



BRT Apartments Corp.

Third Quarter 2023 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

Tripp Sullivan, *SCR Partners*

Jeffrey Gould, *President, Chief Executive Officer*

George Zweier, *Vice President, Chief Financial Officer*

Ryan Baltimore, *Chief Operating Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Barry Oxford, *Colliers Securities*

P R E S E N T A T I O N

Operator

Good morning and welcome to the BRT Apartment Corp's Third Quarter Earnings Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the floor over to Tripp Sullivan of SCR Partners. Thank you. You may now begin.

Tripp Sullivan

Thank you for joining us today.

On the call are Jeffrey Gould, President and Chief Executive Officer; George Zweier, Chief Financial Officer; Ryan Baltimore, Chief Operating Officer; as well as David Kalish, Senior Vice President.

I would like to remind everyone that this conference call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on Management's current expectations, assumptions and beliefs. Listeners should not place undue reliance on any forward-looking statements and are encouraged to review the Company's SEC filings, including its Form 10-Q for a more complete discussion of risks and other factors that could affect these forward-looking statements. Except as required by law, BRT does not undertake any obligation to publicly update or revise any forward-looking statements.

This call also includes a discussion of non-GAAP measures, including FFO, AFFO, NOI, combined portfolio NOI, and information regarding our pro rata share of revenues, expenses, NOI, assets, and liabilities of BRT's unconsolidated subsidiaries. All the non-GAAP information discussed today has certain limitations and should be used with caution and in conjunction with the GAAP data presented in our supplemental,

earnings release, and then our reports filed with the SEC. Please see these reports and filings for the definitions of each non-GAAP measure.

As a reminder, the Company's supplemental information and earnings release have been posted on the Investor Relations section of BRT's website at www.brtapartments.com.

I'd now like to turn the call over to President and CEO, Jeffrey Gould. Please go ahead, Jeff.

Jeffrey Gould

Thank you, and welcome to the call.

Before I turn it over to George and Ryan for some color around our results, I want to spend some time on a few topics. The first is the current operating environment, the second is the state of the transaction environment, the third is how we're thinking about capital allocation. We are still seeing rent growth on a blended basis with occupancy and a tight band around 94%. Fundamentals in our markets are strong in absent Nashville and Dallas, where new supply is weighing on absorption and requiring higher concessions, new supply isn't having an adverse impact above what we've been anticipating.

While these rent increases are not what we and others in the industry achieved during the pandemic, on a blended basis, we are still seeing positive growth, but we're more cautious about where trends are heading on new leases. We will be taking this into consideration during our 2024 budgeting process. Unfortunately, the toughest operational challenge we're facing right now is expense growth. We are doing a good job controlling costs where we can, but inflation is certainly having an impact in most expense categories. Along with real estate taxes, that inflationary headwind is not something we can control. We are also incurring the year-over-year increase in insurance costs that we are experiencing this year due to rolling up individual policies into a master policy. But we believe that should moderate in 2024 and is the right long-term decision for us.

I noted last quarter that the transaction market is as quiet as I can ever recall. That's still the case. What we have seen transact has been where sellers had to sell and or buyers had capital allocated to space that needed to be put to work, mainly with all cash. There aren't really any read throughs on cap rates in those transactions, plus there have been a lot of retrades. We've been very patient on new investments, but we believe there will be more opportunities coming with private owners and developers looking to sell for preferred equity, bridge loans or even rescue capital in the not-too-distant future. These owners are facing CapEx issues, expiring interest rate swaps, debt maturities and insurance issues. All of these trends argue for even more patience in the near term.

In the intermediate term, we expect our available liquidity and balance sheet with no maturities until 2025 will be a real competitive advantage in pursuing these types of opportunities. Where we have made conscious efforts to be more aggressive on our capital allocation in the near term is with share repurchases. Based on the AFFO yield alone, we're buying back shares on an accretive basis. Since announcing in May that we would allocate disposition proceeds to share repurchases, we have purchased 671,000 shares for a total investment of \$12.5 million and a weighted average cost per share of \$18.58. We have weighted all other capital allocations alternatives over the last several months, and we believe share repurchases will yield the highest return.

