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Weingarten Realty Investors (WRI)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Weingarten Realty, Inc. Third Quarter 2020 Earnings Call for October 29, 2020. My name is Brandon and I'll be your operator for today. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note this conference is being recorded.

And I will now turn it over to Michelle Wiggs. Michelle, you may begin.

Michelle Wiggs

Vice President-Investor Relations, Weingarten Realty Investors

Good morning and welcome to our third quarter 2020 conference call. Joining me today is Drew Alexander and Johnny Hendrix, Steve Richter, and Joe Shaefer. As a reminder, certain statements made during the course of this call are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results could differ materially from those projected in such forward-looking statements due to a variety of factors. More information about these factors is contained in the company's SEC filing.

Also during this conference call management may make reference to certain non-GAAP financial measures such as funds from operations or FFO, that's Core NAREIT which we believe help analysts and investors to better understand Weingarten's operating results. Reconciliation of these non-GAAP financial measures is available in our supplemental information package located under the Investor Relations tab of our website.

I will now turn the call over to Drew Alexander.

Andrew M. Alexander

Chairman, President & Chief Executive Officer, Weingarten Realty Investors

Thank you, Michelle. And thanks to all of you for joining us. I want to stress that our first priority continues to be the safety and well-being of our associates and stakeholders in the broader community during these challenging times. We are quite pleased that our operating results have continued to improve. Our cash collections continue to trend favorably and we're impressed with the production of our leasing team in this unprecedented economic environment.

While there are certainly many challenges, the multi-year transformation of our portfolio has made the road ahead easier. Our transformation resulted in a higher percentage of grocery-anchored centers, a much improved tenant base, and most importantly, a much stronger balance sheet with little near-term debt maturity. We closed $64 million of dispositions in the quarter, including our last property in the state of Utah, further focusing our portfolio.

While the timing of the recovery is uncertain, our $152 million of 2020 dispositions year-to-date further strengthens our liquidity position in addition to further improving the overall quality of our portfolio. In an earlier press release, we announced the dividend of $0.18 per share for the third quarter. Additionally, given our dispositions, it is very likely that we will also pay a special dividend near the end of the year. We will continue to carefully monitor our cash flow and liquidity and adjust the dividend as appropriate.

Finally, all three of our large new development projects are progressing nicely. There is minimal additional investment for completion and leasing is going well. At Centro, retail is 93% leased and residential is 92%. At West Alex, residential is currently 37% leased and retail 80% leased. We're very excited that Harris Teeter is under construction with an opening of their upscale supermarket expected next summer.

At the Driscoll, in Houston, the residential construction is nearly complete. We recently opened our on-site office, and they're already 25% leased. These are great projects, which will create good long-term shareholder value. Steve?

Stephen C. Richter

Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

Thanks, Drew. Core FFO for the quarter ended September 30, 2020 was $0.44 per share compared to $0.34 per share for the second quarter and $0.53 per share for the same quarter of the prior year. The increase over the prior quarter is a result of a significant reduction in bad debt expense from $19.3 million or $0.15 a share in the second quarter to $1.4 million or $0.01 a share in the current quarter. In the first and second quarters of 2020, we designated the majority of the receivables from our watchlist tenants uncollectable and, therefore, established reserves against them and moved them to the cash-basis accounting. Thus, we don't have as much bad debt for GAAP purposes given it was never accrued.

We have also provided additional bad debt disclosure on page 41 and 42 of our supplemental. Further, a reconciliation of net income to core FFO is included in our press release.

With respect to our balance sheet, we have full availability under our $500 million revolving credit facility and about $13 million of excess cash on hand. With no material maturities until 2022 and limited new development funding obligations, we have – we will have adequate liquidity after the payment of dividends to comfortably sustain and grow operations. Johnny?

Johnny L. Hendrix

Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

Thanks, Steve, and good morning to everyone on the call. We're pleased with the results we posted this quarter. We have a motivated team of associates and a strong, diversified, transformed portfolio. Over 60% of our portfolio consists of essential tenants. Today, 80% of our annual base rent comes from shopping centers with a supermarket component. Pre-pandemic, those supermarkets averaged very strong sales of $712 per square foot, significantly above the national average. That translates to an average of over 100,000 customers a month visiting our property.

