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Monmouth Real Estate Investment Corporation NYSE:MNR

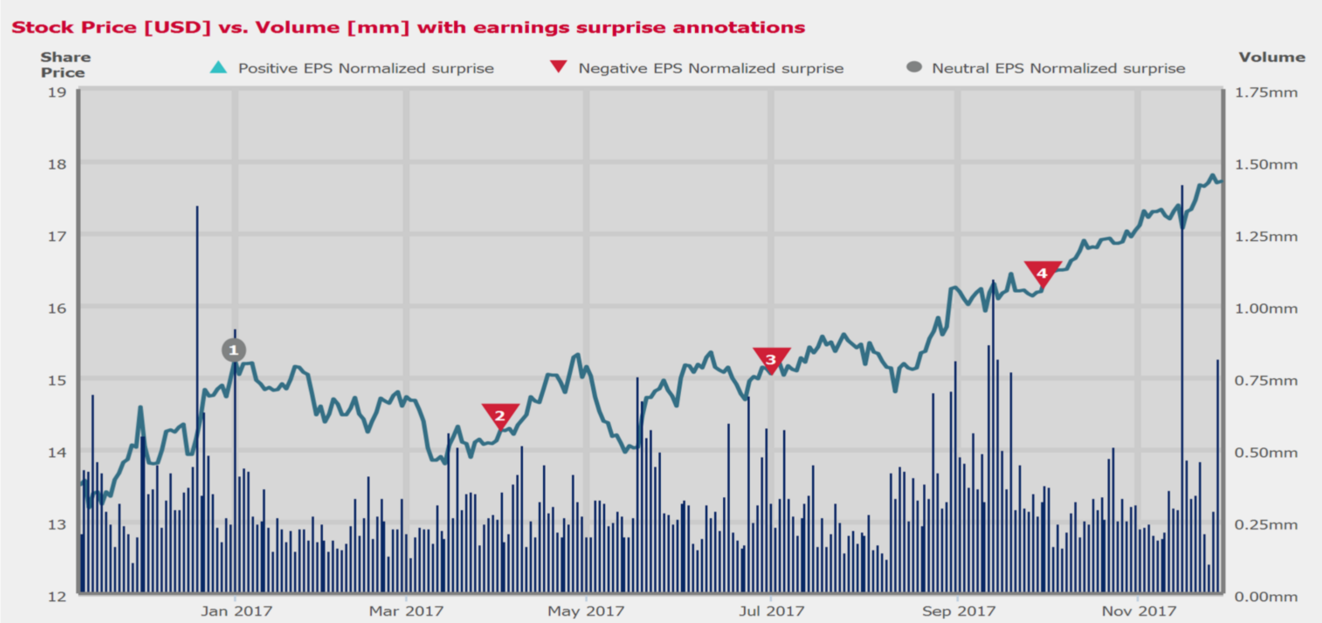
FQ1 2018 Earnings Call Transcripts

Thursday, February 08, 2018 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.10	0.17	▲70.00	0.10	0.42	0.46
Revenue (mm)	30.96	32.74	▲5.75	33.75	137.24	147.71

Currency: USD
Consensus as of Feb-08-2018 11:00 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	0.08	0.09	0.00 %
FQ2 2017	0.08	0.07	(22.22 %)
FQ3 2017	0.08	0.07	(22.22 %)

FQ4 2017	0.11	0.09	(18.18 %)

Call Participants

EXECUTIVES

Eugene W. Landy
Founder & Chairman of the Board

Kevin S. Miller
CFO, Chief Accounting Officer, Treasurer & Director

Michael P. Landy
President, CEO & Director

Richard P. Molke
Vice President of Asset Management

Susan M. Jordan
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Craig Gerald Kucera
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Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Robert Jeremy Metz
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Monmouth Real Estate Investment Corporation's First Quarter 2018 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

It is now my pleasure to introduce your host, Ms. Susan Jordan, Vice President of Investor Relations. Thank you, Ms. Jordan, you may begin.

Susan M. Jordan
Director of Investor Relations

Thank you very much, operator.

In addition to the 10-Q that we filed with the SEC yesterday, we filed an unaudited first quarter supplemental information presentation. This supplemental information presentation, along with our 10-Q, are available on the company's website at mreic.reit.

I would like to remind everyone that certain statements made during this conference call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements that we make on this call are based on our current expectations and involve various risks and uncertainties. Although the company believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the company can provide no assurance that its expectations will be achieved. The risks and uncertainties that could cause actual results to differ materially from expectations are detailed in the company's first quarter 2018 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

Having said that, I'd like to introduce management with us today -- Eugene Landy, Chairman; Michael Landy, President and Chief Executive Officer; Kevin Miller, Chief Financial Officer; and Richard Molke, Vice President of Asset Management.

It is now my pleasure to turn the call over to Monmouth's President and Chief Executive Officer, Michael Landy.

Michael P. Landy
President, CEO & Director

Thanks, Susan. Good morning, everyone, and thank you for joining us.

