

InvenTrust Properties Corp. NYSE:IVT FQ3 2024 Earnings Call Transcripts

Wednesday, October 30, 2024

Call Participants

EXECUTIVES

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

Dan Lombardo
Vice President of Investor Relations

Daniel Joseph Busch
CEO, President & Director

Michael Douglas Phillips
Executive VP, CFO & Treasurer

ANALYSTS

Andrew Reale
BofA Securities, Research Division

Daniel Purpura

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research
Division

Presentation

Operator

Thank you for standing by, and welcome to InvenTrust's Third Quarter 2024 Earnings Conference Call. My name is Elliot, and I'll 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 company's website at investor.invenstrustproperties.com. [Operator Instructions] Now I'd like to turn the call over to Mr. Dan Lombardo, Vice President of Investor Relations. Please go ahead, sir.

Dan Lombardo
Vice President of Investor Relations

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 the line 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 will turn the call over to DJ.

Daniel Joseph Busch
CEO, President & Director

Thank you, Dan, and good morning to everyone joining us today. I'm going to provide some highlights regarding our third quarter results, including our inaugural follow-on equity offering that was executed in September and the opportunities that lie ahead for InvenTrust. Mike will discuss our financial results and provide some color regarding yet another increase to our 2024 guidance, and Christy will end our prepared remarks with additional commentary regarding our leasing efforts and operations.

Since listing the company in October of '21, InvenTrust has executed on all fronts of its simple and focused strategy. The company has delivered above-sector average same-property NOI growth, above-average FFO per share growth, acquired nearly \$500 million of assets, including the consolidation of our only joint venture, resulting in the entire IVT portfolio being wholly-owned, received an investment-grade credit rating and completed a private placement debt offering.

As many of you may recall, the company did not raise equity at the time of the listing. Simply put, our estimated cost of equity through an IPO was not going to be optimally aligned with external growth opportunities. Therefore, we chose to be patient, self-fund our growth with our low-levered balance sheet, prove to the public market that our simple and focused strategy in the Sun Belt can deliver above-sector average cash flow growth over a multiyear period and wait for our cost of capital to improve.

After 3 years, we took advantage of a stronger capital market backdrop and raised roughly \$250 million during the quarter through a follow-on equity offering. The offering was extremely well received by both existing and new shareholders.

In addition to the equity offering, following the end of the quarter, the company increased the capacity on its unsecured credit facility by \$150 million to \$500 million, while extending the maturity to January of 2029. Through the equity raise and the upsized facility, InvenTrust effectively added nearly \$400 million of additional liquidity, replenishing an already conservative balance sheet, and we're putting the fresh capital to work in an accretive manner.

To that end, on the investment front, in the third quarter, we closed on our second property in the Phoenix MSA, Scottsdale North Marketplace, for \$23 million. Subsequent to the quarter, we closed on our second property in the Richmond, Virginia, market, a Wegman's-anchored community center, for \$62.1 million. Due to our increased optimism surrounding the improving transaction market, coupled with our additional capital, we have increased our net investment activity guidance for the year accordingly to a range of \$159 million to \$215 million.

Moving to operations. Less bad debt and higher retention rates are once again fueling better than expected results. Leased occupancy climbed to 97% during the quarter, up both sequentially and on a year-over-year basis, setting another new high watermark for the portfolio. Blended spreads remained healthy in the high single digits with a retention rate of 93%. Strong operating results across the portfolio are driving the increase to both same-property NOI growth and FFO per share for 2024. Internal growth remains remarkably healthy and now will be supported by additional external growth efforts as we move from 2024 to 2025.

With that, I'm going to turn the call over to Mike to discuss our financial results in greater detail. Mike?

