Transcript of
JLL Income Property Trust
2Q 2026 Public Earnings Call
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Participants

Jillian Passmann – Vice President, Portfolio Controller, LaSalle Investment Management
Allan Swaringen - President & Chief Executive Officer, JLL Income Property Trust
Gregg Falk - Chief Financial Officer, JLL Income Property Trust

Presentation

Operator

On behalf of JLL Income Property Trust, I would like to welcome you to the Second Quarter 2026 Earnings Conference Call. This call is being recorded and our audience lines are currently in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

At this time, I would like to turn the conference over to Jill Passmann from JLL Income Property Trust. Jill, please go ahead.

Jillian Passmann - Vice President, Portfolio Controller, LaSalle Investment Management

Welcome, everyone, to today's call.
Any statements made about future results and performance or about plans, expectations or objectives are forward-looking statements. Actual results and performance may differ from those included in the forward-looking statements as a result of factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2025, and in our other reports filed with the SEC. The Company disclaims any undertaking to update or revise any forward-looking statements.

In addition, all non-GAAP financial measures discussed during this call are reconciled to their most directly comparable GAAP financial measures in accordance with the SEC rules in our Form 10-Q for the quarter ended June 30, 2026.

Links to a transcript and audio replay of this call will be posted and available on our website, JLLIPT.com until September 9, 2026. For further information on the Company's performance, we invite you to review our Quarterly Report on Form 10-Q filed on August 11, 2026 and other filings which are available on the Company's website, as well as the SEC's website, sec.gov.

Now I would like to turn the call over to Allan Swaringen, Chief Executive Officer, and Gregg Falk, Chief Financial Officer. At the conclusion of their comments, we will open the call for questions.

Allan, if you'd like to begin?

Allan Swaringen

Thanks, Jill . Hello, everyone, and thank you for joining us for our second quarter earnings call.

Through 2025 and into the start of 2026 we continue to see upward momentum for real estate and for JLL Income Property Trust, with more than a year of positive performance and capital growth for our portfolio. The repricing effect of the previous three years appears to have concluded, and the "new dawn" forecasted last year seems to have brightened the landscape for real estate. Interest rates are on a path to historical norms with the Fed's implementation of three rate cuts in the second half of last year, and we have seen transaction activity accelerate as a result.

As of June 30th, our portfolio aggregated to approximately $6.9 billion dollars comprised of 141 core properties spanning the industrial, residential, healthcare, and grocery-anchored retail sectors, and includes over 7,000 residential units. For the quarter ending June 30th, we delivered a 1.4% income return, a 0.3% appreciation return for a total return of 1.7% on our M-I share class - our best quarterly return since second quarter of 2022. A tenet of our longer term, core investment strategy is delivering durable income that helps temper the inevitable valuation fluctuations across normal real estate cycles. Quarterly dividends have now been paid for 58 consecutive quarters, with an average annual increase of 3.6% over that 14 plus-year period. Durable income and modest appreciation across market cycles, from core stabilized assets, remain the cornerstones of JLL Income Property Trust's investment thesis.

Before highlighting some of our specific second quarter accomplishments, I would like to begin today's discussion by reviewing the economic environment in which we operated during the quarter.

The second quarter of 2026 tested the US economy with its largest energy shock in more than 30 years, following disruption to the Strait of Hormuz, yet growth proved more resilient than many anticipated, aided by outsized tax refunds and stock market gains. Employers added a combined 334 thousand jobs over the quarter, up from 218 thousand in the first quarter, although the pace of hiring slowed as the quarter progressed. The unemployment rate edged down 10 basis points to 4.2%, with the improvement driven by a smaller labor force rather than stronger hiring, as the low-hire-low-fire environment persisted. Headline Consumer Price Index growth eased to 3.5% year-over-year in June, down from 4.2% in May, as energy prices pulled back even though the energy index remained 15.7% higher than a year earlier; the core Consumer Price Index held at a more moderate 2.9%. Real disposable income rose 0.5% year-over-year in June, a slight improvement on flat growth in May, though consumers continued drawing down savings to sustain spending—the personal saving rate fell to 3% in June, well below the 4.6% average recorded in 2025. GDP grew at a 1.5% annualized rate in the second quarter, down from 2.1% in the first, as rising imports tied to the AI buildout and falling inventories offset resilient consumer spending and the largest quarterly increase in non-AI business investment in three years. The Federal Reserve held its benchmark rate at 3.50% to 3.75% for a fourth consecutive meeting—the first presided over by new Chair Kevin Warsh—with the committee unanimous on holding steady but split on its move, as half of participants now anticipate a rate hike sometime in 2026.

