Stockholder Call -

JLL Income Property Trust Q4 2014 Earnings Call

OPERATOR

On behalf of JLL Income Property Trust I'd like to welcome you to their fourth quarter and full year 2014 earnings conference call. This call is being recorded and our audience lines are currently in a listen-only mode. 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, 2014, 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, 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 Annual Report on Form 10-K filed on March 5, 2015 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. It was a productive fourth quarter and overwhelmingly successful year for JLL Income Property Trust. We continue to add value to our portfolio through active asset management, property acquisitions, strategic dispositions and securing accretive financings. Since the beginning of 2012, we've raised nearly $400 million of new capital which we've used to deleverage our balance sheet, reinvest in our portfolio holdings, acquire new core property investments and repurchase shares of our common stock. During this time period we've also declared thirteen consecutive quarterly dividend payments upholding our objective to provide attractive current returns to our stockholders. This morning, I will first cover recent economic events that directly influence our business and commercial real estate markets. Gregg will then review our financial results and I will conclude with noteworthy accomplishments and our investment strategy focus for 2015. We will then take your questions.

2014 was another strong year for US real estate. The economy showed improved momentum, with full-year GDP growth reaching 2.6%, up from 2.4% in 2013. This acceleration occurred despite a weather-influenced contraction in the first quarter. Growth reached a phenomenal 4.6% and 5.0% in the second and third quarters respectively, before slowing to 2.6% in the fourth. While fourth quarter net exports were

hurt by a stronger US dollar and weaker growth internationally, consumer spending, perhaps helped by the fall in oil prices, saw its strongest quarterly growth since 2006. Oxford Economics forecasts that GDP growth will accelerate to 3.3% in 2015.

Job growth is a crucial demand driver across all types of commercial real estate, and 2014 saw the biggest gain in payrolls in fifteen years. The US added 3.1 million jobs last year, an average of 260,000 net new jobs per month, exceeding expectations at the start of the year. This is up from a pace of 199,000 jobs per month in 2013. Growth was broad-based, and the federal government was the only sector to cut jobs last year. The unemployment rate ended the year at 5.6%, down from 6.7% at the end of 2013. Other indicators, such as falling initial unemployment claims and a decreasing ratio of job seekers to job openings, corroborate the tightening labor market. Moody's Analytics predicts that hiring will accelerate further in 2015, with forecast job gains of 275,000 per month and in fact, February new jobs came in at 295,000.

While the economic drivers of real estate demand improved over the past year, news was not universally positive. Despite many signs of a tightening labor market, wage growth remained elusive, which could limit retail sales growth. Additionally, the housing market showed only modest improvement in 2014. Home price gains slowed, and sales growth and housing starts failed to gain momentum. Oil prices plunged in the 4th quarter, effectively giving the consumer a tax cut and providing a net benefit to the economy.

However, dramatically lower oil prices will have negative impacts on economic growth and real estate demand in a few energy-oriented regional economies, particularly Houston, and more specifically, the office market in Houston.

Improvements in real estate fundamentals broadened over the course of 2014, reflecting the strengthening national expansion. Office property markets continued to see strong demand in the fourth quarter with CBRE reporting a 20 basis points decline in the national vacancy rate to 13.9%, bringing the total annual decline to 100 basis points, the greatest one year decline thus far in the recovery. Warehouse vacancy rates fell 20 basis points in the fourth quarter to 10.4%, a full percentage point lower than a year ago, despite higher levels of new supply. Retail vacancies dropped 10 basis points in the fourth quarter to 6.3%, and with a construction pipeline that remains exceptionally low, further declines are expected in 2015. National vacancy rates rose slightly for apartments as new supply has become a factor in a number of markets. Apartment vacancies ended the year, however, at 4.8% which is near a 20-year low for apartments.

All four major property types also saw rent gains in the fourth quarter. Warehouse net asking rents increased 4% year-over-year according to data from CBRE Econometric Advisors. By the same measure, office asking rents grew 3.3%. Retail rents, which have lagged the other property types throughout the recovery, finally had a breakout year. National year-over-year rent growth for the retail sector rose to 3% in 2014, up from

1.8% in 2013. Costar Analytics forecasts that retail rent growth will accelerate in 2015 to 3.5%. Apartment fundamentals had a superb 2014. MPF Research reports 2014 apartment rent growth accelerated to 4.7%, following two years of decelerating growth. As we look to 2015, new construction is poised to be a key driver of performance differences across various US apartment markets.

