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Phillips Edison & Company

PECO Investment Community Day 2023

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CORPORATE SPEAKERS:

Jeff Edison
Phillips Edison & Company; CEO, Chairman
Devin Murphy
Phillips Edison & Company; President
Bob Myers
Phillips Edison & Company; Incoming President
John Caulfield
Phillips Edison & Company; Chief Financial Officer
Tanya Brady
Phillips Edison & Company; General Counsel
Joe Schlosser
Phillips Edison & Company; Incoming Chief Operating Officer
Ron Meyers
Phillips Edison & Company; Head of Leasing
Dave Wik
Phillips Edison & Company; Head of Acquisitions
Kimberly Green
Phillips Edison & Company; Head of IR

PRESENTATION:

Kimberly Green^ … Head of Investor Relations. Thank you for joining Phillips Edison and Company's Investment Community Day. Joining for today's presentations and Q&A session are the following PECO leaders. Jeff Edison, Chairman and CEO, President Devin Murphy, who will serve as Managing Director on PECO's Investment Management Team on January 1, Bob Myers, President on January 1, John Caulfield, Chief Financial Officer, Tanya Brady, General Counsel, Joe Schlosser, Chief Operating Officer on January 1. Ron Meyers, Head of Leasing, and Dave Wik, Head of Acquisitions.

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

In our discussion today, we will reference certain non-GAAP financial measures. Information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in the appendix of today's presentation materials, which have also been posted to our website.

Our caution on forward looking statements also applies to these materials. After today's meeting, an archived version of the video webcast will be published to our investor relations website. For our agenda today, Jeff will share an update on our growth strategy and long term targets. Devin will highlight PECO's historical and relative performance. And he will also provide an update on PECO's investment management business. Bob will highlight PECO's integrated operating platform and team, our strategic presence in suburban markets, and how the PECO team defines quality.

Tanya will provide an update on our ongoing commitment to governance and corporate responsibility. Joe will highlight our operations team and how we identify and implement value creation strategies that optimize PECO's performance. Ron will walk you through how our leasing team is able to drive growth and maximize results at the property level. Dave will share an update on our acquisition strategy, including insights on our underwriting process and performance. And John will walk you through our preliminary guidance for 2024, as well as update you on our balance sheet and capital allocation plans.

After the presentations, we will hold a question and answer session. We ask that you save your questions for that time. For those of you listening on the webcast, you can email me your questions to kgreen@phillipsedison.com.

With that, I'm pleased to share a series of short videos to kick off today's meeting. In these videos, our operations team leaders will walk you through an overview of PECO's operations and three of our properties. Thank you.

(START OF VIDEO PRESENTATION)

Bob Myers^ Welcome to Phillips Edison and Company. Hello, everyone. I'm Bob Myers. The PECO team and I are thrilled to take you on a virtual tour of three of our centers. At PECO, the consistency of our growth is a testament to our differentiated and focused strategy of exclusively owning grocery anchored neighborhood shopping centers. Our portfolio includes nearly 300 right size centers with over 31 million square feet across 31 states. Our average center size is 115,000 square feet and our properties are located in fast growing suburban neighborhoods and targeted trade areas where our grocers and small shop neighbors are successful.

We focus on centers anchored by the number one or number two grocer by sales in the market with over 70% of rents coming from retailers offering necessity based goods and services. Why? Because the average American family visits a grocery store 1.6 times per week. Our top grocers have and continue to drive strong reoccurring foot traffic to our properties. PECO has built a legacy over our 30 year history. We are now one of the largest landlords in the grocery anchored shopping center business, which has given us valuable insight through multiple cycles into what drives quality and success at the property level.

At PECO, we define the quality of our portfolio through the use of the acronym SOAR. This includes spreads, occupancy, advantages of the market, and retention. PECO's high new and renewal leasing spreads are driven by our neighbors who serve the essential needs of our communities. Our leasing pipeline continues to remain strong and there are currently no signs of it slowing. The most active categories continue to be medical, quick serve restaurants, and health and beauty. We are also seeing consistent strong demand across all geographic regions.

PECO's strong occupancy levels are a sign that retailers are successful at our centers. They want to be closer to the customers and the neighborhood of the communities they serve. In addition, our exposure to at-risk retailers continues to remain limited. This is deliberate and a result of our grocery anchored strategy and focus on necessity-based goods and services. \

PECO's unique advantages in the market are driven by our focus on the number one or number two grocer by sales and the market and our strategic presence in the Sunbelt and other fast-growing suburban neighborhoods.

Kroger and Publix are PECO's number one and number two neighbors, respectively. PECO is Kroger's largest landlord and Publix's second largest landlord. PECO's trade area demographics are in line with Kroger's and Publix store demographics. Our centers are close to the end consumer where America's leading grocers are profitable and in turn our neighbors are profitable, which allows PECO to also be profitable.

Our neighbors are a healthy and diverse mix of national, regional, and local retailers who run successful businesses and enable us to grow rents at attractive rates over time. We continue to have excellent success retaining our current neighbors as demonstrated by our high retention rates.

Our local neighbors have remained resilient through multiple cycles. They're successful retailers who differentiate and enhance the merchandise mix that our neighborhood shopping centers offer. Our continued success is also a testament to the strength of PECO's team. We're experienced, aligned, and cycle tested. Together, we've weathered storms and seized opportunities, reinforcing our position as a leader in the shopping center business.

Unidentified Speaker^ So how exactly do we do it? How are we able to soar to new heights in the shopping center sector? We start with being locally smart and creating neighborhood centers that have the optimal merchandising mix for the communities they serve. PECO treats each shopping center as its own standalone business. We recognize every neighborhood has its own unique needs. Our locally smart leasing agents understand each community. Then they create merchandising plans for each of their properties to focus on the right mix of retailers. This includes a dynamic mix of national and regional retailers, as well as successful mom and pops. We take pride in supporting our local neighbors. Business is run by hardworking entrepreneurs who are dedicated to making their business successful.

Anchored by the number one or number two grocer by sales in the market, our centers are focused on necessity-based goods and services such as health and beauty, including hair and nail salons, medical retail, or what we call medtel. These include urgent care facilities, dentists, chiropractors, and more. Restaurants including national quick service brands and popular local establishments, and other essential goods and services. Our small shop neighbors benefit from the strong foot traffic that our grocers drive to the center. For this reason, combined with the outstanding service that the PECO team provides to our neighbors, we expect retention to remain elevated going forward.

At the corner of Main and Main, our commitment to putting our neighbors first expresses itself in many different ways at the property level. It's putting amenities in place to increase visits. It's working with local businesses to strategize how they can expand and open a second location at one of our centers. For some of our properties, it's hosting events like chalk festivals and Hug Your Heroes with the local fire department. It's creating spaces where people can sit and eat outdoors. Above all else, it's being responsive to the needs of our tenants, who we call neighbors, at a level above and beyond the traditional tenant-landlord relationship.

Here at PECO, our operations are in-house and hands-on. Our centers are kept well-maintained. Each center has a property manager available 24 hours a day, seven days a week, 365 days a year. Most of all, delivering on our promise of being a good neighbor to our neighbors. Our teams are always professional, approachable, and friendly.

It's a strategy that enables us to be nimble, to have a pulse on any changes in the local demographics, to anticipate the needs of our communities in the face of anything, and leads us to achieve a 95% satisfaction rate among our neighbors, with 97% planning to renew according to PECO's Neighbor Survey over the last two years.

In closing, what the future holds is clear. PECO's team will continue soaring to new heights.

Unidentified Speaker^ Not far from the hustle and bustle of Las Vegas is Southwest Marketplace, a PECO shopping center at the heart of this growing suburban community. The property is a 127,000 square foot retail shopping center, anchored by Smith's Food and Drug, the number two grocer by sales in the Las Vegas market. National neighbors include the UPS Store, Jack in the Box, H&R Block, State Farm Insurance, Sherwin-Williams, and global Filipino fast food chain, Jollibee. While located steps from a global tourist destination, PECO's center is removed from the glitz and glam of the Vegas Strip. It instead focuses on serving the needs of the local upper middle class community.

Within a three mile radius, the average household income is $97,000. That's 8% higher than the state average. 34% of those households have children, which is 21% higher than the state average. This community is one of the most diverse in the area. Because of this, our locally smart leasing agents worked hard to curate the right mix of businesses for this neighborhood. These include Doh Korean Barbecue, Rice and Noodle, Mimosas Gourmet, La Bamba Barbershop. These businesses are reflective of the demographics of this community. Folks in this community are visiting the center three to four times a week to treat themselves, maybe grab some lunch, or take care of various day to day errands. And of course, the day isn't complete without a trip to Smith's to get your grocery shopping done.

People aren't just passing through here. That's because the center is a destination for the essential goods and services families need as well as their local favorites. It's also why over the last 12 months, we've generated 1.5 million visits to the shopping center, up 16% since 2021.

What's particularly special about this center is that PECO's not only kept it fully leased, but we've also added significant value to the property throughout parcel development. This includes the future home to Eos Fitness, all of the shops to the left of Smith's, and Jollibee's. At Southwest Marketplace, it's the strength and convenience of Smith's that drives strong foot traffic to our center, benefiting all of the small shops. It's also very much a close knit community. Here, I'm not just part of the PECO team. People know me as a father of five and Little League football coach.

Unidentified Participant^ Hey, coach.

Unidentified Speaker^ Hey, how you doing? Can I help you guys?

Unidentified Participant^ Thanks.

Unidentified Speaker^ And that's really what keeps the community coming back week after week. Ultimately, PECO strives to be a reflection of the communities we operate in, and Southwest Marketplace is a great example of that.

Unidentified Speaker^ When people wake up on Saturday morning, they come straight here, this PECO shopping center in Johns Creek. We are centrally located in the neighborhood and have everything they need. Welcome to Rivermont Station. This center is located in Johns Creek, the northern suburb of Atlanta, Georgia. Locals call this center home, and families with kids can't get enough of it. Rivermont Station is a 128,000 square foot center anchored by Kroger, the number one grocer by sales in the market. Our neighbors include national retailers like Kids Empire, Jersey Mike's Subs, Chipotle, and Chick-fil-A, as well as strong local businesses including Valley Nails, Dance FX, and Moon Indian Cuisine. Each of these is one of only three locations in the Atlanta market. In addition, medical retail, or medtel as we call it, is a fast growing use in PECO's neighborhoods, and we continue to see strong demand for medical uses such as Rivermont Dental Care and Winton Chiropractic.

Rivermont Station is situated in the city of Johns Creek, Georgia, a fast growing northern suburb of Atlanta. Atlanta has always been a popular place to live, but over the last few years we've seen a substantial uptick in move-ins from the north and west, and overall we continue to benefit from the larger migration to the Sun Belt.

More so, Johns Creek, the city we're in, was even featured as one of the best places to live in America at the height of the pandemic. As a result, we continue to see a significant influx of people moving to the area post-pandemic. Within a three-mile radius of Rivermont Station, the average household income is greater than $157,000, more than double the greater Atlanta average, and home prices have gone up as well, with average home values hovering at $857,000.

With a lack of competition, and also no new development in the area, Rivermont Station benefits from being the go-to neighborhood destination for groceries and other necessities and services.

Over the last 12 months, the center generated more than 1 million visits, which was an 11% increase from the previous year. At PECO, we also remain committed to sustainable practices. A couple of examples of our sustainability initiatives at Rivermont include an LED parking lot and building lighting, as well as the EV charging stations.

Unidentified Participant^ Hi, I'll take that.

Unidentified Participant^ Oh, thank you.

Unidentified Speaker^ Overall, this property serves as a great example of how PECO delivers on its promise to serve the neighborhood. Nestled on the corner of Main and Main, our center is where people come to get their groceries, run their errands, get their nails done, dine, or work out at places like Orangetheory Fitness. And more importantly, feel connected to their community. And that's ultimately what it means to be part of a PECO neighborhood.

Unidentified Speaker^ Today, we are here at Champion's Gate Village in the Davenport suburb of Orlando, Florida. Even though we're a quick 20-minute drive from the Disney theme park, Universal Studios Orlando and SeaWorld, this 62,000 square foot shopping center is located in the prestigious Champion's Gate housing development.

We cater to residents who live here all year round and who are part of the community. Champion's Gate is anchored by the number one grocer by sales in Florida, Publix. Our neighbors include national retailers like the UPS store, Hair Cuttery, Subway, and McDonald's, as well as strong local operators like Tacos Don Andres Mexican food, Pronto Italy Pizza, So Fresh, and Diamond Cleaners.

For years, Orlando has been the destination for many as a place to retire or escape from the snow. But ever since the pandemic, this area has become a hotspot for remote workers. In fact, this year, Orlando was named the best city in Florida and one of the top cities in the country for remote work. It has also been recognized as the best large city to start a business by Wallet Hub.

As a result, we've seen an influx of young working professionals and entrepreneurs moving into the area in recent years, and this trend does not appear to be slowing any time soon. With a convenient shopping experience and a top grocer, residents turn to our PECO Center. For example, it's very common for our shoppers to work remotely and grab lunch at Tacos Don Andres, drop off clothes at the dry cleaners, or visit the bank. Before heading home and getting back to work, they could grab some groceries for dinner.

For those reasons, over the last 12 months, we've generated over 1 million visitors, a number that has been steadily rising. These are just a few reasons why our neighbors want to be at Champions Gate. The property is fully leased and we expect our rent renewal to remain strong. Our success at Champions Gate is representative of a trend we're seeing across the country, which is strong demand from a growing population of remote workers in the suburbs.

We're a shopping center anchored by the number one or two grocer in the market that meets all their needs, not just for shopping, but to feel part of the greater community, to feel like a neighbor among neighbors.

(END OF VIDEO PRESENTATION)

Jeff Edison^ Well good morning everyone. I want to thank all of you for being here today. We're excited to be here and we hope we're going to send you a great, great message today. Over 30 years ago, PECO purchased its first shopping center. In the course of three decades, our portfolio grew quickly and expanded across the country.

Two and a half years ago, PECO successfully finalized our underwritten IPO. While the IPO is a major milestone for us, we see it as just another step in our growth. We stood in front of many of you at the time of our IPO and we're pleased to have you back here again today to give you an update on our strategy and our growth initiatives. We have a big agenda for you today. Our hope is that we leave you with three main takeaways. First, PECO has delivered on its core strategy for over 30 years. We've developed a seasoned team that's been together for a long time. Our team is highly engaged, highly focused, and deep.

Second, PECO is a growth company. We have consistently delivered on both internal and external growth. And third, PECO's differentiated and focused strategy and integrated operating platform have allowed us to perform very well through multiple economic cycles.

PECO is positioned to continue to grow and excel as we look ahead for the next 10 years. We will provide our investors with more alpha and less beta.

Today the team will highlight PECO's many advantages and what sets us apart from others in our space. The team will share additional insights on why our assets and our neighbors are successful and how the team delivers growth and creates value at the property level. At the end of our presentation today, John will walk you through our preliminary guidance for 2024. We will end with plenty of time for your questions.

So understanding PECO starts with our mission and our focus strategy. PECO takes great pride in creating great omni-channel, grocery-anchored shopping center experiences and improving our community's one shopping center at a time. The continued strength of our performance is attributable to our differentiated and focused strategy of exclusively owning right-sized, grocery-anchored neighborhood shopping centers anchored by the number one or two grocer by sales in the market. Our results at the property level are driven by our integrated operating platform and our experienced and cycle-tested team. At PECO, we cultivate a culture which our associates think and act like owners every day in every decision.

To nurture this owner mentality, we've granted every associate in our company ownership through annual stock awards.

PECO's team owns approximately 8% of the company. Acting like an owner aligns us with our investors. We have meaningful skin in the game and we're committed to driving shareholder value. Since our founding, PECO has focused on developing the best culture and team in the business. It's a culture where people want to be. You can see that reflected in our associate engagement results and in the average number of years that our leaders and associates have been part of the PECO team. PECO associates are focused on operational excellence and innovation. Our operations team members are locally smart. They're dedicated to curating a dynamic mix of national, regional, and local retailers.

Creating the right merchandising mix at every property fosters a sense of market-specific community at every shopping center. We look at each acquisition as a learning experience and a way to improve. Every associate has a written development plan. Each manager has a written succession plan. Every associate is responsible for collaboration across function to drive innovation and growth.

We're focused on creating a great working environment. PECO has been named the top place to work in Cincinnati for the seventh year in a row. We're proud of our team and how much we've accomplished. Your engagement, expertise, dedication, and innovation will continue to drive our growth and drive our success.

Today, we see a continued strong operating environment and a transaction market that's improved. The consumer continues to be resilient and our grocers continue to drive strong foot traffic at our centers. There's no question that inflation, higher interest rates, and global conflict continue to create challenges. Despite the impacts of higher rates and other macro headwinds, we expect to deliver positive earnings growth. This is primarily due to the continued strong performance of our portfolio, which is driven by high occupancy, strong leasing spreads, and high retention.

