REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PECO.OQ - Q1 2023 Phillips Edison & Co Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2023 / 4:00PM GMT

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Craig Richard Schmidt *BofA Securities, Research Division - Director*

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

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

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

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

Omotayo Tejamude Okusanya *Crédit Suisse AG, Research Division - Analyst*

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

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

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

PRESENTATION

Operator

Good day, and welcome to Phillips Edison & Company's First Quarter 2023 Earnings Conference Call. Please note that, this call is being recorded.

I will now like to turn the call over to Kimberly Green, Head of Investor Relations. Kimberly, you may begin

---

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

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 Once we conclude our prepared remarks, we will open the call to Q&A. After today's call, an archived version will be available on our Investor Relations website.

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

In our discussion today, we will reference certain non-GAAP financial measures. Information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in our earnings press release and supplemental information packet, which are on our website. Please note that we have also posted a presentation with additional information. Our caution on forward-looking statements also applies to these materials.

Now, I'd like to turn the call over to Jeff Edison, our Chief Executive Officer. Jeff?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thank you, Kim, and thank you, everyone, for joining us today. The PECO team delivered another solid quarter of growth, with same center NOI increasing by 4.9% and achieving record highs in occupancy, renewal leasing spreads, and retention. The consistent strength of our operating performance is attributed to both our differentiated focus strategy of exclusively owning grocery-anchored neighborhood shopping centers, and our team's ability to drive results at the property level.

I know you've heard the PECO team say it many times before, but it bears repeating. Format drives results. And not all space is created equal. We focus on exclusively owning rightsized neighborhood shopping centers anchored by the #1 or 2 grocer in the market, with over 70% of our rents coming from necessity-based goods and services. 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 shopping centers, benefiting our small store spaces.

While our rightsized grocery-anchored format is critical pillar of our long term success, we believe the quality of our portfolio continues to be another important differentiator. At PECO, we define the quality of our portfolio through the use of the acronym SOAR. This includes spreads, occupancy, the advantages of our markets, and retention. PECO's high new and renewal leasing spreads are driven by demand from our neighbors. Our retailers provide necessity-based goods and services that serve the essential needs of our communities. We pride ourselves on being locally smart and creating neighborhood centers that have the optimal merchandising mix for the communities they serve.

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're also seeing consistent strong demand across all geographic regions.

PECO's record occupancy level of 97.5% combined with the leasing spreads I just mentioned, are a sign that retailers are successful at our centers. Our neighbors want to be closer to the customers and in the neighborhood of the communities they serve. Our lease portfolio occupancy increased by 10 basis points sequentially from the fourth quarter and by 130 basis points year-over-year, reaching an all-time high of 97.5%. We still believe there's occupancy upside in the portfolio.

When occupancy as a driver of growth is no longer available, we believe our NOI growth will continue as our rent spread growth increases because of our pricing power. In addition, our exposure to at-risk retailers continues to remain limited. This is deliberate and a result of our grocery-anchored strategy focused on necessity-based goods and services.

PECO's unique advantages in the market are driven by our focus on the #1 or 2 grocer, our strategic presence in the Sunbelt and other fast growing suburban markets. Our top neighbors are strong grocers. Kroger and Publix are PECO's #1 and 2 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's store demographics. Our centers are close to the end consumer, where America's leading grocers make money, and in turn our neighbors make money, which allows PECO to make money.

In addition, our portfolio is geographically diverse. Rather than focusing exclusively on coastal markets, we focus on well-located suburban markets with growing populations and strong demographics. We compete on the corner of Maine and Maine.

Our neighbors are 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 first quarter retention rate of 95%, a record high and well ahead of the historical 5-year average of 87%.

Our local neighbors remain resilient and are successful retailers who have been in our centers on average 8.8 years. Importantly they differentiate and enhance the merchandising mix that our neighborhood centers offer.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

With more than 30 years' 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, the advantages of our market and retention.

If history is any indication, PECO's rightsized, grocery-anchored neighborhood shopping centers will continue to be resilient in all market cycles. Devin will provide more details on our cycle test and performance in a moment.

Looking ahead, we continue to benefit from a number of positive structural and macroeconomic trends that create strong tailwinds and drive neighbor demand. These trends include the healthy consumer, hybrid work, migration to the Sunbelt, population shifts that favor suburban communities, and the importance of physical location in last mile delivery.

These demand factors are further amplified due to the limited new supply and lack of new retail construction since 2008. When we consider our pricing power, indicated by continued strong demand and record-high renewal spreads, occupancy, and retention, combined with the advantages of our markets, our necessity-based retailers, and the aforementioned tailwinds, we believe our growth strategy will continue to generate more alpha with less beta.

With higher interest rates and constrained capital availability in the market, we continue to be patient and use our national platform to be opportunistic.

On the transaction front, we're pleased with our strong acquisition volume in the first quarter, which was largely driven by activity that started last year. These high-quality, rightsized grocery-anchored neighborhood centers fit well with our PECO portfolio. These properties will drive incremental earnings growth that will allow us to achieve and exceed our acquisition hurdle of a 9% unlevered IRR.

We are also pleased with the performance of our acquisitions relative to our underwriting. On average, assets acquired since our IPO are outperforming relative to the underwriting. The transaction market continues to be fragmented and sporadic, and we're seeing a slower pace in the second quarter. While we're seeing cap rates move in the private markets in response to higher interest rates, there are still wide gaps between the buyer and the seller's expectations.

That being said, we are affirming our guidance for $200 to $300 million of net acquisitions this year. We provide a wide delta in our range because it allows us to be strategic based on current market conditions and to still deliver on our expectations.

