the six months, Core FFO was $145.9 million or $1.15 per share for 2016 compared to $133.7 million or $1.07 per share for 2015. We are pleased to report that we went live on schedule with our new ERP system this month, thanks to the hard work and dedication of our associates.

G&A has moved around a bit over the last few quarters due to the costs associated with this program, but we anticipate G&A for the full year 2016 to total between $27 million and $28 million.

As to the balance sheet, we took advantage of the strong performance of our stock selling 107 million of common shares during the quarter under our ATM program at an average price of $38.32 per share in addition to the $18 million we sold in the first quarter. We added additional disclosure in the supplemental on page 41 showing the detail of sales under this program.

Additionally, we amended an existing $90 million secured note with a life company, which would have matured in August of 2017 and extended the maturity to 2028 along with reducing the interest rate from 7.5% to 4.5%. In connection with this blend and extend, we have recorded a $2 million gain on extinguishment of debt that has been included in interest expense. However, we have excluded this revenue from Core FFO.

Subsequent to quarter end, the company executed a commitment for a floating rate $200 million term loan, which matures in July of 2017 with the company having an additional one-year extension option. This facility provides additional liquidity given The Palms acquisition, Drew, just announced.

At quarter end, our net debt to EBITDA was a strong 5.57 times and our debt to total market cap was 28%, both of which improved with our issuance of common shares under the ATM.

Finally, as to guidance, we are increasing our 2016 guidance for NAREIT FFO to $2.24 to $2.28 per share and Core FFO to $2.28 to $2.32 per share. Our original business plan and earnings guidance for 2016 did not include the Sports Authority bankruptcy nor did it anticipate the issuance of $125 million of common equity. However, we have been able to absorb the effect with the strength in operations, interest savings, and our strong 2016 acquisitions.

The full year effect of Sports Authority and our common equity issuances will create a decent headwind for 2017. But the continuation of a low interest rate environment, strong rental rate increases, several great 2016 acquisition and an active redevelopment program will provide some tailwinds.

We are also increasing acquisition guidance to $425 million to $500 million. As to guidance on same-property NOI with redevelopments, we are adjusting our guidance to a range of 3% to 4%. This 50 basis point decrease is due to an addition to our redevelopment pool for a shopping center in Florida that Johnny will discuss a little later.

All of the details of our 2016 guidance are included on page nine of our supplemental. Johnny?

Johnny L. Hendrix

Chief Operating Officer & Executive Vice President

Thanks, Steve. Good morning to everyone on the call. We posted strong operating metrics again this quarter. Over the last year, we've been emphasizing our aggressive remerchandising and redevelopment focus. We're seeing the results of these initiatives in our operating metrics this quarter. Short-term lease efforts will reduce occupancy and slow same-property NOI. Long-term, we'll end up with a better credit profile, stronger assets, and higher rents.

We're operating in an environment where the landlord has negotiating leverage. That's clear looking at our rent growth. This quarter, we increase rents on leases over 18%. New leases increased 29%, while renewals increased 14%. A good example of our remerchandising can be seen where we terminated a local day spa in California after we leased the space to CVS. The day spa vacated last month and CVS is under construction.

Another example is a party store we terminated early after we leased the space to Kirkland's here in Houston. The downtime is a worthwhile trade for the improved rent and credit profile. These deals combined generate an additional $400,000 in annual rents and represent an increase of over 60% from prior rents.

Our assets in Houston are performing very well. Houston represents 16% of the company's annual base rent. Same-property occupancy for Houston continues to be really high, 96.9%. New lease rent growth in the second quarter in Houston was 41%. Renewals grew by 23%.

Demographics for our Houston properties are very strong. The average annual household income in a three mile radius is $113,000 and the average population is 142,000. While new retail construction in Houston is increasing, it's occurring mostly in the suburbs. Weingarten's properties are [indiscernible] (14:50) infill locations with strong barriers to entry. Over 55% of our NOI comes from within five miles of the Galleria. We believe these assets will continue to produce good results.

Sports Authority's bankruptcy is working its way through the system. During the second quarter, they closed and terminated the single Texas location they leased from us. Since the end of the quarter, they've closed two more locations and I expect all the – one of our seven leases will be terminated in the next few days.

