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Call Participants

EXECUTIVES

Christy L. David
COO, Executive VP, General Counsel & Corporate Secretary

Dan Lombardo

Daniel Joseph Busch
CEO, President & Director

Michael Douglas Phillips
Executive VP, CFO & Treasurer

ANALYSTS

Paulina Rojas Schmidt

Unknown Analyst

Presentation

Operator

Good morning or good afternoon. Thank you for standing by, and welcome to InvenTrust Second Quarter 2020 Full Earnings Conference Call. My name is Adam, and I will be your conference call operator today. Before we begin, I would like to remind our listeners that today's presentation is being recorded, and a replay will be available on the Investors section of the company's website at inventtrustproperties.com. [Operator instructions]. I would now like to turn the call over to Mr. Dan Lombardo, Vice President of Investor Relations. Please go ahead, sir.

Dan Lombardo

Thank you, operator. Good morning, everyone, and thank you for attending our call today. Joining me from the InvenTrust team is DJ Busch, President and Chief Executive Officer; Mike Phillips, Chief Financial Officer; Christy David, Chief Operating Officer; and Dave Heimberger, Chief Investment Officer. Following the team's prepared remarks, we will open up the lines for questions.

As a reminder, some of today's comments may contain forward-looking statements about the company's views on the future of our business and financial performance, including forward-looking earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties. Any forward-looking statements speak only as of today's date, and we assume no obligation to update any forward-looking statements made on today's call or that are in the quarterly financial supplemental or press release. In addition, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted on our Investor Relations website. With that, I'll turn the call over to DJ.

Daniel Joseph Busch
CEO, President & Director

Thank you, Dan, and good morning everyone joining us today. I'm going to touch briefly on our second quarter results, provide some high-level thoughts regarding retail real estate fundamentals and InvenTrust opportunity to grow cash flow over the near and medium and long term. Mike will discuss our financial results and provide some color regarding the increase to our 2024 guidance, and Christy will end our prepared remarks with additional commentary regarding our leasing efforts.

I'm going to start with this. The retail real estate environment is more of the same. The last several quarters from an operating perspective have been very consistent, which InvenTrust continues to benefit from the momentum supporting open-air retail operating fundamentals in the Sunbelt where 95% of our net operating income is generated. Necessity-based retail remains the cornerstone of the communities in which we serve and frequency of visits continues to structurally change due to the shift to the hybrid work model that allows consumers to be at our centers more often. The good news is that many of the trends in which we are seeing are not cyclical but rather more permanent demand tailwinds. InvenTrust [upon] focused strategy of owning and operating essential open-air retail centers exclusively in the Sunbelt region of the U.S. is working. Equally as important, our low levered capital structure gives us the ability to accelerate our cash flow growth when the opportunity arises.

Leased occupancy finished the quarter at 96.4%, up both sequentially and on a year-over-year basis. This is a new high watermark for the portfolio and remarkably was achieved only a year after experiencing a 140 basis point occupancy loss due to tenant closures and bankruptcies in 2023. Blended spreads remained in the low double digits and our retention ratio stayed above 90% -- 92% to be precise. This means our team is achieving higher initial rents while pushing annual ramp-ups higher, but also keeping tenants that remain additive to the merchandise mix of our centers, which in turn, preserves tenant-related capital in an environment where construction and build-out costs remain elevated. More simply put, our leasing strategy is one that is centered around driving sustainable free cash flow year in and year out, and the team continues to put building blocks in place to deliver on this strategy. Small shop tenant health continues to surprise the upside with less tenant fallout than predicted at the beginning of the year. Mike will talk about our guidance in greater detail shortly, but lower tenant fallout and quicker-than-expected rent commencement dates were the primary drivers of our guidance raise. Our watch list of troubled tenants is short and the demand for space at our centers continues to be extremely robust. 2024 leasing activity is effectively complete and 2025 deal activity is well underway. Kristi will provide more color on our leasing efforts in her remarks.

We have been appropriately conservative this year regarding our net investment activity, but have certainly found deals that have been additive to the portfolio. We added one such property in the second quarter. We acquired McGuire Groves, a small 33,000 square foot center in the Orlando MSA, which is directly adjacent to plantation Grove, a fantastic public-anchored center that we already own. The transaction allows us to add small shop GLA to a center that has tremendous prospects and significant tenant demand. The additional GLA will allow us to better merchandise our center and to control one of the best retail nodes in the fast-growing suburb of Orlando.

