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Weingarten Realty Investors (WRI)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Weingarten Realty First Quarter 2017 Earnings Call. My name is Brandon, and I'll be your operator for today. At this time, all participants are in a listen-only mode. Later, we will 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, Weingarten Realty Investors

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

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

Also, during this 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 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, Weingarten Realty Investors

Thank you, Michelle, and thanks to all of you for joining us. I'm pleased to announce yet another great quarter. We were in interesting times with a lot of questions and uncertainty. While there are certainly pressures on retail sector, our transformed fortress portfolio is well-positioned to handle these changes. Our operations remained very strong with solid same-property results and good rental rate increases. Most of the bankruptcies did not impact us at all, but we know there is likely more to come. We've often spoken about the success of our portfolio transformation that began in 2011, but never has the benefit of this imitative been so evident. We have many fewer locations that have marginal retailers. So, we have some challenges ahead, but we are well-positioned to work through them.

Moving on, our new development and redevelopment programs continued to progress. As planned, we closed on the purchase of the retail portion of The Whittaker, our six-storey, mixed-use project co-developed with Lennar in West Seattle. You may have seen Whole Foods announce that they're not going to open here. They've assured us that they want to work together to find a replacement tenant, and we're confident that we'll meet the financial obligations set out in our lease. Additionally, we don't have any significant co-tenancy exposure in the project. Prospect interest has been quite good, including several supermarket operators, and we are confident that we'll complete this project by the end of 2018.

We continue to make progress at the Gateway Alexandria, our premier, mixed-use development in Alexandria, Virginia that will include 282 multi-family units, a 100,000 square feet of retail anchored by a 62,000 square foot Harris Teeter the grocery store. The company's net investment upon completion is estimated about $181 million before planned sales. The land was purchased in late 2016, development is underway, and we expect to be complete in 2020.

Columbia Pike, a premier, mixed-use project in Arlington, Virginia, will include [ph] 365 multi-family units and 72,000 square foot (03:38) retail project anchored by a 50,000 square foot Harris Teeter grocery store. The company's pro rata net investment upon completion is estimated at $135 million before the sale of the residential component. The company expects to purchase the land and commence development this quarter, and completion is expected in 2020.

During the quarter, we added seven properties to the redevelopment schedule, including our high-profile redevelopment project The Driscoll at River Oaks Shopping Center. This 30-story luxury high-rise apartment project will be constructed at our River Oaks Shopping Center located adjacent to the premier residential community in Houston. Project cost will approximate $150 million. Predevelopment activities are underway, with construction expected to begin in 2018, with an opening in 2021.

Our current redevelopment program has 16 properties for an investment of $225 million. And our longer-term pipeline has $500 million of projects that we're working on. Great progress on new development and redevelopment, a terrific quarter.

Steve, the financials?

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

Thanks, Drew. Good morning, everyone. I'm pleased to once again report strong earning results. Core FFO for the quarter ended March 31, 2017, was $79.5 million or $0.61 per share, an increase of 7% on a per share basis. The increase in core FFO over the first quarter of 2016 was primarily due to increases in net operating income from our existing portfolio, our new developments and redevelopments, and our highly successful 2016 acquisition program. These increases were partially offset by the impact of our disposition program and dilution from additional common shares issued last year under our ATM program.

As Johnny pointed out last quarter, we expected occupancy to drop in the first quarter of this year, as we recaptured a few big boxes, some of which we initiated to upgrade the tenancy. We ended the quarter with occupancy a little higher than projected, as some of the tenants are falling out a little later than planned. Also, you may have noticed that operating expenses for the first quarter were high, which is from a $3 million lease termination payment made to recapture a supermarket as part of one of our redevelopments.

Additionally, we incurred impairment of about $15 million in the first quarter from several properties we sold or are planning to sell. The lease termination expense and the impairments, net of the related tax benefit, were added back in arriving at core FFO. You can see a reconciliation of the impairment on page 44 of the supplemental, and a reconciliation of net income to NAREIT FFO and core FFO is included in our press release.

