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PECO.OQ - Q1 2026 Phillips Edison & Co Inc Earnings Call

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PRESENTATION

Operator

Good day and welcome to Phillips Edison and Company's first quarter 2026 earnings call. Please note that this call, it will turn the call over to Kimberley Green, Head of Investor Relations.

Kimberly, you may begin.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you. I'm joined today by our Chairman and CEO, Jeff Edison; President, Bob Myers; and CFO, John Caulfield.

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

In our discussion today 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, both of which have been posted on our website. Please note that we have also posted a presentation and our caution on forward-looking statement also applies to these materials.

Following our prepared remarks, we will open the call to Q&A. Given the number of participants on the call today, we respectfully ask that you be limited to one question. Please rejoin the queue if you have follow-up questions.

With that, I'll turn the call over to Jeff Edison. Jeff?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Kim, and thank you everyone joining us today. We're pleased to report another quarter of strong results which reflect the strength of our high-quality portfolio and the consistency of our execution.

The PECO team delivered NAREIT FFO for share growth of 4.7%, core FFO for share growth of 6.2%, and same-center NOI growth of 3.5%. We're pleased to increase our full year 2026 guidance. Our growth rates for NAREIT FFO and core FFO per share are in the mid to high single-digits consistent with our long-term targets.

We are operating at a time where there are many ongoing uncertainties, both domestically and globally. Interest rates have been volatile. The global trade picture is shifting and conflicts overseas continue to affect markets. technology, especially AI is changing how companies work, add in an active election cycle and high energy cost, and it's no surprise that there is a general feeling of uncertainty.

In times like this, the market tends to reward businesses that have stability, and that's exactly where PECO plays: grocery-anchored, necessity-based everyday retail.

PECO offers resilience, while also offering steady growth. We believe PECO is built to deliver growth across changing economic cycles. Our long-term growth targets remain unchanged. We are maintaining our focus and driving value at the property level.

Our retailers are healthy and continue to look long term. We're seeing a resilient consumer and our top grocers and necessity-based retailers continue to drive solid foot traffic to our centers. One of the dynamics we're watching closely is the gap between private and public market pricing of assets. This influences our capital decisions, including how we fund growth and where we invest. And it's why the PECO team stays disciplined about accessing the most efficient capital.

Our platform can raise capital in the public markets through institutional joint ventures and through asset recycling. We believe markets in 2026 were reward companies with a focused growth strategy and the ability to fund growth responsibly. PECO is well positioned to continue to do both.

In summary, we're pleased with first quarter results and our outlook for 2026. We operate in a resilient part of retail. We're located in the neighborhood close to your home. We're disciplined about our investments. And most importantly, we have the best teams in the business.

With our shares trading at a discount to our long-term growth profile, we believe PECO represents an attractive opportunity to invest in a leading operator that can deliver mid- to high single-digit annual earnings growth. We will continue to drive more alpha with less beta.

With that, I'll turn the call over to Bob. Bob?

Robert Myers - *Phillips Edison & Co Inc - President*

Thank you, Jeff, and thank you for joining us, everyone. Our first-quarter results were marked by solid leasing activity and success in growing cash flows. We continue to see high retailer demand with no current signs of slowing. Necessity-based categories, including quick service and fast casual restaurants, health and wellness, beauty, fitness, and med tail continue to be excellent drivers of demand of PECO's rents come from necessity-based goods and services.

PECO's leasing team remains focused on capturing demand and driving continued high occupancy. While pushing very impressive comparable rent spreads, our pricing power remains market-leading. During the first quarter, lease portfolio occupancy remained high at 97.1%. And leased anchor occupancy remained strong at 98.4%, and leased in-line occupancy remained high at 95%. Our rent spreads reflect an extremely positive retailer environment.

During the first quarter, PECO delivered comparable renewal rent spreads of 21.2%. And Solid retention during the quarter means less downtime and lower tenant improvement costs, which translates to better economics for PECO.

