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EDITED TRANSCRIPT

PECO.OQ - Q2 2021 Phillips Edison & Co Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Phillips Edison & Company's Second Quarter 2021 Results Presentation. My name is Josh, and I will be your conference call operator today.

Before we begin, I would like to remind our listeners that today's presentation is being recorded and simultaneously webcast. A replay of today's presentation will be available this afternoon on the Investors section of the Phillips Edison & Company website at phillipsedison.com/investors. The company's earnings release, quarterly financial supplement and 10-Q were issued yesterday, August 5, after market close. These documents are available for download on the Investors section of the Phillips Edison & Company website at phillipsedison.com/investors.

I would now like to turn the call over to Michael Koehler with Phillips Edison & Company. Sir, please proceed.

Michael Koehler - *Phillips Edison & Company, Inc. - Director, IR*

Thank you, operator. Good morning, everyone, and thank you for joining us. I am Michael Koehler, Vice President of Investor Relations with Phillips Edison & Company. Joining me on today's call are our Chairman and Chief Executive Officer, Jeff Edison; our President, Devin Murphy; and our Chief Financial Officer, John Caulfield.

Because this is our first earnings call as a publicly traded company, during today's presentation, Jeff will provide some background on Phillips Edison's 30-year history and our unique and differentiated strategy. Jeff will also discuss our transformative underwritten initial public offering that closed on July 19, 2021. John will then review our second quarter operational and financial results, our recent capital markets activity and discuss our guidance. Jeff will then return to provide an update on acquisitions and recap our long-term growth strategy. Following our prepared remarks, we will answer questions from the institutional analyst community.

Before we begin, I would like to remind our audience that statements made during today's call may be considered forward-looking which are subject to various risks and uncertainties as described in our SEC filings. In addition, we will also refer to 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 release and supplemental disclosure issued yesterday, which are available for download on our website.

With that, it's my pleasure to turn the call over to Jeff Edison, our Chief Executive Officer. Jeff?

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

Thank you, Michael, and good morning, everyone. Before we get into our results for the quarter, I would like to provide a brief overview of Phillips Edison, speak to our differentiated strategy, highlight our portfolio and review our growth plans.

We are one of the nation's largest owners and operators of neighborhood grocery-anchored, omnichannel shopping centers. We've built our fully integrated operating platform for 30 years, our team of 300 associates is experienced, engaged and competitive. Our senior management team has an average of over 27 years' experience and 14 years with PECO. Our bench is broad and deep.

This team has successfully navigated numerous business cycles. We brought our first center in Danville, Virginia in 1991, which had a net operating income of $260,000. Today, we have 294 properties and an annualized net operating income of over $350 million.

Importantly, this team is also aligned with shareholders. Every associate who's been with PECO over 1 year own stock in the company. They think like owners. I personally have never sold a share of PECO, and PECO leadership owns approximately 7% of the company. It's hard to find better alignment than having meaningful skin in the game.

Our mission is clear and has been consistent for 30 years. We create great omnichannel, grocery-anchored shopping experiences, and we improve our communities one center at a time. We are grocery-centered and community-focused.

One thing that you may hear during this presentation today is that we call our tenants our neighbors. Why do we call our tenants our neighbors? Because we work hard to create community at our centers and we treat our retailers as neighbors in that community. We believe in customer service and think it helps to remind the organization to treat our tenants like we would our neighbors.

Our strategy is simple. We own and operate grocery-anchored neighborhood centers. Our centers are typically an open-air center that's 3 miles from your home. It sits at the corner of Main and Main, not Exit 15 on Interstate 80. It has a 45,000 square foot grocery store and is open 24 hours a day. You shop there twice a week, more than any other retailer you visit. This is the center you run to when you forget ketchup and you're grilling burgers for dinner.

In addition to groceries, you can also get a lot of your necessity-based goods and services from the 65,000 square feet of small store shops at our centers. Think haircuts, dry cleaning, fast food, fitness and medical. Think Starbucks, Chipotle, Orangetheory, Walgreens and Wells Fargo.

Our centers are not where you go to get your electronics or home improvement goods, discount clothing, sporting goods or office supplies. Those are power centers. They're usually twice the size of our centers. As you'd expect, these 2 types of centers are in very different businesses and have very different economics.

We get 35% of our rent from our grocers. On average, our customers come to our centers nearly 2 times a week. We have limited exposure to big box retailers. We have pricing power and leasing. Historically, leasing demand has been consistently high for a 2,100 square foot average in-line spaces. Our capital requirements are significantly lower for keeping our centers fully occupied as well.

