Corrected Transcript

28-Oct-2016

Weingarten Realty Investors (WRI)

Q3 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning ladies and gentlemen, and welcome to the Weingarten Realty Third 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, Weingarten Realty Investors

Good morning, and welcome to our third quarter 2016 conference call. Joining me today is Drew Alexander, President and CEO; Stanford Alexander, Chairman; Johnny Hendrix, Executive Vice President and COO; Steve Richter, Executive Vice President and CFO; and Joe Shafer, Senior Vice President and CAO.

As a reminder, certain statements made during the course of this call are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results could differ materially from those projected in such forward-looking statements due to 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 certain references 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 outstanding quarter. Operations remained strong with excellent rent growth and continued benefit from our redevelopment pipeline. We completed some great acquisitions and our development projects are moving along nicely.

During the quarter, we invested nearly $360 million in acquisitions, the most exciting being Palms at Town & Country, which we announced in our last call, and Scottsdale Waterfront, which Johnny will discuss in greater detail a little later. Year-to-date, we've invested almost $0.5 billion in really outstanding properties that together with almost $200 million of dispositions year-to-date continues to greatly enhance the overall quality of our portfolio. Volumes of this magnitude moved the needle on our total portfolio quality and performance.

With respect to new development activities, we had a very busy quarter. We not only completed our Wake Forest development in the Raleigh market during the quarter, we also sold it. Recall we acquired a supermarket anchored center adjacent to our development in late 2015, which together with the development we sold as one property. We retained a couple of pads that are under contract to sell and another outparcel where we're developing a multitenant building that will be sold upon completion.

Nottingham Commons in White Marsh, Maryland, is anchored by T.J.Maxx, Petco, and MOM's Organic Market. We're now 100% leased and expect to stabilize this property in the fourth quarter. We anticipate beating our development pro forma due to higher rents.

Whittaker in West Seattle, a six-storey mixed-used project being co-developed with Lennar who anticipates delivering the retail portion by early next year. We expect the 41,000 square foot Whole Foods, which anchors this $31 million investment to open in late 2017. Our Walter Reed development in the DC area continues to move forward with the closing on a portion of the land expected to occur early next year. Development of the majority of the retail component is projected to commence in 2018.

As to our pipeline, we've reached an impasse with the City of Atlanta and have stopped our pursuit of the Civic Center redevelopment project. It's a good site and we had nice supermarket interest, but we needed more time to work out the logistics to have proper risk reward. While we hope to rekindle some dialogue with the city, the prudent course of action was to write off our pursuit costs and focus on other opportunities.

Speaking of other projects, we're very excited about a project in Alexandria, Virginia that we've been working on for some time. Gateway Alexandria at King and North Beauregard streets is a mixed used project with 275 residential units and 110,000 square feet of retail anchored by a 62,000 square foot Harris Teeter. There's also an office pad that we will sell to a third party office developer at a later date. This is a high barrier infill site with impressive demographics, which has taken seven years to entitle. Our total investment is invested around $160 million. We'll hire a third-party expert to do the residential for us. And after completion, we'll likely sell the residential component, which is about three quarters of the investment.

We don't quite have everything lined up, but given the timing of this call, we wanted to mention this exciting deal. We expect to close on the land in a couple of weeks and commence construction in early 2017. More details on this exciting location are on the Development tab of our website. We're pursuing other development opportunities and are optimistic about our pipeline. We'll 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 will give you the details on the financials.

Stephen C. Richter

Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

Thanks Drew, and good morning to everyone. I'm pleased to once again report strong earnings results. NAREIT FFO was $73.1 million or $0.56 per share for the third quarter of 2016, compared to $70 million or $0.56 per share for 2015. NAREIT FFO was up in dollars, but per share was flat compared to the prior year due to the increased shares outstanding. Year-to-date, NAREIT FFO was $214.7 million or $1.68 per share for 2016 compared to a $188.7 million or $1.50 for 2015.

