Stockholder Call –
JLL Income Property Trust Q3 2014 Earnings Call

OPERATOR

On behalf of JLL Income Property Trust I'd like to welcome you to their third-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 Brittney Mazewski from JLL Income Property Trust. Brittney, please go ahead.

BRITTNEY MAZEWSKI

Thanks and 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, 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 September 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 November 6, 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, Brittney. Hello, everyone, and thank you for joining us for our third-quarter earnings call. It was a productive third quarter for JLL Income Property Trust. We continue to add value to our portfolio through active asset management, strategic dispositions and securing accretive financings. For the third quarter we raised gross proceeds of $60.1 million through sales of shares of our common stock, our largest quarterly raise since we went effective in late 2012. Our success has allowed us to declare our twelfth consecutive quarterly dividend, upholding our commitment to enhance the current return to our stockholders. I'd like to cover a few broad macro trends impacting commercial real estate markets. Gregg will then review our financial results and I will conclude with noteworthy accomplishments and then take your questions.

The economy is showing signs of acceleration, with job growth and GDP growth posting another quarter of strong numbers. GDP expanded at an annual rate of 3.5% in the third quarter, a deceleration from the second quarter's 4.6%, but still very strong and above expectations. The labor market is expanding and unemployment fell below 6% for the first time since 2008. Monthly job growth averaged 234,000 in the third quarter, 36% stronger than the pace one year ago.

Most other economic indicators also show an improving trend. Weekly jobless claims are at their lowest level since 2000, corroborating the trend of strong job growth and falling unemployment. Recent declines in global oil prices, if sustained, are likely to support improved consumer spending. Inflation over the last year has been just 1.7%.

There is still room for the expansion to spread, however, as wage growth remains slow, housing starts are low, and the rate of long-term unemployed, though declining, is still elevated. According to Moody's Analytics, the expansion is likely to accelerate in 2015 and 2016, with GDP growth improving to 3.5% and 3.4% respectively.

Real estate property fundamentals have been on the mend for four years and continue to improve. There was a notable strengthening in office demand last quarter, especially in downtown markets. Nationally, office vacancy declined 40 basis points to 14.1% and rents increased 3.5%. Warehouse availability declined 30 basis points to 10.6% as new demand continued to exceed construction. Warehouse rents grew 2.6% year-over-year, with over 5% year-over-year rent growth in Dallas and Atlanta. Markets, by the way, where we have investments.

Apartments are weathering rising new supply very well, and nationally posted 3.7% rent growth over the last year. Most apartment buildings are full, with only frictional vacancy due to typical tenant turnover. New supply is leasing quickly despite rising completions. Apartment vacancy has been stable over the last year, ending the third quarter at 4.1%. National retail fundamentals are looking healthier as well. Open-air center vacancy declined 20 basis points to 8.8% last quarter and rent growth has accelerated to 3.0% in the last year. Limited new construction bodes well for small shop leasing.

Real estate capital markets remain very active. Transaction volumes totaled $75 billion in the 3rd quarter, up slightly from the first two quarters of 2014 and marking the 10th consecutive quarter in which volumes have exceeded $50 billion. Real estate debt is readily available from a variety of sources, including life insurance lenders and the CMBS market. Both remain active and lending terms and spreads have continued to move in favor of borrowers.

US Treasuries moved lower even as the Federal Reserve concluded its bond purchasing program, with yields on 10-year Treasuries down over 60 basis points from the start of 2014. These low yields, coupled with improving fundamentals, have continued to attract investors to commercial real estate. Pricing indicators reflect the influx of capital, as cap rates continue to tick down. The Moody's/RCA commercial real estate price index is up 14.8% year-over-year as of August – and just 0.2% below its prior peak, recorded in 2007. Publicly traded REITs saw a decline in capital raising after an exceptional 2nd quarter, and REIT prices fell 4.5% from June to September.

In 3Q, the spread between the trailing year NCREIF private real estate income yield and the 10-year US Treasury yield was 312 basis points, slightly above its long-term average, an indicator that real estate values remain in the fair value range.

Improved economic and job growth is driving increased tenant demand for commercial real estate across the property types, leading to rental growth and occupancy gains. This growth, together with persistently low bond yields, continues to drive strong investor interest in commercial real estate. Current market conditions make acquisitions highly competitive, but they also present excellent opportunities for achieving income growth through effective asset management, accretive property financings, and strategic dispositions.

Given the backdrop of these strengthening market conditions, during the third quarter we disposed of two properties that no longer fit our investment strategy, closed on one new financing and completed a tender offer as an alternative liquidity option for our legacy Class M stockholders. It was a productive third 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 nine months ended September 30th and describe some of the key underlying drivers of our performance.

In the third quarter, the Company had net income of $1 million or $0.02 per share compared to a net loss of $11.1 million or $0.28 per share for the third quarter of 2013. For the nine months ended September 30th, we had net income of $3.1 million or $0.07 per share compared to a net loss of $13.3 million or $0.38 per share for the same period last year. The increase in net income for both the three and nine months ended September 30, 2014 was primarily related to increased occupancy in our office segment and our acquisitions of stable income producing properties in 2013 and 2014. The net loss for both the three and nine months ended September 30, 2013 was primarily related to the provision for impairment recorded at a property we sold in 2013.