The balance sheet remains very strong with net debt-to-EBITDA of 5.9 times and debt to total market cap of 34.9%. Debt maturities for the remainder of 2017 are only about $70 million. Guidance for 2017 remains unchanged except for NAREIT FFO, which is adjusted for the two items I mentioned earlier. All of the details of our guidance are included on page 9 of our supplemental.

Johnny?

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

Thanks, Steve. We're pleased with the operating results we produced this quarter. Actually, we're very pleased, given the disruption in the retail space over the last several months. Our transform portfolio has performed nicely. Clearly, the retail environment has experience turbulence, but we've only been impacted by a few bankruptcies.

We do not have any stores with Gander Mountain, hhgregg, Gordmans, Eastern Outfitters, The Limited or Wet Seal. We do have seven Family Christian stores, and we expect all of those to close within the next month or so. We have five RadioShack stores, and we expect each of those to close by the end of May. Finally, we have 24 Payless stores and seven rue21 locations. Payless has currently rejected three joint venture locations, so the impact of those will be very small. We do expect further terminations from Payless and rue21 over the next several months, and we think we will end up with about half as many of their stores as we have today.

As we look forward, we expect the combined terminations from all of these will cost the company about $0.01 a share in FFO in 2017. This is very manageable and does not affect guidance. We obviously are concerned that further bankruptcies and terminations could impact us depending on the timing and the size. We still see many retail categories expanding. We've recently leased to pet stores, home improvement stores, fitness facilities, discount clothing stores, arts and craft stores, supermarkets, furniture stores, cellular stores, medical services, full-service restaurants, quick-serve restaurants, and more.

We executed 89 new leases and 214 renewals during the first quarter. This is about the same as we had completed over each of the previous three quarters. Since quarter end, we've actually experienced a bit of an uptick in leasing. In April, we signed a lease with Marshalls and a former sports authority box. We had seven sports authority boxes terminated. As of today, four of those are leased, and we're actively negotiating committee-approved leases in the remaining three. We're also negotiating several other box leases, we expect to complete in the next 30 to 60 days . So, we continue to be optimistic that portfolio will produce excellent long-term results. Rent growth continues to be good, overall, it was about 9.5% during the quarter. Again, this is about what we had projected in our business plan.

As we communicated during the last call, occupancy dropped a little during the first quarter. We ended the period at 93.7%. Actually, this is slightly ahead of the business plan. It's worth noting that we purchased a few properties that have contributed around 50 basis points to the overall vacancy. The largest is a currently vacant 90,000 square foot building adjacent to our Fiesta Trails shopping center in San Antonio. It's going to be a profitable redevelopment opportunity, but does temporarily increase vacancy.

With the leasing we have in the pipeline, we expect to increase occupancy throughout the remainder of 2017. We continue to aggressively pursue long-term improvements to tenant quality and rents. As an example, during the quarter, we terminated a supermarket lease in San Jose, where we're negotiating two replacement leases that will result in significant increases in rent and net asset value. This sort of long-term positioning creates some short-term paying, lower occupancy, and NOI growth, but in the long term, it's highly accretive.

During the first quarter, same property NOI with redevelopment grew by 3.7%. Base minimum rent, the most critical component, grew 3.3%, another indication, it was a solid quarter. All of the bankrupt tenants we reviewed earlier paid rent through March. After accounting for those retailers' terminations, we still believe our guidance for same property NOI growth of 2.5% to 3.5% is appropriate. We expect the second quarter, same property NOI will be lower, then it should increase throughout the rest of 2017 as known commencements come online.

On a transactional front, we have not seen many opportunities to buy the kind of product we want. Good quality properties with good growth are rare and expensive. On the other hand, there still seems to be an active market for slightly lower-quality assets, which could incent us to increase our dispositions.

Cap rates for top-quality, supermarket-anchored centers have remained very stable. Generally, we've seen 4.25% to 5.25% in coastal markets and about 50 basis points higher in other major metropolitan markets. Cap rates for B-rated supermarket centers and power centers have gone up 25 basis points to 50 basis points. So, it was a busy quarter, we're pleased with our results, and confident we can deal with the challenges ahead.

