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PRESENTATION

Operator

Good morning, and welcome to Phillips Edison & Company's Third Quarter 2021 Results Presentation. My name is Olivia, and I will be your conference call operator today. Before we begin, I would like to remind our listeners that today's presentation is being recorded and simultaneously webcast. The company's earnings release, quarterly financial supplement and 10-Q were issued yesterday, November 4, after market close. These documents and a replay of today's presentation can be accessed on the Investors section of the Phillips Edison & Company website at phillipsedison.com.

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

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

Thank you, operator. Good morning, everyone, and thank you for joining us. I am Michael Koehler, Vice President of Investor Relations with Phillips Edison & Company. Joining me on today's call are our Chairman and Chief Executive Officer, Jeff Edison; our President, Devin Murphy; and our Chief Financial Officer, John Caulfield. During today's presentation, Jeff will provide a brief overview of Phillips Edison & Company, discuss our differentiated strategy, and touch on the highlights for the quarter. Devin will discuss our third quarter operational results, and John will review our third quarter financial results, our recent capital markets activity, and discuss our guidance. Lastly, Jeff will provide an update on our investment activities and provide closing comments. Following our prepared remarks, we will answer questions from the institutional analyst community.

Before we begin, I would like to remind our audience, that statements made during today's call may be considered forward-looking, which are subject to various risks and uncertainties as described in our SEC filings. In addition, we will also refer to certain non-GAAP financial measures. Information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in our earnings release and supplemental disclosure issued yesterday, which are on our website. With that, it is my pleasure to turn the call over to Jeff Edison, our Chief Executive Officer. Jeff?

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

Thank you, Michael, and good morning, everyone. Before we get into our results for the quarter, I'd like to provide a brief overview of Phillips Edison and speak to our differentiated strategy. PECO was founded in 1991 when we bought our first grocery-anchored shopping center in Danville, Virginia. Over 30 years and multiple cycles later, we now operate a national platform of 289 properties. Our strategy has been focused and consistent for 30 years. We create great omnichannel grocery-anchored shopping experiences, and we improve our communities one center at a time. We are grocery centered and community focused.

We are one of the nation's largest owners and operators of neighborhood grocery-anchored shopping centers. As we speak today, you'll notice that we call our tenants our neighbors. We do this because we work hard to create community at our centers, and we treat our retailers as neighbors in that community. We believe in customer service and think this nomenclature reminds our team to treat our tenants like we would our neighbors.

Our strategy is simple. We focus on owning shopping centers with the number 1 or 2 grocer in a market. Our centers have an omnichannel neighbor base where the grocer has delivery and buying online and picking up in the store or BOPIS capabilities. Our centers have high exposure to neighbors selling necessity-based goods and services, and we focus on owning centers in trade areas with favorable demographics for our neighbors to be successful. Each of these components are critical to our strategy. When it comes to our centers, we believe the format drives results. It provides attractive internal growth.

Our average center is 114,000 square feet, which is the smallest in the REIT shopping center universe and gives us a competitive advantage. Our smaller centers allow for better growth because we enjoy higher retention rates, higher leasing spreads and overall positive leasing dynamics. Higher retention rates result in less downtime and lower TI costs. This leads to steady and consistent cash flow.

We see retailer demand concentrated in smaller spaces as approximately 70% of leasing activity in U.S. strip centers has been in spaces 2,500 square feet or less during 2021. Considering the average size of our in-line neighbor is 2,200 square feet, we believe our centers are best positioned to meet retailer demand. Our smaller format centers with less exposure to secondary anchors require less CapEx than other retail real estate. Lower CapEx leads to higher FFO. Importantly, our portfolio has performed well in up cycles and proven to be resilient in down cycles. This delivers more alpha and less beta to our stockholders.

We target trade areas with demographics where our grocers and small stores can be successful. Our average population density and median household incomes mirror that of Kroger and Publix, our top 2 neighbors. We make money where our top neighbors make money. Our shopping centers provide necessity-based goods and services to the average American consumer. Our portfolio has been built one asset at a time. We purchased 280 centers for over $4.7 billion from 2012 to 2018. We selectively acquired assets that fit our focused strategy, and we continue this focus today.