Not many supermarkets have reported since March, but we expect current sales have increased nicely. While we still have a lot of work to do, cash collections have improved significantly as our tenants have reopened. Today, the vast majority, about 99% of our retailers, are open. And for the third quarter, we collected 90% of cash rent that was due. This is substantial improvement over the 82% we collected in the second quarter. October is trending slightly ahead of the last couple of months. This quarter, we did adjust the denominator to exclude terminations. That adjustment accounted for about 2%. For the third quarter, we have accounted for 95% of the billed rents due.

Last quarter, we talked about strategic deferrals, which are with major tenants where we've been able to support their cash flow, while negotiating beneficial amendments that will help Weingarten in the future. This includes suspending co-tenancy, loosening exclusives or restrictions or allowing future redevelopment.

Almost 40% of our deferrals this quarter are strategic deferrals. We feel strongly these will be repaid. It's also worth noting deferrals are down from 14% in the second quarter to only 4% in the third quarter.

During the third quarter, Stein Mart filed for liquidation. We have six Stein Marts and expect all to close in the fourth quarter. Those leases represent $1.3 million in annual base rent. Their average rent is $7.70 per square foot, so that's replaceable. We're also working on letters of intent for three of those locations.

Tailored Brands and Asena also filed for bankruptcy in the quarter. We started the quarter with 10 Asena stores and two of those were rejected. We had seven Tailored Brand stores and three of those have been terminated. Each of these tenants were designated as uncollectible last quarter, so they were fully reserved. We also remained particularly concerned about large health clubs, theaters and large high-end restaurants. Fortunately, our exposure to these tenants is small. Combined, these three categories are about 4% of our annual base rent.

So, let's move to some current quarter operating metrics that are more positive. We were very encouraged to see leasing production improving. During the quarter, we executed 59 new leases for almost $4 million in base minimum rent. Still below historical production, but more than double the production for last quarter. September production was about the same as a year ago. In the quarter, we signed leases with medical tenants, restaurants, home furnishings, and services. We've got a good pipeline. We're executing leases that have been on hold for months and I think production will continue to improve.

Rent growth for the quarter was a positive 5.5%, an 11% increase for new leases and 4% for renewals. It's likely future periods could be more challenging as we compete with other properties. But the quality of our properties will give us an advantage. Same property NOI was down 8.1% for the quarter. Much of the negative impact is related to the bad debt Steve discussed earlier. Base minimum rent, which is the most significant component of same-property NOI was down slightly less than 4%. The company has contractual commitments for additional base minimum rent or leases signed and not commenced of $8.7 million annually, and we expect to commit $7.7 million annually over the next four quarters. The last seven months have been challenging, and we have a lot of work to do to repair the damage this pandemic has triggered. Nevertheless, operations are improving, we have a great team that is up for the challenge. Drew?

Andrew M. Alexander

Chairman, President & Chief Executive Officer, Weingarten Realty Investors

Thanks, Johnny. Our heartfelt thanks goes out to all of our associates who are working so very hard and to our board of trust managers who provide constant quality feedback. Great people, great properties and a great platform equals great results. I thank all of you today for joining the call and for your continued interest in Weingarten. Operator, we'd now be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Okay. Thanks, Drew. We will now begin the question-and-answer session. [Operator Instructions]

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Before we take the first question, I would like to offer our apologies for the delay in getting our release out last night. We had some last minute issues we needed to work through that impacted our communications and unfortunately, working through our processes and the Wire services took much longer than we anticipated. Thank you again for your patience and understanding. Brandon, we'll take the first question.

Operator: And the first question from Citi, we have Katy McConnell. Please go ahead.

Katy McConnell
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Great. Thanks and good morning, everyone. So, I'm wondering if you could provide some more color on what's happening in the transaction market [indiscernible] (00:11:26) today. As far as the opportunities you're seeing come to market and what financing availability is like now. And then it looks like the cap rates on your 3Q sales came down a bit, so if you can touch on that and where do you think cap rates are headed overall?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Good morning, Katy. It's Drew. I'll try to address a lot of that and then maybe turn it over to Johnny for a little extra color. He's a little closer to it on the acquisition side.

