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Weingarten Realty Investors (WRI)

Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Weingarten Realty First 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 first 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 expectation 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 recurring and reported, which we believe help analysts and investors to better understand Weingarten's operating results. Reconciliation to these non-GAAP financial measures is available in our supplemental information package located under the Investor Relations tab of our website.

I will now turn the call over to Drew Alexander.

Andrew M. Alexander
President & Chief Executive Officer

Thank you, Michelle, and thanks to all of you for joining us. Before I get to the quarterly results, I wanted to address the flooding this week in Houston. As some of you've seen the images and our hearts go out to those who sustained loss, many for the second time in less than a year. Weingarten was very fortunate and we had no major issues at our properties. We anticipate less than $50,000 in damages. I want to thank our associates who quickly responded to evaluate our properties.

Now to the results. I'm pleased to announce yet another outstanding quarter. We continue to increase occupancy, we are aggressively increasing rental rates, we are strengthening our tenancy and repositioning many of our assets. We continue to effectively recycle capital through the strategic pruning of the lower end of our portfolio and the reinvesting of the proceeds in outstanding acquisitions, new developments and redevelopments.

The fact that we've been able to consistently execute against these strategic initiatives from multiple quarters in a row, highlights the success of the transformation of our portfolio and our balance sheet.

Operations remain outstanding. All of our metrics are strong and our portfolio continues to produce excellent results, including our high quality assets in Houston. We're especially excited about our acquisition of 2200

Westlake in Seattle. Johnny will tell you more about it, but suffice it to say, it's a truly outstanding asset in an incredible location that we're extremely pleased to have located in a definitely off-market transaction.

We also had a very active quarter for dispositions, completing the sale of four shopping centers and three pad sites for almost $112 million. With respect to new development activities, we continue to make great progress. We stabilized our Hilltop development in DC this quarter, this Wegmans anchored property is 100% leased with an investment of $65 million and an 8% yield. We assume we could sell the center today at a 4.5% cap rate that equates to $50 million of value created through our development process. That's excellent capital allocation.

We continue to have strong demand at our Wake Forest development in the Raleigh market and expect to stabilize this project later this year. Nottingham Commons in White Marsh, Maryland is anchor by T.J. Maxx, Petco and MOM's Organic Market and leasing is progressing nicely. We finalized the lease with DSW bringing our signed occupancy to over 94%, tenants should start opening in the third quarter of this year.

The Whittaker in West Seattle is a six-story mixed-use project being co-developed with Lennar. Our 63,000 square foot retail portion is anchored by a 41,000 square foot Whole Foods. Lennar anticipates delivering the retail portion by early next year and leasing is going well. We expect tenants to begin opening in late 2017.

Our Walter Reed development continues to move forwarded with a closing on a portion of the land expected to occur this year. Development of the majority of the retail component will probably commence in 2018. At the Atlanta Civic Center on the north end of downtown Atlanta, we've continued our preliminary planning. The current investment in the retail portion is estimated at $70 million. We're still early in the process and should know more as to the specifics of the development by our next call.

We're pursuing other development opportunities and are optimistic about our preliminary pipeline. We remain sensitive to risks but we're pleased with the shareholder value created by our new development efforts. It was a great quarter on all fronts.

And now Steve, the financials.

Stephen C. Richter
Chief Financial Officer & Executive Vice President

Thanks, Drew. I'm pleased to once again report strong earning results. Reported FFO was $0.52 per diluted share for the quarter compare to $0.48 per share in the prior year. 2015 included $0.5 per share of debt extinguishment cost offset by funds from non-recurring litigation settlement of a $0.01 while 2016 includes $0.05 of non-cash differed tax expense related to a book gain in our taxable REIT subsidiary.

This deferred tax expense was generated on the exchange of our partners' interest in a joint venture for the distribution of property to them. In this transaction, we took a 100% ownership of two shopping centers, Englewood and Stonegate and a pad building at Green Valley. Our partner took 100% ownership of Thorncreek Crossing. All of these assets are in the Denver, MSA. We are now consolidating these assets, which were previously included as equity method investments, further simplifying our balance sheet.