We focus on owning centers with the #1 or #2 grocer within the market, a neighbor base with omnichannel strategy, where the grocer has both buy online and pick up in store, or BOPIS, and home delivery capabilities. It has high exposure to neighbors selling necessity-based goods and services, and a trade area with favorable demographics for our neighbors to be successful. Each of these components are critical to our success.

When it comes to our centers, we believe that format drives results. Our average center is 113,000 square feet, which is the smallest in the REIT shopping center universe. We own smaller centers in targeted neighborhood locations. Our centers create a positive leasing dynamic and align well with retailer demand. We see retailer demand is concentrated in smaller footprint stores. Considering the average size of our in-line neighbors' 2,100 square feet, we believe our centers are best positioned to meet retailer demand.

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Our smaller centers allow for better growth because of our high retention rates and high re-leasing spreads. Our retention rates averaged 87% between 2017 and 2020. High retention rates result in less downtime and lower TI costs. This leads to higher NOI growth. From 2017 to 2020, our average cash re-leasing spreads were 8.8%, providing a meaningful avenue for NOI growth.

Over the past 3 calendar years, our total CapEx, including development and redevelopment spend as a percentage of our NOI, has averaged just 20%. Our smaller format centers and lower exposure to secondary anchors require less CapEx than other retail real estate. Lower CapEx leads to higher AFFO.

73% of our ABR comes from neighbors that offer necessity-based goods and services. This means that we have limited exposure to high-risk retail categories like apparel, department stores and home furnishings.

The top markets in our portfolio are Atlanta, Chicago, Dallas, Minneapolis-St. Paul and Denver. But we don't think about markets this way. We don't compete in MSAs. We compete at the neighborhood level, on the corner of Indian School Road in North 28th Street in Phoenix, and the corner of Vierling Drive and Marschall Road in Minneapolis.

We target trade areas where our grocers and our small stores can be successful. Our average population density and median household incomes mirror that of Publix and Kroger, our top 2 neighbors. We make money where our top neighbors make money.

Our 3-mile demographics, as you'd expect, are typically of the average American suburb. We have 61,000 people with a median household income of $68,000 in our average 3-mile trade area. Our shopping centers provide necessity-based goods and services to the average American.

Our portfolio was built one asset at a time. We purchased 280 centers for over $4.7 billion between 2012 and 2018. On average, we bought over $670 million of properties per year during this time frame. More recently, we were the largest acquirer of neighborhood centers among our peers between 2018 and 2020. Acquisitions are an important part of our growth story.

The following are PECO's key drivers of growth. Growing rents is the base of our internal growth strategy. Over the last 4 years, we have had sector-leading leasing spreads. We lease up vacant space to new neighbors. At June 30, 2021, we were at 90.6% in-line occupancy. We believe we can continue to increase this over time. We have built-in rent bumps from in-line neighbors. We've been able to build at least 2% rent bumps into approximately 80% of the new leases we have written this year, in addition to our strong re-leasing spreads.

We execute redevelopment opportunities. These are primarily made up of outparcel development opportunities where we can build single-tenant or multitenant space on the existing or acquired land. These are, on average, $2 million per project. Our redevelopment opportunities also include teardown and rebuild opportunities with our grocers. We're targeting an average of 9% to 11% incremental underwritten yields on these projects. Our current projects are expected to deliver an average underwritten yield between 9.5% and 10.5%.

As I noted, we have a strong track record of growing through acquisitions. We selectively acquire new assets that fit our focused strategy. Our plan is to purchase over $1 billion of assets over the next 3 years.

PECO has grown consistently for 30 years, and we built a platform scaled for growth. We also have a best-in-class balance sheet that positions us for growth. We believe that there are also macro, demographic and economic tailwinds in our markets, which will augment the growth. These include the shift to work from home; the population shift to the suburbs into the Sunbelt, where approximately 50% of our properties are located; and the consumers buying locally.

We believe our strategy generates superior risk-adjusted returns. Our targeted acquisition strategy in lower-profile trade areas allows us to purchase properties at initial yields 50 to 100 basis points higher than in coastal markets. We upgrade and remerchandise centers we acquire.

This lowers the risk of our properties and creates income growth and value. Better going-in yields plus better growth plus lower CapEx leads to superior returns.

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Importantly, our portfolio has performed well in up cycles and proven to be resilient in down cycles. This delivers more alpha and less beta to our shareholders.