We remain focused on accretively growing our shopping center portfolio, and we will continue to be opportunistic, as we always are. There's no question that record inflation, rising interest rates, global conflict, and bank failures continue to create challenges. Despite these headwinds, we remain focused on investing in our portfolio and driving cash flow growth.

With our combined internal and external growth drivers, we continue to believe our portfolio can deliver mid to high single-digit FFO per share growth on a long-term basis. In addition, we still have one of the lowest levered balance sheets in the shopping center space. With a fortress balance and ample liquidity, we remain for prepared for challenges and opportunities that may arise for the rest of this year.

I would like to provide a quick update on the proposed Kroger and Albertsons merger. While there haven't been any major new developments in the merger, we remain positive on the impact that it will have in our centers. We continue to believe it is ultimately a positive for PECO, for our centers and for the communities our centers serve if the merger should occur. If the merger does not occur, our Albertsons anchored centers will continue the strong performance that they have enjoyed to date.

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

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thank you, Jeff. Good afternoon, everyone. Thank you for joining us. The operating environment remains strong. Our leasing team continues to convert strong retailer demand into higher rents at our centers. Jeff highlighted earlier the continued strength in leasing, but let me emphasize a few metrics of note.

Our anchor occupancy increased to 99.3%, and our in-line occupancy increased to 94.3% during the first quarter. Year-over-year increases of 120 and 170 basis points, respectively. Leasing activity remains strong, and our volume of deals executed in the first quarter increased year-over-year to 263 leases executed totaling 1.1 million square feet compared to 244 leases executed and 800,000 square feet leased a year ago.

PECO's retention rate this quarter was exceptional at a record high 95%, driven by increases in our small shop retention rate to 83.3%. High retention means no downtime and lower tenant improvement costs. As a reminder, our tenant improvement spend on renewals over the last 5 years has averaged below $2 per square foot. We continue to remain optimistic that we can drive favorable lease terms, including attractive re-leasing spreads with solid contractual rent bumps.

Comparable new and renewal rent spreads for the first quarter were strong at 27.4% and 16.1%, respectively. On average, our new and renewal in-line leases executed in Q1 had annual contractual rent bumps of 2.8%, another important contributor to our long-term growth.

The leasing spreads that we are continuing to see, combined with our record high retention rates are clear evidence of the continued high demand for space in our grocery-anchored centers. Our strong and steady pricing power is a reflection of the strength of our strategy and the quality of our portfolio.

Turning now to our redevelopment and development activities. We continue to invest in value-creating, ground-up, outparcel development, and repositioning projects. This activity remains a great use of our free cash flow and produces attractive returns with limited risk. We are making great progress on these projects, and we are working hard to continue to build our future pipeline.

In the first quarter, we stabilized 3 projects, which delivered over 74,000 square feet of new space to neighbors and had an incremental NOI of approximately $930,000 annually at returns on cost of approximately 10%. These projects provide superior risk-adjusted returns and have a meaningful impact on our long-term NOI growth.

For the full year of 2023, we continue to expect to invest $50 million to $60 million in ground-up outparcel development and repositioning opportunities with average estimated cash-on-cash yield between 9% and 12%. 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 recurring foot traffic to our centers. Our foot traffic in Q1 remained strong and was in line with the first quarter of 2022 levels.

Looking ahead, we and our neighbors believe consumers will continue to visit our centers and spend on necessity-based categories, even if they reduce spending on luxury items and other discretionary purchases. Our portfolio has proven to be resilient through economic downturns historically. 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 centers that were owned by us in 2008. We went back and reviewed the performance of those assets.

By 2010, NOI had decreased by 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 to 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. Our neighbors continue to demonstrate their resiliency and ability to manage the many challenges they face, including inflation, supply chain issues and labor shortages. Despite these many challenges, our neighbors continue to invest in their stores and technology platforms in order to provide high-quality customer experiences.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

We believe PECO's portfolio continues to be well-positioned given our grocery anchors, our rightsized format, and our necessity-based neighbor mix. We enjoy a well-diversified neighbor base. Our top neighbor list is comprised of the best grocers in the country and our largest non-grocery neighbor makes up only 1.4% of our rents. That neighbor is T.J. Maxx.

All other non-grocer neighbors are below 1% of our ABR. 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 watchlist represents just 2% of our ABR. As a reminder, our combined exposure to Bed Bath & Beyond, Party City and Tuesday Morning is minimal at just 40 basis points of ABR.

In summary, our differentiated strategy continues to position PECO well for continued steady growth in all economic cycles due to our exclusive grocery-anchored focus, our necessity-based neighbor mix, our rightsized format, our well-positioned locations in growing suburban markets, our record high occupancy with continued strong labor demand, our high leasing spreads and record high retention rates, our strong credit neighbors and diversified neighbor mix, the lack of exposure to distressed retailers, our strong balance sheet and, most importantly, our well-aligned and cycle-tested team.

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

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

Thank you, Devin, and good morning, and good afternoon, everyone. First quarter 2023 NAREIT FFO increased 13.9% to $76.3 million or $0.58 per diluted share, driven by an increase in rental income, partially offset by higher property operating expenses. First quarter core FFO increased 7.7% to $78.2 million or $0.59 per diluted share, driven by increased revenue at our properties from higher occupancy levels and strong leasing spreads, partially offset by higher property operating expenses.