Real estate capital markets activity was mixed this quarter as investors weighed hopes for a swift reopening of the Strait of Hormuz against rising Treasury yields. Transaction volume rose 0.6% year-over-year and was modestly above the first quarter's total. The Green Street All-Property Commercial Price Index gained 1.4% in the second quarter, driven primarily by strip retail and malls, lifting its trailing 12-month growth to 4.1%, up from 2.6% at the end of the first quarter. The 10-year Treasury yield climbed through mid-May, peaking above 4.6% following April's elevated CPI report, before progress toward a ceasefire pulled long-term rates lower through late June; yields turned higher again toward quarter-end on hawkish comments from the Fed chair, leaving the path for rates volatile heading into the third quarter.

Income Property Trust's target sectors showed broad improvement in the second quarter. The US apartment market strengthened as robust demand outpaced new supply: national vacancy fell 60 basis points to 4.4%, its lowest level since 2022, and year-over-year rent growth turned positive for the first time in three quarters, improving from negative 0.6% to positive 0.1%. Net absorption surged to roughly 188 thousand units, nearly double the long-term second-quarter average, supported by renewal conversion rates of 56.1%, 100 basis points above the seasonal norm. New deliveries of 76 thousand units marked the second-lowest quarterly total since early 2022, extending the pullback in new supply. Supply-constrained coastal and Midwest markets again led performance—Downtown San Francisco posted the nation's strongest year-over-year rent growth at 13.3%, while Milwaukee, St. Louis, and Kansas City also outperformed—oversupplied Sun Belt markets, including Sarasota, San Antonio, Denver, and Tampa, continued to lag, even as Austin, Nashville, and Phoenix improved meaningfully from the first quarter. In the industrial sector, availability improved 10 basis points to 9.2%, the first quarterly decline in four years, as absorption exceeded new supply for the first time in 16 quarters; asking rent growth accelerated for a fourth consecutive quarter to 1.2% growth year-over-year, though West Coast markets continued to see steep declines. Open-air retail vacancy fell 10 basis points to 6.2%, matching pre-pandemic levels, as net absorption rebounded to 3.9 million square feet following a soft first quarter; asking rents rose 2.6% year-over-year. Medical office vacancy ticked up 10 basis points to 9.3% but remained comfortably below the 10% threshold. Office fundamentals continued to stabilize, with national vacancy declining 20 basis points to 18.4%—a third consecutive quarterly improvement—as leasing activity rose to 55.1 million square feet, up 2.0% quarter-over-quarter, led by Charlotte and several Midwest markets.

Looking ahead, the likelihood of an Iran ceasefire and the trajectory of energy prices remain the key variables for the second half of the year. With half of the Federal Open Market Committee participants now anticipating a rate hike in 2026 as inflation concerns resurface, the path for monetary policy is less certain than it appeared entering the quarter, and Treasury yields may stay volatile as a result. Across Income Property Trust's target property sectors, the tailwinds from constrained new supply remains intact: apartment and industrial deliveries continue to fall, and retail development remains near a standstill, positioning fundamentals to keep improving as demand outpaces supply through the remainder of 2026. We remain focused on high-quality assets in supply-constrained markets, where stable cash flows and durable rent growth are best supported by current market dynamics.

Having covered the industry-wide performance and market update, Gregg will now share a closer look at our portfolio's financial performance during Q2 before I continue. Gregg?

Gregg Falk

Thanks, Allan. 2026 has been a strong year, with $241 million dollars in year-to-date revenues, as compared to $214 million dollars from the same period in the prior year, which represents an 12% increase. The increase is primarily related to new acquisitions made in 2025 and 2026 and increases in rental rates. Year-to-date net income was $25 million dollars compared to net loss of $8 million dollars in the prior year. The increase in net income was primarily driven by our gain on sale from two residential properties sold in January and an industrial property sold in May, these gains were partially offset by non-cash unrealized losses on our DST Program.

