# *Transcript of*
# *JLL Income Property Trust*
## 3Q19 Public Earnings Call
## November 20, 2019

## Participants

Allan Swaringen – President and Chief Executive Officer
Gregg Falk – Chief Financial Officer
Lauren Perlman – Portfolio Accountant

## Presentation

**Operator**
On behalf of JLL Income Property Trust, I'd like to welcome you to their third quarter 2019 earnings conference call. This call is being recorded and our audience lines are currently in a listen-only mode. [Operator instructions.] At this time, I would like to turn the conference over to Lauren Perlman, from JLL Income Property Trust. Lauren, please go ahead.

**Lauren Perlman**
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, 2018, and in our other reports filed with the SEC. The Company disclaims any undertaking to update or revise any forward-looking statements.

In addition, all non-GAAP financial measures discussed during this call are reconciled to their most directly comparable GAAP financial measures in accordance with the SEC rules in our Form 10-Q for the quarter ended September 30, 2019.

Links to a transcript and audio replay of this call will be posted and available on our website, JLLIPT.com. For further information on the Company's performance, we invite you to review our Quarterly Report on Form 10-Q filed on November 8, 2019 and other filings which are available on the Company's website, as well as the SEC's website, 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**
Thanks, Lauren. Hello, everyone, and thank you for joining us for our third quarter earnings call. JLL Income Property Trust continues to focus on managing our growing $3.0 billion-dollar portfolio of 75 core properties spanning the apartment, industrial, office, and grocery-anchored retail property sectors. In the third quarter, we achieved total net of fees returns of 1.0% on both Class A and M shares. Quarterly dividends have now been paid for 32 consecutive quarters, with an average annual increase of 5% over that 8 year period. Before diving into the details of our third quarter accomplishments, I would like to begin today's discussion by giving an overview of the economic environment in which we operated.

Despite occasional headwinds, US growth remains resilient and continues to support steady absorption of space across all four primary property sectors. GDP growth in the third quarter of 1.9% was better than expected, but still slower than in the first half of the year. Consumer spending growth was strong, increasing 2.9%, however, business investment contracted for the second consecutive quarter according to the US Bureau of Economic Analysis which indicates that despite falling interest rates, apprehension around unresolved trade disputes and slowed global growth are weighing on US business expansion. The 3% decline in nonresidential fixed investment was the steepest decline in four years. The Federal Reserve has stated that this has been a factor in their continuing to cut interest rates, with three rate cuts so far in 2019.

Even with slowing overall economic growth, the US Labor Market continued to grow at a relatively strong pace. In the third quarter, US payrolls increased an average of 188,000 per month. Slightly lower growth continued in October and US unemployment remains at a very healthy 3.6% level.

Apartments were the standout property type for strong market fundamentals in the third quarter. Stabilized apartment vacancy declined to just 3.7%, down 50 basis points from a year ago. Oregon, New York, and California passed new rent regulations with caps on rent growth over the last several quarters; the impacts will vary widely across different properties and markets and we are adapting our asset and market strategy to incorporate these changes, which in most cases will have little impact on properties under 15 years old.

National office vacancy declined 10 basis points in the third quarter to 12.1%. For industrial, tight market conditions have left little room for further improvement. Warehouse vacancies edged up by 10 basis points last quarter to 4.4%, still near a record low. Feeble net absorption and almost no new construction combined to leave national open-air retail vacancy unchanged in the quarter at 6.6%.

On rent growth, industrial continues to lead the way with 6.1% asking rent growth year-over-year. Office asking rents increased 4.6%, though net effective rent growth was likely weaker. Apartments, despite their stellar occupancy, had more moderate rent growth of 3.2%, as many multi-family owners are willing to trade some marginal rent growth for higher occupancies.

Real estate transaction activity remains above the ten-year average amidst both ample and cheap debt availability. Through September, the pace of transaction volume is up 5% relative to a year ago. Retail transaction activity has cooled, but for other property types, pricing signals have been positive. The spread between real estate income yields and risk-free interest rates widened by 132 basis points in the first three quarters of 2019 as interest rates have declined. US public REIT pricing has moved from a discount to NAV at the start of the year to near a six year-high premium to NAV.