Drew?

Andrew M. Alexander

President & Chief Executive Officer, Weingarten Realty Investors

Thanks, Johnny. Another great quarter especially in light of the market conditions. As I stated in my opening, I'm very pleased with how we had started the year, but I'm cautious about the future. But with a significantly transformed quality portfolio of properties, I feel Weingarten Realty will weather this. Recall, 75% of our rents come from centers with a grocery anchor, and those grocers' average, a strong $630 per square foot in sales, bringing thousands of people to our centers each month. Great people, great properties, and a great platform equals great results.

I thank all of you for joining the call today and for your continued interest in Weingarten.

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

QUESTION AND ANSWER SECTION

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

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

Q

Hi. Good morning, everyone. Drew and Johnny, you both mentioned the bankruptcies and Weingarten impacted by only about $0.01 based on what you know, but that there are likely more to come. Maybe you can provide a little bit more color on that, sort of your outlook for further bankruptcies and store closure announcements, and maybe give us a clearer sense for how much risk there is to that 2.5% to 3.5% same-store NOI growth range, to the extent that we do see more retailer fall out above and beyond what we are right now.

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

A

Good morning, Christy. I'll take a shot at it, then Johnny can amplify. So, as mentioned, we know what we know and we tried to assess things as best we can and be clear with the market where the exposure is. One of the big risks out there is that we see a lot more liquidations of retailers than we have over long-term history, so that remains a bit of a risk that we don't know.

There's been a lot written about how there has been a rise in bankruptcy and people speculating about run rate. Bankruptcy is a pretty seasonal business waiting towards the beginning of the year, so we're not aware of anything large super specific that's out there. In fairness, there's a lot of retailers owned by private equity companies, and we don't always get current financials. So, as you and I have talked about before, we think we have enough cushion in there. We know we have great centers, we know there's still demand, we're generally comfortable with the guidance, but obviously, a lot of the headline news has been has been negative. As we tried to say, we think our results are quite good, and we think things are much better on the ground than the headlines would have us believe, but there clearly are some changes in retail.

Johnny, any other thoughts, observation?

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

A

Yeah, Christy. I think the real risk to same-store NOI is that Payless or rue21 would terminate more leases quickly. I think that the risk associated with that is relatively low. And that would be less than $0.01 for the rest of the year, if they got everything closed right away. And I don't see that in terms of the discussions we've had certainly with Payless over the last couple of weeks. So, I think, again, we have a good amount of known commencements coming. And I feel good that our same-store NOI is in really good shape relative to our guidance.

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

Q

Okay, but it sounds like the – you mentioned for Payless and rue21, you expect to end up with about half of the stores, so it sounds like at least that is in your guidance right now. And I'm wondering, and just to confirm that, for Payless, for the balance of their stores, are they looking to negotiate rent relief as well?

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

A

Yeah, Christy, you're correct. We have in our current outlook baked in that Payless would close half of their stores that they have with us, and rue21 would terminate half of the stores they have with us by June 1. And yes, they are currently attempting to negotiate rent relief or some renegotiation of leases on the remainder of the stores we have with them, all 21 of them today, Payless. And we have not had any specific discussions with rue21 at this time.

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

Q

Okay. That's helpful. Thank you.

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

Nick Yulico
Analyst, UBS Securities LLC

Q

Well, thanks. Hi, everyone. I was hoping you could just talk a little bit more about the new lease spreads. They came in lower than previous quarters and prior years, and wondering what was driving that.

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

A

Yeah, Nick. Hey, this is Johnny. Good morning. My glass, frankly, is half full on rent growth. When you look at new leases for one quarter, it's a pretty small sample set. In the first quarter, it's 165,000 square feet, and I don't see that as a real indicator of much. There really was not anything driving the number, one way or the other. If you look at renewals, which is a much larger sample set, we're really right in line, where we've been for the last couple of years. And our combined rent growth, about 9.5, feels pretty reasonable.

