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PRESENTATION

Operator

Good day, and welcome to Phillips Edison & Company's Third Quarter 2023 Earnings Conference Call. Please note that this call is being recorded. I will now turn the conference over to Kimberly Green, Head of Investor Relations. Kimberly, you may begin.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

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 Once we conclude our prepared remarks, we will open the call to Q&A. After today's call, an archived version will be published on our website.

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

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thank you, Kim, and thank you, everyone, for joining us today. The PECO team delivered another solid quarter of growth with same-center NOI increasing by 3.2% and continued strength in portfolio occupancy and rent spreads. This performance has allowed us to reaffirm the midpoint and tighten the range of our 2023 core FFO guidance. The midpoint represents year-over-year growth of 2.6% despite interest expense headwinds of $0.10 per share. We believe we will continue to deliver positive earnings growth despite interest expense and other macro headwinds.

The continued strength of our operating performance is attributable to our differentiated and focused strategy of exclusively owning grocery-anchored neighborhood shopping centers anchored by the #1 or #2 grocer by sales in a market and our ability to drive results at the property level through our integrated and cycle-tested operating platform. Today, we see a continued strong operating environment and a transaction market that has improved.

The consumer continues to be resilient, and our grocers continue to drive strong foot traffic to our centers. We remain 98% occupied, which gives us pricing power. Leasing demand continues to be elevated for our inline spaces, and we have limited exposure to big box retailers. We have a great balance sheet and are well positioned for accretive acquisitions.

We have seen an increase in deal activity beginning in the third quarter as cap rates continue to adjust in response to higher interest rates. Based on our current pipeline, we have increased the low end of our guidance range for acquisitions. While it's still a market in transition, we are confident in our ability to close on $250 million to $300 million in net acquisitions this year. We continue to have a very disciplined acquisition process. We remain focused on accretively growing our shopping center portfolio at the right price, while achieving our acquisition hurdle of a 9% unlevered IRR. The acquisitions that we will complete in the second half of the year underwrite to a 9.5-plus unlevered IRR.

With PECO's experienced in-house acquisition team, we are well positioned to continue to grow our portfolio. The PECO team looks forward to sharing an update on our acquisition strategy, including case studies, our underwriting process and our targets for 2024 during our Investment Community Day on December 14.

In September, Kroger announced the divestiture plan with C&S Wholesale Grocers in connection with the proposed Kroger/Albertsons merger. We remain cautiously optimistic about the impact on PECO. We continue to believe it is ultimately a positive for PECO, for our centers and for the communities that our centers serve. While the market still gives the merger a low probability of occurring, should it close and 413 stores are sold to C&S, the impact on PECO is a net positive.

C&S has been operating for over 100 years, and they're one of the largest wholesale operators with demonstrated experience in retail operations. We believe the recent announcement is potentially a better outcome for PECO than a new SpinCo that Kroger and Albertsons had considered. Importantly, should the merger occur, the majority of our Albertsons stores will be operated by an excellent operator in Kroger. If the merger does not occur, our Albertsons-anchored centers will continue the strong performance that they have enjoyed to date.

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

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

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

Our leasing team continues to convert strong retailer demand into higher occupancy with higher rents at our neighborhood shopping centers. Anchor occupancy ended the quarter at 99.3% leased, representing a year-over-year increase of 40 basis points. Inline occupancy increased 10 basis points sequentially to 94.9%, representing a year-over-year increase of 130 basis points. We believe there is still upside in our inline occupancy given the continued strong demand for space. As of September 30, in-place ABR per square foot for our inline neighbors increased 5.2% compared to a year ago.

We continue to capitalize on strong renewal demand and are making the most of the opportunity to strengthen key lease terms and drive renewal rents higher. Specifically, for the third quarter, we achieved a 16.9% increase in renewal rent spreads. In terms of new lease activity, we continue to have success in driving meaningfully higher rents. New rent spreads for the third quarter increased 26.3%. We expect that leasing spreads will continue to be strong through the balance of this year and into the foreseeable future.

PECO's retention rate remained strong this quarter as well at 93%. An important benefit of high retention rates is that we have much lower TI spend on renewals. In Q3, we spent less than $1 per square foot on TI for renewals. The exact amount was $0.88 per square foot. On average, our new and renewal inline leases executed in Q3 had annual contractual rent bumps of 2.5%, an important contributor to our long-term growth rate. The leasing spreads that we are achieving, combined with our strong retention rates, are clear evidence of the continued high demand for space in our grocery-anchored centers. Our continued pricing power is a reflection of the strength of our strategy and the quality of our portfolio.

During our upcoming Investor Day, you will hear from our operations team leaders on how the PECO team delivers growth at the property level and why we remain confident in our ability to deliver long-term, same-center NOI growth of 3% to 4% on an annual basis. The team will be prepared to share insights on why our assets are successful, our strategic locations in suburban markets, our right-sized format and the other advantages we enjoy in the markets where we operate.

Turning to redevelopment and development. We continue to invest in our value-creating, ground-up outparcel development and redevelopment projects, which remain an excellent use of our free cash flow and deliver very attractive returns. Year-to-date, we have stabilized 10 projects, delivering over 223,000 square feet of space to our neighbors with incremental NOI of approximately $2.9 million annually. These projects provide superior risk-adjusted returns and have a meaningful impact on our long-term NOI growth. For the full year 2023, we continue to expect to invest $35 million to $45 million in ground-up outparcel development and redevelopment opportunities with rated average cash-on-cash yields on this activity between 9% and 12%. During our upcoming Investor Day, the PECO team will provide an update on our pipeline of ground-up development and redevelopment projects across our portfolio.