Real estate cycles come and go, and as a management tool we have seen a lot of them. Heavy buying of assets over the past two years would have translated to being underwater on today's valuations. By taking a longer-term view, we focused on consolidating ownership and control of our properties and selling properties that weren't long term holds, as well as cleaning up our balance sheet. As this environment put some operators under stress and there are fewer new building permits being pulled by developers, we

would again take the longer-term view that more opportunities are coming in 2024. We believe we'll be ready.

George, please take it from here.

George Zweier

Thank you, Jeff.

The third quarter results continue to reflect the positive impact on a year-over-year basis from the partner buyouts. However, the inflationary headwinds and the underperformance of two properties are muting our NOI growth. Overall net loss attributable to common stockholders was \$0.08 per diluted share compared with net income of \$0.37 diluted share a year ago. The primary reason for the year-over-year decline was the \$0.61 per share gain in the prior year period from the sale of a property owned by an unconsolidated subsidiary. FFO was \$0.31 per diluted share compared to \$0.29 per diluted share a year ago, primarily due to a reduction in early extinguishment of debt and an increase in other income. This was offset by a decline in operating margins from the sale of properties in the prior year period.

AFFO was \$0.41 per diluted share compared to \$0.38 per diluted share a year ago, primarily due to the decrease in the income tax provision and the increase in other income and insurance recovery. For the combined portfolio, recurring CapEx was \$1.4 million for the quarter. When you add the \$682,000 in replacements that flow through the real estate operating expenses on our PNL, that totals approximately \$2.1 million or \$269 per unit. That continues to be below the \$300 per unit of replacements we have been assuming in our expense growth included in the combined portfolio NOI guidance. Nonrecurring CapEx, which represents revenue enhancing and major upgrades to properties, totaled \$1.4 million during the quarter.

Turning to the balance sheet, debt to enterprise value as of September 30 was 67% compared with 62% a year ago, primarily due to the lower market capitalization this period. Available liquidity at quarter end was \$88 million, which is comprised of cash and availability under our credit facility. At November 1, liquidity was \$81.7 million. As of September 30, our consolidated and unconsolidated mortgage debt had a weighted average interest rate of 4.02% and a weighted average remaining term to maturity of 6.8 years. I would also like to note that during the quarter, we amended our credit facility to convert the index on the interest rate from the prime rate to 30-day term so far plus 250 basis points and adjusted the interest rate floor to 6%. The interest rate in effect as of September 30 was 7.81%, which is down from 8.5% as of June 30.

Now I'd like to turn the call over to Ryan

Ryan Baltimore

Good morning. I'd liked to start with the performance of our multi-family portfolio in the quarter.

Consistent with our expectations, we held average occupancy for the portfolio steady at 94.4%, which compares with 94.3% for the second quarter and 96.2% a year ago. Average monthly rents for the combined portfolio in the third quarter were up 6.8% compared to the 2022 quarter. For leases signed in the third quarter 2023, we saw a 4.7% increase on renewal leases, a 2% increase on new leases and a 3.5% increase on a blended basis compared with the prior lease. For October, we saw a 5.5% increase in renewal leases, a 0.7% decrease on new leases and a 2.7% increase on a blended basis compared with the prior lease.

Our rent to income ratio for all new leases signed in the third quarter is 23%, which suggests our tenants are not under financial stress and the properties are in the range of affordability that we've targeted.

Combined portfolio NOI decreased 0.4% in the third quarter compared with the third quarter 2022. The primary components were: revenue grew 4.1%, primarily due to increased rental rates across the portfolio. Total expenses increased by 10.1%, primarily due to higher insurance, real estate taxes and advertising, leasing and other expenses. Of this amount, controllable expenses were up 5.8% while noncontrollable expenses were up 19.1%.

