

Edgar Filing: Wheeler Real Estate Investment Trust, Inc. - Form 10-K

Wheeler Real Estate Investment Trust, Inc.
Form 10-K
March 25, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

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

Commission file number 001-35713

WHEELER REAL ESTATE INVESTMENT TRUST, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

45-2681082
(I.R.S. Employer
Identification No.)

2529 Virginia Beach Blvd., Suite 200
Virginia Beach, Virginia
(Address of Principal Executive Offices)

23452
(Zip Code)

(757) 627-9088
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Common stock, \$0.01 par value (NASDAQ Capital Market)
Series B convertible preferred stock, no par value (NASDAQ Capital Market)
Warrants to acquire shares of common stock (NASDAQ Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company”

in Rule 12b-2 of the Exchange Act.:

Large accelerated file Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

As of June 30, 2014 the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$30,750,823.

As of March 24, 2015, there were 7,833,060 shares of common stock, \$0.01 par value per share, outstanding.

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FORWARD- LOOKING STATEMENTS

This Annual Report on Form 10-K ("Form 10-K") of Wheeler Real Estate Investment Trust, Inc. contains forward-looking statements, including discussion and analysis of our financial condition, anticipated capital expenditures required to complete projects, amounts of anticipated cash distributions to our shareholders in the future and other matters. These forward-looking statements are not historical facts but are the intent, belief or current expectations of our management based on its knowledge and understanding of our business and industry.

Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "potential," "predicts," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or the negative of such terms and variations of those words and similar expressions. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. You are cautioned to not place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this Form 10-K. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Form 10-K include:

- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally and in specific geographic areas;
- economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements;
- financing and advance rates for our target assets;
- our expected leverage;
- availability of investment opportunities in real estate-related investments;
- changes in the values of our assets;
- our ability to make distributions to our stockholders in the future;
- our expected investments and investment decisions;
- changes in interest rates and the market value of our target assets;
- our ability to renew leases at amounts and terms comparable to existing lease arrangements;
- our ability to proceed with potential development opportunities for us and third-parties;
- effects of hedging instruments on our target assets;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust ("REIT");
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act");
- availability of qualified personnel and management team;
- the ability of our operating partnership and each of our other partnerships and limited liability companies to be classified as partnerships or disregarded entities for federal income tax purposes;
- our ability to amend our charter to increase or decrease the aggregate number of authorized shares of stock, to authorize us to issue additional authorized but unissued shares of our preferred stock and to classify or reclassify unissued shares of our preferred stock;
- our understanding of our competition; and
- market trends in our industry, interest rates, real estate values or the general economy;
-

the imposition of federal taxes if we fail to qualify as a real estate investment trust (“REIT”) in any taxable year or forego an opportunity to ensure REIT status;

•uncertainties related to the national economy, the real estate industry in general and in our specific markets;

•legislative or regulatory changes, including changes to laws governing REITs;

•adverse economic or real estate developments in Virginia, Florida, Georgia, South Carolina, North Carolina, Oklahoma, Kentucky, Tennessee, West Virginia and New Jersey;

•increases in interest rates and operating costs;

•inability to obtain necessary outside financing;

•litigation risks;

•lease-up risks;

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- inability to obtain new tenants upon the expiration of existing leases;
- inability to generate sufficient cash flows due to market conditions, competition, uninsured losses, changes in tax or other applicable laws; and
- the need to fund tenant improvements or other capital expenditures out of operating cash flow.

These forward-looking statements should be read in light of these factors.

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Part I

Item 1. Business

Overview

Wheeler Real Estate Investment Trust, Inc. is a fully-integrated, self-managed commercial real estate investment company focused on acquiring and managing income-producing retail properties with a primary focus on grocery-anchored centers. Our strategy is to opportunistically acquire and reinvigorate well-located, potentially dominant retail properties in secondary and tertiary markets that generate attractive risk-adjusted returns, with a particular emphasis on grocery-anchored retail centers. We target competitively protected properties in communities that have stable demographics and have historically exhibited favorable trends, such as strong population and income growth. We generally lease our properties to national and regional retailers that offer consumer goods and generate regular consumer traffic. We believe our tenants carry goods that are less impacted by fluctuations in the broader U.S. economy and consumers' disposable income, generating more predictable property level cash flows.

As of December 31, 2014, we own a portfolio consisting of thirty-six properties, including twenty-four retail shopping centers, six freestanding retail properties and one office property, totaling 1,904,146 gross leasable square feet of which approximately 96% are leased and five undeveloped land parcels totaling approximately 64 acres. We believe the current market environment creates a substantial number of favorable investment opportunities in our target markets with attractive yields on investment and significant upside potential in terms of income and gain.

