Stockholder Call -

JLL Income Property Trust Q4 2015 Earnings Call

OPERATOR

On behalf of JLL Income Property Trust I'd like to welcome you to their fourth quarter and full year 2015 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 Jodi Akers, Head of Stockholder Services. Jodi, please go ahead.

Jodi Akers

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, 2015, 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-K for the year ended December 31, 2015.

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 Annual Report on Form 10-K filed on March 10, 2016 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, Jodi. Hello, everyone, and thank you for joining us for our fourth quarter earnings call. We experienced incredible growth in 2015 and before we highlight our last quarter's achievements, I'd like to reflect back on what we have accomplished throughout the year.

In 2015 we acquired 30 new properties, nearly doubling the net asset value of our portfolio from 2014. We owned interests in 28 properties at the end of 2014 and grew to 54 properties at the end of 2015. We disposed of 4 non-strategic assets all closing within a very narrow range of their most recent independently determined appraised values. We repaid one loan to reduce our leverage and financing costs and extended and expanded our working capital line of credit. At a company level, we reduced our overall leverage ratio from 45% at 2014 to 39% at 2015. Our asset management teams signed new leases or renewed existing leases totaling approximately 594,000 square feet in 2015 and in keeping with our core asset management strategy, we also renewed or released nearly 85% of our 2015 commercial lease expirations.

Investment performance is the most relevant measure of success for an investment manager; however, an investment manager's success in attracting new capital is a critical

barometer of the market's receptivity and confidence in a manager's offerings. During 2015 financial advisors chose to allocate over $400 million of new capital to IPT, a dramatic increase from the $150 million of new capital we raised in 2014. In addition to acquiring new properties and retiring debt, we repurchased $32 million of shares of our common stock at their daily NAV through our share repurchase plan during 2015, returning capital to stockholders that desired liquidity or chose to reduce their allocations to core real estate.

JLL Income Property Trust remains the preferred daily NAV core real estate offering in the marketplace attracting more capital than all of our competitors combined. We continue to see strong inflows of new capital as real estate market conditions remain favorable. The US economy continues to see a triple low of low economic growth, low inflation, and low interest rates. GDP growth decelerated in the fourth quarter to 1.0%, held down by weak exports and energy sector capex cuts. Inflation, due to falling oil prices, was slightly negative in 2015. The Fed raised short-term interest rates in December, but the 10 Year US Treasury rate is down sharply in early 2016 due to global growth concerns and financial market volatility.

The labor market continues to improve. The unemployment rate is 4.9%, down 70 basis points from the end of 2014. Monthly new jobs averaged 222,000 over the trailing year. Wage growth has been the missing piece of an otherwise solid employment situation with wages up 2.5% year-over-year, below the 3 to 4% typical of a mature economic recovery. The stubbornly low labor force participation rate of 62.7% may be limiting wage growth. The struggling oil and gas industry continues to shed jobs, while construction employment is trending upward supported by rising housing starts and home prices.

This modest economic growth however, has been sufficient to support healthy demand for commercial real estate. The triple low economic factors are driving a triple high for real estate in terms of strong capital inflows, increasing property values, and abnormally high overall returns for core real estate. 2015 transaction volume across the four main property types reached $420 billion, an all-time record, surpassing the $351 billion in 2007, the previous high. Most economists believe that a US recession in the near-term remains unlikely due to solid consumer spending while financial market volatility has risen sharply in 2016. Public REIT shares discounts to NAV, wider spreads for corporate bonds, and the stumbling energy economy pose risks for real estate capital flows and

tenant demand. The events so far in 2016 confirm that a strong defensive portfolio positioning is among the best ways to approach current market uncertainty and volatility.

Our acquisitions and asset management teams continued to execute on our strategic priorities and enhance our diversified portfolio of high quality, stabilized real estate assets during the fourth quarter. Our outlook for continued growth in 2016 is encouraging. I will discuss our 4Q accomplishments in greater detail, after Gregg gives you a recap of our financial performance. Gregg?

Gregg Falk

Thanks, Allan. Our success with active asset management, property acquisitions and strategic dispositions are reflected in our financial results and operating performance. As I highlight our results I will discuss the key underlying drivers of our performance.