Looking at comparable new rent spreads, they remain strong at 36.2% during the quarter. in-line leasing deals executed during the first quarter, both new and renewal achieved average annual rent bumps of 2.7%. This is another important contributor to our long-term growth. As it relates to bad debt, we actively monitor the health of our neighbors. Bad debt was lower than expected in the first quarter at around 60 basis points of revenue.

We continue to expect bad debt in 2026 to be in line with 2025, which came in at just 78 basis points of revenue for the year.

Our retailers remain healthy. We have a highly diversified neighbor mix with no meaningful rent concentration outside of our grocers. Turning to development and redevelopment. PECO has 19 projects under active construction. Our total investment in this activity is estimated to be approximately $74 million with average estimated yields between 9% and 12%.

During the first quarter, six projects were stabilized with over 87,000 square feet of space delivered to our neighbors. This reflects incremental NOI of approximately $1.7 million annually. We are focused on growing PECO's development and redevelopment pipelines, which is an important driver of growth.

In addition, the PECO team continues to find accretive acquisitions that add long-term value to our portfolio. Our year-to-date acquisition activity through this week reflects $185 million, this includes five grocery-anchored shopping centers, three everyday retail centers and land for future development.

Currently, in our pipeline, we have approximately $150 million in assets that we've been awarded were under contract that we expect to close by the end of the second quarter. Our pipeline reflects a combination of grocery-anchored neighborhood shopping centers, everyday retail centers and joint venture opportunities.

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

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you, Bob, and good morning, and good afternoon, everyone. Our strong first quarter results demonstrate what we've built at PECO, high-performing grocery-anchored and necessity-based portfolio that generates reliable, high-quality cash flows.

First quarter 2026 NAREIT FFO increased to $92.9 million or $0.67 per diluted share. First quarter core FFO increased to $96.4 million or $0.69 per diluted share and same-center NOI increased 3.5% in the quarter primarily due to higher revenue, which was driven by increases in average rents and economic occupancy.

Turning to our balance sheet. This quarter, we extended our weighted average duration on our maturities and increased our percentage of fixed rate debt, which is important in times of interest rate volatility. In February, we completed a public debt offering of $350 million aggregate principal amount of 4.75% senior notes due 2033.

The proceeds were used to repay term loans that were maturing in 2027 and a portion of our revolver. With $810 million in liquidity at the end of the quarter, we have the capacity to execute our growth plans. Our net debt to trailing 12-month annualized adjusted EBITDAR was 5.3x at quarter end and was 5.1 times on a last quarter annualized basis.

At the end of the first quarter, PECO's outstanding debt at a weighted average interest rate of 4.4% and a weighted average maturity of 5.8 years when including all extension options. And 94% of our total debt was fixed rate debt, which includes PECO's share of debt for our JVs. We are pleased to increase our 2026 guidance.

Key drivers of our increased guidance included continued strong operating environment, strong year-to-date acquisitions activity and our recent bond offering. Our updated guidance for 2026 NAREIT FFO per share reflects a 5.9% increase over 2025 at the midpoint and our updated guidance for 2026 core FFO per share represents a 5.8% increase over 2025 at the midpoint. We are pleased with these strong growth rates.

We are reiterating our full year 2020 guidance of 3% to 4% same-center NOI growth and we are pleased to reaffirm our full year 2026 guidance of $400 million to $500 million in gross acquisitions at TECO share. The PECO team is not just maintaining a high-quality portfolio we're building one.

We continue to have one of the best balance sheets in the sector, which has us well positioned for continued external growth. As Jeff mentioned, we remain disciplined about accessing the most efficient capital -- these sources include additional debt issuance, dispositions, joint ventures and equity issuance when the markets are more favorable. Year-to-date, we've sold $29 million of assets at PECO share.

We plan to sell between $100 million and $200 million in assets in 2026. In summary, we're very pleased with our results this quarter and our ability to raise guidance for the remainder of the year. We continue to see a resilient consumer, and we believe our portfolio will outperform as necessity-based retailer demand remains strong.