Michael Douglas Phillips
Executive VP, CFO & Treasurer

Thank you, DJ. Same-property NOI for the quarter was \$45.5 million, growing 6.5% over the third quarter of last year. The quarter-to-date increases were primarily driven by an increase in base rent of over 300 basis points, of which 150 basis points were embedded rent bumps. Net expense reimbursement contributed approximately 170 basis points to the increase for the quarter with better collections from revenues deemed uncollectible adding 150 basis points.

Year-to-date, same-property NOI was \$123.8 million, growing 4.2% over the first 9 months of 2023.

NAREIT FFO for the first 9 months of the year was \$91.8 million or \$1.34 per diluted share, an increase of 7.2% over the same time period last year.

Year-to-date, core FFO grew 4.8% to \$1.30 per share compared to the same time period of 2023. Components of FFO growth are primarily driven by same-property NOI of \$0.07 and NOI from acquisitions of \$0.06, offset by interest expense, G&A and lower interest income of approximately \$0.06.

As DJ discussed, the successful capital raise strengthened and reloaded our balance sheet, providing us additional capital and flexibility to execute on our long-term strategy. InvenTrust's net leverage ratio dropped to 20%, and our net debt to adjusted EBITDA is 3.6x on a trailing 12-month basis. Our \$72.5 million in variable rate debt was paid off, bringing our weighted average interest rate to 4% at the end of the quarter and our weighted average maturity to 3.6 years. Our remaining debt is now 100% fixed.

Finally, we declared an annualized dividend payment of \$0.91 per share, a 5% increase over last year.

Moving to guidance. Due to our strong operating fundamentals, we are raising our full year guidance again this quarter. The new guidance range for the company's 2024 full year same-property NOI growth is 4.25% to 5%. Our new NAREIT FFO guidance is now \$1.74 to \$1.77 per share, and our core FFO guidance is up to \$1.70 to \$1.73 per share. Full year 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?

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

Thanks, Mike. Our portfolio continues to benefit from the positive fundamentals in the strip center space and the migration to and growth in the Sun Belt markets. As a reminder, 97% of our ABR is generated from Sun Belt assets with the goal of getting to 100% in the future. Additionally, supply remains limited, creating increased demand for high-quality retail space. As retailers struggle to find new space to satisfy their internal growth plans, they continue to look for creative ways as it relates to the store size and location within our centers. All of these conditions allow the InvenTrust team to remain focused on transforming retailer leasing demand into increased ABR and additional portfolio occupancy at our properties.

For the 9 months ending in September, our total portfolio lease occupancy ended at 97%, up 60 basis points from last quarter, and at an all-time high. Our anchor space lease occupancy finished at 99.8%, an increase of 70 basis points from last quarter, also at an all-time high, and our small shop leased occupancy ended the quarter at 92%.

Our signed-not-open pipeline is 280 basis points that equates to about \$7.2 million of additional income coming online into our portfolio over the next several quarters.

As of September 30, InvenTrust's total portfolio ABR was \$19.83, an increase of 2.4% compared to 2023. For the quarter, we posted blended comparable leasing spreads of 9.8%. Spreads for new leases were 14.2% and renewals were 9.2%. The retention rate was 93%, and 90% of our renewals have embedded rent escalators of 3% or higher.

Year-to-date, our blended comparable leasing spreads were 10.4%. We signed 160 leases for over 1,094,000 square feet so far this year, with additional leases in our pipeline at various stages of negotiation. Tenants signed during the quarter include Ulta and Skechers.

Currently, our portfolio is nearly at 100% occupancy for anchor tenants, with only 1 available space being kept offline for redevelopment and retenanting opportunity in the future. These opportunities exist throughout our portfolio, and we will be focused on executing these accretive strategic remerchandising and redevelopment projects for the next several years.

In closing, I would like to take an opportunity to update you on recent weather events. As many of you are aware, we have had several hurricanes and significant storms in the South over the past several weeks. Thankfully, all InvenTrust's employees in the affected area made it through the storms safely. IVT was fortunate that our assets only sustained minimal damage and debris cleanup. We continue to provide aid and stand by our communities and tenants to support their needs and help them recover. Operator, that concludes our prepared remarks, and you can open the line for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Andrew Reale with Bank of America.