Recurring FFO for the quarter was $0.57 per share compared to $0.52 per share in the prior year. This represents a per share increase in Recurring FFO of 9.6% over the prior year. FFO for the first quarter benefited from an increase in same property NOI of 3.1%, which includes redevelopments as well as solid acquisition activity over the last 12 months and a favorable refinancing activity, all of which was offset by about $0.02 per share from dispositions. Keeping that in mind, that Recurring FFO for the quarter includes $810,000 of bad debt expense for

Sports Authority, as we reserved 100% of their outstanding receivables. Offsetting this expense was percentage rent true-up and least cancellation income that together added about a $0.01 per share.

We did not incur any material cost related to the ERP implementation this quarter, but anticipate an additional $400,000 to $500,000 over the remainder of the year. As to the balance sheet, we took advantage of the strong performance of our stock, selling $18 million of the common shares during the quarter with another $22 million in the first few days of April under our ATM program. The $40 million in common equity was sold at an average price of $37.46 per share.

At quarter-end, our Net Debt to EBITDA was 5.93 times and our Debt to Total Market Cap was 31.6%, both of which will improve further with the full impact of the share issuance subsequent to quarter-end.

Additionally, during the quarter, we amended and extended our $500 million unsecured revolving credit facility. The agreement is for four years with two six-month extensions at our option, and there is an accordion feature, where we can request to take the facility to $850 million. We also reduced our LIBOR borrowing margin by 15 basis points and improved certain covenants.

Finally, we are reaffirming our guidance for Recurring FFO of $2.27 to $2.31 per diluted share. We are adjusting our guidance for Reported FFO from a range of $2.26 to $2.31 per share to a range of $2.21 to $2.26 per share due to the non-recurring deferred tax expense recognized this quarter. All the details of our 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 continue to enjoy a positive operating environment highlighted by the consistent theme we've observed over the last several quarters. Demand is modest, but very little good space is available. This slight imbalance, which is tilted toward the landlord, has allowed us to improve the overall credit quality and increase rents.

Today, 75% of Weingarten's NOI comes from shopping centers with a supermarket component and our grocers average $621 a square foot in sales, drawing in more than 1 million customers a year to an average Weingarten shopping center. We have great centers in major metropolitan markets across the country and we're generating very good results.

Contributing to these results is the consistent production of our Houston properties. 16% of our average base rent comes from Houston and these are some of our best assets. The Houston properties average a $113,000 in household income and 84% service super zips. Most of our Houston assets are infill locations with almost 60% of the average base rent coming from shopping centers within 5 miles of the Galleria. At quarter end Weingarten's Houston same property occupancy kicked up slightly to 96.9% and rent growth was an outstanding 36.8%. We remain confident these assets will continue to be resilient and produce very good results.

The portfolio as a whole also produced good results. Same property NOI for the first quarter increased 2.5% without redevelopment and 3.1% when redevelopments are included. Base minimum rent, the most important component of the same property NOI increased 3% and 3.7% respectively.

The couple of factors impacting same property NOI are notable. First, we continue to focus on our initiative upgrading our tenant quality and aggressively increasing rents. I talked about this on our last call, and during the first quarter we replaced a couple of full service restaurants, a furniture store in Atlanta and a Dollar Store in

South Texas. The remerchandising of these spaces will cost us about six months downtime, but will result in higher tenant quality and an increase of rents of over 50%. The other significant factor impacting same property NOI is the bankruptcy filing of The Sports Authority. Weingarten has seven Sports Authority leases. We have one location in Dallas-Fort Worth which is scheduled to be closed along with all their other 25 Texas locations.

The likelihood Sports Authority survives bankruptcy and remains an operating entity is unclear. We believe they're focused on a track to sell designation rights and liquidate. Because of that, we felt it was appropriate to fully reserve the current receivables, the $810,000 Steve mentioned. A total of $668,000 of The Sports Authority reserve applies to same-property NOI. Without this bad debt, we would have posted a same-property NOI 80 basis points higher than we reported.

