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Weingarten Realty Investors (WRI)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Weingarten Realty Inc. (sic) [Weingarten Realty Investors] (00:00:06) First Quarter 2019 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. [Operator Instructions] Please note, this conference is being recorded.

And I will now turn it over to Michelle Wiggs. Michelle, you may begin.

Michelle Wiggs

Vice President-Investor Relations, Weingarten Realty Investors

Good morning, and welcome to our first quarter 2019 conference call. Joining me today is Drew Alexander, Johnny Hendrix, Steve Richter, Joe Shafer.

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 (sic) [Investors] (00:01:24) tab of our website.

I will now turn the call over to Drew Alexander

Andrew M. Alexander

Chairman, President & Chief Executive Officer, Weingarten Realty Investors

Thank you, Michelle, and thanks to all of you for joining us. I'm pleased to announce another good quarter, a great start to what we feel will be a very good year. Same-property NOI growth of 3.2%, once again exhibits the significant transformation of our portfolio. While the retail environment continues to have its challenges, the diversification of our tenant base, the quality of our real estate, and the much improved overall strength of our merchant lineup enables us to post solid metrics. Coupled with a best-in-class balance sheet, WRI is well-positioned for future growth.

Acquisition activity has picked up somewhat, as we closed on a grocery-anchored center in Phoenix and have a couple of others in the pipeline. We're encouraged by the product we've seen lately and are cautiously optimistic that we will be able to add some quality properties to our portfolio during the balance of the year. As to dispositions, we've sold $67 million of property in 2019. We'll continue to sell non-core properties albeit at a slower rate.

With respect to our new development activities at both West Alex and Central Arlington in D.C., we're scheduled to begin residential pre-leasing activities in the latter half of the year and expect to have a modest amount of revenue online before herein. At Central Arlington, we expect Harris Teeter to open around year-end of 2019. Both of these projects have many moving pieces, which continue to impact the timing of the construction, expected stabilization dates, and estimated final investment.

As has been widely noted, mixed-use projects have their challenges, but the D.C. area locations will be successful, valuable real estate projects. They benefit from a strong super market anchor that are close proximity to Amazon HQ2 and the strong Northern Virginia market.

The Driscoll at River Oaks is progressing nicely. Construction is currently ahead of plan, and we should have some residential units available in mid-2020. Recall, this 30-storied luxury high-rise at our prominent 320,000 square-foot River Oaks Shopping Center here in Houston will include over 300 residential units with around 10,000 square feet of ground floor retail. And the total project cost is approximately $150 million. We have many other redevelopment projects in the pipeline that'll provide excellent returns on the invested capital, and we continue to work on those with great focus. A solid quarter.

Steve, the financials?

Stephen C. Richter

Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

Thanks, Drew. Good morning, everyone. Before I get into the specifics of our quarter, I wanted to point out that effective this quarter, we adopted the new GAAP leasing standard, which has several effects. As we previously discussed, the most significant change is the expensing of indirect legal and leasing costs, which resulted in over $2 million of additional overhead in the first quarter being expensed as G&A that was capitalized last year.

Second, we are now required to exclude from revenues and expenses real estate taxes paid directly by tenants to the taxing authorities. Third, we are the lessee under 13 ground leases. Our operating ground leases are now reported on the balance sheet and amortized accordingly to rent expense. And the net impact on FFO was minimal.

Finally, there are new rules for determining and presenting what used to be called, bad debt expense and the allowance for doubtful accounts. For WRI, this has not resulted in an additional expense in the first quarter, nor any adjustment to retained earnings, as we believe we have adequately adjusted for all AR, where we don't think it is probable that it will be collected. The details of some of these reclassifications by account are included on page 44 of the supplemental.

