Stockholder Call –
Jones Lang LaSalle Income Property Trust Q2 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 second quarter earnings conference call. This call is being recorded and 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 Meredith Mann, Investor Relations coordinator for Jones Lang LaSalle Income Property Trust. Meredith, please go ahead.

Meredith

Thanks and welcome everyone to today's call.

Links to a transcript and audio replay of this call will be posted and available on the Company's website, www.JLLIPT.com. For further information on the Company's performance, we invite you to review the Quarterly Report on Form 10-Q filed on August 8, 2013 and other filings which are available on the SEC website, www.sec.gov.

Because we are engaged in a continuous public offering, we are restricted under the securities laws from providing financial forecasts or projections, or disclosing any material non-public information on this call and we will limit items discussed on this call to information that has already been made public.

We would also like to inform you that certain statements made during this call may constitute forward-looking statements, and while we believe the 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 and we do not undertake any duty to update any forward-looking statements.

In addition, during this 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 Form 10-Q for the quarter ended June 30, 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.

Allan, if you'd like to begin?

ALLAN SWARINGEN

Thank you, Meredith. Hello, everyone, and thank you for joining us for our second-quarter earnings call. I'd like to begin 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 and six months ended June 30th and we will conclude with a more detailed review of some of the more noteworthy accomplishments that occurred in Q2 and our progress towards achieving our longer-range objectives.

While the second quarter marked a shift in the broader capital markets, the impact on private direct real estate is still being sorted out. The Federal Reserve has successfully generated liquidity and restored growth in the economy, which is indicated by improving housing prices and greater corporate investment. With this as a backdrop, markets have turned their attention to when the Fed will start winding down its Quantitative Easing program. Indications from the Fed that this could come before the end of this year created volatility and uncertainty during the second quarter, causing longer term interest rates to move sharply higher. The interest rate on the 10 Year Treasury Note rose (82bps over the quarter) to 2.52% at June 30 and through last week had been as high as 2.83%. Despite reaching its highest level since August 2011, interest rates still remain at exceptionally low historic levels. The Federal Reserve stated that they intend to continue to keep the Fed Funds rate at close to zero until unemployment drops to 6.5%, which is currently holding at 7.6%. Low interest rates have been a key driver of increasing real estate values over the last few years as they enabled borrowing at low interest rates producing higher leveraged returns.

Higher 10 year note yields do have a material impact on real estate borrowing costs, which contributed to a rapid decline in public REIT pricing during the second quarter. Private equity real estate markets are expected to slowly adjust to these higher interest rates in the months ahead. Properties that are the targets of higher leveraged investors such as net leased assets outside of the four primary property types will see the greatest immediate impact of higher interest rates - principally because more of their returns are generated from engineering positive leverage. Higher quality assets, which are more our target for new investments, we believe will see less of a near term impact from the interest rate movements as we use lower leverage and our borrowing costs have not moved quite as much as base rates because we have seen some compression in spreads.

As most of you are aware, US GDP has been growing at a steady, but disappointing pace recently. First quarter GDP growth was revised down to 1.1% from the initial annualized rate of 1.4% due to lower consumer spending caused by higher payroll taxes taking effect. The GDP growth rate increased to 1.7% in the second quarter, primarily due to improvement in nonresidential fixed investment and a smaller drag in government spending compared to the first quarter. Growth is expected to improve slightly in the second half of the year, but annual GDP growth is expected to be 1.6%, compared with 2.8% for 2012. This slowdown is primarily due to the impact of the sequester on government spending.

Employment, which is a more direct contributor to the performance of commercial real estate, continues to grow at a slightly better pace than what has been indicated by the GDP trends. The US economy added an average of 189,000 jobs per month over the past year. The most recent data showed 188,000 jobs were added in June. For the remainder of 2013 job growth is expected to continue at the pace seen in the first half of the year.

With the backdrop of a begrudgingly improving economy, commercial real estate markets are continuing to show positive signs and improving fundamentals. During the second quarter, the national apartment vacancy rate dropped by 10 basis points to 5.9%. Further declines are not anticipated as new construction has started to ramp up in the apartment sector. All other property types have limited new supply under construction, which helped vacancies decline despite only modest new demand. The largest decline in vacancy rates during the second quarter was in the industrial sector which fell 40 basis points to 12.2%. The recovery in the office sector continues to proceed slowly, but consistently. The national office vacancy rate dropped 20 basis points in the second quarter to 15.2%, having fallen by 60 basis points over the past year. This measured progress is expected to continue and is in-line with national job growth. The national retail vacancy rate dropped 10 basis points in the second quarter to 7.0% and additional declines are expected as the outlook for new construction across all retail formats is extremely low.

