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CBL & ASSOCIATES PROPERTIES INC
Form 8-K
February 05, 2003

Securities Exchange Act of 1934 -- Form 8-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report:
February 5, 2003

CBL & ASSOCIATES PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	1-12494	62-1545718
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

2030 Hamilton Place Boulevard, Chattanooga, TN 37421

(Address of principal executive offices)

Registrant's telephone number, including area code:

(423) 855-0001

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CBL & ASSOCIATES PROPERTIES, INC.
Conference Call, Fourth Quarter 2002
February 5, 2003 @ 10:00 EDT

Thank you and good morning. We appreciate your participation in today's conference call to discuss our results for the fourth quarter and the year ended December 31, 2002. With me today are John Foy, the Company's Vice Chairman and Chief Financial Officer, and Kelly Sargent, Director of Investor Relations who

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will first read our Safe Harbor disclosure.

This conference call contains "forward-looking" statements within the meaning of the federal securities laws. Such statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the events and results discussed in the forward-looking statements. During our discussion today, references made to per share are based upon a fully diluted converted share. We direct you to the Company's various filings with the Securities and Exchange Commission including, without limitation, the Company's Annual Report on Form 10-K and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference therein, for a discussion of such risks and uncertainties.

I would like to note that a transcript of today's comments including the preliminary balance sheet and additional schedules will be filed today as a form 8-K and will be available upon request. This call is also available for replay on the Internet through a link on our website at cblproperties.com. This conference call is the property of CBL & Associates Properties, Inc. Any redistribution, retransmission or rebroadcast of this call without the express written consent of CBL is strictly prohibited.

Thank you, Kelly.

2002 proved to be a productive and successful year for the Company and for our shareholders. Some significant accomplishments were:

1. For the third consecutive year, the Company's total return to shareholders exceeded 30%, producing a three-year average total return in excess of 33%.
2. We achieved FFO per share for the year of \$4.34, a 10.2% increase. This is our fifth consecutive year of double-digit FFO growth.
3. The Board of Directors increased the annual common dividend by 18% to \$2.62 per share.
4. We completed a follow-on offering of 3.3 million common shares raising approximately \$115 million.
5. The Company issued 2.0 million shares of 8.75% Series B Preferred shares raising \$100 million.
6. We opened over 870,000 square feet of new developments.
7. We acquired three malls for approximately \$208 million with a blended cap rate of 9.8% on income in place.
8. We acquired the remaining ownership interests in three malls and one associated center, for a total purchase price of \$112.9 million.
9. We closed non-recourse CMBS financings of \$407 million for a ten-year term, at a combined interest rate of 6.51%, for nine individual properties.

I will now review the specifics of our performance and results for 2002.

DEVELOPMENTS ----- In 2002 we opened approximately 870,000 square feet of new developments. Our largest development was Parkway Place, a 630,000 square foot regional mall in Huntsville, AL that opened in October with great success. Shoppers eagerly awaited the opening of the doors, and as a result, many of the retailers achieved record sales. The grand opening week was filled with activities for shoppers, and in November several additional stores including Abercrombie & Fitch, abercrombie, Hollister and Express opened for the holidays.

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During the fourth quarter we also opened Parkdale Crossing, an associated center located in Beaumont, TX. This was the first new development at one of the former Jacobs malls that we acquired in 2001. We also opened expansions at Meridian Mall, Lansing, MI; Springdale Mall, Mobile, AL; Kentucky Oaks Mall, Paducah, KY and Bonita Lakes Crossing, Meridian, MS. We commenced construction on Wilkes-Barre Township Marketplace, a 312,000 square-foot community center located in Wilkes-Barre Township, PA that will be anchored by Wal-Mart. These developments in total represent an investment of \$66.4 million.

Our largest project currently under construction is the Mall of South Carolina in Myrtle Beach, SC, a 1.5 million square foot regional mall that is a 50/50 joint venture with Burroughs and Chapin. Retailers have responded enthusiastically to this project and 67% of the non-anchor square footage is committed even though the mall is not scheduled to open until March 2004. Of the 300,000 square feet committed, 135,000 square feet represents new tenants to the market, and the mall will mark Dillard's entry into the market. Myrtle Beach is an exciting tourist destination, attracting over 13 million visitors annually.