With our improved balance sheet, resulting from the capital we raised during our IPO in July, our plan is to execute $1 billion of acquisitions net of dispositions over the next 3 years. Our goal is to achieve this by June 2024. This marks 3 years from our IPO. Our targeted acquisition strategy allows us to purchase properties that initially yields 50 to 100 basis points higher than in coastal markets. This external growth will complement our internal growth.

Key drivers of our internal growth include growing rents through new and renewal leasing spreads, executing leases with annual fixed rent increases, leasing vacant space to neighbors, and executing redevelopment opportunities which are primarily outparcel developments. We bring an experienced in-house operating platform to the centers we acquire. Our team creates a better experience for both neighbors and our customers. This creates income growth and value. We believe our strategy has and will continue to generate superior risk-adjusted returns. Higher initial yields plus higher NOI growth plus lower CapEx leads to superior returns.

Now turning to the results. The third quarter of 2021 reflected the strong execution of our differentiated strategy. The key components of our results for the third quarter are as follows: Our portfolio has fully recovered from COVID as rent collections and leased occupancy have both returned to pre-COVID levels. Our results for the quarter were robust. We enjoyed high neighbor retention, strong leasing spreads, and continued high demand for the retail space in our well-located small format centers. These dynamics drove strong financial results for the quarter. And third, we are capitalizing on investment opportunities that meet our external growth requirements, which is 8% unlevered IRRs. Our acquisition activity is trending ahead of our initial guidance.

Our strong results for the year-to-date and the successful execution of our growth strategy have allowed us to raise our core FFO, same-center NOI and acquisitions guidance for 2021, which John will speak about shortly. Now I would like to turn the call over to Devin, who will speak in more detail about our operating results for the quarter. Devin?

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

Thanks, Jeff, and good morning, everyone. The positive operating results that we enjoyed during the third quarter were the product of our differentiated strategy, our strong operating platform and the positive overall leasing environment. At the end of the third quarter, lease portfolio occupancy totaled 95.6%, compared to 95.3% at September 30, 2020. Occupancy has returned to its highest level in 4 years. Anchor lease occupancy increased to 97.6%, and in-line leased occupancy also increased to 91.9%. Our leased occupancy to economic occupancy spread expanded to 90 basis points for the quarter on strong leasing momentum. Our in-line occupancy is now 100 basis points above where we thought it would be at yearend 2021.

We believe we can continue to increase our in-line occupancy and increase it to 93% to 94% over time, an additional 200 basis points of occupancy from where we currently stand. During the quarter, we were able to execute 140 new leases and 128 renewal leases. This activity totaled 1.4 million square feet of leasing activity. Comparable new lease spreads were 14.1% and comparable renewal rent spreads were 8.9%. Our in-house leasing team has been busy executing new leases with neighbors including the UPS Store, Pearl Vision, AT&T, Panera, Humana, Sherwin-Williams and Starbucks.

Demand for our retail space is coming from both national neighbors looking to expand their footprints in our suburban markets as well as local neighbors bringing their unique offerings to our centers. Additionally, our dedicated renewals team has been actively working with existing neighbors to keep them in our centers and we enjoyed a retention rate of 91.2% for the quarter. This compares favorably to our year-to-date retention rate of 88.3% as well as our 2017 to 2020 average retention rate of 87%. We believe that our tenant retention rate is market leading. These solid retention rates are evidence that our retail space is a great place for our neighbors to successfully operate their businesses.

I will now turn the call over to John for a discussion of our financial results, our recent capital markets activity and guidance. John?

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

Thank you, Devin, and good morning, everyone. Collections for the third quarter totaled 99% of our monthly billings. Our portfolio has returned to pre-COVID collection levels, which historically were between 99% and 100%. Collections for the first and second quarter of 2021 increased to 98% and 99%, respectively. As of October 20, 2021, our outstanding balance of missed billings was approximately $8 million. And of this figure, approximately half is to be collected under executed payment plans, and we're pursuing the remainder. We believe we are appropriately reserved against these uncollected amounts to ensure there's minimal impact to our results, if any amounts remain uncollected.

Third quarter 2021 NAREIT FFO decreased 90 basis points to $56.9 million or $0.46 per diluted share. The decrease was primarily driven by a $5 million increase in our earnout liability. This liability will continue to fluctuate based on the value of our common stock and will be settled entirely in equity during the first quarter of 2022. The current estimate is a minimum of approximately 1.4 million units to be issued in January, with up to an additional 300,000 units, which would increase our total shares outstanding by approximately 1%.