We have 44 full-time and 4 part-time employees. Our management team has experience and capabilities across the real estate sector with experience in the aggregate and expertise particularly in the retail asset class, which we believe provides for flexibility in pursuing attractive acquisition, development and repositioning opportunities. Because varying market conditions create opportunities at different times across the retail property sector, we believe our expertise enables us to target relatively more attractive investment opportunities throughout economic cycles. In addition, our fully integrated platform with in-house development capabilities allows us to pursue development and redevelopment projects with multiple uses. We believe that our ability to pursue these types of opportunities differentiates us from many competitors in our markets.

Our executive officers and the members of the management team have over 150 years of experience in all aspects of the commercial real estate industry, specifically in our target/existing markets. They have overseen the acquisition or development and operation of more than sixty-five shopping centers, representing over 4 million gross leasable square feet of retail property, including all of the properties in our portfolio. Jon S. Wheeler, our Chairman and Chief Executive Officer, has over thirty-three years of experience in the real estate sector with particular experience in strategic financial and market analyses and assessments of new or existing properties to maximize returns. Mr. Wheeler has overseen the acquisition of over sixty properties. Steven M. Belote, our Chief Financial Officer since 2011, has over twenty years' experience as a Chief Financial Officer. Prior to joining us, Mr. Belote was the Chief Financial Officer of Shore Bank for sixteen years. As Chief Financial Officer of Shore Bank, he played an integral role in their initial public offering. Prior to Shore Bank, Mr. Belote spent seven years in public accounting. David Kelly, our Senior Vice President and Director of Acquisitions, has over twenty-five years of experience in the real estate industry. Prior to joining us, he served for thirteen years as the Director of Real Estate for Supevalu, Inc., a Fortune 100 supermarket retailer. While at Supevalu, he focused on site selection and acquisitions from New England to the Carolinas, completing transactions totaling over \$500 million. In addition, we recently hired Jeff Parker as our Director of Leasing. Mr. Parker is responsible for leasing operations over our growing portfolio of commercial assets. Prior to joining us, Mr. Parker served as Real Estate Portfolio Manager for the Southeast and Mid-Atlantic regions of the United States for Dollar Tree Stores, Inc. While at Dollar Tree, Mr. Parker was responsible for a portfolio of over 1,100 stores and created many key relationships throughout the industry. Prior to Dollar Tree, Mr. Parker spent ten years handling the leasing and sale of commercial properties for CB Richard Ellis of Virginia, Inc.

Business Objectives and Investment Strategy

Our primary business objective is to provide attractive risk adjusted returns to our shareholders by increasing cash flows at our existing properties and acquiring additional properties with attractive yields below replacement cost. We intend to achieve this objective utilizing the following investment strategy:

Focus on necessity-based retail. We intend to invest in retail properties that serve the essential day-to-day shopping needs of the surrounding communities. These necessity-based centers attract high levels of daily traffic resulting in cross-selling of goods and services from our tenants. The majority of our tenants provide non-cyclical consumer goods

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and services that are less impacted by fluctuations in the economy. According to the Food marketing Institute, the average consumer in the US makes a trip to a grocery store 2.2 times per week. We believe targeting centers that provide essential goods and services such as groceries results in a stable, lower-risk portfolio of retail investment properties.

Target secondary and tertiary markets with strong demographics and demand. We believe these markets have limited competition from institutional buyers and relatively low levels of new construction. In evaluating potential acquisitions, we focus on areas with strong demographics such as population density, population growth, tenant sales trends and growth in household income, and we seek to identify properties in locations where there is a need for necessity-based retail and limited new supply. We generally will seek to avoid markets where we believe potential yields have decreased as a result of acquisition activity from institutional buyers.

Acquire properties that are the number one or number two centers in their respective markets. After we identify an attractive target market, we look to acquire the top center in that market. These centers will have anchor tenants with dominant market share, high sales per square feet, significant capital invested in their respective stores and limited proximity to competing centers.