Core FFO for the quarter ended September 30, 2016 was $0.58 per share or $75.6 million compared to $0.56 per share or $70.3 million for the same quarter of last year. Core FFO excludes deferred taxes related to gains on sale of property within our taxable REIT subsidiary, acquisition cost, gain on land sales totaling $565,000, the write-off of both the Atlanta, Civic Center pursuit costs of $909,000 and costs related to the term loan commitment put in place for the acquisition of Palms at Town & Country of $464,000. All of this detail is included in the reconciliation on page 5 of the supplemental.

The increase in core FFO over the prior year was primarily due to increases in net operating income from our existing portfolio, incremental income from our new developments, acquisitions and redevelopments, and reduced interest expense from favorable debt refinancings. These increases were partially offset by the impact of our disposition program and dilution from additional shares outstanding.

Gains from our deferred compensation program, which are included in the line item interest and other income, were high this quarter by $1.2 million. As you may recall, these gains have zero bottom line effect on our financials as the amounts are offset in operating expenses and G&A of $800,000 and $400,000 respectively. You can see this on page 6 of the supplemental. For the nine months, core FFO was $221.5 million or $1.73 per share for 2016 compared to $204 million or $1.62 per share for 2015.

As to the balance sheet, on August 2, we sold $250 million of ten-year 3.25% notes using the net proceeds to pay down our $500 million revolving credit facility. We also sold $8 million of common shares during the quarter at an average price of $41.67 per share under our ATM program, bringing our year-to-date sales to $133 million at an average price of $38.35. You can see the detail of sales under our ATM program on page 44 of the supplemental.

We remain committed to a strong capital structure. At quarter-end, our net debt to EBITDA was 6.05 times and our Debt to Total Market Cap was 31.5%, both supported by a well laddered maturity schedule. I went through a lot of numbers with a lot of moving pieces but the bottom line is that it was a great quarter.

As to 2016 guidance, we reaffirm NAREIT FFO of $2.24 to $2.28 per diluted share and core FFO of $2.28 to $2.32. We did adjust our guidance up slightly for our acquisitions and dispositions with the remaining guidance items unchanged. All the guidance numbers are included on page 9 of the supplemental.

Johnny?

Johnny L. Hendrix

Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

Thanks Steve. Our properties and our associates continue to produce solid results. Our portfolio today is riding the sweet spot of the shopping center industry. Most of our centers are anchored by supermarkets and discount clothing retailers. These retail categories are growing; they produce great traffic in our centers; and they're Internet resistant. Our supermarkets' average annual sales are $628 a square foot. That's over 1 million customers a year coming into our centers to shop for groceries. Other retailers and service tenants want to be around this sort of activity.

Our Houston assets really highlight the transformation and the quality of our portfolio. The centers are primarily in the core of the city with high barriers to entry. Annual household incomes in a three mile radius are $113,000, with an average of 142,000 people. These properties continue to be highly productive even in the face of a modest job market.

Weingarten's Houston same property occupancy remains very high at 97.6%. That same group of properties grew base minimum rent 4% this quarter. Rent growth in Houston for new leases was 22% for the quarter and 50% year-to-date. We remain confident these assets will continue to produce very good results.

As to Sports Authority, Bed Bath & Beyond elected to assume the lease at Cherry Creek, and should be open sometime next year. Our income stream with this property will be unaffected. WRI received the March stub rent about $330,000 we had reserved for the remaining six locations. We have good prospects for the spaces and should have most of them leased over the next six to eight months. It's unlikely we could get anyone open for any significant rent in 2017. These six spaces represent 80 basis points in occupancy and $0.03 per share in FFO for 2017. In spite of those vacancies, the company generated an increase of 3.4% same property NOI including redevelopment. That's highlighted by a strong increase in base minimum rent of 3.5%. These increases are driven mostly by rent steps and rent growth. My expectation is we'll end 2016 strong and be within our guidance range of 3% to 4%.