NCREIF's ODCE index, the US open-end diversified core equity fund index, reported positive appreciation in Q3, improved from Q2 when appreciation was marginally negative. The trailing year ODCE gross total return slowed to 5.6%, with retail, especially mall retail, being a notable drag on returns. Industrial returns remain robust, with returns remaining in the double digits compared to the moderating returns for the overall index.

Gregg will now review our portfolio's financial performance results for Q3 before I continue. Gregg?

**Gregg Falk**
Thanks, Allan. Our operating performance remained strong through Q3, with quarterly revenues of $45 million dollars, up from $41 million dollars in Q2. Third quarter net loss was $4.9 million dollars compared to a net loss of $3.3 million dollars in the prior year. The increase in net loss was primarily attributable to non-cash fair-value adjustments to our interest rate swaps.

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. In Q3, we reported FFO of $16 million dollars, which equates to $0.10 cents per share and an increase of $.01 cent per share as compared to the second quarter. Year to date FFO was $44 million dollars, or $.30 cents per share, which is down $.09 cents per share from the prior year, primarily due to the non-cash fair-value adjustments to our interest rate swaps and the large increase in the number of shares outstanding.

We also track our AFFO as a supplemental measure of operating performance. AFFO is calculated as FFO adjusted for non-operating expenses and non-cash items. AFFO through September was $48 million dollars, an increase of 1% over the prior year. AFFO per share was $0.33 cents.

Portfolio occupancy remained high, at 96% at the end of the third quarter. Our occupancies by segment were 93% for apartment, 98% for industrial, 91% for office and 95% for grocery anchored retail. Maintaining higher occupancies continues to be a priority of our asset management team. Through September, we have experienced robust leasing activity, with over 1 million square feet of new and renewal leases signed at an average increased rental rate of 2.3% over the prior rate. Industrial rental growth continues its upward trend, and competition for quality space is expected to grow rents throughout the rest of 2019 and into 2020.

We strive to offer a reliable and attractive level of current income to our stockholders that steadily grows over time. On November 7, 2019, our Board of Directors approved a gross dividend for the fourth quarter of 2019 of $0.135 cents per share. The dividend is payable on or around February 3, 2020 to stockholders of record as of December 30, 2019. On an annualized basis, the gross dividend is equivalent to $0.54 cents per share and represents a yield of approximately 4.4% on a NAV per share for our Class M stock of $12.20 as of November 6, 2019. All stockholders should receive $0.135 cents per share less applicable share class specific fees and the annualized yield will differ based on the share class. Dividends per share have increased 4% year over year. JLL Income Property Trust has declared thirty-two consecutive quarterly dividends to its stockholders beginning with the first quarter of 2012.

Since we launched our initial public offering in October of 2012 we have provided net of fees annualized total returns for our Class A and M shares of 6.4% and 7.0%, respectively. We continue to search for investment opportunities that will further diversify our portfolio, enable moderate NAV growth, and generate favorable risk-adjusted returns.

Our NAV grew to over $1.9 billion at the end of the third quarter. Valuation gains were generally attributable to favorable market conditions and strong leasing activity. Our daily NAV methodology has provided stable market valuations, as evidenced by our sub 2% standard deviation of share price, and we have realized moderate appreciation in share price since we began the offering in 2012. As a perpetual life, daily NAV REIT, JLL Income Property Trust is not subject to the same market fluctuations that affect the pricing of listed stocks. Our share price is determined based on independent appraisals of the real estate investments we own and the income they generate.

Now, I'll hand the call back over to Allan to highlight some Q3 accomplishments.

