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EDITED TRANSCRIPT

PECO.OQ - Q3 2024 Phillips Edison & Co Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to Phillips Edison & Company's third quarter 2024, earnings call. Please note that this call is being recorded.

I will now turn the call over to Kimberly Green, Head of Investor Relations. Kimberly, you may begin.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, operator. I'm joined on this call by our Chairman and Chief Executive Officer, Jeff Edison; President, Bob Myers; and Chief Financial Officer, John Caulfield. Once we conclude our prepared remarks, we will open the call to Q&A. After today's call, an archived version will be published on our website.

As a reminder, today's discussion may contain forward-looking statements about the company's view of future business and financial performance, including forward earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties as described in our SEC filings, specifically in our most recent Form 10-K and 10-Q.

In our discussion today, we'll reference certain non-GAAP financial measures. Information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in our earnings press release and supplemental information packet, which have been posted on our website. Please note, we have also posted a presentation with additional information. Our caution on forward-looking statements also applies to these materials.

Now I'd like to turn the call over to Jeff Edison, our Chief Executive Officer. Jeff?

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Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Kim, and thank you, everyone, for joining us today. The PECO team delivered another solid quarter of growth, with same-center NOI increasing by 3.2%, NAREIT FFO per share growth increased 9.1%, and core FFO per share growth increased 6.9%.

The ongoing strength of our performance is attributable to our differentiated and focused strategy. PECO owns rightsized, high-quality grocery-anchored neighborhood shopping centers. These centers are anchored by the number one or number two grocer by sales in the markets.

Our results are generated at the property level. They are driven by our integrated operating platform and our exceptional locally smart and cycle-tested team. The entire PECO team continues to drive significant value at the property level.

You can see that reflected in our sector-leading operating metrics. The experience and talent on PECO's team is significant. We have experts in every aspect of the grocery-anchored real estate industry. We remain committed to successfully executing our growth strategy to deliver long-term value to our shareholders. Our high-quality portfolio anchored by top grocers in favorable suburban markets provides a long-term steady earnings growth profile.

We believe PECO is well positioned to continue to grow and provide market-leading returns. PECO has delivered on our core strategy for over 30 years. We have developed a seasoned team that has been together for a long time. Our team is highly engaged, highly focused and deep.

PECO is a growth company. We have consistently delivered on both internal and external growth. We are well positioned to take advantage of growth opportunities. We're acquiring high-quality centers with the capacity to buy more. As Bob will highlight in a moment, we are a best-in-class operator.

In addition, we are prudent with our balance sheet management. We have strong liquidity and no meaningful maturities until 2027. We believe these factors will drive solid earnings growth in 2025, and beyond. Year-to-date, we acquired nine shopping centers and several land parcels for a total of $211 million.

We continue to find attractive acquisition opportunities. Activity in the fourth quarter remained strong. Given the current environment, we are updating our acquisitions guidance to $275 million to $325 million of net acquisitions for the year. We continue to have the capabilities and leverage capacity to acquire more as attractive opportunities materialize.

Moving to the Kroger-Albertsons merger, the market still gives the merger a low probability of occurring. If the merger does not occur, our Albertsons-anchored centers will continue the strong performance they have produced to date.

Should the merger close, our remaining Albertsons stores would be operated by Kroger, which we invest regularly in their stores and produces higher sales volumes on average. This would have a positive impact on our portfolio.

I will now turn the call over to Bob to provide more color on the operating environment. Bob?

Robert Myers - *Phillips Edison & Co Inc - President*

Thank you, Jeff. Good afternoon, everyone, and thank you for joining us.

We had another quarter of strong operating results and leasing momentum. We continue to see high retailer demand with no current signs of slowing down. PECO's leasing team continues to convert retailer demand into high occupancy with higher rents at our centers.

Portfolio occupancy remained high and ended the quarter at 97.8% leased, a sequential increase of 30 basis points. Anchor occupancy of 99.4% increased 60 basis points sequentially as we executed eight anchor leases.

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In-line occupancy ended the quarter at 95%. New neighbors added in the third quarter included quick-service restaurants such as Jersey Mike's, Dunkin' Donuts, and Tropical Smoothie along with several Medtail uses, health and beauty retailers, and other necessity-based goods and services.

In terms of new lease activity, we continue to have success in driving higher rents. Comparable new rent spreads for the third quarter were 55%. Our in-line new rent spreads remained strong at 28.3% in the quarter.

As it relates to bad debt in the third quarter, we actively monitor the health of our neighbors. We are not concerned about bad debt in the near term, particularly given the strong retailer demand and we don't have any meaningful concentrations.

From an operations standpoint, we have always taken an aggressive stance to get spaces back. In today's environment, the PECO team is taking an even more aggressive stance on opportunities where we can get higher rent spreads and improve the merchandising at the center.

According to Placer.ai, PECO's suburban markets offer retailers several advantages in today's environment. Chipotle, Chick-fil-A, Wingstop, and Jersey Mike's are some examples of retailers that have been focusing on suburban markets for the expansion. National retailers continue to raise their long-term store targets in our markets because these locations have proven to deliver the same or better store-level economics as traditional locations.

