communications simplified.

# BRT Apartments Corp.

## Fourth Quarter and Year End 2023 Earnings Call

## March 13, 2024

## CORPORATE PARTICIPANTS

**Tripp Sullivan,** *President, SCR Partners, LLC*

**Jeffrey A. Gould,** *President and Chief Executive Officer*

## CONFERENCE CALL PARTICIPANTS

**Michael Gorman,** *BTIG LLC*

**Barry Oxford,** *Colliers Securities*

## PRESENTATION

**Operator**

Good day, and welcome to BRT Apartment Corp's Fourth Quarter and Year End Earnings Conference Call.

(Operator Instructions)

At this time, I would like to turn the floor over to Tripp Sullivan of Investor Relations. Thank you. You may 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-K, 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 in 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 A. Gould**

Good morning.

We're approaching the end of the Q4 earnings cycle, and the commentary we've all heard this quarter has focused on rental rates, transaction activity, expenses, and the impact of new supply in the Sunbelt. We'll be very brief with our commentary today so we can drill down into those topics in Q&A.

To quickly summarize 2023, I want to highlight the ongoing simplification of the business that we started in 2021 by taking full ownership of a majority of our properties, the improvement in our balance sheet, and the disciplined approach to our capital allocation.

We do not have any significant mortgage debt maturities until early 2026, and pulling back on acquisitions in the past year and investing disposition proceeds to repurchase $16.7 million of shares during the year and to date in 2024 were the right decisions. We've made it our priority to focus on property operations and look to maximize portfolio performance where possible. It made for a relatively quiet year, but an important one, nonetheless.

While we're not providing specific earning targets, the 2024 outlook we provided in our earnings release last night outlines our views on portfolio operations, transactions, and other moving parts of the P&L.

The big takeaways are that operational environment we're anticipating this year is much like other operators. New supply is expected to impact the ability to grow rents. There will be continued pressure on occupancy, and the ongoing inflationary headwinds are expected to impact operating margins. We intend to prioritize stabilizing occupancy this year with a view to being more constructive on potential transaction activity later in the year.

Long term, we're in the right region in the Sunbelt. We will be aggressive in how we manage the portfolio to earn what we anticipate will be a challenging 2024, but we will remain very patient on asset growth. We believe this strikes the right balance to position us for better growth in 2025 and '26.

Operator, will you please open the call to questions?

**Operator**

(Operator Instructions)

The first question comes from Michael Gorman with BTIG. Please go ahead.

**Michael Gorman**

Yes, thanks. Good morning. Jeff, I was wondering if you could just drill down a little bit in terms of—obviously, you spoke about the operating environment in these markets, and we certainly have heard a lot about that. Can you talk about what that's leading to on the investment side, on the transaction side, what you're seeing there, and specifically, kind of how you're thinking about balancing additional share repurchases versus the kind of opportunities that may or may not be in the market today?

**Jeffrey A. Gould**

Yes, sure. Good morning. So, as far as the transactional environment, things are—I've said this before, but things are very, very quiet. The reality is that continually with cap rates being somewhere in the mid-fives, call it, and interest rates higher than that and the negative leverage, it is very difficult for people to get too excited about purchases. Even transactional volume, just deals that we're seeing are extremely slow. It's really just basically a hold market right now. I think sellers are looking to hopefully have interest rates drop so cap rates will drop and they can sell at a better time. There's not a lot of pressure and a lot of issues with defaults right now in multi-family as in other sectors, so volume wise, it's pretty quiet.

On the share repurchase side, we were pretty active. We always have to check our cash balances and see where we are and our borrowing base and see if it makes sense at the right time based on the right price and our cost of capital to see if we want to buy shares back, but we were pleased that we did and were able to do that. Even though the stock dropped a little bit since then, we're very comfortable with those purchases, but generally, what's happening in the market is it's very simple; there's some overbuilding in some of our markets, fortunately, not many of our markets, but in some of our markets, leading to a fight for occupancy and push on rents. So, the conversations that we've seen about 2024 being kind of a rough year on growth I think is accurate. I think once these units get absorbed, I think '25, '26 are much brighter days because there's very little in the permitting process, and it's going to be a sticky '24 and a difficult '24, but we have our heads down and we're working hard to keep occupancy and keep our rents both through new leases and renewals.

**Michael Gorman**

That's helpful. Thanks, and just on the share repurchases, as you think about it, obviously, you touched on a couple of issues there; do you give any consideration to the liquidity in the stock, and how do you think about that in terms of the shareholder base when you think about share repurchases and the scale of share repurchases over time?

**Jeffrey A. Gould**

Yes, it's a fair question. I mean, we're already—so, we have a significant percentage owned by insiders and all, so the reality is the float, whether we buy or not, is pretty minimal, so most investors are in this for the longer haul with us, and obviously, Management has their money where their mouth is and we have quite a large interest in the stock. So, we don't think it makes a tremendous difference on liquidity one way or the other. I mean, we're not talking about a huge amount of share repurchase, but at the same time, we understand it doesn't help it, but we still think the investment is probably the best investment we can make as compared to other alternatives, and long term, we think it's something that's going to be smart for us just based on our valuations and where we see the future of the Company.

