Stockholder Call –

Jones Lang LaSalle Income Property Trust Q3 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 third 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 Jodi Akers, Head of Stockholder Services for Jones Lang LaSalle Income Property Trust. 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 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 reports on Form 10-K for the year ended December 31, 2012, 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 SEC rules in our Form 10-Q for the quarter ended September 30, 2013.

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 November 7, 2013 and other filings which are available on the SEC website, www.sec.gov.

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, Jodi. Hello, everyone, and thank you for joining us for our third-quarter earnings call. I'd like to begin with an overview of recent economic events that directly influence our business and the commercial real estate markets. Gregg Falk will then review our financial performance for the three and nine months ended September 30th and we will conclude with a more detailed review of some of the more noteworthy accomplishments that occurred in Q3 and our progress towards achieving our longer-range objectives.

Since our last call, we have faced an array of economic hazards. The U.S. government is open again after a 16-day shutdown, and Congress reached a last minute compromise to raise the debt ceiling. This resolution averted default and financial chaos, but it also ensured additional budget battles early next year. The sequester remains in place and there are no signs of it being addressed at least until January when Sequester II could kick in. Despite the government headwinds, the private sector continued to expand. Housing is becoming an engine of growth once again, consumer confidence has improved, and the unemployment rate continues to slowly decline.

The government shutdown contributed to the Federal Reserve's decision to maintain its pace of asset purchases at $85 billion per month, and they have indicated that they are not likely to begin scaling back these purchases before 2014. Yields on 10-year Treasuries closed the third quarter at 2.64%, down from a peak of nearly 3% in early September. Real estate capital markets, especially the core,

institutional segments, have largely shrugged off the interest rate increases that started in May and June. Rising interest rates have led to a moderate increase in commercial lending rates, but otherwise, the pricing and strong demand for core, institutional-quality real estate has not been impacted.

U.S. economic growth accelerated in the third quarter, despite the headwinds of sequestration and policy uncertainty associated with what was then the pending government shutdown. The 2.8% GDP growth rate in the third quarter was driven by growth in personal consumption, inventory, and housing. The growth rate is expected to slow to 1.6% in the fourth quarter, as a result of the October shutdown. Full-year 2013 GDP growth is forecast at a somewhat disappointing 1.5%. This is less than predicted earlier in the year and a significant slowdown from the 2.8% growth rate seen in 2012. We anticipate greater growth in GDP during 2014, as consumer confidence and the housing market are improving and the public sector drag should be less significant.

Job growth is one fundamental driver of real estate demand, and the labor market held the course of slow, steady improvement during the third quarter. The unemployment rate fell to 7.2% in September, its lowest level since November 2008, a long 5-years to get back to this employment level. The rate of job growth decelerated a bit, with 163,000 jobs added per month in the third quarter compared to 195,000 jobs per month in the first half of the year. Employment growth is expected to pick up slightly over the coming year, and by mid-2015 unemployment is forecasted to fall to 6.5%, the Federal Reserve's current target for raising benchmark interest rates.

The slow but positive improvement in the economy and employment is reflected in real estate fundamentals. Rents are growing for all property types, and vacancies are falling in most markets. Industrial demand has exceeded expectations so far this year positively impacting industrial vacancies, which fell 40 basis points to 11.8% nationally during the third quarter. Nation-wide office demand remains moderate, in line with forecasts, and vacancies are down 10 basis points over the prior quarter. This performance reflects moderate employment growth, some increases in efficiency of office space usage, and below trend levels of new construction.

The retail property sector's recovery is starting to gain momentum as retailers have more confidence that consumer spending will increase. New construction remains low, and only a handful of markets are expected to return to their long-term average construction levels by 2016. Vacancies in retail centers nationally fell 20 basis points over the third quarter to 9.4%.

Apartment rent growth has slowed but is still above its long term average rate (since 1990) of 2.3%. New construction is becoming a factor in some markets, but is showing signs of plateauing. Thus far, apartment demand has been able to absorb the increasing new supply, but new construction remains the key risk for this property type. The strengthening single family housing market is a positive sign for rental apartments in supply-constrained markets as rising home prices make renting an even more attractive proposition.

Turning to the real estate capital markets, third quarter transaction volume at $52 billion was in line with recent levels of investments sales for the quarter. The full year 2013 volume is expected to be in line with 2012 volume of $242 billion. Private real estate pricing has been stable since interest rates increased, and core valuations have been resilient. Investment capital for debt and equity remain plentiful and available from multiple sources, but borrowing rates are up, resulting in lower leveraged returns for buyers. Real estate lending still remains active in all market segments, so even though rates are higher, debt is still widely available.