Including the Myrtle Beach project, we currently have a total of 2.5 million square feet under construction. The projects also include one associated center and three community centers. For projects under construction, approximately \$164.0 million has been committed of which \$59.7 million has been invested as of December 31, 2002. Construction loans or credit facilities are in place for the remaining costs. Initial unleveraged yields on these developments are expected to range from 9% to 10%, after management and development fees, with stabilized yields ranging from 10% to 11%. We also have several other projects in various phases of pre-development.

Strengthening our existing properties is a major focus of ours, and as part of this effort during 2002 we accomplished a number of notable anchor additions to our properties:

- [X] Rich's, a division of Federated announced that they will become the fifth department store at Arbor Place in Atlanta, GA in the fall of 2004.
- [X] Belk opened at College Square, Morristown, TN replacing a closed Wal-Mart.
- [X] At Parkdale Mall, Beaumont, TX, Foley's opened a 170,000 square foot department store in August replacing a closed Montgomery Wards, and a 26,000 square foot Linens-n-Things will open in the summer of 2003.
- [X] At Meridian Mall, in Lansing, MI, Galyan's opened their new 80,000 square foot store and Younkers will open next spring in the closed Jacobson's store.
- [X] Dillard's opened new department stores at Randolph Mall, Asheboro, NC, and Asheville Mall, Asheville, NC; both stores replaced closed department stores. Dillard's also expanded and remodeled their store at Jefferson Mall in Louisville, KY.

Upgrading and renovating our malls is a key to their continued dominance in their markets. In 2002 we completed the remodeling of five malls as well as one associated center. This year we have six renovations scheduled for a total cost of approximately \$68 million excluding deferred maintenance.

LEASING & OCCUPANCY

At the end of the fourth quarter our total portfolio occupancy was 93.8%. Occupancy for the mall portfolio was 93.3%, an improvement of 150 basis points over the third quarter's occupancy and a 110-basis point improvement over the same period one-year ago. In the former Jacobs malls, we increased occupancy 230 basis points over one year ago.

During 2002 we entered into approximately 3.9 million square feet of leases compared to 2.6 million square feet in 2001. The 3.9 million square feet includes 1.4 million square feet of new leases, approximately 1.2 million square feet of renewals of existing tenants and approximately 1.3 million square feet in the development properties.

During the fourth quarter we received approximately \$258,000 from lease buyouts compared to \$1.9 million the same quarter one year ago. We expect that spreads on lease renewals will increase by 3% to 5% for 2003. Our 8-K filing includes a schedule detailing the leasing spreads for new and renewal tenants.

In 2003, the Company has about 1.76 million square feet rolling over and has completed approximately 60% of this leasing. We believe that occupancy levels for 2003 will remain stable, but we expect store closings to continue to be a factor as a result of the current economic climate.

During 2002, retailer bankruptcies resulted in the loss of 169,000 square feet of space, compared to the loss of 393,000 square feet of space for 2001. The revenues lost from bankruptcies in 2002 were \$3.8 million in gross annual rents compared to a loss of \$8.1 million in 2001. As of January 31, we have experienced 50,000 square feet of store closings so far this year, primarily in the music store sector.

Specialty leasing revenues were a major highlight in 2002 increasing 23% over 2001 to \$38 million. Improvements from updating carts with more functional designs and placing them in the newly acquired and remodeled malls resulted in attracting more tenants. Additionally, we have improved occupancy levels with our carts throughout the year, rather than just for the holiday season.

RETAIL SALES

Total mall shop sales volume increased 0.4% to \$3.02 billion for 2002 compared to \$3.00 billion for the same period in 2001. Based upon the criteria of including only stores of 10,000 square feet and less for mall stores, same store sales for calendar year 2002 decreased 1.6% for those tenants reporting.

Occupancy costs as a percentage of sales at our malls were 12% for the twelve months ending December 31, 2002 compared to 11.3% for the same period one year ago. Occupancy costs as a percentage of sales have increased due to the slightly decreased sales reported by the retailers.

DISPOSITIONS/ACQUISITIONS

During 2002 we completed the disposition of six properties for total proceeds of \$36.8 million. The properties sold were Rhett at Remount, LaGrange Commons, One Park Place, Chesterfield Crossing, Girvin Plaza and Salem Crossing. The disposition of these six centers resulted in short-term dilution to FFO while the funds are redeployed into the acquisition and development program.