The designation right for Cherry Creek lease in Denver was purchased by Dick's. Basically it gives them the right to negotiate with us exclusively for a month or so. It seems likely this lease will be terminated in the next 60 days. The seven leases we had represent 10 basis points in occupancy, $0.02 a share in FFO for 2016, and $0.04 a share in FFO for 2017. They also represent about 50 basis points in same-property NOI for 2016.

Most of the spaces should be released over the next six months and probably commence in the next 12 months to 18 months. We continue to reserve the pre-petition rent including base rent and previously accrued additional charges which have not been paid. That totals about $800,000. We expect that most of the March base rent about $300,000 will be paid but consistent with our internal procedures we will wait until the money is in hand to reverse the reserve.

Overall, we have a well diversified retailer line up which is built around internet-resistant tenants. You can see on Page 24 of the supplemental that our top tenants are mostly strong supermarkets and discount clothing retailers. No tenant is more than 3% of our minimum rent and the top 25 make up only 28%.

In light of the recent ruling of the Staples Office Depot merger, it's worthwhile to review our exposure to those retailers. I don't expect either to go out of business but we've already seen them focus on reducing store count and shrinking store sizes. We have 25 units with Office Depot in seven stores with Staples. The average base rent on the 32 units combined is $12.72.

Most encouraging is that these 32 stores have expirations evenly staggered. We have five or six leases expiring every year over the next five years and really don't have any geographic concentration. Today supply-demand balance should allow us to manage these expirations in the normal course of business.

Going back to our operations. Leasing production remains very consistent across our entire footprint. Year-to-date, we've executed new leases representing $12 million compared to $11.5 million for the same period in 2015. During the quarter, we signed 94 new leases for 280,000 square feet and 157 renewals for 532,000 square feet.

Same-property NOI increased 3.3% for the quarter. We're very encouraged that base minimum rent increased 3.7%. These increases are primarily driven by the outstanding rent growth we've been producing and built in rent steps.

Occupancy ticked down slightly versus last quarter to 94.9%. At the same time, occupancy for spaces under 10,000 square feet was up to 90.2%. So all of the increased vacancy was in the large spaces which have shown to be a very strong category over the last several years. Our Mid-Atlantic region which is mostly driven by Atlanta and Raleigh ended the quarter just under 97% leased and Florida was 96.4%.

We're also making good progress on our redevelopment program. Today, we have 13 active projects with a total investment of around $85 million and an estimated return of almost 11%. This quarter, we commenced an exciting redevelopment of Sunset 19 in Tampa, Florida. We anticipate investing almost $17 million relocating Bed Bath & Beyond into a former vacant supermarket space. We'll add Five Below, Cost Plus, Kirkland's, Carter's and 20,000 square feet of shop space in outparcel buildings. We'll keep you updated on the progress of this project in coming quarters.

So we had another very good quarter. We invested $380 million in two great centers in South Florida that we expect will have compound annual growth in excess of 3% a year. We produced 3.3% same-property NOI driven by base minimum rent of 3.7%. We increased our redevelopment pipeline over $15 million and we produced outstanding rent growth of 18%. Drew?

Andrew M. Alexander

President & Chief Executive Officer

Thanks, Johnny. Another great quarter. Consistent execution remains the theme. We acquired two great assets in Deerfield and The Palms at Town & Country, expanded our redevelopment pipeline, moved our existing new development and redevelopment projects forward, posted strong operating metrics, and strengthened our balance sheet with some ATM stock sales.

Looking forward, acquisitions remain highly competitive. We'll be very selective in what we buy and what we sell. I'm confident our transformed portfolio will continue to post great results. A special thanks to the multitude of associates that worked extremely hard in implementing our new ERP system. 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, and we'll now be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, 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
Citigroup Global Markets, Inc. (Broker)

Q

Good morning. Katy McConnell on for Christy. Can you provide the cap rate on the recent Palms acquisition and maybe walk us through some of the longer term redevelopment opportunities at the center?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Hey, Katy. Good morning. Sure. We are very, very excited about this acquisition obviously. Weingarten has been in South Florida for 17 years, and we think we know South Florida pretty well. We've got 16 assets down there today and our average supermarket sales are over $660 a square foot.