My expectation is that combined rent growth over the next couple of quarters will be in the lower double digits, maybe the lower teens, but pretty much where it's been over the last couple of years. I don't see there's any way to sustain new lease increases in the mid-20% range. It's just not realistic. Those have been spectacular numbers that we produced, but things are not going to remain in that range. We have been saying it for a couple of years that the leasing demand is okay. It's not great. We still have the advantage of the lower historic new supply. So, the balance of the lease negotiation depending on one location over another is pretty even. So, I don't really see that there is any sort of titanic change that's occurred here.

Nick Yulico
Analyst, UBS Securities LLC

Q

Okay. And then, on the redevelopment, just a question here. If you're signing for a bunch of these projects, the other redevelopments, so you're saying it's a 12% to 14% incremental return on investment. We had the dollar of the investments here as the denominator. What would be the numerator there? Is it just any replacement of NOI? And then I guess, I'm wondering for a project like Sunset Point 19, which has been underway for almost a year and I think, since you lost it, you had the Sports Authority leave, how does that then change the redevelopment mass for that project, if anything?

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

A

Good morning, Nick. It's Drew. I'm not a 100% sure I understand all the elements of your question, so let me take a stab at it. I think what might be helpful is, and Michelle help me exactly on the definition, but generally speaking, we define a redevelopment as when the square footage is being changed.

So, we don't count simple painting and remodeling of shopping centers, but a redevelopment gets into the square footage change. So, Sunset 19, is an example, is on our website, you can look at it. We're adding some floater buildings, we're moving a lot of walls around. We had the Sports Authority as you mentioned, we had some other boxes there.

So, that's how we define redevelopment, and we try to label all those in the supplemental. The River Oaks deal, as we talked about last time and a little bit in this call, is somewhat unique, so that we broke that out in the supplemental. So, is that getting to your question, or is there something else we can help you with?

Nick Yulico
Analyst, UBS Securities LLC
Q

Yeah. I guess, I was just wondering if for that scenario at Sunset Point, where Sports Authority left, I don't know if that's one of the ones you re-leased, and I don't think it is, but when the Sports Authority leaves you're not getting – I mean you have to, I guess, put some money in to reposition it, yes?

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

Yeah. What we're doing is we're looking at a point in time, when the redevelopment was initiated. And we're saying that the NOI was x, and then the incremental NOI will be added, and there's an incremental investment. So, when we look at that, that's really what we're trying to show people is that from where it started to where it ended up, the incremental investment versus the investment. And that's the whole property, it's not just that individual space.

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

There were a lot of other things going on...

Nick Yulico
Analyst, UBS Securities LLC
Q

Right. So, I guess, my question then is, I mean, if a center, 80% occupied, you launched redevelopment on it. Your redevelopment return includes some of the benefit of leasing up the existing vacancy in the center?

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

Yes. But that's where, as Johnny said, it's a point in time, and sometimes that's working for you, and sometimes, that's not. We try to be as [indiscernible] (22:56) as we can across it.

Nick Yulico
Analyst, UBS Securities LLC
Q

All right. Thanks.

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

A

Thank you.

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

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Good morning. I was looking at, and I noticed the small shop vacancy didn't take a hit, but obviously, the anchors did. Is that something you expect to continue to for the rest of the year? And where do you actually expect total year-end occupancy to end up?

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

A

Hi, Craig. This is Johnny. Good morning. Yeah, let me answer the last question first. Generally, 94.5-ish is kind of where we're thinking. We think that things will improve through the rest of the year. Shop leasing has been pretty consistent, and frankly, leasing in general has been fairly consistent. Most of the occupancy loss that we're seeing over the last year is two different things. Number one, specifically, we have the 50 basis points or so of occupancy that we bought. So, we bought a vacant target store that is 90,000 square feet, and we bought a couple of other properties that have larger vacancy. So, we're buying some vacancy.