Our third quarter core FFO increased 11.3% to $66.4 million. The increase in core FFO for the third quarter of 2021 was driven by improved collections. On a per share basis, core FFO was unchanged at $0.54 per diluted share during the third quarter of 2021. Compared to 2020, our core FFO per share results were negatively impacted by a 10% increase in our weighted average share count as a result of our IPO in July of this year.

Our third quarter 2021 same-center NOI increased to $89.1 million, up 8.7% from a year ago. This improvement was primarily driven by stronger collections compared to 2020 and a 4.2% increase in average base rent per square foot. We had out-of-period collections and reserve reversals of $1.8 million for the period, which were offset by our Q3 reserves. When comparing our third quarter results to the quarter ended September 30, 2019, our same-center NOI increased 4.3%, illustrating growth since before COVID-19.

Notably, during the quarter, we closed our underwritten initial public offering, we issued 19.55 million shares of stock at $28 per share to the public, including the full exercise of the overallotment option. The gross proceeds from the IPO were $547 million. Also, during the quarter, we closed a new $980 million senior unsecured credit facility comprised of a $500 million revolving credit facility and 2 separate $240 million unsecured variable rate term loans. This new facility lowered our interest rate and extended our maturity profile. The IPO and new credit facility greatly improved the strength of our balance sheet so that now we have one of the strongest balances in our sector.

As of September 30, 2021, our net debt to adjusted EBITDA was 5.4x compared to 7.3x at December 31, 2020. At September 30, 2021, our debt had a weighted average interest rate of 3.3% and a weighted average maturity of 4.2 years. Approximately 90% of our debt was fixed rate. As of September 30, we had approximately $604 million of total liquidity, comprised of $114 million of cash, cash equivalents and restricted cash, plus $489 million of borrowing capacity available on our credit facility.

Subsequent to the quarter end, we utilized our investment-grade rating to complete our debut public debt offering. We upsized our offering of 10-year notes to $350 million with a coupon of 2.625%. These 10-year notes significantly extend our debt maturity profile beyond what was previously available to us prior to becoming a publicly traded company, while also diversifying our capital sources. Proceeds from the IPO and the public debt offering were used to pay down our 2022 and 2023 unsecured term loans. As a result, we have no significant debt maturities due until 2024.

As Jeff mentioned, our strong results for the year and our optimism regarding the current environment have led us to raise our guidance. We're increasing our full year 2021 core FFO guidance to a range of $2.14 to $2.18 and our same-center NOI guidance to a range of 6.5% to 7%. The implied guidance for core FFO per share for the fourth quarter reflects the increase in weighted average share count for the fourth quarter, which is different than it was for the third quarter and year-to-date due to the shares issued in our IPO.

Additionally, we anticipate our fourth quarter will have approximately $2 million of higher costs related to timing variances in the year and higher incentive compensation and approximately $1.5 million in higher interest costs from our bond issuance. We are also raising our acquisition and disposition guidance as we are trending ahead of our previous guidance. We are guiding the second half 2021 acquisitions of between $200 million to $270 million and second half 2021 dispositions of between $95 million and $105 million.

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

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

Thanks, John. From July 1, 2021, through today, we've acquired 4 properties totaling $139.4 million. Our acquisitions included Foxridge Plaza in Centennial, Colorado, a Denver suburb. This center is anchored by King Super, which is a Kroger banner. We bought Valrico Commons in Valrico, Florida, which is a Tampa suburb. This center is anchored by Publix. We purchased Pabst Farms in Oconomowoc, Wisconsin, a Milwaukee suburb. This center is anchored by Metro Market, a Kroger banner. And fourth, we bought Arapaho Marketplace in Greenwood Village, Colorado, which is a Denver suburb. This is anchored by Sprouts. Each of these centers is anchored by the number 1 or 2 grocer in the market. We believe these acquisitions will meet or exceed our internal unlevered IRR targets of 8%.

Our acquisition pipeline remains deep for the fourth quarter of 2021 and into 2022. We currently have 3 grocery-anchored centers under contract for approximately $130 million. We believe we can close between $61 million and $131 million of acquisitions between now and the end of the year. As we discussed on last quarter's call, we have identified 5,800 grocery-anchored shopping centers in the U.S. that fit our strategy. These centers are all anchored by the number 1 or 2 grocer in their respective markets, and they meet our demographic requirements.

