Stockholder Call –

Jones Lang LaSalle Income Property Trust Q2 2014 Earnings Call

OPERATOR

On behalf of Jones Lang LaSalle Income Property Trust I'd like to welcome you to their second-quarter 2014 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 Jenny McCracken from Jones Lang LaSalle Income Property Trust. Jenny, please go ahead.

JENNY McCRACKEN

Thanks and welcome everyone to today's call.

Any statements made about future results and performance or about plans, expectations and 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, 2013, 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, 2014.

Links to a transcript and audio replay of this call will be posted and available on our 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 7, 2014 and other filings which are available on the Company's website, as well as the SEC's website, www.sec.gov.

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

Allan, if you'd like to begin?

ALLAN SWARINGEN

Thank you, Jenny. Hello, everyone, and thank you for joining us for our second-quarter earnings call. It was a very productive second quarter for Jones Lang LaSalle Income Property Trust. We continue to add value to our portfolio through active asset management, new acquisitions and securing accretive property financings. Our success has allowed us to declare our eleventh consecutive quarterly dividend and our third dividend increase since 2011. For the upcoming third quarter, based upon management's recommendations, two weeks ago our board approved an increase in our gross dividend from $0.11 per quarter to $0.12 per quarter, a 9.1% increase. This $0.12 per quarter annualized to $0.48 per year, provides a 4.59% and 4.58% gross annualized dividend yield for Class A and M shares, respectively, and a 3.54% and 4.28% net annualized dividend yield for Class A and M shares, respectively, based on the NAV per share as of August 15th.

After that exciting announcement, I will cover a few broad macro trends impacting commercial real estate markets. Gregg will then review our financial results and will conclude with noteworthy accomplishments and then take your questions.

The economy bounced back in the second quarter following the surprise contraction during the first quarter. GDP grew at a 4% annualized rate, exceeding economists' forecasts, and growth rates in the prior three quarters all saw upward revisions. Employment gains were also strong. The nation averaged 277,000 new net jobs per month in the second quarter, the fastest pace for any quarter since 2006 and any three-month period since 2010.

Five years into the recovery following the Global Financial Crisis, indicators suggest the economy is still mid-cycle, with GDP growth likely to improve 3.0% to 3.5% annually over the next three years according to Moody's Analytics. There is, however, still room for the recovery to spread. Wage growth, for example, has been 2% over the last year, well below the nearly 4% pace seen in 2007. Industrial capacity utilization is up sharply from 2010 but still below levels maintained from 2005 to 2007. Also, housing starts in June were still 48% below their average pace from the ten years prior to the Global Financial Crisis.

In the commercial real estate markets, office and apartment demand increased in the second quarter, bolstered by the strong job growth. National office vacancies dropped 30 basis points to 14.5%. Demand outpaced supply in both downtown and suburban markets, where vacancies declined to 11.8% and 15.9% respectively. Office asking rents rose 4.4% in the last 12 months, leading all four property types in rent growth. Apartments also had a strong quarter. Despite increasing levels of new construction, national apartment vacancies were steady at 5.5%. Rental growth was 2.5% for the overall apartment market.

Improved momentum in the economy and labor markets also sustained the positive demand trends for warehouse and retail property types. National warehouse vacancy declined 10 basis points to 6.6% and asking rents grew 3.0% over the last year. Reduced availability of large distribution spaces and sustained demand from e-commerce logistics users is strengthening landlords' bargaining power over tenants and boosting rent levels. National retail vacancy declined 10 basis points to 6.6% and rent growth grew to 3.0% in the last year. Most 'big box' anchor and junior anchor spaces that vacated during the recession have been backfilled and now small shops are beginning to see occupancy gains. The strengthening job market should increase demand for commercial real estate, countering relatively limited pockets of new supply.

Real estate capital markets remained extremely active in the second quarter. Transaction volumes for the first half of the year totaled $137 billion according to Real Capital Analytics, an increase of 14% from the first half of 2013. Real estate debt capital markets are also quite robust. Life insurance lenders and the CMBS market both remain active and lending terms and spreads have continued to move in favor of borrowers.