Funds from Operations, or FFO, is a supplemental measure of operating performance used by the real estate industry, which most closely resembles GAAP net income. For the first six months, we reported FFO of $49 million dollars, a decrease of $5 million dollars from the same period in the prior year, primarily related to unrealized non-cash losses from our DST Program. Year-to-date FFO was $0.23 cents per share.

We also track adjusted funds from operations, or AFFO, as a supplemental measure of operating performance. AFFO is calculated as FFO adjusted for non-operating expenses and non-cash items. AFFO through June 30th was $50 million dollars, which is in line with the same period in the prior year. Year-to-date AFFO was $0.24 cents per share.

Over the past few years we have been actively paying down our higher interest rate debt, substantially reducing our leverage ratio which stands at 29% at the end of Q2.

Stabilized occupancy remained strong through the second quarter of 2026 with the portfolio leased at 95% at June 30th. Our occupancies by segment were 96% for Industrial, 94% for Residential, 94% for grocery-anchored Retail, and 87% for our Healthcare portfolio. Maintaining higher occupancies through active tenant retention strategies continues to be a priority of our asset management team. The team has been focused on working with current and potential tenants to sign new and renewal leases. Trading lease term extension and early renewals in exchange for future lease execution risk has been a long-term strategy of our asset management team.

Through the second quarter, we signed new and renewal leases for 955 thousand square feet, with a weighted average rent increase of 21% over the previous rental rate. One of the primary ways that we generate predictable, attractive income for distribution to stockholders is through long-term lease agreements with higher credit tenants. We also continue to strive to lengthen the weighted-average lease term of our overall commercial portfolio, which was 6 years at the end of the quarter. Through the second quarter, we reinvested approximately $25 million dollars of capital improvements into our existing portfolio, all geared toward maintaining our higher occupancies.

Offering a reliable and attractive level of current income to our stockholders that steadily grows over time is a primary focus of JLL Income Property Trust. Monthly distributions for July were paid to stockholders and unitholders on July 24th. August distributions are payable to stockholders and unitholders of record as of August 24th on or around August 26th at a rate of $0.0525 per share or unit. Future monthly distributions will be made at the discretion of the board of directors and will be announced early in the month of the distribution payment. On an annualized basis, this gross distribution is equivalent to $0.63 per share and represents a yield of approximately 5.6% on a NAV of $11.27 per share as of the date of approval. All stockholders and unitholders will receive monthly distributions of $0.0525 cents per share less applicable share class specific fees and the annualized yields will differ based on share class. It is worth noting that we will have paid a consistently growing and reliable dividend for over fourteen years.

Since we launched our initial public offering in October of 2012, we have provided an income return of 4.6%, an appreciation return of 0.9%, for a total return of 5.5% over that 14-year period for our institutional share class.

Our total company NAV was approximately $4.7 billion at the end of the second quarter. Our daily NAV methodology has delivered on our low volatility objective, as evidenced by our 3% standard deviation of share price over 14 years.

Now, I'll hand the call back over to Allan to discuss our key second quarter activities.

Allan Swaringen

Thanks, Gregg.

In April, we acquired Whitestown Distribution Center III, an industrial property located in Whitestown, Indiana a northern suburb of Indianapolis. This investment added 605 thousand square feet to our portfolio and is fully leased with 2.5% annual rent escalations and a renewal option in 2033. The purchase price was approximately $60 million dollars.

During the quarter, we sold 4211 Starboard Drive, a 130 thousand square feet industrial property located in Fremont, California for $61 million. In connection with this disposition, the mortgage loan associated with the property of $20 million was retired.

Our portfolio diversification by property type at the end of Q2 was 36% Residential, 38% Industrial, 12% Grocery-anchored Retail, and 14% Healthcare. Our overall company leverage ratio was 29% at the end of Q2, approximately 98% of our borrowings are at a fixed interest rate and we have minimal debt maturities over the next few years. Our portfolio-wide weighted average remaining loan term is 5 years and our weighted average interest rate on outstanding borrowings is 4.3%. While our portfolio is substantially insulated from the current volatile interest rate environment, we intend to closely monitor rate movements and will employ leverage judiciously as and when it is accretive to target risk-adjusted returns.