Occupancy ended the quarter at 94.1%, about 80 basis points below last quarter. Sports Authority accounted for virtually all of the decrease. Shop occupancy remained the same as last quarter at 90.2%. We've emphasized over the last several quarters, the company is focused on improving the merchandising mix and pushing rents. As we look at 2017, we'll continue to seek opportunities to improve the assets for the long-term.

Leasing remains solid. We executed 276 leases, representing $20 million of annual base minimum rent during the quarter. 91 new leases with annual BMR of $6 million was a little lower than we've been generating over the last several quarters, but combined with the lowest number of shop fallouts we've seen over the last six years, we feel good about the production.

Regionally, we see strong retailer demand in Atlanta, Raleigh and South Florida. The strongest demand from restaurants like Starbucks, Torchy's Tacos, Dunkin' Donuts, Moe's, Churrascos, Newk's and many others. Wireless continues to be a hot category, as well as medical services. All of these categories are in high-demand by millennials.

Rent growth was again very strong. New leases grew 19% during the quarter. Year-to-date rent growth for new leases has been almost 28%; that's outstanding. This will continue to be a point of emphasis for us. The average base rent on the entire portfolio is at 6% over last year to $17.72 of square foot.

It's also been a great year for acquisitions. We previously announced our acquisition of Palms at Town & Country for $285 million. This is a dominant property in South Florida anchored by Publix, Marshalls, DICK'S, Nordstrom

Rack, 24 Hour Fitness, Total Wine, Forever 21, Kohl's and more than a dozen restaurants. We're going to grow the NOI here by adding density, remerchandising and turning over maturing leases with under-market rents.

During the third quarter, we also invested $52 million in Scottsdale Waterfront, a 93,000 square foot center located at a great intersection Camelback and Scottsdale Road, immediately across the street from Nordstrom's at Fashion Square mall. Waterfront is part of a mixed use development that includes two high rise condominium towers with 198 units and 85,000 square feet of Class A office space. It provides a wonderful sense of place along the Arizona Canal highlighted by several chef-driven restaurants.

Weingarten purchased only the retail component, which includes Fit Republic and Urban Outfitters. It's a great place to visit, while you're in Phoenix at REITWorld. We also purchased our partner's 50% interest in Lowry Town Center for $13.5 million. This is a shopping center we developed at the former Lowry Air Force Base. It services the affluent Cherry Creek neighborhood in Denver and has been a solid performer for us. We invested an additional $8 million in 2200 Westlake in Seattle, acquiring another portion of the shopping center. We planned to acquire it as part of the original purchase, but it took some time to transfer this portion of the property. We're working on a couple of other small opportunities. So, I think we'll end 2016 between $500 million and $525 million in acquisitions.

High-quality properties continue to be in high demand. Cap rates have maintained a range between 4.25% and 5.5% with strong demand from a crowded group of buyers. Redevelopment continues at a solid pace. We currently have 13 active projects with a total investment of $86 million and estimated returns of 11%. Additionally, we're building a pipeline of another $500 million which could come to fruition over the next several years.

So, overall, another good quarter. Same property NOI with redevelopment was 3.4%, our Houston assets are performing well. We invested nearly $360 million for some very good properties, and we produced outstanding new lease rent growth at 19%. Drew?

Andrew M. Alexander

President & Chief Executive Officer, Weingarten Realty Investors

Thanks Johnny. Another great quarter, outstanding capital recycling with great acquisitions and strategic dispositions, our new development and redevelopment pipelines are continuing to add value and the portfolio continues to generate strong results. Looking forward, acquisitions remain highly competitive and we'll be very selective in what we buy and what we sell.

I'm confident our transformed portfolio will continue to post great results in spite of some of the headwinds we've encountered. Between the elections, the world economy and FOMC meetings, these are very interesting times. However, we remain very bullish on our ability to create value for our shareholders. 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: Thanks Drew. And we'll now begin the question-and-answer session. [Operator Instructions] And from Citi, we have Christy McElroy. Please go ahead.