In addition, retailers are increasingly looking to open smaller-sized locations and spaces between 2,000 and 3,000 square feet. PECO's small shop average lease size has remained consistent at 2,300 square feet. For over 30 years, we have excelled in leasing this small shop format, and we continue to see strong demand for these spaces.

We continue to capitalize on strong renewal demand and are making the most of the opportunity to improve lease language at renewal and drive rents higher. In the third quarter, we achieved a 19.8% increase in comparable renewal rent spreads. Our in-line renewal spreads remained high at 19.6% in the quarter.

These increases in spreads reflect the continued strength of the leasing and retention environment. We expect new and renewal spreads to continue to be strong throughout the balance of this year and into the foreseeable future.

Our neighbor retention remained high at 92% while growing rents at attractive rates. Higher retention means less downtime and lower TI spend. In the third quarter, we spent only $0.73 per square foot on tenant improvements for renewals.

We also remain successful at driving higher contractual rent increases. Our new and renewal in-line leases executed in the quarter had average annual contractual rent bumps of 2% and 3%, respectively, another important contributor to our long-term growth.

The leasing spreads that we are achieving and the strength of our leasing pipeline are clear evidence of the continued high demand for space in our grocery-anchored neighborhood shopping centers. PECO's pricing power is a reflection of the strength of our focused strategy and the quality of our portfolio.

Today, we believe the consumer remains resilient. Our grocers continue to drive strong reoccurring foot traffic to our centers. Consumers continue to visit grocery stores 1.6 times per week. There are approximately 30,000 average trips per week to each PECO center.

This equates to nearly 500 million total trips to PECO centers in total during the last 12 months. Strong foot traffic benefits in-line neighbor sales and enhances our ability to drive rents higher.

PECO's 3-mile trade area demographics include an average population of 67,000 people and an average median household income of $87,000, which is 12% higher than the US median. These demographics are in line with the store demographics of Kroger and Publix, which are PECO's top two neighbors.

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Our centers are situated in trade areas where our top grocers are profitable and our neighbors are successful. The necessity-based focus on our properties is important when demographics are considered. If you are comparing a Publix to an Apple store or high-end fashion, the demographics that each retailer needs to be successful are very different. 70% of our rent comes from necessity-based goods and services, and our demographics are very strong in supporting our neighbors.

PECO continues to benefit from a number of positive macroeconomic trends that create strong tailwinds and drive robust neighbor demand. These trends include a resilient consumer, hybrid work, migration to the Sunbelt, population shifts that favor suburban neighborhoods, and the importance of physical locations and last-mile delivery.

Leasing demand continues to be at historically high levels for our in-line spaces as these macro tailwinds have retailers more focused on having stores in our centers. The impact of these demand factors is further amplified due to limited new supply over the last 10 years, and going forward, given that current economic returns do not justify new construction of shopping centers.

In addition to our strong rental growth trends, we continue to expand our pipeline of ground-up outparcel development and repositioning projects. Year-to-date through the third quarter, we stabilized 10 projects and delivered over 274,000 square feet of space to our neighbors. These 10 projects add incremental NOI of approximately $4.2 million annually. They provide superior risk-adjusted returns and have a meaningful impact on our long-term NOI growth.

We continue to expect to invest $40 million to $50 million annually in ground-up development and repositioning opportunities with weighted average cash on cash yields between 9% and 12%. This activity remains a great use of free cash flow and produces attractive returns with less risk.

Our team continues to stay focused on growing this pipeline as returns are accretive to the portfolio. The overall demand environment, the stability of our centers, the strength of our grocers, the health of our in-line neighbors, and the capabilities of our team give us confidence in our ability to continue to deliver solid operating results.

I will now turn the call over to John. John?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you, Bob, and good morning and good afternoon, everyone. I'll start by addressing third quarter results, then provide an update on the balance sheet and finally speak to our updated 2024 guidance. Third quarter 2024, NAREIT FFO increased 12.5% to $81.6 million or $0.60 per diluted share, driven by an increase in rental income from our strong property operations. This quarter was impacted by the write-off of approximately $1.2 million in deferred financing costs related to debt extinguished by our bond offerings this year, which is just under $0.01.

Third quarter core FFO increased 9.6% to $84.4 million or $0.62 per diluted share, driven by increased revenue at our properties from higher occupancy levels and strong leasing spreads, partially offset by the higher interest expense. Our same-center NOI growth in the quarter was 3.2%, driven by rental income growth of 4.5% year-over-year, partially offset by lower tenant recovery income and higher property-level expenses.

Turning to the balance sheet. We have approximately $752 million of liquidity to support our acquisition plans and no meaningful maturities until 2027. Our net debt to adjusted EBITDA remained at 5.1 times. Our debt had a weighted average interest rate of 4.4% and a weighted average maturity of six years when including all extension options. In September, PECO completed a public debt offering of $350 million of 4.95% senior notes due 2035.