Looking beyond 2026, we continue to believe that PICO can consistently deliver 3% to 4% same-center NOI growth and achieved mid- to high single-digit core FFO per share growth on a long-term basis. We also believe that our long-term AFFO growth can be higher as more of our leasing mix is weighted towards renewal activity.

We believe our targets for core FFO per share and AFFO growth will allow PECO to outperform the growth of our shopping center peers on a long-term basis.

With that, we will open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Reale, Bank of America.

Andrew Reale - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Good afternoon. Thanks for taking my question. We can appreciate your necessity-focused tenant base is positioned to weather some macro uncertainty. But just curious to hear any latest color on your conversations with some of these discretionary or off-price mom-and-pop tenants in the current environment. Maybe just any incremental changes in their tone or plans versus, say, six months ago? And how do those conversations compare to what you're hearing on the necessity side?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, Andrew, great question because it's one that we are very focused on trying to read where -- what kind of feedback we can get there. Bob, I don't know if you want to give a little color to that and how we're -- what we're seeing.

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah, absolutely. So Andrew, thank you for the question. This is something that we monitor all the time and probably our best indicator, not only are we on the ground locally smart. We also -- the visibility that we have would suggest that we have the best renewal pipeline and new leasing pipeline that we've seen at about the last six to nine months, an interesting fact is we just approved 28 deals in the last nine days. The feedback that we're getting with high retention and leasing spreads at 21.2% and this last quarter reflect strength and that we're not seeing any cracks from that.

Occupancy costs continue to remain very strong at 10%. So we're seeing a lot of success with market-leading spreads. And we're not seeing any pullbacks either from the local tenants or from the national retailer demand. Even all the retailers that we meet with at ICSC are looking for new sites in 2026, '27 and '28. So we feel very good about where we're at currently.

Andrew Reale - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Thank you.

Operator

Haendel St. Juste, Mizuho.

Haendel St. Juste - *Mizuho Securities USA LLC - Analyst*

Hey, there. So I wanted to ask about transactions. Obviously, you guys had a very active start to the year, $185 million. I think you cited in the quarter, another $150 million, I think, under negotiation and contracts. So I guess I'm more curious on what you're seeing or picking up in your conversations? Or any change in either the volume of buyers out there underwriting competition that suggest that there could be people pulling back in light of the macro, the choppiness we're seeing?

And then thoughts on perhaps the deployment of capital over the next few months, is there a willingness to maybe scale back a little bit to see if there's any changes in pricing or anything that could be the result of the choppy macro. Thanks.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. And it's a great question. We -- it's all -- it's a simple supply-demand issue. And what we're seeing is that there is a very ample supply of product coming on the market, and yes, there are more buyers, particularly, we've had some major transactions take place in the business that we haven't seen for a while that are substance, $1 billion-plus kind of acquisitions.

So you -- you continue to see a strong appetite, and I think it's all driven by what Bob was talking about in the last question, which is we're in a really good operating environment.

And in these bad operating environment, there continue to be a strong group of buyers out there that are keeping that happening. But we're also seeing a lot of product. And I mean, I think our opportunities this year are up 70% over last year at this time. So we are seeing a lot of product, but we do have competition.

Bob, anything else you want to add on that?

Robert Myers - *Phillips Edison & Co Inc - President*

The only other thing I would add is we continue to see a lot of product. We have investment committee every week, and we're reviewing anywhere between 5 and 10 new projects weak. What's interesting is that -- and Jeff is right on top of it. We reviewed 195 deals this year compared to 115 last year. The deals that we're underwriting were up about 26% and the deals that have been presented to investment committee is up 40%. And if anything, we're continuing to see more product hit the market than less. I think there's real sellers.

Yes, there is more competition. There's more buyers out there. But quite frankly, you've seen the success that we had with the 10 acquisitions that we acquired year-to-date we're buying these at a cap rate of about 6.6%, 6.7%, and we're still solving for our unlevered returns above 9%.

And so we don't see anything really slowing down. And if you look at $150 million pipeline and the $185 million that we've closed, we're sitting in a great spot to certainly be in the range of our guidance between $400 million and $500 million, if not more, based on the opportunity set that we see.