And the other part of that is we have two supermarket boxes that we took back towards the end of the quarter. One, we paid to take back; and the other one, the lease expired. On both of those, we have leases that I would expect should be signed over the next 30 to 60 days. And I think we'll see great improvement in the NOI and the NAV for those assets. So, I think they'll be very, very positive events for us.

The other thing I wanted to mention here is that , right now, the Payless vacancy is not in the shop space number. And again, I don't think it's going to move it a lot. It may move it a little bit, but really, the key is, is that the shop space demand has remained very, very consistent and pretty nicely strong.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Okay. And then maybe just an update on the Sports Authority stores?

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

A

Sure, Craig. So, we had seven, and we have re-leased four of those spaces now. We have three more of them that we are currently actively negotiating leases that are committee-approved. So, my expectation is, is that by the time we get to June or July, we have re-leased all of them. We probably get two of them, maybe three of them pay rent towards the end of 2017, but then the balance, hopefully, by the first, maybe the second quarter 2018.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

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

A

Thanks, Craig.

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

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks, and good morning, everyone. Just going back to the last question. Those two supermarkets that you just mentioned, are those a Safeway location that I noticed went dark in your portfolio during this quarter?

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

A

Yeah. Good morning, Ki Bin. Yes, those are both Safeway locations, one at Oak Park in Oregon, and the other one was in San Jose. Again, great locations.

We're honestly very pleased to have them back, and we'll do very well with them.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

I think if I look at the supplemental correctly, it's not just anchored that went dark, I mean, those centers are pretty empty, right, with the small shop space as well? Is that correct?

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

A

No. You might want to take a look at that again. San Jose is highly leased. It might be 100% leased; and Oak Park is highly leased. So, no, I don't think that's accurate. Maybe we can get together on that later.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And can you just give us a little insight into higher conversations that retailers have evolved over the past few months? I know they always ask for concessions, but are you just finding that the retail real estate landscape is maybe more willing to – maybe you're not, but maybe other landlords are more willing to negotiate rents? Are we kind of incrementally heading towards that direction?

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

A

I haven't seen any evidence of that at this point. Keep in mind that real estate is very local. It's not only corner-by-corner, but it's space-by-space. And we believe, we have a very good strong portfolio, and you haven't seen a whole lot of that. Obviously, Payless is asking for some concessions, and we'll have to decide what we do on an individual space-by-space basis there. But, we haven't seen much in the way of – and as per concessions, I review the accounts receivable on a monthly basis, and it's been pretty consistent over the last couple of years. We haven't seen, other than the few bankruptcies that have impacted us, any increase in what's happening in there.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And by the way, the center I was talking about was Oak Grove in Portland. That's 41% occupied, so that was what I referring to.

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

A

Well, right, but it's mostly Safeway.

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors

A

Yeah.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Got it. All right. Thank you.

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors

A

[indiscernible] (28:47)

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

George Andrew Hoglund
Analyst, Jefferies LLC

Q

Yeah. Hi. Good morning. Just a question on the retailer demand. I mean, you mentioned that for small shop space, demand remains solid. But just looking back over the past three months to six months, I mean, have you seen much of a change in retailers' attitude in terms of overall store expansions or contractions?

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

A

Hey. Good morning, George. Not really, I mean, I think, there's been a lot of information in the press and a lot of discussion about it. But when you look at our small shops, it's mostly services, a lot of medical stuff, and we've got great super market, $630 a square foot. So, they're bringing in over a million customers a year into the shopping centers. And we just haven't seen a lot or any decrease in demand or any issues as we're talking to retailers.

What we've experienced historically, when vacancy goes up, a lot of retailers actually going to want to migrate to the better shopping centers. And I think, you'll see some of that over the next year or so. But generally, demand has been about the same as it's been for the last couple of years.

George Andrew Hoglund
Analyst, Jefferies LLC

Q

Okay. And then on a similar note, how are you seeing the landlord competitors behaving? Are you seeing sort of more aggressive leasing or sort of how the behavior of competitors?

