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EDITED TRANSCRIPT

PECO.OQ - Q2 2024 Phillips Edison & Co Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to Phillips Edison & Company's second-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 Once we conclude our prepared remarks, we will open the call to Q&A. After today's call, an archived version will be published on our website.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.

And our discussion today will 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 that 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 continued to deliver solid growth in the quarter. The ongoing strength of our operating performance is attributable to our differentiated and focused strategy of owning right-sized, grocery-anchored neighborhood shopping centers anchored by the number one or two grocer by sales in the market. Our strategy has yielded outstanding results. Over 30 years, we built a fully integrated operating platform and become one of the nation's largest owners and operators of grocery-anchored shopping center.

Our management team owns 8% of the company. We have meaningful skin in the game and are committed to driving long-term shareholder value. Our operational and investment decisions continue to position PECO for growth. Format drives results, and not all space is created equal.

97% of our shopping centers are anchored by high foot traffic producing grocery stores, which is the highest concentration in the sector. We have over 30 years' experience merchandising these centers around the grocer, and 70% of our rents come from neighbors offering necessity-based goods and services. This compares to the peer average of 54%.

Our strategy and team have produced market-leading results over time. Let me share a few examples. At 98% leased, PECO has the highest occupancy among our peers. During the second quarter, PECO's inline leased occupancy increased 30 basis points, sequentially, to a record high 95.1%.

PECO's comparable leasing spreads and renewal rent spreads are among the highest in the sector. PECO has delivered a track record of outperformance in same-center NOI growth. Since the IPO, we have continued to deliver same-center NOI growth above 3%, while outperforming the peer average. We have the highest volume of acquisitions compared to our peers when excluding company M&A activity. This ensures that each and every asset we buy is PECO quality.

In addition, we're among the lowest levered shopping center REITs. We have added some new slides to our investor presentation, which highlight PECO's sector leading performance. Be sure to take a look. The PECO team is focused on maintaining our market leading position.

We believe PECO's position will drive solid FFO per share growth going forward. 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.

PECO is positioned to continue to grow and excel as we look ahead. We believe we will provide our investors more alpha with less beta, given our focused and differentiated strategy. During the second quarter, we acquired two shopping centers and one land parcel for a total of $60 million. Subsequent to quarter end, we acquired one property and one land parcel for $11 million.

We continue to find attractive acquisition opportunities. Activity in the third quarter remains strong. Given the current environment, we are reaffirming our guidance of $200 million to $300 million of net acquisitions for the year. We have the capabilities and leverage capacity to acquire more, if attractive opportunities materialized. We continue to target an unlevered IRR of over 9% for our acquisitions.

If we look at everything we have acquired over the past three years, we are currently exceeding our underwritten returns by approximately 130 basis points. We will maintain our disciplined approach and focus on accretively growing our portfolio. We're hopeful that volumes will continue to increase throughout the remainder of the year.

Earlier this week, we announced the acquisition of Des Peres Corners, a grocery anchored shopping center in the St. Louis, Missouri suburb. The acquisition was made through a new joint venture with Cohen & Steers. The joint venture is owned 80% by Cohen & Steers and 20% by PECO. The venture has committed equity of $300 million with a total investment target between $600 million and $700 million. The venture will focus on acquiring open-air grocery-anchored shopping centers and will leverage PECO's deep shopping center expertise.

We are pleased to partner with Cohen & Steers on this venture and its first acquisition. This increases PECO's access to growth capital. It also increases the acquisition universe available to us. Stabilized yield on investment is a primary focus of this fund. This venture brings together one of the best

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real estate fund investors and one of the best operators in the country. We are excited about this partnership. We believe this venture will generate attractive returns for both partners.

Now moving to the Kroger, Albertsons merger. Kroger recently disclosed a list of locations on its proposed sale of assets to CNS wholesale grocers. PECO has two Kroger locations and 10 Albertsons locations included in the proposal. Importantly, Kroger's divestiture plan continues to ensure no stores will close as a result of the merger.

These 12 stores are well-performing locations with average sales per square foot of $630 and an average health ratio of 2.1%. Sales growth from 2019 has averaged 34%. The majority of these locations are anchored by the number one or two grocer by sales in their respective markets. Notably, these stores have been grocery store locations serving their communities for 25 years on average. These stores represent approximately 1% of PECO's ABR.

CNS has been operating for over a hundred years. They're one of the biggest wholesale operators with demonstrated experience in retail operations. In addition, it was recently announced that Albertsons Chief Operating Officer would move to CNS to become President and CEO of its retail business if the merger closes.