The PECO team remains focused on investing in our portfolio and driving cash flow growth. In addition, we still have one of the lowest levered balance sheets in the shopping center space. With a fortuitous balance sheet and ample liquidity, we remain prepared for the challenges and opportunities that will arise over the next 12 months, as well as the next 10 years.

PECO continues to benefit from a number of positive macro trends that create strong tailwinds and support strong neighbor demand. These trends include the following. A resilient consumer, hybrid work, migration to the Sunbelt, population shifts that favor suburban communities, and the importance of physical locations in last mile delivery. The impact of these trends are further amplified by high occupancy, limited supply, and importantly, the lack of new development over the last 10 years. We believe this will continue for the foreseeable future, since current economic returns do not justify the cost of new construction.

PECO's pricing is driven by our high occupancy and retention, and is verified by the strong demand and our leasing spreads. We believe the advantages of our markets, our necessity-based format, and the aforementioned tailwinds will continue to generate more alpha with less beta.

At our core, PECO is a growth company. It has been for 30 years. From our first grocery-anchored shopping center, we've grown to a company with an asset value of over $6.5 billion. Our growth has always been driven by both internal and external growth.

Let's start with our internal growth. We believe our portfolio can deliver same-center NOI growth of 3 to 4% on a long-term basis. The components of this growth include the following. Increases in occupancy, rent growth, contractual rent increases, and development and redevelopment activity. High occupancy, strong retention, and strong renewal spreads give us the confidence in our ability to push rents higher and deliver on our internal growth plan.

Beyond our internal growth plan, we remain focused on accretively growing our shopping center portfolio. These investments are core to PECO's long-term growth strategy. We continue to be well-positioned to capitalize on opportunities as they arise. We believe we can achieve $200 to

$300 million in net acquisitions on an annual basis with the capabilities and the leverage capacity to acquire more if attractive opportunities materialize.

We previously increased our targeted return for new acquisitions to an unlevered IRR of 9% and above. We plan to participate in the market when we can achieve this return objective while exercising the same level of diligence we have always exercised.

As Dave will highlight later, we have been successful in finding these acquisitions. It's times like this in an evolving market when PECO tends to find its very best opportunities. For the remainder of this year, we remain confident in our business plan as reflected in our guidance which we updated at third quarter earnings.

Looking beyond 2024 and assuming a more stabilized interest environment and acquisition market, we believe our portfolio can deliver mid to high single-digit core FFO per share growth on a long-term basis. This will be driven by both internal and external growth.

Our balance sheet allows us to acquire $250 million a year without having to go back to the equity markets and allows us to maintain our targeted leverage ratios. Our low leverage gives us the financial capacity to meet our long-term growth objectives.

As a reminder, we ended the third quarter at 4.9 times debt to EBITDA. Our long-term target is maintaining a leverage ratio consistent with a triple B flat credit rating.

While we have investment grade ratings today, we believe PECO is currently underrated.

We're proud of our track record of positive results. Our strategy and our team have historically and will continue to generate excellent risk adjusted returns. So why are we so optimistic? Because PECO has a seasoned and deep team with a proven track record of growth and our differentiated strategy will deliver more alpha with less beta.

With that, I'll now turn it over to Devin. Devin?

Devin Murphy^ Thank you, Jeff, and good morning, everyone. Thank you for joining us today.

I will focus my remarks this morning on three areas. One, our recent track record of performance. Two, how our actual results have compared to what we said at the time of our 2021 IPO. And then lastly, I'll give a brief overview of our investment management business. PECO's strategy remains focused, simple, and consistent. We exclusively own and operate grocer-anchored neighborhood shopping centers anchored by the one or two grocer in a market. More than 70% of our rents come from necessity retailers. Our portfolio today is currently 98% occupied. We enjoy strong pricing power, which you'll hear more from Ron later.

Leasing demand is at historically high levels for our inline spaces. As the macro tailwinds that Jeff mentioned earlier have retailers more focused on having stores in a PECO center. We have the best balance sheet in the sector, although the rating agencies do not give us the credit that we believe we deserve.

Our balance sheet has us well positioned for creative acquisitions in a highly fragmented market. Our centers are situated in trade areas with favorable demographics where our top grocers are profitable and our neighbors are successful.

We believe that format drives results. Our average center is 115,000 square feet, which enhances our pricing power. Our smaller centers allow for better FFO and AFFO growth because they yield high retention rates and leasing spreads. Our strategy has yielded outstanding results. Our retention rates average 87% between 2017 and 2021.

Today our retention is 94%. High retention rates result in better economics with less downtime and dramatically lower tenant improvement costs. Lower capital spend results in better returns. The IRR on a renewal lease is meaningfully higher than the return on a new lease. PECO has delivered a track record of outperformance in same center NOI growth. For the years 2017 through 2019, we delivered same center NOI growth of 3.6%. Since the IPO, we have delivered same center NOI growth above 4%. Since 2020, PECO's same center NOI growth has outperformed our peer group by 150 basis points.

From 2017 to 2020, our average cash leasing spreads were 9%. Combined comparable rent spreads for new and renewal leases were 10% in 2021. Today, we are achieving renewal rent spreads of 17%, new rent spreads north of 25%, and 19% leasing spreads when combined. Two times what we achieved in 2021.

At the time of our July 2021 IPO, our portfolio occupancy was 95%. Today, our lease occupancy is 98%. We have increased annual rent bumps in our new and renewal leases from 2% to nearly 3% on average. Additionally, our smaller format centers have lower exposure to larger format retailers and therefore require less CapEx than other retail real estate formats. Lower CapEx leads to higher AFFO. Our strategy and team have produced market-leading performance over time, and we believe that we can continue this outperformance.

Core FFO per share in our 2023 guidance compared to 2019 results in the second highest growth in the sector. And our core FFO per share growth over this period outperformed the peer average by 350 basis points. This growth occurred despite the meaningful de-levering that was achieved. Looking at total returns, PECO has the highest total shareholder return of the shopping center REITs at 38% since our IPO. We outperformed the peer average by 3,000 basis points over this time period.

Looking at full year 2022, we outperformed the peer average by 1,500 basis points. And year-to-date 2023, we've outperformed by 845 basis points. At PECO, we believe in delivering the results that we commit to deliver. In May of 2021, we filed to raise $400 million to $600 million in an IPO. We raised $550 million. At IPO, we guided to 2021 core FFO per share of $1.90. We delivered $2.19. We guided to 2022 core FFO of $2.07. We delivered $2.27.

We guided to $2.27 for 2023, and our current guidance is $2.31 to $2.35. At the time of the IPO, we committed to pursuing an investment-grade debt rating, and we received an investment-grade rating in July of 2021. We issued our first unsecured bond in October 2021. Today, our net debt to adjusted EBITDA is 4.9 times, the lowest among our peer group.

We indicated at the IPO that we would acquire a billion dollars of net acquisitions in our first three years as a public company. We expect to end this year at approximately $686 million in net acquisitions since our IPO, which assumes we hit the midpoint of our guidance for 2023.

We have the first half of next year to continue to work towards this $1 billion target. Given the volatile transaction market we've experienced over the last two years, we may not hit our billion-dollar target, but we are very pleased with the progress to date, and we expect to come close.

All of these results have led to market-leading total shareholder returns. Over 30 years, we have built a fully integrated operating platform and become one of the nation's largest owners and operators of grocer-anchored neighborhood shopping centers.

Our management team owns 8% of the company, an interest valued at over $300 million today. Our team continues to deliver on the operating side, which is reflected in our consistently strong financial results.

Since our IPO, we have exceeded market expectations for NOI, FFO, and AFFO growth. The quality of our operating team is an important differentiator, and you'll hear more from Bob on that next.

Lastly, I'd like to give you a brief overview of our investment management business. PECO has been in the investment management business since the company's founding. Today we have a six-person team dedicated to this initiative. Steven Bean, who runs this initiative for us, is with us today. Steven? This dedicated team leverages all the resources of PECO to generate attractive investment returns for our partners. We continue to have an investment management platform because it allows us to access incremental investment capital, expand our acquisition opportunity set, and leverage our operating platform while generating attractive ROIs on PECO's capital. The IRR return to PECO from this business is in the high teens to high 20s, depending upon the strategy being executed. We have successfully managed eight investment vehicles over time. Our two most recent vehicles include a value-added partnership with TPG and a core partnership with Northwestern Mutual.

The TPG partnership was fully realized in 2022 and generated a partnership net levered IRR of 14.4% and a multiple of 1.6 times. PECO realized a 35% IRR on our capital. Our current core partnership with Northwestern Mutual owns 20 shopping centers and is an 86-14 partnership with current AUM of $460 million.

This partnership has also performed exceptionally well. We are benchmarked against the NCREIF Retail Property Index and we have outperformed that benchmark by an average of 800 basis points a year since inception. This partnership generates $8 million in annual cash flow to PECO, which is a current cash yield of 23% and our equity investment of $34 million.

We continue to look for attractive opportunities to grow our investment management business and we have two new initiatives in process. One is a core partnership with a large asset manager. The other is a social impact fund targeting grocery anchored shopping centers in majority minority communities. We hope to be able to announce these new initiatives in the first half of next year.

One fact that continues to frustrate the PECO team is that open air retail does not get the valuation metric that we believe it deserves. When we compare the fundamentals of our business to those of the multifamily and industrial sectors, our business offers comparable occupancy metrics and less supply in the pipeline and yet we trade at multiples that are 10 to 35% below multifamily and industrial respectively.

Our hope is that the strength of the operating fundamentals in our business as well as the resiliency of our sector's performance during down cycles will be better recognized by the marketplace and the multiples for the shopping center sector will expand accordingly.

To wrap up, I'm extremely proud of what the PECO team has been able to accomplish since I joined the company over a decade ago. Our focused strategy and talented team combined to create a market leader in the shopping center business. I am confident that the PECO team will continue to deliver market leading results. Bob Myers, who will become our president on January 1st, is a talented and proven leader. Bob has played an important role throughout his 20 year history at PECO and has grown our portfolio into what it is today. Bob has successfully managed all facets of our business including leasing, operations, development, acquisitions, and dispositions.

I'm very excited to see Bob continue to partner with Jeff and the entire PECO management team as they successfully grow our company. I'd now like to turn it over to Bob.

Bob Myers^ Well, thank you, Devin, and good morning, everyone. It's great to be here.

I'm energized to assume the position of president and build on our accomplishments. As the team mentioned, the PECO team works closely together to execute our focused strategy and propel the company continually forward. We remain dedicated to delivering growth and expanding our portfolio of grocery anchored neighborhood shopping centers, all while prioritizing the creation of long term value for our stakeholders. All of us working side by side with our dedicated team will ensure PECO remains in a strong position today and into the future.

I've been with PECO now for over 20 years, working closely with Jeff and the team, and I've helped to build PECO's portfolio to nearly 300 properties. And as president, I'll continue to focus on strategy and processes in the areas of operations, investments and development for PECO's portfolio. Our focus on driving internal and external growth will be directly supported by the following leaders reporting to me.

Joe Schlosser and his operations team are focused on continuing to grow the value of PECO's portfolio. Ron Meyers will be enhancing our pricing power through new leasing, renewals, retention and strategic merchandising. Dave Wik will be guiding our acquisition and disposition teams. Cherilyn Megill, who is here with us today, leads our marketing efforts with a focus on supporting our growth initiatives. And Greg Clough, who leads our development team, is focused on expanding and growing our development pipeline while continuing to build upon our very strong grocery relationships.

We put a lot of thought into the construction of the team at PECO, and as Jeff mentioned, having an integrated team is critical to PECO's success. Every associate is responsible for collaboration across teams, and we are all rowing in the same direction to collectively drive NOI growth and value creation.

This continued collaboration allows for continuous learning and improvement, innovation and cross-functional decision making. We've proven the success of PECO's integrated team and operating platform has demonstrated and are consistently strong operating and financial results.

Later in the meeting, you'll hear from Joe, Ron and Dave about additional examples on how the PECO team collaborates to drive results at the property level. As the team mentioned, PECO's grocery anchored strategy has allowed us to perform very well through multiple economic cycles. Our grocery health ratio, or occupancy cost, remains strong at 2.3%. Grocery sales per square foot have grown 5% year over year to $670 per square foot. Grocery sales per square foot have increased 28% since 2019. We continue to see the many benefits of our grocery anchored portfolio with a healthy mix of national, regional and local retailers. More than 70% of our rents come from neighbors offering necessity-based goods and services, and our top grocers continue to drive strong, reoccurring foot traffic to our centers.

Looking ahead, we and our neighbors believe consumers will continue to visit and spend on necessity-based categories, even if they reduce spending on luxury items and other discretionary purchases.

As we have said, PECO's three-mile trade area demographics include an average population of 65,000 people and an average median household income of 79,000, which is 11% higher than the US median. These demographics are in line with Kroger and Publix store demographics.

And as you heard me say in the video, our centers are close to the end consumer, at the corner of Main and Main, where America's leading grocers are profitable, and in turn, our neighbors are profitable, which allows PECO to be profitable. Our neighbors have demonstrated strong resilience historically throughout difficult economic downturns. When we look at PECO's performance following the 2008 global financial crisis, it highlights the resiliency of our grocery anchored portfolio. We currently own 29 assets that were owned by us in 2008, so we went back and reviewed the performance of those assets. And in 2010, NOI decreased 270 basis points but recovered to pre-GFC levels by 2011.

Occupancy declined 180 basis points to its lowest level in 2009, but fully recovered by 2010. Looking back at 2020 and the COVID-induced downturn, PECO lost just 70 basis points of occupancy during the peak of the pandemic, and we fully recovered by the middle of 2021. We lost the weaker operators during 2020, and today, our small shop neighbors, including our locals, are strong and thriving in our centers.

If history is any indication, PECO's right-sized grocery anchored neighborhood shopping centers will continue to be resilient in all market cycles. We believe PECO's portfolio continues to be well-positioned given our grocery anchors, right-sized format, and necessity-based neighbor mix. Apart from our grocers, which represent over 30% of the rents, the next largest category in PECO's portfolio is quick service restaurants, representing 11% of ABR. And during the GFC, quick service restaurant sales actually increased.

Similarly, the overall restaurant category, including full service, averaged slightly positive sales growth. 7% of PECO's rents come from full service restaurants. The restaurant segment held up extremely well. And as expected, grocery is the most resilient category and had the best performance during the GFC.

Grocery, quick service, and full service restaurants combined represent about 50% of our rents. And when compared to the overall performance of the retail sector during the GFC, we believe our grocery anchored strategy and necessity-based neighbor mix demonstrate the resiliency of our portfolio. Our neighbors continue to demonstrate their ability to manage many challenges, including inflation, supply chain issues, and labor shortages. Despite these many challenges, our neighbors are investing in their stores and technology platforms to provide high-quality customer experiences.

We also enjoy a well-diversified neighbor base, and our top neighbor list is comprised of the best grocers in the country. And our largest non-grocer neighbor makes up only 1.4% of our rents, and that neighbor is TJ Maxx. All other non-grocer neighbors are below 1% of ABR. And to put a finer point on that, PECO has no exposure to luxury retail, office, or theaters, and very limited exposure to distressed retailers. The top 10 neighbors currently on our watch list represent 2% of ABR. PECO is well-positioned for future growth with strategic presence across the US, our portfolio is geographically diverse, and rather than focusing exclusively on coastal markets, we focus on well-located suburban markets with growing populations and strong demographics.

We are neighborhood-focused, and we compete on the corner of Maine and Maine. As Jeff mentioned, migration trends continue to favor PECO's suburban market locations. According to Placer.AI, PECO's suburban markets offer retailers several advantages in today's environment, including comparable, if not superior, visit per location trends, less competition, greater diversification of their consumer base, easier access to labor as an employer of choice within a market, and less expensive build-out costs. These metrics result in higher-margin stores, which are more profitable.

Migration shifts since the start of the pandemic, along with the shift toward hybrid work, have led to a suburban resurgence, impacting everything from retail to dining. Chipotle, Chick-fil-A, Wingstop, and Jersey Mike's are awesome examples of retailers that have been focusing on suburban markets for the expansion. Traditional retailers are raising their long-term store-based targets in our markets because these locations have proven to deliver the same or better store-level economics as traditional locations.

Retailers are also increasingly looking to open smaller-sized locations, spaces between 2,000 and 3,000 square feet. PECO's small shop average lease size has remained consistent at about 2,300 square feet.

For over 30 years, we have excelled in this small shop format, and we are currently seeing strong demand for these spaces. Now, you heard the PECO team say it many times before, and it bears repeating. Format drives results, and not all space is created equal. We focus on exclusively owning right-size neighborhood centers anchored by the number one or number two grocer in the market by sales. Why? Because we know the average American family visits a grocery store 1.6 times per week. Our grocers draw consistent daily foot traffic to our properties, benefiting our small shops.