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

A

Yeah. I wouldn't characterize it as any different. Again, most of the sub-markets that we're in are good sub-markets and generally are pretty well leased. I haven't seen a whole lot of that. As we look forward to recon, we definitely are seeing great interest from the national and regional retailers, wanting to meet with us and look for new locations. So, I think that things are pretty much where they've been over the last couple of years.

George Andrew Hoglund
Analyst, Jefferies LLC

Q

Okay. Thank you.

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

A

Thanks.

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

A

The other thing I just add for everybody is to recall that retail is all about the sales the tenant expects to do. Rent is a very small portion of sales for really any retailer. So, while, yeah, there might be some landlords who are desperate, those are generally pretty poor locations and not the kind of things that Johnny and the team that we're dealing with. So again, as Johnny said, it's very localized, and all has to do with the sales projection for that location. The manager's going to get paid the same, the inventory is going to cost the same, the utility is going to be the same, so retailers want to be in good locations, where they'll do good sales.

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

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Yeah, hi. I guess, following up on some of the similar questions. I was just curious in terms of the normal discussions you're having with retailers, not the ones who where they're actually closing stores, but are they starting to push back more and just talk about the doomsday scenario to do whatever they can do to reduce rents, or is it still kind of normal course. And then...

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

A

Hey. Good morning, Mike. Go ahead.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

And I was just going to say, and as a follow-up, too. I mean the tone of the questions that I think a lot of us get, I mean, it's very negative, very 2008-like in terms of tone and the positioning. I'm just curious, can you talk a little bit about when you look back then, what are the similarities and the differences you see today versus back then in the environment?

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

A

Sure, Michael, good morning. I would tell you that in the normal course of discussions, there is always push back, and there is always a negotiation, and it really depends on the specific location, who really has the leverage at that particular shopping center and that particular space. Sometimes, we think we do good; and sometimes, we think they do good. And generally, we end up with a great tenant in a good location.

As it relates to 2008, this is not 2008. And you really haven't seen anywhere near that sort of discussions with retailers. And it may be just specific to us, because a lot of these bankruptcies have not impacted Weingarten directly, and so we're not seeing it as closely. Most of the locations, kind of the shadow supply that is occurring is in locations that are not around us. And if Macy's closes a store, they're probably not closing the store at Memorial City here in Houston. They're probably closing a store further out in the suburbs or somewhere where they're not doing very much volume, low income area, low density. And that's not where our locations are. So, we have not felt that impact, and we really haven't observed it at this point.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Got it. Okay, thank you.

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

A

Thank you.

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

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

Q

Good morning. Another retail trend we're seeing is the curbside pickup with grocers. Have you got any feedback from them? Are they doing more sales to justify the cost and the offset of the impulse purchases, or what do you think about this trend, and how it could impact your portfolio?

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

A

Good morning, Carol. It's Drew, I'll start and see if Johnny has anything to add. So, right now, they're very enthused about it. It's unique and it is increasing business. I think you make a great point in your question that we'll see how it goes. If it's worth it, it does cost the money, so they may need to charge it. And if you say they lose out on the impulse purchase, but for the time being, they like it, it's unique. I personally think they'll end up charging for it, and it'll be less unique. But right now, we're working with almost all of our supermarkets, I think.

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

A

Yeah.

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

A

Some version [indiscernible] (35:23).

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

A

Yeah. Hey, Carol, it kind of reminds me of fuel several years ago, where everybody wanted to have fuel really was a differentiator, if you did have it. Today, not so much, and my guess is, this will be kind of similar. I think you'd end up having to have it just to remain competitive and relevant, but I don't see on a long-term basis this is a huge mover. But it is something that that everybody is working on.

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

Q

And then your G&A expense was up over last year. Was there anything one time in there, or is that a good run rate going forward?

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

A

Good morning, Carol. This is Steve. The Q1 was little strong. We had some adjustments coming in from year-end in compensation and so forth. But I think, if you look forward, the $7 million number, it seems to be feel about right. So, I think, on an annual basis, a $27 million, $28 million run rate would be appropriate.