Cap rates moved lower, tracking 10 Year Treasuries, which are down nearly 50 basis points this year. These low rates, combined with the positive outlook for real estate demand have continued to attract investors to commercial real estate. Pricing indicators continue to show positive momentum. The Moody's/RCA price index is up 4.9% through the first five months of the year. As of May, the most recent data available, the index was still, however, 4.2% below the highs of 2007. The public listed REIT market rose 6.0% in the second quarter and has outperformed the broader equity market so far this year.

In 2Q, the spread between the trailing year income yield on the private real estate index and 10-year US Treasuries was 285 basis points, close to its long-term average and implying fair value.

Improvements in the labor market and economy continued to flow through into the property markets over the last quarter, boosting demand for real estate from both occupiers and investors. While continued capital flows to real estate have increased competition for acquisitions, current market conditions continue to present us with attractive opportunities for increasing portfolio income through effective asset management, strategic dispositions, and attractive property financings.

Given the backdrop of these strengthening market conditions, during the second quarter we acquired two new property investments, closed two new financings and executed an early lease renewal of one of our largest industrial tenants. It was a very productive second quarter which I will discuss in greater detail after Gregg gives you a recap of our financial performance. Gregg?

GREGG FALK

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

In the second quarter, the Company had net income of $900,000 or $0.02 per share compared to net income of $600,000 or $0.02 per share for the second quarter of 2013. For the six months ended June 30th, we had net income of $2.2 million or $0.05 per share compared to a net loss of $2.2 million or $0.07 per share for the same period last year. The increase in net income for both the second quarter and first half of the year was primarily related to increased occupancy in our office segment and lower interest expense in 2014. Our acquisitions of stable income producing properties in 2013 and 2014 have also contributed to the increase in net income during the first half of this year.

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 $7.4 million, or $0.16 per share for the second quarter of 2014 compared to FFO of $7.6 million, or $0.22 per share for the second quarter of 2013. For the six months ended June 30, 2014, FFO was $14.8 million or $0.34 per share compared to $17.3 million or $0.52 per share for the same period last year. For the second quarter and first half of the year the decreases in FFO were primarily related to the collection of a large lease termination payment and the recognition of non-cash revenue from the write-off of the below-market lease intangible of a property sold in fourth quarter 2013. The decrease in per share FFO is the result of the large increase in the number of shares outstanding due to our successful continuous public offering.

We also use Adjusted FFO or AFFO as a supplemental measure of operating performance. AFFO is calculated as FFO adjusted for non-cash items and one-time non-operating expenses. AFFO was $6.4 million or $0.14 per share for the second quarter 2014 compared to AFFO of $6.1 million or $0.17 per share for the second quarter of 2013. For the six months ended June 30, AFFO was $13.0 million or $0.30 per share compared to AFFO of $10.8 million or $0.32 per share for the same period last year. The increase in AFFO for second quarter and first half of the year was the result of increased occupancy at Monument IV at Worldgate and the positive impact of our new acquisitions.

Enhancing the operational performance of our properties continues to be one of the key priorities of our asset management team. At quarter end, our total portfolio occupancy was stable at 97% and increased 4% from the prior year.

Looking at each operating segment which we define as our primary property types, our apartment occupancy decreased 2% to 93% this quarter, and was in-line with last year.

Our industrial occupancy remained unchanged at 100% this quarter as was the case last quarter and last year.

We maintained our office occupancy at 97% for the quarter. Office occupancy was up 13% from last year as a result of strong leasing activity at Monument IV at Worldgate and 111 Sutter Street and the sale of 13 of the 15 properties in the Dignity Health Office Portfolio.

Our retail occupancy decreased 1% to 93% for the quarter and was in line with last year.

In all cases, our segment occupancies compare well with national averages of 94% for apartments, 89% for industrial, 86% for office and 93% for retail. Overall, we feel positive about the occupancy of the portfolio, which is near or better than national averages across all property types.