Throughout our 30-year history, having access to low cost of capital has been a key driver to our success. On July 19, 2021, we completed our underwritten initial public offering, issuing 19.5 million shares of stock at $28 per share, generating $547 million of gross proceeds. This capital gives us the strongest balance sheet in the strip center REIT space, with a debt to adjusted EBITDAre ratio of 5.5x. With this balance sheet capacity, we can add external growth to the internal growth we generated year after year.

The IPO is a major milestone for our company, but it is the beginning. And we remain focused, motivated and committed to successfully executing our strategy. With that, I will now turn the call over to our CFO, John Caulfield. John?

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

Thank you, Jeff, and good morning, everyone. Our results continue to benefit from the reopening of the economy as 100% of our leased ABR is open for business for the second consecutive quarter. Leased portfolio occupancy totaled 94.7% compared to 95.6% at June 30, 2020; anchor-leased occupancy totaled 96.8%; and in-line occupancy totaled 90.6%. The leased occupancy to economic occupancy spread was 60 basis points for the quarter.

During the quarter, we executed 124 new leases and 174 renewal leases and options, totaling 1.4 million square feet. Comparable new lease rent spreads were 18.5% and comparable renewal rent spreads were 8%. Combined rent spreads were 10.4%.

Our in-house leasing team has been busy executing new in-line leases with neighbors like the UPS Store, Jersey Mike's, Wingstop, Popeyes and Starbucks. Demand from retailers to be in our well-located, grocery-anchored centers continues to be high, illustrated by our strong leasing metrics and our 85.5% retention rate for the quarter. We continue to be optimistic about our long-term growth prospects.

Collections during the second quarter of 2021 were 98% of our monthly billings, and we're on the cusp of reaching our pre-COVID collection levels which were typically between 99% and 100%. COVID validated our thesis that our necessity-based portfolio performs well in the good times and outperforms in the challenging times.

Our first quarter 2021 collections increased to 98%, up from our originally announced figure of 95%, and fourth quarter 2020 collections increased to 97%, up from 95%. As of June 30, 2021, our outstanding balance of missed billing was approximately $12 million. Of this figure, approximately $5 million is to be collected under executed payment plans. We continue to work with our neighbors in order to collect unpaid billings. The $12 million of missed billings represents less than 3% of our total billings since April 1, 2020.

Our second quarter core FFO increased 24.3% to $64.3 million. On a per share basis, core FFO increased by $0.13 per share to $0.50 per diluted share during the second quarter of 2021. The increase in core FFO for the second quarter was driven by improved collections and lower interest expense. Core FFO per share also benefited from fewer shares outstanding as a result of our tender offer which closed in December 2020.

Our second quarter 2021 same-center net operating income, or NOI, increased to $87.7 million, up 10.5% from a year ago. This improvement was primarily driven by stronger collections compared to 2020. Further driving the increase was a $0.57 or 4.5% increase in average base rent per square foot.

Partially offsetting these improvements was an 80 basis point decrease in average same-center occupancy and reductions in recovery income, primarily related to a lower recovery rate in the aforementioned occupancy decrease. Please note that our same-center NOI includes 268 properties that we have owned and operated since January 2020.

As of June 30, 2021, our net debt to adjusted EBITDAre was 7.1x compared to 7.3x at December 31, 2020. Adjusting for the IPO proceeds, including the full allotment of the greenshoe we received this week, our net debt to adjusted EBITDAre was 5.5x.

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At June 30, 2021, our debt had a weighted average interest rate of 2.9% and a weighted average maturity of 3.7 years. Approximately 69% of our debt was fixed rate. This compares to December 31, 2020, when we had a weighted average interest rate of 3.1%, a weighted average maturity of 4.1 years and approximately 75% fixed rate debt.

Subsequent to the quarter end, we closed a new $980 million senior unsecured credit facility comprised of a $500 million revolving credit facility and 2 separate $240 million unsecured variable rate term loans, extending maturities to 2025 and 2026. A portion of our IPO proceeds was used to pay off our $375 million term loan that was set to mature in 2022.

We have been preparing for our investment-grade profile by creating a highly unsecured debt structure with 73% of our NOI unencumbered with well-laddered maturities. Post IPO, we have over $600 million of liquidity. We will use this liquidity to fund our robust acquisition strategy, which we will touch on momentarily.

Importantly, we have been assigned investment-grade ratings from Moody's and S&P of Baa3 and BBB-, respectively. We now have the ability to access the public debt market, and we plan to extend our maturity profile and diversify our sources of debt capital.