We are focused on the 3-mile trade area around each center. We believe this strategy presents a wider and deeper pool of assets to choose from versus a strategy that is strictly focused on a limited number of coastal and gateway markets. To meet our stated goal of $1 billion of net acquisitions by June of 2024, we need to acquire approximately 15 assets per year, which is approximately 2% of the market. This assumes that 10% of the total market trades each year. We are well on our way to meeting our $1 billion goal. To optimize our internal growth, we will continue to recycle assets. These proceeds will be deployed in higher quality, higher growth assets. From July 1, 2021 through November 3, 2021, we sold 7 properties totaling $63 million. Before the end of the year, we expect to sell between $32 million and $42 million worth of assets.

Before we get to the Q&A section, I'd like to quickly recap our quarter. Our differentiated strategy produced strong operating results for the quarter which exceeded our expectations. As a result, we have increased our guidance to align with our increased expectations. Collections and occupancy have both returned to pre-COVID levels. Continued high demand for our retail space drove strong internal growth for the quarter, and our acquisition pipeline presents meaningful external growth opportunities. We have the balance sheet to execute $1 billion of net acquisitions by June of 2024. With that, we will begin the Q&A portion of our call. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question coming from the line of Rich Hill with Morgan Stanley.

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

Congrats on another good quarter as a public company. That's 2 in a row. Keep it going. I wanted to just quickly talk about your acquisitions. It looks like you're buying a lot and selling a lot. Can you maybe talk about that optimization and what the right level is as you look forward? And as you think about that, maybe any updates on cap rates? And I won't have any follow-ups to that, but if you can just walk us through that, that would be helpful.

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

Thanks, Rich. This is Jeff. Yes, it's been a pretty interesting acquisition market. What we found, I think, at this point is that our strategy of being not being concentrated in 5 or 6 markets that we can buy in has given us a bigger platform to look at. And what we're finding is, I think we're able to find inefficiencies in the market where we can buy properties at that 50, 100-basis point better starting point and that unlevered IRR of 8% in this market. It has gotten more competitive, and we are continuing to try and be very disciplined about what we're buying and making sure that we can get to those types of returns.

But we have a real strong track record of buying properties over a long period of time. And we were a little bit out of the market from a volume standpoint for 3 years prior to the IPO, and we're back in that market with the relationships we've had for a long time. And I think that's helped us to be able to get back into realizing our goals and hopefully being able to meet our $1 billion of acquisitions over 3 years, which at this point, we're very optimistic about. And on the disposition side, I think as we talked about in the IPO, our strategy is always to be looking at your portfolio and analyzing both the risk and the returns that you're getting on every property and to selectively prune those assets where you think you can get a better -- you can use that capital to buy other assets that have lower risk and higher return.

It's really that simple. It's a lot on the ground, it's a really difficult analysis to be doing on a constant basis, but it is part of our process. And as I think we said in the IPO, we'll do somewhere between $75 million and $125 million of dispositions. And our $1 billion is a net number. That's what we -- so we anticipate, when I say net, we will buy $1 billion plus whatever we dispose of in that process. But it is an important part of our business and something that we think is a place where we can, in our portfolio management, truly add a lot of value and hopefully be able to continue to have outperformance in the market by being able to put the right properties and to continuously reduce our risk and increase our returns.

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

Got it. And just a quick comment on cap rates. Are you seeing any cap rate compression in your markets? Some of your peers have. And I'm just wondering if your differentiated approach leads you to maybe not face as many competitive pressures?

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

Well, I would say that there's definitely cap rates compression. Our cap rate compression is probably from 6.5% down to 6% versus 5.5% down to 4.5%. And we are -- I would say that in our market today, the stuff that we have purchased is going to be in that 5.75% to 6.25% cap rate. But as we've talked about and probably bored you to tears with, that's not really our focus. Our focus is on making sure we can get an 8% unlevered IRR in every property we buy and hopefully well above that. So that's -- but that usually translates into that range. And I would anticipate going forward that we're not seeing incremental pressure, and we are seeing more product coming on the market, but it is a competitive market today.

Operator

Our next question coming from the line of Caitlin Burrows with Goldman Sachs.

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

We've heard some peers mention that move-outs this year have been lower than normal, and you also reported the tenant retention of 91% in the quarter. So I was wondering if you could go through what you think high retention means for pricing power and rent growth. It seems like high retention would be a positive, but renewal spreads tend to be less. So just wondering how you're thinking of high retention and the impact of it?