On February 7th, May 2nd, and August 4th 2014 we paid gross dividends of $0.11 per share related to the fourth quarter of 2013 and first and second quarters of 2014. These gross dividends were paid out to stockholders, but are reduced for share-class specific fees.

As Allan previously mentioned, on August 5th, our board of directors declared a 9.1% increase in the gross dividend rate for the third quarter, increasing the quarterly payout to $0.12 per share to stockholders of record as of September 29th to be paid on November 7, 2014. Again, this gross dividend will be reduced by share-class specific fees for all stockholders

In terms of share value, the NAV per share for our Class A and M shares as of June 30th was $10.32 and $10.34, respectively. The NAV of each share class increased this quarter as a result of increasing property valuations.

As of August 15th, 2014, the NAV of our Class A and M shares was $10.44 and $10.48 per share, respectively. The NAV increases are the result of our regular accrual of portfolio income and increased property valuations. 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 we see a comparable reduction in our NAV for the accrual of that dividend payment once we reach our record date.

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

ALLAN SWARINGEN

Thanks, Gregg.

I'll begin by restating our primary investment objectives 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 in our NAV over time; and to enable stockholders to utilize real estate as an asset class to further diversify their long-term investment portfolios.

As I mentioned earlier, we had a very active second quarter as we closed on two new acquisitions and executed a lease extension with a major industrial tenant. In June, we acquired Rancho Temecula Town Center, a 165,000 square foot retail property located in Temecula, CA, for approximately $60 million. The grocery-anchored neighborhood shopping center is 93% leased with 4 strong anchor tenants. The acquisition was financed with a 12-year fixed rate mortgage loan in the amount of $28 million, which is interest only at a fixed rate of 4.02%. The loan to value on this acquisition was 50%.

Also in June, we acquired Charlotte Distribution Center, a 346,000 square foot industrial building located in Charlotte, NC, for approximately $26 million using cash on hand. The warehouse is 100% leased to Michelin North America for 14 years with 2.25% annual rent increases.

In keeping with our core mandate to retain tenancies on a long-term basis, during the quarter we executed a lease extension with the sole tenant of Norfleet Distribution Center, a 702,000 square foot industrial building located in Kansas City, MO. The new lease is for a period of 12 years, extending the lease maturity date from 2017 to 2027. The new lease provides for current market rental rates and 1.5% annual rent increases.

During the quarter we also closed on an $8.6 million financing secured by Grand Prairie Distribution Center, the industrial property we acquired in January located in Dallas, TX. The loan is for five years and is at 50% to our purchase price. We entered into an interest rate swap which fixed the interest rate at 3.58%.

Using moderate leverage is a strategic way to extend our investment capacity and further diversify our portfolio. We plan on maintaining the 30-50% Company leverage ratio range during 2014, which will ensure our balance sheet is healthy while allowing us to take advantage of the current low interest rate environment. At quarter end our Company leverage ratio was 47%. The weighted average interest rate on our outstanding loans decreased 10 basis points to 4.27% during the first half of this year.

Overall, we are extremely pleased with our year to date accomplishments. We have closed on five new acquisitions and five new financings, all at accretive leveraged yields. As a result of these activities, we were able to increase our quarterly dividend from 11 cents per share to 12 cents per share. The quarterly dividend will provide an annualized dividend to our stockholders of 48 cents per share before the deduction of share-class specific fees.

Since the public offering of our shares began in the fall of 2012 we have seen strong inflows of new capital. Financial Advisors and Portfolio Managers are looking for increased diversification and alternative sources of income for their client portfolios and core real estate is well positioned to provide both. We are very appreciative of the ongoing support and interest we have received for our offering. As we grow our portfolio of diversified core properties, we remain committed to actively managing our real-estate assets to provide attractive income returns to our stockholders.

Our target acquisitions remain well located, well leased industrial properties, grocery-anchored community oriented retail properties and apartments that may provide growth to our portfolio. We will also focus on increasing our exposure to eastern and western U.S. major markets to further our geographic diversification within the portfolio. We are very pleased with our accomplishments in the first half of the year and are confident that we can continue to add value to our portfolio and generate moderate appreciation over time for our stockholders.

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.