We feel good about the long-term outlook for re-leasing Sports Authority spaces, but it would take time. We don't have enough information today to estimate what the impact would be for 2016 if they ultimately liquidate. It really depends on which stores they sell and the timing of the liquidation sales. The total rent including additional charges for the seven stores is $5.2 million a year. If they closed all the stores on July 1, it would cost $0.02 a share for 2016. So bottom line, this is manageable.

Going back to the quarterly results, leasing volumes continue to be impressive. We leased 1.5 million square feet during the quarter for almost $26 million in annual base rent. This includes 207,000 square feet of new space for $5.7 million in annual rent. Rent growth has been a highlight over the last several quarters and continues to be very good. Rent from new leases signed during the quarter increased almost 35%. Renewals were up 9.5%. So overall rent was up over 13%. This metric will be a primary focus along with improvement of tenant quality over the next several quarters.

The company's redevelopment program is tracking nicely. We have 11 active redevelopments with $59 million of new investments. The incremental ROI is almost 11%. Many of you have seen our Westchase Shopping Center here in Houston where we're replacing a former Randalls with Whole Foods. We recently signed a lease with Kirkland's there for the balance of the former supermarket space and the project is 98% leased. We expect Whole Foods to open early this summer.

During the quarter, we added a great property in Seattle, Washington. We co-invested with Bouwinvest in the retail component of a mixed-use development known as 2200 Westlake. The development includes a 153-room five-star hotel and two condominium towers with 261 units. Weingarten's share of the investment was $44 million at around a 5% return. 2200 Westlake is anchored by a high-volume Whole Foods in an area known as South Lake Union. This is the heart of the tech industry in Seattle and includes Amazon.

There are 220,000 people within three miles of the property with average household incomes of $99,000 a year and 69% of the adults have college degrees. This was a unique off-market opportunity we sourced while working on a redevelopment of Promenade 23. Ultimately, we decided to sell Promenade to a local developer who agreed to sell us 2200 Westlake. I think a nice win for both of us.

Overall transaction volumes in our markets have been alike in both A quality properties and non-core assets. The little we've seen would indicate that A properties are still transacting between 4.5% and 5.5% in coastal markets. Maybe 50 basis points higher in other good metropolitan areas. Cap rates for non-core assets have probably increased.

Again, we've seen relatively few trades, but we think we're observing a slight increase. It was another good quarter with strong rent growth and good same-property NOI. We continue to execute with a strong platform and meet the challenges in front of us. Drew.

Andrew M. Alexander
President & Chief Executive Officer

Thanks, Johnny. Another great quarter. Consistent execution is clearly the theme. We made some good dispositions, bought an outstanding asset, posted strong operating metrics, renewed and extended our $500 million credit facility and continued to move the development and redevelopment projects forward.

Looking forward, acquisitions remain highly competitive. We'll be very selective in what we buy and what we sell, which makes it challenging to predict transaction volumes for 2016. I'm confident our transformed portfolio will continue to post great results and all of our associates will continue to give their best efforts. Great people, great properties and a great platform equals great results.

I thank all of you for joining the call today and for your continued interest in Weingarten. Operator, we'd be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you sir. And we will now begin the question-and-answer session. [Operator Instructions] And from the Citi we have Christy McElroy. Please go ahead.

Christy McElroy
Citigroup Global Markets, Inc. (Broker)
Q

Hi, good morning, everyone. Just following up on Sports Authority realizing that you don't have a lot of visibility on re-leasing any space you get back. Just trying to get a sense for what's in guidance currently. So to what extent had the 70 basis points impact already – was already included in your guidance previously? And would you expect any impact – what would you expect in terms of impact on Q2 and Q3 as you get some more clarity on the leases that could be accepted or rejected? Would you continue to reserve against those accrued receivables given that you're in a senior lien position effectively post the bankruptcy filing.

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

Hey, Christy, this is Johnny. Good morning. We did not have a specific reserve for Sports Authority in the budget. We have kind of a plug number for bad debt throughout the year and kind of guessed what that would be.