PECO continues to benefit from a number of positive macroeconomic trends that create strong tailwinds and drive strong labor demand for us. These trends include a resilient consumer, hybrid work, migration to the Sunbelt, population shifts that favor suburban communities, and the importance of physical locations and last-mile delivery. The impact of these demand factors are further amplified due to limited new supply being created over the last 10 years and going forward, given that current economic returns do not justify new construction.

In summary, our differentiated strategy continues to position PECO well for continued steady growth in all economic cycles. This is due to: our exclusive grocery-anchored focus on centers anchored by the 1 or 2 grocers in a market; our necessity-based neighbor mix; our right-sized format; our well-positioned locations in growing suburban markets; our high occupancy with continued strong labor demand for space; our high leasing spreads and retention rates; our well-diversified neighbor mix; our lack of exposure to distressed retailers; our strong balance sheet; and most importantly, our well-aligned and cycle-tested team.

I'd now like to turn the call over to John. John?

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Thank you, Devin, and good morning and good afternoon, everyone. I'll start by addressing third quarter results, then provide an update on the balance sheet, and finally, speak to our updated 2023 guidance.

Third quarter 2023 NAREIT FFO increased 70 basis points to $72.5 million, or $0.55 per diluted share, driven by an increase in rental income from our strong property operations. Results were partially offset by higher year-over-year interest expense of $4 million as well as a one-time, non-cash impairment charge of $3 million related to a third-party investment. Third quarter core FFO increased 50 basis points to $77 million, or $0.58 per diluted share, driven by increased revenue at our properties from higher occupancy levels and strong leasing spreads, partially offset by higher interest expense.

During the quarter, we acquired Lake Pointe Market, a grocery-anchored center in the Dallas, Texas suburbs, for $12.9 million. We expect to drive growth by increasing occupancy and enhancing merchandising mix in addition to the potential for development of outparcels. In addition, we purchased a land parcel adjacent to the Market Place at Pabst Farms located in a Milwaukee, Wisconsin suburb. We expect to drive growth through expansion development opportunities.

Subsequent to quarter end, we acquired 1 property and one outparcel. Mansell Village, an 89,600 square foot shopping center, is anchored by Kroger in an Atlanta, Georgia suburb. We expect to drive growth in the asset through occupancy increases and rent growth. As of October 31, PECO is under contract to acquire additional assets that are expected to close during the fourth quarter of 2023. This will bring our net acquisition volume for the year to between $250 million and $300 million.

In the third quarter, PECO issued approximately 2 million shares under our ATM facility, which resulted in net proceeds of $70.1 million. Our gross weighted average share price was $35.59. Assets acquired year-to-date and currently in our pipeline are accretive to earnings per share at these levels. We were intentional in match funding these acquisitions with equity at a time when our access to the equity market was favorable, while keeping our leverage low. In addition to the recent term loan extensions, this issuance delays our need to go to the long-term debt market, which we believe is currently unfavorable.

From a balance sheet perspective, we ended the quarter with approximately $714 million of liquidity, including cash and capacity on our $800 million credit facility. Our leverage ratio continues to decrease as a result of our strong earnings growth and our equity issuance with our net debt to adjusted EBITDAre at 4.9x as of September 30, 2023. Our debt had a weighted average interest rate of 4.1% and a weighted average maturity of 4.4 years when including extension options. 82% of our debt was fixed rate.

As you look at our floating rate debt exposure, our long-term target is to limit our floating rate debt to less than 10% of our total debt. We are currently in an unusual environment, given the inverted yield curve, wider spreads and other factors, which is why we're exercising more patience before locking in long-term rates. Our lack of near-term maturities provides us with flexibility to be patient. That said, we remain focused on all options to meet our long-term target as soon as possible. Between the free cash flow generated by our portfolio and the significant capacity available on our revolver, we remain confident in our ability to successfully fund our growth plans.

Turning to guidance. We've updated our NAREIT FFO and core FFO per share guidance. Primarily due to a one-time, non-cash impairment charge related to a third-party investment, we have lowered our NAREIT FFO guidance to a range of $2.23 per share to $2.27 per share. We have reaffirmed the midpoint of core FFO guidance and tightened the range to $2.31 per share to $2.35 per share. As Jeff mentioned, the midpoint represents year-over-year growth of 2.6% despite interest expense headwinds of $0.10 per share. We also reaffirmed our same-center NOI guidance in the range of 3.75% to 4.5%.

Importantly, despite the impact of higher interest rates and other macro headwinds, we are delivering earnings growth due to the continued strong performance of our portfolio, driven by leasing spreads, occupancy and high retention. We plan to provide preliminary guidance for 2024 and updates on our long-term growth drivers during our upcoming Investor Day.

With that, I'll turn it back over to Jeff. Jeff?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thanks, John. Before we get to your questions, I'd like to acknowledge the press release we issued yesterday announcing changes to PECO's leadership team. Devin will step down as President on December 31. At that time, Bob Myers, currently COO, will become President. And Joe Schlosser, currently Head of Portfolio Management, will become Chief Operating Officer and an Executive Vice President. This is a combination of our long-standing succession plan.

I would like to extend our sincere gratitude to Devin, who has worked side by side with me to transform PECO into one of the largest owners and operators of grocery-anchored neighborhood shopping centers in the country. Bob and Joe are extremely talented, proven leaders and team players who have been critical to the consistent strength of our operating performance. They have played an important role throughout the majority of PECO's 30-year history, growing the portfolio into what exists today. Bob and Joe have been with PECO for over 20 and 19 years, respectively. They have successfully managed operations, development, acquisitions and dispositions through multiple cycles. I am confident they will continue to scale the portfolio from here, and I look forward to continuing to partner with them in delivering long-term growth and value creation.