Average rental rates had marginal growth during the second quarter. The Apartment, Office and Industrial sectors all experienced rent growth of less than 1% while retail rents remained relatively flat. Looking forward, we expect to see rent growth across all four of our primary property sectors at close to the rate of inflation throughout the remainder of the year.

The positive trends in fundamentals from the first half of the year should continue in the second half, and if base case economic forecasts bear out, 2014 should be even better for commercial real estate markets. Strong liquidity in both the debt and equity capital markets provides us access to very healthy deal flow, especially given LaSalle Investment Management's broad-based investing activities.

In the second quarter, real estate capital market volumes increased by 13% year over year, with transaction volumes exceeding $70 billion for the quarter. Investment sales activities for the first half of 2013 were more than $145 billion, a 24% increase over the first half of 2012.

On behalf of Jones Lang LaSalle Income Property Trust, we closed two new investments in the second quarter, investing just shy of $60 million. We're looking at other new acquisition opportunities and hope to have additional closings before the end of the year. While we have yet to see an impact on the pricing or valuations of the core assets that we own and are targeting for purchase, we are watching carefully how markets respond to the recent increases in interest rates.

Jones Lang LaSalle Income Property Trust had a very successful second quarter which I will discuss in greater detail after Gregg Falk, our Chief

Financial Officer, gives you a recap of our financial performance. Gregg?

GREGG FALK

Thanks, Allan, and hello everyone. I'm going to briefly walk through our financial results and certain operating statistics for the three and six months ended June 30, 2013 and describe some of the key underlying drivers of our performance.

For the second quarter, the Company had net income of $626 thousand or income of $0.02 per share compared to a net loss of $2.9 million or a loss of $0.12 per share for the second quarter of 2012. The year over year increase in net income was primarily related to the increased occupancy at and revenues from Monument IV at Worldgate, our office property located near Washington D.C. The loss in 2012 was primarily related to last year's discontinued operations, effectively property dispositions.

For the six-months ended June 30, we had a net loss of $2.9 million or $0.12 per share compared to net income of $5.7 million or $0.23 per share for the same six month period last year. The year over year decrease in net income for this first half of the year is primarily related to non-cash gains on the transfer of a property and extinguishment of debt that occurred in the second quarter of 2012.

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 $7.6 million, or $0.22 per share for the second quarter of 2013 compared to FFO of $3.1 million, or $0.13 per share for the second quarter of 2012. The acquisition of the remaining 20% interest in 111 Sutter Street, our office building located in San Francisco, which occurred late in 2012 and the collection of a large lease termination payment related to the former tenant of Canyon Plaza, our office building located near San Diego, were main contributors to the increase in FFO.

For the six months ended June 30, 2013, FFO was $17.3 million or $0.52 per share compared to $12.9 million or $0.54 per share for the same period last year. The year over year increase in gross FFO was primarily related to the acquisition of the remaining 20% interest in 111 Sutter Street, the collection of a large lease termination payment at Canyon Plaza as well as the increased occupancy at Monument IV at Worldgate. The year-to-date decline in per share FFO from 2012 relates to a large non-cash gain on the extinguishment of debt of $5.8 million which equated to $0.24 per share recognized in Q1 last year and a substantial increase in the number of our shares outstanding.

Our portfolio continues to perform well as we focus on enhancing the operational performance of our properties. As of June 30, 2013, the total portfolio occupancy level moved up 1% to 93% as compared to March 31, 2013 and has increased 3% from the prior year mark for that period.

Looking at each operating segment which we define as our four primary property types, our apartment occupancy remained constant at 93% this quarter as compared to last quarter and last year.

Our industrial occupancy stayed constant at 100% this quarter as was the case for both March 31, 2013 and June 30, 2012.

Over the course of the quarter, our office occupancy decreased by 2% to 82% occupied as a result of the decrease in occupancy at Canyon Plaza. Office occupancy at June 30 was up 2% from last year as a result of the increased occupancy at Monument IV at Worldgate.

Our retail occupancy was flat at 93% for the quarter and up 4% as compared to this time last year, when occupancy was at 89%. The increase is primarily related to the disposition of a retail property with lower occupancy.

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 28th, May 3rd, and again on August 2nd this year we paid gross dividends of $0.10 per share related to the 4th quarter of 2012, 1st quarter and 2nd quarter of 2013, respectively. These dividends were paid out to all three of our share classes but were reduced by class specific expenses for class A and M stockholders. Just two weeks ago, on August 6th, our board of directors declared a gross dividend of $0.10 per share to stockholders of record as of September 27th to be paid on November 1st related to the 3rd quarter of this year. This gross dividend will be 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 June 30 was $10.12, $10.12 and $10.14, respectively. The NAV of all share classes increased moderately this quarter as increasing property valuations had a positive impact, $0.08 cents per share for our class A and E shares, and $0.07 cents per share for our class M shares. As of August 19, 2013, the NAV for our Class A, M and E shares was $10.19, $10.20 and $10.23 per share, respectively. These NAV increases are the result of net property appreciation across the portfolio and our regular accrual of portfolio income. I'd like to remind you that we generally do see an upward trend in our NAV throughout the quarter as we accrue our portfolio income, and then once we reach our ex-dividend date we see a comparable reduction in our NAV for the accrual of that dividend payment.