Haendel St. Juste - *Mizuho Securities USA LLC - Analyst*

And the change in the cap rate for the pipeline, the $150 million versus $185 million revenue?

Robert Myers - *Phillips Edison & Co Inc - President*

It's consistent with that 6.5% to 6.75%.

Haendel St. Juste - *Mizuho Securities USA LLC - Analyst*

Got it. Thank you, guys. Appreciate it.

Robert Myers - *Phillips Edison & Co Inc - President*

Yes. Thanks.

Operator

Michael Griffin, Evercore ISI.

Michael Griffin - *Evercore Inc - Analyst*

Great. Thanks. Just on the leasing pipeline and particularly as it relates to renewal I mean it seems like you've really gotten some continued strong demand there. I guess, Bob, in your conversations with folks when leases are coming up for negotiation, I'm thinking particularly some maybe these bigger boxes, these grocers. Is there any I guess, opportunity to shorten the number of option periods to embed some kind of rent step-ups.

I realize you're able to really get those with the in-line tenants, but the bigger boxes, is there any way to -- in those lease negotiations to get maybe more leverage on the landlord side to try to get some earnings growth or some rent bumps throughout the course of a new term? Thank you.

Robert Myers - *Phillips Edison & Co Inc - President*

Yes, it's a great question. Certainly, we acquire most of our grocers that we've inherited over the past 25, 30 years. And as you know, they already have embedded options for the next 30 years, and they're typically flat. Sometimes you get lucky, they might be 5%.

That's something, if we ever have the opportunity to renegotiate with them or in a case where they're paying percentage rent, something like that, where we can blend the rent together and reset the terms or if we decide to give, say, an anchor that's a grocer and inducement in a lot of cases, we're able to negotiate added term and some sort of bumps that go along with that. We're capitalizing on as much as that as we can.

Probably the biggest value is just through consents on restrictions, no build areas where given the relationships of being the number one grocer an owner in the market, it gives us flexibility to create a lot of value. So we're picking up value in other places.

And then as you mentioned, our in-line tenants that were negotiating new leases with, we limit the amount of options. If we do give options, we want to see 20% with good 3%, 4% CAGR year after year. So it's a combination of that and it's a combination during our renewals of cleaning up items that are nonmonetary clauses.

Think about caps and restrictions, no builds, a lot of those types of things that we're able to unlock value. And I'm glad we're doing it because we are 97.1% occupied. So we continue to find leverage to those avenues.

Michael Griffin - *Evercore Inc - Analyst*

Great. Thanks.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs Group Inc - Analyst*

Hi, everyone. Good morning, good afternoon. I guess given the strong operating environment, your comments that you bought land and that you want to increase development and redevelopment your latest take on your own development redevelopment and the industry more broadly?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, thanks for the question, Caitlin. It's -- we've I think we've announced -- we have about $70 million of development work that we are on right now for this year. And we continue to be able to do that at very attractive returns. So it's an important part of our business. It's not the major part of our business, but it's one that we are looking for opportunities all the time.

Bob, any other thoughts on that?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. The only thing I would add is that we purchased two parcels so far this year, and they're right beside our grocers. A great example would be one that we acquired in North Point, Florida. It's about 5.8 acres and we're going to create five different pads. Our centers publix anchored right across the street. It does $1,000 a foot and it's full. So there continues to be a tremendous amount of demand, and we already have a lot of this pre-leased.

So we continue to find those type of opportunities, the other land parcel that we acquired is an old bank. And you guys know this. I mean, banks are wonderful opportunities to repurpose and bring in a Starbucks or Chipotle or SIG or somebody that's hot in demand, and we're able to generate somewhere between 9% and 12% returns on those ground-up development opportunities, which is consistent with us, we've increased our development pipeline from over the past few years of $40 million to $50 million to $74 million this year as an example. So we want to continue to lean into those opportunities and continue to look for ways to create value at each of our properties.

Caitlin Burrows - *Goldman Sachs Group Inc - Analyst*

Thank you.