Devin will serve as the Managing Director of Investment Management through his planned retirement at the end of June. During this time, he will work closely with me and the team to ensure a seamless handoff of his current responsibilities. Devin is also in discussions with the Nominating and Governance Committee about joining PECO's Board of Directors following his retirement.

I would also like to highlight the recent appointment of Tony Terry to serve as an independent director of PECO's Board effective October 30. We are delighted to welcome Tony to the Board. With more than 3 decades of public company business experience working with senior management and boards to drive growth and innovation, Tony brings a proven track record of strategic planning, corporate and operational finance, regulatory matters and capital allocation. We're excited to have Tony on our Board.

With that, we look forward to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Caitlin Burrows at Goldman Sachs.

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

Maybe to the topic of the floating rate debt exposure. You guys mentioned the long-term goal of under 10% floating rate. And then you also mentioned that the equity issuance during 3Q was to match fund acquisitions. I know you don't have meaningful debt maturities in 2024, but there are interest rate swaps expiring and other floating rate debt out there. So I'm just wondering if you can comment on kind of your ability, and then separately, the willingness to use equity to reduce that floating rate debt.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

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

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. Good morning, Caitlin. So at the end of the quarter, we were 82% fixed rate on our debt. And higher interest rates are certainly a headwind. We're estimating that for this full year, it will be about a $0.10 impact on our -- as a headwind. But we continue to have positive core FFO growth for the year. So with this uncertainty in the environment, we are taking the position to float more of our debt than the 10% floating rate target. And we do believe that the long-term debt market continues to be unsettled as spreads are wide, given the volatile treasury environment and things going on in the macro. We do want to be a long-term issuer, and we do have that long-term target of 10%. But we think accessing those longer-term fixed rate instruments will be more appropriate when there is more stability in the market and liquidity in the capital markets.

So I think that the piece for us when it comes to issuing debt and equity, it's really -- it matches with our acquisitions. And so as we look at the acquisitions that we have upcoming as well as those that we made, when we looked at the equity that we were and where we were raising that price, we know that it's accretive to earnings, and that was important to us. So I think it's going to be a combination of both that we can -- we're able to borrow accretively with the acquisitions and the same with raising equity. So I think it'll be both, but it will depend on that availability. I mean overall, our leverage of 4.9x, and as you said, no meaningful maturities for about 24 months, gives us that flexibility to be patient. And so in this market, that is -- you'll see us float more than we otherwise typically would.

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

Got it. Okay. But it doesn't sound like you're necessarily looking, or maybe the option's open to use equity to address some of that near term.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes, I was going to say that exactly.

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Yes.

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

Got it. Okay. And then maybe just turning to acquisitions. In order to make the guidance range that you guys put out with the updated range, it seems like there's either a lot of properties or some larger deal that you're expecting to happen in the fourth quarter. So I'm just wondering if you can comment on the types of properties you're seeing for sale and then which are most attractive to PECO at this time.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. Well, there's no major transaction. These are multiple transactions with multiple sellers, consistent with our existing strategy. And we've been, as you know, we've been cautious the last several quarters on the acquisition side. And a lot of these deals are deals that have worked through during that longer period of time with price concessions and a variety of different tools that we've had to get these to where they made sense for us. And we feel really positive about the projects, and we think that they are sort of fairway in terms of fitting with our core strategy.

And I think we're -- when we underwrote them and got to sort of a mid-9s plus in terms of an unlevered IRR, we felt that we were being sort of risk awarded for being active in a market that is, as you know, is very fluid right now. And one of the things that got us comfortable with it was when you looked at the price per foot we were paying, it was under $260 a foot, which really for us is going to continue to give us really strong pricing power in these particular markets to be able to really drive growth and be able to grow our earnings from these particular properties. So we're very excited about the properties we've got under control. And as we said, we feel comfortable we'll be in that $250 million to $300 million range.

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

Got it. And sorry, just one quick thing. You mentioned there, Jeff, price concession. By that, do you mean that the -- over the course of the discussions, the seller was willing to settle on a lower price to get it done?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. I mean, I think they were -- in this environment, you've got to have sellers who are eyes open to the market and what's changing with the -- in this interest rate environment. And so we -- I think getting a seller who is realistic about where the market is today is one of the more important things in the acquisition process and continues to be front of mind for us to make sure that we can -- we're not wasting our time. We're actually spending it on things. And fortunately, these deals have worked through. Thanks, Caitlin.

Operator

We'll go next to Jeff Spector at Bank of America.

Jeffrey Alan Spector - *BofA Securities, Research Division - MD and Head of United States REITs*

Great. And first, congratulations to Devin, Bob and Joe. A follow-up question to -- on acquisitions. Did I miss it, Jeff? Did you discuss the cap rate range? I heard you say an IRR of 9% plus. But anything on kind of cap rates?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

I think the way I would look at it is we've seen, in our view -- first of all, you know that we're really not cap rate underwriters. We're unlevered IRR underwriters. But if you do sort of translate that back, and you say there's been 100 to 150 basis points movement in cap rates, I would say that we're seeing that in the marketplace today. We're not seeing a huge volume, but we are seeing that in the market today.

