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Phillips Edison & Company, Inc.

PECO Business Update

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PRESENTATION:

Kimberly Green^ Welcome, everyone. Thank you for joining Phillips Edison & Company's Business Update. I'm Kim Green, Head of Investor Relations. I'm joined on this webcast by our Chairman and Chief Executive Officer, Jeff Edison; President, Bob Myers; and Chief Financial Officer, John Caulfield.

Please note that today's prepared remarks have been prerecorded, and our Q&A session will be held live.

Once we conclude our prepared remarks, we will open the webcast for your questions. After today's webcast, an archived version will be posted to our Investor Relations website.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. In our discussion today we 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 the appendix of today's presentation materials which have been posted to our Investor Relations website. Now I'd like to turn the webcast over to Jeff Edison, our Chief Executive Officer. Jeff?

Jeffrey Edison^ Thank you, Kim. Thank you, everyone, for joining us today.

We appreciate your time. We're excited to provide an update on our vision, strategy and growth initiatives.

We have a great agenda for you today.

Our hope is that we leave you with these main takeaways. First, PECO is a growth company.

Second, we believe now is the time to accelerate PECO's growth, and third, we have unique advantages and a focused strategy that we believe will allow us to deliver strong internal and external growth on a long-term basis.

For the past couple of months, the PECO team has been updating our five-year business plan. This annual exercise is a critical part of our planning process.

It forces us to step back from the day-to-day and ask what will PECO look like in five years?

The takeaway from our planning this year is that we believe the PECO team has a clear runway to grow our total enterprise value to over $10 billion over the next three to five years.

We will buy $1 billion in acquisitions over the next three years.

We will deliver 3% to 4% same-center NOI growth on a long-term basis.

We will deliver mid- to high single-digit core FFO per share growth and even higher AFFO per share growth.

Our low leverage gives us the financial capacity to meet these long-term growth targets.

Over 30 years ago, we founded PECO as a growth company.

We started with one grocery-anchored shopping center and less than $1 million of annual NOI.

We redeveloped that entire center, replaced the grocery anchor, we merchandise the center to best fit the market and reinvested capital into the center. This began our commitment to compete at the property level at every center we own by being locally smart.

The rest of our story has been very consistent. PECO's consistent strategy has several advantages.

One unique advantage is that since that first center, we have focused on rightsized grocery-anchored neighborhood shopping centers.

From the beginning, we have liked both the offensive and defensive attributes of grocery-anchored and necessity-based retail.

We could grow profitably across market cycles and add long-term value. That is why the grocery-anchored business is still appealing to us today. Another PECO advantage is that we see quality differently. We've built a high-quality portfolio that drives strong cash flow growth.

Other key advantages include our integrated operating platform and our highly experienced team. The PECO team works closely together on a cross-functional basis to execute our focused strategy and continually propel PECO forward.

In a moment, Bob will expand on how PECO's unique advantages allow us to achieve our long-term growth targets.

So the question you might be asking is why accelerate PECO's growth now?

We believe it's the right time for several reasons.

First, we see the strong fundamentals of grocery-anchored shopping centers further strengthening. It's no surprise that grocery-anchored is attracting more attention in the market.

We expect the heightened attention to continue as the operating fundamentals of grocery-anchored centers offer highly attractive growth profile relative to other real estate classes. Second, we have the ability to meaningfully grow our portfolio over the next three to five years.

Over the past three decades, we have built the best team and operating platform. The PECO team is excited and ready to grow at an accelerated pace. Third, we have the capacity.

Our leverage is among the lowest in the shopping center space.

We have proven our access to capital, which allows us to fund additional acquisitions.

We believe we can grow in a smart and accretive way. We're not just growing for the sake of getting bigger. If we wanted to do that, we would have done it already.

Instead, we are focused on growing accretively, staying true to our core strategy and creating long-term value for our shareholders.

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We have been strategic in our decision-making to best position PECO so that we can take advantage of the opportunities and grow at the right time.

We continue to balance our cost of capital with our growth plans. John will highlight PECO's strong balance sheet in a moment, which we believe is in a great place to support our accelerated growth.

From an external growth standpoint, we believe we have proven that we are disciplined buyers.

We will continue to be disciplined as we go forward. PECO has always had an entrepreneurial culture.

Our strategy started with that first shopping center. From the beginning, we have encouraged innovation and taking risks.

We still look at the business in this way.

Today innovation at PECO looks like implementing unique technology and AI capabilities that enable us to execute with greater precision. Exploring unanchored shopping center opportunities, expanding our investment management business and much more, all while staying true to our core grocery-anchored strategy. The strong operating environment is continuing. The economy remains strong. PECO also continues to benefit from a number of positive macroeconomic trends that create strong tailwinds and support strong neighbor demand on a long-term basis.

These trends include the following: a resilient consumer, hybrid work, migration to the Sunbelt, population ships that favor suburban neighborhoods and the importance of physical locations in last-mile delivery. The impact of these trends is further amplified by high occupancy, limited supply and notably the lack of new development over the last 10 years.

We believe this will continue for the foreseeable future since current economic returns do not justify the cost of new construction. All of these factors, combined with PECO's unique advantages and our focused strategy give us confidence in the timing of our decision to accelerate our growth plans.

We believe these factors will help us grow PECO's total enterprise value to over $10 billion in the next three to five years.

So how do we get there?

By staying in our lane and continuing to focus on high-quality grocery-anchored neighborhood shopping centers, PECO will grow by delivering strong internal growth and targeting over $1 billion in acquisitions over the next three years.

We have the ability to fund our accelerated growth plans.

As I mentioned at the onset, we will buy $1 billion of acquisitions over the next three years.

We will deliver 3% to 4% same-center NOI growth on a long-term basis.

We will deliver mid- to high single-digit core FFO per share growth and even higher AFFO per share growth. With that, I will turn it over to Bob. Bob?