Andrew Reale
BofA Securities, Research Division

Just one on the acquisition market and external opportunities. Just curious if the reversal in interest rates since the time of your equity issuance has put a damper on the number of external opportunities you're seeing? And also curious, in your view, has the election uncertainty stalled any potential sellers?

Daniel Joseph Busch
CEO, President & Director

Yes. Thanks, Andrew. Our acquisition pipeline and what you see that's implied in the guidance is things that we've been working on for quite some time. So the reversal of interest rates hasn't had really -- certainly didn't have an impact on what we're currently chasing from an acquisition standpoint. And really, to be honest, in our markets, with the type of product that we're looking at, we haven't seen much change given the recent movements.

Going into this week or next with the election, it tends to traditionally has been more quiet. I would expect that transaction market to open back up after there's a little bit more certainty, but that's just speculation. But going back to what I said, the types of markets and the types of product that we're looking at, we've actually seen more products hit the market, but also more potential buyers as well, which, to us, is a pretty healthy environment, and I would expect that to continue in 2025, which is why you saw the changes that we made as it relates to our expectations.

Andrew Reale
BofA Securities, Research Division

Okay. And just another one for me. Bad debt overall been trending favorably, but would be curious if you could just talk a bit about your tenants and more discretionary categories, home goods, hobby, maybe full-service restaurants, too. Just curious on how sales and traffic are holding up? And how do you think about renewals in some of those categories if consumers continue to pull back on discretionary spend?

Daniel Joseph Busch
CEO, President & Director

No, it's a great question. Anecdotally, to our portfolio, we haven't seen much of a change. There's -- I think sales certainly have stabilized from some pretty impressive growth over the last couple of years, no doubt. The value areas continue to do very well. Hobby, quite honestly, had -- many of those banners have been looking to grow their footprints. And as it relates to food service and even full-service restaurants, the types of restaurants that are in our portfolio tend to be that still -- even if they're full-service, tend to be that kind of middle income lower price point, if you will, even if price points are higher, but we don't do a whole lot of white linen tablecloth types of restaurants. So big, well-capitalized chain restaurants that are still doing quite well. Fast food, quick service continues to do really well. And quite -- and is still one of the better performers in our portfolio.

There's very healthy occupancy cost ratios across that category. And if there -- there has been some restaurants that have struggled, some franchises, some chains, but the most valuable space that we have that's in the most demand in the portfolio, our operations team would tell you that's second-generation restaurant space because it tends to be a lower capital going in.

Operator

We now turn to Dori Kesten with Wells Fargo.

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research Division

A few of your peers have started to put up some guardrails around '25 same-store NOI growth. Do you have any interest in adding your early thoughts to that?

Daniel Joseph Busch
CEO, President & Director

We noticed that, Dori. Thanks for the question. Look, one of the things that we tried to -- one of the things we've tried to do over the last couple of years is everything that the operations team and Christy's team has done is try to build a sustainable model where we can drive consistent growth both in same-property NOI, but most importantly, cash flow. And we think we're at a really nice level. So what I will tell you is, we have nearly -- or 70% of our leasing efforts done next year. Notwithstanding any material changes as we see in bad debt, but maybe a more normalized run rate bad debt, we're expecting a very similar type of cadence and growth that we're seeing -- that we've seen in the last 2 years.

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research Division

So with the current portfolio, where do you put that more normalized bad debt? Is that like closer to 75 basis points?

Daniel Joseph Busch
CEO, President & Director

Yes. This 75 basis points is usually where we -- is kind of the starting benchmark and then obviously, we'll move that. Obviously, in our portfolio, we're not benefiting as much from like out-of-period adjustments or anything like that to offset it. But the bad debt, our reserve continues to prove to be conservative as with many of our peers. 75 basis points is always -- is kind of the -- is the best market that we tend to anchor to as we go into the year and then we'll adjust accordingly.