Jeffrey Alan Spector - *BofA Securities, Research Division - MD and Head of United States REITs*

Okay. And I know these things are hard to forecast, but it feels like then things are improving a bit since we last saw you. And you said the transaction market, it is improving. I guess, do you think that things will open up even more in 2024, again, those conversations are improving with the sellers? Or again, 2024 is just uncertain at this point?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

I would say uncertain at this point. I mean, there continues to be a big beta in terms of acquisition volume. We're trying to give you guys as much direction as we can, but it's a difficult environment. And it's a really tough environment when you are moving to really what is a much more of a buyer's market than a seller's market. And we've all been through those transitions. They take a long time and they're difficult. And so you really -- these are the times you got to be more disciplined than ever in your underwriting and in your patience to get to where you think the pricing -- the right pricing is.

So we're -- I wouldn't look at 2024. I hopefully will give you some more clarity at our investor meeting in December, but it's choppy. Each deal has a story to it today, and that means it's going to be -- I think you're going to -- it's going to be a choppy environment. But I would say that generally, we're optimistic that we'll have a decent backlog going into next year, so we'll be in a decent position going forward.

Jeffrey Alan Spector - *BofA Securities, Research Division - MD and Head of United States REITs*

And then just my last question. Devin, you talked about still improving inline occupancy or increasing that I assume next year, the following year. At the same time, we are seeing -- and John talked about macro headwinds, right, that more retailers reporting misses, more concerns over the consumer going forward. How are you balancing, I guess, the leasing decision? Are these more local tenants, regional, national? What are you doing as the environment is -- it does seem to be changing here with the consumer, right? You've been doing this a long time. So how do you, I guess, change the leasing strategy, or do you not?

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

Yes. I mean, Jeff, we're very focused on the health of the consumer and the volatility among retailers, and we stay focused on that. That being said, we believe we can grow our occupancy by -- our inline occupancy by circa 100 basis points. So to take it up from where it is today, which is just under 95% to 96%. And the reason we feel that is because when we look at our retention rates and we look at our spreads, the demand for our space continues to be very high. You're seeing our renewal spreads increase every quarter-over-quarter. So our re-leasing spread on renewals in the third quarter of last year were 15.5%. This quarter, they were 16.9%. So again, we're seeing the retailer who's obviously most aware of their conviction in their business model being willing to remain in our centers at higher rents, and they're also signing up for higher rents at higher CAGRs. So again, the environment as of the moment continues to be strong, and our perspective is that it will continue to be so based on what our leasing team tells us about our pipeline.

And then in terms of uses, again, our view is, Jeff, over 70% of our rents come from necessity retail. Our view is that necessity retail will continue to prove to be more resilient in an economic downturn. And there are certain components of retail where they're thriving. And if you look at like foot traffic data for fitness, year-to-date it's up 7%. Foot traffic for beauty, year-to-date up 7%. So there are categories that are continuing to be strong and are enjoying increased tenant consumer traffic. And then lastly, our foot traffic remains consistent with what it's been over the last 1.5 years. So all these things go into the mix and give us the confidence that we'll continue to grow our inline occupancy and continue to maintain our strong spreads.

Operator

We'll go next to Mike Mueller at JPMorgan.

Michael William Mueller - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I guess following up on the prior acquisitions and balance sheet questions. Should we think of the 4Q transactions as having a pretty healthy equity component in there as we saw in Q3?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes, I think that's fair, Mike. I mean we -- I'm not exactly sure how you're sort of laying that out. But when we're at sub-5 debt to EBITDA, we've got a strong equity component of the things we're buying. And as you can see, we're matched funding with the ATM to make sure that we're keeping a really strong balance sheet while we're spreading our external growth through the acquisition model.

Michael William Mueller - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes, that's what I was -- maybe I phrased it the wrong way, thinking about utilizing the ATM in 4Q as you did in Q3 to keep that up.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes, we'll see. Again, we're -- we've kind of focused on the acquisition pipeline we have right now. A lot of that will be driven by the acquisition pipeline we have going into -- that we find accumulating over the next couple months and then into January.

Michael William Mueller - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Got it. And then I guess on the portfolio side, I think the spread between your economic and leased occupancy is 20 bps. Where do you see the more normalized level? Is it 50, 60, 70, somewhere in that neighborhood?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

John, do you want to take that?

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. Mike, yes, it's typically, historically, over a long period of time, it is 60 basis points. I think part of that is that as we get to these higher occupancies, I would imagine you will continue to see this compressed. But there will always be a gap of some sort, just through the natural churn of neighbors until we get to 100% retention. But 20 basis points is very strong. But I would say on a more normalized basis and depending on the timing of deliveries, I would say, 50 to 60 basis points is reasonable.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thanks, Mike.

Operator

We'll go next to Haendel St. Juste at Mizuho.

Haendel Emmanuel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Sorry about that. Yes. So first of all, congratulations to Devin. It's been a pleasure. And thank you, Bob and Joe. My first question, I guess, is on the updated same-store NOI guide, 3.75% to 4.5%. Still seems pretty wide with where we are in less than a year and implies some decline in the fourth quarter year. So maybe some color on what's going on there. Maybe what the range kind of assumed at the top and the bottom and perhaps why it's still so wide at this point in the year.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

John, do you want to take that one?

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. I'll take that. Hi, Haendel. So really, the guide is just a -- as we have looked at it, in the third quarter, I referenced it was still very strong, but it was a little more because of really more activity from 2022 than anything in 2023. And as we look at the fourth quarter, we continue to see strength from an operating standpoint, but we do have, I would say, more normalized bad debt. So kind of bad debt or uncollectibles was about 57 basis points in the quarter, but on a full year basis, it's only 48 basis points. And so this portfolio is typically between 60 and 80 basis points. And so I think that is weighing a little bit on the fourth quarter, but still projecting to be a good growth quarter year-over-year, but then also on a full year basis with that range. And we just -- we wanted to affirm at the kind of where we were from an overall guide, but would expect it certainly to be more towards a middle range in there, around the midpoint.