Proceeds were used to replenish the liquidity on our line and repay term loans that were due in 2025, and '26. As of September 30, 2024, 93% of PECO's total debt was fixed rate, which is near our target range of 90%. We expect PECO's fixed rate to be at approximately 90% at year-end. PECO continues to have one of the best balance sheets in the sector, which has us well positioned for continued external growth.

Turning to our guidance for 2024. We have updated the net income per share range to $0.48 to $0.50. We've updated our guidance for NAREIT FFO to a range of $2.35 to $2.39 per share. This reflects 5.3% growth over 2023, at the midpoint.

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The updated range was primarily due to the write-off of deferred financing costs related to debt extinguished in connection with our two 10-year bond offerings this year. We've updated our guidance for core FFO to a range of $2.40 to $2.44, increasing the midpoint by $0.01. This reflects 3.4% growth over 2023, at the midpoint.

In addition, we have reaffirmed the midpoint and narrowed our range for same-center NOI growth, given the continued strong operating environment. Included in our guidance is the negative impact of uncollectible reserves. We are affirming the range previously provided, given the continued strong health of our neighbors. However, we will likely be at the high end of the range for the year.

We currently have several acquisitions in our pipeline either under contract or in contract negotiation. This activity allows us to increase our acquisition guidance for the year, as Jeff mentioned earlier. Looking beyond 2024, we believe our internal and external growth opportunities give us a long-term growth outlook in the mid- to high single digits for core FFO per share. We expect a comparable or faster growth rate for AFFO because there should be less tenant improvement dollars invested as we continue to increase same-center occupancy.

I would like to mention that PECO will be hosting a virtual business update on Thursday, December 19. We plan to provide an update on the business and our preliminary outlook for 2025. Please save the date, and additional details will be shared by our Investor Relations team in the coming weeks.

With that, we will open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Spector, Bank of America.

Jeffrey Spector - *BofA Securities - Analyst*

I guess if I could focus my question, follow-up on the transaction market. First, I guess, can you talk about the acquisitions that you made during the quarter, the strategy I see, the occupancy is lower than your occupancy.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Sure, Jeff. Thank you for the question. I'll take the first part about the market, and then, Bob, maybe you can talk a little bit about the specific properties that we did buy. So the market was, I think, very similar to what we talked about after the second quarter, which is there was more product on the market but also more buyers. We found that we did find some, we think, great opportunities in the market, so we're excited about the stuff that we were able to buy.

But we think that, that's a trend that will continue as retail has taken on a much more positive look in investors' eyes. There are new entrants who have come into the market on the buying side, and we anticipate that will continue. But we also are seeing a lot more products in the market, which is allowing us to find some great opportunities to buy.

Bob, do you want to talk a little bit about the specifics of the assets that we bought?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah, absolutely. Thanks, Jeff. So we acquired six properties in the third quarter and three of those properties were anchored by King Soopers, Pete's, and Big Y. You mentioned the occupancy being a little bit lower. I think the Big Y deal was 91%, and then Pete's was 96.6% and then Colorado

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Springs at 90%. What I liked about the quality of the assets, not only are they solving for above a 9% unlevered return, they also provided some development opportunity.

And I think when I think about the property, Ridgeview Marketplace, there's a pad out there that we're already working with several national retailers for either a ground lease scenario or a build-to-suit. Last year, as an example, in the fourth quarter, we acquired eight assets that had a blended occupancy of around 84%.

So as we're building out the portfolio, part of our acquisition strategy is to find some great properties that are anchored by the number one, number two grocer and continue to give us upside and strong NOI growth year-over-year.

We also acquired three outparcels, which are adjacent to our Publix locations where our national account team has done a great job of identifying potential new retailers for those sites. So always looking for some of those development opportunities as well.

Jeffrey Spector - *BofA Securities - Analyst*

Great, very helpful. And actually, Jeff answered my -- I was going to have a follow-up on the transactions. Maybe if I could then turn my follow-up to the restaurant category. I know there's a lot of subcategories within restaurants. You talked about a number of restaurant retailers joining the portfolio.

I guess, it seems like there's some mixed things on restaurants in different parts of the country. Any views you could share on restaurants and how you're thinking about the various categories?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

I'll take a little, and Bob, you jump in as well. The restaurant business has, obviously, as you pointed out, multiple segments to it. And what we have found is that the formal sit-down restaurants have been more volatile than the quick-service, and we're seeing that in our portfolio as well.

The majority of our restaurants are quick-service and have continued to perform well throughout cycles. And we're certainly seeing strong appetite for new locations from those quick-service restaurants and we don't see anything really slowing down there. And we certainly -- we're not seeing anything particularly from the visitations and sales that would indicate that there was a slowdown in the -- on the quick-service restaurant side.

Any additions to that, Bob?

Robert Myers - *Phillips Edison & Co Inc - President*

The only thing I would add is I was down in Atlanta at the Southeast conference meeting with retailers. And I mean, the Starbucks, the Chipotles, the Wingstops, they're all very, very busy. Dave's Hot Chicken, Swig, First Watch, CAVA, we just have a long list of fast casual concepts that are looking to secure sites in '25, '26, and '27.