**Allan Swaringen**
Thanks, Gregg.

Q3 was a busy quarter, as we acquired four new properties, consisting of two apartment communities, an industrial distribution center, and a medical office property. In July, we acquired Genesee Plaza, a two-building medical office campus located in San Diego, California for approximately $90M dollars. We like medical office buildings as one of our low-beta, late-cycle investment strategies. Also closing in July was Summit at San Marcos, a newly-constructed 273-unit apartment community located in Chandler, Arizona for approximately $72M dollars. In August, we acquired Taunton Distribution Center, a 200,000 square foot industrial distribution center located in Taunton, Massachusetts for approximately $26M dollars. Finally, in September, we acquired a 97.5% interest in Presley Uptown, a 230-unit apartment community located in the Uptown submarket of Charlotte, North Carolina for approximately $55M dollars. Through the end of the quarter, we have closed on just shy of $400M dollars of acquisitions across 7 investments. As of September 30th, our portfolio diversification by property type was 34% Apartments, 25% Industrial, 13% Office, 27% Grocery-Anchored Retail and 1% Other, which currently consists of two parking garages. We look forward to further growing our portfolio before the end of the year, with a robust acquisition pipeline.

Our overall company leverage ratio was 35% at the end of Q3, below our target goal of 40%. 100% of our total debt is fixed rate. With limited near-term debt maturities, we have a portfolio-wide weighted average remaining loan term of approximately seven years and our weighted average interest rate on outstanding borrowings is 3.7%.

Turning to our stock transaction activity, we repurchased approximately $25 million dollars in shares pursuant to our share repurchase plan this quarter, which had a limit of $91 million dollars. For the fourth quarter 2019, share repurchases will have a limit of approximately $96 million, which is 5% of the NAV of the company as of September 30th. Stockholders should aspire to be long-term investors and hold our shares for five to seven years or longer, as we are typically underwriting new property investments over a similar time horizon; however, our share repurchase plan is available to the stockholders who desire to rebalance their asset allocations subject to the quarterly limits and a twelve-month holding period.

We remain focused on investing capital in the industrial, apartment, and grocery-anchored retail sectors, as well as complementary low beta strategies such as medical office, which fulfill key portfolio investment goals of reliable income and moderate NAV growth over time. Through Q3, we have reinvested approximately $14.2 million dollars of capital improvements into our existing portfolio, all geared towards maintaining our higher occupancies.

We remain committed to actively managing our real-estate portfolio to deliver competitive risk adjusted returns, preserve investor capital, and realize moderate appreciation over time. Our NAV has continued to steadily grow as our asset management team strengthens our portfolio through carefully planned investments and leasing opportunities. Financial Advisors and Portfolio Managers are looking for both diversifying investments and alternative sources of income and core real estate is well positioned to provide both.

JLL Income Property Trust continues to deliver a competitive current yield and attractive annualized total returns all the while maintaining a high-quality portfolio of institutional-caliber investments. We believe both property type and geographic market will continue to be one of the greatest contributors to strengthening our investment performance. We are confident that we will continue to add value to our current portfolio and look forward to growing and further diversifying our investments through the last quarter of the 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**
At this time, we'll be opening your lines for questions. [Operator instructions]. Our first question is from Joe Warner. Please proceed with your question.

**Q:** Hi, Allan. In third quarter, you surpassed $3 billion in assets. It seems like quite a milestone. Could you comment on what that means from a portfolio standpoint?

**Allan Swaringen**
Thanks, Joe. So, you know, we are extraordinarily pleased with the response financial advisors have shown to our strategy, and certainly achieving a certain size and scale is a testament to that, and we're just very proud although I am going to ask our CFO, Gregg Falk, in just a minute to talk about some of the benefits of achieving these scale numbers, but to be honest, what we focus on more than relative size or capital raising is the long track record of strong investment performance we've had.

We're one of the first to the market with a perpetual NAV-based REIT. We've been up and running for more than seven years, and we have a track record of investment performance that really has delivered returns right at the midpoint of our target when we began. So, we're quite happy and spend a lot more time thinking about investment performance than we do the relative size of the fund, but being $3 billion of assets and 75 properties and low leverage late in the overall economic cycle like now is something we also are very proud of.