Our first quarter 2023 same-center NOI increased to $98.6 million, up 4.9% from a year ago. This improvement was primarily driven by higher occupancy and an increase in average base rent per square foot, driven by our strong leasing spreads. In addition, we collected approximately $2 million in over -- in the first quarter, a 69% increase over last year, reflecting the strong sales performance of our grocers. Overage rent is typically annual and is highest in Q1. So I will note that we do not expect this again until Q1 of next year.

During the quarter, we acquired 4 Publix-anchored shopping centers for $78.7 million. These neighborhood centers are located in suburbs of Atlanta, Miami, and Nashville with strong median household income and growing populations. We expect to drive growth in these assets through occupancy increases and rent growth.

From a balance sheet perspective, we ended the quarter with approximately $622 million of borrowing capacity available on our $800 million credit facility, and we have no significant debt maturities until the second quarter of 2024. Between annual free cash flow of approximately $100 million generated by our portfolio and the significant capacity available on our revolver, we are confident in our ability to fund our growth plans. We continue to closely monitor the debt capital markets for the right opportunity to extend our maturity profile, and this is a high priority for us. In this uncertain market, we are considering all available options in order to obtain the lowest cost of capital for our debt, including the unsecured public bond market, private placements, secured, and bank markets. We anticipate addressing our 2024 maturity along with long-term funding for our acquisition volume later this year.

Our low leverage ratio continues as a result of our strong earnings growth as well as our prudent balance sheet management with our net debt to adjusted EBITDAR remaining at 5.3x as of March 31, 2023. At the end of the first quarter, our debt had a weighted average interest rate of 3.8% and a weighted average maturity of 4.1 years. Approximately 82% of our debt was fixed rate.

During the quarter, PECO opportunistically executed a 3-year forward starting swap effective September 15, 2023, with a notional value of $200 million at a rate of 3.36%. We are pleased with the continued strength of our business and are affirming our full year guidance for NAREIT FFO and core FFO per share. We are also affirming our same-center NOI guidance of 3% to 4%.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

We do anticipate earnings to moderate in the remainder of the year due to the seasonality of our earnings, as well as a result of higher interest expense, which is reflected in our guidance assumptions. As Jeff mentioned, we believe we continue to be well-positioned for long-term growth, and we are delivering strong internal and external growth. Importantly we have the flexibility to be patient and pursue accretive opportunities as they arise that we expect to provide meaningful NOI contributions in 2023, 2024, and beyond.

Maybe most importantly, as we consider the current economic uncertainties, we continue to have one of the strongest balance sheets in the sector, allowing us the ability to remain on offense and pivot quickly in response to changing market conditions.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Craig Schmidt with Bank of America.

Craig Richard Schmidt - *BofA Securities, Research Division - Director*

In looking at PECO's results and position, it's hard to see what could derail you in your operating results. I mean, the leasing remains strong. And even if the consumer is weaker in the second half of the year, that would be a dynamic that would more likely impact 2024, not 2023. I'm just wondering what you're seeing out there that could lead to your downside in terms of your earnings for the year?

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

Craig, this is Jeff. Thank you for the question and the call. And the -- I think your analysis is accurate. I do think that '23 is fairly well baked. There are always questions and concerns and that you've got out there that -- but as you point out, I mean, we don't have exposure to the big box potential closures that are out there.

And the -- obviously, we are impacted on the interest rate side to an extent, but we're highly fixed. I think we're fixed in the 80% range. But those would be the things that we're looking at and then obviously, a change in the consumer. But as you point out, that's really an effect '24, '25 than it is in '23.

Craig Richard Schmidt - *BofA Securities, Research Division - Director*

And then just -- I noticed the last 4 assets were acquired in the suburbs of some more major markets. I just wonder if you're looking to grow in the larger MSAs. And then what is the current occupancy level of these 4 assets?

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

John, can you get the occupancy, the exact occupancy number, the 4 assets, I don't have. But Craig, the one thing I do I think and we should point out, I mean, if you look at the -- our top 10 markets, they're Atlanta, Dallas, Chicago, Sacramento, Denver, Minneapolis, Washington, D.C., Las Vegas and Tampa and 10th is Phoenix. So our top markets are not a lot different than where we're -- than our -- the 2 projects that we bought in Florida and the project we bought in Nashville. I mean, they're very similar markets where we have extensive experience. The -- but again, if you look at it, Atlanta, Nashville and then Florida and the sort of mid to Southern Florida, those are key markets for us that we've been in for a long time, and we'll continue to stay focused on. Do you have the -- John or Kim, do you have the occupancy numbers of the centers we bought?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

I do. I do. So it's -- they're about 93% occupied across the 4 of them. And so we have opportunity, as Jeff said, to grow through both occupancy list, as well as pushing rents.

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

Yes. We also have some land that we're purchasing. We purchased with those assets that will give us additional opportunity as time goes on, which we're actually excited about. And we're actually making great progress at those assets already. So it's -- yes, I think we're well on the way to getting what our underwriting was, which was across the board, it's going to be well north of a 9% unlevered and that is, we think, a pretty strong return in this market.

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

Jeff, the only thing that I would add, Craig, John gave you the average occupancy of the 4, but 1 of the properties has an occupancy level in the mid-80s, and we see pretty attractive upside in that particular asset.

Operator

Your next question comes from the line of Caitlin Burrows with Goldman Sachs.

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

Jeff, I think you mentioned that a lot or maybe all of the acquisitions that you did in 1Q had been started in 2022. So I was wondering now as you think about the pipeline that you have and your expectations for the year, is the guidance that you guys laid out based on activity that you're already seeing? Or to what extent is it just activity you think will come to fruition kind of as the year goes on?