Cap rate wise particularly on Palms is around a 5%. One of the great things about the property is that it has a lot of internal growth available over the next 10 years. We think the property is going to grow somewhere 3.5%, 4% on a compound annual growth rate.

We've got some pads that are there that we can develop which will be fantastic. We've got a number of tenants expiring where I think they're well under market. And we can expand them, we can relocate them internally, we can add some densification to the property perhaps the vertical on a portion of the property. And we just think there are going to be a lot of long-term opportunities in a market like this where there are tremendous barriers both physical and financial. You just couldn't put together a piece of property like this in South Florida today. So, yeah, we're super excited about it.

Katy McConnell
Citigroup Global Markets, Inc. (Broker)

Q

That's great. Thank you.

Operator: From Green Street Advisors, we have Jay Carlington. Please go ahead.

Jay D. Carlington
Green Street Advisors, LLC

Q

Hey. Thanks, guys. Hey, Johnny, lot of moving parts on Sports Authority. What was the impact this quarter to same-property NOI?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Jay, there really wasn't much impact. There was a little bit of bad debt but we had accrued some things that on [indiscernible] (23:30) maintenance that we won't get, so that's a net zero. Sports Authority did not terminate the lease in Texas until right at the end of the quarter, so there really was no impact this quarter for Sports Authority.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. And you've got 50 basis points for 2016, is that correct?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Correct, yes.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. So your maintaining guidance in Sports Authority wasn't originally contemplated. So does that mean the core is running kind of maybe north of 3% to 3.5%?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

That's accurate, that's – yep.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. And Drew, just looking at some of these transactions that you guys pursued, pretty meaningful in size [indiscernible] (24:14) $50 million and up. Are these kind of larger deals specifically being targeted or are they just limited kind of good quality neighborhood centers on the market right now?

Andrew M. Alexander
President & Chief Executive Officer

A

Good morning, Jay. I would say it's a little bit of both. I mean we are very happy buying $20 million centers. And we don't want to buy things too small. It doesn't move the needle. And these larger so-called supermarket anchor power centers, we just think, are a wonderful opportunity to put our team to work, to take our relationship to tenants, and really do something that is meaningful in growing the NAV, the FFO of the company. So we love these centers, as Johnny talked about tremendous barriers around the Palm and around Deerfield, and we feel very good about the long-term ability to redevelop these properties and create value.

Operator: From RBC Capital Markets, we have James Bambrick. Please go ahead.

James Bambrick
RBC Capital Markets LLC

Q

Hey, guys. So you [ph] cited (25:26) the increased competition in acquisition market but seems like deal flow has gone pretty well to you. So I guess my question is are tightened lending standards having an impact on the less well capitalized players or is there something else in play here?

Andrew M. Alexander
President & Chief Executive Officer

A

Good morning, James. It's Drew. I think there is a lot of things in play. I think the main thing is that we have resources in the markets that we're looking at. We announced our transformation several years ago and that we're going to focus on about 25 major metropolitan areas basically from Seattle, Washington to Washington D.C.

So we've got the boots on the ground. In those markets, we see every deal that comes to market. We know what we want, we can move quickly, professionally underwrite, have a great reputation.

So I think it's a matter of focus, discipline. Our team and our team in Palms just did a wonderful job. I am so proud of them. So the financing market could be playing into it, but there is still a lot of competition out there between the other REITs, the pension funds for these good quality assets. So I think our success to-date is a little bit of luck. You always need a little bit of luck. But it's the hard work, focus, and professionalism of our team that I'm really proud about these assets that will create great value for shareholders going forward.

James Bambrick
RBC Capital Markets LLC
Q

Great. Thank you. And then on the ground of development front, is there any uptick in key tenants appetite for new ground [indiscernible] (27:02) or is that pretty similar to how it has been?

