Jones Lang LaSalle Income Property Trust Q1 2013 Earnings Call

OPERATOR

On behalf of Jones Lang LaSalle Income Property Trust and its senior management I'd like to welcome you to the Company's first quarter 2013 earnings conference call. Please note that this call is being recorded. Our audience lines are currently in a listen-only mode. [Other operator instructions.] At this time, I would like to turn the conference over to Jodi Akers, head of Stockholder Servicing for Jones Lang LaSalle Income Property Trust. Jodi, please go ahead.

Jodi

Thanks and welcome everyone to today's call.

A transcript of this call will be posted and available on the Company's website, www.JLLIPT.com. An audio replay of this call will also be available for download. Information and the link can be found on the Company's website and in the Current Report on Form 8-K that announced this call. For further information on the Company's performance, we invite you to review the Quarterly Report on Form 10-Q filed on May 9, 2013 and other filings which are available on the SEC website, www.sec.gov, as well as on our website, www.JLLIPT.com.

At this time, we would like to inform you that because our Company is engaged in a continuous public offering, we are restricted under the securities laws from providing forecasts or projections, or disclosing any material non-public information on this call. We are required to generally limit the nature of the items discussed on this call to a report on our historical financial and operational performance, as well as certain other information that has already been made public.

We would also like to inform you that certain statements made during this conference call may constitute forward-looking statements. Although Jones Lang LaSalle Income Property Trust believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that these expectations will be attained. Factors and risks that could cause actual results to differ materially from those expressed or implied by forward-looking statements are detailed in the Company's filings with the SEC. The Company does not undertake any duty to update any forward-looking statements.

In addition, during this conference call, we may discuss non-GAAP financial measures. All non-GAAP financial measures are reconciled to their most directly comparable GAAP financial measures in accordance with SEC rules in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.

Now I would now like to turn the call over to Allan Swaringen, President and Chief Executive Officer of Jones Lang LaSalle Income Property Trust, and Gregg Falk, Chief Financial Officer of the Company. Allan will discuss significant activities within our portfolio and key events, as well as some of the macroeconomic issues we see affecting commercial real estate and Gregg will provide financial and operational details of our quarterly performance. We will then open the call for your questions. During the question-and-answer portion of our call, Allan and Gregg will be available to answer questions, but will be limited to speaking of information that is already in the public domain.

Allan, if you'd like to begin?

ALLAN SWARINGEN

Thank you, Jodi. Hello, everyone, and thank you for joining us today. Welcome to our first-quarter 2013 earnings conference call. I'd like to begin my remarks with an overview of recent macroeconomic trends that directly influence our business and the global real estate markets. Gregg Falk will then review our financial performance for the three months ended March 31, 2013 and we will conclude with a more detailed review of some of the noteworthy activities in the first quarter of 2013 and our progress towards achieving our longer-range objectives.

As most of you are aware, US GDP continues to increase at a moderate rate. Growth rates have been volatile on a quarterly basis, but the long-term trend has been steady. In the first quarter of 2013 growth rebounded to an annualized rate of 2.5% from the 0.4% annual growth rate in the fourth quarter of 2012. This jump is primarily due to temporary shifts in private inventories. Growth is expected to slightly taper off to an annual rate of 1.8% for the year 2013, compared to the 2.5% growth in 2012. This slight slowdown is primarily due to the impact of the sequester on government spending. Private sector growth has been stable. Recovery in the housing market is leading to increased residential investment which will have a spill-over effect on consumer spending.

The moderate growth trend continues to be accompanied by positive, but moderate growth in employment. During the first quarter the US economy added an average of 206,000 jobs per month, right in line with average job growth during 2012.Unemployment benefits and claims hit their lowest level in 5 years during the first quarter and the most recent data showed 165,000 jobs were added in April, dropping the national unemployment rate a tenth of a percent to 7.5%. For the remainder of 2013 job growth is expected to continue at the moderate pace seen in the first quarter. The Sequester is expected to lead to employee furloughs rather than layoffs, so this may show up in hours worked rather than total employment.

US interest rates remained near historic lows during the first quarter. The Federal Reserve stated they intend to continue to keep the Fed Funds rate at close to zero until unemployment drops to 6.5% or inflation rises above 2.5%. Based on this guidance short-term rates are expected to remain low through 2015, with long-term rates gradually increasing beginning in 2014.