Now, onto the first quarter. Core FFO for the quarter ended March 31, 2019, was $0.52 per share compared to $0.57 per share for the same quarter of the prior year. The decrease is primarily due to disposition activities , which cost us $0.03 per share for the quarter, and $2.3 million of indirect leasing costs we expensed in 2019, but not in 2018. Additionally, 2018 included a gain on debt extinguishment of $0.03 per share. These decreases were offset by the strong increase in same-property NOI driven, primarily driven by increased base minimum rents and incremental income from our developments and redevelopments. We also recognized increased compensation expense for restricted share awards, offset by other G&A expenses, as noted in the press release. A reconciliation of net income to core FFO is included in our press release.

Our balance sheet remains amongst the strongest in our sector. At quarter-end, net debt to EBITDA was a strong 5.3 times. And debt to total market capitalization was 31.9%, supported by a well-laddered maturity schedule that has no significant maturities until 2022. Our great liquidity and strong credit metrics provides significant long-term stability and flexibility to pursue opportunities that arise.

As to earnings guidance, we are affirming all amounts presented in our prior quarter. All the details of our guidance are included on page 10 of our supplemental.

Johnny?

Johnny L. Hendrix

Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

Thanks Steve. We're very pleased with our operating results this quarter. Occupancy remained strong at 94.3%. The impact of bankruptcies has remained minimal. Fallout was a record low. Leasing remained strong, with 210 new leases and renewals signed for $18 million in annual rent. Our redevelopment program continues to produce strong risk adjusted returns. And finally, our same-property NOI with redevelopment was a very strong 3.2%.

Just a brief update on the bankruptcies. We have two Kmarts, one is closed, and we expect it to be rejected soon. We received April rent for the closed store and may still get May rent as well. We expect the remaining Kmart will be affirmed. We're working on leasing the eight remaining Payless stores we have. We expect those to be closed over the next several months as they liquidate.

Leasing has been going nicely for those shop spaces. The company has leased three of the four Toys spaces, and we're negotiating a lease for the fourth one now. I would expect those spaces to be back online, paying rent by the end of 2019. We have four Mattress One stores, representing $370,000 in annual rent. These are generally good locations, and we should re-lease any we get back quickly. Our guidance has accounted for each of these bankruptcies.

Overall fallout during the quarter was 15% lower than a year ago. This is a direct result of our transformed portfolio and the high-quality tenants we've been leasing to in recent years. Normally, the first quarter has the highest fallout of the year. So, we're cautiously optimistic this lower fallout will continue through 2019.

As of the end of the quarter, our average sales are $678 per square foot. This is incredibly strong and compares to average supermarket in the U.S., with sales around $400 per square foot. We continue to lease mostly the service tenants, medical uses, discount clothing, fitness facilities and restaurants.

Occupancy remains strong at 94.3%. Importantly, we have a 200 basis point spread between signed and commenced. We expect to commence 271,000 square feet or about $7 million in annual rents over the next six months, which will fuel nice gains in same-property NOI the rest of 2019. You'll see we've added an additional disclosure on page 30 of the supplemental.

Same-property NOI grew a very strong 3.2% during the quarter. Most of the increase was driven by minimum rent, which was up 2.8%. In addition to the lower than expected fallout, we commenced rent for a couple of larger tenants earlier than we expected. The one operating metric that appears low was rent growth at 3.7%. It's the result of a few box renewals that were originally signed in 2008, prior to the financial crisis.

During the quarter, rent for new leases grew at 11.5%. Shop space renewals grew at almost 7%, while box renewals were negative 3.3%. We had some visibility as to the box renewals for the balance of 2019, and we expect those to increase in the mid-single-digit range. As part of these renewals, we were able to extract some non-economic benefits, like reducing or eliminating options, longer lead time for auction notice, easing of restrictions, and more flexibility in adding buildings in the future, which will supplement our redevelopment efforts.

Our redevelopment program remains strong, as we have 10 shopping centers, excluding River Oaks under redevelopment with an expected investment of $82 million in estimated returns of around 10%. This quarter we added to outparcel buildings with 20,000 square feet to the program. These are located in Fiesta Trails Shopping Center in San Antonio, fronting Interstate 10, close to the H-E-B, which anchors our shopping center and is a dominant supermarket in Texas.