So, broad picture, on cap rates, what I think you're seeing is an acceleration of what we've talked about in the past that cap rates for very good quality assets remain at their pre-COVID levels and maybe even in some cases have come down. If had one moved up the risk spectrum, we see a continued widening of cap rates, and a pricing deterioration.

So, as far as the future in terms of modeling and what we're likely to sell, I think most quarters we will be in the middle to high-7s cap rates, and in some quarters, if we're successful, derisking might even be a little above that. As you accurately observed, in this quarter we were comfortably below that. That's a function of the quality of the assets that we sold for some unique reasons that it made strategic sense.

Financing is available for good quality stuff within a life certainty but, again, gets harder and harder to the point of almost impossible if there is a lot of risk.

On the acquisition front, we were hearing about some things, but it's – we haven't seen a lot of the good quality property that we want to buy, and the little we've seen has been pretty aggressive. Anything else to add, Johnny?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Yeah. Good morning, Katy. [Technical Difficulty] 00:13:33-00:14:00).

Katy McConnell
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Thanks. And then...

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Go ahead, Katy.

Katy McConnell
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Sorry. Okay. Thanks. And then just for a second question, can you provide some background on the decline you're seeing in small shop collections over the last few months? And would your outlook change at all regarding callout risks or modifications that might necessary based on the health of those tenants?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Katy, I think we are looking at is [Technical Difficulty] (00:14:31-00:15:12).

Katy McConnell
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Got it. Okay. Thanks.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Thank you, Katy.

Operator: From Bank of America, we have Craig Schmidt. Please go ahead.

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

Great. Thank you. Johnny, your comments about leasing spreads possibly coming under a little more pressure in forward quarters. Are you seeing willingness of tenants to case lower rents to go to other properties or is that some other issue?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Craig, I think the biggest issue that we had is there's more available retail space than it was six months ago. We were qualified then. I think we have an advantage as we continue to try to lease space [Technical Difficulty] (00:16:00-00:16:20).

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

I Hello?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Craig?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Can you hear us, Craig? We can hear you.

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

Yeah. I can hear you now. I guess just given the recent spike up in COVID cases, what are your conversations like with your tenants in terms of how they see the next couple of months, and are you anything, but concerned that you might see further lockdowns if cases stay elevated?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

That's a good question, Craig. It's a hard one to answer. I'm not a doctor. I read a lot of things. I personally would guess that in the vast majority of the geography that we are in, we will not see significant lockdowns. We are constantly monitoring it and obviously subject to change. We have – we did see the other day in Denver where we had a few centers, a little bit of restaurant restriction on the capacity. But generally speaking, we think most of our markets won't lock down. But there is a lot of forward-looking statement in that. I know our senators are good. I know our markets are good long term. I know we have somewhere around 63% essential. But as you say, there have been some increase in cases recently and it concerns us all.

Craig Schmidt
Analyst, BofA Securities, Inc.

Q

Okay. Thank you.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Thank you.

Operator: From Scotiabank, we have Greg McGinniss. Please go ahead.

Greg McGinniss
Analyst, Scotiabank

Q

Hey. Good morning. I'm not sure if other people are having the same issue, but I'm having some trouble hearing the Weingarten team excluding Drew. So if you can get closer to your phone, I'd appreciate it.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Yeah. I think we may have had an issue with Johnny's microphone. And he has moved now.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Can you hear me, Greg?

Greg McGinniss
Analyst, Scotiabank

Q

Yes. Now, I can. Thank you.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Okay.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Thank you. Sorry about that.

Greg McGinniss
Analyst, Scotiabank

Q

No worries. Thank you. Okay.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

[indiscernible] (00:18:40) what happened.

Greg McGinniss
Analyst, Scotiabank

Q

We'll figure it out. So for the first question I got. So, Steve, the language around the special dividend has – kind of on for the past couple of quarters has always been in the context of the disposition program while the dividend currently being paid this year is based on last year's dispositions. Is there no regular rental revenue-based taxable income that needs to be distributed as well this year?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Good morning, Greg. There is taxable income generated this year, but the way the tax rules work you have – you can borrow from the future year in order to calculate exactly what is required to be distributed out of the tax rules. So that – it's a – it's not a simple calculation, but you can borrow from the next year's distributions in order to meet the requirement. So that's effectively what we're winding up doing. But as we've noted in the last couple of quarters in the communications we do think that we'll have a fourth quarter special dividend that would be paid in December. And it's a catch-up so to speak. So, it may not be 100%, just the – just from the gains from the dispositions program. But that's where – it's the calculations that we look at taxable income and we declare what we have to pay in 2019 – and excuse me, 2020 in order to maintain REIT status. And I can go through it more offline, but it involved calculation.