Katy McConnell
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Good morning. This is Katy McConnell on for Christy. With the year-to-date same store NOI growth towards the low end of the guidance range, can you walk us through some of the drivers for 4Q and should we be expecting an accelerated [ph] base (18:23)?

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

A

Hey, good morning Katy. Yeah. That's a really good question. We really feel good about the guidance that we'll be in the mid range of that guidance, 3% to 4%. So, if you work through the math, we'll probably be in the 4-plus percent range in the fourth quarter. We have pretty good visibility on that. We've got a number of leases that have already commenced, and we've got another 300,000 square feet of space about $500,000 in income that'll be commencing in the fourth quarter. So, we feel good, we feel confident that that's the right number.

Katy McConnell
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay, great. Thank you.

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

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

Hey, good morning guys. So Drew, maybe on the Wake Forest sale, did anything change that made this non-core for you and kind of look at a potential sale. Were you actively marketing that project or how should we think about the sale of a recently completed development?

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

A

Good morning, Jay. I think it was a bit of a unique opportunity. We like the Raleigh market and it's something that we felt it was a good price, it was something that we marketed. We were approached by some people and went out and marketed it, reached an agreement with a great firm that we have a lot of respect for. We're in Raleigh, we love that market. Given where this was the incomes, the density, it was also something that didn't quite fit our core and we took advantage of a good opportunity.

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

What did the returns look like on the sale of that asset versus maybe if you continued to operate it?

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

A

Yeah. We think we were in good shape either way. We don't really get into cap rates on specific dispositions, but it wasn't too different than the average of what you see of what we disposed off. Obviously, we developed it at a higher return. So, we are making a nice profit. We've got a couple of pad sales that we'll be cleaning up and should be in good shape there. So, it's something we were very comfortable with. It's an opportunity we found. Our team sourced coming out of the downturn that was nicely teed up with basically all the entitlements done, a lot of the site work even done, because it was the second phase of another project that got stalled out in the downturn. So, when one looks at risk reward, it was very, very good on the risk side, very low risk and consequently a nice ratio, good strong tenant interest. And we were also able to buy the original part, which was the supermarket part, which helped the size, helped the marketing of it. So, it was a nice opportunity to harvest a good profit and we took advantage of it. It is more of a unique situation from a whole lot of perspectives, but hopefully making money is always part of our strategy going forward.

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

Okay, and maybe just a quick one for Johnny. Just looking at the leasing spread this quarter that the blended 9.5% just looks optically lower than what we've seen in the last couple of quarters. Is there any noise or one-off that you can maybe call out there?

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

A

Hey, Jay. No, we feel really good about it. The numbers overall were pretty strong, 19% increase on new leases. There really weren't any outliers, plus or minus. There was 185 leases in this renewal pool and 176 of those were positive increases. So, we feel good about it. I don't see this as a trend. I think we're coming off of some very, very strong comps in the prior years. And I think it'll be difficult to maintain those levels, but I think these are good numbers and I think we feel good about it in the future.

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

Okay. Thank you.

Operator: [Operator Instructions] And from UBS, we have Jeremy Metz online. Please go ahead.

Q

Hey. This is actually, [indiscernible] (22:50) on for Jeremy. Good morning, everyone. I was just wondering if you could give a little more detail on the Sports Authority leases and what kind of market you're looking for on those spaces.

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

A

Sure, yeah. This is Johnny. Good morning. We feel really good about where we are with these guys. We have a number of prospects for all six spaces. In some cases, we'll be dividing the spaces up. We're negotiating a lease on one of them now and mostly working through LOIs on the others. I guess it'll take us some time to get through it all. But we feel good that we'll re-lease all the space. Most of our Sports Authority's were at a pretty much at a market level. So, by the time we put some capital in, we would feel good about breaking even and probably be a little bit of a negative impact to us.