We are pleased to report our results for the first quarter ended December 31, 2017. On October 2, we raised our common dividend 6.25% to $0.17 per share, representing our second dividend increase in 3 years. These 2 dividend increases total 13%.

Following 9% AFFO per-share growth in fiscal 2017, our first quarter fiscal 2018 AFFO per share has increased 16% from the prior year quarter and is up 5% sequentially. This represents a 77% AFFO dividend payout ratio.

Given the predictability and long-term visibility of our income streams, this represents a very conservative payout ratio. Monmouth has now maintained or increased its common stock dividend for 26 consecutive years.

Our property portfolio is currently 99.5% occupied, representing a 20-basis point increase over the prior quarter. We are now in our third consecutive year with above 99% occupancy.

During the quarter, we acquired 2 brand new Class A built-to-suit properties. These acquisitions were purchased for an aggregate cost of $52.1 million and contain a total of 422,000 square feet.

One property located in Charleston, South Carolina, is leased to FedEx Corporation for 15 years. This 122,000-square foot distribution center is situated on 16 acres near the Charleston International Airport.

The other property is a 300,000-square foot distribution center in Oklahoma City leased for 10 years to Amazon. This large property is situated on 123 acres in close proximity to the Will Rogers International Airport.

These 2 properties have a weighted average lease term of 11.4 years. The cap rates for these 2 acquisitions average 6.1%. From a run rate standpoint, we expect these 2 properties to generate a combined total annual rent of approximately $3.2 million.

Also during the quarter, we completed a $1.7 million parking lot expansion at our Indianapolis property leased to FedEx Ground. This resulted in a new 10-year lease expiring in October 2027. The expansion also resulted in an increase in annual rent of $184,000 effective from the date of completion.

Following last year's 17% growth in our gross leasable area, at the end of the first quarter, our gross leasable area grew to approximately 19.1 million square feet, representing a 15% increase over the prior year period.

As of the quarter-end, our portfolio consisted of 108 properties geographically diversified across 30 states. Our weighted average lease maturity at quarter-end increased to 7.9 years from 7.4 years in the prior year period.

Subsequent to quarter-end, on January 22, we purchased a newly constructed 832,000-square foot industrial building for $57.5 million. This property is leased for 10 years to Shaw Industries, a wholly owned subsidiary of Berkshire Hathaway. This property is situated on 62 acres near the Port of Savannah, which is the fourth-largest port in the U.S. and is the fastest-growing port in North America.

Over the years, Monmouth has built a substantial presence at many of the East Coast and Gulf Coast ports. Given the recent increased capacity at the Panama Canal, the evolving global supply chain, the return of domestic manufacturing, and the continued population growth east of the Mississippi River, where over 70% of the U.S. population currently resides, we're confident that our portfolio is strategically situated to take advantage of our growing economy. With the addition of our recent acquisition in Savannah, our gross leasable area is now approximately 19.9 million square feet.

From a leasing standpoint, in fiscal 2018, approximately 8% of our gross leasable area, representing 16 leases totaling approximately 1.5 million square feet, was scheduled to expire. I am pleased to report that thus far 6 of the 16 leases have been renewed. The 6 leases that have been renewed to date represent approximately 569,000 square feet or 37% of the expiring square footage and have a weighted average lease term of 6.1 years.

These 6 renewals have a weighted average lease rate of $4.85 per square foot on both a GAAP and initial cash basis. This represents an increase in the weighted average lease rate of 3.9% on a GAAP basis and 1.5% increase on a cash basis.

Two other leases that were set to expire during fiscal 2018 were leased to Kellogg's at a 65,000-square foot facility located in Kansas City, Missouri through July 2018, and at our 50,000-square foot facility located in Orangeburg, New York through February 2018.

As previously disclosed, Kellogg informed us that they would not be renewing their leases at these 2 locations. In December 2017, we sold both of these properties for a combined total sale price of $11.1 million. The sale of these 2 properties resulted in a realized gain of $5.4 million on a GAAP basis, representing a 105% gain over the depreciated cost and a realized gain on historic un-depreciated cost of $1.8 million, representing a 21% gain over our historic cost basis.

In conjunction with the sale of these 2 properties, we simultaneously entered into lease termination agreements for each property whereby we received the termination fee from Kellogg's totaling $210,000, which represents a weighted average of 80% of the remaining rent due under each respective lease.

Another remaining lease set to expire during fiscal 2018 was leased to Caterpillar at our 218,000-square foot facility located in Griffin, Georgia through December 31, 2017.

In September 2017, we entered into a 3-year lease agreement with Rinnai America Corporation through December 31, 2020 for this location. The new lease commenced on January 1st, with initial annual rent of $807,000 or $3.70 per square foot. The rent escalates at 3% per year, resulting in a straight-line annualized rent of $831,000 over the term of the lease.