Operator

Ronald Kamdem, Morgan Stanley.

Ronald Kamdem - *Morgan Stanley & Co Ltd - Analyst*

Hey. Just a quick two-parter. Just on the in line occupancy, just thoughts on getting to [96% and 97%]. And what sort of the blocking and tackling amount needs to get done to get there? And then a quick follow-up. I think I see your -- your neighbors, your local neighbors, concentration ticked up to '26, I think, versus '25 last quarter, just don't know if that was intentional or where you're comfortable with that local neighbor exposure Thanks.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Great. Thanks. Bob, you want to take the 95% in line question, as well as the small movement in local leasing?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. There hasn't been -- there's no real movement on the local side between '25 or '26. And that's right on top of each other. Can you ask the question again on the 95% on inline?

Ronald Kamdem - *Morgan Stanley & Co Ltd - Analyst*

Sure thing. Just any -- what's the upside from there? What do we need to do -- to get to sort of the 96%, 97% and what's the plan? Thanks.

Robert Myers - *Phillips Edison & Co Inc - President*

All right. Perfect. Thank you. So one of the initiatives that we put in place this past year was a bounty targeted space approach. And we really wanted to identify our top 100 spaces that would create the highest ABR on an annual basis. We put our leasing team on that.

I put different incentives in place for that. And already through April, we've executed, I believe, 28 deals on those particular spaces with another 24 at LOI or lease out. So we're almost 50% of the way there. That's your needle mover.

So with very high retention numbers of 90% to 93% and you complement it with these types of initiatives on a targeted space approach. That's how you get the other 100, 150 basis points. And we're seeing a lot of success in it. So I'm really excited about where we'll finish the year.

Ronald Kamdem - *Morgan Stanley & Co Ltd - Analyst*

Thanks so much.

Operator

Cooper Clark, Wells Fargo.

Cooper Clark - *Wells Fargo Securities LLC - Equity Analyst*

Great. Thanks for taking the question. Retention came down year over year, while new rates were up significantly. Just curious how much of this was maybe intentional and a result of you proactively deciding to take back space and not renew certain tenants just given the ability to drive strong pricing power with potentially healthy operators? And then just any color on how we should think about that dynamic and retention levels moving forward.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Great. Thanks, Cooper. Bob, you want to take that?

Robert Myers - *Phillips Edison & Co Inc - President*

Yes. Appreciate the question. Great question. Great question. So our retention rate this quarter was 88%. That had to do with a 64,000 square foot box that we knew was going to vacate about three years ago.

We knew that we already have three tenants lined up to backfill at significantly higher levels of rent. What's interesting is if you exclude that onetime situation, our retention for the quarter would have been 92.4%. So it's not a crack. It's not an indication.

Yes, normal part of our business is that you capture spaces where we see better opportunities to do mark-to-market rent adjustments. So we will always be focused on merchandising and finding the right necessity-based goods and services retailer that, one, we can continue to get attractive leasing spreads but have the right complement where we can continue to drive consumer demand.

Cooper Clark - *Wells Fargo Securities LLC - Equity Analyst*

Great. Thank you.

Operator

Michael Goldsmith, UBS.

Michael Goldsmith - *UBS AG - Analyst*

Good afternoon. Thanks a lot for taking my question. You took a FFO guidance, but none of the underlying components moved higher. So can you provide a little bit of context of what drove the higher earnings expectation? Is it acquisition timing? Is it a termination fee income or anything else? Just trying to get a sense of what's driving the greater confidence in your earnings here? Thanks.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Great. Well, thanks for the question, Michael. It is a variety of things. John, do you want to go through what we -- what the pieces are?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

So we started the year at a great pace with the strong operating environment like Bob has been talking about and strong year-to-date acquisition activity and our recent bond offering. In the quarter, our bad debt was near the lower end of our range, and we were pleased that the bond offering was at an interest rate lower than we budgeted.

But it's still early in the year. And one thing we're watching is the SOFR curve, which is higher than where we started the year. And when we look at bad debt, we maintain that range we considered each of the ranges.