During the first quarter. We purchased Madison Village Shopping Center in Arizona. This is a 90,000 square foot shopping center, which has a high-volume Safeway with below market rent. The center also has 40,000 square feet of shop space we feel we can improve the tenancy on over the next couple of years. We expect the compound annual net operating income growth over 4%. We have a few other properties in the pipeline that we like, we still have a lot of diligence to complete, so there's no guarantee those properties' close.

Drew?

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

Thanks, Johnny. This has been a good start to 2019, great acquisition of a grocery-anchored center, great same-property NOI grow, low tenant fallout, nice leasing velocity, and a great balance sheet. We feel that our extensive transformation efforts have positioned the company to maximize the long-term value for our shareholders. With our accelerated disposition program largely behind us, we are well-positioned for future growth. 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. 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.
Q

Hi. Good morning, everyone. Hey, Johnny, wondering if you could provide some additional color on the box renewal spread anomaly in Q1. How many stores were involved? Was this related to the reduction in rent per square foot on your DICK'S exposure? And was this a renegotiation on an option renewal? Just looking for more color on that.

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

Hey, Christy. This is Johnny. Good morning. Yeah, these were renegotiation of boxes that we actually did the original leases on, early in 2008, so they've been in place for about 10 years.

I just want to make sure a couple of things. Number one, that I communicated clearly that we expect box renewals will be in the mid-single digits through the rest of the year. And a little bit of perspective, the box renewals for 2018 averaged 5.5%. We don't have a lot of visibility on the overall increases for the rest of year, but again, we would expect that to be closer to the double digits.

I do see this as a bit of an anomaly. The company's average base rent is very strong. We reported, this quarter, for the boxes, $13.63, and that's an increase from $13.56 last quarter. And overall, $19.45 for the company, up from $19.35 from, again, last quarter. Again, these were renegotiations. This was a bit of an anomaly. And at this particular situation, the tenants did have some leverage that they exerted.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.
Q

And so, is this retailer doing this sort of programmatically across their stores sort of aggressively trying to get rents lower, such that you may not have any more exposure to them this year, but perhaps in 2020, as we sort of go down the line that you'll continue to maybe see this come through your rent roll? And should we be concerned about this happening with any of your other box tenants?

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

Christy, I would tell you that every retailer is exerting as much pressure as they possibly can. We are getting request for reductions all over. For the most part, we have a very strong portfolio. And we're able to negotiate from strength in those situations. So, I wouldn't think this is going to be an ongoing situation. I don't see this as an issue that I would be overly concerned about going forward.

Christy McElroy
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Thank you.

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

Thank you.

Operator: From Scotiabank, we have Greg McGinniss. Please, go ahead.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.
Q

Hey. Good morning. Steve, you came in above same-store NOI guidance range for the quarter, but still firm. Is that just due to the Kmart and Payless headwinds, or are there other items assumed in there as well? And then, I'd also like to get a sense for how you expect the metric to trend to the year? And what are items that could take you to the top or bottom of the range?

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

Good morning. The quarter was a good first quarter. There's lots of moving pieces. As Johnny mentioned, what could move to the high, to the low end, is still – probably the biggest issue is fallout. In our guidance, we still are conservative. Again, fall out in Q1 was extremely low. If that continues for the balance of the year, it will bode well for 2019 overall.

So, I think that it's tough to really – other than the fallout to go guess what can cause things to go really well. Accelerating commencement of leases obviously helped on the positive side. And as I mentioned, on the downside, fallout of rents, quicker leasing up, et cetera. So, it's really difficult to know this early in the year to predict where we'll wind up for the balance of the year.

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

Hey, Greg. This is Johnny. I just wanted to mention that Kmart is not a lot of rent. That's the Placerville store. And as you remember, the rent is really low. I think it's about $30,000 a month, so that's not a huge number.