While the market still gives the merger a low probability of occurring, should it close, we believe the impact on PECO is a net positive to our centers and to the overall value of our portfolio. Our remaining 20 Albertsons stores would be operated by Kroger, which reinvests regular in their stores and produces higher sales volumes on average. If the merger does not occur, our Albertsons anchored centers will continue the strong performance that they have produced to date.

With that, I will now turn it 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 in 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 97.5% leased, a sequential increase of 30 basis points. Anchor occupancy of 98.8% increased 40 basis points sequentially as we executed eight anchor leases including Planet Fitness, Ace Hardware, Dollar Tree, and Coola Sport performance.

Inline occupancy ended the quarter at a record high of 95.1%. New neighbors added in the second quarter included quick service restaurants such as Mountain Mike's Pizza, Dave's Hot Chicken, Wing Stop, and Chipotle, along with several med tail 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 second quarter were 34.4%. Our inline new rent spreads remain strong at 31.9% in the quarter, which compares to our trailing 12-month average of 29%. 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 second quarter, we achieved a 20.5% increase in comparable renewal rent spreads. Our inline renewal spreads remained high at 19.7% in the second quarter, which compares to our trailing 12-month average of 18.5%. 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 89%, while growing rents at attractive rates. Our inline retention rate remained strong at 85%, well ahead of the historical five-year average of 78%. Higher retention means less downtime and lower TI spend.

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In the second quarter, we spent only $0.30 per square foot on TI for renewals. We also remained successful at driving higher contractual rent increases. Our new and renewal inline leases executed in the second 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 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 33,000 average total trips per week to each PECO center. This equates to nearly 500 million total trips to PECO centers in the last 12 months.

Strong foot traffic benefits inline neighbor sales and enhances our ability to drive rents higher. PECO's three-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. Our centers are situated in trade areas where our top grocers are profitable, and our neighbors are successful.

According to Placer.ai, the majority of visits to PECO centers are from customers in the middle or upper class. Our markets have less poverty, higher household incomes, and better expected population growth than the national averages. Unemployment in PECO markets is also 20% lower than the national average at 3.2%.

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 Sun Belt, population ships that favor suburban neighborhoods, and the importance of physical locations and last mile delivery.

Leasing demand remains at historically high levels for inline 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 out-parcel development and repositioning projects. 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 the returns are accreted to the portfolio.

As we shared during our December Investor Day, PECO is leveraging artificial intelligence to creatively and efficiently improve how we operate our business. PECO was recently honored at the 2024 Realcomm Conference with a digital innovation award, known as the Digi Awards. An inaugural award was given for best use of AI, and PECO won top honors from a field of finalists. This is PECO's third Digi Award.

PECO continues to pioneer AI advancements that foster cross-functional collaboration. We are cultivating a culture where AI is a catalyst for long-term growth. This award is a meaningful and well-deserved recognition for the PECO team as we continue to stay on the cutting edge of technological advancements that help propel new initiatives and reinforce our position as a leader in the shopping center sector.

In summary, the PECO team remains optimistic given the current strong operating environment and our continued positive momentum. Our healthy neighbor mix and grocery anchored strategy positions PECO well for continued growth. The overall demand environment, the stability of our centers, the strength of our grocers, the health of our inline neighbors, and the capabilities of our team give us confidence in our ability to deliver solid operating results.

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

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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 second-quarter results, then provide an update on the balance sheet and finally speak to our reaffirmed 2024 guidance.

Second-quarter 2024 Nareit FFO increased 3.3% to $78.4 million or $0.57 per diluted share, driven by an increase in rental income from our strong property operations. Results were partially impacted by higher year-over-year interest expense from higher interest rates. Second-quarter core FSO increased 2.9% to $80 million or $0.59 per diluted share, driven by increased revenue in our properties from higher occupancy levels and strong leasing spreads, partially offset by the aforementioned higher interest expense.

Our same-center NOI growth in the quarter was 1.9%, driven by rental income growth of 4.3% year over year, partially offset by lower tenant recovery income and higher property level expenses. As in previous quarters, recoveries can be impacted by the mix and timing of spend, which we believe will smooth out over the year.

I will note that our reserves for uncollectibility improved in the quarter as we indicated on the last call. Given the strong operating environment that Bob discussed, we're continuing to be aggressive with wavering neighbors. We expect this will keep us at the high end of our guidance range for this expense, and we believe this will meaningfully improve the rent and merchandising at our centers.

Regarding acquisitions during the second quarter, we acquired two shopping centers and one land parcel for a total of $60 million. Subsequent to quarter end, we acquired one shopping center and one land parcel. Year-to-date acquisitions have totaled $127 million. We have no dispositions during the quarter. We will continue to explore opportunities for dispositions where they make sense.