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

Thanks, Caitlin. Dev, do you want to take that one?

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

Sure. Caitlin, the way we view the higher retention is, first of all, you have to look at the macro retail environment. Which, as you know, retail sales in the third quarter were up 15%, so retailers are doing extremely well. And retail vacancy across the U.S. today is now at a 10-year low, at less than 6%, and new development is at a 10-year low as well. So the macro overlay is extremely positive and that's what's driving these higher retention rates. Our existing tenants are staying longer at attractive spreads. Now as we noted, our in-line occupancy right now is almost 92%. We think we can take that up another 200 basis points over the moderate timeframe.

And what we believe that will allow us to do is to push harder on rents because we clearly have the demand coming from tenants to stay in our centers. And therefore, we think we're going to be able to continue to push re-leasing spreads. Now our re-leasing spread at almost 9% is actually a pretty solid number relative to historical levels. But we believe that in the short-term here, given the current environment, that we'll be able to see very attractive re-leasing spreads given the fact that our occupancy is where it's at.

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

Got it. Okay. And then maybe following up on a point that Jeff made earlier, we've heard before that net effective rent growth in shopping centers may be limited due to the CapEx needs. But Jeff, you mentioned how your portfolio has less exposure to the secondary anchors. So I was wondering, following up on the previous question also, what the view is on net effective rent growth for the Phillips Edison portfolio.

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

Well, the -- one of our theses and things that we have believed in for a long time is that our smaller format stores take less capital to be able to renew the leases and bring in new neighbors into our centers. And that has been one of our core theses. John, do you want to go through sort of the economics of sort of what we've seen there?

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

Jeff, before John dives into the detail there, Caitlin, this is one place where high retention is an obvious strength. Because with high retention, you have less downtime and meaningfully less CapEx. And as you know from the IPO, and as Jeff just mentioned, our strategy on average over time has required meaningfully less CapEx than others in our industry because we have less exposure to that eBox tenant. So that high retention rate is a real positive in terms of driving net effective rents because of the fact that we enjoy putting less capital back into the center.

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

Caitlin, this is John. Actually, Devin, that was the part I was going to add, which is absolutely high retention rates mean lower cash flow -- or lower capital and better cash flow. As we look at our leasing, both this quarter, what we've seen this year, and kind of as we look forward, the capital is really pretty consistent with what we've spent on a historical basis. And to the extent it is a little higher, maybe it's because of inflation or what have you, but we're pushing the rents as well as you're seeing. So we're not seeing that diminishment in the net effectives. The one thing is that as we are, as Devin has spoken to in the past, as we attract the larger national neighbors that are much more paying higher rents and things, the capital might move a little bit with that, but those are much longer leases that help us on the net effective basis.

Operator

Our next question coming from the line of Craig Schmidt with Bank of America.

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

I was wondering, are you guys seeing a similar increase in leasing volumes on the essential retailers as compared to let's say the more discretionary retailers?

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

Craig, I'll take that, and then John -- go ahead, Dev.

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

Craig, as you know, our business model is focused on essential retail, and almost 75% of our tenants today are what we categorize as necessity retail. And as we look at our leasing pipeline, Craig, the percentage of leases that are coming from necessity retailers is increasing. So we believe, over time, the percentage of our tenancy or neighbors that is coming from necessity retail will continue to increase.

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

That's very positive. And then just on the acquisition market, I know you cited it's more competitive. Is it more competitive because there are more people entering the market? Or are those people in the market just showing greater appetite?

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

That's a great question. I think it's a couple of things, Craig, from my perspective. I don't think we have like an outsized demand today. I think we're just -- I think we're experiencing the gradual increase in volume of things for sale. I think there's -- we know during the pandemic that there was really very little transactional volume in the grocery-anchored shopping center business, and that is coming back. And I think the buyers came back before the sellers and we're in that transition where we're seeing more sellers come to market. But that, as you know, it takes time. The sellers -- the buyers are there, and the sellers are slowly getting there.

And this, obviously, the more aggressive pricing is attracting more sellers to come into the market. I don't -- I mean over a long history, I don't think there's like an excess demand, outsized demand. It's just outsized for the amount of supply that's on the market today, and I think that's what's making the cap rates more aggressive. And obviously, we are getting some buyers that are transferring out of the apartment business and industrial, where they just can't get yields anymore. And so some of them have instantly become grocer-anchored shopping center experts, but that is -- we are seeing some transformation there. And that would be sort of the excess demand side if there is any, it's the traditional apartment and industrial guys coming into the grocery-anchored shopping center side.