And the big thing that we have out there, obviously, is the bankruptcies. The one that is kind of looming is Pier 1 that everybody has talked about. Our exposure to them is relatively low, about $1 million in annual rent. And even if they file bankruptcy today, we probably wouldn't have that much lost rent for 2019. For the rest of it, there are already big bankruptcies that we're not currently aware of, then that would definitely hurt.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.
Q

Okay. Thanks. And then, kind of shifting gears, think about development a bit. I recognize there's still a lot of pipeline left to deliver, contribute, stabilize over the next few years. But how are you thinking about additional ground-up development or multi-family investment over the next few years? And considering Amazon coming to town in D.C. how are you thinking about the multi-family portion on those Virginia assets? Still planning on selling those, stabilization, more long-term investments there? Any color will be appreciated.

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

Hey. Good morning, Greg. It's Drew. So, we're very comfortable with the two D.C. developments. As I think we've articulated, the original thought was to sell them, not just after they're stabilized, but after we really have a good understanding of how the project works, all the mixed use, how everything interrelate. So, it's some time off. And I hope, something we've always been flexible about, that our view on that may change.

So ,as you mentioned, with the Amazon coming on and those jobs really don't take place until 2021 or so. It is something that we will certainly evaluate as we get closer. And we might hold those longer, might joint venture, or if somebody offers us a really attractive price, we'd be opportunistic about it.

As we've mentioned before, I don't think we're really going to add any multi-family exposure on our balance sheet till we digest more of the big three projects that we have. The projects are doing nicely, and we're very comfortable with it, but we do appreciate it's not our core expertise. And as we said before, not looking to add other multi-family, until we digest the three we have.

That said, we are looking at some new development opportunities. We would structure them more like we did at Whittaker, where if they were mixed use, we would not have the resi on our balance sheet. Seeing some things, working on some things, but I don't think there'll be a tremendous amount of new development added to the pipeline. We're just not seeing the demand and the tenants willing to pay the rent.

On the other hand, as Johnny alluded in his remarks, we are seeing a tremendous number of redevelopment opportunities to go into our existing portfolio and add product. We're also starting to see some acquisition opportunities that make sense to us. So, I think a lot more of our capital will go to redevelopments and acquisitions, and not really likely that we'll do a lot of new development, but we are looking at a few small things.

Greg McGinniss
Analyst, Scotia Capital (USA), Inc.
Q

Thanks, Drew. Appreciate the color.

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

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch
Q

Hello.

Operator: Yes, go ahead.

Craig Richard Schmidt
Analyst, Bank of America Merrill Lynch
Q

My questions have been asked. So, thanks.

Operator: Okay. Sure.

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

Good morning, Craig. Thanks.

Operator: From Green Street Advisors, we have Vince Tibone. Please, go ahead.

Vince Tibone
Analyst, Green Street Advisors, LLC
Q

Hi. Good morning. The weighted average lease term for new leases continue to trend lower this quarter. Just wondering if this is a mix issue or tenants actively negotiating shorter leases than in the past?

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

Hey, Vince. This is Johnny. Good morning. Yeah, this is clearly a mix issue. We just didn't have as many boxes new leases signed this quarter as we would normally have. I would say, there's really no change in that area relative to the tenants we're negotiating with. We actually may even be negotiating some longer leases, particularly for some of the other boxes. So, I would see that trend going back to normal or even increasing the lease term over time.

Vince Tibone
Analyst, Green Street Advisors, LLC
Q

Interesting. So, how much – is the lease structure changing in terms of more options or just longer, absolute leases.

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

No, just – no, Vince, just longer terms. As we're spending a little more capital on getting some of these tenants in there, we are negotiating for longer terms. And in some cases, we are able to get it.

Vince Tibone
Analyst, Green Street Advisors, LLC
Q

Got it. That makes sense. And then one more, just quick one for me. Have you mentioned Safeway in Madison Village is below market? How much term is left on that space, including options before you can really get to it in market to market?

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

It's a lot of term. It'll be a long time.

Vince Tibone
Analyst, Green Street Advisors, LLC
Q

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

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

Thank you.