Greg McGinniss
Analyst, Scotiabank

Q

Okay. Now, I appreciate that. So there is some piece of special dividend that may be – just in the regular taxable income this quarter and this year and some of that may be pushed into 2021 as well if I'm understanding correctly.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

Yeah. The one follow-up I would make is when we rolled into the special dividend from 2019 that we had to roll into 2020, that that even further compounded the complexity of the calculation. So it's, again, not a very easy, straightforward calculation. Then, the other point I guess I should make is that there are tremendous differences between GAAP income and taxable income that we also have to work through. So, it is involved.

Greg McGinniss
Analyst, Scotiabank
Q

Okay. All right, Steve. We'll have to spend some time offline on that one. And then, just one more follow-up here. So the 6% of rent that was not collected this quarter and not deferred, what's your level of confidence that those rents may come back one day? I realize they're on a cash basis and you're not going to be accounting them until you actually collect it. But we're just trying to get a sense for kind of permanent rent impairment going forward here?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

Yeah. Difficult to say. A lot depends on what happens with the lockdowns and the sales of our tenants going forward. Obviously some of the deferrals are going to convert to abatements. We're watching the tenant sales the best that we can and the strength. At some point we're going to probably make a decision that in order for a tenant to get to the other side that we're going to go ahead and abate that rent. It's just difficult to say right now, Greg.

Greg McGinniss
Analyst, Scotiabank
Q

Okay. That's fair. And, Johnny, just to follow up on your comment on the 2% change in denominator in your opening remarks, does that mean that Q2 collections have been restated based on that change or no?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

No.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors
A

No.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

Thanks for clearing that up.

Greg McGinniss
Analyst, Scotiabank
Q

Okay. Thank you.

Operator: From Green Street we have Vince Tibone. Please go ahead.

Vince TIbone
Analyst, Green Street

Q

Hi. Good morning.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Good morning.

Vince TIbone
Analyst, Green Street

Q

I have a follow up on the asset sales. Can you discuss how forward NOI was determined to arrive at the mid-6 stated cap rate given all the operating uncertainty? I'm curious because there's a large gap between 2019 NOI and pro forma NOI using the underwriting. And also can you just talk a little bit about the availability of mortgage debt broadly for your strip centers today and whether the buyers of your centers were able to get financing?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Sure, Vince. Good morning. So, good questions but really hard to answer especially the first one precisely. So on the debt financing, I think they generally were, in most of the cases not all, but in the cases where they wouldn't – were they didn't, they didn't need to. And as I said, it is available, but the underwriting standards with the lenders are really challenging. So, to your first question, which is an excellent one that Johnny touched on, is it's really in my view these days all about the NOI. It's not merely the arguments about the cap rate. And that's where each situation is different.

The properties that we sold were generally speaking nice, good, stable assets. The one exception is the Westside Center that in LA., which has a guitar center, but that was seen as a great future redevelopment opportunity. So, the buyer of that was private buyer, was very comfortable with the long-term asset.

We were comfortable making the sale, even though we could have redeveloped it, too, because we felt we were getting a fair price for it. So, it was a unique sale of a very high cap rate asset for us, but non-supermarket, and something that we thought we were getting good value, very high percentage probably even at or above our pre-COVID NAV. So, it's – each one is very different. We look at it, but it's a great question, it's just hard to answer.

But as Johnny said, it is really all about the NOI. And if you have a watch list tenant, whose lease is up in 12 months, there's a lot more art and science to how you count that NOI. [indiscernible] (00:25:24).

Vince TIbone
Analyst, Green Street

Q

That's probably fair. I appreciate the color.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

We'll work on selling a lot. But we'll also be very selective that – as I told the team, it's about derisking. It's not about monetizing in your worst case scenario. So it all comes down to the individual – the individual asset.