Operator

Our next question coming from the line of Todd Thomas with KeyBanc Capital.

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

Jeff or Devin maybe, you indicated that cap rates in the portfolio have decreased, or in your markets, for acquisitions have decreased maybe 50 or 75 basis points. Is that 8% unlevered IRR target moving around at all? Has that changed at all? And have you changed your NOI growth forecast for new acquisitions that you're underwriting? And then I'd also be curious, how is the NOI growth profile of what you're buying relative to the NOI growth potential for the balance of the portfolio?

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

Great, great question. In terms of the change in the unlevered IRR, we do not understand some of the pricing that's gone on, on sort of the extreme side in the business, where we believe that our underwriting would be well below our 8%. I mean, it would be -- could be in the 6% to 6.5% range. So that part of the market where there has been some really aggressive pricing, that stuff we can't buy because it does not meet our 8% requirement. But there are some transactions that we believe have priced in that range and some that probably will on a go-forward basis with people who have I guess a lower cost of capital than what we believe we do.

So I would say that that's the -- that pricing is a little surprising to us. But for our underwriting, we're still finding the properties that we like and that meet our criteria that are meeting that 8%, so we have not had to deviate from that. Nor have we had to make any kind of underwriting assumptions that would be a lot more aggressive than what we have had historically. Now the CAGR is the way we look at it for the properties. We are still buying 3% to 4% growth properties to get to the kind of numbers that we -- to get to that 8% unlevered IRR. So that's sort of how we're thinking about it. I don't know, Devin, if you have any additional thoughts on that?

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

Yes. I mean, Todd, the only thing I would add to what Jeff just said is that we are not moving off the 8% unlevered. And as we look at what we've closed year-to-date and what's in our pipeline, we are underwriting to yields in that range. And historically, as we back-tested our results, we typically outperformed our underwriting in actuality and so we're confident we can continue to hit that 8% unlevered. And as Jeff mentioned, we're underwriting same-store NOI growth that's been comparable to what we've been able to achieve historically, which is circa 4%. So in the short term, we believe we're going to see higher same-store NOI growth because as we mentioned earlier in this call, the leasing environment is such that in the short term, on near-term rollover, you're able to get much better same-store NOI growth in the short-term than that 4%. But then over a 7-year period, it begins to regress to the mean.

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

Okay. That's great. That's helpful. Is the $75 million to $125 million of dispositions, is that an annual number? Or is that what you expect to sell during the 3-year period through June 24 to pair against acquisitions?

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

Well, we haven't really looked out way beyond the 3 year. As you know, we're getting started in this listed market business. But we -- I would assume for the 3-year period of time that that's a pretty good -- that's a solid estimate. And again, the $1 billion is a net number, so we're going to buy -- if we sell $100 million a year, we're going to buy $1.3 billion of assets over that timeframe. So that is our -- and if that disposition goes up, we will increase our $1.3 billion number to whatever that increase. If it goes down, we would probably reduce that. So again, as you know, I mean we're very strong believers in portfolio management and making sure that you're looking at your properties on a return basis over a timeframe.

And you're really trying to manage the risk and the return over time with the -- on your disposition strategy. And it's -- when you have 300 properties, as we do, you've got a lot of properties to make sure that you're consistently managing those to the best return. And I believe that that's a big challenge, but you've got to have, if you're in our business, you've got to have a disposition strategy that allows you to do that or you'll find that you're staying in properties that are very flat without much growth, and that will certainly dampen the long-term growth of the company.

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

Okay. And then on the guidance, John, I appreciate the color on the bridge to the implied guidance for the fourth quarter. I was just wondering, though, maybe a little more detail. It looks like the initial cost or G&A that you mentioned, the higher interest costs, the $1.8 million of reserve reversals, that sort of I guess about $0.04 to $0.05. Can you just sort of walk through some of the other drivers in that $0.11 sequential decrease from 54 to I guess 43 at the midpoint? That would be helpful.