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

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. Can we talk a little bit more about your development projects? And can you remind us where the underwriting was for multi-family rent versus where the market is today?

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

A

Good morning, Ki Bin. We haven't gotten into those kind of specific disclosures. But generally speaking, on all three projects, we're between about $2.50 and $3 a square foot. It's something that we're generally comfortable with. We look mostly at untrended rents, it's called, or very modest trending. So, generally speaking, very comfortable with things.

But these are also luxury properties you want to. And we've had lots of discussions with the operators. You want to be very sensitive to the credit quality of the people you're leasing to. These are all renters by choice. There is some free rent in both markets or all three submarkets So, you have to work through that depending upon your timing and getting the right people.

And you have to be sensitive. You're generally looking at 12, 13-month leases, so it's good that you get another bite at the apple quickly. But some of these people are pretty prone to move, so you also have to be careful you don't have people leaving the backdoor, as it's called, too soon before you fill things up.

So, very comfortable with the projects long-term. The Amazon jobs will be coming on, but that will be a little bit after we start leasing the project. So, a lot left to be done, but we're cautiously optimistic and pleased with all three projects at this point.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

And Central Arlington is about a year away from stabilization. When should we start to see some kind of leasing momentum in that project?

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

A

Towards the end of the year, Harris Teeter is opening. And as mentioned in both projects, we'll start some residential leasing towards the end of this year. How much expense we have versus revenue is a little dicey exactly where the calendar falls, and how the construction goes, and how things develop. But Central Arlington is processing nicely. And Harris Teeter is supposed to open the end of this year. So, a little bit of revenue this year, and substantially more next year.

So, we're encouraged. We've been working on and talking about these projects for a long time. Mixed-use projects have a lot of complexity, as I've said and a lot of moving part, but we are getting towards the pay-off on them, and are very pleased. Think they'll be very good long-term projects.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And last question, the same topic. Your redevelopment at Sunset Point 19. You have Bed Bath & Beyond as one of the key tenants for that redevelopment project. So, how do you think about that tenant? And how healthy we are in the future, and how you balance merchandizing mix versus basically given the rent?

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

A

Maybe I'll take the star and Johnny can chime in, since it's really more a leasing decision. But I think a lot of it, they were there in the project. They wanted to move, it was a good store. We're also giving them a nice new box and a good spot with new terms, so.

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

A

Yeah. The other thing is when you're looking at merchandizing property, you're looking at it space-by-space, center-by-center decision. This is a very strong store for Bed Bath & Beyond. We recently got all of their sales. And this is the strongest store we have with them. They really don't have very many other stores in the area, which I think is going to be a key to their success going forward.

They obviously have a place in the retail distribution chain. And they have some issues that they're working on. I am sure they have a very good balance sheet. They will be able to improve over time. But they'll probably close some stores, too. And that'll be an issue that we'll deal with, when we get there. And we've got a great relationship with them. We'll be talking with them at ICSC again this year and going over all of our stores.

Ki Bin Kim
Analyst, SunTrust Robinson Humphrey, Inc.

Q

All right. Thank you.

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

A

Thanks.

Operator: From JPMorgan, we have Hong Zhang. Please go ahead.

Hong Zhang
Analyst, JPMorgan Securities LLC

Q

Hi. I guess a question on acquisitions and dispositions. I guess, how much do you have under contract on either side as of today?

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

A

So, Hong, it's Drew. As to dispositions, we feel comfortable with our guidance. As mentioned before, we're going to be very opportunistic about what we sell. Looking to sell the bottom of the portfolio at NAV, we think, is good when the stock's at a discount to NAV.

We are seeing some acquisitions which is helpful. But I really don't want to get into what's under contract. We're not going to close everything that's under contract in all probability. We're going to work on a lot more than we expect to close. So, we'll position ourselves very well to be opportunistic. But we don't expect to close everything that we're working on. Acquisition, likewise, Johnny can chime in. We're seeing some more things and we're encouraged, but it'd be a little early to start publishing pipelines and starting to count on specific thing.

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

Johnny...