For Jones Lang LaSalle Income Property Trust, we acquired one new grocery-anchored retail property during the third quarter, investing $43 million. We're looking at a number of other new acquisition opportunities and will have additional investments closed before the end of the year. Since the end of the quarter we have also sold or have under contract to sell, a number of properties that based upon our rigorous hold-sell analysis we determined to take to market.

Our team had an extremely productive third quarter and we are on track to move the needle even further in the fourth 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 nine months ended September 30, 2013 and describe some of the key underlying drivers of our performance.

For the third quarter, the Company had a net loss of $11 million or $0.28 per share compared to a net loss of $357 thousand or $0.01 per share for the third quarter of 2012. The year over year increase in net loss was primarily related to the provision for impairment recorded at Canyon Plaza, our office property located in San Diego, California, as we made the decision to sell the property during the third quarter and wrote its historical cost down to fair value. The provision for impairment had no impact on our Net Asset Value as the property had previously been written down to fair value.

For the nine-months ended September 30th, we had a net loss of $13.3 million or $0.38 per share compared to net income of $5.3 million or $0.22 per share for the same period last year. The year over year decrease in net income for the first nine months of the year is primarily related to the provision for impairment at Canyon Plaza in the third quarter of 2013, and the non-cash gains on the transfer of property and extinguishment of debt that occurred during 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 $5.8 million, or $0.15 per share

for the third quarter of 2013 compared to FFO of $5.2 million, or $0.20 per share for the third quarter of 2012. The increase in gross FFO was primarily related to increased occupancy at Monument IV at Worldgate and decreased interest expense as a result of our deleveraging efforts.

For the nine months ended September 30, 2013, FFO was $23.2 million or $0.66 per share compared to $18.1 million or $0.73 per share for the same period last year. The year over year increase in gross FFO was primarily related to the increased occupancy at Monument IV at Worldgate and the decreased interest expense as a result of our deleveraging efforts. The year over year decline in per share FFO from 2012 relates to large non-cash gains on the extinguishment of debt of $8.7 million which equated to $0.35 per share recognized in Q1 and Q3 2012, as well as a substantial increase in the number of shares outstanding.

Our portfolio continues to perform well as we focus on enhancing the operational performance of our properties. At September 30, 2013, our total portfolio occupancy was 93%, in line with Q2 occupancy and a 3% increase from the prior year.

Looking at each operating segment which we define as our four primary property types, our apartment occupancy increased to 94% this quarter, up 1% from the prior quarter and in line with last year.

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

Office occupancy remained stable at 82% as compared to Q2. Office occupancy was up 6% from last year as a result of the increased occupancy at Monument IV at Worldgate more than offsetting the decreased occupancy at Canyon Plaza.

Our retail occupancy increased 2% to 95% for the quarter and increased 3% compared to this time last year, primarily related to the results of acquiring Grand Lakes Marketplace, a retail property located in Katy, Texas.

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, August 2nd, and again on November 1st this year we paid gross dividends of $0.10 per share related to the 4th quarter of 2012 and the first three quarters of 2013. These dividends were paid out to all three share classes but were reduced by class specific expenses for class A and M stockholders.

On November 4th, our board of directors declared a 10% increase in the gross dividend rate, increasing the quarterly payout by $0.01 per share to $0.11 per share to stockholders of record as of December 30th to be paid on February 7, 2014 related to the 4th quarter of this year. The 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 September 30th was \$10.16, \$10.17 and \$10.18, respectively. The NAV of all share classes increased moderately this quarter as increasing property valuations had a positive impact of approximately \$0.04 per share. On October 1st all shares of our Class E stock were converted to Class M stock. Each share of Class E stock received a small (approximately one-tenth of 1%) increase in shares via a stock dividend to equalize their price to the Class M shares. Also, those Class E shares which previously had a discounted fee arrangement are now subject to our 55 basis point dealer manager fee, the same as all other Class M shares.

As of November 15, 2013, the NAV of our Class A and M shares was \$10.16 and \$10.19 per share, respectively. The NAV increases are the result of 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 we see a comparable reduction in our NAV for the accrual of that dividend payment once we reach our ex-dividend date.

I'll hand the call back over to Allan to discuss a few of our significant accomplishments for the third 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 third quarter we successfully completed one new acquisition to add to the two properties we acquired in Q2. We took to market in three separate transactions the sale of properties that no longer meet our core investment strategy. With sale proceeds and new capital raised, we prepaid loans that were costing us 5.75% interest, a transaction that over time will be nicely accretive to our current dividend rate.