Haendel Emmanuel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Got it. Got it. Okay. Maybe a bit more then on potential bad debt or the wastes specifically. Can you talk a bit about maybe any neighbors or categories that you're concerned about and if you're seeing anything that gives you any pause, like perhaps a delay in timing of rent payments.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Dev, do you want to take the sort of the retailer point of it? And then, John, if there are any specifics on the numbers, that'd be great.

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

So Haendel, our watchlist continues to be moderate. The top 10 neighbors that currently sit on our watchlist represent 2.4% of our total ABR. As you know, given our strategy, we have very limited exposure to distressed retailers. The retailers that have filed bankruptcy year-to-date, Bed Bath, Party City, Tuesday Morning, they aggregated 40 basis points of ABR in our portfolio. So again, given the strategy we have and the well-diversified neighbor mix that we have, we do not have any meaningful concerns in the portfolio. We have zero Rite Aid. And so our tenant -- our neighbor mix is extremely well diversified. We do not have exposure to the weaker retail categories. And so we don't have a concern, Haendel, in terms of fallout from distressed retailers.

Haendel Emmanuel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Got it. And then one more, if I could. One of your peers recently announced a spinoff with an emphasis on convenience assets. I'm curious if you guys have looked into this asset class. If so, do you think it can fit within your overall strategy of owning necessity, but its retail risk with -- necessity owned retail with low anchor risk. And kind of curious high-level thoughts you might have on it.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. Haendel, we have -- it's an area that we have been in before. We know it fairly well. And I think there's opportunity there. It is a -- it's not a -- in my mind, it's not a boilerplate kind of business. It's a property-by-property business at a very small asset size. And you have to have the right organization team set up to actually be able to find the right opportunities at the right prices and with the right overhead, given that you've got a much smaller size asset. But we find it sort of intriguing and have looked at it a number of times and have owned a number of centers that were in that category over time, and they've done fairly well.

And I think the -- to me, the thing that the message there is the strength of the small store retailer. And when you get into that category, that is who you are talking about. And as you know, our experience with the small store retailer has been very positive. And we've -- both on a delinquency standpoint, bad debt standpoint, across the board, they have been very resilient in multiple cycles. And I think that's what you're seeing here is the lack of new construction and the strength of the small store retailer, it's a strategy to take advantage of that. And I don't -- it'll be really interesting to see how the market reacts to it because it's not -- it's something we've been talking about for a long time in terms of the strength of the small store retailer, but it hasn't been universally accepted. I mean there are still a lot of people who are very questioning of that. And it'll be interesting to see how the market transforms and looks at that concept.

Haendel Emmanuel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

I appreciate the color and the perspective. But just for the final dot at the end there, doesn't sound like that's something that's imminent for you. You see enough opportunity with the core assets that you're looking at where this perhaps won't be a focus for you anytime soon.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes, Haendel. We never say never, and we continue to look at opportunities like this. But again, there's a difference between a strategy and looking for specific opportunities. For us, it's much more a specific opportunities thing. Are there specific opportunities near centers that we've got where we have a really good vision into the market? Are there other opportunities there? And as you can see from some of the things that we've acquired, outlots and the rest, there are -- we believe in that. And we believe that when you have the local knowledge that we do at our specific properties, you do have a competitive advantage in terms of acquiring in those markets.

Operator

We'll go to our next question from Juan Sanabria at BMO Capital Markets.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - MD & Senior U.S. Real Estate Analyst*

Just wanted to follow up on the fourth quarter acquisitions. I believe last year, the weighted average cap rate for acquisitions was about 6.1%. So would you say that at 100 to 150 basis points, as per your prior comment, like a low to mid-7s cap rate is indicative of where the market is today? Or is that more for acquisitions that would close in the fourth quarter and may be backward looking because the market, like you said, is fluid and maybe cap rates would inch up further from that kind of low to mid-7s range?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

So Juan, are you really trying to get us to give you a cap rate? I think you're sneaking up on us on that one. Yes. The answer is we -- I think the 100 to 125 basis points, 150 basis points movement was probably more from prior to that, sort of when the cap rates were more in that 5.5% range. So take that for what it was. But we had already seen movement when we were in that low-6s range from where we thought the market had sort of peaked out. So I think that would give you a general feel that it's not -- it's more in the mid-6s range than it is a low-7s range from our perspective of where the market probably falls out today. But those are projects that have significant upside to them. So when things get stabilized, it does -- that's why we try not to talk about cap rates but really unlevered IRRs, because there are 7 cap rate deals today that generate an unlevered IRR of a 7.5 or an 8, and those are not things that we are looking at. Though they have a nice yield to them, they're not where we think the market is.

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - MD & Senior U.S. Real Estate Analyst*

And then just one of your peers, Simon, commented about seeing some softness on the lower end consumer. And I take your point about not really having any exposure to the bankruptcies to date and the watchlist being pretty small. But where would you see, if the lower end consumer gets hit, where would you expect to see maybe some pressure amongst your neighbors? Any categories or anything that you could eliminate would be helpful.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. I think you have to start by defining what lower end is, because if lower end is $50,000 median household incomes and below, we really don't have exposure to those markets. Those are lower end markets than where we are at. But when you talk 10% above the median household income number, which is where we are, we are not seeing any traces of what you're talking about. And these are high $70,000 median household income, which is sort of right over where Kroger and Publix are, even a little above them in terms of median household income.