Bob Myers^ Thank you, Jeff.

We believe PECO is best-positioned to execute accelerated growth over the next three to five years. Why?

It starts with PECO's unique advantages.

Our focus on and expertise with grocery-anchored centers and necessity-based retailers, our rightsized format, our integrated operating platform, our experienced team and our ability to see quality differently.

Growth starts with our focused and differentiated strategy of owning rightsized, high quality grocery-anchored neighborhood shopping centers anchored by the number one or number two grocer by sales in a market.

We know the average American family visits a grocery store 1.6x per week.

Our grocers draw consistent daily foot traffic to our centers, benefiting our small shops. The grocer's ability to drive strong traffic to the center is what originally got us excited about our strategy, and it still excites us today.

We believe that our unique format drives results. Throughout PECO's history, we've had experience with all retail formats, yet elements of our core grocery-anchored strategy has stayed true over time.

Our average center is about 113,000 square feet, which enhances our pricing power.

We believe our smaller centers allow for better long-term FFO and AFFO per share growth because they yield market-leading retention rates and market-leading lease spreads. Another advantage is our integrated operating platform.

Our results at the property level are driven by our experienced and cycle-tested team, our strengths lie in being locally smart.

We focus on the right grocer, the right intersection in the neighborhood and the right opportunities to push rents, increase occupancy and improve merchandising at each center.

I started my career as a leasing agent and I spent several years as a property manager as well. I have managed teams to ensure the quality of the acquisition, management of the asset and merchandising of each center. This is why we believe it’s critical that we manage every step of the process.

We do all of our own acquisitions, portfolio management, leasing, property management, legal and administration. This allows us to ensure fast response times quickly turns high consistency and the best outcomes for each center.

The PECO team thinks like owners, and we believe it shows in our portfolio. When we think like owners, we understand the importance of everyone of our neighbors and creating the right merchandising mix and shopping experience at every center. When we think like owners, everyone benefits.

Our approach makes us a preferred landlord, validated by our 96% satisfaction score from our most recent neighbor survey.

We believe quality drives growth. PECO’s ability to see quality differently continues to be another advantage.

We have built a high-quality portfolio acquisition by acquisition that is capable of delivering strong long-term growth. PECO’s focus on quality is based on what we call SOAR.

We believe SOAR provides important and sustainable measures of quality, spreads, occupancy, advantages of the market and retention. From 2017 to 2020, our average cash leasing spreads were 9%. Combined comparable rent spreads for new and renewal leases were 10% in 2021.

Today we are achieving renewal rent spreads above 16%, new rent spreads north of 30% and 22% leasing spreads when combined on a trailing 12-month basis. PECO holds the number one position among our shopping center peers in terms of total comparable lease spreads as of the third quarter in 2024.

In addition, PECO ranks number one among our peers in renewal spreads in 2023 and also through the third quarter of 2024. The leasing spreads and rent growth that we are achieving and the strength of our leasing pipeline are clear evidence of the continued high demand for space in our centers.

PECO’s pricing power is a reflection of the strength of our focused strategy and the quality of our portfolio.

We expect new and renewal spreads to continue to be strong throughout 2025 and into the foreseeable future.

At the time of our IPO, PECO’s total portfolio leased occupancy was 95%. Today lease portfolio occupancy is 98%. PECO ranks number one among our peers in total leased occupancy as of the third quarter of 2024.

Our leasing team is focused on growing occupancy even higher and surpassing prior peak levels.

We continue to believe that we can grow in-line occupancy another 100 to 150 basis points.

We continue to see many advantages to the suburban markets where we operate our centers. PECO’s advantage of having the number one or number two grocer is well positioned in our markets with a locally smart merchandising mix.

Why do we care so much about being locally smart?

With the right mix of national, regional and local retailers, we create the optimum environment for sales growth for every neighbor at each center. The PECO team assembles the best possible mix of necessity-based retailers specific to each suburban market that we operate in. That is the art of PECO’s leasing. When we do this right, our neighbors continue to grow their sales, allowing them to thrive at our centers.

We maximize our ability to grow rents and NOI, very simple to explain, but very difficult to execute consistently, which is why you need a locally smart team like PECO where the average experience across our leasing group is over 20 years.

Another advantage of PECO’s suburban locations is that our centers are situated in markets where our top grocers are profitable. PECO’s 3-mile 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 U.S. median. These demographics are in line with the store demographics of Kroger and Publix, which are PECO’s top two neighbors.

In addition, according to Placer.ai, PECO’s suburban markets offer retailers several advantages in today’s environment.

Retailers continue to raise their long-term store-based targets in our markets because these locations have been proven to deliver the same or better store level economics as traditional locations. PECO's retention rates averaged 87% between 2017 and 2021.

Our portfolio retention rate is 92% as of the third quarter 2024. High retention rates result in better economics with less downtime and dramatically lower tenant improvement costs. Lower capital spend results in better returns.

The IRR on a renewal lease is meaningfully higher than the return on a new lease. We've looked at quality differently for over 30 years, and we continue to believe that SOAR is the best metric for quality.

Moving on to acquisitions.

We continue to believe that PECO offers the best opportunity for external growth within the shopping center space. These investments continue to be core to PECO's growth plans.

At the time of our IPO, we indicated that we expected to acquire $1 billion of net acquisitions in our first three years as a public company.

We expect to end 2024 at approximately $985 million in net acquisitions since our IPO, which assumes we hit the midpoint of our guidance for 2024.

We are very pleased with our progress, particularly given the macroeconomic environment and the high interest rates during this time. The prospect of overlaying our solid internal growth with external growth as the team energized. The investment opportunity continues to expand.

We are seeing strong activity and attractive entry points. Given the strength of the market, the pipeline we are targeting and the team we have at PECO, we believe we can achieve $350 million to $450 million and acquisitions on balance sheet annually on a long-term basis.

We have the capacity to acquire more if attractive opportunities materialize.