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

Q

Okay. Great. Thank you very much.

Operator: From Green Street Advisors we have DJ Bush. Please, go ahead.

Daniel Joseph Busch
Analyst, Green Street Advisors LLC

Q

Thank you. I appreciated some of the comments around the cap rates in the prepared remarks. I want to follow up and make sure, I heard you correct, Johnny, when you said that some of the lower quality properties, you see maybe some more demand there, which gives you an opportunity to sell more of those assets, is that what you said?

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

A

Yeah, DJ, good morning. Yeah, I think, we've seen more activity around that, some of the secondary locations that has been kind of interesting to us. We generally have more in the market than we think we're going to sell, so we have a pretty good indicator. And there has been some interest in what I would call the secondary type product. So, we're just kind of watching that and thinking that it's possible, we end up selling a little more than we had anticipated.

Daniel Joseph Busch
Analyst, Green Street Advisors LLC

Q

So, it seems like that's where we've seen the most cap rate movement. Have you seen that somewhat stabilize? And I guess, a follow-up on that would be, does it necessarily have to have a grocery component? Is that where most of the demand is, something that these centers that have a grocer, whether it's a big box center or not?

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

Yeah.

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

Go ahead.

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

Hey, DJ, it's Drew. I think a grocery is certainly better, but good boxes are good, too. And as Johnny said, and what we said, is we still see some demand. Cap rates are up a little bit. As Johnny said, we work on a lot of different things in order to get some number of things done. So, it is something that, as Johnny said, we are seeing some opportunities there. We've done between the quarter and a couple of deals, right after the quarter close almost a $100 million so far this year. So, we'll continue to look at things and do what we think is the right long-term thing, but right now, we're probably seeing a little more opportunities on the dispose side than the acquisition side.

Daniel Joseph Busch
Analyst, Green Street Advisors LLC
Q

Okay. That's helpful. Thanks, guys.

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

Thanks, DJ.

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

Floris van Dijkum
Analyst, Boenning & Scattergood, Inc. (Broker)
Q

Thanks. Good morning, guys. Sort of a follow-up on question for DJ, I guess, in terms of capital allocation. It appears like you're more comfortable selling assets right now and certainly less comfortable buying assets. Even though cap rates are rising, are you expecting cap rates outside of the major markets to continue to rise later on this year, and that's why you want to take advantage of this window of opportunity?

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

Hey, Floris, it's Drew. Good morning. I think we more look at things as they are at the time and try not to get into forecasting. Who knows, there's been a lot of conversation about what interest rates and cap rates are going to do. So, it's more about the opportunistic, what's available today and not trying to make too much projections. So, along those lines, when it comes to capital allocation, we really look at it a little more differently in terms of what are the choices that we have and try to keep a long-term view, because the only thing we're trying to say is we potentially see a little more opportunity on the disposition side than the acquisition side.

That said, we had a fabulous year last year with some major wonderful acquisitions that came on very fast and furious, and we got those done. And we would definitely be interested in the quality of property that we bought last year and the growth potential, risk reward, that those kinds of things has. So, we'll keep looking on both and be opportunistic and responsive to what presents itself and do the right long-term thing for shareholders.

Floris van Dijkum
Analyst, Boenning & Scattergood, Inc. (Broker)

Q

Yeah. And on a related – I guess, last year you've had about $514 million, I guess, of acquisitions. This year, if I look at your development and redevelopment pipeline, and I totaled them up, it's around $600 million. Again, some of that will get spent over a number of years, in particular. I guess, the River Oaks one is a longer-term project. But how will you fund that? And I guess Steve is that partly what's causing you guys to look at potentially taking advantage of market conditions to sell some of your lower quality assets?

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

A

Good morning, Floris. No, I would say that, that's not what is driving the capital needs. I mean, I think, we're in good shape where we sit today. We have about $175 million under the revolver. Most of the new development capital that you referred to doesn't really kick in until next year. Again, back towards Drew's comments, as we just see it, looking at the world today, more opportunistic to sell some assets. We would be open to buying some, if we find those opportunities. So, it's not capital-constrained in any particular direction.