Moving to guidance. Now that we have covered our financial results for the past quarter, we'd like to provide initial guidance today relating to core FFO per share, same-center NOI growth and our acquisition and dispositions. These figures assume no substantial economic impact from future COVID variants.

For the 2021 full year, we expect to report core FFO per share between $2.10 and $2.16 per share. This range is impacted by the potential timing of our acquisition and disposition activity for the second half of the year. This also includes the estimated same-center NOI growth between 5.6% and 6.8% for the full year. We expect to acquire between $160 million and $200 million of assets over the remainder of the year. And lastly, we expect to sell between $45 million and $75 million of assets over the remainder of the year, completing our quality improvement disposition program.

With that, I would like to turn the call back over to Jeff to expand on our acquisition outlook for the remainder of 2021 and recap our long-term growth strategy. Jeff?

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

Thank you, John. When we think about growing our portfolio through acquisitions, we've identified over 5,800 grocery-anchored shopping centers in the U.S. that fit our portfolio strategy. These centers are all anchored by the #1 or #2 grocer in their respective markets and meet our demographic targets.

We have a very disciplined acquisition process. Together, our long-term relationships with our grocers, our proprietary algorithms and our experienced and dedicated acquisition team drive our ability to buy the right properties at the right price.

Year-to-date, we have closed on $40 million of assets and have an additional $70 million under contract. We believe we can hit our unlevered IRR target of over 8% on these assets. As John mentioned, we believe we can acquire an additional $160 million to $200 million of assets during the second half of 2021. Our track record, the market opportunity and current market conditions, all give us confidence we can meet our targeted acquisition goals.

So in conclusion, PECO has a focused, differentiated strategy of owning and operating small-format neighborhood centers, anchored by the #1 or #2 grocer in the market. Our nearly 300 grocery-anchored shopping centers are located where America's top grocers make money, in the neighborhood at the corner of Main and Main.

PECO has an experienced, cycle-tested team and has outperformed the sector over time. Our line management team has meaningful skin in the game, owning 7% of the company, the highest among our peers.

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We're a growth company positioned to expand our portfolio. Our investment-grade balance sheet and strong cash flow support that growth. Our brick-and-mortar real estate plays a key role in our neighbor's omnichannel strategy and is complementary to e-commerce, including BOPIS and last-mile delivery. And lastly, we believe there are economic tailwinds that will support our strong growth plans over the long term.

Thank you for your time today. With that, we will begin the Q&A portion of our call. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rich Hill with Morgan Stanley.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

I wanted to just follow up on the acquisitions. I appreciate the guidance as to where you're going over the next several years, but noted that you didn't buy anything of note in 2Q. So I was hoping you can maybe provide a little bit of detail around why there wasn't any acquisition in 2Q. Was there anything specific? And as you think about the acquisitions for the remainder of the year, what's your cadence between 3Q and 4Q?

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

Rich, it's Jeff. Thank you for the question. And so it's important to note that in Q2, we were actually deleveraging the company at that point in time without a real forward growth plan in place. And so the rationale there was we, at that point, were selling and buying assets, sort of balancing that process as we go -- as we were going. So that's the reason that Q2 was not -- we didn't have any acquisitions.

We did start the process at that point. And as you can see, we've got $70 million of projects that are in the pipeline at this point and sort of moving towards the close. So -- and we do think that, that will accelerate both through -- as we're getting through the third quarter and in the fourth quarter as well. And we do anticipate being able to meet our plan to basically buy about $35 million more property than we sell during that process and then to get to the $300-plus million acquisition pace next year as particularly as the market gets more open.

We all know that there was -- it was a very sort of choppy year last year and into the first half of this year as we dealt with the virus. And as we look forward, we do see there is some -- there has not been a ton of product on the market. And we do anticipate that [climbing] a little bit and we'll see some more activity as we move forward.

And in regards to whether it's third quarter or fourth quarter, I think I would look at the product we have under contract now as being most of our third quarter. And as we move to the fourth quarter, you'll see the -- more of the things that we put in under contract between now and the end of the third quarter. Does that answer your question?

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Great. And John -- that's exactly what I was looking for, Jeff. And John, this may be a question for you. But your plus 10% same-store NOI growth in 2Q, could you remind us or clarify what portion was driven by previously deemed uncollectible rents from past tenants?

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

Sure, absolutely. So the net impact on the quarter -- and I'll break it down. But the net impact was about $2 million of NOI related to out-of-period collections and kind of recoveries of reserved amounts. And that's about $3 million of -- on the collection side and then we had about a $1 million reduction in our recoveries that related to reconciliations were also COVID impacted.