For the full year ended December 31, 2015 we reported net income of $12.0 million or $0.20 per share, an increase of $7 million and $0.09 per share compared to the prior year. As discussed in previous quarters, the disposition of our four student housing properties in Q1 generated large gains.

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 year ended December 31, 2015, we reported FFO of $26.2 million, a decrease of 15% compared to the prior year as a result of an increase in debt extinguishment costs related to the sale of our student housing properties, acquisition expenses and accrued performance fees related to our strong investment returns in 2015. Our success in raising capital in Q3 and Q4 provided us with an ample war chest to take advantage of year-end acquisitions from motivated sellers. In Q4 we acquired interests in 17 properties

investing over $200 million; acquisitions that should contribute significantly to our operating metrics in 2016 and beyond.

We closely monitor AFFO as a supplemental measure of operating performance. AFFO is calculated as FFO adjusted for non-cash items and one-time non-operating expenses. Full year 2015 AFFO was $29.4 million compared to $27.9 million in 2014, a 5% year over year increase in total AFFO. The increase in AFFO is principally attributed to the performance of our new acquisitions and increased rents from our office properties. Our per share AFFO for the year was $0.48.

The ongoing economic recovery and related labor market strength drove improvements in the fundamentals for each of the four main property types. In the fourth quarter, all major property types, except apartments, reported national occupancy rate increases as space absorption continued at a steady pace. Healthy occupancy continues to support positive rent growth across all property types. Apartments and office saw the strongest trailing year rent growth of 6.0% and 5.5%, respectively. Warehouse rents grew 3.2% over the same period, while retail rents posted 2.4% annual growth. Apartment construction levels have risen and begun to impact national apartment occupancy.

Within our portfolio the overall office occupancy remained steady at 93%, compared to the prior quarter and continues to compare favorably with the national office occupancy at 87%.

According to CBRE-Economic Advisors occupancy for the national warehouse sector averages 94%, in-line with the previous cycle peak. In this property type we continue to perform better than the national average with our industrial occupancy at 99%.

The national retail occupancy rates remained unchanged at 94% for the quarter. Our portfolio retail occupancy remained unchanged at 97% this quarter, in-line with the prior year.

For the fourth quarter, the national apartment occupancy rate decreased 30 basis points to 96% as new supply exceeded demand but occupancies still remain near all-time highs. Our apartment occupancy remained stable at 95% this quarter, in-line with the prior year.

We feel positive about the overall occupancy of the portfolio remaining stable around 97% at the end of the quarter. Our weighted average lease duration at December 31, 2015 was 6.7 years, down from 7.6 years at December 31, 2014. The modest decline in

our lease duration was primarily related to two new acquisitions made in 2015. In Q2 we acquired DFW Distribution Center, which has a weighted average lease term of approximately 4 years. We are comfortable adding a few shorter term duration leases to our portfolio as this is a multi-tenant property with a good mix of lease durations ranging from six years at the long end to two years at the short end. In Q4 we acquired NYC Retail Portfolio, a portfolio of 15 retail properties that has a weighted average lease term of approximately 6 years, excluding tenant renewal options. With tenant renewal options, the weighted average lease term across this portfolio extends to nearly 25 years. Given, the in-place rents throughout the NYC Retail Portfolio are significantly below current market lease rates we are comfortable with the balance of income durability and growth potential the NYC Retail Portfolio provides our overall portfolio.

Touching on our returns and distributions, it is one of our primary investment objectives to offer an attractive level of current income for distribution to our stockholders. Our board of directors approved a gross distribution for the first quarter of 2016 at $0.12 per share to stockholders of record as of March 30th, payable on or around May 2nd. This was the seventeenth consecutive quarterly dividend declaration dating back to the first

quarter 2012. These gross dividends will be paid out to stockholders, but will be reduced for share-class specific fees.

Since we launched our initial public offering in October of 2012 we have provided annualized total returns for our Class A and Class M shares of common stock of 7.0% and 7.6%, respectively. Our annual total return for 2015 for Class A and Class M shares was 9.6% and 10.4%, respectively. The approximate 6% increases in NAV per share for 2015 were the result of increasing property valuations and a positive impact from property operations.