Floris van Dijkum
Analyst, Boenning & Scattergood, Inc. (Broker)

Q

I wasn't implying that you're capital-constrained, because your balance sheet looks in pretty good shape, to be fair, but thanks, guys.

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

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

Q

Good morning, everyone. I guess, just, Johnny, just maybe to put this in perspective. If I look back, your TSA exposure a year ago was about 1% of ABR. When you total up your exposure for all of the tenants that you talked about before Family Christian, RadioShack, Payless, rue21, what's the total ABR exposure there?

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

A

For rue21 and Payless, it's about $2 million.

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors

A

$1.5 million.

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

A

I'm sorry, $1.5 million.

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors A

No, no, no.

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

1.5%.

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors A

Yeah, 1.5%

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

Okay.

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors A

In total.

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

It's 1.5% or $1.5 million, because those are different?

Michelle Wiggs
Vice President-Investor Relations, Weingarten Realty Investors A

1.5%

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

It's 1.5%.

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

1.5%. Okay. And then just going to the new lease deals that you guys signed in the quarter. It looks like tenant improvements on a per year basis were down relatively significantly, is there anything specifically going on there, or is that just a function of the pool in the...

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

Chris, that's just a function of what we leased this time. I don't think there's any indication there. There was only one box included in the number, so that does impact it. Generally, the boxes do have a higher allowance.

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

And then on the renewals for the quarter, the volume was the highest in at least five years. Is anything specifically going on there as it relates to just the level of activity, or how you're going at it, or is it just a timing issue in terms of just giving a lot of stuff on the first quarter.

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

Chris, it's just a timing issue. We do incent our people to lease space, and they do lease it as quickly as possible, but we're working on those last year, too. It's not like, we just started working on them this quarter. So, we're leasing them as fast as we can and as fast as the retailers want to lease space.

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

Great. Thank you. Appreciate it.

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

Thanks, Chris.

Operator: 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 along the same lines. Was there a specific reason why that your lease spreads were weaker than past trends?

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

I'm sorry Ki Bin, you broke up a little bit. Can you say that again, please.

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

Yeah. So, just was there any specific reason why the new leased spreads were little bit weaker than the past trends?

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

Not particularly. We went back and have looked at all of the leases. There really wasn't a specific lease driving plus or minus. The vast majority of them are positive leases. Our expectation is that on the total rent growth, we would be in the low-single digits, maybe low-double digits going over the next several quarters. So, I don't think we'll get back to these huge numbers, high-20s, 30% increases that we had in new leases a couple of a year or so ago. But I think, I think these numbers are very, very positive.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And this is going to be a very small number, but the percentage for rent that you get on your same-store pool, it's a very small number, but it changed minus 20% in the quarter. Just curious if this is tied to a specific set of retailers?

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

A

Hey, Ki Bin, it's not, it's just timing. When they report and when we account for it, the total percentage of rent I think is less than $4 million, about $3 million so it's, it's obviously not a big number.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah, but...

A

And something to add, a small amount from the same quarter last year, it's down from the previous quarter because of the way you have to account for it. You have to start your accrual and so you get your break point, so.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay.

A

Quarter-over-quarter [indiscernible] (46:20)

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah, I realize it's a small number, I was just looking at it to see if there's any type of trend that [indiscernible] (46:29). But, okay. Thank you.

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

A

Thank you.

Operator: [Operator Instructions] And it looks like we have no further questions at this time. Drew, we'll turn it back to you for closing remarks.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Thank you, Brandon, and thanks to everybody on the call, we'll be around later if there's more questions. Look forward to seeing many of you at ICSC RECon or NAREIT. Thanks again for your interest. Have a great day.

Operator: Thank you. Ladies and gentlemen, this conclude today's conference. Thank you for joining.

You may now disconnect.