Accompanying the moderate economic recovery, Real Estate markets are continuing to show positive signs and improving fundamentals. Demand for space remains positive and continued low levels of new supply enabled vacancy rates to decline across all property sectors. The largest decline in vacancy rates during the first quarter was in the warehouse sector which fell 50 basis points to 12.3%. The national retail vacancy rate dropped 10 basis points in the first quarter to 7.1% and we expect to see a further decline as new supply in this sector remains low. The recovery in the office sector is proceeding more slowly. The national vacancy rate continued to drop in the first quarter to 15.3%, however, this was only a 0.1% decline from the fourth quarter of 2012. This measured progress is expected and is in line with moderate national job growth and the push to increase tenant efficiency. During the first quarter of 2013, the apartment vacancy rate also dropped by only 10 basis points to 6.0% and has likely stabilized and is not anticipated to decline further in the coming quarters as new supply, in the form of new construction, has started to ramp up in this property sector.

Rent growth was also limited in the first quarter of 2013, with office and apartments seeing less than 1% increases, warehouse rents were flat, and retail rents continued to see slight declines. Looking forward, apartment rent growth is forecast to be in the 3-4% range, while office, warehouse and retail should see positive, but more moderate growth in the remainder of 2013.

Lender confidence in real estate has improved during the quarter as the cost of debt is at an all-time low for real estate borrowers. This helped Real Estate Capital markets to remain active and liquid during the first quarter. Investment sales transaction volume experienced a seasonal decline compared to the fourth quarter 2012, but is up 14% from the first quarter 2012. Investment sales activity for the first quarter was approximately $50 billion. We expect continued liquidity and the low interest rate environment to allow full-year transaction volumes to exceed the 2012 total of $237 billion.

We are optimistic that the commercial real estate industry will continue to show positive signs of improvement throughout 2013 even with the restraints of our government and global economy. Jones Lang LaSalle Income Property Trust had a successful first quarter and continues to strive to achieve its strategic objectives, which I will discuss in greater detail after handing the call over to Gregg Falk, our Chief Financial Officer, to recap our financial performance for the first quarter of 2013. Gregg?

GREGG FALK

Thanks, Allan, and hello everyone. I'm going to briefly walk through our financial results and certain operating statistics for the first quarter ended March 31, 2013 and describe some of the key underlying drivers of our performance.

For the first quarter of 2013 the Company had a net loss of $2.9 million or a loss of $0.09 per share compared to net income of $8.6 million or income of $0.36 per share for the first quarter of 2012. The decrease in net income between first quarter 2012 and first quarter 2013 was primarily related to the non-cash gain on the transfer of property and extinguishment of debt related to our transfer of ownership of Metropolitan Park North, our former office property located in Seattle WA, which occurred during the first quarter of 2012. The decrease in net income is also explained by an increase in non-cash depreciation and amortization expense during the first quarter of 2013, caused by an acceleration of amortization of in-place lease intangible assets related to the Conexant Systems default and bankruptcy at Canyon Plaza, our office property located in San Diego, CA.

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. FFO was $9.7 million, or $0.31 per share for the first quarter of 2013 compared to FFO of $9.8 million, or $0.41

per share for the first quarter of 2012. The slight decline in FFO between 2012 and 2013 was primarily related to discontinued operations (effectively property dispositions) that occurred during 2012.

Our portfolio continues to improve as we focus on enhancing the operational performance of our properties. As of March 31, 2013, the total portfolio occupancy level remained flat at 92% as compared to December 31, 2012 and increased 1% from March 31, 2012.

Looking at each operating segment (which we define as our four primary property types) within our portfolio, our apartment occupancy remained flat at 94% this quarter as compared to December 31, 2012, but down 3% from first quarter 2012 occupancy of 97% as a result of decreased occupancy at four of our student housing properties related to increased competition in those specific markets.

Our industrial occupancy stayed constant at 100% as compared to December 31, 2012, and up 4% from 96% at first quarter 2012 due to the sale of one of our non-core warehouse holdings, Georgia Door, that occurred in 2012.

Our office occupancy remained flat at 84% occupied between March 31, 2013 and December 31, 2012, which it is important to note that we maintained our office occupancy even with the bankruptcy of Conexant Systems, the tenant at Canyon Plaza. Office occupancy was up 2% as compared to first quarter 2012 as a result of increased occupancy at

Monument IV at Worldgate, our office property located in Washington D.C.

Our retail occupancy was flat at 93% this quarter as compared to December 31, 2012 and up 4% as compared to first quarter 2012 occupancy of 89% primarily related to discontinued operations that occurred during 2012.

In all cases, our segment occupancies compare well with the national averages of 94% for apartments, 88% for industrial, 85% for office and 93% for retail. Overall, we feel positive about the occupancy of the portfolio, which is in line with or better than national averages across all property types.