**Michael Gorman**

That's great, and then just last one for me on Stono Oaks, can you maybe just give a little bit of color there on the lease up; how you see that trending; and how that maybe varies from where you initially underwrote it? Obviously, long term, probably still a great asset, but just a little bit more color on how that kind of plays out over '24 and '25.

**Jeffrey A. Gould**

Yes, going well as a general answer. A partner that we've done many development transactions with before. We had a slight hiccup that one of the buildings was actually—there was an arson of one of the buildings, but basically, that was resolved and it slowed us down on one building for about three or four months, but property—units are online now. Renting has already started. It's on time, on budget, as we expected, and it's a great market still. So, there is some supply there, but not a huge oversupply, and I think we'll do well with the rent up and the lease up, and I think it'll be a good long-term project for us.

**Michael Gorman**

Great. Thanks for your time.

**Jeffrey A. Gould**

Sure. Thanks, Mike.

**Operator**

The next question comes from Barry Oxford with Colliers. Please go ahead.

**Barry Oxford**

Great. Thanks. Thanks, guys. Just to kind of build on the acquisition question, Jeff, given your cost of capital, where would cap rates sort of need to kind of level out to kind of get you interested to come back into the market? Obviously, at 5.5%, you could arguably say sellers probably are a little unrealistic at that level, but at what level would you say, okay, Barry, at this level, I feel good about coming back into the market where cap rates?

**Jeffrey A. Gould**

Well, Barry, it's sort of two-fold. It's the cap rates, but it's also the interest rates, so where we're seeing, let's call it, neutral leverage, I think that's about where we play the game, so if you're talking about an interest rate market of 5.5% and cap rates of 5.5%, that might be something more interesting to us. We've been very patient. In the last couple of years, it's been frustrating, and we think it's been prudent and smart to be patient, and looking back, I'm glad we didn't buy anything over the last year or two. A lot of investors were targeting and projecting some pretty substantial rent growth, and it's not there at all. As a matter of fact, it's not even close to what they anticipated, but I think—realistically, I think when it gets to about a neutral and when things calm down and the 10-year's not jumping all over the place as it is week to week now, I think we'll be in a much better place to consider acquisitions for value-add properties, as well as even more stabilized situations.

**Barry Oxford**

No, that makes sense, and then on the unconsolidated partners, are there any partners that are looking to monetize their position, you could buy them out, or no, not right now, nobody's really throwing their hand up?

**Jeffrey A. Gould**

Yes, things have been pretty quiet. As we said to you guys, maybe to everyone about a year or two ago, we took care of the ones that were sort of the lower-hanging fruit, if you will…

**Barry Oxford**

Right.

**Jeffrey A. Gould**

…and the partners that we have now. I think there'll be an event when the maturities take place, and the maturities on those partnership deals is typically happening between like '27 and '29, somewhere in that range. It may happen sooner, but I think the maturity event will cause a discussion and an outcome whether it's we buy them, we sell, they buy us, I'm not sure what the outcome will be, but it's probably more targeted towards the maturities, and you have that information, so I expect it'll be quiet for the next year or two and then things will ramp up on most of the rest of the partnership deals, so there will be an event that will take place at that time.

**Barry Oxford**

Great. Thanks for the color on that. Then last question; you've indicated there's definitely some supply coming on. Is there demand for that supply? What I'm driving at is, is there brisk net absorption to say, hey, look, as we get towards the end of '24, most of the supply should be leased up, or Jeff, are you of the mind that, look, this could be more kind of a more longer process and lease-up that could bleed into '25?

**Jeffrey A. Gould**

Combination answer. We went into some markets that, in your wildest dreams, you probably wouldn't imagine to have oversupply, and now we're seeing; in Hunstville, Alabama, example, Pensacola, Florida. I mean, the typical markets, Nashville, Dallas, you might have expected it.

**Barry Oxford**

Right.

**Jeffrey A. Gould**

We're comfortable in all these markets, and again, fortunately, a larger part of our portfolio does not have oversupply issues, but where we do, we're comfortable that the in-migration and the absorption will be good. I do think it may go on past '24, and I think it may take longer than just the calendar '25, into '25, but I do think there's net absorption and these will get filled up, and I think we'll see much better days early in '25, not sure right away, but early towards the first, second quarter of '25.

**Barry Oxford**

Great. Thanks a lot, Jeff.

**Jeffrey A. Gould**

Sure.

**Operator**

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

**Jeffrey A. Gould**

Well, thank you all for your continued confidence in BRT, and have a good day. If you have any questions that you need to talk with us about, please feel free to call Ryan Baltimore or myself. Thank you.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.