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Transcript of
Winthrop Realty Trust
Third Quarter 2015 Management Conference Call
November 6, 2015/12:00 p.m. EST

Participants

Analysts

Presentation

Operator
Greetings, and welcome to the Winthrop Realty Trust Third Quarter 2015 Management Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator Instructions.) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Amy Grucan, Investor Relations. Thank you, you may begin.

Amy Grucan – Investor Relations
Good afternoon, everyone and welcome to the Winthrop Realty Trust Third Quarter 2015 Management Conference call. With us today from senior management are Michael Ashner, Chairman and Chief Executive Officer; Carolyn Tiffany, President; John Garilli, Chief Financial Officer and other members of the management team.

This morning, November 5, we issued a press release disclosing certain financial information about Winthrop and providing updates on the liquidation process. The press release is available on our website at www.winthropreit.com in the News & Events section and which will be furnished on Forms 8-K with the SEC. Additionally, we are hosting a live webcast of today's call, which you can also access in the website's News & Events section.

At this time management would like to inform you that certain statements made during this conference call, which are not historical, might constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumption, we can give no assurance that these expectations will be attained. Factors and risks that could cause actual results to differ materially from those expressed or implied by forward-looking statements are detailed in the press release and, from time to time, in our filings with the SEC. We do not undertake a duty to update any forward-looking statement.

I will now turn the call over to Michael Ashner. Michael.

Michael Ashner – Chairman and Chief Executive Officer
Thank you, Amy, and welcome to our discussion of our third quarter financial results and our ongoing efforts with respect to our plan of liquidation. Once again, I will be leading the call with Carolyn, John Garilli and John Alba available to answer the really difficult, important questions that any of you may pose.

As we've discussed, the adoption of the plan eliminates much of the content one finds in a standard earnings call. We apply liquidation accounting and that accounting is based primarily on changes to asset valuations. These changes reflect our best current estimates as to the liquidation proceeds we expect to realize, taking into consideration numerous factors including timing of each asset sale, its operating income prior to disposition, cost of liquidation, corporate G&A, etc.

On an apples-to-apples basis, the estimated liquidation proceeds declined by $0.06 per share to $15.17 as compared to the second quarter estimate of $15.23 per share. This decline primarily reflects our downward valuation of our Mosaic high rise apartment property for lower projected sales proceeds, offset by a small increase in operating income due to an extended projected holding period for our Jacksonville warehouse facility and other asset improvements.

In the case of Mosaic, we felt it prudent to reduce our projected sales price in view of the cloud currently hovering over the energy industry and its impact on the overall Houston real estate market. As for Jacksonville, we withdrew that property from the sales market as we did not believe the offers received absolutely reflected the property's strong existing cash flow and replacement value. We again have not changed our valuation of our investments in our Time Square joint venture.

With respect to our Times Square joint venture, demolition has been completed and foundation work has been commenced. In fact, we enjoyed the formal ground-breaking for the property on October 27, 2015, which was attended by Mayor de Blasio as well as the head of the City Council. I even had my picture in the *New York Post*. While we have yet to ink a lease, leasing discussions continue apace. In view of the substantial rental rates for retail and the signage that we are asking, the various tenant configurations possible and the corporate level at which these decisions are made by the prospective tenant, some patience is required. Reported leasing rates for retail signage in Times Square continue to exceed the projections we used when we formed that joint venture almost two years ago.

On the operating front, our Sullivan property will have a projected occupancy of 97% by year end, taking into consideration newly executed leases. Portfolio occupancy for our office and our other commercial properties on a same-store basis improved from 92% as of year end to 95% as of the end of the quarter. Occupancy on our remaining multi-family portfolio is consistent at approximately 93%.

On the sales front, both our Churchill facility in Pittsburgh and our office facility at 550 Corporetum in suburban Chicago recently entered the sales market. Highgrove, our Stamford luxury apartment property is under firm contract of sale of $90 million and we have received a $4 million hard deposit. On a separate note, the Governor of Illinois recently announced the state will be selling its James R. Thompson Center office building which we have a leasehold interest on a retail space known as Atrium Center.

While we have not yet been formally contacted by the state, we anticipate a valuation leading to a sale of our interest to the state with negotiated condemnation process. We anticipate placing our Mosaic property in Houston as well as One East Erie, our multi-use property in downtown Chicago on the market during the first quarter of 2016. As with all sales processes, there is no assurance of closure as we saw with Jacksonville, but we would not be taking assets to market if we did not have a level of confidence of satisfying our pricing expectations.