Turning to the balance sheet, we have approximately $743 million of liquidity to support our acquisition plan and no meaningful maturity until 2027. Our net debt to adjusted EBITDA remained at 5.1 times. Our debt had a weighted average interest rate of 4.2% and a weighted average maturity of 4.9 years when including all extension options.

During the quarter, we completed a bond offering of $350 million at 5.75% due in 2034. This offering was the next step in our long-term strategy of becoming a regular issuer in the unsecured bond market, which improves our fixed rate percentage of debt and extends our maturity ladder.

As of June 30, 2024, 91% of PECO's total debt was fixed rate. We continue to have one of the best balance sheets in the sector, although we believe the rating agencies do not give us the credit that we deserve. Our balance sheet has us well positioned for accretive acquisitions.

Turning to our guidance for 2024, we have updated the net income per share range to $0.49 to $0.54. We have reaffirmed our guidance for Nareit and core FFO, which reflect 6% and 3% growth over 2023 at the midpoints, respectively. In addition, we have reaffirmed our range for same-center and NOI growth of 3.25% to 4.25% given the continued strong operating environment.

We currently have several acquisitions in our pipeline, either under contract or in contract negotiations. This activity provides a strong start for the year, and we're reaffirming our acquisition guidance and expect net volume to be in a range of $200 million to $300 million. If the transaction and capital markets improve, we have the capacity to meaningfully increase this number, but we are comfortable with this guidance range in the current environment.

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 growth. We expect a comparable or faster growth rate for AFFO per share growth because there should be less tenant improvement dollars invested as we continue to increase same-center occupancy.

In the near term, we continue to be impacted by interest rate increases as all borrowers are, which impacts our earnings growth. That said, we are pleased to guide the positive per share growth. If we added back the per share impact of interest rate increases to our 2024 guidance, this would reflect 7% core FFO per share growth at the midpoint.

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2024 is continuing to present challenges with high inflation, high interest rates, and global conflict. However, the strength of our integrated operating platform positions PECO well for long term, steady earnings growth. We're excited for the additional growth opportunities ahead this year, both internal and through acquisitions.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Haendel St. Jude, Mizuho.

Haendel St. Juste - *Mizuho Securities - Analyst*

Hey, good afternoon to you guys. Thanks for taking my question and congrats on a strong quarter. My first question is on the new joint venture with Cohen & Steers. I guess help us understand why now. You have low leverage as you indicated, you have an attractive cost of capital, attractive spreads, and you're achieving IRRs above your underwriting doing so on your own balance sheet. So why would the economics here on Cohen & Steers be willing to own? Thanks.

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

Hey, thanks for the question. I'm sure we'll probably get a couple of those today on that issue. The reason is, I think, it's simple. We've been in the fund business for a long time. I mean this will be our ninth JV that we've got, and we see it as additive to our growth.

As you know, we've got a very strong and aggressive growth strategy. This allows us to cast our net wider. And in casting the net wider, hopefully, we'll be able to grow at an additional pace.

And if you look at our first acquisition as an example, it was a project that didn't meet our underwriting for the balance sheet. But it worked very well for the Cohen & Steers JV. So it allowed us to buy an additional project that we wouldn't have bought otherwise. And so as we look at that, that will increase our growth, and it does underwrite to our numbers in the JV where it didn't as a balance sheet item.

Haendel St. Juste - *Mizuho Securities - Analyst*

Great. Great. Thanks for that. And that leads me to my next question. Maybe a bit more color on the type of assets that you're targeting and anything you could tell us about the return hurdles. It sounds like they're a bit lower for on balance sheet. So maybe a bit on -- is there anything geographically type of asset size, profile? And then maybe some more color on the targeted returns you're going after here. Thanks.

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

So in terms of the details of what we're buying, we're going to leave that to Cohen & Steers to talk about that. It is their process. They've got 80% of the investment.

For us, the key thing for us is that we won't be in conflict with our balance sheet stuff. We're expanding our net so that we can buy more. And these are things that would not fit in our underwriting on the balance sheet. And that's how we are thinking about it.

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Haendel St. Juste - *Mizuho Securities - Analyst*

Just a follow-up. The timeline for deploying the capital, any color on that front you could provide?

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

Sure. We anticipate -- right now, the number is $300 million of equity. And we think that we're using about $100 million of equity a year as a three-year program. And we hopefully can do it much more quickly than that. But that's our plan.

Haendel St. Juste - *Mizuho Securities - Analyst*

Got it. Thank you.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs - Analyst*

Hi, everyone. Bob, I think you mentioned that leasing interest is as high as ever. I don't know if you quite used that term, but high. So I guess when you say that, what stats are you looking at to make that statement? Is it a number of deals in the active discussions? Is it square footage based?