While our right-size grocery anchored format is a critical pillar of our long-term success, we believe the quality of our portfolio continues to be another important differentiator. And as you heard in the video earlier, PECO defines the quality of our performance and our portfolio through the use of the acronym SOAR.

We believe SOAR is the best metric for quality and sustainable growth. We have more than 30 years of experience in the grocery anchored shopping center industry and an informed perspective on what drives quality and success at the property level. We believe SOAR provides important and sustainable measures of quality which drive long-term growth, spreads, occupancy, advantages of the market, and retention.

Our brick-and-mortar centers are a critical component of both last-mile delivery and buy online and pick up in store, BOPUS. Through BOPUS, customers order their products online and then pick them up at our centers. Grocers have embraced BOPUS as delivering groceries continues to be logistically and economically challenging. We see this as another advantage of being located in the neighborhood, close to the customer.

In summary, PECO's integrated operating platform and team are important differentiators and key to our success. Our teams are collaborative and highly focused on driving growth at the property level. We are also the best position to grow our portfolio through strategic acquisitions, and we are efficient operators focused on NOI growth and value creation. In my 20 years with PECO, I have never seen an operating environment as strong as what we are seeing today.

With this team, I am confident in our ability to deliver superior returns.

And with that, I'll turn it over to Tanya. Thank you.

Tanya Brady^ Thank you, Bob. Good morning, everyone.

As PECO's general counsel, I oversee our corporate responsibility and sustainability program. In the next few minutes, I will share with you how this program integrates into our business, driving our performance, and ensuring that we operate with the highest ethical standards possible. We are committed to providing the best quality of service to our customers. We are committed to driving our performance and ensuring that we operate with the highest ethical standards as stewards of our investors' capital. Before diving in, let me introduce you to our team that we call our PECO Eco team that plays a pivotal role in our success.

Our PECO Eco team is a cross-functional group of our seasoned associates from many of our departments, including portfolio management, construction, property management, utilities, leasing, investor relations, HR, IT, compliance, finance, and risk management.

Our approach to corporate responsibility is straightforward yet impactful. For us, it's a commitment beyond mere compliance. It's a commitment of all of our associates to positively shape our culture, to drive our performance and growth of our business and the satisfaction of our neighbors, and to conduct ourselves with ethics and integrity, living our core values.

Internally, we refer to this commitment as our PECO Eco promise. Our program is structured around four key pillars. One, our people, the PECO Eco team. Two, environmental stewardship. Three, culture and community. And four, ethics and oversight. Today, I'd like to highlight a few key elements of our program and some of our progress in 2023. So I'll start with environmental stewardship. Our sustainability strategy prioritizes creating operational efficiencies and savings at our business center and managing risk exposure and the resiliency of our centers. We also look for opportunities to create positive impacts in the local communities that we proudly serve and our overall environmental footprint.

So to that end, I'll share a few examples of these initiatives. We've been installing LED lighting upgrades and smart lighting control systems in our portfolio. Today, over 90% of our centers have LED lighting, and over 75% of our centers have smart lighting controllers. These initiatives have significantly reduced energy consumption and yielded financial gains, with an estimated cumulative savings of over $9 million since we began these installations over 10 years ago.

We have also installed 14 solar array systems, with more under contract and in development. I'd like to highlight a solar installation that we completed in 2020 at our Boronda Plaza Center in Salinas, California. This project represents a wonderful collaboration with our grocer, a Kroger Banner, as well as the regional benefits of the California climate. We installed a full roof solar system and a carport system in the parking lot. Feedback from our shoppers on the carport system was very positive, as it provides nice shade on hot, sunny days, as well as cover on their few rainy days.

This project also included a full LED lighting retrofit of the parking lot area. This is a great example of sustainability coupled with strong ROI. The project yielded an estimated 59% decrease in full center energy consumption from 2020 to 2022, with a 1.7-year payback. In a conversation with our grocer, the grocer told us that it resulted in an approximately an 80% reduction in its third-party energy consumption.

We've also installed over 16 million square feet of white reflective roofs, which significantly drive down cooling costs for our neighbors. So we're very focused on expanding more of these initiatives throughout our entire portfolio, as lower campsite charges contributes to our team generating stronger rental rates in new leasing and renewal deals.

With respect to managing risk, weather-related resiliency is a key focus. We have made capital investments in strategic regional locations to combat weather events such as wind-rated roof systems, structurally sound pylon signs, and anchored parking lot pole lights.

Before an impending storm, our property management team is all hands-on, working with our neighbors and local vendors, prioritizing safety and ensuring the property is storm-ready, and that post-storm cleanup efforts allow our neighbors to reopen as quickly as possible.

Our weather resiliency plan has been so effective that our grocer, Publix, adopted our hurricane preparation plan components. During Hurricane Ian in September 2020, our Sanibel Island Center took a direct hit. Due to the preparedness and resiliency plans of our team and our grocer, Publix, Publix was reopened for business within nine days after the storm. Certainly impressive efforts by all involved.

So now I'll turn to the culture pillar for just a moment. We are exceptionally proud of our culture at PECO, which has been a priority of our leadership team since our founding and as it has continually evolved over the years. We have a high-energy, collaborative, results-driven team. This year's annual associate survey had a 90% engagement rate. So to put that in context, it puts us in the top 10% of all US and global companies on engagement.

At PECO, we see ourselves not just as employees but as owners aligned with the interests of each investor. We believe that this owner mentality drives our innovative spirit at PECO.

Looking ahead, we see immense potential in the opportunities that generative AI brings to our business. To foster continuous innovation, we host innovation labs led by our associates exploring diverse topics impacting our business. And we recognize associates with annual innovation awards for the best innovative changes implemented into our business.

An example of this innovative spirit is our team's development of Dashcomm, a communication platform for our neighbors. Our internal team saw a need for a more effective way to communicate with our neighbors. From that thinking outside the box and like an owner mentality, the team developed a software program which profoundly improved our neighbor communications. You will hear more from Joe on Dashcomm in a moment, but I can share that 98% of our neighbors are registered on Dashcomm. And in a recent survey with over 1,600 of our neighbors participating, we had a 96% user satisfaction rating with the system.

So now turning to oversight and ethics. Our full board has oversight responsibility of our corporate responsibility and sustainability program. We diligently assess non-financial performance metrics and related risk management issues. We are keenly tracking regulatory requirements that will likely impact our business and reporting obligations. We have a robust enterprise risk management strategy and a team that meets regularly to assess enterprise risks and opportunities. Our cybersecurity team is vigilantly keeping up with the most current security solutions and controls and frequently providing training and reinforcing best tech practices with all of our associates. This year, we completed a climate scenario analysis of our entire portfolio, looking at the potential physical and transitional risks and opportunities we may face in the upcoming years.

So before I conclude, let me give you a brief preview of where we are going from here. In the upcoming year, we will be integrating our climate scenario analysis into our full enterprise risk management strategy. We will continue to enhance our disclosures by aligning more fully with

TCFD and SASB. We will participate in GRESB in 2024 again. And we will continue to build our strategic initiatives and goal setting with enhanced transparency and stakeholder engagement.

So in conclusion, corporate responsibility is not just a standalone initiative. It's an integral part of our business. Through our PECO-Eco promise and our internal training and strategizing, it shapes our relationships, it guides our decision making, and it allows us to do things the PECO way, which is driving performance while being a great partner to all of our stakeholders, including our investors.

So I appreciate your time today. And with that, I will hand it over to Joe. Thank you.

Joe Schlosser^ Thank you, Tanya.

Good morning, everyone. I am extremely excited about my new role as Chief Operating Officer. My focus will be on day-to-day operations while identifying and implementing value creation strategies that optimize the performance of PECO's portfolio. I have 26 years of industry experience and nearly 20 years with PECO.

I have extensive experience in many aspects of our business, including specific roles in finance, leasing, construction management, and asset management. Over the last 12 years, I have led our portfolio management team and also served as a voting member on our investment committee, which approves all acquisitions and any dispositions.

I have helped grow the PECO portfolio to what exists today, which is the strongest and most profitable in the history of the company. As COO, I will continue to lead the portfolio management team while expanding my direct reports to include property management, construction management, data science, and the market research team.

As Jeff and Bob mentioned, the entire team drives value at the property level. The experience and talent on PECO's operation team is significant, and we have experts in every aspect of the grocery-anchored real estate industry. Let me provide some highlights. Starting with PECO's portfolio management team, our leaders average over 15 years of industry experience, including 12 years with PECO. This group has vast and diverse work experience, including experts in leasing, development, construction, accounting, acquisitions, due diligence, and finance.

I would put this team up against any in our business, and we have a very deep bench for succession planning and potential future executives. They develop and execute the business plan for every asset in the portfolio, including new acquisitions and any recommended dispositions. They are detailed decision makers and lead our entire cross-functional team to compete at the highest level on every single asset. They establish and update detailed SWOT summaries, which summarize the strengths, weaknesses, opportunities, and threat at each asset. These informative summaries are updated in real time and accessible by all associates in order to obtain the latest information.

The portfolio management team leads the assets from start to finish. They are involved in the entire life cycle of each property from identification, underwriting, acquisition, leasing, and capital investment. They measure performance to underwriting to diligently learn how we can improve on future projects. PECO's portfolio management team has an industry-leading track record of driving results through cross-functional collaboration and everyday execution.

Moving on to property management. PECO has one of the best property management teams in the business, led by Eric Richter, who has more than 25 years of industry experience, including the past 22 years with PECO. In addition, we have a team of senior property managers who average over 22 years of industry experience and nearly 11 years with PECO.

Our property management team prides itself on their attention to detail, hands-on approach for consistent and high-quality results at each property. Our property managers are embedded in 17 states, which allows for consistent physical presence at our centers. Each property manager maintains an average of approximately 15 centers with 330 total neighbors. They have a support team of administrators who help with paperwork and other office functions to improve the efficiency, which allows our property managers to spend 75% of their time physically at the properties where they can add the most value.

In addition, PECO has a customer experience team that focuses on enhancing customer service to new neighbors through their entire lease term. This structure provides an opportunity to build strong neighbor relationships, which helps increase retention by enhancing their experience at our shopping centers.

PECO's property management team drives growth at the property level with focus on the following areas -- expense management, capital investment projects, environmental stewardship, and ancillary income. The team takes great pride in controlling expenses with a goal of managing within 1% of their annual budget. They are constantly re-bidding over 2,000 vendor contracts annually, re-forecasting monthly, efficiently procuring energy in deregulated states, and working closely with the portfolio managers to pivot and modify their spend as needed.

The team executes over 750 projects annually. These projects have a positive impact on the community, assist leasing efforts, and help reduce property expenses. These projects include asphalt overlays, roof replacements, LED lighting, signage upgrades, and painting.

As Tanya mentioned, they implement environmentally friendly initiatives whenever possible.

In addition, the entire property management team uses their extensive network to source ancillary income opportunities in the common areas. These deals include ATMs, advertising displays, seasonal retailers, cell towers, electric vehicle chargers, and rooftop leasing for solar installations. These deals represent approximately $3 million a year in property level income. PECO's construction team consists of 12 professionals who average over 24 years in the construction industry, including 7 years with PECO. This team has a variety of expertise, including design, general contracting, and extensive experience working directly with national, regional, and local tenants. They manage a variety of capital projects, including tenant improvements, new developments, and redevelopment projects nationwide.

In 2023, over 400 projects were completed, ranging from $10,000 to $12 million each. The construction team's focus areas include cost reduction and rent acceleration through a variety of methods. They value engineer retailer scopes and research existing conditions prior to any cost estimates. They utilize a network of over 300 designers and general contractors to hire the best and most cost-efficient local construction companies.

They also expedite the permit process on each project and reuse existing materials whenever possible. These efforts help to reduce costs on the front end, avoid costly change orders on the back end, and accelerate the start of new rent.

PECO's regional structure has three main regions consisting of the west with 83 assets, the northeast with 96 assets, and the southeast with 121 assets. This geographic structure allows us to align the cross-functional team and absorb future external growth driven by PECO's acquisition strategy. This regional structure, along with our very detailed property level focus and dedicated cross-functional resources, help ensure the team is locally smart in everything we do. You will continue to hear us speak about being locally smart throughout the day as we believe this is an important difference maker in PECO Advantage.

Teamwork in our business is vitally important. Cross-functional collaboration and communication are critical to the overall success of PECO. Every department contributes and we all work together to add value. Cross-training our associates has been a top priority for PECO since the start of the company. The reality is that associates make better decisions when they think outside of their individual roles and responsibilities.

For this reason, we promote cross-functional thinking in a variety of ways. We have a formal leadership rotation where leaders are selected to work within several departments for six to 12 months per group to further expand their cross-functional knowledge. We also have job shadowing and mentorship programs. And all departments routinely host educational lunch and learns on various industry related topics. In addition, our managers are supportive when associates have interest in potentially moving to other areas of the company. We know that a company and culture which embraces cross-functional thinking and teamwork will ultimately deliver superior results.

Now turning to technology, innovation, and data science. PECO has over 30 years of operational data that we use to inform and help guide our decision making. We understand where we have been successful and how we can apply that knowledge to future projects. We utilize the PECO performance data combined with a wide array of external data sources to create three primary and proprietary data driven tools. The PECO Power Score, the Gold Score, and the Star Score.

The PECO Power Score is a result of analyzing over 2,000 data points to determine the 45 variables that are most highly correlated with PECO's success at the property level. These variables are then weighted and grouped into six main categories and tallied to determine an individual Power Score. This score is a powerful indicator of the quality and risk for any grocery anchored property. While the Gold Score is similar in methodology and structure to the Power Score, it scores the quantifiable risk and health assessment of an individual grocery store. When we buy a shopping center, we want to be certain that the grocery store has a long-term commitment to that location. The Gold Score is a vital tool which helps us quantify that assessment.

The Star Rating is our most recent database tool which analyzes historical property level performance data to determine the 23 key variables that are most highly correlated with NOI yield growth. Our Star Rating helps us predict future NOI yield growth at all existing properties and future acquisitions.

We also have many other examples of how we innovate and use technology to create efficiencies. One is called Dashcomm, which Tanya mentioned, which has been one of PECO's greatest innovations in our 30-year history.

Dashcomm is a proprietary customer experience and communication platform which 98% of our neighbors are registered.

The platform efficiently facilitates the following activity. In 2023, neighbors submitted 40,000 months of sales data. In addition, PECO has sent thousands of communications, including news blasts, with important information for our neighbors. The platform receives 7,600 tasks annually from our neighbors, our vendors, and our associates and is integrated with our key vendors such as VersaPay, Conservis, Record Center, IDPlans, Equifax, and others.

Next is our Lease Analysis Tool, which was developed by our finance team and utilized by our leasing agents to receive immediate feedback during potential new lease negotiations. Every unit has a specific rent and capital budget, and the Lease Analysis Tool provides a resulting pass or fail based on the potential economics of the new lease. This immediate and automated management feedback helps expedite each negotiation.

Our TOT Dashboard, which stands for Tenant On Board Tracking, is a dashboard and workflow which helps our cross-functional team monitor the status of our new neighbors. Since implementation in 2021, we have seen a 36% increase -- I'm sorry, 36% reduction in average days it takes new neighbors to open for business. We work closely with our IT department to problem solve for quicker and better decision making. These are just a few examples of the tools we have designed specifically for PECO.

We are actively using artificial intelligence to enhance, expedite, and make effective use of our data. Every department has an AI champion that oversees the creation and implementation of specific AI-based projects for the team.

Currently, we are using AI on tangible projects, such as analyzing our lease abstracts and vendor invoices, which will result in improved efficiency and cost reductions. We will continue to find ways to leverage AI to creatively and efficiently improve how we operate our business.

One of our top priorities is building and strengthening the relationships with our grocery partners. This has been a top priority for PECO for 30 years and is a PECO advantage. We develop these relationships through corporate visits, dinners, social gatherings, and formal portfolio reviews. We know who to call and that they will answer the phone when we call them. These grocery relationships help us in a variety of ways, but perhaps the most important is when we are considering a potential new acquisition.

One of our first phone calls is to the grocer to discuss their performance and experience at that particular location. Their feedback is critical to our assessment, and we appreciate it when they steer us away from a potential acquisition because it simply saves us time and money.

Grocery is at the core of our business, and these relationships are critical to our success. I would like to spend a few moments providing an update on our approach to creating value through ground-up development and redevelopment. Since the IPO, we have stabilized 30 projects, delivering nearly 600,000 square feet of space with incremental NOI of over $9.1 million.

At an average yield of 11%, these projects provide superior risk-adjusted returns and have a meaningful impact on our long-term NOI growth. We expect to invest approximately $50 million annually in ground-up development and repositioning opportunities with weighted average cash-on-cash yields between 9% and 12%.

This activity remains a great use of our free cash flow and produces attractive returns with limited risk. We continue to make great progress on these projects, and John will quantify the long-term opportunity later in the meeting.