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During the year we acquired the remaining third party interests in three malls and one associated center. In December 2002 we acquired from a pension fund, Westmoreland Mall and its associated center Westmoreland Crossing, in Greensburg, PA, located one-hour from downtown Pittsburgh. This mall was acquired for its dominant position and the potential to increase occupancy and specialty leasing income. We continue to look at acquisition opportunities where we can enhance the value of the property through our aggressive hands-on approach to leasing, specialty leasing and management.

I will now turn the call over to John Foy to discuss our financial results.

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FINANCIAL REVIEW

During 2002, we strengthened our balance sheet:

1. We issued \$271.2 million in equity including the previously mentioned \$115 million follow-on offering of common stock, the \$100 million preferred offering and issuance of 1.6 million operating partnership units to acquire assets and additional partnership interests.
2. We deleveraged several properties through the early retirement of debt, which is consistent with our philosophy of maximizing leverage on certain assets while increasing our pool of unencumbered assets.
3. We refinanced nine assets through a CMBS financing converting variable rate debt to non-recourse, long-term, fixed rate debt at a rate of 6.51%.
4. Although some of these financial transactions were dilutive, we were able to improve our EBITDA coverage ratio and reduce our debt to market capitalization.

Improved operating performance resulted in an FFO per share increase of 10.2% over the prior year. Of this increase, 66% of our growth was attributable to increases in occupancy, specialty leasing income and reductions in interest expense. The balance was a result of improved performance and the addition of new developments such as Parkway Place, Huntsville, AL, The Lakes Mall, Muskegon, MI, the acquisition of the remaining partnership interest in Columbia Place, Columbia, SC, East and West Towne Mall and West Towne Crossing in Madison, WI and the acquisition of two malls, Panama City Mall, Panama City, FL and Richland Mall, Waco, TX.

Our \$4.34 FFO calculation did not include outparcel sales of \$0.05 per share. Before consideration of outparcel sales, our dividend payout ratio for the year was 53.5 % based on a fully diluted, converted share count. Including outparcel sales, the payout ratio was 52.8%.

Our cost recovery ratio was 91.7% for the twelve months compared to 93% for the same period a year ago. We anticipate that our cost recovery ratio will be in the range of 91% to 93% for the full year 2003.

Please note that we have reclassified certain financial information in the prior period financial statements to conform to the current period presentation. A portion of our taxable REIT subsidiary's results of operation in the past was reported on a net basis in prior periods' financial information. However, due to the growth of those operations, we have presented its results on a gross basis with revenues included in interest and other revenues and the related expenses in the other expenses category. This change in presentation had no impact on net income or FFO.

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Our G&A increased by 42% for the quarter. This was a result of additional state tax reserves and professional fees. These fees included legal fees in conjunction with the Sarbanes Oxley Act and reaudit fees.

We have applied the provisions of FASB Statement No. 141 to our property acquisitions and as a result, we recorded a net liability of \$1.3 million. As our largest acquisition for the year occurred on December 30, 2002 the impact on our 2002 results of operations were immaterial.

As we stated in our news release, same-center NOI growth was a positive 3.1% for the total portfolio, driven by increased specialty leasing income and higher occupancy levels at the malls, especially the former Jacobs properties. The breakdown for 2002 NOI by property type is as follows:

1. The same-center mall NOI increased 2.7%
2. Associated centers experienced a 17.3% increase, primarily as a result of retenanting spaces previously occupied from bankrupt tenants at The Terrace and Hamilton Corner, both located in Chattanooga, TN. We also saw improved leasing activity at The Landing, Atlanta, GA and Westgate Crossing, Spartanburg, SC.
3. Same-center community center NOI decreased ten basis points for the year. Large vacancies at Kingston Overlook in Knoxville, TN and Sattler Square in Big Rapids, MI contributed significantly to this. At both Sattler Square and Kingston Overlook, leases have been executed for the vacant anchor spaces with tenants expected to open during the first half of 2003.

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CAPITAL EXPENDITURES

During 2002 we spent \$31.6 million on tenant allowances, \$ 1.6 million on deferred leasing costs, \$19.3 million on revenue neutral capital expenditures and \$57.4 million on revenue enhancing capital expenditures. The revenue neutral expenditures for 2002 included: \$ 10.2 million spent on resurfacing and improved lighting of parking lots, \$8.1 million for roof repairs and replacements, and a portion of this amount was included in the renovation costs.