Insurance was up 67% year-over-year due to the increases we've mentioned all year combined with the final cleanup of the cancellations of previous policies. The underperformance of Alamo Ranch in San Antonio and Bells Bluff in Nashville cost us approximately 200 basis points in combined portfolio NOI growth this quarter. Excluding these two properties, we would have experienced a 1.6% increase. We have talked about taking care of the portfolio and ensuring we make the right decisions to realize better performance. Alamo Ranch and Bell's Bluff are two good examples. Alamo Ranch has seen some stabilization in the tenancy and reduction of bad debt. Now we'll need to drive rents. At Bell's Bluff, we needed to provide more concessions to build occupancy, and that is taking more time than expected.

Some of the other decisions we've made in the portfolio are to prioritize our marketing spend to focus on driving traffic with the highest quality leads rather than spreading it out across the market. We are also exploring new technologies to allow potential tenants to do more self guided and after-hours tours. As you've heard on other earnings calls this quarter, the market has softened this past quarter with the supply increases in the Southeast, but over the longer term, we believe that as less shovels are going into the ground today, that provides more optimism for the future.

Turning to guidance, based on the year-to-date results and deployment of proceeds to share repurchases, we affirmed our previously issued guidance ranges for 2023. That completes our prepared remarks.

Operator, will you please open the call to questions?

Operator

(Operator Instructions).

Our first question comes from Barry Oxford of Colliers.

Barry Oxford

Great. Thanks, guys. When you guys are looking at acquisition opportunities versus your stock, how are you weighing that?

Jeffrey Gould

Hey, Barry, the acquisition market is so difficult right now that we don't think of it as much a comparison. With interest rates where they are, realistically, we're not aggressively in the market. There's not really what we consider to be good buying opportunities. That comparison is not really there. We happen to think that the buybacks are a great opportunity, but it's not really in relation to the activity of acquiring properties because frankly, we're not aggressively in the market with where interest rates stand today.

Barry Oxford

Right. No, I would imagine that buybacks are pretty accretive for you guys down in here..

Jeffrey Gould

Yes.

Barry Oxford

Yes. The Nashville market—what are you seeing there? As you look out over the horizon, what are you seeing as far? Can we get occupancy where it needs to be?

Jeffrey Gould

We think we can and we think we will. It's still a softer market because there's so much new supply. I mean, downtown Nashville, for example, has two or three months of supply issues, but that will be absorbed—this has happened before in Nashville. The new housing starts, new permits have slowed a lot, and I think over a short period of time those will be occupied and then we'll see better results. But we are still seeing some concession needs at our Nashville property, but in time, I think that it'll improve substantially.

Barry Oxford

Are the Nashville concessions across the board in the market, or is it just seeping into certain submarkets?

Jeffrey Gould

No, it's pretty much across the board. Yeah. There's a general oversupply in Nashville for sure. I remember a few years back, there was the same issue maybe four or five years ago where there was a three month supply in downtown, and you saw it across the markets. That sort of happened again today. But like I said, I think a real tailwind in a few years is going to be the lack of permits that are entering into the market now, and they're finishing up construction as opposed to starting new.

Barry Oxford

Right. Yeah. And look, I understand Nashville—it can get pretty soft on you, but it can also tighten up on you pretty quickly, also in the same breath.

Jeffrey Gould

Agreed.

Barry Oxford

Yes. Okay, guys. Thanks so much.

Jeffrey Gould

Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Jeff Gould for any closing remarks. Please go ahead.

Jeffrey Gould

Well, thank you all for your time and your continued confidence and interest in BRT. Please call us with any follow up questions you may have. Thank you and have a good day.

Operator

This conference is now concluded. Thank you for attending today's presentation. You may now disconnect.