And it actually feels like those number of deals would have to be lower than in the past given your high occupancy, but maybe not. So just wondering if you can talk about what types of stats could support the statement that leasing is not showing signs of slowdown? Thanks.

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

Yes. I really think three key points. And I think it's, one, the retention. So our retention at 89% and our inline retention above 85% is very solid. I'm not seeing any slowdown in that.

And really, it comes through with our new leasing spreads of 34%, our renewal spreads of 20.5%. Health ratios for our neighbors continue to be right around 9.5%. And coming out of Las Vegas and our national account program, the demand is at all-time high, and retailers are still looking for sites in 2025, 2026, and 2027.

So even though our occupancy in line 95.1%, we still feel there's another 100 basis points, 150 basis points there of growth and inline because there's just no new supply out there. And the demand for being in the number one, number two grocery-anchored shopping center is where they want to be. So I don't see any slowdown.

Caitlin Burrows - *Goldman Sachs - Analyst*

Got it. Okay. And then, John, on the bad debt side, I think you mentioned something along the lines suggesting you're being maybe less flexible with wavering tenants. Can you give some more detail on how that process maybe normally works, for example, when someone isn't paying on time and how PECO is handling it differently today given the high occupancy and new rent spreads potential?

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

Sure. Thanks, Caitlin. So it did improve sequentially as we anticipated that it would really from our position, given the strength of the environment that Bob has talked about and the opportunity to improve the merchandising and ultimately, the rents in our centers.

We're not in a position where we're talking about payment plans or things to what we're actually trying to do is move more quickly to recapturing that space. And then that takes a little bit of time depending upon their willingness to do so. But we do think that, that ultimately is the right decision given the demand and the rates that Bob is referencing.

Ultimately, from an uncollectible standpoint, we feel really good about our neighbors. Actually, our latest review says that our neighbors have a FICO score of 745. So we feel very positive. We're at least cautiously positive on our neighbors. And we are very diversified, again, outside of our largest individual -- outside the grocer, the largest individual neighbor is T.J.Maxx at 3%. And our watch list is actually just inside of 2% now, I'd say it's closer to 1.5%. So we're feeling really positive and continue to improve the portfolio.

Caitlin Burrows - *Goldman Sachs - Analyst*

Okay, thanks.

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

Thanks, Caitlin.

Operator

Jeff Spector, Bank of America.

Jeffrey Spector - *BofA Global Research - Analyst*

Great. Thank you. Good afternoon. I guess my first question is focused on the same-store NOI guidance. I think year-to-date is 2.8%. The guidance is 3.25% to 4.25%, which would mean there's meaningful acceleration in the back half of the year. Can you talk about the drivers of that acceleration? And is this correct?

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

Thanks, Jeff, for the question. John, do you want to take that?

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

Sure. Thanks, Jeff. So in the quarter, we grew by 1.9% and you're right, 2.8%. And it was really impacted by a later recovery income, which is it's just a timing variance based on the mix of spend in both the quarter and year to date. So we do anticipate based on the time of those recoveries for an acceleration in the latter half of this year.

And ultimately, we will continue to grow minimum rent. I mentioned that reserve for uncollectibles has improved and so we were able to exceed 95% in-line occupancy for the first time ever just highlighting that continued strength of our neighbors. So ultimately, we are seeing that. But I think we're talking about small numbers here in the more important pieces, we feel good about our reaffirmed guidance range.

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Jeffrey Spector - *BofA Global Research - Analyst*

Great. Thank you. And then one follow-up on the JV. To confirm, are you leveraging the existing platform? Do you need to hire new teams or open any new offices for these different markets? And can you discuss the fees? Thank you.

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

On the fee we're going to leave that up to Cohen & Steers to talk about. In terms of resources, we will not be adding any additional resources to put this into work. So it is obviously a profitable from a fee perspective for us, because we are utilizing the existing infrastructure.

Jeffrey Spector - *BofA Global Research - Analyst*

Great to hear. Thank you.

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

Yes, thanks, Jeff.

Operator

Mike Mueller, JPMorgan.

Michael Mueller - *JPMorgan - Analyst*

Yes, hi. I'm curious, the difference between the $200 million to $300 million of acquisitions that you're comfortable that's baked into guidance versus where you said you could surpass it if the environment changes. Is it just conversations on product that you're close to, but just not close enough on pricing? Or what could cause you to go above the $200 million to $300 million.