On March 28, 2013 and again on May 3, 2013 we paid a gross dividend of $0.10 per share related to the 4th quarter of 2012 and 1st quarter of 2013, respectively. On May 7, 2013, our board of directors declared a gross dividend of $0.10 per share to stockholders of record as of June 27, 2013 to be paid on August 2, 2013 related to the 2nd quarter of 2013. The gross dividend amount is reduced by class-specific expenses for class A and M stockholders.

In terms of share value, the NAV per share for our Class A, Class M and Class E shares as of March 31, 2013 was $10.04, $10.05 and $10.06, respectively. The decrease in NAV of all share classes during the first quarter, was approximately 8 cents per share, and was related to a 0.6% net decrease in the appraised values of our properties primarily caused by the bankruptcy of Conexant Systems at Canyon Plaza. The differences in NAV among the share classes are due to the different fee structures associated with each share class. As of May 21, 2013, the NAV for our Class A, M and E shares was $10.20, $10.21 and $10.24 per share, respectively.

I'll hand the call back over to Allan to discuss the key events for the first quarter of 2013.

ALLAN SWARINGEN

Thanks, Gregg. Now I'd like to offer some detail on Jones Lang LaSalle Income Property Trust's key accomplishments for the quarter, as well as the underlying business drivers of our performance.

I'll begin by restating the primary investment objectives of Jones Lang LaSalle Income Property Trust which are to: generate an attractive level of current income for distribution to our stockholders; to preserve and protect our stockholders' capital investments; to achieve appreciation of our NAV over time; and to enable stockholders to utilize real estate as an asset class in diversified, long-term investment portfolios.

In the first quarter, as a result of our strong capital inflows, we executed on a number of key strategic initiatives. During January 2013, we retired the $12 million note payable related to our purchase of the remaining interest in 111 Sutter Street, our multi-tenant office property in downtown San Francisco, CA. In February 2013, we signed Fannie Mae to a new three year lease at Monument IV at Worldgate which took occupancy and began paying rent in March 2013. In March we also entered into a loan modification agreement with the existing lender on the $54 million mortgage for 111 Sutter Street. The loan modification extended the maturity date of that loan by eight years from July 2015 to April 2023, provides for interest-only payments for the first four years of the new term and reduces the fixed-rate interest from 5.58% to 4.50%. The loan modification is expected to save annually in excess of $550,000 in interest expense and defers in excess of $850,000 in annual principal amortization payments. The loan repayment and modification were in keeping with our objectives to deleverage our portfolio and reduce our weighted average interest rate on our outstanding debt. The Company leverage ratio decreased from 63% at December 31, 2012 to approximately 61% on March 31, 2013. The weighted average interest rate on our debt decreased from 5.57% at December 31, 2012 to 5.46% at March 31, 2013.

It will continue to be a priority to pay down debt and reduce Jones Lang LaSalle Income Property Trust's leverage ratio to our long-term target of between 30% and 50%. It's also important to note that paying down debt is generally accretive to our current dividend as the average interest rate on the outstanding mortgage loans in the portfolio of 5.46% is above our current annualized distribution rate of approximately 4%.

After quarter end in April we repaid the mortgage note payable on Monument IV at Worldgate in advance of its September 1, 2013 maturity date. The outstanding loan balance, including accrued interest, was approximately $35 million which was funded with cash on hand. This loan had a 5.29% interest rate and its prepayment will save in excess of $1.8 million in annual interest expense. As a result, we own this property free and clear of mortgage debt. This loan repayment further decreased our Company leverage from 61% at March 31, 2013 to approximately 59% as of April 30, 2013.

We are extremely pleased with the activities taking place in our Company so far in 2013. Through success in raising new capital and the proactive asset management of our current portfolio, we have reduced the Company's leverage ratio, increased cash reserves, managed down our portfolio average cost of debt and begun actively sourcing new investments to expand and diversify our portfolio holdings. And as Gregg previously mentioned, we declared our sixth consecutive quarterly dividend for the second quarter at 10 cents per share which will be paid in August providing a current cash return to our stockholders on their investment in our shares. Overall it has been a great start to the year.

Going forward, continued successful capital raising efforts will allow us to advance our strategic objectives and further broaden and diversify our portfolio holdings, both domestically and, over time, around the world. Our target acquisitions this year include well-located, well-leased industrial and grocery-anchored retail properties as well as other property types that match our operational and risk objectives. We believe that the evolving global real estate markets represent an excellent opportunity to acquire high quality properties at discounts to previous market peaks and at attractive current yields.

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.

<Questions.>

OPERATOR

Thank you for joining us on today's call, and we look forward to updating you again next quarter about our continued solid progress.