Our team is working hard on growing this future pipeline. Now that I've told you about our talented team and our innovative initiatives, I'll walk you through a few case studies of our properties. These case studies are representative of typical PECO properties and how we create value in a variety of different ways. Let's start with Kings Crossing. Located in a growing suburb of Tampa, Florida, we purchased this asset from a public REIT, and this is the type of opportunity that PECO looks for. The center is anchored by Publix and 97% occupied at the time of acquisition.

The occupancy level and strong grocer gave us pricing power to drive rents higher. Retention has been strategically lower than average at 68% over the past five years because we replaced under-market rents and improved merchandising mix on the rent roll.

Renewal spreads have been nearly 26%, and new leasing spreads of nearly 43%. We replaced weaker retailers with growing operators such as Marco's Pizza, Great Clips, AAA, and an urgent care facility. We have grown NOI by 58%, which is a 9.6% CAGR. If we sold this center today, the unlevered IRR would be 10 to 11%. While the strong performance is not a surprise given PECO's ability to maximize returns, we always try to learn from every asset. Even when we outperform, it helps us understand what we can do better.

For example, on this one, we have outperformed our underwriting, and in hindsight, we were too conservative in our releasing assumptions.

Next, let's look at Evans Town Center, located near Augusta, Georgia. This is another suburban market where we continue to see population and income growth. The center was again purchased from a public REIT and was 92% occupied at the time of acquisition. We saw an opportunity to add a traffic signal at one of the main entrances. This was a major factor in helping us increase occupancy and drive rental rates significantly higher. Over the past five years, renewal spreads have been over 20%, and new leasing spreads have averaged over 29%. Again, our leasing team strategically improved merchandising mix by adding quality operators such as Orange Theory Fitness, Fantastic Sam's, and Orthodontic Care of Georgia. The resulting NOI growth has been 61% for a 10% CAGR since we acquired the asset.

If we sold today, we would realize an unlevered IRR of 12 to 13%, but the team is still seeking growth by pursuing adjacent out parcels for future developments and redevelopments over the next few years.

Up next is Meadowthorpe Manor Shops in Lexington, Kentucky. Located in a suburb near the University of Kentucky, this is another example where our team could add value in a variety of ways. We purchased the center from a local owner, and we utilized our Kroger relationship to significantly add value. We extended their lease term by 15 years, worked with them on an expansion and full store remodel, and helped them add a fuel center.

Most recently, we continued to add value by building a freestanding Chipotle. Since 2018, retention has been 100% at 26% increases in rent. We increased NOI by 67% at a CAGR of 4.8% since acquiring the asset. If we sold the center today, the unlevered IRR would be 12% to 13%. Next is Kleinwood Center, which is another great case study of how the PECO team drives growth at the property level. Located in a Houston, Texas suburb, Kleinwood Center is larger than our average center at nearly 153,000 square feet. We bought this center from a public peer when it was 93% occupied, and two units had simply never been leased.

We leased both of those units and reached 99% occupancy within two years of the acquisition. The number one grocer in the area anchors the center, and the HEB sales have increased 73% to over $1,100 per square foot. We capitalized on this momentum by increasing NOI by 41% at a 3.5% CAGR during our ownership. If we sold this center today, the unlevered IRR would be 11% to 12%.

The final case study is Shops at Lake Village, located in a growing area near Orlando, Florida. We acquired Lake Village from a lender, and we saw a neglected center with a tremendous opportunity to add value. This center included addition by subtraction when we demolished an old car wash to increase visibility. The team also did some heavy lifting by demolishing an older Publix and rebuilding a brand new one in the same location.

The excitement of the new anchor has helped our leasing effort, and the team delivered renewal spreads of 34% and new leasing spreads of nearly 56%. The resulting NOI growth has been 166% at a CAGR of over 21%. If we sold this center today, the unlevered IRR would be 16 to 18%. But again, we still have a long runway to further add value through lease up, pushing renewal spreads, further improving the merchandising mix, and building out parcel developments and redevelopments over the next several years.

We often get challenged on the demographic profile of our centers, so I'd like to share the demographics of those case studies that I just highlighted. As you can see, most of these assets are below PECO's average population and/or income level. And collectively, the average population and median household income are both below PECO's portfolio average. The focus on demographics is relevant, but we have proven that our team can create value in a variety of different demographic areas. And these are just a few examples of markets where the PECO team can deliver attractive returns.

We will continue to identify, acquire, and execute similar opportunities nationwide. More important than three-mile statistics are metrics directly at the center, such as grocery sales, daily vehicle traffic counts, and the volume of customer visits. Our PECO Power Score factors in the most important center-specific data points and helps us to be locally smart about each specific location.

The reality is that our grocers make money in a variety of demographics. PECO will be right there with them, creating value for our investors. We believe the PECO way of looking at quality and opportunity is better than relying too much on macro market statistics. With our approach, we often see opportunities that others do not see. Real estate is an art and a science. We understand the art by relying on our long history of operating grocery-anchored shopping centers. Blending this experience with our database PECO performance models provides a powerful combination and gives us a competitive advantage.

In summary, I am excited about the future of PECO and the opportunities ahead. We have a talented team that is executed in all economic cycles. We understand the importance of cross-functional collaboration. We are at the forefront of technology, efficiency, and innovation. We utilize 30 years of data related to our core business. We relentlessly measure our performance and continue to learn and improve every day. We are locally smart and highly focused on every single asset. And PECO's high-quality portfolio is anchored by top grocers, operated by a proven team that can deliver industry-leading results in a variety of demographic markets.

Thank you for your time. I will now turn it over to Ron.

Ron Meyers^ Thank you, Joe. Good morning, everyone.

Today I'll walk you through how our highly experienced in-house leasing team is able to drive growth and maximize results at the property level. We will demonstrate how our high occupancy and strong retention rates give us unparalleled pricing power that will enable continued rent growth. And finally, we also provide an update on our locally smart merchandising mix strategy and the necessity-based retailer categories that are driving current demand.

I'll start with a quick overview of PECO's leasing team. I've been with PECO for over 14 years, and before that I spent 10 years on the leasing team at site centers. I've helped to build a leasing strategy and team that has led PECO to record high occupancy, record high retention, and record high rental rent spreads.

Our retailers are thriving in our centers as evidenced by our operating metrics. In my 24 years in the business, I have not seen demand for space in grocery acreage neighborhood shopping centers like we are seeing today. Our leasing team has 30 professionals located throughout the country close to our centers. We have three regional VPs, a head of national accounts and retention, and a deeply experienced new leasing and retention team.

This entire group averages over 20 years of industry experience. I would put PECO's leasing associates up against anyone in the business. We know this industry extremely well, and we know grocery anchored and necessity-based retail better than anyone. One of my goals today is to show how our leasing team differentiates PECO and how our advantages allow us to deliver consistent results at the property level. PECO's use of specialists within the leasing team is one of the major strategies that make us better.

Most landlords have each agent handle every part of the leasing process. This will include things like their own marketing, their own national retailer relationships, renewing retailers, and executing new deals. At PECO, we believe this approach is inefficient and doesn't drive the strongest results. Instead, the PECO way is to structure the leasing team with a highly focused specialist who are empowered to own specific areas of the leasing process.

Our specialists are absolute experts within a particular leasing discipline. We have found that having specialists allows for more efficiency and increased performance. So we have dedicated professionals for new leasing, dedicated professionals for renewals, dedicated professionals for national retailers, and dedicated professionals for marketing support.

So let's go a little bit deeper and talk about why we love having a team of dedicated specialists and how this structure drives strong results. Using our groups of specialists, we've been able to develop stronger national retailer relationships. Our marketing and technology is among the best in the industry. Our renewal specialists bring us the highest renewal spreads in the peer group. PECO's structure also creates healthy internal competition between our new leasing and renewals team, which allows us to continue to drive strong and consistent rent spreads.

PECO's marketing specialists and our national accounts team allow our new leasing agents to focus on closing deals instead of prospecting for retailers, making our new leasing agents much more efficient and effective. We believe PECO's differentiated leasing team structure is one reason why we're able to deliver some of the best operating results in the industry.

At PECO, we have three specialists and a marketing team who are focused on using technology and digital marketing to identify the best retailers for our agents to follow up with. Our highly experienced marketing professionals love helping the agents, love trying new things, and are always looking for ways to get better. The use of technology and digital marketing by this group is one reason why our agents have been so successful with their locally smart leasing efforts. So let's move on to the types of technology and marketing that our leasing marketing specialists are focused on every single day.

As Joe mentioned, the PECO team is leading the way with technology and innovation. Our marketing specialists and marketing team optimize technology and AI every day with our cutting-edge prospecting tools. With platforms like LoopNet, CallRail, and ReSquared, we've created a comprehensive, intent-driven lead strategy that provides fast and effective information to qualified prospects. This technology allows us to do things like market our spaces online, closely track and measure things like our call volume, our email and Internet traffic, and have a complete understanding of how and where our retailer leads are coming from.

And with AI, we have deployed a lead generation response tool that creates space-specific responses on behalf of the agents, which includes things like virtual tours and personalized content. Technology and AI are instrumental to our success as it organizes leads, improves targeting and personalization, and allows us to scale our efforts. So now let's connect some of how this use of technology and digital marketing makes our new leasing agents incredibly efficient. So efficient that we've reduced the number of our new leasing agents from 22 in 2019 down to 11 today. Using our leasing marketing support and with our national accounts team, our new leasing agents don't need to spend as much time marketing their spaces. Instead, they are constantly receiving retailer leads from these two groups, which allows our new leasing agents to spend most of their time negotiating and closing new deals.

Industry-wide, your average leasing agent spends about 80% of their time marketing and 20% closing deals. Using PECO's structure of adding specialized support within the department, our new leasing agents spend 20% of their time marketing and 80% closing deals.

In addition, across the industry, your average leasing agent is going to typically complete around 20 new deals a year. At PECO, our new leasing agents average over 32 deals each per year, largely due to the additional support provided by our specialists. In fact, we have three agents this year who will exceed 50 deals each, and two of the three may even exceed 60 deals each. That's triple the industry average. As you can see, our structure gives PECO a competitive advantage.

Another benefit of having specialists is creating healthy internal competition for the same space. Our renewal agents are tasked with renewing existing retailers at the highest possible rental increases, while our new agents are tasked with finding the best possible new retailers to bring into our grocery anchor centers. We have these very experienced, locally smart, highly driven individuals who oftentimes end up competing for the same space, especially when that center is near full occupancy.

So what does this internal competition look like? It's a combination of our new leasing agents pushing to upgrade our locally smart merchandising mix with a new retailer, while our renewal agents push the existing retailers' rent as high as possible. Our renewal agent knows that if they do not push the existing retailers' increase as large as possible, there is a real possibility the new retailer may outbid the existing neighbor for this space, and they may lose the renewal. This constant internal competition from new leasing pushes our renewal team to press for market-leading increases in rents. And this healthy internal competition is why our combined renewal spreads are typically at the top of the peer group. We see this as another great example of a PECO advantage.

Let's look at our leasing spreads and compare them to our occupancy growth over time. The general pattern you're going to see is the higher occupancy moves, the higher the leasing spreads are moving with it. So why? It's simply supply and demand. We have the highest retailer demand we have seen in our 30-year history. You combine that demand with a limited amount of supply and very little new construction, and it gives PECO unparalleled pricing power. And you can see this reflected in our operating metrics.

So often we get fixated on filling vacant space as the only way to drive revenue growth. When you have a center that's 100% occupied, I think at times the perception is we've tapped out all that growth, so let's move on and focus elsewhere. But that's not how we see it at PECO. We see significant opportunity remaining to leverage existing expiring retailers as part of our long-term growth. A 100% occupied center is the absolute best opportunity to drive rent growth, especially with our new leasing agents and our renewal agents competing for the same spaces.

At many of our centers, we literally have a waiting list of retailers waiting for new availability to come online. Using this demand leverage, we will continue to drive our rents and growth, even with a fully occupied center. Let's spend some time on local retailers. Why do we need them and the value they add to our centers? If you think about your favorite restaurant, your physical therapist, a chiropractor, a dentist, your preferred hair salon or nail salon, there's a very high likelihood they're a local retailer. Our local retailers are successful businesses run by hardworking entrepreneurs. These retailers are critical to creating the best merchandising mix possible. This has been our belief for over 30 years, and we don't see it changing going forward.

So why do we care so much about having that locally smart merchandising mix? With the right mix of national, regional, and local retailers, we can create the optimum environment for sales growth across every retailer at the center. Our leasing team prides ourselves on being locally smart. Our job is to put together the best possible mix of retailers specific to each center and each neighborhood we operate in. That is the art of PECOS Leasing.

And when we do this right, every retailer's sales at our center will continue to grow, which allows them to thrive at our centers, and then we can maximize our ability to grow rents and NOI. It's very simple to explain, but very difficult to consistently execute, which is why you need a locally smart team like PECO, where the average experience across the entire leasing group is over 20 years.

We thought it'd be interesting to highlight three local retailers within our portfolio, why we love to have them at the center, and how they contribute to creating a great necessity-based merchandising mix. While these are three outstanding local operators, we believe they are representative of all of our local entrepreneurs located in our centers.

The first local retailer we want to share is North Star Tavern, a neighborhood pub and restaurant located in Bloomington, Minnesota. Bloomington is a growing suburb located just south of Minneapolis. North Star Tavern serves the local neighborhood's demand for high-quality food in a casual environment with both indoor and great outdoor seating. They have over 32 beers on tap and were voted the best burger in Bloomington. They are a community leader and participate in several fundraisers each year for local schools. North Star Tavern generates a lot of customer traffic to our center, but they also have a large delivery business with a 4.8 out of 5 star rating. A lot of that delivery success is due to their location, which is close to the neighborhoods where their customers live. And this is why restaurants love PECO's grocery-anchored real estate, because we are the closest location to their customers, cutting down on delivery time and making sure that food arrives hot and fresh.

Our second retailer is Backyard Murphy, a unique, award-winning restaurant at our Murphy Marketplace in Murphy, Texas. Murphy is a fast-growing suburb north of Dallas. Backyard Murphy provides the community with a unique and creative dining experience by serving high-quality food and handcrafted cocktails in a high-energy, open format that includes a large, dog-friendly outdoor area with plenty of seating, great outdoor lighting, live music, and plenty of room to socialize with friends and family. This is the type of local retailer we absolutely love, and we have a lot of examples like this in our portfolio.

They are bringing a creative, fun, and unique spin to dining, and it's the kind of place locals love to come back to again and again. And this is why we need to be locally smart with our merchandising. This type of retailer puts us on the map with the neighborhood around us, and customers come here repeatedly for an experience they just can't get anywhere else.

Our final highlighted retailer is Hunter Hair Salon at Vineyard Center, a Trader Joe's-anchored shopping center in Templeton, California. Nearly all of our hair salons are local retailers. In fact, the very best hair, nail, and really most healthy beauty retailers are going to be local in nature. This type of retail is hands-on and takes an active, engaged owner to manage the business daily and give the best possible service. Hunter Hair Salon has outstanding reviews online and an amazing build-out within the space. Salons really are internet-proof. The health and beauty category requires the customer to be physically present in the space for the service, and typically health and beauty customers are frequent, repeat visitors, and a monthly hair, nail, or massage appointment keeps customers coming back to the center on a regular basis and spending significant amounts of time and money while they are there.

Let's dig a little bit deeper and look into the math behind our local retailers. These local retailers have been in our center an average of nine years. The average payback period is only 10 months. Through September 30, 2023, our year-to-date retention rate for our local retailers is over 85%. These retailers are thriving in our centers, they want to renew, and we are driving substantial rental increases as a result. In fact, our third quarter renewal spread for local retailers is at an all-time high of 19.8%. Our local retailers have healthy credit and are less susceptible to corporate bankruptcy caused by weaker performing locations. A local retailer typically receives less capital at the beginning of their lease, they accept PECO-friendly lease terms, they have high retention rates, and achieve strong renewal rent spreads.

And importantly, they differentiate the merchandising mix that our neighborhood centers offer our customers. They add just a little more variety and quality to the shopping center and make the customer want to come back.

So let's continue this story on leasing trends, but let's take it over to the national retailer side. What trends are we seeing there, and where is that demand and growth coming from?

Our three biggest national retailer trends we are seeing are quick service and fast casual restaurants, health and beauty, and medical retail. All these categories are growing rapidly within our portfolio. Roughly 75% of our current national retailer demand is coming from these three categories. All three categories are internet resistant, they drive strong traffic to our centers, they boast longer lease terms, have strong credit, and they pay market-leading rents. Medical retail, or medtail as we like to call it, has been a breakout category the past few years.

We've seen medtail just explode with demand for grocery-anchored shopping centers. Medtail is going to include things like dental, physical therapy, eye care, urgent care, and insurance groups like Humana. Medtail realizes the most convenient and accessible location for their patients is real estate that's closest to their patient's home in the neighborhood, and they are driving some of the highest demand and highest rents in the industry. Currently 6% of our ABR is coming from medtail, but over 20% of our leasing pipeline is medtail-related. So we expect this category to continue to expand within the portfolio over time.