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 $7.5 million, or $0.16 per share for the third quarter of 2014 compared to FFO of $5.8 million, or $0.15 per share for the third quarter of 2013. For the nine months ended September 30, 2014, FFO was $22.4 million or $0.50 per share compared to $23.2 million or $0.66 per share for the same period last year. For the third quarter the increase in FFO was primarily related to our new acquisitions, positively impacting our portfolio. For the first nine months of the year the slight decrease in FFO was primarily related to the collection of a large lease termination payment and the recognition of non-cash revenue from a property we sold in fourth quarter 2013, partially offset by the positive impact of our new acquisitions. 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 $6.6 million or $0.14 per share for the third quarter of 2014 compared to AFFO of $3.7 million or $0.10 per share for the third quarter of 2013. For the nine months ended September 30, 2014, AFFO was $19.6 million or $0.43 per share compared to AFFO of $14.6 million or $0.41 per share for the same period last year. The increase in AFFO for the third quarter and first nine months of the year was the result of increased occupancy at Monument IV at Worldgate and the positive influence 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, we maintained our apartment occupancy at 93% this quarter, but are down 1% from last year.

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

We continued to maintain our office occupancy around 96% for the quarter, up 14% 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 increased 4% to 97% for the quarter and increased 2% compared to last year primarily due to the disposition of Stirling Slidell Shopping Centre, our non-grocery anchored property located in Slidell, LA which we sold in Q3.

In all cases, our segment occupancies compare well with national averages of 96% for apartments, 89% for industrial, 86% for office and 94% 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. On November 7th 2014 we paid a gross dividend of $0.12 per share related to the third quarter of 2014, a 9.1% increase in the gross dividend rate from the prior quarter. These gross dividends were paid out to stockholders, but were reduced for share-class specific fees.

On November 4th, our board of directors approved our fourth quarter dividend of $0.12 per share to stockholders of record as of December 30th to be paid on February 6th 2015. 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 M, Class A, and Class M-I shares as of September 30th was $10.44, $10.42 and $10.44, respectively. The NAV of each share class increased this quarter as a result of increasing property valuations and a positive impact from property operations.

As of November 7th, 2014, the NAV of our Class A shares was $10.50 and the NAV of our Class M, M-I and A-I shares was $10.53 per share. 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 few noteworthy accomplishments in the third quarter disposing of two non-strategic assets and closing on one new very accretive financing. In August, we sold Stirling Slidell Shopping Centre, a 139,000 square foot retail property located in Slidell, LA, for approximately $14.6 million. In conjunction with the sale, we paid off the mortgage loan for approximately $12.0 million. This was a higher LTV asset at 82%. It also was our only remaining 2014 debt maturity and at a 5.15% interest rate this disposition was important in accomplishing our goal of reducing our Company level loan to value ratio and also paying off or refinancing loans that are higher than current interest rates. Further, this property was shadow-anchored by a Target discount store and not in keeping with our retail strategy of focusing in the grocery-anchored format.

We also disposed of one of our few remaining suburban office properties, Westar I in suburban St. Louis. This was also a higher LTV asset which carried a 6.05% interest rate and had a March 2015 loan maturity. With those two dispositions we reduced our company-wide

LTV, reduced our weighted average interest rate across our portfolio and also eliminated all of our near term debt maturities. It is important to note that we now have no loans coming due until the fourth quarter of 2016 - two years from now.

In contrast to paying off those higher interest rate loans, in the quarter our asset management teams also closed on a $10.2 million financing secured by Charlotte Distribution Center, the industrial property we acquired in June located in Charlotte, NC. This new loan is for 10 years at a fixed interest rate of 3.66%. The loan to value is at 40% to our purchase price.

Using moderate leverage is a strategic way to extend our investment capacity and further diversify our portfolio. We plan on maintaining a 30-50% Company leverage ratio 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 46%. The weighted average interest rate on our outstanding loans decreased 17 basis points to 4.20% during the first nine months of this year.

Overall, we are extremely pleased with our year to date accomplishments. We have closed on five new acquisitions, disposed of two non-strategic assets, and closed six new financings, all at accretive leveraged yields. I would also like to highlight that with our two third quarter dispositions, over the last two years we have sold 17 different properties, all at arms-length market determined pricing and each of those sales closed within plus or minus 1% of our most recent independent appraised value. We believe those sales speak volumes to the credibility of our valuation methodologies and ultimately should translate into confidence in our daily NAV.

In the third quarter, we were also 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 raised gross proceeds of nearly $270 million. 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 I previously mentioned, we had our largest quarterly raise of $60.1 million this quarter and we have raised over $120 million during the first nine months of the year. 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.

Lastly, on September 24th we completed a tender offer in which we repurchased 4.4 million shares of our Class M common stock at $10.48 per share for a total of $46 million. The tender offer was conducted to provide our legacy Class M stockholders an alternative liquidity option at the then current NAV per share in advance of those shares becoming eligible for our regular daily Share Repurchase Plan. Through this tender offer we demonstrated our commitment to protecting our stockholders' capital and to evaluating alternative options to provide our stockholders with liquidity in their investments.

As we near the end of 2014 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 continue to focus on increasing our exposure to eastern and western U.S. major markets to further our geographic diversification within the portfolio. We continue to look at opportunities to dispose of properties when we see better risk-adjusted returns in other property types and markets. We are very pleased with our accomplishments so far in 2014 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.