Increase operating income through leasing strategies and expense management. We employ intensive lease management strategies to optimize occupancy. Management has strong expertise in acquiring and managing under-performing properties and increasing operating income through more effective leasing strategies and expense management such as common area maintenance, or CAM reimbursement and experience utilizing exterior parking for build to suit outparcels or pad sales. Our leases generally require the tenant to reimburse us for a substantial portion of the expenses incurred in operating, maintaining, repairing, and managing the shopping center and the common areas, along with the associated insurance costs and real estate taxes. Operating expenses that qualify for CAM reimbursement include, but are not limited to, landscaping, parking field maintenance and repairs, building maintenance and repairs, utilities and their associated maintenance and repair within the shopping center. The amount that each tenant pays is determined on a pro-rata basis and our leases generally allow us to add an administrative fee of 15%. Some leases are structured such that there is a price per square foot cap on paying additional fees and charges. Additionally, in some cases the tenant is either fully or partially responsible for all maintenance of the property, thereby limiting our obligations towards maintaining the center and increasing our net income. We refer to this arrangement as a “triple net lease.”

Selectively utilize our capital to improve retail properties. We intend to make capital investments where the return on such capital is accretive to our shareholders. We have significant expertise allocating capital to value-added improvements of retail properties to increase rents, extend long-term leases with anchor tenants and increasing occupancy. We will selectively allocate capital to revenue enhancing projects that we believe will improve the market position of a given property.

Selectively utilize our development capabilities for third parties. We intend to invest capital in development and re-development opportunities where we believe the return on such capital is accretive to our shareholders. We believe our experience in development will benefit us by providing opportunities to either develop properties for us at higher cap rates that result in positive returns to our operations or to develop for third parties which will result in development fee income for us. While this objective is not always possible, we generally want a development project to be at least 50% pre-leased prior to commencement.

Acquire properties that meet our strict underwriting guidelines and process. Initially, our underwriting process begins with a cursory review of the asset to determine if there is a fit with our acquisition criteria. The offering memorandum; seller’s financials; lease abstracts (anchor and small shop); rent roll; delinquency reports; assumable debt, if any; tenant sales reports; and the general physical structure of the asset are reviewed. By analyzing the trade

area we can determine trade area demographics, how the target asset sits within the trade area compared to its competition and how that trade area is currently being serviced by the existing retail base. Provided the cursory review of the target asset is satisfactory we begin the primary underwriting. The acquisition analyst develops an eleven year cash flow analysis using Argus software utilizing lease abstracts, rent roll, financials provided by seller, and historical data from our own portfolio. Lease administration reviews the third-party abstracts of all leases giving particular attention to use restrictions/conflicts, lease termination rights, relocation rights and accuracy against the provided rent roll. Tenant interviews are done with all key tenants per a multi-point checklist. The property is reviewed internally by leasing, asset management and property management departments. Third party reports are generated for environmental, zoning, appraisal and property condition assessment. Legal reviews newly produced survey and title

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binder. Discussions are held with the local municipality, particularly economic development, zoning and planning to determine potential competitive activity, changes in traffic patterns and possible real estate tax exposure. Lastly, an on-site review of the asset by representatives of the Investment Committee of the Board of Directors, Mr. Wheeler, and Mr. Kelly, our Senior Vice President of Acquisitions, is required before the due diligence portion of any contract closes. In all, a checklist of over 100 items is reviewed and signed off prior to moving into the closing phase of the contract.

Policies With Respect to Certain Activities

The following is a discussion of certain of our investment, financing and other policies. These policies have been determined by our board of directors and, in general, may be amended or revised from time to time by our board of directors without a vote of our stockholders.

Investment Policies

Investments in Real Estate or Interests in Real Estate

We will conduct all of our investment activities through our Operating Partnership, Wheeler REIT, L.P., and its subsidiaries. Our investment objectives are to maximize the cash flow of our properties, acquire properties with cash flow growth potential, provide monthly cash distributions and achieve long-term capital appreciation for our stockholders through increases in the value of our company. Consistent with our policy to acquire assets for both income and capital gain, our Operating Partnership intends to hold its properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning its properties and to make occasional sales of the properties as are consistent with our investment objectives. We have not established a specific policy regarding the relative priority of these investment objectives.

We expect to pursue our investment objectives primarily through the ownership by our Operating Partnership of our portfolio of properties and other acquired properties and assets. We currently intend to invest primarily in retail properties. Future investment or development activities will not be limited to any geographic area, property type or to a specified percentage of our assets. While we may diversify in terms of property locations, size and market, we do not have any limit on the amount or percentage of our assets that may be invested in any one property or any one geographic area. We intend to engage in such future investment activities in a manner that is consistent with the maintenance of our status as a REIT for U.S. federal income tax purposes. In addition, we may purchase or lease income-producing properties for long-term investment, expand and improve the properties we presently own or other acquired properties, or sell such properties, in whole or in part, when circumstances warrant.