Gregg, do you want to add a little more color as it relates to some of the scale benefits of being larger?

**Gregg Falk**
Sure. Two things come to mind when I think about us growing to our $3 billion in total assets at this point. First, the size of the assets that we can invest in. When we were sub-$1 billion when we launched this, we could really only acquire smaller assets as buying larger assets caused too much of a concentration risk in any single asset, and we needed to be well-diversified. So, now at $3 billion, we can look at much larger assets which are just generally more efficient for us to acquire.

The second thing is really related to the cost structure of the organization. Being an SEC-registered company, there are a large amount of fixed costs that come along with operating the company. When we launched this that was probably about a 50-basis point drag in our returns, all those costs that were related to running an SEC company. Today that's really trending more to the 15 to 17-basis point drag. We believe that as we continue to grow this vehicle, we'll be able to further reduce those annual drag numbers on our overall returns. Thanks for that question.

**Q:** Thank you.

**Operator**
Our next question is from Jim Melnick. Please proceed with your question.

**Q:** Yes, good morning. I was just wondering if you could tell us more about the medical office strategy you had mentioned earlier.

**Allan Swaringen**
Thanks for that, Jim. I mentioned in our prepared remarks that we closed on what we think is a very attractive two-building medical office complex in San Diego. It was about a $90 million investment. We very much like, later in the broad economic cycle here, we like medical office as a nice diversifier.

Our research and strategy group has really spent a lot of work over the last couple years analyzing different return performance across different property types and even sub-segment property types. They've identified that medical office has some of the more attractive, low-beta characteristics we're looking to add to the IPT portfolio. So, while we're significantly underweight to office overall, I think today four of our six office properties are in the medical office, healthcare sector.

I think the other thing that we like about the overall medical office strategy, and again, these are office buildings that are just substantially leased to large doctor practice groups, there's two things that we like about them kind of also from a how-they-operate standpoint. One is that the doctor practice groups that are tenants in these buildings, they often put significant improvements in their own space that they pay for.

Sometimes these can be large surgery centers, sometimes they can be significant and expensive cancer diagnostic equipment, and this we believe tends to cause them to be stickier tenants, and has the impact sometimes even in softer real estate market where possibly they can move to a neighboring building and get a better rent deal. They're less inclined to do that because there may be significant improvements, and it's costly to relocate those physical components.

We like late cycle. These tenants are not as easy to move for the best rent deal they might be able to get. The other reason why we like this kind of medical office, late cycle is the overall healthcare spending in the United States is generally somewhat recession-resistant. The fact of the matter is people tend not to go to the doctors less or we don't get sick less just because maybe unemployment is higher or we're in a slower economic cycle. So, healthcare spending overall has shown to be pretty much recession-resistant, so it's a nice strategy we like for potentially holding through a downturn if one were to come up.

That's our thinking about the medical office, and we're going to continue to add to that position. I'd say the challenging component strategy of the deal is the deal in San Diego we bought was $90 million. That's a very attractive, larger medical office building. Oftentimes, these properties are more in the $30 million to $40 million to $50 million range, and they can be a little less efficient to acquire but add to our office portfolio. We think it makes a lot of sense.

**Q:** Great. Thank you.

**Operator**
Our next question is from Jack Eastman. Please proceed with your question.

**Q:** Good morning. Retail is a big portion of your portfolio, more than double that of your office allocation. Could you share any more insights on why you like the retail sector?

**Allan Swaringen**

Yes, Jack. That's probably one of the questions we get asked the most often, but I do think it's important to frame our exposure to retail, and while it's a significantly larger allocation than office, it's still just a few percentage points above a quarter of the portfolio. So, nearly three-quarters of the overall IPT portfolio at $3 billion is not in retail assets, so we're broadly diversified.

Now, the retail assets we own, we have high conviction about. We continue to evaluate the strategy, and it's continued to perform very well for us. I'm going to ask Gregg here in just a minute to provide a little bit of the portfolio metrics and analytics and why we like retail from a portfolio construction standpoint, but as you know, our focus has been to be very disciplined in the retail space.