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

Well, Caitlin, thanks for the question. We -- I think we had a strong first quarter, and our backlog going into second quarter is much more muted than what we got in the first quarter. So that's why we're keeping a pretty wide range on the acquisition target for the year. The -- and so I -- sort of -- that's a roundabout way of answering the question, which is the market is cooler right now than it was in the first quarter and late last year when we put these 4 projects under contract, they did take a long time to close because there was significant changes in the -- through the process on the acquisitions.

So I would say that we are less than certain about where the market is going to be between now and the end of the year. And that's what's really going to drive our results in terms of how much we acquire. And again, that we've got to feel confident that we've got that #1 or 2 grocer and that we're in markets where we can really grow rents and grow occupancy. And if we can get that and get to that 9% unlevered, we'll be at the high end of the range. If we can't, we'll be at the lower end of the range. And that's how we're sort of thinking about it.

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

And then maybe switching over to the balance sheet. So you guys have the interest rate swaps expiring in September, and you've now addressed $200 million of that. I guess, going forward, how are you thinking about the remaining $55 million, but maybe bigger picture, what the right amount of floating rate debt is to have and how that may play into your decisions for addressing the 2024 maturities?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Great. John, do you want to take that in terms of our -- what our plan is?

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

Sure. So we are floating, we're about 81% fixed today, and we did execute that swap opportunistically. I think as I said in the prepared remarks, we are trying to keep all of our options open, and the different strategies come with either fixed or then we can kind of synthesize it with a swap.

And so our target is certainly to be higher, I would say, certainly above 90%, 95% would be our long-term target. But at this time, as we are evaluating our opportunities to -- in the different forms of financing that we will address it at that time. And so we did opportunistically execute that forward starting swap. And I would think that as we move forward with our plans for extending '24 maturities and funding our '23 acquisition, then we will swap and fix at that time. But part of it was just taking some of the pieces off the table over time as well.

Operator

Your next question is from Tayo Okusanya with Credit Suisse.

Omotayo Tejamude Okusanya - *Crédit Suisse AG, Research Division - Analyst*

Congrats on another solid quarter. I wanted to talk about just guidance. You guys maintained it, but when you look at your 1Q performance, again, granted, maybe there's some overage rent in there that's not going to recur for the rest of the year. But if you just annualize your first quarter, you kind of are even further ahead than the high end of your current guidance, and you're probably going to do more by real acquisitions in the rest of the year. So, just kind of curious how you are thinking about guidance right now, especially kind of like the low end and the high end relative to your strong performance in 1Q?

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

Yes. Thanks for the question. I will tell you, we're naturally going to be conservative in the first quarter across the board as we get more visibility into the rest of the year. And yes, we did have a fairly strong percentage rent paid in the first quarter, which was obviously very positive, driven by the really strong sales that we've had at our grocers. And that will be something that will occur each year, but it will recur in the first quarter.

Overall, we are going -- we almost -- I mean, that's part of our thought process is to be relatively conservative in the -- coming out of the box in terms of what kind of affirmation or acceleration of our guidance will happen. And we're -- in this environment, I think we will err on the conservative side, given just the uncertainty in the overall economic environment with interest rates and the rest. And we will have -- as we have more clarity that we will get more certain as the quarters go by.

Omotayo Tejamude Okusanya - *Crédit Suisse AG, Research Division - Analyst*

And then just curious again your kind of some high-level thoughts coming into ICSC, that's kind of giving you confidence about future demand or not? And also specifically to kind of new kind of retailer categories that are trying to get meeting with your leasing team. And just a general sense of heading into ICSC, what's that telling you about kind of the demand environment?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. So we have a really strong backlog of meetings on the leasing side. So I would say, it is -- all indications are that the ICSC -- from the ICSC bookings that the retailers continue to have really strong demand. We're hearing anecdotally that there's going to be a fair amount of product coming on the market in the grocery-anchored right-size, #1 or 2 grocers kind of our target, that there will be -- we understand that there'll be several, if not more of those projects coming on the market as part of the ICSC.

As you remember, I mean, that's always been a cycle thing where at the ICSC, you get a big -- a lot of people coming out with product for sale. That sort of went away for the last 2 or 3 years, and it's now appearing to be coming back, and we'll see how that plays out and what kind of -- whether there's a realistic seller or a more sort of seller from the past, who's trying to get old pricing.

We understand through the brokers that there should be some decent demand coming at ICSC, but we'll -- obviously, we'll see when that comes through. But activity seems good. I think the -- they're talking about 25,000 to 30,000 people coming for it. So that's -- it's not back to pre-pandemic numbers, but positive. And so I'd say, we're optimistic, but we're sort of wait and see in terms of how positive the ICSC comes out.

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

Hello, Jeff, the only thing I would add to that, Tayo, in terms of where we're seeing retailer demand by category for your question. So it's in line with the current portfolio. So quick-serve restaurants continue to have strong demand for our centers. Medical continues to have strong demand, and it's a growing percentage of the demand. Our current pipeline, approximately 20% of the pipeline is medical. And then lastly, health and beauty.

So those are the 3 categories where we're continuing to see strong retailer demand. Those retailers do not seem to be concerned about the strength of the consumer and are being very aggressive in their growth plans.

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

Did we answer your question, Tayo? Is that -- I want to make sure we got it covered. All right. I guess, we did, hopefully.

Operator

Your next question is from the line of Mike Mueller with JPMorgan.

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

So a quick question. In terms of the small shops, is the mix today any different than it was, say, heading into COVID, I mean, has it evolved significantly?