So -- but to be more specific, in the second quarter, we had approximately $4.7 million of income from collections and reserve reversals from prior periods, which was offset by about $1.8 million of new reserves. So that gets to about $3 million net that I was talking about as positive income. And then the -- we had about $1 million of impact to our recoveries related to reconciliations and things we were doing with those neighbors.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity & Commercial Real Estate Debt Research and Head of U.S. CMBS*

Got it. And so do you know what that is on a basis point? I only ask that because we don't have a lot of clarity into what it looked like in 2Q '21 to do the apples-to-apples comparison. But -- so do you have that in basis points?

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

Let me answer it a little differently. I want to make sure I get your question right. So when I think about the new reserves, if I took out the out-of-period portion and I look at the reserves that we recorded this quarter, it was about 1.4% again. And when we look at our -- I mentioned in the recorded remarks that our collections are at 98%-plus, so -- I mean we are open and operating and our neighbors are moving forward. And on a stabilized basis, our bad debt has historically been between 80 and 100 basis points.

So at 1.4%, it is still impacted. I mean 98% is not quite there yet. And the largest portion of that are noncreditworthy or cash-basis neighbors. So it's about 1.4% if you do not account for any of the higher pieces, but we would expect to get back to a stabilized level here in Q3, Q4 at the current rate that we're going.

Operator

Our next question comes from Todd Thomas with KeyBanc Capital Markets.

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

First, I just wanted to ask about leasing spreads and leasing activity a little bit. Spreads were solid again this quarter. Can you just talk a little bit more about the pricing power that you see with both anchor and in-line shops, your neighbors. And just discuss how you expect rents to trend moving further throughout the year.

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

Todd, thanks. This is Jeff. Thanks for the question. And yes, we're very excited about the -- where we are on the leasing side. And Dev, do you want to go through some of the results we have and how we're looking going forward?

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

Sure. Thank you for being on the call this morning. I mean, Todd, we see a number of factors driving leasing demand. First, there are a number of macro factors that Jeff mentioned in his remarks that we're benefiting from, which is, number one, the continued growth in population in Sunbelt markets. As you know, 49% of our portfolio by ABR is in the Sunbelt, and so we're getting that tailwind.

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In addition, the continued migration of population from urban to suburban communities we're benefiting from, as ours is a virtually 100% suburban portfolio. And then the increase in the work from home dynamic also benefits our suburban portfolio. And then lastly, the importance of last-mile delivery continues to be retailer-focused, and our centers provide retailers an attractive economic alternative for last-mile delivery.

So the retailers are aware of these macro trends and they are, therefore, looking to locate stores to take advantage of these trends, and we're the beneficiary of that. And we're seeing this an increased level of leasing demand coming from the national retailers.

So for example, Starbucks -- we had 25 Starbucks at the end of last year. We'll have 35 by the end of this year. We had one Humana location. We'll have 4 by the end of this year. And those are large footprint stores, 6,000 to 8,000 square feet with rents in the high 20s to low 30s. And then another example is ATI Physical Therapy. We had 6 at the end of last year. We'll have 10 by the end of this year.

So we're seeing these national retailers dramatically increase their presence in our portfolio. And our centers are anchored by top grocers that drive foot traffic. And the tenants want to be in centers that are anchored by these top grocers because they become the beneficiaries of this foot traffic.

And our centers are smaller, as Jeff indicated. Our average tenant size is 2,100 square feet, and leasing demand is from tenants in this smaller footprint. 65% of the leasing activity in the U.S. is in stores less than 2,500 square feet. So these factors lead to the high level of retention that we continue to enjoy. We have market-leading retention. Our retention for this year, year-to-date was over 87%.

And so we see no slowdown in leasing activity. In July, we signed more leases in July of this year than we had in July of '19 or July of '20. And so with an occupancy rate of 94.7% and this continued strong leasing demand that we're seeing based on these factors, we believe that the leasing spreads that we have seen will hold for the foreseeable future.

And as we've indicated, we believe we can continue to increase occupancy from current levels. We think we can get our in-line occupancy up several hundred basis points to 93% to 94%. And we believe we can continue to drive spreads at the levels that we've been able to do over the last several years.

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

Okay. Great. That's helpful. And then just one -- my second question following up on the acquisitions a little bit. You talked about the portfolio, Sunbelt exposure being about 50% today for the portfolio. As you think about the investment landscape, and we think about the acquisition targets and goals that you've discussed, where are you seeing opportunity to add new product? Is geography important going forward? Or is it more about the local submarket and neighborhood?