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

Good. Well, thanks for the question, Mike. What I think we're trying to say -- what we're trying to say there is that we do have a balance sheet that allows us to grow beyond the $200 million to $300 million if we can find product that meets our pretty strict underwriting criteria, and that is number one or two grocer, above a 9% unlevered IRR. And if we can find that product, we would grow beyond that amount. But we think that in the -- given the current market environment, we think that's a real assumption.

Michael Mueller - *JPMorgan - Analyst*

Got it. Okay. And then, I guess, as it relates to the land parcels that you've been acquiring, are they adjacent to existing centers? And generally, what's the time frame to start activating some activity on the site?

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

Bob, do you want to take that one?

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

Yes, absolutely. So yes, the answer is, yes, and they're anywhere from 1.9 to 3 acres in size. They are either adjacent or across the street from public-anchored assets, Kroger anchor assets and part of the strategy there is to add fuel for maybe a Harris Teeter down in Chapel Hill when we purchased that.

When I look at these sites down in Riverview Florida, there's strong demand from national retailers that we plan to do $40 million to $50 million of ground up and value-add redevelopment per year. We're generating 9% to 12% returns on that. And we have a great national platform that's looking to grow with us.

So yes. The answer is, yes, they're adjacent to our properties, and we already have most of them pre-leased. So hopefully, when we close, we're under lease within 60 days and then out of the ground and open and paying rent within 12 months.

Michael Mueller - *JPMorgan - Analyst*

Got it. Okay. Thank you.

Operator

Ronald Kamdem, Morgan Stanley.

Ronald Kamdem - *Morgan Stanley - Analyst*

Hey, just two quick ones. So just going back to the acquisitions for the guidance, can you talk about -- is it for the second half of the year? Or is there anything in the pipeline or under contract? Or is it all speculative at this point? And then the follow-up to that is, just on the Cohen & Steers announcement, is the thinking to do more of these types of structures going forward? How are you guys thinking through that?

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

Ron, thanks for the question. On the acquisition side, I think the way we've put it in the prepared remarks was that we're seeing acquisitions that we are either in price negotiation with or in a contract status that give us a pretty high level of confidence that we will get to the numbers that we're talking about.

And importantly, we're seeing a fair amount of product in the market. It certainly is a much more liquid market than it was last year. Still, there is increased competition from what we were seeing last year. But there's also quite a bit more product.

So I think that's what gives us the confidence, both in terms of what we are actively negotiating under or have under contract, plus the liquidity in the market and the new product that's coming on. So I think we feel -- that's our rationale for feeling pretty comfortable with our $200 million to $300 million guidance.

On the Cohen & Steers JV, the reason we're really excited about it is, it expands our ability to buy product and buy product at underwriting returns that fit with our criteria. So that's the part that we're excited about. If we were to find other alternatives like that, where we could explore parts of the market that where we've been successful at, but that don't underwrite to our current requirements, that would be an opportunity that would allow us to continue strong growth and additional growth.

So that, we look for those. But at this point, other than the smaller JV that we have underway. We don't see a lot, we see that as a strong potential at this time.

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Ronald Kamdem - *Morgan Stanley - Analyst*

Okay. Great. Just my second one, I think you talked about the leasing environment a bit in the spreads, but those initiatives also on the rent bumps to try to get higher ramp-ups on tenant. Just maybe can you remind us of ere we are with that and what -- how the investment received by the tenants?

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

Sure. Bob, do you want to take that one?

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

Yes. Thanks, Jeff. So on the new leasing side of things, on our new leases, we're getting annual rent bumps between 2% and 3%. And then on the renewals when we delivered 20.5% on a renewal spread, our CAGR was right around 3%. So we're continuing to be able to get that. We continue to see that given the retailer demand. And I really don't see any pullback from that.

Ronald Kamdem - *Morgan Stanley - Analyst*

Great. Thanks so much.

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

Thanks, Ron.

Operator

Todd Thomas, KeyBanc.

Todd Thomas - *KeyBanc Capital Markets Inc. - Analyst*

Hi, thanks. Good afternoon. First question, I just wanted to follow up on the joint venture and asset management platform a little bit more broadly. I think, at the December Investor Day, it sounded like you were working towards two funds. You discussed one being a core fund, I think, with a two-pronged strategy, so while we were yielding smaller-format strips. And then also you discussed, I believe, higher-yielding power centers or larger format centers.

Is this joint venture with Cohen & Steers what you were referencing in December? And can you just clarify if this fund will also be looking at some larger format centers as well as the smaller grocery anchored centers, which is similar to what you acquired outside of St. Louis so far?

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

Yes. Todd, yes, you're right on. I mean, that is the -- we will be buying potentially larger centers in this pool, as well as product that can underwrite to the needs of that fund, but that would not meet our balance sheet requirements. So that is how we're thinking about it and looking at it.