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

Yeah. I think the market has had a little more product. And we've been excited to be able to work on a few things. We've got a couple of things that we're negotiating Letters of Intent or under contract on. Again, we feel good about the guidance of midpoint around $100 million. So, that's where we think we'll end up.

Hong Zhang
Analyst, JPMorgan Securities LLC
Q

Got you. And then, I guess, on the Kmart, Toys, Payless backfilling what sort of tenants have you found to take those spaces?

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

I would say that the discount ready-to-wear is dominating. We have a Burlington, Ross, another – couple of Rosses, so that's really where we are. I think we have a furniture store on the other one. But discount ready-to-wear is absolutely where the business is today.

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

Got it. Thank you.

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

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

Good morning, everybody. Hey, Johnny, on the tenants that have indicated that they are looking at closing stores or shrinking their real estate footprint over the next couple of years, when you're talking to them, is it more likely that they're just going to wait till the end of the term of their lease, or are they looking to get out in advance? And if they are getting out in advance, what's your view as to taking sort of a lease term fee or keeping them on the hook until you are backfilling?

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

Good morning, Chris. Most of the time, they are looking to close the store earlier than the end of the term. And I think the Office Depot's a really good example of that. I think you published a piece that they're closing two stores that we have with them. Both of those stores expire in either mid to late 2020. And that really helps us. We actually are negotiating a committee-approved lease on one today. We should be ready to start construction the day that they terminate. We may terminate them early, we may not, depending on how our negotiations go and the entitlements go.

The other store we have several people who are very interested. That one his late 2020, we should be in good shape to either terminate them early or wait until their lease expires. That's kind of normal. In most cases, we're talking to tenants a year or so in advance. And we have a really good idea what they're doing.

One of the advantages that we talked about earlier in some of these leases that we've been negotiating is if I can take away the options, or if I can get a longer period of notice on the options, it puts me in a lot better negotiating position the next time, where I have the ability to look at some different tenants and different options. And that's always very, very helpful for us.

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

Q

Okay. And then, moving over to Centro, there's been a number of press accounts describing a deal you guys have signed with WhyHotel for a good number of the units. Can you sort of describe how that works and how that will impact 2019 numbers?

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

A

Good morning, Chris. It's Drew. I don't think it'll be that significant in 2019. It was something that was brought to us by our partner, who is the expert there. That whole genre seems to be very much catching on and talking to some of my other friends and peers in the apartment world.

A lot of this started out as a way to jumpstart the pre-leasing and get a lot of units done. But it's worked out operationally very well. In a lot of cases, has become a permanent part of the projects that there seems to be a nice niche, where it's a longer stay than a traditional hotel. It's people who are looking at more routine business. They do a good job in terms of the screening that you don't end up with any bachelor or bachelorette parties or anything like that, that's disruptive. So, it's a nice book of business.

So, as we learn more about mixed-use projects, it's something that started out as a try – could be short, but it may end up being longer. It may be something that happens in other projects. But again, in talking to some of the different – both private and public companies, it seems to be quite a niche. And obviously, people are trying new things. Marriott's, a recent announcement just one example. So, we think it's good, we'll try it, but it won't be that much in 2019.

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

Q

And that structure, it is sort of a master lease structure? I mean, you're not involved in how active the units are actually rented, correct? I mean, it's a master lease contract?

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

A

You are correct. That is absolutely correct. We have some understanding of the standards and their policy to prevent the bachelor parties. But no, we are not – I'm not at the front desk handing in the room key. No, you're exactly right.

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

A

And Chris, Joe Shafer here. On the cash we're going to bring in the door on the WhyHotel, that's going to be a contra asset, so we're not going to be recognizing revenue.

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

Oh. Okay. Great. Appreciate it. Thank you.

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

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

Well. Thank you, Brandon. We appreciate everybody's interest in the call. We're around if you have other questions. We'll see many of you at RECon, and/or Nareit. We very much look forward to that.

Again, thanks so much for your interest in Weingarten. Have a great day.

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