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

Well, there are 2 answers to that. One is that there had been a significant amount of time between the great financial crisis and the pandemic. And so what happens is there's a natural thing where you have some weaker retailers that get into the business and are able to survive because of the market.

When the pandemic hit, it eliminated a lot of those sort of more marginal players. And so, as we look at it today, we're not that far out. And so we think we've got a strong, if not stronger base than we've ever had in terms of our small tenant makeup. And -- but it's pretty much over a long period of time, maintained that local sort of being somewhere in that 25% range of our -- of the small stores and then retails and nationals being the bigger. I don't know, Devin, if you have any other points in terms of like sort of the mix that we've got.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes, Mike. The only thing that I would add to what Jeff just said is that in terms of medical, a number of those retailers tend to be more local neighbors. And as we look at our portfolio, what we like about that use -- and again, as I mentioned in my answer to Tayo's question, we see medical as a growing percentage of our total rent roll. Right now, it's about 12%, but the pipeline is about 20%. And a percentage of our local neighbors are medical users, about 12% of our local neighbors are medical.

And what we like about them is, number one, they typically sign longer leases and they're very resilient. On average, in our portfolio, the local medical neighbors have been in our centers for 10 years on average. So they sign long leases and they stay in the space.

The other use that has evolved is health and beauty. Again, we like this because it tends to be e-commerce resistant. You can't get your hair done and your nails done on the Internet. And so, as with medical, it's a e-commerce-resistant use. And again, similar to medical, these local tenants tend to sign longer-term leases. And in our portfolio, they've been in the space for on average, over 11 years. So again, resilient. So that's been the evolution in the local neighbor base in those particular categories. And we believe that that evolution is highly constructive given the length of time that the tenants are signing up for and then the fact that they're continuing to be tenants for over 10 years.

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

And then just a quick follow-up. I think the in-line occupancy is 94.3%, if I'm not mistaken. Where do you see the ceiling for that?

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

Mike, as we've said consistently, we think we've got another 100 to 200 basis points of upside in that metric. And again, as we continue to emphasize, we know that the level of occupancy that we've been able to achieve in the portfolio is potentially perceived as a weakness, which is an interesting concept with the strength being highlighted as weakness. But as we've continued to state what we're doing given the high level of occupancy that we have is we're pushing spreads. And as you can see in the first quarter, our spreads were 16%, which is higher than they've been at any point over the last 5 quarters and is meaningfully higher than that metric has been historically, and that's how we'll continue to get NOI growth, which is, as we bump up against this ceiling in terms of occupancy, we will continue to push rents. And as you've seen from our metrics in the first quarter, we've been able to do that.

Operator

Your next question is from the line of Haendel St. Juste with Mizuho.

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

My first question is on the watch list. I think you mentioned in your remarks that it's about 2% overall. But then you also mentioned that you have about 40 bps of exposure to Bed Bath, Party City and Tuesday Morning. So I guess, can you talk about what else is on that list? What other categories you're concerned about? And also remind us, what you budgeted in your guide this year for known or anticipated tenant risk and what your bad debt reserve for unanticipated tenant risk is?

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

Devin, do you want to take the first? And then John, you want to talk about the bad debt the questions.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Sure. In terms of the 3 tenant Party City, Tuesday Morning and Bed Bath, Haendel, again, to just remind everyone, we have 5 Party Cities in the portfolio, and all 5 of those leases we expect to be assumed. So we will not have any backfill needs on those 5 stores.

On Tuesday Morning, we have 3 of them. 2 are already backfilled and 1 is in negotiation and the rental metrics on those locations are meaningfully better than the in-place rents in the 20% to 25% increase range.

On the 2 Bed Bath that we have in the portfolio, we have not backfilled those locations yet, but we're optimistic in terms of what the backfill rents will be able to be. On 1, we have a $6 rent that we think can go to the low double digits. And then on the other, we'll have a little bit of a backslide in rent from $11 rent to a $9 rent. So overall, we are not concerned about the impact that those 3 tenants will have on the portfolio.

In terms of the other tenants on our watch list in, Haendel, those are our top 20 tenants on the watch list. So it's a large universe of tenants. And it ranges from retailers that are in the physical therapy space, to the pet space, through personal care, et cetera. So it's a wide range. And not one of those tenants represents more than 30 basis points of ABR for us.

So again, the diversity in our rent roll continues to benefit us. And so we're not particularly worried about any one category in our watch list.

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

And I will jump in on the bad debt. So we do provide guidance disclosure and this portfolio has consistently delivered over a long period of time between 60 and 80 basis points of bad debt. That is what our guidance is based off of and our experience in the first quarter is right down the fairway on that. We do space-by-space budgeting, but to the -- with regards to unexpected fallout or things like that. But to Devin's point, we just don't have that volatility. So I think we're in a good place from a guidance perspective.

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

Great. Great. That's very helpful. I think that's all ahead of my list. So thank you I'll yield.

Operator

Your next question is from the line of Ronald Kamdem with Morgan Stanley.

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

Hello, just 2 quick ones and some of these have been asked already. But just going back to the acquisitions, I see the cap rate. Just remind us how those deals came about, #1. And then #2, after the events of sort of the past 1.5 months, is you're thinking that people are still on pause and then activity is going to pick up in the second half of the year? Or just trying to figure out when does this sort of tight lending environment translate into sort of more deal activity, more opportunities for the company and for your pipeline?