So I'm not seeing a slowdown in the fast casual aspect. It is the biggest part of our leasing pipeline as I look out. So it's still very strong, so I'm encouraged by the activity that exists and what we'll continue to see.

Operator

Caitlin Burrows, Goldman Sachs.

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Caitlin Burrows - *Goldman Sachs Group, Inc. - Analyst*

Maybe we'll just start on the bad debt side. I know that, that metric for PECO is very low versus other REITs. John, you mentioned that it could come in at the high end, which is what you've been saying all year so it's not something new. I know in the first quarter, it came up a lot and you pointed out then and now how PECO is being deliberate with tenants that are behind on rents.

So I was wondering if you could give some more detail on what this means for PECO and how it plays out. Like for example, those tenants that impacted the 1Q bad debt, have they ended up leaving the portfolio and the replacements were already part of the 55% new lease spreads? Or just how have that process played out or how will it play out?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Caitlin, thank you. John, you want to take that?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure. Thanks for the question, Caitlin. So bad debt was 86 basis points year-to-date. Keep in mind, we're only talking about a few hundred thousand dollars here. And as Bob mentioned, we are finding opportunities to enhance the merchandising mix of our centers with 55% new leasing spreads and continued strong retailer demand. We're just -- we're not concerned about the environment. I would say that those neighbors, as we said, we've been more aggressive in taking those spaces over the year.

And I think our re-leasing of those spaces has been really strong, which is you can kind of see if you look at our total occupancy on a lease basis, it's been very constant. The economics stepped back a little bit. That's what you're seeing there when you think about the process.

Ultimately, we're pleased to be able to reaffirm our same-store guide and look at these opportunities to drive further rents, and it will be a benefit to 2025, and beyond.

Caitlin Burrows - *Goldman Sachs Group, Inc. - Analyst*

And in terms of that benefit, it's just that then you can get back the space and complete new leases, yes?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes. And so I mean, ultimately, we do like our renewal business with 19% renewal spreads and no downtime. But overall, we think this is a great opportunity to improve the merchandising and to drive the rent spreads at the properties.

Caitlin Burrows - *Goldman Sachs Group, Inc. - Analyst*

Got it. Makes sense. And then just a quick 1 on the full year same-store guide, it implies a big pickup. I know you had previously talked about recoveries, timing could drive that. But just wondering, is that it? Is there anything else? And kind of how much visibility do you have on that to reaffirm the same-store midpoint?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, sure. I'll take that one as well. I mean, ultimately, it is -- we do believe that there will be an acceleration here in the fourth quarter. Part of it will be a little bit of a comp to last year. But I mean, I think one of the benefits of Phillips Edison is the overall consistency to our business.

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And so even though quarter-to-quarter, the numbers move into fourth quarter, we are expecting to be outsized. Ultimately, we -- the 3% to 4% that we guide to and this year, the 3.5% to 4%, is it consistency? I wouldn't say there's anything that's too unusual in that other than the timing of recoveries.

I think the biggest piece this year to last year was that our spend was different last year than it was this year in terms of that cadence. When we look to next year, which we're not going to talk about yet, hopefully, it either matches or smoother.

Operator

Haendel St. Juste, Mizuho Securities.

Ravi Vaidya - *Mizuho Securities USA - Analyst*

This is Ravi Vaidya on the line for Haendel. Can you offer some additional color on the 2025, guide? The savings with interest expense and G&A appear to provide about a $0.04 lift and the same-store midpoint was maintained. So what are the offsets that resulted in only a $0.01 increase? Is it higher bad debt expense or watch list? Or just what are some of the moving parts there?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

John, you want to take that?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure. Ravi, I'm going to say I think you said '25 guide, I think you mean the '24 guide because that was the component. So the '25 guide which is a plug. We are planning to talk about that in our December virtual update that I hope you'll join for. With regards to the 2024, guidance, we are very pleased to be able to raise guidance this quarter.

When comparing the components to the original guidance, there's about $0.02 less in lease buyout income than we expected because now we anticipate that those neighbors will actually stay longer than originally anticipated.

So we raised guidance for acquisitions but they're later in the year and don't have a significant impact on core FFO. But that acquisition timing does come through as lower interest costs in our guidance. We did not issue equity in the quarter, which is, I think, something that people have asked about. Net-net, after these different pieces, we're comfortable raising guidance by $0.01, which we believe will collect solid growth at the midpoint.

Ravi Vaidya - *Mizuho Securities USA - Analyst*

Got it. That's helpful. And yes, I was talking about '24 guide. I'll be sure to join in for the seminar later. Just one more here. Can you discuss how you're planning on funding acquisitions? I believe that you said that above $250 million in acquisition, you would likely need to raise additional equity. Are you planning on doing so or are you comfortable with letting leverage tick up a bit from the 5.1 times currently?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

So we don't have any equity plans to increase but we would consider that at the right -- with the right pricing if we were to have more outsized acquisitions. For this year, I think we will be able to meet our targets without any -- without -- with very minimal impact on the balance sheet. And we're looking forward to a really good year next year, so that would probably entail a more detailed look at where we'd raise the capital.