Andrew M. Alexander
President & Chief Executive Officer
A

I would say that there is – continues to remain to be some amount of interest. The retailers, especially the value oriented folks that we deal with, the Marshalls, the Rosses, et cetera, are doing well, the supermarkets are doing well. So there is definitely interest. Again, we're focused on the major metropolitan areas on projects that are most dense infill, so a lot of the development that we're looking at is very complicated takes a very long time. So we do see the ever so slightest uptick in demand but it's challenging to get all the entitlements worked out, the cost worked out, and to find deals that [ph] pencil out for the (27:46) retailers.

So pleased with the new development efforts, but also feel very good about the fact, as Johnny said, it's a landlord market, there is very limited supply, to the extent there is a slight uptick in development, it's three years or four years, five years before that space comes on. So we feel very good about the fact the overall supply is low and that will keep the demand for the boxes that we have quite strong.

James Bambrick
RBC Capital Markets LLC
Q

All right. Thanks very much.

Operator: [Operator Instructions] From SunTrust, we have Anthony Hau on line. Please go ahead.

Anthony Hau
SunTrust Robinson Humphrey, Inc.
Q

Hi, guys. You just mentioned that a couple of possible redevelopment opportunities at The Palms. But if you can put a dollar amount on that, what would that be and the same for Deerfield?

Andrew M. Alexander
President & Chief Executive Officer
A

It'd be really hesitant to quantify anything at this juncture. There are a lot of different ways we can go in both projects. And again, we think in the case of Deerfield, as Johnny mentioned, we can add some outparcel buildings over time, we can rework mostly one end of the center and probably add some other anchor space. A lot of the anchors do well, we can look at adding their space. And then Palms over an extended period of time, as Johnny said, you could definitely see parts of the project going vertical and more mixed view. So again, great long-term upside but hesitant to put a specific number out there. But these are multiple year very long-term projects.

Anthony Hau
SunTrust Robinson Humphrey, Inc.

Q

Okay. And just one quick question on Sports Authority. What are the potential mark-to-market opportunities [indiscernible] (29:51) from releasing these spaces, can you quantify that?

Andrew M. Alexander
President & Chief Executive Officer

A

As I think we've said before, in our case the Sports Authority is not a – it's pretty much neutral, it's not a big pickup, it's not that [ph] bigger herd (30:06) either. Depends what order of the boxes get leased when, but it doesn't move the needle much one way or the other.

Anthony Hau
SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you.

Operator: From UBS, we have Jeremy Metz on line. Please go ahead.

Q

Hey, guys. Sorry, [indiscernible] (30:23) here, little late, and maybe I missed this, so apologize if you already talked about it. But in terms of dispositions, you're already at the low-end of your guidance range for the year. One of your peers, they talked about ramping up some sales in light of better than expected pricing and interest. So I'm just wondering if you're seeing a similar dynamic play out. And therefore, do you see yourself hitting or possibly exceeding the high-end of your sales range and how much more do you actually have on the market right now?

Andrew M. Alexander
President & Chief Executive Officer

A

So we've a lot on the market. Good morning. This is Drew. [ph] Jim, (30:53) nice to talk to you. We've a lot on the market, so that we can be flexible and opportunistic. We completed our transformation a while back. So we don't feel a tremendous pressure to do anything if the right pricing comes along and especially as we've been able to find good things like Palm so we might be ever so slightly more flexible.

So as you observed we're already above the bottom of the range. So we feel good in terms of our guidance that we'll continue to do things. So it's all about the opportunities in what we see. We're very pleased with the results of the transformed portfolio that Johnny spoke about. We can certainly continue to hone the map and make some improvements and be more efficient. But it's all about the opportunities that we see on both sides, and I said we'll be very selective on both the buy and the sell side.

Q

Appreciate that. And can you just maybe comment on pricing the market, obviously like you said your transformation is behind you. So you're selling maybe some non-core stuff, but better stuff than previously. So just wondering how pricing is going in the market for that kind of maybe non-core stuff that you would look to prune if the opportunity arises.

Andrew M. Alexander
President & Chief Executive Officer

A

It all depends on the center. We've got some medium size things that are generally very good. Where the pricing is quite good, you'd be in the low 6% rates. We've got a couple of smaller legacy assets that don't move the needle much, but in any particular quarter if we sold those, it'd be a much higher number, but again that's not big volume.