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

Well, Todd, as you know, we are very focused on the market directly around each shopping center that we buy, and that is our focus on the acquisition side. We have a proprietary algorithm that actually helps us to evaluate how we see the risk of each one of these markets that we look at on the acquisition side. I can tell you that we won't -- you won't hear us say, look, we want to have a lot more center. We're going to just focus on Sunbelt or we're just going to focus on West Coast. That's not how we sort of look at the business.

But on the other hand, the algorithm that we have is driving results. And there are more centers that can drive those results in a market that has population growth like the Southeast and Southwest. So the Sunbelt will continue. I mean, it has been a growing part of our portfolio, and we believe it will continue to be. But not out of choice to be in Atlanta or Miami but out of the fact that we think that our grocers can do really well there and the small stores can do really well as well.

So it will be that, that I think that will drive it. But I would -- we do anticipate that we will have a higher concentration of Sunbelt properties 5 years from now than what we have based upon how our algorithm looks at growth and -- both in terms of population and in incomes, but also in terms of the success of the grocers and the small stores.

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Operator

Our next question comes from Caitlin Burrows with Goldman Sachs.

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

Maybe just another follow-up on the acquisitions. Jeff, you mentioned how the market was choppy over the past 1.5 years or so, and that now it will hopefully [sell] and that will support acquisitions picking up. Just wondering if you can talk about what you're seeing now that makes you confident about the second half acquisition volume targets and even over the next 3 years, as you mentioned, a goal of $1 billion of acquisitions.

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

Yes. Thanks, Caitlin, for the question. I think what we are seeing is we are seeing some compression in cap rates. We think -- we continue to think that our sort of target of somewhere between 5.25% and 6.25% going-in yield with -- our focus on the 8%-plus unlevered IRR continues to be achievable in the market today. And we're seeing it with the first $70 million that we bought.

What has historically happened, and we're just starting to see it and I think we'll see a lot more of it in September of this year, is as cap rates have gotten a little bit more aggressive, we are seeing more people looking at selling properties. And we also believe that there's going to be some selling because of the potential 1031 exchange issues, the capital gains issues on taxes. So we think there are a number of sort of tailwinds for people to look very seriously at selling shopping centers over the next certainly 6 to -- I mean, there's sort of an urgency, a year-end urgency part of it. And then I think there's a value issue that will push more volume into the first half of next year as well.

So we're optimistic that there will be more product on the market and that we -- as you know, we've targeted 5,800 centers that we want to own. And that -- if they sell every 10 years, that's 580 centers. We're nowhere near that pace right now but that is a more normalized pace. And when we get to that -- as we've said, our $350 million target is 2.4% of that overall size.

So we think that there's -- the market's certainly there. It is a little -- it's muted right now. But even now we're starting -- if you look at our acquisition committee meetings, we're seeing more product today than we were certainly 3 to 4 months ago, and we do anticipate that continuing to increase.

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

Got it. Okay. And then maybe just back to a question on rent collections and uncollectible rent reserve reversals. In the quarter, there was some. Could you just go through kind of what caused it in the quarter. And then going forward where your general reserve-level [wins] stands today. And your outlook on the ability to kind of receive those and then expect additional potential rent reserve reversals going forward.

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

Great. Okay, absolutely. Thanks, Caitlin. John, do you want to cover that?

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

Sure. Caitlin, thanks for the question. So really what is happening is we're collecting, our neighbors are paying. So we're at 98% in the second quarter. We first reported the first quarter at 95%, and that's at 98% now. And so the -- part of it is just that they're doing very well. We -- our path of making sure that they were open, making sure that they could start paying us current rent and then working to collect their back balances from there has proven to work very well.

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And so really what's happening is, is that both from a cash basis -- so our cash basis neighbors are about 8% of our outstanding rent rule and we received 89% of their collections in the quarter. Now why are they still cash basis? Because there's actually protocols around how long they need to be current on their balance, and that's about 3 to 6 months or if they're going through bankruptcy or things like that. So I would expect that number to come down.

But really, we look at it and we're still appropriately reserved at the end of the quarter. But as we look to the remainder of the year, we do anticipate some additional collections. If I had to estimate based on the midpoint of our guidance, it's about another $2 million of kind of 2020 or past period collections in the balance of the year. And in short, what we're seeing is the leasing strength and what have you is giving us the power to collect.

Operator

Our next question comes from Haendel St. Juste with Mizuho.