We did mention, I think, the social impact fund that we have that we're working on. And we're going to talk -- we'll talk about that more once we have our first acquisition, similar to what we did here with the Cohen & Steers deal.

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Todd Thomas - *KeyBanc Capital Markets Inc. - Analyst*

Okay. And in terms of capitalizing the fund, so roughly 50:50 debt and equity Will the venture be looking for secured debt? Is this property level financing that will be targeted? And what does that look like today in the market?

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

I would assume that is the -- that's how this first deal happened, and that is a good assumption going forward. In terms of the structure and the pricing, John, do you want to give any -- again, we're trying to let Cohen & Steers lead this discussion in terms of what they would like to have released. But John, if you can give any additional color?

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

Sure. Yes. So as Jeff said, this asset was done that way. I mean, we'll continue to evaluate different capital opportunities. So rather than this asset, maybe I'll just speak a little more broadly. I mean, the capital markets are the secured markets and that, and this venture is definitely open for grocery-anchored real estate.

And I would say that that's probably looking at -- for 10-year money. We're probably still in that 175 over range. That's what has been the case, and I think that's still available out there. But we're more focused on the balance sheet at the unsecured markets, but we will evaluate the finance increased opportunities as we move along.

Todd Thomas - *KeyBanc Capital Markets Inc. - Analyst*

All right. Great. And John, just one last one for you. Can you provide an update as we make our way further through the year here regarding the swap expirations and any potential debt capital raising activity in the back half of the year, just given the current capital markets environment today?

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

Todd, I really appreciate that question. You heard me leaning that way with my last answer. You gave me an opportunity to talk about it. So yes. So we have swaps that are due to expire in September, October on $375 million. We have $150 million swap that will take effect, at the same time to help mitigate some of that impact.

But at the end of this quarter, we are -- 91% of our debt is fixed rate, which is a meaningful improvement from the first quarter as we execute on our long-term strategy. And again, a reminder of that is, we want to be a repeat issuer in the unsecured bond market with a target of approximately 10% of our debt expiring each year. So in May, we issued the $350 million bond with great support from the bond market investors and it is putting us towards that goal.

So as we look to manage this fixed floating ratio, and again, our target for that is to be 90% to fixed 10% floating. We want to do that really through future debt issuances. But the most important element for us is that, we no longer have any meaningful maturities until really 2026, which gives us time to be patient and access to the market opportunistically.

So we will look to utilize our fully replenished revolver. I think there's a little bit outstanding here currently, but we have the ability to buy our acquisition plan. And so in terms of future, we will look to access it opportunistically, but the guide would say that we're just going to fund it the way that we have and look to the market as they become available. And there's no just -- also there is no equity issuance assumed in the guide?

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Todd Thomas - *KeyBanc Capital Markets Inc. - Analyst*

Okay. So no new swaps?

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

Other than the one we currently have.

Todd Thomas - *KeyBanc Capital Markets Inc. - Analyst*

Okay. Got it. So I guess you're saying you'll take down or you'll put additional funding on the line for now and then look to be in the market issuing notes again similar to what you did a couple of months ago?

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

That's the playbook.

Todd Thomas - *KeyBanc Capital Markets Inc. - Analyst*

Got it. Thank you.

Operator

Floris van Dijkum, Compass Point Research & Trading.

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

Thanks, guys, for taking my question. Jeff, I had a question on the Cohen & Steers JV. Are there any restrictions on Cohen & Steers owning PECO stock as a result of this JV that you've just entered into?

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

Yes. I mean, no. The answer is no, and we -- there are very different areas that work on that. So there is no conflict there, and there is no restriction there.

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

Great. Great. Thanks. Next question I had was -- and maybe it's more on the leasing side. But you've talked about, obviously, the improved terms you're getting. Renewal rates, by the way, are near 90%, are just off the charts. It's great.

But maybe talk about -- one of the things that impeded some of your growth over the last quarters has been the fact that you still have a fair amount of option from tenants where they can obviously renew at below-market rents. Can you talk about some of the new terms that you're negotiating with tenants on options going forward as well? And is that going to slow down your growth going forward? Or are you getting more favorable terms on your options with free market rent sets or fewer options from a tenant perspective?

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

Why don't I just take it first, Bob, and then you can cover and do it better than I do. Floris, we are always pushing for less options, obviously. And in this environment, we have some more strength there.

To get the right merchandising in your centers you're making, you've got to make sure you're bringing in the right people. They tend to want to control the space over a longer period of time and options are their preferred method. We're extending leases a little bit a year or two to try and reduce the option side of it, but it is a -- as you're looking at a shopping center, it's very important that you have the right merchandising mix for each center that you have.