Our 68,000-square foot facility located in Colorado Springs is leased to FedEx Ground through September 30, 2018. As previously noted, FedEx Ground has informed us that they will not be renewing this lease as they moved their operations to our recently constructed 225,000-square foot facility near the Colorado Springs Airport. The original 68,000-square foot facility is under contract to be sold for $5.8 million, which approximates our net book carrying value. The sale is anticipated to close during the third quarter of fiscal 2018 subject to customary closing conditions and requirements.

Lastly, one of our tenants that leased 81,000 square feet at our 256,000-square foot building located in Monaca, Pennsylvania, informed us that they would not be renewing their lease. This lease expired on December 31, 2017. Economic activity is strong in the area, and therefore we expect good demand for this space. The 5 remaining leases that are set to expire this fiscal year are currently under discussion, and we expect to have more to share with you in the ensuing quarters.

With regard to our acquisition pipeline -- in addition to the previously mentioned 832,000-square foot property in Savannah, Georgia, purchased subsequent to quarter-end, we have entered into agreements to acquire 2 new build-to-suit properties containing 660,000 total square feet representing $78 million in acquisitions scheduled to close over the next several quarters.

In keeping with our business model, both of these acquisitions consist of well-located, brand new build-to-suit projects currently under construction. The cap rates on these 2 new build-to-suit properties average 6.2% and have a weighted average lease maturity of 12 years.

Subject to satisfactory due diligence, we anticipate closing these transactions upon completion and occupancy. To date we have already secured $49.4 million in financing for these properties for 15-year terms with a weighted average interest rate of 3.99%. Based on the average cap rates and the debt costs we have already locked in, these 2 acquisitions are expected to generate a blended levered return on equity of approximately 12.6%.

Looking at our balance sheet -- our weighted average debt maturity on our fixed-rate debt at quarter-end is a very healthy 11.5 years as compared to 10.7 years in the prior year period, representing one of the longest debt maturity schedules in the entire REIT sector. Our weighted average interest rate on our fixed-rate debt at quarter-end was 4.16% as compared to 4.44% 1 year ago.

In addition, during the quarter we sold 1 million shares of our 6.125% Series C preferred stock through our ATM program at a weighted average price of $25.13 per share, generating net proceeds of approximately $25.7 million. As of the end of the quarter, 10.9 million shares of the 6.125% Series C preferred stock were issued and outstanding, representing an aggregate liquidation value of $272.5 million.

During the first quarter of fiscal 2018, we also raised approximately $25.5 million in equity capital through our dividend reinvestment plan at an average price of $16.50 per share. Of this amount, a total of $2.9 million in dividends were reinvested this quarter, representing a 22% participation rate in our dividend reinvestment plan.

With regard to the U.S. industrial property market -- 2017 marked another very strong year for industrial real estate. Fourth quarter net absorption came in at 44 million square feet, marking the 31st consecutive quarter of positive demand. Total net absorption for the year exceeded 200 million square feet for the fifth year in a row. The national average vacancy rate continues to come down and is currently at 4.5%, marking a record low.

Average asking rents continue to increase and are now at $6.92 per square foot, representing a 5.3% increase from 1 year ago. New industrial development also continues to increase as the supply chain evolves in order to embrace ecommerce and omnichannel consumption. The industrial pipeline under construction here in the U.S. is currently 237 million square feet, up 2.2% over the prior quarter.

The U.S. economy is picking up, with consumer and business confidence both rising on the heels of the recently passed tax reform. Following 2 consecutive quarters of over 3% real GDP growth, the initial read on fourth quarter GDP came in at 2.6%. The U.S. unemployment rate of 4.1% marks the lowest level in 17 years.

This past holiday season saw very strong retail sales, with an increase of 4.9% over the prior year period. Ecommerce was once again the biggest story this past holiday season, with online sales increasing by 18.1%. Our portfolio, comprising high-quality properties and tenants in strategically important locations, is very well positioned to take advantage of these positive economic trends.

And now Kevin will provide you with greater detail on our financial results for the first quarter of fiscal 2018.

Kevin S. Miller
CFO, Chief Accounting Officer, Treasurer & Director

Thank you, Michael.

Core funds from operations for the first quarter of fiscal 2018 were $16.9 million or $0.22 per diluted share. This compares to core FFO for the same period 1 year ago of $13.9 million or $0.20 per diluted share, representing a 10% increase.

Adjusted funds from operations, or AFFO, which excludes net realized gains on our securities investments, was $16.5 million or $0.22 per diluted share for the quarter, compared to $12.9 million or $0.19 per diluted share in the prior year period, representing a 16% improvement.

On a sequential basis, AFFO per share increased 5% over the prior quarter. As a result of our recent acquisition and expansion activity and our acquisition pipeline, we anticipate continuing to meaningfully grow our per-share earnings going forward.

Rental and reimbursement revenues for the quarter were $32.7 million, compared to $27.2 million or an increase of 20% from the previous year's quarter. Net operating income, or NOI, which we define as recurring rental and reimbursement revenues less property taxes and operating expenses, was $27.4 million for the quarter, reflecting a 19% increase from the comparable period a year ago.