As for our stock transactions, we repurchased 100% of all redemption requests, approximately $69 million dollars in shares pursuant to our share repurchase plan during the second quarter, which had a quarterly limit of $117 million dollars. It is worth noting that this is a material slow down in SRP activity which we view as reflective of our improving investment performance. For over fourteen years, we have never had to limit share redemptions. Third quarter 2026 share repurchases will have a limit of approximately $115 million dollars, which is 5% of our NAV as of June 30th. Stockholders should aspire to be long-term investors and hold our shares for seven to ten years or longer. Our share repurchase plan is available to stockholders subject to the quarterly limits and a twelve-month holding period.

Now in our 14th year, our outlook is bullish, given several key indicators: pricing has reset and performance has turned positive; accretive leverage has returned alongside a surplus of lender interest for core assets; recent supply headwinds have shifted to tailwinds improving the fundamentals outlook. And finally, we currently have a record amount of liquidity and an aggressive 2026 business plan focused on one singular goal - improving investment performance this year and going forward. The fundamental reason for including real estate in a portfolio is long-term performance. Since inception from October 2012, JLL Income Property Trust has delivered attractive net of fees total returns of 5.5%, while consistently focusing on core, stabilized lower-risk investments.

JLL Income Property Trust continues to deliver a competitive current yield of approximately 5.6% all the while maintaining a high-quality portfolio of institutional-caliber investments. We are confident that we will continue to add value to our current portfolio and look forward to growing and further diversifying our investments throughout the remainder of the year.

As an institutionally sponsored real estate fund, JLL Income Property Trust was designed to be an all-cycle investment vehicle, providing the potential for attractive, tax-efficient current income, portfolio diversification, modest capital appreciation and wealth preservation across a wide range of economic conditions.

Thank you for your time and attention today and I hope you found our remarks informative. Operator, we would now like to open the call for questions.

Operator

Certainly. At this time, we will be opening the floor for questions. [Operator Instructions] Your first question for today is from [Marcus Prine] [ph]. Your line is live.

Q: Yeah, Allan, I got a question for you. How concerned are you about the Fed moving to rate increase cycle, and how would that impact the performance of the fund?

Allan Swaringen

So, interest rates are very, very difficult to predict, and we are not in the business of trying to predict the direction of interest rates. Accordingly, really, since we started Income Property Trust, we've tried to structure our fund with a neutral position or a neutral view on the direction of interest rates. It's not the business we're in, and if we could do that, we'd all be doing something different.

How do we do that? How do we try to incorporate strategies and structure within our fund to kind of take out that concern you asked the question about the direction of rate increases? I mean, we are concerned that the Fed may pivot to an increasing and less accommodative approach to interest rates, but accordingly, we try to mitigate that. I would say the first mitigation strategy is we're very low leverage, 29% LTV. That's the lowest leverage we've been in the history of Income Property Trust. Our $6.9 billion balance sheet of assets is capitalized with $4.7 billion of equity and only $2.2 billion of debt. I mean, we like to think of, we're running a fortress-type balance sheet, which should protect investors across all interest rate cycles.

Second is, of that debt we have, 98% is fixed rate. So, we don't take a lot of floating interest rate risk. We try to mitigate that through either long-term fixed rate mortgages, or if we have any floating rate, we've hedged or swapped it to protect us in whatever direction the Fed might move rates.

And third, I guess I'd just go back to having the fund capitalized with $4.7 billion of equity. It was and still is our plan over the next 2, 3 years, where we think we are expecting interest rates to be higher for longer, but we do think longer term, they should be trending down, and we'll take advantage of that when the market provides us accretive leverage. But we don't believe in dilutive leverage. We don't believe in negative leverage. So, we're not going to add leverage until it's accretive. So, try to take a neutral stance on the direction of interest rates. Don't get caught either way. We're really good at the real estate side. We try to mitigate that interest rate risk and don't make bets for or against rate movements. Thanks for your question.

Operator
[Operator Instructions] Your next question for today is from Nick Angel. Your line is live.

Q: Hey, Allan. Thank you for the additional caller. You mentioned new and renewable leases that drove rent increases up 21%. What property sectors drove these strong rent increases, and do you see continued rental growth going forward?

Allan Swaringen

Yeah, I'm going to let Greg grab that one.