And so your compromises are not on a macro level. They're on a very specific property. And if we need to bring that neighbor in to get the merchandising mix that we want, will we give them options or not. And that is where -- that's where the really hard decisions are made. We obviously can do -- we've got more strength than we've had in an awfully long time, but it still is a property-by-property decision.

Bob, any other add to that?

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

Yes. Thanks, Jeff. The only other thing I would add on that is, we are seeing improved deal terms when it comes to options. Certainly, the national tenants that are investing a lot of capital in the space is want to have options. And they're typically five years on average. But we are seeing options increase anywhere between 15% and 25%.

So we've made it known internally that options aren't something that we think about lightly. Obviously, we don't want to give them. But if we do, then we want to make sure that we're getting somewhere between 15% and 25% on the options. And we are having success in that strategy. So you'll continue to see that number improve.

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

Great. Thanks, guys.

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

Thanks, Floris.

Operator

Omotayo Okusanya, Deutsche Bank.

Omotayo Okusanya - *Deutsche Bank - Analyst*

Hi. Good afternoon, everyone. Going back to Floris's question around the Cohen & Steers JV. Could you also talk a little bit about how, again, decisions are made in regard to assets you're looking at and what could potentially go into the JV versus what can you see on your balance sheet. Like how has that potential conflict of interest going to be managed?

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

Thanks for the question. What we have -- as I said earlier, we -- this is our ninth JV over the last 30 years that we've had. Picking your partner in these things is really important. And which partners you have and making sure that you're both aligned with what you're trying to do is critical. And it's one of the reasons it takes so long to get these things in place.

We have a very strong alignment with Cohen & Steers in terms of what is going to go into their portfolio and what's going to be on our balance sheet. And that is what -- that gives us a high level of confidence that like we've done in our other JVs, we're going to successfully place this capital, and it's not going to be -- there's not going to be a lot of confusion about that.

And so if you -- that's the way we're thinking about it. We're very comfortable that we are expanding the net, not taking stuff off of balance sheet. And as we reaffirmed our guidance on the balance sheet, we're going to continue to have a strong growth on the balance sheet. And this will expand our growth, but it will not conflict with our balance sheet.

Omotayo Okusanya - *Deutsche Bank - Analyst*

That's helpful. Thank you. And then going back to some of the earlier commentary around the same-store NOI and some of the timing-related issues on OpEx. Again, John, could you again clarify that a little bit for us of how we think about what that means for the back half of 2024 and same-store OpEx growth and same-store NOI growth?

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

Sure. So as we look at it, a little bit of some of the more recoverable spend that we would have in the second quarter is delayed this year. And it's just -- it is a mix piece. And ultimately, you can see our same-store margin was about 50 basis earned well, yes, 50 basis points less. So it was 72% compared to 72.5% last year.

And actually, based on what we're seeing in our, like currently, what our property managers are doing, we believe that spend will improve. So you'll have a sequential increase, you'll have it improved over last year because last year, it was more Q2 than Q3. So ultimately, we're just seeing a better recovery rate.

But even though on a consistent spend, I mean -- and I think this is also underscores why we don't provide quarterly guidance. We try to have a really stable projection period. We would like to just have constant study.

But ultimately, we very much don't want to get in the way of running these centers and operating in the best way that we can. So we do feel good about recovery, improving uncollectibles, holding or improving, and then ultimately continuing to grow minimum rent growth that is going to get us to that 3.25% to 4.25%.

Omotayo Okusanya - *Deutsche Bank - Analyst*

Thank you.

Operator

Juan Sanabria, BMO Capital Markets.

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Juan Sanabria - *BMO Capital Markets - Analyst*

Hi. Just wanted to follow up on Omotayo's question there. Can you give us any sense is the comfort level still fully at the midpoint or maybe more at the low end just given the implied second half acceleration in your same-store NOI guidance.

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

Sure. We are looking to the midpoint on these. They are ranges. Ultimately, things that would go above that would be continued strong retention, although it's quite high already. And then I would say, to go to the lower end would be the same thing weaker retention or weaker weakness around collectibility. But right now, to that point, we are definitely looking at, I would say, the middle of that range.

Juan Sanabria - *BMO Capital Markets - Analyst*

And then not to belabor the point on the Cohen & Steer JV, but just curious what the -- you said there's clearly siloed boxes of where assets that your underwriting would go to the balance sheet of the JV. But just curious, are the asset -- is it more of the initial yield, not meeting your 9% unlevered IRR target? Or is there maybe not the same higher level of standards on number one or two grocer. I guess, would you want to ultimately own those assets on balance sheet whenever the fund decides to exit? And do you have ROFOs or any other rights to buy those assets over time?