We continue to target an unlevered IRR of 9% for our acquisitions. If we look at everything we have acquired over the past few years, we are currently exceeding our estimated underwritten returns by over 100 basis points on average.

We will maintain our disciplined approach and focus on accretively growing our portfolio.

Our acquisition strategy will be focused on three areas going forward, our core grocery-anchored acquisitions, unanchored centers in existing markets, and investment management opportunities.

Our core grocery-anchored acquisition strategy is to buy rightsize grocery-anchored neighborhood shopping centers anchored by the number one or number two grocer by sales in the market.

Today this represents 84% of total ABR. PECO holds the number one position among its peers in percent of grocery-anchored centers at 97% of ABR. This is expected to continue to be the majority of our acquisition volume.

As we consider our unanchored acquisition strategy, we own hundreds of single and multi-tenant parcels like this today that sit near or adjacent to our grocery boxes.

Over the past two years, we have acquired a few independent unanchored properties in markets where we already have centers and our experience has been very positive.

We believe unanchored assets complement our core strategy; this addressable market opportunity is massive, while our underwritten expected returns have been 100 basis points higher than our core grocery-anchored acquisitions.

Our locally smart teams have market intelligence around our portfolio, and we believe there are select opportunities where unanchored centers have the opportunity to provide incremental growth for PECO.

We expect unanchored assets to be a small component of our investment portfolio. That said, we believe it could be over $100 million of our annual acquisition volume on a long-term basis.

In addition to our own balance sheet acquisitions, we continue to see long-term value from our investment management business. PECO has been in the investment management business since the company’s founding. This platform allows us to access incremental investment capital, expand our acquisition opportunity set and leverage our integrated operating platform while generating attractive ROI on our capital.

We have successfully managed nine investment vehicles over time including our most recent joint venture with Cohen & Steers. Again our core focus remains on buying grocery-anchored neighborhood shopping centers anchored by the number one or number two grocer by sales in the market.

There continues to be nearly 6,000 centers that fit this investment criteria.

We believe we see every grocery-anchored shopping center that comes to the market across the country given our scale, reputation, expert due diligence and ability to close with all cash.

We believe PECO is well positioned to deliver accelerated external growth. In summary, we believe the quality of our portfolio will continue to drive our accelerated growth strategy we believe PECO provides the best opportunity to maximize FFO and AFFO per share growth.

As Jeff mentioned, we continue to believe our portfolio can deliver mid- to high single-digit core FFO per share growth on a long-term basis. This will be driven by both internal and external growth. With that, I will turn it over to John. John?

John Caulfield^ Thank you, Bob. The PECO team has spent years preparing for accelerated growth and we have significant financial capacity to support these plans.

We are proud of our investment-grade balance sheet and strong liquidity position, which, combined with our proven access to the equity and debt markets provide us the ability to remain opportunistic as we look for incremental avenues to drive cash flow growth and add long-term value. Year-to-date, PECO’s balance sheet highlights include the completion of two 10-year bond offerings totaling $700 million in gross proceeds.

PECO has continued to preserve our low leverage ratios and we hold investment-grade ratings from both Moody’s and S&P. Earlier this year, S&P upgraded its rating for PECO to BBB flat and Moody’s upgraded its rating for PECO to Baa2. PECO’s Board of Directors increased the company’s dividend distribution rate by 5.1% this year.

We offer a predictable income stream from monthly distributions combined with our unique ability to drive internal and external growth.

We believe an investment in PECO provides shareholders with the right balance of stability and growth.

Importantly, PECO generates over $100 million of free cash flow after our dividend distributions and maintenance capital expenditures. Moving on to guidance and our long-term growth targets.

As it relates to 2024, we are pleased to reaffirm our full year earnings guidance given the continued strong operating environment. Next, I will walk you through our preliminary guidance for 2025 and then provide the components of our long-term growth assumptions.

Our initial net income guidance for 2025 is $0.54 to $0.59 per share. This represents an increase of 15.3% over 2024 comparing midpoint to midpoint.

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Our guidance for NAREIT FFO per share for 2025 is estimated to be in a range of $2.47 to $2.54. This reflects a 5.7% increase over 2024 comparing midpoint to midpoint.

Our guidance for core FFO per share for 2025 is estimated to be in a range of $2.52 to $2.59. This represents a 5.6% increase over 2024 comparing midpoint to midpoint.

Our same-center NOI growth for 2025 is projected to be between 3% and 3.5%, and our gross acquisition guidance for 2025 is projected to be in the range of $350 million to $450 million.

We have also provided initial ranges for the other guidance items used in your models in our presentation materials.

We are pleased with our preliminary 2025 growth rates for NAREIT FFO per share and core FFO per share, which are in the mid-single digits. That said, we believe this continues to be near the low end of our potential future growth.

Interest rates continue to be a headwind in 2025 growth as our weighted average debt cost is still below current and projected stabilized rates. However this headwind is less than 2024.

As we continue to enhance our neighbor mix, our actions in 2024 to improve merchandising and capture mark-to-market rent growth with new neighbors will also be a slight headwind to 2025 growth.

As we have said previously the PECO team is focused on the long term, and these actions are intentional. Growth from recent acquisitions and operating leverage on our same-center NOI growth are the main drivers of the estimated 5.6% growth in core earnings in 2025.

Looking ahead, our long-term leverage target of low to mid 5x on a net debt to adjusted EBITDAR basis is important to us. This is what we've communicated to equity investors, fixed income investors, and the rating agencies.

As we look to increase our transaction volume, we will opportunistically choose from our funding sources, which include the $100 million of free cash flow we expect to generate after we pay distributions, equity issuance, and debt issuance and dispositions.

We are not providing guidance at this time on the mix of these sources.

As we look at our guidance over the past several years, we believe that a net acquisition target has hampered our dispositions.

We were focused on delivering what we said we would.