Dori Lynn Kesten
Wells Fargo Securities, LLC, Research Division

Okay. And then regarding your noncore assets, can you give us an update on where you see the aggregate value there? And if your definition of noncore has widened as your acquisition pipeline has grown?

Daniel Joseph Busch
CEO, President & Director

Yes, it's a good question. I think one of the things that we've always talked about as being exclusively in the Sun Belt, right? So we do have 2 assets that sit in the mid-Atlantic corridor, just north of -- in Maryland. Those assets are phenomenal assets, one is anchored by Safeway, one is anchored by Trader Joe's. They'd only be noncore in the light of not being in the Sun Belt for InvenTrust, but certainly core properties for anyone else, but we're not [for-sellers] either.

What we're going to be looking to do over the next couple of years is to methodically recycle capital when it -- when we feel like the time is right, and we have a use for that capital. And if there are more opportunities in markets that fit the InvenTrust better, we'll accelerate those noncore asset recycling.

As it relates to being wider, one of the things that we've discussed is our view on California. California is still a phenomenal market and it's always priced that way. It's one of those things that we'll continue to consider over time. But again, we have a really, really strong California portfolio and presence. So it just depends on where we can reallocate that capital in an accretive manner.

Operator

[Operator Instructions] We now turn to Daniel Purpura with Green Street.

Daniel Purpura

The retail environment has been strong recently. Have you seen any changes to this environment? Or do you expect continuation of these same trends?

Daniel Joseph Busch
CEO, President & Director

As far as -- what do you mean by -- Daniel, good morning. What do you mean by the retail market? Are you talking about the transaction market or the underlying fundamentals?

Daniel Purpura

The underlying fundamentals, demand for space, things like that.

Daniel Joseph Busch
CEO, President & Director

Yes, yes. No. So the demand for space continues to be very robust. I mean, look, we're at an all-time high as it relates to leased occupancy at 97%. Behind that 97%, we have an additional 100-plus basis points of things that are in the works now. Not everything is going to obviously show up in occupancy, some deals do fall in and out, but there's a lot of demand even behind the current occupancy levels, which is something that we haven't had in the past. And we have -- and because of the level of occupancy we're at, we're actually filling spaces that we haven't filled in quite some time.

So -- and it's broad-based across categories. To my earlier comments, food service continues to be a very strong category for us, even though there has been probably a little bit of a slowdown in sales. Perhaps some of that is due to the change in inflation. But health care continues to be strong, services. So we're seeing a pretty broad-based level demand in our small shop -- both in our small shop and in our anchor space, which is effectively fully occupied at this point.

Daniel Purpura

Got you. And then if I could ask one more. With Curblin going public at the beginning of this month, you had any interest in looking at convenience centers or any nonanchored centers?

Daniel Joseph Busch
CEO, President & Director

Yes. So we do own a couple nonanchored what -- or I guess what you guys would consider nonanchored centers. Look, at the end of the day, we're a little bit more property agnostic. We're just looking for the right retail that has a necessity-based component, primarily in a market that we know we can grow rents. And most of those markets we're already in. We do have a handful of markets that we're trying to get a foothold in as well. But if you look across -- if you look at our portfolio, we own small unanchored community centers all the way up to some power centers. And it just depends on what market and what retail node they're in. And we've been able to be successful in growing rents in all formats.

Operator

We have no further questions, so I'll now hand back to DJ Busch for any final remarks.

Daniel Joseph Busch
CEO, President & Director

Thank you, everyone, for joining us. We look forward to seeing, hopefully, many of you next month, I guess, in Las Vegas. Until then, have a great day.

Operator

Ladies and gentlemen, today's call has now concluded. Thank you for your participation. You may now disconnect your lines.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2024 S&P Global Market Intelligence.