Real estate capital markets remain very active. US transaction volumes reached $327 billion, exceeding 2013 levels by more than 10%. They also exceeded 2006 levels, and we expect transaction volumes to approach the prior 2007 peak in the coming year. Debt markets are active and real estate financing is available from a variety of sources. CMBS issuances were up in 2014 thanks to a strong month in December, which saw $14.8 billion of new issuance - the highest monthly total since 2007. Life insurers also remained very active, and interest rates tracked down over the course of the year as Treasury rates fell.

One of the biggest surprises in 2014 was the move down in US Treasury rates. Yields on 10-year government bonds ended the year at 2.17%, down from 3.03% at the end of 2013. Accordingly, real estate income yields are above their historic average relative to long-bond yields. Price indices from Moody’s/RCA and Green Street Advisors continue to trend upward, and both are now above prior 2007-peaks. Although prices have increased, real estate valuations still appear fair on a relative basis. In the fourth quarter,

the spread between the NCREIF private real estate income yield and the 10-year US Treasury yield was 308 basis points, slightly above its historic long-term average.

With 3 million more Americans working this year and near-term forecasts for continued economic momentum, we expect real estate demand to continue to drive improvements in occupancies and rents in 2015. Record low interest rates do however make the investment markets highly competitive.

Given the backdrop of strengthening market conditions, during the fourth quarter we acquired a second parking garage in a major urban market, further diversifying our income and the potential for inflation protection. We also opened 2015 with an important strategic accomplishment, selling four of our student housing properties that no longer fit within our current investment strategy. Overall, we had an extremely productive 2014 and are encouraged as we plan ahead for the current year, 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 fourth quarter and full year 2014 and describe some of the key underlying drivers of our performance.

In the fourth quarter, the Company had net income of $2 million or $0.04 per share compared to a net loss of $12 million or $0.28 per share for the fourth quarter of 2013. For the full year ended December 31, 2014, we had net income of $5 million or $0.11 per share compared to a net loss of $25 million or $0.68 per share for the same period last year. The increase in net income for both the fourth quarter and full year 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 fourth quarter and full year 2013 was primarily related to the provision for impairment recorded 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 $9 million, or $0.18 per share for the fourth quarter of 2014 compared to FFO of $5 million, or $0.12 per share for the fourth quarter of 2013. For the year ended December 31, 2014, FFO was $31 million or $0.68 per share compared to $28 million or $0.77 per share for the same period last year. For the fourth quarter and full year 2014 the increase

in FFO was primarily related to our new acquisitions, positively impacting the portfolio. 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 $8 million or $0.17 per share for the fourth quarter of 2014 compared to AFFO of $5 million or $0.13 per share for the fourth quarter of 2013. For the year ended December 31, 2014, AFFO was $28 million or $0.61 per share compared to AFFO of $20 million or $0.54 per share for the same period last year. The increase in AFFO for the fourth quarter and full year 2014 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 1% from the prior year. Our weighted average lease duration at December 31, 2014 was 7.6 years, up from 5.8 years at December 31, 2013. We view extending our lease duration as strategically important for our portfolio as it is an indication of the reliability of our earnings.

Looking at each operating segment which we define as our primary property types, our apartment occupancy increased 1% from the prior quarter and prior year to 95%.

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 6% from last year as a result of strong leasing activity at Monument IV at Worldgate and 111 Sutter Street.

Our retail occupancy remained stable at 97% this quarter and increased 3% compared to last year primarily due to the disposition of Stirling Slidell Shopping Centre, a 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 95% for apartments, 90% for industrial, 84% 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 a gross dividend of $0.11 per share related to the fourth quarter of 2013 and the first and second quarters of 2014. On

November 7th 2014 and February 6th 2015 we paid a gross dividend of $0.12 per share related to the third and fourth quarter of 2014, a 9.1% increase in the gross dividend rate from the prior quarter and prior year. These gross dividends were paid out to stockholders, but were reduced for share-class specific fees.