And when we consider the balance of what goes into each, we really like the ranges where they are. But overall, after a good first quarter we're more optimistic about the year than when where we started. And that gave us confidence to raise our ranges for FFO. It's early. It's Q1.

We'll have opportunities to really refine. But we are very happy that our growth rates are in the mid- to high single digits for 2026, which is consistent with our long-term growth targets. And that gives us a good a more confident outlook for the year.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Yeah. Hi. Thanks. Good afternoon. Jeff, I just wanted to circle back. You indicated in your prepared remarks that you're closely watching private and public market valuations. Can you just elaborate a little bit on that comment, what you see as the spread today, perhaps relative to where you're trading, the acquisition cap rates that you're achieving and so forth. And maybe just to follow up on that a little bit, what actions does the company take as a result? Thanks.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Great question and one we've spent a fair amount of time looking at. And our view is that in the private markets today, and there's some fairly major transactions that have taken place is there is 50 to 75 basis points difference between where the public markets are and where the private markets are.

And so that makes the private markets a better source of capital. And if you look at the major transactions that have happened in our space this year, they are -- the winners are the people -- the private equity capital across the board. It's not like they've won a little bit.

They took all of the chips off the table in terms of the major transactions. So you I think for the public companies, we have to continue to find the cheapest source of capital as we look forward we can continue to take advantage of the opportunities that are in the marketplace. And that's what we will be doing over the year. And that -- that means you're always looking at everything.

You're looking at joint ventures, you're looking at issuing equity you're looking at selling assets, all of which are part of figuring out where can you get the cheapest source of capital so you could continue to fund your growth going forward.

And that's what we're focused on. And I think it's -- the markets come up and down and change over time, but we're -- that's what we're focused on.

Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Okay. That's helpful. But I'm just curious, you reiterated the disposition volume for the year that you're anticipating? I mean, do you lean into dispositions a little bit more as the year progresses? Or do you lean a little bit more on joint venture capital than you have year-to-date. Any sort of changes around the edges, just given that spread that you're seeing in the market?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. I think -- yes, I think there is a little bit more lean in because it's attractive. And you'll see some leaning in.

Todd Thomas - *KeyBanc Capital Markets Inc - Analyst*

Okay. Thank you.

Operator

Floris Van Dijkum, Ladenburg.

Floris Van Dijkum - *Ladenburg Thalmann - Analyst*

Thanks guys for taking my question. Following up on the capital allocation. I noticed that -- I think you closed on two unanchored centers during the quarter and you have one that has happened subsequent maybe talk a little bit more about the return expectations and why you think this makes sense for PECO to pursue these centers? And why should investors be excited about you're venturing away from your typical grocery anchored.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Floris, for the question. I'll take a quick shot and Bob, obviously, follow-up as well. We -- I think we've made it clear over the last 12 months that we're really excited about very specific opportunities to take advantage of everyday retail that -- where we think we can get outsized returns. And it's a much more inefficient market. than our core market.

And we think there's a place for that in our portfolio where we can use our market knowledge and our locally smart ability to know markets to take advantage of that.

And so we think it's a great opportunity for the company to get outsized returns for part of our portfolio, and we're going to continue to look for those opportunities. it's hard. And it's a big market. You've got to find the inefficiencies. But that's what we're really good at.

And then what we're the best at is taking those properties and turning them into really strong assets. And you'll see in our buying -- we're buying stuff where we can take the PECO machine and create a lot of value in those properties. And that's -- we're excited about it. The first two are great examples of what I think we'll be able to show the market what we can do with them.

Bob, any add-ons there?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. Thanks, Floris, for the question. Great question. I'm really excited about this strategy. So far as an organization over the last, I'd say, 2.5 years, we've closed on 12 assets so far.

So 12 assets for about $221 million. The reason I like this strategy so much is that we're finding opportunities to buy properties from less sophisticated owners where we're able to put our national account teams on them. The criteria that we set out when we acquired these are exceptional demos. So 110,000 median incomes in 3 miles, 100,000 people in 3 miles.