So who's helping us forge these relationships with these national retail partners? It's our last group of specialists we still need to discuss, and that's PECO's National Accounts Team. So what exactly do they do?

Simply put, they're responsible for creating, developing, and growing our partnerships with in-demand, fast-growing, well-capitalized national retailers. Our national retailers love this because they get one point of contact for everything. It's the absolute best, most effective way to execute and grow national retailers across our entire portfolio. This is another example of a PECO advantage.

Let's talk about a specific example of the value our National Accounts Team can add using Starbucks. That map represents all of PECO's current Starbucks locations. Starbucks is growing rapidly, and their deal-making team is huge, with over 50 deal-makers nationwide. Starbucks is going to need and execute literally hundreds of new deals each year. So PECO's National Accounts Program allows Starbucks to be as efficient and effective as possible.

If PECO didn't have a National Accounts Team, you'd have 11 PECO leasing agents trying to contact 50 Starbucks deal-makers all over the country. It's chaotic, ineffective, and can really frustrate the retailer. So the PECO way is to have Ryan Mitzel, who you can see on the screen, be the first and primary contact for all deal communications with Starbucks. This means Ryan is going to have consistent communication with the head of real estate at Starbucks. He's going to present new locations, discuss initial economics, help resolve issues quickly, and essentially lead every potentially new lease with Starbucks through the process.

We also provide Starbucks with a dedicated attorney, a dedicated construction team, and a conformed lease. A conformed lease means we don't need to reinvent the wheel every time and renegotiate a deal, which speeds things up substantially. Doing this builds a tremendous amount of trust and credibility with Starbucks, and we follow the same platform and support for all of our national retail partners.

Retailers love it because they know PECO aims to deliver a great retail location on time and on budget. Even with supply low and demand high, these retailers have choices, and they want to do business with landlords they trust that make their job easier and help them hit their store growth plans. PECO's national accounts team does just that, and it's another great example of a PECO advantage and how we win.

Let me wrap things up. I'd like you to remember five key points. Number one, our deeply experienced 100% in-house leasing team that provides PECO with several advantages. And remember, that entire dealmaking team averages over 20 years of experience.

Number two, our locally smart leasing specialists are experts in their leasing disciplines, and they help us maximize our results.

Number three, as you heard Jeff mention, those macro tailwinds that continue to drive record-breaking retailer demand to our grocery-anchored neighborhood shopping centers. Number four, we have limited vacancy along with record-high retailer demand that we expect to continue to drive strong and consistent rent spreads.

And finally, number five, strong demand from restaurants, health and beauty, and medtail categories, combined with healthy local retailers, are improving our merchandising mix, driving retail sales and rents across the portfolio. Thank you for your time today, and with that, I'll turn it over to Dave.

Dave Wik^ Thank you, Ron. Good morning, everyone. I lead PECO's acquisitions and dispositions team, which identifies, underwrites, and ultimately closes on all of our new acquisitions. So it's my pleasure this morning to share with you a bit about the team, why I enjoy this role so much, and why I'm excited about the opportunities ahead.

I've been with PECO since 2003, when I started as an acquisition officer, with hair that not only wasn't so gray, but I actually had a lot more hair then. Since that time, I've been involved in over $4 billion in transactions with PECO, and this is across our original friends and family funds, our institutional funds, our non-traded REIT, our JV partnerships, and now our public

REIT. I've seen tremendous growth over my tenure at PECO, and I continue to be excited about growing PECO through acquisitions in the years ahead.

Having been in the acquisitions space for 20 years, it's very clear to me that the biggest advantage we have at PECO is our unwavering commitment to external growth through acquisitions. PECO's commitment to acquisitions is clearly evident through the investment in our transactions team. We have a fully integrated, highly focused team solely dedicated to sourcing, underwriting, performing due diligence, and closing every single one of our acquisitions. This team and their collective experience give PECO a tremendous competitive advantage. It allows us to uncover off-market opportunities, respond quickly to opportunities that are in the market, and offer industry-leading due diligence and closing timeframes, which can be as short as 35 days from being awarded a deal.

Additionally, the experience of the senior members of this team is really unparalleled in the industry. Kevin Lees is one of the longest-tenured associates at PECO, with over 23 years in a variety of roles. He has built an incredible reputation, both internally and externally, as an expert in underwriting and due diligence. The sourcing team of myself, Naveen Srinivasan, and Nick Daffin have a combined 40-plus years of experience at PECO. We truly have the deepest and widest relationships with owners and brokers across the country.

Our investment in these relationships results in owners who desire to transact with PECO. We've built a reputation over the years as the most consistent acquirer of grocery-anchored shopping centers in the industry, and we've transacted with nearly every major owner and broker in the US.

As Jeff mentioned, PECO is a growth company, and we're well-positioned to gain market share. We buy grocery-anchored shopping centers from a target market of 5,800 identified shopping centers across the United States. Not surprising to most of you, today's ownership is highly fragmented, with over 60% of these 5,800 assets owned by private real estate companies or individuals.

While a lot of these centers are marketed through the brokerage community when the owners are ready to sell, we are regularly reaching out proactively to these owners to encourage them to sell and make sure that we're top of mind when they do decide to sell.

Another important thing to note is the growth opportunity that's in front of us. We estimate these 5,800 assets are valued at close to $120 billion. Assuming 10% of these assets trade each year, this represents the opportunity to purchase almost $12 billion of grocery-anchored assets on an annual basis.

In order to achieve our current annual external growth objectives, we need to acquire less than 3% of these assets. So the bottom line is that we see plenty of opportunity to continue to grow through high-quality, creative acquisitions, and we have a team committed to and 100% focused on finding these opportunities.

Speaking of opportunities, our team evaluates a lot of those each year to narrow down our focus to the deals we want to pursue. Since our IPO, on an average annual basis, we review 650 opportunities. We underwrite 160 of these deals, present 135 of those to our investment committee, and ultimately offer on 95 assets. This deal flow has resulted in the acquisition of approximately 10 assets each year. Our team talks regularly to our public peers and other programmatic buyers, and it's clear that evaluating this many deals is a differentiating factor. Again, PECO has been willing to commit the resources to spend time digging into this many opportunities because we know from experience that it takes a lot of assets, evaluation of a lot of assets, to buy a few.

Our competitors are amazed that we consistently discuss two to three deals each week in our investment committee. Many of them claim that they'll often go weeks without presenting a deal to their investment committee.

This deal flow is consistent with what we've seen over the last five-plus years, with the exception of 2020 due to COVID. So while retail transaction volume is down a little bit in 2023 relative to 2022, it's really right in line with the 10-year average.

We don't really see anything on the near-term horizon that would drastically change our ability to consistently generate deal flows similar to this going forward. Our team is proud of the quality and the diversity of the sellers that we've transacted with over the years. We've built a reputation as a very diligent, consistent, and reliable closer. Since our IPO, we've transacted across a wide spectrum of owners from institutions to private individuals.

Interestingly, PECO's deal activity composition is almost the opposite of the ownership makeup that I referenced earlier, in that 60-plus percent of the assets we've acquired since IPO were purchased from institutional owners.

This isn't really a surprise, given the rising interest rate environment of the last couple of years. Institutional owners have historically been programmatic sellers in all market environments, so that's where we've really seen more deal flow recently.

That said, with 60%-plus of our target assets owned by private sellers, we see tremendous opportunity in that ownership segment over the next few years, as these owners are faced with refinancing into a much higher interest rate environment. We believe we'll start to see some of this in late 2024, with a steadily increasing amount of low-maturity-related sales into 2025 and 2026.

As Jeff and Joe mentioned, we look at each acquisition as an opportunity to improve. We're currently targeting an unlevered IRR of 9 percent or greater with every acquisition. The acquisitions that we've completed in the second half of this year underwrite to over 9.5 percent unlevered IRR. We have always had and will continue to have a very thoughtful, disciplined acquisition approach. We remain focused on accretively growing our shopping center portfolio at the right price, while achieving that 9 percent unlevered IRR. We'll continue to evaluate and monitor this target with any major changes in the capital markets, but right now we don't anticipate this target changing in the near term.

We're able to achieve that target by buying good real estate with solid, high-performing, traffic-generating grocery anchors, again, at the right price, in growth markets where we're confident in our ability to grow the NOI. We're targeting NOI CAGR of at least 3 percent in every potential acquisition, and we typically achieve that through the lease-up of vacancy, mark-to-market of existing rents, built-in rent bumps, and the development of additional retail space. We have a lot of confidence in our underwritten returns because, as you can see from the performance metrics here, we've consistently outperformed our underwriting.

The main reason for this is that we take a fully integrated, disciplined approach to our underwriting. The operations teams that have to hit the underwritten numbers are included in the underwriting process.

As Joe mentioned before, before closing on any asset, we have underwriting buy-in from portfolio management, from leasing, from property management, from construction. They are held accountable to hitting those numbers that end up in our model. The acquisitions team doesn't dictate to the ops team what numbers they have to hit. We collaborate with the ops team in that process, which ultimately determines what we can pay for an asset.

Another benefit PECO has from an acquisition standpoint is that we consistently acquire grocery-anchored shopping centers year after year. Since starting with PECO in 2003, not a single year has gone by where we didn't acquire a shopping center. As a result, we're buying in all pricing environments. Since IPO, our weighted average cap rates were 6.4% in 2001, 6.1% in 2002, and 6.5% through the third quarter in 2023.

So now that you have some background on the transactions team and how we go about the acquisition business, the easiest way to show how that translates to growth and value for our shareholders is through a few examples. Let's start with Providence Commons, located in Mount Juliet, Tennessee, which is a fast-growing suburb in Nashville. Providence Commons is an asset we acquired in January of 2023, anchored by Publix, who's the number two grocer in the three-mile trade area. Publix sales here are well above chain average and growing. The center is located in a strong retail node within a rapidly growing suburb of Nashville. In addition to the strong Publix, we were attracted by the potential of improving the merchandising mix, growing the rents, and developing the seven-plus acres of retail zone land that came with the acquisition.

One nuance to this deal was an in-line Tuesday Morning that the market was really struggling to value due to their credit risk. Where others saw downside, we looked at it and saw upside. We've actually already replaced Tuesday Morning with Five Below, who is not only a growing national chain, but they also have much better credit. This new lease generated an additional $120,000 in annual rent, or a 96% increase.

As for the land, the institutional owner of the asset didn't really have the expertise to capitalize on the potential in the vacant land, which left a lot of value for PECO to unlock in the future. Despite less than 12 months of ownership, we're in active discussions with a major senior living operator and a couple of hotel operators for the back corner of the land. Additionally, we're in lease discussions with national tenants such as Alta, First Watch, Chewy's, Maple Street Biscuit, Carter's, Domino's, and others for a multi-tenant development.

Now let's look at Jensen Beach Town Center, located in Jensen Beach, Florida. Jensen Beach is anchored by Publix, who's the number one grocer in the state, and it's located conveniently off of US Highway 1 with over 54,000 cars a day. We acquired this asset in March of this year, and we're attracted to this one again because of the strong growing sales at Publix, existing vacancy, and below market rents. As a side note, we generally love Publix assets in Florida, and we do extremely well with them.

This is one of my favorite stories, though, because we bought this center from an institutional owner that we had transacted with each of the previous two years. And we've outperformed underwriting with both of those two assets, so we knew we could here as well. So even though this asset was brokered by a major national brokerage firm, the owner made it very clear that they wanted to transact with PECO because of our history with them. So in this case, we got a last look at this one after the end of a very competitive bidding process. This asset also had a tenant with a credit concern in Party City. They actually declared bankruptcy during the marketing process.

Most buyers had a hard time underwriting through this to reach a value that made sense for the seller. So even though we discovered that this was a solid store for them through Ron and his leasing team, we were able to structure an escrow that would cover us in the event that Party City rejected this lease during the bankruptcy process. It turned out they affirmed the lease. They continue to pay rent on a monthly basis.

Additionally, in less than nine months, we've renewed one of the larger shop tenants at a 26% increase, and we signed a new lease that will generate $123,000 in first-year rent, which is 80% higher than underwritten.

Lastly, Sunridge Plaza, located in Rancho Cordova, California, which is a rapidly growing community located in the eastern suburbs of Sacramento. Sunridge Plaza is a newer, high-quality construction asset anchored by Raley's, who's the number one market share grocer in the Sacramento MSA. PECO knows Sacramento well, as we already owned six high-performing grocery and food shopping centers in the market when we acquired Sunridge in December of last year.

And Sunridge is located in an area that is surrounded by robust residential housing starts. So even though this Raley's was already performing very well, it was clear to us that with the imminent growth will result in continued increasing sales for Raley's and the ability of PECO to push rents in the shop space. So we were also attracted by below-market rents here and the ability to create value on an out parcel that was included in the sale.

In this case, the asset was owned by a private REIT that had recently acquired the center as part of a portfolio purchase of another large California-based real estate company. The owner had no interest in holding this asset long-term, but the acquisition took a long time, and we knew the center didn't have the attention that PECO was going to dedicate to it. We knew the asset well because of our Sacramento market knowledge and actually had been trying to buy--trying to get the prior owner to sell it to us for a couple of years. In this case, persistence and patience paid off, as we've been able to lease over 7,000 square feet of vacant space in the first 12 months of ownership.

None of these spaces were underwritten to be leased in the first two years. Additionally, we're actively negotiating a ground lease with AutoZone on the out parcel that will result in over $1 million of value creation.

I'd like to wrap up this morning with an update on our 2023 acquisition activity. Since PECO's third-quarter earnings were released, we've acquired four additional assets for approximately $153 million. This brings our total acquisitions to approximately $264 million as of today. So based on anticipated additional closings by the end of the year, coupled with no planned dispositions, we're confident in our ability to deliver at the midpoint of our guidance for $250 to $350 million in net acquisitions this year, with another $200 to $300 million in 2024.

So it was a pleasure to have the opportunity to present to you this morning. I appreciate your attention and look forward to answering any questions you have at the end of the presentation.

With that, I'll pass it over to John.

John Caulfield^ Good morning, everyone.

Our hope is that these presentations have provided further confidence in PECO's ability to drive long-term growth, both in how we operate and how we acquire.

You asked to see the depth and strength of the team, and these are the leaders of focused teams that know how to execute and deliver results at every center in our portfolio. Ron talked about how his leasing team is set up strategically to be competitive and to drive the results that we've been enjoying. Joe provided an overview into how his team manages properties, looks at the overall returns of the property from underwriting and acquisition, through leasing, through management. His team also identifies opportunities for out-parcel development.

Overall, Joe, our new chief operating officer, and his team are critical to the overall performance of our portfolio. And Dave took us through the opportunity set that's in front of us, with almost 6,000 centers that fit our investment criteria. We believe we see every grocery-anchored shopping center that comes to market across the country, given our scale, reputation, expert due diligence, and ability to close with all cash.

PECO is positioned to deliver long-term, sustainable growth. I'd like to take you through how this growth translates into math in our portfolio.

As we've said previously, our portfolio can deliver 3% to 4% same-store NOI growth annually. We are at high occupancy levels in our portfolio, and although we believe we can continue to raise occupancy, we understand the skepticism that, as Devin says, trees don't grow to the sky.

So today, we are reiterating that we believe we can deliver 3% to 4% same-center NOI growth annually without additional occupancy left. While we do believe that we can still push inline occupancy another 100 to 150 basis points, we don't need it to deliver same-center NOI growth in this range. High occupancy in our portfolio, overall high occupancy in retail open-air shopping centers, due to the demand drivers that we've already articulated and no new construction, give us pricing power to drive strong rent growth through releasing spreads with both new and renewal spreads, and higher annual escalators in our leases.

Let me walk you through some math to support why we believe we can deliver these results. I will note that we maintain long-term forecasts at the asset level for every property we own, and then roll it up as a portfolio to understand our corporate growth expectations. The math that I'm going to walk you through is a reasonable approximation for that growth we estimate and results that we are projecting for PECO.

To begin, we'll talk about spreads. Note that everything that we're using for this analysis is publicly available using our financial supplements. In each case, we're using two date ranges, trailing 12 months and the last seven quarters, or 2022 and 2023 year-to-date. We also use the more conservative of the time periods at each step to show a conservative baseline. Also on this slide is our lease expiration schedule, which is our opportunity to engage with neighbors to negotiate their leases.

For the trailing 12 months, we've retained 93% of our neighbors, and if you look at it over seven quarters, that averages 92%. If you are assuming that PECO is at peak occupancy, I will use your assumption, but we will suggest then that our occupancy is going to remain flat. If one space vacates, another will be filled.

So for the 93.3% that we retain, that means 6.7% will be replaced by new leases. The remaining leasing activity is split between options and renewals. Based on our trailing 12-month average, about 51% of the remaining activity is renewal and 43% is option.