So we had to ensure we were ahead on acquisitions before we consider dispositions. In the end, portfolio recycling is an important part of portfolio management, both to capture gains from the value we create and to manage risk.

So we are transitioning to providing gross acquisition guidance.

We will provide commentary on our funding sources along the way.

We appreciate your support with this change. Looking beyond 2025, we believe our portfolio can deliver 3% to 4% same-store NOI growth annually on a long-term basis.

We are at high occupancy levels in our portfolio. And although we believe we can continue to raise occupancy, we understand the skepticism that in-line leased occupancy can grow another 100 to 150 basis points.

So we are reiterating that we believe we can deliver 3% to 4% same-center NOI growth annually on a long-term basis without additional occupancy lift.

While we do believe that we can still push in-line occupancy higher, we don’t need it to deliver same-center NOI growth in this range, high occupancy in our portfolio, overall high occupancy in retail open air shopping centers due to the demand drivers that we’ve already articulated and no new construction give us pricing power to drive strong rent growth through both new and renewal rent spreads as well as higher annual escalators in our leases.

If you recall during our December 2023 Investor Day I walked you through the math behind these components including illustrative math around leasing spreads and rent bump growth.

We have posted this video clip to our Investor Relations website.

We encourage you to check it out.

Our long-term same-center NOI growth is coming from leasing spreads on new and renewal leases, embedded rent bumps that are now cruising around 110 basis points and growing and development and redevelopment projects.

The PECO team continues to invest in value-creating ground-up outparcel development and redevelopment projects.

On a long-term basis, we expect to invest $40 million to $50 million annually in these opportunities with weighted average cash-on-cash yields between 9% and 12%. This activity remains a great use free cash flow and produces attractive returns with less risk.

Our team continues to stay focused on growing this pipeline as the returns are accretive to the portfolio.

We believe that investing in redevelopment and ground-up development project is one of the best uses of our capital today enhancing long-term value. In summary, PECO's strong NOI growth is the result of a high-quality portfolio and our unique competitive advantages.

As we look to our long-term core FFO per share growth, PECO's core earnings growth is driven by both internal growth and external growth.

Our 3% to 4% same-center growth is worth between 350 and 550 basis points with operating leverage.

Our external growth, which includes the initial cap rate spread at acquisition to our cost of capital as well as the NOI growth we create at these acquisitions before they enter the same center pool is estimated to deliver 100 to 350 basis points of core FFO per share growth.

Together, this portfolio and this team can deliver mid- to high single-digit core FFO per share growth on an annual basis. This assumes stabilized interest rates, as we've spoken about ad nauseam, which is a near-term headwind.

However we're hopeful that we're near stabilization.

We also believe that our long-term AFFO per share growth can be higher as more of our leasing mix is weighted towards renewal activity.

We believe our targets for core FFO per share and AFFO per share growth will allow PECO to outperform the growth of our shopping center peers on a long-term basis.

We are excited about the opportunities before us, and we believe that we have the ability and capacity to execute our accelerated growth plans. With that, I will turn it back over to Jeff. Jeff?

Jeffrey Edison^ Before we take your questions, I'd like to take a moment to thank PECO's associates.

We have the best team in the shopping center space. PECO's highly experienced and cycle-tested team has proven that we can drive value at the property level and deliver market-leading results.

At PECO, we cultivate a culture in which our associates think and act like owners, in every decision they make every day. To nurture this owner mentality, we have granted every eligible associate in our company ownership through annual stock awards.

PECO's team owns approximately 8% of the company. Thinking like an owner aligns us with our investors; we have meaningful skin in the game and are committed to driving shareholder value.

Thank you, to all of our PECO associates for your dedication and hard work every day to maintain our competitive advantages and drive value at the property level. With that, we look forward to taking your questions.

Kimberly Green^ (
+++presentation
Operator Instructions) Our first question, can you speak to the current retail and leasing environment, and speak to what you were hearing from your retailers heading into 2025?

Jeffrey Edison^ Well I think -- let me start, Bob, and then I'll pass it over to you.

But the -- I think our feeling is the consumer continues to be strong.

We continue to see additional traffic to our centers.

That leads to a -- to our retailers being generally in a very positive position.

So I think we're in really -- we believe we're in a really good position and our retailers are indicating to that. That's one of the reasons we're as optimistic about 2025 as we are. Bob, any addition is that?

Bob Myers^ Yes. I would simply add that it's the strongest operating environment I've seen in roughly 20, 25 years.

With that, if you look at our overall portfolio of 97.8% anchor occupancy at 99.4%, in-line occupancy at 95% and retailers want to be in the number one, number two grocery-anchored shopping center in the business.

So coming out of ICSE in New York, retailers are very focused on finding new store counts for '25, '26 and '27.

So we continue to present sites to them.

I'm not seeing any cracks the demand is still very, very strong.

With the lack of supply, I have very good visibility into the next several months.

When I think about our leasing spreads, at 55% to the third quarter, renewal spreads at 20%, retention of 92%, we're in a very, very good spot looking out the next few years.

Kimberly Green^ Thank you, Bob. Thank you, Jeff. Next question.

We have quite a few on acquisitions, so we'll start with a question. This came from Dori Kesten at Wells Fargo.

So reaffirmed acquisitions guidance for 2024. Currently, that's a little shy -- so the number we put in the presentation and Bob, that you spoke to a little shy of our midpoint for the full year.

Can you provide some color on what's closed in the fourth quarter, where we expect to end the year and what's currently in the pipeline?

Jeffrey Edison^ Well I'll start and Bob fill in as well.

So we ended the third quarter at $211 million of acquisitions closed as of today.

We're at $255 million, and we anticipate by year-end meeting the guidance that we've put out there.

We are also, I think very optimistic about the fact that we have a very strong backfill of over $100 million of acquisitions that will come into next year.

So I think it helps us to feel really strongly about the opportunities for 2025.