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

Sure. So I think a big piece of it, as we look at both the third quarter, fourth quarter and going forward is the impact of the share from the IPO that was issued. And so our estimate is that's approximately $0.05 when you look at just rolling from Q3 to Q4. And so I mentioned what that will be. So we have approximately 126 million shares outstanding. So that's a portion of it. And then I think in the prepared remarks, I talked about we do have the kind of out-of-period impact on the third quarter that we're certainly collecting, and there may be something, but we're not expecting it to that volume for the fourth quarter. So that's $2 million there.

The G&A piece we talked about in our IPO, the biggest cost change for us is actually in the D&O insurance that was going to go up. And because of other pieces that we moved, we actually had sequential decrease in G&A. So the $2 million of costs that we're highlighting for the fourth quarter is not something that I would say gets annualized. It's more kind of timing as I had remarked. And then the interest from our bond issuance is impactful as well. And very important to us, we were super pleased with that execution and look forward to going into that market again in the future. But that is pushing out our debt term but at a slightly higher cost than what we paid off.

Operator

Our next question coming from the line of Tammi Fique with Wells Fargo.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I'm just curious on the new leasing demand. Is that still largely local tenants or are you seeing an increased number of regional and national tenants leasing you in-line space?

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

It's Devin. So we're seeing strong demand coming from both nationals and locals. If you look at our nationals, I mean the -- our national accounts team is in meaningful dialogue with national tenants across the board, names like Starbucks, Chipotle, uBreakiFix, Great Clips, UPS, Humana, etc. And to show you the increased demand coming from national tenants, in 2020 we signed 87 deals with national tenants. Year-to-date, 2021, we've signed over 100, 102 to be exact. And if we extrapolate for the full year, we think we'll actually sign 125. So that's a 40% increase in terms of deals. If you translate that into square footage, in '19 and '20 we signed approximately 300,000 square feet of nationals. This year, year-to-date, we're already over $400,000, and we think that that number will get to 0.5 million square feet.

So again, a meaningful increase in the demand coming from the nationals. So it's a combination of both. You'll note that in the supplemental, the breakdown between the categories. But the nationals are looking to take advantage of some of these macro trends in the environment, which is suburbanization, the southeast, work from home, etc. All of those macro trends our portfolio benefits from, and you're seeing the results in the kind of demand that we're getting, both from the nationals and the locals.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Great. And then maybe as a follow-up discussion on -- a follow-up on the recent -- on the rent discussion, apologies. What are you getting today in terms of rent bumps for your new leases?

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

You're saying built-in CAGR, Tammi? Is that the question?

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Yes, that's the question.

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

So we're targeting CAGRs between 2% and 3%. In the third quarter, the CAGR was 2.6%, which was 2.3% on new leases and 3% on renewals. And we're able to affect that on 90% of the leases. So we're getting built-in, the average CAGR on the leases signed in the quarter, was 2.6%.

Tamara Jane Fique - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Great. And then maybe last question for John. Where do you see your cash balance and credit facility balance at yearend?

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

Sure. We will have -- my estimate is a little over $100 million of backfill based on kind of puts and takes is where our forecast is. With the acquisition plans that we have, that could swing depending on the guidance numbers that we're providing. So from an acquisition standpoint, if we find the right opportunity, we've got that plus a completely unused revolver that will give us the capacity to execute those plans.

Operator

Our next question coming from the line of Haendel St. Juste with Mizuho Securities.

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

First question, how much ABR is tied to the 90 bps of the spread to leased and physical occupancy? When is that going to hit? Is that more of a 2022 event? And how should we think about that spread overall in the near term?

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

John, do you want to take that?

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

Sure, I'll take that. So in our -- we actually added a new page to our supplement this quarter. And so if we look at that, we actually have now an ABR from leases signed but not yet rent paying. And that as of September 30, is about $1.1 million. And so that -- my estimate would be, you might get a little bit in the fourth quarter here, but I think that's really going to come online ratably and be more impactful relative to '22.

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

Got it. And the spread overall near term, that 90 bps is something we should...

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

Oh, sorry about that. I think that it's the strength of what we've seen from a velocity standpoint. I would think that with our neighbors coming online, I would think that that might get back to 60, but the leasing velocity continues and we continue to raise occupancy, so we view that as opportunity. But I would expect that as we get into next year, that would probably compress back to the 60 that we've had on a historical basis.