Q

Okay. And you said like six to eight months, so would that be starting Q2 now, thinking [ph] when those would be leased? (23:52)

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

A

Yeah. There's obviously not great visibility on exactly when that would happen. I would anticipate most of those leases would commence in 2018, probably starting in the first quarter. We might get some of them in the fourth quarter 2017 but it won't be much money.

Q

Okay, great. Thank you so much.

Operator: And from Green Street, we have a follow-up from Jay Carlington. Please go ahead.

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

Hey, guys. It looks like we have a little earnings to take out there. I just wanted to follow-up on just the Atlanta development and the fallout there. I know it's sensitive with this the political position there but was the city just looking for more capital than what you were willing to invest or did their plans change or can you maybe give a little detail on what happened there.

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

A

Good morning again, Jay. As you say it is a little delicate and we are having some level of conversation with some folks in the city, so we'll have to see. I would say just from a big picture perspective that we are very sensitive to the risk reward. Your firm's views on development, we understand and very much focus on that risk. Often times, sites have complications that are not just the economics which are complicated in and of themselves, you got to line up tenant interest, get the right rents, figure out the costs et cetera. But you can also have engineering and other problems that can take a while to understand the details, and the details are really important. And we just couldn't come to a meeting of the minds on the appropriate time, hence the impasse.

It's a good site; we had good supermarket interest, which is something that the city felt was good for the area but working out the details take time and we think we could still develop a nice project. But given the impasse on how much time, we're focused elsewhere but still have all our information. And if the opportunity comes back, we'd certainly take a look at it. So it is one of those things that we always work on a lot of developments. Given the nature of this one, it was in the papers and everything earlier than we would normally like whereas we chose to announce the Gateway project as it's getting more known in the community and it should be more finalized over the next several weeks. But it's a project, it's been in process for years and I think seven years in total and we've been involved for a couple. So, good, well done, mixed use projects are complicated and take some time to figure out. So, hopefully we can work something out, but we'll just have to see.

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

Okay. And maybe a follow-up on Gateway, so, it sounds like you're closer now or the land is purchased. And what's the timeframe in terms of when shovels hit the ground and what's the length of development for that project and how are you thinking about yields there?

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

A

Sure. So, we again, as I tried to say in the prepared remarks, we're talking about Gateway because of the timing of this call as well as NAREITs and the fact that given that where we are in calendar year, we won't have a call for a long time. So, we expect to have things tied up, totally buttoned up and start buying the property over the next couple of weeks. So, we certainly invested some money in pursuit costs and plans and option payments and everything. But we haven't purchased the land yet but expect to. It's relatively shovel ready at that point and we would start construction pretty soon thereafter. But it is a complicated project but the brochures and everything are on the Development tab of our website. So, it's expected to open more like 2020, because it will take physically a long time to build given the residential, the garage and the retail.

As far as the returns, again, it's all about risk reward. And in this case, given everything's lined up, we're comfortable going forward with an estimated final pro forma in the high 5s, which to us makes a good risk reward especially when you look at the large part that's residential and how low residential cap rates are given the growth there in strong markets. So, something that our team in DC sourced that I said we've been working on. It's brought to us by a local person who had put all the or worked on putting the entitlements together for years. And it's a great project and we'd love to do more great quality supermarket anchored projects like it.

Jay D. Carlington
Analyst, Green Street Advisors, LLC

Q

Okay. Thanks Drew.

Operator: [Operator Instructions] It looks likes no further questions at the moment. Drew, will turn it back to you for closing remarks.

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

Thank you, Brandon. Well, I appreciate everybody's interest. We'll see many of you at NAREIT and meetings or on our tour, opportunity to see things at Phoenix and we look forward to that. Thanks for your interest and we're certainly around if there are other questions. Everybody, have a great day and a great weekend.

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