The criteria about configuration sightlines I'd love to see them about 45% local tenants, 55% national, which gives us the opportunity to continue to increase spreads and rents. As an example, when you look at the subset of 12 and why I'm so excited about it, they all have 5% CAGRs.

What a great complement to our 3% to 4%. And in some cases, we've acquired some that are 8% to 10% CAGR. And we've already moved the needle 310 basis points in occupancy on this subset of 12.

And that's because we are in a great environment, one of the best operating environments that we've seen. What I'm also excited about is our new leasing spreads in this category have been 45% and our renewal spreads are 27%.

And so there's some inefficiencies that we have found, while not overpaying for assets, if you look at what we've acquired in this space, it's a 6.9 cap and we're solving for between 10% and 11% unlevered returns. Our average purchase price is about $321 a foot, and it allows us to lease at the Phillips Edison way which we just do exceptionally well with our operating results and the team that we have on the ground.

Operator

Juan Sanabria, BMO Capital Market.

Juan Sanabria - *Bank of Montreal - Analyst*

All my best friends call me Ron, but that's okay. Just curious on maybe going back to Caitlin's question on new supply. Are there any pockets of the country where you are seeing new greenfield development, I think you may be pocketed the Sunbelt that you'd call out or are watching?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

So there are -- again, overall, across the country, it's a really small amount. And there are specific cases where grocery stores are looking for specific locations where you are seeing some growth. I mean you're seeing public grow north from their existing platform. You're seeing HCB add additional centers in -- or additional stores in Texas. But they're specific and they're very small.

And -- but part of our business is to make sure that we know what's going on in every market that we're in because it doesn't matter if they're building one in a specific market, if it's near one of our centers, it's a competitor and we got to beat it.

We got to figure out how we're going to win in that. we're just not seeing much at all in our markets. And I think that's what is creating the operating environment we have where there's a ton of opportunity to be aggressive on your leasing and reach occupancy, very high occupancy levels and be able to really drive rents. And that's what we're -- I think we're proving out with our performance.

Operator

Sydney Rohme, Barclays Capital.

Sydney Rohme - *Barclays Capital - Analyst*

Hi. Thank you so much for taking the question. I noticed that you maintained $5 million to $8 million of collectibility adjustment guidance. And I was wondering if you could elaborate a bit on the specific categories or tenant types driving that assumption today. Have you seen any early signs of stress in first quarter trends for 2026?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, thank you, Sydney for the question. John, do you want to take that?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Good morning, Sydney. so I will say that our performance is one of the advantages of our business model is the diversification that we have across our neighbors. And so I would say the components are pretty consistent with what they have been, but the overall volume is a little lower. One thing that I find interesting is, so for us, we get questions about a watch list and things like that, and people are looking for national names.

For us, it's actually at every center. We're always -- especially when you're a idly occupied as we are, we're always looking for new leasing opportunities or places to get in there. But for that, we have one at every center.

And the absolute count of neighbors that we are focused on actually declined this quarter compared to last. And usually, especially when you consider the volume of acquisitions that we're adding every quarter to see that number sort of come down and broadly come down was a very positive sign.

Of course, I'm still the cautious one of the group. But we feel really good about the year, but are still leaving those pieces. And as Bob was talking about categories in an earlier question, there isn't any one particular space. We continue to see great demand and really strong performance at each one of our assets. So I wish it's something more specific, but overall, things are quite good.

Sydney Rohme - *Barclays Capital -*

Analyst Thanks very much, John.

Operator

Paulina Rojas, Green Street.