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

The -- if you look at the 4 projects, each one has a very specific story to it. And that story at its core is about a seller that is motivated, because in this environment where you're seeing a transition, we're really trying to find motivated sellers who will accept the new pricing. And one of the ways we were able to do that is we found assets that had significant upside to them, and a lot of that was in new leasing spreads. A lot of it was in new outlaw development opportunities and then contractual ramp-ups.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

So these were things that were very specific to the property, but they allowed us to have what could be perceived as a more aggressive cap rate, but with a tremendous, with a lot more upside. And that was really where we were -- how we were able to bridge the gap between the seller and what our pricing expectations were. And those would be things like the last asset in a fund they would be institutional owners with alternative needs for portfolio management in terms of what they were selling. So it was a variety of different pieces, but all sort of had a similar story, which was a motivated seller.

In terms of pace, we'll see a lot from ICSC. I think that will tell us a lot about what type of pace we can anticipate for the second part of the year. I do think it will be muted this year. I think across the board it will be difficult to find the appropriately motivated sellers, but it's a big market. I mean, we've got 5,800 centers across the country that we'd like to buy with the #1 or 2 grocer and the demographics that we want. So, it's a big market, and there is always volume in it. But obviously, it's a lot more muted today as pricing gets recognized. That answer your question, Ron?

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

Yes. That was perfect. And then just my second question was just going back to the swaps. I'm just looking at the debt page on the supplemental. I guess I'm trying to figure out, so when I look at '24 and I see those three term loans coming due, so what's going to happen? What's the mark-to-market on the interest cost there? So basically, where do you think you can issue today, and how should we think about when those come due? What are you guys planning for that?

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

John, do you want to take that one?

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

Sure. Yes, so, Ron, we are very focused on those '24 maturities, and as we look at the various options we have, they come with different rates. But I would say from a swapped-in rate perspective, there can be some variability, but it goes anywhere from the low 5s to the low 6s.

In terms of when you look at where those interest rate swaps are at close to 2%, depending on what you're looking at there, that's probably in the 3.25, 3.5 range is what you're looking at. And that could be based on the 10-year. It could be based on a 5-year. It could be based on where SOFR is. I mean, the swaps we just executed were at 336.

And so I think if you look at what those swaps are fixing on, there is that headwind, but I think the growth of the operating performance of the portfolio is allowing it to kind of continue to grow at a full level. But it is something we're very focused on because it does play into funding our acquisition plans and the like. So the reason that I'm less exact on that is because, as I mentioned, we are examining various forms and durations of maturities. But hopefully, that gives you a sense for the rates that we're looking at.

Operator

Your next question is from the line of Juan Sanabria with BMO Capital Markets.

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

I just wanted to follow-up on the earnings trajectory off a strong first quarter again. So I guess, if you could just break down, I guess, first, what's assumed in the sequential drop-off from the percent rent or overage rents from the grocers that was a one kind of an annual event in the first quarter? And then secondly, anything that you're budgeting from an occupancy perspective there was the 2 Bed Bath stores and a little bit on Tuesday morning. But how should we think about occupancy trending throughout the year, just thinking about your first quarter performance relative to the bottom end of your guidance range for earnings?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Great. Hello, Juan, thanks for calling in. John, do you want to take that one?

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

Sure. So in the first quarter, I would say, I think Devin mentioned, it was in my prepared remarks, I would say that, there was about a penny of increased overage rent over the -- call it, even a year ago, that we would expect to repeat in '24 as our grocers continue to increase their sales volume. But it is not likely to repeat at that scale as we go forward. So I would say that's the starting piece.

The second is in the second quarter, you get a little bit of seasonality around certain expenses that are seemingly small in dollar amount, but probably give you at another, not a full penny, but a little bit there. And then from there, you've got better growth that gives us kind of the range that we're looking at. So I do think that normalizing off of Q1 gives you a little bit of a different result than a full year.

With regards to occupancy, for us, it's really stability in terms of, as Devin mentioned, he talked about those leasing plans. But when you give the diversity of our base, we do expect that we will continue to grow our occupancy levels. I will note that, the economic increased and tightened the spread between our economic and our leased occupancy, which really, again, underscores the ability for us to execute a leasing and move our neighbors in as quickly as we can.

And so that is something that we can press this quarter on a long-term basis. That's usually been about 60 basis points, I believe it's 80 basis points this quarter. So there's some compression there. But we do not foresee any major adjustments or swings in that. It's just more the few items I just mentioned.

Operator

Your next question is from the line of Todd Thomas with KeyBanc Capital Markets.

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

Yes. I just had 2 questions. One, John, so in terms of just following up, I guess, on the guidance a little bit more, you mentioned the seasonality that you anticipate. So what exactly are you referring to in terms of seasonality outside of the overage rent that you just discussed? What sort of seasonality are you pointing to in the second, third, and fourth quarters?

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

It was really my comment was more specific, I would say, to the second quarter. And as we look at it, Tayo brought up ICSC. So there's a cost, and then you've also got kind of proxy costs. So not big dollar amounts, but then in terms of the sequencing. So, I mean, again, the stability of our base, it's just that the $0.59 that we had had those items that would just be something difficult to annualize off of. But then as you get to later quarters, then you can see that increase. There's nothing more than that that I was referencing.