On March 3, 2015, our board of directors approved a gross distribution for the first quarter of 2015 of $0.12 per share to stockholders of record as of March 30, 2015, payable on or around May 1, 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 of our Common Stock as of December 31st was between $10.55 and $10.57 per share. 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 March 10, 2015, the NAV of our shares was between $10.73 and $10.78 per share. The NAV increases are a 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 fourth quarter and our key initiatives for 2015.

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 closed on one new acquisition during the fourth quarter bringing our total new property acquisitions to 6 for the year. In December, we acquired Chicago Parking Garage, a 366 stall, multi-level parking facility located in Chicago for approximately $16.9 million. This garage is strategically located in Chicago's River North submarket with robust demand drivers from the areas growing residential, hotel, office, retail and entertainment supply. Our two recent parking garage investments provide us with another source of income diversification and the potential for inflation protection given the relatively short, albeit daily, lease duration.

The cornerstone of our investment strategy will continue to focus on acquiring and managing higher-quality income-producing commercial real estate properties across the

four primary property sectors. We believe this strategy will enable us to provide investors with a portfolio that is well-diversified across property types, geographic regions and underlying tenant industries, both in the United States and, over time, internationally. One of the unique aspects of our strategy and we believe one of its greatest strengths is our ability to shift property type weightings and geographic concentrations as our research and strategy team guides us towards (and sometimes directs us to avoid) sectors and markets that are likely to outperform or underperform in the current environment. To demonstrate this, as compared to our portfolio holdings at the end of 2012, we have significantly reduced our exposure to the office property sector (and more specifically suburban offices) from 51% of our portfolio in 2012 to 30% of our portfolio at the end of 2014. The other big shift has come in our allocation to industrial or warehouse properties which we have grown from 6% of our portfolio as of the end of 2012 to 22% at year end 2014. At year end our portfolio diversification by property type was 23% Apartments, 22% Industrial, 30% Office, 21% Retail and 4% Other, with other being our two recent parking garage investments.

Acquiring new properties with no or low leverage, extinguishing debt, increasing property values, and raising new equity, allowed us to maintain our Company leverage ratio at 45%, in-line with the prior year. Our weighted average interest rate on our outstanding borrowings has decreased by 17 basis points for the year to 4.2% at the end of 2014.

As we are longer term investors, we anticipate that we will generally hold most of our properties for extended time periods. However, timely dispositions allow us to take advantage of what we view as market mispricing. To that end, in January, we sold as a portfolio four of our student housing properties for approximately $123 million and prepaid $71 million in loans associated with those properties. We recorded a book basis gain on this sale of approximately $28 million. This disposition is in keeping with our strategy to reorient our portfolio away from more seasonally impacted student housing and also to dispose of higher loan-to-value investments. At sale, these four properties were at 59% loan-to-value. After this sale we were able to reduce our Company leverage ratio to 41%, a record new low.

In 2014 we closed on six new acquisitions, disposed of six non-strategic assets, and closed six new financings, all at accretive leveraged yields. Over the last two years we have sold 21 different properties, all at arms-length market determined pricing and all within a vary narrow range to the appraisal-based valuations that were last used to determine our daily NAV. In addition to timely sales, closing on new investments and refinancings, our asset management teams renewed or extended leases in 2014 totaling more than 1 million square feet. In keeping with our core asset management strategy, we also renewed or released nearly 90% of our 2014 lease expirations.

In 2014 we also increased our quarterly dividend from 11 cents to 12 cents per share providing an annualized dividend to our stockholders of 48 cents per share before the deduction of share-class specific fees.

In the third quarter we conducted a successful tender offer and repurchased $46 million of shares. Additionally, through our regular and ongoing share repurchase program we met all of the repurchase demand in the fourth quarter, repurchasing another $28 million of shares.

On January 16, 2015, the SEC declared effective our extended offering of up to $2.7 billion in any combination of our four classes of common stock. Extending our offering in advance of its 3-year term demonstrates to stockholders, and financial advisors, how JLL Income Property Trust intends to operate as a perpetual or open-end investment program. Additionally, with this new registration we are now able to publicly offer our reduced fee $1 million dollar minimum share classes.

Since the beginning of 2012 we have raised gross proceeds of nearly $400 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 Public 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 over time will look to rebuild our multifamily allocation through acquiring higher-end 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 in 2014 and remain optimistic about the outlook for the coming year.

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

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