So for some of the larger centers, there's still some little bit of disruption in the CMBS market. Most of us are cautiously optimistic that that will get worked out as the new rules are understood, and certainly where interest rates are and the spread between risk free and [indiscernible] (32:51) assets are providing a lot of returns for folks. So we're again looking at it opportunistically and not seeing any big rush to do wholesale dispositions, our transformation is done and we're in a position to be patient.

Operator: From Wells Fargo Securities, we have Tammi Fique on line. Please go ahead.

Tamara J. Fique
Wells Fargo Securities LLC

Q

Hi. Good morning. I'm just wondering how you guys are thinking about funding for the increased acquisition activities in terms of long-term funding. I now you did the term loan. But just want to get a sense for how much more equity you might raise and if there's any other permanent debt financing that we should be looking at. Thank you.

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

Good morning, Tammi. This is Steve. The revolver today is about $372 million and that's after we funded Palms, the acquisition of Palms on Wednesday. So with a $500 million revolver, we felt like we needed a little additional liquidity in the short term and that's what drove us to do the $200 million short-term term loan.

Having said all that, we've not changed the balance sheet, management strategy around funding, the capital improvements in the way we manage the balance sheet overall. So whether or not it's going to the debt markets or the equity markets with the ATM program and what all, we will always look to those markets and the pricing and the needs. But strategically, the important thing I think to make is that we are still – have always and will continue to match funds when we're buying long-term assets with financing with long-term capital. So we'll continue to monitor the markets.

Tamara J. Fique
Wells Fargo Securities LLC

Q

Okay, thanks. And then we are hearing that there are more high quality properties on the market today, and obviously you guys just closed on The Palms. But are there any other large sort of chunky deals like that that you guys are looking at today?

Andrew M. Alexander
President & Chief Executive Officer

A

Tammi, it's true. We have a good pipeline and we're actively looking at things. But we much prefer to talk about things when they're known, everything's very competitive until things are done, they're not done. So we'll continue to be active and as I said very focused on the 25 markets where we want to grow and things where we can add good shareholder value.

Tamara J. Fique
Wells Fargo Securities LLC

Q

Okay. Great. Thank you.

Operator: From Green Street Advisors, we have Jay Carlington. Please go ahead.

Jay D. Carlington
Green Street Advisors, LLC

Q

Hey, Steve. Just a follow-up on the $90 million note that you refied this quarter, are there – can you give a little more color on that? And are there more opportunities? I guess that was a secured mortgage or what was that that occurred this quarter?

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

Yeah. Jay, good morning. Back in the capital, when the capital markets were shutdown in 2008 and 2009, we did three secured transactions with live companies to finance the company and maturities going forward. This was one of those transactions with a live company that we actually were able. They approached us. We had conversations and were able to push the maturity out. We actually elected 12 years instead of the typical 10 years.

And obviously, we reduced the interest rate nicely from 7.5% to 4.5%. And I think there are – [ph] on occasion on a (36:27) couple of those, I will tell you that we do not – our secured debt, the level of secured debt is down dramatically from what it was five years or seven years ago. So there is a little opportunity there to do a little more of that but I would tell you it's not, it's not huge.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. And maybe just given the continued appreciation of your stock, have you guys tapped the ATM post quarter?

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

We have not.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. And then Johnny just I think in the prepared remarks or maybe Drew mentioned this, the blended spreads 18%. I think that's pretty close to an all-time high for you guys. Are you seeing any pushback or maybe a pickup in move-outs from tenants just given some of the rent increases you're pushing?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Hey, Jay. You are accurate. That's the highest that we have recorded. It's interesting, I would tell you it's not easy and there is a lot of pushback on increasing rents that dramatically. There have been some move-outs. And I think on a case-by-case basis, we have elected to agree with the tenant that we're not going to extend their lease. And so that's just something that our guys on the ground are making their decision again on a case-by-case basis, but yes, that will increase the vacancy over a short period of time if those spaces would be quickly released and again that's a trade that we're willing to make today.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. Appreciate the follow, guys.