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

So I wanted to talk about the dispositions for a second. You've outlined $45 million to $75 million for this year. Maybe you could spend a moment or 2 on what about those assets makes them more disposition candidates and what your sense is of the cap rates given the growing demand and cap rate compression here. And then longer term, what's your sense of the portfolio of the 300-ish, I think, assets at IPO? What do you think that pool might be long-term candidates for disposition as you fine-tune the portfolio?

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

Great. Thanks, Haendel. The dispositions is a little bit -- obviously, the counter side of the acquisitions. And the disposition pricing right now is aggressive. So we have gotten what we think is relatively strong pricing on the things that we have sold and that we sort of plan on going -- selling going forward.

And our disposition strategy is really pretty simple relative to our acquisition strategy, which is we assign a power score to every property in the portfolio which is our sort of risk analysis of the property, and then we have a 5- and 7-year model that predicts its IRR. And when something becomes a negative drag on the growth of the company, it is brought on to our disposition list as a potential thing to sell. If we can get the kind of pricing that would actually be part -- be consistent with the IRR that we're generating from each property.

So we will always have some properties that we are selling and some will be -- I mean, most of those at this point will be more opportunistic than they are sort of portfolio transition because we -- as you know, like what -- we've been working on that for the last 3 years and we have 40 properties less today than we did 3.5 years ago. So we've done the major sort of portfolio surgery. Now it's really trying to make sure that we have a portfolio that's constantly being worked on for growth and getting the returns that we expect to be able to achieve. And that, again, is an unlevered -- above and unlevered 8% return. That's where our targets are.

And you'll see that across the board in terms of how we look at our dispositions. And the balance with the acquisitions, obviously, is always a challenge because in the markets where you can sell stuff really well, it's more difficult to buy. And so we're always in that sort of balancing act and -- but that's been our -- sort of where we are today. In terms of the $70 million, John, do you have the cap rate on that, I don't have it right here?

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

Yes, Jeff, it's a 6.1% cap rate, Haendel, on the $70 million of acquisitions that are under contract. And then on the dispos, you'll see higher cap rates than the 6.1% because, as Jeff mentioned, the assets that we are in the market disposing now are lower quality assets and we're upgrading the portfolio by selling those assets.

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The reason I say they're lower quality is based on several factors. Number one, a number of them are shadow-anchored centers, and several of them have anchors that are not the 1 or 2 grocer in their market. They're anchored by grocers, such as a Winn-Dixie, names like that. And so the cap rate on those dispos is higher than what you're seeing on our acquisitions.

But again, as Jeff mentioned, once we get through the dispo volume that we've articulated, we believe that the portfolio upgrade is behind us. And then our dispo strategy on a go forward will be purely opportunistic, where if the market's willing to pay an unlevered 6.5% IRR for an asset and we think we can redeploy that capital at an 8% or better unlevered IRR, we will do that.

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

Got it. Got it. And then if I could follow up on the missed billings. I think you mentioned the balance of $12 million, $5 million is under a payment plan of some form. Curious what the time line for that repayment of that $5 million is. And then the other $7 million, maybe you could talk about the industry, the expectations there.

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

Great. Thanks, Haendel. John, do you want to cover that?

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

Sure. Yes, I'll take that. So that's right. We have about $12 million of outstanding, a good chunk of that includes the cash-basis neighbors. So what we would expect is the weighted average over that is, basically over the next 4 quarters, about half of it this year, half of it next year, on that $5 million. Sorry, that's the $5 million of payment plans that we have. So we'll get a portion of that, about half of it.

With regards to the remaining $7 million, we've actually looked at it and we continue to collect it. So we do see positive movement. At the rate that it's going, I would expect it to be of a similar time frame on that. And I think we're right now trying to make the best decisions based on opportunities for the space, the leasing at the center. And I know our portfolio management and operations teams are looking at it and saying, is this the best and highest use? And if so, then they're a bit more patient, especially if we're making progress there. But if we've got leasing opportunities, then we're a bit tougher.

Operator

Our next question comes from Paulina Rojas-Schmidt with Green Street.

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

You recently, of course, completed your IPO. I'm curious, what did you learn in the process of talking to investors and analysts. What is, in your opinion, the most underappreciated aspect of your portfolio? And on the opposite side, what aspects do you think the investor community looks with more skepticism?

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

Thanks, Paulina. It's an incredible process. We're just finishing our Board meeting and we did -- we talked at length about the fact that the company, in preparation for this process, was at the top of the game than we'll probably ever be in terms of knowing exactly every piece of the company to a degree, because we were fully engaged in the conversation. And we got tremendous questions from the investment community about their concerns and the things that they like, the things they didn't like.