So we're -- I would say that we aren't seeing that. Where we would expect to see that is what we've I think talked about before is you start to see -- I mean, we're very fortunate to be in the necessity side of business. So when we're talking about impact, we're not talking about the kind of impact you have on the discretionary side of the business. But on the -- even in our part of the business, what you see in a really difficult recession is you start to see the brand name categories in the grocer, people changing those shopping habits to private label where they can get a better pricing. You can see transitions from the Whole Foods of the world to the Krogers and from the Kroger to the Aldis, you can see that transition as well. I would say from our conversations, we are not seeing that in the market today. But again, that's just our -- the niche that we're in that we're not seeing those -- any significant changes. Does that answer your question?

Juan Carlos Sanabria - *BMO Capital Markets Equity Research - MD & Senior U.S. Real Estate Analyst*

Yes. And I forgot to say congratulations to Devin.

Operator

We'll take our next question from Todd Thomas at KeyBanc Capital Markets.

Todd Michael Thomas - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Equity Research Analyst*

Yes, congrats, Devin, on your retirement. Congrats to Bob and Joe on their new roles. First question, I guess. Yes, circling back to the fourth quarter acquisitions. So look, it sounds like the upside growth opportunity is fairly meaningful. And I was just wondering if you could talk about -- just provide a little bit more detail around either the blended average occupancy rates across the acquisition pool and the occupancy lift that you're expecting? And maybe talk about the mark-to-market opportunity over time. Just curious if you could break out the growth a little bit more that you're underwriting. And then are these assets under contract at this time?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. They're under control or contract or towards closing, and some of them are firm. So we have -- I'd say we have a strong degree of commit -- we have belief in them closing. So Todd, you gave me a great opportunity to advertise for our Investor Day. We are going to go through a lot of this stuff in a lot of detail in December, and we hope that everybody on the call can be there for that. And we will give you I think the types of clarity that you're looking for.

To just give you a little bit of color, the projects have -- that we are looking at, they fit that #1 or #2 grocer in the market concept that we have, but they have vacancy. And they also have, in our mind, below -- not below market rents in the existing base where we think we can grow those. So I think those will be the 2 biggest opportunities. There are some outlot development opportunities in these assets that we will take advantage of. And there are some adjacency opportunities where we may be able to buy some additional land to expand them as well. But they fit -- they're very much fairway in terms of having all the pieces of growth that we traditionally have in our portfolio, only they're a little bit -- there's more of it because we've completed that on a lot of the centers that we have. So I think there's more upside through that. And we will definitely go through some case studies on these assets in December at the investor meeting.

Todd Michael Thomas - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Equity Research Analyst*

Okay. Is there any appetite for ground-up development today, aside from the outparcel program? Seems like there's a lot of demand from smaller format grocer, specialty and discount. Does development pencil at all? And is there any appetite for some smaller scale developments?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. I would say it's very anecdotal. There are -- the answer is no, but there are examples where there is some happening, but it's such a small piece that it's not real. And it's just -- it's really hard. I mean we're buying these projects at $260 a foot less than that. So if you -- to do new development, I mean, to get anything in the $300 a foot range in new development is really, really hard. I mean it's much more likely to be in the mid-4s in terms of --. So the answer is it doesn't pencil in the vast majority of the cases. And there are exceptions, but in terms of any real impact, yes, we don't see a window to ground-up development.

And as you know, we've done that throughout our history a lot of different times. But we're -- I would say that that opportunity is very slim, and it's a tremendous amount of work for what is probably a marginal return from our perspective at this point and no return in a lot of the things that we're seeing. So we are -- as you can tell, we are not really ground-up development at this point thinking that it creates an opportunity for us, other than our outlot stuff where we really are doing a triple net lease kind of business, and that continues to be very profitable for us.

Todd Michael Thomas - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Equity Research Analyst*

Okay. And John, just last question. What was the $3 million non-cash charge related to the investment in the third-party company? What was that related to?

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. So in the quarter, we recorded a non-cash impairment on investment that we made several years ago. There was a neighbor that was seeking a high capital investment to open in several of our shopping centers. And as part of the deal, we negotiated for an investment interest in the company with those funds to be invested in our centers. Unfortunately, that operation was not successful in our centers, and as such, we wrote off our interest in the company this quarter. This is the first and only time we've invested in a neighbor, so we don't have other instances of this. I would note that that's where we do talk to our core FFO guidance, which we did affirm and tighten that range, which we use the metric that best highlights our ongoing recurring business.

Operator

(Operator Instructions) We'll move next to Floris Van Dijkum at Compass Point Research and Trading.

Floris Gerbrand Hendrik Van Dijkum - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

I will also wish Devin much success in his new venture. And hopefully, you will not lose his advice if he's going to join the Board. He is well respected throughout the industry. So congrats, and congrats on the new guys. Question for you guys. Obviously, issuing equity I think makes a lot of sense. If you issued at $35, you could issue it even today at the current share price, it would appear. That is something that nobody else in the shopping center sector has to be able to tap the equity market. So I would encourage you to look at that to fund those acquisitions going forward as well.

My question is on the growth. Obviously, the underlying growth was down a little bit. I know there were some one-off events. Higher bad debt obviously being a big part of that. Maybe if you can give a comment a little bit on the underlying growth expectations. Clearly, it seems like the fourth quarter could also be slower than what has occurred so far this year. Should people be concerned about having -- you having reached peak growth and growth slowing down from where we are today?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Floris, thank you. And yes, we're not going to let Devin go. He'll still be around helping us as he has for the last 10 years. So I don't think that's going to be anything -- obviously a major transition for us.