From there, we looked at the spreads that we've been able to execute over both the 12 months and seven quarters for new leases, renewal leases, and option leases. Our new spreads have been approximately 29% over the last 12 months, but actually 31% for the seven quarters. As I said, we're going to use the more conservative of each estimate, so we'll use the lower number of 29%.

The trailing 12-month average for renewal increases has been 16%, although the more recent quarters have been higher. But the seven-quarter average is 15.5%, so we'll use that.

Lastly, when we look at options, our option spreads have been 4.7% for the trailing 12 months and 4.2% for the last seven quarters. Applying these leasing spreads and the allocation of the leasing activity above, we came to a blended total leasing spread of 11.6%. This is actually less than what we've been able to deliver, which is 12% over the last 12 months and 12.3% for the last seven quarters.

Taking this rate and applying it to the lease expiration table to the left delivers a range of 1.3% to 1.7% of increases to PECO's ABR and therefore our NOI annually over the next several years. This supports our estimated NOI contribution for the first component of our long-term growth.

Moving to our annual lease escalators, we'll begin with some additional data. We are currently receiving approximately 80 basis points of NOI contribution from escalators, with 60 basis points from inline and 20 basis points from anchors, including grocers.

Starting with anchors, our grocers have control of their boxes on average for the next 31 years when including options, and those are mostly flat. Our other anchor boxes contribute periodically, as the most common structure is a bump in year 6 and 11 for a 10 or 15 year lease.

That said, we don't have many non-grocer boxes, so for this analysis, we're going to assume this contribution remains constant at 20 basis points of NOI annually. We've used the inline expiring ABR from our last 10Q on this page. We know that the contribution to our NOI growth from inline neighbors is currently about 60 basis points. If we consider that annual growth on our inline ABR, which is about 55% of our total ABR, then that's around a 1.1%, 1.2% average annual escalator in our inline leases. If we look at our recent leasing experience, we've been successful in adding 2 to 3% rent escalators into our inline leases through renewals and new leases. We've assumed here that if you take the midpoint of 2.5%, we can replace expiring leases with an embedded 1.1% escalator with renewed or new leases with annual escalators of 2.5%.

Again, we only have access to negotiate the neighbor leases as they expire, so we are representing the gradual movement in our portfolio. When we combine this incremental lift from escalators based on more recent performance with our 20 basis points of anchor contribution, we believe this will contribute 85 basis points at first, rising to 110 or 120 basis points of NOI growth over time.

The last component of our long-term growth is redevelopment and development activity. We believe that we can deliver approximately $50 million of projects a year. These are primarily ground-up out parcel development projects, and we've been very successful with these over the past several years.

As Joe mentioned, these projects deliver an average of 9 to 12% cash on cash return. If we apply that cash return to the $50 million, that results in approximately $4.5 to $6.5 million of NOI contribution annually, which we translate into 85 to 125 basis points of growth.

When we combine all three of these components, we achieve a range of 300 to 415 basis points of annual growth without any contribution from occupancy. The overall demand environment, the strength of our centers, the strength of our grocers, and the capabilities of our team give us confidence in our ability to continue to deliver these results.

This growth is without occupancy lift, and we do believe that we can still push inline occupancy another 100 to 150 basis points.

Turning to the balance sheet, we have over $700 million of liquidity to support our acquisition plans with no meaningful maturities until late 2025. Our net debt to adjusted EBITDA is 4.9 times. We believe we are an underrated credit at BBB minus and BAA3. We continue to meet with the agencies as we believe our financial policies and strategies are commensurate with at least a BBB flat BAA2 rating. We are currently 82% fixed with 18% floating. We have long-term goals of being a regular issuer in the unsecured bond market, extending our maturity profile and increasing our fixed to float ratio closer to 90%.

Given the uncertainty in the current environment, we are comfortable with a greater floating percentage. As the team mentioned, we have the lowest leverage among the shopping center REITs. This low leverage gives us the ability to be opportunistic. Should the market change such that there is a greater spread between cap rates and our cost of capital, we are ready to expand our annual acquisition volume to capture the opportunity.

As we look to 2024, we receive many questions about our floating rate debt. We are providing a range of interest rate expense for 2024 of $104 million to $112 million. We utilize the forward curve as a baseline, and then we sensitize this baseline to give the range. I noted on our third quarter earnings call that the rate component of our interest expense in 2023 was a $0.10 headwind to earnings.

For 2024, we estimate that could be a headwind of $0.07 cents to $0.13 cents. This is only the drag from rate movement, as we do have higher interest expense from higher debt balances, given our acquisition activity. Despite these interest rate headwinds, we expect to have positive earnings growth next year.

And that leads me to our preliminary guidance for 2024. Our net income per share range for 2024 is $0.50 cents to $0.55 cents. Our range for NAREIT FFO per share is $2.33 to $2.40, which is a 5% increase over 2023, when looking midpoint to midpoint of our ranges. Our range for core FFO per share is $2.36 to $2.44, which is a 3% increase midpoint to midpoint. I will note that each of these estimates are impacted by interest rate headwinds of $0.07 cents to $0.13 cents for 2024.

Our estimated range for same center NOI growth is 3.25% to 4.25% over 2023.

For net acquisition guidance, we are estimating $200 million to $300 million. If the transaction and capital markets improve, we are hopeful and have the capacity to meaningfully increase this number, but we are comfortable with this guidance range in the current environment.

As we look to a longer-term outlook, we believe we can continue to deliver 3% to 4% same center NOI growth. This NOI growth translates into 4% to 5% core FFO growth. And when we consider the reinvestment of our free cash flow on a levered basis, that adds another 100 basis points to our annual growth.

Additionally, we continue to believe in the opportunity for external growth and are well positioned with our balance sheet to continue our pace of $200 million to $300 million in net acquisitions every year.

We can buy at this pace and maintain our long-term leverage in the low to mid 5 times on a net debt to adjusted EBITDAR basis. This has the potential to add 65 to 130 basis points of FFO growth annually. The cumulative impact of these components gives us a long-term growth outlook in the mid to high single digits for core FFO per share. In the near term, we are impacted by interest rate increases, as all borrowers are, which is limiting our earnings growth.

For reference, if we added back the 7 to 13 cents per share of interest rate variance to our guidance, this would be 7% growth.

That said, even with moving interest rates, we are still pleased to deliver positive per share growth. And our long-term AFFO should grow at a comparable or faster rate because there will be less tenant improvement dollars invested as occupancy stabilizes.

We have increased our dividend three times since going public, and we anticipate continuing to grow our dividend as our cash flow grows. Regarding our financial policy, we are focused on achieving a ratings upgrade. Although we cannot specify when that will be, we are targeting leverage levels to achieve that goal, which we believe to be approximately 5.5 times.

We want to be a repeat issuer in the unsecured bond markets because this capital will help us continue to build scale in our business, achieving efficiency in the issuance and pricing that, unfortunately, we are not experiencing today.

Lastly, we have a target that approximately 10% of our debt will be based on floating rates. As you can see, we are confident in our ability to grow our earnings over the foreseeable future. Thank you all for joining us today. And with that, I will turn it back over to Jeff.

Jeff Edison^ Great job. Well, thanks, John.

You know, everything we've done over the last 30 years and since the IPO positioned PECO to continue to outperform.

Our well aligned and cycle tested team and fully integrated operating platform, PECO -- has put PECO into an excellent position.

In closing, I'd like to reiterate these main takeaways. One, PECO has delivered on its core strategy for over 30 years. We've developed a seasoned team that's been together for a long time. Our team is highly engaged, highly focused and deep.

Second, PECO is a growth company. We have consistently delivered on both internal and external growth.

And third, PECO's differentiated and focused strategy and integrated operating platform have allowed us to perform very well through multiple economic cycles.

With that, let's open it up for some questions. We're going to get the stage set up. We thank you guys for your time. This will just take us a minute to get it set up.

Kimberly Green^ Thank you, Jeff. So we're going to start our Q&A session in a minute. For those of you listening on the webcast, as a reminder, you can email your questions to me. And again, this is Kim Green. So send them to KGreen@PhilipsEdison.com.

Again, those on the webcast, please feel free to send me your questions. We'll try to get through as many as we can on the webcast today. And my email address is KGreen@PhilipsEdison.com.

Thank you, everyone. We'll start Q&A in just a minute.

Oh, and I should mention we have two mics in the room. Cherilyn will have a microphone and then Allison will have a microphone as well. Oh, there she is. And so we'll have two mic runners. So I would just ask maybe just raising your hand when you have a question and we'll get started shortly. Thank you so much.

+++q-and-a
Jeff Edison^ All right. How about we get started? Cherilyn, you want to pick them?

Unidentified Participant^ Yes.

Jeff Edison^ Okay.

Unidentified Participant^ I think this is - can you hear me?

Jeff Edison^ Yes.

Unidentified Participant^ All right. Well, good morning. Thank you, all. Great presentation, great detail. Question, I guess you mentioned the 2% to 3% bump - 2% to 3% rent bumps today that you're getting in some of your recent leases.

I guess I'm curious if you think you can push that a bit higher given the more favorable supply/demand backdrop that you outlined. And what's your sense of the remaining mark-to-market or rent upside in the portfolio?

Jeff Edison^ So, great question. And we have a pretty heated discussion about that on a regular basis about where can we take the rent bumps. And I'll let - actually, Ron, why don't you answer that? Because honestly, this leasing question, it's a question of how far can you push the retailer to both get - and it's a balancing act, right? It's a balancing act between renewal spreads and our ability to have a continuous CAGR along with it. And so, you are balancing those at all times.

But we always tell Ron he's not getting enough, but he's been doing a pretty damn good job. So, Ron, do you want to - how do you think about that?

Ron Meyers^ Yes, Jeff brought up a good point. I think it's a balancing act because you want to drive that year one increase but still get that steady CAGR. I think we can continue to push it. How much? I mean that's my job to figure out as we roll into '24.

But as I mentioned, I mean, supply is very low, demand is high, and our job is to push it as much as we can. But it is a balancing act. But I think we can push it higher. How much? I need to find out. It's not something I can just formularically put on a spreadsheet and do. It depends on the specific center of the tenant. But I think we can push it higher.

Bob Myers^ The only thing I would add on that is our renewal spreads right now are real close to 3%. And on our new deals, historically, they've been around 2%. But over the last year, we've been pushing significant increases to get that CAGR closer to 3%. I think given our high occupancy and the demand that we have, we can continue to push it a little bit further on that standpoint.

The only other thing I'd mention is when we assess the health of our retailers, we look at occupancy costs. And right now, as a portfolio, our inline shops run about 9%. We feel like there's another 2% or 3% there to get that to 12%, which will also give us some elbow room. So, you will continue to see really good leasing spreads, renewal spreads, and CAGR growth through this portfolio.

Jeff Edison^ You asked about occupancy.

Unidentified Participant^ Mark-to-market -- mark-to-market.

Jeff Edison^ Oh, mark-to-market.

Devin Murphy^ I would say mark-to-market in Dallas [ph] in the range of 20% to 25%. If you look at what our leasing spreads are, that gives us confidence that the mark-to-market is between 20% and 25%.

Unidentified Participant^ Do you have a sense of Sun Belt versus perhaps other parts of the portfolio on that mark-to-market (inaudible)? Thanks.

Bob Myers^ We were seeing it across the entire portfolio. I mean we've seen exceptional growth in the Sun Belt. And when you look at our acquisition strategy, you'll see a lot of what we've acquired will be in Florida, Texas, Sacramento, etc. So, we certainly would favor the Sun Belt in some of the spreads that we've seen.

But, on average, across the entire portfolio, we generated 26.3% new leasing spreads through the end of the third quarter and 16.9% renewal spreads, and that's on average across the entire portfolio.

Juan Sanabria^ Hi, good morning. Juan Sanabria from BMO. Just a question. You mentioned investment management is something you're working towards with the potential of announcing something in the first half of next year. Just curious if you can give us a little bit more color. Would that be incremental acquisitions? Would that be over and above the acquisitions guidance for '24?

And just kind of a quick aside, are redevelopments also being included in next year's initial guidance of the typical $40 million to $50 million?

Devin Murphy^ So, on the I.M. business, Juan, as you know, we've been in the business since our inception, and it's a - it's a business that we like given the high ROEs on our capital that we can generate in the business.

So, the first vehicle that I mentioned is a core vehicle with a large asset manager that is going to acquire grocery-anchored centers that are either, A, yielding a lower unlevered IRR than we're willing to buy at on balance sheet, or, B, are an asset-type that is more power center like than the typical neighborhood shopping center that we look to acquire.

So, it's incremental opportunity for us and it's incremental acquisition volume. The $200 million to $300 million of acquisition volume that John articulates in our - in our strategies on balance sheet acquisition, and anything we're to do in these I.M. vehicles is incremental.

And then the second vehicle is a vehicle that's a social impact fund looking to invest in majority-minority communities. And when we can announce it, we'll be able to give you more color on who our partner is and why we're excited about that vehicle. But again, it's incremental.

Jeff Edison^ And I would think about our approach to that business as being that. We've got our core grocery-anchored business. That will be a balance sheet. When we find capital that has a different need than what our balance sheet is, that's when we'll use that so that we can expand our growth and expand our ability to get into different niches.

Bob Myers^ And your last question regarding the $40 million to $50 million of re-dev, yes, it's in our guidance.

John Caulfield^ Yes, that is incorporated. I think sometimes with the projects and the timing, I mean that was a number that we've revised kind of throughout the year. And just it's projects and ultimately, overall, we're very confident in the NOI guidance that we're providing. And there are pieces there, but to what Devin was saying, we want to hit the numbers we deliver, and that one just gets lumpy depending on the timing of the spend.

Ron Kamdem^ Great. Ron Kamdem from Morgan Stanley. Thanks so much for the great presentation. Just two quick ones. One is on acquisitions. You talked about 95 letters of intent and only closing on 10. So, the question is on the roughly 90% that you're not closing on, who are you competing against and why are you losing those deals?

And then the second question is actually a bad debt question, which is what's baked into the guidance for next year and long term? And as you're rolling these leases into higher rent bumps, isn't there a tradeoff where bad debt could potentially go higher as these tenants are going into the higher rent bumps? Thanks.

Jeff Edison^ John, you want to answer - to start with bad debt and then we'll get into the acquisition?

John Caulfield^ Sure. So, this portfolio over a long period of time has layered [ph] between 60 to 80 basis points on average. Bob went through some of our history through the GFC and the pandemic. But overall, it's been about 60 to 80. Year-to-date in '23, it's been a little less than that. And so, the guidance that we have for '24 will be consistent.

In terms of the rent kind of trades and pressures and the like, I think based on monitoring the health of our neighbors is something that we do very regularly. Joe talked about some of our I.T. solutions where we have - I mean we have a number of touchpoints in the organization that are constantly talking to our neighbors and we're not seeing anything that would - that would give us pause.

But we do have general turnover in the portfolio that gets us to kind of that 60 to 80. So, we are very comfortable with that number. And also our focus on necessity-based goods and services really allows them to perform through all environments.

Jeff Edison^ And your question on the acquisitions, why are we losing the acquisitions that we're losing, in a simple way, we're a preferred buyer. We have a long track record of being the buyer that a lot of sellers would like to sell to because we are all cash and we have a proven track record of being sort of fair in our negotiations, tough but fair in terms of pricing.

So, we are preferred. There are times where price gets away from us where there are buyers that are willing to pay prices that don't meet our return expectations. And that - that's pretty consistently - if you - if you go through things we've lost, that's - 95% of the things we've lost, has been a price issue. I don't know, Dave, if you've got anything to add on that.

Dave Wik^ Yes, I think that's most of it. And, Ron, I don't like the way you asked the question because it makes it sound like we lose a lot. But it's a reality in the business because it's a space that a lot of investors want to be in.

And especially in '21 and '22, we lost a lot to private individuals that were in 1031 exchanges that aren't programmatic buyers. So, they're not evaluating the assets the same way that we are. And even though they were assets we really wanted to buy, we maintained our underwriting discipline and decided that, to Jeff's point, getting beyond the price that made sense for us.

And to a part of your question about who we're competing against, obviously, a very fragmented industry, a lot of private buyers. This year, though, I think it was much more institutional in nature. We competed, I know, head-to-head on a number of assets with some of our peers like Regency, Kimco, ROIC. Some other players in the space that have been - have been active are Nuveen on the institutional side, First Washington. So, a lot of names that I think that you, guys, would know.

Jeff Edison^ Yeah.

Bob Myers^ We also lost, what, three or four deals from Publix. I mean they're buying their assets directly as well.

Dave Wik^ Yes.

Ron Kamdem^ (Inaudible).

Dave Wik^ Thank you.

Jeff Edison^ Okay. Oh, Kim, you got one from …

Kimberly Green^ Yes, I have a question from the webcast. Again, those listening on the webcast, we want to try to take your questions as well. So, this question comes from Adam Luchansky with Citadel.