Net income was $17.6 million for the first quarter compared to $9.9 million in the previous year's first quarter, representing a 79% increase. The large increase in our net income was primarily driven by the sale of 2 properties during the recent quarter.

As Michael mentioned earlier, during the quarter, we acquired 2 newly constructed industrial properties for a total of $52.1 million. One of the acquisitions, a 122,000-square foot distribution center, leased to the FedEx Corporation for 15 years in Charleston, South Carolina, was for $21.9 million. We financed this transaction with a 15-year fully amortizing mortgage loan in the amount of $14.2 million at a fixed interest rate of 4.23%.

The other acquisition, a 300,000-square foot distribution center leased to Amazon in Oklahoma City for 10 years, was for $30.3 million. We financed this transaction with a 10-year mortgage loan amortizing over 18 years in the amount of $19.6 million at a fixed interest rate of 3.64%.

Same-property NOI decreased slightly by 1.4% on a GAAP basis over the prior year period and decreased 1% on a cash basis. This decrease was primarily attributable to a 60-basis point decline in same-property occupancy percentage from 100% at the prior year quarter-end to 99.4% as of the current quarter-end.

With respect to our properties, end-of-period occupancy for the first quarter decreased to 99.5% as compared to 100% in the prior year period, representing a 50-basis point decrease. And as previously noted, we are now in our third consecutive year with above 99% occupancy.

Our average lease maturity as of the end of the quarter increased to 7.9 years as compared to 7.4 years in the prior year period. Our average annual rent per square foot increased 3.3% to $5.99 as of the quarter-end, as compared to $5.80 1 year ago. As of the end of the quarter, our capital structure consisted of approximately $723 million in debt, of which $613 million was property level fixed-rate mortgage debt and $110 million were loans payable.

85% of our debt is fixed rate, with a weighted average interest rate of 4.2%, as compared to 4.4% in the prior year period. We also had $272 million in perpetual preferred equity at quarter-end. Combined with an equity market capitalization of $1.4 billion, our total market capitalization was approximately $2.4 billion at quarter-end.

From a credit standpoint, we continue to be conservatively capitalized, with a net debt to total market capitalization at 30.1%, fixed charge coverage at 2.4x, and our net debt to adjusted EBITDA at 6.2x for the quarter. From a liquidity standpoint, we ended the quarter with $10.8 million in cash and cash equivalents. We also had $90 million available from our credit facility as well as an additional $100 million potentially available from the accordion feature.

In addition, we held $130.4 million in marketable REIT securities, representing 7.8% of our un-depreciated assets, with an unrealized loss of $4.1 million at quarter-end. Additionally, we generated $100,000 in net realized gains during the quarter.

And now let me turn it back to Michael before we open up the call for questions.

Michael P. Landy
President, CEO & Director

Thanks, Kevin.

To summarize -- following the substantial growth achieved in fiscal 2017, our first quarter represents an excellent start to the new year. Our recently increased dividend is very well covered by recurring earnings. This 6.25% dividend increase marks our second dividend increase in 3 years, totaling 13% in dividend increases.

Our occupancy rate remains nearly full at 99.5%, reflecting the mission-critical nature of our properties. Following 9% AFFO per-share growth in fiscal 2017, our first quarter per-share AFFO is up 16% year-over-year and 5% sequentially. We've put together a high-quality industrial property portfolio that we believe will continue to benefit from the opportunities presented by ecommerce and the evolving global supply chain.

Lastly, our new annual report is featured on our website and represents an excellent resource for understanding our company and our future outlook. We put a lot of thought into our annual reports, and we are especially proud of this year's edition. If you'd prefer to receive a hard copy, please contact Susan, and we'll be more than happy to FedEx it out to you.
We'd now be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question today comes from Jeremy Metz with BMO Capital.

Robert Jeremy Metz
BMO Capital Markets Equity Research

Mike, in your opening remarks, you gave a pretty thorough update on the 2018 lease expirations here. But as you look at that next layer of leases, the 2019 stuff, just wondering, how early do those discussions realistically start? And then, given the strength in the market today and the upward pressure we're all seeing on rents, are tenants looking to have those discussions and those conversations earlier, and maybe you're the one wanting to hold off and let rents drift higher?

Michael P. Landy
President, CEO & Director

Well, I'll turn it over to Rich in a second to drill down deeper, if he wants. But historically, the FedEx conversations could begin well in advance. And given what's going on in ecommerce and the industrial sector as a whole, I really don't see any need to worry about the FedEx leases. And looking at 2019, I see we have 3 FedEx leases coming due. And I think [we've] already in discussions on one, and I'm confident about all 3. We have 9 leases rolling in '19, it's 1.4 million total square feet, so 7% of our gross leasable area, about 6% of our annual base rent. And it's a tight market. I know you listen to all the other industrial REIT calls, and it's clearly a landlord's market. And so we have strong tenants. And therefore, I don't know where they're going to find other space. So I'm confident for good lease rollups in fiscal '19. Rich, you want to add anything?

Richard P. Molke
Vice President of Asset Management

We've been pretty much talking to everybody on the 2019 list so far, so they've reached out, talked to us. So we've been in discussions with all those buildings already. And as we close those renewals, we'll give you more updates.

Robert Jeremy Metz
BMO Capital Markets Equity Research

Appreciate that. And just maybe not something you have on hand, but how many of those did you have fixed renewal options versus roll-to-market? I would assume the FedEx, the 3 FedEx, are some fixed renewal type options [than] maybe the other 6?

Richard P. Molke
Vice President of Asset Management

Yes, they all have options. So depending on what they're asking for, going above and beyond their options, we'll discuss that with them. But most of our leases have options.

Michael P. Landy
President, CEO & Director

Yes. But just to clarify, most of our leases have options. But many, say, 50%, are options at fair market rent. So that's to be determined. The FedEx leases typically have options to renew up 15% for 5 years, and then up 5% for the next 5 years. So then they just do the math, is market rent above or below the 15% increase, and we go from there.

Robert Jeremy Metz
BMO Capital Markets Equity Research

Got it, that's what I was looking for. And then, last one for me is just in terms of the acquisitions. Can you just talk a little bit about what the pipeline looks like beyond the roughly $80 million you have under contract today? Are you seeing a lot of opportunities that fit the box still, or is pricing moving to a point where maybe you're not as comfortable, and activity could actually slow a bit from here?

Michael P. Landy
President, CEO & Director

Agreed, the last statement you said. Pricing is moving lower and lower as far as cap rates, higher and higher as far as acquisition costs, which is interesting, given what's going on in the REIT market, down 10% year-to-date. So there's been a real disconnect between the real estate prices on Wall Street versus Main Street hitting ever higher on Main Street and lower on Wall Street. So you're talking sub-5 cap rates to win new build-to-suit deals. And we're not really comfortable growing at the rate, I think, our shareholders have been accustomed to over the last several years, given the compression, the continued compression in cap rates.

Operator

The next question comes from Barry Oxford with D.A. Davidson.

Barry Paul Oxford
D.A. Davidson & Co., Research Division

Mike, just to build on the cap rate discussion in pricing -- you're buying, generally speaking, relatively new buildings. Are you seeing construction pricing and labor pricing affecting going-in yields that you have to pay, given that the price of those buildings could cost more to make?

Michael P. Landy
President, CEO & Director

Yes, that's all true, especially the land component. The most expensive component in the industrial development cost structure is land. And land is rising dramatically. It's hard to find entitled land, it's hard to find flat, well-located land. So given the demand, given we're heading into our eighth year of positive net absorption, it's going to take higher costs and higher rents to develop industrial going forward. The good news is I feel great about the last 4 years. Each year was a record in new acquisitions. And in hindsight, we have substantial gains in all those assets we acquired. But going forward, to develop, you're talking sub-5 cap rates on build-to-suit; spec deals are at low 6 cap rates. So it's pretty amazing how rapidly industrial real estate pricing has increased.

Barry Paul Oxford
D.A. Davidson & Co., Research Division

Is it fair to say that rents are kind of keeping up with the cost of goods, for lack of a better word?

Michael P. Landy
President, CEO & Director

Yes, I think rents are up over 5% last year. And I think people are baking in pretty big assumptions on NOI spreads going forward, same-store NOI growth. The tenants need the space. So the tradeoff is we value our all-star tenant base very highly, and so we're looking for term. And it may sound a little unusual -- but given our portfolio, it's proven to work -- that we'll push rents very aggressively on 3-year, 2-year, 1-year renewals. But if we could lock in an investment-grade tenant long term, even though market rents might warrant higher increases -- we want a strong increase, and we want bumps. But we'll be less aggressive to lock in the predictable earnings stream.

Barry Paul Oxford
D.A. Davidson & Co., Research Division

Right. And then, last question, switching gears just a little bit, Mike, like to get your input on this -- you quoted 237 million square feet under construction. If something's going to kind of probably bring this party to an end, it's going to be oversupply. 237 million square feet not really an over-concern of yours at this point in time?

Michael P. Landy
President, CEO & Director

No, not at all. There's a footprint in the U.S. of roughly 20 billion square feet. The rule of thumb is obsolescence is about 1%, that would be 200 million square feet. So 237 million square feet under construction is only a net gain of 37 million square feet. And given that industrial is now largely eating into the market share of the retail property type, you could argue that we need omnichannel space, you could argue that obsolescence is 2%, so we need 400 million square feet to stand still, because the older buildings can't accommodate omnichannel distribution. So no, I don't think 237 million is a number to meet demand. We need much more supply than that.

Barry Paul Oxford
D.A. Davidson & Co., Research Division

Right.

Operator

The next question comes from Rob Stevenson with Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

What's the current expectations for same-store NOI growth for fiscal '18, when you take a look at the portfolio today?

Michael P. Landy
President, CEO & Director

So same-store NOI -- I think we said GAAP was up 5% and cash was up 3%. What were the numbers, Kevin?

Kevin S. Miller
CFO, Chief Accounting Officer, Treasurer & Director

Yes, that's correct. So for the 6 leases that we've renewed thus far, we had ...

Michael P. Landy
President, CEO & Director

While Kevin's looking, I'll just say last year, we were at 100%. So the recent same-store NOI was down -- for the quarter, was the 60-basis point diminution in occupancy. Because from 100%, you're only going to go lower. And we went to 99.4%. But now we're back up to 99.5%. But go ahead, Kevin.

Kevin S. Miller
CFO, Chief Accounting Officer, Treasurer & Director

I'm sorry. So the 6 leases that we renewed thus far were up about 4% on a GAAP basis, about 1.5% on a cash basis. We still have a few more leases to sign up. And we have good expectations that overall, we'll probably increase. And as Rich mentioned before, we're already in discussions for fiscal '19. And just given the way the market is, we feel pretty confident that even though we had a decrease in same-store NOI for this short 3-month quarter, we feel going forward it should increase.

Michael P. Landy
President, CEO & Director

The only thing I'll add to that, Rob, is the weighted average lease term on those renewals is 6.1 years. So that's another important variable in the same-store NOI rollup/roll-down equation is, when you're talking about investment-grade tenants, 6.1 year of lease renewal is very valuable to bake into the whole analysis.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, other than the 2 dispositions that you have under contract, anything else that you guys are looking to sell this year, especially any of the potential nonrenewals in either the remainder of '18 or '19, if that comes to fruition? Is that highly likely to be sold rather than re-tenanted? How are you guys thinking about that today, and dispositions over the next sort of 6 to 12 months beyond these 2 that you have under contract?

Michael P. Landy
President, CEO & Director

Sure. Well, just to give you some color on the insatiable demand out there, we get unsolicited calls and emails all the time, people looking for the acquisition of our properties. We joke that we're going to put not-for-sale signs at some of the assets, because the calls come in monthly, if not more frequently than that, unsolicitedly. So the answer to your question is no, we're just selling the 2 that are currently under contract for sale. But it's a seller's market. So if we have a tenant that's not going to renew, we'll market it for sale or lease. And the sale prospects are very strong, and you're seeing that across the board with the other REITs. They're talking, the other industrial REITs, that they're going to ramp up their noncore dispositions. Noncore is not an asset type we're interested in, but the point being that there's insatiable demand for industrial real estate. And there's a premium being placed on portfolios. So as you place the assets into blocks of size, the multiple goes up accordingly.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, lastly for me, can you talk about how you guys are thinking about the marketable securities portfolio, both in terms of size and then sort of mix between common and preferreds, in the wake of the continued REIT under-performance and the nearly 50-basis point increase in the 10-year treasury over the last 6 weeks, how you guys think about that going forward?

Michael P. Landy
President, CEO & Director

It's getting exciting is the way I think about it. I think there's been a lot of strategies we've employed that are unorthodox, admittedly. But over time, you see other people mimic our strategy. And I think imitation is the sincerest form of flattery. So we've been doing the 2-pronged approach to capital allocation, looking for value on Wall Street and Main Street. The Wall Street REIT securities assets we limit to 10% of total assets, and we have a great track record. But it's a Berkshire Hathaway type approach. Warren Buffett talks about it in his annual report, and saying it gives him an edge to look in both realms. And Blackstone has done it for a long time quite successfully. You open up the paper today, and suddenly BlackRock is raising $10 billion to do the same thing. So it's nice to see other people validate this successful strategy. Now to your question, 2 years ago, the 10-year was at 1.9%, and REITs were yielding 8%, 9%. Today, the 10-year has moved to, call it, 3%, seems to be heading there. And suddenly, you can buy REITs at yields over 10%. And those are dividend yields, and FFOs, yields are in the teens. So clearly, there's a disconnect between pricing on Wall Street getting compellingly cheap. And for some reason, on Main Street -- Main Street is a less efficient market, it's a less forward-looking market. But it's the bigger market. The REIT security is only 15% of the total real estate market. And so you get volatility, and you get artificial supply-and-demand pressures from the ETFs. And that's the land of opportunity, as far as the way I see it. Gene, you want to add to that?

Eugene W. Landy
Founder & Chairman of the Board

We're very pleased with the securities market, the securities portfolio. And we're awaiting the earnings reports from the 10 or 12 companies we have in the portfolio, which will come out in the next few weeks.

We expect that they will continue to be good. So we'll continue to invest in REIT securities. We think it gives us liquidity, it gives us the ability to learn from the other companies we invest in. And we're very pleased with the portfolio. We're aware of the fact that the overall stock market has gone up much more than the REIT stocks have gone up. And we're aware that in the last few days, some of the REITs have gone down a bit. That doesn't bother us at all. We view the REIT industry and REITs as real estate. And we take a long-term approach. And the National Association of Real Estate Trusts has done a 20-, 30-year study. And REITs perform as well as the real estate market. And the real estate market looks like it's going to perform very well.

Operator

[Operator Instructions] The next question comes from Craig Kucera with B. Riley.

Craig Gerald Kucera
FBR Capital Markets & Co., Research Division

I guess just circling back to the last question on the securities portfolio, I think you spent about $19 million in your fiscal first quarter and sold a couple million. When we think about sort of the pace of investment, is that likely to kind of bring you up to closer to 10%? And would you think at all about selling assets and buying securities?

Michael P. Landy
President, CEO & Director

Just to jump back to -- Rob did ask on the breakdown between common and preferred. We're much more interested in the potential of REIT common versus preferred today. We have 94% of our portfolio is in common, 6% is in preferred currently, just to answer that. As far as selling properties, it's a seller's market. And other REITs in the industrial sector are ramping up their sales. And at historically low cap rates, certainly that's nothing to argue about. But given the size of our company and the need to grow, and the successful growth we've been able to deliver, I don't see the arbitrage of taking gains on Main Street and investing into securities. The arbitrage is there, but we will allocate new capital to REIT securities. So yes, I think we should take the portfolio higher, take it up to 10% of assets if we can, but not shrink our core business, the 20 million square feet, 110 industrial properties we currently own.

Craig Gerald Kucera
FBR Capital Markets & Co., Research Division

Okay. Based on your commentary on your fourth quarter earnings, it didn't look like you sold much of the preferred ATM in December. Has demand picked up in January, or are you likely to see a slower pace of issuance?

Michael P. Landy
President, CEO & Director

So the preferred market is definitely seeing less demand. Part of the reason why we didn't raise as much capital in December has to do with reporting and blackout periods, so the ATM wasn't opened as much as it was. But be that as it may, the demand for fixed income is abating. And while we're happy we've raised $70 million of the $100 million we have authorized to raise, the velocity of which the demand is coming in for preferred shares is curtailed relative to what it was.

Craig Gerald Kucera
FBR Capital Markets & Co., Research Division

Okay.

Eugene W. Landy
Founder & Chairman of the Board

But we do believe that having as an essential part of our capital stack issuing preferred stock, we think over 10, 15 years, if you use preferred stock as a means of raising capital, that in the long run, you will get somewhat increased leverage and substantially the ability to enhance your overall performance for your common shareholders.

Craig Gerald Kucera
FBR Capital Markets & Co., Research Division

Got it. Going to the dividend -- I know you raised it here to $0.17 a quarter. Your payout ratio was dropped from a couple years ago, maybe 90% to the mid-80s last year. How are you thinking about sort of a floor for payout going forward?

Michael P. Landy
President, CEO & Director

Okay, so the dividend is key. I see REIT dividends as being the mother milk of REIT securities. We're happy with our 26 years of consecutive payouts or increased payouts. You're absolutely right -- in the fourth quarter of fiscal '17, our $0.16 dividend represented a higher payout ratio than our raised dividend in the first quarter. So we paid out $0.16 in the fourth quarter of '17, and that was an 84% payout ratio. And now, with the 17%, a 6.25% increase, payout ratio has fallen 8% to 77%. So in other words, we were very confident in our ability to grow the dividend 6.25%. We've grown it 13% over 3 years. And there's nothing we want more than to keep that track record going.

Craig Gerald Kucera
FBR Capital Markets & Co., Research Division

Okay. One more for me -- Kevin, I know you don't have a lot of floating-rate debt exposure. I think it's probably about 15%. But as we enter a rising rate cycle, are you thinking at all about maybe hedging that in some way through maybe some interest rate caps or some other derivative?

Kevin S. Miller
CFO, Chief Accounting Officer, Treasurer & Director

No, we really -- as you said, it's not a big portion of our debt. 85% of our debt is fixed (sic) [variable] rate, and it's getting lower. It's at 4.16% now. So only about 15% or $110 million of our debt is fixed rate based on LIBOR. But no, we really haven't -- since it's not a big portion of our [lot], we haven't really given it thought to try to cap that. And if it really gets that crazy, we can just pay it down, and then just keep the availability there in case of emergency.

Michael P. Landy
President, CEO & Director

What I'll add to that is what Gene was saying. By having substantial tranche of perpetual preferred equity in our capital stack, rounding up $300 million in 6.125% that matures never -- and plus our debt maturities are the longest debt maturity schedule in the REIT sector, one of the longest, if not the longest, going out 11.5 years. So by locking in these historically low rates so far out on the yield curve, I think that's the best hedge you can have.

Operator

The next question comes from Michael Boulegeris from Boulegeris Investments.

Michael G. Boulegeris
Boulegeris Investments, Inc.

Michael, congratulations -- you, Kevin, Gene, and your entire team -- for sustained growth and just strong execution. I guess my first question, to follow up on the question on the dividend -- I think, Michael, you opined on the total return in the annual report that was just presented. And can you maybe comment on the quality of the dividend looking forward, with near 100% occupancy? You had the stress test of the great recession, and now maybe further attractiveness with the new tax policy, where you've had dividend taxability reduced by 20%. Might you share your comments, just generally looking forward?

Michael P. Landy

President, CEO & Director

Sure. I guess I would start with the fact that 40% of public equity ownership is indexed and ETFs and passive algorithmic investing. And because of that, quantitative analysis is done very well through computer algorithms. But the qualitative aspects tend to fall by the wayside. And I think from an active investor, human investor standpoint, a lot of value can be found by finding situations where quality is not being priced as it should be, it's being largely ignored in the marketplace. So I think the ETF phenomenon has created an average holding period that's measured in months, sometimes milliseconds. We invest, looking at investment horizons, in years. Real estate is a cyclical asset class, and you certainly have to have to have long term envisions of what's going to happen, not millisecond and monthly time horizons. The dividend -- I guess I would just say past is prologue for the future. The fact that we had this global financial crisis, with companies with 75% cushions on a 25% dividend payout ratio and investment-grade balance sheet, you would think that dividend is iron-clad. But there's no certainty in this world, and the tide went out. And very few REITs maintain their cash dividend. And our payout ratio, as you remember, was 100%. But our occupancy stayed high, and our earnings came in strong. And our dividend was maintained. We think dividend growth is an important factor in addition to the safety of our dividend. We've raised it 13% over the last 3 years. We have a bigger cushion than ever. But we said last quarter, if you remember our call, that people are getting complacent that interest rates are going to stay lower longer, and we think they're going to go higher faster, and we're seeing that. So dividend growth is going to be an important aspect in REIT performance. REITs are highly convex. You would think the dividend growers and the REITs with qualitative earnings and cushions would be less convex. But no, they're all behaving the same regardless of quality of income streams. And so I think this will be the year where passive investors don't outperform. This will be the year of the active investors.

Michael G. Boulegeris
Boulegeris Investments, Inc.

And maybe, Gene, if you might comment on the -- tackle the other part of the total return equation? Michael previously commented on the rising replacement costs and construction costs. And certainly you preside over -- Monmouth has one of the most youthful, let's say, strategic mission-critical Class A portfolios. Can you comment on intrinsic value of your underlying assets from your long perspective of going back to the beginnings of this industry?

Eugene W. Landy
Founder & Chairman of the Board

That's what we focus on. If you have $1 billion or $2 billion portfolio, and the economy is heating up, and inflation is going ahead -- and we know from history that the value of our properties may be going ahead 2%, 3%, 4%, so that over a period of 10 years, you're talking about $20 million, $40 million a year appreciation. We focus on that, and we don't focus on same-store FFO value in 2019. Because we negotiate with our tenants, we have a great relationship with our tenants. We're less concerned about 2019 than we are about 2024, 2025, and where we're taking the company. And we believe, if we set the capital structure right, and if we have total return, total appreciation, that over that period, we'll find ways to get our shareholders cash returns equivalent to the gains that we foresee. And we really do plan, with preferred stock and equity issuance, to be able to reward our shareholders so that they can share in the appreciation in the properties. We take a long-term approach, but we don't want our shareholders to have to wait 20 years. We want them to receive the gains as we go over the next 5, 10, 15 years.

Michael G. Boulegeris
Boulegeris Investments, Inc.

And finally, Michael, maybe you or Kevin can give some color to one of your recent acquisitions. Obviously, you have a 20-year-plus relationship with FedEx, FedEx Ground. So you know that last mile, the Internet very very -- ecommerce very well. But should we think of this Amazon recent acquisition, new tenant, as a one-off situation? Or is there, let's say, a possibility that this might be the beginning of a new expanding relationship, knowing that there's no guarantees?

Michael P. Landy

President, CEO & Director

Well, Amazon has been a big catalyst in new industrial construction. Nobody's building more industrial real estate than Amazon demand is requiring. So we hope that with all our tenants, we like to cultivate long-term relationships. We're certainly in discussion to grow the relationship and do more deals. FedEx is a special situation. I would go to the FedEx website and look at the video they put together. Go to fedex.com/dream, and you'll see a great video that FedEx put together on how over 40 years they've built this mission-critical network to service ecommerce. And Amazon is great for being the portal to conduct the sales. But as far as the logistics, and as far as the profitability, FedEx is a unique situation. But yes, I hope to grow with all our tenants. And we're proud to add Amazon into the fold. I wish it didn't take so long. But yes, we plan to keep growing with them.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Michael Landy for any closing remarks.

Michael P. Landy
President, CEO & Director

Well, thank you, Anita.

I'd like to thank everyone for joining us on this call and for their continued support and interest in Monmouth. As always, Kevin, Gene and I are available for any follow-up questions.

We look forward to reporting back to you after our second quarter. Thank you.

Operator

This conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately one hour. To access this replay, please dial U.S. toll-free 1-877-344-7529, or international, 1-412-317-0088. The conference ID number is 10114906.
Thank you, and please disconnect your lines.