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Operator

Dori Kesten, Wells Fargo.

Dori Kesten - *Wells Fargo Securities - Analyst*

Since you announced the JV with Cohen & Steers, have you seen an increase in, I guess, the number or maybe a variety of deals that is, I guess, being put before you?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Dori, thanks for the question. We've been the largest buyer of shopping centers now for 10 years, and we see everything that comes on to the market. So I wouldn't say we're seeing more than we saw before because we saw these all before. There was a time where we just would not buy them.

We wouldn't look at them because they didn't fit into the box. Our box is a little bit bigger with Cohen & Steers. And so we're actually able to look more seriously at more properties because of the JV. But I wouldn't say that we're seeing a lot more deals than we did before because we had seen it before and had discarded those. Does that makes sense?

Dori Kesten - *Wells Fargo Securities - Analyst*

Yes, that makes sense. If you had to choose high end or low end of your net acquisitions guide for where you're most likely to end the year at this point, which side would you lean into?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

We're optimistic, Dori. We have -- we're -- we have some great activity and some good activity looking like in the fourth quarter. So we're generally positive about the acquisition market.

Operator

Omotayo Okusanya, Deutsche Bank.

Omotayo Okusanya - *Deutsche Bank AG - Analyst*

Could you please talk a little bit about your in-line occupancy? It looks like it went down a little bit this quarter. I don't know whether that's kind of just from some of the planned take-back of space that you guys have been doing, or could you just kind of talk about that a little bit?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Sure. I don't know, Bob, do you want to take the occupancy? Just talk a little bit about where we are. And I think you're talking about the in-line occupancy, right, or total?

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Omotayo Okusanya - *Deutsche Bank AG - Analyst*

In-line occupancy. I think anchor went up this quarter but I think in-line went down a little bit.

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. I'll touch on that, Jeff. So no, I appreciate the question. Our overall occupancy increased from 97.5% to 97.8% for the quarter. And as you mentioned, we have seen nice movement in our anchor occupancy that moved from 98.8% to 99.4%. Our in-line occupancy went from 95.1% to 95%.

So again, not much movement in the in-line and I do believe the 95% is certainly leading our space, consistent with our 92% retention demand that we're seeing from our retailers. I'm not seeing any cracks. I also believe that we can move that in-line occupancy number another 100 basis points to 150 basis points over the next 24 months so there's still nice upside in that number. But I'm very confident and comfortable with our current occupancy numbers. They're very strong.

Operator

Todd Thomas, KeyBanc.

Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Jeff, it sounds like the acquisition pipeline is pretty active. Do you think 2025, could be a more active year than '24, just given what you're seeing and where your current cost of capital is? And then are some of the acquisitions you're eyeing in the pipeline in the new fund or do you see the majority of the activity right now on balance sheet?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

I would say, Todd, we are optimistic that it will be a better, it's been a solid acquisition market this year. We are optimistic that it could be stronger next year, primarily just there will be more product on the market. We will have more buyers but I think it will be a more stable market. Interest rates are going to obviously create the turmoil of what -- how strong that market is.

But I would say, generally today, from what we see, we're optimistic that there will be strong activity. And obviously, we've prepared ourselves with the balance sheet that allows us to take advantage of that if the opportunities were to come. And you said there was one other question you had, Todd. What was the other?

Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Yeah, I was just wondering with what you're seeing in the pipeline today, is some of that sort of earmarked for the new fund with Cohen & Steers? Or is the majority of that or a good amount of that on balance sheet at this point?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. The vast majority will be on balance sheet. We will -- we are hopeful that we'll get some great -- really good opportunity with Cohen & Steers as well. But as you look at it this year, I think we bought one property into the Cohen & Steers, and we bought over $200 million onto the balance sheet. So that would -- I think that, that -- we anticipate that probably being continuing.

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Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Okay. And then my other question, I wanted to follow up on Caitlin's question and the new lease spreads, the activity in this quarter. How much of the new lease spreads, 55%, big number for the company, how much of that included some of that recapturing activity that you mentioned earlier in the year when you talked about taking back some space and sort of cleaning out some potential bad debt or credits? And any visibility on whether we might expect new lease spreads to maintain at an elevated level in the fourth quarter and into 2025?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, Bob, I'll let you take that. I would like to believe that we're going to have 50% rent spreads for a long time. We all know that's not totally realistic. But we -- I mean, we do -- we're in a strong market and we will continue to see strong lease spreads, 50% is -- that's a bigger number than is long-term sustainable.

But still, it is showing the strength of the portfolio and our ability to have pricing power in the right situations. But in terms of sort of go-forward new leasing spreads, Bob, anything you want to add there?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. What I would add is at the 55%, obviously, that's an increase up from 34.4%. We did have the benefit of leasing eight anchor spaces in the third quarter. Our leasing spreads on those were over 100%. So it's a combination of both recapturing some in-line space and some anchor leases. To Jeff's point, we're really pleased with 55% but the visibility that I see going out, I would say, over the next several months, they're not going to be at 55%.