When we do the budget, we go through and look at individual spaces that we think will fall out or lease. And so we didn't have that in the budget. And looking towards the rest of 2016, it doesn't appear that there'll be anything else in the second quarter. As they continue to operate, they're paying rent. So there's no new balances being generated. Where I think we'll have to look at is kind of the second half of the year, which stores they might sell. And if they sell stores, then we'll have a bad debt come back to us. So [ph] we (19:33) get a credit for that. So it's very difficult to see. We do not have a specific number in the guidance going forward for Sports Authority. We just don't know what it might be.

Christy McElroy
Citigroup Global Markets, Inc. (Broker)
Q

So you said you had a more general plug number. What was that?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Generally, for the overall budget, it's around – on a net basis, around $1 million.

Christy McElroy
Citigroup Global Markets, Inc. (Broker)

Q

Okay. And then in selling four assets and three land parcels in the quarter, can you talk a little bit about your desire to continue disposing of assets? Do you have anything that you're marketing right now or is under contract currently? I'm just wondering just kind of what your thinking is in the context of having already completed half of the high end of your disposition guidance for the year.

Andrew M. Alexander
President & Chief Executive Officer

A

Good morning, Christy. It's Drew. As I mentioned in my remarks, it's confusing and a little complicated to get a lot of clarity on transactions volumes. As Johnny said, there definitely are fewer bidders on assets. We think cap rates might have drifted up on secondary assets a little bit. And we are always in the market, always looking to see if we can do things that make good long-term sense. So yes, a lot of property in the market.

As you mentioned, we are close to the lower end of our guidance. And my estimates are that we will sell more throughout the year but exactly how much more is especially hard to forecast right now. So we will work on a lot of things. If we get prices that we think are good, we will move forward on them. So my guess is we'll be inside our range and we'll certainly be communicating to folks as we know more throughout the year. But it's especially hard to forecast right now. Then as Johnny mentioned, while we're working on some acquisitions and it's really tough there. So I think the transaction market is challenging the forecast right now.

Christy McElroy
Citigroup Global Markets, Inc. (Broker)

Q

Okay, thank you.

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

Jay D. Carlington
Green Street Advisors, LLC

Q

Thank you. Hey, good morning, guys. Johnny, just to go back on, I guess, potential value is lower on the non-core assets. Can you put a little bit more color on that?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

I think like Drew said, we're not seeing a lot of transactions. There are generally fewer bidders at the table. And so we're surmising that at the end of the day, the assets are trading at a price that would be lower. We just haven't seen a whole lot of transactions. The transactions that we've had have generally been within the range that we had estimated they would be and felt good about them. But we just haven't seen a lot of other things out there.

Jay D. Carlington
Green Street Advisors, LLC

Q

Okay. And just maybe on the JV swap that happened, can you give a little bit of color on maybe the rationale behind why you chose to pick the assets you did? Does that end your relationship with River Hill and is there a cap rate you can disclose on that deal?

Andrew M. Alexander
President & Chief Executive Officer
A

Yeah, River Hill was a joint venture that was, I guess, four properties. We still own other properties with that partner. So, we'll continue that relationship. And this was really an estate planning issue for them and they just – or wanted to move some things around. So we just kind of made a trade. And it's about an equal trade. I wouldn't say there is even a cap rate to it.

Jay D. Carlington
Green Street Advisors, LLC
Q

Okay. So there was no cash or anything swapped at all?

Stephen C. Richter
Chief Financial Officer & Executive Vice President
A

It was a little bit, yeah, about $2.5 million.

Jay D. Carlington
Green Street Advisors, LLC
Q

Okay. And Steve, maybe just a quick housekeeping question. What, on the balance sheet, the restricted deposits and mortgage escrows, what was that jump this quarter, what's in there?

Stephen C. Richter
Chief Financial Officer & Executive Vice President
A

That's the 10/31 money for – that we've put into escrow hopefully to close the acquisition in the future.

Jay D. Carlington
Green Street Advisors, LLC
Q

Okay. Perfect. Thank you.

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

Craig Richard Schmidt
Bank of America Merrill Lynch
Q

Yeah, thank you. You've obviously maintained your same store NOI guidance with redevelopment. Is that because of the ramp-up from some re-tenanting assets in there or is there other reasons for your confidence [ph] that you'll (24:31) hit your range?