Operator: From SunTrust, we have Anthony Hau back on line. Please go ahead.

Anthony Hau
SunTrust Robinson Humphrey, Inc.

Q

Just a quick follow-up. You guys mentioned that same-store NOI excluding redevelopment is expected to be at the high-end of the guidance for the remainder of the year. So what are the components of growth that's really driving that? Is it because of favorable comps or something else?

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

When you say we're projecting at the high-end, I'm not really sure that that's correct.

Anthony Hau
SunTrust Robinson Humphrey, Inc.

Q

Well, to meet the mid-point right because right now, it's trending at a very low-end of the guidance, to meet the high-end – to meet the mid-point of the guidance that means that you got to be at the high-end of the guidance?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Hey, Anthony. This is Johnny. Yeah what we – what you're seeing there are significant number of commencements that we expect in the second half of 2016.

Anthony Hau
SunTrust Robinson Humphrey, Inc.

Q

Okay. And for the cap rates for Palm, was that cap or cash?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Cash.

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

Cash.

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

Chris R. Lucas
Capital One Securities, Inc.
Q

Good morning, everyone. Hey. Johnny, just maybe if you could walk through the conversations you're having with potential tenants on TSA and just if there is any opportunity to get anybody in before year-end given conversations you may be having.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President
A

Good morning, Chris. It's unlikely that we would get anybody to pay rent by the end of the year, five months left. By the time we get to entitlement, it's probably be well past their [ph] opening (39:30) windows. We've got a really great list of people that we're talking to. Discount closing obviously is going to be very, very hot. We're talking to a number of supermarkets, niche guys, [indiscernible] (39:45) kind of folks and could build some of those boxes pretty nicely.

Sporting Goods again still in the mix, REI, Dick's, Sportsman's Warehouse, all kind of potential. Bed Bath & Beyond is obviously somebody who is willing to expand [ph] the day (40:06) and I think is opportunistic and we'll take advantage of some of these things.

The other thing we're really studying a number of cases is being able to divide these boxes up and create a little more BMR, people like Michael's, OSH, Carter's, [indiscernible] (40:24) DSW are all kind of in that mix looking at something where they could take a little more depth, not all the depth but a little more depth and end up with a better mousetrap. And then, of course, you got the fitness guys. There is 24 Hour, LA Fitness, people like that who – and even some local gyms who are interested in these things. So these are all of the things that we're weighing and we're working through. And again, most of these spaces we just got back in the last couple of days.

We're going to take a long-term view of these opportunities and not rushing to the first thing we see and try to make sure that we do things that will create value for the shareholders over the long-term.

Chris R. Lucas
Capital One Securities, Inc.
Q

Great. Thank you.

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

George Andrew Hoglund
Jefferies LLC
Q

Hey, guys. Sorry if I missed this earlier but can you talk about what drove the increase in tenant improvements in the quarter? I guess the average square foot was 978 versus the trailing 12 month average of 662?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President
A

Yeah. George, we talked a little bit earlier about the Bed Bath & Beyond and Cost Plus where we put them into a supermarket. Any time you're putting these guys into these supermarket space as you tend to have a little bit higher cost, so those are two of those deals. And another deal, we're really again taking an opportunistic position re-merchandizing one of our centers in Austin, Mueller, and we're replacing a furniture store with total wine and we spend a little bit extra on that opportunity. So those three things really drove it. It wouldn't surprise me as we look out for the next six months to 12 months, we're redoing some of these boxes, that number would trend a little bit higher.

George Andrew Hoglund
Jefferies LLC

Q

Okay. Thanks for the color.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Thanks, George.

Operator: [Operator Instructions] It looks like no further questions, Drew. We will turn it back to you for closing remarks.

Andrew M. Alexander
President & Chief Executive Officer

Thanks, Brandon, and thanks to everybody on the call. We really appreciate the interest. We'll be around today if there is any more questions. We are really happy with Palms, and our team in Florida is happy to show off that great asset and as time goes on we'll also determine if a more formal tour logistically makes sense. So thanks so much for your interest. Have a great weekend.

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