In September, we acquired a 90% interest in Grand Lakes Marketplace, a 131,000 square foot retail property located in Katy, Texas for approximately $43 million. This brand new grocery-anchored retail shopping center is 100% leased to 21 different tenants. The weighted average remaining lease term across all tenants is 12 years, excluding renewal options. Rapidly growing Katy is a desirable west-suburban Houston area due to its high-quality public schools and master planned housing communities and this shopping center is strategically situated in an infill location within the Grand Lakes community. The property's location and long-term leases with contractual rent increases should

provide the fundamentals to sustain continuing strong investment performance and support stable returns. At closing, we financed this acquisition with a $23.9 million, fixed-rate mortgage for 10 years at 4.2%. The loan-to-value on this loan was approximately 50%.

Also in September, we closed on a $19.1 million borrowing secured by Suwanee Distribution Center, our newly acquired industrial property located in suburban Atlanta, Georgia. This is a seven year loan at a fixed interest rate of 3.66%. The loan-to-value on this property is now 50%.

During the quarter we continued to deleverage our portfolio and reduce the weighted average interest rate on our outstanding debt. On September 3, 2013, we prepaid Pool 1 of the Dignity Health Office Portfolio loans in advance of the November 1, 2013 maturity date. The note had an interest rate of 5.75%. The outstanding balance retired was approximately $13.7 million and these properties previously had a 63% loan-to-value.

As we have demonstrated here, we are acquiring newer, high quality properties at lower LTV percentages and at lower interest rates and prepaying our higher LTV loans that carry higher interest rates.

Our Company leverage ratio continues to decline, from 63% at the end of 2012 to approximately 56% at the close of this quarter. Also since the end of last year, the weighted average interest rate on our outstanding loans has decreased by 37 basis points to 5.20%. We continue to make progress on our objectives through repaying or

refinancing loans as they come due and acquiring new investments at lower loan to values and at lower current market interest rates. We expect to further lower our company-level loan-to-value ratio and average interest rate throughout the balance of this year.

It is also one of our strategic priorities to sell properties that no longer fit our core investment strategy. After quarter end, we closed on two property sales within the portfolio. On October 24, 2013, we sold 13 of the 15 medical office properties in our Dignity Health Office Portfolio, for $111.2 million. With the sale, we prepaid the three remaining mortgage loan pools associated with the properties for approximately $60.9 million. Through this sale and loan repayments we prepaid our largest 2013 debt maturity which carried a 5.75% interest rate. The sale of the Dignity Health Office Portfolio properties is prompted by our belief that the future direction of the healthcare industry is moving away from individual physician practices and more towards large physician practice groups. The majority of the space within the Dignity Health Office Portfolio is focused on smaller, individual physician practices.

Also in October, we sold our partial interest in Legacy Village, a lifestyle shopping center located in suburban Cleveland, Ohio for $27.3 million. This was the only non-controlling unconsolidated property in our portfolio. This sale was in- line with our investment strategy to focus on retail investments in grocery anchored community oriented retail properties and to generally own majority controlling ownership interests of our investments. This sale also allowed us to prepay one of our early and larger 2014 debt maturities. It is important to note that

both of these arms-length dispositions closed at sale prices which closely approximated their current appraisal-based valuations.

During the third quarter we also entered into an agreement to sell Canyon Plaza, our office property located in San Diego, which we expect will close before the end of 2013. The sale is driven by the property no longer being a core asset as a result of its low occupancy and significant capital requirements in the future to return the building to full occupancy.

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 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 for our offering. Through this support and success in raising new capital, along with our proactive asset management, we have acquired three new properties, reduced the Company's leverage ratio, managed down our portfolio average cost of debt, and more recently, disposed of non-strategic assets. Lastly, as Gregg previously mentioned, we declared our eighth consecutive quarterly dividend for the fourth quarter at 11 cents per share, a 10% increase from the prior quarter's 10 cents per share. The gross dividend which will be paid in February 2014 will provide an annualized dividend to our stockholders of 44 cents per share before the deduction of class specific fees.

Overall it has been a great year. Going forward, continued successful capital raising 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 for the remainder of this year continue to be well-located, well-leased industrial and grocery-anchored retail properties as well as other property types that match our operational and risk objectives. We are very pleased to enhance the current return to our stockholders through the dividend increase and demonstrate our ongoing commitment to providing attractive, risk-adjusted returns.

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.