Vince TIbone
Analyst, Green Street
Q

Yeah. That makes sense. And then, switching gears for a second. Could you share what percentage of your total contractual rent is currently on cash basis accounting? And then what was the third quarter collection rate from tenants that were on cash basis?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

Yeah. Good morning, Vince. This is Steve. In the third quarter, we recognized around $16 million of BMR and triple net rents from tenants that had been moved to cash basis. That's roughly around 14% of total rent. During the quarter, we collected 73% of that amount. So the, call it $4 million-ish left is what went uncollected. And that obviously doesn't show up in our financial statements given that they're on cash basis. That's the whole issue.

Under full disclosure, those numbers are – have some adjustments and I'm going back and forth. But generally, that's what we experienced. And just to give you a comparison, in the same cash basis tenants in Q2, we only collected 34% at the end of the second quarter compared to where we were at 73% today for the third quarter. But again, we did collect some additional – the 34% moved up as we moved into Q3. But it does give you some insight into the positive collection efforts and momentum that we saw in – during the third quarter.

Vince TIbone
Analyst, Green Street
Q

Thank you for that and then maybe just one accounting follow up on that. If a tenant paid – didn't pay their second quarter rent on time. They're on cash basis accounting. And let's say, they paid five months of rents in August. Do you recognize all that rent that – past due rent included, all of that is accrued or shows up in your financial statements for the third quarter because it's like cash basis? Is that a correct understanding?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

That is correct. That – that is "cash basis." We've received the cash so we booked the revenue.

Vince TIbone
Analyst, Green Street
Q

Got it. I just wanted to clarify that. So – yeah, there's so many moving pieces at the cash basis. It's just hard to – it's hard to follow where kind of recurring contractual revenue is trending stripping out all the accounting noise. I'm just trying to get a handle on that.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

Understood.

Operator: Okay. From JPMorgan we have Mike Mueller. Please go ahead.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Yeah. Hi. Steve, so you basically wiped out the entire reserve this quarter pretty much. I'm wondering can you tie that to Johnny's comments about ABR risk from movies, dining, tenants with bankruptcy because basically it seems like you're implying on a go-forward basis that your money good from those tenants on a go-forward basis?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Well, Mike, I would tell you that you have to also think about we took those tenants to cash basis, and so that revenue's not showing up nor is the reserve showing up. So it looks like it all went away. But again, it goes back to the cash basis accounting that is not showing up in the financial statements.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

And I guess what was the level of cash – the tenants on cash in Q3 versus Q2 then?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Well, those were the numbers I just gave. We had about $16 million of cash basis rent generated in Q3 and we collected 73% of that. So again, about $4 million went uncollected.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

So, Mike, [indiscernible] (00:29:33). We can't reserve for the future for something that isn't accrued. If we don't think we're going to get rent next December from a tenant, we can't reserve that now that we've moved in the cash basis because we're concerned. But...

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Yeah. To follow up on Drew's comment, we actually had receivables outstanding for those tenants that we took to cash basis. And that was last quarter. We took like $10 million of that to bad debt because that was the AR sitting out there. So, in the cash basis scenario, you're not generating any AR because you're never recording the rent to start with.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Sure, sure. Was the bucket of tenants who were on cash accounting dramatically different in Q3 than Q2?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Not dramatically. It actually went down a little bit primarily for bankruptcies and fraud, tenants that pressure the system.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Got it. Okay, okay. That's helpful. Thank you.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

And one other thing. That it went down because of the couple of dispositions that we had also took out, made that number slightly lower. So, it's bankruptcies and dispositions. Apologize for that.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Got it. Okay. Thanks.

Operator: From Truist, we have Ki Bin Kim. Please go ahead.

Ki Bin Kim
Analyst, Truist Financial

Q

Thanks and good morning out there. So, just to follow up on the past couple of questions, the $1.6 million of bad debt versus the $14.5 million excluding the [indiscernible] (00:31:14) receivable from 2Q, is there any sense that maybe are you over earning on the bad debt. I know it's kind of an odd way to say it. What I'm asking is that those tenants on a cash basis, if they did catch up and paid the kind of partial 2Q rent and 3Q rent in 3Q, I mean there could be a scenario where maybe you're over earning on that. Just curious if that's the case.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Good morning, Ki Bin. I don't think that's the case. I don't know that – obviously if we receive the cash it gets booked into earnings. But I'm not aware that that was a significant number in Q3.