Now, I'll hand the call back over to Allan to discuss in detail our significant accomplishments for the quarter and our key initiatives for 2016.

Allan Swaringen

Thanks, Gregg.

As I mentioned earlier, we had another strong quarter, capping off a remarkable year. In December, we acquired an approximate 14% interest in a portfolio of 15 urban infill retail properties located in the greater New York City area. The purchase price for the aggregate portfolio was approximately $1.3 billion with IPT's interest representing approximately $165 million gross investment including assumption of existing in-place debt. The portfolio contains approximately 2.7 million square feet in highly attractive retail locations in Manhattan, Brooklyn, Queens, the Bronx, Staten Island and New Jersey. The portfolio is 98.5% leased to a mix of grocery, consumer staple, big box, discount and entertainment retailers strategically positioned in high-density and transportation hub locations. This investment offers IPT a rare opportunity to complement our growing portfolio of suburban grocery anchored shopping centers with ownership in a diversified portfolio of Class A retail properties in irreplaceable urban infill locations in the densest metropolitan area in the United States.

Also in December, we acquired 140 Park Avenue, a newly constructed 100,000 square foot medical office building located in Florham Park, New Jersey for $45.6 million. 140 Park Avenue is a four-story state-of-the-art, fully leased medical office building situated on 6.6 acres in The Green at Florham Park, a 268-acre master planned mixed-use office park. The property is leased to Summit Medical Group for 15 years and provides for 10% rent increases every 5 years. Interestingly, other tenants at The Green include BASF's North American headquarters and the New York Jets training and headquarters facilities. This investment builds upon LaSalle's fifteen year track record of identifying and executing opportunities in healthcare oriented real estate and further complements IPT's stable-value and income oriented investment objectives.

Also in December last year, we acquired Maui Mall, a grocery-anchored retail center located on the island of Maui for $91.1 million. Maui Mall is centrally located in Kahului, Maui's largest retail trade area and the population center of the island. Situated at a high traffic intersection, Maui Mall is easily accessible to local residents as well as visitors arriving from the nearby Kahului Airport, along with the Kahului Harbor, which is located across the street creating substantial traffic from docked cruise ships. Recent upgrades to the center have already begun to attract new tenants, including the island's first TJ Maxx. The property's strategic location and compelling tenant mix combined

with a high-performing grocery store should provide the fundamentals to drive this property's long-term out-performance.

Acquiring new properties with low leverage has allowed us to maintain our leverage ratio within our target range of 30% to 50%. At December 31st, our Company leverage ratio was 39%, a 6% decrease from the prior year. With limited near term debt maturities, we have a portfolio-wide weighted average remaining loan term of 6.1 years. Our weighted average interest rate on outstanding borrowings is 4.3%, in line with the prior year.

During the quarter we increased our revolving line of credit with Bank of America. The new accordion feature allows us to expand the available balance up to $100 million. The increased credit facility provides us with greater flexibility and capacity to pursue our strategic objectives in this highly competitive capital markets environment. The new facility will be used to accelerate acquisitions and provide us with available working capital as needed.

With the 3 new acquisitions in the fourth quarter, our portfolio is now comprised of 18 industrial warehouses, 22 retail centers, 7 office buildings, 5 apartment complexes and 2 parking garages. In total, across all 53 properties, we now own interests in almost 10.6

million rentable square feet. At the end of Q4 our portfolio diversification by property type was 14% for Apartments, 22% Industrial, 24% Office, 37% Retail and 3% Other, which currently consists of our two parking garages.

In 2016 we will continue to focus on investing capital to grow our portfolio and increase its diversification focusing primarily on diversifying by property type, geographic region and underlying tenant industries. As we grow our portfolio of core properties, we remain committed to actively managing our real-estate assets to provide attractive income returns to our stockholders. 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.

Our target acquisitions for 2016 include well leased industrial properties, grocery-anchored community oriented retail properties and conventional apartments that may provide growth to our portfolio as our economy continues to expand. We will also dispose of properties when we see better risk-adjusted returns in other property types and markets. We are very pleased with our accomplishments throughout 2015 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 any questions.

OPERATOR

At this time I will open the lines for your questions. [Instructions for asking questions.]

<*Questions.*>

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