Revenue neutral capital expenditures are billed to the tenants as common area maintenance expense and the vast majority is recovered over a five to fifteen year period. Revenue enhancing capital expenditures are for remodeling and upgrades of our malls of which approximately 30% are recoverable from tenants.

In 2003, for the total portfolio, we are projecting to spend \$30 million on tenant allowances, \$25 million in revenue neutral and \$60 million on revenue enhancing capital expenditures.

CONCLUSION ----- Based on our year-end and fourth quarter results and barring any further disruptions from unforeseen events, we are comfortable with an FFO estimate range of \$4.57 to \$4.60 for 2003. Our growth estimate for 2003 is based upon our expectations for 3-4% NOI growth, stable occupancy across the portfolio and \$88.1 million of new developments completed during the year.

Before we open the call for Q&A I would like to share our thoughts on the following:

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- |X| Despite retail sales having been flat to slightly down, retail margins continue to show improvement. Also, retailers have confirmed their plans for 2003 and 2004 to continue to expand and create new concepts for our malls.
- |X| As we have said over the years, retailers are continually evolving and recreating themselves. They are improving their product lines and mix just as we work to improve our properties. Prime examples of this are JC Penney and several of the major movie theater operators, who have successfully demonstrated the ability to turnaround their business in 2002.
- |X| We continue to see solid results at our malls, and believe that their updated look is a big part of their success with both the retailers and customers. We invite you to visit our newly renovated properties, such as Hickory Hollow and Columbia Place, where you can see how the recently completed renovations have led to improved leasing activity.

We appreciate the confidence and support. Thank you again for joining us today and we welcome the opportunity to show you any of our newly renovated properties. Stephen and I will now answer your questions.

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Properties Under Renovation as of December 31, 2002

Property	Location	Est. Total Cost (in millions)	Cost to date (in millions)
Parkdale Mall	Beaumont, TX	13.2	4.6
Eastgate Mall	Cincinnati, OH	14.5	0.5
St. Clair Square	Fairview Heights, IL	12.3	2.1
Jefferson Mall	Louisville, KY	11.7	0.4
East Towne Mall	Madison, WI	7.2	0.3
West Towne Mall	Madison, WI	8.0	0.2
		-----	-----
Total		\$67.8	\$ 8.0
			= =====

Detail of roof and parking lot capital expenditures for the twelve months ended December 31, 2002
(In thousands):

	Revenue Neutral -----	Revenue Enhancing -----
Other Capital expenditures	\$10,150	\$ 48,465
Parking lot and parking lot lighting	4,232	5,939

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Roof repairs and replacement	4,980	3,071
Total	\$ 19,362	\$ 57,475
	=====	=====

Detail of deferred leasing as of December 31, 2002 (in thousands)

	Q1 ---	Q2 ----	Q3 ----	Q4 ----
Year 2002	\$45	\$466	\$710	\$370
Year 2001	\$887	\$85	\$673	\$612

The capital expenditures that we incur for maintenance such as parking lots repairs, parking lot lighting and roofs are classified as revenue neutral. These expenditures are billed to the tenants as common area maintenance expense and the vast majority is recovered over a five to fifteen year period. Revenue enhancing capital expenditures are for remodelings and upgrades for enhancing our competitive position in the market area. A portion of these expenditures covering items such as new floor coverings, painting, lighting and new seating areas are also recovered through tenant billings. The costs of other items such as new entrances, new ceilings and skylights are not recovered from tenants. We estimate that 30% of our revenue enhancing expenditures are recoverable from our tenants over a ten to fifteen year period of time. The third category of capital expenditures is tenant allowances, sometimes made to third-generation tenants. Tenant allowances are recovered in minimum rents from the tenants over the life of the lease.

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Renewal Leasing, Fourth Quarter Ended December 31, 2002

Property Type	Prior PSF Base Rent	New PSF Base Rent-Initial	New PSF Base Rent-Avg.	% Change Initial	% Change Average
Stabilized Malls	\$23.91	\$23.75	\$24.38	(0.6%)	2.0%
Community Centers	12.01	12.46	12.91	3.8%	7.5%
Associated Centers	10.01	10.34	10.44	3.2%	4.3%

Detail of Stabilized Mall Renewal Leasing, Fourth Quarter Ended December 31, 2002

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Stabilized Malls	Sq. FT.	Prior PSF Base Rent	New PSF Base Rent-Initial	New PSF Base Rent-Avg.	%A Initial
New Leases	94,225	\$28.09	\$27.98	\$29.54	