Ki Bin Kim
Analyst, Truist Financial

Q

Okay. And [indiscernible] (00:32:06) looking at the reserves that you've taken, the tenants you moved to a cash basis to account for are kind of at risk tenancy, when you did that, were you also thinking about any potential fallout come around 1Q 2021 after we get past this holiday season, and inevitably there'll be some other fallout? Do you think – have you taken into account all those things already or [indiscernible] (00:32:33) later?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

I would say the answer to that is definitely yes. When you take – the accounting rules, when you take it to cash basis you're supposed to be looking at a greater than 75% probability that they're going to pay their rent over the term of the lease. So you have to look forward – at least according to the accounting literature, the way I understand it, you have to look forward and say, is this tenant going to be viable in the future. So the answer to – I think if I understood your question, is very much, that's taken into consideration.

Ki Bin Kim
Analyst, Truist Financial

Q

Yeah. That's the rule. But there is a bit of discretion that people can pay. That's why I was asking that question. All right. Thank you.

Operator: From Jefferies we have Linda Tsai. Please go ahead.

Linda Tsai
Analyst, Jefferies LLC

Q

Hi. Given the recovering EBITDA versus 2Q, your net debt to EBITDA ratio showed a healthy decline stabilization. Is there a level that you'd like to target by year-end 2021 and what would you see as the main drivers?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Good morning. No. I'll tell you the main drivers, the NOI piece of that calculation. Clearly, the – as you noted the improvement that we recognized between Q2 and Q3 is the result of the improvement in the NOI and the big piece of that, obviously, is the reduction in bad debt. So, where it goes in the future is obviously going to be very much driven by where NOI goes. And as we've talked before, this is a challenging time to be predicting what operations looked like between now and the end of the year but clearly into 2021 as well.

Linda Tsai
Analyst, Jefferies LLC

Q

Thanks. And then, the 87% collections in October, it's slightly lower than the 90% in 2Q and the individual months – sorry, slightly lower than 90% collected in 3Q and the individual months making up 3Q. Is there anything to call out there?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Hey, Linda. Good morning. No. There's really not. It's more of a timing issue. Obviously, I've had a lot longer to collect Q3 than I have October. We're constantly collecting money. And I look at it this morning, I think we're about 88% now. So, we'll continue and improve that. And I'm sure, I hope by the time we get to the next call, it will be greatly improved.

Linda Tsai
Analyst, Jefferies LLC

Q

Thanks. And then just finally, can you talk a little bit about the lease-up progress in both retail and residential at your three mixed use developments? How is this trending versus expectations? And what you see is appropriate given conditions in the local markets.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Good morning, Linda. It's Drew. I went through the numbers in there in the supplemental, so no need to repeat those. I would say at Centro, we are very pleased with everything. And we're at – the resi, very pleased with the occupancy, are working through some renewals, dealing with all the things that you deal with in terms of the concessions, and you don't have to work through that. DC is a challenged market, not great, not horrible either. And with a lot of people working from home, they're very focused on it.

We do have a few of the retail tenants that we're working to get convinced. So that's an issue there. At West Dallas, which has taken longer than we would have liked due to some entitlement issues and issues between Harris Teeter, and the city as we've talked about, it has taken longer. And as we've also talked about the resi has taken longer due to the pandemic, and the fact that the supermarket is not open. You don't have that exciting opportunity.

So we're extremely pleased that the supermarket is under construction there and will open next summer. We also opened up a silver diner, a very popular restaurant in the facility, which is doing very well and serving the tenants well. So we're making great progress there. The Amazon HQ, both properties are about 3.5 miles from Amazon HQ, too. But those jobs are not on the ground yet. And generally speaking, Amazon is working from home anyway even if they were.

So the pandemic hasn't helped things. So we are pleased with the progress in light of the pandemic. And then at River Oaks, at the Driscoll, to be already 25% having just opened a leasing office for a luxury high-rise, again, in the pandemic, and we're high-rise again in the pandemic. We're very pleased as always with apartments' some amount of concessions to work through, and that's pretty normal. So as was observed in many of the analyst reports [ph] leashing (00:37:39) in in a pandemic is challenging and for a while whenever lockdowns and we couldn't tour people more so, but we are pleased in their very good long-term locations.