Paulina Rojas - *Green Street - Analyst*

Hello, everyone. And you have indicated that you have a health ratio or OCR for your in-line tenants that sits at about 10%, and you also mentioned that you see room to gradually push that up to 13%. Can you walk us through the thinking behind that feeling that you see. Whether it's occurred on prior high watermarks or any other benchmark? And I think at the end of the day, I'm curious about what that means downstream for the tenant I don't know their margins, but I wonder what a shift like that would mean on an EBITDA basis, for example, for the average in line.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, it's a great question, Paulina. And it's a very complicated question, as you know. And there is such a generic number because each specific retail category has a different health ratio that's healthy for them. And we're using broad numbers here, but it is a very -- it's very specific to the type of retailer what a healthy number is. And our -- we also get the advantage of inflation and the growth in sales, which is allowing us to grow to keep at 10% while we're actually growing rents because of the growth in sales.

But Bob, you want to talk a little bit about your views on the health ratio and how we're doing on the leasing side?

Robert Myers - *Phillips Edison & Co Inc - President*

Yes, absolutely. So great question. I think for me, when it comes down to merchandising and health ratios, most importantly, we want to make sure that our neighbors are profitable. We have seen a lot of success over the last two or three years with not only our retention rates, but also our renewal increases being 18% to 21%. And again, Paulina the visibility that we have out with 125 renewals out for signature show no slowdown or cracks.

We've been able to hold that what I would say, 9.5% to 10% ratio pretty static over the last 3 years, while still maintaining those types of renewal spreads.

I do think there's room to move to 10% to 13%, 14% over time, very use in merchant specific, as Jeff had highlighted over the next several years. The other thing that's been helpful in this 10% and what gives me confidence to increase it over time is that we're starting with ABRs on average of our in-line neighbors at $27.

So it's a lot different increasing rents at $50 than it is $27. So there's a combination of a lot of things, as Jeff mentioned, that goes into that health ratio. But bottom line for us, it's all about keeping our neighbors healthy, profitable and being a good partner.

Paulina Rojas - *Green Street - Analyst*

Thank you.

Operator

Mike Mueller, JPMorgan.

Michael Mueller - *JPMorgan Chase & Co - Analyst*

Yeah. Hi. Just another quick JV question. How much of the investments that are being made in those programs going to be influenced by your equity cost, particularly if your equity cost improves a lot, where on balance sheet looks much more attractive?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

And I'm not clearly sure, Mike, what you're getting at there. Are -- I guess, maybe --

Michael Mueller - *JPMorgan Chase & Co - Analyst*

I'm sorry. I was just saying if your equity cost, if you like, what's the sensitivity of, I guess, the transaction flow that the JVs will see depending on whether or not you like your equity cost and how attractive on balance sheet is or not?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. So what our JV strategy is primarily to expand what we can buy. So there -- we're buying things in our JVs that we would not buy on the balance sheet. And that's an important part of why we set this up. And so we're not -- like if our cost of equity changed dramatically, we would still be buying the same stuff with these particularly because that's the level of ownership we want in those properties, and we think we can add value there to those properties.

But we also get a fee structure that's complementary. And so it's -- for us, it's expanding what -- where we can buy and what we can buy and without putting the full 100% exposure we would from the balance sheet. And that's worked out, I think, very well for us historically, and it's working out great in the -- or the three JVs that we have going right now.

Michael Mueller - *JPMorgan Chase & Co - Analyst*

Thanks.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Thanks, Mike.

Operator

This concludes our question-and-answer session. I will now turn the conference back over to Jeff Edison for some closing remarks. Jeff?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

So in closing, I want to reiterate how pleased we are with our first-quarter results. Our grocery-anchored neighborhood shopping centers are driving solid foot traffic and market-leading pricing power. We continue to see a strong operating environment. While the macro environment remains volatile, PECO is well positioned to perform through cycles. We offer both stability and steady growth.

PECO's disciplined execution and operating strength reinforce our increased guidance for core FFO per share growth. With our shares trading at a discount to our long-term growth profile, we believe PECO represents an attractive opportunity to invest in a leading operator that can deliver mid- to high single-digit annual earnings growth.

The PECO team remains focused on executing our strategy and generating stable, long-term value. We will continue to drive more alpha with less beta.

I'd like to thank our PECO associates for their continued hard work, and I'd also like to thank our shareholders and neighbors for their continued support. And to all of you, thanks for being on the call today. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you all for joining, and you may now disconnect.