We may also participate with third parties in property ownership, through joint ventures or other types of co-ownership. We also may acquire real estate or interests in real estate in exchange for the issuance of common stock, units, preferred stock or options to purchase stock. These types of investments may permit us to own interests in larger assets without unduly restricting our diversification and, therefore, provide us with flexibility in structuring our portfolio. We will not, however, enter into a joint venture or other partnership arrangement to make an investment that would not otherwise meet our investment policies.

Equity investments in acquired properties may be subject to existing mortgage financing and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these properties. Debt service on such financing or indebtedness will have a priority over any dividends with respect to our common stock. Investments are also subject to our policy not to fall within the definition of an “investment company” under the Investment Company Act of 1940, as amended (the “1940 Act”).

Investments in Real Estate Mortgages

We do not intend presently or at any time in the future to invest in real estate mortgages.

Securities of or Interests in Persons Primarily Engaged in Real Estate Activities and Other Issuers

Although not presently contemplated, subject to the percentage of ownership limitations and the income and asset tests necessary for REIT qualification, we may in the future invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers where such investment would be consistent with our investment objectives. We may

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invest in the debt or equity securities of such entities, including for the purpose of exercising control over such entities. We have no current plans to invest in entities that are not engaged in real estate activities. While we may attempt to diversify our investments with respect to the retail properties owned by such entities, in terms of property locations, size and market, we do not have any limit on the amount or percentage of our assets that may be invested in any one entity, property or geographic area. Our investment objectives are to maximize cash flow of our investments, acquire investments with growth potential and provide cash distributions and long-term capital appreciation to our stockholders through increases in the value of our company. We have not established a specific policy regarding the relative priority of these investment objectives. We will not underwrite the securities of any other issuers and will limit our investment in such securities so that we will not fall within the definition of an “investment company” under the 1940 Act.

Investments in Other Securities

Other than as described above, we do not currently intend to invest in any additional securities such as bonds, preferred stocks or common stock, although we reserve the right to do so if our board of directors determines that such action would be in our best interests.

Dispositions

We do not currently intend to dispose of any of our properties, although we reserve the right to do so if, based upon management’s periodic review of our portfolio, our board of directors determines that such action would be in our best interests. The tax consequences to our directors and executive officers who hold units resulting from a proposed disposition of a property may influence their decision as to the desirability of such proposed disposition.

Financings and Leverage Policy

In the future, we anticipate using a number of different sources to finance our acquisitions and operations, including cash flows from operations, asset sales, seller financing, issuance of debt securities, private financings (such as additional bank credit facilities, which may or may not be secured by our assets), property-level mortgage debt, common or preferred equity issuances or any combination of these sources, to the extent available to us, or other sources that may become available from time to time. Any debt that we incur may be recourse or non-recourse and may be secured or unsecured. We also may take advantage of joint venture or other partnering opportunities as such opportunities arise in order to acquire properties that would otherwise be unavailable to us. We may use the proceeds of our borrowings to acquire assets, to refinance existing debt or for general corporate purposes.

Although we are not required by our governing documents to maintain a ratio of debt to total market capitalization at any particular level, our Board of Directors will review our ratio of debt to total capital on a quarterly basis, with the goal of maintaining a reasonable rate consistent with our expected ratio of debt to total market capitalization going forward. Additionally, we intend, when appropriate, to employ prudent amounts of leverage and to use debt as a means of providing additional funds for the acquisition of assets, to refinance existing debt or for general corporate purposes. We expect to use leverage conservatively, assessing the appropriateness of new equity or debt capital based on market conditions, including prudent assumptions regarding future cash flow, the creditworthiness of tenants and future rental rates. Our charter and bylaws do not limit the amount of debt that we may incur. Our board of directors has not adopted a policy limiting the total amount of debt that we may incur.

Our board of directors will consider a number of factors in evaluating the amount of debt that we may incur. If we adopt a debt policy, our board of directors may from time to time modify such policy in light of then-current economic conditions, relative costs of debt and equity capital, market values of our properties, general conditions in the market for debt and equity securities, fluctuations in the market price of our common stock, growth and acquisition

opportunities and other factors. Our decision to use leverage in the future to finance our assets will be at our discretion and will not be subject to the approval of our stockholders, and we are not restricted by our governing documents or otherwise in the amount of leverage that we may use.

Lending Policies

We have not made any loans to third parties, although we do not have a policy limiting our ability to make loans to other persons. We may consider offering purchase money financing in connection with the sale of properties where the provision of that financing will increase the value to be received by us for the property sold. We also may make loans to joint

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