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

Hi, Craig, good morning. Johnny. I think we feel good about the range ex Sports Authority. We just don't know what to do with that piece. I think same store NOI was a little better this quarter than we had anticipated in our discussion – from our discussion last quarter. There were a few tenants who didn't close we thought would close, some opened a little bit earlier. So, I think, maybe we pulled forward some same property NOI and I think we are really in line, again ex Sports Authority to be right in the middle of what we had projected in the original budget.

Craig Richard Schmidt
Bank of America Merrill Lynch

Q

Okay. And then just on Atlantic Civic Center, how much have you formally committed to that project?

Andrew M. Alexander
President & Chief Executive Officer

A

Good morning, Craig. It's Drew. I think it little bit depends on what you mean. So we have an agreement. We are working on it. We are very, very optimistic and excited about the project as I mentioned. We should know more about it by our next call. But from a strictly legal – if the economy changed or the facts changed or the assumptions changed, we don't have to go forward with it. So, we're real excited about it, lot of interest from tenants and others for the other uses. So cautiously excited, but not committed.

Craig Richard Schmidt
Bank of America Merrill Lynch

Q

Great. That's helpful. Thanks.

Operator: From UBS we have Jeremy Metz online. Please go ahead.

Robert Jeremy Metz
UBS Securities LLC

Q

Hey, guys. Good morning. Just want to clarify one comment from earlier regarding the fewer bidders in the transaction market. Is this just on the non-core stuff you're selling or you now have bidder pool stand even on the good stuff you're bidding on, whether it just be by the rounds of bids you're going through or what you're hearing from broker feedback?

Andrew M. Alexander
President & Chief Executive Officer

A

Good morning, Jeremy. It's Drew. I would say, it's a little bit both, but the activity for the: A, quality property we want to buy is still very, very robust and strong. So while the bidder pool might be slightly smaller, it's still a very big number. Whereas on the non-core – as Johnny said, it's okay, but that's where things aren't just not moving as quickly, there's not the feeding frenzy that there was a year or so ago. And as it was mentioned, we've completed the transformation, so we're just being opportunistic. If we get a good number, we'll sell it. The CMBS market has undergone some stress, there is hopes and thoughts that that might calm down towards the end of the year. We'll just have to see. So it's a little bit both, but a little more pronounced on the secondary.

Robert Jeremy Metz
UBS Securities LLC

Q

Okay. I appreciate that. And then, Johnny, you talked about aggressively pushing rents. If I look at the new lease schedule, it looks like you've been trading some higher TI for rate. So I guess I'm just wondering if that's the right way to think about it and if there is anything in particular going on maybe more broadly on the leasing front that you see in this dynamic play out.

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

Hey, Jeremy. Good morning. Yeah, no, that is more isolated to a few of the leases we did. I told you we did the Kirkland's in the old Randalls space. We did a DSW in a former supermarket space in Florida. And generally when you're looking at those supermarket spaces and re-tenanting them, it takes a little bit more money. We've a – I would say, it's not a general thing. We're not replacing. We're not really moving the rent number with TI, but those were pretty specific things that move the number up for the overall.

Robert Jeremy Metz
UBS Securities LLC
Q

All right. Thanks, guys.

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

Ki Bin Kim
SunTrust Robinson Humphrey, Inc.
Q

Thank you. Could you talk a little bit about the acquisition this quarter at Westside? If there is – what kind of [ph] offside (28:57) you see from this project, is there releasing that's happening or expansion opportunities?

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

Hi, Ki Bin. This is Johnny. We are super excited about 2200 Westlake. One of the things that – Ki Bin, did you asked about Westside or Westlake?