But on the -- John, maybe you can help on the growth side. But what I want to make sure we don't --. We're still in an unbelievably strong operating environment. And there are no like cracks that are saying, oh, this is about to happen or -- I mean it will. I assume it will happen at some point when we get -- when we end up in a recession, but we're not seeing any of that right now. If you look at our retention rates, you look at our retention spreads, those are really, really strong numbers. And I think we'll continue to be able to drive really good internal growth through that. And less of it will -- more of it will come through spread than from occupancy increases, but it's still in a really good spot.

And as you can see from our guidance, we do believe that there's also a really good external growth possibility for us or opportunity there. And we're taking advantage of that while being careful to make sure we manage our balance sheet to where we're sort of match funding that opportunity. And as John pointed out, these are accretive. Not only initially accretive to us, they have really good growth potential for us. So we're very optimistic about what this -- our external growth is going to be able to help us drive. And if you want to -- John, I don't know if you want to go through the pieces of that and how we're seeing that. Would that be helpful, Floris?

Floris Gerbrand Hendrik Van Dijkum - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Sure.

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Yes. So Floris, I would say that as we look at the fourth quarter, as I mentioned, with the bad debt, that's really more related to 2022 activity than anything we see in 2023. I mean when we look at the end of the quarter at kind of our reserves relative to our AR, those reserve as a percentage of that AR just continues to come down. But ultimately, when you're at 57 basis points -- and I put that up against anyone else in terms of performance there -- you do see that change. And so I would say that when you look at the full year, we're going to be over 4%. And then as we look to next year, and again, quick plug for our Investment Community Day in December, we're going to highlight that we believe that this portfolio organically can continue to deliver 3% to 4% same-store growth.

And we've provided the pieces before, but I think there's a concern around occupancy. But occupancy is a sign of strength and we're actually turning that into pricing power with renewal spreads and new leasing spreads and using that to push embedded rent bumps. And so we'll get into the components at our Investment Community Day, but we feel very strongly that we will be able to continue to deliver 3% to 4% growth for the foreseeable future.

Floris Gerbrand Hendrik Van Dijkum - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

If I can maybe follow-up. I noticed that -- and I think Devin or I think might have mentioned this, or maybe Jeff did as well, I can't remember. Your spreads on your local tenants -- or local neighbor, excuse me, are higher than on your national ones. Now I wonder, does that mean that their rents were initially lower? And are the new rents in line with the national tenants? Or are they actually paying a premium rent to be in your centers?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Dev, do you want to take that one?

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

Sure, Jeff. Floris, thanks for the kind words. On the local neighbors, their spread is slightly higher than the non-local. So in the third quarter, the renewal spread on locals was 19.8%, and on our total portfolio, it was 19.6%. So it's fundamentally the same number. The reason we like the local neighbors, and the reason we believe that they're a strength of our portfolio is, number one, they've been in our centers for an average of 9 years. So they're successful retailers that are sticky.

Number two, the average cost per square foot that we have to spend on TIs for the local neighbor versus the nationals to achieve the same rent is about 50% of the TI that we have to spend on the national tenant. So we're getting comparable rents, comparable spreads, they're sticky, and we're spending a lot less. That's the economic side of the equation. And then on the non-economic side, they are much less difficult in terms of leasing terms such as non-compete, et cetera. And so our view of the local neighbor is that we're getting a meaningfully better economic deal, a better non-economic deal, and these tenants are meaningfully more resilient in our portfolio than a lot of investors believe.

Operator

We'll move next to Ron Kamdem at Morgan Stanley.

Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Just a couple quick ones. So going back to the interest cost question. I think last quarter, we sort of talked about, I think it was like a $10 million headwind year-over-year in 2024. So obviously rates have moved. But just wondering, is that still sort of the right zip code we should be thinking about, or has anything changed there?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

John, do you want to take that?

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. Ron, so as we look to 2024, that is something that we will talk about at our Investment Community Day. You're right. The curve has moved, but it's still moving. And I think that what you're hearing from us is it's important that we think the low leverage that we have is really the best strength we have as we balance the different options we have available to us. And so in terms of the dollar amount of interest expense, I mean, we do plan -- and I believe we said this -- we do plan to provide initial guidance for 2024 at that Investment Community Day. And I think the -- as you're looking at models and things, that interest number is highly dependent upon what your acquisition assumptions are for both the balance of this year and next year. So it's a little bit harder for us to talk specifically about like a dollar amount, but it is -- it's a headwind this year that we've quantified at about $0.10 on our earnings in 2023. I would say based on what we see, it's at least that for into 2024.

But I do want to take a moment to say that based on the operating performance and the strength of our centers that we've all been talking to, we do anticipate we will have positive FFO growth in 2024. So I'm not exactly answering your question because there are more variables and inputs to it, but we hope to provide more clarity in December.

Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Great. That's helpful. And then I want to go back to something else that was brought up, which is the record occupancy target. We've talked about sort of new tenant verticals. I think Medtail was one that you guys have mentioned. Just maybe can you remind us when you're thinking about that new occupancy, record occupancy target, how much of that is from the sort of new tenant verticals pushing occupancy up versus just being smarter about sort of how you use space in the portfolio?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Dev, do you want to take that one?

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

Sure. Ron, thanks for the question. Again, we believe that we have upside in our inline occupancy of circa 100 basis points, and that'll be realized over the next 5 quarters type of timing. The type of tenant use that we are seeing the strongest demand for is, again, Medtail, as we discussed on a number of recent quarterly calls. So Medtail today is 6% of our ABR, and it's 20% of our leasing pipeline. So the demand from Medtail tenants continues to be extremely strong.

Again, health and beauty is another category where we're seeing strong leasing demand. That's 11% of our current leasing pipeline. We like medical for a lot of reasons. Most importantly, they're very sticky. The Medtail tenants that are in our portfolio have been in the centers for on average 10 years. Health and beauty tenants are also very sticky. The health and beauty tenants in our portfolio have been in place for on average over 11 years. So those are the uses where we're seeing continued strong demand. Those are uses that we like a lot. We think they add to the merchandising mix. We think they drive consistent traffic to our centers. And then they stay in our centers for a meaningful amount of time.

Ronald Kamdem - *Morgan Stanley, Research Division - Equity Analyst*

Great. That's it for me. Congrats, Devin and the rest of the team. Pleasure working together.

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

Appreciate it, Ron.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thanks, Ron.

Operator

And we'll go next to Dori Kesten at Wells Fargo.

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Congratulations on all the management changes. What percentage of your small shop leases have contractual bumps over 3% today? And where do you think that you can push that to over the next year?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Devin, do you want to take it or John?

Devin Ignatius Murphy - *Phillips Edison & Company, Inc. - President*

Sure. I'll -- Dori, I don't know off the top of my head what percentage have bumps above 3%. We will come back to you on that. Our average in the third quarter was 2.5%. So we'll have to come back to you on what percentage have above 3%, and we will do that.

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Dori, I was going to say, so really, when we look at it, the overall contribution to NOI growth is up to 80 basis points of our NOI growth is coming from overall escalators. And we believe that that number is going to continue to rise. And Devin, given the pieces on the escalators, we just think that that's an area that we can continue to grow to 100 basis points or better.

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And then when you look at assets you've sold this year and last, what is the realized unlevered IRRs been?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

So Dori, when -- are you asking what -- for our hold period, what were the unlevered IRRs?

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Yes.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Is that what you were -- yes. I don't have the specifics. It's actually -- I mean, we actually do a full analysis of each property as we sell it. They have -- I know that across the board, they have been well above our targeted 9% unlevered IRR. But I don't have the -- what exactly the number is for -- across that board, but I can certainly get that to you.

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. That's fine.

John P. Caulfield - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Jeff, I'll just jump in there. The answer is that when we look at there's -- over assets that we sold in the years, the actual underwriting would have been -- because at the time in a lower interest rate environment, the underwriting was certainly lower. We outperformed by over 100 basis points, and the actual under realized was over a 9%. But we -- relative to what we anticipated, we actually exceeded that underwritten unlevered IRR by 100 basis points on assets that we've taken full cycle from acquisition through management through disposition.

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thanks, Dori.

Operator

And we'll go next to Paulina Rojas at Green Street.

Paulina Alejandra Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

My question is about the Kroger/Albertsons merger. And excuse me if you mentioned this at the beginning and I missed it. But my question is, so C&S experience seems to be more in the wholesale world. And what do you feel confident that they would be good operators of grocery stores at a large scale?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes, Paulina. Thanks for the question. The answer is that's a big question mark out there. I mean they do -- they've been a wholesaler for 100 years. They have -- they do operate stores specifically. I don't think they're of the quality of store that we would like, but they do have a history of actually operating stores in addition.

The thing from our perspective is relative to a propco where you have basically a separate company stepped up, we think they clearly are better than that. The question is, how good of an operator are they? And honestly, we won't know until they get in and operate. We do want to emphasize, the market is still saying there's not a great chance this merger's going to go through. I mean there -- I think you're still a mid- to high-teens discount between Albertsons stock price and where they would exchange in the Kroger merger. So the market's still I think skeptical about whether it's going to happen or not. I think the -- and there's still a big question about what -- how good these guys are going to be as a true grocery operator. Paulina?

Paulina Alejandra Rojas-Schmidt - *Green Street Advisors, LLC, Research Division - Analyst of Retail*

Sorry, I'm breaking up, I think. But I -- answer, thank you. And then my other question is, of course you raised money. Probably you're not the best company to ask, but what are you seeing in the lending environment? And have you seen more distress from owners? It seems so far that it's more a matter of rate, but the financing is available. So anything you can share in terms of what you're seeing, especially from --

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Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. I would say that we are not seeing a lot of owners on the market with projects that where they can't get financing. So that hasn't happened yet. It probably is a little early for that to happen, if that's going to happen at all. But that -- we haven't seen that happening. We do hear that there is some pressure, particularly in the regional banks which were a source of a lot of family office financing and some of that that when loans come due, it's a more complicated negotiation, and there are certainly some of those assets that will come on the market. We haven't seen a big splurge of that yet, but it is certainly something that is I think a pretty good possibility.

But again, as you know, our business on the grocery-anchored shopping center business, it's a really fragmented ownership. So you would expect that we will see when you have a kind of change in interest rates that we've had, that there will be some disruption in terms of ownership. I would say that if you look at the deals that we have done and or have under contract now in the second half of this year, it hasn't been family offices in distress. It's been other types of sellers as a whole. So the answer is we anticipate that, but we have not seen that. Thanks, Paulina.

Operator

And this concludes our question-and-answer session. I would like to turn the call back to Jeff Edison. Jeff?

Jeffrey S. Edison - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thank you, operator, and thanks, everybody, for being on the call today. In closing, we remain focused and committed to successfully executing our growth strategy, both internal and external. We believe that we continue to generate more alpha and less beta in the markets we're in and the properties and given our very specific strategy. In addition, we still have one of the lowest levered balance sheets in the shopping center business. This gives us the financial capacity to successfully meet our acquisition objectives. We look forward to providing additional information about our outlook and business plans during our upcoming Investor Day. On behalf of the management team, I'd like to thank our shareholders, PECO associates and our neighbors for their continued support. Thanks again for being on the call today and have a great day.

Operator

And this concludes today's conference call. Thank you for your participation. You may now disconnect.