There are two additional issues that I would like to address. First, as you may be aware, we announced another $1.00 cash distribution, bringing total liquidating distributions to common shareholders to $4.50 per share since the adoption of our plan of liquidation. This distribution will be made from existing cash reserves.

I've been asked, however, as to whether or not the company would consider stock buybacks. In fact, we have in place a stock buyback program that the company can deploy in its discretion. We've held back to date because we look at stock buybacks as we look at any other investment on behalf of our shareholders – risk/reward. As we make distributions connected to our liquidation, our stock price should be reduced by approximately the amount of the distribution made. To the extent that it falls further and where we believe there's greater potential incremental value in our shares, we will consider implementing the stock buyback. The timing reflects lower risk through lower cost for the shares and higher potential return assuming the potential incremental value is unchanged or improved.

Secondly, commencing with our next call and continuing through our two remaining investor calls, we intend to provide a more granular analysis to what we believe the company's projections and views are at the sale of its remaining assets. In our view, none of the macroeconomic considerations which weigh on our election to pursue the planned liquidations have changed. At the end of the day, you are either a buyer or seller of your assets and in this market we remain obviously a seller. Once again, credit goes were credit's due. The implementation of our planned liquidation and all the elements that go into it could not proceed without the exceptional performance of all of my colleagues and associates in both Jericho and Boston.

I would now like to open the floor to questions. Feel free to ask about the liquidation process, our assets or any other questions you might have, including what I'm reading these days. John, Carolyn and I are all happy to respond.

Operator
Thank you. Our first question comes from the line of Dan Occhionero with Barclays. Please proceed with your question.

<Q>
Good afternoon. Could you talk a little bit about your exit strategy for 701 and the timing of such a strategy?

Michael Ashner – Chairman and Chief Executive Officer
Yes, I can. We have, in my view, that I would like to resolve the leasing issues because that puts a finer point of what the value would be before we consider a sales process.

<Q>
Thanks.

…what you're seeing in the market. From Mosaic I guess there's an—

Michael Ashner – Chairman and Chief Executive Officer
Let me come back to that question. I sort of answered two. The leasing, we have two components there. Really, three components, but there's really two. The first component is the retail and the signage. The second component is the hotel. One can estimate with fair certainty what the value of the hotel will be based on comparables in the Time Square area, but the retail is going to be dependent upon how we lease it. And it's not simply who we lease it to, but how we lease it. There are a number of configurations that we're currently considering with a number of tenants. There is the different cap rate that get on a sale based on the credit worthiness of different tenants. So, it seems to me that we need to, more than the hotel, we need to best resolve who are tenant or tenants are going to be for that site, based on both the configuration and the cap rates. And right now there's a lot moving pieces and we haven't yet determined how we're going to finalize that. Once that's done, we'll have a better insight as to how we're going to proceed with the sale of the property or the sale of our interests.

<Q>
That's helpful. Thank you.

Operator

Our next question comes from the line of Wilkes Graham with Compass Point. Please proceed with your question.

<Q>
Thanks. I'm curious if you, I mean, you talked about Mosaic and East Erie being put on the market in the first quarter. As you look out through August of next year and the end of the liquidation process, do you have any general expectations for how many assets you think you'll have left at that time?

Michael Ashner – Chairman and Chief Executive Officer
Not yet. I think where right now there are, again, to use the phrase "moving pieces" involving Sullivan Center, some of the smaller assets, but I really believe that by the next call and certainly by the final two calls we'll have a real sort of insight as to what will be left. That's about the best I can say. We're way ahead of where we thought we would be. We thought at this point in time we wouldn't even be making our first distribution to shareholders by the end of the fourth quarter of this year, and we thought we'd have a lot more assets. Now we're down to really, when it's all said and done, if you look at it, 30 assets; of those 10 are just options, they're old assets that have little or no value. Ten or so just play themselves out because they're loans so the borrower controls whether they pay us off. There are over 10 assets and how we want to approach them, and as each quarter goes by we have some clear understanding about those assets, so that's why we really want to put this sort of granular discussion off until the next three calls.

<Q>
Okay, so in other words, by the time we get to the next call, you're saying you'll have a good enough understanding of what's left so that you'll be able to provide more granularity in the disclosures?

Michael Ashner – Chairman and Chief Executive Officer
And/or what the issues are as to why we're reluctant to predict one or the other? Yes, absolutely.

<Q>
Thank you.

Michael Ashner – Chairman and Chief Executive Officer
We should do that.

<Q>
Yes.

Operator
Our next question comes from the line of Arthur Roulac with Three Court.