We don't own malls. We don't own department stores. We don't own big box retail or lifestyle centers. We really have focused exclusively in the neighborhood and community grocer-anchored shopping center space, and our focus there has really been on what we consider to be the best grocers in the market, and we also really look at the makeup of the other tenants in the shopping center.

As we've drilled down into our overall portfolio, and when we're looking at new acquisitions, we're really focused on being sure that the neighboring tenants to the grocery stores are not offering goods and services that you can purchase online. So, that's been the real threat to retail is sales moving from the brick and mortar location into online purchasing.

Ninety percent of shop tenants are providing some sort of good or service that you can't necessarily get over the internet. You can order your Starbucks coffee with their app and online, but you still go to the Starbucks store and pick it up. Same thing with Jimmy John's. Same thing with Subway.

We have a lot of convenient destination doctor offices, Massage Envy folks that can work on your back, chiropractors, dentists, urgent cares, so a lot of focus on services that you need to go to the space to get, and you can't necessarily get on the internet. So, we still feel like this is a strategy that is somewhat resistant to retail sales moving to online purchasing.

It's a strategy we have high conviction about. Gregg, would you highlight a couple of the portfolio metrics that we also like about our grocery-anchored retail strategy?

**Gregg Falk**
Yes, so we really like the long-term, solid cash flows that we get from these leases from the grocers in particular. Overall, our portfolio has about a six-year weighted-average lease term. If you look at just our grocers, they have about an eleven-year weighted-average lease term, and each of their leases generally contain many five and ten-year options that go beyond that. So, including those, you really look at a rent stream out there that goes beyond 25 years.

Traditionally, the grocers that we have in our centers make up 50% to 60% of the square footage, so you get a lot of rent from those grocers, and they drive traffic to the center which allow us to raise rents on the in-line tenants that are positioned next to them and really benefit from having that major grocer there to drive the traffic. So, thank you for the question.

**Operator**
Our next question is from Max Stagneir [ph]. Please proceed with your question.

**Q:** Thanks. So, with it being mid-November, I'm wondering if you could provide us any guidance in terms of the outlook for returns for this year.

**Allan Swaringen**
Yes, Max. Good question, although I will tell you first and foremost we tend not to provide guidance in terms of return outlook, but I can provide a few comments that I think hopefully will address your question.

First off, we really try to emphasize to financial advisors that allocate to us and our stockholders that IPT should be a long-term investment. We think about our return performance over five to seven-year periods or longer, and so we tend not to think too much about individual quarterly or even annual returns in terms of measurement periods.

So, please don't—we've had one year of double-digit returns, and we've had kind of lower-than-target returns, and they move around year-to-year overall. We've hit that midpoint of what we've been shooting for now for seven years, so try to think long-term and not focus in on any one given year too much.

In terms of returns, there's two components to our return. First, our share price can move up and down. That's all based upon the individual appraisals of the property and that can move our NAV up or down. The other component of our return is the dividends we pay out, and year-to-date, we've paid out—Gregg mentioned in is pre-prepared remarks that year-to-date the current dividend yield was about a little bit over a 4% return. You can also get that information off our website.

If you take that current dividend yield, and we just declared a fourth-quarter dividend, we believe the overall returns this year should be in the mid-five range, and that's just a component of the dividends we've paid out, the fourth-quarter dividend we just declared, and hopefully some increases in appraisals.

Again, I would emphasize that individual properties are third-party appraised by an independent fiduciary that appraises each of the assets. We don't control that, and we still have a number of appraisals you have to come through and look more at the end of the year.

Hopefully, that gives you a little bit of guidance on what the outlook looks like, but remind you too much, think long-term on this, Max. Try not to think too much short-term.

**Q:** Great. Thanks.

**Operator**
There are no other questions. This concludes today's call. I will now hand it back to Allan Swaringen for closing remarks. Allan.

**Allan Swaringen**
Thank you, all, for joining us today, and we look forward to updating you on the fourth quarter after the end of the year. Have a good day.