The strong operating environment that we're just talking about that obviously leads to more interest in the grocery anchored shopping center business, and we're seeing that.

So there are more buyers coming into the market.

That being said, that we're also seeing an increase in volume. We've had very muted transaction volumes over the last several years in our space.

It's -- we've got a very big market.

That market does tend to sort of revert to the mean over time.

We think we'll see a much increased volume next year.

So we're optimistic that it will be a good year for us.

There'll be that balance between what we've -- the new sellers and then also the new buyers, and that gives us optimism, we're -- we feel really good about our position.

We've been the largest buyer of shopping centers over the last 10 years of grocery-anchored centers.

That makes us a lead buyer whenever somebody brings something to market.

So we see everything that comes to the market.

We also haven't expanded net in terms of our ability to go to markets across the country and find opportunities, those are things that we believe are unique advantages we have that are going to allow us to meet our acquisition targets.

Bob Myers^ And Jeff, if I could just add a couple of things on the acquisition front. We're going to end up closing the year in a really good position with our reaffirmed guidance, we'll be at the midpoint of that.

So $300 million, $305 million. Jeff mentioned the backlog going in the first quarter. It should be well over $100 million that we've been awarded or under contract.

So we feel really good about that.

What I do want to reiterate is the importance of staying true to our 9% unlevered return, so we will stay disciplined as we look at opportunities.

We will see more product coming to the market.

But again we're going to be a disciplined buyer going into next year.

Kimberly Green^ Thank you, Bob. Thank you, Jeff. Next question related to acquisitions guidance.

So for 2025, does that include joint venture.

So can you just clarify that?

Then also, what -- so if that includes the JV, maybe what portion of that is expected to be related to the JV?

Jeffrey Edison^ That number does include our share of that -- of the JV.

I’m not sure what numbers we have in there, but our what we would anticipate. And again this is our partner Cohen & Steers and will -- is back -- is behind us on this.

We’re going to buy whatever we can.

Our target -- our PECO target is $100 million into that for next year, and hopefully, we can do more than that into the Cohen & Steers JV.

Kimberly Green^ Right. A question related to Cohen & Steers, maybe provide an update on where we are heading into 2025?

And anything new that we should be thinking about from a joint venture standpoint.

Jeffrey Edison^ Well it’s -- we’re very happy with the progress we’re making on the Cohen & Steers JV.

We closed our first deal this year in it.

We have -- I think we have good runway going forward.

So we’re excited about that opportunity. They’re a great partner.

We’re both challenging each other all the time, and I think learn a lot from each other.

That’s a really positive part of the relationship.

So we’re excited about it, and we think it’s going to continue to create more opportunities for us to buy and expand our ability to buy assets in our space.

Kimberly Green^ Thank you, Jeff. Next question related to guidance for 2025, specific to uncollectibility. Maybe speak to the guidance range and why it’s different for ‘25 versus 2024?

Are you seeing any cracks?

Any changes to your watch list?

And how should we be thinking about that bad debt guidance going forward?

Jeffrey Edison^ John, do you want to take that one?

John Caulfield^ Sure. Thanks for the question.

So this was a topic we spent quite a bit of time on in 2024 on a number that is small relative to the overall portfolio. Let me address the second part first.

We are not seeing any cracks in the portfolio. Bob was sharing details on the operating environment, and that continues to be the case.

And in my prepared remarks, I talked about how we are proactively taking opportunities to bring in better merchandising neighbors into our mix, but also at really, really strong leasing spreads.

So as we are doing that, we did talk quite a bit about bad debt this year.

So when we look to our guide, it is a little wider than it has been. I would say that this range is, let’s call it, 60 to 120 basis points, but we are still committed to the same-store range that we provided.

But ultimately, it’s more because we want to be able to be within the expectations that we have and that you have and try to keep focusing on the more positive.

Speaking of positive, when we think about our watch list, it continues to be less than 2%.

We are very highly diversified in our portfolio and are not impacted in any meaningful way by even those retailers we may see in the headlines currently.

So we feel very good about our current neighbors.

We feel very good about our exposure to some of those names that are impacting others.

We don’t have that.

So we wanted the flexibility to continue in ‘25 to do what we’ve done in 2024.

Kimberly Green^ Thank you, John. A couple of follow-up questions related to that. Any specific neighbors embedded into those assumptions?

Then is that more of a -- is that visibility that you can see today?

Or -- like how much is that based on what you can see today versus more of a conservative starting off point?

John Caulfield^ I’ll go ahead and keep going.

So I would say it's more -- I would think from our expectation standpoint, there isn't any one neighbor that factors into this primarily because as I just said we're so diversified.

So any one doesn't have that big of a move for us. I would say what I would expect in '25 is more of what we've had in '24.

So what we did is we just created a greater a wider range, but we would expect it to be in line with '24.

We don't have any visibility in terms of whether it's accelerating or decelerating, but so hopefully, that will be at the historical ranges, but we just wanted the conservative approach for now.

Kimberly Green^ Thank you, John. Moving back to acquisitions. (Operator Instructions) Moving back to acquisitions, maybe can you provide some color on where you expect cap rates to shake out next year?

Compared to some -- like the mid to high six that we've seen this year?

Jeffrey Edison^ Well Kim, thanks and thank you for the question. We're -- as you know we are IRR buyers.

Our focus is making sure that we are getting the return for each property that we buy that is above a 9% unlevered IRR.

So that the cap rates are output of what our -- where we can get projects that we can get to above a 9% unlevered IRR.

So with that said, we think next year is going to have a pretty wide beta.

We anticipate that range being 5.5% to 6.5% on cap rates.

But again we're -- with what happened yesterday interest rates, we are concerned about the interest rate environment, not as much where it settles out, but that we get some stability in it so we can start to address where is the market on a return basis for not only our segment, but all of the retail segment and actually all the real estate segment, how is that going to be priced based upon where particularly the 10-year falls out.