John, you mentioned, and Jeff, mid-to-high-single-digit core FFO growth long-term. John, you also discussed being a regular unsecured issuer. What is the earnings impact of transitioning from the term loan market to the unsecured market over time, and how do you see that impacting the long-term expectations for core FFO growth?

Jeff Edison^ John, you want to …

John Caulfield^ Sure. Thanks for the question. So, it's an interesting environment because the bank term loan market certainly has spreads that are tighter than current or long-term unsecured bond market.

But the underlying base rate, so, SOFR [ph], even though the 10-year has meaningfully moved to recent, which is very favorable, SOFR [ph] is far still high. I actually haven't looked in the last day we've been prepping for this.

So, we actually believe that we can transition that pretty smoothly from the - from one to the other in an environment like we are today. Earlier this year, we did extend the term loans that we were a part of because in that environment, the bank term loans were a more attractive solution primarily because we believe that the unsecured bond market had two concerns. One, an uncertain Treasury in the direction that that would go, and because of that, then spreads were also wide, because, again, those investors had seen a meaningfully moving 10-year, so they needed more protection there.

So, we think that if we get to a point of stabilization or declines or tightening in both the base rate, which would be the 10-year, and the spreads, that that gives us an opportunity to access that market, and that is accounted for in the guidance that we're - that we're assuming.

So, we believe we can transition that and will because ultimately, all the issuers are experiencing - the banks are pretty full at this point. And to execute the growth plans that we're discussing, we want and will be an issuer in an unsecured bond market.

Jeff Edison^ John is taking credit for the Treasury coming down. He's a (inaudible).

John Caulfield^ I actually gave Kim credit earlier.

Jeff Edison^ It's been a big part of his responsibility.

John Caulfield^ It was - Kim is the one that picked the date and timed it a day after Jay Powell's positive announcement, so good job, Kim.

Caitlin Burrows^ think I'm next. Caitlin from Goldman here. Devin, earlier you mentioned how leasing demand is at an all-time high. I guess with occupancy so high, I'm wondering, do you guys miss out on some of that demand? I'm guessing the answer is no. So, wondering if you, guys, could talk about that a little bit.

Bob, also, I know you mentioned strategic remerchandising as something that you, guys, would be, I guess, like focused on over time. So, just wondering how you maybe manage the portfolio different with such a high occupancy level while there is such strong demand.

Ron Meyers^ Yes, I'll start. It's a great question. I think what's changed over time is, and we hammered this home with our leasing agents, they need to be more forward-looking. So, if a center is 100% occupied, that's still a center we want them to work on.

So, look at the renewals coming up. What are their current sales? What's their occupancy cost? What's that tenant's paying? If the market rent is higher, we're going to go out and push perhaps a new tenant to replace that existing tenant.

But it's a balancing game, right? If that existing tenant is willing to pay a big increase and stay in the center because their sales have been growing, that's kind of the art of leasing, trying to figure out at what point do you want to replace that tenant or not.

You're never going to have a 100% retention rate. That wouldn't be good. You always want to be in that mid-80s, maybe upper 80s. And that's the balancing game we play every day.

But the thing I've seen change over the years, when you - we have hundreds of vacant units, you're focused on vacancy only. That's what agents do. There's just so much to focus on. But as that vacancy gets tighter, they need to start being smarter and not just focus on the current vacancy, but what's coming up potentially down the road 6, 12, even 18 months out.

And a lot of our nationals are looking further out. A lot of '24 is baked for the nationals. They're thinking '25 and '26. So, you need to be smart and look at your current inventory and what's expiring and then figure out, can I fit a national in there, can I double the rent perhaps, or do I just want to renew that existing tenant? And like Devin said, not put the additional capital in. So, it's a complicated answer, and it's really center and space-specific how we address it.

Devin Murphy^ But there are two things we're looking at, Caitlin, which is, to Ron's point, A, optimizing merchandise mix. So, if we can upgrade the merchandise mix and get an attractive economic return while we're optimizing the merchandise mix, that's what we're striving for and that's what we hope for. And the fact that we're now 98% leased gives us that leverage to affect that objective.

Floris van Dijkum^ I guess I'm next.

Jeff Edison^ Yes, Floris.

Floris van Dijkum^ Yes, yes. Floris van Dijkum at Compass Point. By the way, guys, thank you, that was really thorough and hopefully, people will get a sense of the great retail operating environment and fundamentals that are at play here because they're pretty powerful, it seems. 98% occupancy, I mean I would never have thought we would be talking about that in retail five years ago. I just wanted to talk - do you have some occupancy gains baked into your guidance for '24?

John Caulfield^ Yes. That's where the three to four, that's helping us get that, yes.

Floris van Dijkum^ So, there's a little bit more upside and obviously, that - sort of testament to the - to the fundamentals. Maybe - who's doing the leasing for Starbucks in Florida or Atlanta? There's zero. You, guys, aren't …

Jeff Edison^ I knew you were going to pick that up, that's great.

Ron Meyers^ I think some of our agents are listening and our managers …

Floris van Dijkum^ Yes.

Ron Meyers^ - are listening.

Floris van Dijkum^ Yes.

Ron Meyers^ I'll ask James when I'm done. I think it just depends on the opportunity. Do we have an outpat [ph] available or not? Is there availability to just redevelop something? Did we get a bank back? So, I don't think there's anything specific to the Southeast why you don't see a lot yet. I think it's just supply and demand and what happens to become available at that time.

And we're presenting sites nationwide, so Starbucks sees everything. We just had the New York ICSC last week, presented all the sites. So, I think it's just timing and where opportunity is going to pop up.

Jeff Edison^ It's a great question, though. We ask them that regularly why - because - and we -

Floris van Dijkum^ That as well, right?

Jeff Edison^ When you look at the map - when you look at the spot map, it's like we've been very successful in California in terms of getting more density there. And - but we haven't been as successful in getting it forward.

Now, that doesn't mean there isn't a Starbucks on - that's already there. And Starbucks was a little bit earlier in terms of their buildout. And so, the newer stuff we bought, a lot of it we're buying a Starbucks that we didn't develop, right, so they're - or they're in the neighborhood already as part of that.

Ron Meyers^ And what you're now seeing are the Tim Hortons, the Dunkin' Donuts, the 7 Brews, the Biggby Coffee. There's a lot of other coffee players out there that we're signing deals with. That was just the Starbucks example.

Floris van Dijkum^ Yes. And maybe last but not least, I mean I thought it was interesting. One of your JVs potentially is going to pursue power opportunities with grocery element as well. And cap rates typically are significantly higher for those properties.

But in a great retail environment, you would think that growth could be depending on the - on the mix between shop and anchor, obviously. You could still get some pretty attractive growth in those.

And maybe if you could talk about how you think about - your core appears to be purely grocer. But how do you think about convenience, which is one of your peers is going into as well, as well as power centers? And how do you - how do you - potential capital allocation to those sectors?

Devin Murphy^ So, on the JV, Floris, it's an 80-20 J.V., 80% our partner, 20% Phillips Edison. And it will allow us, we believe, if we're buying smart. And, again, buying power centers, smart is not an easy thing to do because the reason we're so focused on grocer-anchored neighborhood shopping centers is it limits our exposure to the big box.

And underwriting power centers means you really have to underwrite accurately the big box risk in that center. So, hopefully, we'll - we will do that. We believe we can do that. And if we do that, we will get attractive returns on our capital because in addition to the higher unlevered IRR that those centers should generate, we'll also get the benefit of the fees associated with the venture. And so, the ROE to PECO will be - will be very attractive.

In terms of unanchored space, again, it's a space that we continue to look hard at. You're right, the unlevered returns, we believe, in that space are higher than they are in our core business, and they should be higher because there's a higher risk in that asset class than there is in our asset class.

One of the reasons why that asset class will perform well in the interim is the fact that open-air retail in America is 95% leased. So, the supply-demand dynamic is very much in favor of the landlord.

The concern about that business that we have is when supply comes online, which inevitably, it will at some point in the future. That asset class is going to be more exposed than our asset class because having a grocer-anchored center anchored by the one or two grocer is a quasi-monopoly, and we'll have more resiliency than an unanchored center will have.

And so, again, it's going to be a situation where we have to carefully underwrite, make sure we are assessing the risk appropriately, and we believe we'll be able to do that. But, again, it is a riskier business and therefore the returns associated are 100 to 150 basis points higher on an unlevered IRR basis …

Jeff Edison^ Yes.

Devin Murphy^ … in our opinion.

Jeff Edison^ And our investor has a different - they're very yield-oriented. They want to make sure they've got a strong, solid yield. They're less IRR-driven. And so, that does create a place where we can find certain opportunities to grow our portfolio and grow our footprint.

Devin Murphy^ Yes, because in that business floor, you can buy a center at a seven going in yield, but it will have an 8% unlevered IRR.

Jeff Edison^ Right.

Devin Murphy^ And that doesn't work for us on balance sheet. I mean, obviously, the yield is attractive, but the unlevered IRR is 100 basis points lower than what we're looking for.

Jeff Edison^ Cherilyn, does he have another question?

Unidentified Participant^ Yes.

Jeff Edison^ That does not surprise me, by the way. That doesn't surprise me.

Unidentified Participant^ (Inaudible) the mic.

Floris van Dijkum^ I don't mean to hog it. I apologize, guys. You can yell at me afterwards. Maybe one last question, and, Jeff, because you guys are different because you started out as a private REIT and you - your shareholder base is completely different than most of the other public REITs that we cover, or that I cover anyway. There's one other peer that is - that also emanated from the - or came from the - from the private REIT business.

Part of - I think that we can attribute, and it's a thing that we, at least certainly I, didn't fully appreciate, but the stickiness of that investor base. Maybe if you could talk a little bit about what you're doing to maintain that because I think it's a - it's actually an incredibly powerful differentiating factor that you have that some of your peers wish they had in terms of that sticky retail investor, and how do you keep them there? Tell me - tell us a little bit about the steps that you do and how much incremental work that creates.

Jeff Edison^ Yes. So, the retail investor is, in our minds, a very misunderstood investor, and we know that because we've raised $3 billion or $4 billion in that market over time and dealt with sort of what are traditionally known as the breakfast, lunches, and dinners with the financial advisers to get - to get - to raise that kind of - kind of capital.

They're much more - the financial advisers are much more sophisticated than people give them credit for. They look at PECO, and they're like, "Okay, I got a good dividend. I can get some alpha, and I'm pretty safe on the - on the - on the flexibility in the share price." So, that's similar to why I got in there in the first place, which is I didn't want my price to be changed every day. I wanted a more consistent price. I wanted to be in something that's stable.

And so, we have built a system, and Kim has sort of led that, but to make sure that we don't just abandon our retail investors because we're in the public markets. And we do that by, whenever we have a quarter - at the end of each quarter, we have a presentation for our institutional investors, but we have another one for our private financial advisers and their - and their clients to explain in their terms how we see our business, not necessarily in terms that this room would love to hear about, but there's much more focus among retail on dividend. There's much more focus on, "Do I really understand this business? Do I understand" - "Oh, yes, I do. I go to the grocery store. I understand that."

Like that's a big part of that retail investor for it. And when you have - Kim, I don't know what the exact number is, but I think it's 30 to - 30 …

Devin Murphy^ Close to 40%.

Jeff Edison^ 40%.

Floris van Dijkum^ Close to 40.

Jeff Edison^ Remember at the IPO, every single person that we're talking to said they're out. They're going to get out, they're going to be out in the - but they've had a really good experience with us, and they're - they tend to be loyal to those people they have really good experiences with, and that's how we've done it, and we'll continue to do that over a sustained period of time.

And you'll see it probably - our guess has come down somewhat over time, but so far, it stayed very strong and we're going to continue to see that as a really strong source of demand for our stock, which is an important part of our plan. Is that -

Devin Murphy^ And that is - that's the cohort. Floris has made a lot of money investing with PECO, and therefore, they stay with us because they've made a lot of money with us and they believe that we will continue to perform and they will continue to make money with us.

So, it is 40% of our - of our shareholder base, and so, it's a component of our shareholder base that's worth the time and effort that we put in with them to make sure that they stay invested.

Jeff Edison^ Yes?

Unidentified Participant^ Yes, just to follow up on that Floris' question, on the investment management side, are the unlevered return expectations, can you talk about what they are and how would they compare?

Unidentified Participant^ Sorry, do you want me -

Unidentified Participant^ Oh.

Unidentified Participant^ (Inaudible).

Unidentified Participant^ I thought we (inaudible).

Jeff Edison^ So, I'll - do you want me just to repeat the question? I think the question was, what are the targeted returns for our investment management business? Is that - is that the right …

Unidentified Participant^ No, that was me.

John Caulfield^ No, no, no, no. That's what we're asking. I don't think they can hear you. That's why he was saying your mic was dead. Okay.

Unidentified Participant^ Okay.

John Caulfield^ So, is that the question?

Unidentified Participant^ Yes.

John Caulfield^ Yes. What's the targeted returns in the investment management?

Unidentified Participant^ One of the expected institutional returns on your - unlevered returns on your co-investment program, and how would those compare to pre-COVID? And could you give us an idea if you're adopting differential leverage ratios in those funds then you would be on balance sheet?

Devin Murphy^ Okay. So, that's a complicated question. I'll try to answer it. So, with Northwestern Mutual, that's a core partnership. It's 50% levered, so slightly more levered than Phillips Edison is.

And we're targeting core unlevered returns, which are circa 8%. That vehicle will outperform those targeted returns. The North - the TPG partnership was a value-added partnership. It was targeting low to mid-teens returns. It delivered mid-teens returns in that partnership.

The new partnerships that I mentioned in my remark - in my remarks were a core partnership which will target an eight unlevered, and then in the social impact fund, it will be targeting a higher unlevered IRR, again, given the fact that we're investing in markets that the market demands higher returns on, given the demographic profile of the market that's being invested in. Did I answer your question?

Unidentified Participant^ Well, yes. There's a follow-up, though. How would that 8% on the core activity compare with what you would have achieved or what the funds would have been looking for pre-COVID?

Devin Murphy^ It's in line. I mean they - it's in - it's in - it's in line.

Unidentified Participant^ And not to hog the questions, but what was - what were you talking about in terms of leverage? Is it different than what you do adopt on balance sheet in these funds or …

Devin Murphy^ It's higher.

Jeff Edison^ It's higher.

Devin Murphy^ It's higher. Again -

Unidentified Participant^ Materially so? Could you give all the -

Devin Murphy^ Well, again, in the Northwestern vehicle, it's 50% leverage. The PECO balance sheet is circa 30% leverage. In the TPG partnership, it was 65% leverage. In the core vehicle that we haven't announced yet, that will be 50% leverage. So, these vehicles are employing higher leverage than PECO is employing on balance sheet.

Jeff Edison^ It's important to note that the investment management is at the margin of our business. It is not our core business. Our core business is balance sheet investing and has been and will continue to be.

I mean this is an - this is an add-on that we will monitor and grow as we can, accretively grow the - our equity investments in that. And so, I wouldn't see this as something that's going to balloon up into something major. It's a relatively small part of our business, but an opportunity that we might be able to create some really strong returns in, and we'll see how that - how that progresses.

Unidentified Participant^ Thank you.

Unidentified Participant^ Yes, good morning, everyone. Tayo Kusanya [ph] from Deutsche Bank. Great presentation. It's great to see the depth of the management team up there, and congrats on all the promotions and transitions and retirements as well.

My question is, in the past few years, you've had two major tailwinds. One of them, of course, is work-from-home, and then second of all is the general population migration into your markets. But now, there's more conversation about people returning to office, and I'm just kind of curious how is - if that kind of continues to start to take hold, do you see these tailwinds now becoming headwinds, and how does PECO prepare for that?

Jeff Edison^ Yes. I would say that all of those tailwinds that we mentioned are important. The one that drives the most is the lack of new construction. And we don't see that changing dramatically over the next five years. So, that is the major tailwind.

The second part of the tailwind is how the retailers are looking at their footprint. And, yes, there are - there certainly are conversations about people moving back into the city as in - and doing we - sort of more - less work-from-home, more work in the office.

But that's not what Starbucks and Chipotle are seeing. What they're seeing is they really need to build out their footprint in the suburban markets because people are closer - they want to be closer to their customer more of the day, and that's what they - what they're seeing.

And until that changes to where the retailers start to say, "Well, I'm going back.," kind of that - that's a ways off at least from our conversations at this point. Does that answer your question? Good.

Mike Mueller^ Oh, yes, Mike Mueller, JPMorgan. What are - what are some of the examples of grocer conversations where they steered you away from acquisitions?