<Q>
Hi, guys. Thanks for hosting the call. Just to follow up on your sort of comment on 701 given the retail, the signage and the hotel, with respect to retail and signage, is that something you would hope to wrap up in the next six to nine months or is that something you anticipate would take longer to complete?

Michael Ashner – Chairman and Chief Executive Officer
Well, I certainly would hope to wrap it up in the next six to nine months. Let me go through once again what the issues are.

Let's pretend on the one hand you're the CEO of a company that wants to have an international presence on Times Square. Well, you want to figure out where you want to be, how much you can afford, whether you want to be on the sign or not. We, on the other hand, have to figure out whether we want you or not, because we may have other tenants that have a configuration in which we can include you or not include you. So, you have this process of which we're talking to a number of tenants right now, prospective tenants. The people that are the decision makers are generally, ultimately not the real estate departments, but rather the CEO of the company because the rent is a very high rent that we're seeking. You have the issue as to whether or not you want to use the signage and then how much availability we can give you on the signage. So, it's not as if we have one space on one floor of a building and we're just reviewing any tenant to issue that space. Does that give some clarity to the problem?

<Q>
It's complex, I got it. So you're saying you're hoping that something in the six to nine month timeframe you would hope to eventually have a resolution?

Michael Ashner – Chairman and Chief Executive Officer
I do. I do.

I want to point out something else. Let's assume, how you think about, which is one of the problems that our partners and we think about, let's assume a tenant, a new tenant, but a popular one without a credit rating, wants to pay us a million dollars for a space. And let's assume another tenant which has a single A credit rating wants to pay us $600,000 for the space. How do you think about that? Well, obviously the single A credit rating is less rent but will go off in a much better capitalization rate. On the other hand, on the other tenant may be a great tenant for the future, acquire a credit rating and is currently paying more rent. These are the issues that we are debating on our side.

<Q>
Got it.

Michael Ashner – Chairman and Chief Executive Officer
You only have one shot to really make this as good as possible. Right?

<Q>
Thanks. Would you reach out to prospective purchasers and get their view of these things?

Michael Ashner – Chairman and Chief Executive Officer
No, I think that we'll wait until it's done and then we'll go to the market.

<Q>
Got it.

Michael Ashner – Chairman and Chief Executive Officer
We have a sense of how the market looks at different tenants and it's basically a rent variable and a credit variable, so we believe we can do that on our own.

<Q>
Got it. Second question is, just following up with regard to future cash distribution versus share repurchase, obviously stock is somewhere in the mid-14's, stated NAV is I guess 15-17 and the crown jewel asset being held at cost, and so theoretically it's worth significantly more than cost. Do you have a sense of what discount in your mind where you'd be making that decision to repurchase stock versus making more cash distributions?

Michael Ashner – Chairman and Chief Executive Officer

The answer is, in the sense that you asked the question, no. But let me ask the question, so the problem posed the issue in an in-artful fashion in my commentary. Let's think about it this way. Let's take a hypothetical case. Let's assume for the moment that the stock was trading at $12.00 and we thought it had a reported value of $13.00 and we thought it had a potential value of $15.00. So there's a spread of 20%, roughly.

Now, if that spread remained the same, but we made cash distributions to shareholders of, I don't know, $5.00, that brings the $12.00 stock price down to $7.00, right, but that spread still stays the same. So I'd rather make 3 on 7 for my shareholders than 3 on 12. That's how we're thinking about it.

Carolyn Tiffany – President
And just to be clear, the 701 7th Avenue is not held at cost on a liquidation basis. As with all of the assets, we estimate based on the information that we have available at the time what the liquidation proceeds will be, so it's not just held at cost.

Michael Ashner – Chairman and Chief Executive Officer
Well, let's be even more precise. It's approximately on our books, on our NAV at around 160? Eh, let's just say, no, I can't go into that?

Carolyn Tiffany – President
We have not disclosed the breakdown by asset within our NAV, or net assets in liquidation.

Michael Ashner – Chairman and Chief Executive Officer
Well, we're going to have to file an 8-K, so that's it. Let me be very clear on this call. We hold it on our books at around $160 million, which translates into a $1.1 billion valuation for the whole property. And to be even clearer, we benefit basically at about 15.5% of the sale proceeds around approximately $1.150 billion. The 8-K that we will file it will be laid out precisely.

<Q>
Thank you.

Operator
We have no further questions at this time. I would like to turn the floor back over to management.

Michael Ashner – Chairman and Chief Executive Officer
Look forward to the 8-K now. We appreciate your being with us all for today's call. If you have any additional questions or would like to discuss anything further with us directly, please feel free to contact me or any member of our management team. Our contact information is available on the website.

I thank you all and have a good afternoon.