And obviously yesterday did not give us a stable feeling, but we're hopeful that we'll get some stability next year that will allow that.

We do think that will have a direct impact on the amount of volume that we see on the acquisition side.

Kimberly Green^ Thank you, Jeff. Maybe along those lines, do you believe that the Fed would need to continue to cut rates in order for volumes to pick up?

And does that this Fed decision in ‘25 impact PECO’s guidance for acquisition next year?

Jeffrey Edison^ Again I get back to my last answer. Stability in interest rates is what will drive volume, has been our experience.

It takes time to reprice based upon where your cost of debt is.

We are looking -- so the uncertainty is sort of -- the uncertainty of the volatility is what we’re most concerned about.

We’ll get to the pricing over time, but we -- but the big moves in interest rate costs make it difficult for sellers and buyers to come together.

That’s why volume is traditionally down in more volatile times.

Kimberly Green^ Great.

Then as it relates to the acquisitions guidance for 2025, it obviously suggests a pickup in volume. What do you -- what are the main drivers of that pickup in volume from 2024?

And how do you expect the timing of acquisitions to play out throughout the year?

Jeffrey Edison^ Yes. I think one of the big drivers is where we see the current acquisition market and the backlog we have going into next year.

So that gives us confidence in where we think things are going to happen.

But as you know we’re very disciplined buyers. If the product isn’t there, we will not be buying it. That is our estimate of where the market will be.

If it’s more -- if there’s more opportunity that we will be well above that and if there’s less opportunity, we’ll be below that.

We’re not shy about that’s one area where we are going to make sure that we are getting the right product, we’re getting the returns that we want and that we’re very disciplined in terms of what we buy because that is -- if you look at it, the long -- as you think long term, what we’re buying today is going to have -- is going to drive a lot of what those returns are on a long-term basis, and it’s one of the critical decisions and the critical allocations of capital that PECO does.

Kimberly Green^ Thank you, Jeff. During the prepared remarks, you spoke to the shift in guidance away from gross or net acquisitions -- you shift to growth from net acquisitions and spoke to an interest in asset recycling without providing exact guidance, can you share some color on what you’re expecting or maybe what portion of your portfolio you could recycle on an annual basis?

And just maybe provide some additional color there.

Jeffrey Edison^ Sure. I think we have started talking about this over the last six to 12 months that managing your portfolio and what assets you buy and sell becomes more critical as we are in more fully occupied environment. And because of that, our feeling is that you’re going to have to be very strategic about not only your acquisitions, but your dispositions.

One of the things that we wanted to do in this process was to separate those two because they are different decisions.

The decision on the dispositions is both a risk decision as well as an opportunity to raise capital decision, which is different from what we’re buying, which is really we’re looking at how can we grow our portfolio and grow the internal growth of that portfolio through our acquisitions.

So it’s the separation of those two was our reasoning for separating the two in terms of our guidance. And because of the nature of the disposition market, we’re going to be slow in terms of giving guidance on that, and we’ll be giving you quarterly updates as that progresses.

Kimberly Green^ Thank you, Jeff.

So shifting to Kroger-Albertsons, as -- can you speak to the decision from the Fed or from that on the Kroger-Albertsons merger and how the outcome potentially impacts PECO maybe provide, given that where Kroger’s top landlord maybe provide an update on kind of how PECO’s speaking about the decision there?

Jeffrey Edison^ Sure. I guess we’ve been talking about this for two and a half years now.

I think our conversation at the very beginning was this was going to have difficult is going to be difficult to get is proved. It’s a big transaction, and it happens to be in a category that is very consumer-centric.

And the consumer has a very big view on groceries.

It's one of the reasons we love the grocery business is because it is a really critical part of the business. That puts you in the spotlight. That put Kroger in the spotlight, you put Albertsons to spotlight, and in this environment, as we have been saying, there was always a low probability that this was going to get approved.

And so as we said, the beauty going into this is we have really strong Albertsons stores and we have really strong Kroger stores.

That the status quo was a very good outcome for us.

That is really where we are.

I think that we can also feel -- we're generally positive about the -- how disruptive going through this process has been for both companies and their ability to get back to the basics and run their business and focus on the consumer. They'll say they were doing that, but this transaction was a distraction.

If we can get that off the plate, we think we're going to see better -- even better operations. And as you know we've had really strong sales from both Kroger and Albertsons and our stores.

But that being said, we think that there's room for improvement on the operating side, the focus.

I was at ICSE in New York, I was sitting down with the Head of Real Estate for Albertsons and he said that for the last three years or maybe it was 2.5 years, they have been operating under three different operating plans. All based on different outcomes from this thing.

It's really hard to run an organization with that kind of diverse view.

So it's our view is that this is a positive for PECO.

Kimberly Green^ Thank you, Jeff. Switching to same-center NOI outlook and looking at your guidance for 2025, it's a little the midpoint a little below the long-term same-center NOI guide for 3% to 4% for next year. Can you provide maybe some color on what is driving that?

Jeffrey Edison^ John, do you want to take that one?

John Caulfield^ Sure.

So I think as we look at kind of what we're trying to accomplish in this update today. It's really showing how we focus on the long term.

I would say that our actions in ‘24, and then we’re continuing to take as we turn the corner into ‘25 are for the long-term benefit of our assets.

And so in the prepared remarks, I referenced that our intentionality in working with neighbors to find other locations or to close so that we can move in stronger neighbors that are paying higher rents that, that is something that we’re going to continue to do.

So that is a transition in ‘25. And ultimately, as we look to our same-store guide and we talk -- we focused in the remarks about our same-store guide without occupancy lift.

Well it’s actually -- it’s not a lift. It’s actually even a little bit of a headwind in ‘25 for us because we’re so highly occupied in working through that transition.

So we think that there’s great opportunity in our portfolio, and we continue to see a really strong forward-looking environment that -- where we would continue to be intentional in this way.