Gregory Falk

Yeah, thanks. So, it's still an owner's market out there. As you mentioned, we did almost a million square feet through the first 6 months of the year at a 21% weighted average increase. Really driven by industrial continues to be the strongest segment over the last few years. About 780,000 square feet of that million was in the industrial sector, and there we had about a 31% weighted average increase.

A couple of examples I'd like to highlight out of there would probably be a new lease that we did at Five National Way in the North Carolina Research Triangle. We had a building there, 188,000 square foot tenant in it. The tenant no longer needed the space and came to us offering to pay us a lease termination fee. At the same time they did that, we went out and started marketing the availability of the space. The tenant paid us a nice big termination payment that we were able to use to cover the leasing costs for a new tenant that we brought in. We were actually able to get a 50% rent increase over what the previous tenant was paying, plus getting 3.5% annual escalations.

Another big renewal we had was in our Friendship Distribution Center in the Atlanta area. One of our big tenants there, 270,000 square feet, just renewed with us for 7.5 years at a 40% increase in rental rates over their previous lease. Other sectors have also been contributing. Grocery-anchored retail has had a strong first half of the year. We've done about 150,000 square feet there at a 7% weighted average increase. One of the notable ones there was we got a really nice lease renewal at one of our kind of junior anchor tenants at the Howell Mill Grocery or Shopping Center outside of Atlanta. That one did about 20,000 square feet and the increase in rate was about 33%. That was kind of off the backs of us putting in Wayfair as the anchor tenant of that property. We're still seeing positive trends across all segments, not just industrial.

On the second part of your question about seeing future growth, Situs, who is our independent valuation advisor, currently estimates that our portfolio is about 8% below market on rental rates, which really gives us confidence that we can continue to grow the revenue inside the existing portfolio along with all the new acquisitions that we're intending to make over the next year or so. Thanks for that question, Nick.

Operator
[Operator Instructions] Your next question is from John Abrahamson. Your line is live. John, your line is live.

Q: Hey, Allan, thanks for taking another question here. You've spoken about your recycling of capital strategy. Can you tell us how that has developed?

Allan Swaringen

Yeah, John. We have been talking about repositioning our portfolio for improving investment performance really for 2 years now. To demonstrate that, broadly, we have been selling assets out of our portfolio, that are currently producing lower yields and are valued at lower cap rates. And we've been quite successful at doing that over the last 2.5 years. We sold over seven properties, nearly $600 million in gross sales and average disposition cap rate on the price the buyer paid at what it was generating cash for us today at an average 3.9% cap rate. So, harvesting some assets that were not kind of covering our dividend or helping us to grow it.

I think it's also worth noting that all of the dispositions traded within 1% of their most recent valuation. So they were valued appropriately and valued at lower yields. Somewhat surprising to us that the market participants would buy into those low yields, but they must have a different view than we do on the future growth. To complement that, we have reinvested that capital. And this is where the recycling component all works out. We've made nine new acquisitions in about 2.5 year timeframe and bought at into properties at higher yields, average of about a 5.8% cap rate. That's almost 200 basis points of current yield improvement.

Buying at a 5.8% when we're paying a 5.6% dividend is accretive to that dividend and will help us to grow that dividend over time. We've reinvested on the kind of completion of the recycling strategy, reinvested a little over $600 million gross asset value. So all of this is about taking advantage of the market opportunities that we see and selling out of properties that, from our perspective, the market might be paying a little lower yield than what we're willing to take, but then going back into the market and buying properties that are generating current better current yields.

And for the most part, broadly, that's been a trade out of some of our residential holdings and a trade in to increasing our industrial holdings. And, really coming into 2026, it's been the first time in a couple of years that we've had a higher allocation to industrial than we have residential. Those remain our two highest conviction sectors, and they make up about almost three quarters of the portfolio. But we've swapped the leading position into industrial today, warehouses, and somewhat paired off some lower yielding assets on the apartment side. So that's kind of how the whole recycling work. It's all about driving future investment performance for our stockholders. Thanks for your question.

Operator

There are no other questions and this concludes today's call. I will hand the call back to Allan Swaringen for closing remarks. Allan?

Allan Swaringen

Thank you, everyone, for joining us for our second quarter update. We'll look forward to updating you in about 90 days when we wrap up the third quarter. Everyone have a great day. Thanks for your time today.

Operator

This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.