Linda Tsai
Analyst, Jefferies LLC
Q

Thank you.

Operator: [Operator Instructions] Yeah. From Compass Point, we have Floris van Dijkum. Please go ahead.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC
Q

Good morning, guys. Just I think one of the key things everybody's trying to figure out is what is 2021 going to look like. And obviously nobody is giving any guidance. But it looks like same-property revenues are down 5.9%. Is that a good number we'll look at you think going forward?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors
A

Floris, I'll start out, and I don't know if Steve and then maybe Johnny if they want, opine. As you say, it is so hard to say. We don't know so many different things. There are lots of variables out there, vaccines, therapeutics, virus, economy, et cetera. I personally am optimistic that whatever happens with the election, there will be another round of stimulus. That's another thing that is, I think, enormously important to many of our tenants, especially the mom and pops, which we had talked about earlier in the call, as well as, of course, for people who are unemployed to have [indiscernible] (00:39:21) supermarkets etcetera. So lots of variables, lots of unknown as we try to give folks the part that as Johnny said in his prepared remarks. We're very concerned about the theaters and the other uses he mentioned, but it's only about 4%. So we know we have good properties and a good balance sheet and generally good tenants, but there's a lot of uncertainty in the world. So Steve any other thoughts?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors
A

Not really. I mean, if you look at – it's tough to pull the numbers out of the financial statements even on the same-store from the standpoint of the noise that we discussed earlier around cash basis, and not recording any bad debt for those tenants etcetera. So I appreciate, we're all trying to figure out where this is all going to go, and how quickly and so forth. But as Drew mentioned, it's – there's just too many variables at this point to really get any kind of confidence level in and projections going forward.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Fair enough. The other – the other question I have is, so let me just verify one other point. So there was a 2% change in your billable rent amount, right? From the third quarter to the second quarter. Am I – did I catch that correctly?

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

That's correct.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Okay. The other question, I mean, sorry, go on.

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

I was just going to say, we talked about the "denominator effect," last quarter and that's effectively the result of what we have historically talked about in terms of the denominator effect where it gets adjusted for bankruptcies etcetera.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Okay. The other question I have, and I wanted to get your thoughts on this. Obviously, you've prepared well for this pandemic in some ways you prepared well for this pandemic in some ways with all the work you've done prior in terms of cleaning up the portfolio and then getting your balance sheet in the shape that it's in. As you think about going on offense, what are the things that you will be looking at? Do you think there's going to be opportunities on the distress side? Do you – or are you – do you think it's mostly families that want to get out – private owners that are looking to sell over-lendered assets? Or where do you see the potential opportunities as we head into next year?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Good morning, Floris. It's Drew. It's a great question that it's also quite challenging to answer. I know that we are very focused. We have kept our team intact. We've actually added people during the pandemic principally in leasing. But our growth people are still very out there and focused. One of the unique things about this company is our geography is fairly focused in about two dozen markets that we want to grow, basically, from Seattle, Washington to Washington DC. So, we see everything and we're very focused on those opportunities.

So, yes, I think there'll be some and some of the things that you identified are certainly sources over-levered assets, private owners who were tired of the fight. There's obviously a lot that could happen depending how the elections go and tax policy goes as to 1031s and capital gains that could influence things a lot, could spend a whole – could spend the entire time in conference calls talking about that, even though it's not going to be known for some time. So, we are in a position to take advantage of opportunities. We'll certainly look at it. We'll keep our quality standards high. We like our geography with our Sun Belt folks and we're pleased with things. And I think Johnny wanted to add something. So...

Stephen C. Richter
Chief Financial Officer & Executive Vice President, Weingarten Realty Investors

A

Yeah. The one thing I would add is we are going to be very focused on the existing assets. We have a lot of leasing to do. And I think we can take this opportunity to improve the tenant makeup that we have, and also the densification that we've been talking about is going to moved forward, not sure exactly how far, but it will be moved forward with the ability that we've gained from some of the deferrals we've done with some of the larger tenants. So, it's primarily going to be focused on our existing properties.

Floris van Dijkum
Analyst, Compass Point Research & Trading LLC

Q

Great. Thanks, guys.

Operator: From Wells Fargo, we have Tammy Fique. Please go ahead.