Our balance sheet remains one of the most conservative in the sector with a healthy transaction environment in our markets, external growth opportunities are enticing. But our team is still being patient and at the ready to accelerate growth when the time is right. With that, I'm going to turn the call over to Mike to discuss our financial results. Mike?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Thank you, DJ. This morning, I will review our strong results for the quarter as well as year-to-date, then I will discuss our investment great balance sheet position and then by reviewing the increase to our 2024 full year guidance range. Our same-property NOI for the quarter was $44.8 million, growing 2.6% over the second quarter of last year. The quarter-to-date increases were primarily driven by embedded rent bumps of 150 basis points, rent spreads of 70 basis points, as well as net expense reimbursement of 120 basis points. This was offset by slightly lower collections from revenues deemed uncollectible and percentage rents compared to the second quarter of 2023. Year-to-date, same-property NOI was $82.6 million, growing 3.3% over the first 6 months of 2023.

Nareit FFO for the first half of the year was $60.9 million or $0.89 per diluted share, an increase of 6% over last year. Core FFO grew 4.8% to $0.87 per share for the 6 months ending June 30 compared to the same time period in 2023. Components of FFO growth for the quarter are primarily driven by same-property NOI and NOI from acquisitions as well as income from a onetime termination fee of approximately $0.01, and this was slightly offset by interest expense on our variable rate debt. InvenTrust continues to maintain a strong and flexible balance sheet, providing a foundation to execute our long-term strategy. We finished the second quarter with $384 million of total liquidity, including a full $350 million of borrowing capacity available on our revolving line of credit. Our net leverage ratio was 28.5% and net debt to adjusted EBITDA is 5.2x on a trailing 12-month basis. Our weighted average interest rate ended the quarter at 4.3% with a weighted average maturity of 3.5 years. Over the next 18 months, our debt maturities remain minimal, and we anticipate exercising our remaining 1-year extension option on the debt maturing in 2024. Finally, we declared an annualized dividend payment of $0.91 per share, a 5% increase over last year.

Moving to guidance with our results for the 6 months of the year as well as our outlook for the remainder of the year, we are raising our 2024 full year same-property NOI growth guidance by 75 basis points at the midpoint. Same property NOI growth is now expected to be in the range of 3.5% to 4.5%. We are also increasing Nareit FFO guidance to $1.73 to $1.77 per share. Finally, we are moving core FFO guidance up to $1.69 to $1.73 per share. As implied in our new same-property NOI guidance, our bad debt reserve assumption has been lowered to 25 to 75 basis points of total revenue. Finally, as DJ mentioned, we are maintaining our net investment activity guidance of $75 million. Full details on our guidance assumptions are provided in our supplemental disclosure filed yesterday. And with that, I'm going to turn the call over to Christy to discuss our portfolio activity.

Christy L. David
COO, Executive VP, General Counsel & Corporate Secretary

Thanks, Mike. The InvenTrust team continues to convert significant retailer leasing demand for space into higher portfolio occupancy and increased rents for our centers. Demand is broad-based and coming equally from local, regional and national tenants looking to expand their footprint. Categories include quick service restaurants, health and wellness and discount tenants.

Our total portfolio lease occupancy ended the first half of the year at 96.4%, up 10 basis points from last quarter. Our anchor space lease occupancy finished at 99.1%, an increase of 50 basis points from last quarter, and our small shop leased occupancy ended the quarter at 91.7%. Our [Signet] open pipeline decreased to 270 basis points as the team continues to focus on getting our new tenants open and paying rent.