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

Got it. So I guess a question on just your cost of capital funding. You guys had a nice run since your IPO. I'm wondering if you're -- and I guess you laid out acquisition outlooks for the next several years, dispositions funding a good portion of that. But I'm wondering if your improved cost of capital is causing maybe not a re-think, but maybe an evolution on how you're thinking about sourcing some of that growth if equity is now perhaps more on the forefront of your mind given the improved cost of capital you have?

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

It's a great question. I will tell you, we are laser-focused on meeting our growth plans, both internal and external. We've got a balance sheet right now that I think is market leading, if not certainly in the top percentile. And so we will -- when the time comes, we certainly will be looking at that. But for right now, we are really laser-focused on making sure that we get -- we meet our acquisition goals, we meet our leasing and occupancy goals and the rent spreads that we think we can get in this market. So we are not -- I can't say we don't look at it, but beyond that, we're really focused on executing the strategy and getting it worked. And hopefully, at the time where we get to we've got $1 billion more assets, whether that's -- maybe it will be a shorter time than 3 years. But right now, that's our plan and to stay focused on that.

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

Yes, Haendel, I would just say, despite the strong performance that the stock has had since IPO, we still believe the stock is trading below NAV. And our balance sheet allows us to make the acquisition targets that we've articulated because in addition to the balance sheet, we do generate a fair amount of free cash flow on an annual basis. Between our balance sheet capacity, the free cash flow we're generating and our sales proceeds, we can acquire the $1 billion of assets without having to tap the equity market. In addition to being disciplined on all our other metrics, we're also going to be disciplined on when we issue equity. And until our shares are trading more in line with NAV, it's -- we will be very disciplined in terms of issuing equity.

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

Got it. I appreciate those comments, Devin. One more, if I could. I think, Jeff. You mentioned there are 50 centers that you guys have underwritten that meet your investment criteria from I guess a market selection, grocery positioning perspective. I'm curious, are all 58 still meeting your 8% IRR hurdles today? And how that list, I don't know if you mentioned that's changed at all over the last 3, 6 months, but maybe the composition or number of that list if that's changed at all?

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

Yes, great question. Unfortunately, we don't have information on the 5,800 until they come to market or we have a conversation with them. So we don't have underwritten models on them in terms of the 8%. So once they come onto the market and they fit into our plan and they fit into our plan, that's when we're able to actually get the information to be able to fully underwrite them and to see if they can meet it. And obviously, at a price, they always meet it, but that also is obviously going to be a big driver in terms of how we -- how many of those 58 are actually being traded at prices that allow you to get your 8% unlevered IRR.

Operator

Our next question coming from the line of Hong Zhang with JPMorgan.

Hong Liang Zhang - *JPMorgan Chase & Co, Research Division - Analyst*

I guess you talked about potentially growing small shop occupancy by another 100 to 200 basis points. Over what timeframe do you think you can achieve that? And what kind of an earnings impact would that be?

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

The time frame in which we believe we can accomplish that is over the next 2 to 3 years. But as I said in my prepared remarks, we're already 100 basis points ahead of where we thought we would be. So we continue to outperform our expectations. So as of today, we're saying 2 to 3 years in terms of timing. And then the impact would be we'll be able to pick up another 2% of occupancy, which we would believe would take the revenue coming from our in-line tenants up from where it is today to north of 2% because those leases will be signed at higher levels than the portfolio average today.

Hong Liang Zhang - *JPMorgan Chase & Co, Research Division - Analyst*

Got it. And I guess you touched on cap rate compression a lot on this call. But as you're looking at new deals, have you found yourself, for a lack of better words, having to throw out more deals than you have in the past because of this?

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

Yes. I would say that more deals do not meet our 8% return or 8% IRR hurdle today than before. They're not -- and with -- so the answer is absolutely, yes. I mean we -- it's obviously harder for us to get where we need to be at more aggressive cap rates. But fortunately, we're still able to find the right properties we hope that will meet that and get them under contract and bought. So we'll hopefully be able to continue that.

Operator

I'm showing no further questions. This concludes our question-and-answer session. I would now like to turn it back to Mr. Edison for some closing comments.

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

Well, thanks, everybody, for being on the call today. On behalf of the entire management team, I want to express our appreciation for your continued support and particularly the support we've received from our stockholders, our associates, our agents and importantly, our neighbors. And we believe the best is yet to come for PECO and we're excited about what lies ahead of us. So we look forward to updating you again in the not too distant future. Have a great day, everybody.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.