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

And then in terms of the portfolio is well leased, it's well occupied, and your leasing spreads have been strong to date. Jeff, you mentioned that you expect pricing power to improve further. How do you know, if you're pushing too hard, driving rents too high, particularly around, I'm sort of thinking around the 25%, 26% of the portfolio that's sort of local tenants? Is that a concern at all, just given some of the uncertainty around the consumer and in the economy, which you've sort of cited? And how do you measure the portfolio's health?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. So, Todd, it's a great question, and we do talk about it a lot. And at the end of the day, when a retailer is deciding to stay in our shopping center, so in our negotiations on retention, that is the direct decision on their part about profitability. And when you see that, we're able to retain, not only retain a high percentage at 95%, but we were also able to get 16.1% growth on it, that means that they're not doing this for philanthropic reasons. They're doing it because they can make money at these locations. And when you see those 2 kind of numbers, it means that we're nowhere near the kind of issue that you're talking about, where we're getting too high of a number that they can't be profitable.

So we -- and in addition to that, we're getting close to a 3% annual bump on those as well. So the retailers are telling us with their actions that they're profitable at our centers. And when the -- when that number -- when those numbers start to change dramatically you're going to be probably asking the question that you've got more often. But right now, we're not seeing that at all. Does that make sense to you?

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

Yes, that's helpful. And if we look at anchor and inline expiring rents in '24 and '25 compared to the rents that you've been achieving on new and renewable leases, is there anything that you see today or anything in those 2 years specifically that would prevent you from seeing similar rents and similar rent spreads moving forward?

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

Yes, I don't -- we don't have a crystal ball, so you never know what can happen. But there's nothing on our radar screen right now that's indicating anything but our ability to continue to grow those. And as we look at it, when we have less space to lease and we've got more demand, we would anticipate being able to be very strong in that position. And you look at just the supply-demand dynamics, and they're very positive for us right now. And we don't see anything out there Todd that would say, okay, well, that's going to change dramatically one way or the other.

I mean, there's certainly nothing being developed, so there's no new construction that's going to change the amount of supply. And so basically, it's a demand issue, and the only thing that would drive demand negative from where it is, and we're certainly not seeing that now, is a major recession. And we don't anticipate that. We're planning in our stuff for slowdown with interest rates increasing, but we're certainly not any kind of major recession.

And that would be the thing that would be sort of an outlier to current thinking that we'd have to plan on. But, again, this as well as anybody. Our necessity-based focus, it gives us a lot of stability. And that, we think, in these kind of environments, are real positive.

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

And a similar distribution, of leases expiring that have stated option rents. And are you doing away with, stated option rents at all a little bit more at the margin as you renew or sign new leases?

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

At the margin, yes, but it is still a part of a lot of retailers' demand. I mean, they want, they're building a business. They want it for long term. On average, our small stores have been with us 9 years. They want to control the space on a long-term basis. And so it's a fight for us, on a day-to-day basis getting rid of options and where they get options, making sure that we get commensurate bumps that, accommodate, where the market could be.

It does help to have, contractual rent bumps during the term, which has become much more consistent, I would say, of our pricing power. That's one of the things that we have been able to accelerate and feel really good about, our ability to get that.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

So if you're getting, 3% bumps each year for the 5-year term of the small store space, and then you're getting a bump at the time of the option. We feel okay about being able to stay at market rents in that regard. Does that make sense?

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

Yes, absolutely.

Operator

Your next question is from the line of Floris Van Dijkum with Compass Point.

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

So I looked at a couple of things, and I think we sort of touched on it a little bit before. Your shop space, would appear to have the -- the greatest upside opportunity here, clearly in terms of occupancy but also in terms of rents, and you get that space back a lot more quickly. If I look, you say that your average lease term for your shop space is 4.1% remaining, but 8.2% including options. And you were just talking about that before, Jeff. But, I mean, do all of your shop tenants essentially have an option for another, it sounds like it looks like a 4-year term or 4.1-year term, or how does that work? And then maybe I look at your stated expiry of 13% of your rents next year. That's a massive opportunity potentially, particularly as the rents are -- seem pretty low at 13.58. Maybe if you can touch on the -- the opportunity there and the ability to drive earnings going forward?

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

Floris, thanks for the call. Devin, do you want to take that? And, John, maybe you can walk into the sort of where a mark-to-market, I think, kind of feeling is for the leases that are coming due next year.

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

Sure, I'll take a crack at it. Floris, the simple answer is not every small shop lease has an option. As Jeff indicated, though, the national retailers push hard for options in order to sign new leases. And that's where the option comes in. John, what percentage of our tenants have options based off the inline guide? Do you know the number off the top of your head?

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

I don't know that off the top of my head, but they do. I mean, it is a mix, but I think the 8.2 is a blend of multiple options. So, again, the percentage that have them versus someone that has, say, 2 options versus 1 option is what factors into that 8.2.

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

Yes, so, Floris, we'll follow-up with you on that and give you the exact specifics. This is something, as Jeff indicated, that our leasing team is pushing back on to the extent they can. But it is a meaningful negotiating point for the national retailers where, when they're signing leases, they are looking for options in that lease. And as Jeff mentioned, what we're trying to do is, given the annual increases that we're seeing in our market rents, build that into the option rent that we're willing to agree to with that retailer.

So, it's a multivariable equation that we're taking all the factors into account when agreeing to that. However, your thesis is spot on, which is, with 13% of our rents expiring in 2024 and in-place rents, that there is meaningful upside in the portfolio that we'll be able to capture on a go-forward basis.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

If you just look at the renewal spreads that we've got and the fact that we did get 95% renewals, that's a 16% spread on 13% of your income. I mean, that's obviously a real positive impact. Maybe slightly overstated, depending upon market conditions, but there is certainly opportunity there.