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So I would say in terms of the things we learned, it was that you had to be really well prepared and you really had to understand how each investor was kind of looking at your company, and how do you explain to them what you're doing and how you think about it and that approach. So I would say that we were -- my biggest takeaway is that we -- you have to be -- you really have to examine every piece of your business when you get under the eye of the investor because each one of them has a little bit different view of what they like and what they don't like.

And in the end, we found that the investors who believed that there was a strategy of providing necessity-based goods and groceries to the average American were the guys who invested. They truly believe that, that is a segment that is very relevant. It's a very big segment. But it's also one that is underrepresented in the public markets. And they -- the ones who bought into the stock, I think, believe -- were big believers in that. And obviously, we're big believers in that.

And we're telling a story that we've done for 30 years, not one that we're kind of making up to get ready to be public. Maybe that did make it a lot easier for us because it's -- we've been doing it for a long time. But that was -- I would say those were my biggest takeaways. I don't know, Devin or John, if you had any other comments.

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

Yes, Jeff. What I would just add to that, Paulina, is that our strategy is differentiated and it has a number of factors that are counter to certain perspectives that are well established in the investor community. And those are -- ABR is a very important metric. Demos is a very important metric. And as you know, our ABR is the lowest of any of our peers and our demos are at the low end of the range.

And the perspective that we had to successfully communicate to investors was that, look, we're in the necessity retail business and we're providing necessity goods and services to the average American consumer. And we don't need $40 rent because we're not selling high-end shoes and handbags, et cetera, where you need those kind of rents to be successful. And so we had to educate investors on the fact that if you look at our historical track record and the components that matter, which is same-store NOI growth and FFO per share growth, we have market-leading results in those 2 metrics, even though our ABRs and our demos are at the low end of the range.

And so I think we made a lot of progress and the investors that participated in the IPO, I think, understand our strategy and recognize our strategy. There are still investors that we have to convince. And we will continue to work hard to convince them that you need to focus on same-store NOI growth and FFO per share growth and focus less on some of these other metrics that have taken a priority over time. And I would say that, that was something that we learned.

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

Very good color. And then the other question is about your capital projects. You have a list of ground-up developments, which are mostly small-scale, multitenant outparcel developments. At what pace do you think you could deliver these projects? I'm trying to understand the impact that they could have on same-property NOI growth going forward.

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

Yes. So we have targeted about $50 million of those projects a year. We would love to do a lot more of them because they're very profitable, where our incremental cash flow from these properties is between 9% and 11%, and we've actually outperformed that in the products we've delivered so far. It's just they're very difficult, they take time and it takes a lot of work to deliver them. So we think that, that's the range that we can deliver on.

It includes 2 things. It includes what you were talking about, which is these individual, either single-tenant or multitenant buildings that we build on the peripheral of the shopping center, usually out on the main street but that are incremental to the existing properties. So that's the main one. The second piece is the teardown or rebuilds that we do for Publix, and that is another category where we do invest money, and that's part of the $50 million.

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

And Paulina, I'll jump in here. So in our supplement, we do provide kind of target stabilizations for the projects that are currently underway. And many of which are delivering here -- that are delivering here in the third and fourth quarter of '21 as well as in the first quarter of '22. So we have an additional pipeline of projects that we're getting ready to -- will begin then from there.

And a lot of those have, I would say, generally like 12 months time lines. Especially -- including the teardown and rebuilds for Publix is basically from start to finish. A lot of these products by the time you get through design, permits and what have you, it takes about a year. So it is pretty evenly over the quarters, but that might give you help on the timing.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn it back to Mr. Edison for some closing comments.

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

Great. Well, thank you, everybody, for being on the call today. We really appreciate it. As you know, we've been jamming on the IPO. We're really very excited to have that accomplished. The team that has -- that performed on this has been incredible. If you look at every associate at PECO, they were touched by this process and they all contributed. And we couldn't have gotten it done without a full team effort. And the -- obviously it -- we were able to accomplish it, and we owe that to a team that is focused and -- but also delivered.

And so this is mainly a testament to everyone in the company who's really put their shoulder into it and gotten us over the edge there. But at the same time, while we've produced really well on the operating side. And it's that -- doing all that at one time is difficult, but the team really pulled it together. So this is a testament to them. And we appreciate all of you spending the time with us today. And obviously, if there are additional questions, please call us.

So have a great day, everybody, and thanks for being on the call.

Operator

Thank you. You may now disconnect.

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