But if you look at our history around 25% to 35%, I think they're still going to be elevated but they won't be at the 55% mark. The other thing I will mention is we expect retention to stay high. But in addition to that, I mean, our renewal spreads and given the visibility that I see, have the potential to be elevated.

So we're encouraged by not only retention but the retailer demand and the health of our neighbors. So we're seeing good things.

Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Okay. But it sounds like the anchor deals really moved the needle this quarter. It wasn't so much about some of the recapturings that took place a little bit earlier in the year. Is that right?

Robert Myers - *Phillips Edison & Co Inc - President*

We certainly got the benefit of some of the anchor deals.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

And some of the anchor deals were actually part of the recapture that we talked about, too. So it's -- they do come together a little bit in kind of a messy way to get a real detailed thing but we're -- obviously, great results.

Robert Myers - *Phillips Edison & Co Inc - President*

Well, and to your point, Jeff, just want to add on that. We -- in the first quarter, our anchor occupancy was 98.4%. So we've moved at 100 basis points over two quarters. So to Jeff's point, yes, we did recapture some of those anchor space and have re-leased them at over 100% spreads.

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Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

All right. That's helpful.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Todd, one thing I would add, a lot of our acquisitions, you'll notice have higher vacancy than what our portfolio does. And we have also had really strong performance on the acquisitions we've had and been able to find pretty good opportunity in those properties, including both some moderate-sized boxes, but also the in-line stuff. We've been very, very happy with the progress we've been able to make there.

Operator

Floris Van Dijkum, Compass Point.

Floris Gerbrand van Dijkum - *Compass Point Research & Trading - Analyst*

So I want to delve into the acquisition market a little bit more. If I look at you, you're trading at a premium to consensus NAV, a premium to our NAV, like a 6.5% implied CAP rate. Maybe if you could talk about, what are the CAP rates that you would consider for acquisitions? Talk about the CAP rates a little bit on the deals that just closed, and are CAP rates seeing upward pressure or downward pressure? Or are they relatively stable in your view?

And then I guess the other question is maybe also again on the acquisitions front. Maybe if you could comment on larger portfolio transactions. I know there is a big Publix portfolio that was in the market, probably still in the market today. If you can talk a little bit about, obviously, you're looking at everything, talk about your appetite for doing potential larger transactions as well portfolio transactions.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, Floris, thank you for the question. I -- we're -- what we like your help on is finding those properties where you could buy our properties at 6.5% CAP because you can't. It -- our NAV, we believe, is a lot better than 6.5% and should be priced that way.

But that being said, you know and I hope most of our analysts who are on the phone know, we're not a CAP rate buyer. What we're trying to buy is return to the overall company, and we use the unlevered IRR as that target, that target north of 9% for our grocery-anchored shop centers.

And that can start at a lot of different CAP rates and get to the 9% in a lot of different ways. I would say that we -- this quarter, we found some really great opportunities that are -- we believe are going to be well north of a 9%. But they probably were a little bit more aggressive cap rates than we would have liked. But we are -- we've got a lot of growth opportunities in them. And that's one of the things that we're trying to find as we look at it.

And getting the right returns, given the risk profile of the properties, what we're really looking at really hard. So I would say that we are not seeing big movement in cap rates. We are seeing some anomalies that are out there where certain properties get very aggressively priced. But that's more the exception than the rule. The core market is it's -- it got this increased demand from people who are getting into the grocery-anchored shopping center and into the retail that hasn't been there. So there are more buyers there.

There's also, as I said earlier, there's more supply coming in. So people who have kind of been out of the market for a couple of years are looking and they're saying, "Hey, well, am I going to wait another cycle until I sell?" And a lot of them are pulling the trigger to do that. At the same time, the recent volatility in interest rates kind of creates another issue that sort of is on top of that. So it's a complicated market right now.

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But overall, we're generally really positive about it. And we think that there's going to be a significant product, both in the fourth quarter but also next year. On the portfolio question, we look at everything that comes on the market.

Our criteria has been really consistent. And it is -- we want to maintain a very strong discipline that we're buying the number one or number two grocer in the market, but there is a -- that we can get to that 9% unlevered IRR in the portfolio.

So the problem that we've seen with -- and the reason we haven't bought for our portfolio is we feel like they've been a portfolio premiums instead of portfolio discounts. If you can help us find some portfolios that are trading at a discount, we'd love to buy them.

And we set our balance sheet up so that we can do that if the opportunity arises. But to date, we have not seen many portfolios that meet our criteria, and therefore, we have not been really active in that market.

Operator

Juan Sanabria, BMO Capital Markets.