Ki Bin Kim
SunTrust Robinson Humphrey, Inc.
Q

Sorry, it's Westlake. [indiscernible] (29:17)

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

We're on the same boat. So, 2200 Westlake, we've got a great Whole Foods there. We've a little bit of vacancy that I think we can re-lease. We may have some opportunity to re-merchandise some of the existing tenants and really increase the rents. One of the other things that is really great about the property, it has a parking garage where we are able to get rent. And in this part of Seattle, there is almost no parking available. As you know, Amazon's headquarters are right down the street from us and we have seen great traffic and we believe we can really push the rents in the garage. So, yeah, there is a lot of areas where we think we can continue to push the rents and it is a fabulous property.

Ki Bin Kim
SunTrust Robinson Humphrey, Inc.
Q

Okay. And just quickly on K-Mart, have you – have the discussions with [ph] peers increased (30:13) at all in the past six months with maybe some more visibility about getting some stores back?

Andrew M. Alexander
President & Chief Executive Officer
A

Ki Bin, we really don't have much with them. I think we have four stores about $1 million in rent, so the rent is about $4 a square foot. We love to get any of those four stores back and we are very excited about our occupancy in the boxes today is 98%, so we could use something to work on. We have not had any further discussions with them or anything of substance.

Ki Bin Kim
SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you.

Andrew M. Alexander
President & Chief Executive Officer

A

Thanks.

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

Jeff J. Donnelly
Wells Fargo Securities LLC

Q

Yeah. Thanks, everyone. I guess first question was back in 2014-2015 we see capital, [ph] if they're acquiring (31:06) smaller platforms whether it's AmREIT [indiscernible] (31:10). I'm just curious do you feel that platform bid is still out there in the market for smaller platforms or do you think it's really kind of stepped away?

Andrew M. Alexander
President & Chief Executive Officer

A

Good morning, Jeff. It's Drew. I will guess it's probably still out there when you look at the amount of private capital that's coming into the space. While there's been some changes in the sovereign wealth funds especially with the ones that are related to oil. And then you have, of course, in the right circumstances the public – to public. So I would think it's still out there is to ourselves. We'll continue to be very discipline and we therefore look if the right situation came up. But it's one of those things that it's probably less than likely given the quality standards that we have.

Jeff J. Donnelly
Wells Fargo Securities LLC

Q

Okay. And just one other question is that, and I know Steve Richter has another 30 years at Weingarten, so question about succession planning might be premature. But some of your peers have had a bit of movement in the last 12 months on senior leadership and – public and private, and I guess it prompts me to ask, what are Weingarten's plans for successors? It's not just for yourself; it's for members of the team. I'm just curious do you think people will be from internal or do you think will be external as you guys get on the road?

Andrew M. Alexander
President & Chief Executive Officer

A

Interesting question and something that we talk about with our board and our compensation committee every year. And let me just say, we are extremely conferrable with the near-term future and as to the longer-term future. A lot of relationships, a lot of good internal candidates, also had discussions throughout the organization as to emergency contingency plans. So, appreciate some changes in the space, but Steve and Johnny and I are all very happy and very much enjoy what we do – Joe as well. But we have had all the discussions about the longer term and the emergencies.

Jeff J. Donnelly
Wells Fargo Securities LLC
Q

Okay. Thank you.

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

Michael W. Mueller
JPMorgan Securities LLC
Q

Yeah. Hi. Just I was wondering if you're seeing any changes at all in tenant demand for in really any of the category of tenants you're dealing with.

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

Hey, Michael. Not really. Demand has been mostly modest for the last couple of years. It's not a long list of tenants who step up. I think the driver and the thing that stands out the most is there is just very, very little new supply and certainly the "good supply" is highly leased. And because of that, when a retailer decides they want a location, then there normally is competition for that space and that is really generating the increasing rents.

Michael W. Mueller
JPMorgan Securities LLC
Q

Got it. Okay. That was it. Thank you.

Operator: From Hilliard Lyons we have Carol Kemple. Please go ahead.

Carol L. Kemple
J.J.B. Hilliard, W.L. Lyons LLC
Q

Good morning. I noticed your other income was up quite a bit. It's a small number, but still quite a bit from the year-ago period. Was there anything one-time in that or is that a good run rate going forward?