As of June 30, InvenTrust total portfolio ABR was $19.71, an increase of 2.8% compared to 2023. For the first 6 months of the year, we posted blended comparable leasing spreads of 10.7%. Spreads for new leases were 16.2%, and our retention rate was 92%. Renewals are a win-win for both the tenant and InvenTrust, it enables tenants to maintain the continuity of their business in a successful location and eliminates their relocation costs. While InvenTrust is able to achieve a higher rental rate with limited capital spend as compared to leasing the space to a new tenant. Furthermore, 90% of our renewals have embedded rent escalators of 3% or higher. Year-to-date, we signed 101 leases for over 625,000 square feet with additional leases in our pipeline at various stages of negotiation. Tenants signed during the quarter include Crunch Fitness, Blue Mango, Jet pizza and Duck Donuts. Currently, our portfolio is nearly 100% occupancy for anchor tenants with only 3 spaces available left to lease. As DJ mentioned, at this point, all leasing activity related to 2024 is completed.

As we have mentioned previously, the lack of new supply is a tailwind for the sector and will be for the next several years. In our discussions with some retailers, the reduced supply may cause a true challenge to their own growth plans and retail space needs in 2025 and 2026. This is leading to additional flexibility as it relates to their store size and opening schedule to match the conditions of the space available. This flexibility was rare just a few short years ago and in many cases, reduces the capital expenditures needed by landlords to open the space.

Moving to the health of our tenants, the financial condition of our retailers is good. InvenTrust Watch list is diminished when compared to prior years. Furthermore, rent delinquencies remain reduced despite consumers more conservative spending on certain categories. Store openings still outpaced closures as retail bankruptcy announcements this year have been minimal.
In closing, I do want to briefly discuss the recent news on the Kroger Albertson merger. The company has released a list of stores that will be divested to CNS if the merger is approved. Three of InvenTrust properties were included on that list, all in the Dallas MSA. These assets are strong performing properties and closure risk at these centers is very small. With that said, we will continue to monitor the transaction as additional news comes out and information changes. The final approval of the merger by the federal government is still uncertain. Operator, that concludes our prepared remarks, and you can open the line for questions.

Question and Answer

Operator

Thank you. [Operator instructions]. And our first question comes from Dori Kesten from Wells Fargo.

Unknown Analyst

This is Jack Armstrong, on for Dori. With the acquisitions you've completed to date, you're in line with your net acquisition guide for the year. Can you talk about what you're seeing on both the acquisitions of the [Indiscernible] front and the likelihood of you exceeding your '24 guide?

Daniel Joseph Busch
CEO, President & Director

Yes. Thanks for the question. As you mentioned, we're right near our goal of net investment activity. I think I've mentioned in the past couple of calls, really that $75 million of net investment is a guide post to what we were -- our expectations are on the outset of the year based on our pipeline, our cost of capital, current market conditions to get to our cash flow expectations for the year. Now we reserve the right, obviously, with market conditions changing to either increase or decrease that if the opportunity arises. I will tell you right now, the pipeline still remains quite strong. So -- and obviously, cost of capital has improved since over the last -- certainly the last couple of weeks and since last quarter. So if we do see opportunities where we can accretively add to the portfolio, we'll do so, and we'll adjust our net investment activity guidance accordingly.

On the disposition side, we're always looking at opportunities where we think we have either gotten to our growth expectations or -- and we can rotate out of some of those assets with better opportunities in our markets. We've talked about the assets in the Mid-Atlantic region, we talked a little bit about assets on the West Coast as potential sources of capital and those things are always fluid and ongoing.

Unknown Analyst

And if I can just ask one quick follow-up. You funded Q2's acquisitions with cash on hand. Can you remind us how you're thinking about your equity today around $28 a share as a means to fund further acquisitions?

Daniel Joseph Busch
CEO, President & Director

Yes, it's a good question. Obviously, there's been a nice run in the sector. In general, obviously, there's been some news recently. And then obviously, the backdrop on potential movements in interest rates has probably helped a little bit. Equity is something that we always consider as one of the sources of capital that we look at the same way as we do across our capital structure. It's more attractive than it was, but we're going to make sure when we do -- if and when we do decide to use equity, it needs to be on an accretive basis and value additive to our shareholders.

Operator

The next question comes from Jeff Spector from Bank of America.

Unknown Analyst

This is Andrew Real on for Jeff. Just first, you raised SS NOI guidance to 3.5% to 4.5%. The new range implies we'll see some acceleration of growth into the back half of the year. Can you just discuss what's behind that acceleration?

Daniel Joseph Busch
CEO, President & Director

Yes. Christy, do you want to take that?