So in ‘25, we’re at the lower end, but still feel really strongly about being in the range of our long-term growth with hopefully better growth in years to come.

Kimberly Green^ Thank you, John. Another question. When a PECO neighbor moves out either at their decision or PECOs, how much downtime do you typically have?

Maybe if you could provide the range and average?

Jeffrey Edison^ Bob, do you want to talk to that?

Bob Myers^ Yes, absolutely.

So when I think about spaces that would be up to 2,500 square feet, it’s typically five or six months. If you’re 2,500 to 5,000 square feet, it’s eight to nine months, anything over 10,000 feet, depending on who the retailer is and the condition of the space could be anywhere from 12 to 24 months.

On average, I would see a larger space over 10,000 feet be pretty consistent with about an 18-month timeframe.

But that’s what we’re seeing in our portfolio.

I do want to reiterate the importance of snow because getting our tenants in, open and operating, our format drives these results.

So you’ll see that we have a tight snow in getting these tenants in and open sooner.

Our average in-line space is 2,500 square feet.

So our average shopping center is 114,000 square feet.

So it does provide us some efficiency in getting our neighbors in and open and paying rent sooner.

Kimberly Green^ Thank you, Bob. Next question related to some of the macro headlines.

As it relates to inflation and potential tariffs, what's the tone you're hearing from your retailers?

Jeffrey Edison^ What we're hearing is there -- if there's one, I think consistent conclusion from the election, it is that if you want to keep your role in the government, you can't let inflation happen during your term.

It's a ticket to the other party running it.

I think that's both on the Democratic and the Republican side.

So we have a general belief that -- and we see -- in their conversation with our retailers, there's the belief that inflation -- high inflation like what we had at 9% is a real problem.

It's a problem that is unlikely if under the control of the government that they're going to allow that to happen.

You're going to see very strong actions from the Fed and also from the government overall in terms of if that becomes a problem.

Now our retailers have a little different look at inflation. They really don't like the -- I mean the publicity they get, the focus they get when we get into a high inflationary environment because of its impact on -- I mean when you're a necessity goods and you're at the corner main to main and you're servicing America, which is what our centers do and what our grocers do, you get a lot of the heat for inflation.

And I mean when you hear -- I mean it was one of the campaign themes the Democratic party was that the grocers were dodging. That is -- those -- that moves a lot of our grocers and our retailers to be like we don't want high inflation. The -- but they do like a little inflation because it actually helps them grow their business and helps them grow their profitability.

So overall, I think our feeling is that though there are a lot of things out there that would say we're moving into a higher inflationary environment, particularly if tariffs were effectively put in place. There's also a governor on that saying, "Well you let that turn into real inflation, you're going to -- it's going to be a problem." And I think our retailers are focused on that.

The other piece that our retailers are doing is they are actively hedging their risk with regard to tariffs and with regard to immigration and the cost of labor. They're actively putting things in place today to try and address those issues if they were to happen.

So there -- what I would say is they're hedging their bets.

It starts with the big guys. It starts with Walmart and what it's doing, but it actually trickles through the entire retail chain.

Kimberly Green^ Thank you, Jeff. Next question, more of a modeling question. Can you speak to the year-over-year change in your guidance -- 2025 guidance for noncash revenue items?

Jeffrey Edison^ John, you're going to have to answer that one.

John Caulfield^ So I will take that one.

So when we look to our -- the non-cash guide, part of that is going to come from the acquisitions that we're making.

So again those all those leases reset.

But I would also say kind of speaking to some of the neighbor activity that we described that as those come online and also as we continue to push rent bumps, higher rent bumps into our leases that does drive that indication or that result where you get a bit more straight line upfront on new acquisitions and then (inaudible) leases.

Kimberly Green^ Thank you, John. Another question related to acquisitions.

So looking at your increased activity for 2025, do your plans anticipate or assume issuing equity as part of this funding in 2025?

Jeffrey Edison^ John, do you want to go through what -- how that fits into that one.

John Caulfield^ Sure.

So as we look at it, we'll provide more updates as we go, but we kind of talked about it in the prepared remarks and even Jeff mentioned it a little earlier.

For us, we’re trying to think of our different funding sources, as we look at it, equity is something that we would consider and adjusted debt as well as dispositions.

So I would say to execute our plan, we have all the resources that we need, we have different scenarios that we’ve run that would say a small amount of equity, I mean certainly less than $100 million, we’ve got disposition.

So that’s what we’re working through now.

We continue to provide an update when we release our end of year in February as we continue to go through that.

I would say from a modeling perspective, I think the key parameters to consider are we are providing FFO ranges that you can kind of use.

But I would also say that we’re very positive on our leverage. We’re 5.1x today.

We’ve reiterated our commitment to being in the low to mid 5x on a debt-to-EBITDA basis and believe we can execute that plan.

I would say it wasn’t asked, but when we think about the reaction in the market yesterday and now the 10 year is over 4.5, I think it really does speak to the risk management aspect of ensuring that you’ve got loan duration in your debt maturities as well as we have no meaningful maturities really until ‘27.

So that gives us time to access the capital markets, whether that be the equity markets, whether that be the debt markets.

That’s something that I know that we’re very focused on is so that we can optimize when we raise that capital.

Jeffrey Edison^ Yes.

The only thing I would add there is match funding is core to our strategy.

So what mix of debt and equity it takes on will tie -- will also be tied into the assets that we’re buying so that we’re tying in long-term cash flow from the properties with long-term debt.

So we’re not taking those risks onto the company.

Kimberly Green^ Thank you, Jeff. Thank you, John. (Operator Instructions) Next question, what is your current view on larger portfolio acquisitions and would your return thresholds be any different?

Jeffrey Edison^ We’ve had a very consistent view on portfolios. If they are going to trade at a portfolio premium we are not buyers. If they’re going to trade at a portfolio discount, we’re interested.