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

Maybe -- I mean, Devin, you mentioned something else which sort of caught my attention as well. You said, is it 19 assets that you've owned since 2008? And you talked about how they had limited downside in terms of occupancy during the great financial crisis. I'd be curious, have you guys looked at what the long-term same store NOI CAGR on those assets that you've owned since 2008 has been? I'm just curious to see if you'd be willing to share that with us.

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

Well, a couple of points, Floris. It's 29 assets that we used to own -- owned in '08. And the point we were making is there's a perspective held by some, I think including you, Floris, where our ABRs are that our portfolio has more potential risk in a downturn. And so what we did was we went back and looked at how those 29 assets performed during the GFC. And NOI decreased by 270 basis points, but it recovered by 2011. And then we lost, that was NOI, and we lost 180 basis points of occupancy. So those assets performed well during that. And there was one other point, I wanted to make, Floris. I'm sorry, remind me of your, oh, then your point was we've not gone back and looked at what the portfolio, those assets, same-store NOI was over that period of time, that 15-year period, but we can do that.

But what I do know is, if you look at the PECO portfolio from 2017 to 2022, we had same-store NOI that was in the mid-3s for the portfolio. And so a lot of the questions we're continually getting is how do you guys think you're going to continue to be able to put up market-leading same-store NOI growth? The reason is, we've done it historically. And if you look at the last 5 years, our same-store NOI growth was in the mid-3s, which was 160 basis points higher than our peers. So, we continue to believe that, our strategy is differentiated, and therefore we'll be able to realize better growth than maybe is perceived that the sector can deliver.

Operator

Your next question is from the line of Paulina Rojas with Green Street.

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

In your presentation, you show foot traffic by region, and you have the West lagging other regions. It's not by a huge margin, but the spread has been sticky. So what's the make of it? And are there any implications for the way you're thinking about your asset or portfolio management?

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

Can you repeat that, Paulina? Because I wasn't totally following. You're saying that our traffic -- our placer numbers are saying that the traffic in the western states was higher? Or I didn't -- I wasn't exactly following which segment you were talking about.

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

Yes. Yes. You showed the West lagging. So, your assets in the West lagging in terms of food traffic. And I think you're indexing everything against 2019, if I remember well.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes.

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

And again, it's not a huge margin, but it's sticky. So I wonder, are you maybe seeing this kind of lag in other metrics as well, not just food traffic? And, yes, how do you read this?

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

Yes. It's kind of -- it doesn't make total sense, because if you look at where we've been able to grow rents and occupancy, the West has actually been one of our strongest regions. So my gut is when -- we just don't trust the placer numbers to be accurate to that degree. We look at general trends with that. We look at the sort of pieces, but we just haven't found it to be accurate enough to say, okay, 3% is a real number. We're looking at more directionally how it is. If you look at our grocery sales, you look at our occupancy, and you look at our rent spreads, the West is still performing very well. So I don't know how to answer that other than we're not seeing in terms of operating results what placers are seeing like in the traffic side.

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

Devin, I don't know if you have anything to add there, but that's been our experience.

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

Yes. I mean, Paulina, the only -- the only thing that I would add is we are benchmarking it to pre-COVID to give people perspective on, what food traffic looks like today relative to what it was like pre-COVID. And if you look at our 2022 foot traffic, it was 8% higher than 2019, again, the pre-COVID metric. And then our foot traffic in Q1 of '23 relative to Q1 of '22 was comparable. It was -- a slight tick lower.

So, again, our view on foot traffic is that it continues to be strong. And, again, the leasing and sales metrics that we've touched on, we think, support that. But the bottom line point is, as we dug into the placer data in detail to Jeff's point, it can be relied on directionally, but it can't be relied on to give you an actual, meaningful pinpoint accuracy.

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

And my other question is, so you fully own almost all of your properties except for 20 assets that you have in a JV. And do you see a scenario where you would buy the remaining interest in those assets? Or -- so, 1, would you be interested, and 2, do you have at all, do you envision having at all a willing seller there?

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

Well, I take the first part, Devin, you can add it. Go ahead, Dev.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Well, I was going to say, Jeff, Paulina, our partner on that venture is Northwestern Mutual. It's a 10-year joint venture. We're in year 5 of the 10-year venture. It's a high-quality portfolio that we would love to own all of at some point in time, if that were available to us. But our partner is very happy with the performance of that venture. They benchmarked us to NAREIT, and in 2022, we outperformed NAREIT by over 1,000 basis points. So, that's a very strong performing portfolio with a happy partner. So, our view is that venture will stay in place at least through its 10 years.

Operator

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

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

Great. Well, I want to thank everybody for being on the call. This was a great quarter for us, when you have 95% retention, 16% spreads, and then you got 4.9% same-center NOI growth. Your record occupancy numbers, we beat consensus on our FFO per share. We're ahead of pace on our acquisitions at returns that are above what we underwrite. And we've made our balance sheet, very disciplined and in great shape.

So, we're very excited about the quarter. We think -- we will --we hope that we can continue this positive motion through the rest of the year. And yes, we think our strong results continue to highlight the strengths of our focus and differentiated strategy. Getting that #1 or 2 grocer in there, driving the traffic, making it the right demographic so our small stores can be successful. And we give a lot of credit to the team. This team has been doing this for a long time. We've got a fully integrated platform. We are focused on a very specific niche of our business. And that, we think, is going to not only get results for this last quarter, but get results for the next 5 years or 10 years as we continue to grow this business.

So, on behalf of the management team, I want to thank, our shareholders, our associates, and importantly, our neighbors for their continued support. And thanks, everybody, for being on the call today.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV