LSEG STREETEVENTS

EDITED TRANSCRIPT

PECO.OQ - Q3 2026 Phillips Edison & Company, Inc. Earnings Call

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PRESENTATION

Operator

Good day and welcome to Phillips Edison and Company's Third Quarter 2026 Earnings Call. Please note that this call is being recorded.

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

Kimberly Green - *Phillips Edison & Company - Head of Investor Relations*

Thank you. I'm joined 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's view of future business and financial performance, including forward earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to risks and uncertainties as described in our SEC filings.

Today, we will reference certain non-GAAP financial measures, and information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in our press release and supplemental information packet, both of which have been posted on our website. Our caution on forward-looking statements also applies to our earnings presentation, which was also posted.

Following our prepared remarks, we'll open the call to Q&A. Given the number of participants, we respectfully ask that you limit 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.

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

Thank you, Kim, and thank you, everyone, for joining us today. PECO delivered another strong quarter. Same-center NOI increased 5.3% and core FFO per share increased 9.2%. These results reflect the strength of our grocery-anchored neighborhood centers and the consistent execution of the PECO operating engine.

We are pleased to increase the midpoint of our earnings guidance for the full year. These results are especially meaningful given the continued uncertainty in the broader economy. While the headlines continue to change, the fundamentals we see across PECO's portfolio remain solid. The consumer remains resilient, PECO's grocers and necessity-based neighbors continue to drive strong traffic and we're not seeing any signs of weakness as we look toward 2027.

That resilience is supported by the essential nature of PECO's portfolio. 74% of our ABR comes from necessity-based goods and services, providing consistent demand and supporting durable cash flow through economic cycles.

PECO delivers more alpha with less beta. Our alpha comes from strong leasing, disciplined acquisitions, and a growing development and redevelopment pipeline. Lower beta comes from our grocery-anchored durability, necessity-based cash flow, investment-grade balance sheet, and access to multiple sources of capital.

Our results continue to show that high occupancy does not limit PECO's internal growth. We renew the right neighbors at higher rents, we increase contractual rent bumps, we improve lease terms, and we create new space through outparcels and redevelopment. Our active development and redevelopment pipeline is nearly $90 million today.

We see an opportunity to grow it beyond $100 million while maintaining our attractive returns. Across a portfolio of right-sized centers averaging 113,000 square feet, these projects create meaningful incremental growth.

Acquisitions provide another source of growth. Assets acquired to date in 2026 were 94% leased on average compared with 98% leased across our existing portfolio. That gap represents visible upside for PECO. We know how to lease these centers to enhance the merchandising mix and to use our data and local market knowledge to move operating performance toward the level of our existing portfolio.
We continue to target unlevered IRRs of 9% for grocery anchored acquisitions and 10% or better for everyday retail. Everyday retail expands our opportunity set while staying close to what we know: necessity-based retail, neighborhood locations, and markets where our operating engine can create value.

Our investment strategy remains disciplined and focused. We allocate capital where we believe PECO can generate the best long-term growth and returns, whether it's through our existing portfolio, grocery anchored and everyday retail acquisitions, development and redevelopment or our joint ventures.

We continue to grow when the opportunity, returns, and cost of capital makes sense for PECO. That means staying flexible, raising equity when public markets are attractive and using dispositions in joint ventures when private market pricing is more compelling. This disciplined approach allows PECO to be opportunistic while investing in dependable long-term growth.

We told investors that PECO's high-quality portfolio is built to deliver long-term same-center NOI growth of 3% to 4% and a mid-to-high single-digit core FFO per share growth. We continue to deliver against those targets.

As we look to 2027, we have increased visibility from leasing, development and redevelopment, our pipeline of acquisitions, and our investment management business. We believe PECO is well-positioned to deliver strong growth in 2027 and will provide more detail during our December 16. PECO's 6.2% dividend increase in September reflects our confidence in the durability of PECO's cash flow. We believe PECO's earnings growth and durable dividend yield combined to target an annual total return to our shareholders of 9% to 10%.

That is the opportunity we see for PECO. More Alpha through consistent execution and growth. Less Beta from our right-sized, grocery-anchored, necessity-based portfolio and strong balance sheet.

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

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Robert Myers - *Phillips Edison & Company, Inc. - President*

The retail environment remains very active, with broad retailer demand for space across our portfolio. That demand is reflected in our 92.2% portfolio retention, 97.5% portfolio leased occupancy, and 95.1% inline leased occupancy.

These results demonstrate the quality of our centers, the health of our Neighbors, and the value retailers place on being located in PECO's grocery-anchored neighborhood centers.

Our team is taking advantage of this environment.

We use national relationships, local market knowledge, and data research to decide which Neighbors to retain and where we can improve lease economics.

During the quarter, comparable renewal rent spreads reached a record-high 25.2%, and comparable new-lease spreads remained strong at 26.3%. Keeping the right neighbors in place means less downtime, lower TI costs and better economics for PECO.

During the quarter, we achieved record high renewal rent CAGRs while improving non-monetary lease terms that give us more flexibility to manage our centers. The PECO team looks at the full economics of every lease, today's rent, future rent growth, and the rights we need to keep improving the center.

This work contributed to same-center NOI growth of 5.3%, which was driven primarily by higher rents. The continued growth in PECO's minimum rent has us well positioned to finish the year and as we head into 2027.

Retention and collections remain solid. Demand for available space is competitive and rent spreads and occupancy costs are healthy. Bad debt remains relatively low and was in line with expectations at around 70 basis points of revenue during the third quarter. These trends continue to support rent growth and long-term value across PECO's portfolio.

Moving on to acquisitions, year-to-date through October 26, we've acquired $519 million in assets at PECO share, including 12 grocery-anchored and 4 everyday retail centers. These centers are meeting or exceeding our unlevered IRR targets.

With new assets, our team moves quickly into execution mode by leasing vacant space and bringing each property up to PECO's maintenance and appearance standards. Then the team begins to execute the underwriting plan. This is how we turn disciplined acquisitions into tomorrow's earnings growth.

Given the strength of our pipeline, we recently increased our full-year gross acquisition guidance to $600 million to $700 million. The current macroeconomic environment is creating opportunities to negotiate more favorable pricing on select acquisitions. PECO scale, relationships, and execution gives us leverage in those discussions and we'll continue to pursue concessions while remaining disciplined on price and returns.

That same discipline shapes our approach to Everyday Retail. We target necessity-based neighborhood centers near leading grocers in markets where our leasing relationships, operating engine, and data analysis provide an advantage. We own $300 million of Everyday Retail today and continue to target $1 billion, which we expect to achieve in the next 24 months.

We're growing intentionally to deliver more alpha at PECO and we'll provide an update on everyday retail during our December 16 business update.

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

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

Thank you, Bob.

Third Quarter Nareit FFO increased to $98.0 million, or $0.69 per diluted share, representing 7.8% per-share growth. And Core FFO increased to $100.7 million, or $0.71 per diluted share, representing 9.2% per-share growth.

Same-Center NOI increased 5.3%, primarily due to higher rents and recoveries, driven by growth in economic occupancy. We expect healthy rent growth to continue in the Fourth Quarter. Our Same-Center NOI growth rate for Q4 will be impacted by the timing of recovery income compared with the prior-year quarter. We are pleased to guide to the higher end of our original 3 to 4 percent Same-Center NOI growth guidance for the full year.

This past Friday, we closed a new $350 million, 3-year unsecured term loan at an initial rate of SOFR plus 80 basis points. This is 30 basis points lower than the term loan it repaid. We used the $175 million of initial proceeds to repay our existing $162 million term loan with the balance used to reduce revolver borrowings.

Proforma for the closing of the new term loan, we have approximately $950 million of total liquidity. At the end of the quarter, net debt to annualized Adjusted EBITDAre was 5.2 times on a trailing 12 month basis, and was 5.0 times on a last-quarter annualized basis. We expect to end the year closer to 5.0 times net debt to annualized Adjusted EBITDAre, and even lower on a last-quarter annualized basis.

Proforma for our $350 million unsecured debt issuance, PECO's weighted-average interest rate was 4.5%. Our weighted-average maturity was 5.5 years including extension options. And approximately 85% of total debt was fixed rate, which includes PECO's total prorated share of debt for its JVs. Importantly, PECO has no meaningful debt maturities until 2030. This provides additional flexibility as we execute our growth and funding plans.

We continue to view the unsecured bond market as an important source of long-term capital and expect to remain a repeat issuer over time. At the same time, we will be disciplined about selecting the right instrument and duration for the market. In the current rate environment, the three-year term loan offered attractive execution at the shorter end of the interest rate curve, while allowing PECO to pay down the existing term loan, reduce revolver borrowings, and preserve flexibility.

As a reminder, our current plan does not assume equity issuance. We're match-funding our investments with an efficient combination of retained cash flow, dispositions and JV proceeds, and debt, while protecting leverage and per-share growth. This flexibility allows PECO to pursue the best risk-adjusted returns, whether on balance sheet or through our joint ventures. Based on the opportunities and funding sources we see today, we believe we have ample capacity to execute our plan into 2027, while remaining strategic and disciplined.

Regarding guidance for 2026, our increased Same-Center NOI guidance reflects 3.75% growth at the midpoint. We increased the midpoint of Core FFO per share guidance, which reflects growth of 6.5%. We also increased the midpoint of Nareit FFO per share guidance, which reflects growth of 6.3%. Nareit and Core FFO growth are expected to have higher G&A expense in the Fourth Quarter than the Third Quarter.

Gross acquisition guidance remains $600 million to $700 million, which we increased on October 1. We now expect dispositions in a range of $175 million to $210 million.

As we look to 2027, our focus remains consistent…Execute on the internal growth opportunities across the portfolio, raise capital at the best cost to PECO, invest externally with discipline, and maintain the strength and flexibility of our balance sheet.

We are confident in our ability to convert these opportunities into continued, strong growth, and we'll provide more detail at our December 16 Business Update.

PECO delivers More Alpha through our proven operating engine and disciplined growth strategy. PECO delivers Less Beta through durable grocery-anchored and necessity-based cash flow, low leverage, and no meaningful debt maturities until 2030.

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Haendel St. Juste, Mizuho.

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

I wanted to talk about the external growth, the transaction market specifically. Curious, as you look into the marketplace, what you might be seeing real time, any change in cap rates and sense of more assets in the marketplace.

And I think you mentioned, John, you can fully fund your 27 potential investments here without any incremental equity, but curious how much of that could be between kind of on balance sheet, off balance sheet and what role disposition -- how much of a role disposition would play?

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

Well, Haendel, thank you for the question. Let's answer it in two ways. One is sort of the source of capital and the second is sort of the market, I think was the question. Bob, do you want to talk about the current acquisition market? And then we'll talk about sort of where that capital is coming from.

Robert Myers - *Phillips Edison & Company, Inc. - President*

Thanks, Jeff. Good morning, Haendel. What I would say about the current environment here is the external growth has been positive. We reviewed 567 deals this year compared to 450 last year. We have an investment committee meeting every Monday. We presented 270 deals this year compared to 233 deals.

And we've closed on $519 million so far this year, and we have a very strong pipeline where we've either been awarded or under contract on another $250 million. So we're in a very solid position of being very active in the space, finishing the year strong while also building out a very strong pipeline into next year.

John can speak more to the dispositions. We are very diligent about recycling some of our stabilized assets that are closer to 7%, 7.5% returns where we're recycling those into new assets generating between 9% and 10% unlevered returns. So we're excited about the portfolio that we've acquired this year.

There is more competition, but if you look at what we've acquired in Everyday Retail, we've averaged about a 6.8% cap rate. If you look at what our blend has been across the year, it's about 6.5% and we are still solving for above a 9%. So the discipline is in place.
The market is active, the competitive bid set is active, but we're not seeing a lot of movement in cap rates. Interest rates kind of spiked and then they came back down, but I feel like we're in a very good spot in terms of continuing to see activity and taking advantages of that.

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

And I'll jump in quickly on the funding. So ultimately, from a funding perspective. We are excited about the expanding our investment management business and so we have additional funding that will be drawn there. Whether some of it will be later this year, it's in our guidance table and then the remaining piece will happen in early 2027.

I think the key piece here for us is that we're looking at as match funding. Your question was getting to what our forward dispositions look like. And the best part is that we don't have anything we have to sell. These are things that are opportunistic or as Bob said, maybe some cases the IRR is a little bit lower, but ultimately we have a very strong portfolio. So we have the ability to increase and decrease that.

And I would think that we've begun our active recycling, but the key. Sort of match funding with our acquisition opportunities. And as long as we see great acquisition opportunities, that's going to give us the room to sell assets as well.

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

And just, Haendel, to add to that, I mean, we're basically raising capital in the low 6's on a cap rate and we're putting that to work in the mid 6's. So we're getting a spread from the start and then we're looking at these assets as long-term growth vehicles for us that are going to help generate '27, '28, and '29 growth. So we're excited about sort of not only getting a kick to start, but also that what we're going to see on a longer-term basis.

So thank you for your question.

Andrew Reale - *Bank of America - Analyst*

Thank you.

Operator

Andrew Reale, Bank of America.

Andrew Reale - *Bank of America - Analyst*

Hi, good afternoon. Thanks for taking my question. Maybe just one on the tenant mix. Just looking at your slide deck, looks like local tenants are now about 26% of your ABR.

I guess, first of all, amongst that cohort, what proportion of those local tenants do you consider to be necessity-based? And then just any color on how that group has been performing, if there have been any increase in delayed payments or changes to overall health among that group of local tenants.

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

Great, thanks Andrew. Bob, you want to take that one?

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Robert Myers - *Phillips Edison & Company, Inc. - President*

Yes, thanks Andrew. Appreciate the question. Merchandising mix has always been one of the most important aspects of creating value at our properties and for our shareholders. The local mix plays a big role in it. Even though it's 26% and 74% of our rent roll is necessity-based, it still has the consistency in our local tenants with having quick service, fast casual, health wellness, beauty, fitness, and medtail.

What I appreciate about the mix is that we're able to generate higher rents, spend less TI money, get them in the space sooner and then rent and honestly, they're all entrepreneurs. I mean, so we just like to partner alongside of them in terms of making sure that they're profitable, but we've seen a lot of success in hitting I mean, if you look at our renewal spreads this last quarter, they were like 25.2% and they're even higher if you look at the local mix, so that's an advantage, the key is merchandising around how you continue to focus on necessity-based goods and services.

And look, there's no new supply coming on the market, so the demand is very vibrant. All the meetings that we're having at ICSC and the conversations with retailers want to be with the number one, number two grocer, and that's what we've been providing.

So health ratios are strong at about 10%, and if you look at our high retention rate of 92.2% and our spreads of 25%, it feels like we're in a very good spot right now. That's our focus.

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

Andrew, just to add on to that, we want to make sure that we're explaining that we're very focused on this merchandising. And over time, the mid-20s for local is the right mix because the reason we're so focused on the merchandising is we can't drive rents unless we can drive sales.

And the merchandising that we're laying out will maximize the production of the center, which then allows us to grow our rents. And the reason we're having market leading rents is a big piece of that is our retailers are doing well because we're merchandising to each specific market where we have a property.

And that's a really critical part of how we think about the business, but also how we act on a day-to-day basis and that whole being locally smart is all part of that. Because you have to merchandise to each center that you own, you really want to maximize the sales that we can do and then therefore the rents.

Operator

Michael Griffin, Evercore.

Michael Griffin - *Evercore Inc. - Analyst*

So I saw recently that Kroger announced expansion plans through 2029 of upwards of 100 new centers. I'm just curious how your portfolio could stand to benefit from that because clearly you're a large landlord partner for them. It's good to see the expansion and the focus on sales productivity. But does this come through the opportunity set within the redevelopment bucket, maybe retenanting another grocer with one of these Kroger expansion. Just curious if you can give some commentary there, that would be helpful.

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

Great question, Griff, and something we've thought a lot about. Bob, you want to take that on what we're doing there?

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Robert Myers - *Phillips Edison & Company, Inc. - President*

Sure. Thanks, Michael. In all our conversations with Kroger, they are expanding. They're not only expanding, but they're reinvesting a lot of capital into their existing stores. So being the number one landlord of Kroger, we have some insight to that.

We've walked alongside them with some ground-up development opportunities where we're in the process of securing some ground to partner with them on that front. So I think it's going to come from both ground-up development opportunities. I think they'd like to do 40 new locations this year that's ground up and then in addition, any existing sites and obviously you're aware of the Giant Eagle expansion and they're very focused on that as well.

So we're glad that Kroger is our partner and that we're their largest landlord. We're going to continue to see them making the right investments in their store and we're helping them with their strategic layouts across the country.

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

Yeah, Griff, the only thing I would add in there is we think that their purchase of the Giant Eagle stuff and that portfolio is just going to strengthen our ability in those markets because the Giant Eagle is the dominant in both Cleveland and in Pittsburgh and that's just going to make our centers there even stronger. So we're very we think that's going to be a real positive for PECO.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs International - Analyst*

Hi, everyone. Maybe just on the lease pricing side, it looks like new lease spreads ticked down in the quarter, but are still over 30% in the trailing 12 months, so impressive. Can you just talk about the quarter and then more generally on pricing, whether you're getting any increased pushback from tenants on higher costs? Thanks.

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

Great. Thanks, Caitlin. Bob, do you want to?

Robert Myers - *Phillips Edison & Company, Inc. - President*

Yeah good morning Caitlin. Appreciate the question.

Honestly, it was just a timing issue of the deals that were executed in the third quarter. We've been consistently putting up numbers in the low to mid-30s on our new leasing spread. So the 26.3%, I believe, the number for new leasing spreads this quarter, that was just purely just the deals that were executed.

If you look at the full year and you look at the visibility that we have that we have out into the fourth quarter, we'll certainly finish well into the 30s in terms of a year or so. So it's just we're not seeing any pushback on any retailers in terms of pricing. And we would see that, which is interesting, right, between 92.2% retention and record high 25% retention, the neighbors are strong, they're making money. I think the key is making sure that you're merchandising appropriately and then you're keeping their health ratios within that 10% to 11%.

So I'm not seeing any issues with it, that was purely a timing. We're going to finish the year in an exceptional level and we feel real good about the strength of the portfolio.

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Caitlin Burrows - *Goldman Sachs International - Analyst*

Got it. Thanks.

Operator

Jamie Feldman, Wells Fargo.

Jamie Feldman - *Wells Fargo - Analyst*

Great. Thanks for taking the question. So thanks for NOI accelerated to 5.3% in the third quarter and it's 4.3% year-to-date. I believe the updated full year range is 3.5% to 4%. Can you talk about the implied moderation in the fourth quarter and what's driving it, is it rent commencement timing, bad debt, expense comparisons or maybe intentional negative for re-merchandising?

And then does the quarter, does 4Q's outlook change how you think about your long-term range of 3% to 4% heading into 2027?

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

Hey, John, thanks for the question, Jamie.

John, you want to take that?

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

Absolutely. So thanks for the question, Jamie. So ultimately, in the fourth quarter, similar to the third quarter, we're seeing great strength from our Neighbors as Bob just said. The execution remains strong. Really, we're not seeing it as a moderation necessarily we're looking at it as kind of the timing of recoveries from Q3 to Q4. And that can vary from quarter to quarter. We've seen that in years past.

Ultimately, we tightened the bad debt range. For our guidance, which is now at a 60% to 80% basis point range. And there's nothing that we're seeing that's really going to soften related to '26.

And as we look to '27, I think we're feeling really strongly about us being able to continue to deliver on our long-term targets of 3% to 4% on a same-store basis and then mid to high single-digits on our FFO per share metrics.

And so ultimately, we actually think that we're just getting started. The neighbors are strong. The acquisition market is open, and we're positioned very well to take advantage.

Operator

Rich Hightower, Barclays.

Richard Hightower - *Barclays Services Corp - Equity Analyst*

Good afternoon, everybody. Thanks for taking the question here. So I think if I look in the renewal spreads and the impact of options on that number. It looks like options obviously are a very tenant-friendly feature of a lease typically. So maybe talk about that dynamic in the portfolio and you did mention sort of non-economic lease terms changing, but I wonder if the sort of renewal option part of that specifically is changing as well and what that means for the business going forward in the very strong market rent environment we're seeing currently?

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

Thank you for the question. Bob, you want to talk a little bit about the options and as well as sort of how that may change in the current environment?

Robert Myers - *Phillips Edison & Company, Inc. - President*

It's absolutely changing. Thanks, Rich, for the question. It's a great question because obviously we're very focused on continuing to find ways to grow CAGR and ABR across the portfolio. And when you're 97.5% occupied, we have room to continue to move not only occupancy.

Options are definitely one of those things that are very tenant friendly. We don't like to give them. The issue is we've acquired so many large grocery stores in our portfolio that they lock the property down at least 50% of the ABR, give or take for the next 30 years with either flat options or very mild options.

On the inline neighbors, we're able to continue to push and negotiate options away from not only new deals, but also further renewals. You touched on this, but the non-monetary clauses were all over. And you think about removing exclusives and caps and restrictions and co-tenancies and no-build areas, we've been very successful. And our ability to negotiate those items to free up potential development land, redevelopment categories, out parcels.

So it's a little bit of everything. Options are definitely the one that we start with. I tell our leasing team during every new lease negotiation that you're not allowed to give options. So sometimes the retailers will need it, just given their capital that they're investing in their property and they want to make sure that they're going to stay there. And then our job is to really try to push those to 15%, 20% or better. So it's a combination of everything and we are in the environment to take advantage of everything.

Operator

Ronald Kamden, Morgan Stanley.

Caroline Long - Morgan Stanley - Analyst

Hi, this is Caroline on for Ron. Thanks for taking the question. I appreciate the commentary that you gave on the transaction markets. I was wondering if you'd get a little bit of color into what you're seeing in cap rates in the traditional retail or anchored centers versus more of the everyday retail centers from an IRR or cap rate perspective.

And then you spoke a little bit too on the mid-20s local mix for the grocery anchored centers. And so I was just wondering what you were seeing as kind of a similar rate as to how you were thinking about the exposure of local tenants for the everyday retail centers.

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

Bob, do you want to talk a little bit about sort of where we're seeing the cap rates on the grocery and as well as the everyday retail? And then I think the second question was really just local mix. What kind of local mix are we seeing in the everyday retail?

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Robert Myers - *Phillips Edison & Company, Inc. - President*

Thank you. Appreciate the question. Cap rates have been running anywhere between a 5.8% and a 6.5% for what I would consider a core grocery anchored opportunities.

I think about everyday retail, there's a lot of properties that are between a 6.3% and a 7.5% depending on what markets. That's been pretty consistent. I mentioned it earlier, but when you look at the bid sheets, we typically -- we'll see six to eight offers on grocery anchored product. We'll see probably five offers come in on everyday retail. But if you look at our everyday retail portfolio, we've averaged a six to eight. And if you look at our grocery anchored, we've been really around 6.3, 6.5.

So I'm not seeing a lot of movement on that in terms of unlevered returns, our grocery product is a 9 or 9.5 and our everyday retail is between 10 and 11 and we've kept that discipline in place and we've seen a lot of success in that.

In terms of merchandising mix with local, yeah, our local neighbors on our core grocery has been around 26%, but if you look at the everyday retail category, we're very intentional about finding opportunities that we can take our national account team, focus them on re-merchandising around necessity based goods and services with a national name, so we typically will start one of these properties.

And the balance will be 60% national regional, 40% local. And then what we'll do over our re-merchandising efforts and our strategy over our hold period will improve that down. It might end up closer to 30%, but I like that because we're able to really spend less TIs, reinvest some capital, push rents. There's a tremendous amount of mark-to-market opportunities when you're buying the everyday retail assets that we're buying today.
I mean, we're buying right, we're getting the unlevered returns, we average around $335 a foot on these purchases. So we're really excited about the space, granted we have $300 million today, we'd like to grow it to $1 billion over the next 24 months.

So we're highly engaged, we're seeing -- we're doing a lot of different things to attract the opportunity sets 50,000 centers out there. So we want to continue with the discipline and take advantage of it where we see there's an opportunity.

Operator

Todd Thomas, KeyBanc Capital Markets.

Sean Glass - *KeyBanc Capital Markets - Analyst*

This is Sean Glass on for Todd. You added meaningfully to the active development redevelopment pipeline this quarter despite stabilizing 17 projects to-date. You've talked increasingly about development as an opportunity, and you mentioned your prepared remarks desire to grow that piece.

How should we think about your appetite for ground-up development from here? How large could that become? And then could development ultimately become a meaningful enough piece of the investment program to offset some compression and acquisition returns?

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

Sean, thank you for the question. So I guess I want to make sure I understand. You want to get a feel for like how we're looking at our development and our redevelopment businesses? Are they sort of -- because they're kind of two separate questions, I think, there.

And we were talking primarily about the development around our existing centers and the redevelopment around those existing centers part of our business. But Bob, you want to go through sort of both those pieces and where we're trying to take it?

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Robert Myers - *Phillips Edison & Company, Inc. - President*

Yes, absolutely. Thanks, Sean, for the question. So this year, we'll finish somewhere between $80 million and $85 million of our redevelopment and development buckets and we're generating returns between 9% and 12%, so we like that, we continue to look for opportunities not only on the acquisition side that provide some ground-up development or out parcel development opportunities.

I look out the next three years, we have a nice pipeline that we've always said that we do $50 million, give or take a year. As I look out the next three years, there's a nice pipeline of another couple of hundred million dollars in the works. The nice thing is that we're pairing that with buying as much as we're buying on the acquisition side.

Jeff touched on this earlier, but our portfolio that we've acquired this year is 94% occupied. But our portfolio is 97.5%, so there's room not only in occupancy for organic growth, but also there's a lot of development opportunity in terms of the out parcels that we're acquiring or purchasing adjacent.

This year, we've purchased five out parcels and we already have active LOIs and leases out for signature on all of them. So we continue to look for those opportunities. I think it's a wonderful complement to our same-center NOI growth plans over the next year.
So we're going to do both. We're going to stay focused on our internal growth, but also the development side of the external business that can generate additional alpha for us on NOI. It's happening and this is a nice year for us at $80 million and we'll see what next year brings, but we should be in the same ZIP code.

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

And Bob, you want to touch a little bit on the ground up development, that piece, obviously, it's a small piece of what we do, but.

Robert Myers - *Phillips Edison & Company, Inc. - President*

It's a small piece. At this point, everybody is familiar with the Ocala asset that we acquired, and then we ended up selling a parcel to Super Walmart. We retained seven parcels. We have activity on all seven parcels.

So we're doing a nice job with that, but it's pretty small in terms of what that is. The partnership that we have with Kroger is going to create different in terms of grocery ground-up development because you really don't get the pop on the NOI for three or four years out. There's a long process there of entitlements and development and going vertical and everything that needs to happen to unlock that.

So we want to run a parallel path, not only with our focus, given that we're Kroger's largest landlord, Publix's second largest landlord. They're active so we're going to walk alongside them in terms of their ground up plans and then meanwhile, what we're trying to do is focus and unlock as many out parcel opportunities as we can.

Most of those opportunities are going to be between $2 million and $4 million. And again, we'll focus on we developed about 42 of those over the last four years in demand for it, but that's why I saw us acquire five pieces of dirt this year.

Operator

Connor Mitchell, UBS.

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Connor Mitchell - *UBS - Analyst*

Great, thanks for taking my question. So it seems like the consumer remains resilient. There's still plenty of retailer tenant demand. I've seen in your results and comments throughout the call today. However, we have seen a couple of retailer credit blips – you know the Wendy's or Leslie's – and while these are very limited exposure to your portfolio, I'm just curious if there have been – if you know either of these blips or something else you're seeing in the market has maybe changed the view of tenant mix or underwriting potential for acquisition – maybe taking a more conservative view or even maybe changing your process for bad debt assumptions and casting a wider net for maybe a slightly larger watch list- keeping an eye on potential issues. Thanks.

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

Thanks, guys. All right, and thank you for the question. Ultimately, as we look at it we're seeing great strength from the locals. So we were not impacted by the Wendy's franchise piece. And from Leslie's I believe it was five basis points of rent. I think we had six locations and we actually have strong comp rent, so we actually will be able to take those more quickly to market. But although I think there's actually only, I think five of them maybe stand or being discussed.

But I think this actually reinforces our overall strategy because when I look at it, I love, I actually think the locals are a really great addition to our center. And ultimately, to the comments that have been made previously, we want to ensure that their sales are productive and increasing and able to sustain this rent growth, but ultimately our overall diversification across our portfolio is one of the strengths that is actually part of the lower beta parts. If you exclude the grocers, our number one non-grocer use retailer is the TJ Maxx brand, and that's 1.3% of our revenue. I think that the local neighbor continues to -- the economics are better, their retention with us is outstanding, and that is actually a good opportunity.

We're not seeing anything at the ground level in terms of we reduced and tightened our bad debt range, it's been lower than it has been in the past, the forward pipeline is really strong, the renewal rates are high. So there isn't anything that we're seeing. And I actually think if you look at the macro data, the consumer continues to be quite strong. The credit card data is showing that they're doing all right. And it is something that we watch, but ultimately, we look at it from a diversification standpoint and are really positive about it. But there isn't anything that gives us concern at this time.

Operator

Jakub Dingo, JPMorgan.

Jakob Dingo- JPMorgan - Analyst

Thanks for taking the question. This is Jacob, filling in for Mike Mueller. Like you mentioned, it was another strong quarter and turn 40 basis points on inline lease occupancy. Is there anything to call out here and where do you see this falling by end of 2027?

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

Jakub, thanks for the call. Bob, you want to just explain that because it's pretty straightforward.

Robert Myers - *Phillips Edison & Company, Inc. - President*

Yeah, thanks, Jacob. Yeah, the answer is - real easy on that one. We've been at 95.4%, 95.5% in-line occupancy, it moved to 95.1% purely because of the new acquisitions we brought online.

So if you look at the acquisitions that we've acquired, you know, we've been in the low 90s, and that's solely 100% has to do with just the new acquisitions.

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Operator

Eric Borden, BMO Capital Markets.

Eric Borden - *Bank of Montreal - Equity Analyst*

Great. Thanks for taking the question. On the Northwestern Mutual contributions, how closely does the timing line up with the acquisitions that you have under contract? And then after the recurring fee income, should we expect any temporary earnings solution while you put those proceeds back to work? Thank you.

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

Yeah, I'll take the first problem, then John, you want to talk about sort of the timing of this stuff. So yeah, we set it up in tranches because we were basically raising the acquisitions that we have in the pipeline and that is that's how it's set up.

I think it's set up in three tranches. We've closed the first tranche and I think the second one will be in December and the third one will be in January. So we -- and we are matching those up to our acquisition pipeline. That Northwestern Mutual overall will be about $800 million at the time we get fully funded there with the first tranche that we've now been in for 8 years and have extended all of it for 10 years going forward. John, do you want to talk about that?

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

And regarding the question around earnings, we are very pleased that we were able to raise our guidance. And to Jeff's point, we've matched it very well, which is why we have this stage closing. We will finish the year at a lower EBITDAre basis than we anticipated originally. And that's just going to give us additional acquisition capacity for next year. So I don't anticipate earnings solution or moderation. We raised our FFO per share guidance into the mid 6% growth range, and I would anticipate that next year, we're using this capital to time it well. We certainly have a strong 1031 program, but we will, I would anticipate and expand acquisition profile for '27, which is what we've been building before and it's a great opportunity for me to plug. I hope everyone attends our December 16th Update where we will provide more color on that.

Operator

Floris Van Dijkum, Ladenburg.

Floris Van Dijkum - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Hey, guys. Thanks. I wanted to just touch upon everyday retail a little bit more on what the pipeline of new acquisitions looks like. And how the composition of total returns for this asset class is between initial yield and NOI growth, or annual NOI growth going forward. And how do you see that evolving?

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

Thanks for the question. Bob, you want to take that?

Robert Myers - *Phillips Edison & Company, Inc. - President*

Yeah, thanks Floris. I hope you're doing well. We're really pumped up on the everyday retail. So again, we're right around $300 million with the 13 assets that we've acquired. If you look at from the time that we acquired them to where we're at today, we've seen a lot of success, not only in moving occupancy- we've moved occupancy between 250 and 300 basis points already. These assets are throwing off an average NOI CAGR above 5%. SO, that's a nice compliment.

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Again, I think our focus is to grow it to a billion dollars over the next 24 months. So, we're definitely leaned into it. We're seeing new leasing spreads of 40%. We're seeing renewal spreads above 25%. And again, our leasing team and national account team continues to improve not only the merchandising toward more necessity base, but with more nationals.

We like the space a lot and we're going to continue to lean into it, we're seeing success in our core markets. So we're going to continue to stay very focused on that front of it, Floris.

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

Hey Floris, this is obviously a growth opportunity for us, but I think you'll also notice the discipline we apply to this is the exact same discipline we apply to the rest of our acquisition business, which is that we want to make sure that we are underwriting this to a point where we can get a 10-plus percent return on our everyday retail. And it's not easy to find, but you'll see us gradually growing this business. And as we grow it, we'll be doing it sort of the PECO way, which is meeting a very disciplined underwriting strategy and that underwriting strategy will lead us to the kind of returns that we expect from this part of our portfolio.

Floris Van Dijkum - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Maybe, Jeff, a follow-up question on just how your strategy is different from one public peer out there in terms of -- and how much is available because I think one of the differentiating factors, if I'm not mistaken, is that you tend to buy a cluster around your existing grocery anchor centers.

How much are you seeing competition from other national players or is this more of a green field opportunity still in the areas that you're looking to expand in this segment?

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

Yeah, I mean, we see everything that our peers are seeing. What we're really looking for, Floris, is unique opportunities where we know a very specific market and we think we can find -- not we think -- we've been able to find the right kind of merchandising mix for centers that we're buying. And in doing that, we grow occupancy, we grow rents, and we grow the quality of the underlying neighbors that are in that center.

That's a very different strategy than our peers have, which is more to buy sort of a triple net opportunity. And because of that, that's how we're able to get these increased CAGR's of 5% plus and be able to grow IRRs of 11% plus.

We can't do that if we're buying into long-term leases with national tenants that are very stable and with little upside. We're looking for upside, but we're also looking to take advantage of our knowledge of specific markets where we can see outsized returns.

Operator

Paulina Rojas, Green Street.

Paulina Rojas Schmidt - *Green Street - Analyst*

Good afternoon. Very few new grocery anchor centers are being built, but many owners, it truly feels like everyone is adding out parcel developments, small buildings to existing sites. So what has your experience being on the ground with this kind of new supply in terms of its impact on listing in the market?

Are there any markets where these new buildings on the out parcels are having any meaningful impact, meaningful competition or it's really a drop in the bucket everywhere?

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

I'll start, Bob, and then you can jump in. I think it's the second. These are a drop in the bucket. I mean, if you build a Starbucks and it's 2,000 square feet, in the scheme of things, that's not going to impact the overall market, which is much more -- obviously much more sizable.

But these really are, I think, a demand -- there's a high demand for this kind of property among a series of certain national potential neighbors. So that is what we're focused on, is where we can find them doing that. And then the balance, which again is a small number but is a high-octane kind of investment where we can build small store space and in most cases, it's fully occupied before we complete the construction.

And that is an incremental growth in where we're getting that 9% to 12% yield out-of-the-box on these redevelopment and development deals. So we're really excited about that part. We think it's additive. We wish it was a bigger market, as I think you were kind of alluding to, but we will continue to grow it at the pace that we can because 9 to 12 yields, we can make a lot of money there and we'll keep focused on that.

Bob, did you have anything to add on that one?

Robert Myers - *Phillips Edison & Company, Inc. - President*

The only other thing I would add is a lot of these opportunities are either in our existing parking lots or they're on ground that would be adjacent. I look at our pipeline and what we've executed on, we've acquired a lot of adjacent parcels next to our Publix anchored projects.

And a lot of cases as we're tying up the land and we're going through due diligence, we're already lining up the retailers like Jersey Mike's or Firehouse Subs or the Pacific Dental or Mavis.

There's a lot of active retailers just given that there's not a lot of supply out there. So it's really been a great opportunity for us to capitalize on to generate the returns of 9% to 12%. So we're very focused on continuing to find those opportunities.

Operator

Thank you. That concludes the question-and-answer session. Mr. Edison, I'd like to turn it back to you for closing comments.

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

Well, thanks, everybody, for being on today. And in closing, I want to reiterate how pleased we are with our third quarter results and our increased full year earnings guidance. PECO delivered same center NOI growth of 5.3% and core FFO per share growth of 9.2%. These results demonstrate the strength of our grocery anchored and necessity based portfolio, as well as our consistent execution that the PECO engine continues to do.

As we look to 2027, our priorities remain clear: execute on the internal growth opportunities across our portfolio, raise capital at the best cost to PECO, invest externally with discipline, and maintain the strength and flexibility of our balance sheet. We are confident in our ability to convert these opportunities into continued strong growth. And we look forward to providing more details for you at our December 16 Business Update.

PECO delivers more alpha through our proven operating engine and disciplined growth strategy. PECO delivers less beta through durable, grocery-anchored and necessity-based cash flow, low leverage, and no meaningful debt maturities until 2030. I want to thank you again the PECO associates for your continued hard work and our shareholders and neighbors for your continued support today.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.

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