Stephen C. Richter
Chief Financial Officer & Executive Vice President
A

Good morning, Carol. The other income is really – there is a piece of both of it in here. There is some step associated with the true-ups of year-end percentage rent in there, there's a little bit of lease cancellation. So some of it's in same-store, some of it's not. But we also have about $0.5 million of lease cancellation income in there. It's difficult to really know how much of that is normal, how much of that is recurring, but some of that is one-time, some of that is just normal stuff.

Carol L. Kemple
J.J.B. Hilliard, W.L. Lyons LLC
Q

Okay. Thank you.

Operator: From RBC Capital we have Rich Moore. Please go ahead.

Rich Moore
RBC Capital Markets LLC

Q

Hi. Good morning, guys. On the last call – I want to go back to Sports Authority for a second, if I could. On the last call, you guys had mentioned that you thought you'd lose one out of the seven and three in the stores had just renewed their leases in the past few months. I think even Sports Authority was saying out of the [ph] 400 (35:52) or so, they thought they'd lost may be half of those. And now it sounds like you guys are little more pessimistic. I mean, have you actually heard from them? Is there something that caused you to take this more conservative stance?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Hey, good morning, Rich. Yes, there is. We are continuing to monitor the bankruptcy pleadings and they initially went up on two tracks, Rich. They were going to work through a track that they would reorganize and one that they would liquidate. It appears to us today they have abandoned the reorganization track and are working almost exclusively on the liquidation track. And that is really being driven by the [indiscernible] (36:37) and there was a hearing a couple of days ago that really moved us to take this position in this call that really looks like where they're headed. And it looks like they'll have an initial auction early in May on the stores that they've already said they're going to close and they'll have an auction later in May for the balance of the stores.

Now, there are other opportunities for us and I think there is a great likelihood that these stores, our leases will be purchased by someone – some of them, some of them won't. We've gone through and looked at who we think the bidders are today and where they are in relation to our centers. So, I don't really have an estimate for what will happen, but some of our locations will be purchased. And we've actually had some discussions with other retailers about these locations, if they come up. So, three or four of them would be leased immediately, and then the balance would take a little while longer.

Rich Moore
RBC Capital Markets LLC

Q

Okay. And I think, you were saying – thank you for that. I think you were saying that, if you do – if some of those are purchased, you would reverse the reserve that you guys just did for those particular stores?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Yes. There is always a negotiation when the leases is sold. It could be that we would elect to waive that under certain circumstances if we could improve the lease a little bit on our side or get something on another location. But, yeah, for the most part when a third-party buys the designation rights, then they have to pay the prepetition rent.

Rich Moore
RBC Capital Markets LLC

Q

Okay. Good. Thank you. And then one more question for me, the situation in Houston was supposed to be dire and apparently the energy concerns were going to cause the entire city to disappear, and that didn't occur. And the latest problem this year seems to now be the West Coast where it seems that technology is going to disappear and maybe San Francisco is going to be a ghost town or something. And I'm curious if you guys have seen any sort of softening from your end in your West Coast assets or West Coast portfolio?

Andrew M. Alexander
President & Chief Executive Officer

A

Hi, Rich. Good morning. It's Drew. I would say the great thing about our property type is it is so resilient to these modest changes. So, I assume yes/no, you're being a little tongue-in-cheek with the end of San Francisco, et cetera. But I think what is unique about our property type is again, the recession resilient nature of things. When you overlay that with as Johnny spoke, there's just been so little new space built since the downturn across the country. The amount of new space is up a little bit recently, but it's still about two -thirds below the average over the last 30 years and 75% below where it was at the peak.

So, whether things slowdown in Houston a little bit or they slowdown in San Francisco a bit, it really doesn't affect quality anchored shopping centers like Weingarten has unless it's a multi, multi-year just horrible situation. So that's why we've done so well in Houston and we love San Francisco and the Bay Area, and good quality anchored centers are just very recession resilient.

Rich Moore
RBC Capital Markets LLC

Q

Okay. Very good. Thank you guys.