Juan Sanabria - *BMO Capital Markets Equity Research - Analyst*

Just hoping to follow up on the balance sheet on the questioning from earlier. I think, John, you said that the fixed floating ratio would stay relatively stable into year-end, but yet you have acquisitions assumed in the fourth quarter. So just curious on kind of what we should be assuming for funding for those incremental deals.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

John, do you want to take that one?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure, I'll take that. Thanks, Juan. And I do hope you heard we worked in our prepared remarks to talk a little bit about your analysis in the dialogue that grocery-anchored shopping centers require different demographics across different types. I think it was very thoughtful, but certainly understanding that we make money where our grocers make money.

To your question on the balance sheet, as we look at it, we have over $750 million of liquidity available to us and our leverage is at 5.1 times. So we're very comfortable for funding the upcoming acquisitions. But as we continue to see more and as Jeff is talking about the acquisition market and our optimism towards that, equity is something that we will consider so long as we can do it on an accretive basis. So I think we have -- we're now BBB flat at Baa2 from the rating agencies with a long-term leverage target of 5.5 times. So we do have room to work with that.

But we're not -- I wouldn't say that at this moment, we're saying, hey, we're going up to that target. So I think you'll see us in this range. But we are very comfortable in doing that and utilizing equity so long as we can do so in an accretive manner.

Juan Sanabria - *BMO Capital Markets Equity Research - Analyst*

Okay. Have you issued equity post quarter end?

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John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

We have not.

Juan Sanabria - *BMO Capital Markets Equity Research - Analyst*

Okay. And then just curious if you could make any comments on the kind of the mid- to high-teens earnings growth as we think about '25. Any puts and takes that we should be aware of? Like does the -- being more aggressive on remerchandising or re-tenanting tenants, does that impact that prospective growth or that's kind of par for the course, so to speak?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. We want to encourage you to come to our December call, where we will give you a lot more detail on what we're seeing and projecting for next year. So we're really -- there's not a lot to add to that, but we do hope that you'll be there so we can give you the more detail of the growth that we're anticipating going into next year.

I mean, the only thing we would say is we continue to have pricing power on the leasing side. We continue to have strong demand, and we're seeing an acquisition market where there's solid opportunities. So we're optimistic about what next year will look like.

Operator

Michael Mueller, JPMorgan.

I know you have the '25 event coming up, but John, can you share any early thoughts you have on the swaps expiring next year and how you're thinking about the term loans coming due in '26?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure, Mike. So I would say that so far, we have followed the balance sheet strategy that we have communicated and what our long-term plan is. We want to be a long-term issuer in the unsecured bond market. We've done it twice this year, extending our maturities so that they're now at six years. And we're using that market and would look to use the equity market, if necessary, to both fund our acquisitions as well as to transition our balance sheet in this way.

And so when we look at those swaps, they are related to the term loan maturities that are fully prepayable. And so we will look to access the bond market opportunistically. And we did that in September ultimately at a time where I think the 10-year was at just under 37. so we will look to do that. And in terms of the swaps, it's really related to the term loans, and we would look to fund that.

I would like to get to a point where I get to a well-laddered maturity. I think we have that and are working towards that. If you noticed in the September deal, it's a 35 maturity to go with a 34 maturity. And so that's, I think, how you will see us looking to do that so that I have approximately 10% a year on an ongoing basis would be our plans.

But we're very pleased to say that the '26, we only have $100 million of term loan left in '26, and then we'll look to finance that out as we finance our acquisitions.

Operator

Ronald Kamdem, Morgan Stanley.

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Ronald Kamdem - *Morgan Stanley - Analyst*

Just two quick ones because a lot has been asked. Just going back to sort of the same-store NOI. I remember back in December, you talked about pricing power and being able to put sort of rent escalators or more favorable lease contracts.

Just as we sit here today, just any sort of causative commentary on the rent escalators and any other favorable lease contracts that you guys have been able to get that we may not see just in the re-leasing spreads?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Bob, you want to take that one?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. Thanks for the question. In terms of lease escalators, I'll start with the renewals. So on the renewal side, our renewal spread for the quarter was 19.8%. And we are getting annual escalators on top of that, right around 3%. As I have visibility out on our renewal piece, you're going to continue to see annual escalators between 3% and 4% on top of a very healthy first year increase as well.

On new deals, we're getting increases, annual increases between 2% and 3%. So I'm encouraged by that number as well. Our strong retention has allowed us flexibility and, I would say, our lease negotiations around removing restrictions, exclusives, CAPs, those sort of things that strengthen our ability to not only drive renewal spreads and new leasing spreads, but also enhance our merchandising ability at the property. So that's what we're seeing.

Ronald Kamdem - *Morgan Stanley - Analyst*

Great. And if I could just follow up on the acquisitions. I think I heard you say that cap rates maybe was a little bit tighter. You're still going to hit the IRR. So just curious, are you seeing more cap rate compression? And should we sort of expect that as we roll in the calendar?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. I would say we're not really seeing significant compression on CAP rates, so we really aren't seeing that. There's obviously a lot of variability in CAP rates based upon occupancy and where we can -- where you can take the unlevered IRR, which is obviously what we're focused on.