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

I would assume these assets will generally be larger. They will be open-air grocery anchored. That's a critical part for the JV. But I would assume that they will be larger in terms of square footage than our typical store. Our center that we purchased and -- I mean, that would probably be the only thing that I would say will be a big deviation from our current balance sheet buys.

And again, the balance sheet is underwriting to a 9% unlevered IRR. The fund has different return requirements than that. So that is -- I think I pointed out earlier, we wouldn't have bought the project in St. Louis because it didn't meet our underwriting requirements when we underwrote it.

So with the fees, we were able to exceed our underwriting return requirements and meet the requirements of the Cohen & Steers JV. So this is an additive -- as we had expected, this is an additive growth vehicle for PECO, where we can get very strong returns, and we're excited about that.

Juan Sanabria - *BMO Capital Markets - Analyst*

And do you have rights to acquire those assets built into the partnership?

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

Again, that's a Cohen & Steers issue that we will let them answer the question. We have a really good relationship with them, and anything that would be resolved will be resolved at the right time in a way that every -- that's good for everybody. And so f it's us buying it, if it's them buying it, we're a long way from that. We want to get to $300 million of equity out and then we can talk about some of the other things. And we are comfortable that, that will happen over time.

Juan Sanabria - *BMO Capital Markets - Analyst*

Got it. Thank you.

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

Yes. Thanks, Juan.

Operator

Dori Kesten, Wells Fargo.

Dori Kesten - *Wells Fargo Securities, LLC - Analyst*

Thanks. Good afternoon. If you were to put out a 2025 early look today, would you assume a higher bad debt as a percentage of revenue as compared to this year? Or is there a reason to believe you may be a bit less aggressive with your space than you are currently?

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

Hey, Dori, I'm sorry, I didn't quite hear what the question was. Can you just repeat it for me?

Dori Kesten - *Wells Fargo Securities, LLC - Analyst*

Yes. I just said, if you're looking out to next year, would you assume a higher bad debt as a percentage of revenue as compared to this year? Or would you imagine in line or lower? I know you commented earlier that you've been a little bit more aggressive this year.

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

Yes. I would assume we're -- as we've talked about, we'll be at the higher end of our range on bad debt this year. And next year, assuming that we're in the similar environment, we're able to take a very aggressive role of getting properties back and growing rents that it would be at the higher end of the range that we've targeted as well. But again, that is to be seen, and still in a really good -- I mean, at 80 basis points is still a really good place to be.

Dori Kesten - *Wells Fargo Securities, LLC - Analyst*

Yes, absolutely. Okay. Thank you.

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

Thanks, Dori.

Operator

This concludes our question-and-answer session. I will now turn the conference back to Jeff Edison for some closing remarks. Jeff?

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

Yes. Thank you, operator. So in closing, the PECO team continued our strong operating performance in the first half of 2024. We delivered record high inline leasing occupancy. We executed record high renewal rent spreads, and our new leasing spreads are among the highest in the peer group. We have among the highest retention in the space.

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We're on track to acquire $200 million to $300 million of net acquisitions for the year. Our targeted unlevered IRRs are exceeding 9% for our acquisitions. We completed a $350 million bond offering. We continue to have one of the lowest balance sheets in the shopping center space. And despite meaningful interest rate expense headwinds, we delivered strong earnings growth.

At PECO, we cultivate a culture in which our associates think and act like owners every day in every decision. Since our founding, PECO has focused on developing the best culture and team in the business. You can see that reflected in our associate engagement results and in the average number of years that our leaders and associates have been part of the PECO team.

PECO associates are focused on operational excellence and innovation. A few recent examples include the following. The Cincinnati Inquirer each year ranks companies further in their work environment. PECO has been voted a top place to work in Cincinnati for eight years in a row.

As Bob highlighted, this year, PECO won the Digie Award for the best use of AI at the RealComm Conference, again, getting recognition for the innovation that we do. DashComm, a communication software system developed by the PECO IT team has been one of PECO's greatest innovations. DashComm continues to deliver best-in-class customer experiences and communications to our more than 5,800 neighbors. This technology is now being used by ID Plans in their tenant portal.

And PECO's internship program was recently recognized by the ICSC. We posted that article on our IR website and hope you will check it out. Our differentiated and focused strategy and our talented and innovative team combined to create a market leader in the shopping center business. We're confident that the PECO team will continue to deliver market-leading results for the remainder of the year.

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. On behalf of the management team, I'd like to thank our shareholders, PECO associates, and our neighbors for their continued support.

Thank you all for your time today and enjoy your weekend.

Operator

This concludes today's conference. You may now disconnect.

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