I'll hand the call back over to Allan to discuss a few of our significant accomplishments for the second quarter.

ALLAN SWARINGEN

Thanks, Gregg.

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 second quarter, as a result of our strong capital inflows, we were successful in completing two new acquisitions and further executed on a number of our key strategic initiatives.

On June 26th, we acquired Joliet Distribution Center, a 442,000 square foot industrial property located in Joliet, Illinois for approximately $21 million. The property is 100% leased to two tenants with a weighted average remaining lease term of approximately six years. The Chicago area is a major distribution hub that serves the third largest metro in the U.S. along with the entire Midwest region. This modern, state-of-the-art distribution center is well positioned within a desirable institutional market that long-term will benefit from tenants coming from the mature Interstate 55 submarket. This investment adds diversification to our industrial property portfolio while allowing us to achieve stable income returns on a long-term, fully-leased asset in one of our targeted warehouse markets.

On June 28th, we acquired Suwanee Distribution Center, a 559,000 square foot industrial property located in suburban Atlanta for approximately $38 million. The newly constructed warehouse is 100% leased to and serves as the national headquarters for Mitsubishi Electric & Electronics USA. The Atlanta area is among the top three distribution hubs in the eastern U.S. with excellent accessibility to major interstate highways, rail and Hartsfield-Jackson Atlanta International Airport. The Suwanee Distribution Center is leased through July of 2023 with built-in rent escalations which provide a steady and growing income stream and fits well with our investment objectives of acquiring core, income-oriented assets.

In June we also entered into a $40 million revolving line of credit agreement with Bank of America. The line of credit has a two year term and bears interest based on LIBOR plus a spread ranging from 1.50% to 2.75% depending on the Company's leverage ratio. This credit facility strengthens our ability to pursue our strategic objectives and to further grow and diversify our portfolio of high quality, institutional caliber real estate investments. We will use the new facility primarily for acquisitions, refinancing of existing indebtedness, renovations, tenant and capital improvements and other general corporate purposes.

In the quarter we continued to deleverage our portfolio and reduce our weighted average interest rate on our outstanding debt. To that end, we have decreased the Company leverage ratio from 63% at the end of last year to approximately 57% at the end of the second quarter. Since the end of last year, the weighted average interest rate on our debt has decreased by 20 basis points to 5.37%. We have made progress on these objectives through repaying or refinancing loans as they come due and acquiring new investments at lower loan to values (or as is the case with the Joliet Distribution Center, acquiring them all equity) at lower current market interest rates. We expect to make further progress on lowering our company-level loan-to-value ratio and average interest rate through the balance of this year.

To that end, after quarter end, on July 1st, we retired the $10.7 million mortgage note payable on 36 Research Park Drive. We negotiated a discounted payoff of that loan in the amount of $9.5 million. The loan had a 5.6% interest rate and its payoff will save in excess of $575 thousand in annual interest expense. We now own that property free and clear of mortgage debt.

We are extremely pleased with the activities that took place in our Company so far in 2013. Since the public offering of our shares began last fall across the Merrill Lynch and U.S. Trust platforms we have seen strong inflows of new capital. Financial Advisors and Portfolio Managers are looking for alternative sources of income for their clients and core real estate is well positioned to provide that to their client portfolios. We are very appreciative of the ongoing support and interest we have received from our offering. Through this support and success in raising new capital, along with our proactive asset management of the current portfolio, we have acquired two new properties, further reduced the Company's leverage ratio and managed down our portfolio average cost of debt. We will continue to actively pursue new investment opportunities to expand and diversify our portfolio holdings. Also, as we continue to see strong capital markets interest for real estate, we have begun the process of selling some of our non-strategic assets in our portfolio. As we have mentioned previously, we would like to reduce our current overweight allocation to the office property sector and increase our underweight allocation to the industrial and retail property sectors. Lastly, as Gregg previously mentioned, we declared our seventh consecutive quarterly dividend for the third quarter at 10 cents per share gross which will be paid in November providing a current cash return to our stockholders on their investment in our shares.

Overall it has been a great first half of the year. Going forward, continued successful capital raising efforts will allow us to continue to advance our strategic objectives and further broaden and diversify our portfolio holdings, both domestically and, over time, around the world. Our target acquisitions for the remainder of 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.

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 progress.