Tamara Fique
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Just wondering, one of your peers commented that there they were seeing weaker demand for the 8,000 to 12,000-square foot boxes. I'm wondering are you experiencing the same thing or where do you see the greatest tenant demand challenges today?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Good morning. Johnny. I wouldn't say that 8,000 to 10,000-square foot is kind of our issue. We – we've got a lot of dollar stores that seemed to be in that range and there's a lot of demand there. They've really done well through the pandemic. I would say it's probably going to be the smaller shop space that you're going to see a little more turnover in. We're going to lease it and – but I think it will have some pressure in terms of the turnover and I'm going to say these personal services again. There still are the discount clothing, supermarkets, or some of the boxes. And I think we'll be fine in those areas. But I think that the smaller space is – smaller than 8,000 square feet, is really where we're going to have some things to do.

Tamara Fique
Analyst, Wells Fargo Securities LLC

Q

Great. And then just thinking about deferrals. I guess I'm wondering, are you seeing this cycle through on like the second round of deferrals with the same tenants? And I guess if so, I know the first one was more of a negotiation but I guess the tenants in theory have little left to negotiate. So just curious what kind of second round discussions are like and if you're having those today.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Yeah. Most of the people that we're talking to in the second round are not national tenants. And these are going to be the smaller mom-and-pop tenants. We did have about $1 million, $1.4 million of deferrals that came due in the last quarter and about 90% of those did pay. We are pushing some of the deferrals. And again we're very focused on who we think we can save, who we can get to the other side. There will be more deferral and some of those deferrals will turn into abatements but it'll be mostly, going forward, with the smaller mom-and-pop tenants.

Tamara Fique
Analyst, Wells Fargo Securities LLC

Q

Okay. Great. Thanks. And then just one last question. Maybe just going back to the guidance. I know there's still a lot of uncertainty but I guess I'm wondering when do you think you'll be able to have the comfort to provide guidance to the Atreet?

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

A

Good morning, Tammy. This is Drew. I'll start and see if my colleagues want to add. I don't know. I think it would be premature of us to guess. We hope sometime next year, but I think there needs to be some better understanding of pandemic conditions and lockdowns and aid and all those things. So, I can tell you not any time soon, but exactly when – hope sometime next year and hope earlier in the year than later, but I don't really know.

Tamara Fique
Analyst, Wells Fargo Securities LLC

Q

Okay. That's fair. Thank you so much.

Operator: And we have a follow-up from Ki Bin Kim. Please go ahead.

Ki Bin Kim
Analyst, Truist Financial

Q

Did you do any lease modification in this quarter? And how did that manifest itself in some of your operating stats or bad debt stat?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Good morning, Ki Bin. The short answer to that is we had a couple very few immaterial amount in Q3 for modifications. It did not really move the needle at all.

Ki Bin Kim
Analyst, Truist Financial

Q

Okay. And the 2% of these terminations that were removed in the denominator, you said I think pretty clearly that that did not impact at all the 70% collection rate. I'm curious where did that – where does that 2% actually end up showing up in your financial statements? I mean, I'm guessing it's not same-store or NOI either.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Yeah. Most – that's – it basically falls out. It doesn't show up.

Ki Bin Kim
Analyst, Truist Financial

Q

All right.

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

It is – yeah.

Ki Bin Kim
Analyst, Truist Financial

Q

Okay. So I guess you were just referring to that 2% when you mentioned that you collected 95% of billed rents. That's the 95% that got rebased?

Johnny L. Hendrix
Chief Operating Officer & Executive Vice President, Weingarten Realty Investors

A

Yeah. I think if I understand your question, I think that's correct.

Ki Bin Kim
Analyst, Truist Financial

Q

Okay. I just want to clear up any kind of future noise that can happen. All right. Thank you.

Operator: We have no further questions at this time. Drew, we'll turn it back to you for closing remarks.

Andrew M. Alexander
Chairman, President & Chief Executive Officer, Weingarten Realty Investors

Thank you, Brandon. Thank you, everybody. I really appreciate your interest in Weingarten. I apologize again for the delay in the press release, but thanks again for your interest. We are around and available, if there are other questions and we'll be at the Virtual NAREIT shortly. So stay safe everyone. Have a great day and thanks again.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.