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

George Andrew Hoglund
Jefferies LLC

Q

Hi. Good morning. You had mentioned that in 1Q that store closures were a little bit less than what you have been expecting. I'm just wondering for the balance of the year, what's your outlook on your store closures and tenant bankruptcies, given it seems like year-to-date apart from Sports Authority, overall closures and announcements have been little bit less then I think most people have expected coming into the year.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Yeah. Good morning, George. Really, there is really two answers – two-parts to this answer. Number one, in the normal course of operating our shopping centers fallouts are low and they've been low for an extended period maybe 18 months, 24 months. We don't see that changing. So, I think we'll continue to enjoy relatively low fallout percentage. And I think our vision is that it will be pretty much the same. The other part of that answer would really relate to our initiative what we're trying to replace tenants and aggressively pursuing new opportunities where higher rents and better rent quality. So, yeah, I think overall, the market is going to continue to have very modest fallout. But I think our portfolio might have a little more, because we're really pressing.

George Andrew Hoglund
Jefferies LLC

Q

Okay. Thanks.

Operator: [Operator Instructions] And from Capital One Securities we have Chris Lucas. Please go ahead.

Chris R. Lucas
Capital One Securities, Inc.

Q

Good morning, everyone. Just a kind of follow-up on some of the demand-related questions, I guess specifically to the grocers, we've been hearing a lot about new unit demand and new market [ph] entrance inspired (42:22) number of players. And I guess, I was just curious as to how you thought or what you're seeing in terms of how that unit growth is, particularly in new market for some of the grocers is going to play out as it's related to whether it's a focus on vacant boxes or whether they were willing to standalone new construction or whether it would be new centers and how you see that supplies were playing out?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President

A

Yeah. Good morning, Chris. You're absolutely correct. I think the one exception to the [ph] cap rate (42:53) or modest demand is the supermarket industry. And I think what we've seen is a very strong push by the Whole Foods, the Krogers, the Harris Teeters, all the Kroger flags and HEB here in Texas. And the better stores, the top stores are continuing to expand store count and grab market share, mostly from the independent operator. And I think you're going to continue to see that.

One of the things that is difficult for us is in most cases they are competitors of ours to develop new space. And if they would prefer to build something new and they would prefer to own it. So that does create a little bit of an issues for us and that's where our urban strategy to focus on dense markets is good and certainly, they would take a space in that area if they could get it and would be more flexible on the ownership of it if they could. But, yeah, the supermarkets continue to expand at a nice pace and their business is quite good.

Chris R. Lucas
Capital One Securities, Inc.

Q

Okay. And then, Steve, on the unsecured bond market, do you have any sense as to what you guys would price a 10-year bond at right now? And how does that compares to sort of where you were six months from now?

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

Good morning, Chris. It's interesting, because I think if – on the last call, I don't remember if I had specifically answered the question, but I think our spread to the 10-year was somewhere in the [ph] $220 million, $230 million (44:30) range. And I would tell you, it got a lot wider and then it came late and tightened back up over the last 90-days or since we last had this conference call. So, I think today, we're still in that [ph] $220 million to $230 million (44:45) over – our spread over the 10-year for bond offering today. And quite frankly the market is very open.

Chris R. Lucas
Capital One Securities, Inc.

Q

So it's much more stable than it was in second half of last year?

Stephen C. Richter
Chief Financial Officer & Executive Vice President

A

Yes. I would definitely say that is. I think the traditional REIT buyers, at least of our paper are the buy and hold life companies. Obviously, with the New Year, they have new allocations and there hadn't been a lot of transactions in the market. So they – from my understanding, they're quite interested, but there hadn't been a lot of transactional activity.

Chris R. Lucas
Capital One Securities, Inc.

Q

Great. Thanks a lot. Appreciate it.

Operator: And we have no further questions at the moment. I will now turn it back to Drew for closing remarks.

Andrew M. Alexander
President & Chief Executive Officer

Thank you, Brandon, and thanks to everybody on the call. We're around if more questions about our great quarter. We'll also be seeing a lot of you at RECon and NAREIT, both of which take place before our next call and we look forward to that. So, thanks so much for your interest in Weingarten and we really appreciate it. Have a great weekend.

Operator: And this concludes today's conference. Thank you for joining. You may now disconnect.