Christy L. David
COO, Executive VP, General Counsel & Corporate Secretary

Sure. I think that the back half of the acceleration is really for additional rent coming online that you're going to see based on some of the [Indiscernible] and beyond that we have been able to open and other leasing activities that we have been able to complete this year and bring that right online as well as we've been able to continue to reduce expenses. And we will continue to do that across the portfolio for the rest of the year.

Unknown Analyst

Okay. And maybe just to follow up a bit on the [SIMO] open commencement. Is there any way you can kind of quantify the timing of when some of that is going to come online through the rest of the year and maybe into 25? And then I guess on that note, just how much room does shop occupancy have to run from these current levels?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Yes, I can take that. This is Mike. So the [Sino] pen pipeline, the way we're kind of seeing in our forecast right now is about 60% of that will come online through the end of this year and then 100% should be by the end of next year. As far as occupancy, the way we kind of look at our forecast right now is we think we can get back to an all-time high by the end of the year. So we think we have about 100 basis points or so to run on that.

Daniel Joseph Busch
CEO, President & Director

And then Andrew, the only thing I would follow up is, obviously, the [Indiscernible] open pipeline, I think, represents right around 4% of total revenue. And the exciting thing and the visibility that -- or that gives us confidence even moving into next year and beyond, we have an additional 4% in active negotiations well underway. So like we've talked about, really robust opportunities that continue to move occupancy higher, notwithstanding and certainly enough to withstand any kind of normalized tenant turnover that we would see in the portfolio.

Operator

The next question comes from Paulina Rojas from Green Street.

Paulina Rojas Schmidt

So some of your peers have [Indiscernible]. Some of your merger -- some of your peers, sorry, have mentioned cap rates compressing at the margin. And others have declared environment more as a continuation of what they have been seeing with not much changing. So what would you say has happened to cap rates in the last couple of months based on your experience?

Daniel Joseph Busch
CEO, President & Director

Yes, I think you get it Paulina, it's a great question. I would say there certainly is much more activity on the buy side on -- as a -- and I'm only speaking to the markets where we're actively looking to invest in the Southeast and Texas and Arizona. I wouldn't say that we've seen meaningful compression, but we also didn't see a whole lot of movement the other way as well. I mean, they've been extremely sticky as it relates to the cap rates in the markets in which we -- in which we've been active. I would say that I would probably expect it to continue to be an aggressive environment. So we're going to have to really pick our spots as we look for new opportunities and be prudent and disciplined as we underwrite those opportunities as we have been. But I wouldn't say we've seen a meaningful movement one way or the other because it's remained competitive, even in the last call, it's probably 18 months when financing costs kind of moved against us. I do think that there -- and this is a -- we're not in the secured mortgage business, but I do think that market getting more open has certainly made it even that much more competitive. And if pricing follows as well, you could imagine that there could be some compression.

Paulina Rojas Schmidt

Thank you. And then [Indiscernible] very big picture question. How committed are you to your Sunbelt story? And so if you found the portfolio that was good that offered you the opportunity to scale up your business but had a material exposure outside of the Sunbelt, and you have the cost of capital to acquire it. Will you go through the route of considering such acquisition or you wouldn't?

Daniel Joseph Busch
CEO, President & Director

So it's a good question. And look, this business, obviously, there is meaningful benefits on scale and size in -- certainly in retail real estate and across all other sectors certainly. I will say we're very committed to our strategy, our exclusivity in the Sunbelt, I think, is one of the very few things that makes us unique. I think most open-air shopping center REITs in our sector are phenomenal operators, institutional quality portfolios. So the differentiating factor for InvenTrust to compete for investors' capital is that exclusivity and focused portfolio from a market perspective.

Having said that, if we are able to scale this business on an accretive -- in a value-accretive way, we would hope that it would not take our scope from -- of our strategy away from the Sunbelt because otherwise, we start to look like other companies and in which case you lose that differentiating factor. So I'll say never say never, but it has to be a very compelling case and resonate with shareholders as much as the current strategy does, which we do believe is well received.

Operator

We have no further questions. So I'll hand the call back to the management team for any concluding remarks.

Daniel Joseph Busch
CEO, President & Director

Thank you, everyone, for joining us today. We look forward to seeing many of you at conferences once we get into the fall. Thanks, and have a great day.

Operator
This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.