Jeff Edison^ You want to take that, Joe or -

Joe Schlosser^ Yes, sure, yes. And Dave, you can chime in if you want. But as I mentioned, the call to the grocer on any acquisition is one of the first calls that we make. And we will discuss if - we'll ask them directly. And through those relationships, they're very candid with us. And they'll say, "Look, we have some concerns about this market or this specific asset in terms of maybe not a long-term commitment at that location, or maybe it's not as profitable as we would like to see it." So, it's through those conversations that we can either get more comfortable with the acquisition or it can - and steer us away from pursuing it any further.

Bob Myers^ And one of the big things that we focus on is sales per square foot. And you heard us say that we were right around $670 a foot. That number helps us understand what the potential profitability is in each of the demographic markets that we find.

The retailers, the grocers specifically, will tell us whether or not the store is profitable, who the consumer is, what the makeup of what they're - if they're visiting the center 1.6 times per week, as an example, the size of their basket size, all that plays a part in whether or not health ratios, they're going to be successful in that location.

So, we're pulling all that information out. And we want to hear that they are making money and that they have - a lot of the deals, the acquisitions that we buy have long-term leases already in place. They might be 5 or 10 years existing.

I want to see positive sales growth year over year over year. So, I mean that - the grocer relationships are critical to us making an acquisition decision. I don't want to go into any situation where I think they're going to leave. So, we fortunately have - Joe's team has great relationships with all those grocers to get that transparency.

Dave Wik^ I think the one - the one last thing that I would add to that is a lot of times when we're looking at these, obviously, we focus on the sales. But the sales don't necessarily tell the entire story. So, that's why Joe's team reaches out to the grocer.

We've heard a number of times from different grocers, "Yes, this store does really well, but we're going to open up another store a mile and a half down the road," and therefore those sales that you see now aren't going to be there or we know a new competitor is coming into this market that is also going to impact those sales. So, again, I think having those relationships where we get that much color and candor from the grocers helps us - helps us in our acquisition decisions.

Kimberly Green^ All right. Thank you. I have another question coming in from the webcast. This one's coming from Cesar Bracho with Wells Fargo. Question, as you execute your business plans acquiring $200 million, $300 million of properties each year, can you talk about the G&A scalability? How much would G&A grow as you keep growing the platform? And what does that operating leverage look like for 2024 and 2025?

Jeff Edison^ John, do you want to take that?

John Caulfield^ Sure, I'll take that. So, I think a key part is that over the last 30 years, we've operated different portfolios and larger portfolios. And so, we sold, I believe it was 40 assets in the last few years prior to our going public. Someone told us to make sure we had all of our work done before we got to the IPO.

So, we're very comfortable with scaling our platform. I'll also point out, particularly on the support side from a G&A perspective, that is where a lot of our technology efficiencies help us, help leverage our property managers, but really help leverage our accountants and our finance people and what have you.

So, from a G&A perspective, our goal is to grow at a rate below inflation. And so, I think we have been successful. There is some timing and some bumps and things, but for the most part, we're very comfortable with what we have and believe that we can scale very well from here.

Devin Murphy^ And just to put the numbers in perspective, our G&A as a percentage of revenue in '22 was 7.8%, and this year in the third quarter, it was 6.8%. So, to John's point, we are continuing to increase our margin, and we believe that we can continue to grow the business materially with slight increases in our G&A.

Anthony Powell^ Hi, Anthony Powell from Barclays. How do you look at household income in terms of your portfolio and acquisitions? A lot of the - your peers talked about having high household income, but don't generate more growth. And so, do you look at that? Are you trying to move your household income higher? Are you - do you see opportunities to do deals in areas where others don't? Just maybe comment on that would be great.

Jeff Edison^ Yes. So, we've heard this for a long time about how important household income is, and it is important, and it's not - we don't want to downplay it as being an important factor in the thing. But for us, it is - it's a piece of the - of what we do.

Because we are necessity-based and our focus is on having necessity retail as the core of our shopping center, we want to be where the grocers make money and where our small stores can make money.

And if you look at the demographics, the - what the incomes are of our two largest neighbors, Publix and Kroger, they're $2,000 to $3,000 less than where we are. So, we're slightly above them in terms of what our household income is versus what their average household income is.

So, we are - if you're in the grocery-anchored shopping center business, you're going to be in markets that have median household incomes in - around where the median household incomes are for the country because if you are not in that market, you're not really in the grocery-anchored shopping center business.

It - it's a piece of your - it could be a piece of your business, but it isn't your business. Your business has to be - in our mind, you have to make money in a way where the best grocers make their money.

And if you're in those markets, they - you will be successful because the grocer will be happy. They'll be - they'll be - they'll be driving the traffic that will make it so that small store necessity-based retailers can make money, and therefore we can make money.

So, that, for us - and we may sound a little defensive about it because we've been hearing this for an awful long time, but our feeling has been and we continue to show we can drive better results in those markets than we can in markets where - we've been in those other markets, and we - we're driving better results in these markets than we are in those markets.

Devin Murphy^ And our median household income is approximately 10% higher than the U.S. median. So, these are solid communities that these centers are located in.

Lizzie Doykin^ Hi, Lizzie Doykin from BofA Securities. You all touched on omnichannel a bit in the presentation, and acquisition and fulfillment costs continue to be pretty costly for e-commerce. Are there any new steps retailers are taking to leverage their stores? Maybe anything new to share coming from conversations at New York's ICSC?

Jeff Edison^ Yes. I'll answer and you, guys, can jump in. So, we are actually seeing the - as time has gone on, maturity of omnichannel. And it's not the same today as it was even two to three years ago. It's what - the retailers are figuring out how to make it profitable.

And what's happening consistently is they're coming back to the store as the source of their omnichannel plan. And if you look at Ahold, they just sold - basically sold their online group because they want to deliver from the store. They want to do that.

And it's not like they have some big desire to do it. It's because it's not profitable for them to do delivery. And so, they're basically taking it. They know that they don't want to lose their customer because if they don't have delivery, they're going to lose some of their customers, and they don't want to do that.

On the other hand, they don't want to lose money, and they're going to lose money when they have to do - when they have to do delivery, particularly on the grocery side of the business. So, it's coming - like what we think is it's coming to a balance. We said this two and a half years ago when we stood at the IPO.

BOPIS is probably the solution because it - the retailers take some part of the cost, but the real cost of the delivery is done by the consumer. So, that's our view of sort of how it's going to evolve, and it is evolving, I mean. And there are some big investments. I mean you look at what Kroger is putting into their delivery system. They're spending a tremendous amount of money, and we'll continue to watch if they can drive the cost down to make it - make it economic. But right now, our bets are on BOPIS and the store.

Unidentified Participant^ Just a follow-up on acquisitions, close in 4Q, was there any - is there any more color on the cap rates you can provide?

Jeff Edison^ Dave, do you want to …

Dave Wik^ Yes, yes. So, for the year, prior to the fourth quarter, our average weighted cap rate was around 6.5, and in the fourth quarter, those were closer to 6.7. So, for the year, we're probably going to end up right around 6.6.

So, yes, we have definitely seen - there was - I think the first half of the year was challenging due to a pretty big bid-ask spread, and we've certainly seen that start to narrow throughout the year, which I think was a big reason why we were able to transact like we did in the fourth quarter.

Bob Myers^ The only other thing I would add on the fourth quarter acquisitions, where Jeff and Devin targeted 9% unlevered return, those assets that we're going to close on or have closed on are targeting above 9.5% unlevered return.

I think when I look at all the acquisitions for the entire year, our blended occupancy is about 89%, which I really like because that gives Ron and his team leasing opportunities so we can continue to drive unlevered returns and CAGR.

Cooper Clark^ This is Cooper Clark with Wells Fargo. I was wondering if you could talk about the NOI drivers specifically for the 29 centers you've owned since 2008 and how those assets compare to the portfolio average today.

Jeff Edison^ John, would you like to answer that?

John Caulfield^ I want to make sure I understand. When you - are you asking about the subset of the drivers at the 29 or are you asking what the characteristics of what they were then compared to the portfolio of what they are now?

Cooper Clark^ Yes, exactly.

John Caulfield^ The latter.

Jeff Edison^ Yes.

Cooper Clark^ Yes.

John Caulfield^ So, I'm going to rephrase the question and say, what would you say if you look at that from a demographic, from a profile, from a size perspective, do those 29 assets that we own then, do they represent - are they a fair representation of the 300 that we own today or are they different in some way? Does that kind of work?

Cooper Clark^ Yes.

John Caulfield^ Okay.

Bob Myers^ They're the same.

Jeff Edison^ Yes.

John Caulfield^ I would say, actually, I think part of the reason that - so they're the same is a very nice succinct answer. But I think -

Bob Myers^ Yes, well …

John Caulfield^ - having observed this for a number of years, to the point that Joe was making in his portion, using a lot of the experience we have to further refine our process and what makes us successful, particularly the power score, really helped create uniform acquisitions because what happened is you're comparing very disparate markets, whether you're in California comparing to Denver, comparing to the Northeast or the South.

And the power score gave us an ability to look at them on more of an agnostic basis. So, what you have is building an asset by asset based on that experience of this worked, maybe this could have been better, has allowed us to create a very solid, pretty uniform portfolio across 31 states. And so, that's why I would say, it's the same because, I mean, I think we've just continued to improve and strengthen the portfolio in that direction.

Bob Myers^ Yes, you'll definitely see consistency with - those assets would have the number one, number two grocer in that marketplace. We've - you've heard us say it already, 115,000 square foot average size, small shop vacancy or occupancy is 2,300 square foot per space. So, you're going to see a lot of consistencies across those assets. And if - we would have sold out of some of those if we felt that they were non-core, focusing on the strategy.

Hong Zhang^ Yes, Hong Zhang from JPMorgan. I guess how do you consider using your stock as currency to fund your acquisitions given the fact that it keeps going up?

Jeff Edison^ Absolutely. I mean it is part of our - it is - it's oftentimes more complicated than it would seem to use O.P. shares. You're talking about basically using O.P. shares as part of a transaction.

It quite often enters that - the conversation, particularly with private sellers who are family offices and other owners of individual assets where they have a serious tax issue. And - but I will tell you, it's - we've talked about it a lot more than we've executed on it, and I think a lot of it is the complexity and the motivation of the seller because oftentimes, the motivation of the seller is -

particularly in the family office setting is they want the cash. They want - and the kids in the family want the cash so that they can - it can be distributed to them.

That - if you're going to do that, if you're going to take your OPs and convert them on a short-term basis [ph], there's no real advantage to the O.P. shares because you're going to pay the full - the same tax as you would have.

It's really more of a sustaining effort for the family offices that - where that - where that works the best. But we are - we are committed to getting one of those done because we'd like to - we'd like to get it to happen, but it has to-date been talked about a lot but elusive in terms of actual execution.

Kimberly Green^ Thanks for the question, Hong. Just a reminder, we have about 10 more minutes left for questions. I know we are running a little over noon. There are grab-and-go lunches available when you leave.

Just a reminder, too, for those on the webcast, if you want to e-mail your questions to me at kgreen@phillipsedison.com, we're happy to take those. And then anyone who has any follow-up questions in the room, just raise your hand, and we'll take those.

Unidentified Participant^ This one's for John. John, what has been the challenges with the credit rating agencies where you feel like they're not giving you enough credit? And if you do eventually get the upgrade, how do you kind of think about the reduction in your kind of debt costs, even if you do kind of get the upgrade that you're trying to get?

John Caulfield^ Thank you for the softball. So, I think the conversations that we continue to have, they revolve really kind of around two points. One was our distance from the IPO. Really, it was - it was - we were very intentional in assembling what we were doing today, and part of the question of the rating agencies at the IPO and at that time was really where Devin was focused, which was, "Okay, we've seen a lot of people come to market and then when they get to the market, they all of a sudden figure out and try to do something different."

And so, a big part is, we believe we have stayed true to our strategy and continue to deliver, and so they wanted to see a seasoning and a performance in that market. And we believe that after two and a half years, that's accomplished, then the ball moved to - in this environment. Now, thankfully, in the last probably 90 days or maybe it was right the same week as NARI [ph], things started to get better. So, hopefully, that will improve.

The other one was a conversation around ultimate leverage, target leverage, and we - and our ability. And it kind of goes hand in hand as well, which was, like, where are we going to lever up, what we're going to do? So, we believe that our current financial policy, our ongoing strategy is very supportive of that, and that's the conversation that we're having with them.

Kimberly Green^ All right, we have a question coming in from the webcast. This question is from Paulina Rojas Schmidt from Green Street. Can you provide some color on how market rents have trended? How much have they increased versus 2022, and what do you expect for 2024. While releasing spread statistics are helpful, looking for more color on the specific market rent - rents that you're seeing and how that's trending.

Jeff Edison^ I don't know, Ron or Joe, you want to take that in terms of the trend - the rent trends?

Joe Schlosser^ Yes, I mean every market is different, but in our portfolio, we continue to see ABRs increase, all the spreads, releasing spreads, new leasing spreads, they're all very positive. So, we just continue to see market rents increase.

Ron Meyers^ We've seen it consistent nationwide. I think someone asked about the Sun Belt, but, I mean, really, any area of the country, those market rents, when you see those spreads, it's pretty consistent across the entire country. Everywhere we have a center, that growth continues. I expect it to continue in '24.

And I'm a little forward-looking when my lease is out and renewal is out. I kind of know where things are trending based on what I'm going to execute in the next at least six months, and it still feels really positive and heading in a great direction.

Bob Myers^ You're going to continue to see a lot of demand from fast, casual restaurants, health and beauty, and medtail. And given where those health ratios will be, we're going to continue to see what I believe to be market-leading results and spreads for the next two or three years for sure.

Jeff Edison^ Yes.

Unidentified Participant^ All right, a quick one from me on M&A. We've seen a lot of consolidation in the space and you, guys, have a pretty good multiple, so (inaudible) M&A for you or even consolidator?

Jeff Edison^ Yes. We sort of separate that into two buckets. One is the straight M&A bucket, which is stock for stock trading. And we have not been - I mean we've seen everything in the market, we've looked at it, and we haven't been overly receptive because, first of all, very few people are in our business and have a portfolio that is consistent with our business of right-sized grocery-anchored shopping centers.

We see the power center business as a very different business than our business. We see - in our mind, the difference between our business and the power center business is the same as the difference between the power center business and the mall business. We think it's that big of a difference in terms of how you operate, the team you put together, and the operating results.

So, in the - in an M&A field, that's sort of how we look at it. We haven't been able to find something of scale that was consistent enough with what we wanted to do to even really enter into the whole pricing discussion of - about not overpaying for something that is in there.

And the second - the second piece that we look at is large portfolios. And historically, we have looked at an awful lot of portfolios, and we've not gotten to price on them. We've always felt like there was a - where we saw a portfolio discount that should have been there, they were seeing a portfolio premium.

And so, we haven't been able - that's been more of a pricing issue because we've been able to find certain pools of properties that were consistently in the grocery-anchored shopping center space.

The problem is just - was - has been more pricing and the feeling of, "Look, I worked really hard to get this portfolio together. You've got to pay me a premium for it." And our view has been, "Look, I can just - I can buy those individual, I can buy - I can get to my own growth thing by doing it on individual acquisitions. I'm not going to pay a premium for your work in putting that portfolio together. And I'm not going to pay you a lot for your crafty properties." And that has also been a part of the - part of the thing that's kept us from being really successful on that.

Dave Wik^ A recent example, actually, DRA was selling a portfolio of assets and trying to market it as a portfolio and said don't waste your time on it unless you're willing to buy the whole portfolio.

Of course we listened, but we dug in anyway. And we looked at it and said, "Yes, there are probably 60% of the assets in this portfolio we don't really want to buy. Not that they were bad assets, they weren't a good fit for us." And we ended up buying two of those assets, the two of the assets that we thought were a perfect fit for PECO.

Jeff Edison^ Yes.

Dave Wik^ So, we look at these portfolios and we would love to buy them, but we end up breaking - we end up usually seeing a bunch of assets, well, to Jeff's point, that we don't want, and in this case, we were able to focus on a couple that we did want and able to buy.

Jeff Edison^ Yes.

Kimberly Green^ Thank you for all the great questions. Any more questions from anyone in the room? Make sure we take them. All right. Well, you know how to reach us if you have additional questions.

Jeff Edison^ Okay.

Kimberly Green^ So, this concludes our Q&A session. If you have additional questions, don't hesitate to reach out to the PECO team or you can email me or our investor relations team.

I'd like to quickly thank PECO's Chief Marketing Officer, Cherilyn Megill for her leadership in running today's meeting. In addition, thank you to Cassandra Burnham, Hannah Harper, Bryan DeMond, Rachel Thompson, Allison Lembright, Aaron Morris, Ed Broun, Curt Siegmeyer, Karin Hunt, and our finance team, our onsite AV team, Global Webcasting Group, the WellDurst event team, Sarah Reeve at Q4, and all of our partners for your hard work for today's meeting.

Thank you, everyone, for joining the PECO team today. This concludes our Investment Community Day. Have a great rest of your week. For those on the webcast, you may now disconnect.

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