We don’t want to get in a position where we are buying projects and our plan is we’re going to sell 70% of them to buy the 30%. That to us is not as good a strategy as our individual acquisitions.

So we do -- we have -- like we do on the rest of our acquisition, it’s a very disciplined approach to those.

We would love to buy a portfolio, but consistency and the pricing have not allowed us to be active in that market, though we have underwritten every deal that every major transaction that’s done and looked at from a pricing standpoint. Unfortunately, it just hasn’t gotten to the pricing that we would like to have it.

Kimberly Green^ Thank you, Jeff. Follow-up question as it relates to acquisitions with the expected increased competition, is PECO needing to adjust its underwriting or quality or any other criteria to accelerate your external growth over the next couple of years. Can you provide some color there?

Jeffrey Edison^ The answer is no.

We are not adjusting those.

We are maintaining our discipline.

We think that our broad reach and our ability to buy in multiple markets across the country, that gives us a real advantage.

We also are the largest buyer of individual shopping centers, grocery anchored shopping centers across the country. That gives us a huge advantage.

And we think that -- with those, we’ll be able to meet our targets and -- but as I said earlier, of all of our guidance, the acquisition is the one that we may exceed by a lot or we may not be because you have to keep very disciplined in terms of what you buy.

We will do that.

But based upon where we are today we think it’s a -- that’s a very reasonable guidance.

Kimberly Green^ Next question as it relates to acquisitions on the unanchored front. Maybe a couple of questions here. How do you think about the potential risk to your acquisition strategy to the portfolio when you’re looking at an unanchored center, would you buy an unanchored asset in a market you’re not currently in today?

Jeffrey Edison^ The answer to that one is no.

We would not be buying in markets that we have no exposure to. I think for us, -- this is a business that we have been doing for 30 years. We’ve been buying centers around centers that we have. This is not a brand-new piece thing to us.

We -- we’ve been taking -- buying out lots. We’ve been putting Starbucks and small multi-tenant buildings on our outlets. We’ve been buying adjacent land. Those are all things that we have been doing.

We’ve been getting outstanding returns on them.

And what this is taking that strength and expanding it so that we can take advantage of opportunities that we can find. They will be selective.

We -- but -- with the progress we’ve made in the few acquisitions we’ve made, we’ve had very positive results.

So we feel really good about the opportunity. It’s a huge market. It’s a very inefficient market.

We love that.

But it is also -- it’s a difficult underwriting and they tend to be smaller in size than our traditional center.

So you need to do it to get to the numbers, you’re going to do more transactions. And -- but we’re really optimistic about it.

We think it’s a great potential sort of add-on to our acquisition activity, and we’re excited about.

Kimberly Green^ Thank you, Jeff. Right, I think we’re getting close to the end of the questions that we have received on the webcast. Again you have a question to type it in. Question as it relates to merchandising mix, maybe as we look at 2025 and going forward, are there certain retail categories that PECO’s leasing team is focused on?

Jeffrey Edison^ Bob, do you want to take that one?

Bob Myers^ No. I appreciate the question.

So absolutely, coming out of ICSE in New York, we continue to see our leasing pipeline and where a lot of the growth is coming from is going to continue to be fast casual, health and beauty, med tail and service uses. When you look at our portfolio of owning the number one, number two grocer, 114,000 square feet on average, with our in-line space is averaging 2,500 square feet, we fill a lot of boxes with that merchandising.

The key thing for us on merchandising is really focusing on the right retailers that are necessity-based. When I look at our in-line retailers, we’re 70% of our ABR is necessity-based.

So that’s going to continue to be a focus.

But again these retailers in those categories are looking for new sites and ‘25, ‘26 and ‘27.

So we feel like we can meet that need.

Jeffrey Edison^ Merchandising is such a critical part of our business, and I don’t think we talk about it enough. I don’t think we get enough questions about it because what -- if you’re a great operator every day at each center, you’re trying to figure out what’s the optimal mix of neighbors to maximize the value of the center and the sales of that center.

What that does is allows us to maximize our rents.

But the -- if thing is like each trade area and has different customers. It has different demographics. It has different road patterns, different access and visibility.

All of those things play into who’s going to shop at your center?

And how do I make sure that we have the number one place that people want to shop at. And -- and because of the nature of leases, you can’t do it all at once. You have to do it.

It’s like a long war where you keep fighting for it and you fight each because as each lease comes up, you’ve got to upgrade the merchandising to that market.

And what that will allow us to do is to continue to grow the rents in our center, but also increase the quality of the center, which leads to a really strong value creation at the property level.

But again it’s not done on a portfolio basis. It’s done center by center. Each of our 300 centers is a different business and has a different kind of merchandising mix that’s optimal for it.

That is -- that’s really the hardest part about our business.

And we think it’s one of the things that has differentiated us over time because we’ve been doing it for 30 years.

We have made the mistakes and we’ve learned from them, and we actively have the team that puts that merchandising into place.

Kimberly Green^ Thank you. All right. This concludes our question and answer session. If you have additional comments, just reach out to the PECO team. We’re happy to do any follow-ups.

So with that, I will turn it over to Jeff for some closing comments.

Jeffrey Edison^ Well thank you, Kim.

Thank you, everyone, for your questions. From our first shopping center, we’ve grown our portfolio to over 300 centers with annual NOI of over $400 million.

As you heard from the team, we still execute space by space remaining locally smart in our execution, and we focus on driving value at the property level. PECO is a growth company.

We have consistently delivered on both internal and external growth.

We believe now is the time to accelerate PECO’s growth, and we are -- have unique advantages and a focused strategy that we believe will allow us to deliver strong internal and external growth on a long-term basis.

By staying in our lane and continuing to focus on rightsized, high-quality grocery-anchored neighborhood shopping centers, we are confident in our ability to grow PECO’s total enterprise value to more than $10 billion over the next three to five years.

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

Thank you for your time today. Have a great holiday season.