So we do get some variability from that regard and why we don't just focus on CAP rate. But there -- I think there is some stability in the market where we're getting to a place where supply and demand is more stable than it was over the last couple of years where it was a little bit -- there just wasn't much supply coming on the market, and there was no -- very little demand. So that was much more complicated. I think we're getting to a place where it is more stable.

Operator

Paulina Rojas, Green Street.

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Paulina Rojas Schmidt - *Green Street Advisors - Analyst*

We talk about supply, new supply not penciling in general. And I find interesting, we see doing these pad developments and acquiring more pad developments, and I think all of them are adjacent to your centers. So related to that, two questions is, one, are you seeing more of these type of small-scale developments in your markets as a means to capitalize on the strong retailer demand?

And two, can you share a little more color on them in terms of the rents you achieve in these projects and why you think they make economic sense but larger centers don't?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Sure. Paulina, thank you for the question. We have always had an active outlot development program at PECO for a little than forever. We were a Walgreens developer for a long time and have been very active in that business.

And it is a demand-driven business where the retailers looking for visibility and looking for access, drive-thru, et cetera. They want to be out on the main road and they cycle through that over time on how urgent that is.

And those are great opportunities for us, where we can take parking lots, where we can take vacant land, and we can turn them into these smaller pad developments. The interesting part is how much they're willing to spend on rent in those locations.

And it is the -- a select group of retailers who will pay enough to actually make ground-up development work and that is Starbucks, it's Chipotle. It's the names, the regular names that you see on those outlots that are willing to step up and pay rents that are double to triple what we are getting in-line in the existing shopping centers.

So these are very aggressive expansion-oriented retailers that believe that having drive-thru, having visibility is worth the additional cost of new construction and then having the benefits of drive-thru and the visibility. So that's what is driving that. We would love to do more of it because it is a very profitable business for us with really solid returns.

Unfortunately, it's difficult because you do -- even if those kind of rents, and this gets of kind rents, and this gets back to the fact of why there's so little development going on in our business, it's really hard to make the numbers work from a rent standpoint and across the standpoint.

Because when you look at paying 2 times to 3 times in-line space, it's got to be really valuable, he was a retailer to be willing to step into those situations. And it's really hard for us to find those locations that you can even make work at 2 times to 3 times existing rent. And that says something about how long it's going to be before major -- any kind of major new development in the -- on the retail side is going to happen. Does that answer your question?

Paulina Rojas Schmidt - *Green Street Advisors - Analyst*

Yeah. It does. And I have a second one if I can. That is, so from a broader perspective, employment is still low, and retail sales have shown resilience overall. However, one concerning trend has been the rise in credit card delinquencies.

And so delinquencies have increased materially to levels that I think we have not seen since, I don't know, 2010, more or less. So what do you think about this trend? And do you think there are any direct implications for your business?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. It's a great question and one that what we have found historically drives our retailer -- our retail shoppers' demand has been really driven by employment because basically, they will -- you will see fluctuations in credit card usage and delinquencies.

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But when people have the ability to leave a job and find another job, that tends to -- they tend to continue to spend. And so this could -- that could be a forecaster of a more complicated customer, probably does.I mean, it has historically been sort of one of the leading indicators of when the customer is going to start to pull back.

So I mean, it's certainly something that everyone is kind of watching. But when -- normally that goes with a time where you've got employment issues as well and we just aren't having those right now, I mean, the most -- the biggest employment issues are really at higher level of income than where a lot of the credit card issues are.

Operator

That concludes our question-and-answer session. And I will now turn the call back over to Jeff Edison for some closing remarks. Jeff?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, great. Thank you, everyone, for being on the call today. In closing, during the third quarter, the PECO team continued our strong operating performance. We delivered strong in-line lease occupancy. We execute outstanding renewal rent spreads.

We had high -- record-high new rent spreads, which are among the highest in the peer group. We have among the highest retention in our space. We're on track to acquire between $275 million and $325 million of net acquisitions for the year, which is an increase.

Our target unlevered IRRs continue to exceed 9% for our acquisitions. We completed two 10-year bond offerings totaling $700 million, which lengthens again our maturities. We continue to have one of the lowest leveraged balance sheets in the shopping center space.

And despite the interest expense headwinds that everyone is facing, we delivered strong earnings growth. We believe our differentiated and focused strategy, our high-quality portfolio, and our talented and innovative team combine to create a market leader in the shopping center space.

We're confident that the PECO team will continue to deliver market-leading results for the remainder of the year. PECO's experienced and aligned management team owns 8% of the company. We have meaningful skin in the game and we are committed to driving shareholder value.

At PECO, we cultivate a culture in which our leadership team and our associates, they think and they act like owners every day for every decision.

Looking beyond 2024, PECO is well positioned to continue to successfully grow as we look forward. We believe we provide our investors more alpha and less beta. We look forward to providing an update on our strategy and long-term growth drivers during our December event that we have discussed.

So on behalf of the management team, we want to thank our shareholders, our PECO associates, and our neighbors for their continued support. And again, and thank you for your time today. Have a great weekend.

Operator

This concludes today's conference call, and you may now disconnect.

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